
Survey of Agricultural Credit Conditions

By Michelle Beshear and Russell Lamb

Agricultural credit conditions in the Tenth District weakened in the third quarter of 1998, according to a survey of 316 district agricultural bankers. Farmland values posted modest declines, reflecting a pessimistic outlook for commodity prices and farm income. The loan-deposit ratio edged up slightly from the previous quarter to an all-time high. Loan repayment rates continued to slide, and the availability of funds at district agricultural banks fell slightly. In contrast, farm interest rates edged down and the demand for farm loans fell.

Farmland values fall

District farmland values declined during the quarter for the first time since early 1996. Irrigated cropland values fell 1.3 percent, with nonirrigated cropland values dropping by 1.3 percent. Ranchland values also declined by 1.3 percent after several quarters of strong growth. Nebraska farmland experienced the largest decline in the district, with ranchland values falling 2.5 percent, irrigated land values off nearly 2.0 percent and nonirrigated land values down 1.8 percent. The fall in farmland values across the district likely reflects expectations of low commodity prices.

Despite the slide in land values in the third quarter, all three classes of district land were higher than a year ago. Ranchland values were roughly 6.0 percent above year-earlier levels, irrigated cropland values were 4.3 percent higher, and nonirrigated cropland values were 3.9 percent above the previous year.

Loan repayment rates continue to slide

Loan repayment rates continued to fall in the third quarter. The repayment index for the district

fell 25 percent from the previous quarter and nearly 50 percent from a year ago, reaching its lowest level since 1996. District producers may have delayed selling grain in hopes of higher post-harvest prices, thus slowing loan repayments. Agricultural credit appeared to have tightened a bit in response to low commodity prices at harvest and expectations of decreased farm income. The

Table 1
Farm Real Estate Values

September 30, 1998

(Average value per acre by reporting banks)

| | <u>Nonirrigated</u> | <u>Irrigated</u> | <u>Ranchland</u> |
|----------------------|---------------------|------------------|------------------|
| Kansas | \$601 | \$943 | \$338 |
| Missouri | 952 | 1,209 | 579 |
| Nebraska | 856 | 1,424 | 339 |
| Oklahoma | 506 | 729 | 351 |
| Mountain states* | 380 | 1,205 | 191 |
| Tenth District | \$672 | \$1,159 | \$347 |
| Percent change from: | | | |
| Last quarter+ | -1.33 | 1.35 | -1.28 |
| Year ago+ | 3.93 | 4.34 | 5.90 |
| Market high | -20.29 | -19.51 | -14.42 |
| Market low | 69.88 | 70.46 | 108.07 |

*Colorado, New Mexico, and Wyoming combined.

+Percentage changes are calculated using responses only from those banks reporting in both the past and the current quarter.

Source: Federal Reserve Bank of Kansas City.

Table 2

Selected Measures of Credit Conditions at Tenth District Agricultural Banks

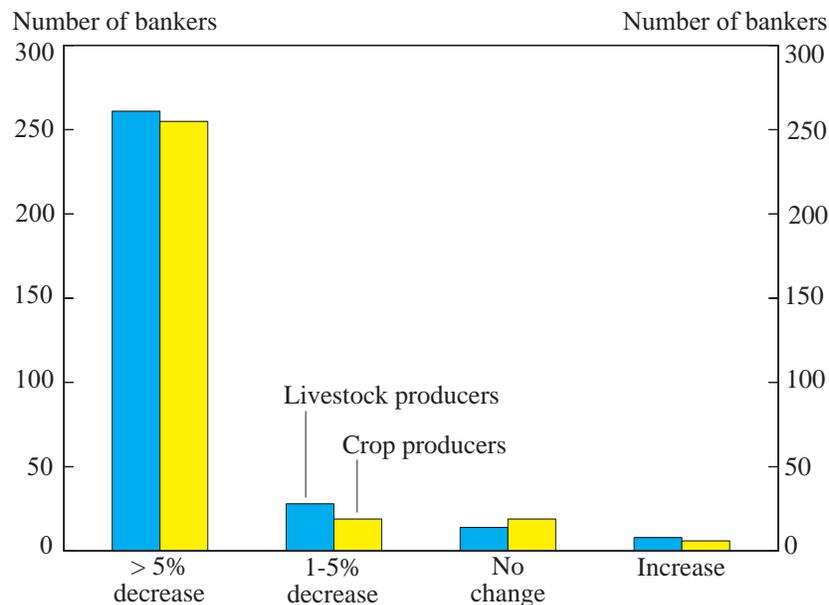
| | Loan demand | Fund availability | Loan repayment rates | Loan renewals or extensions | Average rate on operating loans | Average loan-deposit ratio* | Banks with loan-deposit ratio above desired level* | District farm commodity price index |
|-------------|-------------|-------------------|----------------------|-----------------------------|---------------------------------|-----------------------------|--|-------------------------------------|
| | (Index)+ | (index)+ | (index)+ | (index)+ | (percent) | (percent) | (percent of banks) | (1980=100) |
| 1994 | | | | | | | | |
| July.-Sept. | 132 | 81 | 90 | 106 | 9.59 | 60.9 | 27 | 92.8 |
| Oct.-Dec. | 126 | 82 | 85 | 112 | 10.12 | 60.2 | 31 | 95.2 |
| 1995 | | | | | | | | |
| Jan.-Mar. | 130 | 89 | 77 | 119 | 10.50 | 60.7 | 30 | 95.8 |
| Apr.-June | 121 | 96 | 69 | 125 | 10.47 | 62.1 | 28 | 95.2 |
| July.-Sept. | 116 | 94 | 73 | 123 | 10.37 | 63.3 | 27 | 96.9 |
| Oct.-Dec. | 112 | 106 | 61 | 136 | 10.23 | 61.4 | 27 | 102.0 |
| 1996 | | | | | | | | |
| Jan.-Mar. | 108 | 112 | 53 | 140 | 10.00 | 60.4 | 21 | 101.5 |
| Apr.-June | 115 | 103 | 66 | 131 | 10.01 | 62.4 | 24 | 109.6 |
| July.-Sept. | 111 | 100 | 91 | 112 | 10.00 | 63.8 | 29 | 104.1 |
| Oct.-Dec. | 115 | 105 | 105 | 103 | 9.98 | 62.6 | 26 | 98.2 |
| 1997 | | | | | | | | |
| Jan.-Mar. | 120 | 110 | 110 | 94 | 10.04 | 62.1 | 25 | 102.8 |
| Apr.-June | 125 | 95 | 104 | 96 | 10.09 | 65.0 | 30 | 103.1 |
| July.-Sept. | 127 | 91 | 110 | 92 | 10.05 | 65.5 | 34 | 100.2 |
| Oct.-Dec. | 127 | 97 | 99 | 103 | 10.01 | 66.5 | 34 | 97.5 |
| 1998 | | | | | | | | |
| Jan.-Mar. | 120 | 108 | 93 | 108 | 9.93 | 66.0 | 30 | 95.8 |
| Apr.-June | 123 | 100 | 78 | 118 | 9.92 | 68.0 | 33 | 92.7 |
| July.-Sept. | 112 | 99 | 58 | 136 | 9.84 | 68.4 | 34 | 80.2 |

*At end of period.

+Bankers responded to each item by indicating whether conditions during the current quarter were higher than, lower than, or the same as in the year-earlier period. The index numbers are computed by subtracting the percent of bankers that responded "lower" from the percent that responded "higher" and adding 100.

Source: Federal Reserve Bank of Kansas City.

Chart 1
1998 Expected Farm Income



number of district agricultural banks refusing loans edged up slightly and the number of banks actively seeking new loans declined nearly seven percentage points from last quarter. The demand for agricultural loans fell 9 percent in the third quarter of 1998, while the loan-deposit ratio again rose slightly from the previous quarter, to a record level of 68.4 percent.

Farm interest rates fall

After remaining unchanged in the second quarter, farm interest rates declined in the third quarter. At the end of the second quarter, interest rates on new loans in the district averaged 9.06 percent on real estate loans, 9.71 percent on feeder cattle loans, 9.84 percent on operating loans, and 9.66 percent on intermediate loans. The recent declines in farm interest rates, while modest, likely reflect declines in broader markets rates, which generally weakened in the third quarter.

Commodity prices plummet

The index of district farm commodity prices declined 13.5 percent in the third quarter, with hogs showing the largest decline. Hog prices plunged nearly 30 percent from the previous quarter, due to record production. Prices for fed cattle experienced a 9 percent decline while feeder cattle prices fell 8 percent from last quarter as beef production slowed. Prices for all major crops produced in the district plummeted. Corn and soybean prices dropped more than 20 percent from last quarter, reflecting another large harvest and substantial stocks. Wheat prices also fell 11 percent.

With the exception of hog prices, the prices of district farm commodities since the end of the third quarter have strengthened a bit. Prices for both fed cattle and feeder cattle have improved and are likely to continue to edge higher, as much of the large supplies from earlier in the year have moved through the packing houses. Crop prices have

improved modestly, partly due to a recently announced aid package to Russia. Nevertheless, prices are still well below year-ago levels due to a large harvest and substantial inventories. Hog prices remain at the lowest levels since the 1960s due to record production. According to the USDA, hog production is expected to continue to increase in 1999, which would further depress prices for hogs.

Farm income expected to decline in 1998

District agricultural bankers generally expect farm income to decline sharply in 1998 (Chart 1). In response to a special question in the third-quarter survey, 95 percent of the district bankers surveyed expect total farm income to decrease by 20 percent or more. Less than 1 percent expect to see an increase, while the remaining 4 percent expect no change in farm income. The fall in total farm income is divided equally between livestock and crop producers, as prices for all of the district's primary commodities have experienced sharp declines this year. However, these responses were given

prior to the approval of \$6 billion in additional federal farm assistance payments, which should help soften the effect of low commodity prices on crop producers.

Outlook

The outlook for the district farm economy continued to weaken in the third quarter. The district economy has been hurt by low commodity prices, and producers are facing a decline in farm income, although the recent farm assistance payments will mitigate the fall somewhat for crop producers. Loan repayment rates continued to slow and the availability of funds for farm loans began to shrink. Farmland values in the district have begun to weaken in response to the downturn in the overall farm economy. Overall, market prices will likely remain low into 1999, although higher cattle prices in the spring may provide some relief to struggling beef producers.

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