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Federal Reserve Bank of Kansas City

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The Main Street Economist
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Regional Asset Indicators: Bank Deposit Depth and Evolution

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In today's new economy, banking deposits may signal the future of many rural communities. Deposits are a key asset in funding loans to high-value entrepreneurs, a critical component of regional prosperity. While deposits in much of rural America are currently running fairly high, the window of opportunity for tapping this vital resource may be narrowing.

To ensure the vitality of rural communities, regional bankers must play a leading role in providing rural businesses access to capital. In other words, bankers must be both *willing* and *able* to lend to innovative and high-value entrepreneurs.

As a part of the Center's series on regional asset indicators, this article introduces two new indicators—banking deposit depth and its evolution. The article explains why deposits are so important to growth, and why it is necessary to gauge how deposit depth is evolving over time. The article also explores the challenges that rural bankers must face in helping rural America reinvent its regional economies.

Measuring deposit depth and evolution

Banking deposits can be measured both in terms of *depth* and their *evolution*. The depth indicator gives a snapshot of the current supply of banking deposits in a region. The evolution indicator shows whether the supply has been increasing or decreasing over time.

Banking deposit depth measures the current pool of assets. It is the sum of county bank deposits, first divided by county population and then by per capita income for 2002.[1] A county with a banking deposit-depth indicator of one has average bank deposits. In other words, deposits are equal to the county's average annual income.

As Figure 1 shows, the depth of banking deposits is highest in the Great Plains and the Midwest. Town counties (counties with a core of small towns) on average have the greatest deposit depth at 0.62. Micropolitan counties (a core of midsize cities) have a deposit depth of 0.55. Metropolitan counties (a core of at least one city of 50,000 people) have the least deposit depth at 0.42.

Banking deposit evolution examines the change in banking deposit depth over time. It shows the difference between deposit depth in 2002 and 1980, divided by 1980 banking deposit depth.

Banking deposit evolution is weakest in rural counties. In contrast, average bank deposits grew only 5.2% in town counties from 1980 to 2002. Average deposits grew 13.7% in micropolitan counties and 17.3% in metro counties (Figure 2). Deposits in the average town county grew by just $53,000, while deposits in the average metro county grew nearly 40 times as much. Thus, according to the evolution indicator, the pool of local capital available for rural businesses to tap is shrinking over time.

Capitalizing on deposit depth and evolution

Regions throughout rural America are reinventing their economies. Nourishing entrepreneurs enables regions to stake their futures on growing their own businesses and stop gambling on past strategies with dwindling returns—luring outside firms to a region with costly incentives and tax abatements. The process, of course, requires money. If the fertilizer—financing—is not available, the seedbed of entrepreneurs cannot flourish and a region's potential innovations may never bear fruit.

While it is clear that deposit depth and evolution are correlated with the pace of new firm formation, obtaining local financing is becoming increasingly difficult. In an era of rural population loss and shrinking local savings, bank deposits may soon slip off the menu of assets in rural America. But bankers themselves can be just as important as deposit depth and endurance. Local lenders must be willing and able to finance local entrepreneurs.

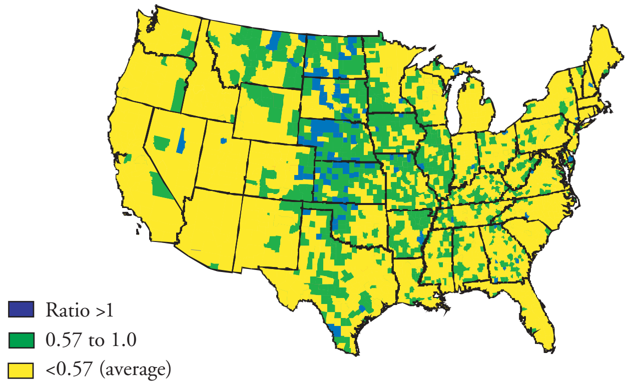
Hometown banks have traditionally been the primary source of financing for small businesses. They have always had better access to local information than larger banks.[2] In other words, community banks know local markets, which has enabled them to reduce the costs and risks of lending to small businesses. They know the emerging regional economic opportunities. They have personal contact with local entrepreneurs, business people, and development agencies. And they often have personal knowledge of the loan applicants themselves.

Today, though, small lenders may lack a critical new piece of local information—knowledge of the new industries now beginning to transform regional economies. Gaining this knowledge will enable them to help fund the new business ventures that are so crucial to local development. Thus, bankers themselves continue to be one of the most critical assets for spurring local investment, jobs, and wealth.

[1]County bank deposit data are available from the Federal Deposit Insurance Corporation. Population and per capita income data were obtained from the Bureau of Economic Analysis, Regional Economic Information System.

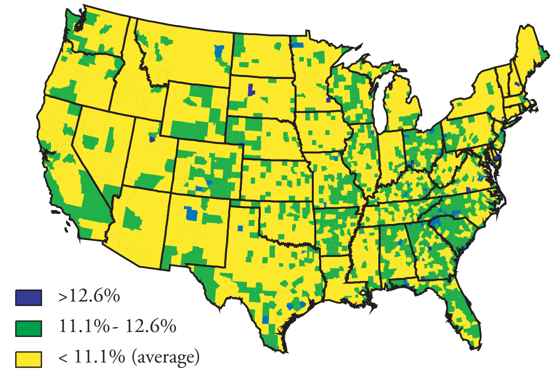
[2]Collender, R., and S. Shaffer. 2003. "Local Bank Office Ownership, Deposit Control, Market Structure, and Economic Growth," Journal of Banking & Finance. vol. 27, pp. 27-57.

Figure 1
Banking Deposit Depth



Note: Banking deposit depth=(deposits/population)/per capita income.
Source: FDIC, BEA-REIS, 2002

Figure 2
Banking Deposit Depth Evolution, 1980-2002



Note: Banking deposit depth evolution =[2002 (deposits/population)/per capita income-1980(deposits/population)/per capita income)]/1980 (deposits/population)/per capita income.
Source: FDIC, BEA-REIS

Survey of Agricultural Credit Conditions

Federal Reserve Bank of Kansas City

December 31, 2004

Highlights from the fourth quarter survey*

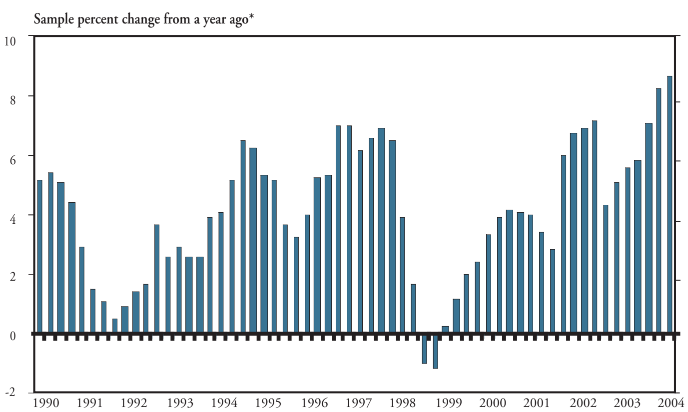
- District farmland values again posted solid gains in the fourth quarter of 2004. Ranchland values were strong throughout 2004 and ended the year with an annual gain of 10.5%. Gains in ranchland values were strong in all district states with Kansas, Missouri, and Nebraska posting double-digit gains over a year ago. District cropland values were also healthy. Nonirrigated cropland values increased 8.7% over a year ago, and gains in irrigated values accelerated to 8.3%.
- Respondents were asked the most common reasons for farmland purchases by individuals other than farmers. Investment was cited by nearly 70% of respondents, compared to 62% two years ago. Another major reason for nonfarmer purchases of farmland was recreation, which was cited by 57% of respondents, compared to 44% in 2002.
- District farm credit conditions remained strong in the fourth quarter. The index of farm loan repayment rates moved up, with 24% of respondents reporting higher rates of loan repayment. The index of requests for renewals and extensions was slightly above the third quarter, but below a year ago. The district indices for farm income, household spending, and capital spending were all up sharply from the third quarter, which are indicators of the strength in the farm economy. When asked about the use of alternative sources of credit among their borrowers, respondents indicated, on average, 60% of their customers use credit from other sources such as seed, chemical, and equipment dealers. More than a third reported that the use of supplier credit was higher than a year ago.
- The district farm commodity price index fell in the fourth quarter. Relative to the previous quarter, prices softened for feeder cattle, hogs, and crops, except wheat. Compared to the end of last year, crop prices were down substantially, while feeder cattle and hog prices were higher.
- Interest rates on new farm loans moved up in the fourth quarter. At the end of the quarter, interest rates on new farm loans averaged 7.57% for operating loans, 7.59% for machinery and intermediate-term loans, and 7.18% for real estate loans. Since the end of December, most interest rates in national money markets have moved higher, but longer term rates have moved down.

*Note: 276 banks responded to the fourth quarter Survey of Agricultural Credit Conditions in the Tenth Federal Reserve District—an area that includes Colorado, Kansas, Nebraska, Oklahoma, Wyoming, the northern half of New Mexico, and the western third of Missouri.

*Please refer questions to Nancy Novack, associate economist, at 816-881-2423 or nancy.l.novack@kc.frb.org.

Nonirrigated Cropland Values

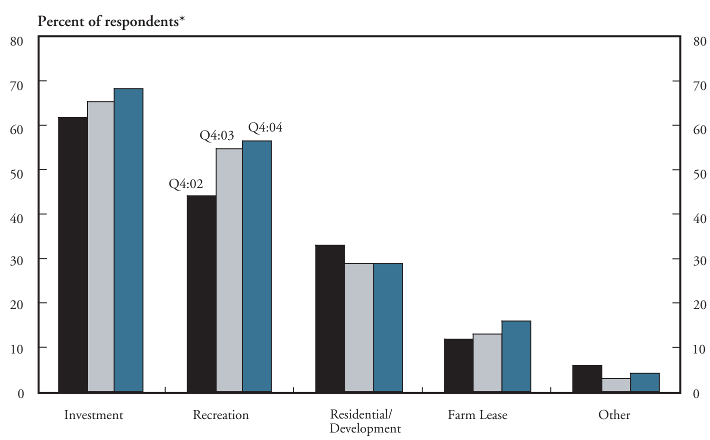
Tenth District



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

Reasons for Farmland Purchases by Nonfarmers

Tenth District



* Respondents were asked the most common reasons for farmland purchases by individuals other than farmers. Respondents could choose more than one response and therefore percentages will not sum to 100.

Summary of Economic Conditions

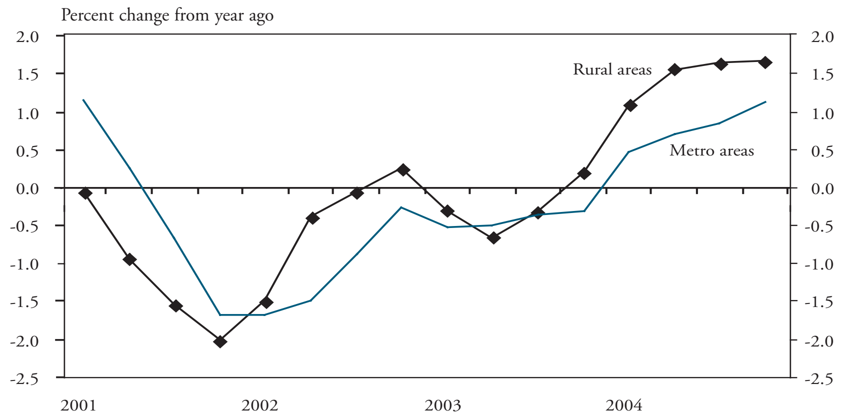
Highlights from the fourth quarter*

- The rural nonfarm economy continued to expand at a level pace in the fourth quarter of 2004, with gains in line with the previous two quarters. Despite an acceleration in metro area job growth to 1.1%, rural job growth continues to lead the nation with growth of 1.7%.

- Service sector growth pulled back slightly to 1.9% from the high of 2.4% reached in the second quarter of 2004. The goods producing sector continued to expand at 1.9%, with growth in the construction sector accounting for nearly all of this strength. Government sector job growth in the rural economy moved slightly higher to 0.6%.

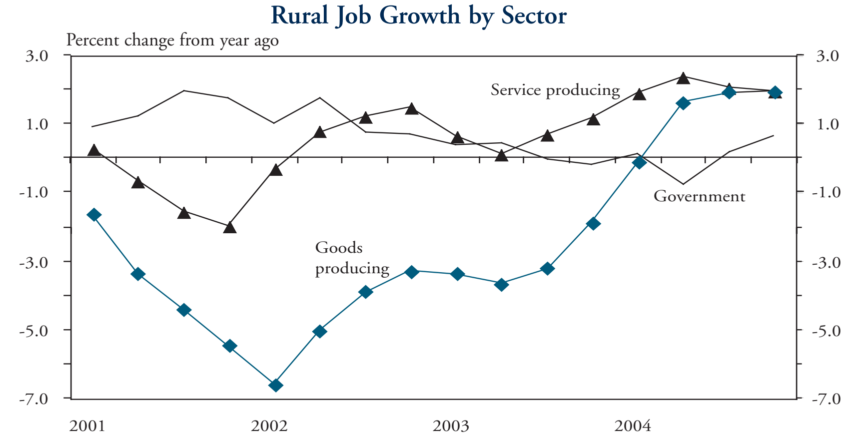
- Rural construction activity remained healthy in the fourth quarter despite moderate seasonal weakness. Employment in the sector continued to grow rapidly at just above 6.0%. The average value of building permits held up reasonably well given the seasonal slowdown and is just off the fourth quarter high reached in 2003. Building permit activity (not pictured) edged up in the quarter with a jump in multi-unit permits, off-setting a decline in single-unit permits.

Rural and Metro Job Growth



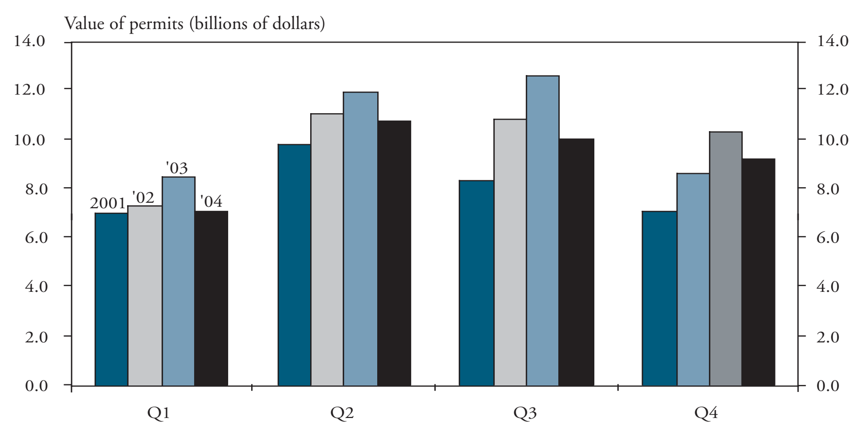
Source: Bureau of Labor Statistics

Rural Job Growth by Sector



Source: Bureau of Labor Statistics

Rural Residential Construction



Source: Bureau of Labor Statistics

*Please refer questions to Sean Moore, research associate, at 816-881-4766 or sean.moore@kc.frb.org.

For more current analysis on the state of the rural farm and nonfarm economies, visit our website at *www.kansascityfed.org/ruralcenter.*

Notes: Data for all tables are not seasonally adjusted. Job data were revised and reclassified in January 2003.