Survey of Agricultural Credit Conditions

By Corey Waldinger and Alan Barkema

Agricultural credit conditions in the Tenth Federal Reserve District strengthened during the first quarter of 1994, according to a survey of 323 agricultural bankers. Farmland values rose, farm loan demand grew, and repayments on farm loans improved. But sounding a note of caution were a turnaround in farm interest rates and prospects for weaker cattle prices.

Farmland values advance

The average value of district farmland rose 2.2 percent during the first quarter of 1994. Ranchland values were up 3.4 percent, outpacing gains in nonirrigated and irrigated cropland (Table 1). Overall, land values moved up in all district states with Missouri posting the strongest gain of 3.6 percent. On average, district land values were up 5.2 percent from a year ago, about double the rate of general price inflation. Since the market low at yearend 1986, district land values have climbed 49.1 percent.

Loan demand gains strength

Farm loan demand continued to gain strength throughout the district. The number of bankers reporting stronger loan demand was three times greater than the number reporting weaker loan demand. As a result, the district index of farm loan demand increased for the sixth consecutive quarter (Table 2). At 124, the index is at its highest level since yearend 1989.

The steady growth in farm loan demand exceeded growth in bank deposits at district agricultural banks, nudging up the average loan-deposit ratio to 56.2 percent. To absorb excess loanable funds and boost loan-deposit ratios, about three-fourths of district bankers were actively seeking new farm loan accounts. Less than 3 percent of the bankers refused farm loan requests due to a shortage of funds.

Loan repayment rates level out

The district index of repayment on farm loans inched up during the first quarter, signaling an improving rate of repayment. At 92, however, the index was still well below the 100 benchmark, suggesting that repayment rates remained somewhat weaker than a year ago.

Table 1
Farm Real Estate Values
March 31, 1994
(Average value per acre by reporting banks)

	Nonirrigated	Irrigated	Ranchland
Kansas	$504	$779	$261
Missouri	695	906	454
Nebraska	705	1,210	266
Oklahoma	453	664	293
Mountain states*	324	992	149
Tenth District	$557	$989	$269
Percent change from:			
Last quarter+	1.7	1.4	3.4
Year ago+	4.0	3.6	8.1
Market high	-34.0	-31.7	-33.7
Market low	40.7	44.6	61.1

* 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	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)
1990								
Jan.-Mar.	112	123	106	96	12.23	51.1	14	109.4
Apr.-June	115	123	114	86	12.20	51.6	14	112.6
July-Sept.	114	116	102	98	12.19	52.7	15	108.6
Oct.-Dec.	117	123	99	100	12.05	52.0	14	109.1
1991								
Jan.-Mar.	116	122	98	103	11.69	51.8	12	111.0
Apr.-June	111	122	96	105	11.46	52.3	12	107.7
July-Sept.	103	120	87	108	11.16	53.0	14	101.8
Oct.-Dec.	103	123	77	121	10.40	52.4	14	100.1
1992								
Jan.-Mar.	115	122	78	117	10.06	51.5	12	107.1
Apr.-June	109	113	84	111	9.91	53.2	13	104.8
July-Sept.	107	114	91	99	9.56	54.6	15	102.1
Oct.-Dec.	112	121	106	96	9.41	53.8	14	104.1
1993								
Jan.-Mar.	107	120	105	96	9.23	53.2	11	109.1
Apr.-June	114	115	103	97	9.12	55.3	15	107.5
July-Sept.	110	105	96	105	8.99	56.6	17	104.8
Oct.-Dec.	116	108	90	106	8.85	55.9	15	106.3
1994								
Jan.-Mar.	124	109	92	109	8.85	56.2	17	108.0

*At the 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.

The repayment index dropped sharply in the second half of last year, primarily due to extensive crop losses caused by wet weather and flooding in the eastern part of the district. Thus, the recent uptick in the repayment index is a welcome sign of recovery from last year's short crop, even though repayment rates have not yet returned to normal.

Interest rates reverse direction

The long slide in farm interest rates ended during the first quarter. The average interest rate charged on farm loans in the district edged up two basis points during the quarter following nearly five years of continuous decline. At the end of the first quarter, interest rates in the district averaged 8.36 percent on farm real estate loans, 8.67 percent on feeder cattle loans, 8.85 percent on farm operating loans, and 8.88 percent on intermediate loans. Rates were lowest in Nebraska and highest in Oklahoma and the mountain states.

Further increases in farm interest rates may be on the horizon. Changes in farm interest rates in the district generally follow changes in short-term interest rates in national money markets. Thus, if past patterns hold, increases in money-market rates since the end of the first quarter point to further increases in farm interest rates.

Commodity prices rise

The district index of farm commodity prices rose for the third consecutive quarter as higher livestock prices countered lower crop prices. The farm price index rose 1.6 percent during the quarter, but was 1.0 percent lower than a year ago. Adjusted for inflation, the index fell 3.5 percent in the past year.

Since the end of the first quarter, both crop and cattle prices have fallen sharply. Crop prices have been pushed down by weak export demand and prospects for large corn and soybean crops enhanced by excellent weather and rapid planting progress. Still, crop prices remain higher than a year ago. Moreover, crop inventories remain very lean after last year's small crop, suggesting that crop prices may be more volatile than usual in the months ahead as crop prospects shift with changes in the weather. Cattle prices also tumbled in recent weeks. With large supplies of red meat and poultry expected, chances are slim that prices will bounce back soon.

Outlook

Most financial indicators in the first quarter of 1994 point to a strong district farm economy. Farmland values rose, farm loan demand strengthened, and repayment on farm loans improved. Sounding a note of caution, however, were an apparent turnaround in farm interest rates, after nearly five years of steady decline, and a sharp slide in farm commodity prices since the end of the quarter. The outlook suggests a wide divergence in farm income prospects for 1994. With crop inventories lean, higher crop prices and a rebound in crop production from last year's weather-induced losses could boost incomes for district crop producers. But little improvement is likely in overall farm income with persistent losses in the district cattle industry.

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