Survey of Agricultural Credit Conditions

By Scott Ryckman and Alan Barkema

Agricultural credit conditions in the Tenth Federal Reserve District weakened during the first quarter of 1995, according to a survey of 311 agricultural bankers. Farmland values continued to rise at a brisk pace, underscoring the overall strength of farm balance sheets. But low farm commodity prices, weak repayments of farm loans, and higher farm interest rates pointed to an erosion in the industry's financial health.

Farmland values climb

Farmland values continued to climb at a brisk pace during the first quarter of 1995. The average value of district farmland rose 1.6 percent during the quarter, 5.3 percent higher than a year ago (Table 1).

Ranchland values rose more rapidly during the quarter than both irrigated and nonirrigated cropland values in every district state except Missouri. In the mountain states, ranchland values surged more than 5 percent despite an outlook for weak cattle prices, underscoring keen investor interest in scenic mountain lands. In Missouri, cropland values posted a first-quarter gain of more than 3 percent, continuing the rebound from the effects of the 1993 floods.

Most bankers expect more modest gains in farmland values in 1995, according to their responses to a special question in the first quarter survey. About a fourth of the bankers expect a modest gain of 5 percent or less, while slightly less than a fourth expect a slight decline and nearly half expect no change. A greater proportion of bankers expect land values to rise in Missouri and the mountain states than in the other district states. Such a generally dim view of the farmland market may be due to low farm commodity prices and proposed cuts in government farm payments in the new farm bill now being debated by Congress.

Farm commodity prices remain low

Farm commodity prices remained low in the first quarter. At the end of the quarter, the district index of farm commodity prices was still 11 percent lower than the year before, despite a modest recovery

Table 1

Farm Real Estate Values

March 31, 1995

(Average value per acre by reporting banks)

	Nonirrigated	Irrigated	Ranchland
Kansas	$529	$806	$271
Missouri	740	944	482
Nebraska	734	1221	270
Oklahoma	477	678	304
Mountain states*	341	1,045	150
Tenth District	$583	$1,006	$279
Percent change from:			
Last quarter+	2.2	1.1	1.2
Year ago+	6.4	4.6	6.9
Market high	-30.9	-30.1	-31.3
Market low	47.3	47.9	67.0

* 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.

in livestock and corn prices (Table 2).

Since the end of the first quarter, the outlook for livestock prices has worsened, with record supplies of red meat and poultry headed for market this year. By contrast, the outlook for crop prices has brightened. Wheat prices got a boost when an early spring cold snap threatened the tender winter wheat crop. Later, corn and soybean prices rose sharply when wet weather delayed the planting season and trimmed yield prospects. Despite large crop inventories left over from the bumper harvest in 1994, more inclement weather and further gains in export demand could be a potent recipe for higher crop prices.

Farm loan repayments weaken

With continued sluggish earnings in the district livestock industry, repayment rates on farm loans weakened further in the first quarter. The loan repayment index dropped to its lowest level since late-1991. Loan repayments weakened in all district states except Missouri, where farmers have gradually recovered from the 1993 floods. A corresponding increase in loan renewals and extensions suggests farmers are waiting for better times to repay some farm loans.

Farm loan demand grows

Bankers report further gains in farm loan demand. The district index of farm loan demand edged up to 130, well above the benchmark of 100 and a signal of stronger loan demand than a year ago. The growing loan demand outpaced deposit growth at district agricultural banks, nudging the average loan-deposit ratio up to 60.7 percent. Banks reporting a decrease in loanable funds now outnumber those reporting an increase by two to one. As the supply of loanable funds tightens, nearly a third of the bankers report they are not actively seeking new farm loans, and nearly 5 percent report refusing or reducing farm loans due to a shortage of funds.

Farm interest rates rise

Farm interest rates continued their steady climb during the first quarter of 1995, rising an average of 36 basis points. Since late 1993, farm interest rates have risen 167 basis points but remain 220 basis points below the last crest in early 1989. At the end of this year's first quarter, interest rates on new loans in the district averaged 10.05 percent on farm real estate loans, 10.35 percent on feeder cattle loans, 10.5 percent on farm operating loans, and 10.47 percent on intermediate loans.

Outlook

Most indicators pointed to further erosion in the financial strength of the district farm economy during the first quarter, and prospects for improvement during the rest of the year appear slim. Most bankers doubt the strong first-quarter gains in farmland values will continue in 1995. District livestock producers face another year of weak livestock prices and profits. The recent surge in crop prices caused by wet weather may boost profits for some district crop producers, but higher prices will be little benefit to producers who suffer substantial crop loss. Overall, 1995 is proving a more difficult year than many farmers and their lenders expected when the year began.

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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	106.8
Apr.-June	109	113	84	111	9.91	53.2	13	104.5
July-Sept.	107	114	91	99	9.56	54.6	15	101.8
Oct.-Dec.	112	121	106	96	9.41	53.8	14	103.7
1993								
Jan.-Mar.	107	120	105	96	9.23	53.2	11	108.7
Apr.-June	114	115	103	97	9.12	55.3	15	107.1
July-Sept.	110	105	96	105	8.99	56.6	17	104.5
Oct.-Dec.	116	108	90	106	8.85	55.9	15	106.2
1994								
Jan.-Mar.	124	109	92	109	8.85	56.2	17	107.8
Apr.-June	127	94	89	107	9.21	59.2	23	97.2
July-Sept.	132	81	90	106	9.59	60.9	27	93.2
Oct.-Dec.	126	82	85	112	10.12	60.2	31	95.6
1995								
Jan.-Mar.	130	89	77	119	10.50	60.7	30	96.2

* 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.