Survey of Agricultural Credit Conditions

By Scott Ryckman and Alan Barkema

District agriculture remained in strong financial condition during the third quarter of 1994 despite weak farm income prospects, according to a survey of 314 agricultural bankers in the district. Solid gains in farmland values and strengthening farm loan demand bolstered the overall health of district agriculture. But higher farm interest rates and lower farm commodity prices pointed to weaker farm incomes for 1994.

Farmland values up

The average value of district farmland rose 1.2 percent during the third quarter (Table 1). Gains in land values varied widely across the district. Gains were greatest in the mountain states (Colorado, New Mexico, and Wyoming) where rapidly rising ranchland values pointed to keen investor interest in scenic mountain lands. Cropland values rose the most in Missouri, where harvest of record corn and soybean crops marked a major turnaround from last year's disappointing harvest.

Overall gains in district land values have quickened during the past year. With the solid third quarter gain, the average value of district farmland rose 5.6 percent during the past 12 months, easily outpacing gains of 4.9 percent in 1993 and 4.0 percent in 1992. Recent gains in district farmland values suggest this year's bumper harvest has boosted investor interest in farmland, despite lower crop prices.

Farm loan demand strong

Farm loan demand continued to strengthen during the third quarter, raising the district index of farm loan demand to the highest level in a decade and a half. The strong demand for farm loans helped push the average loan-deposit ratio at the respondent banks above 60 percent for the first time in ten years. Paralleling the higher loan-deposit ratios, the bankers also signaled a drop in funds available for lending to farmers. Despite the tighter supply of loanable funds, only 3.5 percent of the banks reduced or denied farm loans due to a shortage of funds, and nearly 75 percent of the bankers were actively seeking new farm loans.

Table 1

Farm Real Estate Values

September 30, 1994

(Average value per acre by reporting banks)

	Nonirrigated	Irrigated	Ranchland
Kansas	$517	$792	$268
Missouri	728	963	469
Nebraska	715	1,230	269
Oklahoma	467	676	299
Mountain states*	332	998	154
Tenth District	$572	$1008	$275
Percent change from:			
Last quarter+	1.2	1.3	1.2
Year ago+	5.2	4.5	7.1
Market high	-32.2	-30.0	-32.2
Market low	44.4	48.2	64.8

* 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.

Farm interest rates higher

Farm interest rates in the district rose an average of 38 basis points during the third quarter. With the third quarter increase, farm interest rates were up 78 basis points since the beginning of the year. At the end of the third quarter, farm interest rates in the district averaged 9.17 percent on farm real estate loans, 9.43 percent on feeder cattle loans, 9.59 percent on farm operating loans, and 9.60 percent on intermediate loans.

Farm interest rates in the district usually reflect changes in interest rates in national money markets. Thus, increases in money market rates since the end of the third quarter suggest farm interest rates are likely to move higher.

Farm loan repayments weak

The rate of repayment on farm loans in the district remained weak during the third quarter. The district index of farm loan repayment was well below the 100 benchmark for the fifth consecutive quarter, indicating the number of bankers reporting weaker repayments exceeded the number reporting stronger repayments. Repayment rates improved in Missouri and Kansas, as crop production rebounded after last year's disappointing harvest. But loan repayments weakened in the mountain states and Nebraska, probably reflecting this year's sharp downturn in the cattle industry.

Farm commodity prices down

Falling prices of the major farm commodities produced in the district pushed down the district index of farm commodity prices during the third quarter. The index fell 4 percent during the quarter to a level nearly 11 percent lower than a year ago.

Prospects are bleak for an early rebound in most farm commodity prices. Although tight world wheat supplies may bolster wheat prices, the nation's biggest corn and soybean harvest on record promises to replenish crop inventories and hold down crop prices well into the new year. The big crop could lessen the sting of lower prices for most district crop producers—especially those who suffered large crop losses last year.

The lower grain prices will also trim feed costs and ease pressure on the bottom line for district cattle and hog producers. Nevertheless, the record supplies of beef, pork, and poultry headed to market in the months ahead promise to hold down livestock prices. Thus, the profit outlook for district livestock producers is much leaner than in recent years.

Outlook

Most financial indicators suggest district agriculture remained in solid financial condition during the third quarter of 1994. Farmland values continued to rise at a healthy pace, and district bankers welcomed further solid gains in demand for farm loans. But this year's plunge in farm commodity prices points to weaker incomes for many district farmers and ranchers. A huge harvest will boost incomes for many crop producers, despite lower prices. Weak livestock prices, however, will continue to erode incomes for most livestock producers well into the new year.

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Table 2
Selected Measures of Credit Conditions at Tenth District Agricultural Banks

	Loan demand (index)+	Availability (index)+	Loan repayment rates (index)+	Loan renewals or extensions (index)+	Average rate on operating loans (percent)	Average loan-deposit ratio* (percent)	Banks with loan-deposit ratio above desired level* (percent of banks)	District farm commodity price index (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
Apr.-June	127	94	89	107	9.21	59.2	23	97.3
July-Sept.	132	81	90	106	9.59	60.9	27	93.4

* 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.