

Agricultural *FINANCE* Monitor

agricultural credit conditions in the Eighth Federal Reserve District

2013 ■ First Quarter

The fourth quarterly survey of agricultural credit conditions was conducted by the Federal Reserve Bank of St. Louis from March 15 through March 29; the results presented here are based on the responses from 55 agricultural banks within the boundaries of the Eighth Federal Reserve District.¹ The Eighth District includes all or parts of seven Midwest and Mid-South states. Because these initial data are not adjusted for any seasonal irregularities (should they exist), users are cautioned to interpret the results carefully. In particular, users are cautioned against drawing firm conclusions about longer-run trends in farmland values and agricultural lending conditions.²

In addition to our standard survey questions, in this edition of the *Agricultural Finance Monitor* we asked three special questions aimed at assessing potential changes in farm sector risks. The first two questions asked about changes in the financial condition(s) of two groups: crop producers and other agricultural producers (such as livestock and poultry producers) that rely on crops as inputs. The third question asked respondents to identify the most significant risk(s) facing the farm sector for either producers or lenders this year.

Survey Results

On net, respondents indicated that first-quarter District farm income, along with capital and household spending, generally increased relative to their respective levels one year ago (see Table 1). Across the District, bankers cautiously expect farm income in the next quarter (second quarter of 2013) to be the same as or slightly below year-ago levels. Similarly, they also anticipate that capital and household spending levels in the next quarter will be about on par with one year ago.

Surprisingly, reported quality farmland, rangeland, or pastureland prices are down slightly relative to the prices indicated in the fourth quarter of 2012 (see Table 1).³ In this quarter's survey, the reported value of quality farmland

Selected Quotes from Banker Respondents Across the Eighth Federal Reserve District

Most of the 2013 crop inputs have been paid and they [farmers] still have low operating loan balances. But there is a group of young farmers that have only seen the "buy today because it will be higher tomorrow" and they are accumulating some high debt totals. If asset values cycle down, they could be put in a difficult financial situation with a resulting high debt ratio and large debt service requirements. The recipe for lower land values will be lower grain prices, meaning lower net income to service those debt requirements. Very similar to my early lending years of the early 1980s. (Illinois)

Uncertainty associated with the Farm Bill is causing some farmers some concern with regards to what lies ahead. (Illinois)

This segment appears poised for further improvement in 2014 and beyond. (Tennessee)

NOTE: These are generally verbatim quotes, but some were lightly edited to improve readability.

decreased by an average of 2.3 percent and that of rangeland or pastureland decreased by an average of 5.1 percent from last quarter. Similarly, cash rents of quality farmland declined an average of 8.6 percent and that of rangeland or pastureland reportedly fell an average of 4.5 percent. As in our previous three surveys, on net, bankers expect land values and cash rents to continue rising. However, it appears that bankers' expectations for future land value increases have moderated somewhat as fewer responses indicate that agricultural land values will continue to climb over the next quarter. Following that trend, bankers have also moderately tempered their short-term expectations for cash rents across the District.



The survey is produced by staff at the Federal Reserve Bank of St. Louis: Gary Corner, Senior Examiner, Bank Supervision and Regulation Division; and Brett Fawley and Lowell Ricketts, Senior Research Associates, and Kevin L. Kliesen, Business Economist and Research Officer, Research Division. We thank staff at the Federal Reserve Bank of Kansas City for initial and ongoing assistance with the agricultural credit survey.

If you have comments or questions, please contact Kevin Kliesen at kevin.l.kliesen@stls.frb.org.

The Eighth Federal Reserve District is headquartered in St. Louis and includes branch offices in Little Rock, Louisville, and Memphis; the District includes the state of Arkansas and portions of Illinois, Indiana, Kentucky, Mississippi, Missouri, and Tennessee.

In the survey, bankers were asked two types of questions: (i) estimates of current dollar values and interest rates and (ii) expectations for future values. Dollar values and rates refer to the first quarter of 2013. Regarding expectations for future values, bankers were asked whether they expect values to increase, decrease, or remain constant (either relative to a year ago or relative to current values; see table descriptions). A “diffusion index” value was then created for “income and expenditures” and for the 3-month trends in “land values” and “cash rents” (per acre). The diffusion index was created by subtracting the percent of bankers that responded “decrease” from the percent that responded “increase” and then adding 100. Index values from 0 to 99 indicate overall expectations of decreasing values; index values from 101 to 200 indicate overall expectations of increasing values; and an index value of 100 indicates an even split.

Table 1

Income and Expenditures, Land Values, and Cash Rents

	St. Louis	Little Rock	Louisville	Memphis	District
Income and expenditures (versus year-ago levels)					
Farm income					
2013:Q1 (actual)	107	120	114	150	118
2013:Q2 (expected)	70	100	100	100	83
Household spending					
2013:Q1 (actual)	126	120	83	150	125
2013:Q2 (expected)	100	100	100	100	100
Capital spending					
2013:Q1 (actual)	104	140	143	150	123
2013:Q2 (expected)	89	120	100	100	96
Land values (per acre)					
Quality farmland	\$6,293	\$2,225	\$4,775	\$2,985	\$5,111
Expected 3-month trend	121	100	113	130	120
Ranchland or pastureland	\$2,508	\$2,133	\$1,983	\$1,844	\$2,274
Expected 3-month trend	117	100	117	138	120
Cash rents (per acre)					
Quality farmland	\$193	\$90	\$186	\$139	\$171
Expected 3-month trend	130	100	138	100	122
Ranchland or pastureland	\$65	\$73	\$73	\$52	\$64
Expected 3-month trend	119	100	100	100	111

Excluding farmland values, Eighth District bankers continue to report conditions similar to the trends they expected, as revealed in the first-quarter 2013 survey (see Table 2). Importantly, actual farm income, household spending, and outlays for capital expenditures all surpassed expectations of District bankers, as did loan repayment rates. Table 2 also reveals that loan demand was softer than expected, although loan demand in the Memphis zone improved, albeit at a slower rate than anticipated. High commodity prices and record crop insurance payments could have had a distorting effect on loan demand.

Overall, District demand for agricultural credit was generally flat in the first quarter of 2013 relative to one year ago (see Table 3). In contrast, bankers in the St. Louis zone generally experienced a decline in loan demand, whereas those in the Memphis zone reported an increase. Short-term expectations for the next quarter range from flat loan demand in the Louisville and Memphis zones to anticipated loan growth in the St. Louis and Little Rock zones, relative to one year ago. The availability of funds to lend remains high as all zones except the Little Rock zone report more lendable funds available this quarter relative

Table 2

Expected and Actual 2013:Q1 Variables (versus year-ago levels)

	St. Louis	Little Rock	Louisville	Memphis	District
Farm income					
Expected	71	100	83	113	86
Actual	100	120	100	163	117
Difference	29	20	17	50	31
Household spending					
Expected	106	120	120	100	109
Actual	129	120	80	163	129
Difference	24	0	-40	63	20
Capital spending					
Expected	82	100	83	100	89
Actual	106	140	133	163	128
Difference	24	40	50	63	39
Demand for loans					
Expected	137	120	129	138	133
Actual	84	100	100	125	97
Difference	-53	-20	-29	-13	-36
Availability of funds					
Expected	105	100	129	125	114
Actual	147	100	129	138	138
Difference	42	0	0	13	24
Rate of loan repayment					
Expected	89	100	100	113	97
Actual	116	100	114	100	111
Difference	26	0	14	-13	14

NOTE: All variables are reported using a diffusion index. See the note above Table 1 for details about interpreting diffusion indexes. For comparison purposes, we compute diffusion indexes using only those banks that responded to the given question in both the 2012:Q4 and 2013:Q1 surveys. Components may not sum to totals due to rounding.

to one year ago. Loan repayments, on the other hand, are generally higher across the District compared with one year ago. Expectations point to similar levels of funds availability and loan repayments in the coming quarter as were observed one year ago. Interest rates, both fixed and variable, continue to show modest declines.

While not captured during this survey period, wet weather conditions have delayed the planting of corn crops by several weeks in affected District areas. This delay in planting has the potential to affect harvest yields and farm income this year, although, as with the 2012 drought, federal crop insurance serves as an effective risk management instrument for weather-related conditions.

Special Questions

Given the impact of severe drought conditions over much of the District last year, we asked Eighth District bankers some additional questions to gauge the change(s) in the financial condition of crop producers and other agricultural producers that rely on crops as a production input (such as feed) as commodity prices spiked. Our last question sought some insight as to the most significant risks that bankers foresee for the farm sector this year.

In the District as a whole, 51 percent of respondents indicated that the financial condition of crop producers improved either modestly or significantly from one year ago. In addition, another 31 percent of respondents indicated no change in the financial condition of crop producers, again from one year ago. Despite the pervasive drought conditions in 2012, only 18 percent of respondents reported

Table 3

Lending Conditions

	St. Louis	Little Rock	Louisville	Memphis	District
Loans (versus year-ago levels)					
Demand for loans					
2013:Q1 (actual)	85	100	100	120	96
2013:Q2 (expected)	124	120	100	100	115
Availability of funds					
2013:Q1 (actual)	159	100	125	140	145
2013:Q2 (expected)	136	100	114	100	122
Rate of loan repayment					
2013:Q1 (actual)	115	100	125	100	113
2013:Q2 (expected)	108	100	100	78	100
Interest rates (%)					
Operating					
Fixed	4.92	6.58	5.58	6.01	5.36
Variable	4.54	6.63	5.09	5.37	4.95
Machinery/intermediate-term					
Fixed	5.15	6.58	5.64	6.27	5.55
Variable	4.70	7.25	5.35	5.53	5.06
Farm real estate					
Fixed	4.71	5.83	5.44	5.72	5.12
Variable	4.29	5.75	4.81	5.25	4.66

NOTE: Demand for loans, availability of funds, and rate of loan repayment are reported using a diffusion index. See the note above Table 1 for details about interpreting diffusion indexes.

a modest deterioration in the financial condition of crop producers from one year ago. No respondents observed a significant deterioration in the financial condition of crop producers. On net, survey responses seem to confirm that elevated crop prices and record-level crop insurance payments supported farm income in 2012.

With regard to livestock and poultry (protein) producers, 21 percent of respondents reported modest or better improvement in the financial condition of borrowers from one year ago. The most common response, however, was no change in financial condition: 47 percent of respondents indicated no change from one year ago. On the other hand, about one-third of bankers have observed at least modest or more significant deterioration in the financial condition of protein producers from one year ago. Survey responses seem to confirm that most protein producers are “weathering the storm” of higher input costs but have not fared as well as crop producers.

Turning to farm sector risks, half of the District respondents foresee a weak economy as the most significant risk to the farm sector in 2013. Next, more than one-third of bankers consider an increase in producer input costs as the most significant risk. Of note, only 2 percent of bankers identified a decline in land values as the most significant risk in 2013. Likewise, an increase in interest rates was also viewed by few (2 percent) as the most significant risk this year. Under “other,” a few bankers cited drought and commodity prices as the most significant risks. Thus, it appears (i) a weak economy that potentially limits revenue growth in the farm sector followed by, or coincident with, (ii) a rise in input costs that squeezes profit margins are the most significant farm sector risks foreseen by District respondents for 2013. ■

Table 4

Financial Condition and Balance of Risks

	St. Louis	Little Rock	Louisville	Memphis	District
Change in financial condition of crop producers (from one year ago)					
Significant improvement	11	20	14	40	18
Modest improvement	33	0	57	30	33
No change	30	80	14	20	31
Modest deterioration	26	0	14	10	18
Significant deterioration	0	0	0	0	0
Change in financial condition of nonproducer borrowers (from one year ago)					
Significant improvement	0	20	0	10	4
Modest improvement	16	0	29	20	17
No change	36	40	57	70	47
Modest deterioration	40	40	14	0	28
Significant deterioration	8	0	0	0	4
Most significant risk to farming sector in 2013					
Decline in land prices	0	0	0	10	2
Increase in interest rates	4	0	0	0	2
Increase in input prices	30	75	29	40	35
Weak economy	52	25	71	40	50
Other	15	0	0	10	10

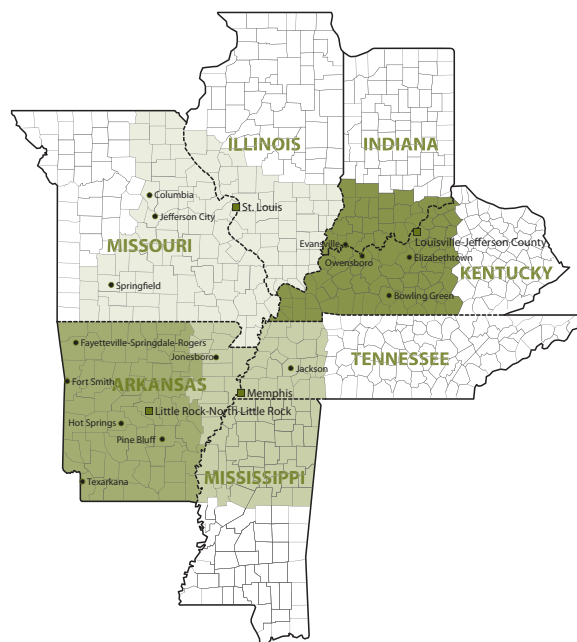
NOTE: The table reports responses as a percent of the total responses to each question.

Notes

¹ An agricultural bank, for survey purposes, is defined as a bank for which at least 15 percent of its total loans outstanding finances agricultural production or purchases of farmland, farm equipment, or farm structures.

² Readers are also cautioned that the number of responses in each zone is relatively small. Statistically, this tends to suggest that the responses in each zone have a larger plus-or-minus margin of error than for the District as a whole.

³ Since the composition and number of survey respondents tends to change each quarter, an alternative calculation is to compare the results reported from the same respondents with this survey and the previous survey (fourth quarter of 2012). Such an exercise reveals that the average land price of quality farmland was \$5,242 per acre in the first quarter of 2013, an 8.1 percent increase from the \$4,849 per acre average reported in the fourth quarter of 2012.



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Views expressed do not necessarily reflect official positions of the Federal Reserve System.