The tenth quarterly survey of agricultural credit conditions was conducted by the Federal Reserve Bank of St. Louis from September 15, 2014, through September 30, 2014. The results presented here are based on the responses from 41 agricultural banks within the boundaries of the Eighth Federal Reserve District. The Eighth District includes all or parts of seven Midwest and Mid-South states. These data are not adjusted for any seasonal patterns (should they exist). Accordingly, users are cautioned to interpret the results carefully. Users are also cautioned against drawing firm conclusions about longer-run trends in farmland values and agricultural lending conditions.

Executive Summary

According to a survey of 41 agricultural banks in the Eighth District, farm household spending and capital equipment expenditures declined in the third quarter relative to the same period a year earlier. Proportionately more bankers reported lower farm income for the third quarter than was expected three months earlier. Bankers expect further declines in farm income, household expenditures, and capital expenditures in the fourth quarter. Respondents reported that farmland values rose sharply in the third quarter. Our survey found that quality farmland values in the Eighth District averaged a little more than $6,100 per acre in the third quarter, which is the highest value the Agricultural Finance Monitor has reported. A larger percentage of bankers expect quality farmland prices in the fourth quarter to be lower than they were in the fourth quarter last year. Agricultural loan demand in the third quarter was consistent with the expectations of bankers from three months earlier, and the average interest rate on most fixed- and variable-rate loan products declined or was unchanged from three months earlier. For this survey, we asked three special questions to assess the financial health of agricultural borrowers in our bankers’ loan portfolios. The results suggest that the average agricultural borrowers’ financial condition has not deteriorated over the past three years.

Survey Results

Farm Income and Expenditures

Respondents reported that third-quarter farm income declined compared with the same period a year earlier—to a substantially larger degree than in our second-quarter survey. The third-quarter index value (76) was at its lowest level since we began publishing Agricultural Finance Monitor survey results (second quarter of 2012). Readers are cautioned that farm income is highly volatile and subject to seasonal patterns that occur in the agricultural sector.
Actual and expected farm income is a key determinant of household expenditures and capital spending by farmers and ranchers. Thus, not surprisingly, survey respondents reported that farm household spending and capital equipment expenditures declined in the third quarter relative to the same period a year earlier. The survey suggests that the pull-back in capital spending was more widespread than the decline in farm household expenditures. Respondents expect further declines in all three categories in the fourth quarter.

Current and Expected Land Values and Cash Rents

Land values and cash rents are reported in Table 1. According to our agricultural banker respondents, quality farmland values across the District averaged $6,120 per acre in the third quarter of 2014. This is the highest reported value in our survey’s relatively short history. The third-quarter average was up 11.8 percent from the second-quarter average of $5,473 per acre (see Figure 1).3 In our second-quarter survey, a slight majority of bankers expected quality farmland values to decline in the third quarter. Compared with the third quarter of 2013, quality farmland values in the Eighth District increased by 14.8 percent. Land values and cash rents are reported in current dollars.

The value of Eighth District ranchland or pastureland averaged $2,570 per acre in the third quarter of 2014, an 11.1 percent increase from the previous quarter and also
the highest reported value in the survey’s history. Compared with a year earlier, the value of ranchland or pastureland increased by 8.1 percent in the third quarter. Cash rents for quality farmland across the District averaged $194 per acre in the third quarter, up 1.6 percent from the second quarter. Cash rents for ranchland or pastureland rose an even larger 6.8 percent in the third quarter to $63 per acre.

Despite the surge in farmland prices in the third quarter, respondents expect farm land values to soften in the fourth quarter relative to a year earlier (an index value of 57). In fact, expectations of a softening in quality farmland prices have been prevalent over the past year. A substantially smaller proportion of respondents expect values of ranchland or pastureland to decline in the fourth quarter relative to a year earlier (index value of 93). Since cash rents adjust to the income produced by land—perhaps with a lag—expected cash rents for quality farmland and ranchland or pastureland over the next three months were very similar to land values: Proportionately more respondents expect cash rents for quality farmland values to decline in the fourth quarter relative to a year earlier (index value of 46). Figures 1 and 2 show average farmland values and cash rents since our first survey.

Outcomes Relative to Previous-Quarter Expectations

The examination of actual data relative to expectations is an important aspect of economic analysis. Accordingly, Table 2 provides an assessment of farm income, expenditures, and several other key variables reported in the third quarter of 2014 relative to bankers’ expectations from three months earlier.4 Farm income and capital spending in the
third quarter was lower than initially expected in the previous survey. However, farm household spending in the third quarter was slightly higher than expected.

Table 2 indicates that loan demand in the third quarter was consistent with the expectations of bankers from three months earlier (index value of 103). However, the availability of funds in the third quarter was slightly below expectations from three months earlier. A modestly larger share of bankers reported that loan repayments fell short of previous expectations (an index value of 89 relative to an expected index value of 103). Figures 3 through 8 plot the actual and expected diffusion index values for the six variables shown in Table 2 since our first survey.

**Financial Conditions**

Table 3 reports our survey respondents’ assessment of current and prospective commercial lending indicators in the Eighth District. In the third quarter, a slightly larger proportion of bankers reported an increase in loan demand relative to the same period a year ago (index value of 103). The proportion of bankers expecting loan demand to increase over the next three months relative to a year ago increased slightly (index value of 106). By contrast, a larger number of bankers expect that the availability of funds and loan repayment rates will fall in the fourth quarter relative to a year ago.

Table 4 indicates that average interest rates on fixed- and variable-rate loan products in the third quarter of 2014 were modestly below their second-quarter averages. The largest declines were in fixed-rate loans for operating expenses (−13 basis points) and variable-rate loans for machinery/intermediate-term loan types (−16 basis points). The average interest rate on farm real estate loans in the third quarter was little changed from the previous quarter.

**Special Questions**

Table 5 reports the results of three special questions we posed to our bank respondents for this survey. Taken together, the questions attempt to assess the current financial condition of our bankers’ agricultural borrowers. In the first question, we asked bankers to assess the change in loan-to-value ratios (LTVs) over the past three years for agricultural production/operating loans and for land purchase loans. Regarding the former, roughly two-thirds of respondents indicated no change in LTVs over the past three years. Of those bankers reporting a change, a slightly larger percentage noted an increase in LTVs relative to a decrease in LTVs.

The second special question asked agricultural bankers to assess the debt-to-equity ratios (DERs) for agricultural borrowers in their loan portfolio. The results varied tremendously, and the median responses ranged from a low of 20 percent to a high of 75 percent. Finally, the third question asked bankers to assess how their agricultural borrowers’ DERs have changed over the past three years. A significant minority of respondents (44.1 percent) reported that DERs have remained stable, while a substantially smaller percentage (17.6 percent) reported that their borrowers’ DERs have increased. The remaining 38.2 percent of respondents reported that their borrowers’ DERs have decreased over the past three years. Overall, these results suggest that the average agricultural borrowers’ financial condition has not deteriorated over the past three years. ■
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. We are eliminating the zone-by-zone responses until the response rate improves.

3 Since the composition and number of survey respondents tend to change each quarter, it might be more accurate to compare the results reported from the same respondents to this survey and the previous survey (second quarter of 2014). Such an exercise reveals that the average value of quality farm land in the District was $6,112 per acre in the third quarter of 2014, which is a 0.4 percent increase from the $6,086 per acre average reported in the second quarter of 2014.