Agricultural FINANCE Monitor

agricultural credit conditions in the Eighth Federal Reserve District

2012 ■ Second Quarter

The Federal Reserve Bank of St. Louis is pleased to report the results of its first quarterly survey of agricultural credit conditions. The survey was conducted from June 15 through June 29 and its results are based on the responses from 88 agricultural banks within the boundaries of the Eighth Federal Reserve District.[1] The Eighth District comprises 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.

Survey Results

Most areas of the Eighth Federal Reserve District (hereafter "District") remain under extreme or exceptional drought conditions.[2] Not surprisingly, our survey suggests that the severe drought has had a noticeable impact on current and expected farm incomes and expenses.

Through the first half of the year, farm income was strong because of favorable growing conditions and a strong winter wheat crop. However, the drought has caused most bank respondents to temper their expectations for farm income in the current quarter. District farm income in the third quarter of 2012 is expected to be below last year's levels (see Table 1) in all major areas of the District except for the Memphis zone, which includes northern Mississippi. In the Memphis zone, a slightly larger percentage of respondents expected higher farm income and capital spending relative to the previous year. This development mostly reflects the generally favorable expectations for the District's cotton and rice crop. In addition, irrigated corn production is prevalent in some areas of the Memphis zone. By contrast, respondents were much less optimistic in the other three zones, with banks in the Louisville zone the least optimistic.

The highest average land values in the District—both quality farmland (nonirrigated) and ranch or pastureland—are in the St. Louis and Louisville zones. Land values are generally lower on average in the Little Rock and Memphis zones. Naturally, cash rents are also the highest in those areas where land values are the highest. During the survey time period, respondents estimated that District quality farmland values averaged a little more than $4,700 per acre, with ranch or pastureland averaging about $2,350 per acre. In every District zone, land prices and rents are generally expected to remain the same or increase over the next three months. Except for those in the Louisville zone, proportionately more respondents foresee increases in quality farmland prices than in ranch or pastureland prices. Some respondents noted that recent increases in farmland prices parallel the rise in commodity prices. One respondent believes, however, the farmland prices in his area have risen above the level justified by fundamentals.

Overall, demand for agricultural loans in the District remained healthy in the second quarter compared with a year earlier (see Table 2). On balance, demand for farm loans was stronger in the Memphis and Louisville zones; proportionately more respondents reported weaker demand in the St. Louis zone. With a few exceptions, loan demand, availability of funds, and repayments are expected to remain above year-earlier levels in the third quarter. One might reasonably conclude that the expected increase in demand for farm loans in the third quarter (from a year earlier) is related to the expectation of weaker farm income growth (because of the drought). Loan repayments in the third quarter of 2012 in the District are expected to be on par with levels from the previous year. However, proportionately more respondents expect lower rates of loan repayment in the Louisville and Memphis zones compared with the Little Rock and St. Louis zones.

Table 2 also shows interest rates on a variety of loan types. In the second quarter of 2012, interest rates were

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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.

generally highest in the Little Rock zone and lowest in the St. Louis zone. Respondents indicated that interest rates on variable-rate loans were about 40 basis points less than the interest rates for fixed-rate loans. One notable exception was that interest rates on variable-rate loans for farm real estate and machinery were higher than interest rates on fixed-rate loans in the Little Rock zone.[3]

For the third quarter survey, lenders will be asked two additional questions to discern the percentage of loans covered by crop insurance and the expected impact of the drought on farm income. The survey results will be published in early November. ■

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] See the August 21, 2012, U.S Drought Monitor (http://droughtmonitor.unl.edu/).

[3] Readers are cautioned that not all respondents reported both fixed- and variable-rate loan rates.

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 second quarter of 2012. 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." 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					
2012:Q2	148	130	125	139	140
2012:Q3	74	70	67	118	81
Household spending					
2012:Q2	143	130	83	139	132
2012:Q3	85	110	75	138	97
Capital spending					
2012:Q2	148	130	108	122	134
2012:Q3	71	80	75	131	85
Land values					
Quality farmland (nonirrigated)	$5,835	$2,878	$4,504	$2,900	$4,705
Expected 3-month trend	116	120	115	133	120
Ranch or pastureland	$2,691	$1,918	$2,464	$1,717	$2,349
Expected 3-month trend	108	108	125	119	113
Cash rents					
Quality farmland	$186	$111	$178	$123	$162
Expected 3-month trend	120	122	133	106	119
Ranch or pastureland	$58	$52	$55	$42	$53
Expected 3-month trend	115	110	118	100	111

Table 2

Lending Conditions

	St. Louis	Little Rock	Louisville	Memphis	District
Loans (versus year-ago levels)					
Demand for loans					
2012:Q2	95	100	108	111	101
2012:Q3	100	127	108	122	110
Availability of funds					
2012:Q2	150	136	131	133	142
2012:Q3	118	140	125	100	118
Rate of loan repayment					
2012:Q2	128	127	100	117	121
2012:Q3	105	120	92	82	100
Interest rates (%)					
Operating					
Fixed	5.44	6.88	6.02	6.22	5.87
Variable	4.97	6.67	5.52	5.40	5.36
Machinery/intermediate-term					
Fixed	5.62	6.93	6.41	6.53	6.08
Variable	5.16	7.17	6.11	5.66	5.67
Farm real estate					
Fixed	5.14	6.20	5.92	5.85	5.55
Variable	4.78	6.24	5.09	5.31	5.09

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.