

Agricultural *FINANCE* Monitor

agricultural credit conditions in the Eighth Federal Reserve District

2013 ■ Second Quarter

The fifth quarterly survey of agricultural credit conditions was conducted by the Federal Reserve Bank of St. Louis from June 11 through June 28; the results presented here are based on the responses from 48 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

Survey Results

On net, respondents indicated that second-quarter District farm income, along with capital and household spending, increased modestly relative to their respective levels one year ago (see Table 1). In contrast, respondents in the Louisville zone noted a decline in farm income over the second quarter. Across the District, bankers expect farm income to fall over the course of the next quarter compared with the third quarter of 2012. Interestingly, Louisville bankers feel that farm income will exhibit a reversal of the second-quarter decline and increase in the third quarter. Household spending levels were higher in the second quarter than a year ago across all zones in the Eighth District. Respondents expect similar increases in the third quarter compared with a year earlier. Respondents in the Little Rock and Memphis zones reported that capital spending levels were higher than last year.

Quality farmland values across the District averaged \$5,672 per acre in the second quarter of 2013. As seen in Figure 1, this was a noticeable increase (11 percent) from the first-quarter average of \$5,111. Over the past four quarters, District quality farmland values increased by 20.6 percent. Quality farmland values over the past year appeared to increase the most in the St. Louis zone.³ Figure 1 also

Selected Quotes from Banker Respondents Across the Eighth Federal Reserve District

Drought conditions are continuing in our area. Pressure on hay supplies is increasing and sell offs of livestock is ongoing. (Arkansas)

The poultry industry appears to have stabilized. Summer rains have helped forage production and the early hay crop. If the rains continue, it should relieve some feed cost concerns. (Arkansas)

Strong cash grain markets are keeping the mood positive for this year's corn and soybean producers. Loan demand from good farm operators is weak due to their cash position. Many area farmers have greatly reduced debt the last few years and are reluctant to incur new debt. (Illinois)

Liquidity is getting tighter for us. (Illinois)

Cattle prices are up, which has increased farm income but also replacement costs. Crop prices are significantly lower than last year. Depending on where you are and how last year's crop yielded, your income this year could be much higher or much lower. (Missouri)

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

reveals that the average District ranch or pastureland value per acre has also increased over the past four quarters, from \$2,349 per acre to \$2,372 per acre, or 1.0 percent. A proportionately larger number of respondents expect quality farmland and ranch or pastureland land values to increase in the third quarter relative to a year earlier.

Figure 2 shows average cash rents per acre for quality farmland and ranch or pastureland over the four quarters ending in the second quarter of 2013. In the second quarter, cash rents for quality farmland averaged \$183 per acre, 6.7 percent more than the first-quarter average and 12.9 percent more than four quarters earlier. Generally speaking,



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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 second 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:Q2 (actual)	104	113	80	138	108
2013:Q3 (expected)	88	63	140	100	91
Household spending					
2013:Q2 (actual)	115	113	120	138	119
2013:Q3 (expected)	113	125	140	113	118
Capital spending					
2013:Q2 (actual)	100	113	100	138	109
2013:Q3 (expected)	100	88	120	113	102
Land values (per acre)					
Quality farmland					
	\$7,316	\$2,867	\$3,450	\$3,131	\$5,672
Expected 3-month trend	124	133	120	138	127
Ranchland or pastureland					
	\$2,913	\$1,961	\$2,333	\$1,757	\$2,372
Expected 3-month trend	106	100	125	114	108
Cash rents (per acre)					
Quality farmland					
	\$208	\$128	\$163	\$140	\$183
Expected 3-month trend	117	117	125	113	117
Ranchland or pastureland					
	\$54	\$60	\$88	\$52	\$57
Expected 3-month trend	106	117	100	117	109

cash rents for quality farmland rose in the second quarter, while they fell for ranch or pastureland. Respondents expect quality farmland and ranch or pastureland cash rents to increase during the third quarter from a year earlier. However, anecdotal information collected from other sources suggests some shift in cash rents toward a variable or profit-sharing basis. Readers are cautioned that this movement may not be fully captured in cash rent data.⁴

On net, District bankers’ past expectations of second-quarter household spending, capital spending, availability of funds, and loan repayment rates were essentially realized (see Table 2). However, respondents in the Memphis

zone were pleasantly surprised with better-than-expected farm income, household spending, capital spending, and funds availability. Predictions of farm income in the second quarter proved to be more variable than respondents expected. Still, realized values were better than expected for all of the zones except for Louisville. Loan demand failed to meet expectations for the St. Louis, Little Rock, and Louisville zones.

On average, demand for agricultural credit across the District in the second quarter was roughly unchanged compared with a year ago (see Table 3). Declines were reported in the St. Louis and Louisville zones, while loan demand

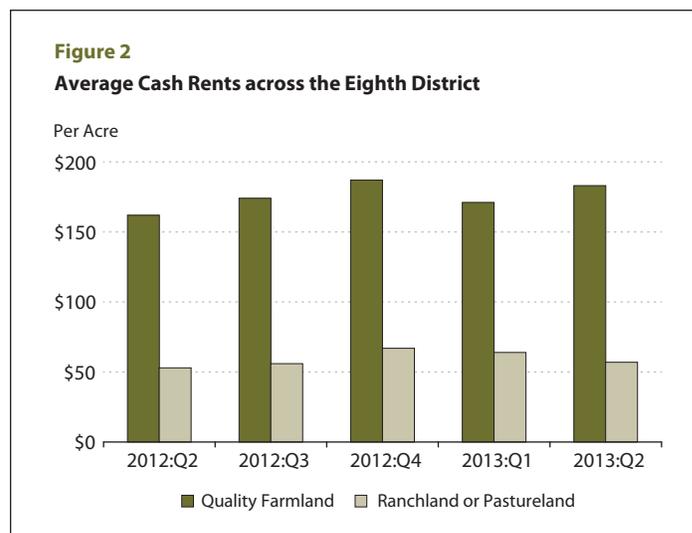
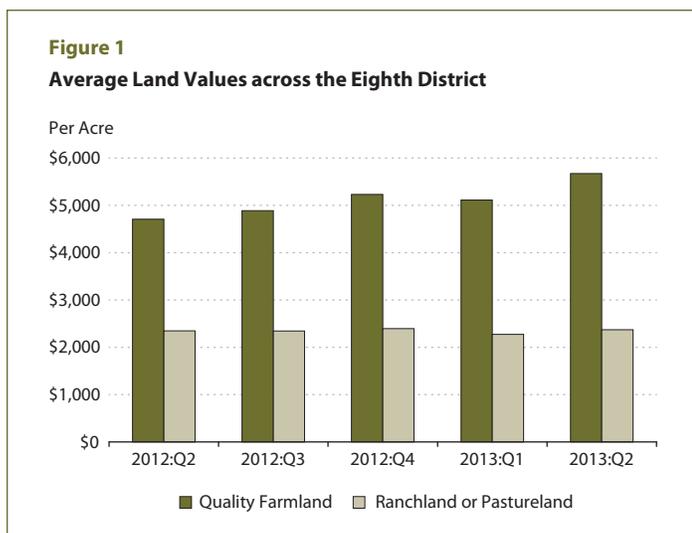


Table 2
Expected and Actual 2013:Q2 Variables (versus year-ago levels)

	St. Louis	Little Rock	Louisville	Memphis	District
Farm income					
Expected	69	100	100	100	81
Actual	81	133	67	140	96
Difference	13	33	-33	40	15
Household spending					
Expected	106	100	100	100	104
Actual	106	100	100	120	108
Difference	0	0	0	20	4
Capital spending					
Expected	87	133	67	100	92
Actual	87	100	100	140	100
Difference	0	-33	33	40	8
Demand for loans					
Expected	129	133	100	80	116
Actual	79	100	67	80	80
Difference	-50	-33	-33	0	-36
Availability of funds					
Expected	143	100	133	100	128
Actual	136	100	133	140	132
Difference	-7	0	0	40	4
Rate of loan repayment					
Expected	114	100	100	60	100
Actual	129	100	100	60	108
Difference	14	0	0	0	8

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 2013:Q2 and 2013:Q1 surveys. Components may not sum to totals due to rounding.

Table 3

Lending Conditions

	St. Louis	Little Rock	Louisville	Memphis	District
Loans (versus year-ago levels)					
Demand for loans					
2013:Q2 (actual)	89	113	80	113	96
2013:Q3 (expected)	118	129	120	129	122
Availability of funds					
2013:Q2 (actual)	126	113	120	125	123
2013:Q3 (expected)	114	100	120	100	110
Rate of loan repayment					
2013:Q2 (actual)	119	100	120	75	108
2013:Q3 (expected)	100	100	120	100	103
Interest rates (%)					
Operating					
Fixed	5.01	6.54	4.61	5.92	5.38
Variable	4.53	6.19	5.67	5.24	4.97
Machinery/intermediate-term					
Fixed	5.18	6.71	5.69	5.98	5.60
Variable	4.72	6.56	5.48	5.65	5.19
Farm real estate					
Fixed	4.80	6.14	5.35	5.54	5.21
Variable	4.38	5.63	5.18	4.75	4.69

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.

was up modestly in the Little Rock and Memphis zones. Respondents expect loan demand to pick up in the third quarter of this year relative to a year earlier. Respondents reported that more funds were available to prospective borrowers than at the same time last year, as noted by index values greater than 100 in Table 3. Respondents in the St. Louis and Louisville zones expect higher relative levels in the third quarter, while the other zones expect values to be the same as those from a year earlier. Rates of loan repayment in the District were roughly the same compared with the second quarter of last year. In contrast, bankers in the Memphis zone noted lower rates of repay-

ment in the second quarter relative to the same time last year. On net, interest rates across the District on all types of loans increased modestly in the second quarter compared with the first quarter. Within the zones there was considerably more variation. However, on average, interest rates on variable-rate loans tended to increase by slightly more than fixed-rate loans in the second quarter. Recall, again, that the relatively low response rates for the individual zones entails a higher-than-normal margin of error. ■

NOTE: There were no special questions for this survey. See Notes and District map on p. 5.

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 may eliminate the zone-by-zone responses unless the response rate improves.

³ Since the composition and number of survey respondents tends 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 (first quarter of 2013). Such an exercise reveals that the average land price of quality farmland in the District was \$5,086 per acre in the second quarter of 2013, a 4 percent decrease from the \$5,297 per acre average reported in the first quarter of 2013.

⁴ In general, variable contracts set a minimum cash rent. In addition to the minimum payment, the landowner may be paid a “bonus component” based on a percentage of crop revenue. In some instances, the calculation of crop revenue may include the proceeds from crop insurance.

