

Regional Surveys of Business Activity

Fifth District Survey of Agricultural Credit Conditions

Wet and Cold Conditions Push Down Farm Loan Demand; Farmland Prices on Pace

Overview

Results from the Richmond Fed's latest survey of Fifth District agricultural banks suggested somewhat weaker lending conditions during the first quarter of 2008. Bankers reported that demand for farm loans retreated further and noted that requests for loan renewals or extensions moved down from the previous quarter.

Agricultural lenders indicated that loan repayment rates contracted, but at a somewhat slower pace than in the fourth quarter. Moreover, farm loan availability improved further, while collateral requirements tightened from fourth quarter levels. Reports also indicated that interest rates for agricultural loans again moved lower across the board. Turning to farmland values, first quarter land prices were little changed from the previous quarter but above year-ago levels.

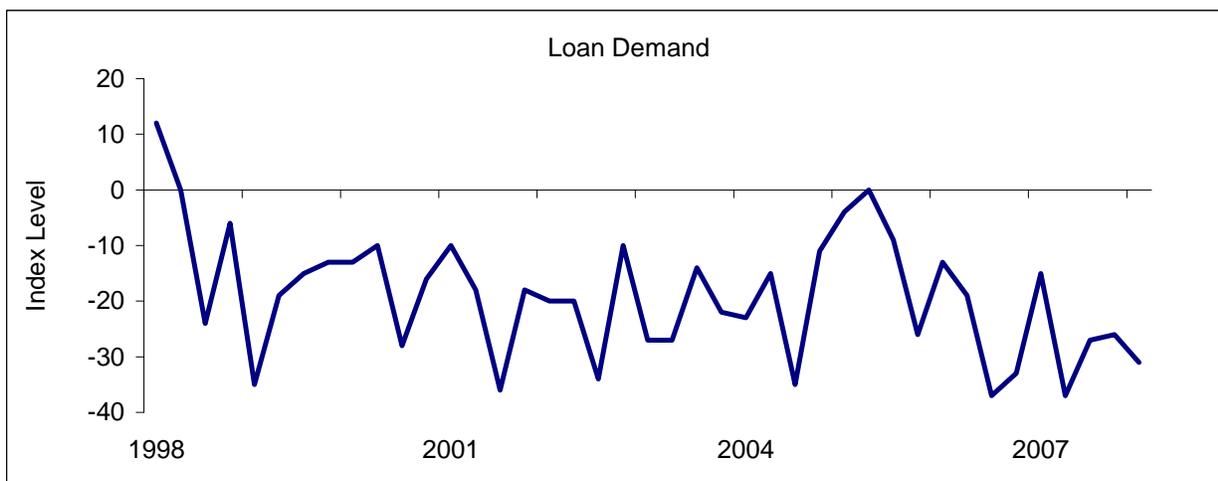
Demand for Farm Loans

Lenders attributed the latest reduction in loan demand to the combination of cooler-than-normal weather and wet conditions which delayed planting and development of many crops. They also noted

that some crops required replanting. Additionally, lenders expressed concern about escalating production costs.

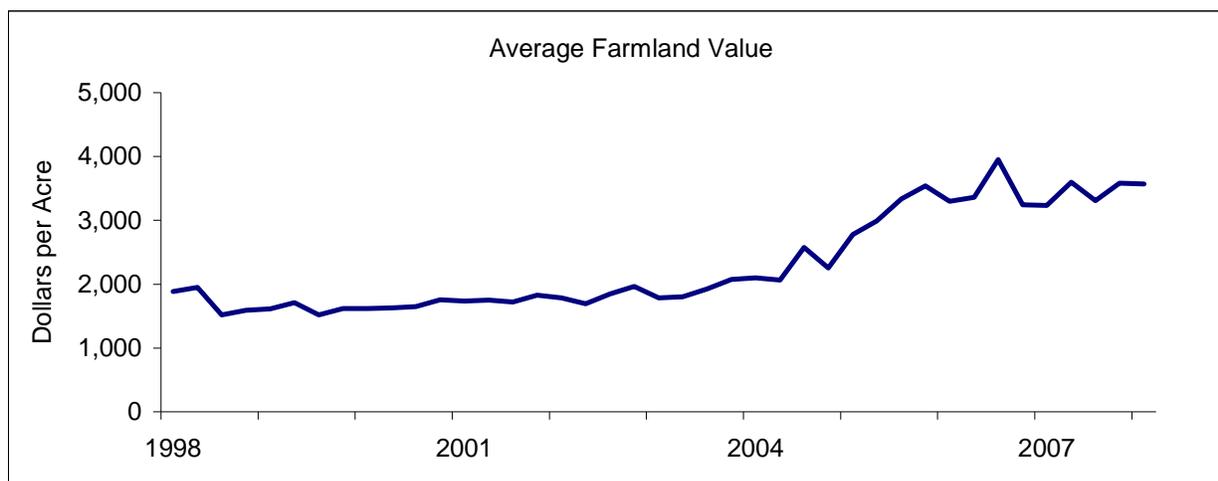
A contact in Virginia said that unusually wet and cold conditions had delayed planting of soybeans and created the need for some corn and cotton to be replanted. Similarly, a North Carolina banker told us that although the recent rains had reduced the effects of the 2007 drought, wet field conditions had delayed corn planting in some areas of the state. He also indicated that some farmers may alter crop plans to include more soybeans. Furthermore, analysts in North Carolina, Virginia and West Virginia reported that higher feed costs coupled with elevated fuel expenses continued to squeeze margins for farmers, particularly cattle and poultry producers.

Accordingly, the forward looking index of anticipated demand for operating loans over the next three months held steady at 6. In other categories, expected demand for farm machinery loans picked up twenty-eight points to 7 and the reading for feeder cattle loans moved up twenty-



Regional Surveys of Business Activity

Fifth District Survey of Agricultural Credit Conditions



five points to end at -8. Additionally, dairy loans added twenty-three points to -8 and crop storage loans gained seventeen points to finish at -7.

Interest Rates

Interest rates for agricultural loans moved lower across all categories during the first quarter. Compared to fourth quarter levels, rates for operating loans decreased 83 basis points and rates for feeder cattle loans declined 79 basis points. In other categories, interest rates for intermediate-term loans dropped 67 basis points and rates for long-term real estate loans declined 37 basis points.

Availability of Credit

In the first quarter, 69 percent of lenders reported that they had actively sought new farm loans, down from last quarter's reading of 79 percent. In addition, the funds availability index increased four points to 25.

Credit Quality

Readings for the quality of agricultural credit sent mixed signals during the first quarter. The index for loan repayment rates remained in negative territory but contracted at a slower pace, gaining nineteen points to end at -13, while the reading for loan renewals trimmed ten points to end at 6. In contrast, the index of collateral requirements increased eight points to finish at 25.

Farmland Values

The market value of good farmland averaged \$3,567 per acre in the first quarter, 0.5 percent lower than the fourth quarter reading, but 10.3 percent above the mark from a year earlier. Looking forward, bankers anticipated slightly faster growth in farmland prices during the second quarter of 2008; the index of expected land values picked up eight points to 13.

All banks surveyed are within the Fifth Federal Reserve District, which includes the District of Columbia, Maryland, North Carolina, South Carolina, Virginia, and most of West Virginia.

Contact

Judy Cox

Senior Economic Analyst
Regional Economics Department
The Federal Reserve Bank of Richmond Office
804· 697· 8152 · Fax 804· 697· 8123

judy.cox@rich.frb.org

www.richmondfed.org

Regional Surveys of Business Activity

Fifth District Survey of Agricultural Credit Conditions

Agricultural Credit Conditions

Indicators of Demand

Farm Non-Real Estate Lending

| | Percent reporting | | |
|-------------------------|--------------------|-----------------|----------------|
| | Greater than Usual | Less than Usual | About as Usual |
| Demand for Loans | 13 | 44 | 44 |
| Funds Availability | 31 | 6 | 63 |
| Loan Repayment Rates | 6 | 19 | 75 |
| Renewals or Extensions | 19 | 13 | 69 |
| Collateral Requirements | 25 | 0 | 75 |

Diffusion Indexes¹

| | Q1:08 | Q4:07 | Q1:07 |
|-------------------------|-------|-------|-------|
| Demand for Loans | -31 | -26 | -16 |
| Funds Availability | 25 | 21 | 10 |
| Loan Repayment Rates | -13 | -32 | -5 |
| Renewals or Extensions | 6 | 16 | -10 |
| Collateral Requirements | 25 | 17 | 15 |

Farm Loan Volume Expected: next three months

| | Percent reporting | | |
|-----------------------|-------------------|-------|------|
| | Higher | Lower | Same |
| Real Estate Loans | 0 | 25 | 75 |
| Non Real Estate Loans | 0 | 0 | 0 |
| Total | 25 | 33 | 42 |
| Feeder Cattle | 0 | 8 | 92 |
| Dairy | 0 | 8 | 92 |
| Crop Storage | 8 | 15 | 77 |
| Operating | 25 | 19 | 56 |
| Farm Machinery | 13 | 6 | 81 |

Diffusion Indexes¹

| | Q1:08 | Q4:07 | Q1:07 |
|-----------------------|-------|-------|-------|
| Real Estate Loans | -25 | -53 | -5 |
| Non Real Estate Loans | 0 | 0 | 0 |
| Total | -8 | -33 | -11 |
| Feeder Cattle | -8 | -33 | -7 |
| Dairy | -8 | -31 | -7 |
| Crop Storage | -7 | -24 | -38 |
| Operating | 6 | 6 | 0 |
| Farm Machinery | 7 | -21 | -5 |



Regional Surveys of Business Activity

Fifth District Survey of Agricultural Credit Conditions

Agricultural Credit Conditions

Indicators of Credit Availability

| | Level | Change From ² | |
|-------------------------------|-------|--------------------------|---------|
| | Q1:08 | Q4:07 | Q1:07 |
| Average Loan-to-Deposit Ratio | 87.5 | -2.1 ppt | 5.8 ppt |

| | Percent reporting | | |
|---|---------------------|--------------------|-------------|
| | Higher Than Desired | Lower Than Desired | About Right |
| Loan-to-Deposit Ratio Compared to Desired Level | 13 | 40 | 47 |

| | Diffusion Indexes ¹ | | |
|--|--------------------------------|-------|-------|
| | Q1:08 | Q4:07 | Q1:07 |
| | -27 | -11 | -25 |

| | Level | Percent Reporting "Yes" | |
|-----|-------|-------------------------|-------|
| | Q1:08 | Q4:07 | Q1:07 |
| Yes | 0 | 5 | 0 |
| No | 100 | | |

| | Level | Percent Reporting "Yes" | |
|-----|-------|-------------------------|-------|
| | Q1:08 | Q4:07 | Q1:07 |
| Yes | 69 | 79 | 75 |
| No | 31 | | |

| | Percent reporting | | |
|---------------------|--------------------|-----------------|----------------|
| | Greater than usual | Less than usual | About as usual |
| Correspondent Banks | 7 | 0 | 0 |
| Non-bank Agencies | 0 | 0 | 7 |

| | Level | Percent Reporting "None" | |
|---------------------|-------|--------------------------|-------|
| | Q1:08 | Q4:07 | Q1:07 |
| Correspondent Banks | 93 | 78 | 89 |
| Non-bank Agencies | 93 | 76 | 89 |



Regional Surveys of Business Activity
 Fifth District Survey of Agricultural Credit Conditions

Agricultural Credit Conditions

Price Indicators

| Average Interest Rates on Farm Loans | Level | Change From ³ | |
|--------------------------------------|-------|--------------------------|---------|
| | Q1:08 | Q4:07 | Q1:07 |
| Feeder Cattle Loans | 7.37 | -79 bp | -174 bp |
| Operating Loans | 7.08 | -83 bp | -190 bp |
| Intermediate-term Loans | 6.92 | -67 bp | -164 bp |
| Long-term Real Estate Loans | 7.10 | -37 bp | -122 bp |

| Farm Real Estate Values | Level | Percent Change From | |
|-----------------------------------|---------|---------------------|--------|
| | Q1:08 | Q4:07 | Q1:07 |
| Average Farmland Value (per acre) | \$3,567 | -0.5 % | 10.3 % |

| Expected Farmland Value: next 3 months | Percent reporting | | |
|--|-------------------|------|--------|
| | Up | Down | Stable |
| | 20 | 7 | 73 |

| Diffusion Indexes ¹ | | |
|--------------------------------|-------|-------|
| Q1:08 | Q4:07 | Q1:07 |
| 13 | 5 | 25 |

¹ Diffusion indexes are calculated as the percentage of banks reporting increases minus the percentage of banks reporting decreases.
² Change in loan-to-deposit ratio from previous periods measured in percentage points (ppt).
³ Change in average interest rates from previous periods measured in basis points (bp). Basis points are defined as 1/100th of a percentage point. Percentages may not add to 100 due to rounding.