

# Regional Surveys of Business Activity

## Fifth District Survey of Agricultural Credit Conditions

*Farm Loan Demand Remained Weak As Dry Conditions Continued; Farmland Prices on Par*

### Overview

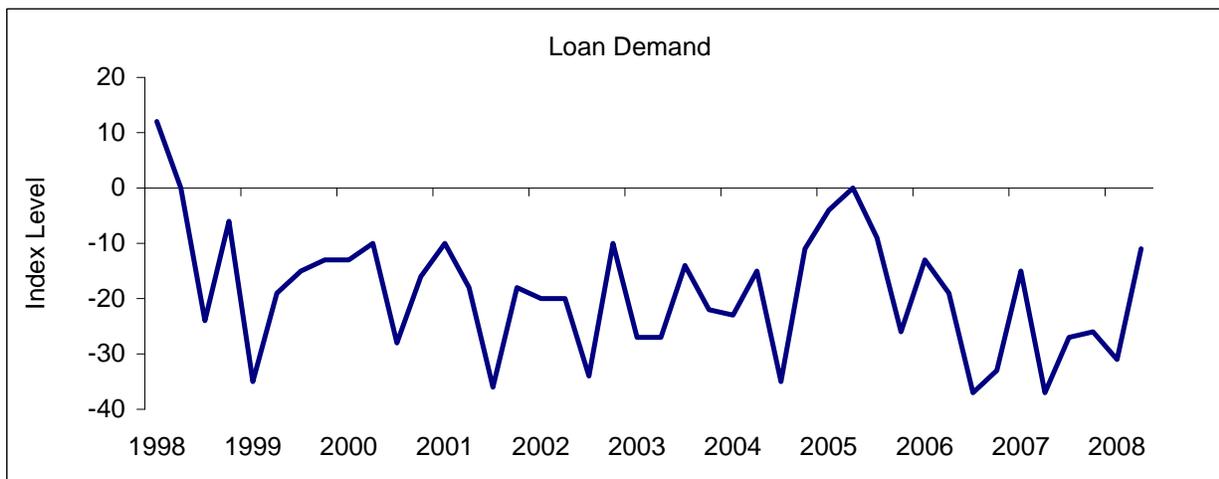
Results from the Richmond Fed's latest survey of Fifth District agricultural banks indicated diminishing weakness in credit lending conditions during the second quarter of 2008. Bankers reported that demand for farm loans contracted, but at a somewhat slower pace than in the previous month. In addition, contacts generally noted that loan repayment rates were virtually unchanged in the second quarter, and requests for loan renewals or extensions moved into negative territory. Moreover, agricultural lenders reported that farm loan availability lessened, and collateral requirements tightened from first quarter levels. Reports also indicated that interest rates eased for feeder cattle loans but generally increased for other categories. Turning to farmland values, second quarter land prices were little changed from the previous quarter and year-ago levels.

### Demand for Farm Loans

The demand for farm loans remained weak in the second quarter, though the pullback in demand was less pronounced than in the first quarter.

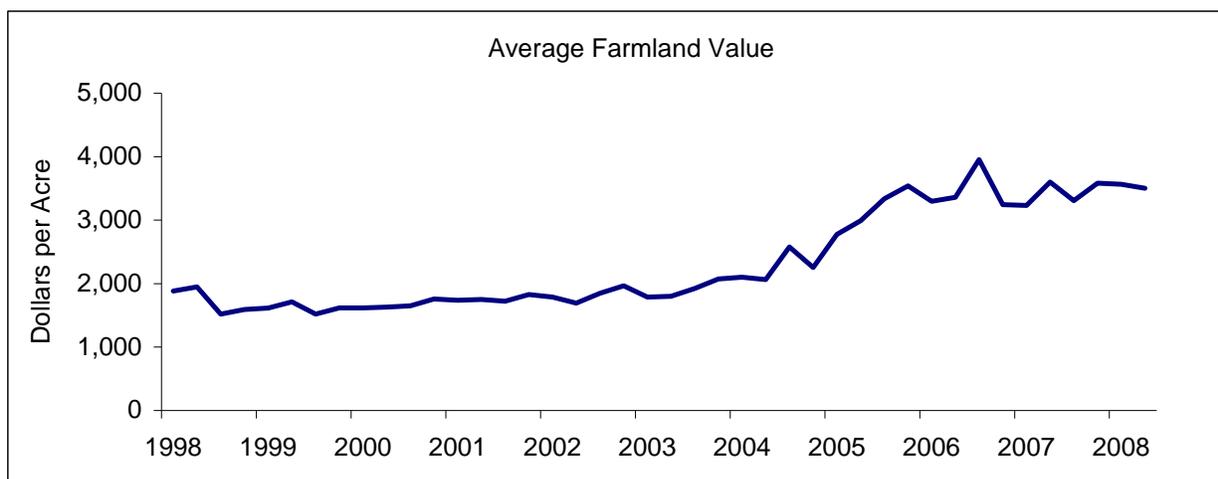
Lenders attributed the softness in loan demand to unrelenting drought conditions throughout the District which negatively impacted crop development and crop yields. Furthermore, lenders continued to express concern about escalating production costs and the continued volatility in commodity prices.

A contact in North Carolina said that soil moisture deteriorated as the growing season progressed which reduced yields for early maturing grain. He also noted that crop input costs continued to rise. Similarly, a North Carolina banker told us that farmers in that area were very nervous as fuel, fertilizer and other input costs increased. Both contacts from North and South Carolina indicated that the current crop prices had generally offset the majority of the increase for the 2008 season but noted that the effect on 2009 profit levels remained to be seen. Furthermore, an analyst in West Virginia reported that area farmers were very concerned about the cost of fuel, and the necessary products for operation. He also mentioned that cattle prices had dropped off somewhat since the first of the year.



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Looking forward, respondents expected farm loan volumes to contract at a slightly quicker pace in the second quarter of 2008, led by further weakness in the demand for farm machinery. The reading for farm machinery loans moved down eighteen points to -12. The expected demand for dairy loans declined six points to -14. In other categories, the reading for feeder cattle loans fell five points to end at -13, while the reading for operating loans lost six points to 0. In contrast, the forward looking index of anticipated demand for crop storage loans turned positive, adding fourteen points to 6.

#### Interest Rates

Interest rates for agricultural loans were mixed during the second quarter. Compared to first quarter levels, rates for intermediate-term loans increased 33 basis points and rates for long-term real estate loans moved up 13 basis points. In other categories, interest rates for operating loans inched up 6 basis points, while interest rates for feeder cattle dropped 19 basis points.

#### Availability of Credit

In the second quarter, 71 percent of lenders reported that they had actively sought new farm loans, up a tad from last quarter's reading of 69 percent. In addition, the funds availability index declined nineteen points to 6.

#### Credit Quality

During the second quarter, the quality of agricultural credit weakened. The index for loan repayment rates remained in negative territory virtually unchanged at -12. Meanwhile the reading for loan renewals turned negative, losing twelve points to end at -6. In contrast, the index of collateral requirements increased sixteen points to finish at 41.

#### Farmland Values

The market value of good farmland averaged \$3,503 per acre in the second quarter, 1.8 percent lower than the first quarter reading, and 2.7 percent below the mark from a year earlier. Looking forward, bankers anticipated slower growth in farmland prices during the third quarter of 2008; the index of expected land values fell thirteen points to 0.

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.

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#### 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	18	29	53
Funds Availability	12	6	82
Loan Repayment Rates	6	18	76
Renewals or Extensions	6	12	82
Collateral Requirements	41	0	59

	Diffusion Indexes <sup>1</sup>		
	Q2:08	2008: Qtr1	2007: Qtr.2
Demand for Loans	-11	-31	-37
Funds Availability	6	25	16
Loan Repayment Rates	-12	-13	-5
Renewals or Extensions	-6	6	5
Collateral Requirements	41	25	0

Farm Loan Volume Expected: next three months	Percent reporting		
	Higher	Lower	Same
Real Estate Loans	7	40	53
Non Real Estate Loans	0	0	0
Total	19	25	56
Feeder Cattle	7	20	73
Dairy	7	21	71
Crop Storage	25	19	56
Operating	13	13	75
Farm Machinery	13	25	63

	Diffusion Indexes <sup>1</sup>		
	2008: Qtr.2	2008: Qtr1	2007: Qtr.2
Real Estate Loans	-33	-25	-11
Non Real Estate Loans	0	0	0
Total	-6	-8	-12
Feeder Cattle	-13	-8	-6
Dairy	-14	-8	-13
Crop Storage	6	-8	0
Operating	0	6	-5
Farm Machinery	-12	6	-11

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**Indicators of Credit Availability**

	Level	Change From <sup>2</sup>	
	2008: Qtr.2	2008: Qtr1	2007: Qtr.2
<b>Average Loan-to-Deposit Ratio</b>	88.8	1.3 ppt	5.8 ppt

	Percent reporting		
	Higher Than Desired	Lower Than Desired	About Right
<b>Loan-to-Deposit Ratio Compared to Desired Level</b>	13	31	56

	Diffusion Indexes <sup>1</sup>		
	2008: Qtr.2	2008: Qtr1	2007: Qtr.2
	-19	-27	-29

	Level	Percent Reporting "Yes"	
	2008: Qtr.2	2008: Qtr1	2007: Qtr.2
Yes	0	0	0
No	100		

	Level	Percent Reporting "Yes"	
	2008: Qtr.2	2008: Qtr1	2007: Qtr.2
Yes	71	69	72
No	29		

	Percent reporting		
	Greater than usual	Less than usual	About as usual
Correspondent Banks	0	0	14
Non-bank Agencies	0	0	14

	Level	Percent Reporting "None"	
	2008: Qtr.2	2008: Qtr1	2007: Qtr.2
Correspondent Banks	86	93	82
Non-bank Agencies	86	93	88

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**Price Indicators**

Average Interest Rates on Farm Loans	Level	Change From <sup>3</sup>	
	2008: Qtr.2	2008: Qtr1	2007: Qtr.2
Feeder Cattle Loans	7.18	-19 bp	-169 bp
Operating Loans	7.14	6 bp	-179 bp
Intermediate-term Loans	7.24	33 bp	-143 bp
Long-term Real Estate Loans	7.24	13 bp	-128 bp

Farm Real Estate Values	Level	Percent Change From	
	2008: Qtr.2	2008: Qtr1	2007: Qtr.2
Average Farmland Value (per acre)	\$3,503	-1.8 %	-2.7 %

Expected Farmland Value: next 3 months	Percent reporting		
	Up	Down	Stable
	18	18	65

Diffusion Indexes <sup>1</sup>		
2008: Qtr.2	2008: Qtr1	2007: Qtr.2
0	13	11

- <sup>1</sup> Diffusion indexes are calculated as the percentage of banks reporting increases minus the percentage of banks reporting decreases.
- <sup>2</sup> Change in loan-to-deposit ratio from previous periods measured in percentage points (ppt).
- <sup>3</sup> 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.