

# Regional Surveys of Business Activity

## Fifth District Survey of Agricultural Credit Conditions

### *Farm Loan Demand Remains Weak; Farmland Prices Changes Little*

#### Overview

Results from the Richmond Fed's latest survey of Fifth District agricultural banks indicated that credit lending conditions remained weak during the fourth quarter of 2008. Bankers reported that the demand for farm loans was little changed from its sharp drop off in the third quarter, which they attributed to variations in commodity prices and production costs. In addition, contacts generally noted that loan repayment rates continued to decline more slowly than indicated in our last report, while requests for loan renewals or extensions increased at a quicker pace. Moreover, agricultural lenders reported that farm loan availability turned positive, and collateral requirements eased slightly from third quarter levels. Reports also indicated that interest rates for agricultural loans moved lower across all categories. Turning to farmland values, fourth quarter land prices were slightly below the previous quarter and considerably lower than year-ago levels.

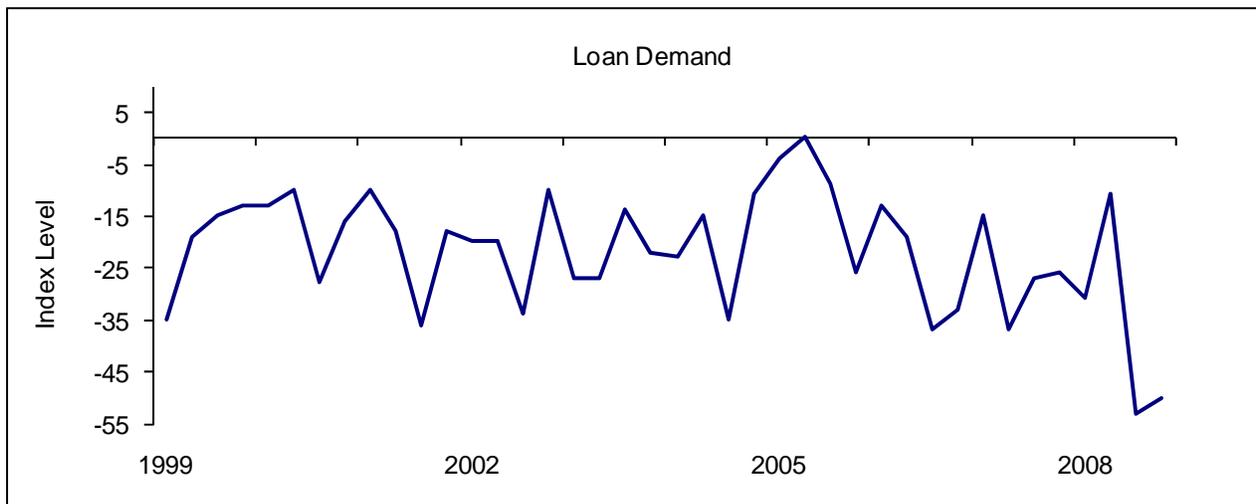
#### Demand for Farm Loans

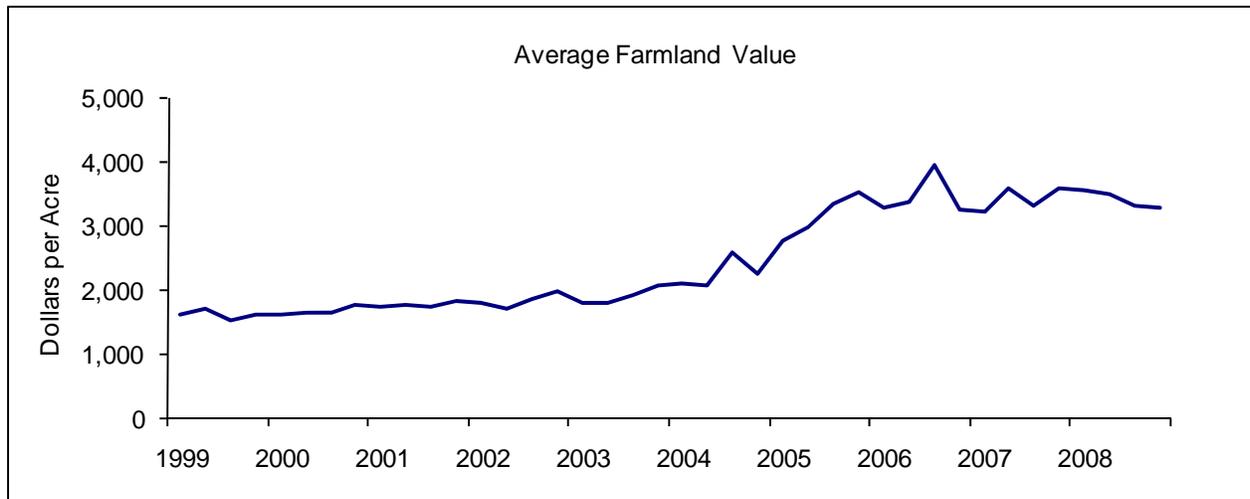
Lenders attributed the lingering weakness in loan

demand to the volatility of commodity prices and input costs, which raised concerns regarding profitability in 2009. Furthermore, lenders continued to express concern about escalated feed costs which had reduced profits for livestock production.

Contacts in Maryland, and Virginia told us that a decline in commodity prices without a corresponding decline in production costs will significantly decrease profitability prospects in 2009. Similarly, a South Carolina banker told us that unstable forecasts of next year's commodity prices will likely reduce agricultural loans substantially. Additionally, a contact in North Carolina reported that soaring feed costs in 2008 had negatively impacted profits for animal production. On a brighter note, analysts in Virginia and West Virginia indicated that their general farm land areas had been replenished with rain—filling up ponds and greatly improving soil moisture.

Looking forward, respondents expected farm loan volumes in the first quarter of 2009 to continue its downward trend led by further weakness in the demand for dairy and feeder cattle loans. The





reading for dairy loans moved down four points to -50 and the expected demand for feeder cattle loans declined seven points to -43. In other categories, the reading for operating loans fell ten points to end at -37, while the reading for crop storage loans edged down one point to -22. In contrast, the index of anticipated demand for farm machinery loans remained in negative territory but picked up 10 points to -37.

**Interest Rates**

Interest rates for agricultural loans moved lower across all categories during the fourth quarter. Compared to third quarter levels, rates for intermediate-term loans decreased 34 basis points and rates for operating loans moved down 28 basis points. In other categories, interest rates for long-term real estate loans fell 19 basis points, and interest rates for feeder cattle loans dropped 10 basis points.

**Availability of Credit**

In the fourth quarter, 75 percent of lenders reported that they had actively sought new farm loans, up a tad from last quarter's reading of 73 percent. Moreover, the funds availability index increased fourteen points to 7.

**Credit Quality**

During the fourth quarter, the quality of agricultural credit was mixed. The index for loan repayment rates contracted but at a slower pace, picking up fourteen points to -7, and loan renewals advanced five points to end at 12. In contrast, the index of

collateral requirements eased three points to finish at 44.

**Farmland Values**

The market value of good farmland averaged \$3,284 per acre in the fourth quarter, 0.6 percent lower than the third quarter reading, and 8.4 percent below the mark from a year earlier. Looking ahead, bankers anticipated that slower growth in farmland prices would persist during the first quarter of 2009; the index of expected land values edged up one point to -19. An analyst in North Carolina told us, "Potential declines in farm income, coupled with the depressed overall economy (and discouraging job market) may influence farmland value trends in the near future." All banks surveyed are within the Fifth Federal Reserve District: 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	6	56	38
Funds Availability	13	6	81
Loan Repayment Rates	6	13	81
Renewals or Extensions	25	13	63
Collateral Requirements	44	0	56

#### Diffusion Indexes<sup>1</sup>

	2008: Qtr4	2008: Qtr3	2007: Qtr.4
Demand for Loans	-50	-53	-26
Funds Availability	7	-7	21
Loan Repayment Rates	-7	-21	-32
Renewals or Extensions	12	7	16
Collateral Requirements	44	47	17

#### Farm Loan Volume Expected: next three months

	Percent reporting		
	Higher	Lower	Same
Real Estate Loans	6	81	13
Non Real Estate Loans	0	0	0
Total	6	56	38
Feeder Cattle	0	43	57
Dairy	0	50	50
Crop Storage	14	36	50
Operating	13	50	38
Farm Machinery	13	50	38

#### Diffusion Indexes<sup>1</sup>

	2008: Qtr4	2008: Qtr3	2007: Qtr.4
Real Estate Loans	-75	-60	-53
Non Real Estate Loans	0	0	0
Total	-50	-53	-33
Feeder Cattle	-43	-36	-33
Dairy	-50	-46	-31
Crop Storage	-22	-21	-24
Operating	-37	-27	6
Farm Machinery	-37	-47	-21



## Agricultural Credit Conditions

### Indicators of Credit Availability

	Level	Change From <sup>2</sup>	
	2008: Qtr4	2008: Qtr3	2007: Qtr.3
<b>Average Loan-to-Deposit Ratio</b>	85.5	11.0 ppt	-4.0 ppt
	Percent reporting		
	Higher Than Desired	Lower Than Desired	About Right
<b>Loan-to-Deposit Ratio Compared to Desired Level</b>	14	36	50
	Diffusion Indexes <sup>1</sup>		
	2008: Qtr4	2008: Qtr3	2007: Qtr.4
	-21	-21	-11
	Level	Percent Reporting "Yes"	
	2008: Qtr4	2008: Qtr3	2007: Qtr.4
Yes	0	0	5
No	100		
	Level	Percent Reporting "Yes"	
	2008: Qtr4	2008: Qtr3	2007: Qtr.4
Yes	75	73	79
No	25		
	Percent reporting		
	Greater than Usual	Less than Usual	About as Usual
<b>Farm Loan Referrals</b>	0	0	14
Correspondent Banks	0	0	14
Non-bank Agencies			
	Level	Percent Reporting "None"	
	2008: Qtr4	2008: Qtr3	2007: Qtr.4
Correspondent Banks	86	100	78
Non-bank Agencies	86	100	76



## Agricultural Credit Conditions

### Price Indicators

Average Interest Rates on Farm Loans	Level	Change From <sup>3</sup>	
	2008: Qtr4	2008: Qtr3	2007: Qtr.4
Feeder Cattle Loans	6.77	-10 bp	-139 bp
Operating Loans	6.46	-28 bp	-145 bp
Intermediate-term Loans	6.58	-34 bp	-101 bp
Long-term Real Estate Loans	6.89	-19 bp	-59 bp

Farm Real Estate Values	Level	Percent Change From	
	2008: Qtr4	2008: Qtr3	2007: Qtr.4
Average Farmland Value (per acre)	\$3,284	-0.6 %	-8.4 %

Expected Farmland Value: next 3 months	Percent reporting		
	Up	Down	Stable
	6	25	69

	Diffusion Indexes <sup>1</sup>		
	2008: Qtr4	2008: Qtr3	2007: Qtr.4
	-19	-20	5

<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.

