Regional Surveys of Business Activity

Fifth District Survey of Agricultural Credit Conditions

Farm Loan Demand Changes Little; Farmland Prices Higher

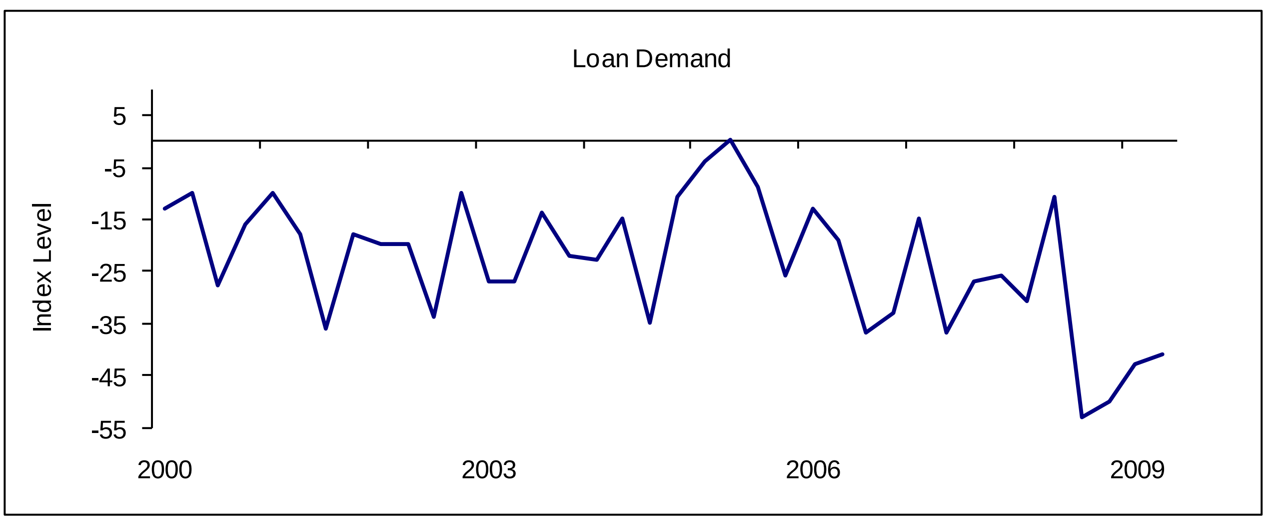
Overview

Results from the Richmond Fed's latest survey of Fifth District agricultural banks indicate that credit lending conditions changed little during the second quarter of 2009. Bankers reported that farm loan demand slid at about the same pace as last quarter. In addition, lenders generally noted that the rate of loan repayments continued to deteriorate, though at a slightly slower pace, while requests for loan renewals or extensions increased at a somewhat slower rate. Moreover, agricultural lenders reported that farm loan availability increased considerably, and collateral requirements eased slightly from first-quarter levels. Reports also indicated that interest rates were virtually unchanged for feeder cattle loans, but decreased for all other categories of agricultural loans since the first quarter of 2008. Turning to farmland values, second-quarter land prices were above both the previous quarter and year-ago levels.

Demand for Farm Loans

The demand for farm loans remained soft in the second quarter. Lenders attributed the weakness to continued lower commodity prices and generally higher input costs, which they believed would negatively impact profitability in 2009. Moreover, lenders continued to express concern about lower product demand and the ability of producers/integrators to persevere until the market returns. In addition, bankers noted that poultry and dairy farms were struggling.

A contact in North Carolina told us that, although input costs had moderated in the second quarter, they had not retreated as much as commodity prices. For that reason, net farm income was anticipated to be significantly lower than in 2008. Similarly, a South Carolina banker told us that some farmers had to carry over balances on operating lines because they had not been able to pay them off as they had experienced generally higher input costs during the past two years. Additionally, a contact in North Carolina reported that even though 2009 feed costs for poultry and livestock should be lower for the remainder of the year, continued contraction in meat demand could limit profitability. Moreover, an analyst in West Virginia indicated that poultry and dairy farms were under a great deal of pressure. Milk prices were



THE FEDERAL RESERVE BANK OF RICHMOND
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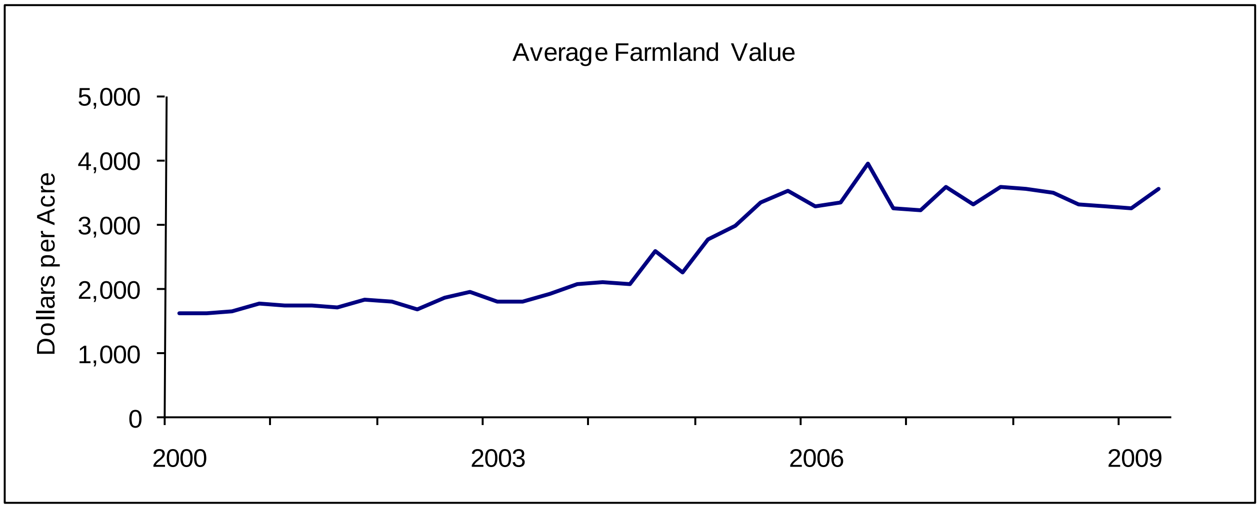

about half of where they were last year and poultry integrators were severing contracts with weaker producers in an effort to balance their own finances.

Looking forward, respondents expected farm loan volumes, in general, to contract at a quicker pace in the third quarter of 2009. Contacts indicated increased weakness in the demand for farm machinery loans. The reading for farm machinery loans moved down 14 points to -61. In addition, the expected demand for feeder cattle loans retreated 13 points to -46, while the expected demand for operating loans fell eight points to -33. In other categories, the reading for dairy loans eased one point to end at -46, and the expectations for crop storage loans remained unchanged at -29.

Interest Rates

Apart from a 1 basis point hike in the interest rate for feeder cattle loans, interest rates for agricultural loans were lower across all other categories during the second quarter. Rates for long-term real estate and intermediate-term loans declined 26 and 25 basis points, respectively. In addition, interest rates for operating loans decreased 11 basis points.

Availability of Credit

In the second quarter, 76 percent of lenders reported that they had actively sought new farm loans, up somewhat from last quarter's reading of 67 percent. Moreover, the funds availability index picked up six points to 11.

Credit Quality

During the second quarter, the quality of agricultural credit was mixed. The index for loan repayment rates contracted at a slower pace, gaining 16 points to -22, while loan renewals retreated 10 points to end at 28. In addition, the index of collateral requirements eased three points to finish at 35.

Farmland Values

The market value of good farmland averaged $3,544 per acre in the second quarter, 8.7 percent higher than the first quarter reading and 1.2 percent above the mark from a year earlier. Looking forward, however, bankers anticipated that farmland prices would decline during the third quarter of 2009; the index of expected land values moved down thirteen points to -33. A lender in Virginia told us, "Real estate prices are expected to trend down because of the general economy."

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	12	53	35
Funds Availability	22	11	67
Loan Repayment Rates	6	28	67
Renewals or Extensions	28	0	72
Collateral Requirements	35	0	65

	Diffusion Indexes[1]: 2009:Qtr.2	2009: Qtr.1	2008: Qtr.2
Demand for Loans	-41	-43	-12
Funds Availability	11	5	6
Loan Repayment Rates	-22	-38	-12
Renewals or Extensions	28	38	-6
Collateral Requirements	35	38	41

Farm Loan Volume Expected: Next Three Months	Percent Reporting: Higher	Lower	Same
Real Estate Loans	0	50	50
Non Real Estate Loans	0	67	33
Feeder Cattle	7	53	40
Dairy	7	53	40
Crop Storage	6	35	59
Operating	11	44	44
Farm Machinery	6	67	28

	Diffusion Indexes[1]: 2009: Qtr.2	2009: Qtr.1	2008: Qtr.2
Real Estate Loans	-50	-35	-33
Non Real Estate Loans	-67	-35	-6
Feeder Cattle	-46	-33	-13
Dairy	-46	-47	-14
Crop Storage	-29	-29	6
Operating	-33	-25	0
Farm Machinery	-61	-47	-13

Agricultural Credit Conditions

Indicators of Credit Availability

	Level	Change From[2]	
Average Loan-to-Deposit Ratio	2009: Qtr.2	2009: Qtr.1	2008: Qtr.2
	83.7	-4.2 ppt	-5.1 ppt

	Percent Reporting		
Loan-to-Deposit Ratio Compared to Desired Level	Higher Than Desired	Lower Than Desired	About Right
	7	47	47

	Diffusion Indexes[1]		
	2009: Qtr.2	2009: Qtr.1	2008: Qtr.2
	-40	0	-19

	Level	Percent Reporting "Yes"	
Loan Refusal or Reduction Due to Funds Shortage	2009: Qtr.2	2009: Qtr.1	2008: Qtr.2
Yes	6	0	0
No	94		

	Level	Percent Reporting "Yes"	
Actively Seeking New Farm Loans	2009: Qtr.2	2009: Qtr.1	2008: Qtr.2
Yes	76	67	71
No	24		

	Percent Reporting		
Farm Loan Referrals	Greater than Usual	Less than Usual	About as Usual
Correspondent Banks	0	0	0
Non-bank Agencies	0	0	6

	Level	Percent Reporting "None"	
	2009: Qtr.2	2009: Qtr.1	2008: Qtr.2
Correspondent Banks	100	84	86
Non-bank Agencies	94	83	86

Agricultural Credit Conditions

Price Indicators

Average Interest Rates on Farm Loans	Level	Change From[3]	
	2009: Qtr.2	2009: Qtr.1	2008: Qtr.2
Feeder Cattle Loans	6.86	1 bp	-32 bp
Operating Loans	6.57	-11 bp	-57 bp
Intermediate-term Loans	6.61	-25 bp	-63 bp
Long-term Real Estate Loans	6.85	-26 bp	-39 bp

Farm Real Estate Values	Level	Percent Change From	
	2009: Qtr.2	2009: Qtr.1	2008: Qtr.2
Average Farmland Value (per acre)	$3,544	8.7 %	1.2 %

Expected Farmland Value: Next Three Months	Percent Reporting		
	Up	Down	Stable
	0	33	67

Diffusion Indexes[1]		
2009: Qtr.2	2009: Qtr.1	2008: Qtr.2
-33	-20	0

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.