

Regional Surveys of Business Activity

Fifth District Survey of Agricultural Credit Conditions

Farm Loan Demand Remained Weak; Farmland Prices Edged Higher

Overview

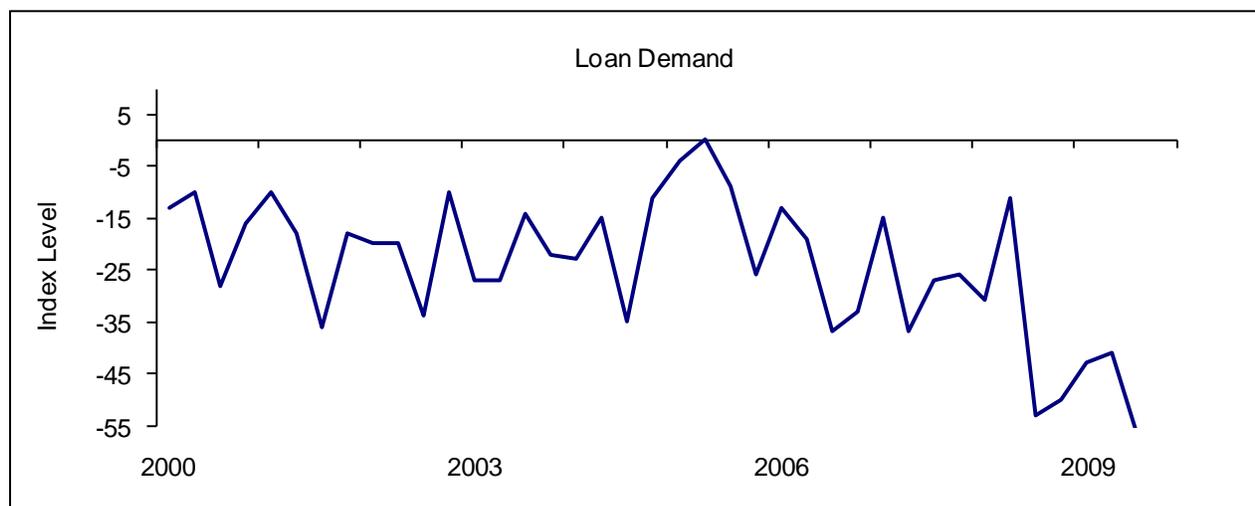
Results from the Richmond Fed's latest survey of Fifth District agricultural banks indicate that credit lending conditions remained soft during the fourth quarter of 2009. Bankers reported that farm loan demand was little changed from third quarter levels and noted that the rate of loan repayments declined at a slightly quicker pace. In addition, lenders reported that requests for loan renewals or extensions grew at a slower pace. Moreover, agricultural lenders reported that farm loan availability held constant, while collateral requirements eased from third-quarter levels. Reports also indicated that interest rates for agricultural loans moved higher across all categories. Turning to farmland values, fourth-quarter land prices were above both the previous quarter and year-ago levels.

Demand for Farm Loans

The demand for farm loans was virtually unchanged in the fourth quarter. Lenders attributed the continuing softness in loan demand to excessive year-end rainfall which hindered harvesting, field preparations and plantings.

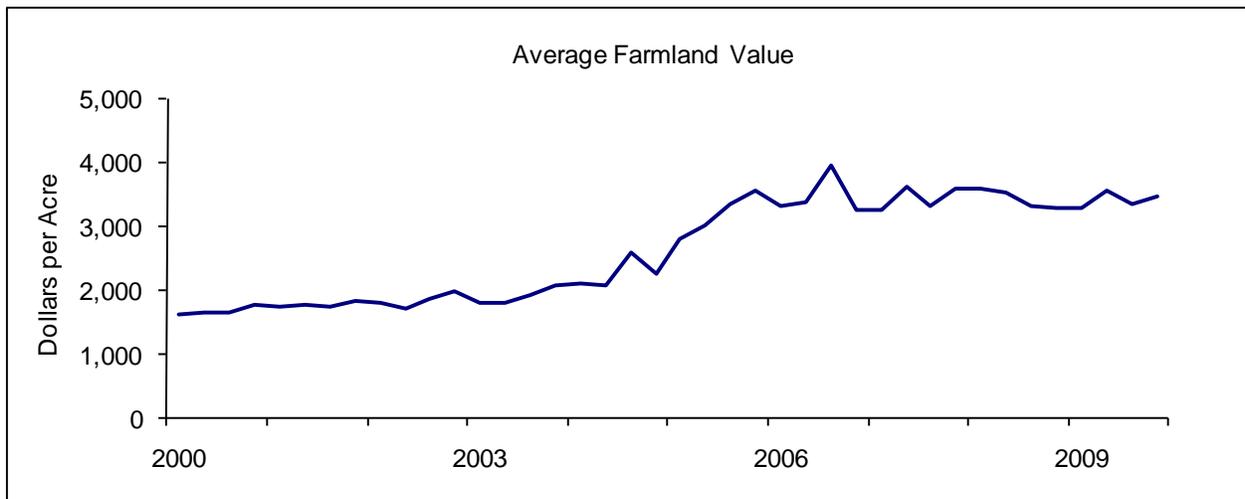
Additionally, lenders expressed concern about the ongoing volatility in commodity prices and input costs, which they expected to lower net farm income for 2009. Moreover, lenders continued to express concern about depressed product demand—particularly in the forestry and nursery sectors. On the other hand, bankers noted that many dairy, swine and cattle farms had positioned their industries for recovery.

A contact in South Carolina said that excessive year-end rains had made it difficult to harvest soybeans and that farmers had a hard time getting their wheat planted. Similarly, bankers in Virginia and West Virginia told us that unusually heavy rainfall had limited winter preparations. An analyst in North Carolina expected row crop growers to face continued volatility in commodity prices and input costs for the near term, and expected net income for most grain producers to be lower in 2009 than it has been for the past two years. Moreover, a contact in North Carolina reported that drastic reductions in housing starts had negatively impacted the forestry and nursery industries—with some loggers and nurseries going out of business. Additionally, a contact in Virginia mentioned that



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dairy prices had started to become profitable again, and an analyst in North Carolina indicated that feed costs for swine and cattle farmers had subsided substantially, which could result in break-even levels for 2010. Furthermore, bankers in South Carolina and Virginia noted that overall, it was a good crop year in 2009, which would lower operating loan demand in 2010.

Supporting these expectations, the forward looking index of anticipated demand for operating loans over the next three months moved down nineteen points to -25. In other categories, the expected demand for crop storage loans lost seventeen points to -36 and the reading for dairy loans declined fourteen points to -50. In contrast, anticipated demand for farm machinery loans advanced twenty points to -18 and the expectations for feeder cattle loans gained seven points to -43.

Interest Rates

Interest rates for agricultural loans moved higher across all categories during the fourth quarter. Compared to third quarter levels, rates for long-term real estate loans moved up 9 basis points and rates for feeder cattle and operating loans each increased 6 basis points. In the intermediate-term loans category, interest rates edged up 2 basis points.

Availability of Credit

In the fourth quarter, 75 percent of lenders reported that they had actively sought new farm loans, which was unchanged from last quarter's

reading. Moreover, the funds availability index held constant at 0.

Credit Quality

During the fourth quarter, the quality of agricultural credit was mixed. Loan repayment rates contracted at a quicker pace, as the index lost twelve points to -25, while the loan renewals index retreated twenty-five points to end at 6. In addition, the index for collateral requirements eased six points to finish at 50.

Farmland Values

The market value of good farmland averaged \$3,456 per acre in the fourth quarter, 3.5 percent above the third quarter reading and 5.2 percent above the mark from a year earlier. Looking forward, however, bankers anticipated that farmland prices would decline at a slightly quicker pace during the first quarter of 2010; the index for expected land values moved down six points to -31.

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	63	31
Funds Availability	13	13	75
Loan Repayment Rates	0	25	75
Renewals or Extensions	25	19	56
Collateral Requirements	50	0	50

	Diffusion Indexes ¹		
	2009: Qtr.4	2009: Qtr.3	2008: Qtr.4
Demand for Loans	-57	-56	-50
Funds Availability	0	0	6
Loan Repayment Rates	-25	-13	-6
Renewals or Extensions	6	31	13
Collateral Requirements	50	56	44

Farm Loan Volume Expected: Next Three Months

	Percent Reporting		
	Higher	Lower	Same
Real Estate Loans	0	38	63
Non Real Estate Loans	0	60	40
Feeder Cattle	7	50	43
Dairy	0	50	50
Crop Storage	7	43	50
Operating	13	38	50
Farm Machinery	13	31	56

	Diffusion Indexes ¹		
	2009: Qtr.4	2009: Qtr.3	2008: Qtr.4
Real Estate Loans	-38	-50	-75
Non Real Estate Loans	-60	-63	-50
Feeder Cattle	-43	-50	-43
Dairy	-50	-36	-50
Crop Storage	-36	-19	-21
Operating	-25	-6	-38
Farm Machinery	-18	-38	-38

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Indicators of Credit Availability

Average Loan-to-Deposit Ratio	Level	Change From ²	
	2009: Qtr.4	2009: Qtr.3	2008: Qtr.4
	83.3	4.6 ppt	-2.3 ppt

Loan-to-Deposit Ratio Compared to Desired Level	Percent Reporting		
	Higher Than Desired	Lower Than Desired	About Right
	14	29	57

Diffusion Indexes ¹		
2009: Qtr.4	2009: Qtr.3	2008: Qtr.4
-14	-14	-21

Loan Refusal or Reduction Due to Funds Shortage	Level	Percent Reporting "Yes"	
	2009: Qtr.4	2009: Qtr.3	2008: Qtr.4
Yes	0	6	0
No	100		

Actively Seeking New Farm Loans	Level	Percent Reporting "Yes"	
	2009: Qtr.4	2009: Qtr.3	2008: Qtr.4
Yes	75	75	75
No	25		

Farm Loan Referrals	Percent Reporting		
	Greater than Usual	Less than Usual	About as Usual
Correspondent Banks	0	0	8
Non-bank Agencies	8	0	17

	Level	Percent Reporting "None"	
	2009: Qtr.4	2009: Qtr.3	2008: Qtr.4
Correspondent Banks	92	93	86
Non-bank Agencies	75	93	86

Agricultural Credit Conditions

Price Indicators

Average Interest Rates on Farm Loans	Level	Change From ³	
	2009: Qtr.4	2009: Qtr.3	2008: Qtr.4
Feeder Cattle Loans	6.73	6 bp	-4 bp
Operating Loans	6.50	6 bp	4 bp
Intermediate-term Loans	6.75	2 bp	17 bp
Long-term Real Estate Loans	7.15	9 bp	27 bp

Farm Real Estate Values	Level	Percent Change From	
	2009: Qtr.4	2009: Qtr.3	2008: Qtr.4
Average Farmland Value (per acre)	\$3,456	3.5 %	5.2 %

Expected Farmland Value: Next Three Months	Percent Reporting		
	Up	Down	Stable
	0	31	69

Diffusion Indexes ¹		
2009: Qtr.4	2009: Qtr.3	2008: Qtr.4
-31	-25	-19

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.