

Regional Surveys of Business Activity

Fifth District Survey of Agricultural Credit Conditions

Farm Loan Demand Contracts at a Slower Pace; Farmland Prices Change Little

Overview

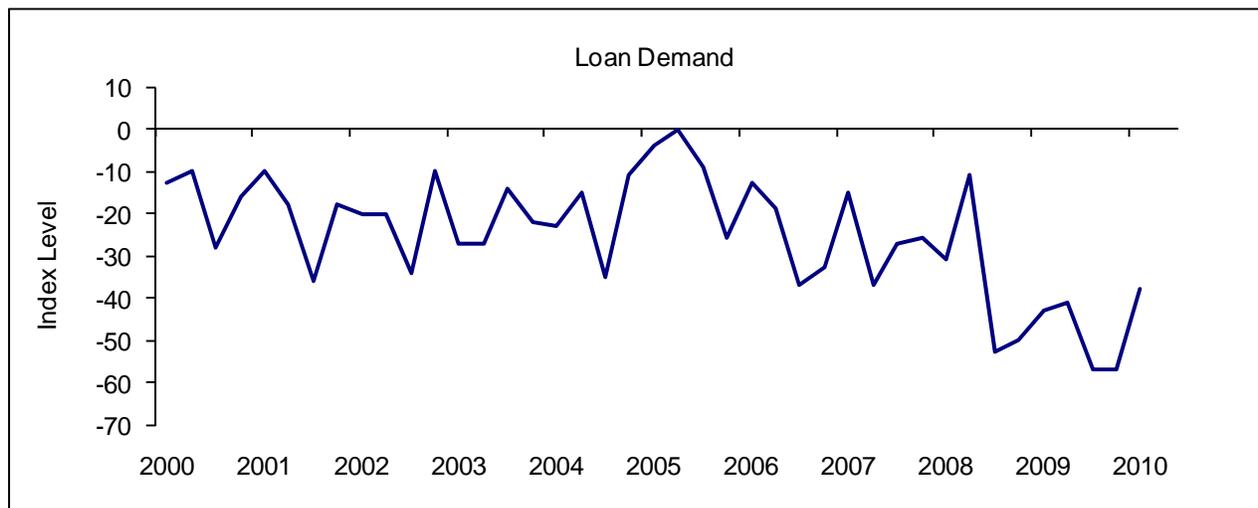
Results from the Richmond Fed's latest survey of Fifth District agricultural banks indicate that weakness in credit lending conditions eased during the first quarter of 2010. Bankers reported that farm loan demand contracted, but at a slower pace than in late 2009. In addition, contacts noted diminishing weakness in loan repayments rates, while requests for loan renewals or extensions increased at a quicker pace. Moreover, agricultural lenders reported that farm loan availability increased noticeably from fourth quarter levels, while collateral requirements eased considerably. Reports indicated that interest rates increased for feeder cattle and operating loans, but declined for other categories. Turning to farmland values, first-quarter land prices were little changed from the previous quarter, but were above year-ago levels.

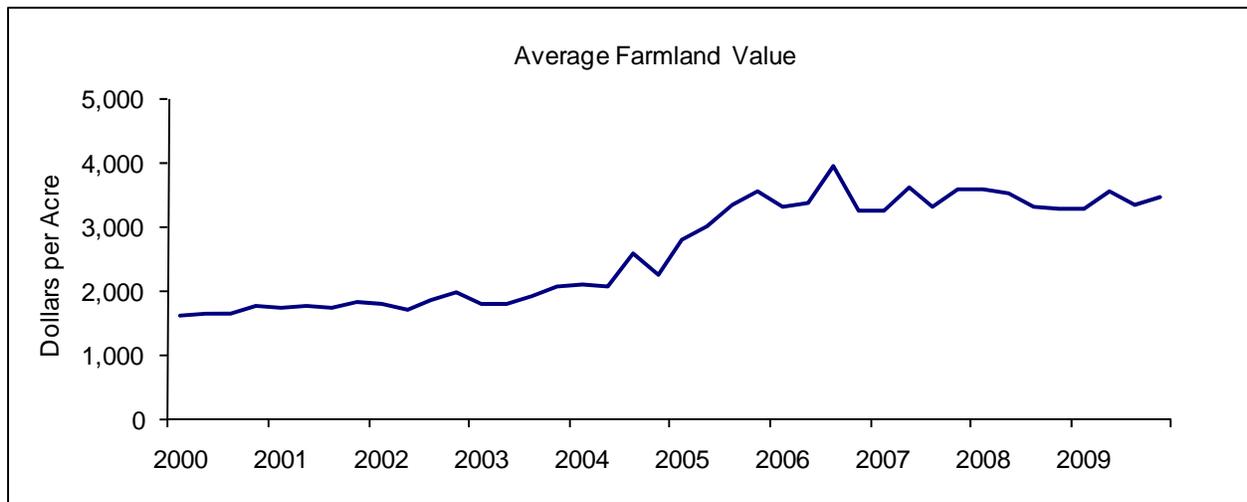
Demand for Farm Loans

The demand for farm loans remained weak in the first quarter, although the pullback in demand was less pronounced than in the fourth quarter of 2009. Lenders attributed the softness in loan demand to dry weather conditions that hindered plantings. In

addition, lenders expressed concerns about ongoing volatility in commodity prices and input costs, which they expected to lower net farm income for 2010. Moreover, lenders continue to worry about the element of uncertainty for tobacco producers and were apprehensive about the outlook for dairy producers. On the other hand, bankers noted that many swine and cattle farmers continued to position their industries for recovery.

A contact in South Carolina said that dry weather conditions were beginning to hurt farmers and many had quit planting until they received some notable rainfall. Then again, bankers in Virginia told us that they had experienced excellent weather during corn planting, but had encountered much drier conditions in recent weeks. An analyst in North Carolina reported that USDA estimates for larger corn and soybean crops have dampened price expectations. As a result, he anticipated net income for most grain producers would be lower than projected for 2010. Additionally, a contact in Virginia mentioned that dairy producers were "just holding on and could not seem to get over the hump." In contrast, an analyst in North Carolina indicated that feed costs for swine and cattle farmers had subsided substantially. He





noted that swine producers were expected to post profits for 2010, but that it would take a few years for them to recoup losses previously charged. Moreover, a banker in Virginia reported that excellent corn yields in 2008 and 2009 had resulted in strong profits and had lowered operating loans in 2010.

Looking forward, farmers expected farm loan volumes to contract at a slower pace in the second quarter of 2010, led by less weakness in the demand for dairy and feeder cattle loans. The reading for dairy loans moved up 25 points to -25, and the expected demand for feeder cattle loans picked up 18 points to also end at -25. In other categories, the expected demand for crop storage loans gained 17 points to -19 and the reading for farm machinery loans advanced three points to -16. In contrast, the forward looking index for operating loans turned positive, adding 53 points to 28.

Interest Rates

Interest rates for agricultural loans by category were mixed during the first quarter. Compared to fourth quarter levels, rates for feeder cattle loans moved up 22 basis points and rates for operating loans rose one basis point. Interest rates for intermediate-term loans lost 26 basis points and rates for long-term real estate loans fell 24 basis points.

Availability of Credit

In the first quarter, 59 percent of lenders reported that they had actively sought new farm loans, down somewhat from 75 percent in the previous quarter. Furthermore, the funds availability index increased 17 points to 17.

Credit Quality

During the first quarter, the quality of agricultural credit was mixed. Loan repayment rates contracted at a slower pace, as the index gained 14 points to -11, while the loan renewals index advanced 22 points to end at 28. In addition, the index for collateral requirements shed 27 points to finish at 23.

Farmland Values

The market value of good farmland averaged \$3,464 per acre in the first quarter, 0.2 percent above the fourth quarter reading and 5.5 percent above the mark from a year earlier. Looking forward, bankers anticipated that farmland prices would grow at a slightly quicker pace during the second quarter of 2010; the index for expected land values moved up 36 points to 5.

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	44	50
Funds Availability	28	11	61
Loan Repayment Rates	11	22	67
Renewals or Extensions	28	0	72
Collateral Requirements	29	6	65

	Diffusion Indexes ¹		
	2010: Qtr.1	2009: Qtr.4	2009: Qtr.1
Demand for Loans	-38	-56	-50
Funds Availability	17	0	6
Loan Repayment Rates	-11	-25	-6
Renewals or Extensions	28	6	13
Collateral Requirements	23	50	44

Farm Loan Volume Expected: Next Three Months	Percent Reporting		
	Higher	Lower	Same
Real Estate Loans	11	22	67
Non Real Estate Loans	6	25	69
Feeder Cattle	6	31	63
Dairy	6	31	63
Crop Storage	6	25	69
Operating	39	11	50
Farm Machinery	6	22	72

	Diffusion Indexes ¹		
	2010: Qtr.1	2009: Qtr.4	2009: Qtr.1
Real Estate Loans	-11	-38	-75
Non Real Estate Loans	-19	-60	-50
Feeder Cattle	-25	-43	-43
Dairy	-25	-50	-50
Crop Storage	-19	-36	-21
Operating	28	-25	-38
Farm Machinery	-16	-19	-38

Agricultural Credit Conditions

Indicators of Credit Availability

	Level	Change From ²	
	2010: Qtr.1	2009: Qtr.4	2009: Qtr.1
Average Loan-to-Deposit Ratio	83.9	0.6 ppt	-1.6 ppt

	Percent Reporting		
	Higher Than Desired	Lower Than Desired	About Right
Loan-to-Deposit Ratio Compared to Desired Level	6	31	63

Diffusion Indexes ¹		
2010: Qtr.1	2009: Qtr.4	2009: Qtr.1
-25	-14	-21

	Level	Percent Reporting "Yes"	
	2010: Qtr.1	2009: Qtr.4	2009: Qtr.1
Loan Refusal or Reduction Due to Funds Shortage			
Yes	11	0	0
No	89		

	Level	Percent Reporting "Yes"	
	2010: Qtr.1	2009: Qtr.4	2009: Qtr.1
Actively Seeking New Farm Loans			
Yes	59	75	75
No	41		

	Percent Reporting		
	Greater than Usual	Less than Usual	About as Usual
Farm Loan Referrals			
Correspondent Banks	0	0	7
Non-bank Agencies	0	0	13

	Level	Percent Reporting "None"	
	2010: Qtr.1	2009: Qtr.4	2009: Qtr.1
Correspondent Banks	93	92	86
Non-bank Agencies	88	75	86

Agricultural Credit Conditions

Price Indicators

Average Interest Rates on Farm Loans

	Level	Change From ³	
	2010: Qtr.1	2009: Qtr.4	2009: Qtr.1
Feeder Cattle Loans	6.95	22 bp	18 bp
Operating Loans	6.51	1 bp	6 bp
Intermediate-term Loans	6.49	-26 bp	-9 bp
Long-term Real Estate Loans	6.92	-24 bp	3 bp

Farm Real Estate Values

	Level	Percent Change From	
	2010: Qtr.1	2009: Qtr.4	2009: Qtr.1
Average Farmland Value (per acre)	\$3,464	0.2 %	5.5 %

Expected Farmland Value: Next Three Months

	Percent Reporting		
	Up	Down	Stable
	11	6	83

	Diffusion Indexes ¹		
	2010: Qtr.1	2009: Qtr.4	2009: Qtr.1
	5	-31	-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.