

Regional Surveys of Business Activity

Fifth District Survey of Agricultural Credit Conditions

Farm Loan Demand Remained Soft; Farmland Prices Lower

Overview

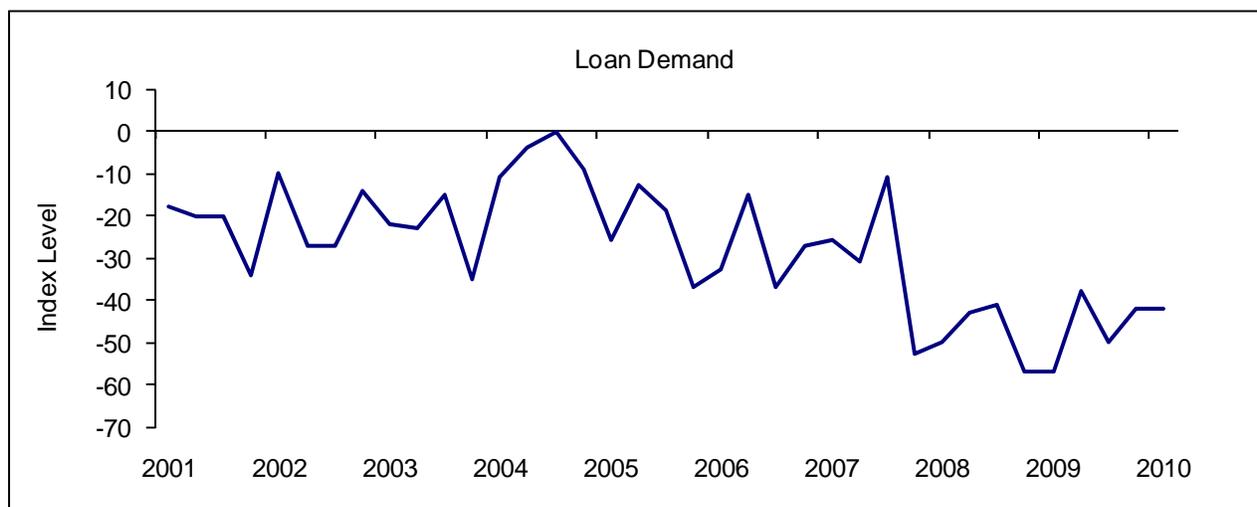
Results from the Richmond Fed's latest survey of Fifth District agricultural banks indicated that credit lending conditions remained soft during the fourth quarter of 2010. Bankers reported that demand for farm loans matched the pace of the third quarter's reading. In addition, contacts generally noted that requests for loan renewals or extensions increased at a quicker pace than indicated in our last report, while requests for loan repayment rates were virtually unchanged. Moreover, agricultural lenders reported that farm loan availability declined from third quarter levels, while collateral requirements tightened further. Reports indicated that interest rates eased for intermediate-term loans but increased for all other categories. Turning to farmland values, fourth-quarter land prices fell compared to both the previous quarter and year-ago levels.

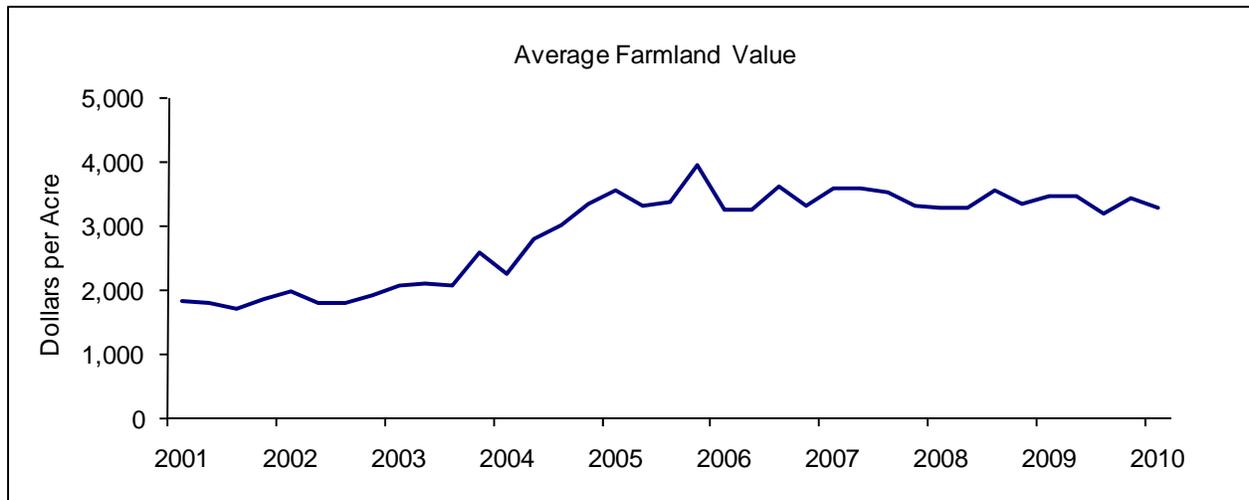
Demand for Farm Loans

Lenders attributed the lingering weakness in loan demand to volatility in commodity prices and input costs, which raised concerns regarding profitability

in 2011. Moreover, lenders continued to express concerns about escalated feed costs, which had reduced profits for livestock production. Also, lenders indicated that the forestry and nursery industry remained relatively flat due to overall economic conditions.

Contacts in the Carolinas and Virginia said that dry weather conditions in 2010 had dramatically impacted crop yields for many producers and significantly reduced net farm income. They noted, however, that much of the shortfall would be covered by crop insurance and increased commodity prices experienced in late 2010. Bankers in North Carolina and Virginia told us that some restructuring of debt may be required for crop producers and that 2011 operating loans may be larger and drawn earlier than in 2010 due to substantial increases in input costs. An analyst in South Carolina reported that the soybean crop was hit hard by the drought, which had hurt most farmers' liquidity. But he was optimistic going into 2011 due to excellent commodity prices, providing weather conditions are favorable. Furthermore, a contact in North Carolina indicated that demand for





forestry products remained low due to relatively low housing starts.

Looking forward, lenders expected farm loan volumes generally to contract at a quicker pace in the first quarter of 2011, led by more weakness in the demand for crop storage and dairy loans. The reading for crop storage loans moved down thirty-two points to -56, and the expected demand for dairy loans fell ten points to -41. In other categories, the expected demand for farm machinery loans picked up eleven points to -31 and the reading for feeder cattle lost nineteen points to -27. In contrast, the reading for operating loans added one point to 6.

Interest Rates

Interest rates for agricultural loans by category were mixed during the fourth quarter. Compared to third quarter levels, rates for feeder cattle loans gained 51 basis points and rates for operating loans moved up 27 basis points. In other categories, interest rates for long-term real estate loans rose 7 basis points, while rates for intermediate-term loans moved down 15 basis points.

Availability of Credit

In the fourth quarter, 63 percent of lenders reported that they had actively sought new farm loans, which was down slightly from 68 percent in the previous quarter. Moreover, the funds availability index declined six points to 31.

Credit Quality

During the fourth quarter, the quality of agricultural credit was mixed. Loan repayment rates were nearly unchanged, as the index edged up one point to -10 and the loan renewals index moved up twenty-one points to end at 37. In addition, the index for collateral requirements picked up sixteen points to end the fourth quarter at 58.

Farmland Values

The market value of good farmland averaged \$3,263 per acre in the fourth quarter, 4.5 percent below the third quarter reading and 5.6 percent lower than a year earlier. Looking ahead, bankers anticipated that farmland prices would continue to grow at a slower pace during the first quarter of 2011, but slightly better than indicated in our last report; the index for expected land values moved up six 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	11	53	37
Funds Availability	47	16	37
Loan Repayment Rates	11	21	68
Renewals or Extensions	42	5	53
Collateral Requirements	58	0	42

	Diffusion Indexes ¹		
	2010:Qtr.4	2010: Qtr.3	2009: Qtr.4
Demand for Loans	-42	-42	-56
Funds Availability	31	37	0
Loan Repayment Rates	-10	-11	-25
Renewals or Extensions	37	16	6
Collateral Requirements	58	42	50

Farm Loan Volume Expected: Next Three Months	Percent Reporting		
	Higher	Lower	Same
Real Estate Loans	0	37	63
Non Real Estate Loans	22	44	33
Feeder Cattle	6	33	61
Dairy	0	41	59
Crop Storage	0	56	44
Operating	32	26	42
Farm Machinery	11	42	47

	Diffusion Indexes ¹		
	2010: Qtr.4	2010: Qtr.3	2009: Qtr.4
Real Estate Loans	-37	-37	-38
Non Real Estate Loans	-22	-22	-60
Feeder Cattle	-27	-8	-43
Dairy	-41	-31	-50
Crop Storage	-56	-24	-36
Operating	6	5	-25
Farm Machinery	-31	-42	-19

Agricultural Credit Conditions

Indicators of Credit Availability

	Level	Change From ²	
	2010: Qtr.4	2010: Qtr.3	2009: Qtr.4
Average Loan-to-Deposit Ratio	79.8	-4.0 ppt	-3.4 ppt
	Percent Reporting		
	Higher Than Desired	Lower Than Desired	About Right
Loan-to-Deposit Ratio Compared to Desired Level	6	61	33
	Diffusion Indexes¹		
	2010: Qtr.4	2010: Qtr.3	2009: Qtr.4
	-56	-50	-14
	Level	Percent Reporting "Yes"	
	2010: Qtr.4	2010: Qtr.3	2009: Qtr.4
Loan Refusal or Reduction Due to Funds Shortage	5	0	0
Yes	95		
No			
	Level	Percent Reporting "Yes"	
	2010: Qtr.4	2010: Qtr.3	2009: Qtr.4
Actively Seeking New Farm Loans	63	68	75
Yes	37		
No			
	Percent Reporting		
	Greater than Usual	Less than Usual	About as Usual
Farm Loan Referrals	0	11	0
Correspondent Banks	0	11	11
Non-bank Agencies			
	Level	Percent Reporting "None"	
	2010: Qtr.4	2010: Qtr.3	2009: Qtr.4
Correspondent Banks	89	94	92
Non-bank Agencies	78	94	75

Agricultural Credit Conditions

Price Indicators

Average Interest Rates on Farm Loans	Level	Change From ³	
	2010: Qtr.4	2010: Qtr.3	2009: Qtr.4
Feeder Cattle Loans	7.03	51 bp	30 bp
Operating Loans	6.64	27 bp	14 bp
Intermediate-term Loans	6.54	-15 bp	-21 bp
Long-term Real Estate Loans	6.73	7 bp	-42 bp

Farm Real Estate Values	Level	Percent Change From	
	2010: Qtr.4	2010: Qtr.3	2009: Qtr.4
Average Farmland Value (per acre)	\$3,263	-4.5 %	-5.6 %

Expected Farmland Value: Next Three Months	Percent Reporting		
	Up	Down	Stable
	11	16	74

	Diffusion Indexes ¹		
	2010: Qtr.4	2010: Qtr.3	2009: Qtr.4
	-5	-11	-31

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.