

Regional Surveys of Business Activity

Fifth District Survey of Agricultural Credit Conditions

Weakness in Farm Loan Demand Moderated; Farmland Prices Moved Higher

Overview

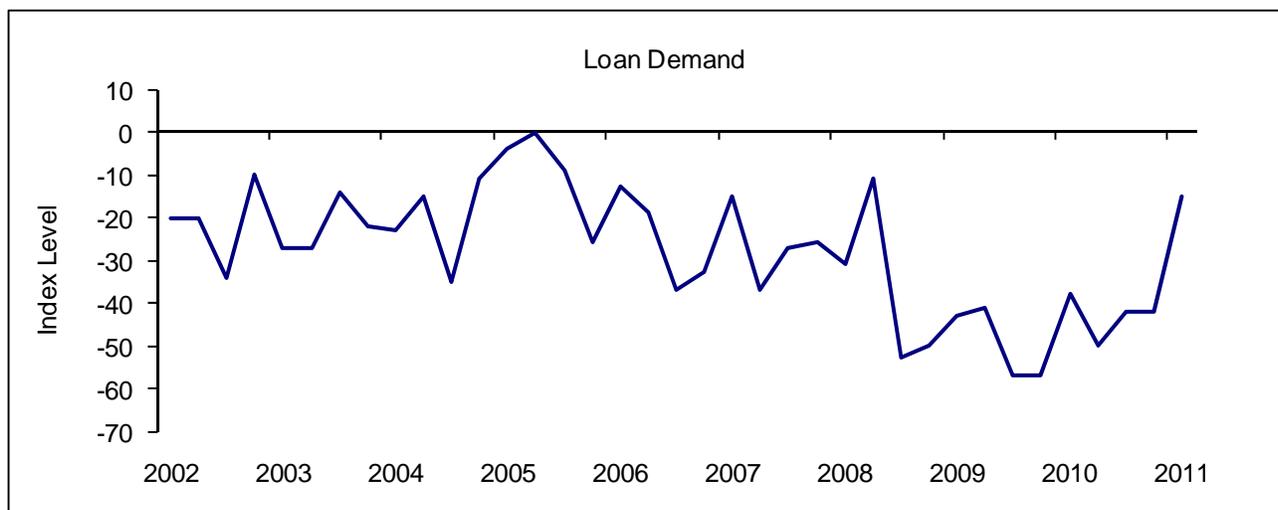
Results from the Richmond Fed's latest survey of Fifth District agricultural banks indicated that weakness in agricultural credit lending conditions eased during the first quarter of 2011. Bankers reported that farm loan demand contracted at a slower pace than in late 2010. However, contacts generally noted that requests for loan renewals or extensions increased at a slower pace than indicated in our last report, while requests for loan repayment rates declined further. Moreover, agricultural lenders reported that farm loans were generally less available and that collateral requirements tightened further. Reports indicated that interest rates increased for feeder cattle loans but eased for all other categories. Turning to farmland values, first-quarter land prices were above both the previous quarter and year-ago levels.

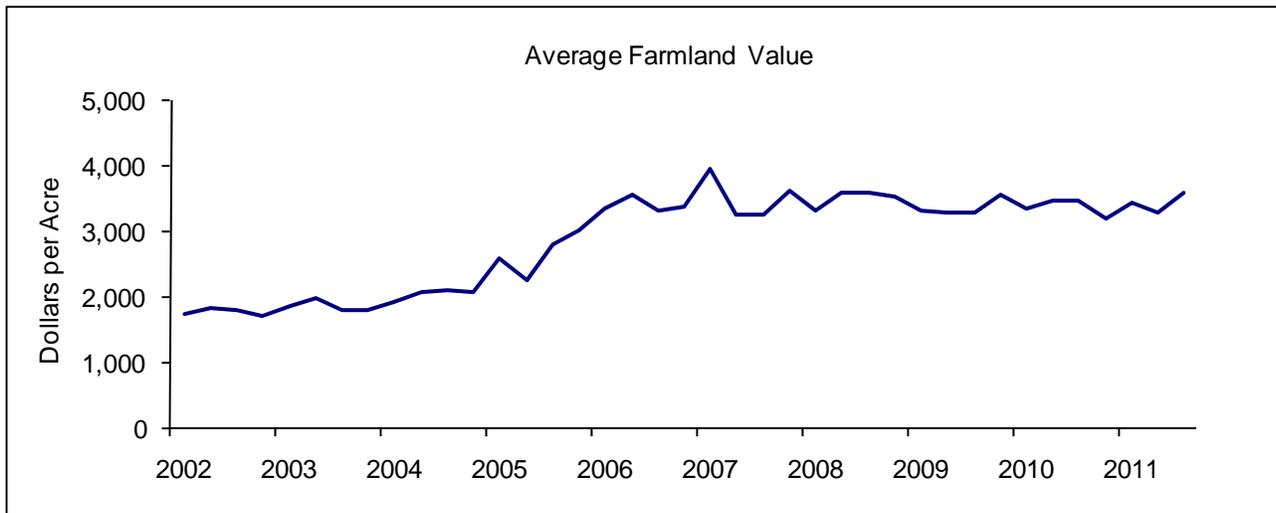
Demand for Farm Loans

Lenders attributed the moderation of weakness in loan demand to higher cattle prices, farmland values and global food demand driving up commodity prices. However, significant increases in input costs

raised concerns regarding profitability in 2011. Moreover, lenders continued to express concerns about escalated feed costs for poultry and livestock producers. Also, lenders indicated that the forestry industry continued to suffer due to weak economic conditions, although signs of improvement were noted in specialty markets. In addition, many of the nursery operators reported a positive first quarter.

Contacts in the Carolinas and West Virginia reported that cattle prices continued on an upward trend. They noted, however, that increased feed costs affected profits, but that operations had posted modest gains. A banker in North Carolina mentioned that global food demand is the driving factor in future commodity prices. He indicated that weather-related events will not only affect production, but also alter food demand around the world. Lenders in North Carolina and Virginia cited declines in demand for forestry products due to relatively low housing starts, but indicated that niche markets were managing to survive. Furthermore, a contact in North Carolina indicated that nursery operators had reported improvement in contracts for spring sales with existing homeowners improving "curb appeal."





Looking forward, lenders expect farm loan volumes generally to contract at a slower pace in the second quarter of 2011, led by less weakness in the demand for crop storage and farm machinery loans. The reading for crop storage loans moved up twenty-nine points to -27, and the expected demand for farm machinery loans rose sixteen points to -16. In other categories, the expected demand for feeder cattle loans lost sixteen points to -44, and the reading for dairy loans edged up three points to -38. In contrast, the reading for operating loans added twenty-six points to 31.

Interest Rates

Interest rates for agricultural loans by category were mixed during the first quarter. Compared to fourth-quarter levels, rates for long-term real estate loans moved down 26 basis points and rates for intermediate-term loans declined 18 basis points. In other categories, interest rates for operating loans fell 11 basis points while rates for feeder cattle loans moved up 15 basis points.

Availability of Credit

In the first quarter, 77 percent of lenders reported that they had actively sought new farm loans—up from 63 percent in the previous quarter. Moreover, lenders reported that farm loans were generally less available—the funds availability index declined sixteen points to 16.

Credit Quality

During the first quarter, the quality of agricultural credit demand was mixed. Loan repayment rates fell

further, as the index moved down twelve points to -23 and the loan renewals index dropped fourteen points to 23. In addition, the index for collateral requirements picked up eleven points to end the first quarter at 69.

Farmland Values

The market value of good farmland averaged \$3,565 per acre in the first quarter, 9.3 percent above the fourth quarter reading and 2.9 percent higher than a year earlier. Looking ahead, however, bankers anticipate that farmland prices would grow at a slower pace during the second quarter of 2011; the index for expected land values lost three points to -8.

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	31	46	23
Funds Availability	31	15	54
Loan Repayment Rates	8	31	62
Renewals or Extensions	31	8	62
Collateral Requirements	69	0	31

Diffusion Indexes¹

	2011: Qtr.1	2010: Qtr.4	2010: Qtr.1
Demand for Loans	-15	-42	-39
Funds Availability	16	32	17
Loan Repayment Rates	-23	-11	-11
Renewals or Extensions	23	37	28
Collateral Requirements	69	58	24

Farm Loan Volume Expected: Next Three Months

	Percent Reporting		
	Higher	Lower	Same
Real Estate Loans	0	31	69
Non Real Estate Loans	36	36	27
Feeder Cattle	0	44	56
Dairy	0	38	63
Crop Storage	9	36	55
Operating	46	15	38
Farm Machinery	17	33	50

Diffusion Indexes¹

	2011: Qtr.1	2010: Qtr.4	2010: Qtr.1
Real Estate Loans	-31	-37	-11
Non Real Estate Loans	0	-22	-19
Feeder Cattle	-44	-28	-25
Dairy	-38	-41	-25
Crop Storage	-27	-56	-19
Operating	31	5	28
Farm Machinery	-16	-32	-17

Agricultural Credit Conditions

Indicators of Credit Availability

	Level	Change From ²	
	2011: Qtr.1	2010: Qtr.4	2010: Qtr.1
Average Loan-to-Deposit Ratio	81.7	1.9 ppt	-2.2 ppt
	Percent Reporting		
	Higher Than Desired	Lower Than Desired	About Right
Loan-to-Deposit Ratio Compared to Desired Level	0	54	46
	Diffusion Indexes ¹		
	2011: Qtr.1	2010: Qtr.4	2010: Qtr.1
	-54	-56	-25
	Level		Percent Reporting "Yes"
	2011: Qtr.1	2010: Qtr.4	2010: Qtr.1
Loan Refusal or Reduction Due to Funds Shortage	0	5	11
Yes	100		
No			
	Level		Percent Reporting "Yes"
	2011: Qtr.1	2010: Qtr.4	2010: Qtr.1
Actively Seeking New Farm Loans	77	63	59
Yes	23		
No			
	Greater than Usual		Less than Usual
	0	0	8
	0	0	8
Farm Loan Referrals	Level		Percent Reporting "None"
	2011: Qtr.1	2010: Qtr.4	2010: Qtr.1
Correspondent Banks	92	89	93
Non-bank Agencies	92	78	88

Agricultural Credit Conditions

Price Indicators

Average Interest Rates on Farm Loans	Level	Change From ³	
	2011: Qtr.1	2010: Qtr.4	2010: Qtr.1
Feeder Cattle Loans	7.19	15 bp	24 bp
Operating Loans	6.52	-11 bp	1 bp
Intermediate-term Loans	6.36	-18 bp	-14 bp
Long-term Real Estate Loans	6.48	-26 bp	-44 bp

Farm Real Estate Values	Level	Percent Change From	
	2011: Qtr.1	2010: Qtr.4	2010: Qtr.1
Average Farmland Value (per acre)	\$3,565	9.3 %	2.9 %

Expected Farmland Value: Next Three Months	Percent Reporting		
	Up	Down	Stable
	0	8	92

	Diffusion Indexes ¹		
	2011: Qtr.1	2010: Qtr.4	2010: Qtr.1
	-8	-5	6

- 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.