

Regional Surveys of Business Activity

Fifth District Survey of Agricultural Credit Conditions

Farm Loan Demand Steadied; Farmland Prices Edged Lower

Overview

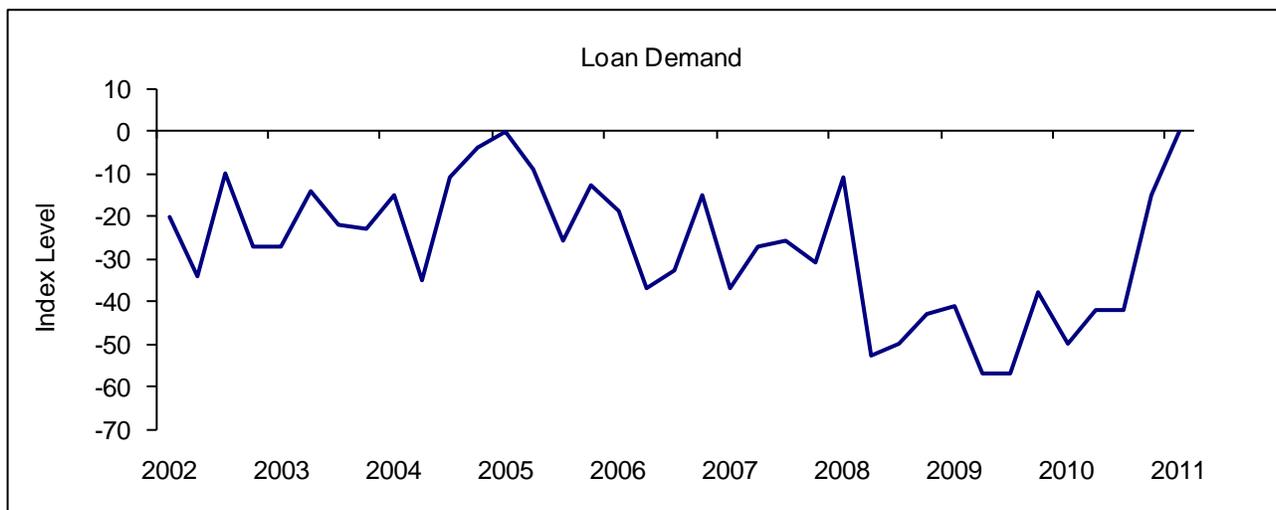
Results from the Richmond Fed’s latest survey of Fifth District agricultural banks indicated a steadier lending environment in the second quarter of 2011. While bankers generally reported that requests for loan renewals or extensions increased at a slower pace than indicated in our last report, they noted that farm loan demand steadied and loan repayment rates contracted moderately after pulling back markedly in the first quarter. Moreover, agricultural lenders reported that availability of farm loans nearly matched first quarter levels and that collateral requirements eased notably. Reports indicated that interest rates increased for intermediate-term and long-term real estate loans, but declined for all other categories. Turning to farmland values, second-quarter land prices were slightly below the previous quarter, but above year-ago levels.

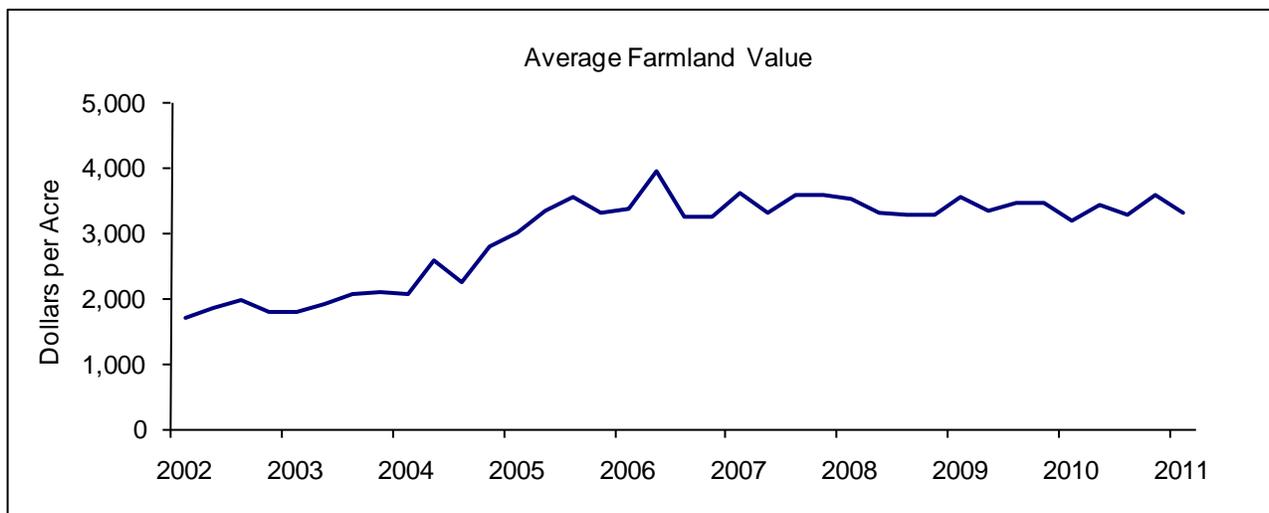
Demand for Farm Loans

Lenders attributed more stable loan demand to steady cattle prices and continued global demand

driving commodity prices. However, market price fluctuations, coupled with lack of rainfall during the second quarter and increases in input costs, remained major concerns for net farm income throughout 2011. Moreover, lenders continued to be apprehensive about unstable feed costs for poultry and livestock producers. Also, lenders noted that the forestry industry remained weak, while many of the nursery operators reported a positive second quarter.

Contacts in North Carolina and West Virginia reported that cattle prices remained stable, but noted that falling demand and higher prices for farm operations were causing concerns. Bankers in the Carolinas and Virginia cited lack of rainfall as the primary reason for reduced crop yields—particularly for corn, tobacco and soybeans. A contact in North Carolina indicated that expansion plans for poultry producers in sections of that state, as well as southern Virginia, have slowed dramatically due to unstable feed costs and were expected to dampen further growth in the short-term. Furthermore, a banker in North Carolina indicated that demand for





forestry products continued to be soft due to the slow housing industry, but that seasonal demand for nursery products was positive for most producers during the second quarter.

Looking ahead, lenders' expectations for farm loan volumes in the third quarter of 2011 were mixed. The reading for feeder cattle loans moved up 21 points to -23, and the expected demand for dairy loans rose 21 points to -17. In other categories, however, the expected demand for crop storage loans fell further, losing six points to -33 and the reading for operating loans subtracted 24 points to 7.

Interest Rates

Interest rates for agricultural loans by category were mixed during the second quarter. Compared to first quarter levels, rates for intermediate-term real estate loans moved up 15 basis points and rates for long-term loans increased 13 basis points. In other categories, interest rates for feeder cattle loans fell 32 basis points, while rates for operating loans dropped 16 basis points.

Availability of Credit

In the second quarter, 60 percent of lenders reported that they actively sought new farm loans—down from 77 percent in the previous quarter. Moreover, lenders reported that farm loans were virtually unchanged—the funds availability index eased one point to 14.

Credit Quality

During the second quarter, the quality of agricultural credit demand was mixed. Loan repayment rates contracted more slowly, as the index moved up 17 points to -6, while the loan renewals index moved down 17 points to 6. In addition, the index for collateral requirements lost 16 points to end the second quarter at 53.

Farmland Values

The market value of good farmland averaged \$3,313 per acre in the second quarter— 7.1 percent below the first quarter reading but 4.2 percent higher than a year earlier. Looking ahead, however, bankers anticipate that farmland prices would hold steady during the third quarter of 2011; the index for expected land values gained eight points to 0.

All banks surveyed are within the Fifth Federal Reserve District, which includes 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	27	27	47
Funds Availability	27	13	60
Loan Repayment Rates	7	13	80
Renewals or Extensions	13	7	80
Collateral Requirements	53	0	47

Diffusion Indexes¹

	2011:Qtr.2	2011: Qtr.1	2010: Qtr.2
Demand for Loans	0	-15	-50
Funds Availability	14	15	31
Loan Repayment Rates	-6	-23	-13
Renewals or Extensions	6	23	13
Collateral Requirements	53	69	38

Farm Loan Volume Expected: Next Three Months

Percent Reporting

	Higher	Lower	Same
Real Estate Loans	0	40	60
Non Real Estate Loans	7	29	64
Feeder Cattle	0	23	77
Dairy	0	17	83
Crop Storage	0	33	67
Operating	27	20	53
Farm Machinery	7	33	60

Diffusion Indexes¹

	2011: Qtr2	2011: Qtr.1	2010: Qtr.2
Real Estate Loans	-40	-31	-25
Non Real Estate Loans	-22	0	-36
Feeder Cattle	-23	-44	-42
Dairy	-17	-38	-46
Crop Storage	-33	-27	-15
Operating	7	31	6
Farm Machinery	-26	-17	-25

Agricultural Credit Conditions

Indicators of Credit Availability

	Level	Change From ²	
	2011: Qtr2	2011: Qtr.1	2010: Qtr.2
Average Loan-to-Deposit Ratio	80.6	-1.2 ppt	0.9 ppt

	Percent Reporting		
	Higher Than Desired	Lower Than Desired	About Right
Loan-to-Deposit Ratio Compared to Desired Level	7	64	29

	Diffusion Indexes ¹		
	2011: Qtr2	2011: Qtr.1	2010: Qtr.2
Loan Refusal or Reduction Due to Funds Shortage	-57	-54	-54

	Level	Percent Reporting "Yes"	
	2011: Qtr2	2011: Qtr.1	2010: Qtr.2
Actively Seeking New Farm Loans			
Yes	0	0	0
No	100		

	Level	Percent Reporting "Yes"	
	2011: Qtr2	2011: Qtr.1	2010: Qtr.2
Farm Loan Referrals			
Correspondent Banks	0	0	14
Non-bank Agencies	0	0	14

	Percent Reporting		
	Greater than Usual	Less than Usual	About as Usual
Farm Loan Referrals			
Correspondent Banks	0	0	14
Non-bank Agencies	0	0	14

	Level	Percent Reporting "None"	
	2011: Qtr2	2011: Qtr.1	2010: Qtr.2
Farm Loan Referrals			
Correspondent Banks	86	92	87
Non-bank Agencies	86	92	80

Agricultural Credit Conditions

Price Indicators

Average Interest Rates on Farm Loans	Level	Change From ³	
	2011: Qtr2	2011: Qtr.1	2010: Qtr.2
Feeder Cattle Loans	6.86	-32 bp	21 bp
Operating Loans	6.37	-16 bp	-4 bp
Intermediate-term Loans	6.51	15 bp	-14 bp
Long-term Real Estate Loans	6.61	13 bp	-30 bp

Farm Real Estate Values	Level	Percent Change From	
	2011: Qtr2	2011: Qtr.1	2010: Qtr.2
Average Farmland Value (per acre)	\$3,313	-7.1 %	4.2 %

Expected Farmland Value: Next Three Months	Percent Reporting		
	Up	Down	Stable
	7	7	87

Diffusion Indexes ¹		
2011: Qtr2	2011: Qtr.1	2010: Qtr.2
0	-8	-13

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.