

# Regional Surveys of Business Activity

## Fifth District Survey of Agricultural Credit Conditions

*Farm Loan Demand Remained Steady in Third Quarter; Farmland Prices Continued to Decline*

### Overview

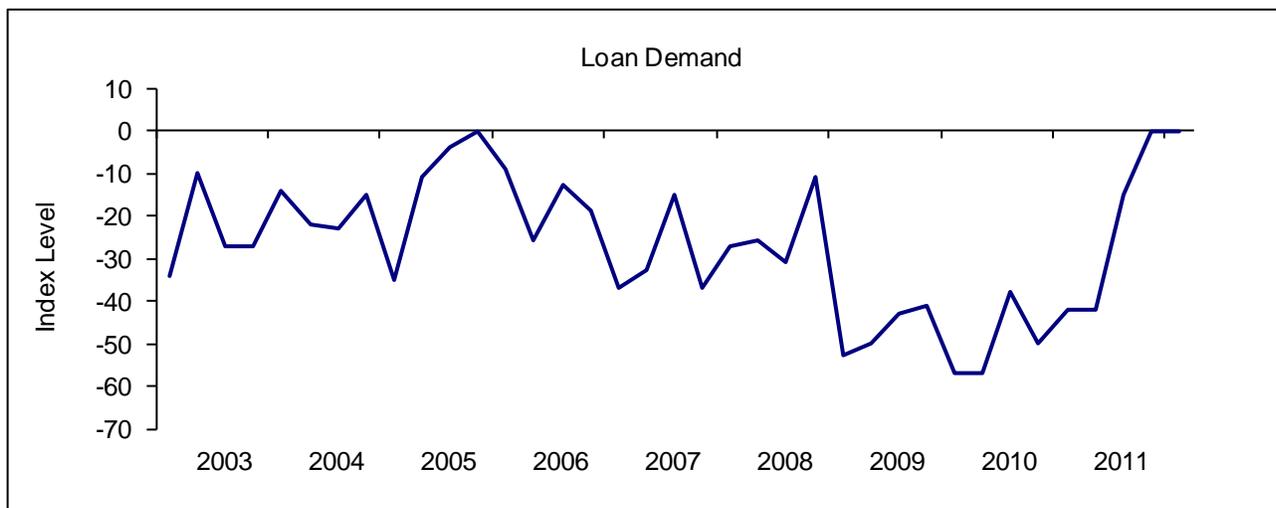
Results from the Richmond Fed's latest survey of Fifth District agricultural banks continued to indicate a stable lending environment in the third quarter of 2011. Despite Hurricane Irene's negative impact on yields in some areas of the region, bankers generally reported that farm loan demand held steady. In addition, lenders noted that loan repayment rates were on par with the second quarter and that requests for loan renewals or extensions increased notably from our last report. Moreover, agricultural lenders reported that availability of farm loans was in line with second quarter levels and that collateral requirements inched higher. Reports indicated that interest rates for agricultural loans moved lower across the board. Turning to farmland values, third-quarter land prices were slightly below the previous quarter and year-ago levels.

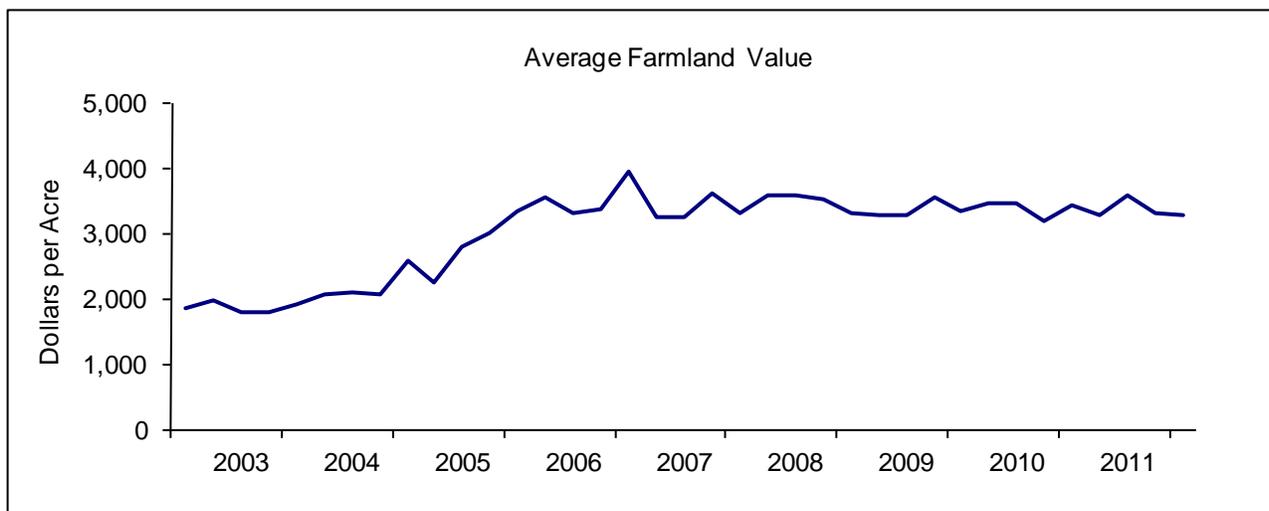
### Demand for Farm Loans

Lenders attributed the stabilization in loan demand to solid cattle prices, combined with continued worldwide demand driving commodity prices

higher. However, Hurricane Irene's impact on crop yields was a primary factor of concern in some areas of the District, while lenders remained apprehensive about the continued volatility in feed ingredients for poultry and livestock producers. Also, lenders noted that the forestry industry remained weak and nursery products had slowed down.

Contacts in North Carolina and West Virginia reported that cattle prices were solid and are expected to remain so into 2012. A banker in North Carolina cited high winds from Hurricane Irene as the primary reason for reduced crop yields—particularly for corn and tobacco—and noted that cotton planted in the coastal plain areas was seriously battered. In contrast, a banker in Virginia reported above-average yields for the 2011 corn crop, despite areas of noticeable, but minor damage due to Hurricane Irene. A contact in North Carolina indicated that unstable feed costs continued to impact profitability of integrators and had slowed expansion plans in parts of North Carolina and southern Virginia. Furthermore, a





banker in North Carolina indicated that problems in the housing industry continued to depress lumber demand and that demand for nursery products had stalled, with sales expected to be low until next spring.

Looking forward, lenders' expectations for farm loan volumes in the fourth quarter of 2011 were mixed. The reading for farm machinery loans moved up thirty-seven points to 17, and the expected demand for operating loans rose nine points to 16. In other categories, however, the expected demand for dairy loans fell further, losing thirteen points to -30, while the reading for crop storage loans added six points to -27.

**Interest Rates**

Interest rates for agricultural loans by category declined across the board during the third quarter. Compared to second quarter levels, rates for feeder cattle loans moved down 54 basis points and rates for intermediate-term real estate loans fell 37 points. In other categories, interest rates for long-term real estate loans fell 27 basis points, while rates for operating loans dropped 17 basis points.

**Availability of Credit**

In the third quarter, 75 percent of lenders reported that they actively sought new farm loans—up from 60 percent in the previous quarter. Moreover, lenders reported that farm loans were virtually unchanged—the funds availability index fell thirteen points to 0.

**Credit Quality**

During the third quarter, the quality of agricultural credit demand was mixed. Loan repayment rates changed little, as the index eased down one point to -8, while the loan renewals index moved up twenty-seven points to 34. In addition, the index for collateral requirements gained five points to end the third quarter at 58.

**Farmland Values**

The market value of good farmland averaged \$3,263 per acre in the third quarter— 1.5 percent below the second quarter reading and 4.5 percent lower than a year earlier. Looking ahead, bankers anticipate that farmland prices would slow somewhat during the fourth quarter of 2011; the index for expected land values lost seventeen points to -17.

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.

**Contact**

**Judy Cox**

Senior Economic Analyst  
 Regional Economics Department  
 The Federal Reserve Bank of Richmond  
 Office 804· 697· 8152 · Fax 804· 697· 8123  
[judy.cox@rich.frb.org](mailto:judy.cox@rich.frb.org)  
[www.richmondfed.org](http://www.richmondfed.org)

**Agricultural Credit Conditions**

**Indicators of Demand**

**Farm Non-Real Estate Lending**

**Percent Reporting**

	<b>Greater than Usual</b>	<b>Less than Usual</b>	<b>About as Usual</b>
Demand for Loans	33	33	33
Funds Availability	17	17	67
Loan Repayment Rates	0	8	92
Renewals or Extensions	42	8	50
Collateral Requirements	58	0	42

**Diffusion Indexes<sup>1</sup>**

	<b>2011: Qtr.3</b>	<b>2011: Qtr.2</b>	<b>2010: Qtr.3</b>
Demand for Loans	0	0	-42
Funds Availability	0	13	37
Loan Repayment Rates	-8	-7	-11
Renewals or Extensions	34	7	16
Collateral Requirements	58	53	42

**Farm Loan Volume Expected: Next Three Months**

**Percent Reporting**

	<b>Higher</b>	<b>Lower</b>	<b>Same</b>
Real Estate Loans	25	25	50
Non Real Estate Loans	0	36	64
Feeder Cattle	10	30	60
Dairy	0	30	70
Crop Storage	9	36	55
Operating	33	17	50
Farm Machinery	42	25	33

**Diffusion Indexes<sup>1</sup>**

	<b>2011: Qtr3</b>	<b>2011: Qtr.2</b>	<b>2010: Qtr.3</b>
Real Estate Loans	0	-40	-37
Non Real Estate Loans	-36	-21	-22
Feeder Cattle	-20	-23	-8
Dairy	-30	-17	-31
Crop Storage	-27	-33	-24
Operating	16	7	5
Farm Machinery	17	-27	-42

**Agricultural Credit Conditions**

**Indicators of Credit Availability**

	Level	Change From <sup>2</sup>	
	2011: Qtr3	2011: Qtr.2	2010: Qtr.3
Average Loan-to-Deposit Ratio	73.6	-6.9 ppt	-10.2 ppt

	Percent Reporting		
	Higher Than Desired	Lower Than Desired	About Right
Loan-to-Deposit Ratio Compared to Desired Level	0	44	56

	Diffusion Indexes <sup>1</sup>		
	2011: Qtr3	2011: Qtr.2	2010: Qtr.3
Loan-to-Deposit Ratio Compared to Desired Level	-44	-57	-50

	Level	Percent Reporting "Yes"	
	2011: Qtr3	2011: Qtr.2	2010: Qtr.3
Yes	0	0	0
No	100		

	Level	Percent Reporting "Yes"	
	2011: Qtr3	2011: Qtr.2	2010: Qtr.3
Yes	75	60	68
No	25		

	Percent Reporting		
	Greater than Usual	Less than Usual	About as Usual
Correspondent Banks	0	0	0
Non-bank Agencies	0	0	0

	Level	Percent Reporting "None"	
	2011: Qtr3	2011: Qtr.2	2010: Qtr.3
Correspondent Banks	100	86	94
Non-bank Agencies	100	86	94

**Agricultural Credit Conditions**

**Price Indicators**

Average Interest Rates on Farm Loans	Level	Change From <sup>3</sup>	
	2011: Qtr3	2011: Qtr.2	2010: Qtr.3
Feeder Cattle Loans	6.32	-54 bp	-21 bp
Operating Loans	6.20	-17 bp	-17 bp
Intermediate-term Loans	6.14	-37 bp	-55 bp
Long-term Real Estate Loans	6.34	-27 bp	-32 bp

Farm Real Estate Values	Level	Percent Change From	
	2011: Qtr3	2011: Qtr.2	2010: Qtr.3
Average Farmland Value (per acre)	\$3,263	-1.5 %	-4.5 %

Expected Farmland Value: Next Three Months	Percent Reporting		
	Up	Down	Stable
	0	17	83

Diffusion Indexes <sup>1</sup>		
2011: Qtr3	2011: Qtr.2	2010: Qtr.3
-17	0	-11

<sup>1</sup> Diffusion indexes are calculated as the percentage of banks reporting increases minus the percentage of banks reporting decreases.  
<sup>2</sup> Change in loan-to-deposit ratio from previous periods measured in percentage points (ppt).  
<sup>3</sup> 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.