

Regional Surveys of Business Activity

Fifth District Survey of Agricultural Credit Conditions

Farm Loan Demand Stabilized in the First Quarter; Farmland Prices Higher

Overview

Results from the Richmond Fed's latest survey of Fifth District agricultural banks indicated a more stable lending environment during the first quarter of 2012. Bankers generally reported that farm loan demand was unchanged following a pullback in lending during the previous quarter. They also noted that loan repayment rates steadied, while the rate of requests for loan renewals or extensions increased. Respondents also indicated that farm loans were generally more available and that collateral requirements eased somewhat since our last report. Reports indicated that interest rates for agricultural loans were lower across all categories. Turning to farmland values, first-quarter land prices were markedly above the previous quarter and somewhat above year-ago levels.

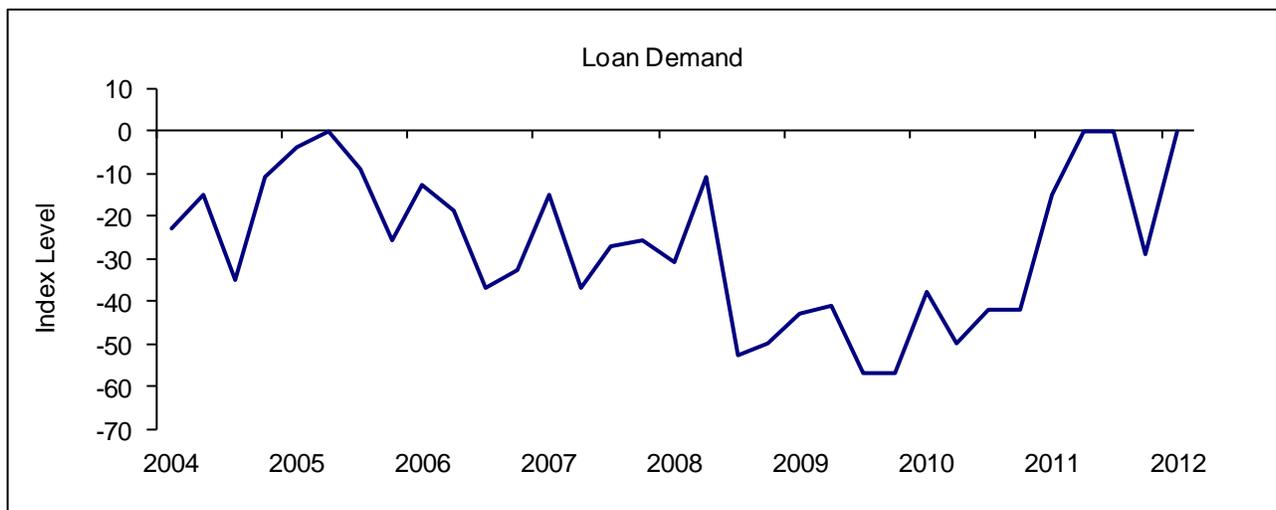
Demand for Farm Loans

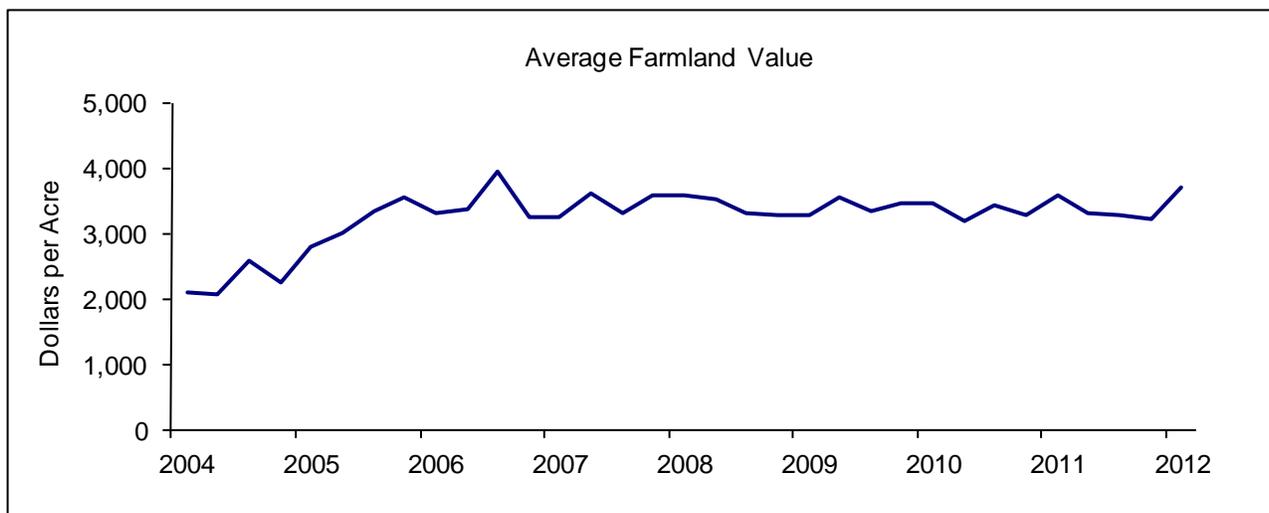
The demand for loans stabilized in the first quarter. Lenders attributed the steadier lending environment to higher commodity prices, increases in tobacco contracts as well as great

contracts for canola. Moreover, lenders mentioned that weak housing starts had slowed demand for framing lumber, but that they had seen some improvement in demand for nursery products.

A banker in Virginia reported that higher commodity prices were really good for farmers, resulting in a profitable year for most producers in that state. A lender in North Carolina said that some farmers were receiving increases in tobacco contracts from major tobacco companies due to reductions in flue-cured tobacco yields in 2011. A banker in South Carolina reported that they had several farmers growing canola for the first time this year and that great contracts were being offered. Furthermore, a contact in North Carolina noted that the demand for framing lumber had stalled as weak housing starts continued, but that they had seen some improvement in sales of nursery products over year-ago levels.

Looking ahead, lenders' expectations for farm loan volumes in the second quarter of 2012 were mixed. The reading for farm machinery and operating loans each moved up 29 points and both





ended at 22. The expected demand for feeder cattle loans rose nine points to 0. In other categories, expected dairy loans shed three points to -33. Crop storage loans, however, were virtually unchanged at -9.

Interest Rates

Interest rates for agricultural loans declined in all categories during the first quarter. Compared to fourth quarter levels, rates for feeder cattle, operating and long-term real estate loans all moved down 49 basis points. Interest rates for intermediate-term real estate loans, however, eased only four basis points.

Availability of Credit

In the first quarter, 82 percent of lenders reported that they actively sought new farm loans—down a tad from 85 percent in the previous quarter. Moreover, lenders reported that demand for farm loans steadied, and that the funds availability index increased fifteen points to 36.

Credit Quality

During the first quarter, the quality of agricultural credit demand was mixed. Loan repayment rates declined as the index moved down seven points to 0, while the loan renewals index increased, moving up eight points to 8. In addition, the index for collateral requirements eased three points to end the first quarter at 43.

Farmland Values

The market value of good farmland averaged \$3,710 per acre in the first quarter—15.2 percent above the fourth quarter reading and 4.1 percent higher than the reading a year ago. Looking forward, bankers anticipate that farmland prices would grow slightly slower during the second quarter of 2012; the index for expected land values lost eight points to 15.

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	36	36	29
Funds Availability	50	14	36
Loan Repayment Rates	14	14	71
Renewals or Extensions	25	17	58
Collateral Requirements	43	0	57

Diffusion Indexes¹

	2012: Qtr. 1	2011: Qtr. 4	2011: Qtr. 1
Demand for Loans	0	-29	-15
Funds Availability	36	21	15
Loan Repayment Rates	0	7	-23
Renewals or Extensions	8	0	23
Collateral Requirements	43	46	69

Farm Loan Volume Expected: Next Three Months

	Percent Reporting		
	Higher	Lower	Same
Real Estate Loans	7	7	86
Non Real Estate Loans	21	21	57
Feeder Cattle	13	13	75
Dairy	0	33	67
Crop Storage	8	17	75
Operating	29	7	64
Farm Machinery	29	7	64

Diffusion Indexes¹

	2012: Qtr. 1	2011: Qtr. 4	2011: Qtr. 1
Real Estate Loans	0	-21	-31
Non Real Estate Loans	0	-23	0
Feeder Cattle	0	-9	-44
Dairy	-33	-30	-38
Crop Storage	-9	-8	-27
Operating	22	-7	31
Farm Machinery	22	-7	-17

Agricultural Credit Conditions

Indicators of Credit Availability

	Level	Change From ²	
	2012: Qtr. 1	2011: Qtr. 4	2011: Qtr. 1
Average Loan-to-Deposit Ratio	64.3	-14.3 ppt	-17.4 ppt

	Percent Reporting		
	Higher Than Desired	Lower Than Desired	About Right
Loan-to-Deposit Ratio Compared to Desired Level	0	71	29

	Diffusion Indexes ¹		
	2012: Qtr. 1	2011: Qtr. 4	2011: Qtr. 1
	-71	-50	-54

	Level	Percent Reporting "Yes"	
	2012: Qtr. 1	2011: Qtr. 4	2011: Qtr. 1
Yes	0	7	0
No	100		

	Level	Percent Reporting "Yes"	
	2012: Qtr. 1	2011: Qtr. 4	2011: Qtr. 1
Actively Seeking New Farm Loans			
Yes	82	85	77
No	18		

	Percent Reporting		
	Greater than Usual	Less than Usual	About as Usual
Farm Loan Referrals			
Correspondent Banks	0	8	25
Non-bank Agencies	0	8	8

	Level	Percent Reporting "None"	
	2012: Qtr. 1	2011: Qtr. 4	2011: Qtr. 1
Correspondent Banks	67	93	92
Non-bank Agencies	83	86	92

Agricultural Credit Conditions

Price Indicators

Average Interest Rates on Farm Loans	Level	Change From ³	
	2012: Qtr. 1	2011: Qtr. 4	2011: Qtr. 1
Feeder Cattle Loans	6.22	-49 bp	-97 bp
Operating Loans	5.88	-49 bp	-65 bp
Intermediate-term Loans	6.05	-4 bp	-30 bp
Long-term Real Estate Loans	5.92	-49 bp	-55 bp

Farm Real Estate Values	Level	Percent Change From	
	2012: Qtr. 1	2011: Qtr. 4	2011: Qtr. 1
Average Farmland Value (per acre)	\$3,710	15.2 %	4.1 %

Expected Farmland Value: Next Three Months	Percent Reporting		
	Up	Down	Stable
	15	0	85

Diffusion Indexes ¹		
2012: Qtr. 1	2011: Qtr. 4	2011: Qtr. 1
15	23	-8

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.