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Credit conditions at District agricultural banks

A recent survey of 500 District agricultural banks found that farm loan demand has strengthened and that loan-to-deposit ratios have risen from the very low levels of recent quarters. In addition, interest rates on farm loans edged up in the second quarter. While relevant, these trends have probably been overshadowed by the still uncertain implications of this year's drought on farm earnings and the financial conditions of many District farmers.

For the past few years, farm loan demand at banks and other commercial agricultural lenders has been weak. But in recent months, farm loan demand has begun to pickup. The second quarter measure of farm loan demand stood at 113, up from 102 in the first quarter and 75 in the second quarter of last year (see table on page 2). The latest reading represents a composite of the 34 percent of the banks that reported farm loan demand in the second quarter was up from a year ago, less the 21 percent that noted a decline. The remaining 45 percent of the banks indicated that farm loan demand was unchanged from a year ago.

The strengthening in farm loan demand is also reflected in the latest figures on outstanding farm loans held by banks. As of the end of 1987, total farm loans held by banks nationwide lagged the year-earlier level by nearly 1 percent. By March 31, however, outstanding farm loans at banks had edged 2 percent above the year-ago level, the first year-over-year gain since 1984. Farm loans held by banks in the five states of the Seventh Federal Reserve District at the end of March were up 1 percent from a year ago, reversing the 2 percent year-over-year decline that had been the case as of the end of 1987.

The strengthening in farm loan demand could stem from several factors. Farm production expenses have been on the upswing recently due to an expansion in hog production, a slight increase in crop plantings this year, and higher prices paid by farmers for inputs, particularly feed and fertilizer. Also farm equipment purchases by farmers recorded sizable gains from low year-earlier levels during the first half of this year. Simultaneously, new borrowings by farmers under CCC price support programs have lagged year-earlier levels for several months and repayments on existing CCC loans have risen with the firming in farm commodity prices. With less liquidity available from CCC loans, farmers increasingly had to look to commercial lenders for the financing needed to meet rising operating expenses and capital expenditures.

In conjunction with the pickup in farm loan demand, the latest survey found loan-to-deposit ratios turned up in the second quarter and that the measure of funds available for lending to farmers, while still favorable, has declined from the unusually high levels of the past two years. Moreover, interest rates charged on farm loans by District agricultural banks turned up again in the second quarter after declining in the first quarter. As of midyear, typical rates charged on farm operating loans and on feeder cattle loans averaged 11.2 percent. That marks an increase of about 15 basis points from both 3 months earlier and a year ago, but is about unchanged from the levels that prevailed during the latter part of last year.

Bankers noted further slight improvement in the quality of their farm loan portfolios, but have considerable apprehension about the effects of this years drought. On average, bankers regarded over 91 percent of their farm loan portfolios as having little or no repayment problems as of midyear. The remaining proportion of just under 9 percent was judged to have major or severe repayment problems that will require long-term workouts and/or may entail some losses. A year ago, the proportion of farm loan portfolios regarded as having major or severe repayment problems was pegged at just over 10 percent and two years ago it was 17.5 percent.

Recent crop production estimates (see companion article) show extensive drought losses throughout most of the Seventh Federal Reserve District. It is difficult to quantify the effects of this year's drought on the financial health of farmers and their lenders. Yet analysts increasingly acknowledge that a one-year drought will have much more of a distributional effect among types of farmers than an overall effect on farm sector earnings and financial performance. Among types of farmers, those that will be hurt the most include livestock producers who traditionally purchase, rather than grow, the bulk of their feed and crop farmers who suffer the steepest yield declines due to the drought. But the losses of hard hit crop farmers will be partially offset by the provisions of the drought assistance legislation enacted on August 11. And crop

Selected measures of credit conditions at Seventh District agricultural banks

	Loan demand (index)[2]	Fund availability (index)[2]	Loan repayment rates (index)[2]	Average rate on feeder cattle loans[1] (percent)	Average loan-to-deposit ratio[1] (percent)	Banks with loan-to-deposit ratio above desired level[1] (percent of banks)
1979						
Jan-Mar	156	51	85	10.46	67.3	58
Apr-June	147	62	91	10.82	67.1	55
July-Sept	141	61	89	11.67	67.6	52
Oct-Dec	111	67	79	13.52	66.3	48
1980						
Jan-Mar	85	49	51	17.12	66.4	51
Apr-June	65	108	68	13.98	65.0	31
July-Sept	73	131	94	14.26	62.5	21
Oct-Dec	50	143	114	17.34	60.6	17
1981						
Jan-Mar	70	141	90	16.53	60.1	17
Apr-June	85	121	70	17.74	60.9	20
July-Sept	66	123	54	18.56	60.9	21
Oct-Dec	66	135	49	16.94	58.1	17
1982						
Jan-Mar	76	134	36	17.30	57.8	18
Apr-June	85	136	41	17.19	57.3	14
July-Sept	87	136	36	15.56	57.8	15
Oct-Dec	74	151	47	14.34	55.1	11
1983						
Jan-Mar	69	158	66	13.66	53.3	6
Apr-June	85	157	78	13.49	54.0	6
July-Sept	81	156	78	13.70	54.8	8
Oct-Dec	101	153	78	13.65	53.6	8
1984						
Jan-Mar	131	135	62	13.82	54.4	12
Apr-June	138	128	64	14.32	55.7	14
July-Sept	120	122	59	14.41	57.2	17
Oct-Dec	103	124	49	13.61	55.9	19
1985						
Jan-Mar	107	120	47	13.48	56.1	17
Apr-June	105	133	56	12.93	55.1	14
July-Sept	90	127	59	12.79	55.5	14
Oct-Dec	68	144	97	12.70	52.7	10
1986						
Jan-Mar	74	149	80	12.34	50.9	8
Apr-June	65	152	86	11.81	51.1	6
July-Sept	68	146	87	11.31	51.4	6
Oct-Dec	61	153	107	11.06	49.4	3
1987						
Jan-Mar	71	149	118	10.88	48.8	5
Apr-June	75	140	118	10.98	50.5	6
July-Sept	75	136	134	11.22	51.5	7
Oct-Dec	78	142	145	11.22	50.3	5
1988						
Jan-Mar	102	137	143	11.02	50.2	4
Apr-June	113	127	114	11.17	52.1	6

[1] At end of period.
[2] Bankers responded to each item by indicating whether conditions during the current quarter were higher, lower, or the same as in the year-earlier period. The index numbers are computed by subtracting the percent of bankers that responded "lower" from the percent that responded "higher" and adding 100.

farmers who only experience comparatively modest yield losses and/or who still own sizable stocks from earlier harvests will probably fare reasonably well from sharply higher crop prices.

With respect to the overall farm sector, the higher crop prices and the drought assistance legislation will likely offset much of the adverse effects from a drought-reduced crop harvest and the forthcoming decline in government payments to farmers through price support programs. The drought assistance legislation is broad, covering most all crops and farmers, not just price support program crops and participants. In general, farmers that suffer a disaster-related crop loss in excess of 35 percent of normal production on any crop will be eligible for a disaster payment. A variety of factors will define the disaster payment rates per unit of lost production. But as an example, disaster payment rates for corn farmers enrolled in the price support program will be $1.90 a bushel on any loss between 35 and 75 percent of normal and $2.64 a bushel on any loss in excess of 75 percent of normal.

The legislation also benefits dairy farmers by repealing any cut in the support price for milk that otherwise might have been implemented on January 1 and raising the milk support price by about 5 percent for a 3-month period beginning April 1 of next year. In addition, it authorizes the Secretary of Agriculture to repeal a requirement that farmers must have carried all-peril crop insurance, if available, in order to be eligible for disaster loans offered by the Farmers Home Administration. Since preliminary estimates indicate only a fourth to a third of all farmers carried such insurance this year, the authorization, if exercised, could significantly expand the number of farmers eligible for FmHA disaster loans. In general, FmHA disaster loans are available to farmers who suffer a disaster loss of 30 percent or more. The loans are available at low interest rates (4 1/2 percent) in amounts covering up to 80 percent of any unreimbursed disaster loss.

The drought will have serious repercussions for some farmers and may disrupt the improving trends of the past year or two with respect to the overall financial condition of farmers and their lenders. But on balance, the magnitude of the disaster assistance legislation and the higher crop prices offer reasonable hope that any disruption will be modest and only temporary.

Crop estimates reflect extensive drought losses

Estimates released by the USDA on August 11 show extensive drought losses to crops nationwide and in the Seventh Federal Reserve District. The index of all U.S. crop production was projected to fall to 88 (1977 = 100) down 17 percent from last year and equal to the drought-and PIK-reduced output of 1983 in marking the lowest for any year since 1974. Among major field crops, the estimates foreshadow year-over-year declines of 45 percent for oats and barley, 37 percent for corn, 24 percent for sorghum, 23 percent for soybeans, 13 percent for wheat, and 12 percent for hay. The only major field crops showing gains from last year were rice, up 19 percent, sugarcane, up 6 percent, and cotton, up 1 percent.

The 1988 corn harvest was pegged at 4.48 billion bushels, second only to the poor 1983 harvest in marking the lowest since 1970. Soybean production was estimated at 1.47 billion bushels, the lowest since 1976. The poor corn and soybean harvest prospects reflect the drought's impact on per acre yields and acreage abandonment, factors which far overshadowed this year's slight increases in planted acreage. Nationwide, corn yields were projected to average 78.5 bushels per harvested acre this year, down from last year's record of 119.4 bushels and the lowest since 1974. Soybean yields were projected to fall to 26.0 bushels per acre, down from last year's near-record of 33.7 bushels and also the lowest since 1974.

1988 corn and soybean production estimates*

	Per acre yields			1988 production	
	Normal**	1987	1988	Amount	Change***
	(-------bushels-------)			(mil.bu.)	(percent)
Corn					
United States	115.3	119.4	78.5	4,479	-37
District states	123.0	127.9	73.8	2,110	-42
Illinois	129	132	70	665	-45
Indiana	125	135	70	336	-47
Iowa	125	130	80	848	-35
Michigan	101	95	65	104	-44
Wisconsin	111	118	75	158	-52
Other top-ranked states					
Kansas	125	120	110	126	-11
Minnesota	117	127	70	294	-54
Missouri	104	113	65	130	-46
Nebraska	123	131	114	752	- 7
Ohio	121	120	70	203	-44
S. Dakota	78	83	45	101	-55
Soybeans					
United States	32.1	33.7	26.0	1,474	-23
District states	37.8	40.2	28.9	647	-27
Illinois	38.1	38.0	28.0	244	-25
Indiana	38.3	40.0	29.0	122	-28
Iowa	38.9	43.5	30.0	236	-31
Michigan	32.3	35.0	28.0	34	-11
Wisconsin	34.4	38.0	31.0	12	+ 2
Other top-ranked states					
Arkansas	23.7	22.0	21.0	66	- 5
Kansas	28.0	32.0	29.0	61	-10
Minnesota	35.0	39.0	24.0	110	-39
Missouri	29.9	32.0	25.0	105	-32
Nebraska	34.6	35.5	32.0	74	-10
Ohio	38.3	37.0	28.0	104	-30

*USDA estimates, based on conditions as of August 1, 1988.
**Average for 1982-87, excluding the lowest yielding year. In most cases the drought year of 1983 was excluded.
***From last year's actual production.

The corn and soybean estimates suggest District states were among the hardest hit by the drought. Corn production in the five states combined was projected to decline 42 percent from last year, while soybean production was expected to decline 27 percent. Compared to "normal" per acre yields (with normal defined as the 1982-87 average, excluding the lowest yielding year) corn yields in Illinois and Indiana are expected to be down about 45 percent, exceeding the declines projected for other top-producing states.

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Selected Agricultural Economic Indicators

	Latest period	Value	Percent change from Prior period	Year ago	Two years ago
Prices received by farmers *(1977=100)*	July	142	3.6	10	13
Crops *(1977=100)*	July	136	7.1	26	27
Corn *($per bu.)*	July	2.89	19.9	81	45
Oats *($per bu.)*	July	2.79	4.1	116	-97
Soybeans *($per bu.)*	July	8.87	9.0	69	74
Wheat *($per bu.)*	July	3.46	3.0	49	54
Livestock and products *(1977=100)*	July	147	0.0	-1	3
Barrows and gilts *($per cwt.)*	July	45.60	-6.2	-25	-24
Steers and heifers *($per cwt.)*	July	68.40	-2.8	5	21
Milk *($per cwt.)*	July	11.40	0.9	-5	-5
Eggs *(¢per doz.)*	July	57.8	26.5	15	-2
Prices paid by farmers *(1977=100)*	July	172	2.4†	5	8
Production items	July	160	3.2†	8	11
Feed	July	147	31.3†	40	37
Feeder livestock	July	180	-8.6†	-1	17
Fuels and energy	July	166	1.8†	1	9
Producer Prices *(1982=100)*	July	109	0.6	2	6
Agricultural machinery and equipment	July	112	0.3	1	2
Fertilizer materials	July	97	0.8	9	11
Agricultural chemicals	July	108	-0.3	4	5
Consumer prices *(1982-84=100)*	June	118	0.4	4	8
Food	June	118	0.5	3	9
Production or stocks					
Corn stocks *(mil. bu.)*	June 1	5,833	N.A.	-8	17
Soybean stocks *(mil. bu.)*	June 1	655	N.A.	-22	-23
Beef production *(bil. lbs.)*	June	2.02	5.5	3	0
Pork production *(bil. lbs.)*	June	1.23	0.1	13	16
Milk production *(bil. lbs.)*††	July	10.5	0.3	1	1

N.A. Not applicable
† Prior period is three months earlier.
†† 21 selected states.

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