The tenth quarterly survey of agricultural credit conditions was conducted by the Federal Reserve Bank of St. Louis from September 15, 2014, through September 30, 2014. The results presented here are based on the responses from 41 agricultural banks within the boundaries of the Eighth Federal Reserve District. The Eighth District includes all or parts of seven Midwest and Mid-South states. These data are not adjusted for any seasonal patterns (should they exist). Accordingly, users are cautioned to interpret the results carefully. Users are also cautioned against drawing firm conclusions about longer-run trends in farmland values and agricultural lending conditions.

Executive Summary

According to a survey of 41 agricultural banks in the Eighth District, farm household spending and capital equipment expenditures declined in the third quarter relative to the same period a year earlier. Proportionately more bankers reported lower farm income for the third quarter than was expected three months earlier. Bankers expect further declines in farm income, household expenditures, and capital expenditures in the fourth quarter. Respondents reported that farmland values rose sharply in the third quarter. Our survey found that quality farmland values in the Eighth District averaged a little more than $6,100 per acre in the third quarter, which is the highest value the Agricultural Finance Monitor has reported. A larger percentage of bankers expect quality farmland prices in the fourth quarter to be lower than they were in the fourth quarter last year. Agricultural loan demand in the third quarter was consistent with the expectations of bankers from three months earlier, and the average interest rate on most fixed- and variable-rate loan products declined or was unchanged from three months earlier. For this survey, we asked three special questions to assess the financial health of agricultural borrowers in our bankers’ loan portfolios. The results suggest that the average agricultural borrowers’ financial condition has not deteriorated over the past three years.

Survey Results

Farm Income and Expenditures

Respondents reported that third-quarter farm income declined compared with the same period a year earlier—to a substantially larger degree than in our second-quarter survey. The third-quarter index value (76) was at its lowest level since we began publishing Agricultural Finance Monitor survey results (second quarter of 2012). Readers are cautioned that farm income is highly volatile and subject to seasonal patterns that occur in the agricultural sector.

Selected Quotes from Banker Respondents Across the Eighth Federal Reserve District

“The dramatic drop in grain prices will put many producers in a cash flow crunch. Highly leveraged operators will be facing negative cash flow from grain. Livestock has very good margins.” (Illinois)

“As we have been expecting, the low commodity prices are quickly affecting both actual borrower numbers as well as borrower sentiment in a negative way. I feel it will really begin to show up late next year. The one bright spot is cattle. Fortunately, we have a good mix of borrowers that are involved with livestock production in some form or another.” (Missouri)

“Prices for all commodities grown in our region have declined to near-production-cost levels. Capital spending has sharply declined to near zero. Many customers will face crop loan carryovers this year. Loan underwriting will be much more difficult in 2015.” (Missouri)

“With the price of corn falling to about $2.60 and soybeans falling below $9.00, I do not know how young farmers with no equity built up will pay their cash rent or the payment on equipment and land purchased. This is a critical time for the farming community.” (Missouri)

“Heavy flooding in eastern Arkansas has resulted in decreased earnings and late replants; however, few farm failures are anticipated as a result. Land prices continue to moderately rise with a foreseeable bubble in valuations on the horizon.” (Arkansas)

NOTE: These are generally verbatim quotes, but some were lightly edited to improve readability.
Actual and expected farm income is a key determinant of household expenditures and capital spending by farmers and ranchers. Thus, not surprisingly, survey respondents reported that farm household spending and capital equipment expenditures declined in the third quarter relative to the same period a year earlier. The survey suggests that the pull-back in capital spending was more widespread than the decline in farm household expenditures. Respondents expect further declines in all three categories in the fourth quarter.

### Current and Expected Land Values and Cash Rents

Land values and cash rents are reported in Table 1. According to our agricultural banker respondents, quality farmland values across the District averaged $6,120 per acre in the third quarter of 2014. This is the highest reported value in our survey’s relatively short history. The third-quarter average was up 11.8 percent from the second-quarter average of $5,473 per acre (see Figure 1). In our second-quarter survey, a slight majority of bankers expected quality farmland values to decline in the third quarter. Compared with the third quarter of 2013, quality farmland values in the Eighth District increased by 14.8 percent. Land values and cash rents are reported in current dollars.

The value of Eighth District ranchland or pastureland averaged $2,570 per acre in the third quarter of 2014, an 11.1 percent increase from the previous quarter and also
the highest reported value in the survey’s history. Compared with a year earlier, the value of ranchland or pastureland increased by 8.1 percent in the third quarter. Cash rents for quality farmland across the District averaged $194 per acre in the third quarter, up 1.6 percent from the second quarter. Cash rents for ranchland or pastureland rose an even larger 6.8 percent in the third quarter to $63 per acre.

Despite the surge in farmland prices in the third quarter, respondents expect farm land values to soften in the fourth quarter relative to a year earlier (an index value of 57). In fact, expectations of a softening in quality farm land prices have been prevalent over the past year. A substantially smaller proportion of respondents expect values of ranchland or pastureland to decline in the fourth quarter relative to a year earlier (index value of 93). Since cash rents adjust to the income produced by land—perhaps with a lag—expectations for cash rents for quality farmland and ranchland or pastureland over the next three months were very similar to land values: Proportionately more respondents expect cash rents for quality farmland values to decline in the fourth quarter relative to a year earlier (index value of 46). Figures 1 and 2 show average farmland values and cash rents since our first survey.

**Outcomes Relative to Previous-Quarter Expectations**

The examination of actual data relative to expectations is an important aspect of economic analysis. Accordingly, Table 2 provides an assessment of farm income, expenditures, and several other key variables reported in the third quarter of 2014 relative to bankers’ expectations from three months earlier. Farm income and capital spending in the
third quarter was lower than initially expected in the pre-
vious survey. However, farm household spending in the 
third quarter was slightly higher than expected.

Table 2 indicates that loan demand in the third quarter 
was consistent with the expectations of bankers from three 
months earlier (index value of 103). However, the avail-
ability of funds in the third quarter was slightly below expec-
tations from three months earlier. A modestly larger share of 
bankers reported that loan repayments fell short of previous 
expectations (an index value of 89 relative to an expected 
index value of 103). Figures 3 through 8 plot the actual and 
expected diffusion index values for the six variables shown 
in Table 2 since our first survey.

Financial Conditions

Table 3 reports our survey respondents’ assessment of 
current and prospective commercial lending indicators in 
the Eighth District. In the third quarter, a slightly larger 
proportion of bankers reported an increase in loan demand 
relative to the same period a year ago (index value of 103). 
The proportion of bankers expecting loan demand to 
increase over the next three months relative to a year ago 
increased slightly (index value of 106). By contrast, a larger 
number of bankers expect that the availability of funds and 
loan repayment rates will fall in the fourth quarter relative 
to a year ago.

Table 4 indicates that average interest rates on fixed-
and variable-rate loan products in the third quarter of 
2014 were modestly below their second-quarter averages. 
The largest declines were in fixed-rate loans for operating 
expenses (–13 basis points) and variable-rate loans for 
machinery/intermediate-term loan types (–16 basis points). 
The average interest rate on farm real estate loans in the 
third quarter was little changed from the previous quarter.

Special Questions

Table 5 reports the results of three special questions 
we posed to our bank respondents for this survey. Taken 
together, the questions attempt to assess the current finan-
cial condition of our bankers’ agricultural borrowers. In 
the first question, we asked bankers to assess the change 
in loan-to-value ratios (LTVs) over the past three years 
for agricultural production/operating loans and for land pur-
chase loans. Regarding the former, roughly two-thirds of 
respondents indicated no change in LTVs over the past 
three years. Of those bankers reporting a change, a slightly 
larger percentage noted an increase in LTVs relative to a 
decrease in LTVs.

Table 5

<table>
<thead>
<tr>
<th>Special Question</th>
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<tbody>
<tr>
<td>How have your loan-to-value ratios changed over the past three years?</td>
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<tr>
<td>Agricultural production/operating loans</td>
</tr>
<tr>
<td>Increased</td>
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<tr>
<td>Remained stable</td>
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<tr>
<td>Declined</td>
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<tr>
<td>Land purchase loans</td>
</tr>
<tr>
<td>Increased</td>
</tr>
<tr>
<td>Remained stable</td>
</tr>
<tr>
<td>Declined</td>
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</tbody>
</table>

What is the range of debt-to-equity ratios for agricultural borrowers in your loan portfolio?

20 to 75 percent*

How has the range of debt-to-equity ratios for agricultural borrowers in your loan portfolio changed over the past three years?

<table>
<thead>
<tr>
<th>Increased</th>
</tr>
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<tbody>
<tr>
<td>Remained stable</td>
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<tr>
<td>Declined</td>
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NOTE: Values may not add up to 100 due to rounding.
*Range created from median of responses.

The second special question asked agricultural bankers 
to assess the debt-to-equity ratios (DERs) for agricultural 
borrowers in their loan portfolio. The results varied tremen-
dously, and the median responses ranged from a low of 20 
percent to a high of 75 percent. Finally, the third question 
asked bankers to assess how their agricultural borrowers’ 
DERs have changed over the past three years. A significant 
minority of respondents (44.1 percent) reported that DERs 
have remained stable, while a substantially smaller percent-
age (17.6 percent) reported that their borrowers’ DERs 
have increased. The remaining 38.2 percent of respondents 
reported that their borrowers’ DERs have decreased over 
the past three years. Overall, these results suggest that the 
average agricultural borrowers’ financial condition has not 
deteriorated over the past three years. ■
Notes

1 An agricultural bank, for survey purposes, is defined as a bank for which at least 15 percent of its total loans outstanding finances agricultural production or purchases of farmland, farm equipment, or farm structures.

2 Readers are also cautioned that the number of responses in each zone is relatively small. Statistically, this tends to suggest that the responses in each zone have a larger plus-or-minus margin of error than for the District as a whole. We are eliminating the zone-by-zone responses until the response rate improves.

3 Since the composition and number of survey respondents tend to change each quarter, it might be more accurate to compare the results reported from the same respondents to this survey and the previous survey (second quarter of 2014). Such an exercise reveals that the average value of quality farmland in the District was $6,112 per acre in the third quarter of 2014, which is a 0.4 percent increase from the $6,086 per acre average reported in the second quarter of 2014.