
Agriculture

AN EIGHTH DISTRICT PERSPECTIVE

FALL 1984

Eighth District Agricultural Banks Weather the Financial Storm

Agricultural banks in the Eighth District, according to many observers, are under the same financial stress as agricultural lenders across the nation. Evidence of this financial stress is usually founded on surveys, which show that farm loans are being repaid slowly and that asset values supporting these loans are declining. Under expectations that collateral values could decline further while real returns to farming remain stable or fall, prospects for many agricultural banks, say these observers, look bleak.

Agricultural banks in the Eighth District, however, have earned higher average returns on assets and equity than rural and city banks not engaged in agricultural lending. Banks with more than 30 percent of their loan portfolio allocated to agricultural loans have earned returns consistently higher than banks that are of similar size but hold less than 5 percent of total loans in the form of agricultural loans. Table 1 shows that, in the 11 years spanning 1973-83, agricultural banks earned average returns of 1.1 percent on assets and 13.4 percent on equity. These returns compare with rates of 1.0 and 11.9 percent for rural nonagricultural banks. Nonagricultural banks in metropolitan areas earned average returns of 0.9 percent on assets and 10.5 percent on equity. Even in 1983, when many economists started to report signs of financial stress in agriculture, agricultural banks posted returns on assets equal or superior to the other two classifications. Agricultural banks' return on equity, however, was lower than that of rural nonagricultural banks but equal to that of city banks.

Table 1 also shows that while agricultural banks in the District have experienced higher loan loss rates since the drought year of 1980, the losses are likely due to factors other than nonperforming agricultural loans. This is indicated by an average loss rate for agricultural banks on a par with that of rural banks that hold few agricultural loans. The loss rates of city banks, however, have not risen over the same time period.

The prospects for agricultural loan losses increasing in the Eighth District can be examined in table 2, which presents the proportion of agricultural loans considered more than 30 days past due. Loans reported as "past due" have some likelihood of later turning up as loan losses and, therefore, provide a rough indicator of anticipated volumes of future loan losses. For the seven District states, banks in five states have seen declines in the percentage of farm production loans past due since the end of 1982. Increases in the shares of delinquent loans for banks in Indiana and Tennessee have been slight. Although these data do not rule out the existence of financial stress in particular areas affected by production problems, the trends do not indicate significant increases in problem loans for Eighth District agricultural banks as a whole.

1985 Farm Programs Announced

Producers of wheat, feedgrains, cotton and rice can sign up for the 1985 acreage programs from October 15 until March 1. The programs' payment levels and qualification criteria are presented in table 3. Upon sign-up, producers can request 50 percent of both projected 1985 deficiency and land diversion payments. Offsetting and cross compliance requirements have been waived, which allows a farmer to participate in the program for one crop while not participating in another.

The benefits accruing to an individual farmer from program participation are difficult to assess in advance because little is known about the size of next year's crops and the demand for those commodities. In general, however, it is important to compare prices expected to exist at the time of 1985's fall harvest with a program's loan rate (the support level) and its target price (the basis for deficiency payments). On the basis of this comparison, a producer can evaluate the benefits of protection against market prices declining below support levels relative to the



possibility of foregone earnings if prices should rise above target levels, but production has been reduced as required by the commodity programs. For example, 1985 futures prices for corn and wheat dated for delivery near the time of their respective harvests currently are near \$2.80 and \$3.40 per bushel, only slightly above the price floors established by loan rates. Even with loan rates and target prices little

changed from 1984 program levels, these expected prices and anticipated increases in production costs suggest that the price insurance afforded to program participants may be valuable during the 1985 crop year.

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Table 1
Return on Assets and Equity and Net Loan Loss Percentage
(Eighth District banks with less than \$100 million in total assets)

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	Average
RETURN ON ASSETS												
Rural Agricultural Banks	1.1	1.1	1.0	1.1	1.1	1.1	1.3	1.2	1.1	1.1	1.0	1.1
Rural Nonagricultural Banks	0.9	1.0	0.9	1.0	1.0	1.1	1.1	1.0	0.9	0.8	1.0	1.0
City Nonagricultural Banks	0.9	0.8	0.7	0.8	0.8	0.9	0.9	1.0	0.9	0.8	0.9	0.9
RETURN ON EQUITY												
Rural Agricultural Banks	14.9	14.8	13.3	13.4	13.6	12.9	14.5	13.5	12.1	12.4	11.3	13.4
Rural Nonagricultural Banks	11.8	12.7	11.1	11.8	12.6	12.8	13.3	12.3	10.8	9.9	12.0	11.9
City Nonagricultural Banks	10.8	9.4	8.7	9.0	9.8	11.4	11.7	11.6	11.4	10.6	11.3	10.5
LOAN LOSS PERCENTAGE												
Rural Agricultural Banks	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.4	0.6	0.7	0.9	0.4
Rural Nonagricultural Banks	0.2	0.2	0.4	0.4	0.2	0.2	0.3	0.4	0.4	0.6	0.9	0.4
City Nonagricultural Banks	0.2	0.3	0.4	0.4	0.3	0.2	0.3	0.4	0.3	0.4	0.4	0.3

Table 2
Farm Production Loans Past Due 30 Days or More as a Percentage of Total Farm Production Loans ¹

State	Date	
	12/31/82	12/31/83
Arkansas	5.0%	4.2%
Illinois	2.1	1.9
Indiana	2.7	3.1
Kentucky	3.1	2.9
Mississippi	5.2	3.8
Missouri	3.3	3.2
Tennessee	4.8	5.1

¹ Insured commercial banks at which farm production loans exceed 1 percent of total loans

Table 3
1985 Farm Program Provisions

Crop	Maximum allowable planting (percent of base)	Loan rate ¹	Target price	Diversion ² payment
Corn	90%	\$2.55	\$ 3.03	n.a.
Sorghum	90	2.42	2.88	n.a.
Wheat	70	3.30	4.38	\$2.70
Upland Cotton	70	0.57	0.81	0.30
Rice	65	8.00	11.90	3.50

¹ Values for corn, sorghum and wheat are dollars per bushel. Cotton is cents per pound. Payments for rice are dollars per hundredweight.

² Required paid acreage diversion for wheat and upland is 10 percent of base; for rice, 15 percent.

EIGHTH DISTRICT AGRICULTURAL DATA

<u>Prices and Costs¹</u>	June 1984	July 1984	Aug. 1984	Average for 1983	Percent Change	
					Year-To-Date 1984 ²	Same Period Year Ago
CONSUMER PRICE INDEX (% change)						
Nonfood	0.2%	0.3%	0.4%	0.3%	2.8%	4.2%
Food	0.1	0.2	0.8	0.2	3.2	4.2
PRODUCTION COSTS FOR FARMERS (% change)						
All inputs	0.0	-0.3	-0.3	0.8	-4.0	2.5
Fertilizer	0.0	0.0	0.0	-0.2	8.1	6.4
Agricultural chemicals	0.0	0.0	0.0	0.3	2.5	2.0
Fuels and energy	-0.2	-1.0	-1.0	-0.3	-0.7	-4.7
PRICES RECEIVED BY FARMERS (% change)						
All products	-0.4	0.0	-0.4	0.8	2.7	3.1
Livestock	-1.2	1.2	-2.0	0.3	-0.4	2.5
Crops	1.1	-2.2	2.2	1.6	6.1	4.5
FEEDER CATTLE						
Wholesale price - Kansas City (\$/cwt.)	\$63.16	\$63.80	\$64.05	\$63.71	0.6	9.3
FEEDER PIGS						
Wholesale price - So. Missouri (\$/head)	\$39.58	\$34.27	\$34.30	\$33.96	24.1	42.9
BROILERS						
Wholesale price - 12-city (¢/lb.)	55.53¢	57.30¢	51.47¢	50.39¢	-9.9	-5.1
TURKEYS						
Wholesale price - New York, 8-16 lb. young hens (¢/lb.)	67.00¢	68.57¢	72.40¢	60.48¢	-3.7	25.7
CORN						
Wholesale price - St. Louis (\$/bu.)	\$ 3.57	\$ 3.43	\$ 3.33	\$ 3.27	-3.5	-9.5
SOYBEANS						
Wholesale price - N.C. Illinois (\$/bu.)	\$ 8.13	\$ 6.96	\$ 6.53	\$ 6.86	-17.7	-15.2
WHEAT						
Wholesale price - No. 1, hard winter - Kansas City (\$/bu.)	\$ 3.80	\$ 3.67	\$ 3.80	\$ 3.95	-1.3	-2.1
LONG-GRAIN RICE						
Wholesale price - Arkansas (\$/cwt.)	\$18.62	\$18.62	\$18.41	\$18.40	-3.1	-0.5
COTTON						
Wholesale price - all markets (¢/lb.)	69.50¢	68.20¢	68.10¢	62.30¢	1.2	1.6

<u>U.S. Exports</u>	Apr. 1984	May 1984	June 1984	Average for 1983	Percent Change	
					Year-To-Date 1984 ²	Same Period Year Ago
Corn (mil. bu.)	175.3	164.4	112.0	157.6	-36.4	-26.2
Soybeans (mil. bu.)	68.6	56.8	41.1	69.5	-44.8	-39.3
Wheat (mil. bu.)	104.8	121.5	113.0	125.7	-14.1	-8.7
Rice (rough equivalent, mil. cwt.)	6.3	6.2	4.7	5.9	-6.3	-37.9
Cotton (thou. bales)	850.0	593.3	448.8	459.7	-32.3	-2.0

Receipts³

CROPS (millions of dollars)						
United States	\$4,944	\$6,120	\$5,079	\$5,779	-3.9	-10.7
District (seven-state total)	913	1,241	943	1,234	-8.9	-26.0
LIVESTOCK (millions of dollars)						
United States	5,621	6,423	5,839	5,763	-2.2	-0.3
District (seven-state total)	878	1,002	937	930	-4.3	4.5

EIGHTH DISTRICT AGRICULTURAL DATA

Crop Production⁴	Marketing Year		
	1981/82	1982/83	1983/84
CORN (October 1 - September 30)			
Acres planted (mil. acres)	84.1	81.9	60.2
Production (mil. bu.)	8,118.7	8,235.1	4,166.1
Yield (bu. per acre)	108.9	113.2	81.0
Ending stocks (mil. bu.)	3,880.1	4,923.9	2,137.1
SOYBEANS (September 1 - August 31)			
Acres planted (mil. acres)	67.5	70.9	63.1
Production (mil. bu.)	2,000.2	2,229.5	1,566.0
Yield (bu. per acre)	30.2	32.1	25.3
Ending stocks (mil. bu.)	646.4	790.6	456.5
WHEAT (June 1 - May 31)			
Acres planted (mil. acres)	88.3	86.2	76.4
Production (mil. bu.)	2,785.4	2,765.0	2,419.8
Yield (bu. per acre)	34.5	35.5	39.4
Ending stocks (mil. bu.)	1,159.4	1,515.1	1,394.0
RICE (August 1 - July 31)			
Acres planted (mil. acres)	3.8	3.3	2.2
Production (mil. cwt.)	182.7	153.6	99.7
Yield (cwt. per acre)	48.2	47.1	46.0
Ending stocks (mil. cwt.)	49.0	71.5	46.9
COTTON (August 1 - July 31)			
Acres planted (mil. acres)	14.3	11.3	7.9
Production (mil. bales)	15.6	12.0	7.8
Yield (net bales per acre)	1.1	1.2	1.1
Ending stocks (mil. bales)	6.6	7.9	2.8

¹ The consumer price index and its components are seasonally adjusted. All other data are not seasonally adjusted.

² Percent change from December 1983, based on the most recent month available.

³ Data for receipts are seasonally adjusted.

⁴ Annual data for crops are based on each crop's marketing year. SOURCE: Crop Production, Statistical Reporting Service, Crop Reporting Board, USDA.