Ag Credit Availability in View of the Banking and Stock Market Crisis

The views expressed are those of the author and do not necessarily reflect the opinions of the Federal Reserve Bank of Kansas City or the Federal Reserve System.
Today’s Roadmap

- The Recession Intensifies
- Impacts on Financial Markets
- What is the Impact on Agricultural Credit?
The U.S. economy is in recession.

Real GDP Growth

Annualized percent change from previous quarter

Source: Bureau of Economic Analysis and Blue Chip Economic Indicators
Job losses mount.

U.S. Non-farm Job Growth and Unemployment Rate

Change from previous month (Thousands)  Percent

Dec-96  Dec-98  Dec-00  Dec-02  Dec-04  Dec-06  Dec-08

Unemployment Rate (Right Scale)
Job Change (Left Scale)

Source: Bureau of Labor Statistics
The recession has spread globally.

World GDP Growth

Annual Percent Change

Emerging and Developing Countries

World

Advanced Countries

Source: International Monetary Fund, October 2008
It started in the housing sector.

Home Starts, Sales and Inventories

Month’s supply

Index (Jan-00=100)

Month’s Supply of New Homes (Left Scale)

Existing Home Sales (Right Scale)
Housing Starts (Right Scale)

Source: Dept. of Commerce, National Association of Realtors
Financial markets remain fragile.

Commercial Paper Rates and Fed Funds Rate

Source: Federal Reserve Board of Governors
Financial market stress remains elevated.

LIBOR-OIS Spread

Basis Points

Source: Federal Reserve Board of Governors
Stock market values plummet.

S&P 500 Index

Source: Dow Jones
Falling asset values with high leverage is a recipe for bankruptcy.

Domestic Debt Outstanding

Percent of GDP

Financial Business

Household

Nonfinancial Business

Source: Federal Reserve Board of Governors
The Fed has acted aggressively.

Fed Funds Rate and Federal Reserve Assets

Billion Dollars

Source: Federal Reserve Board of Governors
Today’s Roadmap

- What is the Impact on Agricultural Credit?

Tenth Federal Reserve District
Colorado, Kansas, Nebraska, Oklahoma, Wyoming, western Missouri, northern New Mexico

Federal Reserve Bank of Dallas
Agricultural Credit Conditions
http://www.dallasfed.org/research/agsurvey/index.html
Banks have tightened credit standards.

Net Percent of Domestic Banks Tightening Credit Standards

Source: Federal Reserve Board of Governors
Commercial banks have funds available for farm loans.

Fund Availability for Farm Loans at Agricultural Banks
(Tenth Federal Reserve District)

Source: Federal Reserve Bank of Kansas City
The cost of funds has eased.

Interest Rates for Farm Loans at Agricultural Banks
(Tenth Federal Reserve District)

Percent

Source: Federal Reserve Bank of Kansas City
Agricultural credit conditions have tightened.
Unlike other sectors, farm debt levels remain low.
Expectations for farm income are slowing.

Farm Income Expectations Among Agricultural Bankers
(Tenth Federal Reserve District)

Diffusion Index

Source: Federal Reserve Bank of Kansas City
If farm incomes wane, what will happen to farmland values?

Nonirrigated Cropland Values
(Tenth Federal Reserve District)

Sample percent change from a year ago*

Source: Federal Reserve Bank of Kansas City
*Percent changes are calculated using responses only from those banks reporting in both the past and the current quarter.
Conclusions

- The Recession intensifies.
  - A housing bust has spread to financial markets.
  - Financial markets are fragile.
  - Non-ag financial sectors are learning the lessons of the 1980s farm bust.

- Agricultural Credit Conditions Tighten.
  - Funds are available, but loan quality is deteriorating.
  - Will farmland values fall amid weaker farm income?

- Who Accepts Agricultural Risk – Bankers or Farmers?