FRB CHICAGO

AGRICULTURAL LETTER

FEDERAL RESERVE BANK OF CHICAGO
November, 1994 Number 1858

Farmland values and credit conditions

Our October 1 survey of over 450 agricultural bankers in the Seventh Federal Reserve District indicated that the uptrend in farmland values continued during the summer months. On average, farmland values edged 1 percent higher during the summer quarter and were up 7 percent for the 12-month period ending with September. Moreover, the 12-month gain was the largest in five years. The bankers also reported that farm loan demand continued strong during the summer. However, the availability of funds for agricultural lending tightened and the interest rates charged on new farm loans moved higher. In addition, the survey found that loan repayment rates were generally sluggish during the summer when compared to a year earlier.

Farmland values rose in four of the five District states during the summer quarter. The exception was Wisconsin, where values were unchanged. The bankers in Illinois noted—on average—an increase of 2 percent from three months earlier while a 1-percent rise was registered in the other three states. Furthermore, all five District states recorded year-over-year gains. The Illinois bankers reported the largest increase at 9 percent. Farmland values in Indiana were up 7 percent from a year earlier while Iowa and Wisconsin each posted gains of 6 percent. The bankers in Michigan reported a more modest gain of 4 percent.

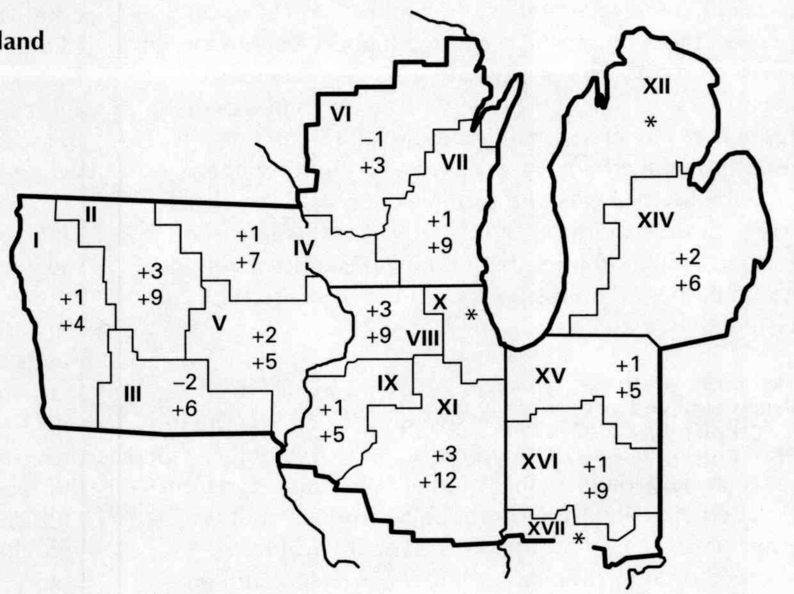
Both farmers and nonfarm investors are expected to contribute to a modest strengthening in the farmland markets over the near term. In particular, nearly half the respondents foresee a greater interest in purchasing farmland by nonfarm investors when compared to a year earlier. This view held in each District state. The demand to acquire farmland among farmers is also expected to rise, though to a somewhat lesser degree. Over a third of the survey respondents believe farmer demand for farmland will increase compared to a year ago while about 16 percent anticipate a decline. But while farmer interest is on the upswing in Illinois, Indiana, and Iowa, the survey results indicate it will be stable to declining in Wisconsin and Michigan. In line with the growth in demand, the bankers also predict the number of transactions involving farmland will increase from a year ago.

Consequently, the bankers believe that further gains in farmland values are likely during the fall quarter. Approximately 37 percent—a fairly high proportion relative to recent years—foresee rising values compared to a year earlier. In comparison, nearly 60 percent expect little change while only a few anticipate a decline.

Percent change in dollar value of "good" farmland

Top: July 1, 1994 to October 1, 1994
Bottom: October 1, 1993 to October 1, 1994

	July 1, 1994 to October 1, 1994	October 1, 1993 to October 1, 1994
Illinois	+2	+9
Indiana	+1	+7
Iowa	+1	+6
Michigan	+1	+4
Wisconsin	0	+6
Seventh District	+1	+7



*Insufficient response

The expectations of rising values appeared to be strongest in Illinois, where half the bankers predicted gains.

The bankers reported that the demand for nonreal estate farm loans held above year-earlier levels during the summer quarter. Approximately 45 percent of the surveyed bankers stated that loan demand was up compared to a year ago while only 13 percent believed a decline had occurred. The remainder indicated there had been no change. Loan demand appeared to be stronger in Iowa relative to the other District states, continuing a trend that has held over the past year. Specifically, nearly two thirds of the Iowa bankers reported an increase from last year. Furthermore, the responses from the bankers in Illinois, Indiana, and Wisconsin also indicated the demand for nonreal estate loans strengthened. In contrast, loan demand appeared to have softened in Michigan when compared to a year earlier.

Agriculture's access to loanable funds from commercial banks came under pressure during the summer months, according to the survey. The measure of fund availability fell to 96, the first time it has dipped below 100 since 1980. This gauge of the inclination of District banks to lend to agriculture represents a composite of the 18 percent of the bankers that reported an increase in the availability of funds for agricultural loans—compared to a year earlier—and the 23 percent who reported a decline. The remainder did not discern any shift from a year ago. However, the change was not uniform across the individual District states. The availability of funds for agricultural lending tightened in Iowa and Wisconsin compared to a year earlier, held steady in Indiana, and rose slightly in Illinois and Michigan.

Furthermore, the loan-to-deposit ratios of District banks rose—on average—during the summer. The mean ratio came in at 64.5 percent as of October 1, up from 62.5 percent three months ago and the highest level recorded since 1980. However, considerable disparity exists across District states. The Wisconsin average was the highest at 73 percent while the low of 57 percent was reported by the bankers in Illinois. In addition, the actual loan-to-deposit ratios have been drawing closer to the desired ratios reported by the bankers in recent surveys, which implies that future gains in loan volume could moderate unless banks acquire deposits at a faster pace.

The interest rates charged on new farm loans edged higher for the second successive quarter. While the firm agricultural loan demand contributed to the increase in rates on new loans, higher market rates boosted returns on alternative investments for banks and also put upward pressure on funding costs. The interest rate charged on new farm real estate loans as of October 1 averaged 8.86 percent while the average farm operating loan rate came in at 9.38 percent. Both loan rates were up 40 basis points from three months earlier. On an annual basis, the farm real estate loan rate was up 90 basis points while the operating rate gained a more modest 75 basis points.

The agricultural bankers again noted that—on average—farm loan repayments continue to be sluggish. A fifth stated that repayments were coming in more slowly than the pace of a year ago while 14 percent said there had been an improvement. The majority thought that the timeliness of repayments was about the same as a year ago. Loan paybacks improved in Indiana but tended to lag in the other District states, particularly Iowa. The slow loan repayment situation in Iowa dates back to last year's flood and is mirrored by the relatively large number of Iowa bankers—some 40 percent—who noted an increase in the number of loan extension or renewals granted.

The outlook of the bankers for the near term corresponds to the recent trends in livestock prices as well as the differences in crop production between District states. While both cattle and hog prices have been running well below year-earlier levels for several months, hog prices have been under particularly severe pressure since September. As a result, the mood of the bankers regarding the prospective net cash earnings of livestock producers was quite uniform across District states as 90 percent believe that earnings will be down during the fall and winter when compared to a year earlier. In comparison, the expectations held by the bankers for the earnings of crop producers is somewhat mixed. As yields recover from last year's flood, a large majority of the bankers in Illinois and Iowa anticipate a rise in net cash earnings while about half the respondents from Wisconsin expect an improvement. In contrast, a majority of the bankers from Indiana and Michigan—the two District states which not only escaped last year's flood but also benefited from the resulting increase in grain prices—expect a reduction in the earnings of crop farmers when compared to a year earlier.

The bankers also indicated an improvement in loan repayments is on the horizon, ostensibly due to the banner harvest. Though grain prices have fallen, the impact on cash flow is lessened by deficiency payments to farmers and the availability of commodity loan programs. Overall, one third of the bankers stated they expect repayments to show year-over-year improvement during the next three to six months while a fifth believe there will be a decline. The rest anticipate little change from the previous year. Among the individual District states, improvement is anticipated in both Iowa and Illinois. However, hog prices have weakened further since October 1 and many bankers

Credit conditions at Seventh District agricultural banks

	Loan demand	Fund availability	Loan repayment rates	Average loan-to-deposit ratio[1]	Interest rates on farm: Operating loans[1]	Feeder cattle[1]	Real estate[1]
	(index)[2]	(index)[2]	(index)[2]	(percent)	(percent)	(percent)	(percent)
1991							
Jan-Mar	128	127	98	56.5	11.40	11.37	10.57
Apr-June	130	122	74	58.1	11.19	11.17	10.43
July-Sept	113	122	81	58.5	10.88	10.89	10.15
Oct-Dec	109	132	69	57.4	10.06	10.08	9.39
1992							
Jan-Mar	129	128	77	57.3	9.77	9.80	9.19
Apr-June	123	123	79	58.1	9.57	9.56	8.99
July-Sept	111	123	90	59.3	9.18	9.16	8.63
Oct-Dec	107	127	93	58.7	9.12	9.13	8.59
1993							
Jan-Mar	108	131	102	58.0	8.85	8.83	8.29
Apr-June	103	129	95	59.2	8.77	8.74	8.16
July-Sept	110	122	90	59.2	8.63	8.59	7.99
Oct-Dec	125	126	95	59.7	8.50	8.50	7.88
1994							
Jan-Mar	136	121	94	59.9	8.52	8.48	7.97
Apr-June	139	107	90	62.5	8.98	8.95	8.48
July-Sept	132	96	94	64.5	9.38	9.30	8.86

[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.

may have revised their expectations downward since then. In contrast, the tone of the responses from Indiana and Wisconsin suggest loan repayments will exhibit little year-over-year change during the next three to six months while the Michigan respondents anticipate a decline.

The bankers' near-term outlook also indicates that expectations for further gains in operating loans during the fall quarter are mixed while modest increases are in store for farm machinery lending. In particular, it appears the recent growth in operating loan volume may be slowing. While the proportion of those expecting an increase in operating loans still outweighs the proportion anticipating a decline, the gap between the two has narrowed. Among the individual District states, the likelihood of a year-over-year increase in operating loans appears to be strongest in Illinois and Iowa while little change is indicated for Indiana. In contrast, a decline appears likely in Michigan and Wisconsin. Furthermore, expectations favor a somewhat greater interest in borrowing for farm machinery purchases during the fall quarter. While about half of the bankers foresee little change from last year, the remainder predict an increase in farm machinery loans by a margin of two to one. However, the decline in hog prices and low grain prices may encourage many farmers who were considering machinery purchases to postpone their plans.

On the other hand, the projected trend in farm real estate lending appears to be flat. Two thirds of the surveyed bankers expressed the belief that volume will be unchanged from a year ago during the winter quarter. The remainder were nearly evenly split between an increase and a decline. The expectations of the bankers for adding farm real estate loans appear somewhat modest relative to their beliefs concerning future activity in farmland markets. This disparity, however, could stem from the availability of competing sources of funds to those purchasing farmland.

Mike A. Singer

AGRICULTURAL LETTER (ISSN 0002-1512) is published monthly by the Research Department of the Federal Reserve Bank of Chicago. It is prepared by Gary L. Benjamin, economic adviser and vice president, Mike A. Singer, economist, and members of the Bank's Research Department, and is distributed free of charge by the Bank's Public Information Center. The information used in the preparation of this publication is obtained from sources considered reliable, but its use does not constitute an endorsement of its accuracy or intent by the Federal Reserve Bank of Chicago.

To subscribe, please write or telephone:

Public Information Center
Federal Reserve Bank of Chicago
P.O. Box 834
Chicago, IL 60690-0834
Tel. no. (312) 322-5111

Selected agricultural economic indicators

	Latest period	Value	Percent change from: Prior period	Year ago	Two years ago
Prices received by farmers *(index, 1977=100)*	October	132	–1.5	–9	–4
Crops *(index, 1977=100)*	October	120	–1.6	–8	3
Corn *($ per bu.)*	October	1.96	–10.5	–14	–4
Hay *($ per ton)*	October	86.80	5.3	5	23
Soybeans *($ per bu.)*	October	5.15	–5.9	–14	–2
Wheat *($ per bu.)*	October	3.85	7.8	18	20
Livestock and products *(index, 1977=100)*	October	142	–2.1	–11	–10
Barrows and gilts *($ per cwt.)*	October	33.50	–6.7	–29	–21
Steers and heifers *($ per cwt.)*	October	64.50	–2.4	–11	–16
Milk *($ per cwt.)*	October	13.10	2.3	0	–2
Eggs *(¢ per doz.)*	October	57.6	–4.8	–4	1
Consumer prices *(index, 1982-84=100)*	October	150	0.1	3	5
Food	October	145	0.0	2	5
Production or stocks					
Corn stocks *(mil. bu.)*	September 1	850	N.A.	–60	–23
Soybean stocks *(mil. bu.)*	September 1	209	N.A.	–28	–25
Wheat stocks *(mil. bu.)*	September 1	2,053	N.A.	–3	–3
Beef production *(bil. lb.)*	September	2.14	–3.6	5	7
Pork production *(bil. lb.)*	September	1.54	3.1	7	2
Milk production* *(bil. lb.)*	October	10.7	1.7	3	1
Receipts from farm marketings *(mil. dol.)*	July	12,914	3.8	–11	–5
Crops**	July	6,025	11.5	–3	–5
Livestock	July	6,814	0.2	–8	–5
Government payments	July	74	–70.2	–91	–10
Agricultural exports *(mil. dol.)*	August	3,514	11.6	19	14
Corn *(mil. bu.)*	August	114	22.0	15	–16
Soybeans *(mil. bu.)*	August	41	138.3	65	4
Wheat *(mil. bu.)*	August	110	49.6	7	6
Farm machinery sales *(units)*					
Tractors, over 40 HP	October	5,636	11.4	7	0
40 to 100 HP	October	3,464	11.8	17	–2
100 HP or more	October	2,172	10.9	–5	3
Combines	October	1,076	39.6	15	–18

N.A. Not applicable
*21 selected states.
**Includes net CCC loans.

AGRICULTURAL LETTER
FEDERAL RESERVE BANK OF CHICAGO
Public Information Center
P.O. Box 834
Chicago, Illinois 60690-0834
(312) 322-5111