FRB CHICAGO

AGRICULTURAL LETTER

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Farmland values and credit conditions

Survey responses from over 430 agricultural bankers in the Seventh Federal Reserve District indicate farmland values posted a modest rise of 1 percent during the first quarter of 1993. The April 1 survey results also suggest that District farmland values rose an average of 3 percent over the past 12 months. Cash rents paid by District farmers this spring were also reported to be up slightly from a year ago. Loan demand was somewhat sluggish, but still posted a modest increase during the winter as compared to a year earlier. Furthermore, the bankers again reported ample funds available for lending and interest rates resumed their downtrend.

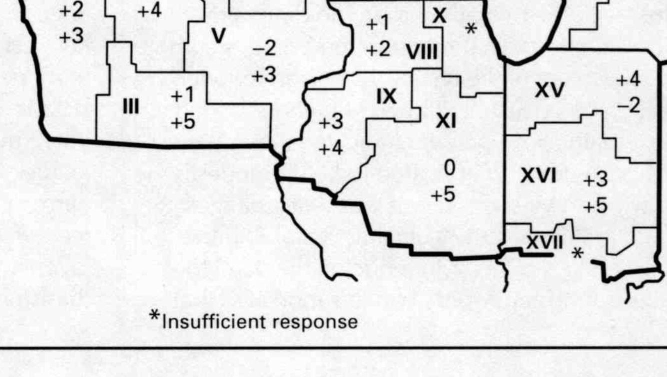
The change in farmland values during the winter varied among District states. Farmland values in Indiana posted the largest gain, rising 3 percent. Farmland values were up 2 percent and 1 percent, respectively, in Illinois and Wisconsin, while little change was noted by the bankers in Iowa and Michigan. For the past 12 months, farmland values were reported to be up 4 percent in Illinois, Indiana, and Iowa, and rose 1 percent in both Michigan and Wisconsin. The smaller annual gains reported for Michigan and Wisconsin farmland values may reflect the relatively lower yields and poor harvest conditions experienced by farmers in those two states last fall. Furthermore, farm earnings in those two states are more dependent on dairy than in the other District states and were unfavorably affected by the downtrend in milk prices which began last fall and continued through the winter.

The activity in the farm real estate market during the fall and winter months apparently increased somewhat compared to a year earlier. One-third of the respondents indicated there was an increase in the number of farm units sold, compared to about 20 percent who noted a decline. Gains were most evident in Indiana and Wisconsin, where 40 percent of the respondents stated there was a pickup in the number of transfers. In contrast, the bankers in Michigan indicated the pace of farm real estate sales was off from a year earlier.

The proportion of farm units being purchased by farmers appeared to be little changed from a year ago in the Seventh District. About 15 percent of the surveyed bankers reported that farmers were more active in purchasing farmland—compared to nonfarm investors—but nearly an equal number reported less activity by farmers, and most reported no change. This was true for each District state except Michigan, where one-quarter of the respondents indicated less activity by farmers versus 7 percent who indicated an increase.

Percent change in dollar value of "good" farmland

Top: January 1, 1993 to April 1, 1993
Bottom: April 1, 1992 to April 1, 1993



	January 1, 1993 to April 1, 1993	April 1, 1992 to April 1, 1993
Illinois	+2	+4
Indiana	+3	+4
Iowa	0	+4
Michigan	0	+1
Wisconsin	+1	+1
Seventh District	+1	+3

*Insufficient response

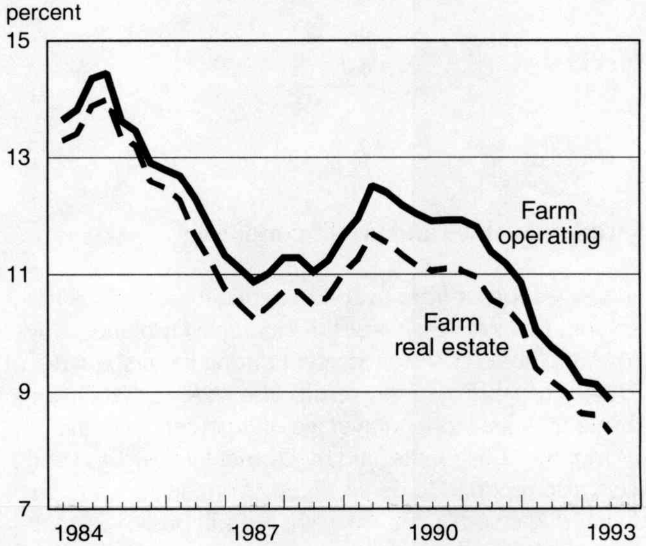
The current outlook does not indicate any major shift in the factors underlying farmland values in District states. Uncertainty continues to surround the conclusion of international trade talks and the potential effect on U.S. agricultural exports. The prospect of large carryover stocks continues to weigh upon grain markets, but conditions appear more positive for livestock producers. USDA estimates indicate that U.S. net cash farm income rose modestly in 1992 and is projected to post another small gain this year. In line with these factors, less than one-fifth of the surveyed bankers expect farmland values to rise this spring and most anticipate no change.

Cash rents posted a modest gain of 2 percent in District states—on average—from a year ago. Rents in Indiana and Illinois were reported up 4 percent and 3 percent, respectively, while Iowa rents rose 2 percent. In contrast, Michigan bankers indicated there was no change from a year ago and those in Wisconsin reported a slight gain of 1 percent. The agricultural bankers also reported that cash rent and crop share agreements remain the predominate farmland leasing arrangements in District states, accounting for about 56 percent and 40 percent, respectively, of farmland lease contracts. Cash rent leases are relatively more common in Wisconsin and Michigan, accounting for well over three-quarters of the farmland rental agreements in those states. Cash rent leases account for over 50 percent of the rental agreements in Iowa and Indiana, but are responsible for less than 40 percent in Illinois.

Farm loans held by commercial banks in Seventh District states were up nearly 4 percent from a year earlier at the beginning of 1993, compared to an increase of 3 percent for the rest of the U.S. The District increase was led by an annual gain of 9 percent in the volume of farm real estate loans. Among the individual District states, the increase in loans secured by farmland ranged from 3 percent in Michigan to over 14 percent in Iowa. In contrast, nonreal estate loans (farm loans not secured by farmland) in District states were up less than 1 percent last year. Nonreal estate loans were up 4 percent in Michigan and Wisconsin and 1 percent in Iowa. However, nonreal estate loan volume posted a modest decline in Illinois and dropped 5 percent in Indiana.

Farm loan demand appeared to be sluggish during the winter months, with the overall measure holding fairly steady at 108 (see table). That measure represents a composite of the 31 percent of the respondents who reported year-over-year gains versus the 23 percent who reported a decline. The remaining 46 percent indicated there was no change. Farm loan demand appeared to be up modestly in Indiana, Iowa, and Wisconsin, but was little changed from a year ago in Illinois and Michigan. Favorable livestock prices were likely a factor in reducing the need to borrow operating funds and some bankers indicated that

Quarterly District farm loan rates



large deficiency payments to corn program participants were also a factor. At best, District agricultural bankers expect only modest gains in farm loan volume during the spring quarter, with some variation across states. The greatest expectations of gains in nonreal estate lending appear to be in Wisconsin and Iowa, with little change expected in the other District states. In general, the bankers in each District state except Michigan foresee some gains in farm real estate lending, with the Indiana respondents showing the most optimism.

The bankers again reported a favorable situation with respect to the availability of funds for nonreal estate agricultural lending. Nearly 40 percent stated that fund availability rose during the winter months, compared to the 8 percent who indicated a decline. The proportion of bankers reporting an increase outweighed those reporting a decline in each District state, though the margin was less in Wisconsin. In addition, over two-thirds of those surveyed indicated a desire to increase lending levels. And despite posting a slight seasonal decline to 58.0 percent, the loan-to-deposit ratio was the highest April 1 reading since 1981. Among individual District states, the average loan-to-deposit ratio ranged from a low of 52 percent in Illinois to a high of 67 percent in Wisconsin.

After briefly leveling out last fall, farm loan rates resumed their downtrend over the winter months. The average interest rate on new farm operating loans as of April 1 was 8.85 percent, the lowest reported by District bankers since 1977. This is about 30 basis points below the level of three months earlier and 90 basis points below a year earlier. Among the individual District states, the average farm operating loan rate ranged from a low of 8.80 percent in Michigan to a high of 9.04 percent in Iowa. The average rate on new farm real estate loans also fell 30 basis points over the winter and 90 basis points over the

Credit conditions at Seventh District agricultural banks

	Loan demand	Fund availability	Loan repayment rates	Average loan-to-deposit ratio[1]	Interest rates on farm loans: Operating loans[1]	Feeder cattle[1]	Real estate[1]
	(index)[2]	(index)[2]	(index)[2]	(percent)	(percent)	(percent)	(percent)
1988							
Jan-Mar	102	137	143	50.2	11.06	11.02	10.48
Apr-June	113	127	114	52.1	11.24	11.17	10.63
July-Sept	120	115	88	54.3	11.67	11.62	11.03
Oct-Dec	127	123	87	53.3	11.98	11.92	11.28
1989							
Jan-Mar	138	115	84	53.8	12.54	12.48	11.70
Apr-June	138	107	92	55.9	12.42	12.36	11.55
July-Sept	124	109	106	57.1	12.19	12.15	11.34
Oct-Dec	119	124	123	55.8	12.05	12.02	11.15
1990							
Jan-Mar	125	124	122	55.2	11.93	11.88	11.08
Apr-June	118	125	119	56.5	11.95	11.88	11.09
July-Sept	117	122	115	57.0	11.94	11.87	11.08
Oct-Dec	116	123	100	56.9	11.82	11.76	10.94
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

[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.

previous 12 months, coming in at 8.29 percent, the lowest since 1973. The average farm real estate loan rate ranged from a low of 8.15 in Iowa to a high of 8.86 in Michigan.

The survey responses indicated a year-over-year improvement in District loan repayment rates during the winter quarter, the first pickup in repayments noted in over two years. The measure of loan repayment stood at 102, representing a composite of the 22 percent who reported the level of farm repayment rates was above a year ago and the 20 percent who stated the level had fallen. However, the improvement was confined to Illinois, Indiana, and Iowa. The recovery in repayment rates in these states was linked to cattle and hog prices that were significantly higher than expected. Cattle prices were pushed up in the winter as poor weather slowed marketings and reduced slaughter weights. Hog prices also received support from slaughter levels that were much lower than recent inventory estimates indicated. Consequently, the USDA expects cattle and hog prices to average above year-earlier levels for most of 1993. Higher livestock prices combined with lower feed costs stemming from large grain supplies should serve to buoy repayment rates in livestock-producing areas.

Mike A. Singer

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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)*	April	145	2.1	3	–3
Crops *(index, 1977=100)*	April	123	6.0	–2	–6
Corn *($ per bu.)*	April	2.17	3.3	–12	–10
Hay *($ per ton)*	April	83.80	6.2	18	–4
Soybeans *($ per bu.)*	April	5.70	0.9	1	–1
Wheat *($ per bu.)*	April	3.26	–1.2	–11	25
Livestock and products *(index, 1977=100)*	April	166	0.0	7	0
Barrows and gilts *($ per cwt.)*	April	45.80	–3.0	10	–11
Steers and heifers *($ per cwt.)*	April	81.50	0.0	7	–1
Milk *($ per cwt.)*	April	12.40	1.6	–2	10
Eggs *(¢ per doz.)*	April	69.3	–2.0	27	4
Consumer prices *(index, 1982-84=100)*	April	144	0.3	3	7
Food	April	141	0.4	2	3
Production or stocks					
Corn stocks *(mil. bu.)*	March 1	5,679	N.A.	25	19
Soybean stocks *(mil. bu.)*	March 1	1,215	N.A.	3	2
Wheat stocks *(mil. bu.)*	March 1	1,045	N.A.	18	–25
Beef production *(bil. lb.)*	March	1.86	10.8	0	8
Pork production *(bil. lb.)*	March	1.48	14.8	1	14
Milk production* *(bil. lb.)*	April	11.0	–1.1	1	0
Receipts from farm marketings *(mil. dol.)*	December	18,331	5.0	18	13
Crops**	December	9,184	–2.6	21	21
Livestock	December	7,984	3.4	22	17
Government payments	December	1,164	284.2	–16	–38
Agricultural exports *(mil. dol.)*	February	3,818	3.9	–1	9
Corn *(mil. bu.)*	February	136	–11.3	2	–26
Soybeans *(mil. bu.)*	February	105	17.2	16	58
Wheat *(mil. bu.)*	February	127	10.9	5	33
Farm machinery sales *(units)*					
Tractors, over 40 HP	April	6,418	35.8	27	2
40 to 100 HP	April	3,673	33.7	8	6
100 HP or more	April	2,745	38.8	65	–4
Combines	April	469	31.0	50	–27

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

LOUISE LETNES LIBRARIAN
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DEPT OF AGRIC & APPLIED ECON
1994 BUFORD AVE
SAINT PAUL MN 55108-6038

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Public Information Center
P.O. Box 834
Chicago, Illinois 60690-0834
(312) 322-5111