FRB CHICAGO

AGRICULTURAL LETTER

FEDERAL RESERVE BANK OF CHICAGO
November, 1992 Number 1834

Land values and credit conditions

Survey responses from over 400 agricultural bankers within the Seventh Federal Reserve District indicate that farmland values as of October 1 were unchanged from three months earlier and up only 1.7 percent from a year ago. The bankers also indicated that the demand for new farm loans eased during the summer, but still continued above the year-earlier level. With firm loan demand, ample funds for lending, and lower interest rates, the bankers expected loan volume to exceed year-earlier levels during the fall quarter. Loan repayment rates appear to have improved somewhat, but still remain lower than a year ago.

Farmland values in the Seventh District have been trending upward since 1986, the year cited by most analysts as the turning point in the farm financial crisis of the 1980s. However, the changes in District farmland values during the 1990s have been quite sluggish. The quarterly changes in farmland values have exceeded 1 percent only once during the current decade. Furthermore, the surveyed bankers have reported no change in District farmland values in six of the past eight quarters.

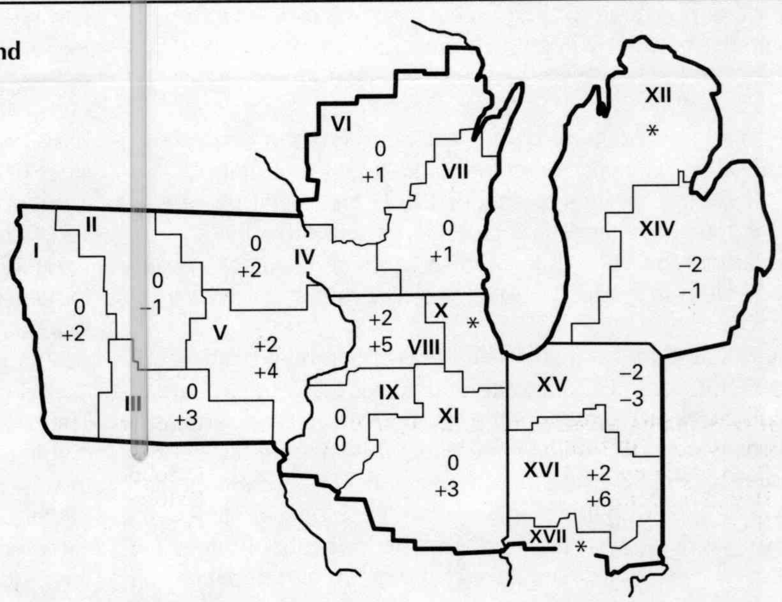
Recent and prospective net farm earnings both play a role in the movement of District farmland values. Net cash farm income rose from 1986 through 1990. This trend was aided by a resurgence in U.S. farm exports as well as an improved relationship between commodity prices and input prices. The USDA index of prices received by farmers rose faster than the index of prices paid from 1987 through 1989. However, the trend reversed in 1990 and 1991. Similarly, U.S. farm exports rose rapidly from 1986 through 1990, then leveled off the following year. In line with these developments, net cash farm income fell in 1991, and another decline is anticipated for 1992. The effect upon land values of this loss of momentum in the financial recovery of the farm sector is not likely to be reversed in the near term. Large gains in meat production the past two years and prospects for further growth in the year ahead will keep a lid on livestock prices. Furthermore, grain prices are under pressure from revised production estimates which now reflect a record U.S. corn harvest and the largest soybean crop in ten years.

The large crop harvest is a vivid reminder of the key role played by export markets in U.S. agriculture. Yet the long-term prospects for U.S. agricultural exports remain clouded. The negotiations bringing Mexico into the North American Free Trade Agreement have yet to receive formal approval, and tensions have recently increased in the GATT negotiations over the European Community's refusal to bring its oilseed subsidies into compliance. The

Percent change in dollar value of "good" farmland

Top: July 1, 1992 to October 1, 1992
Bottom: October 1, 1991 to October 1, 1992

	July 1, 1992 to October 1, 1992	October 1, 1991 to October 1, 1992
Illinois	0	+3
Indiana	0	+2
Iowa	+1	+2
Michigan	−2	−2
Wisconsin	0	+1
Seventh District	0	+2



*Insufficient response

U.S. has threatened to impose tariffs on selected goods imported from the EC if the oilseed dispute is not settled by December 5, while some members of the EC have urged counter-measures in response to the U.S. threats. Consequently, even though District farmland values have shown nominal gains over the past 12 months, they have failed to advance when measured in inflation-adjusted dollars.

The recent trends in farmland values continued to vary among the five District states. A modest gain of 1 percent in farmland values was reported for the July through September period by bankers in Iowa, the only District state to record an increase. Respondents from Illinois, Indiana, and Wisconsin indicated there was no change in farmland values. However, Michigan bankers reported that farmland values were down nearly 2 percent during the third quarter. For the past 12 months, farmland values in all District states except Michigan registered modest gains. Illinois farmland values were up nearly 3 percent. An average increase of slightly over 2 percent was reported for both Indiana and Iowa, while farmland values in Wisconsin edged up by 1 percent. Michigan bankers indicated the third-quarter weakness pulled farmland values down nearly 2 percent from a year ago.

The surveyed bankers believe investor demand for farmland will rise relative to farmer demand in the near term. Over 44 percent foresee an increase in investor demand throughout the fall and winter quarters when compared to a year earlier, while less than a tenth anticipate a decline. In contrast, 23 percent thought farmer demand would rise, and a nearly equal number expect a decline. The sentiment that investor demand will rise seemed particularly strong among respondents in Illinois and Indiana. Coinciding with these expectations of a modest improvement in demand, nearly a quarter of the respondents felt the number of farm transfers will post a year-over-year increase over the next three to six months, while 13 percent indicated the number will fall. The rest did not expect any change in the number of transfers relative to a year ago.

Despite the indications of an increase in investor demand, most of the bankers expect farmland values to remain stable during the final quarter of 1992. Nearly 84 percent of the bankers believe farmland values will show little movement this fall, while another 11 percent expect farmland values to rise. Few anticipate a decline.

The demand for nonreal estate loans apparently eased during the summer, yet continued above the year-earlier level. Some 30 percent of the respondents felt the demand for loans was up from a year earlier while another 20 percent reported a decline in loan demand. The remaining 50 percent suggested there was no change. However, there was considerable variation among the individual District states. The strongest evidence of a pick-up in nonreal estate loan demand was in Iowa, where nearly 42 percent of the respondents reported an increase. At the other end of the spectrum, only 14 percent of the Michigan respondents perceived an increase. The increase in Iowa loan demand during the summer was likely a result of the additional working capital required to support the continuing expansion in hog numbers. The number of market hogs in Iowa—the nation's leading hog-producing state—reached a record level in September, with further expansion on the horizon.

On average, the surveyed bankers again reported ample funds for lending to farmers. The index of available funds stood at 123, which represents a composite of the 32 percent of the bankers who indicated the level of available funds for loans to farmers had risen from a year ago, less the 9 percent who noted a decline. This index has not fallen below 100 since 1980. In general, the greatest year-over-year improvement in the availability of funds was noted in Michigan, with the least improvement occurring in Wisconsin and Indiana.

The average loan-to-deposit ratio reported for the District posted a modest seasonal increase to 59.3 percent as of October 1. In general, the average proportion of deposits used to fund loans has been trending upward since hitting a cyclical low of about 48 percent in the first quarter of 1987. In the most recent survey, Wisconsin and Indiana respondents indicated average ratios of approximately 68 percent, while Michigan bankers reported an average of 66 percent. Loan-to-deposit ratios were lower in Iowa and Illinois, coming in at 55 and 53 percent, respectively. Bankers from all District states continue to display a desire to increase their lending activity. Nearly 60 percent of the total respondents stated their loan-to-deposit ratios were lower than desired. Among individual District states, the bankers indicated they would like to raise their loan-to-deposit ratios between 2 to 7 percentage points.

Farm loan interest rates at District banks continue to trend lower. The typical rates charged on feeder cattle and farm operating loans averaged just under 9.2 percent as of the end of the third quarter. Both rates are down about 170 basis points from a year ago and are at their lowest levels since 1978. The average interest rate charged on new farm mortgage loans was 8.6 percent, the lowest since 1974 and a decline of 150 basis points from one year ago. Farm mortgage rates ranged from a low of 8.3 percent in Indiana to a high of 9.0 percent in Michigan. Operating loan rates ranged from 8.9 percent in Michigan to 9.4 percent in Iowa.

The bankers who indicated farm loan repayments were coming in more slowly than last year again outnumbered those who perceived an improvement. Approximately 19 percent felt that repayment rates had weakened during the summer, while 8 percent noted an improvement. Nearly three-quarters of the respondents indicated there was no change from a year ago. Loan repayment rates appeared to be down more in Iowa than in other District states, per-

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)
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

[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.

haps due to lower hog prices this year. Barrow and gilt prices through October averaged about 17 percent lower than last year. In contrast, Wisconsin was the only state to register an improvement in repayment rates as milk prices rebounded to average 10 percent higher through October.

The volume of loan repayments over the next three to six months is expected to show some slight improvement from the summer, but still remain below year-earlier levels. For the District, over 27 percent of the bankers believe repayments will be down, compared to the 21 percent that anticipate an increase. The bankers in both Illinois and Indiana expect repayments to improve, ostensibly due to improved corn and soybean yields. In contrast, Iowa bankers expect the volume of repayments to decline from a year ago despite improved grain production prospects. Much of Iowa's decline is likely due to a seasonal decline in hog prices as well as a postponement of cash receipts as much of this year's corn crop is marketed through hogs. Loan repayments in Michigan are also expected to remain slow in the near term, while repayments in Wisconsin will likely show little change. Unlike the other three District states, Michigan and Wisconsin farmers are expected to harvest below-average crop yields this fall. Moreover, the fall crop harvest is especially late in Michigan. The recovery in milk prices will help shore up loan repayments, particularly in Wisconsin.

Firm loan demand coupled with ample funds and the desire to lend are reflected in the bankers expectations of increased loan volume in the final quarter of 1992. Approximately 28 percent expect a year-over-year gain in non-real estate loan volume, while 16 percent anticipate a decline. It appears the strongest gains will be made in Iowa. Nearly 40 percent of the Iowa respondents anticipate non-real estate loan volume will be up in the fourth quarter, as opposed to the 13 percent who expect a decline. Illinois bankers also indicated some strength, with 30 percent expecting volume to rise compared to the 16 percent predicting a decline. In contrast, the survey respondents in both Indiana and Michigan believe a modest reduction is forthcoming in non-real estate loan volume, while the Wisconsin respondents expect a slight gain. Record crop yields and lower prices have likely contributed to the expectations of greater crop storage loan volume in Illinois, Indiana, and Iowa. The volume of real estate lending in the fourth quarter is expected to show little change from a year ago.

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	138	0.0	–3	–5
Crops *(index, 1977=100)*	October	117	0.0	–7	–3
Corn *($ per bu.)*	October	1.99	–7.4	–14	–9
Hay *($ per ton)*	October	70.50	2.9	2	–16
Soybeans *($ per bu.)*	October	5.12	–4.3	–7	–13
Wheat *($ per bu.)*	October	3.31	3.1	8	36
Livestock and products *(index, 1977=100)*	October	159	0.6	1	–6
Barrows and gilts *($ per cwt.)*	October	43.20	1.4	–2	–25
Steers and heifers *($ per cwt.)*	October	75.80	0.4	2	–5
Milk *($ per cwt.)*	October	13.50	0.0	0	3
Eggs *(¢ per doz.)*	October	56.9	–4.4	–8	–22
Consumer prices *(index, 1982-84=100)*	October	142	0.4	3	6
Food	October	138	–0.1	2	4
Production or stocks					
Corn stocks *(mil. bu.)*	September 1	1,100	N.A.	–28	–18
Soybean stocks *(mil. bu.)*	September 1	278	N.A.	–16	16
Wheat stocks *(mil. bu.)*	September 1	2,090	N.A.	2	–13
Beef production *(bil. lb.)*	September	2.00	0.8	3	10
Pork production *(bil. lb.)*	September	1.51	9.6	15	23
Milk production* *(bil. lb.)*	October	10.6	2.4	3	3
Receipts from farm marketings *(mil. dol.)*	July	12,855	6.8	1	–1
Crops**	July	6,055	20.2	7	6
Livestock	July	6,720	–1.9	–3	–7
Government payments	July	80	–43.3	7	54
Agricultural exports *(mil. dol.)*	August	3,090	–5.3	9	5
Corn *(mil. bu.)*	August	136	–7.4	–10	–12
Soybeans *(mil. bu.)*	August	39	–8.0	19	39
Wheat *(mil. bu.)*	August	104	1.9	2	9
Farm machinery sales *(units)*					
Tractors, over 40 HP	October	5,645	52.2	5	–13
40 to 100 HP	October	3,516	29.9	22	6
100 HP or more	October	2,129	112.5	–15	–33
Combines	October	1,322	61.0	4	–4

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

PRESORTED FIRST CLASS

CHICAGO NOV 27 '92

*MS
270*

LOUISE LETNES LIBRARIAN
DEPT OF AGRIC & APPLIED ECON
231 CLASSROOM OFFICE BUILDING
1994 BUFORD AVENUE
ST PAUL MN 55108-1012