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Land value and credit conditions survey

Survey responses from about 400 agricultural bankers in the Seventh Federal Reserve District show that farmland values edged up slightly this winter. Results from the April 1 survey indicate that District farmland values, on average, registered a gain of nearly 1 percent during the winter months. Although fairly modest, it marked the first quarterly increase of significance in a year and accounted for most of the reported 1.5 percent increase over the past year. Despite the first quarter rise, a majority of those surveyed believe farmland values will remain stable this spring. The bankers also reported that the demand for farm loans continued above year-earlier levels and that interest rates on farm loans continued on a downtrend.

Bankers from all five District states reported first-quarter increases in farmland values. Respondents from the District-portion of Indiana indicated an increase of nearly 2 percent for the first quarter. Those from the other four District states—Illinois, Iowa, Michigan, and Wisconsin—reported gains of about 1 percent. The quarterly increase reported for farmland values by Wisconsin bankers marks the first upward movement in that state in several quarters and most likely stemmed from the improved outlook for milk prices in 1992. Compared to a year ago, Wisconsin bankers indicated farmland values were unchanged. At

the other extreme, Michigan bankers reported an increase of 3 percent. Illinois and Iowa bankers reported gains of 1 percent over the past 12 months, whereas Indiana bankers indicated an increase of 2 percent.

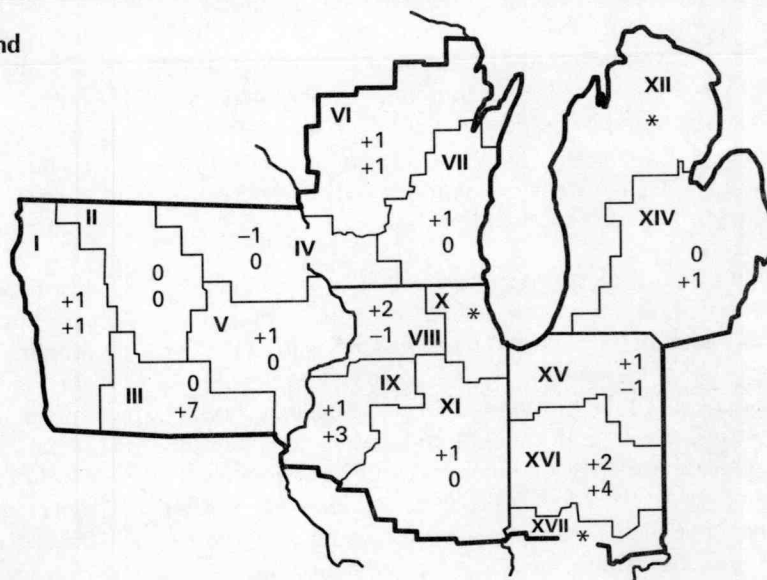
The sluggish rise in farmland values over the past year was also evident in cash rental rates for farmland. District-wide, the survey results indicated that cash rental rates for farmland this year are up about 1.4 percent from last year. The surveyed bankers also reported that leasing arrangements for farmland are dominated throughout the District by cash-rent and crop-share agreements. Cash-rent agreements constitute 54 percent of farmland leasing arrangements, while crop-share agreements cover another 41 percent. Other types of lease agreements, such as bushel rents, are used sparingly throughout the District. Within individual District states, cash-rent agreements are most prevalent in Wisconsin and Michigan, accounting for about 80 percent of farmland leasing arrangements in those states. At the other extreme, only 34 percent of the farmland leasing arrangements in Illinois are on a cash-rent basis, while 62 percent are covered by crop-share agreements. Farmland rental arrangements are more evenly apportioned between cash-rent and crop-share agreements in Iowa and Indiana. Cash-rent agreements comprise nearly 56 and 50 percent, respectively, of the leasing arrangements in Iowa and Indiana. Crop-share

Percent change in dollar value of "good" farmland

Top: January 1, 1992 to April 1, 1992

Bottom: April 1, 1991 to April 1, 1992

	January 1, 1992 to April 1, 1992	April 1, 1991 to April 1, 1992
Illinois	+1	+1
Indiana	+2	+2
Iowa	+1	+1
Michigan	+1	+3
Wisconsin	+1	0
Seventh District	+1	+1



*Insufficient response

agreements account for about 40 percent of the farmland leased in Iowa, and 45 percent in Indiana.

The number and acreage of farmland transfers apparently picked up somewhat during the fall and winter months. Nearly 32 percent of the survey respondents believe the number of farm real estate transactions during the past six months was up from the previous year's level. In comparison, 17 percent stated the number of farms sold had declined from a year earlier while the remaining 51 percent maintained there had been no change. The number of bankers reporting an increase in transfers exceeded those reporting a decline in each District state except Iowa, where they were evenly split. The percentage of bankers noting an increase in the number of sales was particularly high in Wisconsin—nearly 50 percent—and ranged between 22 to 31 percent in the other four District states. According to some reports, the higher activity in Wisconsin reflects low milk prices last year, which led to a number of dairy farm sales.

About 29 percent of the surveyed bankers reported that the total acreage involved in farm real estate transactions during the fall and winter months was larger than the previous year, while 15 percent indicated a decline. Over half stated that the total acreage involved in farm real estate transactions was unchanged from the previous year. Well over a third of the bankers surveyed in Wisconsin and Indiana reported an increase in the acreage sold, with about one quarter of the surveyed bankers in the other three District states making the same claim.

The survey results also show a decline in the proportion of farmland purchased by farmers during the fall and winter months. Only 15 percent of the bankers surveyed stated that farmers accounted for an increasing proportion of the total acreage purchased, compared to the 20 percent who indicated a decline. About 65 percent were unable to identify any change from the previous year. In particular, none of the Michigan respondents indicated an increase in the proportion of acreage purchased by farmers, and 35 percent suggested it had declined. Only in Iowa did the number of respondents identifying an increase in the proportion of total acreage being purchased by farmers outnumber those who saw a decline.

Recent USDA projections suggest that aggregate net farm income will decline for the second consecutive year in 1992. Much of the expected weakness stems from the anticipated reduction in cash receipts from hogs, cattle, and soybeans. In line with these prospects, few respondents foresee any significant upturn in farmland values this spring, and most envision little change. Approximately 83 percent expect farmland values to be stable, while another 13 percent anticipate an increase. Only 4 percent foresee a decline. Across the individual District states, about a fifth of the surveyed bankers in Indiana and Wisconsin

expect farmland values to rise during the second quarter. Only about a tenth of the surveyed bankers in the other District states expect a rise in farmland values this spring.

The demand for new farm loans appeared to strengthen during the first quarter, with the overall measure of loan demand rising to 129. This latest reading on farm loan demand represents a composite of the 44 percent of respondents who reported that farm loan demand during the first quarter was stronger than a year earlier, less the 15 percent reporting a decline. The remaining 41 percent considered farm loan demand to be unchanged from the year-earlier level. On average, the bankers from each District state reported a firming in the demand for new farm loans.

Looking forward, the surveyed bankers expect the volume of nonreal estate farm lending to show an increase over year-earlier levels this spring. Nearly 40 percent expect continued year-over-year growth, and only 11 percent anticipate a decline. Some 49 percent expect lending levels to be unchanged from the previous year. The volume of operating loans is expected to increase, while feeder cattle and farm machinery lending are expected to exhibit weakness. The bankers also anticipate that farm real estate lending will hold above year-earlier levels this spring.

The surveyed bankers in all five District states continue to report ample liquidity and a desire to expand their loan portfolios. The average loan-to-deposit ratio for the surveyed banks as of April 1 stood at 57 percent, about 6 percentage points less than desired, but up slightly from 56.5 percent a year earlier. Moreover, nearly 35 percent indicated that the amount of funds available for lending to farmers during the first quarter was up from a year ago, while only 6 percent reported a decline. The remaining 59 percent indicated no change in the availability of funds. Among the individual District states, the availability of loanable funds appeared weakest in Indiana, where only 17 percent of the surveyed bankers reported a greater availability of funds, well below the proportion reported by bankers in the other District states. In contrast, over 40 percent of the respondents in both Michigan and Wisconsin indicated the availability of funds had improved.

Interest rates on farm loans at District agricultural banks again trended lower during the first quarter, aided by the ample supply of funds and the downtrend in overall market rates of interest. The average of the reported farm mortgage loan rates stood at 9.2 percent as of April 1. This is 20 basis points lower than three months earlier and nearly 140 basis points below a year ago. The average rate charged on both farm operating and feeder cattle loans declined to about 9.8 percent, a reduction of about 25 basis points from three months earlier and down 160 basis points from a year ago. In general, these were the

Credit conditions at Seventh District agricultural banks

	Loan demand (index) ²	Fund availability (index) ²	Loan repayment rates (index) ²	Average loan-to-deposit ratio ¹ (percent)	Interest rates on farm loans		
					Operating loans ¹ (percent)	Feeder cattle ¹ (percent)	Real estate ¹ (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

¹At end of period.

²Bankers 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.

lowest interest rates reported on farm loans at banks since 1978. Among District states, the agricultural bankers in Michigan again reported the highest average farm mortgage loan rate at 9.7 percent, while Indiana bankers reported the low rate of 9 percent. The operating loan rates for individual District states ranged from a low of 9.5 percent in Illinois to a high of 10 percent in Iowa.

Farm loan repayment rates continued to slide during the winter quarter, with the most recent measure of repayment rates coming in at 77. This assessment represents a composite of the 11 percent of the surveyed bankers who indicated the level of farm loan repayments was greater than a year ago, less the 34 percent who stated the level of loan repayments had declined. The remaining 55 percent stated that repayment rates were unchanged from a year ago. This marks the fifth consecutive quarter that the proportion of bankers noting a decline in repayment rates has exceeded the proportion reporting an improvement. All District states conformed to this pattern except Wisconsin, where 21 percent of the respondents reported an improvement and 18 percent reported a decline. Since milk accounts for a substantial percentage of cash farm receipts in Wisconsin, the improvement in repayment patterns in that state is likely linked to the stronger milk prices received by farmers this year. At the other extreme, lower hog prices have probably contributed to weaker repayment patterns in Iowa. Some 43 percent of the surveyed bankers in Iowa reported slower farm loan repayments while only 7 percent reported an increase.

The amount of farm loans held by commercial banks in Seventh District states and nationwide rose nearly 6 percent last year. The level of farm real estate loans rose 7 percent, while nonreal estate loans (farm loans not secured by farm real estate) posted a somewhat more moderate increase of 5 percent. Across individual states, the increase in loans secured by farmland ranged from 3 percent in Wisconsin to 9 percent in Indiana. The amount of nonreal estate farm loans at banks in Indiana was unchanged from a year earlier but up between 5 and 10 percent in the other District states. Though farm lending totals have been moving upward in Illinois, Indiana, Iowa, and Wisconsin since reaching a cyclical low in 1987, this marks the first significant annual increase in farm lending by Michigan banks since 1984.

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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	142	-0.7	-4	-6
Crops (index, 1977=100)	April	128	-2.3	-2	-2
Corn (\$ per bu.)	April	2.43	-2.4	0	-3
Hay (\$ per ton)	April	73.00	4.1	-16	-23
Soybeans (\$ per bu.)	April	5.61	-1.1	-3	-4
Wheat (\$ per bu.)	April	3.66	-1.6	41	5
Livestock and products (index, 1977=100)	April	156	0.6	-6	-8
Barrows and gilts (\$ per cwt.)	April	41.50	5.3	-19	-23
Steers and heifers (\$ per cwt.)	April	76.80	0.4	-6	-3
Milk (\$ per cwt.)	April	12.40	-0.8	10	-7
Eggs (¢ per doz.)	April	54.5	0.6	-18	-24
Consumer prices (index, 1982-84=100)	April	140	0.1	3	8
Food	April	138	0.0	1	5
Production or stocks					
Corn stocks (mil. bu.)	March 1	4,559	N.A.	-5	-5
Soybean stocks (mil. bu.)	March 1	1,177	N.A.	-1	11
Wheat stocks (mil. bu.)	March 1	886	N.A.	-37	-6
Beef production (bil. lb.)	March	1.85	8.3	8	-1
Pork production (bil. lb.)	March	1.47	10.4	13	10
Milk production* (bil. lb.)	April	10.9	-1.7	0	1
Receipts from farm marketings (mil. dol.)	January	14,464	-13.2	-5	-8
Crops**	January	7,458	-3.1	-4	-3
Livestock	January	6,935	-8.8	-6	-10
Government payments	January	71	-94.8	34	-82
Agricultural exports (mil. dol.)	February	3,859	5.2	11	10
Corn (mil. bu.)	February	132	32.4	-28	-28
Soybeans (mil. bu.)	February	68	N.A.	2	-9
Wheat (mil. bu.)	February	121	-10.6	27	33
Farm machinery sales (units)					
Tractors, over 40 HP	April	5,030	-9.7	-20	-39
40 to 100 HP	April	3,388	6.6	-2	-28
100 HP or more	April	1,642	-31.4	-42	-54
Combines	April	308	-36.8	-52	-59

N.A. Not applicable

*21 selected states.

**Includes net CCC loans.

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