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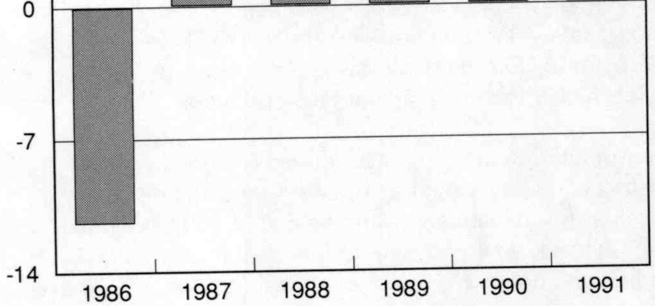
Farmland values

Our most recent survey of nearly 400 agricultural bankers indicates the annual rate of increase in District farmland values slowed for the third consecutive year. Farmland values in the Seventh Federal Reserve District were unchanged in the fourth quarter of 1991, limiting the gain for all of last year to slightly over 1 percent. Moreover, a large majority of the bankers believe the trend in farmland values will remain flat through the first quarter of 1992. The surveyed bankers also reported that farm loan demand eased during the fourth quarter, despite an ample supply of funds available for lending and a further slide in interest rates. The overall quality of District farm loan portfolios appears to have fallen slightly, reflecting lower farm earnings and slower repayment rates.

The sluggish performance that characterizes both recent and anticipated changes in farmland values reflects developments in the agricultural sector which have tended to pare farm earnings in the Midwest. Fed cattle prices in 1991 averaged about 5 percent lower than in the previous year. Milk and hog prices averaged about 10 percent lower. Furthermore, the USDA has projected average hog prices will decline another 10 to 20 percent this year due to expanded production, while milk and fed cattle prices are expected to average close to the lower levels of last year. In addition, adverse weather last year cut average District corn and soybean yields by about 13 percent and 3 percent, respectively, from the previous year's levels. The volume of U.S. corn exports declined 27 percent last year, and is projected to decline another 12 percent during the 1991/92 marketing year. Aggregate net cash farm income fell about 6 percent nationwide in 1991, and is expected to decline again during 1992.

The rise in District farmland values slowed last year



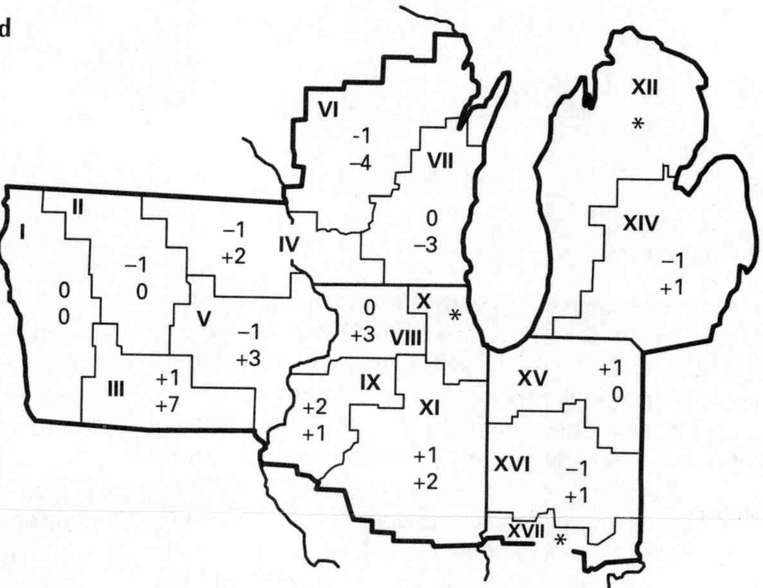
Anticipated weather conditions and foreign trade developments contribute to the uncertainty surrounding future farm earnings. Reports indicate another "El Nino" weather pattern has developed which, in the past, has been loosely associated with drought conditions in the U.S. There is also concern regarding the completion and approval of the new General Agreement on Trade and Tariffs as well as the negotiations to bring Mexico into the North American Free Trade Agreement. Both negotiations entail considerable uncertainty with respect to the implications for the U.S. agricultural sector. Finally, the uncertain level of food shipments to the Commonwealth of Independent States will likely contribute to continued volatility in commodity markets.

Only one of the five District states reported an increase in farmland values for the fourth quarter of 1991. Bankers from the District-portion of Illinois noted a modest gain of nearly 1 percent. In contrast, the bankers from Iowa reported a decline of about 1 percent. With over 25 percent of the U.S. hog inventory and a sizable share of the cattle in feedlots, Iowa was hit hardest by the second-half decline in livestock prices during 1991. Farmland values in Michigan and the District-portions of Indiana and Wisconsin were unchanged during the fourth quarter. For all of 1991, bankers in Illinois, Iowa, and Michigan reported gains of slightly over 2 percent. Indiana bankers reported an annual increase of about 1 percent, while Wisconsin bankers noted a decline in farmland values of about 3 percent. With milk accounting for nearly 60 percent of all its farm commodity sales, Wisconsin agriculture was hit especially hard by sharply lower milk prices during the latter part of 1990 and the first half of 1991.

Nearly 77 percent of the surveyed bankers expect land values to remain stable during the first quarter of 1992. Another 13 percent envision declining farmland values, while 10 percent foresee an increase. Over 21 percent of the bankers in Iowa—the only District state to record a decline during the fourth quarter—expect land values will trend lower during the first quarter of 1992. Approximately 16 percent of the bankers in Michigan expect a decline in

Percent change in dollar value of "good" farmland

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



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

*Insufficient response

farmland values. At the other extreme, only 3 percent of the bankers in the District-portion of Indiana expect farmland values to decline during the first quarter.

District credit conditions

The demand for new farm loans appears to have moderated during the fall quarter, with the overall measure of farm loan demand edging downward to 109. This latest reading on farm loan demand represents a composite of the 32 percent of respondents who reported that farm loan demand during the fourth quarter was stronger than one year earlier, less the 23 percent reporting a decline. The remaining 45 percent of the respondents considered farm loan demand to be unchanged from the year-earlier level. The strength of farm loan demand varied among the individual District states, with the bankers from Iowa and the District-portions of Illinois and Indiana reporting that farm loan demand was greater than one year earlier. In contrast, the bankers from Michigan and Wisconsin indicated that demand had fallen.

Looking ahead, the volume of nonreal estate farm lending at District agricultural banks is expected to hold above the year-earlier level during the first quarter of 1992. Some 35 percent of the surveyed bankers believe the volume will increase, as opposed to the 18 percent who foresee a decline. Approximately 47 percent do not expect any change from a year ago. In general, the bankers anticipate an increase in farm operating loans, and a decline in the volume of farm machinery and feeder cattle loans. Farm real estate lending is expected to show a small reduction from year-earlier levels.

Just over 45 percent of the farm real estate loans made by District agricultural banks in 1991 were used to purchase farm real estate. An additional 23 percent, on average, were used to refinance existing farm mortgage debt, with about 10 percent going to refinance other debt. Approximately 17 percent and 5 percent, respectively, were used to finance current operating expenses and for other purposes. In comparison, slightly over 54 percent of the farm real estate loans extended by District agricultural banks in 1990 were used to purchase farmland, with another 16 percent used to refinance existing farm mortgage debt.

The agricultural bankers in all five District states reported ample liquidity and a desire to expand their loan portfolios. Nearly 37 percent of the surveyed bankers indicated that funds available for lending to farmers during the fourth quarter were up from a year earlier. Only 5 percent reported a decline. The remaining 58 percent reported no change in the availability of funds for lending to farmers as compared to the same period a year ago.

The average loan-to-deposit ratio for the surveyed banks at the end of last year posted a nominal seasonal decline to 57.4 percent. The highest average ratios were reported by the bankers from Michigan and Wisconsin, 68 and 67 percent, respectively. The average loan-to-deposit ratio for Indiana bankers stood at 63 percent, while the ratio for both Illinois and Iowa bankers held near 52 percent. As additional evidence of liquidity, the desired loan-to-deposit ratios among District banks averaged about 6 percentage points higher than their actual year-end ratios.

Interest rates on farm loans continued to trend lower at District agricultural banks. The average of the reported farm mortgage loan rates as of the end of 1991 stood at 9.39 percent, down 75 basis points from three months earlier, and down 155 basis points from a year ago. The

Credit conditions at Seventh District agricultural banks

	Loan demand	Fund availability	Loan repayment rates	Interest rate on farm operating loans[1]	Average loan-to-deposit ratio[1]	Banks with loan-to-deposit ratio above desired level[1]
	(index)[2]	(index)[2]	(index)[2]	(percent banks)	(percent)	(percent of
1986						
Jan-Mar	74	149	80	12.32	50.9	8
Apr-June	65	152	86	11.82	51.1	6
July-Sept	68	146	87	11.34	51.4	6
Oct-Dec	61	153	107	11.11	49.4	3
1987						
Jan-Mar	71	149	118	10.89	48.8	5
Apr-June	75	140	118	11.02	50.5	6
July-Sept	75	136	134	11.29	51.5	7
Oct-Dec	78	142	145	11.30	50.3	5
1988						
Jan-Mar	102	137	143	11.06	50.2	4
Apr-June	113	127	114	11.24	52.1	6
July-Sept	120	115	88	11.67	54.3	8
Oct-Dec	127	123	87	11.98	53.3	8
1989						
Jan-Mar	138	115	84	12.54	53.8	11
Apr-June	138	107	92	12.42	55.9	12
July-Sept	124	109	106	12.19	57.1	10
Oct-Dec	119	124	123	12.05	55.8	9
1990						
Jan-Mar	125	124	122	11.93	55.2	7
Apr-June	118	125	119	11.95	56.5	7
July-Sept	117	122	115	11.94	57.0	8
Oct-Dec	116	123	100	11.82	56.9	9
1991						
Jan-Mar	128	127	98	11.40	56.5	7
Apr-June	130	122	74	11.19	58.1	7
July-Sept	113	122	81	10.88	58.5	9
Oct-Dec	109	132	69	10.06	57.4	6

[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.

average rate charged on both farm operating and feeder cattle loans fell to about 10.06 percent. This represents a decline of about 80 basis points from the end of the third quarter, and a decline of about 175 basis points from a year ago. Agricultural bankers from Michigan reported the highest average farm mortgage loan rate (about 10 percent), while the bankers from Indiana reported the lowest average, about 9.1 percent. The average farm operating loan rate ranged from a low of 9.8 percent in Indiana to a high of about 10.3 percent in Iowa and Michigan.

Farm loan repayment rates continued to slow during the fall quarter, as the overall measure of farm loan repayment rates in the latest survey fell to 69. The latest tally represents a composite of the 9 percent of the surveyed bankers who indicated the level of farm loan repayments was above year-ago levels, less the 40 percent who felt the level of loan repayments was down. The remaining 51 percent of the bankers indicated no change compared to one year ago. At just under 54 percent, the proportion of bankers that noted a decline in farm loan repayment rates was particularly high in Iowa. The survey results also indicated that farm loan renewals and extensions, on average, were up from a year ago.

The weakening trend in repayment rates has contributed to a slight decline in the quality of the farm loan portfolios at District agricultural banks. On average, the bankers characterized about 93 percent of their farm loans as having no repayment problems or only minor repayment problems. This is down slightly from the 95 percent of the farm loans given a similar rating a year ago, but still well above the level that existed during the distressed conditions of the mid-1980's.

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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)*	January	137	0.0	–5	–10
Crops *(index, 1977=100)*	January	123	2.5	2	–9
Corn *($ per bu.)*	January	2.40	3.0	6	4
Hay *($ per ton)*	January	69.00	0.9	–11	–19
Soybeans *($ per bu.)*	January	5.51	1.1	-4	–2
Wheat *($ per bu.)*	January	3.74	8.7	55	1
Livestock and products *(index, 1977=100)*	January	151	–1.9	–9	–12
Barrows and gilts *($ per cwt.)*	January	37.30	–5.3	–26	–22
Steers and heifers *($ per cwt.)*	January	72.50	1.4	–11	-8
Milk *($ per cwt.)*	January	13.60	–1.4	16	–12
Eggs *(¢ per doz.)*	January	58.2	–18.9	–26	–31
Consumer prices *(index, 1982-84=100)*	January	138	0.1	3	8
Food	January	137	0.4	1	5
Production or stocks					
Corn stocks *(mil. bu.)*	December 1	6,538	N.A.	–6	–8
Soybean stocks *(mil. bu.)*	December 1	1,778	N.A.	6	10
Wheat stocks *(mil. bu.)*	December 1	1,442	N.A.	–24	1
Beef production *(bil. lb.)*	December	1.78	–1.7	6	–2
Pork production *(bil. lb.)*	December	1.44	–0.8	8	12
Milk production* *(bil. lb.)*	January	10.7	2.3	0	3
Receipts from farm marketings *(mil. dol.)*	September	14,340	10.8	–3	–5
Crops**	September	6,881	17.7	–4	–10
Livestock	September	7,322	4.2	–5	0
Government payments	September	137	110.8	N.A.	–46
Agricultural exports *(mil. dol.)*	November	4,028	21.0	15	10
Corn *(mil. bu.)*	November	150	9.2	–11	–49
Soybeans *(mil. bu.)*	November	90	78.4	43	17
Wheat *(mil. bu.)*	November	139	10.5	72	84
Farm machinery sales *(units)*					
Tractors, over 40 HP	January	4,428	–6.6	34	–1
40 to 100 HP	January	2,304	3.6	20	–5
100 HP or more	January	2,124	–15.5	54	4
Combines	January	593	–32.6	–8	18

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

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