The Agricultural Newsletter
from the Federal Reserve Bank of Chicago
Number 1861 *February 1995*

AgLetter

FARMLAND VALUES AND CREDIT CONDITIONS

A recent survey of agricultural banks in the Chicago Federal Reserve District found that farmland values continued to edge upward in most areas during the fourth quarter. The reported increase in land values for all of 1994 was the largest in six years. The survey also indicated that the interest rates charged by the responding banks on farm loans continued to rise during the fourth quarter, reaching a three-year high at the end of 1994. The measure of farm loan demand eased in the fourth quarter while the measure of farm loan repayment rates rose. The average loan-to-deposit ratio declined seasonally but the ending 1994 level was still the highest since 1979.

More than 425 banks responded to the most recent survey. The largest number of responses came from bankers in Illinois (120) and Iowa (135). The survey focused on trends in both farmland values and credit conditions at the responding agricultural banks. The bankers suggested that conditions in the market for farmland varied during the latter part of 1994, but continued to trend higher overall. On average, District farmland values rose 1.2 percent during the fourth quarter and about 6.5 percent during all of 1994. The fourth quarter rate of change in farmland values varied widely across the District. The increases noted by Indiana bankers were especially large, averaging nearly 3 percent for the fourth quarter and 8.5 percent for all of 1994. In Illinois, conversely, it appears land values leveled off in the fourth quarter after recording strong gains last summer. In the other three District states, the fourth quarter rise in farmland values ranged from 1 to 2 percent.

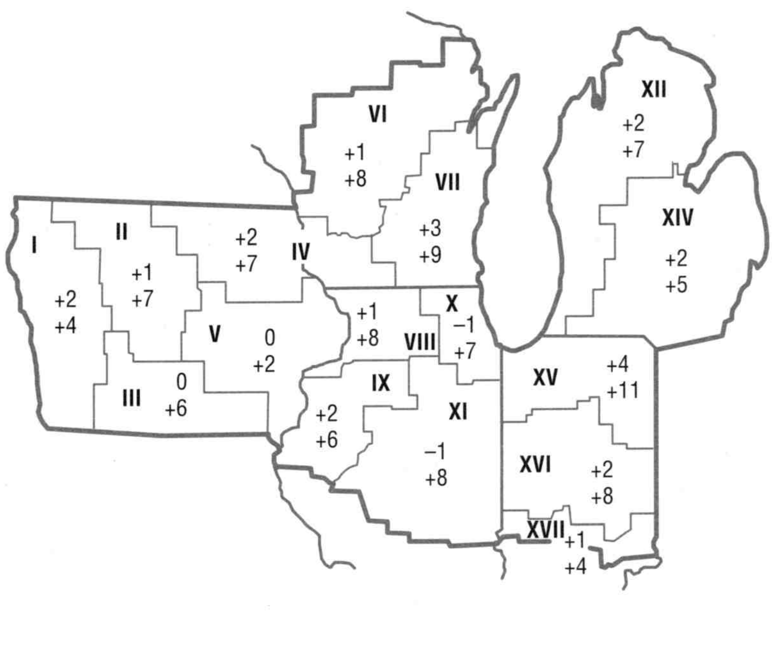
The indication that the land market in Indiana was stronger than elsewhere in the District was also apparent in the bankers' expectations about the trend in farmland values this winter. Districtwide, nearly a third of the bankers expected that land values would trend upward during the first quarter of this year. Only 3 percent expected a decline. The remaining 65 percent of the bankers thought land values would hold steady this quarter. The proportion of bankers expecting an uptrend was especially high in Indiana, 53 percent. Among the other four District states, the share projecting an uptrend was clustered in the rather narrow range of 20 percent (Michigan) to 32 percent (Illinois).

The responses of the bankers to the survey questions on credit conditions indicated an easing in farm loan demand and a pick-up in farm loan repayment rates. The measure of farm loan demand (see table on page 3)

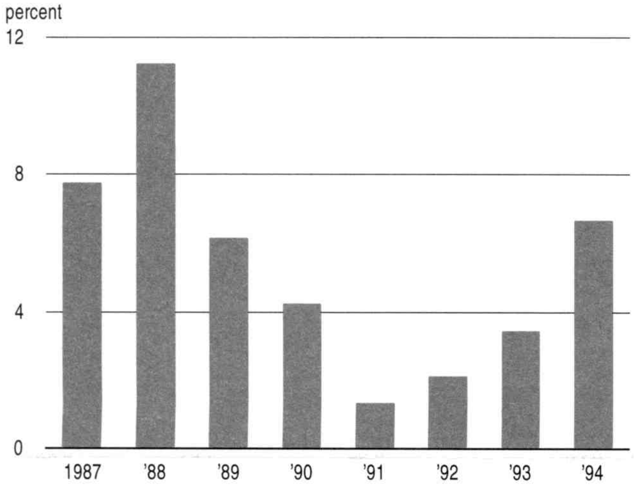
Percent change in dollar value of "good" farmland

Top: October 1, 1994 to January 1, 1995
Bottom: January 1, 1994 to January 1, 1995

	October 1, 1994 to January 1, 1995	January 1, 1994 to January 1, 1995
Illinois	+0	+8
Indiana	+3	+9
Iowa	+1	+5
Michigan	+2	+5
Wisconsin	+1	+8
Seventh District	+1	+7



Last year's rise in District farmland values was the largest since 1988



declined to 112 from the relatively high levels of around 135 in the earlier quarters of last year. The latest reading represents a composite value representing both the share of bankers (33 percent) that indicated farm loan demand in the fourth quarter exceeded the year-earlier level and the share (21 percent) that noted a decline in demand. The remaining portion of the bankers (46 percent) felt that loan demand was unchanged from a year ago. The overall measure of farm loan repayment rates turned up in the fourth quarter, achieving the highest reading in the last four years. Despite very low farm commodity prices and extensive operating losses for hog producers last fall, the combination of a record crop harvest and a large movement of crops under CCC (Commodity Credit Corporation) price support loans helped provide the cash flows that farmers needed to repay their conventional lenders.

The survey questions that relate to the liquidity of banks found that the respondents, on balance, viewed their availability of funds for lending to farmers to be about the same as a year ago. Conversely, the ending 1994 loan-to-deposit ratios reported by the banks averaged 63.8 percent, up more than 4 percentage points from a year ago and a level not experienced since the extremely tight conditions that hit agricultural banks in the late 1970s. Part of the uptrend in loan-to-deposit ratios is no doubt related to the extensive merger activity among banks and the tendency of larger banks to operate with higher loan-to-deposit ratios. Most banks therefore do not consider their "high" ratio as an undue constraint to further lending activity. Reflecting this, the average of the desired loan-to-deposit ratios at the surveyed banks was more than 3 percentage points above the average of their actual ratios.

The views of the bankers regarding credit conditions were not uniform among the District states. For instance, farm loan demand was indicated to be much stronger than a year ago in Illinois but only moderately stronger in Indiana, Iowa, and Michigan. Alternatively, the responses of bankers from Wisconsin suggested farm loan demand was much weaker than a year ago. In a similar pattern, the bankers views on the availability of funds for lending show conditions during the fourth quarter were comparable to, or marginally better, than a year ago in Illinois, Indiana, Iowa, and Michigan. Wisconsin bankers, on the other hand, noted a marked decline in the availability of funds for lending to farmers. Likewise, the distribution of responses to the question on farm loan repayment rates relative to a year ago shows considerable improvement in Illinois and Indiana while conditions in Iowa, Michigan, and Wisconsin were reported to be unchanged to somewhat slower than a year ago.

The typical interest rates charged on farm loans by the surveyed bankers registered further sizable increases during the final months of 1994. The simple average of rates reported in the most recent survey for farm operating loans and for feeder cattle loans rose to nearly 10.0 percent. The average of rates charged on farm real estate mortgages at the end of 1994 moved up to nearly 9.5 percent. The average for all three types of loans was about 60 basis point higher than three months earlier and 143 to 160 basis points higher than the rates reported a year ago. Interest rates were lowest among Illinois bankers, averaging about 9.75 percent for farm operating loans and 9.25 percent for farm real estate loans. Michigan bankers reported the highest rates with averages of 10.3 percent for farm operating loans and 10.1 percent for farm real estate mortgages.

A significant portion of the farm loans made by bankers in the Seventh Federal Reserve District are written with floating (or variable) interest rates. Overall, the respondents indicated that about 60 percent of the farm operating loans made in 1994 were written with floating interest rates. The share tended to be somewhat lower on other types of farm loans, holding close to 50 percent for feeder cattle and farm machinery loans and just over 40 percent for farm real estate loans. Moreover, the share of farm loans written with floating interest rates tended to vary considerably among the five District states. For reasons that aren't entirely clear, the share of all types of farm loans written with floating interest rates by Wisconsin banks was substantially smaller than was the case in other District states. Only about a fourth of the real estate and nonreal estate farm loans made by Wisconsin banks had floating interest rates. Conversely, the share of nonreal estate farm loans with floating interest rates was especially high among banks in Michigan and Indiana,

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)*
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
Oct-Dec	112	102	111	63.8	9.99	9.93	9.48

[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.

ranging from about 60 percent for farm machinery loans to roughly 75 percent for farm operating loans. This finding is consistent with other surveys which show floating-rate loans tend to be more common among larger banks. At the same time, however, the share of farm real estate mortgages written with floating interest rates held very high (69 percent) among Indiana banks but was among the lowest (35 percent) among Michigan banks.

The responding bankers also provided some information regarding the typical maturity and the amortization period for the farm real estate loans they made in 1994 that were used for acquiring or refinancing farm real estate. The reported amortization periods were rather tightly clustered, ranging from 16.5 years among the responding banks from Michigan to 19.5 years among banks in both Illinois and Wisconsin. Alternatively, there was considerable variation in the typical maturity of the farm real estate loans that were used to acquire or refinance farm land. The shortest maturities, averaging 3.0 years, were reported by Wisconsin banks. At the other end of the spectrum, Indiana bankers reported an average maturity of nearly 14.5 years. The maturities elsewhere ranged from nearly 6 years (in Michigan) to just over 9 years (in Iowa).

In looking ahead to 1995, the bankers offered mixed views about the expected trends in capital expenditures by farmers. The bankers from Illinois and Indiana suggested that expenditures for farm machinery and equipment would register another strong rise this year. Conversely, those from Iowa, Michigan, and Wisconsin seem to be looking for little or no increase. Similarly, the bankers from Illinois and Indiana are expecting more expenditures for land purchases or improvements while those from the other three District states expect a cut. Expenditures for buildings and facilities are expected to hold even with a year ago in Illinois but decline in the other District states. These views have been shaped undoubtedly by the bankers' assessments of such factors as the financial health of their farmers, the market conditions they expect for farm commodities in the months ahead, and the likely trend in interest rates and available financing. An additional factor certain to gain increased emphasis in the months ahead is the outcome of the 1995 Farm Bill debate. With further cuts in farm price support programs now almost a certainty, concerns of how steep the cuts will be and the likely implications for the income returns to farm assets could soften capital expenditures by farmers and weaken the demand to acquire farmland.

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AgLetter (ISSN 1080-8639) 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.

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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, 1990-92=100)*	January	98	–1.0	–7	1
Crops *(index, 1990-92=100)*	January	102	–3.8	–7	6
Corn *($ per bu.)*	January	2.17	1.9	–20	7
Hay *($ per ton)*	January	84.80	–0.4	–2	11
Soybeans *($ per bu.)*	January	5.36	–0.9	–20	–4
Wheat *($ per bu.)*	January	3.60	–3.5	1	7
Livestock and products *(index, 1990-92=100)*	January	97	7.8	–1	–1
Barrows and gilts *($ per cwt.)*	January	36.30	14.9	–18	–13
Steers and heifers *($ per cwt.)*	January	71.50	5.1	–2	–9
Milk *($ per cwt.)*	January	12.70	–1.6	–7	2
Eggs *(¢ per doz.)*	January	62.0	–1.6	0	–2
Consumer prices *(index, 1982-84=100)*	January	150	0.4	3	5
Food	January	148	0.5	3	6
Production or stocks					
Corn stocks *(mil. bu.)*	December 1	8,081	N.A.	36	2
Soybean stocks *(mil. bu.)*	December 1	2,101	N.A.	35	14
Wheat stocks *(mil. bu.)*	December 1	1,495	N.A.	–6	–6
Beef production *(bil. lb.)*	December	2.02	2.2	4	9
Pork production *(bil. lb.)*	December	1.64	0.2	6	8
Milk production* *(bil. lb.)*	January	10.9	1.3	3	2
Receipts from farm marketings *(mil. dol.)*	September	14,561	6.5	–5	–14
Crops**	September	7,744	27.9	–1	–12
Livestock	September	6,720	–10.9	–7	–11
Government payments	September	98	30.7	–55	–81
Agricultural exports *(mil. dol.)*	November	4,654	6.7	19	20
Corn *(mil. bu.)*	November	194	38.6	34	0
Soybeans *(mil. bu.)*	November	78	–21.4	8	–7
Wheat *(mil. bu.)*	November	112	7.4	–3	–1
Farm machinery sales *(units)*					
Tractors, over 40 HP	January	4,449	–21.1	6	–4
40 to 100 HP	January	2,559	–5.1	6	7
100 HP or more	January	1,890	–35.7	7	–16
Combines	January	423	–57.6	0	–36

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

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