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AgLetter

LAND VALUE AND CREDIT CONDITIONS SURVEY

Our latest quarterly survey of agricultural bankers in the Seventh Federal Reserve District shows continued gains in farmland values and mixed trends with respect to credit conditions. The nearly 425 bankers that responded to the April 1 survey indicated that the value of good farmland, on average, rose 1.2 percent in the first three months of this year and was up more than 5 percent from a year ago. Good farmland is defined as that which has production capabilities that range somewhere between the average and the very best of the farmland in the bank's local area. First-quarter gains in land values were noted by bankers from each of the five District states and ranged from just under 1 percent to 2 percent. Relative to a year ago, the gains ranged from about 4 percent in Iowa and Wisconsin to 7 percent in Michigan (see map).

The latest survey also found that cash rental rates for farmland continued to rise over the past year. The reported cash rental rates on good farmland for this year averaged about 4 percent higher than the rental rates of last year. Bankers from Michigan reported the largest increase (5 percent) while those from Wisconsin reported the smallest rise in cash rental rates. On average, the cash

rental rates were equivalent to about 6.6 percent of the reported land values. However, the rent-to-value ratios vary somewhat across District states, ranging from 5.7 percent in Illinois to 7.8 percent in Wisconsin.

The types of land rental arrangements also vary across the District states. The vast majority of the rental arrangements are either for cash or based on a crop-share arrangement between the operating farmer and the landowner. In Illinois, crop-share rental arrangements are slightly more common than cash rental arrangements. Alternatively, the bankers from Michigan and Wisconsin noted that cash rental arrangements account for roughly 80 percent of all farmland that is rented in those states. The corresponding share for Indiana and Iowa is approximately 65 percent.

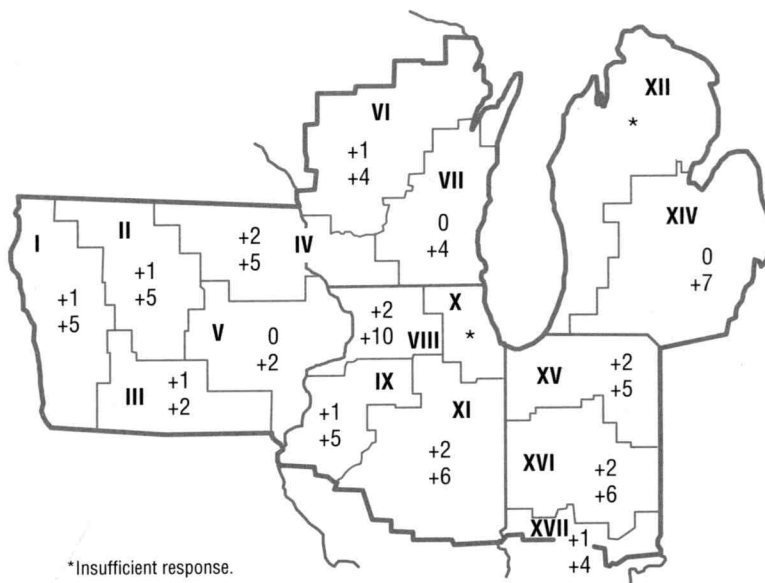
The prevalence of cash-rental arrangements and the extensive amount of rented farmland suggest that rising land values translate into rising production costs for many farm operators. The recently completed 1992 Census of Agriculture provides the latest evidence on the amount of farmland that is rented. It found that over 60 percent of the farmland in Illinois is operated by someone other than the land owner. In Indiana and

Percent change in dollar value of "good" farmland

Top: January 1, 1995 to April 1, 1995

Bottom: April 1, 1994 to April 1, 1995

| | January 1, 1995 to April 1, 1995 | April 1, 1994 to April 1, 1995 |
|------------------|--|--------------------------------------|
| Illinois | +2 | +6 |
| Indiana | +2 | +5 |
| Iowa | +1 | +4 |
| Michigan | +1 | +7 |
| Wisconsin | +1 | +4 |
| Seventh District | +1 | +5 |



*Insufficient response.

Iowa, non-owners operated over 50 percent of the farmland in 1992. In Michigan and Wisconsin, the corresponding shares were roughly 40 percent and 25 percent, respectively.

The farmland market has attracted increased interest in recent months in light of the various proposals for trimming farm income and price support programs that have surfaced with the 1995 Farm Bill debate. Many observers believe that the proposed cuts, if enacted, would translate into lower and more variable income returns to land and capital and thus might lead to some declines in farmland values. However, the land market appears to have held up well, buoyed perhaps by the recent trade agreements (GATT and NAFTA) and the recent surge in U.S. corn exports to Asian countries. Reflecting this, the survey respondents felt that the demand to acquire farmland during the fall and winter months was stronger than a year ago despite higher mortgage rates and the talk of potential cuts in farm programs. More than half (53 percent) of the bankers felt the demand to acquire farmland was up from a year earlier while only 8 percent reported a decline. The remaining share felt demand was unchanged from a year ago. The share of bankers reporting an increase in demand was especially high in Illinois and Indiana, 66 percent.

Views as to the amount of farmland available for sale varied somewhat, with bankers from Indiana and Iowa suggesting little change from a year ago while well over half of the bankers from Wisconsin noted an increase. Overall, about a third of the bankers said that the amount of farmland available for sale was up from the year before while 22 percent reported a decline. Responses to the questions about the amount of farmland that actually changed hands during the fall and winter months suggested little change from year-earlier levels in Michigan and Iowa, modest increases in Illinois and Indiana and a sizable increase in Wisconsin. Of the farmland that did change hands, the share purchased by farmers was indicated to be down somewhat from last year. Michigan and Wisconsin bankers in particular noted an increase in farmland purchases by investors other than farmers.

The bankers' responses to the survey questions on credit conditions were somewhat mixed. Farm loan demand apparently strengthened in the first quarter after easing last fall. The ability of the banks to fund new farm loans was regarded as unchanged from a year ago although the liquidity of the agricultural banks—as measured by their loan-to-deposit ratios—tightened further in the first quarter. Interest rates charged on farm loans continued to edge higher during the winter months.

The measure of farm loan demand for the first quarter was up from the fourth quarter and indicative of moderate year-over-year gains. Overall, 37 percent of the bankers indicated that the demand for farm loans was up from a year ago while 15 percent reported a decline. The remaining share felt that farm loan demand was about the same as a year ago. The rebound following the late 1994 decline in loan demand probably reflects the pattern in farmers use of CCC price support loans. During the final months of 1994 and into the early part of this year, outstanding CCC loans rose rapidly as farmers placed nearly 2 billion bushels of corn and 360 million bushels of soybeans under price support loan. Those actions generated well over \$5 billion in CCC loan funds to the farm sector, with much of that going to farmers in this District. Since late January, there has been a net paydown on CCC loans. As a result, farmers are probably once again looking to commercial lenders when cash flows need to be supplemented by debt financing.

While farm loan demand was regarded to be above a year ago by many bankers, their views on the availability of funds to make farm loans show little change from last year in most areas of the District and a notable decline in Wisconsin. Some 40 percent of the bankers from Wisconsin said fund availability was down from a year ago while only 10 percent noted an increase. Among the other four District states, 16 percent of the bankers noted a decline while an almost identical share (17 percent) noted an increase in fund availability.

Farm Loans Held by Banks, Dec. 31, 1994

| | | Percent change from | | |
|---------------------------|-----------------|---------------------|-------------------|--------------------|
| | Million dollars | One year earlier | Two years earlier | Five years earlier |
| Farm Real Estate Loans | | | | |
| Illinois | 1,786 | 5.9 | 9.9 | 33.3 |
| Indiana | 1,006 | 2.2 | 4.1 | 26.6 |
| Iowa | 1,964 | 12.0 | 23.6 | 62.3 |
| Michigan | 269 | 2.4 | 7.2 | 20.9 |
| Wisconsin | 1,008 | 4.5 | 8.7 | 25.7 |
| District states | 6,033 | 6.7 | 12.6 | 38.1 |
| United States | 22,567 | 8.2 | 13.5 | 35.5 |
| Nonreal Estate Farm Loans | | | | |
| Illinois | 2,273 | 4.3 | 6.7 | 15.3 |
| Indiana | 883 | 0.5 | -2.5 | -5.2 |
| Iowa | 3,411 | -0.8 | 5.7 | 24.5 |
| Michigan | 389 | -1.0 | -7.6 | -0.6 |
| Wisconsin | 1,214 | 4.4 | 9.2 | 30.0 |
| District states | 8,170 | 1.4 | 4.8 | 17.3 |
| United States | 38,675 | 5.1 | 11.6 | 25.6 |
| Total Farm Loans | | | | |
| Illinois | 4,058 | 5.0 | 8.1 | 22.6 |
| Indiana | 1,889 | 1.4 | 0.9 | 9.4 |
| Iowa | 5,375 | 3.5 | 11.6 | 36.1 |
| Michigan | 658 | 0.3 | -2.1 | 7.2 |
| Wisconsin | 2,222 | 4.4 | 8.9 | 28.0 |
| District states | 14,203 | 3.6 | 8.0 | 25.3 |
| United States | 61,242 | 6.2 | 12.3 | 29.1 |

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) |
| 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 |
| 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 |
| 1995 | | | | | | | |
| Jan-Mar | 122 | 96 | 98 | 64.8 | 10.33 | 10.26 | 9.68 |

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.

Differing views with respect to loan-to-deposit ratios also show much tighter conditions among Wisconsin banks than elsewhere. Overall, the loan-to-deposit ratios reported by the responding bankers averaged 64.8 percent. This latest reading was up from the ending 1994 level and the highest reported since the late 1970s and early 1980s when liquidity conditions at agricultural banks were regarded as unusually tight. In the current environment, however, banks in most District states report desired ratios that, on average, are 2 to 4 percentage points above their actual ratios. Wisconsin bankers, however, have the highest loan-to-deposit ratios (averaging 74.4 percent) and the smallest gap (less than 1 percentage point) between their actual and their desired loan-to-deposit ratios.

While it is not clear why liquidity conditions among Wisconsin bankers are tighter than elsewhere, it is noteworthy that Wisconsin banks have recorded the largest growth in nonreal estate farm loans over the last five years. And unlike the pattern for banks in other District states where the growth in farm real estate loans has far surpassed that for nonreal estate farm loans, Wisconsin bankers have recorded a slightly faster rise in nonreal estate farm loans.

The interest rates charged by District agricultural bankers in the first quarter continued to drift upward, reaching the highest levels in three and a half years. The typical rates charged on farm operating loans at the end of the first quarter averaged 10.3 percent, up 34 basis points from three months earlier and up 181 basis points from a year ago. The rates charged on farm real estate loans tended to be slightly lower, averaging just under 9.7 percent.

Gary L. Benjamin

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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) | April | 103 | 3.0 | 1 | -1 |
| Crops (index, 1990-92=100) | April | 120 | 10.1 | 13 | 12 |
| Corn (\$ per bu.) | April | 2.33 | 1.3 | -12 | 8 |
| Hay (\$ per ton) | April | 90.30 | 4.2 | -6 | 8 |
| Soybeans (\$ per bu.) | April | 5.57 | 1.1 | -15 | -3 |
| Wheat (\$ per bu.) | April | 3.51 | -0.6 | -1 | 8 |
| Livestock and products (index, 1990-92=100) | April | 91 | -2.2 | -9 | -11 |
| Barrows and gilts (\$ per cwt.) | April | 36.30 | -5.0 | -16 | -21 |
| Steers and heifers (\$ per cwt.) | April | 67.80 | -3.4 | -10 | -17 |
| Milk (\$ per cwt.) | April | 12.50 | -1.6 | -7 | -1 |
| Eggs (¢ per doz.) | April | 62.0 | 1.0 | 1 | -10 |
| Consumer prices (index, 1982-84=100) | April | 152 | 0.3 | 3 | 5 |
| Food | April | 148 | 0.7 | 3 | 6 |
| Production or stocks | | | | | |
| Corn stocks (mil. bu.) | March 1 | 5,591 | N.A. | 40 | -2 |
| Soybean stocks (mil. bu.) | March 1 | 1,370 | N.A. | 34 | 13 |
| Wheat stocks (mil. bu.) | March 1 | 968 | N.A. | -6 | -7 |
| Beef production (bil. lb.) | March | 2.06 | 13.9 | 3 | 11 |
| Pork production (bil. lb.) | March | 1.63 | 20.7 | 7 | 10 |
| Milk production* (bil. lb.) | April | 11.5 | -1.5 | 2 | N.A. |
| Receipts from farm marketings (mil. dol.) | January | 17,455 | 0.1 | 4 | 13 |
| Crops** | January | 9,775 | -9.0 | 16 | 16 |
| Livestock | January | 7,680 | 23.2 | -1 | 12 |
| Government payments | January | 91 | -80.5 | -85 | -60 |
| Agricultural exports (mil. dol.) | February | 4,819 | 7.8 | 38 | 26 |
| Corn (mil. bu.) | February | 193 | 1.3 | 124 | 42 |
| Soybeans (mil. bu.) | February | 91 | 2.3 | 35 | -13 |
| Wheat (mil. bu.) | February | 105 | 8.3 | 14 | -17 |
| Farm machinery sales (units) | | | | | |
| Tractors, over 40 HP | April | 7,343 | 15.6 | 3 | 18 |
| 40 to 100 HP | April | 4,079 | 24.0 | -11 | 17 |
| 100 HP or more | April | 3,264 | 6.6 | 27 | 19 |
| Combines | April | 784 | 47.1 | 35 | 68 |

N.A. Not applicable

*22 selected states.

**Includes net CCC loans.

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