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AgLetter

FARMLAND VALUES AND CREDIT CONDITIONS

Our latest quarterly survey of agricultural bankers from the Seventh Federal Reserve District shows farmland values strengthened considerably again this summer while credit conditions eased. The bankers noted that the value of good farmland rose 3.4 percent during the summer quarter and more than 12 percent during the year ending with September. Continued strength in the land market was indicated for the fall and winter months. With respect to credit conditions, the bankers noted that farm loan demand remained strong this summer while farm loan repayment rates and the availability of funds for lending to farmers continued to improve relative to a year ago. Interest rates charged on farm loans held steady this summer. With expectations of stronger farm earnings, the bankers anticipate that most of these trends will continue this fall and winter.

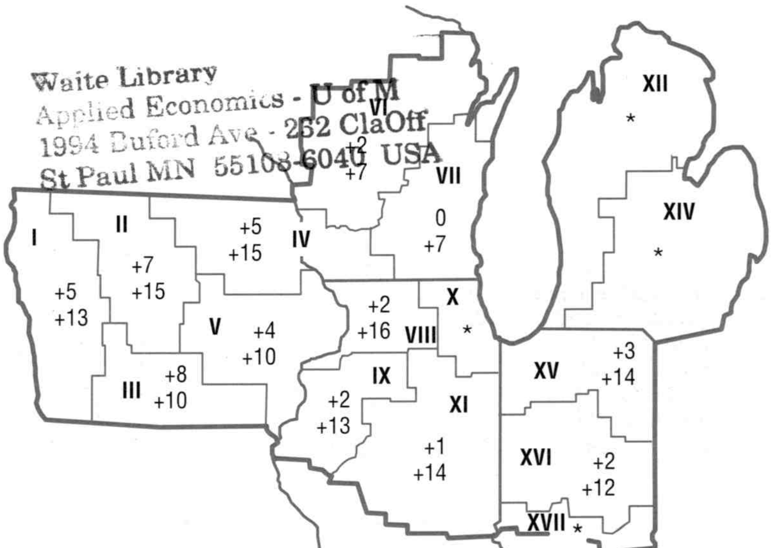
The survey covered agricultural banks in all five District states. However, reporting problems among the few respondents from Michigan cast doubts as to the validity of the indicated land market trends in that state. Accordingly, the land value results summarized below pertain only to the other four District states. The 3.4 percent weighted average third-quarter rise in farmland values among those states fell somewhat short of the strong first quarter rise (4.1 percent) but substantially exceeded the second quarter gain (1.5 percent). The most recent gain was dominated by a very strong performance in Iowa. Bankers in that state reported a rise of 6 percent for the third quarter. Indiana bankers reported a third-quarter rise of nearly 3 percent, continuing a trend of relatively large gains in that state. Elsewhere in Illinois and Wisconsin, the third-quarter rise in land values ranged from 1 to 1.5 percent. On a year-over-year basis, the gains clustered between 12 and 14 percent for Illinois, Indiana, and Iowa. In Wisconsin, the bankers reported that land values were up 8.5 percent from a year ago.

The bankers' responses portray expectations that the land market will remain strong in the months ahead. Gauged by the standards of past surveys, a very high proportion of the bankers (64 percent) expect the uptrend in land values will continue this fall. This optimism was especially apparent among the Iowa bankers. Moreover, a high proportion of the bankers believe the demand to acquire farmland during the fall and winter months will surpass that of a year ago. About 60 percent of the bankers

Percent change in dollar value of "good" farmland

Top: July 1, 1996 to October 1, 1996
Bottom: October 1, 1995 to October 1, 1996

	July 1, 1996 to October 1, 1996	October 1, 1995 to October 1, 1996
Illinois	+1	+14
Indiana	+3	+12
Iowa	+6	+12
Michigan	*	*
Wisconsin	+2	+9
Seventh District**	+3	+12



* Insufficient response.
**Excluding Michigan.

expect an upturn in demand to acquire farmland while only 8 percent expect a decline. The remaining one-third expect demand will be unchanged from a year ago. Among District states, the Iowa bankers expect the demand of farmers will be up the most relative to a year ago. In contrast, the Wisconsin bankers foresee an especially large increase in the demand of nonfarmer investors. In Illinois and Indiana, the perceived upturn in demand to acquire farmland was about evenly balanced between farmers and investors.

In line with their expectations of a strong demand, the bankers also expect a pick-up in farmland transactions during the fall and winter months. Some 42 percent of the bankers felt the amount of transfers would be up from year-ago levels while only 8 percent expected a decline. The remaining one-half of the responding bankers felt that farm real estate transfers during the fall and winter months would about match the year-ago pace.

The bankers' views on agricultural credit conditions varied somewhat but, in general, reflect continued strong farm loan demand and further slight improvement in farm loan repayment rates and in the availability of funds for lending. The measure of farm loan demand edged higher in the third quarter as the share of bankers noting a year-over-year increase (38 percent) widened over the share noting a decline (16 percent). The remaining bankers (45 percent) felt loan demand was unchanged relative to a year ago. The measure of farm loan repayment rates also edged higher. The latest results mark the fourth consecutive quarterly survey to indicate farm loan repayment rates were holding above year-ago levels, a trend noted in only two other surveys since the end of 1990. The latest increase stemmed largely from Iowa where the net margin of bankers noting an increase in farm loan repayments relative to a year ago was especially large. Not all bankers shared the view that farm loan repayments were improving. In Indiana, the number of bankers reporting a change in loan repayment rates was evenly split between those noting an increase and those noting a decline relative to a year ago. And in Michigan, the share of bankers noting a decline exceeded the share noting an increase by 10 percentage points.

Loan-to-deposit ratios among the responding banks edged higher, averaging 68.2 percent at the end of September compared to 65.8 percent three months earlier and 67.3 percent a year ago. Although high by historical standards, the ratio does not appear to be indicative of pending constraints on farm lending. Reflecting this, the actual loan-to-deposit ratios among the surveyed banks remain below their desired ratios (by an average of nearly 3.5 percentage points). Moreover, the third-quarter measure of the funds available for lending to farmers continued to suggest slight gains relative to a year ago.

The typical interest rates charged on farm loans by the surveyed banks as of the end of the third quarter was unchanged from three months earlier but down nearly 50 basis points (half a percentage point) from a year ago. The average rate charged on farm operating loans was 9.70 percent while that for farm real estate loans was 8.80 percent. The bankers from Illinois reported the lowest interest rates, averaging 9.38 percent for operating loans and 8.63 percent for farm real estate loans. Farm loan interest rates were highest among Michigan banks, averaging 10.16 percent and 9.42 percent for operating and farm real estate loans, respectively.

In looking ahead to the fall and winter months, the bankers seemed to paint a fairly strong picture about the underlying conditions for Midwest agriculture. A large majority (nearly 75 percent) of the bankers felt that the earnings of crop farmers would be up from year-ago levels. The share holding this view was especially high in Illinois and Iowa, which countered the pessimistic view of Michigan bankers regarding crop farmer earnings. A large share of the bankers, especially those from Wisconsin, were also expecting improved earnings among dairy farmers. Their views on earnings of cattle and hog farmers during the fall and winter months were more diverse. The share of the bankers from Michigan and Wisconsin expecting lower cattle and hog farmer earnings exceeded the portion expecting higher earnings by a wide margin (52 percent to 20 percent). But in the other three District states, the proportion expecting higher cattle and hog earnings (43 percent) easily surpassed the share expecting lower earnings (26 percent). Iowa bankers were the most optimistic about earnings of cattle and hog farmers during the fall and winter months.

The bankers' expectations of improved farm earnings are also apparent in their views on other dimensions of the near-term outlook. Nearly half expect farm loan repayment rates during the fall and winter will be up from year-earlier levels. Only 6 percent project a decline and the remainder anticipate no change. In addition, the bankers expect fewer instances in which financially stressed farmers will be forced to sell, or liquidate, farm capital assets. Moreover, capital expenditures by farmers are expected to be up considerably. Reflecting this, the share of bankers anticipating an increase in the demand for farm machinery loans this fall substantially exceeded the share expecting a decline (52 percent to 10 percent). Similar, but less decisive, expectations were indicated for

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
1995							
Jan-Mar	122	96	98	64.8	10.33	10.26	9.68
Apr-June	124	104	93	66.1	10.24	10.20	9.64
July-Sept	123	104	98	67.3	10.16	10.14	9.27
Oct-Dec	111	123	119	64.9	9.89	9.88	8.93
1996							
Jan-Mar	125	125	117	65.0	9.62	9.63	8.66
Apr-June	116	114	108	65.8	9.69	9.69	8.81
July-Sept	122	113	112	68.2	9.70	9.68	8.80

[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.

the demand for farm real estate loans. The indicated trends for all these measures (loan repayments, forced asset sales, and capital expenditures) were particularly apparent among the bankers from Illinois and Iowa. And in all cases, the views of the Michigan bankers were opposite those from the other District states. This pattern may partially reflect the fact that Michigan farmers enjoyed a bumper harvest in 1995 but had more problems this year. Most other areas of the District had a better harvest this year than in 1995.

The views reported by the bankers in the most recent survey were no doubt heavily influenced by high prices for most farm commodities during the summer. Propelled by a strong uptrend for several months, corn prices hit new highs in July and for the quarter averaged more than 50 percent above the high year-earlier levels. Milk prices set a new high in September and for the third quarter averaged 27 percent more than a year ago. Soybean prices in September averaged the highest in eight years. Hog prices rebounded this summer to average the highest for any quarter since 1990. Cattle prices also rose seasonally, helping feedlot operators—the weakest of the major components of Midwest agriculture—to recoup some of their earlier losses. Farmers were also receiving the initial installments of the fixed government payments offered under the newly restructured farm support program. And despite lingering frost concerns, this year's late-planted and slow-to-develop crops were starting to prove larger than expected. These conditions fostered considerable optimism this summer. Since then, however, prices of several commodities, especially corn, have eased considerably and developments this fall and winter may not play out as many bankers had expected at the time they responded to the survey.

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)*	October	112	–3.4	8	18
Crops *(index, 1990–92=100)*	October	119	–4.8	4	20
Corn *($ per bu.)*	October	2.91	–18.3	4	41
Hay *($ per ton)*	October	93.00	1.0	12	8
Soybeans *($ per bu.)*	October	6.85	–12.1	11	29
Wheat *($ per bu.)*	October	4.16	–4.8	–12	11
Livestock and products *(index, 1990–92=100)*	October	103	–2.8	12	16
Barrows and gilts *($ per cwt.)*	October	57.20	3.8	24	77
Steers and heifers *($ per cwt.)*	October	68.20	0.3	9	3
Milk *($ per cwt.)*	October	16.00	–1.8	19	23
Eggs *(¢ per doz.)*	October	74.6	–2.9	10	29
Consumer prices *(index, 1982–84=100)*	October	158	0.3	3	6
Food	October	155	0.5	4	7
Production or stocks					
Corn stocks *(mil. bu.)*	September 1	426	N.A.	–73	–50
Soybean stocks *(mil. bu.)*	September 1	183	N.A.	–45	–12
Wheat stocks *(mil. bu.)*	September 1	1,724	N.A.	–8	–17
Beef production *(bil. lb.)*	September	1.94	–14.5	–13	–9
Pork production *(bil. lb.)*	September	1.41	1.0	–2	–9
Milk production* *(bil. lb.)*	October	10.9	2.6	–1	–1
Receipts from farm marketings *(mil. dol.)*	July	17,236	10.3	15	34
Crops**	July	8,557	14.5	10	42
Livestock	July	7,785	6.3	8	15
Government payments	July	894	9.3	N.A.	N.A.
Agricultural exports *(mil. dol.)*	August	4,625	3.8	5	32
Corn *(mil. bu.)*	August	110	–25.9	–48	–3
Soybeans *(mil. bu.)*	August	53	14.1	13	29
Wheat *(mil. bu.)*	August	148	33.5	16	35
Farm machinery sales *(units)*					
Tractors, over 40 HP	October	7,644	61.6	26	36
40 to 100 HP	October	4,254	32.1	15	23
100 HP or more	October	3,390	124.4	43	56
Combines	October	1,107	23.5	12	3

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

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Public Information Center
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