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AgLetter

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LAND VALUES AND CREDIT CONDITIONS

Our latest survey of agricultural banks in the Seventh Federal Reserve District found that the rise in farmland values slowed in the fourth quarter while credit conditions were little changed. The nearly 400 responding banks indicated that fourth-quarter farmland trends varied considerably and, on average, rose less than 1 percent. The latest quarterly rise was less than a third of the gain reported earlier for the third quarter. Despite the slowing, strong gains in the earlier quarters boosted the rise in District farmland values for all of last year to 10 percent, double the rise of the year before. Credit conditions were little changed, with the latest measures of farm loan demand, fund availability and farm loan interest rates holding close to previous levels. However, the measure of farm loan repayment rates declined, reversing the pattern of year-over-year gains noted since the fall of 1995.

The bankers responses to the question about the current value of "good" farmland—defined as land with above-average productivity within the bank's market area—indicate that fourth-quarter trends varied considerably. Bankers from all District portions of Indiana reported continued strong gains. The average fourth-quarter

rise for that state was over 4 percent, capping a 15 percent gain for all of 1996. Among the other four District states, however, the fourth-quarter trend in farmland values ranged from no change (Illinois and Iowa) to up only a little over 1 percent (Michigan). The flat fourth-quarter performance indicated for both Illinois and Iowa encompassed some areas that reported declines while other areas within those states noted gains. The factors behind the divergent trends are not clear, but may possibly reflect a combination of such things as an unexpectedly good—or bad—harvest, differing assessments of the land market in light of the sharp decline in grain prices last fall, or differences in the supply of farms available for sale and/or the interests of buyers seeking to acquire farmland.

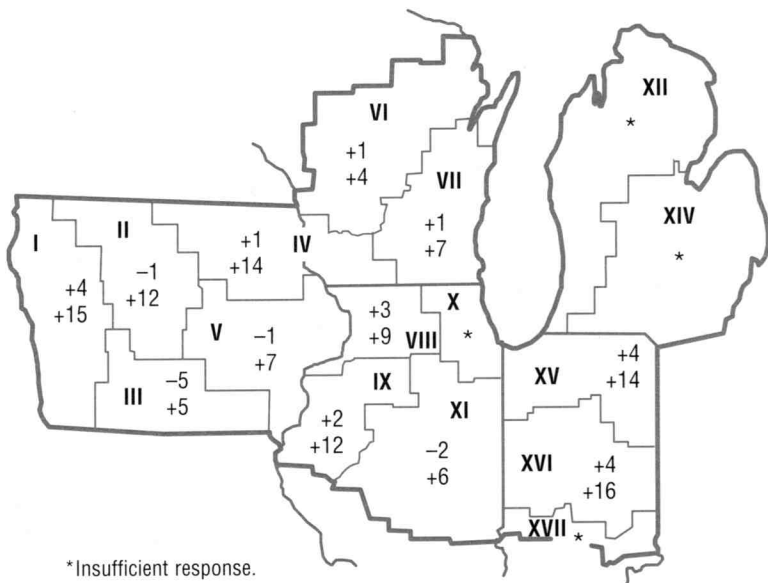
The evidence of a slower rise in farmland values is also suggested by the bankers' expectations for trends during the first quarter of this year. Less than a third of the bankers projected an uptrend in farmland values for this winter. Another 61 percent felt that land values would be steady in the first quarter. The share expecting an uptrend was only about half the share that held similar views in the four preceding quarterly surveys. Among individual District states, the share expecting a

Percent change in dollar value of "good" farmland

Top: October 1, 1996 to January 1, 1997

Bottom: January 1, 1996 to January 1, 1997

	October 1, 1996 to January 1, 1997	January 1, 1996 to January 1, 1997
Illinois	0	+8
Indiana	+4	+15
Iowa	0	+11
Michigan	+1	+7
Wisconsin	+1	+6
Seventh District	+1	+10



*Insufficient response.

first quarter uptrend in land values ranged widely. The proportion of bankers from Illinois, Iowa, Michigan, and Wisconsin expecting an uptrend were tightly clustered around 30 percent, while the share in Indiana, at 55 percent, was substantially higher.

The underlying credit conditions portrayed by the responding bankers show a continuation of recent trends for most measures. Nevertheless, the views varied widely across the District states. The overall measure of farm loan demand for the fourth quarter was unchanged at 122 (see table on page 3). That reading represents a composite of the 36 percent of the bankers that noted loan demand was up from the same year-ago period, less the 14 percent that noted a decline. The remaining bankers felt fourth-quarter farm loan demand was unchanged from a year ago. The indicated strength in farm loan demand was centered in Illinois, Indiana, and especially Iowa. Conversely, the share of bankers in Michigan and Wisconsin that noted a decline in fourth-quarter farm loan demand slightly exceeded the share noting an increase from a year ago.

The measure of the amount of funds available for making nonreal estate farm loans edged slightly lower. Nevertheless, it shows that the share of banks (19 percent) noting year-over-year improvement in fund availability still exceeds the share (9 percent) noting a decline. This pattern held for all five District states, although the margin, or net share, noting an increase was considerably smaller in Indiana and Michigan. Loan-to-deposit ratios represent a related measure that helps gauge the overall lending capacity at banks. The average loan-to-deposit ratio among the surveyed banks retreated slightly during the fourth quarter, but still held well above the year-ago level. Except for Michigan, however, actual loan-to-deposit ratios still average below the bankers' desired ratios.

The farm loan interest rates charged by the responding bankers held steady over the fourth quarter. The simple average of the reported typical rates charged on farm operating loans was 9.64 percent, virtually unchanged from three months earlier but 25 basis points (one-fourth of one percentage point) lower than a year ago. Among the five District states, the range in the average operating loan rates stretched from a low of 9.34 percent (Illinois) to a high of 10.05 percent (Michigan). The overall average rate reported for farm real estate mortgages was 8.74 percent, with a range in state averages stretching from 8.54 percent (Illinois) to 9.15 percent (Michigan).

The special questions in the most recent survey focused on farm real estate transfers and the financing practices associated with those transfers. The bankers

indicated that a sizable share of the farm real estate transfers are made without the use of debt financing. Among all respondents, the reported share of 1996 transfers that used debt financing averaged 71 percent. The average shares among District states clustered in a narrow range, from a low of 66 percent in Illinois to a high of 75 percent in Indiana. The typical debt-to-collateral value ratio on all debt-financed farm real estate transfers averaged 68 percent, ranging from 65 percent (Illinois and Iowa) to 73 percent (Michigan and Wisconsin) among individual District states.

The typical loan-to-collateral value ratio associated with the farm mortgage loans extended by the responding banks in 1996 was very similar to the average ratio noted above for all lenders. Moreover, there was very little difference between District states in the typical ratios reported for farm mortgages made by the responding banks. However, the typical maturities on the farm mortgages made by the banks varied widely. Three-fourths of the responding banks mentioned one of four time periods as the typical maturity on their farm mortgage loans. Some 27 percent of the banks indicated that five years was the typical maturity of the farm real estate loans made by their bank in 1996. Another 23 percent indicated a typical maturity of 20 years. The third-most frequently cited (by 16 percent of the banks) maturity was three years, followed by another 10 percent of the banks that mentioned 15 years. This overall distribution of the most common maturities masks some interesting differences among District states. The typical maturities of farm real estate loans made by banks in Illinois, Michigan, and Wisconsin tend to be short. Among those three states, typical maturities of five years or less were noted by more than two-thirds of the banks (81 percent of the banks in Wisconsin). Among Iowa banks, about half noted a typical maturity of five years or less while the vast bulk of the remainder reported typical maturities of 12 to 25 years. And among Indiana's bankers, only 18 percent reported typical maturities of five years or less while nearly 70 percent reported typical maturities of either 15 or 20 years.

The reasons for the wide geographical differences in typical maturities are not clear. It may be partially tied to other loan terms that might differ, such as fixed versus variable interest rates. It could also reflect different practices among banks in funding their farm mortgages. It may also be due to differing practices with respect to holding those loans in portfolio or selling the mortgages to someone else. For example, banks that make farm loans with long maturities may be more inclined to sell those loans to life insurance companies, Farmer Mac, or

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)
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
Oct-Dec	122	110	94	67.6	9.64	9.61	8.73

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.

other lenders. However, the latter argument is partially countered by the fact that over half of all farm loans held by banks in Indiana (where farm mortgages tend to have long maturities) are secured by real estate, well above the 42 percent share among banks in other District states and the 37 percent applicable for banks nationwide.

While the typical maturity of the farm real estate loans made by the surveyed banks differed considerably, the amortization (repayment) schedules on those loans were much more uniform. The two most frequently cited amortization periods were 20 years (by 59 percent of the banks) and 15 years (by 21 percent of the banks). The same two amortization periods in the same rank ordering were noted by a large majority (75 percent or more) of the banks in all five District states.

In looking ahead, it appears that the bankers see considerable strength within the farm sector. But that optimism is all concentrated in Illinois, Indiana, and Iowa. Reflecting the divergent views, about a third of the bankers in Illinois, Indiana, and Iowa are expecting capital expenditures for farm real estate purchases and improvements to increase this year while only 14 percent expect a decline. In Michigan and Wisconsin, the views are decidedly reversed, with only a tenth expecting an

increase while over 40 percent expect a decline. Similarly, nearly two-thirds of the bankers from Illinois, Indiana, and Iowa expect increased expenditures for farm machinery and equipment while less than a tenth project a decline. The net margin of the bankers from Michigan projecting an increase was much smaller, while the responses from Wisconsin point toward a decline in farm machinery and equipment expenditures.

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)	January	108	-1.8	0	10
Crops (index, 1990-92=100)	January	115	-0.9	-5	12
Corn (\$ per bu.)	January	2.63	0.0	-15	20
Hay (\$ per ton)	January	99.70	4.0	25	19
Soybeans (\$ per bu.)	January	7.16	3.6	6	31
Wheat (\$ per bu.)	January	3.97	-2.2	-18	8
Livestock and products (index, 1990-92=100)	January	99	-3.9	5	6
Barrows and gilts (\$ per cwt.)	January	53.90	-3.9	25	43
Steers and heifers (\$ per cwt.)	January	65.80	0.5	5	-8
Milk (\$ per cwt.)	January	13.60	-3.5	-3	8
Eggs (¢ per doz.)	January	75.8	-13.6	-5	22
Consumer prices (index, 1982-84=100)	January	159	0.3	3	6
Food	January	157	0.1	4	6
Production or stocks					
Corn stocks (mil. bu.)	December 1	6,906	N.A.	13	-15
Soybean stocks (mil. bu.)	December 1	1,823	N.A.	-1	-13
Wheat stocks (mil. bu.)	December 1	1,219	N.A.	-9	-18
Beef production (bil. lb.)	December	1.95	-0.3	-2	-3
Pork production (bil. lb.)	December	1.43	-0.1	-5	-13
Milk production* (bil. lb.)	January	11.1	0.4	0	0
Receipts from farm marketings (mil. dol.)	August	16,254	-5.8	9	16
Crops**	August	8,295	-3.8	6	35
Livestock	August	7,600	-1.7	7	-2
Government payments	August	359	-59.8	1,336	379
Agricultural exports (mil. dol.)	November	5,895	12.7	13	27
Corn (mil. bu.)	November	242	66.9	20	25
Soybeans (mil. bu.)	November	152	59.2	78	94
Wheat (mil. bu.)	October	101	-21.8	-16	-4
Farm machinery sales (units)					
Tractors, over 40 HP	January	4,442	-12.8	-10	0
40 to 100 HP	January	2,470	-21.5	-8	-4
100 HP or more	January	1,972	1.2	-12	5
Combines	January	442	-64.9	5	5

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


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