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# AgLetter



## FARMLAND VALUES AND CREDIT CONDITIONS

The Federal Reserve Bank of Chicago's latest survey of agricultural bankers indicated that the uptrend in farmland values continued this spring, but at a slower pace. A weighted average of the nearly 375 responses found that District farmland values rose 1.4 percent during the second quarter and more than 8 percent during the 12 months ending with June. The respondents also indicated that farm loan demand continued strong in the second quarter. However, the availability of funds at banks for making new farm loans apparently tightened due to relatively slow growth in deposits and stiffer competition from other farm lenders. In addition, farm loan repayment rates slowed, especially in areas where the troubled dairy sector is more prevalent. Despite slower repayments, the bankers continued to judge the quality of their farm loan portfolio as high.

The second-quarter rise in District farmland values fell short of the first-quarter pace (2.1 percent) and also lagged the average quarterly rise applicable since the beginning of 1994 (1.7 percent). However, the trend this spring varied widely among the five states that comprise the

Chicago Federal Reserve District. Very strong second-quarter gains were noted by bankers from Indiana and Wisconsin, up 3 and 4 percent, respectively. Among the other District states, the second-quarter trend ranged from no change in Iowa to a rise of less than 1 percent in both Illinois and Michigan. Compared to a year ago, the largest increases were noted by the bankers from Indiana and Iowa, up 11 and 10 percent, respectively.

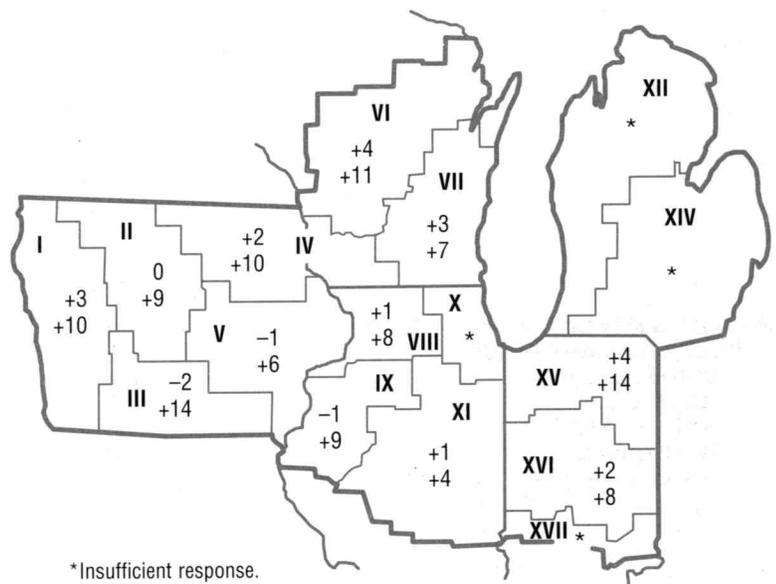
The bankers' views with respect to the trend in farmland values this summer also suggested that the momentum in the farmland market has slowed. Only about a fourth of the bankers (27 percent) expected land values to trend higher this summer. Another 64 percent expected land values to be stable while 9 percent expected a decline. On balance, the net share of the bankers expecting a continuing uptrend in farmland values was the smallest of all quarterly surveys taken since 1993. The weakest expectations in the most recent survey were reported by the bankers from Illinois and Iowa.

Farm loan demand remained strong at most of the surveyed banks this spring. More than four of every ten bankers (42 percent) indicated that farm loan demand

### Percent change in dollar value of "good" farmland

Top: April 1, 1997 to July 1, 1997  
Bottom: July 1, 1996 to July 1, 1997

	April 1, 1997 to July 1, 1997	July 1, 1996 to July 1, 1997
Illinois	+1	+6
Indiana	+3	+11
Iowa	0	+10
Michigan	+1	+4
Wisconsin	+4	+9
Seventh District	+1	+8



\*Insufficient response.

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in the second quarter exceeded the year-ago level. Only 8 percent noted a softening in loan demand while the remaining 50 percent reported that loan demand was unchanged from a year ago. The composite reading of 134 (see table on page 3) equalled the first-quarter mark as one of the highest in a ten-year run of quarterly surveys that have consistently noted year-over-year gains in farm loan demand. The most recent reading on farm loan demand was considerably stronger in Iowa than in the other four states.

While farm loan demand continued strong, it appears that the availability of funds at banks to accommodate that demand has tightened somewhat. Although a large majority of the bankers (68 percent) indicated that fund availability was unchanged from a year ago, the share noting a decline slightly exceeded the share noting an increase in fund availability. As a result, the measure of fund availability for farm loans at agricultural banks dropped below 100 for only the third time in the last 17 years of quarterly surveys. Illinois was the only District state that departed from the general view of some tightening in fund availability. In the other four District states, the share of bankers noting a decline in fund availability exceeded the share noting an increase by a margin of roughly 2 to 1 (20 to 10 percent).

Bankers consider many variables in deciding how to allocate funds between alternative investments. Consequently, the reasons behind the tightening are not entirely clear. But other survey results hint at a couple of possibilities. Relatively slow growth in deposits at agricultural banks probably accounts for some of the modest tightening. Reflecting this, total loans as a share of deposits as of midyear averaged 69.7 percent among the responding bankers, up more than 2 percentage points from three months earlier and up nearly 4 percentage points from a year ago. With the rise, actual loan-to-deposit ratios are increasingly pushing against the desired ratios at more and more banks. In the most recent survey, one in every five of the responding banks had a loan-to-deposit ratio that exceeded their desired ratio by 2.5 percentage points or more. The share of banks with a higher-than-desired loan-to-deposit ratio was lowest in Illinois at 13.5 percent. Among the other four District states, the share operating with a higher-than-desired ratio clustered around 25 percent.

Another factor contributing to the somewhat lower fund availability at agricultural banks may be the more aggressive lending arrangements apparently being offered by other lenders that serve farmers. Increased competitive

pressures from other types of farm lenders can erode some of the potential returns and/or increase the risk of making new farm loans, thus causing banks to weight alternative investments more heavily than in the past. Increased lending by other lenders became evident a couple of years ago and continues this year. For instance, 47 percent of the bankers in the most recent survey noted an increase in lending by merchants and dealers while only 3 percent noted a decline. (The remainder felt that the amount of farm lending by merchants and dealers was unchanged from a year ago). Similarly, 40 percent of the bankers reported an increase in farm mortgage lending by entities within the Farm Credit System this year while only 6 percent said there was a decline. Evidence of a pick-up in farm operating loans by the Farm Credit System was almost as large—32 percent indicated an increase compared to only 5 percent noting a decline.

The growing presence of other types of farm lenders was apparent in the responses from all five District states. However, the presence of some lenders is more apparent in some states than others. The net share of bankers noting a pick-up in merchant and dealer lending was especially high in Wisconsin and, to a lesser extent, Iowa. Alternatively, the net share of bankers reporting a pick-up in lending by the Farm Credit System was highest in Michigan and Indiana.

Farm loan repayment rates apparently slowed in the second quarter, although the trend varied among District states. In general, the bankers from Illinois and Indiana indicated that farm loan repayment rates in the second quarter were comparable to, or somewhat better than was the case a year ago. Among the other three District states, however, the share of bankers reporting slower farm loan repayment rates exceeded the share noting an increase. The slower repayment rates were especially apparent in the responses of bankers from Michigan and Wisconsin. This may reflect the tight margins from low milk prices and high hay prices that gripped the more prevalent dairy sector in those two states.

The quality of the farm loan portfolios among the responding banks continues to rank high, despite some indication of slower loan repayment rates. On average, the respondents felt that 89 percent of their farm loans could be characterized as having no problems. Another slice of 7.7 percent was labeled as having only minor problems that could be easily remedied. Most of the remaining share (2.7 percent of all loans) was characterized as containing major problems requiring more collateral or longer-term workout. Less than 1 percent was

## Credit conditions at Seventh District agricultural banks

	Loan demand (index) <sup>2</sup>	Fund availability (index) <sup>2</sup>	Loan repayment rates (index) <sup>2</sup>	Average loan-to-deposit ratio <sup>1</sup> (percent)	Interest rates on farm loans		
					Operating loans <sup>1</sup> (percent)	Feeder cattle <sup>1</sup> (percent)	Real estate <sup>1</sup> (percent)
<b>1992</b>							
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
<b>1993</b>							
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
<b>1994</b>							
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
<b>1995</b>							
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
<b>1996</b>							
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
<b>1997</b>							
Jan-Mar	134	110	105	67.6	9.71	9.65	8.77
Apr-June	134	97	94	69.7	9.72	9.68	8.83

<sup>1</sup>At end of period.

<sup>2</sup>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.

described as having severe problems likely to result in some loan losses. The latest readings on overall farm loan quality extend the trend of slow, steady improvement that has prevailed for the last several years. Although the distributions were fairly uniform among the five District states, bankers from Michigan and Wisconsin tended to rate a slightly larger share of their farm loans as having major or severe problems, a reading that is consistent with the reported slower loan repayment rates in those two states.

The typical interest rates charged by the responding banks held steady again in the second quarter. The average rate reported on farm operating loans was 9.72 percent while that for farm loans secured by real estate was 8.83 percent. These averages were virtually unchanged from the typical rates reported both three months ago and a year ago. Illinois bankers continue to offer the lowest farm loan rates, with averages for that state roughly 25 basis points below the District-wide averages. Conversely,

Michigan bankers tend to charge the highest rates, averaging 50 to 75 basis points above the overall District averages.

Gary L. Benjamin

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**SELECTED AGRICULTURAL ECONOMIC INDICATORS**

	Latest period	Value	Percent change from		
			Prior period	Year ago	Two years ago
<b>Prices received by farmers</b> (index, 1990-92=100)	July	107	-0.9	-10	5
<b>Crops</b> (index, 1990-92=100)	July	114	-4.2	-16	-1
Corn (\$ per bu.)	July	2.44	-4.7	-45	-7
Hay (\$ per ton)	July	98.40	-8.9	10	19
Soybeans (\$ per bu.)	July	7.72	-5.4	1	31
Wheat (\$ per bu.)	July	3.52	0.0	-26	-14
<b>Livestock and products</b> (index, 1990-92=100)	July	100	2.0	-2	11
Barrows and gilts (\$ per cwt.)	July	59.90	2.6	1	26
Steers and heifers (\$ per cwt.)	July	65.30	0.6	5	5
Milk (\$ per cwt.)	July	12.30	-0.8	-20	3
Eggs (¢ per doz.)	July	65.7	10.1	-6	8
<b>Consumer prices</b> (index, 1982-84=100)	July	161	0.1	2	5
Food	July	157	0.3	2	6
<b>Production or stocks</b>					
Corn stocks (mil. bu.)	June 1	2,495	N.A.	45	-27
Soybean stocks (mil. bu.)	June 1	499	N.A.	-20	-37
Wheat stocks (mil. bu.)	June 1	444	N.A.	18	-12
Beef production (bil. lb.)	June	2.13	-2.6	-2	-7
Pork production (bil. lb.)	June	1.31	-1.6	9	-10
Milk production* (bil. lb.)	July	11.5	0.5	5	2
<b>Receipts from farm marketings</b> (mil. dol.)	April	14,536	-3.2	2	8
Crops**	April	6,628	-3.6	-3	15
Livestock	April	7,881	-2.8	8	14
Government payments	April	28	-15.2	-49	-97
<b>Agricultural exports</b> (mil. dol.)	May	4,366	-6.4	-10	3
Corn (mil. bu.)	May	123	-14.1	-38	-41
Soybeans (mil. bu.)	May	41	-29.9	-3	-10
Wheat (mil. bu.)	May	50	-29.9	-38	-38
<b>Farm machinery sales</b> (units)					
Tractors, over 40 HP	July	5,566	-17.9	24	23
40 to 100 HP	July	3,995	-19.6	18	15
100 HP or more	July	1,571	-13.4	42	48
Combines	July	870	26.8	64	2

N.A. Not applicable

\*20 selected states.

\*\*Includes net CCC loans.

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