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AgLetter

FARMLAND VALUES AND CREDIT CONDITIONS

Summary

Farmland values for the second quarter of 2009 were 3 percent lower than a year ago in the Seventh Federal Reserve District. However, there was no change in the value of "good" agricultural land in the second quarter compared with the first quarter of 2009, according to a survey of 219 agricultural bankers covering the period from April 1, 2009, through June 30, 2009. Almost 30 percent of the responding bankers expected farmland values to fall in the third quarter of 2009, whereas 71 percent expected stable farmland values.

There was a marked deterioration in agricultural credit conditions during the second quarter of 2009. Non-real-estate loan demand plunged below the level of the previous year. The District's loan repayment rate was lower than a year ago, and renewals and extensions of loans climbed compared to the second quarter of 2008. Even so, the percentage of agricultural loans classified by respondents as having "major" or "severe" repayment problems was less than 4 percent. The availability of funds at District banks was higher than in the second quarter of last year. As of July 1, 2009, interest rates on farm operating loans and mortgages remained in the

CONFERENCE ANNOUNCEMENT

Perspectives on the Future of Agriculture in the Midwest

On December 1, 2009, the Federal Reserve Bank of Chicago will hold a conference to examine issues that will shape the future of agriculture in the Midwest, including its composition and structure and the role that policies play in guiding agriculture toward the future. For more details and the forthcoming agenda, see www.chicagofed.org/news_and_conferences/conferences_and_events/2009_ag_conference.cfm.

Note: A revised May *AgLetter* has been posted to chicagofed.org.

same range as reported three months earlier. The average loan-to-deposit ratio for the District was 77.3 percent.

Farmland values

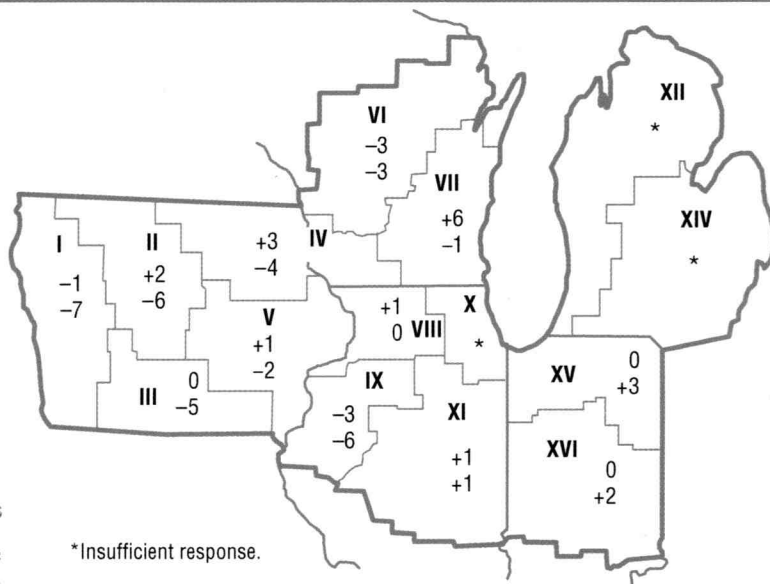
Another year-over-year decrease in District farmland values emphasized the reversal in the upward trend of recent years. There was a 3 percent decline in agricultural land values relative to the second quarter of 2008 (see chart 1). Farmland values in Iowa and Michigan lost the most ground (5 percent), while those in Illinois and Wisconsin fell 2 percent. Only Indiana seemed to maintain farmland values above the level of a year ago. After two quarterly decreases, the value of "good" farmland was unchanged

Percent change in dollar value of "good" farmland

Top: April 1, 2009 to July 1, 2009

Bottom: July 1, 2008 to July 1, 2009

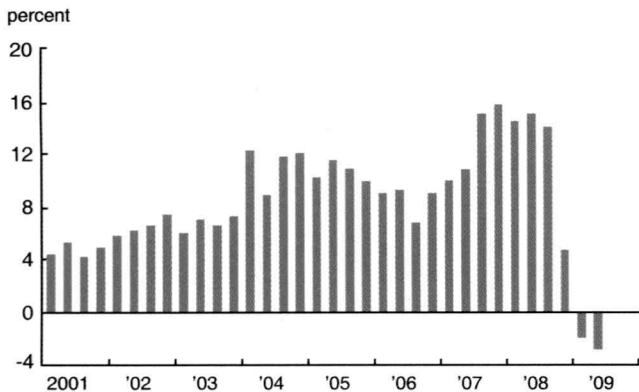
	April 1, 2009 to July 1, 2009	July 1, 2008 to July 1, 2009
Illinois	0	-2
Indiana	0	+2
Iowa	+1	-5
Michigan	-1	-5
Wisconsin	+1	-2
Seventh District	0	-3



*Insufficient response.

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1. Year-over-year changes in District farmland values, by quarter



from the first quarter of 2009 for the District (see table and map). Iowa and Wisconsin experienced quarterly increases of 1 percent, whereas Michigan had a 1 percent decline. Illinois and Indiana farmland values were flat for the second quarter of 2009. Higher crop prices than in the first quarter of 2009 helped buoy farmland values, but were not enough to reignite the increases of last year.

In stark contrast with the situation a year ago, corn and soybean prices have become a drag on farmland values, since the expected stream of earnings from crop production has diminished. In July, corn prices were 37 percent lower than a year ago, and soybean prices were 23 percent lower. From sales in the five-state region, the 2008 value of corn for grain was \$22.5 billion and the value of soybeans was \$11.7 billion. Together, corn for grain and soybeans generated 86 percent of the region's total value from crop production, playing a key role in the string of increases in farmland values that ended at the start of 2009.

The U.S. Department of Agriculture (USDA) estimated the 2009 harvest of corn for grain would increase 5 percent from 2008 for the nation and 5 percent for the five-state region. Soybean production is expected to rise 8 percent for the U.S. and 4 percent for the region. Unless an early frost reduces yields, the 2009 corn harvest would be the second largest ever, and the soybean harvest would set a new record. Total usage of corn at 12.5 billion bushels would leave U.S. ending stocks at 1.55 billion bushels. Total soybean usage of 3.13 billion bushels would result in ending stocks of 250 million bushels. Both corn and soybean stocks would be more abundant than anticipated a year ago, as livestock feeding and the rapid growth in biofuels have slowed during the recession. The USDA estimated price intervals for the 2009–10 crop year of \$3.35 to \$4.15 per bushel for corn and \$8.30 to \$10.30 per bushel for soybeans. More plentiful supplies plus a reces-

sionary hit on demand are a formula for lower crop prices, likely keeping downward pressure on farmland values.

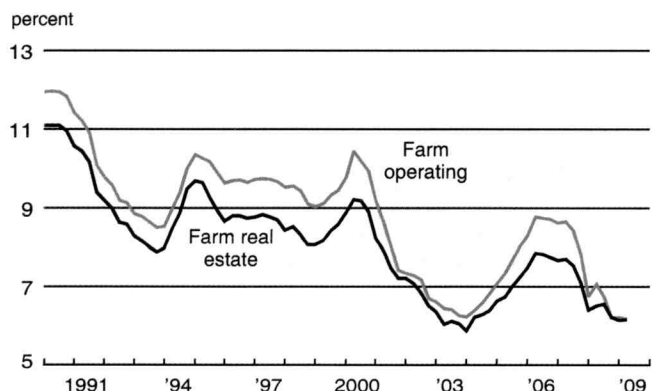
Looking ahead to the third quarter of 2009, most survey respondents anticipated farmland values to remain stable. With only 1 percent of the respondents forecasting increases in land values between the start of July and the end of September and 28 percent forecasting decreases, land values are unlikely to recover in the third quarter. With prices well under the levels of a year ago for all major agricultural products, the prospects for agriculture in the District reversed from 2008.

Credit conditions

Agricultural credit conditions in the District worsened during the second quarter of 2009. There was a drop in repayment rates for non-real-estate farm loans from April through June compared to the previous year. The index of loan repayment rates slid to its lowest level since 2006 at 93, with 15 percent of the responding bankers reporting higher rates of loan repayment and 22 percent reporting lower rates. Loan repayment rates would have been about flat, had it not been for the impact of Wisconsin, where 55 percent of the bankers noted lower rates and only 3 percent higher. Furthermore, the percentage of respondents' farm loan volume classified as having "major" or "severe" repayment problems doubled from a year ago to almost 4 percent. Wisconsin, with its struggling dairy sector, was in worse shape than the rest of the District (6 percent of loans were troubled). Moreover, renewals and extensions of non-real-estate agricultural loans in the second quarter of 2009 grew relative to the second quarter of 2008; 21 percent of respondents noted an increase and 10 percent a decrease.

The demand for non-real-estate agricultural loans dropped from the previous year for the first time since 2003. With 21 percent of the banks reporting increased

2. Quarterly District farm loan interest rates



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Credit conditions at Seventh District agricultural banks

	Loan demand	Funds availability	Loan repayment rates	Average loan-to-deposit ratio	Interest rates on farm loans		
	(index) ^b	(index) ^b	(index) ^b	(percent)	Operating loans ^a	Feeder cattle ^a	Real estate ^a
2007							
Jan-Mar	128	113	131	78.4	8.61	8.60	7.67
Apr-June	121	115	117	77.8	8.65	8.63	7.70
July-Sept	118	118	122	78.1	8.42	8.40	7.53
Oct-Dec	110	126	149	77.2	7.82	7.89	7.09
2008							
Jan-Mar	110	129	147	75.9	6.74	6.86	6.41
Apr-June	101	124	137	75.2	7.06	6.77	6.51
July-Sept	117	103	115	78.8	6.74	6.85	6.56
Oct-Dec	115	110	113	76.4	6.21	6.33	6.23
2009							
Jan-Mar	116	112	105	76.2	6.20	6.31	6.14
Apr-June	88	118	93	77.3	6.18	6.36	6.16

^aAt end of period.

^bBankers 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.

Note: Historical data on Seventh District agricultural credit conditions are available for download from the *AgLetter* webpage, www.chicagofed.org/economic_research_and_data/ag_letter.cfm.

demand compared with the second quarter last year, and 33 percent reporting decreased demand, the index of non-real-estate agricultural loan demand was 88—the lowest value in 22 years. Michigan and Wisconsin did not experience the same decline in non-farm loan demand as the other states.

With 24 percent of the banks having more funds available and 6 percent having fewer, the index of funds availability was 118. The average loan-to-deposit ratio in the District moved up to 77.3 percent—3.8 percent below the ratio desired by the banks. Compared with the second quarter of 2008, the amount of collateral required for loans was higher at 24 percent of the reporting banks and lower at 1 percent.

Agricultural interest rates hovered near the levels of the previous quarter (see chart 2). As of July 1, the District average for interest rates on new operating loans was 6.18 percent, over 250 basis points below the most recent peak three years ago. Interest rates for farm mortgages averaged 6.16 percent, about 170 basis points lower than three years ago.

District bankers reported that the Farm Credit System (FCS) share of the agricultural loan market grew larger in the first half of 2009, continuing a trend. In about one-third of the areas near reporting banks, the FCS had expanded its loan activity, while FCS loan activity had contracted in only 15 percent of the areas. Merchants, dealers, and other input suppliers also lent more, though not as widely as the FCS. Banks reported larger amounts of farm operating loans, but smaller amounts of farm mortgage loans compared to normal activity. Life insurance

companies lowered their exposure to farm loans during the first half of 2009, according to the survey participants.

Looking forward

Respondents expected farm loan volumes at their banks to decline for the third quarter of 2009. About 20 percent of the bankers forecasted farm non-real-estate loan volume to be higher from July through September relative to the same period in 2008, whereas 30 percent forecasted lower volume. Operating loans and loans guaranteed by the Farm Service Agency were the only categories anticipated to experience growth in volume during the third quarter of 2009. The tone of comments by respondents communicated deep concerns for agricultural producers, especially if livestock and dairy prices do not increase soon and losses continue to mount.

David B. Oppedahl, *business economist*

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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)	July	130	-3.0	-18	-6
Crops (index, 1990-92=100)	July	149	-7.5	-19	6
Corn (\$ per bu.)	July	3.33	-17.4	-37	0
Hay (\$ per ton)	July	116	-5.7	-29	-11
Soybeans (\$ per bu.)	July	10.30	-9.6	-23	36
Wheat (\$ per bu.)	July	4.92	-13.2	-31	-5
Livestock and products (index, 1990-92=100)	July	112	0.0	-19	-18
Barrow and gilts (\$ per cwt.)	July	44.20	0.9	-21	-17
Steers and heifers (\$ per cwt.)	July	85.70	0.8	-14	-8
Milk (\$ per cwt.)	July	11.30	0.0	-41	-48
Eggs (\$ per doz.)	July	0.71	19.2	-16	-25
Consumer prices (index, 1982-84=100)	July	215	0.0	-2	3
Food	July	217	-0.2	1	7
Production or stocks					
Corn stocks (mil. bu.)	June 1	4,266	N.A.	6	21
Soybean stocks (mil. bu.)	June 1	597	N.A.	-12	-45
Wheat stocks (mil. bu.)	June 1	667	N.A.	118	46
Beef production (bil. lb.)	July	2.27	-0.8	-4	1
Pork production (bil. lb.)	July	1.83	-1.1	-1	10
Milk production (bil. lb.)*	July	14.9	0.7	1	3
Agricultural exports (\$ mil.)	June	7,606	1.4	-20	14
Corn (mil. bu.)	June	149	-8.3	-19	-13
Soybeans (mil. bu.)	June	61	0.8	-3	24
Wheat (mil. bu.)	May	67	8.0	-18	-25
Farm machinery (units)					
Tractors, over 40 HP	July	6,814	-14.2	-20	-20
40 to 100 HP	July	4,522	-22.7	-30	-37
100 HP or more	July	2,292	9.4	13	66
Combines	July	1,143	21.0	34	52

N.A. Not applicable.

*23 selected states.

Sources: Author's calculations based on data from the U.S. Department of Agriculture, U.S. Bureau of Labor Statistics, and the Association of Equipment Manufacturers.

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