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Farmland values

A survey of 425 agricultural bankers across the Seventh Federal Reserve District indicates that farmland values as of the end of September were unchanged from three months earlier and up less than 2 percent from a year ago. Furthermore, over three-fourths of the surveyed bankers believe land values will remain stable during the current quarter. The survey also found that farm loan demand, while easing this summer, still exceeded year-earlier levels at many banks. Supplies of funds for lending to farmers remained adequate, and interest rates continued to decline. However, recent and expected farm loan repayment rates reflect the weaker financial performance experienced by many District farm borrowers this year.

The trend in farmland values this summer varied among the five District states. Bankers from Iowa reported a modest increase of less than 1 percent for the third quarter. In contrast, bankers from Wisconsin reported a quarterly decline of nearly 1 percent. Farmland values in the District-portions of Illinois, Indiana, and Michigan were unchanged in the third quarter. The reported 12-month increases averaged about 2 percent in Illinois, Indiana, Iowa, and Michigan. The bankers from Wisconsin indicated that farmland values were down a little over 1 percent from a year ago.

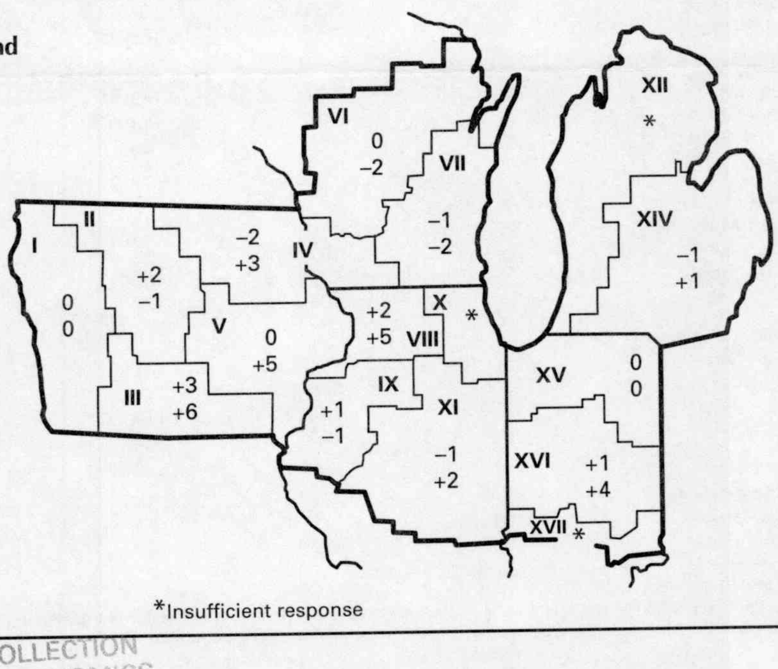
The continuing sluggishness in farmland values probably reflects several factors. Corn and soybean farmers experienced a substantial weakening in exports over the past year. The outlook for exports in the current marketing year is clouded by the uncertainty surrounding the approval of aid to the Soviet Union. The apprehensions of many crop farmers about acquiring more land was heightened further by adverse weather conditions that caused concern about prospective yields during the late spring and summer months. Although trending upward, milk prices remained relatively low during the summer months. And for livestock producers, an upturn in red meat production triggered considerable downward pressure on cattle and hog prices during the third quarter. In line with these developments, a large majority of the surveyed bankers expect lower earnings for both crop and livestock farmers in the months ahead. Under these circumstances, little upward pressure is expected on farmland prices in the near future.

Nearly 77 percent of all the surveyed bankers anticipate farmland values will remain stable during the final three months of 1991. Approximately 13 percent expect farmland values to fall, and the remaining 10 percent envision an increase. The greatest levels of pessimism surfaced in Wisconsin and Indiana where 22 percent and 18 percent, respectively, of the bankers expect farmland values to

Percent change in dollar value of "good" farmland

Top: July 1, 1991 to October 1, 1991
Bottom: October 1, 1990 to October 1, 1991

	July 1, 1991 to October 1, 1991	October 1, 1990 to October 1, 1991
Illinois	0	+2
Indiana	0	+2
Iowa	+1	+2
Michigan	0	+2
Wisconsin	–1	–1
Seventh District	0	+2



*Insufficient response

decline. Wisconsin was hit the hardest by lower milk prices this year, while Indiana crops were hurt the most by the drought. Roughly 10 percent of the bankers in Illinois, Iowa, and Michigan foresee declining farmland values.

Farm real estate lending is expected to contract during the fourth quarter. Some 24 percent of the respondents anticipate a decrease in farm mortgage lending while only 13 percent foresee an increase from a year ago. The remaining 63 percent of the surveyed bankers believe there will be no change in the level of farm real estate lending in the near future. The bankers expect a decline in the demand to acquire farmland among farmers, relative to a year ago, but anticipate increased demand among nonfarm investors. Regarding the expected number of farmland transfers occurring in the near future, 22 percent of the District bankers believe the number will increase over the year-earlier level, while 18 percent believe there will be a decline. A majority of the bankers believe the number of transfers will not change from a year ago. The proportion of bankers expecting an increase in farmland transfers was particularly high in Indiana relative to the other District states.

District credit conditions

The demand for new farm loans apparently eased this summer, but held above a year ago. The overall measure of

Credit conditions at Seventh District agricultural banks

	Loan demand	Fund availability	Loan repayment rates	Interest rate on farm operating loans[1]	Average loan-to-deposit ratio[1]	Banks with loan-to-deposit ratio above desired level[1]
	(index)[2]	*(index)*[2]	*(index)*[2]	*(percent)*	*(percent)*	*(percent of banks)*
1984						
Jan-Mar	131	135	62	13.83	54.4	12
Apr-June	138	128	64	14.34	55.7	14
July-Sept	120	122	59	14.45	57.2	17
Oct-Dec	103	124	49	13.63	55.9	19
1985						
Jan-Mar	107	120	47	13.47	56.1	17
Apr-June	105	133	56	12.93	55.1	14
July-Sept	90	127	59	12.81	55.5	14
Oct-Dec	68	144	97	12.70	52.7	10
1986						
Jan-Mar	74	149	80	12.32	50.9	8
Apr-June	65	152	86	11.82	51.1	6
July-Sept	68	146	87	11.34	51.4	6
Oct-Dec	61	153	107	11.11	49.4	3
1987						
Jan-Mar	71	149	118	10.89	48.8	5
Apr-June	75	140	118	11.02	50.5	6
July-Sept	75	136	134	11.29	51.5	7
Oct-Dec	78	142	145	11.30	50.3	5
1988						
Jan-Mar	102	137	143	11.06	50.2	4
Apr-June	113	127	114	11.24	52.1	6
July-Sept	120	115	88	11.67	54.3	8
Oct-Dec	127	123	87	11.98	53.3	8
1989						
Jan-Mar	138	115	84	12.54	53.8	11
Apr-June	138	107	92	12.42	55.9	12
July-Sept	124	109	106	12.19	57.1	10
Oct-Dec	119	124	123	12.05	55.8	9
1990						
Jan-Mar	125	124	122	11.93	55.2	7
Apr-June	118	125	119	11.95	56.5	7
July-Sept	117	122	115	11.94	57.0	8
Oct-Dec	116	123	100	11.82	56.9	9
1991						
Jan-Mar	128	127	98	11.40	56.5	7
Apr-June	130	122	74	11.19	58.1	7
July-Sept	113	122	81	10.88	58.5	9

[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.

farm loan demand for the third quarter of 1991 fell to 113, down considerably from the tabulations of the previous two quarterly surveys. The latest reading on farm loan demand represents a composite of the 33 percent of the respondents who reported farm loan demand during the third quarter was stronger than one year earlier, less the 20 percent reporting a decline. Another 47 percent of the respondents considered farm loan demand to be unchanged from the year-earlier level. The strength of farm loan demand across the individual District states was mixed. The proportion of bankers noting year-over-year gains in loan demand was particularly high in Iowa and Illinois. In contrast, the reports from bankers in Michigan and Wisconsin indicated demand was down from one year earlier.

Expectations are mixed regarding farm loan demand at District agricultural banks for the fourth quarter of 1991. Some 31 percent of the agricultural bankers are anticipating that total nonreal estate lending will hold above year-earlier levels. Another 17 percent expect a decline in fourth quarter lending. The remaining 52 percent foresee no change from a year ago. In general, the bankers are expecting an increase in farm operating loans, and a decline in loans for farm machinery and feeder cattle. On balance, the bankers are also expecting a decline in farm real estate lending during the fourth quarter.

The bankers continue to note year-over-year gains in the amount of funds available for lending to farmers, a trend that has prevailed for more than a decade. The District funds availability index stood at 122 for the third quarter of 1991, identical to the previous quarter. The index combines the 31 percent of the bankers who indicated the level of available funds for loans to farmers was up from a year ago, less the 9 percent who noted a decline. Approximately 60 percent of the bankers surveyed reported no year-to-year change in the amount of funds available for lending to farmers. For the individual District states, the fund-availability measure ranged from 117 in Michigan to 127 in Wisconsin.

The average loan-to-deposit ratio for the surveyed banks as of the end of September was up only nominally from three months earlier. However, at 58.5 percent, the average ratio was the highest recorded among the surveyed bankers since 1981. Even so, the bankers from all five District states indicated a preference for still higher ratios. Except for Michigan, the average loan-to-deposit ratio for each District state edged higher during the past quarter. The highest ratios were among banks in Michigan and Wisconsin at 69.1 and 67.2 percent, respectively. Indiana followed at 64.9 percent. The ratios for Iowa and Illinois were 54.6 and 52.9 percent, respectively.

The average of the reported farm mortgage loan rates for the Seventh District stood at 10.15 percent at the beginning of October. The average rate charged on both farm operating and feeder cattle loans was 10.88 percent. These rates are down approximately 30 basis points from three months earlier and down nearly 100 basis points from one year ago. In general, farm loan rates have been trending lower since 1989, and are now at the lowest levels since 1978. Agricultural bankers from Indiana and Iowa reported the lowest average farm mortgage loan rate, about 10.0 percent. Michigan respondents reported the highest farm mortgage loan rate of 10.4 percent. The average farm operating loan rates ranged from a low of 10.7 percent in Michigan to a high of 11.1 percent in Iowa.

The measure of farm loan repayment rates rose during the third quarter, but still portrays a slowing relative to a year ago. Only 8 percent of the surveyed bankers indicated that repayments during the third quarter were up from a year ago, well below the 26 percent who reported a decline in repayment rates. The remaining 66 percent of those surveyed indicated no change compared to one year ago. The proportion of bankers that noted a decline in farm loan repayment rates was particularly high in Wisconsin and Iowa. In addition to slower repayments, the survey results also indicated farm loan renewals or extensions were up from a year ago.

It does not appear the repayment performance of farm loans will undergo any significant improvement in the near term. Some 44 percent of the bankers believe that farm loan repayment rates during the fall and winter months will continue below year-earlier levels. Only 12 percent anticipate an improvement. These expectations likely reflect the downturn in farm earnings expected by bankers. Over 62 percent of the surveyed bankers predict the net cash income for crop farmers will decline from year-earlier levels, and nearly 74 percent expect net cash income to be down for cattle and hog farmers. Also, 56 percent expect dairy earnings to decline from the levels experienced a year ago.

Mike A. Singer

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Public Information Center
Federal Reserve Bank of Chicago
P.O. Box 834
Chicago, IL 60690
Tel. no. (312) 322-5111

Selected agricultural economic indicators

	Latest period	Value	Percent change from: Prior period	Year ago	Two years ago
Receipts from farm marketings *($ millions)*	July	12,134	1.2	–6	1
Crops*	July	5,298	4.3	–7	3
Livestock	July	6,763	1.0	–6	2
Government payments	July	73	–65.7	40	–73
Real estate farm debt outstanding *($ billions)*					
Commercial banks	June 30	18.1	3.3**	5	11
Farm Credit System	June 30	29.2	0.3**	–1	–5
Life insurance companies	June 30	10.7	N.A.	9	13
Nonreal estate farm debt outstanding *($ billions)*					
Commercial banks	June 30	34.5	7.8**	8	12
Farm Credit System	June 30	11.2	6.8**	6	12
Interest rates on farm loans *(percent)*					
7th District agricultural banks					
Operating loans	October 1	10.88	–2.8**	–9	–11
Real estate loans	October 1	10.15	–2.7**	–8	–10
Commodity Credit Corporation	November	5.37	–4.4	–30	–34
Agricultural exports *($ millions)*	August	2,841	–2.9	–4	3
Corn *(mil. bu.)*	August	150	–8.1	–2	41
Soybeans *(mil. bu.)*	August	33	–18.9	17	81
Wheat *(mil. bu.)*	August	102	19.6	6	–26
Farm machinery sales[p] *(units)*					
Tractors, over 40 HP	September	3,711	8.4	–5	–19
40 to 100 HP	September	2,484	2.7	–2	–2
100 HP or more	September	1,227	22.1	–10	–41
Combines	September	679	19.5	–42	–46

*Includes net CCC loans.

**Prior period is three months earlier.

[p]Preliminary

N.A. Not applicable.

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Public Information Center
P.O. Box 834
Chicago, Illinois 60690
(312) 322-5111

LOUISE LETNES LIBRARIAN
DEPT OF AGRIC & APPLIED ECON
231 CLASSROOM OFFICE BUILDING
1994 BUFORD AVENUE
ST PAUL MN 55108-1012