FRB CHICAGO

AGRICULTURAL LETTER

FEDERAL RESERVE BANK OF CHICAGO
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Credit conditions at District agricultural banks

The 400 agricultural bankers that responded to our latest quarterly survey indicated that farm loan demand continued to strengthen during the early months of this year. In addition, the bankers reported they had ample funds for lending to farmers and were charging somewhat lower rates on farm loans. Farm loan repayment rates slowed in the major dairy states of the District and loan renewals and extensions picked up from year-earlier levels. Loan-to-deposit ratios among the surveyed bankers were reported to be up slightly from a year ago but down marginally from the ending 1990 level.

The overall measure of the demand for new farm loans rose to 128 in the first quarter, the highest reading in nearly two years. The latest measure represents a composite tabulation of the 42 percent of the bankers who noted that farm loan demand during the first quarter was up from the year before, less the 14 percent who said farm loan demand was down. The remaining bankers (44 percent of all respondents) indicated that farm loan demand was unchanged from a year ago. The evidence of a strengthening in farm loan demand was apparent for each of the five District states. But as has been the case for several quarters, the measure of farm loan demand was particularly high in Iowa (146). The lowest measure (110) was reported by Wisconsin bankers.

The pick-up in farm loan demand may reflect several developments. A modest expansion in hog numbers and a sizable increase in the inventory of cattle in feedlots probably contributed to larger borrowings by District livestock farmers. In addition, lower advance deficiency payments and the late enrollment period for price support programs this year may have added to the debt-financing requirements of many District crop farmers. Sharply lower milk prices and higher input costs probably contributed to increased borrowings by some farmers. A recent USDA survey found that the index of prices paid by farmers for production inputs in April was up 3 percent from a year ago, paced by gains of 5 percent for feeder livestock, fertilizer, and fuels, and 9 percent for agricultural chemicals.

In addition to the strengthening in the demand for new loans, the portfolio of farm loans at some banks may also be rising due to slower loan repayments and a pick-up in farm loan renewals and extensions. The overall results from the latest survey indicate that farm loan repayment rates at banks in the first quarter were unchanged from a year ago. But the results differed considerably among the five District states. The responding bankers from both Illinois and Indiana suggested that loan repayment rates were above year-earlier levels during the first quarter while the bankers from Iowa reported no change. In contrast, the proportion of bankers from Michigan and Wisconsin that noted year-over-year declines in farm loan repayment rates substantially exceeded the proportion noting an increase in repayments. Similar differences were evident with respect to the trend in renewals and extensions of farm loans during the first quarter. The consensus view of the bankers from Illinois and Indiana was that loan renewals and extensions declined from year-earlier levels while that for the bankers in other District states pointed to stable or rising loan renewals and extensions in the first quarter. These contrasting views may reflect the preponderance of dairy farmers in Michigan and Wisconsin whose ability to service debt has been hit by sharply lower milk prices. Milk accounts for about 60 percent of all farm commodity sales in Wisconsin and a fourth of all sales among farmers in Michigan. In the other District states, milk accounts for less than 7 percent of all farm commodity sales.

The bankers from all five District states continue to indicate that they have ample funds for lending to farmers. Nearly 36 percent of the bankers indicated that the availability of funds for lending to farmers during the first quarter was up from the year before while only 8 percent noted a decline. The remainder indicated no change in fund availability relative to last year. The proportion of banks noting increased fund availability was especially high among the bankers from Illinois and Iowa.

Loan-to-deposit ratios among the surveyed banks edged marginally lower during the first quarter, but—on average—still exceed the year-earlier level. The average ratio among the responding banks was .565 as of the end of March, up from .552 a year earlier. Loan-to-deposit ratios have been trending up since 1987 but remain below the levels that prevailed during the late 1970s and early 1980s. The vast majority of the banks would prefer to have higher ratios. The average of the desired ratios reported in the latest survey was .631.

The combination of ample funds for lending and the decline in overall market rates of interest led to further cuts in the rates charged on farm loans by District

Credit conditions at Seventh District agricultural banks

	Loan demand (index)[2]	Fund availability (index)[2]	Loan repayment rates (index)[2]	Interest rate on farm operating loans[1] (percent)	Average loan-to-deposit ratio[1] (percent)	Banks with loan-to-deposit ratio above desired level[1] (percent of banks)
1981						
Jan-Mar	70	141	90	16.55	60.1	17
Apr-June	85	121	70	17.78	60.9	20
July-Sept	66	123	54	18.57	60.9	21
Oct-Dec	66	135	49	16.98	58.1	17
1982						
Jan-Mar	76	134	36	17.34	57.8	18
Apr-June	85	136	41	17.24	57.3	14
July-Sept	87	136	36	15.61	57.8	15
Oct-Dec	74	151	47	14.36	55.1	11
1983						
Jan-Mar	69	158	66	13.67	53.3	6
Apr-June	85	157	78	13.50	54.0	6
July-Sept	81	156	78	13.73	54.8	8
Oct-Dec	101	153	78	13.65	53.6	8
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

[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.

agricultural banks during the first quarter. As of the end of March, the rates charged by the responding banks on both feeder cattle and farm operating loans averaged 11.4 percent. The average rate reported on farm real estate loans was 10.6 percent. In general, the average interest rates as of the end of March were 40 basis points lower than three months earlier and 50 basis points below a year ago. Except for Michigan, the average rates reported for the individual District states closely approximated the overall District averages. The farm loan interest rates reported by the bankers from Michigan averaged 23 to 37 basis points above the average rates reported elsewhere.

In looking ahead, a large majority of the bankers expected that their volume of farm lending in the second quarter would match or exceed the year-earlier level. Overall, 45 percent of the respondents projected an increase in their nonreal estate farm lending while only 10 percent forecast a decline. The remainder expected no change from the second quarter of last year. The expectations of increased second quarter lending was apparent among the banks from all District states, particularly those from Iowa. The increased lending was mostly expected for farm operating loans. And except for Wisconsin, a sizable portion of the bankers were also anticipating a rise in farm machinery loans. With respect to farm mortgage lending, the proportion of bankers expecting year-over-year gains in Illinois, Indiana, and Iowa ranged from 20 to 30 percent, exceeding the share expecting a decline by a margin of 2 to 1. In contrast, the share of Michigan and Wisconsin bankers expecting increased farm mortgage lending fell well short of those expecting a decline in the second quarter.

The latest survey results suggest that the apparent upturn in farm sector debt that started last year is continuing in 1991. Following a 30 percent decline in farm debt from 1983 through 1989, preliminary reports from the major lenders that serve farmers show that their combined portfolios of farm loans rose 1 percent last year. These lenders are comprised of banks, the Farm Credit System, the Farmers Home Administration, and life insurance companies and collectively they account for 80 percent of the USDA's estimate of all farm sector debt (excluding farm operator household debt).

Banks are the largest institutional lender for farmers, accounting for a third of all farm sector debt. Farm loans at banks nationwide rose nearly 6 percent last year. That marked the third consecutive annual rise for banks and it boosted their total portfolio of farm loans slightly above the previous peak set at the end of 1984. Last year's gain was led by a 7 percent rise in nonreal estate farm loans. Loans secured by farm real estate at banks rose only 3.5 percent last year, well below the rapid rate of gain that characterized the growth in farm mortgage lending at banks during most of the 1980s. Real estate mortgages now secure 34 percent of a all farm loans held by banks nationwide, up from 20 percent in the early 1980s.

Farm loans held by all banks in District states also rose nearly 6 percent last year, capping a 20 percent rise from the cyclical low of 1987. The three-year uptrend has been concentrated in four of the five District states. In each of those four states, the portfolio of farm loans at banks now approaches, or slightly exceeds, the peaks reached in the mid 1980s. The exception is Michigan where farm loans held by banks have declined in each of the last five years. As of the end of 1990, the portfolio of farm loans held by Michigan banks was down nearly a fourth from the peak in the mid 1980s.

The Farm Credit System accounts for about a fourth of all farm sector debt. The portfolio of all loans (except loans to farm cooperatives) held by the various institutions in the Farm Credit System registered only a nominal decline in 1990, perhaps marking the end of a downturn that began in the early 1980s. A 6.5 percent rise in short- and intermediate-term loans (mostly to farmers) nearly offset a decline of less than 3 percent in long-term real estate loans held by the Farm Credit System.

The trend for the other major farm lenders was also mixed last year. Farm loans (mostly real estate mortgages) held by life insurance companies apparently rose nearly 12 percent last year. That marks the first annual upturn of significance for life insurance companies (which account for 6.5 percent of all farm debt) since 1981. In contrast, the portfolio of farm loans held by the Farmers Home Administration declined 11 percent last year, reflecting its continued restructuring and write-offs of bad farm loans and further cuts in direct lending to farmers. Overall, the FmHA accounts for about a tenth of all farm sector debt. But as a federal government agency providing guarantees on farm loans made by other lenders, its role in the farm credit markets is considerably more important.

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Selected agricultural economic indicators

	Latest period	Value	Percent change from: Prior period	Year ago	Two years ago
Receipts from farm marketings *($ millions)*	January	15,402	−7.5	0	7
Crops*	January	8,080	11.7	7	16
Livestock	January	7,270	−4.4	−3	3
Government payments	January	52	−97.1	-87	−85
Real estate farm debt outstanding *($ billions)*					
Commercial banks	December 31	17.2	− 0.6**	3	11
Farm Credit System	December 31	29.4	− 0.1**	−3	−9
Life insurance companies	December 31	10.8	1.4**	12	12
Nonreal estate farm debt outstanding *($ billions)*					
Commercial banks	December 31	32.9	− 0.9**	7	10
Farm Credit System	December 31	10.7	−2.8**	7	15
Interest rates on farm loans *(percent)*					
7th District agricultural banks					
Operating loans	April 1	11.40	−3.6**	−4	−9
Real estate loans	April 1	10.56	−3.6**	−5	−10
Commodity Credit Corporation	May	6.25	−2.0	−25	−34
Agricultural exports *($ millions)*	February	3,435	6.7	−2	−1
Corn *(mil. bu.)*	February	183	26.0	0	18
Soybeans *(mil. bu.)*	February	67	13.8	−10	20
Wheat *(mil. bu.)*	February	95	37.5	5	−29
Farm machinery salesP *(units)*					
Tractors, over 40 HP	April	6,348	−5.2	−23	−7
40 to 100 HP	April	3,468	4.8	−26	−11
100 HP or more	April	2,880	−15.0	−18	−1
Combines	April	654	12.0	−13	79

*Includes net CCC loans.
**Prior period is three months earlier.
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