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District credit conditions

Responses from a recent survey of agricultural bankers in the Seventh Federal Reserve District provide an indication of recent trends in agricultural credit conditions across the five state region. Farm loan demand appears to remain strong and the bankers report ample supplies of funds are available for lending to farmers. Interest rates on farm loans continued to edge lower during the final months of 1989, and farm loan repayment rates, after slowing somewhat earlier in the year, picked up during the fourth quarter. The bankers' responses point to continued strong farm loan demand during the first three months of 1990.

The measure of farm loan demand at District agricultural banks, although down from the very high levels recorded during the first half of 1989, remains strong. The measure derived from responses to the January survey, at 119, reflects the more than 35 percent of the respondents who reported that fourth quarter farm loan demand at their banks was above a year ago, less almost 17 percent of the bankers who reported some weakening compared to the year-earlier level. The remaining 48 percent of the agricultural bankers noted no change from last year in the level of farm loan demand.

Among the individual District states, farm loan demand was strongest in Iowa and Illinois. More than 55 percent of the responding bankers from Iowa indicated that farm loan demand was above the year-earlier level, while only 8 percent noted a decline. The measure of farm loan demand in Illinois was near the District average. In Wisconsin and Indiana, the proportions of bankers reporting farm loan demand above a year ago about equaled the proportions reporting declines, suggesting little change in the level of farm loan demand in those states. Responses from Michigan bankers, however, reflect some weakening on farm loan demand compared to the fourth quarter of 1988. Only 17 percent of the bankers reported increased demand, while almost 23 percent reported a drop in demand. However, the majority of the Michigan respondents indicated that farm loan demand during the fourth quarter was unchanged from the levels that prevailed a year earlier.

The measure of fund availability, after sliding somewhat during the middle of 1989, recorded a substantial rise during the final months of 1989. After slowing somewhat from the rapid growth associated with the recovery of the sector that began in 1986, the measure of fund availability jumped to 124. The measure represents the almost 30 percent of the bankers who indicated the availability of funds for loans to farmers was up from a year ago compared to less than 6 percent who reported a year-to-year drop in funds available for farm lending during the fourth quarter. The remaining 64 percent of the survey respondents reported no change in the amount of funds available for lending to farmers compared to the same months a year earlier. The measure of fund availability was above 100 in all of the District states, indicating larger proportions of bankers noting increases in fund availability for farm loans than noting declines. In addition, a majority of the bankers in each of the District states report no change from a year earlier in fund availability. The measure of fund availability was highest in Wisconsin and Iowa, while the smallest measure was generated by the responses of Michigan agricultural bankers.

The strengthening of farm loan demand during the past three years has been associated with a steady rise in loan-to-deposit ratios at District agricultural banks. After slipping below 50 percent at the end of 1986, the average of the ratios of responding banks has been trending higher. Following a typical pattern, the fourth quarter average loan-to-deposit ratio dropped slightly from three months earlier. However, at 55.8 percent, the ratio was 2.5 percentage points higher than a year ago and matched the strongest fourth quarter ratio since 1981, when the agricultural sector was entering the period of greatest financial stress.

Although varying considerably across the District, average loan-to-deposit ratios in each state were above the previous year's levels. Following the historical pattern, agricultural banks in Illinois and Iowa reported the lowest ratios with averages of 51.6 and 50.2 percent, respectively, at the end of the fourth quarter. Bankers in Indiana and Wisconsin reported average ratios of almost 63 percent. Michigan bankers reported the highest average loan-to-deposit ratio among the District states, approaching 69 percent at the end of 1989.

Despite the continued gains, a substantial majority of the respondents indicated a preference for still higher

Selected measures of credit conditions at Seventh District agricultural banks

	Loan demand	Fund availability	Loan repayment rates	Average rate on feeder cattle 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)*
1979						
Jan-Mar	156	51	85	10.46	67.3	58
Apr-June	147	62	91	10.82	67.1	55
July-Sept	141	61	89	11.67	67.6	52
Oct-Dec	111	67	79	13.52	66.3	48
1980						
Jan-Mar	85	49	51	17.12	66.4	51
Apr-June	65	108	68	13.98	65.0	31
July-Sept	73	131	94	14.26	62.5	21
Oct-Dec	50	143	114	17.34	60.6	17
1981						
Jan-Mar	70	141	90	16.53	60.1	17
Apr-June	85	121	70	17.74	60.9	20
July-Sept	66	123	54	18.56	60.9	21
Oct-Dec	66	135	49	16.94	58.1	17
1982						
Jan-Mar	76	134	36	17.30	57.8	18
Apr-June	85	136	41	17.19	57.3	14
July-Sept	87	136	36	15.56	57.8	15
Oct-Dec	74	151	47	14.34	55.1	11
1983						
Jan-Mar	69	158	66	13.66	53.3	6
Apr-June	85	157	78	13.49	54.0	6
July-Sept	81	156	78	13.70	54.8	8
Oct-Dec	101	153	78	13.65	53.6	8
1984						
Jan-Mar	131	135	62	13.82	54.4	12
Apr-June	138	128	64	14.32	55.7	14
July-Sept	120	122	59	14.41	57.2	17
Oct-Dec	103	124	49	13.61	55.9	19
1985						
Jan-Mar	107	120	47	13.48	56.1	17
Apr-June	105	133	56	12.93	55.1	14
July-Sept	90	127	59	12.79	55.5	14
Oct-Dec	68	144	97	12.70	52.7	10
1986						
Jan-Mar	74	149	80	12.34	50.9	8
Apr-June	65	152	86	11.81	51.1	6
July-Sept	68	146	87	11.31	51.4	6
Oct-Dec	61	153	107	11.06	49.4	3
1987						
Jan-Mar	71	149	118	10.88	48.8	5
Apr-June	75	140	118	10.98	50.5	6
July-Sept	75	136	134	11.22	51.5	7
Oct-Dec	78	142	145	11.22	50.3	5
1988						
Jan-Mar	102	137	143	11.02	50.2	4
Apr-June	113	127	114	11.17	52.1	6
July-Sept	120	115	88	11.61	54.3	8
Oct-Dec	127	123	87	11.91	53.3	8
1989						
Jan-Mar	138	115	84	12.47	53.8	11
Apr-June	138	107	92	12.36	55.9	12
July-Sept	124	109	106	12.15	57.1	10
Oct-Dec	119	124	123	12.02	55.8	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.

loan-to-deposit ratios. Almost two-thirds of the survey respondents reported that their current ratio was below the desired level, while only 9 percent reported it was too high. The remaining fourth of the respondents were satisfied with the level of their current loan-to-deposit ratio. Among individual District states, the desired ratio of loans to deposits ranged from an average of 57 percent in Illinois to about 70 percent in Michigan. For the District as a whole, the average of the surveyed bankers' desired loan-to-deposit ratios stood at almost 62 percent, a full 6 percentage points higher than the District average. A District average loan-to-deposit ratio at that level would be comparable the ratios that prevailed a decade ago.

After peaking last spring, interest rates on loans to farmers at District agricultural banks moved steadily lower during the remainder of 1989. The average of the rates charged on feeder cattle and farm operating loans at District agricultural banks stood at just over 12 percent at year end. Although down about 14 basis points from three months earlier, rates on these loans remained about 10 basis points above the year-earlier level. Among individual District states, rates on feeder cattle and operating loans approached 12.5 percent in Michigan and Indiana, while averages near 12 percent were reported for Illinois and Iowa. Wisconsin bankers continued to report the lowest loan rates, averaging 11.7 percent.

Interest rates charged on farm real estate loans continued to trend lower during the fourth quarter as well. With a District average rate of 11.14 percent, farm mortgage rates were about 20 basis points lower than three months earlier and about 14 basis points below the previous year's level. Iowa bankers reported the lowest average rate on farm mortgage loans of 10.9 percent. Rates on farm real estate loans in Wisconsin and Illinois averaged 11.1 and 11.2 percent, respectively, followed closely by an 11.4 percent average among Indiana respondents. Agricultural bankers in Michigan reported an average farm mortgage loan rate of just over 11.8 percent at the end of the fourth quarter.

The measure of loan repayment rates rose sharply during the fourth quarter. At 123, the measure reflects the more than 34 percent of the respondents who indicated the rate of loan repayment was up from a year ago, less the 11 percent who noted a drop in repayment rates during the three month period on loans to farmers. The remaining 54 percent of the agricultural bankers reported no change in repayment rates compared to the fourth quarter of the previous year.

The strengthening trend in repayment rates has contributed to further improvement in the condition of farm loan portfolios at District agricultural banks. At the end of the year, the average of the proportions of farm loan portfolios experiencing no significant repayment problems or only minor problems that can be remedied fairly easily was more than 94 percent. That represents an increase of about 1 percentage point from a year earlier and 10 percentage points higher than the average of the portfolios falling into this category five years ago.

With the continuing improvement in farm loan portfolios, the proportions of loans falling into more significant problem categories have been shrinking. Across the District, an average of just over 4 percent of the bankers' portfolios were categorized as having major repayment problems that would require additional collateral and longer term workouts. That represents a drop from 5 percent last year and almost 11 percent five years ago. An average of about 1.5 percent of the farm loan portfolios across the District were categorized as having severe repayment problems that would likely result in loan losses or require forced sales of borrowers assets. At the end of 1985, this category accounted for more than 6 percent, on average, of the farm loan portfolios at District agricultural banks.

The volume of farm lending at District agricultural banks is expected to be above year-ago levels during the early months of 1990. Nonreal estate loans to farmers, overall, are expected to be up sharply, due primarily to increased operating and farm machinery lending. Almost 43 percent of the bankers expect operating loan volume to be up from last year, while less than 13 percent expect a drop. The expected volume of lending to acquire farm machinery looks even stronger with almost 54 percent expecting year-to-year gains and only 8 percent expecting declines. Farm real estate lending is likely to be up as well, with about 29 percent expecting a rise in volume and about 11 percent foreseeing a decline compared to the first quarter of last year.

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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)*	September	15,076	26.0	3	16
Crops*	September	7,788	51.8	7	29
Livestock	September	7,109	5.5	2	7
Government payments	September	179	92.5	-57	-48
Real estate farm debt outstanding *($ billions)*					
Commercial banks	September 30	15.2	1.1†	7	16
Farm Credit System	September 30	26.5	-0.5†	-8	-14
Life insurance companies	Septmeber 30	8.62	-0.7†	-1	-8
Nonreal estate farm debt outstanding *($ billions)*					
Commercial banks	September 30	29.8	2.5†	2	3
Farm Credit System	September 30	9.70	2.6†	4	-2
Interest rates on farm loans *(percent)*					
7th District agricultural banks					
Operating loans	January 1	12.05	-1.1†	1	7
Real estate loans	January 1	11.15	-1.7†	-1	4
Commodity Credit Corporation	February	7.87	1.6	-13	11
Agricultural exports *($ millions)*	December	3,559	-2.5	-2	19
Corn *(mil. bu.)*	December	259	-11.9	50	75
Soybeans *(mil. bu.)*	November	77	3.4	25	-24
Wheat *(mil. bu.)*	December	86	13.2	20	-28
Farm machinery sales[P] *(units)*					
Tractors, over 40 HP	January	4,475	-18.1	8	4
40 to 100 HP	January	2,435	-7.5	12	2
100 HP or more	January	2,040	-27.9	3	5
Combines	January	504	-50.2	38	-16

*Includes net CCC loans.
†Prior period is three months earlier.
[P]Preliminary

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