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District credit conditions

Responses from bankers concerning agricultural credit conditions across the Seventh Federal Reserve District depict little change in the trends that have characterized conditions in rural credit markets during the last several quarterly surveys. The bankers report continued strength in farm loan demand during the early months of 1990 and an ample supply of funds for lending to farmers. Interest rates charged by banks on loans to farmers continued to creep lower during the first quarter, and average more than half a percentage point lower than a year ago. The bankers responses point to continued increases in lending volume during the second quarter, with strong demand for credit by farmers to finance their operations.

Farm loan demand at District agricultural banks, after trending lower through much of 1989, appears to have rebounded during the early months of this year. The first quarter measure of farm loan demand climbed to 125, six points above three months earlier. The current measure reflects the composite of the 40 percent of the respondents who reported stronger farm loan demand during the first quarter, less the 15 percent reporting a decline compared to year-earlier levels. The remaining 45 percent of the survey respondents noted that farm loan demand at their institutions was unchanged from last year's level. Nonreal estate farm loan demand across the District continues to be buoyed by demand for operating credit to finance somewhat larger plantings and operating expenses, and a substantial pickup in demand for farm machinery.

Among the individual District states, farm loan demand was strongest in Iowa. More than half of the bankers from Iowa indicated that nonreal estate farm loan demand was above the year-earlier level, while only 8 percent reported a drop compared to the first three months of last year. The measure of farm loan demand compiled from responses of Wisconsin agricultural bankers was slightly above the District average. Measures for Illinois and Indiana were somewhat lower, with a majority of the respondents in both states noting no change from the relatively high year-ago level. Michigan bankers were more evenly split, with the proportion noting an increase equal to that noting a decline, with the remaining 40 percent reporting no change from last year.

The measure of fund availability rose sharply during the final months of 1989 and has held at that high level during the early months of this year. At 124, the measure represents the more than 30 percent of the bankers who indicated the availability of funds for loans to farmers was up from a year ago compared to about 6 percent who reported a drop during the first quarter. The remaining 63 percent of the respondents reported no change in the amount of funds available for lending to farmers compared to the same months a year ago. The measure of fund availability was above 100 in each of the District states, indicating larger proportions of bankers reported increases in fund availability than noted declines. In addition, a majority of the surveyed bankers in each of the District states reported no change from a year earlier in fund availability.

The strengthening in farm loan demand that has been apparent during the last three years has coincided with a rising level of loan-to-deposit ratios at District agricultural banks. Following a pronounced decline from the late 1970s through the mid 1980s, which saw loan-to-deposit ratios dip to less than 49 percent in 1987, the average of the ratios of responding banks has been trending higher. The ratio averaged 55.2 percent at the end of the first quarter this year, recording the highest first quarter ratio of loans to deposits since 1985. Nevertheless, agricultural bank loan-to-deposit ratios in early 1990 remain well below the 66 percent average that prevailed at the start of the previous decade.

Loan-to-deposit ratios span a wide range across the District states. At one end are banks in Illinois and Iowa, which have loan-to-deposit ratios that average about 50 percent. The remaining states, in contrast, have average ratios well above 60 percent. Agricultural bankers in Indiana and Wisconsin reported average ratios of 62 percent and 65 percent, respectively. Michigan bankers reported the highest average loan-to-deposit ratio at the end of the first quarter of almost 69 percent.

Despite the gains, a substantial majority of the survey respondents indicated a preference for still higher loan-to-deposit ratios. Current ratios were below the desired level for more than two-thirds of the bankers, while only 7 percent considered them too high. The

**Selected measures of credit conditions
at Seventh District agricultural banks**

	Loan demand <i>(index)²</i>	Fund availability <i>(index)²</i>	Loan repayment rates <i>(index)²</i>	Average rate on feeder cattle loans ¹ <i>(percent)</i>	Average loan-to-deposit ratio ¹ <i>(percent)</i>	Banks with loan-to-deposit ratio above desired level ¹ <i>(percent of banks)</i>
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
1990						
Jan-Mar	125	124	122	11.88	55.2	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.

remaining 25 percent of the respondents were satisfied with their current loan-to-deposit ratio. For the District as a whole, the average of the surveyed bankers' desired loan-to-deposit ratios stood at 61.8 percent, 6.6 percentage points higher than the current average. Among the individual District states, the average of the desired loan-to-deposit ratios ranged from about 56 percent among Illinois agricultural banks to more than 71 percent in Michigan.

Interest rates charged on loans to farmers recorded a fourth consecutive quarterly decline during the first three months of 1990. The average rates charged on feeder cattle and farm operating loans dropped to about 11.9 percent at the end of the first quarter, slightly below the 12 percent average of three months earlier but about 60 basis points below the year-earlier level. Among individual District states, rates on farm operating and feeder cattle loans averaged over 12 percent in Indiana and Michigan and just under that level in Illinois and Iowa. Wisconsin bankers reported the lowest average rates on these types of loans at 11.6 percent at the end of the first quarter.

Interest rates charged on farm real estate loans continued to move lower during the first quarter as well. With a District wide average of 11.07 percent, farm mortgage rates were about 7 basis points lower than three months earlier and 63 basis points below the year-earlier level. Iowa agricultural banks reported the lowest average rate on farm mortgages at 10.8 percent, followed closely by an 11 percent average among Wisconsin respondents. Rates on farm real estate loans in Illinois and Indiana averaged 11.2 and 11.3 percent, respectively, while Michigan bankers reported an average rate of 11.6 percent.

Farm loan repayment rates continued to strengthen during the first quarter. At 122, the measure reflects the 31 percent of the survey respondents who indicate the rate of loan repayments was up from a year earlier, less the 9 percent who noted a drop in repayment rates compared to the first three months of 1989. The remaining 60 percent of the agricultural bankers reported no change in loan repayment rates compared to the first quarter of the previous year. The measures of repayment rates were particularly strong in Illinois, Michigan and Wisconsin, ranging between 134 and 139. Agricultural bankers in Indiana and Iowa reported measures of repayment that were somewhat lower than the District average. However, substantial ma-

majorities of the respondents in both states report no change in repayment rates compared to a year earlier.

Credit demand at District agricultural banks is expected to strengthen further during the second quarter of the year. Only about 12 percent of the survey respondents expect to see a decline in the volume of nonreal estate farm lending compared to the same months last year, while 38 percent of the bankers expect the volume of nonreal estate farm lending to rise. The remaining half of the respondents foresee no change compared to a year ago in the volume of nonreal estate farm lending at their institutions. Continued strong demand for farm operating credit appears to account for much of the expected increases in volume during the second quarter, with 41 percent of the bankers expecting an increase from a year ago and only 12.5 percent expecting a decline. The volume of lending for farm machinery loans is expected to rise as well. More than half the respondents expect their institutions to increase lending to farmers purchasing farm machinery, while fewer than 6 percent expect a year-to-year decline during the second quarter. Large majorities of the agricultural bankers foresee a stable volume of lending for feeder cattle, crop storage and dairy operations, but very few expect increases.

Farm real estate lending at District agricultural banks is expected to continue expanding during the second quarter. Almost 28 percent of the surveyed bankers expect their volume of real estate lending to exceed last year's level, while only 6 percent foresee a decline. The remaining two-thirds of the respondents indicated their volume of farm mortgage lending will hold at year-earlier levels during the spring months.

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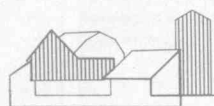
Selected Agricultural Economic Indicators

	Latest period	Value	Percent change from		
			Prior period	Year ago	Two years ago
Receipts from farm marketings (\$ millions)	December	14,293	-18.4	6	3
Crops*	December	6,883	-21.6	2	5
Livestock	December	6,846	-12.4	9	15
Government payments	December	563	-39.2	20	-60
Real estate farm debt outstanding (\$ billions)					
Commercial banks	December 31	15.3	0.9 [†]	8	15
Farm Credit System	December 31	26.3	-0.8 [†]	-6	-13
Life insurance companies	December 31	8.89	3.1 [†]	0	-4
Nonreal estate farm debt outstanding (\$ billions)					
Commercial banks	December 31	29.2	-2.2 [†]	3	6
Farm Credit System	December 31	9.49	-2.1 [†]	8	1
Interest rates on farm loans (percent)					
7th District agricultural banks					
Operating loans	April 1	11.93	-1.0 [†]	-5	8
Real estate loans	April 1	11.07	-0.7 [†]	-5	6
Commodity Credit Corporation	May	8.37	1.5	-12	22
Agricultural exports (\$ millions)					
Corn (mil. bu.)	February	3,503	-6.8	1	11
Soybeans (mil. bu.)	February	184	-23.2	19	49
Wheat (mil. bu.)	February	76	-2.1	33	-22
	February	91	9.0	-32	-38
Farm machinery sales^p (units)					
Tractors, over 40 HP	April	8,193	23.0	21	60
40 to 100 HP	April	4,659	34.0	20	41
100 HP or more	April	3,534	10.9	22	94
Combines	April	749	21.2	105	312

*Includes net CCC loans.

[†]Prior period is three months earlier.

^pPreliminary



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