FRB CHICAGO

AGRICULTURAL LETTER

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Agricultural credit conditions at District banks

The trend in agricultural credit conditions at banks in the Seventh Federal Reserve District during the summer months was little changed from earlier quarters. The responses of the 450 bankers to our latest survey show that the demand for new farm loans continued to exceed the year-ago level. Farm loan repayment rates and the availability of funds for lending during the third quarter also remained above the levels of last year. Interest rates charged on farm loans held steady for the second consecutive quarter and loan-to-deposit ratios were unchanged from a year ago.

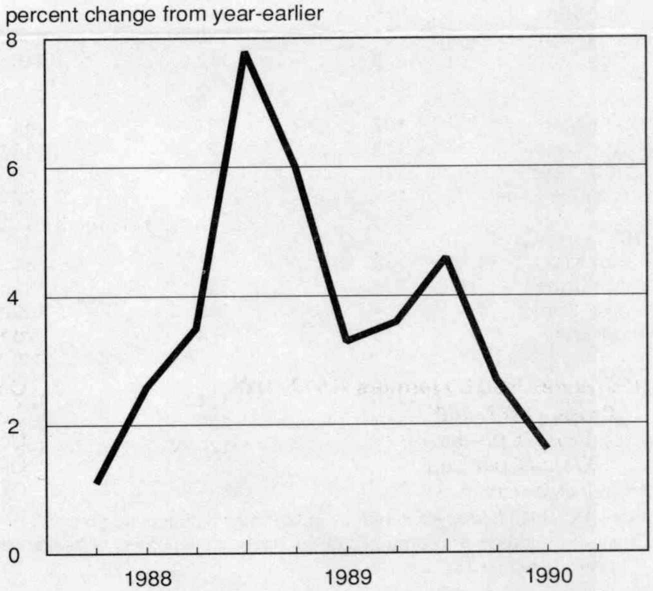
The demand for new farm loans at District agricultural banks has been on an uptrend since early 1988. In the most recent survey, 33 percent of the bankers indicated that the demand for farm loans in the third quarter was stronger than in the same period a year earlier. Only 16 percent of the bankers reported a decline in loan demand. The remaining bankers suggested that farm loan demand this summer was unchanged from last year. The indicated strength in farm loan demand varied among individual District states. The consensus of a stronger loan demand was most apparent among bankers in Illinois and Iowa, perhaps reflecting the increased number of cattle moving into feedlots in those two states this summer. Conversely, in Wisconsin the proportion of bankers noting an increase in loan demand only marginally exceeded the proportion noting a decline. And in Michigan, the share of bankers noting a decline in loan demand slightly exceeded the share noting an increase.

The evidence of continued strength in the demand for new farm loans during the summer months may foreshadow further growth in farm loan portfolios at District banks. Since the end of 1987, farm loans held by all banks in the five states of the Seventh Federal Reserve District have been trending up. But the rate of gain has slowed from the initial, drought-related surge of 8 percent in 1988. Last year, the rise in farm loans held by banks in District states slowed to about 4.5 percent. And the latest figures available show the year-over-year rise narrowed to less than 2 percent as of the end of June. Nationwide, farm loan portfolios at banks as of the end of June were up 4 percent from a year earlier, roughly comparable to the gains recorded in 1988 and 1989. The comparatively modest growth at District banks over the past year partially reflects the continuing slide in farm loans held by banks in Michigan. Farm loans held by banks in Michigan as of the end of June were down 8 percent from a year ago and down 11 percent from two years ago.

The latest survey continued to suggest that farmers are doing a better job in keeping current in their loan repayments. Reflecting this, nearly 20 percent of the bankers indicated that third-quarter farm loan repayment rates exceeded year-earlier levels. In comparison, only 5 percent reported a decline in farm loan repayment rates. Similarly, the bankers that noted fewer instances of loan renewals and extensions outweighed those that noted an increase by a margin of 5 to 1. The evidence of faster loan repayments and fewer loan extensions was apparent in the responses of bankers from all five District states. Wisconsin bankers, for the sixth consecutive quarter, provided the strongest evidence of continued gains in farm loan repayment rates. This undoubtedly reflects the heavy concentration of dairy farmers in that state and the high milk prices since mid 1989.

Interest rates charged on farm loans by District agricultural banks held steady again this summer. The typical

Growth in farm loans at banks in District states has slowed



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)*
1980						
Jan-Mar	85	49	51	17.13	66.4	51
Apr-June	65	108	68	14.01	65.0	31
July-Sept	73	131	94	14.31	62.5	21
Oct-Dec	50	143	114	17.39	60.6	17
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

[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.

rates charged on feeder cattle and farm operating loans as of September 31 averaged about 11.9 percent while rates on farm real estate loans average 11.1 percent. For all three types of farm loans, the most recent averages were virtually unchanged from both three months and six months earlier but down slightly (25 basis points) from a year ago. Among individual District states, farm loan interest rates tended to be below the District average in Iowa and Wisconsin and above the District average in Indiana and Michigan.

Most District agricultural banks continue to have ample liquidity and a desire to expand their loan portfolios. The number of bankers noting year-over-year gains in the amount of funds available for lending to farmers exceeded those noting a decline in fund availability by a considerable margin. Similarly, loan-to-deposit ratios, while edging up this summer, registered a somewhat smaller than normal seasonal rise. As a result, the average loan-to-deposit ratio at District agricultural banks as of the end of September was essentially unchanged from a year-ago. Moreover, the desired loan-to-deposit ratios among the responding bankers averaged about 6 percentage points above the average of their actual ratios. These general indications of ample liquidity were evident among bankers from all District states except Michigan.

The bankers remain fairly positive about the near-term outlook for agriculture, despite the recent decline in grain prices and cuts in government farm income and price support programs. By a margin of 4 to 1, the bankers believe that net cash earnings of cattle and hog farmers during the fall and winter months will be up from the high levels of a year-earlier. Overall, their expectations with respect to crop farmers earnings were much more balanced, with 41 percent of the bankers projecting an increase and 34 percent projecting a decline. But their expectations for crop farmers varied widely, as the pessimism among bankers in Iowa and Wisconsin nearly offset the overwhelming optimism among bankers in the other District states. The bankers expectations with respect to earnings of dairy farmers also differed considerably, with those from Michigan and Wisconsin in particular expecting lower dairy earnings. In all District states, the proportion of bankers expecting stronger farm loan repayment rates this fall and winter exceeded those anticipating a decline by a sizable margin. Districtwide, that margin was more than 5 to 1.

In general, bankers are also anticipating continued year-over-year gains in farm loan demand. Farm loan demand this fall and winter may rise because of the modest expansion underway among hog farmers and the apparent tendency of farmers to store more of their grain this year while prices are low. The stronger demand to finance crops in storage will probably be shared between banks and the Commodity Credit Corporation. Reflecting the latter, the amount of new crop wheat put under price-support loans with the CCC through mid-October of this year was up sharply from the curtailed pace of the past two years. A similar pattern could develop this fall with the wind-up of the corn and soybean harvest. Higher prices for energy-related inputs and the implementation of the new farm program may also add to farm loan demand at banks in the months ahead. The new triple-base plan (which excludes payments on 15 percent of a participants base acreage) to be incorporated in the 1991 farm programs will trim advance deficiency payments to corn farmers next spring.

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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 *(1977=100)*	October	147	-0.7	1	4
Crops *(1977=100)*	October	121	-1.6	-5	-8
Corn *($ per bu.)*	October	2.15	-7.3	-3	-17
Oats *($ per bu.)*	October	1.16	7.4	-21	-55
Soybeans *($ per bu.)*	October	5.90	-1.5	6	-22
Wheat *($ per bu.)*	October	2.39	-2.8	-36	-38
Livestock and products *(1977=100)*	October	171	-1.2	6	13
Barrows and gilts *($ per cwt.)*	October	57.80	4.9	22	46
Steers and heifers *($ per cwt.)*	October	79.30	0.6	8	9
Milk *($ per cwt.)*	October	13.60	-4.2	-8	5
Eggs *(¢ per doz.)*	October	73.5	7.3	3	25
Prices paid by farmers *(1977=100)*	October	188	2.2*	6	9
Production items	October	174	2.4*	5	7
Feed	October	124	-4.6*	-3	-12
Feeder livestock	October	219	2.3*	12	12
Fuels and energy	October	238	28.6*	30	44
Producer Prices *(1982=100)*	October	122	1.7	6	12
Agricultural machinery and equipment	October	121	-0.5	2	7
Fertilizer materials	October	101	4.3	11	0
Agricultural chemicals	October	120	0.1	3	10
Consumer prices *(1982-84=100)*	September	133	0.8	6	11
Food	September	133	0.2	6	11
Production or stocks					
Corn stocks *(mil. bu.)*	September 1	1,344	N.A.	-30	-68
Soybeans stocks *(mil. bu.)*	September 1	239	N.A.	31	-21
Beef production *(bil. lbs.)*	September	1.81	-12.1	-5	-11
Pork production *(bil. lbs.)*	September	1.23	-6.2	-9	-10
Milk production *(bil. lbs.)***	September	10.0	-4.4	4	1

N.A. Not applicable.
*Prior period is three months earlier.
**21 selected states.

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