FRB CHICAGO

AGRICULTURAL LETTER

FEDERAL RESERVE BANK OF CHICAGO

August 25, 1989 Number 1767

District credit conditions

Responses to a recent survey of agricultural bankers in the Seventh Federal Reserve District depicted recent trends in agricultural credit conditions across the region. The bankers suggested that farm loan demand remains strong at their institutions and that institutions have ample funds available for lending to farmers. In addition, interest rates charged on loans to farmers edged lower during the second quarter. Although the measure of farm loan repayment rates slowed during the three month period, further improvement in the condition of banks' farm loan portfolios was noted. The bankers expect farm lending to continue to expand during the third quarter, particularly for operating and farm machinery loans.

Farm loan demand at District agricultural banks remained strong during the second quarter. At 138 the measure held at the previous survey's level, which is the highest measure of farm loan demand recorded during the 1980s. The most recent reading reflects the composite of almost half of the survey respondents who reported a pickup in farm loan demand during the spring less the 11 percent reporting a drop compared to last year. The remaining 40 percent of the bankers indicated that farm loan demand at their institutions was unchanged from a year ago.

Among the individual District states, farm loan demand appeared particularly strong in Illinois and Iowa, where loan demand measures were well above the District average. Responses from bankers in Indiana and Michigan were comparable to the District average. The measure of farm loan demand in Wisconsin was considerably lower than the other states, but a larger proportion of bankers reported stronger loan demand compared to last year than noted a decline.

The strengthening of farm loan demand during the past two years has been accompanied by a downtrend in the District measure of fund availability, reflecting a slowing in the rate of growth of bank funding for agriculture. At 107 the measure of funds available at banks for lending to farmers is at its lowest level since 1980. About 22 percent of the respondents continued to report increase in funds available for farm lending, while almost 15 percent reported a decline from last year. The remaining 63 percent of the responding bankers reported no change in the amount of funding for loans to farmers from the year-earlier level. The measure of fund availability was above 100 in all of the District states except Michigan, where a slightly larger share of the respondents noted a drop in funds for loans to farmers than noted an increase from last year. However, two-thirds of the Michigan bankers reported that funds available for lending to farmers were unchanged from the second quarter of 1988.

As farm loan demand at District agricultural banks has picked up, loan-to-deposit ratios at these institutions has risen steadily. At 55.9 percent at the end of the second quarter, the average of loan-to-deposit ratios at District agricultural banks is up 2 percentage points from three months earlier and almost 4 percentage points higher than a year ago. Agricultural banks in Illinois and Iowa continue to report the lowest ratios, at about 50 percent, while the average of Michigan banks' loan-to-deposit ratios approached 70 percent at the end of June. Indiana and Wisconsin bankers' responses showed average loan-to-deposit ratios of 65 percent and 63 percent, respectively.

Despite the recent increases in the banks' ratios, a majority of the respondents noted a preference for further increases in their ratios of loans to deposits. Two-thirds of the bankers reported that their current loan-to-deposit ratio was below the desired level, while less than 12 percent reported it was too high. The remaining 22 percent of the bankers found their current loan-to-deposit ratio at the desired level. The preference for still higher ratios was most common in Illinois and Iowa, where 69 percent and 86 percent of the respondents indicated their current ratio was below the desired level. For the District as a whole, the average of the surveyed bankers' desired loan-to-deposit ratios stood at more than 62 percent.

Interest rates charged on loans to farmers, after rising sharply during the early months of 1989, registered a slight decline during the second quarter. The average of the rates reported for feeder cattle and farm operating loans, at the end of June stood at about 12.4 percent, down about 12 basis points from three months earlier. However, interest rates charged on these loans varied across the District states. Michigan bankers reported the highest rates on feeder cattle and operating loans, averaging about 12.9 percent. Wisconsin banks, with interest rates averaging just over 12 percent, had the lowest average rates.

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

[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 on farm real estate loans also edged lower during the spring months. At just over 11.5 percent, the average rate charged on farm mortgages by District agricultural banks was down 16 basis points from three months earlier. Iowa and Wisconsin bankers reported the lowest average rates on farm mortgages at the end of June, averaging less than 11.4 percent in both states. In contrast, the 12.1 percent average among Michigan banks was well above the average. Agricultural banks in Illinois and Indiana reported average rates of about 11.7 percent at the end of the quarter.

The measure of farm loan repayment rates, after showing some signs of sluggishness in the three previous surveys, rose slightly during the second quarter. At 92, the measure reflects the 10 percent of the bankers' who noted that farm loan repayments had improved compared to last year, less the 18 percent who noted some reduction. The remainder of the bankers, 72 percent, indicated that farm loan repayment rates were comparable to year-earlier levels during the spring. While the measure of loan repayments was near the District average in three states, responses of Illinois and Wisconsin bankers departed from the norm. Illinois bankers reported a substantially weaker measure, with only 8 percent of the respondents noting improvement compared to 28 percent noting deterioration compared to a year ago. Wisconsin on the other hand, was the only District state with a larger proportion of bankers reporting increased repayments than reporting declines. While almost 14 percent of the respondents indicated that repayments were up from a year ago, fewer than 9 percent indicated that repayments had dropped.

Despite some decline in the measure of farm loan repayment rates, the condition of farm loan portfolios at District agricultural banks continues to show improvement. At the end of the second quarter, the average proportion of District agricultural bank farm loan portfolios experiencing little or no repayment problems stood at 94 percent, up from 91 percent last year. As a result of this improvement, a declining proportion of agricultural banks' portfolios fell into the more significant problem categories. Across the District, an average of about 4 percent of the bankers' portfolios were characterized as experiencing major repayment problems requiring additional collateral and longer term workouts, two percentage points lower than at mid year 1988. An average of less than 2 percent of the farm loan portfolios across the District continue to be characterized as experiencing severe repayment problems, down from almost 3 percent last June. These are loans that are likely to result in losses or require the forced sale of assets. With the proportion of agricultural bank loan portfolios experiencing major or severe problems averaging 6 percent at the end of the second quarter, significant improvement has occurred since three years ago when the proportion of farm loan portfolios falling into these categories averaged a high of 17.5 percent.

The volume of farm lending at District agricultural banks is expected to show continued growth during the third quarter. Only 10 percent of the bankers foresee a decline in the volume of nonreal estate farm lending compared to the same months last year, while almost 37 percent expect nonreal estate lending by their institutions to be up from a year ago. The remaining 53 percent of the survey respondents indicated that the volume of nonreal estate loans to farmers would be comparable to the year-ago level during the three months ending in September.

The expected increase in nonreal estate lending stems largely from continued growth in farm operating loans. About 45 percent of the respondents expect higher operating loan volume compared to the same months last year, while less than 9 percent are forecasting a cut in volume. Farm machinery lending may show some gains during the third quarter too, with almost twice as many bankers expecting a year-to-year increase in volume than expecting a decline. With regard to loans for feeder cattle, dairy, and crop storage, the proportions expecting declines in volume this summer far exceed the proportions expecting increases. However, large majorities of the surveyed bankers expect volume in these types of loans to be unchanged from the third quarter of last year.

Farm real estate lending at District agricultural banks may show some growth during the third quarter as well. About 19 percent of the bankers surveyed expect the volume of farm mortgage loans at their institutions to exceed year-ago levels, while a slightly smaller proportion of 17 percent foresee a decline. The remaining 64 percent of the respondents indicated that farm mortgage volume will hold at the year-earlier level during the third quarter.

Peter J. Heffernan

AGRICULTURAL LETTER (ISSN 0002-1512) is published bi-weekly by the Research Department of the Federal Reserve Bank of Chicago. It is prepared by Gary L. Benjamin, economic adviser and vice-president, Peter J. Heffernan, economist, and members of the Bank's Research Department, and is distributed free of charge by the Bank's Public Information Center. The information used in the preparation of this publication is obtained from sources considered reliable, but its use does not constitute an endorsement of its accuracy or intent by the Federal Reserve Bank of Chicago.

To subscribe, please write or telephone:
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
Prices received by farmers *(1977=100)*	July	146	-0.7	3	13
Crops *(1977=100)*	July	134	-2.9	-2	24
Corn *($per bu.)*	July	2.43	-3.6	-11	52
Oats *($per bu.)*	July	1.65	-9.3	-42	28
Soybeans *($per bu.)*	July	6.75	-4.4	-21	29
Wheat *($per bu.)*	July	3.78	-1.6	8	63
Livestock and products *(1977=100)*	July	156	-0.6	6	5
Barrows and gilts *($per cwt.)*	July	47.30	1.9	3	-23
Steers and heifers *($per cwt.)*	July	71.50	-0.6	6	9
Milk *($per cwt.)*	July	12.40	0.8	9	3
Eggs *(¢per doz.)*	July	64.0	1.1	10	27
Prices paid by farmers *(1977=100)*	July	178	0.6†	3	9
Production items	July	165	0.0†	4	11
Feed	July	133	-5.0†	-8	27
Feeder livestock	July	193	4.3†	7	6
Fuels and energy	July	188	1.6†	11	14
Producer Prices *(1982=100)*	July	114	-0.1	5	8
Agricultural machinery and equipment	July	117	0.2	4	6
Fertilizer materials	July	98	-6.1	1	10
Agricultural chemicals	July	116	0.6	8	11
Consumer prices *(1982-84=100)*	July	124	0.2	5	9
Food	July	126	0.4	6	10
Production or stocks					
Corn stocks *(mil. bu.)*	June 1	3,419	N.A.	-41	-46
Soybean stocks *(mil. bu.)*	June 1	655	N.A.	41	-22
Beef production *(bil. lbs.)*	June	2.02	1.2	0	3
Pork production *(bil. lbs.)*	June	1.27	-5.6	3	17
Milk production *(bil. lbs.)*††	July	10.3	-1.2	-2	-1

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

AGRICULTURAL LETTER
FEDERAL RESERVE BANK OF CHICAGO
Public Information Center
P.O. Box 834
Chicago, Illinois 60690

(312) 322-5111

AG001
LOUISE LETNES LIBRARIAN
DEPT OF AGRIC & APPLIED ECON
231 CLASSROOM OFFICE BUILDING
1994 BUFORD AVENUE
ST PAUL MN 55108-1012