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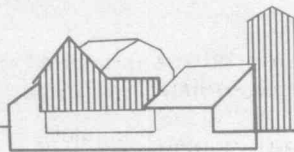
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District credit conditions

A recent survey of agricultural bankers in the Seventh Federal Reserve District provided information on trends in agricultural credit conditions across the region. The bankers' responses suggest that farm loan demand remains strong and that most institutions have ample funds available for lending to farmers. Interest rates on loans to farmers continued to ease during the third quarter, recording a second consecutive quarterly decline. Farm loan repayment rates, after slowing somewhat early in the year, began to pick up during the summer months and are expected to continue strong through the fall and winter.

The measure of farm loan demand at District agricultural banks remains strong, despite some decline from the first half of the year when the measure reached its highest level of the 1980s. The most recent measure, at 124, reflects the 37 percent of the respondents who reported an increase in farm loan demand during the summer months less the 13 percent noting a decline compared to last year. The remaining 50 percent of the respondents noted that farm loan demand at their banks was unchanged from the same months a year ago.

Among the individual District states, farm loan demand was reported particularly strong in Illinois and Iowa, with both states recording loan demand measures well above the District average. Bankers in Indiana and Wisconsin reported continued strengthening in farm loan demand, although the measures derived from their responses were below the District average. Responses from Michigan bankers, on the other hand, reflect little change in farm loan demand compared to the third quarter of last year, with about equal proportions of bankers reporting increases as reporting declines. However, the large majority of Michigan respondents, more than three-fourths, indicated that farm loan demand during the third quarter was unchanged from the levels that prevailed a year earlier.

The measure of fund availability rose slightly from the previous quarter's level, but remained well below the very high levels recorded in 1987 and 1988. The decline in the measure from the earlier highs reflects a slowing in the growth of bank funding for loans to farmers following the very rapid expansion after the

sector began to emerge from the financial pressures of the mid 1980s. At 109, the current measure is a composite of the 22 percent of the survey respondents that continued to report increased funding available for farm lending less the 13 percent that reported a drop from last year. The remaining 65 percent of the bankers noted no change in the amount of funds available for loans to farmers compared to the year-earlier level. The measure of fund availability was near 100 in three of the District states, indicating equal proportions of bankers noting increases and declines from a year ago. However, a substantial majority of the respondents in these states reported no change in fund availability. Bankers in Iowa and Wisconsin, on the other hand, reported continued growth in fund availability during the third quarter, with substantially larger proportions of bankers in each state noting increases in funds for lending to farmers than noting a decline.

As farm loan demand has strengthened at District agricultural banks, loan-to-deposit ratios have trended higher. The average loan-to-deposit ratio at responding institutions had slipped below 50 percent in late 1986 and early 1987, well below the 65 percent level that prevailed at the start of the decade. However, agricultural bank lending as a proportion of deposits has been moving steadily higher since 1988. At 57 percent at the end of the third quarter, the average of the responding banks' loan-to-deposit ratios was about 3 percentage points higher than a year earlier and at its highest level in five years. Agricultural banks in Illinois and Iowa, which historically have had the lowest ratios, reported a two percentage point increase in loan-to-deposit ratios from three months earlier that boosted their averages to 52 percent. Michigan agricultural banks again reported the highest average ratio of 69 percent, followed closely by Indiana and Wisconsin institutions that had average loan-to-deposit ratios of about 64 percent.

With the ratios well below historical highs, most of the survey respondents expressed a preference for still higher loan-to-deposit ratios. About 62 percent of the agricultural bankers reported their current loan-to-deposit ratio was below the desired level, while only 10 percent reported it was too high. The remainder of the survey respondents, almost 28 percent, indicated their current ratio of loans to deposits was at 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>
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

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.

desired level. A preference for higher ratios was most prevalent in Illinois and Iowa where 64 percent and 73 percent of the surveyed bankers stated their loan-to-deposit ratios were below the desired level. The average of all the surveyed bankers' desired loan-to-deposit ratios was almost 63 percent, close to the levels that prevailed in the late 1970s and early 1980s.

After rising steadily during 1988 and early this year, interest rates on loans to farmers at District agricultural banks have drifted lower during the second and third quarters. The average of the rates charged at District agricultural banks for feeder cattle and farm operating loans stood at just over 12 percent at the end of September. Although down about 20 basis points from three months earlier, rates on these loans are still about half a percentage point above the previous year's level. Among individual District states, Michigan bankers reported somewhat higher rates on feeder cattle and farm operating loans of 12.7 and 12.8 percent. Wisconsin banks, with interest rates averaging just under 12 percent had the lowest rates.

Interest rates charged on farm real estate loans continued to move lower during the third quarter as well. At an average of 11.34 percent at the end of September, rates on farm mortgages were down about 20 basis points compared to three months earlier but still about 30 basis points above the year-earlier level. Interest rates on farm mortgages ranged from just over 11 percent among banks in Iowa to an average of about 12 percent for Michigan agricultural banks.

The measure of farm loan repayment rates, after trending lower during 1988 and the first quarter of this year, continued to rise during the third quarter. At 106, the measure reflects the 18 percent of surveyed bankers who indicated repayment rates were up from a year earlier during the three month period, less the 12 percent who noted a decline in repayment rates on loans to farmers. The remaining 70 percent of the agricultural bankers reported no change in repayment rates compared to the summer months of the previous year.

The surveyed bankers expect farm loan repayment rates to continue to improve during the fall and winter months. About 46 percent of the respondents expect the volume of repayments to be above the year-ago level during the next six months, while less than 10 percent foresee a decline. The remaining 44 percent of the agricultural bankers expect no change from a year earlier in the volume of farm loan repayments through the winter months. The strengthening in repayment rates reflects the bankers' expectations concerning farm earnings. About half of the respondents think crop farmer income will be up, compared to 31

percent expecting a drop. More than a third of bankers indicated they expect dairy farmer income to be above a year ago during the fall and winter, while only 8 percent think it will be down. Incomes of cattle and hog operations, however, are expected to show some weakness during the period, with only 29 percent of the respondents anticipating an increase compared to 34 percent expecting a decline.

With generally favorable income prospects and expectations of increased farm loan repayments, there is strong sentiment among the surveyed bankers that forced sales and liquidations of capital assets of farmers will be down from a year ago. Less than 9 percent of the respondents expect forced sales and liquidation of assets to increase while more than 46 percent expect declines from a year ago. The remaining 45 percent of the surveyed bankers expect no change in the level of forced sales and asset liquidations of financially stressed farmers compared to the same months last year.

The volume of farm loans at District agricultural banks is expected to increase during the final months of 1989. However, feeder cattle and dairy loan volume may slip somewhat with bankers expecting a decline in volume of such loans outnumbering those expecting an increase. Operating and crop storage loans are likely to hold near or slightly above year-earlier levels according to the bankers' responses. Much of the expected increase in nonreal estate loan volume during the fourth quarter stems from farm machinery loans. Almost 46 percent of the agricultural bankers expect an increase in lending for farm machinery purchases this fall compared to only 9.5 percent expecting a year-to-year decline. Farm real estate lending volume is likely to be up as well, with about a fourth of the respondents expecting an increase over the year-ago level and only 11 percent foreseeing a decline.

Peter J. Heffernan

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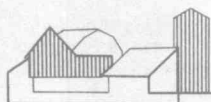
Selected Agricultural Economic Indicators

	Latest period	Value	Percent change from		
			Prior period	Year ago	Two years ago
Prices received by farmers (1977=100)					
Crops (1977=100)	October	144	0.7	1	12
Corn (\$per bu.)	October	127	0.8	-5	15
Oats (\$per bu.)	October	2.20	-3.1	-15	42
Soybeans (\$per bu.)	October	1.40	1.4	-45	-13
Wheat (\$per bu.)	October	5.28	-7.4	-30	5
	October	3.79	1.9	-1	45
Livestock and products (1977=100)	October	160	0.0	5	9
Barrows and gilts (\$per cwt.)	October	47.50	7.7	20	-4
Steers and heifers (\$per cwt.)	October	71.80	-0.1	-1	7
Milk (\$per cwt.)	October	14.50	3.6	12	12
Eggs (¢per doz.)	October	71.3	0.4	21	42
Prices paid by farmers (1977=100)	October	178	0.0†	3	9
Production items	October	164	-0.6†	1	9
Feed	October	128	-3.8†	-9	22
Feeder livestock	October	196	1.6†	0	3
Fuels and energy	October	184	-2.1†	12	10
Producer Prices (1982=100)	October	115	1.1	5	8
Agricultural machinery and equipment	October	118	-0.2	5	7
Fertilizer materials	October	92	-3.4	-9	5
Agricultural chemicals	October	117	0.2	8	10
Consumer prices (1982-84=100)	September	125	0.3	4	9
Food	September	126	0.2	5	11
Production or stocks					
Corn stocks (mil. bu.)	September 1	1,930	N.A.	-55	-60
Soybean stocks (mil. bu.)	September 1	182	N.A.	-40	-58
Beef production (bil. lbs.)	September	1.91	-8.6	-6	-6
Pork production (bil. lbs.)	September	1.35	1.2	-1	10
Milk production (bil. lbs.)††	September	9.75	-3.8	-2	0

†N.A. Not applicable.

††Prior period is three months earlier.

††21 selected states.



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