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AgLetter

FARMLAND VALUES AND CREDIT CONDITIONS

Summary

Increased farmland values in the Seventh Federal Reserve District in the fourth quarter of 2001 continued the pattern observed throughout the year. According to the Chicago Fed's end-of-fourth-quarter survey of Farmland Values and Credit Conditions, prices for "good" farmland rose, on average, just under 1 percent between October 1, 2001, and January 1, 2002. The 372 agricultural bankers that responded to the survey also indicated that the increase in farmland values, relative to a year ago, slowed to less than a 5 percent rate. This compares with a year-over-year gain of 6 percent in the fourth quarter of 2000.

Credit conditions in District production agriculture turned somewhat weaker in the fourth quarter of 2001. Summary measures of the rate of loan repayment and the rate of requests for loan renewals or extensions by farmers deteriorated, following two quarters of improvement. Bankers also indicated that additional collateral was being required to secure loans. Nonetheless, the overall demand for farm-related loans increased, after two quarters of declines.

Bankers reported a continued moderation in interest rates on agricultural loans. Rates on operating loans and farm real estate loans declined for the sixth consecutive quarter, to the lowest levels in more than a quarter of a century.

Farmland values

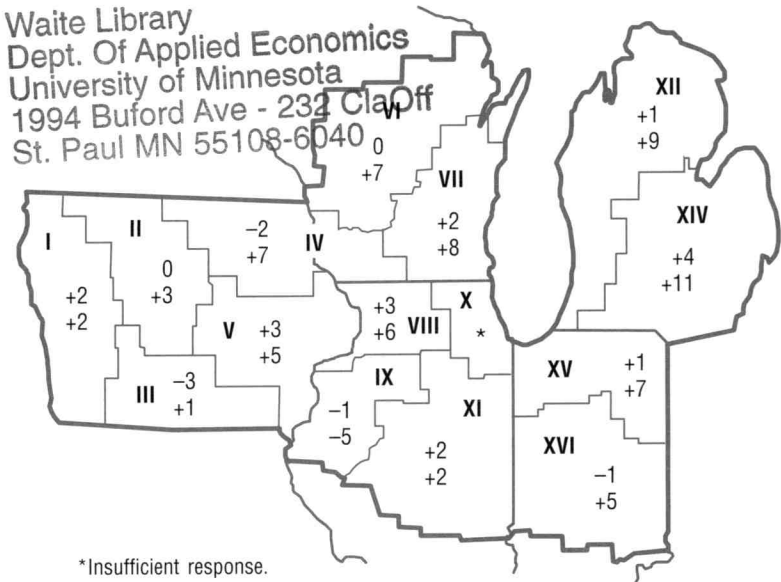
The increase in District farmland values in the fourth quarter of 2001 was the seventh consecutive quarter-to-quarter increase of around 1 percent. The year-over-year gain of about 5 percent continued well above the comparable rates reported in the late 1990s (see chart 1), but receded somewhat from the 6 percent year-over-year increase reported at the end of 2000.

Variations in farmland price changes across states continued to be fairly broad. Some areas, notably west-central Illinois and south-central Iowa, reported continued weak-to-declining farmland prices. At the other end of the spectrum, increases in farmland prices were observed in regions where population concentration continued to exert demand pressure on land use for residential and commercial purposes and in areas where demand for recreational land use remained strong.

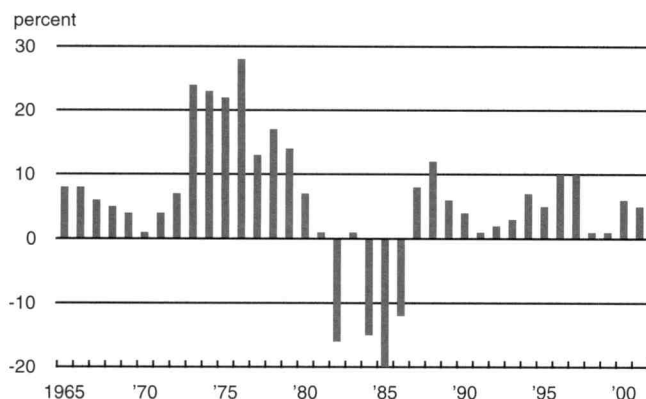
Percent change in dollar value of "good" farmland

Top: October 1, 2001 to January 1, 2002
Bottom: January 1, 2001 to January 1, 2002

	October 1, 2001 to January 1, 2002	January 1, 2001 to January 1, 2002
Illinois	+1	+1
Indiana	0	+6
Iowa	0	+3
Michigan	+3	+10
Wisconsin	+1	+8
Seventh District	+1	+5



1. Annual percentage change in Seventh District farmland values



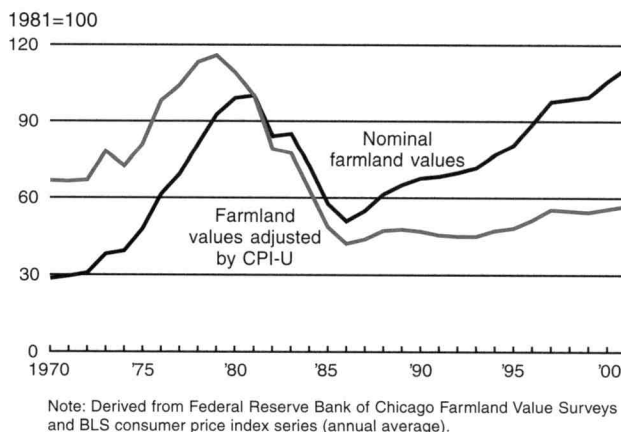
Based on bankers' responses, an index of District average farmland prices rose to a record level at the end of 2001 for the second consecutive year. At the end of the year 2000, District farmland prices (nominal) broke through the previous index high established at the end of 1981 (see chart 2). The 1981 record culminated a three-and-one-half-fold increase in average farmland prices during a single decade. The agricultural recession/restructuring that took place in the 1980s wrung much of the 1970s price increase out of District land values, leaving them at the end of 1986 some 49 percent below the 1981 high. Since 1986, District farmland prices have doubled. Is there a difference in the price structure of the appreciation in the 1970s versus that of the last 15 years?

Two points stand out. First, the recent appreciation in farmland values was markedly more gradual than that of the 1970s. Second, the paths traced by the nominal farmland prices and the "real" or inflation-adjusted prices (see chart 2) were substantially different. In short, from 1986 to 2001, nominal farmland prices rose 8 percent per year, on average, while "real" farmland prices rose a little over 3 percent per year. Still, at the end of 2001, the "real" price index remained about 15 percent below the District average in 1970.

Credit conditions

Following two quarters in which agricultural bankers reported improvement in credit conditions, their responses in the latest survey indicated that some deterioration took place in the fourth quarter of 2001. Overall, 8 percent of the respondents indicated that the rate of loan repayment had increased, a slight improvement from the previous quarter. However, 33 percent of the bankers indicated they faced a deterioration in the rate of loan repayment compared with 21 percent who

2. Indexes of District farmland values



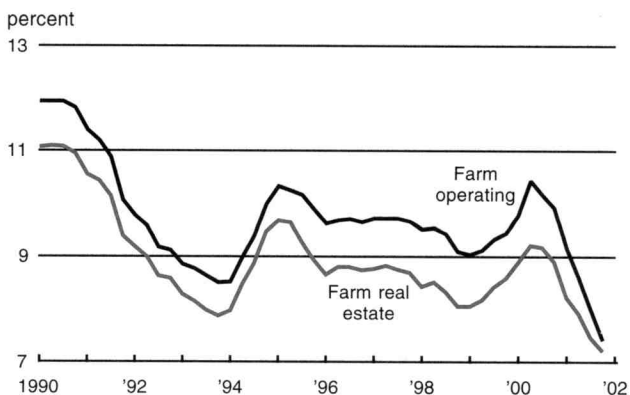
reported a deterioration in the third quarter. Similarly, 34 percent of the respondents observed a substantial increase in requests for loan renewals or extensions, while only 7 percent reported a decrease—both numbers were less favorable than reported in the third quarter.

In an environment where respondents again reported increased availability of funds, 24 percent of the bankers observed that less favorable credit conditions prompted them to increase loan collateral requirements. In a comparable question a year ago, 21 percent of the bankers noted increased collateral requirements.

Nonetheless, interest rates on farm loans continued to decline in the fourth quarter of 2001, according to District bankers (see chart 3). On average, operating loan rates declined 60 basis points from the end of September to the end of December and, at 7.41 percent, were 302 basis points below the nine-year peak in the second quarter of 2000.

Interest rates on farm real estate loans decreased 26 basis points from the end of the third quarter to 7.21 percent at the end of 2001, and were down 200

3. Quarterly District farm loan rates



338.13
A4b
1915

Credit conditions at Seventh District agricultural banks

	Loan demand	Fund availability	Loan repayment rates	Average loan-to-deposit ratio ¹	Interest rates on farm loans		
	(index) ²	(index) ²	(index) ²	(percent)	Operating loans ¹	Feeder cattle ¹	Real estate ¹
1998							
Jan-Mar	134	113	84	68.9	9.52	9.51	8.50
Apr-June	127	102	74	72.7	9.54	9.55	8.52
July-Sept	117	104	60	72.0	9.43	9.41	8.33
Oct-Dec	113	121	57	70.3	9.09	9.07	8.06
1999							
Jan-Mar	120	119	40	69.9	9.03	9.01	8.06
Apr-June	115	107	50	71.7	9.11	9.08	8.18
July-Sept	109	94	63	72.7	9.32	9.28	8.42
Oct-Dec	107	104	72	72.7	9.44	9.41	8.59
2000							
Jan-Mar	121	95	77	72.9	9.78	9.72	8.89
Apr-June	109	76	72	75.5	10.43	10.14	9.21
July-Sept	106	82	77	76.9	10.17	10.14	9.18
Oct-Dec	105	92	81	74.9	9.92	9.90	8.90
2001*							
Jan-Mar	118	101	67	75.0	9.16	9.17	8.23
Apr-June	106	109	73	75.1	8.60	8.58	7.91
July-Sept	91	127	86	74.9	8.01	8.07	7.47
Oct-Dec	101	129	75	72.8	7.41	7.51	7.21

¹At end of period.

²Bankers 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.

basis points from a five-year high at the end of the second quarter 2000.

In addition to increased collateral requirements, a higher proportion of bankers reported a general tightening in credit standards. Fifty-three percent of the respondents noted some tightening in standards compared with nearly 47 percent a year ago. However, they indicated that 2.8 percent of their current operating loan customers would not qualify for new loans in 2002, which was down from a 3.5 percent share a year ago.

Looking forward

The outlook with respect to lending activity during the first quarter of 2002 relative to a year ago might be categorized as subdued. While overall demand for farm lending was expected to be up, the increase was concentrated in operating loans. Demand for category-specific loans such as "feeder cattle loans" or "grain storage construction loans" remained weak. A substantially larger proportion of bankers expected lower loan demand than higher demand. In particular, the bankers expected a continued pronounced weakness in "farm machinery loans." Nearly 44 percent of the respondents forecast that machinery loans would be lower than a year ago.

In an environment of reduced rates of loan repayment and increased rates of loan renewals and extensions, bankers expect to increase their utilization of the USDA's

Farm Service Agency (FSA) farm loan guarantee program.¹ Thirty-eight percent of the bankers expect to increase their use of this program in the first quarter of 2002, relative to a year ago, the highest proportion in nearly two years.

Jack L. Hervey
Senior economist

¹FSA guarantees apply to ownership and operating loans to farmers who do not meet the standards of conventional lenders. Guarantees may apply to up to 90 percent of the loan principal, and lenders may resell the guaranteed portion in a secondary market.

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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 (index, 1990-92=100)	February	99	4.2	-1	8
Crops (index, 1990-92=100)	February	101	9.8	3	11
Corn (\$ per bu.)	February	1.93	-2.0	-2	-3
Hay (\$ per ton)	February	90.40	-2.8	4	22
Soybeans (\$ per bu.)	February	4.19	-0.7	-6	-13
Wheat (\$ per bu.)	February	2.85	-0.7	1	12
Livestock and products (index, 1990-92=100)	February	97	0.0	-5	5
Barrows and gilts (\$ per cwt.)	February	39.00	1.8	-2	-3
Steers and heifers (\$ per cwt.)	February	74.10	4.1	-6	4
Milk (\$ per cwt.)	February	13.30	-0.7	2	13
Eggs (¢ per doz.)	February	55.9	-10.3	-18	-19
Consumer prices (index, 1982-84=100)	January	177	0.2	1	5
Food	January	176	0.6	3	6
Production or stocks					
Corn stocks (mil. bu.)	December 1	8,264	N.A.	-3	3
Soybean stocks (mil. bu.)	December 1	2,276	N.A.	2	4
Wheat stocks (mil. bu.)	December 1	1,623	N.A.	-10	-14
Beef production (bil. lb.)	January	2.33	10.4	6	7
Pork production (bil. lb.)	January	1.72	2.9	1	9
Milk production* (bil. lb.)	January	12.3	2.2	2	0
Receipts from farm marketings (mil. dol.)	November	20,326	-9.6	13	14
Crops**	November	12,019	-7.7	23	29
Livestock	November	8,307	-12.2	0	-3
Government payments	November	N.A.	N.A.	N.A.	N.A.
Agricultural exports (mil. dol.)	December	4,685	-10.9	2	6
Corn (mil. bu.)	December	142	-2.7	-1	-15
Soybeans (mil. bu.)	December	133	-18.2	25	22
Wheat (mil. bu.)	November	103	4.6	16	12
Farm machinery sales (units)					
Tractors, over 40 HP	January	4,271	-28.2	-1	11
40 to 100 HP	January	3,069	-27.1	7	13
100 HP or more	January	1,202	-31.0	-16	4
Combines	January	184	-69.9	-56	-35

N.A. Not applicable

*20 selected states.

**Includes net CCC loans.

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