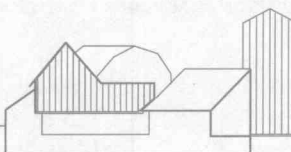


FRB CHICAGO



AGRICULTURAL LETTER

FEDERAL RESERVE BANK OF CHICAGO

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Farmland values and credit conditions

The responses of 430 agricultural bankers in the Seventh Federal Reserve District to our quarterly survey suggested that farmland values were stable during the summer quarter, but rose modestly from a year earlier. Overall, loan demand improved slightly and the bankers indicated ample funds were available for lending to farmers. Interest rates again registered a decline. In addition, the survey responses indicated divergent trends in credit conditions among the individual District states, reflecting the anticipated decline in crop yields faced by farmers in Iowa and Wisconsin.

The movement in farmland values during the summer quarter was somewhat mixed among the five states comprising the Seventh District. Values edged higher in Illinois, Iowa, and Wisconsin, while Indiana and Michigan recorded minor setbacks. There was no net change for the District as a whole. However, each state registered a gain for the 12 months ending October 1, with the overall rise for the District reaching 3 percent. Furthermore, the consensus is that farmland values will remain stable this fall.

The bankers indicated the demand for new farm loans during the summer was moderately higher than a year earlier. The latest reading of the loan demand measure came in at 110, representing a composite of the 30 percent reporting a gain versus the 20 percent who indicated a decline. The

remaining one-half of the respondents believed there was no change from the previous year. Bankers from Iowa and Indiana—and to a lesser extent, Wisconsin—accounted for the strengthening in loan demand, while requests for new loans in Illinois and Michigan appeared to be off last year's pace. The weather-related decline in the quality and quantity of hay produced in Wisconsin and Iowa may have forced farmers in both states to make larger-than-normal purchases of hay and protein concentrate. Feed costs in Iowa were also pushed higher by year-over-year gains in the number of beef cattle on feed.

District banks remain liquid with ample funds for lending. Nearly one-third reported an increase in the level of funds available for agricultural lending during the summer quarter while only a tenth indicated a decline. The majority indicated there was no change from a year ago. Despite adequate funds and increasing loan demand, the seasonal rise in the average loan-to-deposit ratio that typically occurs during the third quarter was all but absent this year as the bankers in Iowa and Wisconsin recorded small declines. The average ratio for the District came in at 59.2 percent, virtually unchanged from the level reported three months ago and last year. In general, a majority of the bankers expressed a desire to increase their loan-to-deposit ratio.

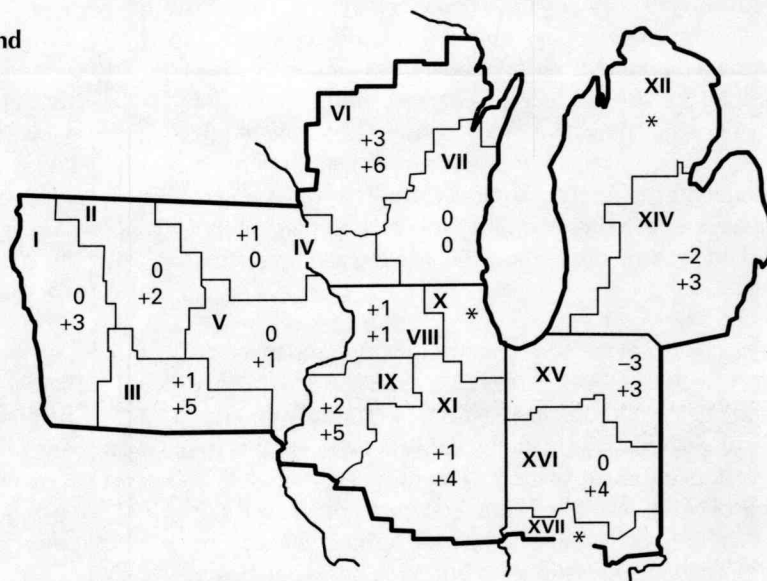
The interest rates charged by the surveyed banks on new farm loans continued to edge lower during the summer.

Percent change in dollar value of "good" farmland

Top: July 1, 1993 to October 1, 1993

Bottom: October 1, 1992 to October 1, 1993

	July 1, 1993 to October 1, 1993	October 1, 1992 to October 1, 1993
Illinois	+1	+4
Indiana	-1	+4
Iowa	+1	+2
Michigan	-2	+2
Wisconsin	+2	+3
Seventh District	0	+3



*Insufficient response

Credit conditions at Seventh District agricultural banks

	Loan demand (index) ²	Fund availability (index) ²	Loan repayment rates (index) ²	Average loan-to-deposit ratio ¹ (percent)	Interest rates on farm loans		
					Operating loans ¹	Feeder cattle ¹	Real estate ¹
					(percent)	(percent)	(percent)
1991							
Jan-Mar	128	127	98	56.5	11.40	11.37	10.57
Apr-June	130	122	74	58.1	11.19	11.17	10.43
July-Sept	113	122	81	58.5	10.88	10.89	10.15
Oct-Dec	109	132	69	57.4	10.06	10.08	9.39
1992							
Jan-Mar	129	128	77	57.3	9.77	9.80	9.19
Apr-June	123	123	79	58.1	9.57	9.56	8.99
July-Sept	111	123	90	59.3	9.18	9.16	8.63
Oct-Dec	107	127	93	58.7	9.12	9.13	8.59
1993							
Jan-Mar	108	131	102	58.0	8.85	8.83	8.29
Apr-June	103	129	95	59.2	8.77	8.74	8.16
July-Sept	110	122	90	59.2	8.63	8.59	7.99

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.

The average farm operating loan rate as of October 1 was 8.63 percent, a decline of 14 basis points from three months earlier and down 55 basis points from a year earlier. The average rate charged on new farm real estate loans posted a similar decline, coming in at 7.99 percent. Among the individual District states, the average farm operating loan rate ranged from a low of 8.57 percent in Indiana and Michigan to a high of 8.81 percent in Iowa. The average rate charged on new farm real estate loans ranged from 7.85 percent in Indiana to 8.49 percent in Michigan.

The rate of loan repayments over the summer was down from the previous year in Iowa and Wisconsin, but showed improvement in Illinois and Indiana. Little change was noted—on average—by the Michigan bankers. The summer floods slowed repayments in Iowa and Wisconsin by causing a marked increase in the level of uncertainty surrounding the size of this year's harvest. Repayments from dairy farmers—prevalent in Wisconsin—also suffered due to lower milk prices. District-wide, only a tenth of the respondents reported an improvement, while 20 percent indicated repayments had fallen. Nearly 70 percent indicated that summer loan repayments were at a level similar to last year.

The conditions anticipated by the agricultural bankers vary widely, with most of the differences seemingly explained by the degree of crop damage from the summer floods. In general, a large majority of the bankers expect that earnings of livestock producers will match or exceed year-earlier levels over the near term. But their views differ considerably with respect to earnings of crop farmers. A large proportion of the bankers in Iowa and Wisconsin anticipate lower crop earnings, as projected corn and soybean yields

for these two states are well below average. In contrast, the bankers in the other three states—facing a much better harvest—foresee gains in the net earnings received by crop farmers.

Similar variations were evident in the bankers' views on future farm loan repayment rates and the incidence of forced sales or liquidation of capital assets among financially stressed farmers. In an extension of the trend that emerged during the summer quarter, the proportion of bankers in Iowa and Wisconsin that expect slower farm loan repayments during the fall and winter months far outweighs the proportion expecting higher repayment rates. In contrast, the prevailing view in the other three District states—especially Indiana and Michigan—is that loan repayment rates will exceed year-earlier levels. The proportion of bankers expecting a pick-up in forced sales of capital assets reached 39 percent in Wisconsin and 67 percent in Iowa, substantially exceeding the share of bankers with similar views in the other District states (about 4 percent in Indiana and Michigan; 16 percent in Illinois).

The volume of nonreal estate loans held by District banks is expected to rise in the near term when compared to a year earlier. About one-third of the bankers believe an increase is on the horizon, while 13 percent expect a decline. Slightly over one-half thought there would be no change. The proportion of bankers in Iowa expecting gains was particularly high, and no doubt reflects weakening loan repayments and greater demand for new funds. In contrast, the trend in farm real estate lending is expected to be flat for the District as a whole.

Mike A. Singer

Crop production estimates cut again

The crop production estimates released by the U.S. Department of Agriculture earlier this month contained further downward revisions for both corn and soybeans. The estimate of the nation's corn harvest was lowered to just over 6.5 billion bushels while that for soybeans was reduced to 1.83 billion bushels. Compared to the record highs of last year, the latest projections mark a decline of 31 percent for corn and 16 percent for soybeans. For both corn and soybeans, it now appears the flood and drought damaged harvest of 1993 will be the third lowest of the last twelve years, exceeding only the much smaller crops from the drought years of 1983 and 1988. In terms of the adequacy of available supplies, the latest production estimates foreshadow cuts of 8 to 10 percent in usage in the year ahead and increased vulnerabilities to more cuts the following year if production doesn't rebound in 1994.

The fall harvest got off to a delayed start as farmers waited for the slow-to-develop crops to mature. Nevertheless, the harvest season is now winding down on a normal schedule and well ahead of the rain-delayed finish to the 1992 harvest. As of mid November, the soybean harvest in District states was essentially finished and the corn harvest ranged from roughly two-thirds complete in Michigan and Wisconsin to some 85 to 95 percent complete in Illinois, Indiana, and Iowa. Unlike the experience of last year when abundant summer rains led to better-than-expected harvest results in most areas, the harvest results this year proved to be a disappointment, especially for corn.

The monthly crop production estimates issued by USDA this year have contained abnormally large downward revisions for corn. The November corn estimate was more than 12 percent below the USDA's initial, objective yield estimate made in August, and more than 21 percent below the harvest implied by combining the trend-adjusted yield to the June acreage estimate. Since 1972, only one other year (1983) has witnessed as large a decline between the August and the November corn production estimate. The steep cut is tied to the numerous afflictions that buffeted this year's crop as a result of late plantings, extensive summer flooding over much of the Midwest, and drought in the Southeast.

The flood-related crop losses that hit the Midwest this year are reflected in lower yields on the acreage that was harvested and in the lost output from acreage that was either not planted, totally destroyed, or otherwise abandoned as a result of the flood. The area of lost corn and soybean output over the nine states hit by flooding approximated 8 million acres, or about 10 percent of the planned area of harvest indicated for those states in an earlier, June survey. Four states—Iowa, Minnesota, Missouri, and South Dakota—accounted for nearly three-fourths of the "lost" corn and soybean acreage. Another one-sixth was split between

Corn and soybean production estimates reveal wide variations among District states

	1987-91 average*	1992	1993	Change from	
				1992	1987-91 average
	(—million bushels—)			(—percent—)	
Corn					
Illinois	1,259	1,646	1,290	-22	2
Indiana	641	878	698	-21	9
Iowa	1,439	1,904	918	-52	-36
Michigan	226	242	242	0	7
Wisconsin	344	307	247	-19	-28
District states	3,909	4,976	3,395	-32	-13
United States	7,516	9,479	6,503	-31	-13
Soybeans					
Illinois	345	405	383	-6	11
Indiana	171	194	220	13	29
Iowa	336	357	248	-31	-26
Michigan	44	48	51	8	18
Wisconsin	17	22	20	-8	19
District states	913	1,027	922	-10	1
United States	1,944	2,188	1,834	-16	-6

*Excludes the drought year of 1988.

Illinois and Wisconsin. As a result of the large area of lost production, the initial prospects for a 7 percent decline in harvested corn acreage this year subsequently widened to a 13 percent decline. Similarly, the indications last June of a 4 percent year-over-year increase in harvested soybean acreage nationwide has since turned into a 4 percent decline.

Per acre yields on the acreage that was harvested retreated considerably in most areas this year, especially in the harder-hit flood and drought states. The national average corn yield of 103.1 bushels per acre represents a decline of nearly 22 percent from the 1992 record and a decline of 11 percent from "normal." (Normal is defined here as the average for the 1987-91 period, excluding the drought year of 1988). Soybean yields nationwide averaged 32.7 bushels per acre according to the latest estimates, down 13 percent from 1992 and 3 percent below normal. Yields in District states varied widely. In hard-hit Iowa, corn and soybean yields plunged 42 percent and 30 percent, respectively from last year, falling to levels as bad as in the 1988 drought year. For the second consecutive year, corn and soybean yields in Wisconsin fell well below normal. In contrast, yields in Michigan were up from the low year-earlier levels and comparable to the 1987-91 averages (excluding the 1988 drought year). Farmers in Illinois and Indiana had slightly-better-than-normal corn yields, while simultaneously achieving new highs in per acre soybean yields.

Gary L. Benjamin

Selected agricultural economic indicators

	Latest period	Value	Percent change from		
			Prior period	Year ago	Two years ago
Prices received by farmers (index, 1977=100)	October	144	-0.7	4	1
Crops (index, 1977=100)	October	129	0.8	10	4
Corn (\$ per bu.)	October	2.28	3.2	11	-1
Hay (\$ per ton)	October	82.50	6.3	17	20
Soybeans (\$ per bu.)	October	5.87	-5.5	12	7
Wheat (\$ per bu.)	October	3.18	2.9	-1	4
Livestock and products (index, 1977=100)	October	158	-1.3	0	0
Barrows and gilts (\$ per cwt.)	October	47.90	-1.4	13	8
Steers and heifers (\$ per cwt.)	October	72.10	-3.2	-6	-3
Milk (\$ per cwt.)	October	12.90	1.6	-4	-4
Eggs (¢ per doz.)	October	60.0	7.0	6	-3
Consumer prices (index, 1982-84=100)	October	146	0.4	3	6
Food	October	142	0.4	2	4
Production or stocks					
Corn stocks (mil. bu.)	September 1	2,113	N.A.	92	39
Soybean stocks (mil. bu.)	September 1	292	N.A.	5	-11
Wheat stocks (mil. bu.)	September 1	2,156	N.A.	2	6
Beef production (bil. lb.)	September	2.03	-1.8	2	4
Pork production (bil. lb.)	September	1.44	3.5	-5	9
Milk production* (bil. lb.)	October	10.4	2.2	-1	2
Receipts from farm marketings (mil. dol.)	July	13,448	7.0	-1	6
Crops**	July	5,989	16.2	-6	6
Livestock	July	7,352	4.1	2	6
Government payments	July	107	-69.9	30	43
Agricultural exports (mil. dol.)	August	2,946	-4.4	-5	4
Corn (mil. bu.)	August	99	8.2	-27	-34
Soybeans (mil. bu.)	August	25	-43.0	-37	-25
Wheat (mil. bu.)	August	103	-4.9	-1	1
Farm machinery sales (units)					
Tractors, over 40 HP	October	5,155	29.5	-9	-4
40 to 100 HP	October	2,852	3.4	-20	-1
100 HP or more	October	2,303	88.5	9	-8
Combines	October	933	22.4	-29	-26

N.A. Not applicable

*21 selected states.

**Includes net CCC loans.

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