

FRB CHICAGO

AGRICULTURAL LETTER

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Farmland values and credit conditions

Our latest survey of agricultural bankers in the Seventh Federal Reserve District indicates that farmland values posted the largest quarterly gain in four years during the early months of 1994. The responses of 450 bankers also show that rental rates for farmland registered a moderate increase from a year ago. In addition, farm loan interest rates edged upward for the first time in nearly four years, buoyed by strengthening loan demand and rising market rates. Moreover, credit conditions among the individual District states still reflect the differential effects of last fall's harvest.

The survey results indicated that farmland values in Seventh District states gathered momentum during the first quarter. District-wide, the bankers reported that farmland values rose 2 percent during the winter. In addition, there was little variability among the individual District states as farmland values in Iowa and Wisconsin shook off the doldrums caused by last fall's poor grain harvests. At 3 percent, Wisconsin registered the largest increase among District states. The other four District states—Illinois, Indiana, Iowa, and Michigan—each registered first-quarter gains of 2 percent. The strengthening noted in the farmland market during the first quar-

ter helped push values higher for the 12-month period ending April 1. Farmland values in Illinois were up 7 percent from a year ago. The bankers in both Indiana and Wisconsin reported gains of 6 percent, while those in Iowa and Michigan indicated farmland values were up 4 percent. For the District as a whole, these gains averaged out to an increase of 5 percent over the past 12 months.

The activity in the farm real estate market over the past six months was up slightly from a year earlier. Nearly a third of the respondents noted an increase in the number of farm units sold, compared to the 17 percent who noted a decline. The Wisconsin bankers reported the greatest increase, with nearly half stating the number of units sold was larger than the year before. Gains were also evident in Illinois and Indiana, and to a lesser extent, Michigan. In contrast, the pace of farm real estate sales in Iowa appeared to be off slightly from a year earlier.

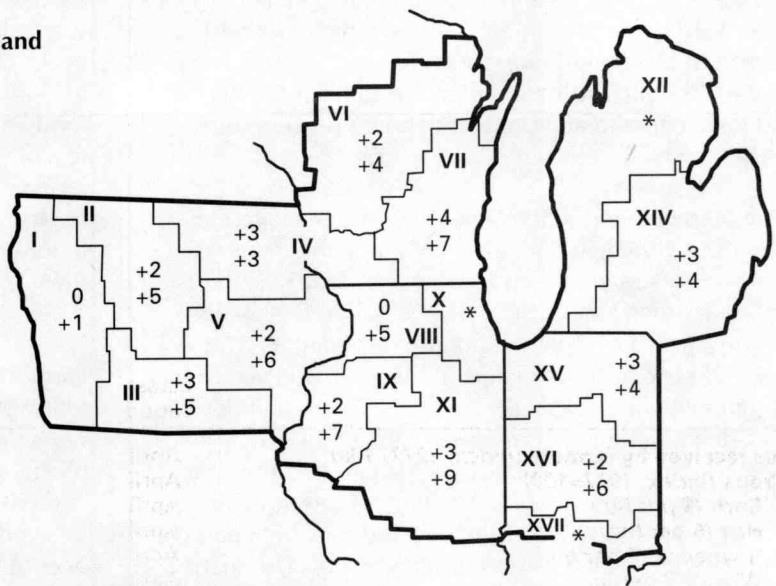
In general, the bankers perceived the upswing in farmland values and the number of units sold as being fueled on the demand side. District-wide, nearly 60 percent of the respondents stated they had seen an increase in the desire to purchase farmland. In contrast, less

Percent change in dollar value of "good" farmland

Top: January 1, 1994 to April 1, 1994

Bottom: April 1, 1993 to April 1, 1994

	January 1, 1994 to April 1, 1994	April 1, 1993 to April 1, 1994
Illinois	+2	+7
Indiana	+2	+6
Iowa	+2	+4
Michigan	+2	+4
Wisconsin	+3	+6
Seventh District	+2	+5



*Insufficient response

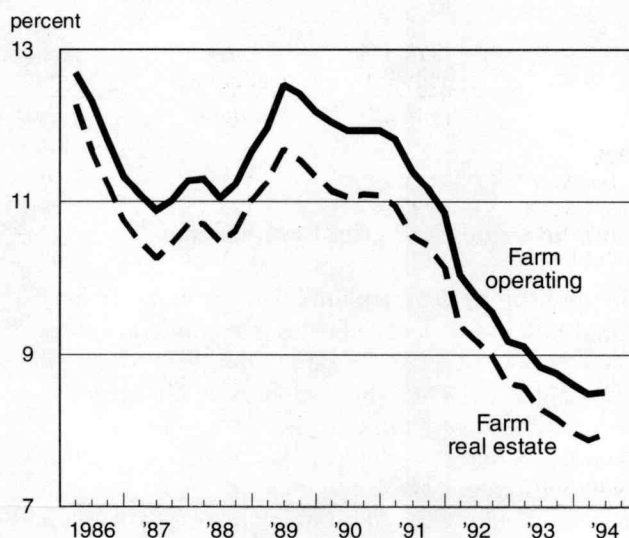
than a tenth believed demand had fallen, while a third thought there had been no change relative to a year ago. Looking at individual states, the proportion of bankers who saw an increase in demand was particularly high in Illinois and Indiana, coming in at 75 percent. The bankers also reported that non-farm investors were somewhat more active in the market for farmland compared to a year ago. Given the recent decline in the bond and stock markets, farmland has become a relatively more attractive option as an investment.

On the supply side, a majority of the respondents stated there was no change from a year ago in the amount of farmland on the market. However, the perspective was markedly different among Wisconsin bankers, with nearly 60 percent stating that the amount of farmland for sale had increased. This situation may be linked to the aftermath of last year's flood as well as the structural adjustment occurring within the dairy sector—an adjustment characterized by increased productivity, declining cow numbers, and consolidation to fewer and larger operations. This adjustment could be speeded up by the recent introduction of rBST. Smaller dairy operations—prevalent in Wisconsin—lack the production efficiencies necessary to compete effectively with larger dairy farms. Reflecting this, the number of dairy operations in Wisconsin has been on the decline for several years while the average herd size has been expanding.

Looking ahead, a significant proportion of the respondents believe farmland values will move higher this spring. Nearly 40 percent of the surveyed bankers conveyed the expectation that farmland values would rise, the largest percentage to express such a belief since 1988. The remainder indicated they anticipate no change. Currently, over half the Indiana bankers expect an upward trend in farmland values, while about 40 percent of those in Illinois and Wisconsin expect an increase. The proportion anticipating gains in Michigan and Iowa came in at 31 percent and 23 percent, respectively.

Farm loan demand in the Seventh District rose moderately during the first quarter when compared to a year earlier. The loan demand index came in at 136, the highest reading since 1989. This measure represents a composite of the 47 percent of the respondents who reported year-over-year gains in loan demand versus the 11 percent who indicated a decline. The remainder indicated no change from a year ago. Loan demand in Iowa continued to post the strongest gains among District states, with 70 percent of those bankers reporting an increase. Iowa's surging loan demand may be a part of the legacy of last fall's flood-reduced crop. The sharp decline in the volume of corn marketings contributed to more requests for loan renewals and extensions and a greater need for new debt financing.

Quarterly District farm loan rates



A portion of the stronger loan demand throughout the District stems from lower advance deficiency payments to farmers participating in the price support program for corn. In addition, the amount of funds borrowed from the Commodity Credit Corporation is down considerably this year. Moreover, part of the increase in loan demand comes from the higher production expenses that coincide with an increase in planted acreage. Seedings of corn and soybeans are expected to rise this year as farmers respond to lower stocks, firm prices, and a zero set-aside for corn. The USDA's March 31 report on planting intentions (which will be updated by a new acreage report at the end of June) indicated that farmers in District states planned to raise corn and soybean acreage this year by 8 percent and 4 percent, respectively. Furthermore, District states account for a significant portion of processing vegetable acreage, which is expected to post a substantial increase this year. The areas that suffered from flooding last year may also require greater-than-normal applications of fertilizer this year to offset the loss of nutrients from leaching. Finally, our survey indicates that higher cash rents will add to production expenses this year. The bankers from Illinois, Indiana, and Michigan reported that rents are up 4 percent from a year ago, while those in Wisconsin and Iowa indicated gains of 3 percent and 1 percent, respectively.

Farm indebtedness in some areas has also increased due to lower repayment rates. The measure of farm loan repayments came in at 94 for the District in the most recent survey. This represents a composite of the 22 percent who indicated repayments had risen from a year ago versus the 28 percent who stated a decline had occurred. Half the respondents indicated repayments were running at the same level as a year ago. The pattern among individual District states remained identical to three months earlier. The proportion of bankers who

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 (percent)	Feeder cattle ¹ (percent)	Real estate ¹ (percent)
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
Oct-Dec	125	126	95	59.7	8.50	8.50	7.88
1994							
Jan-Mar	136	121	94	59.9	8.52	8.48	7.97

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.

believed repayments had declined outweighed that who saw an improvement in Iowa and Wisconsin, while the reverse was true for Illinois, Indiana, and Michigan.

The surveyed bankers expect loan volume to post year-over-year gains during the spring, reflecting the current strengthening in loan demand as well as recent trends. Preliminary call report data show that farm loans held by banks in District states were up about 4 percent from a year earlier at the start of 1994, similar to the gain tallied the previous year. However, among the individual District states, Indiana and Michigan posted modest declines as a drop in operating loans more than offset the gains in loans secured by farm real estate. Looking ahead, nearly half the respondents stated a belief that non-real estate loan volume will be higher this spring than a year ago, while a tenth anticipated a decline. The share of banks expecting an increase was particularly high in Iowa. With respect to real estate loan volume, about a third of the bankers expect to post gains this spring, while a tenth anticipate a decline.

The bankers continue to report a generally favorable situation regarding the availability of loanable funds for agriculture. Just under a third reported an increase in the level of funds available for agriculture as compared to a year earlier, while a tenth reported a decline. Most of the bankers—60 percent—indicated there had been no change. However, the margin between those reporting an increase and those reporting a decline was considerably narrower in Iowa and Wisconsin than in the other District states. In addition to having adequate funds on hand, the bankers generally reported an interest in raising their lending levels, with two-thirds stating their loan-to-deposit ratio was less than desired. Actual

loan-to-deposit ratios ranged from a low of 53 percent in Illinois to a high of 69 percent in Wisconsin.

Market rates of interest moved higher during the first quarter of 1994 and the surveyed bankers also reported that the interest rates charged on new farm loans were up for the first time in nearly four years. However, the advances were quite small. The average rate charged on new farm operating loans as of April 1 was 8.52 percent, a rise of only 2 basis points from three months earlier. The average farm real estate mortgage rate came in at 7.97 percent, up 10 basis points from three months ago. Compared to a year ago, both the average farm operating loan rate and the farm real estate mortgage loan rate were 30 basis points lower. Among the individual District states, the rate charged on new operating loans ranged from a low of 8.26 in Illinois to a high of 8.67 in Iowa and Michigan. The farm real estate mortgage rate ranged from 7.81 in Illinois to 8.47 percent in Michigan.

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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, 1977=100)	April	146	-1.4	0	4
Crops (index, 1977=100)	April	129	-2.3	3	2
Corn (\$ per bu.)	April	2.62	-4.4	21	6
Hay (\$ per ton)	April	98.20	8.1	17	39
Soybeans (\$ per bu.)	April	6.46	-4.2	13	14
Wheat (\$ per bu.)	April	3.43	-6.0	5	-6
Livestock and products (index, 1977=100)	April	162	-0.6	-3	5
Barrows and gilts (\$ per cwt.)	April	42.60	-4.9	-7	3
Steers and heifers (\$ per cwt.)	April	76.00	0.8	-7	-1
Milk (\$ per cwt.)	April	13.60	0.7	8	8
Eggs (¢ per doz.)	April	61.7	-6.4	-10	13
Consumer prices (index, 1982-84=100)	April	147	0.1	2	6
Food	April	143	0.1	2	4
Production or stocks					
Corn stocks (mil. bu.)	March 1	3,995	N.A.	-30	-12
Soybean stocks (mil. bu.)	March 1	1,008	N.A.	-17	-14
Wheat stocks (mil. bu.)	March 1	1,017	N.A.	-2	15
Beef production (bil. lb.)	March	2.00	11.1	8	8
Pork production (bil. lb.)	March	1.53	20.0	3	4
Milk production* (bil. lb.)	April	11.0	-0.8	1	1
Receipts from farm marketings (mil. dol.)	January	15,539	-15.6	0	3
Crops**	January	7,917	-16.2	-6	-4
Livestock	January	7,001	-3.2	2	3
Government payments	January	620	-64.2	173	727
Agricultural exports (mil. dol.)	February	3,482	-6.8	-9	-10
Corn (mil. bu.)	February	86	-15.3	-37	-36
Soybeans (mil. bu.)	February	68	-4.5	-35	-25
Wheat (mil. bu.)	February	92	-20.4	-27	-24
Farm machinery sales (units)					
Tractors, over 40 HP	April	7,139	8.2	14	41
40 to 100 HP	April	4,566	38.3	31	34
100 HP or more	April	2,573	-22.0	-6	55
Combines	April	580	1.0	24	86

N.A. Not applicable

*21 selected states.

**Includes net CCC loans.

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