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AgLetter

FARMLAND VALUES AND CREDIT CONDITIONS

Our October 1 survey of agricultural bankers in the Seventh Federal Reserve District showed that farmland values edged upward during the third quarter, rising an average of 1 percent. Furthermore, farmland values were up 4 percent for the twelve-month period ending in September. The survey also showed that the demand for nonreal estate loans remained firm during the third quarter and that bank liquidity continued to tighten. But interest rates charged on new farm loans still managed a modest decline during the summer. The measure of available funds for agricultural lending indicated little change from a year ago, as did the gauge for loan repayment rates.

A quarterly increase in farmland values was reported by the bankers in each District state except Michigan. Those in Illinois, Indiana, and Wisconsin reported average gains during the third quarter of 2 percent, while the Iowa bankers disclosed a more modest gain of 1 percent. In contrast, the Michigan respondents—on average—believed that farmland values were unchanged during the summer. In comparison to the quarterly changes, the year-over-year shift in farmland values was quite variable among the five District states. In line with the weakness of the past two quarters, Michigan farmland values were up only 1 percent during the twelve month period ending in September. The increase in farmland values in Indiana stood in sharp contrast, with a year-over-year rise of 8 percent. The other three states fell somewhere in between, with reported twelve-month gains of either 3 or 4 percent.

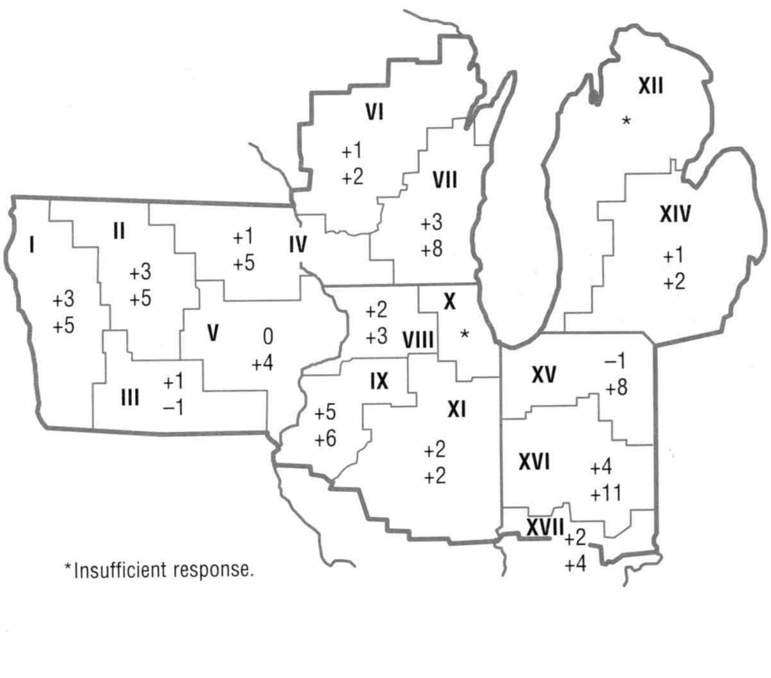
The bankers generally expect farmland values to be stable or rising in the near term. Approximately a third expect an increase during the fourth quarter while the remainder do not anticipate any change. These perceptions are fairly similar to the expectations the bankers have reported in surveys over the past two years, a time during which the gains in farmland values were fairly steady. Expectations for the individual District states generally fell in line with the overall picture. But the responses from Michigan suggest those bankers are somewhat less optimistic than those in the others District states.

It appears the expectations of improving farmland values are underpinned by the perception that the demand to purchase farmland will be greater than a year ago, especially among non-farmer investors. Approximately one third of the bankers indicated that the demand among farmers to acquire farmland over the next three to six months will be up from a year earlier, with 16 percent

Percent change in dollar value of "good" farmland

Top: July 1, 1995 to October 1, 1995
Bottom: October 1, 1994 to October 1, 1995

	July1, 1995 to October 1, 1995	October 1, 1994 to October 1, 1995
Illinois	+2	+3
Indiana	+2	+8
Iowa	+1	+4
Michigan	0	+1
Wisconsin	+2	+4
Seventh District	+1	+4



*Insufficient response.

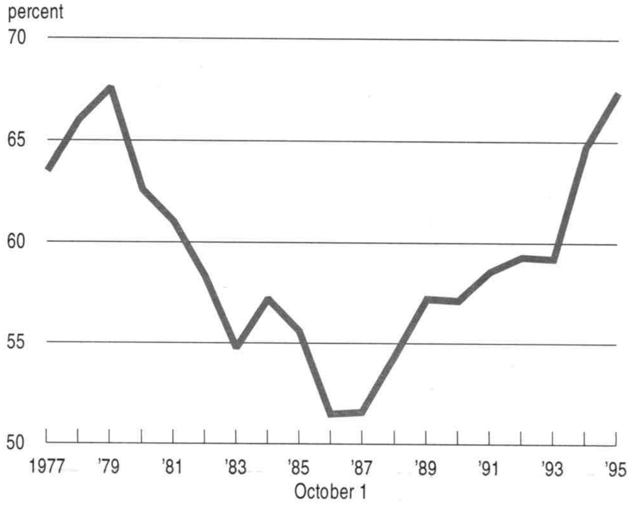
suggesting there would be a decline (about half believed there would be no change). In comparison, nearly half the respondents indicated that the demand among non-farmer investors is expected to rise while 8 percent expect a decline. The situation in Wisconsin, however, differed from the other District states. The Wisconsin bankers expect a weakening in the demand among farmers but an especially sharp increase in the demand among non-farmer investors to acquire farmland.

The bankers also reported that the demand for nonreal estate loans continued to grow at a moderate rate. As of October 1, the loan demand index stood at 123. This represents the 36 percent of the respondents who noted a year-over-year improvement in loan demand less the 13 percent that reported a decline. The remaining one-half of the respondents reported no change. The indicated gains in loan demand were more widespread in some District states than in others. The proportion of bankers noting a year-over-year rise in the demand for nonreal estate loans was relatively greater in Iowa than in the other District states, with over half the Iowa bankers noting an increase. Loan demand also appeared to be up in Illinois and Indiana, but about the same as a year earlier in Michigan and Wisconsin. In particular, well over two thirds of the respondents from Michigan thought that loan demand was unchanged from a year earlier.

A small increase in the average loan-to-deposit ratio was reported for the third quarter, reflecting a further modest tightening in the liquidity of District agricultural banks. At 67.3 percent, the loan-to-deposit ratio reached its highest level since 1979 (see chart). The individual state averages stretched from a low of 61 percent in Illinois to a high of 76 percent in Wisconsin, with each of the five states logging an increase. But even though the loan-to-deposit ratio continued to climb, there was no clear trend in the availability of funds for agricultural lending during the third quarter. Overall, 19 percent of the respondents reported an increase in funding availability from a year ago while 15 percent thought a decline had taken place. The majority (nearly two-thirds) believed there had been no change from a year ago. Survey responses indicated that Illinois, Indiana, and Iowa followed the overall pattern. However, the availability of funds for agricultural lending appeared to be somewhat improved in Michigan when compared to a year earlier, while the responses from the Wisconsin bankers suggested a modest tightening.

The bankers reported that interest rates on farm loans trended somewhat lower for the second consecutive quarter. But despite the general decline—which occurred in each District state—farm loan interest rates remain above the levels of a year earlier. As of October 1, the

Average loan-to-deposit ratio at District agricultural banks



reported rate on new farm real estate loans averaged 9.27 percent, a decline of nearly 40 basis points from 3 months earlier. In comparison, the average operating loan rate edged down about 10 basis points from three months earlier to 10.16 percent. Among the individual states, the real estate loan rate ranged from a low of 9.11 percent in Illinois to a high of 9.73 percent in Michigan. The average operating loan rate ranged from a low of 9.88 in Illinois to a high of 10.69 in Michigan.

The October 1 survey also asked the bankers to share their expectations of the net cash earnings of farmers for the next three to six months as compared to a year earlier. There was considerable variation among the responses, which probably reflects disparate trends in cattle and hog prices, uncertainty over grain prices and final yields, and different harvest conditions from one area to another. For example, the latest USDA report on crop production indicates the corn harvest in Michigan will drop 6 percent this year, while the other four District states are projected to register much greater declines. In comparison, soybean production is expected to drop in each District state except Michigan. But sharp gains in corn and soybean prices will offset the production shortfall for many farmers. So while 43 percent of the bankers thought that the earnings of crop farmers would be up from a year ago, a similar proportion—35 percent—believe that net earnings will decline. But thanks to the higher grain prices and more favorable crop conditions in Michigan, it is clear the bankers in that state expect the net earnings to crop farmers to improve from a year ago.

The bankers' outlook for livestock and dairy farmers in the near term was relatively more pessimistic than that for crop farmers. Beef cattle prices have been below year-earlier levels throughout 1995. And while milk prices and hog prices are currently above a year ago, net earnings will

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: Operating loans[1]	Feeder cattle[1]	Real estate[1]
	(index)[2]	*(index)*[2]	*(index)*[2]	*(percent)*	*(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
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
Apr-June	139	107	90	62.5	8.98	8.95	8.48
July-Sept	132	96	94	64.5	9.38	9.30	8.86
Oct-Dec	112	102	111	63.8	9.99	9.93	9.48
1995							
Jan-Mar	122	96	98	64.8	10.33	10.26	9.68
Apr-June	124	104	93	66.1	10.24	10.20	9.64
July-Sept.	123	104	98	67.3	10.16	10.14	9.27

[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.

be squeezed by higher feed costs. Consequently, about a third of the bankers believe that net cash earnings to cattle and hog farmers will register a year-over-year gain during the next three to six months, while 45 percent think a decline will occur. About a third of the bankers believe that net cash earnings to dairy farmers will decline, with the remainder expecting little change from a year ago. However, a much larger proportion of the bankers from Wisconsin—where the dairy industry predominates—expect a decline.

The pace of loan repayments during the third quarter appeared to be similar to that of the previous year. The most recent reading of the index came in at 98, representing 11 percent who noted an increase and 13 percent who indicated a decline had occurred from a year earlier. Moreover, there was no clear concensus among the bankers as to the direction repayments will take in the near term. This is not surprising considering the differing views held by the bankers on the near-term outlook for net cash income. Looking ahead, about half do not expect any change in loan repayments over the next three to six months when compared to a year ago, while the rest are evenly split between an increase and a decline. However, when looking at the responses from the individual District states, it appears that a modest improvement in loan repayments is expected in Indiana and Michigan when compared to a year ago, while a modest decline is anticipated in Wisconsin.

The bankers also indicated that year-over-year growth in loan volume during the fourth quarter will be modest, at best. About a quarter of the respondents thought nonreal estate loan volume would be up, while about 15 percent thought there would be a decline. Most believe there will be no change from a year ago. Expectations were similar for real estate lending.

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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)*	October	105	1.0	11	4
Crops *(index, 1990–92=100)*	October	114	0.9	15	11
Corn *($ per bu.)*	October	2.95	9.7	43	29
Hay *($ per ton)*	October	83.00	3.4	–4	–2
Soybeans *($ per bu.)*	October	6.17	3.0	16	3
Wheat *($ per bu.)*	October	4.71	4.2	25	45
Livestock and products *(index, 1990–92=100)*	October	92	–1.1	3	–7
Barrows and gilts *($ per cwt.)*	October	47.30	–3.7	46	0
Steers and heifers *($ per cwt.)*	October	61.90	–0.2	–6	–15
Milk *($ per cwt.)*	October	13.20	3.1	2	1
Eggs *(¢ per doz.)*	October	66.5	–0.2	15	11
Consumer prices *(index, 1982–84=100)*	October	154	0.3	3	5
Food	October	149	0.3	3	6
Production or stocks					
Corn stocks *(mil. bu.)*	September 1	1,558	N.A.	83	–26
Soybean stocks *(mil. bu.)*	September 1	335	N.A.	60	15
Wheat stocks *(mil. bu.)*	September 1	1,881	N.A.	–9	–12
Beef production *(bil. lb.)*	September	2.21	–4.2	4	9
Pork production *(bil. lb.)*	September	1.44	–4.3	–7	0
Milk production* *(bil. lb.)*	October	11.0	2.5	1	N.A
.**Receipts from farm marketings** *(mil. dol.)*	July	14,175	7.7	10	–2
Crops**	July	7,465	18.3	24	20
Livestock	July	6,645	–0.6	–1	–11
Government payments	July	64	–61.0	–15	–92
Agricultural exports *(mil. dol.)*	August	4,385	10.6	25	49
Corn *(mil. bu.)*	August	210	9.3	85	112
Soybeans *(mil. bu.)*	August	47	13.2	15	90
Wheat *(mil. bu.)*	August	127	35.9	16	24
Farm machinery sales *(units)*					
Tractors, over 40 HP	October	6,136	33.6	9	17
40 to 100 HP	October	3,721	14.5	8	25
100 HP or more	October	2,415	79.8	11	5
Combines	October	987	13.1	–8	6

N.A. Not applicable
*22 selected states.
**Includes net CCC loans.

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