



District credit conditions

Responses from bankers concerning agricultural credit conditions across the Seventh Federal Reserve District indicated little change in the trends that have characterized the last several quarterly surveys. The bankers point to continued strong farm loan demand during the early months of 1989 and ample funds for lending to farmers. Interest rates charged on farm loans continued to move higher and loan repayment rates appear to have slowed somewhat. The bankers expect lending volume to continue to register year-to-year gains during the spring months, as farmers demand additional credit to finance their operations.

Farm loan demand at District agricultural banks strengthened throughout 1988 and continued to improve during the first three months of this year. The first quarter measure of farm loan demand jumped to 138, equaling the highest level recorded during the 1980s. The most recent measure reflects the composite of almost half of the respondents who reported stronger farm loan demand during the first quarter less the 11 percent who reported a decline compared to a year earlier. The remaining 39 percent of the respondents reported that farm loan demand at their banks remained at the same level as a year ago. The recent strength in farm loan demand at District agricultural banks reflects a number of factors. Farmers adversely effected by the drought boosted the demand for credit. In addition, the increases in planted acreage this year, along with increasing input costs contributed to increased demand for commercial credit.

Farm loan demand remained strong across all of the District states. The composite measures were highest in Illinois and Iowa, where a majority of bankers reported increased demand compared to last year. Responses from Indiana bankers yielded a measure of farm loans demand comparable to the District average, while the measures were somewhat lower in Michigan and Wisconsin.

The uptrend in farm loan demand that has been recorded since last year has begun to temper the very high measures of fund availability recorded throughout the 1980s. Nevertheless, 26 percent of the survey respondents indicated that the funds available for lending to farmers had increased from last year, while

less than 11 percent indicated a drop from the year-earlier level. The remaining 63 percent of the bankers reported no change in the amount of funds available for lending to farmers compared to a year ago. The measure of fund availability remained high across the District states, ranging from 121 in Iowa to 109 in Illinois.

The increases in farm loan demand over the past year along with the downtrend in the measure of fund availability have been reflected in a rising average loan-to-deposit ratio at District agricultural banks. Loan-to-deposit ratios across the District have been trending higher since 1987. The ratio averaged 53.8 percent at the end of the first quarter and was more than 3.5 percentage points higher than a year earlier. Following a historical pattern, agricultural banks in Illinois and Iowa reported loan-to-deposit ratios below the District average. At just under 50 percent, however, the average ratios were up from year-earlier levels. Michigan bankers, on the other hand, reported an average ratio of loan-to-deposits of almost 67 percent, while Indiana and Wisconsin responses indicated average ratios of about 61 percent. In comparison to the current levels, loan-to-deposit ratios in 1979 ranged from 63 percent to 72 percent.

Although a substantial increase in loan-to-deposit ratios has been recorded since early 1987, a large majority of the survey respondents expressed preferences for still higher ratios. More than two-thirds of the bankers indicated that their current loan-to-deposit ratio was below the desired level, while only about 10 percent indicated it was too high. The remaining 22 percent of the survey respondents indicated that their current loan-to-deposit ratio was at the desired level. For the District as a whole, the average of the surveyed bankers' desired loan-to-deposit ratios was almost 61 percent, about 7 percentage points higher than District average at the end of the first quarter. Among the individual District states the desired ratio of loan-to-deposits ranged from an average of about 56 percent in Illinois to more than 69 percent among Michigan banks.

Interest rates on loans to farmers, which have been rising steadily for the past two years, recorded a substantial jump during the early months of 1989. The rates reported for feeder cattle loans and for farm operating loans at the end of March averaged 12.4 per-

**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

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.

cent, nearly 60 basis points above the year ending 1988 rates and 1.5 percentage points higher than a year earlier. It was the largest quarterly jump since the rise in rates began in early 1987. The range in rates charged on these loans continued to span almost a full percentage point across the District states. Michigan banks reported the highest rates, at almost 13.2 percent, while Wisconsin banks reported average rates on feeder cattle and operating loans of almost 12.2 percent, lower than any of the other District states.

Rates on farm real estate loans continued to climb during the first quarter. At 11.7 percent, the average rate charged by District agricultural banks was up more than 40 basis points from the end of last year and more than 1.4 percentage points above the cyclical low recorded in the spring of 1987. As has been the case in the last few quarterly surveys, farm mortgage loan rates were lowest in Iowa and Wisconsin, averaging less than 11.6 percent. In contrast, the highest mortgage rates were reported in Michigan, where bankers' responses averaged almost 12.4 percent. Rates were up from three months earlier in each of the District states.

Farm loan repayment rates, after showing strong improvement throughout 1987 and early 1988, have remained sluggish during the past three quarterly surveys. At 84, the first quarter measure of loan repayment rates is down slightly from the previous quarter. The measure reflects the 11 percent of the survey respondents who noted that repayments had improved compared to year earlier, less the 27 percent who noted deterioration in repayments. The remaining 62 percent of the bankers indicated the farm loan repayment rates were comparable to year-earlier levels during the first three months of 1989.

Among individual District states, measures of repayment rates varied considerably. Bankers in the District portion of Illinois reported the lowest measure at 66, but more than half reported no change from the strong repayment rates of a year earlier. The measures of repayment rates in Indiana, Iowa, and Wisconsin ranged from 85 to 95, with substantial majorities reporting no change compared to the first quarter of 1988. Michigan bankers reporting weakening loan repayment rates about equaled those reporting improvements, with 70 percent noting no change from last year.

Credit demand at District agricultural banks is expected to strengthen further during the second quarter. Fewer than 9 percent of the survey respondents foresee a drop in the volume of nonreal estate farm lending compared to the same months last year, while more than half of the bankers expect nonreal estate farm lending to be greater. The remaining 40 percent indicated that at their institutions nonreal estate lending to farmers would equal the year-earlier level during the second quarter. Increased operating loans account for most of the continued strengthening in demand. Almost two-thirds of the respondents anticipate higher operating loan volume compared to last year, with only about six percent expecting a decline. Large majorities of the surveyed bankers predict that feeder cattle, dairy, and crop storage loans will remain at year-ago levels this spring, but very few expect to see any increases. Moreover, the proportions expecting declines in volume for these types of loans exceed significantly those expecting increases. Farm machinery lending is an exception, with more than 37 percent of the respondents indicating that volume is likely to be up from a year ago during the second quarter and only 14 percent expecting a drop.

Farm real estate lending at District agricultural banks is also expected to continue expanding during the second quarter. About 29 percent of the surveyed bankers expect the volume of real estate lending at their institutions to exceed year-ago levels, while only 15 percent foresee a decline in farm real estate loan volume during the spring months. The remaining majority of the respondents indicate that farm mortgage volume will hold at the year-earlier level.

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Selected Agricultural Economic Indicators

	Latest period	Value	Percent change from		
			Prior period	Year ago	Two years ago
Receipts from farm marketings (\$ millions)					
Crops*	January	14,190	4.2	4	2
Livestock	January	6,717	-3.4	5	4
Government payments	January	7,143	15.1	8	16
	January	330	-29.5	-51	-75
Real estate farm debt outstanding (\$ billions)					
Commercial banks	December 31	14.2	0.4 [†]	7	22
Farm Credit System	December 31	28.0	-2.6 [†]	-6	-20
Life insurance companies	December 31	9.01	2.8 [†]	-2	-12
Nonreal estate farm debt outstanding (\$ billions)					
Commercial banks	December 31	28.3	-3.1 [†]	3	-5
Farm Credit System	December 31	8.64	-5.7 [†]	-7	-18
Interest rates on farm loans (percent)					
7th District agricultural banks					
Operating loans	April 1	12.53	4.7 [†]	13	15
Real estate loans	April 1	11.70	3.8 [†]	12	14
Commodity Credit Corporation	May	9.50	0.0	38	52
Agricultural exports (\$ millions)					
Corn (mil. bu.)	February	3,470	3.4	10	56
Soybeans (mil. bu.)	February	158	-10.4	27	59
Wheat (mil. bu.)	February	57	-14.7	-41	-23
	February	134	11.4	-9	86
Farm machinery sales^p (units)					
Tractors, over 40 HP	April	6,789	22.0	32	52
40 to 139 HP	April	4,427	16.2	16	23
140 HP or more	April	2,362	34.7	81	170
Combines	April	368	16.1	102	115

*Includes net CCC loans.

[†]Prior period is three months earlier.

^pPreliminary



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