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AgLetter

FARMLAND VALUES AND CREDIT CONDITIONS

Survey responses from about 400 agricultural bankers show that farmland values in the Seventh Federal Reserve District closed out 1995 by rising 2 percent during the final quarter. For the year, District farmland values were up 5 percent. This marked the ninth consecutive annual gain in District farmland values, with the yearly increases also averaging about 5 percent. The survey also showed that interest rates on new farm operating and real estate loans declined during the fourth quarter. Gains in loan demand moderated while the availability of funds for agriculture lending improved. Furthermore, it appears that relatively strong grain prices have boosted the pace of loan repayments, and will spur another increase in spending by farmers on machinery and equipment this year.

Farmland values rose about 2 percent in each District state except Michigan during the fourth quarter of last year, according to the surveyed bankers. The average rise in Michigan came to a more moderate 1 percent, reversing the slight downward drift in farmland values recorded during the second and third quarters. The variability among District states for all of 1995 was much broader. Illinois registered the largest annual gain at 7.5 percent, while Michigan recorded the smallest gain at somewhat over 1 percent. The change in farmland values in each of the other three District states came in near 5 percent for the year.

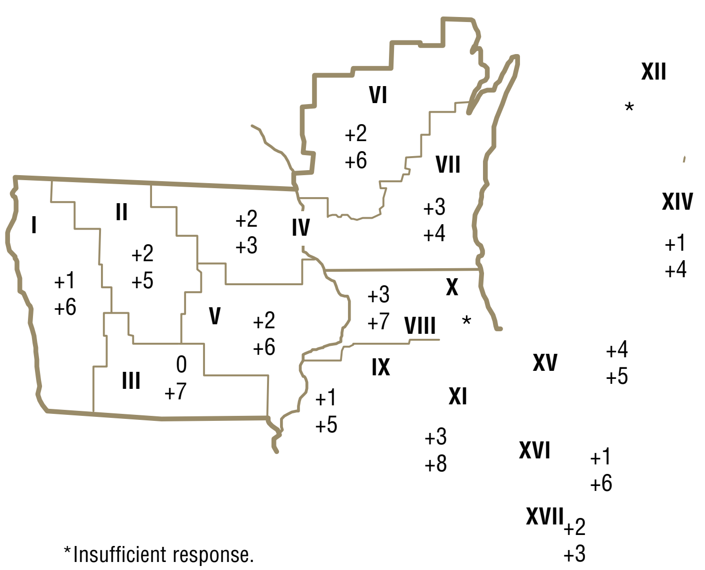
Looking ahead, a surprisingly large proportion of respondents expect farmland values to increase during the first quarter of 1996. Nearly 60 percent stated they believe farmland values will post a quarterly gain, while nearly all the remainder anticipate little change. The proportion of respondents anticipating an increase was the largest to come out of our quarterly surveys of District bankers since the mid 1960s. However, the outlook was considerably more moderate in Michigan than elsewhere in the District, as only a third of the respondents from that state foresee an increase in farmland values during the first quarter.

The large proportion of bankers that look for an increase in farmland values likely stems from developments in grain markets. As a result of annual production declines and strong demand, the fourth quarter average corn price in central Illinois markets surged to the highest level since 1983 while the average soybean price was the highest since 1988. Furthermore, relatively strong fall futures prices for corn and soybeans and projections of

Percent change in dollar value of "good" farmland

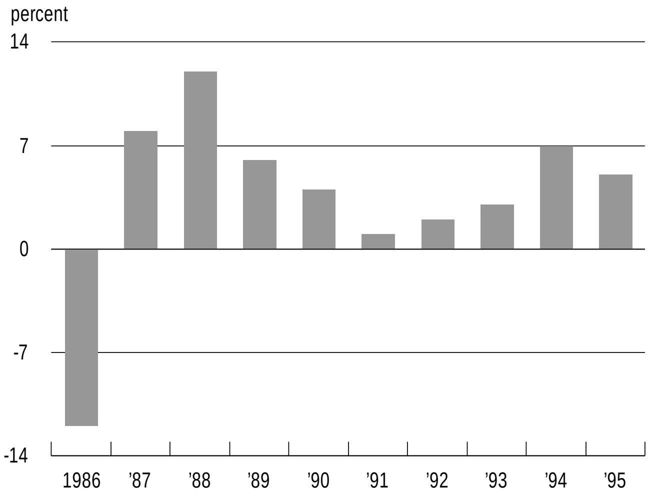
Top: October 1, 1995 to January 1, 1996
Bottom: January 1, 1995 to January 1, 1996

	October 1, 1995 to January 1, 1996	January 1, 1995 to January 1, 1996
Illinois	+2	+8
Indiana	+2	+5
Iowa	+2	+5
Michigan	+1	+1
Wisconsin	+2	+5
Seventh District	+2	+5



*Insufficient response.

Annual percentage change in Seventh District farmland values



continued high levels of agricultural exports probably helped fuel the bankers expectations.

The higher grain prices probably offset the smaller harvests and added to the liquidity of many District farmers. This in turn helped narrow the year-over-year gains in farm loan demand during the fourth quarter. In line with this, the loan demand index came in at 111, down from 123 the previous quarter. Among the individual District states, the strength in loan demand was more apparent in Illinois than the District as a whole.

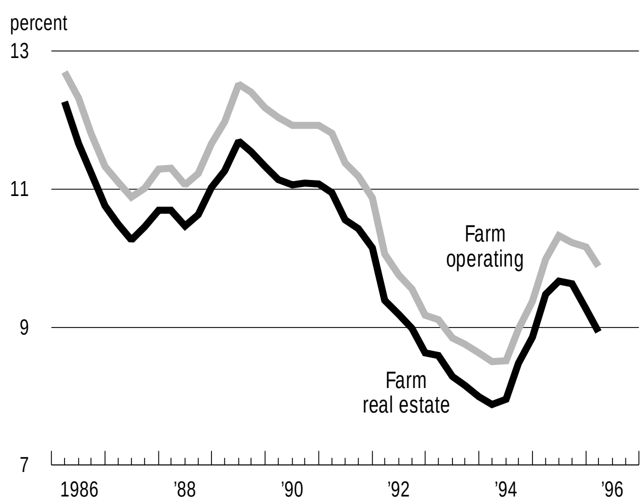
Relative to deposits, overall lending levels remain strong at District agricultural banks. The average loan-to-deposit ratio registered a larger-than-normal seasonal decline, but at 64.9 percent was still above the year-earlier level. In addition, there is significant variation in the average ratios reported for the five District states. The current readings ranged from a low of 58 percent in Illinois to a high of 74 percent in Wisconsin. Yet despite these pressures, the accessibility of funds for agricultural lending improved during the fourth quarter. The fund availability index stood at 123, its highest reading in two years. This benchmark represents the 29 percent of the respondents who reported an increase in the level of funds available for agricultural lending—relative to a year earlier—versus the 6 percent that reported a decline. However, the remaining majority (nearly two thirds) believe there was little change from the prior year.

The interest rates charged on new farm loans as of the end of 1995 were down from both three months and twelve months earlier. At 9.89 percent, the average farm operating loan rate was about 30 basis points below the level of three months earlier but only 10 basis points below a year earlier. The average rate charged on new farm real estate loans—8.93 percent—was also about 30 basis points below the level of three months earlier. However, it was down over 50 basis points from a year earlier. Among the individual District states, the operating loan rate ranged from a low of 9.59 percent in Illinois to a high of 10.28 percent in Michigan. The farm real estate loan rate was also lowest in Illinois (8.78 percent) and highest in Michigan (9.41 percent).

The rate of farm loan repayments during the fourth quarter improved considerably when compared to a year earlier. The loan repayment index came in at 119, well above recent readings and the highest level in over five years. This measure reflects the one third of the respondents that saw an improvement in the pace of agricultural loan repayments versus the 14 percent that thought repayments had slipped relative to a year earlier. The remainder—about half—stated there had been no change. Much of the improvement in the District-wide gauge of farm loan repayments was accounted for by the respondents in Illinois and Iowa. About 40 percent of the bankers in those two states indicated that repayments had improved, with a much smaller proportion indicating a decline. The pickup is likely due to higher grain and hog prices relative to a year earlier. A year ago, corn and soybean prices were pressured by record harvests and hog prices fell to a 20-year low. In comparison, the responses from the bankers in Indiana, Michigan, and Wisconsin suggested the pace of farm loan repayments in those three states was similar to a year earlier.

The latest survey also asked the respondents to share their expectations regarding capital expenditures by farmers in 1996. The responses clearly indicate a positive outlook, especially for farm machinery, autos, and trucks. Over 60 percent of the surveyed bankers indicated they expect expenditures for machinery and equipment to rise relative to last year, while only a tenth foresee a decline. In comparison, half look for a pickup in spending on

Quarterly District farm loan rates



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]	Interest rates on farm loans: Feeder cattle[1]	Interest rates on farm loans: 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
Oct-Dec	111	123	119	64.9	9.89	9.88	8.93

[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.

trucks and autos, whereas 10 percent anticipate a decline. In general, the bankers' outlook towards capital spending is comparatively brighter in Illinois, Indiana, and Iowa than in Michigan or Wisconsin.

In line with the outlook for capital spending, the bankers also look forward to a boost in lending for farm machinery. Nearly half expect an increase in farm machinery loans during the first quarter of 1996 relative to last year, while less than a tenth anticipate a decline. In addition, a significant share of the respondents anticipate a rise in operating loans, which will likely be spurred by an increase in planted acreage this spring as well as a relative shift towards corn acres. In addition, the absence or delay of advance farm program payments this spring and higher feed costs may well add to the need for borrowed funds. The bankers also expect modest gains in farm real estate lending.

Our survey also included some questions regarding the use of debt to finance farm real estate purchases in 1995. The respondents indicated—on average—that about two thirds of farm real estate transfers involved some level of debt financing. The incidence of using debt to finance farmland acquisitions ranged from a low of 61 percent in Illinois to a high of 80 percent in Wisconsin. The bankers further noted that most of the debt-financed transfers used only the acquired property as collateral. The down payment in such instances averaged about a third of the purchase price. In situations where additional collateral was used, the loan value averaged about two thirds of the value of the collateral. Either way, District lenders maintain a similar cushion.

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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)*	January	110	1.9	12	5
Crops *(index, 1990–92=100)*	January	125	5.9	21	14
Corn *($ per bu.)*	January	3.21	4.6	47	19
Hay *($ per ton)*	January	81.70	0.4	–2	–5
Soybeans *($ per bu.)*	January	6.95	2.8	27	3
Wheat *($ per bu.)*	January	4.81	–1.4	30	34
Livestock and products *(index, 1990–92=100)*	January	93	–3.1	0	–5
Barrows and gilts *($ per cwt.)*	January	42.40	–4.3	12	–4
Steers and heifers *($ per cwt.)*	January	63.00	–2.6	–12	–14
Milk *($ per cwt.)*	January	13.90	0.0	10	2
Eggs *(¢ per doz.)*	January	79.8	–1.5	29	28
Consumer prices *(index, 1982–84=100)*	December	154	–0.1	3	5
Food	December	150	0.3	2	5
Production or stocks					
Corn stocks *(mil. bu.)*	December 1	6,101	N.A.	–24	3
Soybean stocks *(mil. bu.)*	December 1	1,833	N.A.	–13	18
Wheat stocks *(mil. bu.)*	December 1	1,338	N.A.	–10	–16
Beef production *(bil. lb.)*	December	1.99	4.7	–1	2
Pork production *(bil. lb.)*	December	1.51	–6.4	–8	–3
Milk production* *(bil. lb.)*	January	11.3	1.5	0	3
Receipts from farm marketings *(mil. dol.)*	September	16,748	11.1	7	10
Crops**	September	9,298	29.7	8	19
Livestock	September	7,442	–5.6	6	3
Government payments	September	8	–68.0	N.A.	N.A.
Agricultural exports *(mil. dol.)*	November	5,222	1.7	12	34
Corn *(mil. bu.)*	November	201	–4.0	4	38
Soybeans *(mil. bu.)*	November	86	10.5	9	18
Wheat *(mil. bu.)*	November	107	–10.8	–5	–8
Farm machinery sales *(units)*					
Tractors, over 40 HP	January	4,974	–15.3	12	19
40 to 100 HP	January	2,731	–6.6	6	14
100 HP or more	January	2,243	–24.0	19	26
Combines	January	422	–59.2	0	0

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

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