

# AgLetter



## FARMLAND VALUES AND CREDIT CONDITIONS

### Summary

Farmland values in the five Seventh District states continued to increase, on average, during the fourth quarter of 2000. Based on a survey of 332 agricultural bankers, farmland values rose just under 1% between October 1, 2000, and January 1, 2001, an increase that compares with similar gains in the second and third quarters of 2000. The end-of-year 2000 survey also indicated that farmland value gains, relative to end-of-year 1999, slowed to a 6% rate. Nonetheless, this increase in farmland values was well above the year-over-year gain reported at the end of both 1998 and 1999, when the District's farmland values were up 1%.

The bankers indicated that, on average, non-real-estate loan demand in the fourth quarter of 2000 was little changed from a year earlier. Nearly 21% of the respondents reported that collateral requirements on loans were higher than at the same time a year earlier, while 78% indicated that collateral requirements were unchanged. More than two-thirds of the respondents indicated that repayment patterns were basically unchanged from a year ago. However, 27% of the bankers indicated that the rate of loan repayment had deteriorated.

The bankers also reported moderation in interest rates on agricultural loans. Rates on both operating and farm real estate loans declined for the second consecutive

quarter. Still, with the exception of the second and third quarters of 2000, the end-of-year rates were the highest since 1995.

### Farmland values

The latest survey indicated a convergence in the magnitude of change in farmland values across District states not seen for a number of years. Between the end of the third and fourth quarters of 2000, farmland values for the District as a whole increased 1%, on average (see map and table below). In addition, the quarterly gain across states was tightly distributed with four of the five states reporting an increase in land values of 1%, and Indiana reporting no change. The tendency toward convergence also appeared, to a lesser degree, in the year-over-year changes. The District average of 6% (see chart 1) was bounded by gains of 3% in Michigan, at the low end, and 8% in Wisconsin, at the high end.

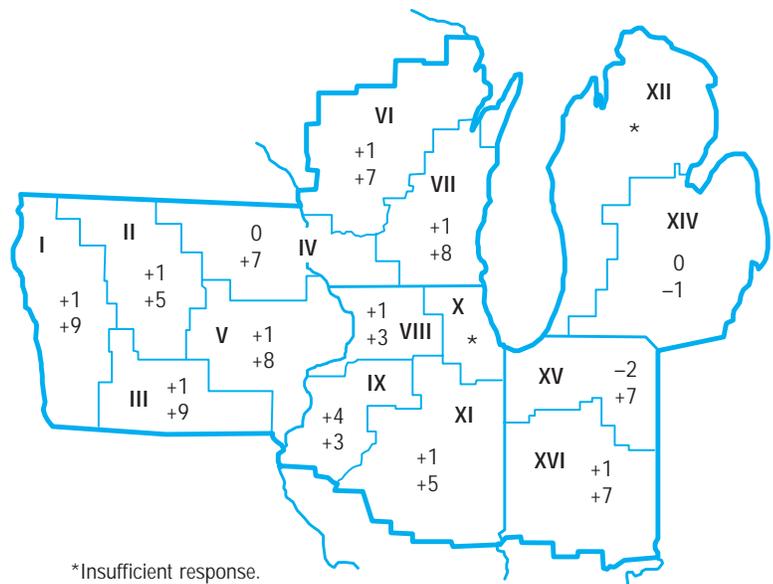
As in previous/recent surveys, numerous bankers attributed weakness in farmland value gains, especially in the heart of the Corn Belt, to continued low commodity prices. At the same time, numerous respondents observed that there was demand for "add-on tracts" by larger farm operations and land acquisition for investment purposes by non-farmers. The bankers noted that demand for farmland for residential, commercial, and recreational use continued to bid up values in some areas.

### Percent change in dollar value of "good" farmland

Top: October 1, 2000 to January 1, 2001

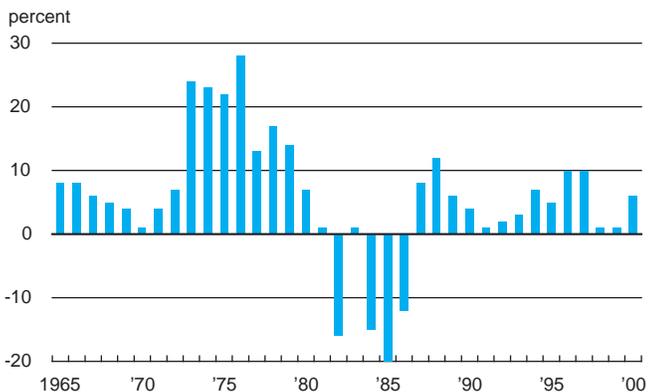
Bottom: January 1, 2000 to January 1, 2001

	October 1, 2000 to January 1, 2001	January 1, 2000 to January 1, 2001
Illinois	+1	+4
Indiana	0	+7
Iowa	+1	+7
Michigan	+1	+3
Wisconsin	+1	+8
Seventh District	+1	+6



\*Insufficient response.

## 1. Annual percentage change in Seventh District farmland values



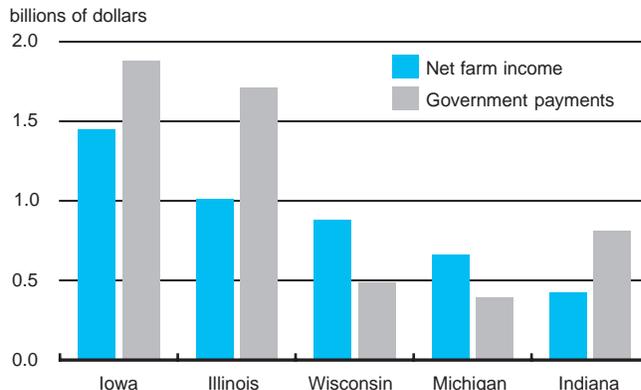
### Commodity prices

Low commodity prices continued to be a concern to many bankers. However, they observed that farmers' balance sheets, augmented by government support and emergency aid programs, generally remained in good condition, enabling them to remain current on the service of their financial obligations. As shown in chart 2, agricultural payments to farmers in the District states from government programs during 1999 were equivalent to more than 100% of estimated net farm income for three states. For the five states, on average, government payments kept the agricultural balance sheet in the black and were equivalent to 119% of net farm income. The relative importance of government payments to farmers' balance sheets ranged from an equivalent of 192% of net farm income in Indiana to a low of 55% in Wisconsin. Playing on a theme expressed in recent surveys, bankers emphasized that many farmers are able to maintain debt service because of government aid—a situation that influences credit conditions in the industry.

### Credit conditions

Responses by the District's agricultural bankers indicated that credit conditions, on average, were somewhat more favorable than in recent quarters. An important measure of credit conditions is the rate at which loans are repaid. (A summary statistic for bankers' responses to questions on credit conditions takes the form of a "dispersion index." See footnote 2 in the table on page 3 for a description of this index.) The loan repayment index continued its gradual increase (that is, improvement) according to the latest survey. That index stood at 81 for the fourth quarter of 2000—the highest level since the first quarter of 1998. Eight percent of the bankers reported that the rate of loan repayment was higher in the fourth quarter of 2000, than it was a year earlier. A similar response was reported by only 3% of the bankers in the second and third quarters of 2000. By comparison, 27% of the respondents indicated that the rate of loan repayment was lower during the final quarter of 2000 than a year earlier. This was about the same proportion that reported a lower repayment rate in the third quarter of 2000. More importantly, the proportion of bankers that reported lower repayment rates in the latest survey was substantially smaller than

## 2. Net farm income and government payments, 1999



Note: A similar chart was contained in the November 2000 *AgLetter*. Government payments used for Wisconsin were incorrectly reported in the USDA's *Agricultural Income and Finance Situation and Outlook Report*, September 2000. This chart contains the corrected data.

during the last half of 1998 and throughout 1999. During that period the proportion of bankers that reported lower repayment rates ranged from 39% to 63%.

Another measure of the status of credit conditions may be gleaned from requests by farmers for loan renewals or extensions. In this case, the lower the index, the more favorable are credit conditions—that is, a lower index reflects a *relative* reduction in borrowers' requests for loan renewals or extensions. In the fourth quarter of 2000, this index stood at 118, its lowest level since the fourth quarter of 1997. This measure recorded steady improvement since the first quarter of 1999. Even so, 25% of the bankers reported an increase in renewals or extensions, relative to a year earlier, while 7% reported a decline.

While surveyed bankers reported improvement in agricultural lending credit conditions for the District overall, there was, nonetheless, substantial diversity in credit conditions reported across the five states. For example, informal comments reflected continued distress in the dairy industry as milk prices remained at or near decade lows throughout 2000. Given the relative importance of this industry to Wisconsin agriculture, it is not surprising that credit conditions, as reflected by the "loan repayment" and "loan renewals or extensions" measures reported by Wisconsin bankers, showed the least favorable conditions of the five District states. Lower loan repayment rates were reported by 47% of the Wisconsin respondents. By comparison, the proportion of bankers that reported lower repayment rates for the other four states ranged from 16% in Indiana to 27% in Illinois. Similarly, the share of bankers facing a higher incidence of requests for loan renewals or extensions was 37% in Wisconsin. This compares with a range from 15% in Michigan to 29% in Illinois. This may reflect the relatively lower government support payments to Wisconsin farmers.

District bankers reported that interest rates on farm loans drifted lower for the second consecutive quarter during the fourth quarter of 2000. On average, operating loan rates declined 25 basis points from the end of September to the end of December, and at 9.92% were 51 basis

## Credit conditions at Seventh District agricultural banks

	Loan demand (index) <sup>2</sup>	Fund availability (index) <sup>2</sup>	Loan repayment rates (index) <sup>2</sup>	Average loan-to-deposit ratio <sup>1</sup> (percent)	Interest rates on farm loans		
					Operating loans <sup>1</sup> (percent)	Feeder cattle <sup>1</sup> (percent)	Real estate <sup>1</sup> (percent)
<b>1998</b>							
Jan-Mar	134	113	84	68.9	9.52	9.51	8.50
Apr-June	127	102	74	72.7	9.54	9.55	8.52
July-Sept	117	104	60	72.0	9.43	9.41	8.33
Oct-Dec	113	121	57	70.3	9.09	9.07	8.06
<b>1999</b>							
Jan-Mar	120	119	40	69.9	9.03	9.01	8.06
Apr-June	115	107	50	71.7	9.11	9.08	8.18
July-Sept	109	94	63	72.7	9.32	9.28	8.42
Oct-Dec	107	104	72	72.7	9.44	9.41	8.59
<b>2000</b>							
Jan-Mar	121	95	77	72.9	9.78	9.72	8.89
Apr-June	109	76	72	75.5	10.43	10.14	9.21
July-Sept	106	82	77	76.9	10.17	10.14	9.18
Oct-Dec	105	92	81	74.9	9.92	9.90	8.90

<sup>1</sup>At end of period.

<sup>2</sup>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.

points below the nine-year peak reported at the end the second quarter of last year. Interest rates on farm real estate loans decreased 28 basis points from the end of the third quarter to 8.90%, on average, at the end of 2000, and were down 31 basis points from the five year high at the end of the second quarter, 2000.

The bankers were also asked whether they had adjusted credit standards, relative to a year ago. For the District, on average, 46% indicated they had tightened standards and 54% noted no change. They also indicated that 3.5% of their current operating loan customers would not qualify for new loans in 2001. (These responses were little changed from responses to the same questions a year earlier.) The question on new loan qualification revealed substantial diversity across the region. Bankers in Illinois, Indiana, and Iowa reported that only 2% of their customers would not qualify in 2001, however, Michigan and Wisconsin bankers indicated that nearly 6% and more than 8%, respectively, would not qualify.

### Looking ahead

In addition to responding to current loan demand conditions, bankers were asked to report on their expectations with respect to several categories of farm loan demand during the first quarter of 2001 (relative to a year earlier). For the District overall, the respondents indicated they expected an increase in demand for real estate loans and for non-real-estate loans. In particular, 51% of the bankers expected an increase in operating loans, while only 7% thought such loans would be lower than a year earlier. Expectations for loans tied to farm machinery purchases continued the relative weakness shown since the middle of 1998. On average, 9% of the bankers expected farm machinery loans to increase in the first quarter of this year, while 39% expected a decrease. This pattern is similar to that reported since 1997. However, it contrasts sharply with the pattern reported during the 1990-1997 period when, on average, 32% of the

respondents expected an increase in machinery loans and 19% expected a decrease.

As noted in the discussion on credit conditions, there was substantial diversity across the District with regard to how the bankers viewed loan demand in the immediate future. Again, these views appear to reflect the relative conditions and concentration of commodity production, and the relative impact of government support programs. The potential for stress appears to be most apparent in dairy producing areas; a relatively small proportion of Wisconsin bankers, for example, expect increases in loan demand for capital equipment, but a relatively high proportion expect increased demand for operating loans. In addition, a relatively high proportion of the Wisconsin bankers (48%) indicated they expect to rely more heavily on the USDA's Farm Service Agency (FSA) loan guarantees during the first quarter of 2001. Elsewhere in the District, the proportion of bankers that indicated they expect to increase their utilization FSA guarantees ranged from 21% in Michigan to 30% in Indiana.

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## SELECTED AGRICULTURAL ECONOMIC INDICATORS

	Latest period	Value	Percent change from		
			Prior period	Year ago	Two years ago
<b>Prices received by farmers</b> ( <i>index, 1990-92=100</i> )	February	99	2.1	6	4
<b>Crops</b> ( <i>index, 1990-92=100</i> )	February	97	3.2	5	0
Corn (\$ per bu.)	February	1.92	-3.0	-3	-6
Hay (\$ per ton)	February	86.80	2.2	17	9
Soybeans (\$ per bu.)	February	4.37	-6.6	-9	-9
Wheat (\$ per bu.)	February	2.83	-0.7	11	4
<b>Livestock and products</b> ( <i>index, 1990-92=100</i> )	February	102	2.0	9	9
Barrows and gilts (\$ per cwt.)	February	39.20	4.3	-2	39
Steers and heifers (\$ per cwt.)	February	78.40	-1.1	10	23
Milk (\$ per cwt.)	February	13.10	-0.8	11	-15
Eggs (¢ per doz.)	February	68.2	1.5	-1	5
<b>Consumer prices</b> ( <i>index, 1982-84=100</i> )	January	175	0.6	4	7
Food	January	171	0.5	3	4
<b>Production or stocks</b>					
Corn stocks ( <i>mil. bu.</i> )	December 1	8,518	N.A.	6	6
Soybean stocks ( <i>mil. bu.</i> )	December 1	2,239	N.A.	3	2
Wheat stocks ( <i>mil. bu.</i> )	December 1	1,802	N.A.	-4	-5
Beef production ( <i>bil. lb.</i> )	January	2.21	10.4	1	2
Pork production ( <i>bil. lb.</i> )	January	1.69	7.0	8	4
Milk production* ( <i>bil. lb.</i> )	January	12.1	1.8	-2	3
<b>Receipts from farm marketings</b> ( <i>mil. dol.</i> )	September	15,480	5.7	2	-14
Crops**	September	6,680	10.3	3	-20
Livestock	September	8,404	6.5	5	6
Government payments	September	396	-43.4	-39	-77
<b>Agricultural exports</b> ( <i>mil. dol.</i> )	December	4,613	-3.2	4	-4
Corn ( <i>mil. bu.</i> )	December	143	-1.9	-14	-24
Soybeans ( <i>mil. bu.</i> )	November	123	-11.7	18	16
Wheat ( <i>mil. bu.</i> )	November	89	1.6	-3	5
<b>Farm machinery sales</b> ( <i>units</i> )					
Tractors, over 40 HP	January	4,345	-2.3	13	-13
40 to 100 HP	January	2,918	-9.8	8	-4
100 HP or more	January	1,427	17.6	24	-26
Combines	January	404	-45.8	42	0

N.A. Not applicable

\*20 selected states.

\*\*Includes net CCC loans.



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