

AgLetter



FARMLAND VALUES AND CREDIT CONDITIONS

Summary

The increases in farmland values compared to a year ago outstripped the increases in farmland rental rates as of the first quarter of 2005. With continued purchases by nonfarm buyers, the value of “good” agricultural land climbed 10 percent over four quarters for the Seventh Federal Reserve District, whereas cash rental rates rose 5 percent. Based on a survey of 266 agricultural bankers dated April 1, 2005, the quarterly increase in farmland values was 4 percent for the District as a whole, slightly above the increase last quarter. Just 1 percent of the bankers expected decreases in farmland values in the next three months, while 47 percent expected increases. Respondents reported higher amounts of farmland for sale in recent months compared to the same period last year; moreover, the number and acreage of farms sold increased from a year earlier.

The string of improvements in credit conditions continued, though the increases in the availability of funds and loan repayment rates slowed. Loan demand was up relative to the first quarter of 2004, extending the succession of increases that had begun a year ago, and should be strong in the second quarter. Fewer renewals and extensions of loans were generated in the quarter than a year

CONFERENCE ANNOUNCEMENT

Ag Biotech and Midwest Rural Development

The Federal Reserve Bank of Chicago will hold a conference on September 8, 2005, that will deal with issues related to agricultural biotechnology and rural development prospects in the Midwest. Please check the conference website at www.chicagofed.org under “Upcoming Events” for more information and the forthcoming agenda.

earlier, according to the bankers. Compared to last year, a few more banks required increased collateral, though most did not. Interest rates on agricultural loans continued to rise across the District, reaching levels not seen since 2002. Loan-to-deposit ratios, averaging 74.4 percent, were higher than both last quarter and a year ago, but were still lower than desired by the responding bankers.

Farmland values

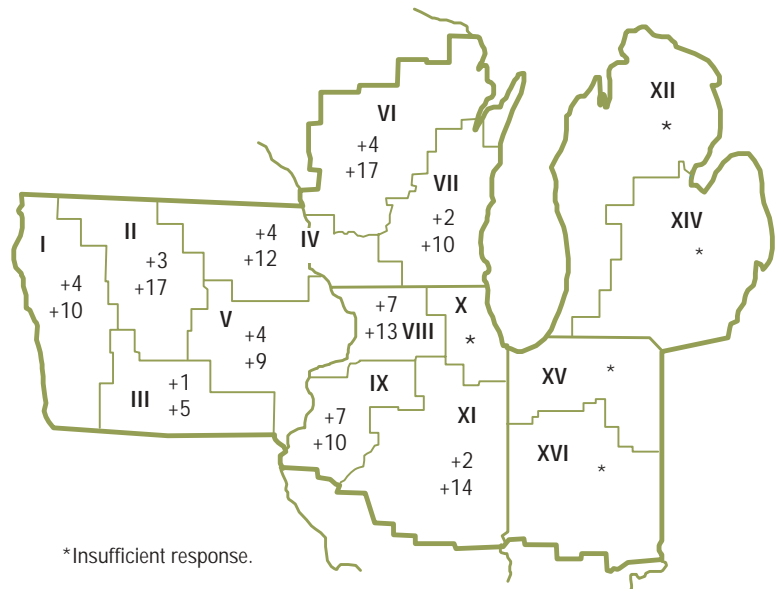
The value of “good” agricultural land rose again the first quarter of 2005, with outcomes clustering around 4 percent for District states (see map and table below). From January 1 to April 1, 2005, the rate of change in District

Percent change in dollar value of “good” farmland

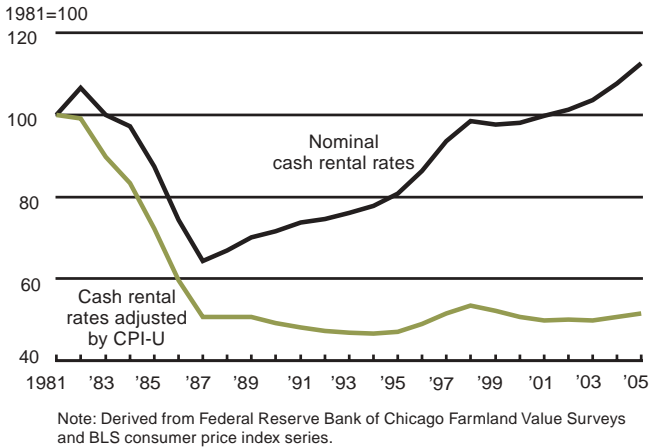
Top: January 1, 2005 to April 1, 2005

Bottom: April 1, 2004 to April 1, 2005

| | January 1, 2005 to April 1, 2005 | April 1, 2004 to April 1, 2005 |
|------------------|--|--------------------------------------|
| Illinois | +4 | +14 |
| Indiana | +4 | +7 |
| Iowa | +3 | +11 |
| Michigan | * | * |
| Wisconsin | +3 | +14 |
| Seventh District | +4 | +10 |



1. Indexes of District cash rental rates



farmland values was the highest since the first quarter of 2004, possibly due to a small rally in corn and soybean prices in addition to the strength of nonfarm demand for farmland. The average year-over-year increase in District farmland values was 10 percent, slightly lower than at the end of 2004. Illinois and Wisconsin experienced gains of 14 percent, while at the other end of the range, Indiana reported a 7 percent gain.

The proportion of bankers that reported higher demand than a year ago for the purchase of agricultural land in their areas dropped to 68 percent, with 3 percent reporting lower demand. In Illinois, 80 percent of the respondents still observed higher demand for farmland, followed by Indiana and Iowa, which were close to the District average. Also, the surveys indicated that farmers purchased an even lower share of the acreage sold, as 45 percent of the bankers reported the share of acreage purchased by farmers was lower than last year, and only 3 percent reported a higher share. This trend was particularly pronounced in Illinois, which was the only state that had more than half of the responses indicating lower acreage purchases by farmers.

The amount of farmland for sale around the District increased, with 21 percent more of the respondents indicating the amount was higher rather than lower and 45 percent indicating the amount was the same. Illinois again had the most reports of higher activity (46 percent). Moreover, approximately 40 percent of the bankers stated that the number (and acreage) of farms sold was higher than the same period a year ago, whereas just 10 percent reported lower activity. Once again, Illinois led the District with farm numbers and acreage up at least 55 percent from the prior year.

Compared to a year ago, fewer bankers expected farmland values to increase during the April to July quarter (47 percent), though just 1 percent expected farmland values to go down. The percentage of bankers that expected

increases was lowest in Iowa and Michigan. At the same time, in Illinois, Indiana, and Wisconsin, 50 percent or more of the bankers still predicted higher farmland values.

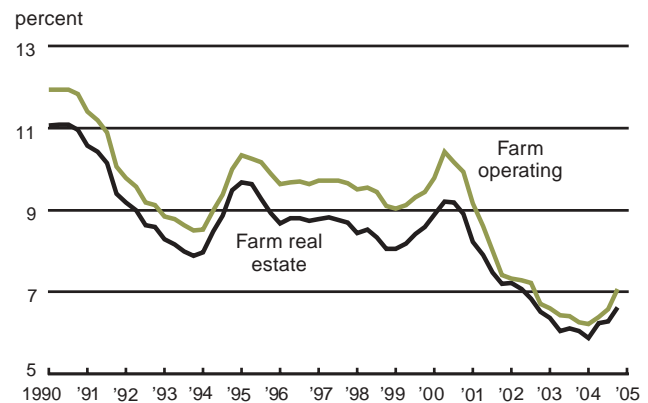
With the size of the increases in farmland values, it should not be too surprising that cash rental rates grew 5 percent from 2004. The annual increase in the average cash rental rate for the District matched the increases for each state. While nominal cash rental rates have exceeded the levels of the early 1980s, a comparison to the index of cash rental rates adjusted for inflation reveals that “real” cash rental rates are not much more than half the rates of the early 1980s (see chart 1). The inflation-adjusted cash rental rate for the District rose 2 percent over the last year, noticeably less than the inflation-adjusted increase in farmland values of 7 percent.

Cash rental arrangements for farmland operated by someone other than the owner increased to 78 percent of all such arrangements in the District. Crop-share arrangements receded to an 18 percent share. The composition of rentals varied by state with Illinois (65 percent cash rentals and 31 percent crop-shared) at one end and Wisconsin (93 percent cash rentals and 5 percent crop-shared) at the other.

Credit conditions

Improved credit conditions in the first quarter of 2005 likely were based on record net farm income generated in 2004. With 31 percent of the bankers reporting higher demand for non-real estate loans versus 14 percent reporting lower demand, the index of loan demand jumped to 117, slightly better than last year and the highest since the first quarter of 2001. Another positive note was that agricultural banks still had additional funds available to lend, though not as much as had been typical the last few years. Approximately 23 percent of the bankers stated they had more funds available from January to March than they had a year earlier, and 11 percent had a lower amount of funds available for lending, dropping the index of fund availability to 112.

2. Quarterly District farm loan interest rates



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) |
| 2001 | | | | | | | |
| Jan-Mar | 118 | 101 | 67 | 75.0 | 9.16 | 9.17 | 8.23 |
| Apr-June | 106 | 109 | 73 | 75.1 | 8.60 | 8.58 | 7.91 |
| July-Sept | 91 | 127 | 86 | 74.9 | 8.01 | 8.07 | 7.47 |
| Oct-Dec | 101 | 129 | 75 | 72.8 | 7.41 | 7.51 | 7.21 |
| 2002 | | | | | | | |
| Jan-Mar | 108 | 118 | 66 | 72.7 | 7.33 | 7.48 | 7.22 |
| Apr-June | 105 | 120 | 71 | 75.1 | 7.28 | 7.35 | 7.08 |
| July-Sept | 99 | 124 | 76 | 75.7 | 7.21 | 7.26 | 6.84 |
| Oct-Dec | 101 | 130 | 88 | 73.2 | 6.70 | 6.78 | 6.51 |
| 2003 | | | | | | | |
| Jan-Mar | 109 | 130 | 79 | 72.4 | 6.61 | 6.75 | 6.36 |
| Apr-June | 99 | 138 | 84 | 72.7 | 6.43 | 6.52 | 6.04 |
| July-Sept | 95 | 129 | 86 | 72.9 | 6.41 | 6.47 | 6.12 |
| Oct-Dec | 97 | 127 | 104 | 71.8 | 6.26 | 6.35 | 6.05 |
| 2004 | | | | | | | |
| Jan-Mar | 116 | 131 | 128 | 73.2 | 6.22 | 6.28 | 5.87 |
| Apr-June | 101 | 117 | 118 | 73.7 | 6.39 | 6.46 | 6.23 |
| July-Sept | 109 | 111 | 112 | 74.5 | 6.57 | 6.61 | 6.28 |
| Oct-Dec | 109 | 121 | 127 | 74.1 | 6.81 | 6.80 | 6.39 |
| 2005 | | | | | | | |
| Jan-Mar | 117 | 112 | 116 | 74.4 | 7.07 | 7.08 | 6.63 |

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.

The respondents indicated that non-real estate farm loan repayment rates were higher than those of the first quarter a year ago, but this improvement was less than that of last quarter or the first quarter last year. About 26 percent of the bankers reported higher rates of loan repayment, while 10 percent reported lower rates. These numbers pushed down the index of loan repayments to 116. In addition, there were fewer loan renewals and extensions, with just 11 percent of the bankers noting an increase and 20 percent noting a decrease. Respondents reported a bit tighter collateral requirements than last year, with 7 percent requiring a higher level of collateral in the first three months of 2005. The use of farm loan guarantees provided by the Farm Service Agency (FSA) of the U.S. Department of Agriculture was steady at 6 percent of the District farm loan portfolio.

Farm loan interest rates moved up again for the fourth quarter in a row (see chart 2). As of April 1, 2005, the District average for interest rates on new operating loans had risen to 7.07 percent, 85 basis points higher than the cyclical low a year ago. At an average of 6.63 percent, interest rates for farm mortgages were 76 basis points above their low in the first quarter of 2004.

Looking forward

Comparing expectations for April through June 2005 with those for the same period a year ago, 30 percent of the bankers reported that they foresee higher non-real estate loan volume, mostly in operating loans and farm machinery loans. About 25 percent foresee higher real estate loan volume, with under 10 percent expecting lower volume. A majority of the respondents expected volumes for all categories of farm loans to remain the same in the second quarter of 2005.

David B. Oppedahl, *Business economist*

AgLetter (ISSN 1080-8639) is published quarterly by the Research Department of the Federal Reserve Bank of Chicago. It is prepared by David B. Oppedahl, business economist, and members of the Bank's Research Department. The information used in the preparation of this publication is obtained from sources considered reliable, but its use does not constitute an endorsement of its accuracy or intent by the Federal Reserve Bank of Chicago.

© 2005 Federal Reserve Bank of Chicago
AgLetter articles may be reproduced in whole or in part, provided the articles are not reproduced or distributed for commercial gain and provided the source is appropriately credited. Prior written permission must be obtained for any other reproduction, distribution, republication, or creation of derivative works of *AgLetter* articles. To request permission, please contact Helen Koshy, senior editor, at 312-322-5830 or email Helen.Koshy@chi.frb.org. *AgLetter* and other Bank publications are available on the Bank's website at www.chicagofed.org.

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) | April | 120 | 0.8 | -4 | 19 |
| Crops (index, 1990-92=100) | April | 118 | 1.7 | -4 | 7 |
| Corn (\$ per bu.) | April | 1.94 | -4.0 | -33 | -17 |
| Hay (\$ per ton) | April | 96.90 | 8.8 | 9 | 4 |
| Soybeans (\$ per bu.) | April | 5.96 | 0.2 | -38 | 2 |
| Wheat (\$ per bu.) | April | 3.27 | -4.1 | -16 | -3 |
| Livestock and products (index, 1990-92=100) | April | 121 | 0.0 | -4 | 30 |
| Barrow and gilts (\$ per cwt.) | April | 50.50 | -1.9 | 6 | 43 |
| Steers and heifers (\$ per cwt.) | April | 95.6 | 0.1 | 8 | 21 |
| Milk (\$ per cwt.) | April | 15.4 | -1.3 | -15 | 40 |
| Eggs (¢ per doz.) | April | 46.9 | -10.8 | -39 | -32 |
| Consumer prices (index, 1982-84=100) | April | 195 | 0.7 | 4 | 6 |
| Food | April | 190 | 0.6 | 3 | 7 |
| Production or stocks | | | | | |
| Corn stocks (mil. bu.) | March 1 | 6,754 | N.A. | 28 | 32 |
| Soybean stocks (mil. bu.) | March 1 | 1,381 | N.A. | 52 | 15 |
| Wheat stocks (mil. bu.) | March 1 | 981 | N.A. | -4 | 8 |
| Beef production (bil. lb.) | April | 1.89 | -7.5 | -3 | -12 |
| Pork production (bil. lb.) | April | 1.70 | -5.5 | -1 | 3 |
| Milk production (bil. lb.)* | April | 13.6 | -1.2 | 3 | -7 |
| Receipts from farm marketings (mil. dol.) | January | 21,111 | -4.1 | 6 | 26 |
| Crops** | January | 11,012 | -5.1 | -3 | 21 |
| Livestock | January | 10,099 | -2.9 | 18 | 31 |
| Agricultural exports (mil. dol.) | March | 5,504 | 9.0 | -5 | 14 |
| Corn (mil. bu.) | March | 139 | 25.4 | -20 | 4 |
| Soybeans (mil. bu.) | March | 96 | -21.8 | 38 | 5 |
| Wheat (mil. bu.) | February | 75 | -5.8 | -23 | 48 |
| Farm machinery (units) | | | | | |
| Tractors, over 40 HP | April | 11,297 | 35.8 | 3 | 34 |
| 40 to 100 HP | April | 7,856 | 28.8 | 4 | 30 |
| 100 HP or more | April | 3,441 | 55.2 | 0 | 42 |
| Combines | April | 461 | 47.3 | -1 | -2 |

N.A. Not applicable

*23 selected states.

**Includes net CCC loans.