The Agricultural Newsletter
from the Federal Reserve Bank of Chicago
Number 1965 *August 2014*

AgLetter

FARMLAND VALUES AND CREDIT CONDITIONS

Summary
For the second quarter of 2014, "good" agricultural land values in the Seventh Federal Reserve District were 3 percent higher than a year ago. Moreover, farmland values increased 2 percent from the first quarter to the second quarter of 2014, according to a survey of 230 agricultural bankers. Farmland values were partly buoyed by a spring rally in corn and soybean prices, which occurred before these crop prices started falling again in May. Only 2 percent of survey respondents anticipated farmland values to rise during the third quarter of 2014, while 30 percent predicted them to fall and 68 percent expected them to be stable.

The District's agricultural credit conditions weakened somewhat in the second quarter of 2014 relative to a year ago. Repayment rates for non-real-estate farm loans were lower than a year earlier, even as 93 percent of the survey respondents reported their agricultural loan portfolios had no significant repayment problems. Renewals and extensions of non-real-estate farm loans rose from the level of a year earlier. The responding bankers perceived that demand for non-real-estate loans in the April through June period of 2014 was higher than that in the same period last year. For the second quarter of 2014, the District's average loan-to-deposit ratio was 67.3 percent—about 10 percentage points below the average level desired by survey respondents. The availability of funds for lending by agricultural banks was up relative to a year ago. Lastly, interest rates on farm operating and feeder cattle loans moved lower, while those on farm real estate loans were essentially unchanged.

CONFERENCE ANNOUNCEMENT
Farm Income's Impact on the Midwest

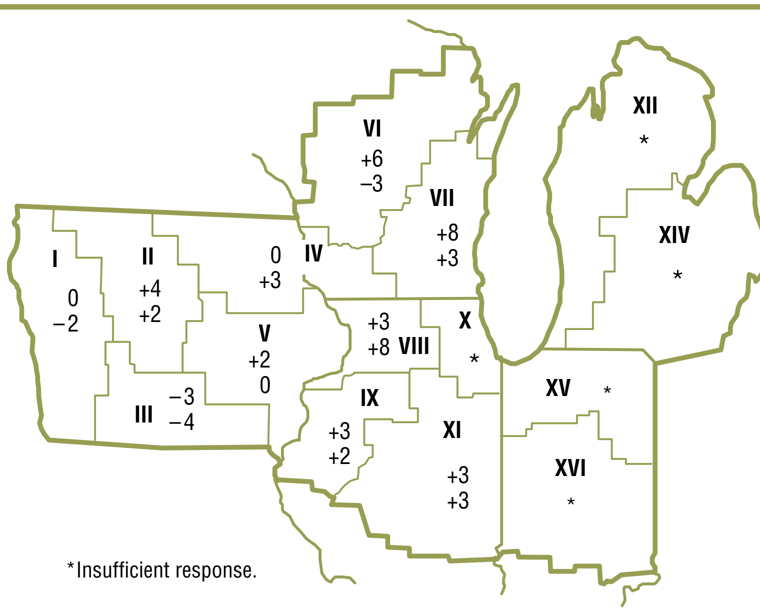
On November 17, 2014, the Federal Reserve Bank of Chicago will hold a conference to examine the role of farm income in the Midwest economy. While farm income has long been an important driver of midwestern economic activity, its influence had been waning until the boom in crop prices of the past decade. For more details and to register, go to www.chicagofed.org/webpages/events/2014/agriculture-conference.cfm.

Farmland values
District agricultural land values stayed higher than their level of a year ago—a pattern prevailing since late 2009; the 3 percent year-over-year increase in farmland values for the second quarter of 2014 was slightly larger than that for the previous quarter (1 percent). Yet, these increases pale in comparison with the double-digit gains experienced in the past few years (see chart 1 on next page).

Percent change in dollar value of "good" farmland

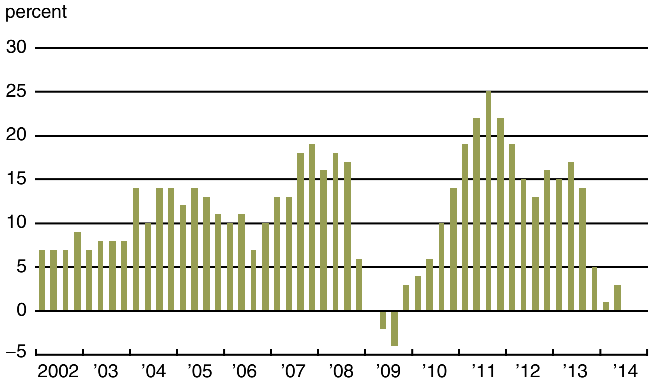
Top: April 1, 2014 to July 1, 2014
Bottom: July 1, 2013 to July 1, 2014

	April 1, 2014 to July 1, 2014	July 1, 2013 to July 1, 2014
Illinois	+3	+3
Indiana	−1	0
Iowa	+1	−1
Michigan	*	*
Wisconsin	+6	+1
Seventh District	+2	+3



*Insufficient response.

1. Year-over-year changes in Seventh District farmland values, by quarter



After experiencing a quarterly decline in the previous quarter, “good” farmland values for the District rose 2 percent in the second quarter of 2014 relative to the first quarter, suggesting persistent strength in farmland markets (see table and map on front page). Only Iowa exhibited a year-over-year decline in agricultural land values, and only Indiana had a quarterly decrease. Moreover, profitability in the livestock sector served to counteract some of the weakness in the crop sector. In particular, survey respondents noted that the improved bottom line for dairy operations corresponded with a boost in demand for farmland in some areas. For instance, the surge in dairy farming profits was consistent with Wisconsin’s 6 percent jump in quarterly farmland values.

Primary crop prices resumed their slide after a spring rally that supported farmland values in the second quarter of 2014. According to the U.S. Department of Agriculture (USDA), corn prices averaged $4.64 per bushel in the second quarter of 2014—up 4.7 percent from the first quarter, but down 34 percent from a year ago. At $14.37 per bushel in the second quarter of 2014, soybean prices were up 8.3 percent from the previous quarter, but down 2.9 percent from a year ago. After concerns about spring planting delays and drought in parts of the Corn Belt were alleviated, downward pressures on corn and soybean prices reasserted themselves. In August of this year, the USDA estimated that the 2014 U.S. harvest of corn for grain would exceed the record set in 2013 by 0.8 percent and the harvest of soybeans would break a record as well (it was projected to be 16 percent larger than the 2013 harvest). These bumper harvests would boost crop stocks to levels not seen in nearly a decade. Given that plentiful supplies of crops are expected, the USDA estimated price intervals of $3.55 to $4.25 per bushel for corn and $9.35 to $11.35 per bushel for soybeans for the 2014–15 crop year. When estimated with the midpoints of these price ranges, the projected values of the U.S. corn and soybean harvests in 2014 are 12 percent and 7.6 percent lower than the 2013 harvests, respectively. Of course, these figures mask the reality that some farmers will experience higher-than-average yields and use smart marketing plans for their crops, thereby seeing less of a negative impact on their cash flows from the downturn in crop prices.

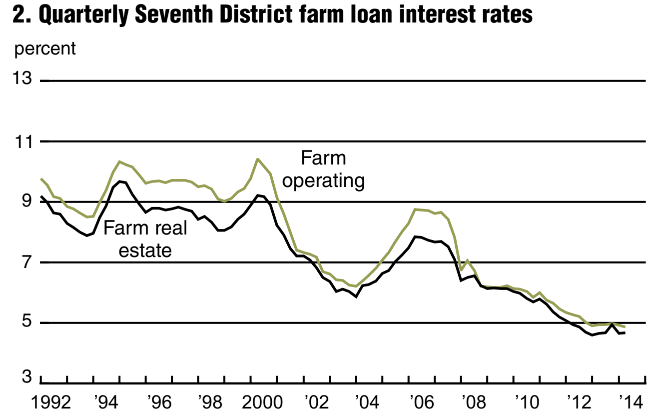
Credit conditions

Mixed agricultural credit conditions in the second quarter of 2014 reflected the general downturn in crop prices as well. Repayment rates for non-real-estate farm loans relative to a year ago deteriorated again during the second quarter of 2014. The index of loan repayment rates slipped to 93, with 8 percent of responding bankers noting higher rates of loan repayment than a year ago and 15 percent noting lower rates. Agricultural loans with “major” or “severe” repayment problems still made up less than 2 percent of the District loan portfolio, but there was evidence of a small shift of repayment problems from Wisconsin to District states that produce more corn and soybeans. Also, 13 percent of the survey respondents observed more loan renewals and extensions over the April through June period of 2014 compared with the same period last year, while 6 percent observed fewer of them.

Collateral requirements for loans tightened somewhat in the second quarter of 2014 relative to the second quarter of the previous year, as 7 percent of the survey respondents reported that their banks required more collateral and less than 1 percent reported that their banks required less. On the whole, banks had more funds available to lend in the second quarter of 2014 than a year ago. With 26 percent of responding bankers reporting their banks had more funds available to lend and 3 percent reporting their banks had less, the index of funds availability was 123 for the second quarter of 2014.

Interest rates on feeder cattle and farm operating loans moved down in the second quarter of 2014. Farm real estate loan rates were essentially unchanged (see chart 2). As of July 1, 2014, the District average for interest rates on new feeder cattle loans stood at 4.98 percent (it was below 5 percent for the first time in the survey’s history).

2. Quarterly Seventh District farm loan interest rates



Credit conditions at Seventh District agricultural banks

	Loan demand	Funds availability	Loan repayment rates	Average loan-to-deposit ratio	Interest rates on farm loans: Operating loans[a]	Feeder cattle[a]	Real estate[a]
	(index)[b]	*(index)*[b]	*(index)*[b]	*(percent)*	*(percent)*	*(percent)*	*(percent)*
2012							
Jan–Mar	72	163	154	66.5	5.34	5.54	5.08
Apr–June	69	164	139	68.1	5.27	5.41	4.94
July–Sept	81	147	128	67.5	5.21	5.37	4.86
Oct–Dec	96	151	135	67.2	5.03	5.24	4.70
2013							
Jan–Mar	67	161	143	63.7	4.91	5.12	4.60
Apr–June	87	142	129	64.6	4.94	5.16	4.65
July–Sept	91	128	115	66.9	4.94	5.14	4.68
Oct–Dec	120	121	91	67.3	4.99	5.10	4.94
2014							
Jan–Mar	114	128	96	67.0	4.93	5.07	4.66
Apr–June	110	123	93	67.3	4.86	4.98	4.67

[a]At end of period.
[b]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 percentage of bankers who responded "lower" from the percentage who responded "higher" and adding 100.
Note: Historical data on Seventh District agricultural credit conditions are available for download from the *AgLetter* webpage, www.chicagofed.org/webpages/publications/agletter/index.cfm.

In addition, the District averages for interest rates on new farm operating and real estate loans were 4.86 percent and 4.67 percent, respectively; these average rates were about the same as those of a year ago.

During the second quarter of 2014, demand for non-real-estate loans was higher than a year earlier. With 30 percent of survey respondents reporting higher demand for non-real-estate loans compared with a year ago and 20 percent reporting lower demand, the index of loan demand was 110 for the second quarter of 2014. In the first six months of 2014, the amount of farm operating loans generated by banks was greater than the historically normal level, whereas the amount of farm mortgages was lower than normal (except in Wisconsin). These trends in farm loan originations were a reversal from those seen a year ago.

Heightened competition among agricultural lenders was a concern for District bankers. A focus of this concern was the difficulty for banks in matching the loan offers by Farm Credit System (FCS) lenders to borrowers with high credit quality. According to responding bankers, over the first six months of 2014, the amounts of farm operating loans and mortgages originated by FCS institutions were higher than typical. Similarly, in the January through June period of 2014, merchants, dealers, and other input suppliers lent more than usual to farmers; in contrast, life insurance companies lent less than usual.

Looking forward

Given the downward trends in crop prices, the year-over-year and quarterly increases in District farmland values for the second quarter of 2014 may turn out to have been blips. Indeed, farmland values may have already plateaued. Certainly, survey respondents tended to take this view: Only 2 percent of responding bankers expected farmland values to increase in the third quarter of 2014, while 30 percent anticipated them to decrease and 68 percent forecasted them to be stable. As a whole, the survey results indicated weakness in agricultural land values in the coming quarters.

Responding bankers expected non-real-estate agricultural loan volumes—especially those for operating loans (and even for feeder cattle loans)—to increase in the third quarter of 2014 relative to the same quarter of 2013. Volumes for farm machinery and grain storage construction loans were forecasted to fall in the July through September period of 2014 relative to their year-ago levels. Survey respondents generally anticipated farm real estate loan volumes to be lower in the third quarter of 2014 than a year earlier. However, responding bankers from Wisconsin expected higher farm real estate and dairy loan volumes in the third quarter of 2014 relative to a year ago, largely because of anticipated profits from dairy farming.

David B. Oppedahl, *senior business economist*

AgLetter (ISSN 1080-8639) is published quarterly by the Economic Research Department of the Federal Reserve Bank of Chicago. It is prepared by David B. Oppedahl, senior business economist, and members of the Bank's Economic 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 or the Federal Reserve System.

SELECTED AGRICULTURAL ECONOMIC INDICATORS

	Latest period	Value	Percent change from: Prior period	Year ago	Two years ago
Prices received by farmers *(index, 2011=100)*	July	108	−3.6	1	4
Crops *(index, 2011=100)*	July	90	−8.2	−16	−17
Corn *($ per bu.)*	July	3.80	−15.4	−44	−47
Hay *($ per ton)*	July	192	−2.5	1	7
Soybeans *($ per bu.)*	July	12.70	−11.8	−17	−18
Wheat *($ per bu.)*	July	6.10	−6.0	−12	−23
Livestock and products *(index, 2011=100)*	July	133	3.1	24	34
Barrows & gilts *($ per cwt.)*	July	93.20	9.6	23	27
Steers & heifers *($ per cwt.)*	July	156.00	5.4	29	34
Milk *($ per cwt.)*	July	23.40	0.9	23	38
Eggs *($ per doz.)*	July	1.25	14.7	20	29
Consumer prices *(index, 1982–84=100)*	June	238	0.3	2	4
Food	June	243	0.1	2	4
Production or stocks					
Corn stocks *(mil. bu.)*	June 1	3,854	N.A.	39	22
Soybean stocks *(mil. bu.)*	June 1	405	N.A.	−7	−39
Wheat stocks *(mil. bu.)*	June 1	590	N.A.	−18	−21
Beef production *(bil. lb.)*	June	2.07	−0.1	−4	−8
Pork production *(bil. lb.)*	June	1.73	−6.8	3	−1
Milk production *(bil. lb.)**	June	16.2	−4.1	2	5
Agricultural exports *($ mil.)*	June	11,036	−6.3	12	9
Corn *(mil. bu.)*	June	189	−9.5	315	64
Soybeans *(mil. bu.)*	June	22	−31.4	14	−59
Wheat *(mil. bu.)*	June	77	−18.1	−19	−13
Farm machinery *(units)*					
Tractors, 40 HP or more	June	8,503	N.A.	−7	4
40 to 100 HP	June	5,884	N.A.	1	7
100 HP or more	June	2,619	N.A.	−20	−1
Combines	June	705	N.A.	−24	−1

N.A. Not applicable.
*23 selected states.
Sources: Author's calculations based on data from the U.S. Department of Agriculture, U.S. Bureau of Labor Statistics, and the Association of Equipment Manufacturers.