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AgLetter

DISTRICT FARMLAND VALUES RISE IN 1999

Farmland values were up 1 percent, on average, for all of 1999 in the Seventh Federal Reserve District, according to our January 1 survey of 370 agricultural bankers. The year was capped off by a relatively strong 2 percent increase during the fourth quarter (October 1—January 1), in contrast to the sluggish performance during most of the year. Furthermore, this represented the largest quarterly gain in almost two years. The bankers also reported that overall farm loan demand and fund availability were little changed in the fourth quarter from a year earlier. The pace of loan repayments continued to show weakness, prompting bankers to tighten their credit standards, yet credit quality was essentially unchanged from a year earlier. Looking ahead, the bankers indicated that capital spending by farmers would decline in 2000. They also believe that the number of acres planted with seed containing genetically modified organisms (GMO) this year will be steady to declining, relative to a year earlier. But despite the uncertainty surrounding the availability of markets for GMO grain, a large majority of the bankers indicated a firm willingness to continue financing its production.

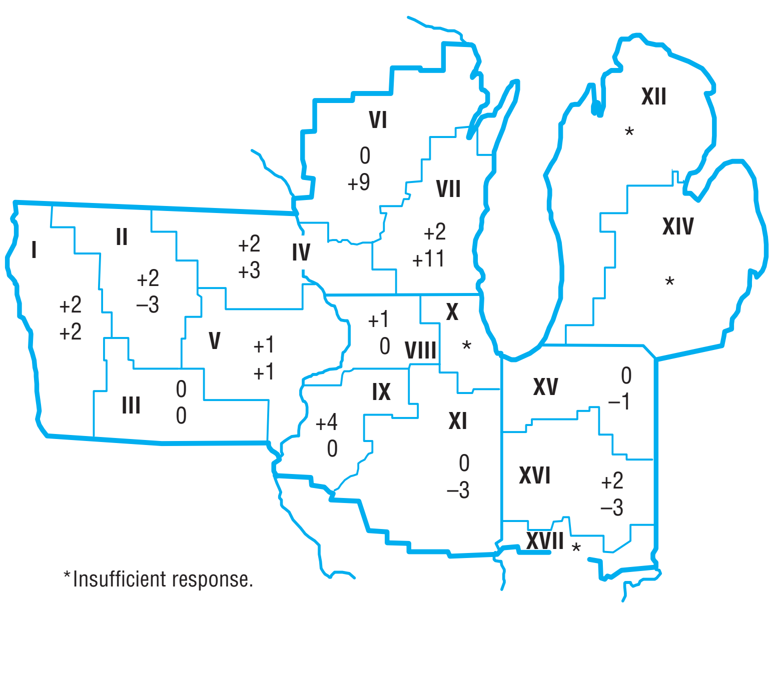
The year-end survey reported notable improvement in District farmland values, with four of the five District states registering an increase during the final quarter of 1999. In particular, the bankers in Illinois and Iowa reported their first quarter-to-quarter gain in nearly two years. But despite the recent strengthening, the value of good farmland still registered a twelve-month decline in Illinois and Indiana while holding steady in Iowa. The number of Michigan responses was too few to report, but it appears that the gains are narrowing in that state. Looking ahead, a substantial share of the bankers (71 percent) expects farmland values to be stable in the first quarter of 2000, while most of the rest foresee a decline.

Several bankers expressed surprise that local farmland values were firm or rising, especially in light of low commodity prices and the weak outlook for farm income. Many ventured explanations, that when taken together, provide a rationale for the healthier fourth-quarter results. Some bankers cited commercial and residential development, as well as recreational demand, as contributing factors. Others indicated that investors who benefited from the strong nonfarm economy were interested in adding farmland to their portfolios. Furthermore, strong yields and government payments enabled many farmers to register higher net incomes over the past year than had been expected, and the impact of high returns from specialty crops was also noted. A large number of farm families also benefited from the strong economy with family members holding nonfarm jobs. Finally, many commercial farmers did well over the past decade and built up

Percent change in dollar value of "good" farmland

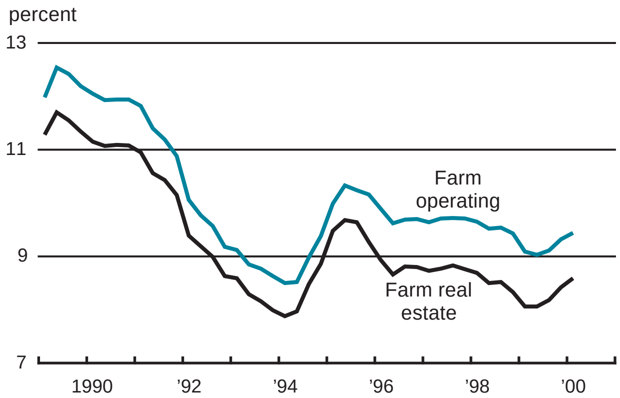
Top: October 1, 1999 to January 1, 2000
Bottom: January 1, 1999 to January 1, 2000

	October 1, 1999 to January 1, 2000	January 1, 1999 to January 1, 2000
Illinois	+2	−2
Indiana	0	−2
Iowa	+2	0
Michigan	*	*
Wisconsin	+1	+9
Seventh District	+2	+1



*Insufficient response.

Quarterly District farm loan rates



sizable cash reserves. These farmers are often active bidders, especially when a local farm comes up for sale that may not be on the market again in one's lifetime.

Commodity prices were something of a mixed bag in late 1999. Farm-level prices for hogs and beef cattle were substantially above year-earlier levels during the fourth quarter, but prices for corn, soybeans, and milk were down. Furthermore, many farmers have experienced a marked deterioration in their working capital position over the past two years and find it increasingly difficult to maintain normal debt service payments while meeting day-to-day operating expenses and family living needs. While the large level of direct government payments helped maintain the current financial position for the sector as a whole in 1999, these payments were not evenly distributed by type of farm or by region. Reflecting these factors, District agricultural bankers continued to report weakness in the pace of farm loan repayments. While 10 percent reported that the pace of farm loan repayments improved during the fourth quarter, relative to a year earlier, 39 percent reported a decline. The remaining 51 percent indicated there had been no change.

The bankers reported that the quality of District farm loan portfolios is holding steady, on average, despite the continuing problems with repayments and an increase in requests for loan renewals or extensions. Overall, the bankers classified 78 percent of the farm loans as having no significant repayment problems, with another 15 percent representing minor problems. Loans with problems that range from major to severe accounted for 7 percent of the farm loan portfolio. This breakdown is similar to those reported six months and twelve months earlier. Many bankers noted that strong crop yields and government payments helped maintain the performance of their farm loans. They also indicated that they are offsetting weak repayment performance by obtaining more collateral and federal loan guarantees. For the District as a whole, half the respondents expect a year-over-year increase in guaranteed loans during the first quarter, and roughly 62 percent of the Iowa respondents expect a larger number of guaranteed loans.

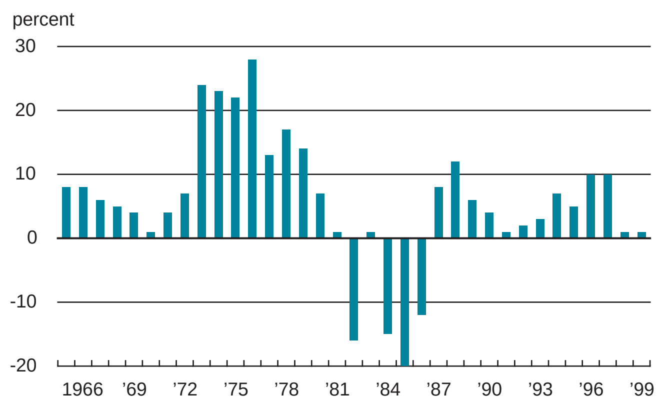
Bankers also responded to the downturn in agriculture by raising credit standards. Nearly 7 percent of the bankers reported considerable tightening of their credit standards, while 40 percent indicated they had tightened somewhat. The remainder stated there had been no change. Even so, they reported that only 3 percent of their existing farm loan customers would not qualify for new operating credit in 2000, a smaller percentage than reported a year earlier.

Loan demand in the fourth quarter was marginally stronger than a year earlier. About 28 percent of the bankers reported an increase in demand, while 22 percent reported a decline. Demand appeared somewhat stronger in Illinois and Iowa relative to the other District states. Looking ahead, the operating loan volume is expected to register a year-over-year gain in the first quarter of 2000, while lending for farm real estate and equipment is expected to decline. An expected decline in farm machinery lending was reported by 53 percent of the banks, while only 9 percent anticipated an increase. This drop also reflects expectations for capital spending in 2000. For the year ahead, 67 percent foresee a decline in spending on farm equipment relative to last year. Similarly, other forms of capital expenditures by farmers across the District are expected to decline.

The bankers reported that interest rates charged on new farm loans registered slight gains during the fourth quarter. Farm real estate loans averaged 8.6 percent for the District, with Iowa having the lowest average rate of 8.4 percent and Michigan having the highest rate of 9.0 percent. The average rate charged on new operating loans ranged from 9.1 percent in Illinois to 10.1 percent in Michigan, coming in at 9.4 percent for the District.

The controversy surrounding GMO crops skyrocketed last year. With food safety concerns magnified in Europe because of mad cow disease and the discovery of livestock feed contaminated with dioxins, European authorities were slow to approve the import of genetically modified U.S. crops, and then insisted these crops and related food products be labeled regarding GMO content.

Annual percentage change in Seventh District farmland values



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]	Feeder cattle[1]	Real estate[1]
	(index)[2]	(index)[2]	(index)[2]	(percent)	(percent)	(percent)	(percent)
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
1996							
Jan–Mar	125	125	117	65.0	9.62	9.63	8.66
Apr–June	116	114	108	65.8	9.69	9.69	8.81
July–Sept	122	113	112	68.2	9.70	9.68	8.80
Oct–Dec	122	110	94	67.6	9.64	9.61	8.73
1997							
Jan–Mar	134	110	105	67.6	9.71	9.65	8.77
Apr–June	134	97	94	69.7	9.72	9.68	8.83
July–Sept	131	97	93	70.2	9.71	9.69	8.76
Oct–Dec	120	109	95	70.7	9.65	9.63	8.69
1998							
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
1999							
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

[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.

The controversy spread to the U.S., with some groups insisting that the Food and Drug Administration ban the use of GMOs in food products, increase regulation of these products, or require food companies to label their products regarding GMO content. Farmers now face additional costs of segregating GMO and conventional grain, as well as the added uncertainty of potential price differentials and whether buyers will accept GMO grain.

These developments raise questions about the number of acres that farmers will plant to GMO crops this spring, and whether lenders are comfortable with financing the purchase of GMO seed. (A handful of anecdotal reports indicate that some farmers are purchasing both conventional and GMO seed, so that they might wait until the last possible moment to decide which to plant.) In general, the survey respondents indicated that GMO acreage would be steady to declining this spring. About 10 percent predicted that GMO corn acreage will increase from a year ago, with the rest nearly evenly split between a decline and no change. The responses for GMO soybeans followed a similar pattern, but a larger share—over half—thought there would be no change in acreage relative to last year. For reasons not clear, the share of bankers that believe GMO acreage will decline was relatively larger in Illinois than the other District states.

Finally, a large majority of the bankers indicated a willingness to finance purchases of GMO seed. Approximately 68 percent stated they were willing to provide financing, while 28 percent indicated they were willing but did hold reservations. Only 4 percent stated they would not provide financing for GMO seed. The responses were similar across states, but a somewhat larger share of the bankers in Wisconsin (12 percent) expressed an unwillingness to finance GMO seed.

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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	90	–2.2	–7	–13
Crops *(index, 1990–92=100)*	January	89	–1.1	–8	–18
Corn *($ per bu.)*	January	1.90	4.4	–8	–26
Hay *($ per ton)*	January	71.80	1.0	–9	–24
Soybeans *($ per bu.)*	January	4.59	3.4	–14	–31
Wheat *($ per bu.)*	January	2.52	0.0	–11	–24
Livestock and products *(index, 1990–92=100)*	January	93	–2.1	–3	–2
Barrows and gilts *($ per cwt.)*	January	36.50	1.4	37	0
Steers and heifers *($ per cwt.)*	January	70.70	–0.1	14	7
Milk *($ per cwt.)*	January	11.90	–2.5	–32	–18
Eggs *(¢ per doz.)*	January	58.0	–5.4	–19	–22
Consumer prices *(index, 1982–84=100)*	December	168	0.0	3	4
Food	December	165	0.1	2	4
Production or stocks					
Corn stocks *(mil. bu.)*	December 1	8,020	N.A.	0	11
Soybean stocks *(mil. bu.)*	December 1	2,182	N.A.	0	9
Wheat stocks *(mil. bu.)*	December 1	1,879	N.A.	–1	16
Beef production *(bil. lb.)*	December	2.11	–1.5	1	4
Pork production *(bil. lb.)*	December	1.70	–0.2	–5	4
Milk production* *(bil. lb.)*	December	11.9	5.3	4	8
Receipts from farm marketings *(mil. dol.)*	September	17,044	4.7	–5	–20
Crops**	September	8,112	21.8	–3	–18
Livestock	September	8,386	–2.3	6	–1
Government payments	September	546	–47.1	–68	–82
Agricultural exports *(mil. dol.)*	November	4,629	2.4	–1	–16
Corn *(mil. bu.)*	November	170	–1.4	1	41
Soybeans *(mil. bu.)*	October	107	51.8	–21	–37
Wheat *(mil. bu.)*	October	101	2.8	–11	10
Farm machinery sales *(units)*					
Tractors, over 40 HP	December	5,278	29.7	1	–16
40 to 100 HP	December	3,619	18.4	2	11
100 HP or more	December	1,659	63.8	–1	–45
Combines	December	619	9.8	–27	–52

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

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