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AgLetter

FARMLAND VALUES AND CREDIT CONDITIONS

Summary

Reduced demand to purchase farmland has slowed the rate of increase in the value of "good" agricultural land, as compared with a year ago, for the Seventh Federal Reserve District. Based on a survey of 325 agricultural bankers as of April 1, 2001, the quarterly increase in farmland values remained at 1 percent, on average, for the District as a whole. For the twelve months ending March 31 the increase was 4 percent. Although the year-over-year increase matched that of last year, more bankers expected farmland values to decline and fewer expected farmland values to go up in the next three months. Interestingly, the bankers reported that the amount of farmland for sale in recent months, as well as the number and acreage of farms sold, was higher than a year earlier. Cash rental rates for farmland showed a stronger increase than was reported last year, as farm operations in the District continued to shift toward cash rental arrangements.

In terms of credit conditions, the availability of funds was greater than both last quarter and a year ago, although a larger proportion of banks required increased collateral. In contrast with the weaker real estate loan demand, the demand for other types of agricultural lending was firmer during the quarter and about the same as reported last year. More renewals and extensions of loans were generated in the quarter than a year earlier according to the bankers. The rate of loan repayment declined from the previous year, suggesting growing concern about financial stress in the agricultural economy. Interest rates on agricultural loans dropped across the District again, after reaching a cyclical peak last year.

Farmland values

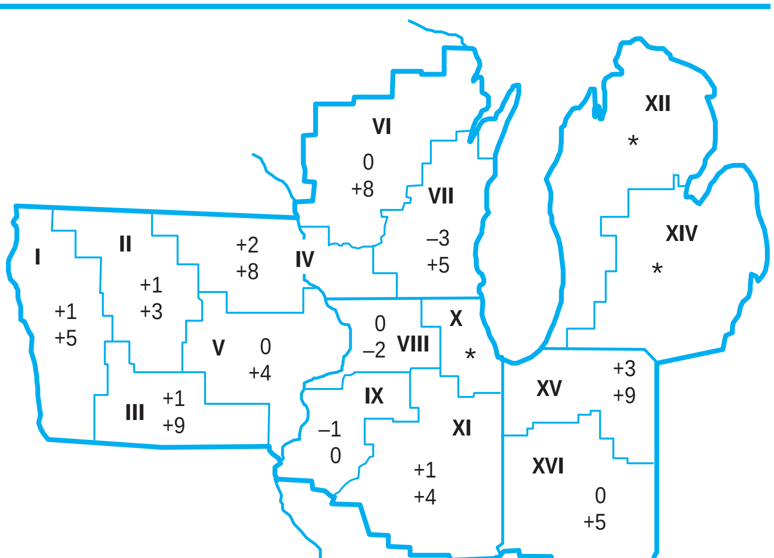
Overall, the value of "good" agricultural land continued to rise in the first quarter of 2001, but the survey once again shows evidence of differences among District states (see map and chart below). From January 1 to April 1, the rate of change in Michigan's farmland values moved ahead of the other states with a 5 percent increase (quarter-to-quarter), whereas Wisconsin, with a 1 percent decline, trailed the rest. After many quarters of larger than average increases, both Michigan and Wisconsin experienced reduced upward pressure on farmland values in the past year. Farmland value gains in Illinois have also slowed, with no increase, on average, in the first quarter. Indiana and Iowa both exhibited steady growth of 1 percent for the quarter. The average year-over-year increase in District farmland values was 4 percent. Michigan, at one end of the range, recorded no change while Indiana, at the other end, reported a 7 percent gain.

The most notable characteristic of the farm real estate market was the decline in the proportion of bankers

Percent change in dollar value of "good" farmland

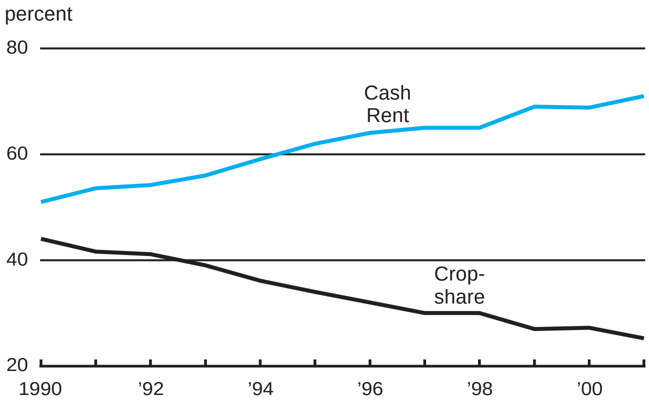
Top: January 1, 2001 to April 1, 2001
Bottom: April 1, 2000 to April 1, 2001

	January 1, 2001 to April 1, 2001	April 1, 2000 to April 1, 2001
Illinois	0	+2
Indiana	+1	+7
Iowa	+1	+6
Michigan	+5	0
Wisconsin	–1	+6
Seventh District	+1	+4



*Insufficient response.

Farmland rental arrangements



that reported higher demand for the purchase of agricultural land in their areas—from 34 percent to 24 percent. Only in Indiana was there greater interest in the purchase of agricultural land. Combined with an uptick in the percentage of bankers reporting lower demand, this suggests a dampening of demand for farmland within the District. Still, 34 percent of the respondents reported an increase in the amount of farmland for sale in their areas. Moreover, almost 30 percent indicated that the number (and acreage) of farms sold was higher than in the previous year. The responding bankers in Illinois, Indiana, and Iowa, in particular, noted this pattern. Continuing a recent trend of strong sales of farmland for nonagricultural purposes, respondents observed that farmers purchased a lower share of the acreage sold, except in Indiana. About 36 percent of the bankers reported the share of acreage purchased by farmers was lower than last year, compared with less than 10 percent who reported it was higher.

Although 74 percent of respondents expect farmland values to remain stable during the April to July quarter, a significant share (15 percent) expected farmland values to go down. The percentage of bankers that expected declines increased in Indiana, Iowa and Wisconsin. At the same time, Wisconsin was the only state to have over 20 percent of the bankers predict a rise in farmland values. This may reflect the substantial increase in milk prices since the beginning of the year. Still, given the expectation of continued low commodity prices, in general, and the anticipation of another emergency aid program to supplement government support, there seems to be a consensus that farmland values will be mostly stable in the near term.

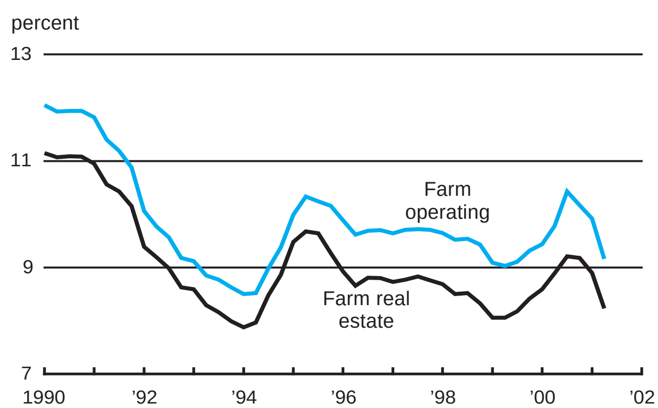
Rental arrangements for farmland operated by someone other than the owner changed dramatically over the past decade (see chart). In 1990 almost 42 percent of the District's rental farmland was rented on a crop-shared basis, dropping to 25 percent as of the first quarter of 2001. In contrast, the proportion of land rented on a cash basis rose from about 54 percent in 1990 to 71 percent in 2001. The percentage of land rented on a bushel basis or using other arrangements remained steady between 4 percent and 5 percent. The composition of rentals varies by state with Illinois (55 percent cash rentals and 40 percent crop-shared) at one end and Wisconsin (90 percent cash rentals and 7 percent crop-shared) at the other. A 1 percent annual increase in the average cash rental rate for the District outpaced last year's increase of about a half percent. Apart from a decline in Michigan, the states had similar year-over-year increases of around 1 percent in average cash rental rates for "good" farmland.

Credit conditions

In the first quarter of 2001, agricultural banks had more funds available to lend, and there was increased demand for non-real estate agricultural loans. Almost 19 percent of the bankers reported they had more funds available from January to March than they had a year earlier. This represented an increase compared with both last quarter and last year at this time. All District states had improved fund availability, but banks in Illinois and Michigan especially seemed to have more funds available to lend. In tandem with this increase, there were fewer banks that reported lower (18 percent) or the same (64 percent) amount of funds available for lending. At the same time, 35 percent of the bankers reported higher demand for non-real estate loans as compared with 26 percent in the fourth quarter of 2000. Fewer bankers saw lower demand (17 percent) or the same demand (48 percent) for non-real estate agricultural loans.

Given the continued pressures on farm incomes, the respondents indicated that non-real estate farm loan repayment rates had deteriorated from last quarter and last year. About 37 percent of the bankers reported lower rates of loan repayment, while only 5 percent reported higher rates. These numbers dropped the index of loan repayments to 67, the lowest level in a year and a half. Moreover, there was an upswing in renewals and extensions, with 35 percent, 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]	Feeder cattle[1]	Real estate[1]
	(index)[2]	(index)[2]	(index)[2]	(percent)	(percent)	(percent)	(percent)
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
2000							
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
2001							
Jan-Mar	118	101	67	75.0	9.16	9.17	8.23

[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.

average, of the bankers noting an increase, and only 4 percent noting a decrease. Lenders in Illinois and Iowa noted the highest levels of renewals and extensions. With signs of increased tension in agricultural loans, bankers reported a tightening in collateral requirements, with 26 percent requiring a higher level of collateral in the past three months. No bank reported lower amounts of collateral required for non-real estate loans. Again, banks in Illinois and Iowa were out front in requiring greater amounts of collateral.

Somewhat offsetting the impact of tighter collateral requirements, banks reported that farm loan interest rates had declined. As of April 1, the District average for interest rates on new operating loans had fallen to 9.16 percent, more than 125 basis points lower than the peak of last year. And, at an average of 8.23 percent, interest rates for farm mortgages were down almost 100 basis points from three quarters earlier.

The bankers were asked about their use of farm loan guarantees provided by the Farm Service Agency (FSA) of the U.S. Department of Agriculture. About 8 percent of the respondents' farm loan portfolios were covered by FSA guarantees, the same as last year. Around 78 percent of the bankers indicated that some of their loans have FSA guarantees. Moreover, 11 percent of the banks depend on FSA guarantees for at least 20 percent of their agricultural lending, with a few over 50 percent.

Looking forward

Comparing the second quarter of 2001 with the second quarter a year ago, a third of the bankers reported that they foresee higher non-real estate loan volume, mostly in operating loans and FSA guaranteed loans, and only a seventh foresee higher real estate loan volume. A majority of the respondents indicated that they expected loan volumes would remain the same in the second quarter of this year compared with a year ago. These proportions reflect little change from the first quarter. Overall, expectations for loan volume in the second quarter of 2001 remained stable. However, a further deterioration in the agricultural situation, such as negative news regarding federal emergency farm aid, could adversely affect loan conditions.

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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)*	April	107	3.9	7	10
Crops *(index, 1990-92=100)*	April	106	8.2	4	1
Corn *($ per bu.)*	April	1.91	–2.1	–6	–6
Hay *($ per ton)*	April	94.80	8.7	21	15
Soybeans *($ per bu.)*	April	4.18	–4.8	–16	–10
Wheat *($ per bu.)*	April	2.84	–1.0	11	8
Livestock and products *(index, 1990-92=100)*	April	109	0.9	11	21
Barrows and gilts *($ per cwt.)*	April	47.00	0.9	–2	54
Steers and heifers *($ per cwt.)*	April	80.70	0.2	7	22
Milk *($ per cwt.)*	April	14.40	3.6	21	14
Eggs *(¢ per doz.)*	April	66.5	–3.8	3	8
Consumer prices *(index, 1982-84=100)*	April	177	0.4	3	6
Food	April	172	0.1	3	5
Production or stocks					
Corn stocks *(mil. bu.)*	March 1	6,037	N.A.	8	6
Soybean stocks *(mil. bu.)*	March 1	1,405	N.A.	1	–4
Wheat stocks *(mil. bu.)*	March 1	1,340	N.A.	–5	–8
Beef production *(bil. lb.)*	April	1.94	–7.5	–4	–10
Pork production *(bil. lb.)*	April	1.53	–5.8	10	–6
Milk production* *(bil. lb.)*	April	12.2	–1.8	–2	1
Receipts from farm marketings *(mil. dol.)*	February	12,839	–29.7	–3	–2
Crops**	February	5,514	–42.8	2	–4
Livestock	February	7,325	–15.1	–7	0
Government payments	February	N.A.	N.A.	N.A.	N.A.
Agricultural exports *(mil. dol.)*	February	4,536	3.7	7	17
Corn *(mil. bu.)*	January	130	–8.8	–17	2
Soybeans *(mil. bu.)*	January	106	0.0	2	25
Wheat *(mil. bu.)*	February	89	39.8	25	31
Farm machinery sales *(units)*					
Tractors, over 40 HP	April	9,066	34.0	12	23
40 to 100 HP	April	5,661	33.7	12	18
100 HP or more	April	3,405	34.5	12	35
Combines	April	361	10.7	–8	–10

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

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