The Agricultural Newsletter
from the Federal Reserve Bank of Chicago
Number 1920 May 2003

AgLetter

FARMLAND VALUES AND CREDIT CONDITIONS

Summary

Even as farmers showed evidence of reduced farmland purchases, overall demand to purchase farmland strengthened. With nonfarm buyers filling the gap in demand, moderating rates of increase in the value of "good" agricultural land were the result, as compared with a year ago, for the Seventh Federal Reserve District. Based on a survey of 281 agricultural bankers as of April 1, 2003, the quarterly increase in farmland values slowed to 1 percent, on average, for the District as a whole. For the twelve months ending March 31, the increase was 6 percent, matching the year-over-year increase of last year. Fewer bankers expected farmland values to decline and more expected farmland values to go up in the next three months. The bankers reported that the amount of farmland for sale in recent months was about the same as last year, but the number and acreage of farms sold were slightly higher than a year earlier. Cash rental rates for farmland were above the level of a year ago, as farm operations in the District continued to shift toward cash rental arrangements.

Regarding mixed credit conditions, the availability of funds was greater than a year ago and about the same as the previous quarter. Compared to last year, a smaller proportion of banks required increased collateral, though not as small as last quarter. In contrast with the stronger loan demand of the last three months, the demand for agricultural lending is expected to soften a bit during this quarter. Fewer renewals and extensions of loans were generated in the quarter than a year earlier according to the bankers, but more than last quarter. The rate of loan repayment was lower than the previous quarter, though higher than the previous year. Interest rates on agricultural loans continued to drop across the District. Loan-to-deposit ratios declined again, averaging 72.4 percent at the end of the first quarter.

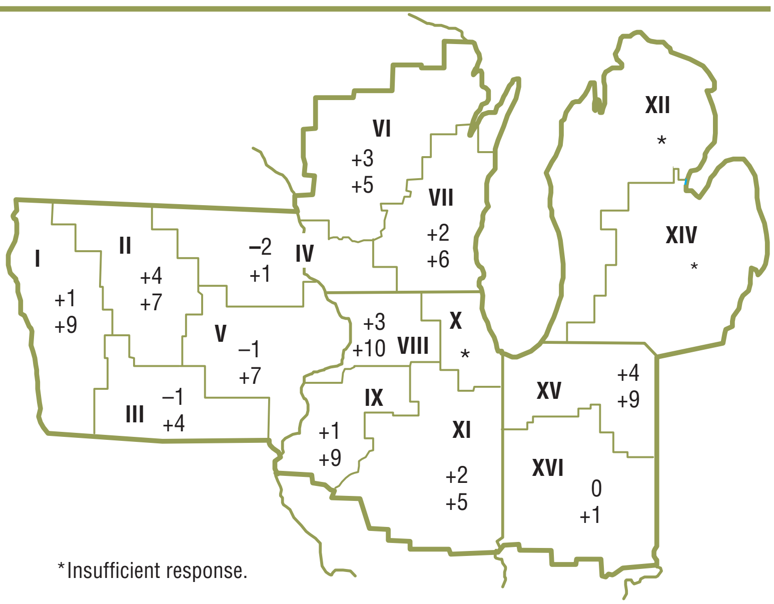
Farmland values

For the District as a whole, the value of "good" agricultural land continued to rise in the first quarter of 2003, but the survey showed that outcomes differed among District states (see map and chart below). From January 1 to April 1, the rate of change in Iowa's farmland values lagged behind the other states with no change (quarter-to-quarter), whereas the rest of the District states had a 2 percent increase. Possibly the survey results were dampened by the prospects of a drought this year, which have dwindled since the survey. The average year-over-year increase in District farmland values was 6 percent, slightly lower than at the end of 2002. Michigan, at one end of the range, recorded a 9 percent gain, while Indiana at the other end reported a 3 percent gain. Wisconsin, with a 4 percent gain, also was below the District average, as dairy operations continue to struggle with low milk prices.

Percent change in dollar value of "good" farmland

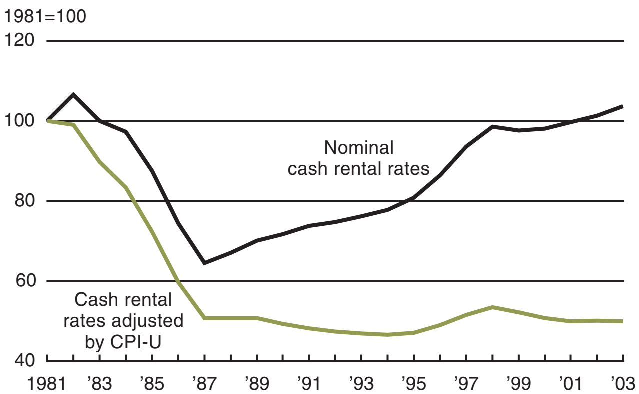
Top: January 1, 2003 to April 1, 2003
Bottom: April 1, 2002 to April 1, 2003

	January 1, 2003 to April 1, 2003	April 1, 2002 to April 1, 2003
Illinois	+2	+7
Indiana	+2	+3
Iowa	0	+6
Michigan	+2	+9
Wisconsin	+2	+4
Seventh District	+1	+6



*Insufficient response.

1. Indexes of District cash rental rates



Note: Derived from Federal Reserve Bank of Chicago Farmland Value Surveys and BLS consumer price index series.

An interesting characteristic of the farm real estate market was the rise in the proportion of bankers that reported higher demand for the purchase of agricultural land in their areas—from 36 percent to 52 percent. In fact, the three primary corn and soybean producing states (Illinois, Indiana, and Iowa) had over half the respondents indicate they saw higher demand to purchase farmland. Only in Wisconsin was there less interest in the purchase of agricultural land.

As last year, 29 percent of the respondents reported an increase in the amount of farmland for sale in their areas, though 5 percent more than last year reported a lower amount. Moreover, about 30 percent indicated that the number (and acreage) of farms sold was higher than in the previous year. Continuing a recent trend of farmland sales for investment and nonagricultural purposes, respondents observed that farmers purchased a lower share of the acreage sold, except in Michigan. About 40 percent of the bankers reported the share of acreage purchased by farmers was lower than last year, compared with 6 percent who reported it was higher.

Although 68 percent of respondents expected farmland values to remain stable during the April to July quarter, a substantial share (30 percent) expected farmland values to go up. The percentage of bankers that expected declines increased only in Wisconsin. At the same time, in Illinois and Iowa over 30 percent of the bankers predicted a rise in farmland values. Given the expectation of continued commodity prices above the lows of recent years, except for dairy, and the transition to a new schedule of government support payments, there seems to be a consensus that farmland values will be mostly rising this quarter.

A 2 percent annual increase in the average cash rental rate for the District was higher than last year's increase, but by less than 1 percent. Apart from no change in Michigan, the states had year-over-year increases of 1 percent in Illinois and Wisconsin, 2 percent in Indiana, and 4 percent in Iowa for average cash rental rates for "good" farmland.

While nominal cash rental rates have returned to 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 about half the rates of the early 1980s (see chart 1). After a dramatic fall in the 1980s, mirroring the fall in farmland values, "real" cash rental rates remained in a narrow band for the rest of the century. The inflation-adjusted cash rental rate for 2003 was slightly down from last year, extending the period of declining or stagnant cash rental rates to five years, in real terms.

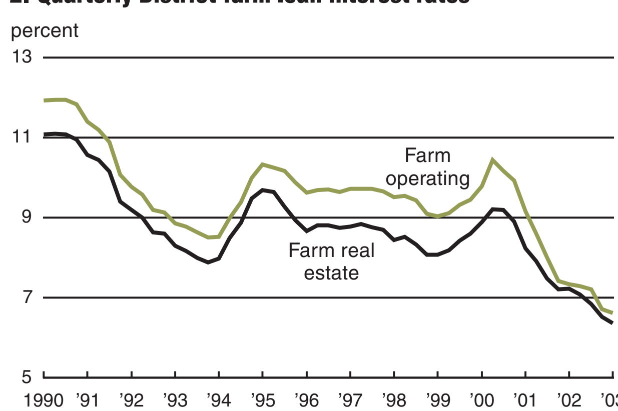
Rental arrangements for farmland operated by someone other than the owner continued to shift toward cash rental agreements. The composition of rentals varied by state with Illinois (58 percent cash rentals and 38 percent crop-shared) at one end and Wisconsin (90 percent cash rentals and 5 percent crop-shared) at the other.

Credit conditions

After some recent improvement in credit conditions, there were signs of slippage this quarter. Given the varying pressures on farm incomes, the respondents indicated that non-real estate farm loan repayment rates had deteriorated from last quarter, but were better than this quarter last year. About 31 percent of the bankers reported lower rates of loan repayment, while only 9 percent reported higher rates. These numbers dropped the index of loan repayments to 79. Moreover, there was an upswing in renewals and extensions, with 31 percent, on average, of the bankers noting an increase, and only 7 percent noting a decrease. Lenders in Illinois and Indiana noted levels of renewals and extensions above the District average. With signs of increased tension in agricultural loans, bankers reported a tightening in collateral requirements from last quarter, with 26 percent requiring a higher level of collateral in the past three months. Banks in Illinois were out front in requiring greater amounts of collateral.

On a more positive note for the first quarter of 2003, agricultural banks had more funds available to lend, and there was increased demand for non-real estate agricultural

2. Quarterly District farm loan interest 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)*
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
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

[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.

loans. Around 36 percent of the bankers reported they had more funds available from January to March than they had a year earlier, an increase compared with last year at this time. In tandem with this increase, there were fewer banks (6 percent) that reported a lower amount of funds available for lending. The index of fund availability was 130, the same as last quarter and the highest in a decade. At the same time, 31 percent of the bankers reported higher demand for non-real estate loans as compared with 25 percent in the fourth quarter of 2002. Fewer bankers saw lower demand (22 percent) or the same demand (46 percent) for non-real estate agricultural loans. Thus, the index of loan demand jumped to 109, the highest since 2001 at this time.

Somewhat offsetting the impact of tighter collateral requirements, banks reported that farm loan interest rates had declined again (see chart 2). As of April 1, the District average for interest rates on new operating loans had fallen to 6.61 percent, more than 380 basis points below the peak of 2000. At an average of 6.36 percent, interest rates for farm mortgages were down 285 basis points from 2000.

The surveyed 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 7 percent of the District farm loan portfolio is covered by FSA guarantees, a slight increase from last year. Less than 10 percent of the banks depend on FSA guarantees for at least 20 percent of their agricultural lending, with just a few over 50 percent.

Looking forward

Comparing the second quarter of 2003 with the second quarter a year ago, one-fourth of the bankers reported that they foresee higher non-real estate loan volume, mostly in operating loans and FSA guaranteed loans, and only one-fifth 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, though a few more bankers expect lower loan volume. Overall, expectations for loan volume in the second quarter of 2003 remained stable to slightly reduced.

David B. Oppedahl, *Economist*

Notice: It is with deep regret that the bank announces the passing of a dear colleague, Jack L. Hervey. Jack was a vital part of the research department for many years and will be sorely missed.

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, economist, and members of the Bank's Research Department, and is distributed free of charge by the Bank's Public Information Center. 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.
To subscribe, please write or telephone:
Public Information Center
Federal Reserve Bank of Chicago
P.O. Box 834
Chicago, IL 60690-0834
Tel. no. 312-322-5111
Fax no. 312-322-5515
AgLetter is also available on the World Wide Web at http://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	101	2.0	7	–5
Crops (*index, 1990-92=100*)	April	111	5.7	11	8
Corn (*$ per bu.*)	April	2.35	0.9	23	24
Hay (*$ per ton*)	April	94.50	1.8	–4	–5
Soybeans (*$ per bu.*)	April	5.90	5.4	32	40
Wheat (*$ per bu.*)	April	3.34	–5.6	18	17
Livestock and products (*index, 1990-92=100*)	April	93	0.0	4	–15
Barrow and gilts (*$ per cwt.*)	April	34.20	–2.8	7	–29
Steers and heifers (*$ per cwt.*)	April	79.30	3.4	12	0
Milk (*$ per cwt.*)	April	10.9	–0.9	–13	–25
Eggs (*¢ per doz.*)	April	69.0	0.4	32	6
Consumer prices (*index, 1982-84=100*)	April	184	–0.2	2	4
Food	April	178	–0.1	1	4
Production or stocks					
Corn stocks (*mil. bu.*)	March 1	5,132	N.A.	–11	–15
Soybean stocks (*mil. bu.*)	March 1	1,202	N.A.	–10	–14
Wheat stocks (*mil. bu.*)	March 1	905	N.A.	–25	–32
Beef production (*bil. lb.*)	April	2.15	5.0	–2	11
Pork production (*bil. lb.*)	April	1.66	2.3	–1	8
Milk production* (*bil. lb.*)	April	12.7	–2.3	1	4
Receipts from farm marketings (*mil. dol.*)	February	12,781	–24.0	1	–4
Crops**	February	5,731	–36.2	1	11
Livestock	February	7,050	–10.1	1	–13
Government payments	February	N.A.	N.A.	N.A.	N.A.
Agricultural exports (*mil. dol.*)	March	4,826	1.7	9	–1
Corn (*mil. bu.*)	March	135	18.0	–24	–23
Soybeans (*mil. bu.*)	March	92	–40.6	43	–32
Wheat (*mil. bu.*)	February	50	–22.4	–26	–44
Farm machinery (*units*)					
Tractors, over 40 HP	April	8,244	29.1	2	–8
40 to 100 HP	April	5,996	29.4	8	8
100 HP or more	April	2,248	28.1	–11	–34
Combines	April	474	77.5	13	30

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