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AgLetter

FARMLAND VALUES AND CREDIT CONDITIONS

District farmland values continued to trend upward this summer, according to the Federal Reserve Bank of Chicago's latest survey of agricultural banks. The 375 respondents indicated that, on average, the value of good farmland rose 1.6 percent during the third quarter and 7 percent during the 12 months ending in September. The third quarter rise was slightly larger than that of the previous quarter and about comparable to the average quarterly rate of increase experienced over the last three years. However, the rate of increase this summer varied considerably among the five states comprising the Seventh Federal Reserve District. The bankers from Iowa reported the largest increase, nearly 3 percent, while those from the District portion of Wisconsin reported that farmland values were essentially unchanged in the third quarter. Elsewhere, the third quarter rise approximated 1 percent in Indiana and Michigan and 2 percent in Illinois. For the 12 months ending with September, the gains ranged from 6 percent in Illinois to 8 percent in Indiana.

The bulk of the bankers felt that the trend in farmland values during the final months of this year would be steady-to-higher. Overall, 38 percent of the bankers expected an uptrend during the fourth quarter while 60 percent expected land values to be stable. Only 2 percent of the bankers projected a decline in farmland values this fall. The expectations for a fourth quarter uptrend in farmland values were apparent for all District states, but much less so for Illinois than elsewhere.

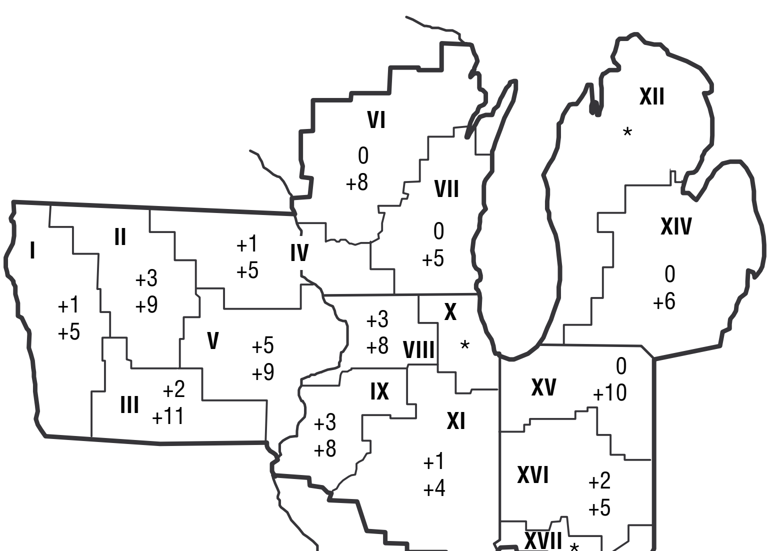
In assessing likely land market developments for the fall and winter quarters, the bankers indicated they were expecting the demand to acquire farmland would be stronger and that the number of farmland transfers would be higher. Overall, about half of the bankers felt that the demand among both farmers and nonfarmer investors to acquire farmland would be stronger than a year ago while only a tenth projected a decline. The rest of the bankers felt the demand for farmland would be about the same as the year before. With respect to the number of farmland transfers, 36 percent of the bankers projected an increase while only 10 percent forecast a decline.

The source of the anticipated strength in demand for farmland varied considerably among the District states. For example, the view that nonfarmer investor

Percent change in dollar value of "good" farmland

Top: July 1, 1997 to October 1, 1997
Bottom: October 1, 1996 to October 1, 1997

	July 1, 1997 to October 1, 1997	October 1, 1996 to October 1, 1997
Illinois	+2	+6
Indiana	+1	+8
Iowa	+3	+7
Michigan	+1	+7
Wisconsin	0	+7
Seventh District	+2	+7



*Insufficient response.

demand would be stronger than a year ago was noted by an especially large share (about 67 percent) of the bankers from Indiana and Wisconsin. Conversely, a comparatively large share (64 percent) of the bankers from Iowa were expecting a pickup among farmers in the demand to acquire farmland. By far, the weakest farmer component in the demand for farmland may be in Wisconsin where the share of bankers projecting a decline in farmer demand (29 percent) nearly matched the share anticipating an increase (31 percent). As noted below, the bankers from Wisconsin were much more pessimistic about farmer earnings in the months ahead than were those from the other District states.

Differences also surfaced in the bankers' views on credit conditions and prospects. In general, however, the measure of farm loan demand for the third quarter stood at a relatively high level of 131. Although down marginally from the previous two surveys, the latest reading still denotes that the share of bankers reporting a year-over-year rise in loan demand (42 percent) substantially exceeded the share reporting a decline (11 percent). However, the strength in farm loan demand varied widely. It was strongest in Iowa where 60 percent of the banks reported an increase and only 5 percent reported a decline. In Michigan and Wisconsin, conversely, the share of bankers reporting an increase in farm loan demand only matched, or marginally exceeded, the share reporting a decline.

The third-quarter measure of funds available at the banks for making farm loans held at 97. This composite measure implies that the share of banks that reported a year-over-year decline in fund availability (17 percent) slightly exceeded the share that reported an increase (14 percent). The lowest readings on fund availability (the low 90s) were reported by the bankers from Iowa, Michigan, and Wisconsin. Banks consider numerous factors when deciding how to allocate funds among alternative investments. But tightening liquidity conditions from slow deposit growth appears to be a key factor in the modest scaling back in funds made available for farm loans at banks. Reflecting this, the average loan-to-deposit ratio among the surveyed banks edged higher again in the third quarter. On average, loans now absorb 70.2 percent of deposits at the surveyed banks, up 2 percentage points from the high year-ago level. With the rising ratios, the gap between the actual and the desired ratios reported by the surveyed banks is narrowing and a growing share of the banks are operating with a higher-than-desired ratio. The gap between the averages for the desired and actual ratios retreated to 2.3 percentage points in the most recent survey, down from 3.4 percentage points a year ago and the lowest third-quarter gap since 1980. Similarly, the share of responding banks that are operating with a "higher-than-desired" loan-to-deposit ratio rose to 23 percent, up from 17.5 percent a year ago and the highest third-quarter share since 1979. Based on these measures, the tightest liquidity conditions appear to be among banks in Iowa and Michigan and, to a lesser extent, in Indiana and Wisconsin.

The overall measure of farm loan repayment rates, for the second consecutive quarter, signaled a slight decline from the relatively favorable performance of a year ago. But the responses varied considerably by state. In Illinois, Indiana, and Iowa, third-quarter farm loan repayment rates apparently held close to the year-earlier level. Alternatively, the share of bankers from Michigan and Wisconsin that reported a decline in farm loan repayment rates exceeded the share noting an increase by a rather sizable margin of 24 percentage points. Financial stress in the dairy sector—which is more prevalent in Wisconsin and Michigan than elsewhere in the District—may account for the slower loan repayment performance in those two states.

Interest rates charged on new farm loans at banks held steady again in the most recent survey. The average of the typical rates charged on farm operating loans as of the end of the third quarter was 9.71 percent while that for farm real estate loans was 8.76 percent. This marks the sixth consecutive quarter of virtually no change in the average rates charged on farm loans. Illinois banks continued to report the lowest rates, 9.46 and 8.61 percent for farm operating and farm real estate loans, respectively. Michigan banks reported the highest rates, 10.0 and 9.39 percent, respectively.

In looking ahead to likely fourth-quarter trends in farm loan demand, bankers from most areas anticipate continued strength in the demand for farm operating loans. This was especially true among the banks in Iowa. And except for Wisconsin, the bankers responses indicated fairly strong expectations for continued growth in the demand for loans to finance farm machinery and equipment. (The Wisconsin bankers expected a decline in farm machinery financing this fall). And in most areas of the District except Wisconsin, the bankers felt the demand for loans to finance crop storage would be up from a year ago.

In judging the income picture of their farm customers for this fall and winter, the bankers' views were somewhat mixed. In general, earnings of both crop farmers

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)*
1992							
Jan-Mar	129	128	77	57.3	9.77	9.80	9.19
Apr-June	123	123	79	58.1	9.57	9.56	8.99
July-Sept	111	123	90	59.3	9.18	9.16	8.63
Oct-Dec	107	127	93	58.7	9.12	9.13	8.59
1993							
Jan-Mar	108	131	102	58.0	8.85	8.83	8.29
Apr-June	103	129	95	59.2	8.77	8.74	8.16
July-Sept	110	122	90	59.2	8.63	8.59	7.99
Oct-Dec	125	126	95	59.7	8.50	8.50	7.88
1994							
Jan-Mar	136	121	94	59.9	8.52	8.48	7.97
Apr-June	139	107	90	62.5	8.98	8.95	8.48
July-Sept	132	96	94	64.5	9.38	9.30	8.86
Oct-Dec	112	102	111	63.8	9.99	9.93	9.48
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

[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.

and livestock producers were expected to hold close to year-ago levels while dairy farmer earnings were widely expected to decline. However, several departures from these general expectations were apparent. For example, Wisconsin bankers, by a sizable margin, were projecting declines in earnings of both crop and livestock farmers, as well as dairy farmers. Alternatively, better harvests presumably underlay the expectations for higher crop-farmer earnings in both Indiana and Michigan. The bankers' views with respect to the amount of financial stress among farmers and the relative level of forced sales of farm assets this fall and winter also differed. The share of bankers from Wisconsin expecting an increase from year-earlier levels in forced sales of farm assets exceeded the share projecting a decline by 39 percentage points. In Iowa, conversely, the share of bankers expecting a decline in forced sales of farm assets outweighed those projecting an increase by a margin of 17 percentage points. Elsewhere, the share expecting an increase in forced sales were about evenly matched with those projecting a decline.

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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)*	October	108	0.9	–4	3
Crops *(index, 1990–92=100)*	October	116	1.8	–3	2
Corn *($ per bu.)*	October	2.63	4.4	–9	–6
Hay *($ per ton)*	October	103.00	2.0	10	26
Soybeans *($ per bu.)*	October	6.74	0.3	–3	9
Wheat *($ per bu.)*	October	3.55	–3.3	–15	–25
Livestock and products *(index, 1990–92=100)*	October	95	–4.0	–8	3
Barrows and gilts *($ per cwt.)*	October	47.40	–6.9	–15	3
Steers and heifers *($ per cwt.)*	October	65.70	–1.9	–4	5
Milk *($ per cwt.)*	October	13.60	3.0	–17	1
Eggs *(¢ per doz.)*	October	65.8	–5.5	–11	–1
Consumer prices *(index, 1982–84=100)*	October	162	0.2	2	5
Food	October	158	0.2	2	6
Production or stocks					
Corn stocks *(mil. bu.)*	September 1	884	N.A.	108	–43
Soybean stocks *(mil. bu.)*	September 1	132	N.A.	–28	–61
Wheat stocks *(mil. bu.)*	September 1	2,073	N.A.	20	10
Beef production *(bil. lb.)*	September	2.13	–4.3	10	–4
Pork production *(bil. lb.)*	September	1.49	10.1	6	4
Milk production* *(bil. lb.)*	October	11.0	3.2	2	2
Receipts from farm marketings *(mil. dol.)*	June	13,382	0.8	–10	1
Crops**	June	5,738	0.2	–11	–8
Livestock	June	7,618	1.2	1	10
Government payments	June	26	30.0	–97	–84
Agricultural exports *(mil. dol.)*	August	4,427	10.7	–4	1
Corn *(mil. bu.)*	August	143	46.4	30	–32
Soybeans *(mil. bu.)*	August	38	61.6	–29	–20
Wheat *(mil. bu.)*	August	125	30.9	–15	–2
Farm machinery sales *(units)*					
Tractors, over 40 HP	October	7,158	13.5	–5	18
40 to 100 HP	October	4,143	1.6	–2	12
100 HP or more	October	3,015	35.3	–9	27
Combines	October	1,376	17.2	25	40

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

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