*The Agricultural Newsletter*
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# AgLetter

## FARMLAND VALUES AND CREDIT CONDITIONS

### Summary

For the second quarter of 2013, "good" farmland values were up 17 percent from a year ago in the Seventh Federal Reserve District. However, agricultural land values registered no gain in the second quarter relative to the first quarter of 2013, according to a survey of 211 agricultural bankers. The last time there was no quarterly increase in agricultural land values was in 2009. Generally, the stellar year-over-year gains in farmland values across the five District states masked the comparative weakness of the quarterly results. Moreover, the percentage of survey respondents anticipating farmland values to fall during the third quarter of 2013 was the same as the percentage predicting them to rise (7 percent); 86 percent of responding bankers expected farmland values to be stable.

The District's agricultural credit conditions were generally better in the second quarter of 2013 than a year earlier. The availability of funds for lending by agricultural banks was up relative to a year ago; the banks' deposits were enhanced not only by high crop prices but also by payments for insured losses due to last year's drought. Repayment rates for non-real-estate farm loans were higher than a year ago, with 94 percent of the respondents' agricultural loan portfolio having no significant repayment problems. Renewals and extensions of non-real-estate farm loans declined from the level of a year earlier. The responding bankers perceived that non-real-estate loan demand for the April through June period of 2013 was below that for the same period last year. For the second quarter of 2013, the District's average loan-to-deposit ratio edged up to 64.6 percent—12.6 percentage points below the average level desired by survey respondents. Finally, interest rates on farm loans rose for the first time since early 2011.

**CONFERENCE ANNOUNCEMENT**
**Taming Agricultural Risks**

On November 19, 2013, the Federal Reserve Bank of Chicago will hold a conference to explore the risks faced by agricultural producers and lenders in today's volatile farming environment, as well as the risk-management tools available to them. For more details and to register, go to www.chicagofed.org/webpages/events/2013/agriculture_conference.cfm.

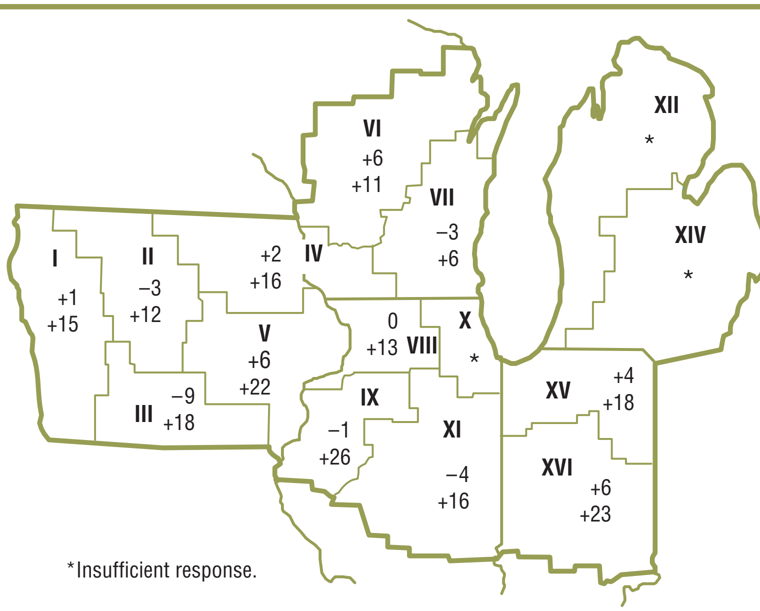
### Farmland values

The year-over-year increase in farmland values for the second quarter of 2013 was larger than that for the previous quarter: 17 percent versus 15 percent (see chart 1 on next page). Given the year-over-year gain of the second quarter was greater than that of the first, the District's farmland

**Percent change in dollar value of "good" farmland**

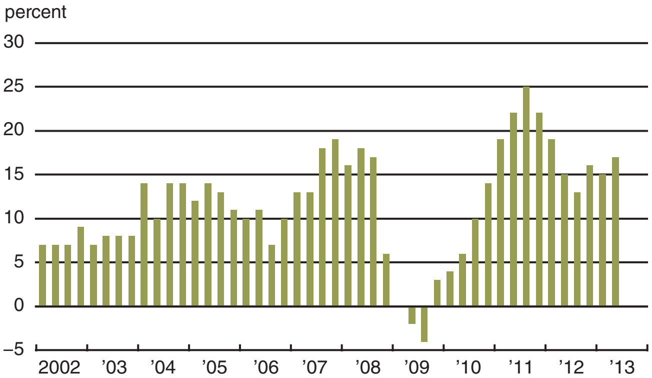
*Top:* April 1, 2013 to July 1, 2013
*Bottom:* July 1, 2012 to July 1, 2013

| | April 1, 2013 to July 1, 2013 | July 1, 2012 to July 1, 2013 |
|---|---|---|
| **Illinois** | −1 | +17 |
| **Indiana** | +5 | +21 |
| **Iowa** | 0 | +18 |
| **Michigan** | −7 | +18 |
| **Wisconsin** | +1 | +7 |
| **Seventh District** | 0 | +17 |




*Insufficient response.

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




markets apparently strengthened. However, the quarterly results told a different story. The District's "good" agricultural land values were unchanged in the second quarter of 2013 relative to the first quarter (see table and map on front page). This was the first time since 2009 that the District had not seen a quarterly increase in farmland values. In addition, Illinois and Michigan had quarterly decreases in agricultural land values. So, while the farmland values on a year-over-year basis still appeared to be soaring, changes in farmland values on a quarterly basis may be presaging shifts in the year-over-year pattern in the latter half of 2013.

In general, survey respondents reinforced this conclusion with their assessments that agricultural land values were likely to be flat in the third quarter of 2013. Seven percent of responding bankers expected farmland values to decrease in the third quarter of 2013, matching the 7 percent of responding bankers who anticipated farmland values to increase. The prognosis given by the vast majority of survey respondents (86 percent) was for farmland values to be stable in the third quarter of 2013. Even so, one banker cautioned to "look for land values to go down as grain markets go down."

Indeed, key crop prices have started to slide. According to the U.S. Department of Agriculture (USDA), corn prices averaged $6.97 per bushel in the second quarter of 2013—down 1.0 percent from the previous quarter (although still up 9.8 percent from a year ago). At $14.80 per bushel in the second quarter of 2013, soybean prices were up 2.1 percent from the previous quarter (and up 6.5 percent from a year ago). These quarterly averages were propped up by tight crop supplies. Downward trends in futures prices for corn and soybeans reflected projections of a record corn harvest and the third-largest soybean crop on record for the nation, as concerns about late planting and lingering effects of the 2012 drought dissipated. The USDA estimated that the 2013 U.S. harvests of corn for grain and soybeans would be 28 percent and 8 percent larger than the 2012 harvests, respectively. The USDA estimated that the five District states' 2013 harvest of corn for grain would be 34 percent greater than the drought-reduced 2012 harvest. For the five District states, soybean production in 2013 was projected by the USDA to rise 10 percent from 2012.

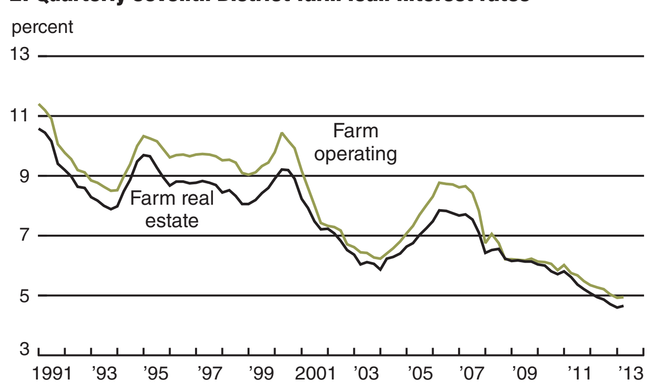
With larger harvests anticipated to bolster crop supplies, the USDA estimated price intervals for the 2013–14 crop year of $4.50 to $5.30 per bushel for corn and $10.35 to $12.35 per bushel for soybeans. Given these price ranges, the District's 2013 corn and soybean harvests would be lower in value compared with its 2012 harvests. Some of the lost revenues would be recouped via insurance payouts for plantings prevented by bad weather and revenue protection policies. The anticipation of lower crop revenues—especially when combined with potentially rising interest rates on farm loans—portended softness in future farmland values.

**Credit conditions**

In the second quarter of 2013, interest rates on farm loans moved up for the first time since early 2011. This increase occurred after these interest rates had reached record lows in the previous quarter (see chart 2). As of July 1, 2013, the District averages for interest rates on new farm operating loans and real estate loans were 4.94 percent and 4.65 percent, respectively. These rates were still lower than those of a year ago. The uptick in interest rates on farm loans may mark an important shift in the District's agricultural credit conditions.

Banks generally had more funds available to lend in the second quarter of 2013 than a year ago, primarily because bank deposits were boosted by high crop prices and insurance payments for crops lost during the 2012 drought. (As of early August 2013, $7.7 billion had been paid out for insured agricultural losses in the five District states for the 2012–13 crop year; the payouts in District states amounted to 44 percent of the U.S. total of $17.4 billion.) With 44 percent of responding bankers reporting their banks had more funds available to lend and 2 percent reporting their banks had fewer funds, the index of funds availability was 142 in the second quarter of 2013.

**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)* |
| **2011** | | | | | | | |
| Jan–Mar | 81 | 149 | 146 | 69.8 | 6.01 | 5.93 | 5.80 |
| Apr–June | 79 | 145 | 133 | 70.3 | 5.75 | 5.91 | 5.62 |
| July–Sept | 81 | 149 | 133 | 69.0 | 5.66 | 5.79 | 5.36 |
| Oct–Dec | 87 | 153 | 150 | 68.7 | 5.47 | 5.65 | 5.20 |
| **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 |

[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.

The repayment rates for non-real-estate farm loans were higher than a year ago during the second quarter of 2013, continuing the trend of previous quarters. The index of loan repayment rates fell to 129, with 31 percent of responding bankers noting higher rates of loan repayment and 2 percent noting lower rates. Agricultural loans with "major" or "severe" repayment problems remained at less than 2 percent of the District loan portfolio. Twenty-six percent of the survey respondents observed fewer loan renewals and extensions over the April through June period of 2013 compared with the same period last year, while 4 percent observed more of them.

Demand for non-real-estate loans relative to a year ago fell during the second quarter of 2013, but not as sharply as it did during the first quarter. With 17 percent of survey respondents reporting higher demand for non-real-estate loans compared with a year ago and 30 percent reporting lower demand, the index of loan demand was 87 for the second quarter of 2013 (higher than its reading of 67 for the first quarter). Moreover, in the first six months of 2013, the amount of farm operating loans generated by banks was lower than typical, whereas the amount of farm mortgages was higher than typical.

Given such low demand for non-real-estate farm loans, it is not surprising that the District's average loan-to-deposit ratio remained quite low, at 64.6 percent—below its level of a year ago (68.1 percent) and well below the ratio desired by responding bankers (77.2 percent). Only 15 percent of the banks were close to their loan-to-deposit ratio targets. Collateral requirements for loans tightened a bit in the second quarter of 2013 relative to the second quarter of the previous year, as 8 percent of the survey respondents reported that their banks required more collateral and under 1 percent reported that their banks required less.

**Looking forward**

Crop producers will face tighter cash flows as their revenues decline (especially if crop prices slide further). Yet, the responding bankers did not expect agricultural loan volumes to rise for the July through September period of 2013 relative to the same period last year. In fact, some categories, including operating loans and livestock loans, were anticipated to shrink in the third quarter of 2013 relative to their levels in the same quarter of 2012, according to the survey respondents. Falling crop prices should bring relief to livestock producers, whose profits have suffered on account of the high feed costs in recent years.

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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)* | July | 201 | 0.5 | 5 | 10 |
| **Crops** *(index, 1990–92=100)* | July | 230 | −1.3 | −1 | 8 |
| Corn *($ per bu.)* | July | 6.83 | −2.0 | −4 | 8 |
| Hay *($ per ton)* | July | 190 | −4.5 | 3 | 6 |
| Soybeans *($ per bu.)* | July | 15.40 | 2.0 | 0 | 17 |
| Wheat *($ per bu.)* | July | 6.95 | −5.1 | −12 | −2 |
| **Livestock and products** *(index, 1990–92=100)* | July | 165 | −1.2 | 11 | 6 |
| Barrows & gilts *($ per cwt.)* | July | 76.70 | 2.3 | 5 | 6 |
| Steers & heifers *($ per cwt.)* | July | 122.00 | −1.6 | 4 | 6 |
| Milk *($ per cwt.)* | July | 19.10 | −2.1 | 13 | −12 |
| Eggs *($ per doz.)* | July | 1.04 | 11.9 | 7 | 18 |
| **Consumer prices** *(index, 1982–84=100)* | June | 233 | 0.5 | 2 | 3 |
| Food | June | 237 | 0.2 | 1 | 4 |
| **Production or stocks** | | | | | |
| Corn stocks *(mil. bu.)* | June 1 | 2,764 | N.A. | −12 | −25 |
| Soybean stocks *(mil. bu.)* | June 1 | 435 | N.A. | −35 | −30 |
| Wheat stocks *(mil. bu.)* | June 1 | 718 | N.A. | −3 | −17 |
| Beef production *(bil. lb.)* | June | 2.16 | −3.0 | −4 | −9 |
| Pork production *(bil. lb.)* | June | 1.68 | −11.7 | −4 | −8 |
| Milk production *(bil. lb.)** | June | 15.8 | −4.8 | 2 | 3 |
| **Agricultural exports** *($ mil.)* | June | 9,845 | −4.9 | −3 | −2 |
| Corn *(mil. bu.)* | June | 46 | −18.0 | −61 | −70 |
| Soybeans *(mil. bu.)* | June | 19 | −12.1 | −64 | −38 |
| Wheat *(mil. bu.)* | June | 98 | 1.9 | 9 | −8 |
| **Farm machinery** *(units)* | | | | | |
| Tractors, 40 HP or more | July | 8,144 | N.A. | 12 | 26 |
| 40 to 100 HP | July | 5,001 | N.A. | 14 | 18 |
| 100 HP or more | July | 3,143 | N.A. | 8 | 42 |
| Combines | July | 1,056 | N.A. | 2 | 24 |

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.