

AgLetter



FARMLAND VALUES AND CREDIT CONDITIONS

A survey of over 365 agricultural bankers indicated that farmland values rose one percent during the second quarter (April 1 to July 1), the first District-wide increase reported since early 1998. The bankers also reported that farmland values—on average—were unchanged for the twelve-month period ending July 1. In addition, credit conditions failed to improve, with bankers again reporting slower farm loan repayments and an increase in the number of borrower requests for loan renewals and extensions. The bankers also indicated they stepped up their own requests for additional loan collateral during the second quarter, and that there appeared to be a general decline in the overall quality of farm loan portfolios relative to a year earlier.

The last several surveys show individual District states following a divergent trend, with farmland values in Michigan and Wisconsin exhibiting greater strength over time than in the other three states. Reflecting the relatively better performance of the local farm economies, the respondents in Michigan and Wisconsin reported an increase in farmland values in each of the last six quarters. In contrast, the bankers in Illinois and Iowa reported

either no change or a decline in farmland values during the same period. But no clear trend is suggested by the quarterly readings for Indiana—the last four quarters alternated between an increase and a decline. However, the data for the twelve months ending July 1 shows Indiana firmly aligned with Illinois and Iowa, with each of these three states showing a decline in farmland values (see table).

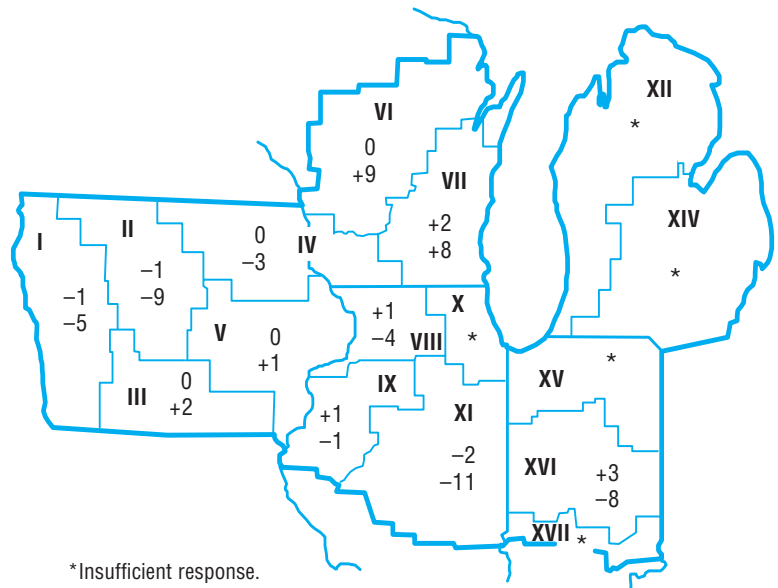
The weakness in farmland values seen in some areas is often attributed to a deteriorating picture for farm income. Therefore, recent projections of net income to the farm sector by the U.S. Department of Agriculture (USDA) may have come as a surprise to many Midwest farmers and lenders. At \$53.7 billion, net cash income for 1999 is projected to register a rather modest decline of 2 percent from last year. But closer examination reveals that, for the farm sector as a whole, an increase in cash receipts to producers of vegetables, fruits, and nursery crops will provide a substantial offset to sharp declines in receipts from sales of corn, soybeans, and hogs (as well as wheat, cotton, and tobacco). In addition, the current income projection includes direct government payments to farmers of \$16.6 billion, an increase of 36% from last year and the largest since 1987. Direct payments could increase

Percent change in dollar value of "good" farmland

Top: April 1, 1999 to July 1, 1999

Bottom: July 1, 1998 to July 1, 1999

	April 1, 1999 to July 1, 1999	July 1, 1998 to July 1, 1999
Illinois	-1	-7
Indiana	+3	-4
Iowa	-1	-3
Michigan	+3	+10
Wisconsin	+2	+7
Seventh District	+1	0



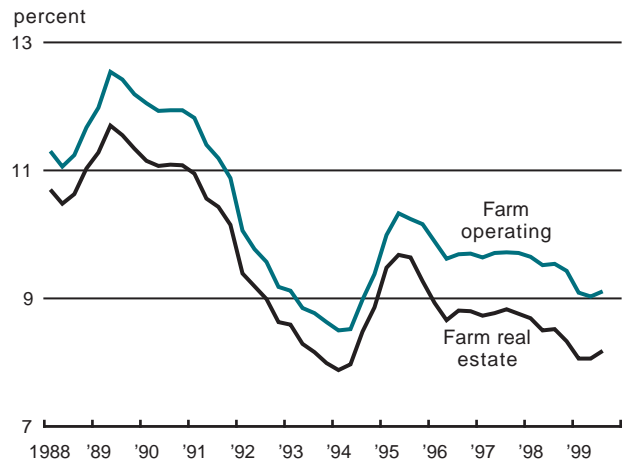
*Insufficient response.

further, as the U.S. Senate recently passed legislation providing additional aid to farmers; the House is expected to consider this matter in September.

The poor income prospects for District farmers are typically attributed to low prices that stem from large meat and grain supplies and weakened foreign demand. Though USDA data indicate a liquidation of hog inventories is under way, the decline is not as large as many had hoped or expected. In addition, while there continue to be reports of many smaller hog producers leaving the industry, there is also speculation that several large producers are expanding. Moreover, current projections call for a large fall harvest (despite dry weather in several areas), which has helped keep a lid on grain prices. Weaker export sales are also tied to lower commodity prices. The value of U.S. agricultural exports (which reflects both price and quantity) are down not only to Asia, but to most regions of the world as well. For example, the value of U.S. agricultural exports to the European Union registered a year-over-year decline of 20 percent during the first eight months of the current fiscal year. The trade situation with the European Union remains a primary concern due to the refusal of its members to allow imports of hormone-fed beef and their attempts to ratchet up concern regarding the safety of products containing genetically-modified material such as herbicide-resistant or pest-resistant grain (and because the region accounts for 15% of U.S. agricultural exports).

The outlook for farm income in the District goes hand in hand with weaker farm credit conditions. The measure of demand for nonreal estate farm loans for the spring quarter came in at 115, down from three months earlier. Furthermore, the numbers behind the current measure show a somewhat mixed picture. The loan demand index reflects the 36 percent of the respondents that indicated demand was up, less the 21 percent that stated there was a decline. A larger segment—43 percent—believed there was no change from a year ago. The weaker growth in loan demand represents a decline in farm equipment purchases as well as some additional old-fashioned “belt-tightening” by District farmers. The decline in the demand for new farm equipment is reflected in unit sales for farm tractors and combines. During the first half of the year, farm tractor sales were off 17 percent from last year, nationwide, while combine sales were down nearly 50 percent. The greatest impetus to loan demand at this point probably stems from farmers’ inability to self-finance their operations to the same degree as in the past due to cash flow problems caused by low commodity prices.

Quarterly District farm loan rates



Not surprisingly, District farmers continue to struggle with loan repayments. The index of loan repayments for the second quarter came in below 100 (suggesting an overall decline relative to the prior year) for the ninth consecutive quarter. At 51, the index reflects the 3 percent of the respondents that stated repayments were up from a year ago, less the 52 percent that indicated a decline. Approximately 45 percent indicated there had been no change. Again, the greatest difficulty with loan repayments appeared to occur in Illinois, Indiana, and Iowa, the three District states that are relatively more dependent on corn, soybeans, and hogs. In turn, the problem with loan repayments led to an increase in the number of borrowers requesting loan renewals and extensions. There has also been a rise in the number of lender requests for additional collateral and Farm Service Agency loan guarantees.

The survey also asked the bankers to assign shares of their farm loan portfolio to four repayment classifications. The categories were 1) no significant repayment problems, 2) minor problems that can be remedied fairly easily, 3) major problems requiring more collateral and/or long-term workouts, and 4) severe problems likely to result in loan losses and/or require forced sale of borrower’s assets. For the District as a whole, 78 percent fell into the first category while 14 percent were in the second category. About 6 percent and 2 percent were assigned to the major and severe problem categories, respectively. By these measures, loan quality was down somewhat relative to a year ago, but very similar to that reported at the beginning of this year.

The availability of funds for agricultural lending was rather steady, with nearly three quarters of the respondents indicating that funding was similar to last year. In addition, the average loan-to-deposit ratio reported by

Credit conditions at Seventh District agricultural banks

	Loan demand (index) ²	Fund availability (index) ²	Loan repayment rates (index) ²	Average loan-to-deposit ratio ¹ (percent)	Interest rates on farm loans		
					Operating loans ¹ (percent)	Feeder cattle ¹ (percent)	Real estate ¹ (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	51	71.7	9.11	9.08	8.18

¹At end of period.

²Bankers 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 bankers registered its typical seasonal increase during the second quarter to come in near 71.7 percent at mid-year. In general, bankers expressed a willingness to increase lending levels further, except in Michigan, where the actual loan-to-deposit ratio was slightly above the desired ratio. In addition, the average interest rates charged on new farm loans as of July 1 rose slightly from three months earlier. The operating loan rate for the District came in at 9.11 percent, up slightly from three months earlier, but still below a year ago. The average farm real estate loan rate (8.18 percent) followed a similar pattern. Among the individual District states, the operating loan rate ranged from a low of 8.81 percent in Illinois to a high of 9.67 percent in Michigan, while the farm real estate loan rate ranged from a low of 8.02 percent in Illinois and Iowa to a high of 8.71 percent in Michigan.

Traditionally, the primary lenders to Midwest agriculture have been commercial banks, the Farm Credit System (FCS), and life insurance companies. In recent years, the competitive landscape has been altered by merchants, manufacturers, and other input suppliers that have made serious inroads in providing operating credit to farmers. About 60 percent of the respondents perceived that this latter group increased their lending to farmers (relative to a year earlier) during the first half of the year, while very few saw a decline. Although the

response was not as strong, the bankers generally saw themselves and the FCS holding steady or making year-over-year gains in the number of farm operating loans extended to farmers. The situation for commercial banks, however, was clearly different with respect to farm mortgage lending. The responses suggest the bankers perceive themselves and insurance companies to be losing ground in this area, while the FCS increased the number of farm mortgage loans made relative to a year earlier.

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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	94	-4.1	-8	-12
Crops (index, 1990-92=100)	July	93	-7.0	-13	-18
Corn (\$ per bu.)	July	1.65	-16.2	-25	-32
Hay (\$ per ton)	July	78.40	-4.0	-12	-20
Soybeans (\$ per bu.)	July	4.04	-9.0	-34	-46
Wheat (\$ per bu.)	July	2.15	-14.0	-16	-33
Livestock and products (index, 1990-92=100)	July	94	-1.1	-2	-5
Barrows and gilts (\$ per cwt.)	July	31.80	-7.8	-15	-47
Steers and heifers (\$ per cwt.)	July	64.60	-3.1	6	-1
Milk (\$ per cwt.)	July	13.60	3.8	-4	12
Eggs (¢ per doz.)	July	57.3	3.6	-2	-13
Consumer prices (index, 1982-84=100)	July	167	0.3	2	4
Food	July	164	0.1	2	4
Production or stocks					
Corn stocks (mil. bu.)	June 1	3,616	N.A.	19	45
Soybean stocks (mil. bu.)	June 1	850	N.A.	43	70
Wheat stocks (mil. bu.)	June 1	945	N.A.	31	113
Beef production (bil. lb.)	June	2.32	7.9	3	9
Pork production (bil. lb.)	June	1.58	11.6	10	21
Milk production* (bil. lb.)	July	11.6	-1.2	2	2
Receipts from farm marketings (mil. dol.)	April	13,500	-13.6	-6	-9
Crops**	April	6,114	-2.1	-13	-11
Livestock	April	6,820	-21.7	-6	-13
Government payments	April	566	-14.8	N.A.	N.A.
Agricultural exports (mil. dol.)	May	3,649	-5.2	-7	-16
Corn (mil. bu.)	May	151	-12.5	34	23
Soybeans (mil. bu.)	May	38	-27.8	37	-7
Wheat (mil. bu.)	May	87	-2.5	25	75
Farm machinery sales (units)					
Tractors, over 40 HP	July	5,628	-17.0	-18	2
40 to 100 HP	July	4,537	-19.8	5	15
100 HP or more	July	1,091	-2.9	-57	-30
Combines	July	355	-18.6	-62	-59

N.A. Not applicable

*20 selected states.

**Includes net CCC loans.



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