

# AgLetter



## FARMLAND VALUES AND CREDIT CONDITIONS

Farmland values were unchanged during the first quarter, on average, according to our survey of over 360 agricultural bankers in the Seventh Federal Reserve District. Furthermore, farmland values were flat during the twelve-month period ending April 1, 1999. The bankers also reported that cash rents paid by farmers showed little change from last year. Loan demand strengthened from a year ago, primarily due to the increased need for operating funds. The survey also showed that interest rates charged on new farm loans were essentially unchanged during the first quarter. In addition, a weaker pace of loan repayments continues to present a problem for both farmers and agricultural banks.

Keeping with the pattern identified in recent surveys, the change in farmland values showed considerable variability across individual District states. Farmland values declined 2 percent in Indiana during the first quarter, the only state to register a decrease. Bankers in both Illinois and Iowa reported no change, on average. In contrast, those in Wisconsin reported an increase of 1 percent, while Michigan posted a gain of 2 percent during the first quarter. For the twelve-month period ending April 1, farmland values declined 3 percent in both

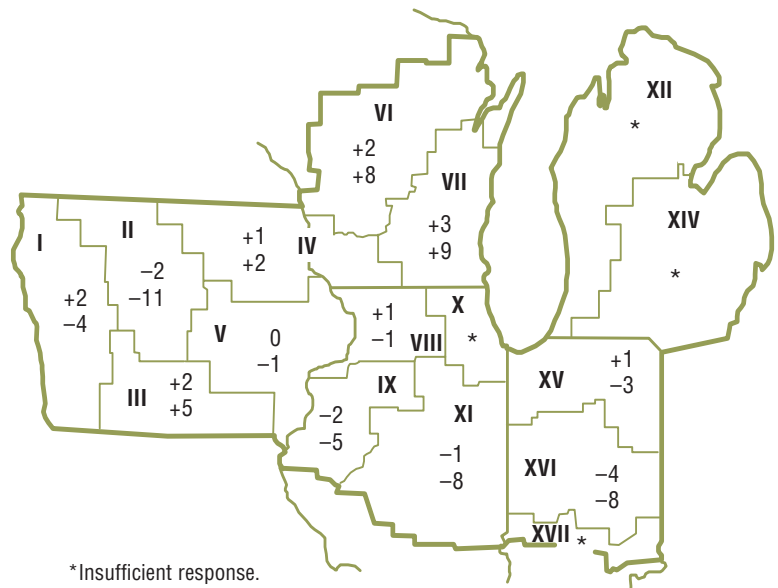
Indiana and Iowa, and were down 6 percent in Illinois. Bankers in Wisconsin and Michigan again reported strong twelve-month gains, with the increases coming in at 8 percent and 13 percent, respectively. Looking ahead, about half the bankers in Illinois, Indiana, and Iowa expect a decline in farmland values during the second quarter, while most of the remainder anticipate there will be no change. In comparison, a firm majority of Michigan and Wisconsin bankers expect farmland values to be stable this spring.

On average, the bankers reported the demand to purchase farmland during the past fall and winter quarters was stable to slightly weaker, relative to the prior year. Among individual District states, there was clearly an increase in interest in Wisconsin, but it was more than offset by weakness in the other states. Certainly the weakened demand in some areas is due in part to less interest by farmers who shelved expansion plans because of the declining outlook for farm income. One indication of this was that farmers purchased a smaller share of the acreage sold in recent months. On the supply side, respondents indicated the amount of farmland offered for sale over the past 3-6 months was similar to a year earlier.

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

Top: January 1, 1999 to April 1, 1999  
 Bottom: April 1, 1998 to April 1, 1999

	January 1, 1999 to April 1, 1999	April 1, 1998 to April 1, 1999
Illinois	0	-6
Indiana	-2	-3
Iowa	0	-3
Michigan	+2	+13
Wisconsin	+1	+8
Seventh District	0	0



\*Insufficient response.

The changes in farmland values among District states in many ways are symptomatic of the financial stress faced by different groups within the farm sector. Recent projections by the U.S. Department of Agriculture (USDA) indicate that net cash income to the farm sector will register an annual decline of 5 percent this year, yet remain very near the average for the period 1990-98. Taken alone, this would seem to indicate the farm production sector is not suffering any serious problems. However, aggregate statistics often hide the performance of specific farm enterprises or geographic regions. On this cautionary note, one must look to individual commodities and regions to get a clearer picture of what is happening to farmers and farmland values in both the District and elsewhere. The USDA has developed a typology of farming regions that cuts across state boundaries and reflects land characteristics and commodity production. For example, the District states of Illinois, Indiana, and Iowa make up a portion of the "Heartland" area. This region holds the greatest concentration of corn and soybean production, and hog farms are more common here than in other regions. Net cash farm income for the Heartland is expected to decline 18 percent in 1999, the poorest showing among the various regions and much worse than the aggregate 5 percent decline. The decrease is attributed to lower corn and soybean prices and the poor performance of hog prices early this year. In comparison, the "Northern Crescent" region encompasses Michigan and Wisconsin. Dairy farms, corn, soybeans, and specialty crops dominate in this region. Like the Heartland, the Northern Crescent region is expected to do worse than average in 1999, with net cash income projected to decline 11 percent.

Consequently, it was not surprising to see that the rate of loan repayments continued its disturbing trend during the first quarter. Approximately three-fourths of the Iowa bankers reported that loan repayment rates were down from a year earlier, while none reported an improvement. Two-thirds of the respondents in Illinois and Indiana reported a decline. The responses from those in Michigan and Wisconsin were more favorable, but still indicated that repayments had deteriorated relative to a year ago.

The survey also asked about typical farmland leasing arrangements. Not surprisingly, bankers again reported that most cropland is rented on either a cash rent or crop-share basis. The proportion of farmland operated under the two major leasing arrangements shows little change from year to year, so it is interesting to make a comparison to 1985, the first year this question was

included in our survey. In 1985, bankers reported that 52 percent of the farmland was cash rented, while 43 percent was leased under crop-share agreements. For the current year, it was reported that the proportion of farmland operated under cash rent agreements was 69 percent, while the proportion operated on a crop-share basis declined to 27 percent. Over time there has been a marked shift away from crop-share agreements towards cash rent arrangements in Illinois, Indiana, and Iowa, but much smaller changes in Michigan and Wisconsin (see table).

The bankers also reported on cash rents paid in their areas this spring. It seems the same factors that pressured farmland values in recent months also had a moderating influence on the cash rents paid by farmers. The cash rental rate for good farmland was essentially unchanged from last year for the District as a whole. (In comparison, the District registered a 5 percent gain last year.) Bankers indicated that cash rents were down 1 percent in Illinois, up 1 percent in Wisconsin, and unchanged in the other District states.

Turning to credit conditions, demand for new non-real estate farm loans showed some strengthening early in the year. The index for loan demand moved higher, from 113 to 120, during the first quarter. The index represents the 39 percent of the respondents that indicated loan demand was up from a year earlier, less the 19 percent that indicated there had been a decline. Approximately 42 percent stated there was no change from a year ago. The gains in loan demand were quite firm in Iowa and, to a lesser extent, in Illinois and Indiana. There appeared to be little change from a year ago in Michigan and Wisconsin.

The low grain and hog prices that squeezed cash receipts have forced District farmers to make greater use of their borrowing capacity--relative to recent years--in

**Percent of rented farmland by major lease agreement**

		Cash rent	Crop share	Other
Illinois	1999	50	44	6
	1985	33	62	5
Indiana	1999	69	27	4
	1985	54	41	5
Iowa	1999	73	23	4
	1985	49	44	7
Michigan	1999	78	18	4
	1985	74	22	4
Wisconsin	1999	87	9	4
	1985	78	16	6
District	1999	69	27	4
	1985	52	43	5

## Credit conditions at Seventh District agricultural banks

	Loan demand (index) <sup>2</sup>	Fund availability (index) <sup>2</sup>	Loan repayment rates (index) <sup>2</sup>	Average loan-to-deposit ratio <sup>1</sup> (percent)	Interest rates on farm loans		
					Operating loans <sup>1</sup> (percent)	Feeder cattle <sup>1</sup> (percent)	Real estate <sup>1</sup> (percent)
<b>1995</b>							
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
<b>1996</b>							
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
<b>1997</b>							
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
<b>1998</b>							
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
<b>1999</b>							
Jan-Mar	120	119	40	69.9	9.03	9.01	8.06

<sup>1</sup>At end of period.

<sup>2</sup>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.

order to finance spring planting needs such as cash rent, seed, fertilizer, and chemicals. The recent gains in loan demand are tied to operating needs rather than purchases of nonreal estate capital items such as machinery or grain storage facilities. Reflecting this, half the bankers stated they expect operating volume to increase during the second quarter, relative to last year, while two-thirds expect a decrease in the volume of outstanding loans used to finance farm machinery purchases. Furthermore, the large proportion (about two-thirds) of bankers reporting an increase in requests for loan renewals or extensions indicates that a portion of the new operating loans is being used to refinance unpaid carryover debt from last year.

The survey results indicated a slight improvement overall in the supply of funds available for agricultural lending, compared to a year earlier. The index of fund availability came in at 119, which reflects the 27 percent of the bankers that indicated agricultural loan funding levels had improved relative to a year earlier, less the 8 percent that stated there had been a decline. About two-thirds indicated that there had been no change from last year.

Average interest rates charged on new farm loans showed little change during the first quarter. The average operating loan rate as of April 1 came in at 9.03 percent,

a scant 6 basis points below three months earlier, and 48 basis points below a year ago. The operating loan rate ranged from a low of 8.75 percent in Illinois to a high of 9.25 percent in Iowa. The average rate charged on new farm mortgage loans for the District was 8.06 percent, unchanged from three months earlier, but down 37 basis points from last year. The farm real estate loan rate ranged from a low of 7.93 percent in Iowa to a high of 8.37 percent in Michigan.

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## SELECTED AGRICULTURAL ECONOMIC INDICATORS

	Latest period	Value	Percent change from		
			Prior period	Year ago	Two years ago
<b>Prices received by farmers</b> ( <i>index, 1990-92=100</i> )	April	98	1.0	-6	-8
<b>Crops</b> ( <i>index, 1990-92=100</i> )	April	106	7.1	-7	-9
Corn (\$ per bu.)	April	1.97	-4.4	-18	-30
Hay (\$ per ton)	April	81.90	4.3	-16	-27
Soybeans (\$ per bu.)	April	4.59	-0.4	-27	-44
Wheat (\$ per bu.)	April	2.71	2.3	-15	-34
<b>Livestock and products</b> ( <i>index, 1990-92=100</i> )	April	90	-5.3	-5	-9
Barrows and gilts (\$ per cwt.)	April	30.90	10.0	-14	-43
Steers and heifers (\$ per cwt.)	April	65.30	-0.3	-2	-4
Milk (\$ per cwt.)	April	13.00	-13.3	-7	-2
Eggs (¢ per doz.)	April	59.6	-12.2	-6	-10
<b>Consumer prices</b> ( <i>index, 1982-84=100</i> )	March	165	0.3	2	3
Food	March	163	0.0	2	4
<b>Production or stocks</b>					
Corn stocks ( <i>mil. bu.</i> )	March 1	5,696	N.A.	15	27
Soybean stocks ( <i>mil. bu.</i> )	March 1	1,458	N.A.	21	38
Wheat stocks ( <i>mil. bu.</i> )	March 1	1,445	N.A.	24	76
Beef production ( <i>bil. lb.</i> )	March	2.23	11.7	7	13
Pork production ( <i>bil. lb.</i> )	March	1.74	15.7	9	22
Milk production* ( <i>bil. lb.</i> )	March	12.1	12.4	4	5
<b>Receipts from farm marketings</b> ( <i>mil. dol.</i> )	December	19,756	-14.8	-1	3
Crops**	December	10,810	-5.4	-1	0
Livestock	December	7,796	-5.7	-6	0
Government payments	December	1,150	-67.1	55	120
<b>Agricultural exports</b> ( <i>mil. dol.</i> )	February	3,870	-0.5	-18	-21
Corn ( <i>mil. bu.</i> )	February	149	17.2	24	-3
Soybeans ( <i>mil. bu.</i> )	January	84	-8.2	-7	-20
Wheat ( <i>mil. bu.</i> )	January	76	-26.5	-23	17
<b>Farm machinery sales</b> ( <i>units</i> )					
Tractors, over 40 HP	March	6,098	32.0	-23	-9
40 to 100 HP	March	4,076	45.2	-12	11
100 HP or more	March	2,022	11.7	-39	-34
Combines	March	284	-11.3	-49	-29

N.A. Not applicable

\*20 selected states.

\*\*Includes net CCC loans.



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