The Agricultural Newsletter
from the Federal Reserve Bank of Chicago
Number 1908 May 2000

AgLetter

FARMLAND VALUES AND CREDIT CONDITIONS

The responses from over 360 agricultural bankers indicated that District farmland values registered an average gain of 2 percent during the first quarter (January 1–April 1) of the year. The bankers also reported that farmland values were up 4 percent for the 12-month period ending April 1. In general, these results reflect the strongest showing by District farmland values in nearly two years. Despite the improvement, the bankers reported that District cash rental rates registered only a fractional increase from last year. Regarding credit conditions, the bankers indicated that farm loan demand strengthened during the first quarter, relative to a year earlier, and that both interest rates and loan-to-deposit ratios moved higher. Farm loan repayment rates remained sluggish, and the bankers also reported they made greater use of federal farm loan guarantees relative to a year earlier.

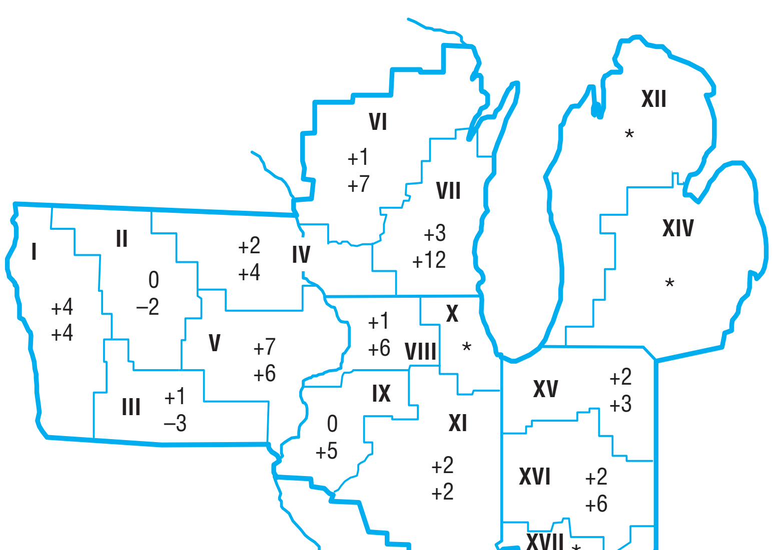
Farmland values in Illinois and Iowa continued to display the strength that developed late last year. Illinois registered a first-quarter gain of 1 percent, while bankers in Iowa reported a surprisingly large increase of 3 percent. In particular, bankers on the west side of Iowa and in the southeast portion of the state (areas I and V) reported very strong gains for the first quarter. In comparison, Indiana exhibited a small increase during the first quarter, while farmland values in Michigan and Wisconsin demonstrated strong gains in what has become the typical pattern for these two states. Reflecting the widespread nature of the improvement, the April 1 survey marked the first time in over two years that each of the five District states reported a quarterly increase. Each state also reported an increase for the 12-month period ending April 1, ranging from a low of 2 percent in Iowa and Indiana to a high of 10 percent in Wisconsin. Despite the improved showing, about 75 percent of the respondents believe farmland values will remain unchanged during the second quarter. However, the proportion of bankers expecting an increase was significantly higher in Wisconsin–about 35 percent–than in the other three states, which came in between 5–10 percent.

The level of activity in the market for farmland during the fall and winter appeared to be moderately stronger than a year ago. Overall, the demand to purchase farmland was up somewhat from the previous year, with the gains being more widespread throughout Wisconsin than in the other four states. The amount of farmland for sale

Percent change in dollar value of "good" farmland

Top: January 1, 2000 to April 1, 2000
Bottom: April 1, 1999 to April 1, 2000

	January 1, 2000 to April 1, 2000	April 1, 1999 to April 1, 2000
Illinois	+1	+4
Indiana	+1	+2
Iowa	+3	+2
Michigan	+4	+7
Wisconsin	+2	+10
Seventh District	+2	+4



*Insufficient response.

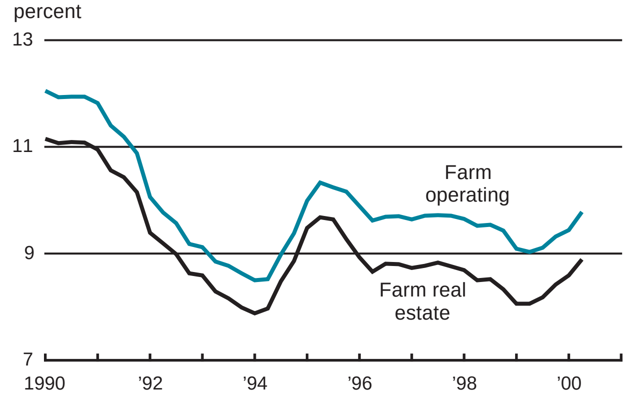
also increased slightly from a year earlier. However, it appeared that the number of farms and the amount of acreage actually sold changed little from the prior year. Wisconsin again proved the exception, though, with a significantly larger share of respondents indicating an increased number of farm sales. Consistent with recent anecdotal reports, the bankers also stated that the farmer share of the purchases had declined, suggesting that an increasing proportion went to non-farm investors who are interested in developing land for residential, commercial, or recreational use.

Cash rental agreements remain the primary approach to renting farmland in the District, with crop-share agreements being the second most popular arrangement. At one end of the spectrum, Illinois bankers reported a fairly even split between cash rent and crop-share agreements. At the other end, Wisconsin bankers indicated about 88 percent of the lease agreements were on a cash rent basis. The April survey also provided a look at the cash rental rates being paid by District farmers. Overall, the bankers reported that cash rents were up only about a half percent from last year. However, there were some differences among the individual District states. The average increase in Indiana was about 1 percent, while Michigan and Wisconsin reported gains of 2 percent and 3 percent, respectively. The average cash rent paid in Illinois and Iowa was unchanged from a year ago. On a per-acre basis, the unweighted state averages for cash rents came in as follows: Illinois ($140), Indiana ($114), Iowa ($125), Michigan ($92), and Wisconsin ($84). It should be noted that the reported cash rents varied widely within any given state.

Turning to credit conditions, the demand for new farm loans strengthened somewhat in the first quarter relative to a year earlier. Nearly 35 percent of the respondents indicated that loan demand had increased, while 14 percent noted a decline. The remaining 51 percent stated there had been no change. The index of loan demand, at 121, was up from the 107 reported three months earlier. The results were generally consistent across District states with the exception of Michigan, where farm loan demand appeared steady or somewhat weaker when compared to a year earlier.

In general, the interest rates charged on farm loans rose for the fourth consecutive quarter. As of April 1, the average interest rate on new operating loans came in at 9.78 percent, while the farm mortgage rate was 8.89 percent. Both loan rates were about 30 basis points higher than three months earlier and about 80 basis points above a year earlier. The average operating loan rates for the individual

Quarterly District farm loan rates



District states ranged from a low of 9.40 percent in Illinois to a high of 10.34 percent in Michigan. The farm mortgage loan rate ranged from a low of 8.73 percent in Illinois to a high of 9.43 percent in Michigan. In addition, the average loan-to-deposit ratio reported by the banks came in at 72.9 percent, up slightly from three months earlier and 3 percentage points higher than a year earlier. The state averages for the loan-to-deposit ratio ranged from a low of 65 percent in Illinois to a high of 82 percent in Wisconsin.

This year's income outlook is mixed for District farmers and contains considerable uncertainty. On the plus side, hog receipts have recovered from the seriously depressed prices that hit farmers approximately 18 months ago, and fed cattle prices are also at a profitable level. However, milk prices were down about 25 percent in the first quarter when compared to last year. And despite dry soils in much of the Midwest, corn and soybean prices have been largely overshadowed by early spring planting and the potential for a large fall harvest. Furthermore, the U.S. Department of Agriculture (USDA) recently released an updated farm income projection that indicated net income to the farm sector will likely decline this year in the absence of increased government assistance. Reflecting these and other concerns, Congress signaled its willingness to send more aid to farmers by passing a budget resolution in April to boost subsidy payments. Against this backdrop, the bankers reported that loan repayment rates continued in the doldrums during the first quarter. The index of loan repayments came in at 77, registering only a small improvement from the previous quarter. The index represents the 10 percent of the respondents that believe the rate of farm loan repayments improved from a year earlier, compared to the 33 percent that thought repayments had deteriorated. The majority, about 57 percent, stated that the pace of farm loan repayments was similar to a year earlier.

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)*
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	50	71.7	9.11	9.08	8.18
July–Sept	109	94	63	72.7	9.32	9.28	8.42
Oct–Dec	107	104	72	72.7	9.44	9.41	8.59
2000							
Jan–Mar	121	95	77	72.9	9.78	9.72	8.89

[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.

The surveyed bankers were asked about their use of farm loan guarantees provided by the Farm Service Agency (FSA) of the USDA. These guarantees apply to farm ownership and operating loans made by conventional lenders to farmers who would not otherwise qualify for standard commercial loans. For most loans, the maximum guarantee is 90 percent of the principal. In addition, a secondary market exists where lenders may resell the guaranteed portion of these loans. The bankers indicated that, on average, about 8% of their farm loan portfolios is covered by FSA guarantees, up slightly from a year ago. There was considerable variability among banks in the extent to which they specialize in the use of the guarantees, with about a tenth of the banks reporting that at least 20 percent of their farm loan portfolios are covered. In addition, the program's use is widespread among the responding banks, with approximately 77 percent indicating they make at least some use of the farm loan guarantees.

Looking ahead to the second quarter, the bankers expect to increase their operating loan volume relative to a year ago and will also increase their use of FSA loan guarantees. Furthermore, Iowa bankers were noticeably more enthused about feeder cattle loans than were bankers in other states. Overall, the bankers also expect lending for farm real estate and grain storage facilities to be steady to declining in the second quarter, relative to last year. However, there was considerably more pessimism regarding the outlook for farm machinery lending.

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AgLetter (ISSN 1080-8639) is published quarterly by the Research Department of the Federal Reserve Bank of Chicago. It is prepared by Mike A. Singer, 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.
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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)*	April	99	4.2	3	–5
Crops *(index, 1990–92=100)*	April	99	5.3	–4	–13
Corn *($ per bu.)*	April	2.01	–1.0	–1	–17
Hay *($ per ton)*	April	80.70	7.9	–2	–18
Soybeans *($ per bu.)*	April	4.99	1.6	8	–20
Wheat *($ per bu.)*	April	2.55	–1.5	–3	–20
Livestock and products *(index, 1990–92=100)*	April	99	3.1	9	4
Barrows and gilts *($ per cwt.)*	April	47.50	12.8	56	32
Steers and heifers *($ per cwt.)*	April	73.80	0.5	12	11
Milk *($ per cwt.)*	April	11.90	0.0	–6	–15
Eggs *(¢ per doz.)*	April	65.5	14.1	7	3
Consumer prices *(index, 1982–84=100)*	April	171	0.1	3	5
Food	April	167	0.1	2	4
Production or stocks					
Corn stocks *(mil. bu.)*	March 1	5,606	N.A.	–2	13
Soybean stocks *(mil. bu.)*	March 1	1,397	N.A.	–4	16
Wheat stocks *(mil. bu.)*	March 1	1,412	N.A.	–3	21
Beef production *(bil. lb.)*	March	2.30	5.7	3	11
Pork production *(bil. lb.)*	March	1.70	9.4	–2	7
Milk production* *(bil. lb.)*	April	12.4	–1.9	4	7
Receipts from farm marketings *(mil. dol.)*	December	19,366	–12.5	0	–3
Crops**	December	9,652	8.6	–9	–12
Livestock	December	7,480	–17.9	0	–10
Government payments	December	2,234	–45.8	61	201
Agricultural exports *(mil. dol.)*	February	4,382	4.1	13	–7
Corn *(mil. bu.)*	February	144	–8.6	–3	20
Soybeans *(mil. bu.)*	January	104	–4.0	23	14
Wheat *(mil. bu.)*	February	71	–5.9	5	–2
Farm machinery sales *(units)*					
Tractors, over 40 HP	April	8,203	27.5	12	–14
40 to 100 HP	April	5,150	35.1	7	–4
100 HP or more	April	3,053	16.5	21	–27
Combines	April	397	101.5	–1	–52

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

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