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FEDERAL RESERVE BANK OF CHICAGO
February, 1993 Number 1837

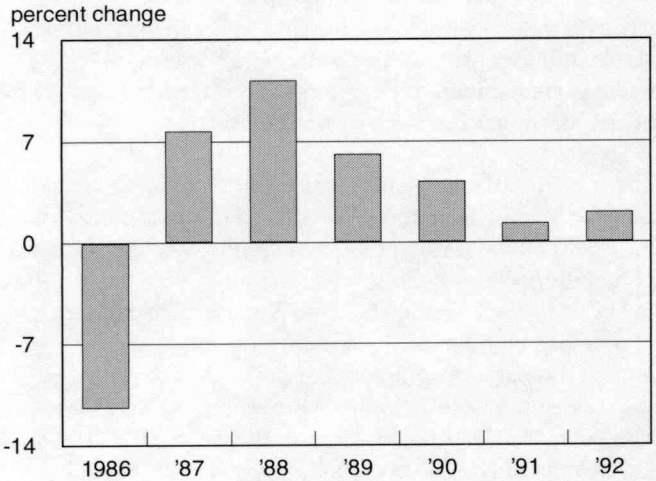
Farmland values and credit conditions

Farmland values in the Seventh Federal Reserve District displayed only a modest rise in 1992. Our latest survey of over 450 agricultural bankers suggests farmland values were unchanged during the final three months of 1992 and up only 2 percent for all of last year. The bankers also indicated that loan demand moderated during the fourth quarter while the supply of funds available for lending to farmers remained ample. In addition, there was some indication that the downtrend in farm loan rates may be leveling off.

District farmers remained cautious when bidding for farmland in 1992. The apprehensions of crop farmers were heightened by unusual weather patterns throughout the year. While Illinois, Indiana, and Iowa subsequently logged record-large corn and soybean harvests, grain production declined in Michigan and Wisconsin. Corn and soybean prices dropped last fall to their lowest levels in five years in response to the large U.S. harvest. Hog prices were down sharply as pork production rose. In contrast, steer and heifer prices were little changed last year while the average milk price rose 7 percent.

Furthermore, international trade developments were not supportive of farmland values over the past year. Soybean exports rebounded and red meat exports improved. But corn shipments fell for the second consecutive year. Uncertainty continued to shadow international trade developments last year. The talks for a General Agreement on Tariffs and Trade failed to reach completion and it is not clear what tack the new administration will take. Though progress was made on the North American Free Trade Agreement, additional delays are likely if suggestions are implemented to negotiate side agreements addressing labor and environmental concerns. The delinquencies that emerged in November on loans financing shipments to Russia added to the export uncertainties.

District farmland values rose modestly last year



Trends in farmland values were varied among District states during the fourth quarter. Iowa recorded a gain of 1 percent, while farmland values in Illinois and Wisconsin were unchanged. In contrast, a decline of 1 percent was registered in both Indiana and Michigan. The annual change in farmland values was also mixed among District states, with gains of 4 percent and 3 percent in Iowa and Illinois, respectively. Indiana bankers reported a modest gain of 2 percent. Farmland values edged up by 1 percent in Wisconsin, and over the past year suffered a decline of 2 percent in Michigan. In comparison, the year-over-year change in the Consumer Price Index was 2.9 percent, suggesting that farmland values in only Iowa and Illinois were able to keep pace with the rate of inflation.

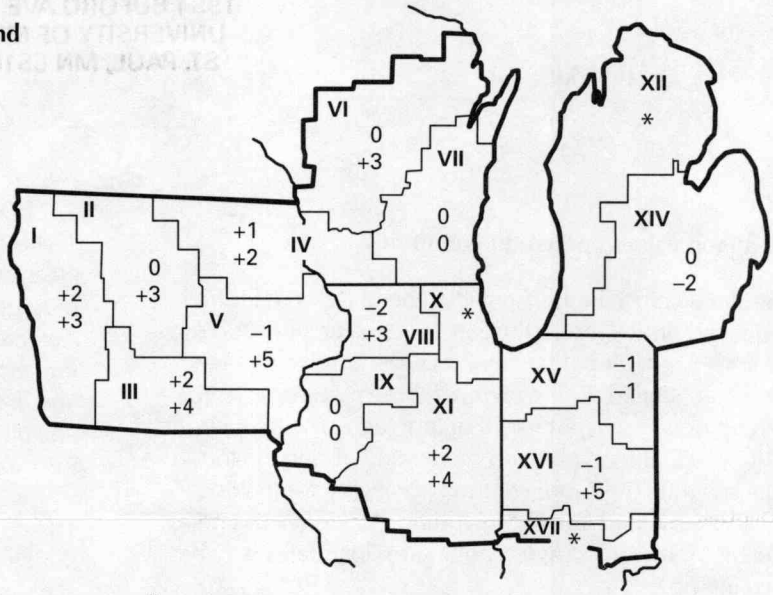
In general, the bankers expect stable farmland values over the winter and little change in the level of farm real estate lending. Over 82 percent believe farmland values will not change during the first quarter, while 3 percent expect a decline. The remaining 15 percent anticipate an increase. Among the individual District states, modest gains are expected in Illinois and Iowa, and to a lesser extent, Indiana. In contrast, little or no increase is anticipated in Michigan and Wisconsin, probably because of the adverse fall harvest conditions which affected farmers in those states. In a similar vein, two thirds of the respondents foresee no change in the volume of farm real estate lending this winter as compared to last year, with the rest almost evenly split between an increase and a decrease. The bankers in Illinois, Indiana, and Iowa anticipate year-over-year gains in farm real estate lending during the winter, but those in Michigan and Wisconsin look for a decline.

The demand for nonreal estate farm loans apparently eased last fall, but still held above the level of a year earlier. Approximately 28 percent of the respondents reported that farm loan demand during the fall quarter was up from the previous year, while 20 percent indicated a decline. However, there was considerable variation among District states. In particular, a comparatively large portion of the banks

Percent change in dollar value of "good" farmland

Top: October 1, 1992 to January 1, 1993

Bottom: January 1, 1992 to January 1, 1993



	October 1, 1992 to January 1, 1993	January 1, 1992 to January 1, 1993
Illinois	0	+3
Indiana	−1	+2
Iowa	+1	+4
Michigan	−1	−2
Wisconsin	0	+1
Seventh District	0	+2

*Insufficient response

from both Illinois and Iowa noted the strength in loan demand. Recent USDA figures indicate Iowa hog farmers continued to expand their herds during the fall, boosting the need for working capital. Furthermore, the number of cattle placed in feedlots in Illinois during the fourth quarter was up considerably from the year before. Nonreal estate loan demand showed a modest decline in Michigan and Wisconsin, and appeared to be unchanged in Indiana.

The bankers also reported that farm suppliers increased their financing of farmer-customers in 1992. Over 40 percent of those surveyed stated that the amount of credit extended by merchants and dealers to farmers was up in 1992 as compared to the previous year. Only 8 percent indicated a decline in merchant and dealer financing. The strongest growth appeared to be in Iowa, where over half the bankers responded that merchants and dealers were extending more credit to farmers. A comparatively large share of the bankers in Illinois and Indiana also noted the pick-up in financing by merchants and dealers. Since a majority of the surveyed bankers indicated ample liquidity and a desire to increase lending, these figures likely represent a more aggressive approach by input suppliers to attract business.

Nonreal estate loan demand in the Seventh District is expected to remain firm through the first quarter of 1993. Nearly 29 percent of the bankers suggested loan volume will rise from a year ago, while 15 percent indicated a decline is likely during the current quarter. In general, the gains in loan volume are expected to be led by robust demand for operating loans. A large portion of the bankers in each District state expect gains in farm operating loan volume, especially in Iowa and Michigan. The bankers from Illinois, Iowa, and Indiana also anticipate gains in lending for crop storage and farm machinery purchases during the first quarter. But in marked contrast, the bankers from Michigan and Wisconsin expect a decline in lending for machinery and for crop storage.

The bankers' views on capital expenditures by farmers in 1993 were somewhat mixed. In general, the bankers apparently expect some increase in expenditures for machinery and equipment and for trucks and autos. Alternatively, expenditures for land purchases and improvements and for buildings and facilities are expected to decline. Nearly 37 percent expect expenditures on machinery and equipment to increase, while 27 percent anticipate a decline. The survey responses indicate these gains will be concentrated in Illinois, Indiana, and Iowa. In particular, over half the respondents from Illinois foresee increased spending on machinery and equipment. These rising expectations are likely a result of the strong fall harvest and gains in net farm income for these states. In contrast, expenditures on machinery and equipment are expected to post a year-over-year decline in Michigan and remain stable in Wisconsin. Only the Indiana bankers indicated that a potential increase in expenditures for land purchases or improvements was on the horizon.

The surveyed bankers again reported ample funds available for lending to farmers. One-third of the respondents indicated an increase in fund availability, while only 7 percent reported a decline. The remaining 60 percent did not perceive any change from a year ago. The evidence of increased fund availability was especially apparent among the banks from Iowa, Illinois, and Wisconsin. A slight seasonal decline in the average loan-to-deposit ratio for District banks probably contributed to their views on fund availability. The average ratios reported by bankers

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)*
1989							
Jan-Mar	138	115	84	53.8	12.54	12.48	11.70
Apr-June	138	107	92	55.9	12.42	12.36	11.55
July-Sept	124	109	106	57.1	12.19	12.15	11.34
Oct-Dec	119	124	123	55.8	12.05	12.02	11.15
1990							
Jan-Mar	125	124	122	55.2	11.93	11.88	11.08
Apr-June	118	125	119	56.5	11.95	11.88	11.09
July-Sept	117	122	115	57.0	11.94	11.87	11.08
Oct-Dec	116	123	100	56.9	11.82	11.76	10.94
1991							
Jan-Mar	128	127	98	56.5	11.40	11.37	10.57
Apr-June	130	122	74	58.1	11.19	11.17	10.43
July-Sept	113	122	81	58.5	10.88	10.89	10.15
Oct-Dec	109	132	69	57.4	10.06	10.08	9.39
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

[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.

in Indiana, Michigan, and Wisconsin all came in at about 65 percent. The average loan-to-deposit ratios in Iowa and Illinois were at 55 percent and 53 percent, respectively. A majority of the bankers in each District state indicated a desire to increase lending levels. For the District, nearly two-thirds of the surveyed bankers stated their loan-to-deposit ratios were below the desired level.

Farm loan rates were relatively unchanged during the fourth quarter, leveling out for the first time since mid-1990. However, they were still below the rates recorded a year earlier. The average farm real estate loan rate charged by the surveyed banks as of the end of 1992 was 8.6 percent, 80 basis points below the level of twelve months ago. Among the individual District states, the average interest rate charged on farm real estate loans ranged from a low of 8.4 percent in Indiana to a high of 9.0 percent in Michigan. The average interest rate charged for farm operating loans was 9.1 percent, and the rate for feeder cattle loans was about the same. The operating loan rate was down about 94 basis points from a year earlier. Operating loan rates ranged from a low of 8.8 percent in Michigan to a high of 9.3 percent in Iowa. Overall, the District agricultural bankers noted that about 40 percent of their farm real estate loans were made in 1992 using a floating interest rate, while 57 percent of new operating loans were made on a floating rate basis.

Farm loan repayment rates apparently rose somewhat during the fall, but were still lower than a year earlier. The loan repayment index stood at 93, which represents a composite of the 23 percent of the surveyed bankers who indicated the level of farm loan repayments was above a year ago, less the 30 percent who believed the level of repayments had fallen. However, differences were apparent among the five District states. A relatively large portion of the Indiana bankers reported that farm loan repayments were up from a year ago, probably due to the improvement in harvest conditions. In contrast, over one-half of the Michigan respondents reported a decline in loan repayments plus an increase in loan extensions and renewals. Illinois bankers noted little change, and declines in loan repayment rates were reported by the bankers in Iowa and Wisconsin as compared to a year earlier. In general, weakening grain prices and a late fall harvest likely had an adverse effect on loan repayments.

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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, 1977=100)*	January	138	0.7	0	–4
Crops *(index, 1977=100)*	January	117	–0.8	–5	–3
Corn *($ per bu.)*	January	2.02	2.0	–16	–11
Hay *($ per ton)*	January	75.10	1.8	9	–4
Soybeans *($ per bu.)*	January	5.59	2.4	1	–2
Wheat *($ per bu.)*	January	3.44	3.9	–3	42
Livestock and products *(index, 1977=100)*	January	158	1.3	4	–5
Barrows and gilts *($ per cwt.)*	January	42.30	–0.7	13	–17
Steers and heifers *($ per cwt.)*	January	78.70	3.1	8	–4
Milk *($ per cwt.)*	January	12.60	–1.6	–7	8
Eggs *(¢ per doz.)*	January	63.7	–1.1	9	–18
Consumer prices *(index, 1982-84=100)*	January	143	0.5	3	6
Food	January	140	0.8	2	3
Production or stocks					
Corn stocks *(mil. bu.)*	December 1	7,902	N.A.	21	14
Soybean stocks *(mil. bu.)*	December 1	1,834	N.A.	3	9
Wheat stocks *(mil. bu.)*	December 1	1,589	N.A.	10	–17
Beef production *(bil. lb.)*	December	1.85	3.9	4	10
Pork production *(bil. lb.)*	December	1.52	4.8	6	14
Milk production* *(bil. lb.)*	January	10.8	1.4	1	1
Receipts from farm marketings *(mil. dol.)*	September	15,573	16.9	5	6
Crops**	September	7,834	28.0	3	9
Livestock	September	7,223	1.1	2	–6
Government payments	September	516	838.2	396	N.A.
Agricultural exports *(mil. dol.)*	November	3,885	–6.7	–4	11
Corn *(mil. bu.)*	November	194	39.2	30	15
Soybeans *(mil. bu.)*	November	84	–14.1	–6	34
Wheat *(mil. bu.)*	November	114	–16.7	–18	40
Farm machinery sales *(units)*					
Tractors, over 40 HP	January	4,582	4.9	2	39
40 to 100 HP	January	2,326	2.4	–1	21
100 HP or more	January	2,256	7.7	6	64
Combines	January	666	–16.5	14	3

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

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