

AgLetter



FARMLAND VALUES UP AT MID YEAR

The responses of over 400 Seventh District agricultural bankers to our July 1 survey indicated that farmland values continued to climb this spring. The bankers reported that farmland values—on average—rose 1.5 percent in the second quarter. However, on a year-over-year basis, farmland values registered a double-digit gain for the first time in several years. The bankers also indicated that gains in the demand for new agricultural loans eased, as did the growth in funds available for agricultural lending. Furthermore, the average interest rates charged on new farm real estate loans moved higher for the first time in over a year. The bankers also indicated that the quality of their agricultural loan portfolios remains good, and that their primary competitors are providing new loans at a pace equal to or above the norm.

The average gain in farmland values reported by the Indiana and Wisconsin bankers for the second quarter were at opposite ends of the spectrum, while the gains for the other three states fell into a narrow range. The Indiana bankers reported a quarterly gain of about 4.5 percent, while those in Wisconsin indicated there was little change during the spring quarter. The other three states recorded increases of between 1 and 2 percent. For the twelve-month period ending at mid year, farmland

values in Illinois, Indiana, and Michigan were reported to be up 14 percent. Wisconsin and Iowa registered more moderate gains of 10 percent and 8 percent, respectively. Overall, District farmland values increased an average of 11 percent over the previous twelve months. That marks the largest twelve-month rise since 1989, when farmland values were in an initial recovery phase following the precipitous decline that occurred earlier in the 1980s.

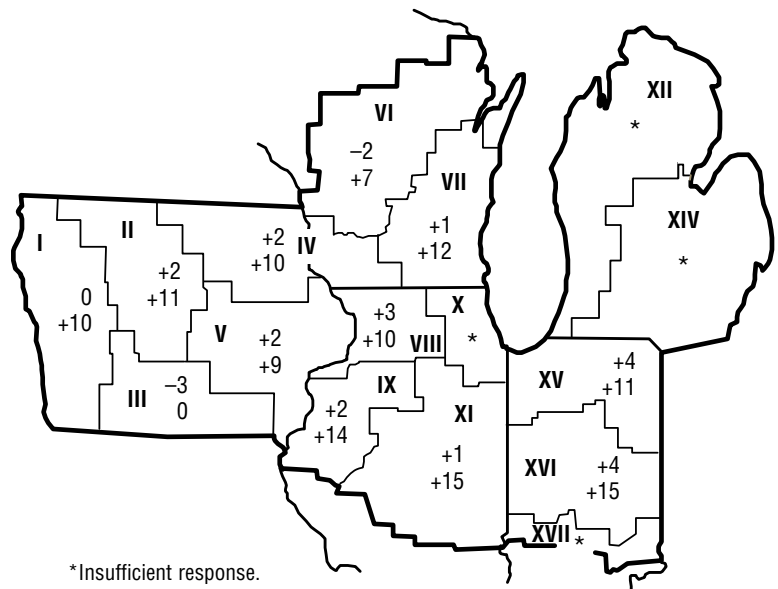
The second-quarter increase in farmland values was much more restrained than that of the previous quarter, yet was consistent with the gains registered over the past two years. The late planting season, with its potentially adverse impact on yields, may have taken some of the luster off the land market this spring. But to the extent that returns to farmland influence its value, both the near and longer term outlooks present a fairly optimistic scenario. Net farm income is expected to register a sharp recovery from last year, thanks to improved earnings to cash grain, dairy, and poultry enterprises, more than offsetting a decline in the net income accruing to beef producers. Hog producers were losing money earlier this year but the recent upswing in live hog prices has turned the situation around, at least for the more efficient producers. Furthermore, nominal net farm income is expected to rise over the next ten years, as suggested

Percent change in dollar value of "good" farmland

Top: April 1, 1996 to July 1, 1996

Bottom: July 1, 1995 to July 1, 1996

	April 1, 1996 to July 1, 1996	July 1, 1995 to July 1, 1996
Illinois	+2	+14
Indiana	+5	+14
Iowa	+1	+8
Michigan	+1	+14
Wisconsin	0	+10
Seventh District	+1	+11



by a post-farm bill analysis by the Food and Agricultural Policy Research Institute (FAPRI) at Iowa State University. The FAPRI analysis also indicated that farm income will be supported by continued export gains for pork, poultry, and feedgrains.

The favorable outlook is also reflected by widespread anticipation that farmland values will continue to rise. Though the number of bankers expecting further gains in farmland values backed off from the exceptional level recorded three months earlier, it remained quite high from an historical standpoint. Approximately 57 percent expect farmland values to increase in the third quarter, while nearly all the remainder anticipate no change. The perception of continued gains was considerably more prevalent in Iowa than in the other District states, with three fourths of the Iowa bankers looking for an increase. In comparison, the proportion of bankers that anticipate an increase in the other four states ranged from 31 percent in Michigan to 58 percent in Illinois.

Turning to District agricultural credit conditions, the gain in agricultural loan demand during the second quarter—compared to a year earlier—was relatively modest. About one third of the respondents believed loan demand had risen from a year earlier, while 18 percent indicated there had been a decline. Nearly half thought that the demand for new farm loans had not changed from the prior year. The gain in loan demand was likely held back by farmers' ability to make relatively more cash purchases of inputs thanks to the high grain prices that have persisted since last fall. Furthermore, the strong crop prices encouraged producers to sell stored grain earlier than normal in an effort to capture market tops. In contrast, loan demand was supported by larger crop input requirements that were tied to an increase in the number of corn and soybean acres planted.

Bank liquidity, on average, was little changed from the prior quarter or from a year earlier. The bankers reported that the average loan-to-deposit ratio registered a small seasonal increase during the second quarter, coming in at 65.8 percent. However, the current reading was slightly lower than a year earlier, ending a string of year-over-year increases that stretched back for ten quarters. However, it is unlikely that this signals an end to the cyclical rise in loan-to-deposit ratios that began in 1987. There appears to be room for additional increases since over half the respondents indicated their loan-to-deposit ratios are less than desired.

In addition, the amount of funds available for agricultural lending in the second quarter showed lackluster gains relative to a year earlier. About one fourth of the

surveyed bankers stated that fund availability was up from a year ago while a tenth thought there had been a decline. A fairly strong majority indicated there was no change from a year ago. The situation appeared to be relatively tighter in Indiana and Wisconsin than in the other District states.

The interest rates charged on farm operating and real estate loans edged higher in the spring after declining in each of the previous four quarters. The average rate charged by District banks on farm operating loans was 9.69 percent, only slightly higher than that reported in the previous survey. It was, however, 50 basis points lower than a year earlier. Farm operating loan rates ranged from a low of 9.43 percent in Illinois to a high of 10.11 percent in Michigan. Interest rates charged on new farm mortgage loans averaged 8.81 percent. This was 15 basis points higher than three months earlier, but 80 basis points lower than last year. Among District states, the lowest state average on farm mortgage interest rates was 8.66 percent in Illinois, while the highest was in Michigan at 9.49 percent.

While the high prices received by cash grain operators were a positive factor for loan repayments, livestock farmers were hit by escalating feed costs—and in the case of beef producers—sharply lower prices for fed cattle relative to a year ago. These factors limited the pace of overall loan repayments to only modest improvement from the year before. Reflecting this, the index of loan repayments came in at 108, which represents the 21 percent of the bankers that reported an improvement less the 13 percent that indicated repayments were coming in more slowly relative to a year earlier. The remainder—approximately two thirds—stated that repayments were coming in at a pace similar to the previous year. Among the individual District states, repayments in Indiana, Michigan, and Wisconsin were on par with a year ago, while modest improvement occurred in Illinois and Iowa.

The survey also asked the bankers to segment their agricultural loan portfolio into four repayment classifications, and identify the share of the loan portfolio that fell into each group. The accounting provided by the respondents was very similar to last year's. On average, the bankers indicated that nearly 96 percent of their portfolio was either free of problems or had only minor problems. The remaining 4 percent was characterized as having either major or severe problems. The agricultural loan portfolios in Michigan and Wisconsin were in slightly better shape than the overall average, probably aided by the large year-over-year increase in milk prices that have persisted throughout the year.

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)
1994							
Jan-Mar	136	121	94	59.9	8.52	8.48	7.97
Apr-June	139	107	90	62.5	8.98	8.95	8.48
July-Sept	132	96	94	64.5	9.38	9.30	8.86
Oct-Dec	112	102	111	63.8	9.99	9.93	9.48
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

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 surveyed bankers also shared their perceptions regarding the lending activity of major competitors—namely, the Farm Credit System (FCS), life insurance companies (LIC), and other sources such as merchants, dealers, and suppliers—in their respective areas. The bankers' responses indicated whether their competitors' lending activity this year was above, below, or at a "normal" level. The results indicated that farm mortgage lending by life insurance companies this year was comparable to or perhaps somewhat below normal. Approximately two thirds of the surveyed bankers stated that LIC activity was about normal, and over a fifth thought it was below normal.

However, the opposite appeared to be true for other types of lenders. About 40 percent of the respondents thought that the volume of operating loans extended to farmers by the FCS was higher than normal, while nearly all the remainder indicated the pace was comparable to past trends. Moreover, over half the bankers thought the FCS was providing more mortgage loans than usual. The view that the FCS was picking up the competitive pace in both operating and mortgage lending was especially apparent in Michigan. A similar situation existed regarding operating lending in Iowa. Furthermore, the bankers overall awareness of the competition from merchants, dealers, and suppliers mirrored their perception of FCS operating lending. In addition, their impressions of this group were quite uniform across District states.

Looking ahead, the bankers generally expect loan volume to increase in the third quarter when compared to a year earlier. However, the expectations for growth are not nearly as impressive as those which existed only

three months earlier, especially in Indiana and Michigan. Specifically, the outlook for farm machinery and farm real estate lending in these two states has suffered. This is probably due to the progress and condition of the corn and soybean crops. Three months ago, strong grain prices and a still-optimistic outlook for yields probably had both farmers and their lenders thinking about capital purchases. However, the late planting season caused the development of corn and soybeans in Michigan and Indiana to run significantly behind the norm. Furthermore, reports from the U.S. Department of Agriculture indicate that corn and soybean yields will suffer relatively more this fall in Michigan and Indiana than in the other District states. Given that this situation can only add to the uncertainty surrounding the quantity and quality of the fall harvest in these two states, farm operators would be expected to scale back their plans for any major purchases.

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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 (<i>index, 1990-92=100</i>)	July	119	0.8	18	23
Crops (<i>index, 1990-92=100</i>)	July	138	-2.1	21	35
Corn (\$ per bu.)	July	4.49	6.4	71	96
Hay (\$ per ton)	July	89.60	-2.9	7	9
Soybeans (\$ per bu.)	July	7.76	4.7	32	31
Wheat (\$ per bu.)	July	4.87	-7.4	19	60
Livestock and products (<i>index, 1990-92=100</i>)	July	103	4.0	13	12
Barrows and gilts (\$ per cwt.)	July	58.70	3.0	24	36
Steers and heifers (\$ per cwt.)	July	63.60	6.7	3	-2
Milk (\$ per cwt.)	July	15.00	2.7	25	23
Eggs (¢ per doz.)	July	70.9	-0.8	14	21
Consumer prices (<i>index, 1982-84=100</i>)	July	157	0.2	3	6
Food	July	153	0.4	3	6
Production or stocks					
Corn stocks (<i>mil. bu.</i>)	June 1	1,718	N.A.	-50	-27
Soybean stocks (<i>mil. bu.</i>)	June 1	623	N.A.	-21	12
Wheat stocks (<i>mil. bu.</i>)	June 1	375	N.A.	-26	-34
Beef production (<i>bil. lb.</i>)	June	2.19	-5.1	-4	1
Pork production (<i>bil. lb.</i>)	June	1.21	-14.6	-18	-15
Milk production* (<i>bil. lb.</i>)	July	11.1	0.1	-3	-2
Receipts from farm marketings (<i>mil. dol.</i>)	April	13,649	-2.4	1	3
Crops**	April	6,519	-6.4	13	32
Livestock	April	7,077	1.7	3	1
Government payments	April	53	8.2	N.A.	N.A.
Agricultural exports (<i>mil. dol.</i>)	May	4,825	-5.5	14	36
Corn (<i>mil. bu.</i>)	May	197	-0.6	-5	173
Soybeans (<i>mil. bu.</i>)	May	42	-20.4	-7	53
Wheat (<i>mil. bu.</i>)	May	80	-13.6	-1	-7
Farm machinery sales (<i>units</i>)					
Tractors, over 40 HP	July	4,521	-21.6	0	5
40 to 100 HP	July	3,417	-18.1	-2	6
100 HP or more	July	1,104	-30.7	4	3
Combines	July	531	-30.1	-38	-34

N.A. Not applicable

*22 selected states.

**Includes net CCC loans.



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