The Agricultural Newsletter
from the Federal Reserve Bank of Chicago
Number 1897 *February 1998*

AgLetter

FARMLAND VALUES AND CREDIT CONDITIONS

District farmland values registered a large gain again last year, according to the responses of over 350 agricultural banks recently surveyed by the Federal Reserve Bank of Chicago. The bankers indicated that the value of good farmland, on average, rose more than 2 percent during the final three months of 1997. The rise for all of 1997 was nearly 10 percent, duplicating the strong gain of the year before. Adjusted for the moderating inflationary pressures, last year's rise translated into the steepest real increase in farmland values in almost twenty years.

The indicated fourth-quarter gains in farmland values were fairly uniform among the five District states, clustering at 2 percent in Illinois, Indiana, Iowa, and Michigan, and reaching 3 percent in Wisconsin. The gains for all of last year varied considerably, however. The bankers from Michigan and Illinois reported the smallest 12-month increases, 7 and 8 percent, respectively. At the other extreme, the bankers from Indiana and Iowa reported the largest gains, 12 and 11 percent, respectively.

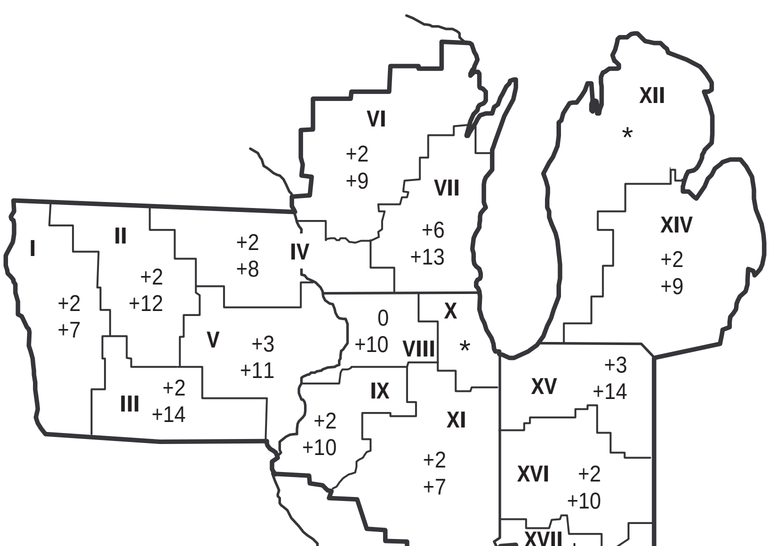
Last year's strong rise in farmland values reflected several factors. Although grain prices retreated somewhat in 1997, higher soybean prices helped sustain the earnings of crop farmers at a fairly high level. Generally favorable harvests the last two years, coupled with sizable government payments to farmers (under the 1996 farm program) and moderating pressures on input prices also contributed to the favorable earnings of crop farmers. Hog farmers also enjoyed relatively strong earnings during most of the past two years, while the picture for dairy farmers was mixed. Despite considerable fluctuations, milk prices received by dairy farmers averaged among the highest on record the past two years. Some dairy farmers prospered, but others struggled with poor quality forage and high feed prices.

Comments offered by some of the bankers indicate that other factors contributed to the recent strength in the market for farmland. Several noted that nonfarmer investor demand for farmland was especially strong. Unusually large gains in equity markets in recent years and uncertainty about the future performance of those markets may well have strengthened nonfarmer demand for farmland. In addition, other bankers suggested that expanding urban/suburban areas were increasingly a factor in farmland values, a view seemingly consistent with the past several years of sustained economic growth and tightening labor markets. Expanding urban/suburban communities add to the commercial, recreational, and residential potential—and thus the market value—of farmland that borders growing communities. With the recent revival of

Percent change in dollar value of "good" farmland

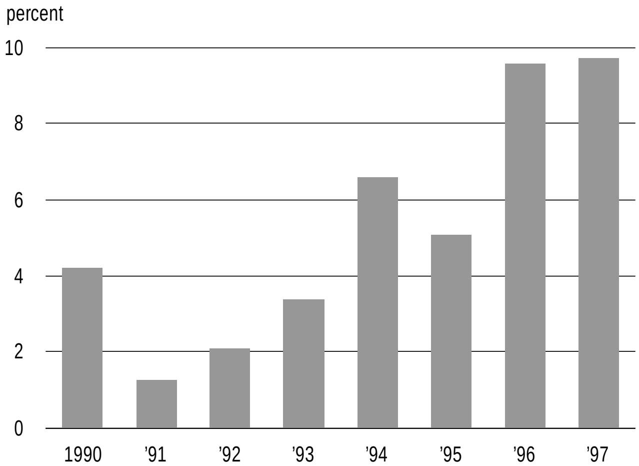
Top: October 1, 1997 to January 1, 1998
Bottom: January 1, 1997 to January 1, 1998

	October 1, 1997 to January 1, 1998	January 1, 1997 to January 1, 1998
Illinois	+2	+8
Indiana	+2	+12
Iowa	+2	+11
Michigan	+2	+7
Wisconsin	+3	+10
Seventh District	+2	+10



*Insufficient response.

District farmland values recorded another large gain in 1997



population growth in many rural counties, this phenomenon is apparent in many rural communities as well. The expanding communities (whether rural or urban) can trigger rippling affects on farmland in more isolated areas as farmers sell, or—for tax purposes—exchange, their “high-priced” land bordering the growing communities for “lower-priced” (and in many respects, more farmer-friendly) land in more isolated areas.

While the comments of some bankers suggest that the upward pressures on land prices may ease with the prospects for lower farm earnings in the months ahead, a sizable share expected the uptrend to continue. Overall, 36 percent of the bankers felt farmland values would continue to rise in the current quarter while only 2 percent were expecting a decline. The remainder felt land values would be stable this winter. This distribution of expectations is fairly consistent with the views expressed by bankers in the last five quarterly surveys.

The bankers' views with respect to credit conditions varied somewhat across the five District states. The measure of farm loan demand retreated slightly in the most recent survey. But at 120, the latest reading still implies that the share of bankers noting a year-over-year gain in loan demand exceeded the share noting a decline by a net margin of 20 percentage points. However, the evidence of a stronger farm loan demand was heavily concentrated in the responses of bankers from Iowa and, to a lesser extent, those from Illinois. In contrast, the share of bankers from Michigan and Wisconsin that noted a decline in farm loan demand actually exceeded the share noting an increase.

The measure of funds available at banks for making farm loans turned up in the most recent survey. As of the end of 1997, some 20 percent of the banks felt fund availability was up from a year ago while 11 percent indicated fewer funds were available. The highest readings on fund availability came from the bankers in Indiana and Michigan, while the lowest reading came from Wisconsin. The modest improvement in fund availability occurred despite a continued uptrend in loan-to-deposit ratios. On average, loans absorbed 70.7 percent of deposits at the surveyed banks as of the end of 1997, up from 67.6 percent the year before. With the continuing uptrend, some 21 percent of the banks now report that their loan-to-deposit ratio is above the level they desire for their bank while another 36 percent report they are at, or close to their desired ratio.

Although loan-to-deposit ratios are at, or above desired levels at many banks, only 11 percent of the respondents felt that slow deposit growth was a major restraint on their ability to service acceptable loan requests. Another 38 percent viewed slow deposit growth as a minor restraint while the remaining 51 percent indicated that slow deposit growth was not a problem in servicing acceptable loan requests. In conjunction with the relatively slow growth in deposits, about half of the banks have increased their use of funding sources other than deposits to make loans. About 40 percent of the banks characterized their increased reliance on non-deposit funding sources over the last two years as “modest” while another 12 percent regarded the increase as “substantial.” The more common non-deposit funding sources mentioned included borrowings from the Federal Home Loan Bank and from the Federal Reserve Bank. Other sources included brokered deposits, the sale of real estate mortgages or other assets, and state-assisted programs for farm loans.

Farm loan repayment rates in the fourth quarter continued at, or somewhat below year-earlier levels in most areas of the District. The overall reading stood at 95 as the share of bankers noting a year-over-year decline in farm loan repayment rates (19 percent) slightly exceeded the share noting an increase (14 percent). This pattern of views held for all District states other than Indiana. The lowest readings on farm loan repayment rates (90 to 92) were reported by the bankers from Illinois, Michigan, and Wisconsin. On a more favorable note, however, the latest readings on farm loan repayment rates for Michigan and Wisconsin were much improved from what was the case in the previous survey. Apparently, a strong uptrend in milk prices during the latter part of 1997 helped arrest the farm loan repayment problems in those states.

The interest rates charged on farm loans by the surveyed banks held steady through the fourth quarter, a trend that has prevailed since late 1995. The average of the typical rates reported for farm operating loans as of the end of 1997 was 9.65 percent while that for farm real estate loans was 8.69 percent. The lowest farm operating loan rates, averaging 9.34 percent, were reported by the banks from Illinois. The lowest rates on farm real estate

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)*
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
1993							
Jan-Mar	108	131	102	58.0	8.85	8.83	8.29
Apr-June	103	129	95	59.2	8.77	8.74	8.16
July-Sept	110	122	90	59.2	8.63	8.59	7.99
Oct-Dec	125	126	95	59.7	8.50	8.50	7.88
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
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

[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.

loans, at averages of 8.50 percent, were reported by the banks from Illinois and Iowa. By a sizable margin, Michigan banks again reported the highest rates on farm loans, 10.17 for farm operating loans and 9.38 for farm real estate loans.

In looking ahead, the bankers' views for 1998 suggest that capital expenditures by farmers may be somewhat higher again this year. The most widespread expectations for an increase in expenditures were for farm machinery and equipment. Overall, 40 percent of the respondents expected farm machinery and equipment expenditures—which have trended up the last five years—to increase again this year. Only 14 percent of the bankers expect a decline while the remaining 46 percent believe farm machinery and equipment expenditures will level off this year. Twenty seven percent of the bankers also suggested that farmer purchases of trucks and autos would be up this year while only 10 percent expect a decline. Somewhat smaller net margins are expecting increased expenditures by farmers for land purchases and for expenditures on farm buildings and other real estate improvements. In general, the net share of the bankers expecting increased expenditures was highest in Iowa and lowest in Wisconsin.

Gary L. Benjamin

AgLetter (ISSN 1080-8639) is published monthly by the Research Department of the Federal Reserve Bank of Chicago. It is prepared by Gary L. Benjamin, economic adviser and vice president, 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.

To subscribe, please write or telephone:

Public Information Center
Federal Reserve Bank of Chicago
P.O. Box 834
Chicago, IL 60690-0834
Tel. no. 312-322-5111
Fax no. 312-322-5515

Ag Letter is also available on the World Wide Web at http://www.frbchi.org.

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)*	January	103	–1.9	–5	–5
Crops *(index, 1990–92=100)*	January	111	0.0	–4	–8
Corn *($ per bu.)*	January	2.57	2.0	–4	–17
Hay *($ per ton)*	January	98.10	0.4	0	23
Soybeans *($ per bu.)*	January	6.56	–2.2	–8	–3
Wheat *($ per bu.)*	January	3.33	–3.5	–17	–31
Livestock and products *(index, 1990–92=100)*	January	94	–3.1	–4	0
Barrows and gilts *($ per cwt.)*	January	37.00	–11.9	–32	–14
Steers and heifers *($ per cwt.)*	January	65.30	–2.2	0	4
Milk *($ per cwt.)*	January	14.60	0.0	9	4
Eggs *(¢ per doz.)*	January	74.0	–6.0	–2	–5
Consumer prices *(index, 1982–84=100)*	December	161	–0.1	2	5
Food	December	159	0.1	2	6
Production or stocks					
Corn stocks *(mil. bu.)*	December 1	7,230	N.A.	5	18
Soybean stocks *(mil. bu.)*	December 1	1,995	N.A.	9	9
Wheat stocks *(mil. bu.)*	December 1	1,615	N.A.	32	21
Beef production *(bil. lb.)*	December	2.03	4.6	4	1
Pork production *(bil. lb.)*	December	1.64	11.4	15	9
Milk production* *(bil. lb.)*	January	11.4	2.4	2	3
Receipts from farm marketings *(mil. dol.)*	October	25,061	20.3	–5	4
Crops**	October	15,907	64.9	–5	12
Livestock	October	7,542	–7.9	–7	–3
Government payments	October	1,612	–46.4	6	–20
Agricultural exports *(mil. dol.)*	October	5,534	23.3	6	8
Corn *(mil. bu.)*	October	118	–17.2	–19	–44
Soybeans *(mil. bu.)*	October	170	299.9	78	120
Wheat *(mil. bu.)*	October	92	–24.7	–9	–23
Farm machinery sales *(units)*					
Tractors, over 40 HP	January	5,282	–15.2	16	7
40 to 100 HP	January	2,596	–21.6	0	–4
100 HP or more	January	2,686	–7.8	37	20
Combines	January	697	–47.0	58	66

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

AgLetter is printed on recycled paper using soy-based inks

AgLetter

Federal Reserve Bank of Chicago
Public Information Center
P.O. Box 834
Chicago, Illinois 60690-0834
312-322-5111
Return service requested