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AgLetter

FARMLAND VALUES AND CREDIT CONDITIONS

Our latest quarterly survey of agricultural banks in the Seventh Federal Reserve District found that the farmland market was somewhat stronger this winter while credit conditions were little changed from last fall. The indicated rise in District farmland values for the first quarter averaged 2.1 percent among the nearly 400 responding bankers, more than double the fourth-quarter rise. Compared to a year ago, the indicated gains averaged more than 9 percent. The bankers also indicated that farm loan demand continued strong in the first quarter. Their views on farm loan repayment rates were mixed, but somewhat improved overall from the previous quarter. Interest rates charged on farm loans by the bankers were little changed from both three months ago and from a year ago.

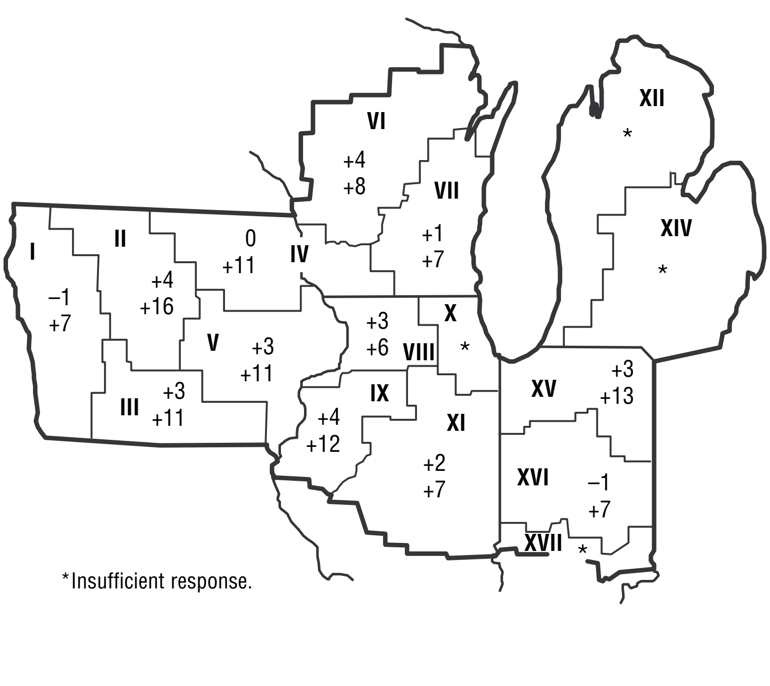
The farmland market for the last year or two has been supported by high crop prices and continued sizable farm support payments. These developments have enhanced prospective farmland investments, both in the eyes of farmers seeking to expand and in the eyes of nonfarmer investors who may be more inclined to weigh prospective returns from a broader array of alternative investments. In characterizing their local farmland market, a large share of the respondents noted that the demand to acquire farmland during the fall and winter months was even stronger than in the same period a year ago. Nearly two-thirds of the respondents mentioned the increase in demand for farmland while only 5 percent noted a decline. The stronger demand for farmland was especially apparent in the responses of the bankers from Indiana and Iowa and, to a lesser extent, in Illinois.

The amount of farmland available for sale also edged higher in most areas, especially in Indiana and Wisconsin. But with respect to actual farm real estate transactions, the picture was somewhat mixed. In Indiana, the share of the bankers noting a rise in the amount of farmland sold during the fall and winter months exceeded the share noting a decline by a sizable margin (41 percent to 10 percent). Elsewhere, the net share of the bankers noting an increase in acreage actual sold was much smaller. Of the farmland transfers that occurred during the fall and winter months, the share that was acquired by farmers—as opposed to nonfarmer investors—was apparently unchanged from a year ago in Illinois and Iowa. But elsewhere in the District, and especially in

Percent change in dollar value of "good" farmland

Top: January 1, 1997 to April 1, 1997
Bottom: April 1, 1996 to April 1, 1997

	January 1, 1997 to April 1, 1997	April 1, 1996 to April 1, 1997
Illinois	+3	+8
Indiana	+1	+10
Iowa	+2	+12
Michigan	+3	+5
Wisconsin	+2	+7
Seventh District	+2	+9



*Insufficient response.

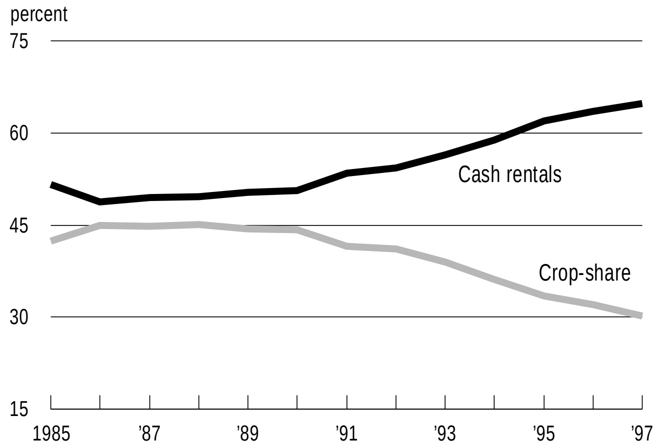
Wisconsin, the share of the transfers acquired by farmers was widely viewed as lagging that of a year ago.

The indicated first-quarter gains in farmland values were fairly uniform and widespread across the District. Among the five District states, the rise in farmland values for the three months ending with March clustered in a fairly narrow range. The smallest rise, 1.5 percent, was reported by the bankers from Indiana. The bankers from Illinois and Michigan reported the largest first-quarter gains, just over 2.5 percent. Compared to a year ago, the largest gains in farmland values were reported for Indiana and Iowa, up 10 and 12 percent, respectively. Among the other District states, the 12-month rise in farmland values ranged from 5 percent in Michigan to 8 percent in Illinois.

The strength in the market for farmland is also apparent in cash rental rates. Increases in cash rental rates for farmland were noted for all five District states. However, the overall average rise of 8 percent from a year ago, while substantial, still fell short of the rise noted in the associated farmland values. The largest year-over-year gains in cash rental rates were reported for Indiana and Iowa, up 8 and 10 percent, respectively. The bankers from Illinois reported a rise of just over 7 percent, while those from Michigan and Wisconsin reported gains that averaged close to 5.5 percent. Simple averages of both the reported rental rates and the reported land values suggest widely varying rent-to-value ratios among District states. Those ratios range from a low of 5.2 percent in Illinois to a high of 7.7 percent in Wisconsin. The rent-to-value ratios for Indiana and Michigan were clustered between 5.5 and 6.0 percent while that for Iowa approached 7 percent.

Cash rentals account for a majority of the farmland rental arrangements across District states, with crop-share arrangements representing the bulk of the remaining rental practices. In the most recent survey, the reported distributions of farmland rental arrangements averaged 65 percent cash rent, 30 percent crop-share, and 5 percent "other." Over the years the popularity of cash rentals has grown considerably. (Ten years ago, a similar survey found that the average distribution of rental arrangements was 50 percent cash rent, 45 percent crop-share, and 5 percent "other.") Despite the increased popularity of cash rents, the mix in land rental practices still varies widely. In Illinois, cash rentals are only marginally more common than crop-share rentals, 50 percent to 46 percent. In both Indiana and Iowa, the mix is 66 percent cash rentals and 29 percent crop-share. In Michigan and Wisconsin, the mix is approximately 80 percent cash rent to 15 percent crop-share.

Cash rentals account for a growing share of the farmland rental arrangements in District states



Renting land is a common practice among farm operators. That coupled with the growing popularity of cash-rental arrangements (rather than crop-share arrangements) implies rising land values and cash rents can translate into sizable increases in crop production costs for many operators. The most recent (1992) Census of Agriculture shows that half of the land in farms in District states is owned by someone, or some entity, other than the operator of the farm. Among the five District states, the share owned by someone other than the operator varies from a low of 27 percent in Wisconsin to a high of 62 percent in Illinois. The rented portion of the farmland in Indiana and Iowa is slightly over 50 percent while for Michigan it is nearly 40 percent.

STRONGER FARM LOAN DEMAND

The responding bankers noted that farm loan demand strengthened further in the first quarter and that continued firming was expected this spring. The measure of first quarter farm loan demand moved up to 134, the highest reading in nearly three years. That tally represents a composite reading of the 44 percent of the bankers that noted a year-over-year rise in farm loan demand, less the 10 percent that reported a decline. The remaining 46 percent of the bankers felt loan demand was unchanged from a year ago. The strengthening in farm loan demand was apparent for all District states, especially Illinois, Indiana, and Iowa. For the current quarter, a large share of the bankers were expecting more strength in the demand for farm operating loans and—in Illinois, Indiana, and Iowa—in loans to finance the purchase of farm machinery and equipment.

The latest reading on the availability of funds for lending to farmers was unchanged from the ending 1996

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)*
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

[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.

level and low relative to a year ago. Yet at 110, the measure still implies that the share of banks noting a year-over-year rise in fund availability (24 percent) exceeded the share noting a decline (14 percent) by 10 percentage points. A somewhat related measure of lending capacity is reflected in the average loan-to-deposit ratio of the responding banks. As of the end of March, the ratio was unchanged from three months earlier but up 2.5 percentage points from a year ago. Despite the rise, however, the actual ratio remains below the desired ratio for a large majority of the banks, especially those in Illinois and Iowa.

The measure of farm loan repayment rates edged upward this winter, but varied across the District. In Illinois and Iowa, the share of the bankers noting a year-over-year rise in farm loan repayment rates slightly exceeded the share noting a decline. Conversely, the bankers from Indiana and Michigan signaled there had been a slight slowing in farm loan repayment rates this winter while the views of Wisconsin bankers were evenly split.

The typical interest rates charged on farm loans by the surveyed banks held fairly steady again this winter. The rates reported for farm operating loans averaged about 9.7 percent, less than 10 basis points above the averages reported both three months and a year earlier. The interest rates reported for farm real estate loans averaged somewhat lower at about 8.75 percent. Illinois banks continued to report the lowest interest rates, about 9.4 percent for farm operating loans and 8.6 percent for farm real estate loans. Conversely, the highest average rates were reported by the Michigan banks, 10.3 percent and 9.7 percent for farm operating and farm mortgage loans, respectively.

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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	106	–0.9	–2	7
Crops *(index, 1990–92=100)*	April	115	–1.7	–10	3
Corn *($ per bu.)*	April	2.79	0.0	–28	18
Hay *($ per ton)*	April	117.00	8.3	32	36
Soybeans *($ per bu.)*	April	8.03	0.8	8	45
Wheat *($ per bu.)*	April	4.16	5.9	–22	20
Livestock and products *(index, 1990–92=100)*	April	99	1.0	6	11
Barrows and gilts *($ per cwt.)*	April	53.90	8.7	7	50
Steers and heifers *($ per cwt.)*	April	68.20	0.4	17	2
Milk *($ per cwt.)*	April	13.50	0.0	–3	10
Eggs *(¢ per doz.)*	April	65.8	–8.4	–13	8
Consumer prices *(index, 1982–84=100)*	April	160	0.1	2	5
Food	April	157	0.0	3	6
Production or stocks					
Corn stocks *(mil. bu.)*	March 1	4,494	N.A.	18	–20
Soybean stocks *(mil. bu.)*	March 1	1,056	N.A.	–11	–23
Wheat stocks *(mil. bu.)*	March 1	822	N.A.	0	–15
Beef production *(bil. lb.)*	March	1.97	2.4	–3	–5
Pork production *(bil. lb.)*	March	1.42	8.6	0	–13
Milk production* *(bil. lb.)*	April	11.4	–2.2	1	1
Receipts from farm marketings *(mil. dol.)*	January	20,948	11.1	14	22
Crops**	January	11,171	6.5	3	19
Livestock	January	7,865	0.2	4	3
Government payments	January	1,912	266.3	N.A.	N.A.
Agricultural exports *(mil. dol.)*	February	4,927	–1.4	–7	2
Corn *(mil. bu.)*	February	153	–16.2	–6	–20
Soybeans *(mil. bu.)*	February	105	–0.6	27	15
Wheat *(mil. bu.)*	February	61	–5.9	–35	–42
Farm machinery sales *(units)*					
Tractors, over 40 HP	April	8,606	30.1	7	18
40 to 100 HP	April	4,526	25.2	5	13
100 HP or more	April	4,080	36.0	9	26
Combines	April	612	53.0	–9	–22

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

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