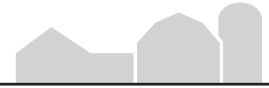


# AgLetter



## FARMLAND VALUES DECLINE IN THE THIRD QUARTER

Farmland values weakened in the Seventh Federal Reserve District during the third quarter, according to our survey of 390 agricultural bankers. On average, farmland values were down 1 percent during the quarter, the first such decline experienced on a District-wide basis in this decade. The weakness narrowed the gain for the twelve-month period ending September 30 to 4 percent. The survey also revealed that farmers backed away from purchasing farmland to a larger degree than non-farm investors. With respect to credit conditions, the survey indicated that loan demand was up, on average, as gains in Illinois and Iowa offset weakness in Indiana, Michigan, and Wisconsin. Interest rates moved lower during the third quarter, and loan repayment rates showed signs of further deterioration.

The last quarterly decline in farmland values on a District-wide basis was in 1986. Since then, individual states have occasionally sustained a quarter-to-quarter decrease. But the recent drop for the District as a whole reflects the seriousness of the downturn in agriculture this year and the limited upside potential for hog, corn,

and soybean prices in the coming year. Among the individual District states, farmland values softened during the third quarter in Illinois, Indiana, and Iowa, but showed more resilience in Michigan and Wisconsin. Indiana bankers reported the sharpest quarterly decline, about 3 percent. Those in Illinois and Iowa reported average declines of 2 percent and 1 percent, respectively. In comparison, farmland values were steady in Michigan and rose 1 percent in Wisconsin during the third quarter.

The weakness in Illinois, Indiana, and Iowa reversed the increases recorded earlier this year in these states and narrowed the gains for the twelve-month period ending September 30. Illinois and Iowa registered year-over-year gains of 1 percent, while Indiana came in at 2 percent. In contrast, the relatively greater strength in the market for farmland in Michigan and Wisconsin showed up in year-over-year gains of 8 percent and 12 percent, respectively.

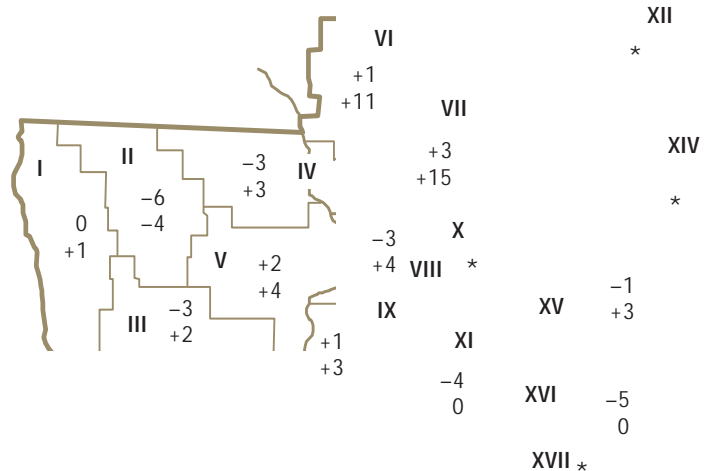
The pattern of change in farmland values mirrored the fortunes of the major farm commodities produced in District states. The three major commodities in Illinois,

## Percent change in dollar value of "good" farmland

Top: July 1, 1998 to October 1, 1998

Bottom: October 1, 1997 to October 1, 1998

	July 1, 1998 to October 1, 1998	October 1, 1997 to October 1, 1998
Illinois	-2	+1
Indiana	-3	+2
Iowa	-1	+1
Michigan	0	+8
Wisconsin	+1	+12
Seventh District	-1	+4



\*Insufficient response.

Indiana, and Iowa are corn, soybeans, and hogs, which together account for about 75 percent of total farm receipts in those states. Farm-level prices for corn and soybeans have experienced sharp declines from a year ago due to large supplies and lagging foreign demand, while hog prices were brought lower by strong production gains and large competing supplies of beef and poultry.

In contrast, dairy farmers have done well in recent months, benefiting from high milk prices and low feed costs. Dairy is the primary farm enterprise in Wisconsin, with milk accounting for over half of the farm receipts in that state. In comparison, farmland values in Michigan were supported by a farm production sector that is the most diversified among District states. Milk is the single major source of gross farm income in Michigan, accounting for about 20 percent of total cash receipts. Greenhouse/nursery products, along with a variety of fruits and vegetables, account for another 30 percent of farm receipts, while corn and soybeans together make up approximately 20 percent.

Overall, the number of farmland transfers in the third quarter was down relative to a year earlier, though there appeared to be a slight increase in activity in Michigan and Wisconsin. The recent trends in the farm economy apparently had a bigger impact on farmers than on nonfarm investors. Two-thirds of the respondents stated that the third-quarter demand for farmland among farmers was down from a year earlier. In comparison, the aggregate responses indicated that there was no clear trend regarding the interest of nonfarm investors. However, the demand for farmland among nonfarm investors was clearly down from a year earlier in Illinois and Iowa, but up in Michigan and Wisconsin.

Given the recent price trends for farm products and the uncertain outlook, it is not surprising to find that a majority of the bankers expect farmland values to register another decline during the fourth quarter. At just over 50 percent, the proportion of bankers expecting a decline was the largest since 1985. In comparison, 10 percent look for an increase, while the remaining 40 percent expect no change. The pessimism regarding farmland values is largely concentrated in Illinois, Indiana, and Iowa, with the expectations of bankers in Michigan and Wisconsin leaning more towards stability.

Turning to credit conditions, the survey respondents indicated the overall demand for new nonreal estate farm loans during the third quarter was up from a year ago. The measure of loan demand for the District came in at 117, which reflects the 36 percent of the respondents that

saw an increase, less the 19 percent that saw a decline. Approximately 45 percent thought there had been no change from a year ago. However, the pattern of changing loan demand was decidedly mixed among the individual District states. Demand was up in Illinois and Iowa, but down in Michigan. Furthermore, the situation seemed little changed from last year in Indiana and Wisconsin.

On the funding side, District agricultural banks continue to funnel a substantial amount of deposits into loans. The average loan-to-deposit ratio, at 72 percent, was down slightly from three months earlier. This decline was a bit unusual, since this ratio typically increases from July 1 to October 1. At this point, it is doubtful that it portends a reversal of the cyclical increase in this ratio that has occurred during this decade, since the number of bankers that desire to increase their loan-to-deposit ratio still exceeds the number that would prefer a reduction. In addition, the availability of funds for agricultural lending was similar to a year earlier, with 75 percent of the bankers indicating there had been no change. Among the individual District states, however, there appeared to be some weakness in fund availability in Iowa and Michigan relative to the other three states.

On average, interest rates charged on new farm loans drifted lower during the third quarter. The average rate for new operating loans came in at 9.43 percent, 11 basis points lower than three months earlier. In addition, the average rate charged on new farm real estate loans was 8.33 percent, down 19 basis points from three months earlier. Among District states, the farm operating loan rate ranged from a low of 9.15 percent in Illinois to 9.98 percent in Michigan. The average farm real estate loan rate ranged from 8.18 percent in Iowa to 8.87 percent in Michigan.

Loan repayment rates continue to be weakened by the downturn in the farm sector. For the District, 43 percent of the respondents stated that loan repayments were weaker than a year earlier, while 54 percent believed there had been no change. Only 3 percent indicated an improvement. The decline was most prevalent in Illinois and Iowa, although bankers in Indiana and Michigan also noted a significant drop. While the deterioration in loan repayments is no doubt due to the decline in grain prices, a portion of the decrease also stems from the decision of farmers to hold grain that would normally be sold at harvest, in anticipation of capturing post-harvest price increases. Loan repayments have also been hurt by the rapid decline of hog prices, which have slipped to their lowest level since the early 1970s. In tandem with the

## Credit conditions at Seventh District agricultural banks

	Loan demand (index) <sup>2</sup>	Fund availability (index) <sup>2</sup>	Loan repayment rates (index) <sup>2</sup>	Average loan-to-deposit ratio <sup>1</sup> (percent)	Interest rates on farm loans		
					Operating loans <sup>1</sup> (percent)	Feeder cattle <sup>1</sup> (percent)	Real estate <sup>1</sup> (percent)
<b>1993</b>							
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
<b>1994</b>							
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
<b>1995</b>							
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
<b>1996</b>							
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
<b>1997</b>							
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
<b>1998</b>							
Jan-Mar	134	113	84	70.6	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

<sup>1</sup>At end of period.

<sup>2</sup>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.

drop in repayments, there is also a significant rise in the number of bankers reporting an increase in loan renewals and extensions, especially in Illinois and Iowa.

Recent and expected developments may well lead to an increase in credit problems in the near term, as well as a shift in the types of bank lending. Most of the bankers indicated they expect cash receipts from grain, cattle, and hogs to register a year-over-year decline during the fall and winter months. The view regarding the dairy industry was more mixed, with the Wisconsin bankers holding a considerably more optimistic view of the dairy industry than the other bankers. In addition, the respondents anticipated continued problems with loan repayments during the fall and winter, with two-thirds expecting a decline compared with last year. Moreover, a similar share expect to see an increase in sales of capital assets by financially stressed farmers. The bankers also expect a shift toward lending for operating and grain storage,

while they expect all other types of lending, including farm real estate and farm machinery, to contract.

*Mike A. Singer*

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## SELECTED AGRICULTURAL ECONOMIC INDICATORS

	Latest period	Value	Percent change from		
			Prior period	Year ago	Two years ago
<b>Prices received by farmers</b> ( <i>index, 1990-92=100</i> )	October	99	0.0	-7	-12
<b>Crops</b> ( <i>index, 1990-92=100</i> )	October	101	0.0	-11	-15
Corn (\$ per bu.)	October	1.91	4.4	-25	-34
Hay (\$ per ton)	October	85.20	-1.5	-15	-7
Soybeans (\$ per bu.)	October	5.18	-1.3	-20	-25
Wheat (\$ per bu.)	October	2.72	12.9	-24	-35
<b>Livestock and products</b> ( <i>index, 1990-92=100</i> )	October	98	1.0	1	-5
Barrows and gilts (\$ per cwt.)	October	29.10	-3.3	-39	-48
Steers and heifers (\$ per cwt.)	October	61.50	4.4	-9	-10
Milk (\$ per cwt.)	October	17.30	4.2	23	5
Eggs (¢ per doz.)	October	66.4	4.7	1	-10
<b>Consumer prices</b> ( <i>index, 1982-84=100</i> )	October	164	0.2	1	4
Food	October	162	0.6	2	4
<b>Production or stocks</b>					
Corn stocks ( <i>mil. bu.</i> )	September 1	1,308	N.A.	48	207
Soybean stocks ( <i>mil. bu.</i> )	September 1	200	N.A.	53	9
Wheat stocks ( <i>mil. bu.</i> )	September 1	2,381	N.A.	15	38
Beef production ( <i>bil. lb.</i> )	September	2.20	-1.5	3	13
Pork production ( <i>bil. lb.</i> )	September	1.59	5.6	7	13
Milk production* ( <i>bil. lb.</i> )	October	11.1	3.9	1	3
<b>Receipts from farm marketings</b> ( <i>mil. dol.</i> )	July	15,335	3.6	-2	-8
Crops**	July	7,394	15.9	-4	-4
Livestock	July	7,774	-6.8	-2	-3
Government payments	July	167	87.6	568	-81
<b>Agricultural exports</b> ( <i>mil. dol.</i> )	August	3,704	-4.6	-16	-20
Corn ( <i>mil. bu.</i> )	August	137	6.9	-4	25
Soybeans ( <i>mil. bu.</i> )	August	27	-8.4	-29	-49
Wheat ( <i>mil. bu.</i> )	July	89	27.6	-7	-20
<b>Farm machinery sales</b> ( <i>units</i> )					
Tractors, over 40 HP	October	6,608	46.6	-7	-12
40 to 100 HP	October	4,619	33.2	12	9
100 HP or more	October	1,989	91.1	-33	-40
Combines	October	845	-29.5	-38	-23

N.A. Not applicable

\*20 selected states.

\*\*Includes net CCC loans.



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