The Agricultural Newsletter from the Federal Reserve Bank of Chicago

Number 1946 *November 2009*

AgLetter

FARMLAND VALUES AND CREDIT CONDITIONS

Summary

The agricultural sector continued to deal with challenging circumstances in the third quarter of 2009, as evidenced by agricultural land values falling 4 percent below those of the third quarter of 2008 in the Seventh Federal Reserve District. However, the value of "good" farmland increased 2 percent relative to the second quarter of 2009, according to 225 replies by agricultural bankers to the October 1 survey. Forecasts for farmland values in the fourth quarter of 2009 were down, with respondents expecting lower demand to purchase farmland by both farmers and nonfarm investors.

Agricultural credit conditions in the third quarter were weaker than a year ago. Lower demand for non-real-estate loans in the third quarter of 2009 contrasted with increased funds availability at District banks. Loan payment rates declined compared with the July through September period of 2008, whereas loan renewals and extensions rose. Farm operating and real estate loan interest rates were a bit lower. The banks' loan-to-deposit ratios averaged 75.3 percent, the lowest level in over a year.

Farmland values

District farmland values were lower than the comparable period a year ago for the third quarter in a row. The value of "good" farmland was down 4 percent from the third quarter of 2008, when the full extent of the decline in crop prices was unknown. With large year-over-year increases last year, increases for Illinois and Iowa land values from the second quarter to the third quarter were not enough to prevent year-over-year declines of 4 percent and 7 percent, respectively (see map and table below). Agricultural land values fell 1 percent in both Indiana and Wisconsin from the second quarter of 2009. The 2 percent quarterly gain for the District was the first since the previous fall. Comments from respondents indicated that pockets of strength existed around the District, primarily because of local competition. Also, ownership of additional farmland would allow operators who built up financial capital during the past few years to expand their operations and to reduce their exposure to hikes in land rental rates.

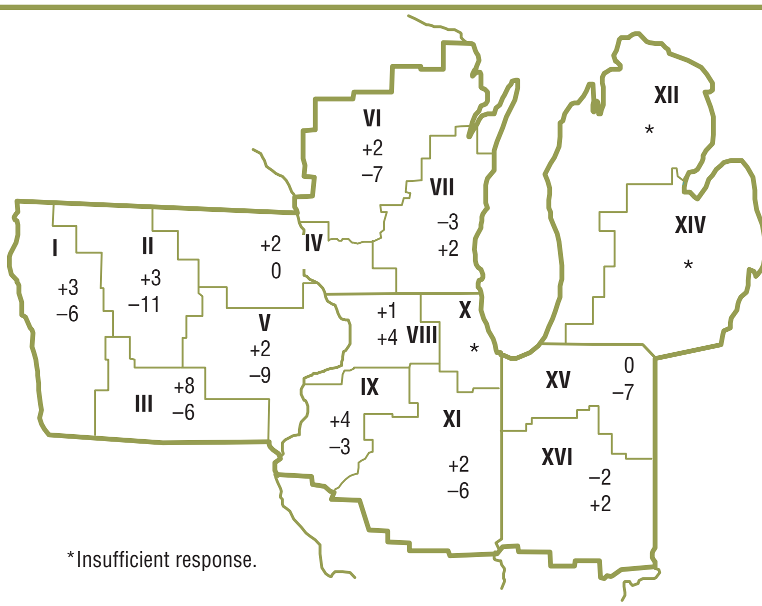
More of the responding bankers expected farmland values to slide rather than gain during the fourth quarter of 2009, though 69 percent expected stable values. With 27 percent anticipating decreases and only 4 percent anticipating increases, the respondents forecasted no turnaround in the downward trend for District land values.

In a reversal from a year ago, the demand among farmers to purchase farmland was forecasted to ebb this fall and winter. More respondents anticipated lower rather than higher interest by farmers in acquiring agricultural

Percent change in dollar value of "good" farmland

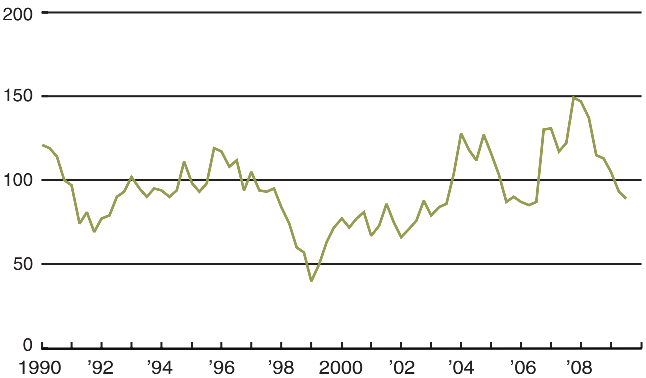
Top: July 1, 2009 to October 1, 2009
Bottom: October 1, 2008 to October 1, 2009

	July 1, 2009 to October 1, 2009	October 1, 2008 to October 1, 2009
Illinois	+2	−4
Indiana	−1	−2
Iowa	+4	−7
Michigan	+1	0
Wisconsin	−1	−3
Seventh District	+2	−4



*Insufficient response.

1. Repayment rates for non-real-estate farm loans



land (30 percent versus 14 percent). The expectation remained the same for the interest from nonfarm investors to diminish: Just 17 percent of the responding bankers predicted higher demand for farmland among nonfarm investors over the next three to six months, and 39 percent anticipated lower demand.

A key factor in the anticipation of lower demand for farmland was the diminished stream of earnings that farms would produce under current market conditions. Respondents expected lower net cash earnings for both crop and livestock operations this fall and winter compared with a year ago. For crop farms, the combination of lower corn and soybean prices and relatively less relief from high input costs led 85 percent of responding bankers to predict decreases in net cash farm earnings over the next three to six months compared with earnings the previous year. Only 4 percent foresaw increases. Moreover, respondents anticipated even more severe cuts than a year ago in net farm earnings for dairy farmers (1 percent up versus 83 percent down) and for cattle and hog farmers (2 percent up versus 84 percent down). Though the drag from feed costs was smaller, the slump in livestock product prices had not recovered enough from the recessionary hit on demand in order to boost livestock returns.

These results were reinforced by the latest U.S. Department of Agriculture forecast for 2009 net cash income of $68.2 billion, a decrease of $29.3 billion from 2008. The decrease was due to both lower crop and livestock values of production (decreases of $17.9 billion and $21.8 billion, respectively), which were partly offset by lower costs of production. Total purchased inputs were estimated at $188.5 billion in 2009, a decline of $12.9 billion from 2008. Feed, fuel, and fertilizer expenses were the categories that decreased the most. Government payments rose a bit to $12.6 billion from disbursements in 2008.

In another reversal from a year ago, 11 percent of the respondents anticipated higher volumes of farmland transfers from the previous fall and winter, whereas 37 percent anticipated lower volumes. With 52 percent expecting no change in the level of land transfers, farmland sales will likely slip below the pace of a year ago.

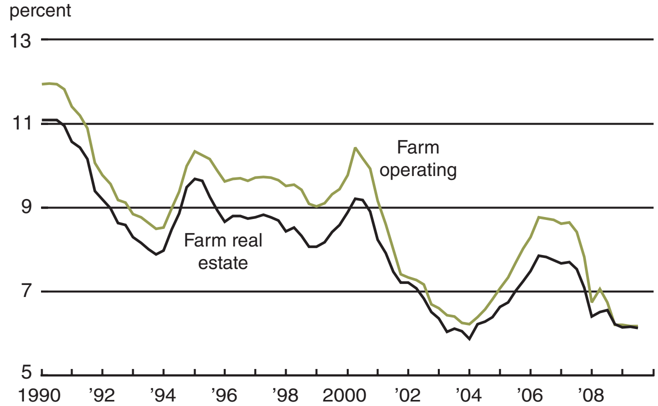
Credit conditions

District agricultural credit conditions were, on balance, about the same as in the second quarter of 2009. The demand for non-real-estate loans was a bit stronger, with 25 percent of the bankers reporting demand increased for non-real-estate loans from a year earlier and 30 percent reporting that demand decreased. The index of loan demand was 95, a shade up from the previous quarter (see table on the next page). Wisconsin showed the biggest swing from three months ago: It had the highest percentage of bankers report non-real-estate loan demand was lower and the lowest percentage that it was higher.

Repayment rates on non-real-estate farm loans were lower this past quarter than in the third quarter of 2008. With just 10 percent of the bankers reporting higher rates of loan repayment and 21 percent reporting lower rates, the index of loan repayment rates (89) was under 90 for the first time since 2006 (see chart 1). Loan renewals and extensions on non-real-estate agricultural loans rose from those in July, August, and September of 2008, with 24 percent of the bankers reporting an increase and 8 percent reporting a decrease. Wisconsin had the largest decline in loan repayment rates and the highest jump in the levels of renewals and extensions. Illinois, in contrast, had the smallest slip in loan repayment rates and no change in the level of loan renewals and extensions from a year ago.

Funds availability bounced back from the lull during the July through September 2008 period. With 27 percent of the bankers indicating there were more funds available during the third quarter of 2009 than they had a year earlier and 6 percent reporting there were fewer, the index of funds availability rose to 121. Indiana was the outlier, as the availability of funds there was the same as a year ago.

2. Quarterly District farm loan interest rates



Credit conditions at Seventh District agricultural banks

	Loan demand	Funds availability	Loan repayment rates	Average loan-to-deposit ratio	Interest rates on farm loans: Operating loans[a]	Feeder cattle[a]	Real estate[a]
	(index)[b]	*(index)*[b]	*(index)*[b]	*(percent)*	*(percent)*	*(percent)*	*(percent)*
2007							
Jan–Mar	128	113	131	78.4	8.61	8.60	7.67
Apr–June	121	115	117	77.8	8.65	8.63	7.70
July–Sept	118	118	122	78.1	8.42	8.40	7.53
Oct–Dec	110	126	149	77.2	7.82	7.89	7.09
2008							
Jan–Mar	110	129	147	75.9	6.74	6.86	6.41
Apr–June	101	124	137	75.2	7.06	6.77	6.51
July–Sept	117	103	115	78.8	6.74	6.85	6.56
Oct–Dec	115	110	113	76.4	6.21	6.33	6.23
2009							
Jan–Mar	116	112	105	76.2	6.20	6.31	6.14
Apr–June	88	118	93	77.3	6.18	6.36	6.16
July–Sept	95	121	89	75.3	6.17	6.35	6.13

[a]At end of period.

[b]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.

Note: Historical data on Seventh District agricultural credit conditions are available for download from the *AgLetter* webpage, www.chicagofed.org/economic_research_and_data/ag_letter.cfm.

At 75.3 percent, the banks' average loan-to-deposit ratios were 4.6 percent below desired levels. District banks tightened collateral requirements again this quarter, compared with the third quarter of 2008. Higher amounts of collateral were required by 24 percent of the responding banks, whereas 76 percent did not change their collateral requirements.

Agricultural interest rates moved down to the lowest levels since 2004 (see chart 2 and table above). As of October 1, the District average for interest rates on new operating loans was 6.17 percent. Interest rates on operating loans ranged from 5.22 percent in Indiana to 6.80 percent in Wisconsin. Interest rates for farm real estate loans fell to 6.13 percent, on average, for the District. Illinois had the lowest rate for farm mortgages, 6.07 percent, and Indiana had the highest rate, 6.25 percent.

Looking forward

Responding bankers did not see agricultural credit conditions improving during the fall and winter—a complete flip from the trend of a year ago. Far more bankers expected the volume of farm loan repayments to decline (49 percent) over the next three to six months compared with a year ago than rise (2 percent). Furthermore, a surge in forced sales or liquidation of farm assets among financially stressed farmers (particularly livestock farmers) was predicted by the respondents for this fall and winter. The whole District looked like Wisconsin did already a year ago, with 37 percent of the bankers forecasting more forced sales or liquidations and 2 percent fewer. The recent data for Wisconsin were even worse, with over half of the bankers expecting higher levels of forced sales and liquidations.

For the October through December period of 2009, 22 percent of the bankers anticipated higher non-real-estate loan volume than in 2008 and 24 percent anticipated lower volume. Responding bankers predicted increases in operating loans (24 percent more forecasted increases rather than decreases) and Farm Service Agency guaranteed loans (26 percent). Livestock, farm machinery, grain storage construction, and real estate loans were anticipated to have lower volumes in the last quarter of 2009 than in 2008. Interestingly, in Indiana and Iowa more bankers forecasted increases rather than decreases in grain storage construction loan volume during the fourth quarter of 2009 relative to the same quarter of 2008.

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AgLetter (ISSN 1080-8639) is published quarterly by the Economic Research Department of the Federal Reserve Bank of Chicago. It is prepared by David B. Oppedahl, business economist, and members of the Bank's Economic Research Department. 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 or the Federal Reserve System.

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)*	October	135	7.1	−10	−4
Crops *(index, 1990–92=100)*	October	154	7.7	−8	3
Corn *($ per bu.)*	October	3.54	8.9	−19	8
Hay *($ per ton)*	October	106	−0.9	−32	−17
Soybeans *($ per bu.)*	October	9.74	−0.1	−2	17
Wheat *($ per bu.)*	October	4.56	1.8	−31	−40
Livestock and products *(index, 1990–92=100)*	October	109	0.9	−14	−17
Barrow and gilts *($ per cwt.)*	October	37.70	−1.6	−23	−13
Steers and heifers *($ per cwt.)*	October	84.00	−1.8	−10	−13
Milk *($ per cwt.)*	October	13.80	7.0	−22	−36
Eggs *($ per doz.)*	October	0.80	7.4	−21	−14
Consumer prices *(index, 1982–84=100)*	October	216	0.3	0	3
Food	October	217	0.1	−1	6
Production or stocks					
Corn stocks *(mil. bu.)*	September 1	1,674	N.A.	3	28
Soybean stocks *(mil. bu.)*	September 1	138	N.A.	−33	−76
Wheat stocks *(mil. bu.)*	September 1	2,215	N.A.	19	29
Beef production *(bil. lb.)*	September	2.23	2.3	−2	7
Pork production *(bil. lb.)*	September	2.00	7.1	1	15
Milk production *(bil. lb.)**	September	13.9	−4.8	−1	1
Agricultural exports *($ mil.)*	September	7,296	−1.5	−19	−7
Corn *(mil. bu.)*	September	194	2.4	13	−10
Soybeans *(mil. bu.)*	September	43	−21.8	20	−30
Wheat *(mil. bu.)*	September	100	46.7	−16	−34
Farm machinery *(units)*					
Tractors, over 40 HP	October	6,399	1.2	−35	−38
40 to 100 HP	October	3,597	−15.4	−41	−49
100 HP or more	October	2,802	35.3	−26	−15
Combines	October	910	−32.9	−7	35

N.A. Not applicable.
*23 selected states.
Sources: Author's calculations based on data from the U.S. Department of Agriculture, U.S. Bureau of Labor Statistics, and the Association of Equipment Manufacturers.