The Agricultural Newsletter from the Federal Reserve Bank of Chicago

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AgLetter

FARMLAND VALUES AND CREDIT CONDITIONS

Summary

Agricultural land values for the second quarter of 2010 rose 6 percent from the level of a year ago in the Seventh Federal Reserve District. The value of "good" farmland was unchanged in the second quarter compared with the first quarter of 2010, according to a survey of 198 agricultural bankers covering the period from April 1, 2010, through June 30, 2010. For the third quarter of 2010, 85 percent of the respondents anticipated stable farmland values, and the rest were evenly divided between higher and lower values.

Agricultural credit conditions were somewhat similar to those of the second quarter a year ago, while showing some improvement from the prior quarter. Non-real-estate loan demand was about on par with the levels experienced a year earlier. The portion of agricultural loans perceived by respondents as having "major" or "severe" repayment problems was less than 4 percent again in 2010. Also, the directions of the loan repayment rate and the flow of loan renewals and extensions were unchanged. Funds availability increased at about the same proportion of District banks as in the second quarter of 2009. Interest rates on agricultural operating loans and mortgages, as of July 1, 2010, were about the same as three months earlier. There was an increase in the average loan-to-deposit ratio for the District from 73.7 percent to 74.5 percent.

CONFERENCE ANNOUNCEMENT

The Intersection of Midwest Agriculture and Rural Development

On November 9, 2010, the Federal Reserve Bank of Chicago will hold a conference to explore perspectives on the role that Midwest agriculture can play in rural development. A particular focus of the conference will be the entrepreneurial nature of agriculture and policies that can foster agricultural entrepreneurs. For more details and the forthcoming agenda, see www.chicagofed.org/webpages/events/2010/agriculture_conference.cfm.

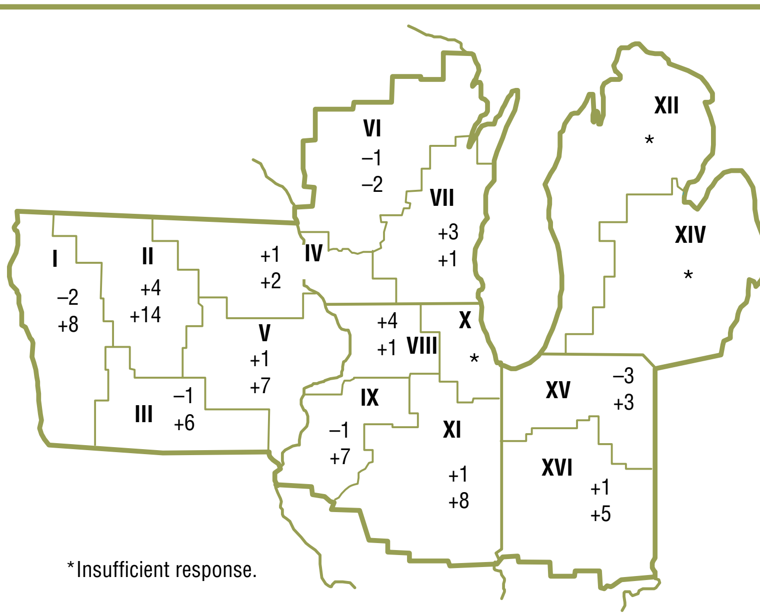
Farmland values

A year-over-year increase of 6 percent in the value of District agricultural land occurred due to the weakness in farmland values during the second quarter of 2009 (see chart 1). Wisconsin was the only state to have lower farmland values compared with those from a year ago, reflecting the struggles of the dairy industry. Agricultural land values in Illinois, Indiana, and Iowa were up 5 percent, 4 percent, and 8 percent, respectively. "Good" farmland in

Percent change in dollar value of "good" farmland

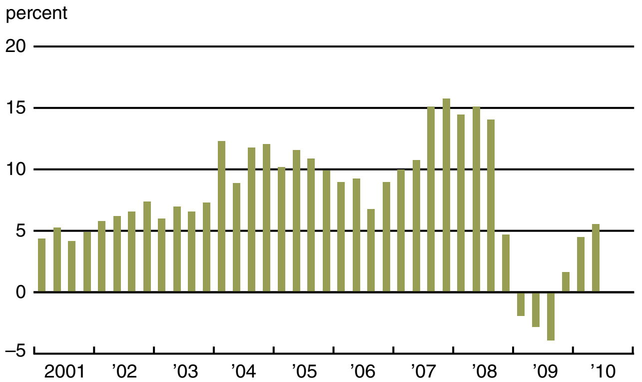
Top: April 1, 2010 to July 1, 2010
Bottom: July 1, 2009 to July 1, 2010

	April 1, 2010 to July 1, 2010	July 1, 2009 to July 1, 2010
Illinois	+1	+5
Indiana	0	+4
Iowa	0	+8
Michigan	*	*
Wisconsin	+2	–1
Seventh District	0	+6



*Insufficient response.

1. Year-over-year changes in District farmland values, by quarter



the District had no change in value compared with the first quarter of 2010 (see table and map). Illinois and Wisconsin had quarterly increases, while Indiana and Iowa farmland values were unchanged for the second quarter of 2010.

Location has been a major determinant for farmland values this year, even more significant than quality at times. There have been reports of prices boosted by bidding between farmers for desired parcels of farmland. However, higher quality land has tended to gain the most in value over the longer term.

The expected stream of earnings from crop production has seemed to stabilize, providing support for farmland values. Crop revenue for 2009 in the five-state region was down for the second year in a row, in spite of strong yields. The District value of corn for grain produced in 2009 was $23.0 billion, and the value of soybeans was $12.6 billion. In 2010, corn and soybean prices seemed to stabilize, easing a drag on farmland values from last year. July corn prices were about the same as a year ago; soybean prices were 9 percent lower than the previous July, but higher than earlier in the year.

Also, the U.S. Department of Agriculture (USDA) estimates the 2010 harvest of corn for grain to rise 2 percent from 2009 for the nation and 4 percent for the five-state region. Soybean production is estimated to increase 2 percent for the U.S. and 5 percent for the region. According to these projections, the 2010 corn and soybean harvests would set new records. Total usage of corn, at 13.5 billion bushels, would leave U.S. ending stocks at 1.31 billion bushels. Total soybean usage of 3.24 billion bushels would result in ending stocks of 360 million bushels. The USDA estimates price intervals for the 2010–11 crop year of $3.50 to $4.10 per bushel for corn and $8.50 to $10.00 per bushel for soybeans. Even with record harvests, corn stocks will be the tightest in seven years, especially as the demand for food rebounds along with the global economy. Rising demand for U.S. grain should provide support for both corn and soybean prices, which in turn will enhance District farmland values. This year's higher livestock prices have provided an additional boost to farm income in the District.

The expectations of responding bankers for upward and downward movement in farmland values were equal going into the third quarter of 2010. Moreover, 85 percent of survey respondents anticipated District agricultural land values to stay the same in the third quarter as they were in the second quarter.

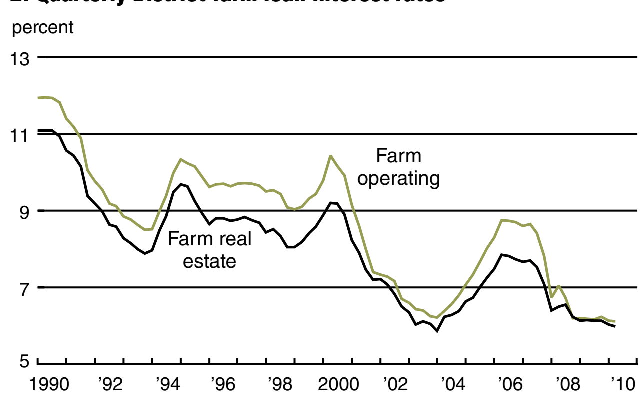
Credit conditions

There were some signs of improvement in agricultural credit conditions for the District during the second quarter of 2010, along with some similarities to the previous year. Non-real-estate agricultural loan demand was slightly below the level of the prior year, as 23 percent of the respondents saw increases and 25 percent saw decreases. The index of non-real-estate agricultural loan demand was 98. One banker noted reluctance on the part of borrowers due to doubts about the strength of the national economy. Indiana and Wisconsin saw drops in nonfarm loan demand, in contrast with the other states.

The index of funds availability was 122, as 28 percent of the banks had more funds available and 6 percent had less. Collateral requirements for loans were stiffer at 28 percent of the reporting banks, with no change in requirements at 72 percent. The District average for loan-to-deposit ratios edged up to 74.5 percent—5.1 percent below the ratio desired by the banks.

Repayment rates for non-real-estate farm loans were still lower from April through June than a year earlier, but the year-over-year difference was less than in January through March. The index of loan repayment rates increased to 85, with 8 percent of the respondents

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)*
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
Oct–Dec	102	125	92	75.4	6.23	6.40	6.13
2010							
Jan–Mar	109	127	79	73.7	6.13	6.25	6.04
Apr–June	98	122	85	74.5	6.12	6.25	5.99

[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 percentage of bankers that responded "lower" from the percentage 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/webpages/publications/agletter/index.cfm.

seeing higher rates of loan repayment and 23 percent seeing lower rates. The severe drop in loan repayment rates for Wisconsin has eased due to some recovery in dairy prices, which helped trim the number of problem loans there. The percentage of respondents' farm loan volume classified as having "major" or "severe" repayment problems was exactly the same as a year ago (3.5 percent). Renewals and extensions of non-real-estate agricultural loans in the second quarter of 2010 were higher than in the same quarter of 2009 (though not by as much as in the first quarter versus the previous year), as 22 percent of respondents reported increases and 6 percent decreases.

Interest rates on agricultural loans edged down again (see chart 2). As of July 1, the District average for interest rates on new operating loans was 6.12 percent, more than 260 basis points lower than the most recent peak four years earlier. Farm mortgage rates averaged 5.99 percent, almost 190 basis points lower than four years ago and just the second dip below 6 percent in the history of the survey.

The competitive environment for agricultural lending closely mirrored that of a year ago. For both operating loans and mortgages, at least 40 percent of the respondents perceived that the Farm Credit System had increased its share of agricultural lending in their vicinity during the first half of 2010; only 5 percent perceived lower lending by the Farm Credit System. Lending by merchants, dealers, and other input suppliers increased in almost one-third of the areas near reporting banks. There was less lending by life insurance companies overall, but their lending was up slightly in Illinois. Lending by banks grew for farm operating loans, but banks lent less for farm real estate relative to normal activity in their areas. Some banks priced their loans in order to limit their share of the agricultural lending market.

Looking forward

Agricultural loan volumes were anticipated to remain about the same for the third quarter of 2010 compared with the same quarter of 2009. For the period from July through September, 20 percent of the responding bankers forecasted farm non-real-estate loan volume to be higher than the previous year, while 18 percent forecasted lower volume. Once again, respondents expected higher volumes for operating loans and loans guaranteed by the Farm Service Agency in the third quarter of 2010.

David B. Oppedahl, *business economist*

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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)*	July	143	3.6	10	−10
Crops *(index, 1990–92=100)*	July	153	4.1	3	−16
Corn *($ per bu.)*	July	3.55	4.1	−1	−32
Hay *($ per ton)*	July	112	−1.8	−3	−32
Soybeans *($ per bu.)*	July	9.79	3.6	−9	−26
Wheat *($ per bu.)*	July	4.74	13.7	−8	−34
Livestock and products *(index, 1990–92=100)*	July	131	1.6	17	−5
Barrows & gilts *($ per cwt.)*	July	58.10	−0.7	32	4
Steers & heifers *($ per cwt.)*	July	95.10	0.3	11	−5
Milk *($ per cwt.)*	July	16.00	3.2	42	−17
Eggs *($ per doz.)*	July	0.71	14.4	0	−16
Consumer prices *(index, 1982–84=100)*	July	218	0.3	1	−1
Food	July	219	−0.1	1	2
Production or stocks					
Corn stocks *(mil. bu.)*	June 1	4,310	N.A.	1	7
Soybean stocks *(mil. bu.)*	June 1	571	N.A.	−4	−16
Wheat stocks *(mil. bu.)*	June 1	973	N.A.	48	218
Beef production *(bil. lb.)*	July	2.23	−3.9	−2	−6
Pork production *(bil. lb.)*	July	1.70	−7.1	−7	−8
Milk production *(bil. lb.)**	July	15.3	0.7	3	3
Agricultural exports *($ mil.)*	June	8,011	−3.1	5	−16
Corn *(mil. bu.)*	June	173	−11.3	16	−6
Soybeans *(mil. bu.)*	June	28	−11.9	−53	−55
Wheat *(mil. bu.)*	June	74	8.8	17	−6
Farm machinery *(units)*					
Tractors, over 40 HP	July	6,714	N.A.	−1	−21
40 to 100 HP	July	4,651	N.A.	3	−28
100 HP or more	July	2,063	N.A.	−10	2
Combines	July	1,189	N.A.	4	39

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.