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AgLetter

FARMLAND VALUES AND CREDIT CONDITIONS

Summary
Propelled by rising agricultural prices, farmland values jumped 10 percent in the third quarter of 2010 from a year ago in the Seventh Federal Reserve District. Also, the value of "good" agricultural land rose 3 percent relative to the second quarter of 2010, according to the 227 responses generated by the October 1 survey. Farmland values were expected to be up again in the fourth quarter of 2010 by almost half of the respondents.

Stronger agricultural credit conditions in the third quarter of 2010 reflected higher expected farm income relative to last year. Loan repayment rates improved in July through September of this year compared with the same period of 2009. Loan renewals and extensions were down. Once again, funds availability at District banks was higher than in the previous year. Demand for non-real-estate loans in the third quarter of 2010 receded from the level of a year earlier. Interest rates on agricultural operating and real estate loans dropped to the lowest values recorded in history of the survey. Reaching a six-year low, the average loan-to-deposit ratio was 73.2 percent.

Farmland values
Just two years after a string of double-digit increases, District farmland values increased 10 percent in the third quarter of 2010 relative to the same period last year. With the value of "good" agricultural land rising so quickly, there were reports of more farms put up for sale than in recent quarters. Farmland values in Iowa were up the most, with a year-over-year increase of 13 percent for the third quarter of 2010. Indiana and Michigan followed closely with year-over-year increases of 11 percent and 10 percent, respectively. Illinois had a slightly smaller increase of 8 percent, while Wisconsin, at 3 percent, had the slowest growth in farmland values from a year ago (see map and table below). The District's agricultural land values gained 3 percent from the second quarter to the third quarter of 2010. The quarterly gain of 6 percent in Iowa led the District; Wisconsin's 1 percent increase trailed the other states.

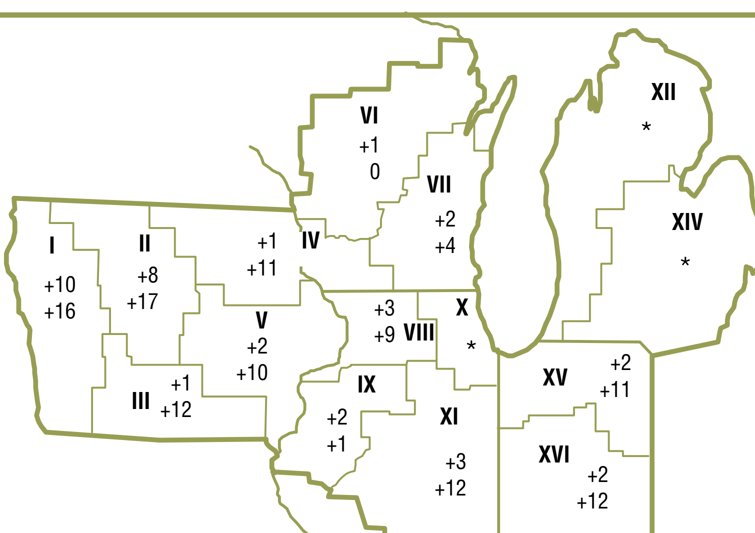
Expectations that farmland values will rise during the fourth quarter of 2010 dominated expectations that they will fall. Almost half of the survey respondents predicted upward movement in District land values (48 percent), while 49 percent anticipated stable values.

Moreover, 60 percent of responding bankers expected higher demand among farmers to purchase farmland this fall and winter. Only 6 percent of respondents anticipated lower demand for agricultural land among farmers. Similarly, the interest in farmland by nonfarm investors was expected to grow, with 37 percent of the responding bankers predicting higher demand for farmland among nonfarm

Percent change in dollar value of "good" farmland

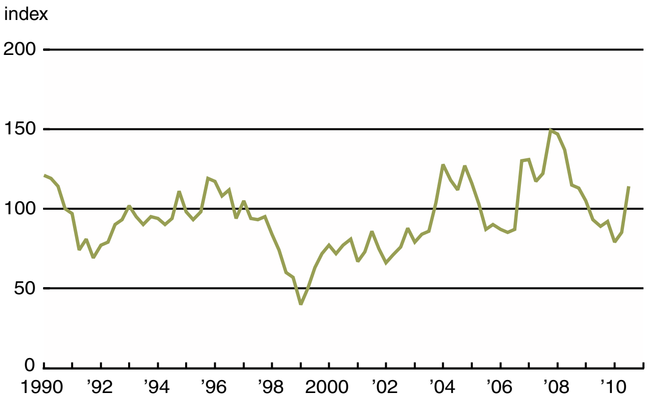
Top: July 1, 2010 to October 1, 2010
Bottom: October 1, 2009 to October 1, 2010

	July 1, 2010 to October 1, 2010	October 1, 2009 to October 1, 2010
Illinois	+3	+8
Indiana	+2	+11
Iowa	+6	+13
Michigan	+3	+10
Wisconsin	+1	+3
Seventh District	+3	+10



*Insufficient response.

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



investors and 19 percent lower demand over the next three to six months. Even so, farmland demand for recreational purposes has lagged and contributed to wider gaps in selling prices between more productive cropland and poorer quality land (which was more desirable for recreational activities before the recession).

The surge in agricultural land values and the anticipation of higher demand for farmland have been fueled in large part by projected increases in farm income. A quick District harvest yielded the third largest corn crop and the second largest soybean crop ever, although initial projections had been higher. Agricultural prices generally moved higher from July through October, highlighted by a 37 percent increase in the price of corn. Moreover, key price measures were all above their levels of a year ago in October (see last page). Three-quarters of responding bankers expected higher net cash earnings for crop operations this fall and winter compared with a year ago, whereas only 12 percent expected lower earnings. By a smaller consensus, respondents also anticipated gains in net cash earnings for dairy, cattle, and hog farmers over the fall and winter relative to a year ago. Supporting these predictions, the most recent U.S. Department of Agriculture forecast for 2010 net cash farm income was $85.3 billion—an increase of $16.1 billion from 2009 for the nation.

The lull in farmland values during 2009 seemed to slow the flow of properties hitting the market, so survey participants anticipated lower levels of farmland sales a year ago. In contrast with last year's results, 25 percent of the respondents expected a higher volume of farmland transfers compared with that from the previous fall and winter, while 16 percent expected a lower volume. Although 59 percent anticipated no change in the level of land transfers, farmland sales look ready to exceed the pace of last fall and winter.

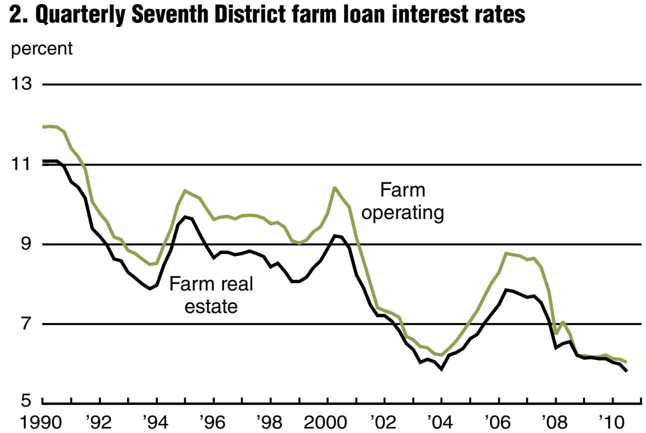
Credit conditions

Improvements in agricultural credit conditions were reported throughout the District in the third quarter of 2010; however, such improvements were somewhat muted for Wisconsin. Repayment rates on non-real-estate farm loans were higher in the third quarter of 2010 than in the same period last year. With 23 percent of the respondents reporting increased rates of loan repayment and 9 percent reporting decreased rates, the index of loan repayment rates (114) popped above 100 after spending over a year below this value (see chart 1). Wisconsin was the only state with a drop in loan repayment rates, although this decrease was much smaller than a year ago. Also, loan renewals and extensions on non-real-estate agricultural loans were down in July, August, and September of 2010 compared with the same period last year, with 8 percent of the bankers indicating an increase and 16 percent indicating a decrease. Illinois and Iowa were the only states with lower levels of loan renewals and extensions than a year ago, but the levels in the other states went up by less.

Demand for non-real-estate loans ebbed in the District during the third quarter of 2010, as 18 percent of the respondents reported demand increased for non-real-estate loans from a year earlier and 28 percent reported that demand decreased. The index of loan demand was 90, the lowest level in a year and a half (see table on the next page). The index of funds availability for the July through September period of 2010 had the highest value since 1987. With 42 percent of the responding bankers indicating there were more funds available during the third quarter of 2010 than their banks had a year earlier and 4 percent reporting there were fewer, the index of funds availability climbed to 138.

District banks tightened collateral requirements slightly less in the third quarter of 2010 than in the previous quarter. More collateral was required by 22 percent of the responding banks, while 78 percent did not change their

2. Quarterly Seventh 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
July–Sept	90	138	114	73.2	6.04	6.15	5.81

[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.

collateral requirements. The average loan-to-deposit ratio was 73.2 percent—4.5 percent below the desired level (almost the same as last year’s gap). Illinois was the only state below the District average, and Iowa was at the average.

The interest rate on farm mortgages moved below the survey’s previous record low, set in 2004 (see chart 2 and table). As of October 1, the District average for interest rates on agricultural real estate loans was 5.81 percent. Iowa had the lowest rate for farm mortgages, 5.64 percent; and Michigan had the highest rate, 6.16 percent. Interest rates for operating loans declined to a new low of 6.04 percent, on average, for the District. Operating loan rates ranged from 5.68 percent in Indiana to 6.50 percent in Wisconsin.

Looking forward

Emphasizing a turnaround, respondents expected agricultural credit conditions to improve further during the fall and winter. Forty-five percent of the responding bankers anticipated the volume of farm loan repayments to rise over the next three to six months compared with a year ago; only 5 percent thought repayment rates would go down. Forced sales or liquidations of farm assets among financially stressed farmers were expected to diminish this fall and winter, according to respondents. For the District, 13 percent of the bankers forecasted more forced sales or liquidations and 25 percent expected fewer. Wisconsin was the only state where the trend in forced sales and liquidations did not reverse from a year ago; a third of the respondents foresaw additional legal resolutions there.

Respondents predicted higher non-real-estate loan volume for the October through December period of 2010 compared with the same period of 2009; 26 percent of the responding bankers expected more volume and 16 percent expected less volume. All this strength in volumes was concentrated in Illinois and Iowa. Respondents anticipated expanded volumes for operating loans (15 percent more forecasted increases rather than decreases), farm machinery loans (25 percent), grain storage construction loans (7 percent), Farm Service Agency guaranteed loans (10 percent), and farm real estate loans (14 percent). Notably, fewer bankers in Illinois and Wisconsin forecasted increases rather than decreases in the volume of farm real estate loans during the fourth quarter of 2010 relative to the same quarter of 2009. The volume of livestock loans was predicted to contract in the final quarter of 2010 relative to the final quarter of 2009.

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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)*	October	160	8.1	19	7
Crops *(index, 1990–92=100)*	October	176	10.7	17	5
Corn *($ per bu.)*	October	4.78	17.2	32	9
Hay *($ per ton)*	October	113	1.8	8	−28
Soybeans *($ per bu.)*	October	10.70	7.2	13	8
Wheat *($ per bu.)*	October	6.08	4.3	36	−9
Livestock and products *(index, 1990–92=100)*	October	134	−0.7	22	6
Barrows & gilts *($ per cwt.)*	October	57.20	−6.7	49	17
Steers & heifers *($ per cwt.)*	October	97.90	−1.4	16	5
Milk *($ per cwt.)*	October	18.30	3.4	28	3
Eggs *($ per doz.)*	October	0.81	27.8	2	−20
Consumer prices *(index, 1982–84=100)*	September	218	0.1	1	0
Food	September	220	0.3	1	1
Production or stocks					
Corn stocks *(mil. bu.)*	September 1	1,708	N.A.	2	5
Soybean stocks *(mil. bu.)*	September 1	151	N.A.	9	−26
Wheat stocks *(mil. bu.)*	September 1	2,459	N.A.	11	32
Beef production *(bil. lb.)*	September	2.25	−1.5	1	−1
Pork production *(bil. lb.)*	September	1.88	3.7	−6	−5
Milk production *(bil. lb.)**	September	14.5	−3.3	4	4
Agricultural exports *($ mil.)*	September	8,703	2.1	20	−3
Corn *(mil. bu.)*	September	175	−8.1	−10	2
Soybeans *(mil. bu.)*	September	73	24.9	68	102
Wheat *(mil. bu.)*	September	130	25.3	30	9
Farm machinery *(units)*					
Tractors, over 40 HP	October	8,725	N.A.	37	−12
40 to 100 HP	October	4,275	N.A.	20	−30
100 HP or more	October	4,450	N.A.	59	18
Combines	October	1,112	N.A.	24	13

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.