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# Agricultural Letter

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**THE FINANCIAL OUTLOOK** for farmers will closely parallel the experience of last year. Net realized farm income will likely decline further as increases in production expenditures outstrip advances in gross receipts. Increases in farmland values are expected to slow in 1975 but will still be large by most historical standards. Borrowings by farmers will post another record increase in the current year, even though the availability of funds at some institutional lenders will be fairly tight.

**Net realized farm income** for 1975 may range from \$24 to \$27 billion, according to recent projections by the U. S. Department of Agriculture—compared to the current estimate of \$26.8 billion for 1974. Operating expenditures of crop farmers will be up sharply during the new year due to larger plantings and higher-priced inputs. Livestock producers will also experience higher prices for inputs, but the volume of purchases will be down due to altered feeding practices and lower production.

The anticipated rise in livestock prices for the current year suggests that net farm income may be more evenly shared between crop and livestock farmers in 1975. Last year most livestock producers experienced a severe financial squeeze as high feed prices boosted production costs while lower market prices cut gross receipts. Hog producers will likely experience favorable returns throughout 1975 as a result of sharply lower hog marketings. For cattle feeders further losses are likely in the early part of 1975. However, the magnitude of the losses will decline as lower-priced feeder cattle purchased during the latter half of 1974 are marketed. The financial squeeze could be further eased if prospective large crop plantings in 1975 lead to lower feed prices in the months ahead.

**Farmland values** are expected to register a substantial gain in 1975, but the rise will be somewhat less than during the boom of the past two years, and significantly less should crop prices be severely depressed. Recent projections by the U.S. Department of Agriculture suggest the possible gain might range from 13 to 17 percent in 1975. This compares to gains of 21 percent during the twelve months ending November 1, 1974. Non-real estate asset values—which according to preliminary estimates registered only marginal gains in 1974—are expected to rise 8 to 9 percent in 1975.

**Outstanding farm debt** is projected to reach the \$108 to \$111 billion range by the end of 1975, up from the estimated \$95 billion outstanding at the end of 1974 and the ending-1973 level of \$84 billion. In line with the surging land values of recent years, farm real estate debt is expected to show the largest gain, perhaps rising to a range of \$55 to \$57 billion by the end of this year. Although borrowings by crop farmers will continue to rise sharply during the current year, the reduced livestock feeding activity will probably limit the rise in non-real estate debt. Borrowings to finance capital expenditures in 1975 are expected to slow from the rapid pace of recent years.

Increased lending by Production Credit Associations (PCAs) will likely continue to pace the rise in non-real estate loans while Federal Land Banks and individual sellers will probably dominate the growth in farm mortgage lending. As of November 1, 1974, PCA outstandings were up 23 percent from a year ago while outstandings at FLBs were up 24 percent.

Two major factors have contributed to the strong lending by PCAs and FLBs. On the one hand, PCAs and FLBs are exempt from state usury restrictions which, until recent federal legislation, held returns on farm loans made by banks in several states below yields on alternative investments. Moreover, loans provided by PCAs and FLBs are funded with proceeds obtained from securities sold in national money markets. In contrast, the ability of rural banks to fund loan portfolios depends largely on local economic conditions. Since deposit growth and loan repayments were slower in many rural areas last year—reflecting crop failures and losses to livestock producers—the availability of funds to support new lending is tighter than normal for many rural banks.

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