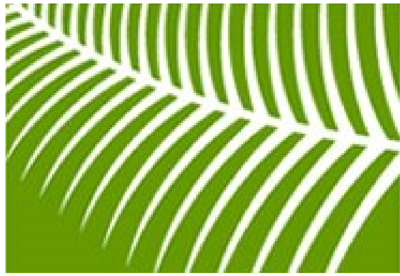

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Federal Reserve Bank of Chicago . . . Agricultural Letter

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February 6, 1976

Number 1364

FARM LOAN DEMAND remained strong in the fourth quarter of 1975. According to almost one-half of the 700 Seventh District agricultural bankers who responded to a January survey, farm loan demand was greater than a year earlier. Nevertheless, increased deposit inflows and steady loan repayment resulted in continued improvement in liquidity at many rural banks.

The demand for farm credit varied substantially among district states during the fourth quarter. Sixty-seven percent of the bankers in Iowa and 55 percent of those in Illinois reported increased loan demand compared to the same year-earlier period. On the other hand, only 28 percent of the Michigan bankers indicated stronger farm loan demand, while Indiana and Wisconsin bankers reporting increased loan demand fell within these highs and lows. Overall, the percentage of bankers indicating a year-to-year increase in demand for farm credit was at the highest level for the fourth quarter since 1967.

Loan demand at Production Credit Associations (PCAs) also was strong in late 1975. New money loaned by PCAs located in Seventh District states surpassed year-ago levels in October and November by 19 percent and 14 percent, respectively, and far surpassed national average increases of 10 percent and 6 percent, respectively. In contrast, new money loaned by FLBs in district states during both October and November declined from year-earlier levels. At the national level there was no year-to-year change in new money loaned at FLBs during October, but November figures revealed a 21 percent drop. Nevertheless, outstanding loans at the end of November at FLBs in district states and in the United States stood 22 percent and 19 percent, respectively, above the same year-earlier date; outstandings at PCAs were up 19 percent and 13 percent, respectively.

Part of the year-to-year rise in demand for farm credit during the fourth quarter may have been due to a change in the crop marketing patterns of many farmers. Crop sales typically are heavy in the fourth quarter, soon after completion of corn and soybean harvests. However, nearly four-fifths of the Seventh District bankers responding to the survey indicated that farmers were holding an unusually large proportion of the crop at year-end. Consequently, instead of selling the normal proportion of their harvest in the fall and paying off loans, a larger than usual number of farmers might have renewed their loans or obtained crop storage loans in the fourth quarter. Moreover, there was a sharp rise in feeder cattle placements in the district, up 23 percent in the fourth quarter.

Fund availability also rose in the fourth quarter, according to 41 percent of the responding bankers—a substantial improvement over the situation prevailing in the first half of the year. Increased rates of deposit inflows plus a fairly steady repayment experience contributed to the improved availability of funds.

Interest rates on farm loans remained virtually unchanged from the end of the third quarter. The average rate charged on feeder cattle loans was 8.8 percent, while about 8.9 percent was typically charged on operating loans and 9 percent on farm mortgages. In contrast to these stable returns, money market rates declined, perhaps an incentive for bankers to allocate a larger percentage of assets to loans.

Agricultural bankers anticipate continued strong demand for non-real estate loans in the first quarter of 1976. Normally, there is a seasonal pattern of increased loan demand in the first quarter, perhaps reflecting early purchases of crop inputs in preparation for the spring planting season. Demand for operating loans are expected to be strong in the heavy crop-producing states. This likely reflects the continued high prices of most crop inputs plus some possible expansion in corn acreage. While nearly one-half of the Iowa bankers suggested year-to-year increases in feeder cattle loan volume in the first quarter, there was only a limited indication of increases in other states.

Farm real estate loan volume will remain almost unchanged from year-earlier levels in the first quarter, according to the agricultural bankers. Actually, slightly more bankers forsee a decline in farm real estate loan volume than anticipate an increase—15 percent versus 13 percent. Almost three-quarters of the respondents expect no year-to-year change in the volume of mortgage loans. While this may seem somewhat counter to what might be expected, given the sharp increase in land values during the last three years, apparently a large volume of farmland transfers will be financed by sales contracts with the owners.

Loan demand associated with capital expenditures by farmers will probably increase in 1976. According to Seventh District bankers, the largest increase is anticipated in the area of farm machinery and equipment. Expenditures for buildings and facilities probably will be up slightly as will expenditures for land improvement.

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