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# Agricultural Letter

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**THE FINANCIAL OUTLOOK** for agriculture in 1977 is characterized by a somewhat moderate rise in the value of real estate assets, slightly larger outlays for machinery and motor vehicles, additional increases in the debt-to-asset ratio, and stable interest rates. Outstanding farm debt is estimated to reach $102 billion by the end of 1976, up $11 billion from last year. A rise of equal magnitude is anticipated in 1977. Farm assets are estimated to total $634 billion this year-end, up 8 percent from 1975, while the debt-to-asset ratio rose to 16 percent from 15.5 percent. Farm asset values may rise at a slightly lower rate in 1977—about 7 percent—and the debt-to-asset ratio is expected to reach 16.6 percent.

According to the U.S. Department of Agriculture, farm real estate debt outstandings are expected to increase by a record $7 billion in 1977 to about $64 billion, marking the fifth consecutive year that the amount of farm real estate debt has grown more rapidly than nonreal estate debt. The rapid growth in farm real estate debt over the past five years reflects the upward surge in farmland values that occurred during this period.

Individuals and others continue to hold the largest proportion of farm real estate debt, 35 percent, but Federal Land Banks (FLBs) are commanding an ever-increasing share of the market, 33 percent by this year-end. Life insurance companies registered an increase in the percentage of outstanding real estate debt held, rising from 12.8 percent to 13.3 percent of the total. This marks the first time in 10 years that life insurance companies have increased their share of the total. Only eight years ago life insurance companies held a greater proportion of farm mortgage outstandings than FLBs. Banks are expected to hold 12 percent of all farm mortgage debt at year-end, and the Farmers Home Administration the remaining 6.5 percent. If recent trends continue, it appears that FLBs will replace individuals and others as the largest holders of farm real estate debt by the end of next year.

Nonreal estate debt is projected to rise 9 percent or $4 billion in 1977. While the increase will push nonreal estate debt to $44.4 billion, it is, nonetheless, a smaller rise than occurred in 1976 when this category of debt rose almost 13 percent or $5 billion. Among institutional lenders banks hold the largest share of nonreal estate debt, just over one-half of all outstandings. Production Credit Associations (PCAs) are the next largest, providing almost 28 percent. The percentage of nonreal estate debt classified as debts owed to individuals and others—including that amount held by dealers and merchants—continues to decline and will account for 15.5 percent of the total by year-end. However, the rate of decline has slowed appreciably as the supply of many farm inputs has been expanded and merchants and dealers once again begin to utilize credit as a marketing tool. For example, the credit subsidiaries of six farm machinery manufacturers increased their outstanding loan volume 27 percent in 1975, and they anticipate a 22 percent rise in 1976. (From approximately 1972 to mid-1975 a large number of farm supply inputs were in such a tight supply/demand situation that they were offered for sale on a "cash only" basis in many instances.)

The FLB and PCA branches of the Farm Credit Administration strenghtened their positions as the largest suppliers of farm credit in 1976. After just edging the commercial banking industry out of the number one position in 1975, the two agencies are projected to hold about $1.8 billion more in farm debt than banks by year-end.

**Interest rates** have eased moderately in 1976 from their previous high levels, contrary to many projections that suggested higher rates. For example, quarterly surveys of Seventh District banks heavily engaged in agricultural lending show that the average rate charged on feeder cattle loans was very close to 8¾ percent throughout the year. Little change in farm loan interest rates is anticipated in the upcoming year.

**Farmland values** are estimated to have risen 9 percent in 1976, a rate considerably less than the 14 percent increase reported the two previous years. Furthermore, a large proportion of the 1976 rise in farmland values came from the cash grain sector, mostly those states in which the Seventh District is located. The USDA projects that the rate of increase in land values may wane again in 1977, totaling about 7 percent.

**Capital expenditures** by farmers for machinery will total about $9.6 billion in 1976. Expenditures for farm machinery are expected to reach $10 billion in 1977, representing a 4 percent increase and only about one-half the rise reported this year. Capital improvements to farm estate assets totaled $3.8 billion in 1976, according to the estimate published at the Outlook Conference. The current projection is that capital improvements will increase $500 million in 1977. These as well as all the other estimates are contingent on cash income from both on- and off-farm sources approximately equal to that of the current year.

Terry Fra
Agricultural Econom