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Federal Reserve Bank of Chicago - -

Agricultural Letter

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U.S. DEPARTMENT OF AGRICULTURE

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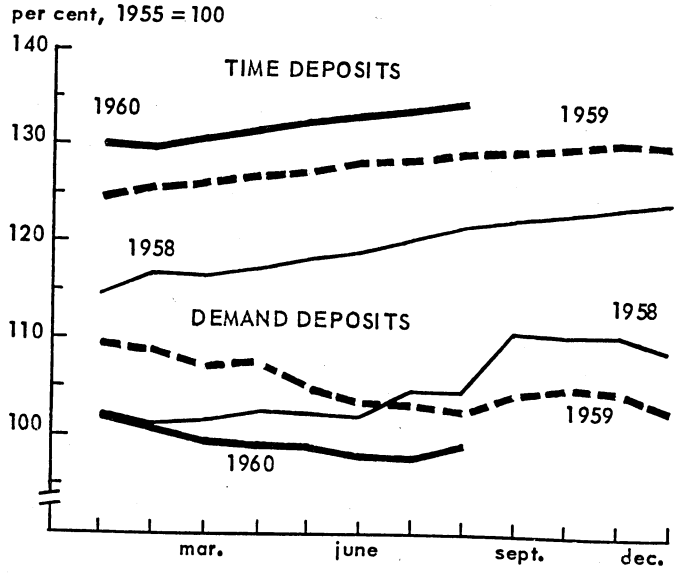
FEEDER CATTLE shipments are rising seasonally and many Corn Belt cattle feeders are investigating the availability of credit to finance purchases this fall. Last year, the combination of high feeder cattle prices and large numbers placed on feed brought very high farm loan demands in cattle feeding areas.

Agricultural loan volume at country banks in the Iowa and North and West Central Illinois areas began rising sharply with the upswing in cattle prices in the middle of 1957.

The impact of the higher loan volume in 1958 was eased by the rise in deposits, reflecting above-average returns from cattle feeding and high hog prices. However, deposits declined during 1959 and the first part of 1960 in response to lower hog prices and reduced farm income. Thus, the combination of declining deposits, high loan demand and caution concerning the possible losses from cattle feeding operations brought "tight" credit conditions to the cattle feeding areas last fall.

Conditions this fall, however, promise to be somewhat different. Demand for new loans by farmers in the major cattle feeding areas has been lower, reflecting substantially lower prices for feeder cattle and fewer numbers of cattle being shipped into the Corn Belt. While demand deposits of agricultural banks during the summer were averaging 4 to 6 per cent below last year, at the end of the summer there was evidence of a rise in response to favorable hog prices and higher farm income. In addition, time deposits continued their upward trend after a brief hesitation at the beginning of the year.

DEPOSITS AT AGRICULTURAL BANKS
(Seventh District Member Banks)



Perhaps the major similarity between the two years is the concern of farmers over possible losses in cattle feeding operations in view of probable continued declines in prices of fed cattle. Even with prices of stocker and feeder cattle nearly $5 per hundredweight below last year there is considerable hesitancy in making purchase commitments.

The impact of these forces can be measured in part by the ratio of total loans to total deposits of banks. For a group of "agricultural" banks which are members of the Federal Reserve System in the Seventh District, average loan ratios climbed almost continuously from mid-1957 to mid-1960.

For agricultural banks in Illinois and Iowa, these ratios have declined during the summer, reflecting the lower levels of new loans made and reductions in the total volume of loans outstanding from the peak at the beginning of the year. The upward trend in deposits of Illinois banks since early spring also has helped reduce the ratio in that state.

However, in Indiana, Michigan and Wisconsin, loan ratios have remained at high levels because of a continued increase in the volume of loans outstanding during the summer.

As deposits of agricultural banks declined last fall and this spring, bank reserves were drawn down. However, since midsummer, reserves of country banks in the Seventh District have climbed: first, in response to the inflow of deposits, and second, as a result of a change in regulations which permits vault cash of country banks in excess of 2½ per cent of deposits to be counted as reserves.

Summing up, the upward trend in deposits and expected lower dollar volume of demand for loans in the cattle feeding areas of Iowa and Illinois will mean somewhat lower ratios of total loans to total deposits at most country banks in those states this fall. Thus, credit conditions in the two states should generally be somewhat easier this fall.

Agricultural banks in Indiana have the second lowest loan-deposit ratio in the District. Only in Michigan do agricultural banks have a loan ratio appreciably higher than the average of all banks.

Research Department

FARM BUSINESS CONDITIONS

August 1960, with comparisons

ITEMS	1960		1959
	August	July	August
PRICES:			
Received by farmers (1947 - 49 = 100)	86	88	88
Paid by farmers (1947 - 49 = 100)	119	119	119
Parity price ratio (1910 - 14 =100)	79	80	80
Wholesale, all commodities (1947 - 49 = 100)	119	120	119
Paid by consumers (1947 - 49 = 100)	127	127	125
Wheat, No. 2 red winter, Chicago (dol. per bu.)	1.88	1.85	1.92
Corn, No. 2 yellow, Chicago (dol. per bu.)	1.20	1.21	1.28
Oats, No. 2 white, Chicago (dol. per bu.)	.69	.73	.70
Soybeans, No. 1 yellow, Chicago (dol. per bu.)	2.19	2.16	2.15
Hogs, barrows and gilts, Chicago (dol. per cwt.)	16.94	17.62	14.58
Beef steers, choice grade, Chicago (dol. per cwt.)	25.07	25.64	27.56
Milk, wholesale, U.S. (dol. per cwt.)	4.14	3.95	4.11
Butterfat, local markets, U.S. (dol. per lb.)	.59	.58	.59
Chickens, local markets, U.S. (dol. per lb.)	.16	.17	.15
Eggs, local markets, U.S. (dol. per doz.)	.34	.32	.31
Milk cows, U.S. (dol. per head)	219	222	236
Farm labor, U.S. (dol. per week without board)	--	47.50	46.75[a]
Factory labor, U.S. (dol. earned per week)	90.12	91.14	88.70
PRODUCTION:			
Industrial, physical volume (1947 - 49 =100)	165	166	157
Farm marketings, physical volume (1947 - 49 =100)	140	128	120
INCOME PAYMENTS:			
Total personal income, U.S. (annual rate, bil. of dol.)	408	407	383
Cash farm income, U.S. [1] (annual rate, bil. of dol.)	--	36	31
EMPLOYMENT:			
Farm (millions)	6.5	6.9	6.4
Nonagricultural (millions)	61.8	61.8	60.9
FINANCIAL (District member banks):			
Demand deposits:			
Agricultural banks (1955 monthly average = 100)	99.2	97.8	102.8
Nonagricultural banks (1955 monthly average =100)	103.1	103.7	104.0
Time deposits:			
Agricultural banks (1955 monthly average = 100)	134.7	134.0	129.3
Nonagricultural banks (1955 monthly average =100)	131.9	130.7	125.6

[1] *Based on estimated monthly income.*

[a] July

Compiled from official sources by the Research Department, Federal Reserve Bank of Chicago