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CREDIT CONDITIONS AT DISTRICT AGRICULTURAL BANKS during the fourth quarter of 1982 were characterized by continuing soft demand for loans and ample availability of funds for lending. The January 1 survey of agricultural banks in the Seventh Federal Reserve District indicated that interest rates on farm loans edged lower in the fourth quarter, as did loan-to-deposit ratios. Farm loan repayment rates improved somewhat, but remained at relatively low levels.

A sharp rise in bank liquidity highlights the latest survey, as reflected in both the loan-to-deposit ratio and an index of availability of funds for lending. The loan-to-deposit ratio at the end of the fourth quarter was 55.2 percent (see table on page 2). This was down seasonally from the previous quarter, 2.9 percentage points below a year ago, and down significantly from the peak of three years ago. Among District states, average loan-to-deposit ratios ranged from 49.3 percent in Illinois to 63.4 percent in Wisconsin. The biggest declines in average loan-to-deposit ratios occurred among agricultural banks in Illinois and Michigan. Not only were loan-to-deposit ratios down from earlier periods, but almost 70 percent of the rural bankers responding to the survey viewed their ratios at the end of the fourth quarter as being lower than desired, while only about a tenth indicated that they were higher than desired.

The improvement in liquidity was also evident in the measure of the availability of funds for lending. In the fourth quarter, the index of fund availability, at 152, reached a new high and was up considerably from the year before. Almost 60 percent of the rural bankers reported that fund availability exceeded year-earlier levels compared with only 6 percent who reported it lower. This occurred despite only modest growth in deposits at rural banks, based on information compiled from weekly reports of loans and deposits at agricultural banks that are members of the Federal Reserve System. Total deposits at these banks rose 2 percent in the fourth quarter, compared with an average of 3 percent historically. Relative to the year before, total deposits at agricultural banks were up 8 percent, one of the smallest annual increases in over 10 years. In addition, the availability of funds for lending was enhanced by much lower yields on other investments—such as Fed funds and government securities—relative to yields on loans.

Liquidity also was increased by a decline in loans. At District agricultural banks that are members of the Federal Reserve System, loans outstanding declined nearly 1 percent in the fourth quarter. Historically, loans outstanding have increased in the fourth quarter by an average of nearly 3 percent. The downturn in total loans apparently reflects softer demand for all types of credit, including farm loans. In the most recent survey, the measure of farm loan demand dropped to 74, 13 percentage points below the level of the previous quarter. Over twice as many banks reported lower farm loan demand in the third quarter on a year-to-year basis than reported higher loan demand.

Interest rates charged by District agricultural banks on feeder cattle and farm operating loans averaged slightly above 14¼ percent at the end of the fourth quarter. This was about 1¼ percentage points below the average rate three months earlier and down 4¼ percentage points from the peak in the fall of 1981. Interest rates on farm real estate loans averaged 14¼ percent, down about 1¼ percentage points from three months ago and 3¼ percentage points below the peak of two years ago. Among District states, average rates did not vary significantly.

Lower rates on farm loans partially reflect the declining cost of funds at rural banks. This decline occurred despite the introduction of new, largely unregulated deposit accounts and the resulting restructuring of deposits at rural banks. For example, commercial banks can now offer money-market deposit accounts—which have a $2,500 minimum, a limited transfer or withdrawal option, and are not subject to interest rate ceilings. Though possibly raising the cost of funds in the short run, the offering of such accounts may accelerate the decline in the cost of loanable funds as market rates continue to fall. This is because many of these accounts have shorter maturities and, therefore, roll over faster than most existing accounts at rural banks. In the latest survey, 93 percent of the rural bankers indicated that they were offering the newest ceiling-free account, the

Selected measures of credit conditions at Seventh District agricultural banks

	Loan demand (index)[2]	Fund availability (index)[2]	Loan repayment rates (index)[2]	Average rate on feeder cattle loans[1] (percent)	Average loan-to-deposit ratio[1] (percent)	Banks with loan-to-deposit ratio above desired level[1] (percent of banks)
1978						
Jan-Mar	152	79	64	8.90	63.7	44
Apr-June	148	73	81	9.12	64.5	46
July-Sept	158	64	84	9.40	65.8	52
Oct-Dec	135	62	93	10.14	65.4	50
1979						
Jan-Mar	156	51	85	10.46	67.3	58
Apr-June	147	62	91	10.82	67.1	55
July-Sept	141	61	89	11.67	67.6	52
Oct-Dec	111	67	79	13.52	66.3	48
1980						
Jan-Mar	85	49	51	17.12	66.4	51
Apr-June	65	108	68	13.98	65.0	31
July-Sept	73	131	94	14.26	62.5	21
Oct-Dec	50	143	114	17.34	60.6	17
1981						
Jan-Mar	70	141	90	16.53	60.1	17
Apr-June	85	121	70	17.74	60.9	20
July-Sept	66	123	54	18.56	60.9	21
Oct-Dec	66	135	49	16.94	58.1	17
1982						
Jan-Mar	76	134	36	17.30	57.8	18
Apr-June	85	136	41	17.19	57.3	14
July-Sept	87	136	36	15.56	57.8	15
Oct-Dec	74	151	47	14.34	55.1	11

[1]At end of period.

[2]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 percent of bankers that responded "lower" from the percent that responded "higher" and adding 100.

money-market deposit account. The same percentage planned to offer the Super-NOW accounts in January. Banks offering the money-market deposit accounts indicated that, on average, about 80 percent of the funds in those accounts have been transferred from other deposit accounts in their banks. As the cost of funds becomes more responsive to market rates as a consequence of the deregulation and restructuring of accounts, loan rates at rural banks may be less sticky than they have been in the past.

Rural banks remained at a disadvantage with respect to interest rates charged on farm loans by other lenders. At the end of the fourth quarter, rates charged by production credit associations—banks' major competitor for nonreal estate loans—averaged about 13½ percent. Federal land bank rates on farm mortgages averaged 12 percent. Rates charged by the Farmers Home Administration were 11½ percent for farm operating loans and 13¼ percent for farm ownership loans. Rates charged by the CCC on regular, reserve, and storage facility loans were 9⅛ percent at the end of the year, and have since fallen to 8⅝ percent.

Farm loan repayment rates improved marginally. At 47, the measure of loan repayment rates was above levels earlier in the year. Renewals and extensions of farm loans slowed somewhat. The measure of renewals and extensions, at 160, was improved from levels in the previous three quarters of this year.

Trends in farm loan repayment rates and in renewals and extensions mirror conditions in the agricultural sector. Crop prices declined sharply in 1982, averaging a tenth below the year-earlier level. Although livestock prices were up from the year before, most producers were coming off two years of sustained losses. For the year, net farm income after inventory adjustment was estimated at $20.4 billion, down nearly a fifth from a year ago and nearly 40 percent below the near-record level of 1979.

Some of the recent improvement in farm loan repayment rates and the slowing in renewals and extensions may be tied to use of CCC price support loans by crop farmers. In the last quarter of 1982, CCC commodity loans increased by about $5 billion, indicating that despite low participation in the 1982 loan programs more crops may be going under loan than was the case a year ago. The 1983 programs also provided for advances on both deficiency and acreage diversion payments in the fourth quarter. As a result, the CCC provided cash to farmers to cover operating expenses or pay down loans with other lenders during this period.

Activity at other commercial farm lenders slowed considerably last year. Farm loans made by production credit associations in the fourth quarter were down 8 percent from the year before. This was the fifth consecutive quarterly decline, making last year an unprecedented departure from the previous 25 years of growth. As a result, loans outstanding at PCAs at the end of 1982 were down 4 percent from the year earlier and at their lowest level in two years.

Similarly, lending activity in the farm mortgage market was sharply lower last year. In the fourth quarter, new money loaned by federal land banks was less than half the year-earlier level and the smallest amount since the fourth quarter of 1976. With the significant slowdown in new lending, the year-to-year gain in the portfolio of loans held by FLBs narrowed from 21 percent in 1981 to only 8 percent last year. In addition, acquisitions of farm mortgages by life insurance companies in October and November were down a fourth from the year earlier. For the first 11 months of 1982, farm mortgages acquired by life insurance companies were half the low year-earlier level.

Lending activity at the Farmers Home Administration also was down in the fourth quarter. Only 7,700 loans were made in the fourth quarter in comparison with 10,800 a year ago. However, loans made under the Farm Ownership Loan Program in the fourth quarter were up 3 percent from the same period a year ago, while loans made under the Farm Operating Loan Program increased a fifth. Lending under the FmHA's Emergency (Disaster) Loan Program in the fourth quarter was off two-thirds from the year earlier. The net result was that loans outstanding at the FmHA at the end of 1982 were up only 3 percent from the year-earlier level. For fiscal 1983 (October-September), the FmHA farm program lending is expected to total $4.3 billion—$1.5 billion for the Farm Operating Loan Program, $775 million for the Farm Ownership Loan Program, and $2 billion for the Emergency (Disaster) Loan Program. This compares with $4.1 billion in fiscal 1982—$1.3 billion for the Farm Operating Loan Program, $660 million for the Farm Ownership Loan Program, and $2.2 billion for the Emergency (Disaster) Loan Program.

The outlook for agricultural credit conditions depends on a number of factors including interest rate trends, future commodity prices, farm income prospects, and spending patterns of farmers. Market rates of interest have been fairly stable in recent weeks. If rates continue to hold at current levels or decline further, rates on bank loans to farmers will no doubt trend lower.

The recent rise in prices of some commodities may help to alleviate some of the concern over farm income prospects for 1983. Particularly for corn, the price rise has provided farmers with some unexpected opportunities. For the year, corn prices will average higher than in 1982 if participation in the government programs is heavy or export demand strengthens. Since meat production in 1983 is expected to hold close to year-earlier levels, livestock prices may not average above year-earlier levels. Lower production expenses are likely to be recorded in 1983. Along with some break in prices of inputs, the amounts of inputs used in 1983 are expected to be down roughly in proportion to the acreage withdrawn from production under the farm programs. The first estimate of planting intentions indicated that corn plantings may be down 15 percent and soybeans down 5 percent from last year. Consequently, purchases of fertilizer, seed, chemicals, and fuel could be comparably lower. Overall it seems possible that net farm income, though likely to be low for the fourth straight year, may rise above 1982's $20.4 billion.

Borrowing to finance operating capital may not register its normal spring growth if farmers comply with the acreage reduction programs and input use is trimmed. Farmers who participate in PIK can simply avoid the expenses of planting and the risks of production on those PIK acres. Borrowings by livestock producers could strengthen in the near term if more cattle continue to move into feedlots and hog production expands.

Nonetheless, rural bankers expect demand for operating loans to pick up in the months ahead, perhaps as a result of reduced lending by other commercial farm lenders. But they expect the demand for feeder cattle loans, dairy loans, crop storage loans, farm machinery loans, and farm real estate loans to trail the year-earlier level.

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Selected agricultural economic developments

Subject	Unit	Latest period	Value	Percent change from Prior period	Percent change from Year ago
Index of prices received by farmers	1977=100	January	128	+ 0.8	– 3
Crops	1977=100	January	113	– 0.9	–10
Livestock	1977=100	January	142	+ 2.2	+ 4
Index of prices paid by farmers	1977=100	January	157	+ 0.6	+ 2
Production items	1977=100	January	150	+ 1.4	+ 2
Producer price index* *(finished goods)*	1967=100	January	284	– 0.5	+ 2
Foods	1967=100	January	258	0	+ 1
Processed foods and feeds	1967=100	January	252	+ 0.5	+ 2
Agricultural chemicals	1967=100	January	283	– 1.2	– 4
Agricultural machinery and equipment	1967=100	January	321	+ 0.5	+ 7
Consumer price index** *(all items)*	1967=100	December	292	– 0.4	+ 4
Food at home	1967=100	December	278	– 0.2	+ 2
Cash prices received by farmers					
Corn	dol. per bu.	January	2.32	+ 2.7	– 9
Soybeans	dol. per bu.	January	5.56	+ 1.8	– 9
Wheat	dol. per bu.	January	3.54	+ 0.9	6
Sorghum	dol. per cwt.	January	4.14	+ 4.3	+ 1
Oats	dol. per bu.	January	1.47	+ 2.1	–25
Steers and heifers	dol. per cwt.	January	59.20	+ 3.1	+ 2
Hogs	dol. per cwt.	January	54.90	+ 2.4	+26
Milk, all sold to plants	dol. per cwt.	January	13.90	0	0
Broilers	cents per lb.	January	25.8	+ 6.2	– 5
Eggs	cents per doz.	January	52.6	– 5.1	–17
Income *(seasonally adjusted annual rate)*					
Cash receipts from farm marketings	bil. dol.	4th Quarter	141	– 1.8	– 1
Net farm income	bil. dol.	4th Quarter	24	+35.8	– 8
Nonagricultural personal income	bil. dol.	January	2,587	+ 0.4	+ 6

*Formerly called wholesale price index.

**For all urban consumers.

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