FEDERAL RESERVE BANK OF CHICAGO

AGRICULTURAL LETTER

ISSN 0002 - 1512

March 4, 1983 · Number 1598

THE VALUE OF ASSETS IN THE FARM SECTOR fell 2 percent in 1982, the first decline since 1953. According to preliminary estimates from the USDA, the value of farm assets on January 1, 1983 was $1.07 trillion. The single most important factor behind the fall in farm asset values was a 4 percent decline in the value of farm real estate. Total farm debt was estimated to have increased 8 percent in 1982 to about $218 billion. The contrasting trends resulted in a 4 percent decrease in the equity in farm sector assets—the largest percentage decline since balance sheet estimates were first collected in 1940.

Declining farmland values in 1982 pulled the value of assets of the farm sector below the year-earlier level. Farm real estate accounts for 74 percent of the value of farm assets and amounted to an estimated $789 billion on January 1, 1983. Although farm real estate values fell in 1982 for the second consecutive year, the decline was only the third one recorded in the history of the balance sheet statistics—the other was in 1953. Prior to the recent decline in farm real estate values, phenomenal growth in farmland values had occurred, especially during the 1970s. Farm real estate values increased 55 percent and 60 percent during the 1950s and 1960s, respectively, and nearly tripled in the 1970s. The share of farm assets accounted for by farm real estate also increased. Farm real estate constituted 58 percent of the value of all farm assets at the start of the 1950s, 65 percent at the beginning of the 1960s, and 69 percent at the start of the 1970s.

Nonreal estate assets—including machinery, inventories of crops and livestock, and household furnishings—were estimated to have increased 5 percent for the year to $233 billion on January 1. This compares with average annual increases of 11 percent and 10 percent for the latest 5-year and 10-year periods, respectively. Livestock inventories were estimated to be up 9 percent due to higher livestock prices in 1982. The value of farm machinery and motor vehicles—the largest nonreal estate component—rose an estimated 4 percent, despite the slowdown in capital purchases by farmers. (Nonreal estate assets such as farm machinery are valued in terms of current replacement costs, not depreciated values). The value of crop inventories increased by only 3 percent, owing to low crop prices which partially offset larger supplies. The value of household equipment also increased 3 percent from the year earlier. Although nonreal estate assets have represented a declining share of all assets of the farm sector, they, nevertheless, have increased substantially in value, particularly in the 1970s. Nonreal estate asset values increased 12 percent in the 1950s, 45 percent in the 1960s, and nearly 80 percent in the 1970s. But as a share of the value of all assets in the farm sector, nonreal estate assets declined from 30 percent at the start of the 1950s to 22 percent at the start of this year.

The remainder of farm sector assets are categorized as financial assets. This category has a rather limited scope, including only demand and time deposits held at banks, savings bonds, and investments in cooperatives. These assets rose to an estimated $47 billion on January 1, 1983, up 6 percent from the year earlier. Increases in the value of investments in farmer cooperatives accounted for most of the rise in financial assets. The value of financial assets at the start of the 1950s represented 12 percent of the value of farm sector assets, but has generally trended lower to 7 percent at the start of the 1970s, and 4 percent most recently.

Farm debt increased $16 billion last year to an estimated $218 billion, nearly 8 percent above the year earlier. (Preliminary estimates from the USDA indicated that total farm debt was $215 billion. However, subsequent reports from various lenders resulted in some revisions to the early estimates. These revisions are incorporated in this article.) However, the increase in 1982 was down sharply from the average annual increases of 14 percent and 13 percent for the preceding 5-year and 10-year periods and was the lowest year-to-year gain since the late 1960s.

Total farm real estate debt in 1982 increased 4 percent to an estimated $110 billion. This was the smallest

year-to-year gain since 1970 and substantially below the 13 percent average increase for the previous 10 years. Federal land banks experienced the largest year-to-year increase in mortgages outstanding of all farm real estate lenders. Mortgages outstanding at FLBs on January 1, 1983 were estimated at $47.2 billion, up 8 percent from the year before. In contrast, farm real estate debt outstanding at life insurance companies declined nominally from the year-earlier level to an estimated $12.9 billion. Farm real estate debt held by "individuals and others"—the largest holders of farm mortgage debt until five years ago—increased less than 1 percent this year—to $32 billion. Consequently, FLBs gained market share relative to other lenders, since outstandings at these either increased at slower rates or declined. Outstandings at FLBs accounted for 43 percent of the farm real estate debt compared with 12 percent at life insurance companies and 29 percent held by individuals and others. The rest was held by commercial banks (8 percent) and the Farmers Home Administration (8 percent).

The growth in nonreal estate farm debt has outpaced that of farm real estate debt in recent years with the exception of 1980. On January 1, 1983, nonreal estate farm debt was estimated at $108 billion, up about 12 percent from the year before. But the increase in nonreal estate farm debt was lower than experienced, on average, in the previous 10 years. The Commodity Credit Corporation dominated the rise in nonreal estate farm debt. Because of low crop prices, a substantial amount of grain went under loan last year, so that loans outstanding with the CCC more than doubled to about $17 billion. Loans outstanding at PCAs declined 4 percent from the year earlier, the first annual decline since 1953. Nonreal estate farm debt outstanding at the Farmers Home Administration increased moderately as did nonreal estate farm debt held by individuals and others. Of the various institutional lenders, commercial banks were estimated to have the largest year-to-year increase in nonreal estate farm debt, a 10 percent rise to $36 billion. As a result, at the start of 1983, commercial banks accounted for an estimated 33 percent of nonreal estate farm debt outstanding followed by production credit associations at 19 percent and individuals at 18 percent. The rest was held by the CCC (15 percent), Farmers Home Administration (14 percent), and federal intermediate credit banks.

The increase in all farm debt and decrease in total farm assets resulted in a sharp rise in the debt-to-asset ratio. At the start of this year, the debt-to-asset ratio was an estimated 20.4 percent, up from 18.5 percent a year ago and well above the average of 16 percent over the last 10 years. Despite the higher debt-to-asset ratio, there is, nonetheless, still a substantial cushion against indebtedness.

Farmers' equity declined in 1982 to an estimated $852 billion. This was the second consecutive annual decline in farm equity but only the fourth in the 40-year history of the balance sheet statistics. Because of the drop in equity, farmers also experienced a decline in borrowing capacity in 1982. As a consequence, they were pressed to reduce input purchases, postpone capital expenditures, or take other action to enhance cash flow.

Although farm balance sheet data by sales classes are not as current as the aggregate data, some patterns relating to debt loads are evident from this information. At the start of 1982, the largest farms—those with annual sales of $100,000 or more—had a debt-to-asset ratio of 21 percent compared with less than 15 percent for small farms. Consequently, these farms are more vulnerable to declines in equity or asset values. However, according to census surveys, about half of all farms are virtually debt-free. Moreover, other surveys indicate that, despite the recent decline in land values and accompanying decline in equity, most landowners still own land that is considerably higher in value than when it was purchased. This means a large share of the assets employed in agriculture are still in strong hands.

This year farm asset values are more likely to rise above the year-earlier level. Farm income is expected to improve from 1982's level. Because of government efforts to improve crop prices, returns to land may be considerably improved and the fall-off in land values may end. However, little change in the value of nonreal estate assets is anticipated. PIK and the acreage reduction program are likely to temper the previously expected rebound in farm equipment purchases. If PIK is successful, higher prices for crops may just offset lower supplies, providing for little change in the value of crop inventories. Financial assets may increase at a rate similar to this year's increase.

Farm debt may only increase at a rate half as large as last year's 8 percent. But the year-to-year rate of increase for farm real estate debt could exceed that of nonreal estate debt. Lower interest rates, higher returns, and an end to the decline in land values could boost farm real estate debt by more than last year's 4 percent. On the other hand, lower production expenses occasioned by the 1983 farm programs, together with virtually unchanged capital expenditures, may significantly temper the rise in nonreal estate debt.

PRESSURES ON FOOD PRICES have moderated. Year-to-year gains in retail food prices have narrowed considerably since last summer and,in January, averaged only 2.5 percent. Prospects for food commodity prices at the farm level suggest that this year's average rise in retail food prices will be less than last year's 4 percent. Even the costs associated with processing and distributing food beyond the farm gate are not likely to escalate as much as previously anticipated. As a result, the rise in retail food prices this year could slow to 3 to 3.5 percent, helping pull down the rise in the overall consumer price index.

Farm level prices of raw food commodities are expected to be a major moderating influence on retail food prices. According to the USDA, the farm value of domestically produced foods this year is expected to rise less than the 2 percent recorded last year. Generally, this will be the result of adequate supplies of domestic food products. Fruit and vegetable supplies are expected to be in better balance with demand. Winter vegetable acreage is up from year-earlier levels. Higher fall potato production and increased contract vegetable acreage for processing will help to limit movements in vegetable prices. Increased production of fresh fruits—orange production is expected to be a third higher—is likely to do the same for fruit prices. But recent weather developments, such as the storms in Florida and California, could significantly affect fruit and vegetable supplies in the near term. The index of prices received by farmers for fruits in January and February averaged a tenth below the year earlier, while the index of vegetable prices was nearly a third lower. Retail prices of fruits and vegetables this year are expected to average near the year-earlier level unless later weather developments substantially affect supply patterns.

Dairy product prices—another major component of the retail food price index—are unlikely to rise more than the 1.4 percent increase of last year. Milk production has continued to expand, even though deductions from producer prices are expected to begin again in April. Milk supplies are expected to increase 2 percent this year, keeping milk prices received by farmers below the year-earlier level.

Other food items such as eggs, fish and seafood, and fats and oils are likely to help hold in check increases in retail food prices. Little change is expected in the farm value of cereal and bakery products or other prepared foods. Marketing costs tend to be the dominant factor in determining the retail prices of these items.

To the extent that there is some upward pressure on retail food prices from the farm value of foods, it will come from the livestock sector. Modest gains in beef and poultry production are expected to offset lower pork production in 1983, so that total meat supplies will hold close to year-earlier levels, at least in the first half. But, in view of the likelihood of some strengthening in consumer demand, livestock prices may average above year-earlier levels. The index of prices received by farmers for meat animals in January and February averaged 5 percent above the year earlier. Year-to-year gains in meat production may narrow in the second half, particularly if beef supplies decline. Consequently, livestock prices could exert stronger pressures on retail food prices in the second half. Nevertheless, the rise in retail meat prices is expected to hold below 1982's 4.8 percent average increase.

Although marketing costs are expected to contribute most of the upward pressure on retail food prices this year, these costs are likely to increase less than last year's average of 5 percent. Such costs, typically referred to as the "marketing bill", rose sharply in the late 1970s and early 1980s and now account for about two-thirds of retail expenditures for domestically produced foods.

Over seven-tenths of the food marketing bill consists of labor, transportation, packaging materials, and energy costs. Labor costs—the major marketing cost component—rose nearly 7 percent last year, but this year may increase at a rate of 1 or 2 percentage points below that. The minimum wage did not increase this year and cost-of-living adjustments will be smaller in line with the lower rate of inflation this year. New labor contracts are expected to provide for annual raises of 5 to 7 percent, considerably smaller than in recent years.

Energy costs will help slow down the rise in food marketing costs. Lower petroleum prices may nearly offset increases in some of the other energy sources such as coal and natural gas. Consequently, energy costs may show a modest increase, below last year's 5 percent rise. Since transportation costs and packaging costs are tied to petroleum prices, these costs may increase less than previously anticipated. Packaging costs could exhibit a weakness similar to 1982 when costs fell 2 percent.

Transportation costs rose 7 percent last year. However, this year transportation costs could rise 1 to 2 percentage points less. Moderation in labor and fuel cost increases and increased competition from deregulation are major factors. In all, marketing costs may average only 4 to 5 percent above the year-earlier level,one of the smallest increases in several years.

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Selected agricultural economic developments

Subject	Unit	Latest period	Value	Percent change from Prior period	Percent change from Year ago
Farm finance					
Total deposits at agricultural banks†	1972-73=100	February	271	+ 0.6	+11
Total loans at agricultural banks†	1972-73=100	February	275	- 0.9	+ 5
Production credit associations					
Loans outstanding					
United States	mil. dol.	January	19,498	- 3.0	- 5
Seventh District states	mil. dol.	January	3,847	- 5.7	- 8
Loans made					
United States	mil. dol.	January	3,139	- 2.8	+ 2
Seventh District states	mil. dol.	January	619	- 1.8	0
Federal land banks					
Loans outstanding					
United States	mil. dol.	January	47,273	0	+ 7
Seventh District states	mil. dol.	January	11,276	0	+ 7
New money loaned					
United States	mil. dol.	January	355	+12.4	-46
Seventh District states	mil. dol.	January	76	+12.9	-48
Interest rates					
Feeder cattle loans††	percent	4th Quarter	14.96	- 8.7	-16
Farm real estate loans††	percent	4th Quarter	14.91	- 7.7	-12
Three-month Treasury bills	percent	2/24-3/2	7.93	- 2.0	-36
Federal funds rate	percent	2/24-3/2	8.44	- 1.1	-40
Government bonds *(long-term)*	percent	2/24-3/2	10.51	- 3.8	-23
Agricultural trade					
Agricultural exports	mil. dol.	December	2,888	- 5.3	-20
Agricultural imports	mil. dol.	December	1,226	- 1.4	-11
Farm machinery sales[P]					
Farm tractors	units	January	7,362	+33.9	-28
Combines	units	January	1,804	-20.1	+31
Balers	units	January	372	+54.4	- 6

†Member banks in Seventh District having a large proportion of agricultural loans in towns of less than 15,000 population.

††Average of rates reported by District agricultural banks at beginning and end of quarter.

[P]Preliminary.

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