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CREDIT CONDITIONS AT DISTRICT AGRICULTURAL BANKS in the fourth quarter were mostly characterized by a continuation of past trends, including an ample availability of funds for farm lending, sluggishness in farm loan repayment rates, and high interest rates on farm loans. But there was also emerging evidence suggesting that farm loan demand at banks, after a prolonged period of sluggishness, is beginning to pick up. These findings represent the consensus of a recent survey of more than 500 agricultural banks in the Seventh Federal Reserve District.

Farm loan demand is apparently on the upswing following several years of weakness. The composite measure of farm loan demand for the fourth quarter reached 100, the highest level since 1979 (see table on page 2). About one-third of the bankers reported farm loan demand in the fourth quarter was greater than a year ago; an identical share noted farm loan demand was still lagging the year-earlier level. The remaining one-third of the bankers indicated that loan demand was unchanged from a year ago.

Evidence of an incipient recovery in farm loan demand at banks was even more vividly indicated by their expectations for the first quarter of this year. Over 40 percent of the bankers expected farm loan demand in the current quarter would be greater than in the same months a year ago while only 17 percent anticipated a weaker loan demand. The expected increase in loan demand was particularly apparent for operating loans. Expectations for farm machinery loan demand foreshadow only a modest rise from the first quarter of last year, while expectations for demand for loans to finance feeder cattle, crop inventories, and dairy operations point to declines from a year ago. Among the five District states, Wisconsin was the only one where the proportion of bankers expecting a decline in overall nonreal estate farm loan demand exceeded the proportion expecting a rise. This exception may stem from the uncertainty regarding the implications of the new dairy program, which will be particularly crucial in Wisconsin.

Signs of a strengthening in farm loan demand at most District agricultural banks probably reflect the prospects for a rebound in planted crop acreage and perhaps cuts in loans provided by other lenders. With the downscaling of acreage restrictions in the 1984 government farm programs, planted acreage in District states will rebound sharply this year, offsetting most of the 10 percent decline of last year. With most of the increase likely to come in corn and soybeans and other crops intended for harvest, this foreshadows an even larger pickup in farmers' purchases of inputs for the spring planting season. Moreover, the operating capital needed to purchase those inputs wil be further increased by higher prices, in part reflecting the drought- and freeze-related shortages of seeds and the seasonal price increases expected for fertilizer.

Because of cutbacks in financing provided by other lenders, agricultural banks may be called upon to finance a larger share of the increasing operating capital needed by crop farmers. In marked contrast to the past couple of years, the volume of farmer financing provided by the Commodity Credit Corporation is down sharply because of high crop prices. As of early January, for instance, only 100 million bushels of corn and 60 million bushels of soybeans from the 1983 harvest had been placed under CCC loan. By comparison, nearly 875 million bushels of corn and over 300 million bushels of soybeans from the 1982 harvest had been put under loan by early January of last year. The difference in these two crops alone represents a decline of over $3 billion in credit extended to farmers by the CCC in the latter months of 1983 as compared to the same months the year before. Similarly the amount of loans made by PCAs, in a downturn for several quarters, remained well below year-earlier levels in the fourth quarter of 1983.

Ample funds for lending to farmers were indicated by a large share of the bankers. Overall, the measure of fund availability was 153, nearly equalling the abnormally high levels that have prevailed for this measure during the past three or four quarters. Agricultural bankers in all five District states shared the view that fund availability was greater than a year ago.

Additional evidence of fund availability lies in the comparatively low loan/deposit ratios. As of the end of

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
1983						
Jan-Mar	69	158	66	13.66	53.3	6
Apr-June	85	157	78	13.49	54.0	6
July-Sept	81	156	78	13.70	54.8	8
Oct-Dec	101	153	78	13.65	53.6	8

[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.

1983, loan/deposit ratios at the banks that responded to the most recent survey averaged .536, down slightly from both a year ago and from the previous quarter. The average ratio remains sharply below the high of .676 in the summer of 1979 and well below the desired ratios which averaged .612.

Interest rates charged by agricultural banks remain relatively high. Reported rates as of the end of 1983 averaged 13.65 percent for farm operating loans and for feeder cattle loans while the average for farm real estate loans was 13.30 percent. The most recent averages are 70 to 95 basis points lower than the average rates reported a year ago but well within the narrow range of average rates reported in the three previous surveys.

Rates charged on farm loans by agricultural banks remain high with respect to rates charged by other farm lenders—such as CCC and FmHA—and also with respect to overall market rates of interest. Based on end-of-quarter comparisons, the spread between farm loan rates charged by District agricultural banks and yields on six-month Treasury bills have ranged from 400 to 600 basis points for the past six quarters. The spread has always fluctuated widely. However, during the eight years preceding the most recent experience, the spread typically ranged from 100 to 370 basis points and averaged 230 basis points. The comparatively large spread of recent quarters undoubtedly reflects the effects on banks' cost of funds (deposits) from the deregulatory changes of recent years and the desire of bankers to maintain their earnings in the face of declines in the quality of their loan portfolios. Nevertheless, banker hopes to increase loan/deposit ratios could be hampered as long as loan rates remain high relative to other lender rates.

Activity among other farm lenders, in most cases, has been weak. As noted earlier, new lending by the CCC has been sharply curtailed as high crop prices discouraged farmers from putting grain under price support loans. This, coupled with the pay-down in CCC loans that coincided with the PIK program and the release of grain from the multi-year reserve program, has pulled outstanding CCC debt down from $15.4 billion at the end of 1982 to $10.4 billion at the end of last year, according to USDA projections. Similarly, the dollar volume of loans made by PCAs in the fourth quarter of last year was off 8 percent from the year before and was the lowest for that period since 1978. The downturn marked the ninth consecutive quarter that loans made by PCAs have lagged year-earlier levels. Reflecting that decline, the number of PCA borrowers—which had been growing 1 to 3 percent annually—has declined 11 percent over the past two years. Moreover, the amount of outstanding loans held by PCAs has declined by the same percentage over the past two years, with the bulk of that decline (7 percentage points) occurring in 1983.

Gauged by outstanding loans, non-real estate farm lending by the Farmers Home Administration was also modest in 1983. Statutory ceilings applicable to most FmHA loan programs were increased only nominally last year and there were delays in getting emergency disaster loans into the hands of farmers following the 1983 drought. Preliminary year-end estimates show that the portfolio of non-real estate farm loans held by the FmHA was down nominally from the ending 1982 level.

Among farm mortgage lenders, much the same pattern prevailed in 1983. The dollar amount of new loans made by Federal Land Banks lagged year-earlier levels by 22 percent in the fourth quarter and 36 percent for all of last year. For calendar 1983, the volume of new money loaned was the lowest for FLBs since 1975. Although trends in new lending are not translated as rapidly into changes in outstandings for farm mortgage lenders as they are in the case of non-real estate loans, the prolonged downturn in FLB lending is nevertheless evident in the modest rise in their outstandings. As of the end of 1983, the portfolio of farm mortgage loans held by FLBs was up only 1.5 percent from the year before, sharply below the annual rise of 8 percent in 1982 and annual gains of over 20 percent in each of the three preceding years.

The portfolio of farm mortgage loans held by life insurance companies at the end of 1983 was down 1 percent from the year before. However, new mortgage lending by life insurance companies was on the rebound during most of 1983. During the six months ending in November, farm mortgages acquired by life insurance companies—through loan originations and purchases—exceeded the pace of the same months the year before by 133 percent. This marked the first consistent year-to-year gains for lending by life insurance companies since mid-1979.

Banks recorded the largest increase in farm loan portfolios in 1983. Preliminary results of year-end reports suggest that the portfolio of non-real estate farm loans held by banks rose about 7 percent last year. The increase, coinciding with declines for other non-real estate lenders, resulted in a significant rise in bank's share of all non-real estate farm debt held by reporting lenders.

Banks also increased their portfolio of farm real estate loans in 1983. Preliminary reports show a rise of 11 percent, considerably more than for other reporting farm mortgage lenders.

In the months ahead, overall farm loan demand will undoubtedly be somewhat stronger than was the case in 1983. Most of the increase will probably be related to the operating capital needs associated with the rebound in 1984 crop acreage, although analysts are expecting a rise of 10 to 15 percent in unit sales of farm equipment. With new lending by the CCC likely to remain low relative to recent years, more of the credit demands will go to other lenders.

Banks have ample funds to accommodate creditworthy borrowers and appear to be seeking a higher volume of lending. Among other non-real estate lenders, lending by the FmHA is certain to pick up considerably as the anticipated large volume of disaster loans begin to reach farmers. In addition, the court-ordered reopening of the FmHA's Economic Emergency Loan Program will be evident. That program will provide up to $600 million in new lending to farmers, although apparently only $50 million will be channeled to farmers in the form of direct loans. Regulations stipulate that the remaining $550 million must be allocated in the form of FmHA guarantees of loans made by other lenders.

Gary L. Benjamin

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	143	+ 2.1	+12
Crops	1977=100	January	137	0	+20
Livestock	1977=100	January	150	+ 4.9	+ 6
Index of prices paid by farmers	1977=100	January	164	+ 0.6	+ 4
Production items	1977=100	January	155	0	+ 3
Producer price index* *(finished goods)*	1967=100	January	289	+ 0.8	+ 2
Foods	1967=100	January	272	+ 3.1	+ 5
Processed foods and feeds	1967=100	January	264	+ 2.0	+ 5
Agricultural chemicals	1967=100	January	279	− 1.2	− 1
Agricultural machinery and equipment	1967=100	January	331	+ 0.3	+ 3
Consumer price index** *(all items)*	1967=100	December	304	+ 0.1	+ 4
Food at home	1967=100	December	283	+ 0.6	+ 2
Cash prices received by farmers					
Corn	dol. per bu.	January	3.15	0	+33
Soybeans	dol. per bu.	January	7.49	− 3.2	+35
Wheat	dol. per bu.	January	3.43	− 1.2	− 4
Sorghum	dol. per cwt.	January	4.92	− 0.2	+20
Oats	dol. per bu.	January	1.76	+ 1.7	+21
Steers and heifers	dol. per cwt.	January	63.20	+ 3.9	+ 7
Hogs	dol. per cwt.	January	47.30	+ 7.0	−14
Milk, all sold to plants	dol. per cwt.	January	13.70	− 0.7	− 1
Broilers	cents per lb.	January	36.9	+ 9.5	+43
Eggs	cents per doz.	January	96.1	+15.2	+83
Income *(seasonally adjusted annual rate)*					
Cash receipts from farm marketings	bil. dol.	4th Quarter	139	− 4.3	− 5
Net farm income	bil. dol.	4th Quarter	34	+78.7	+19
Nonagricultural personal income	bil. dol.	December	2,798	+ 0.7	+ 8

*Formerly called wholesale price index.

**For all urban consumers.

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