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FRB CHICAGO

AGRICULTURAL LETTER

FEDERAL RESERVE BANK OF CHICAGO
October, 1994 Number 1857

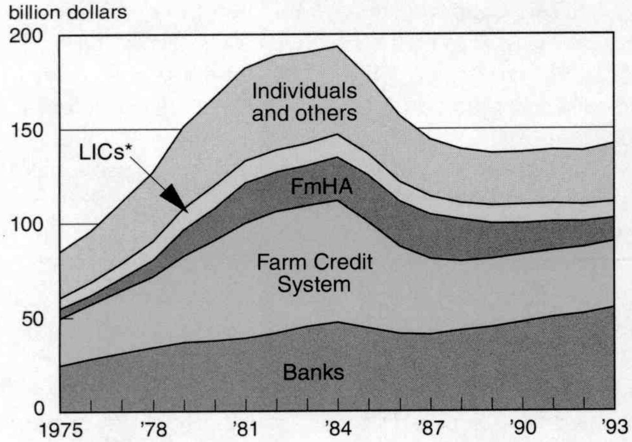
Farm debt edging upward

Recent estimates from the U.S. Department of Agriculture show farm debt rose about 2.4 percent last year. The increase, though rather modest, was the largest annual rise in over a decade. Moreover, updated reports from the major institutional lenders serving farmers suggest this year's rise may be considerably larger. The stronger gains this year probably stem from diverse sources, including higher farm operating and capital expenses, as well as lower cash earnings and carryover effects from the adverse weather of last year.

The USDA's farm debt estimates pertain to the outstanding balance of loans used to finance the farm business. Adjustments are made to subtract out the portion used to finance the housing and the household-related expenses of farm operator families. The latest estimates show farm debt approximated $141.9 billion as of the end of 1993. The total included about $76.0 billion in outstanding loans secured by farm real estate. The remainder—$65.9 billion—is classified as nonreal estate farm debt and represents a mixture of short-term farm operating loans and intermediate-term loans used to finance farm expenditures not secured by real estate. In 1993, the percentage growth in nonreal estate farm debt slightly exceeded that for farm real estate.

By lender, the largest component of the farm debt is owed to banks, 38.4 percent. The next largest share,

Farm debt by lender



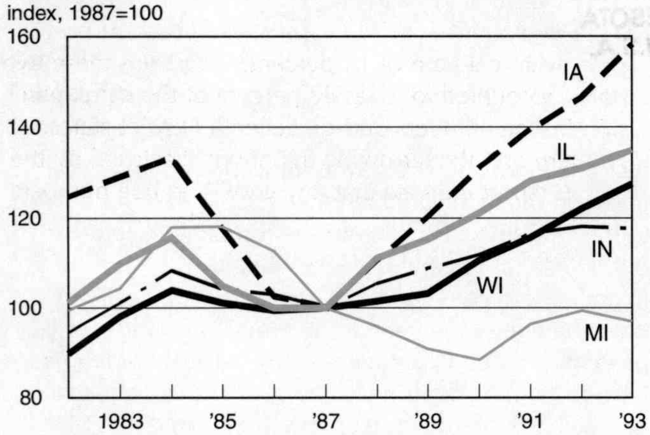
*Life insurance companies.
Source: U.S. Department of Agriculture

nearly 25 percent, is owed to the various entities that make up the Farm Credit System (FCS). The share owed to the Farmers Home Administration (FmHA) fell to 8.5 percent at the end of 1993 while the farm mortgage financing activities of life insurance companies held their share at 6.3 percent. The remaining share, 21.8 percent, is owed to a wide ranging category of lenders labeled as individuals and others. In terms of changes during 1993, the amount of farm debt owed to both banks and to individuals and others rose nearly 6 percent. For banks, last year's strong rise simply extended a streak of rapid growth that has averaged 5 percent annually over the last 6 years. Since the rapid growth for banks occurred during a period of continuing declines for all other lenders combined, the share of farm debt owed to banks has increased by 10 percentage points over the last 6 years.

The bulk of last year's rise in farm debt apparently occurred during the second half of the year and may have been tied mostly to adverse weather (drought in the Southeast, floods in the Midwest). Quarterly reports filed by banks show a much stronger-than-normal seasonal rise in their portfolio of farm loans in the third quarter of 1993, followed by a smaller-than-normal seasonal decline in the fourth quarter. Farmers hit by the adverse weather of last year may have faced unusual operating credit needs during the summer months. Moreover, the ability of those farmers to repay farm loans in the fourth quarter may have been undermined by the weather-related crop losses that they suffered.

Evidence through the first half of this year shows the abnormal seasonal patterns continued. The net paydown on farm loans at banks in the first quarter fell short of normal and the seasonal rise during the second quarter proved much stronger than normal. In addition to the weather-related factors, other developments have no doubt contributed this year. For instance, larger crop plantings this year, along with modest gains in prices paid for such things as seed, fuel, fertilizer, and chemicals added to the operating credit needs of farmers. Similarly, the demand for farm operating credit has expanded this year with larger inventories of livestock and poultry and the shrinking income returns that have trimmed equity financing options among livestock producers. In addition, the credit needs of farmers have expanded this year with the continued strong gains in

Farm debt owed to banks in District states



Source: U.S. Department of Agriculture.

farmer purchases of machinery and equipment and the construction of large hog production facilities in some areas. Finally, somewhat stronger gains in farmland values and reports of increased real estate activity suggest that long-term borrowings to finance real estate purchases have also registered gains this year.

In line with these developments, mid-year reports show the portfolio of farm loans at banks nationwide was up 9 percent from a year ago. That overall rise encompassed a gain of nearly 11 percent for nonreal estate farm loans at banks and a rise of 6.5 percent for loans secured by farm real estate. Preliminary mid-year readings for the Farm Credit System show a year-over-year rise of over a tenth in their portfolio of loans that contains mostly nonreal estate farm loans and virtually no change among loans mostly secured by farm real estate. Mid-year reports for life insurance companies show their farm mortgage loans are about unchanged from the year-ago level.

The pattern of changes in farm loan portfolios at banks in District states has varied considerably in recent years. During the five years ending with 1993, for example, the change in farm loan portfolios among banks in the five District states ranged from a nominal rise of only 1 percent in Michigan to a surge of more than 43 percent among banks in Iowa. The five-year growth rates in farm loans at banks in the other three District states were 25 percent for Wisconsin, 22 percent for Illinois and 11.5 percent for Indiana. The overall growth for banks in the five state region was 27 percent, only 1 percentage point less than the five-year increase for banks nationwide.

The reasons for the lack of growth in farm loan portfolios among banks in Michigan, and the comparatively slow growth among Indiana banks, are not clear. However, the slow growth for those two states was not unique when compared to the performance of banks in some of the other top 25 agricultural states (ranked in terms of cash receipts from farm commodity sales). For instance, the amount of farm loans held by banks in New York actually declined 2 percent during the five years ending with 1993 while the five-year growth rates for banks in four other states (Colorado, Ohio, Pennsylvania, and Texas) fell short of that recorded for Indiana banks. And despite the slow growth in farm loans at banks in Michigan and Indiana, the available evidence indicates that the share of total farm debt owed to banks in those two states still edged higher. Among District states, the share of farm debt owed to banks ranges from a low of 24 percent in Michigan to a high of nearly 50 percent in Illinois. The bank share of farm debt for Illinois ranks the fourth highest among the top 25 agricultural states, while the bank share in Michigan ranks the lowest.

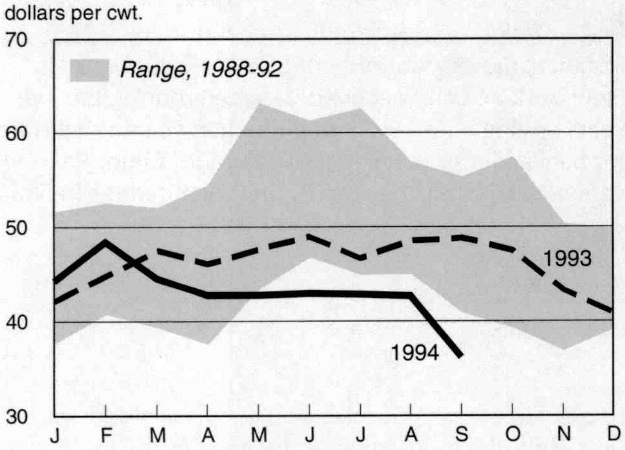
Gary L. Benjamin

Hogs numbers expanding

The USDA's quarterly *Hogs and Pigs* report indicated that the number of hogs on U.S. farms totaled 61.6 million head as of September 1. This is 4 percent more than a year earlier and 2 percent above the level of two years ago. The growth was led by sharp gains in North Carolina and Missouri. In comparison, the combined increase was considerably more restrained among the five states that comprise the Seventh Federal Reserve District. The expansion will translate into the continued growth of pork production through the fall and winter months and add to the already ample supplies of red meat. Barrow and gilt prices, which slid markedly in recent weeks, are expected to remain under pressure through the remainder of the year.

The USDA's quarterly survey indicated the number of hogs on farms was pushed higher by the largest June-August pig crop since 1979. The number of pigs born and raised totaled nearly 25.5 million head, 6 percent more than that of a year earlier. The gains stemmed from an increase in both the number of sow farrowings and the number of pigs saved per litter. The number of sows delivering pigs from June through August was up 4 percent from the previous year, while the number of pigs saved per litter rose 2 percent. A portion of the continuing growth in pigs per litter reflects the substantial difference that exists between small hog operations and the larger enterprises that are gathering an increasing share of U.S. pork production. Hog operations with less than 100 head averaged 7.3 pigs saved per litter during June through August, while operations with over 2000 hogs averaged 8.7 pigs saved.

Hog prices



Source: U.S. Department of Agriculture.

Both the number of breeding hogs and market hogs registered year-over-year gains. Market hogs tallied 54.2 million head, a rise of 5 percent. Each of the four weight categories logged an increase. The number of smaller hogs—weighing less than 60 pounds—rose slightly more than 5 percent from a year ago. The number of hogs in the 60 to 119 pounds bracket increased 4 percent, as did those weighing from 120 to 179 pounds. The inventory of heavier hogs—180 pounds or more—climbed 5 percent from a year ago. Furthermore, the number of breeding hogs on farms rose 4 percent and represents largest September 1 count since 1988. In accordance with the increase in the number of breeding animals, farmers also reported they intend to expand sow farrowings 4 percent during the six-month period stretching from September through February when compared to the previous year.

The states within the Seventh Federal Reserve District made only a minor contribution to the current expansion. The combined June-August pig crop in Illinois, Indiana, Iowa, Michigan, and Wisconsin was up only 1 percent from a year ago. The number of sow farrowings in District states actually posted a slight decline but was counterbalanced by more pigs saved per litter. Similarly, the total number of hogs in District states posted a small gain. However, the changes in hog inventory were mixed among the individual District states. The number of hogs in Indiana rose 5 percent, fueled by a sharp increase in the summer pig crop. The Michigan herd was up 4 percent from the prior year while the number of hogs in Iowa added up to an increase of 1 percent. In contrast, the tally of hogs in Illinois and Wisconsin declined 3 percent and 7 percent, respectively, from a year earlier.

The current expansion proceeded at a much more rapid pace outside District states. Hog numbers in the rest of the U.S. were up 8 percent from a year earlier as of September 1, with North Carolina and Missouri again recording the largest gains. The North Carolina herd increased almost a third in size while Missouri posted a year-over-year gain of 14 percent. Together, these two states accounted for over 80 percent of the net expansion in hog numbers outside Seventh District states. Furthermore, the farrowing intentions disclosed by the USDA report indicate that any growth in hog numbers over the next 6 months (September-February) is destined to come from outside District states. Non-District states are expected to increase the number of sow farrowings by 8 percent from a year earlier. In comparison, farrowings in District states are projected to fall slightly. The number of sow farrowings in Indiana is anticipated to increase 6 percent, but will be more than offset by reductions in each of the other four states.

Pork production held close to the level of the previous year during the first half, then registered a year-over-year gain of 4 percent in the third quarter. The current inventory numbers and farrowing intentions suggest that these recent gains will continue through the end of the year and into 1995. The inventory of hogs weighing from 60 to 179 pounds—most of which will be marketed before the end of the year—portends a fourth-quarter increase of 3 to 4 percent. The number of hogs weighing less than 60 pounds as well as the historical relationship between the June-August pig crop and hog marketings suggest the year-over-year gains in pork production could widen in the first quarter of next year. In addition, the increase in farrowing intentions for September through February suggests that year-over-year gains in pork production will continue through mid 1995.

Barrow and gilt prices at Iowa-Southern Minnesota markets were stable for much of the spring and summer but weakened markedly in September. Prices generally remained between $41 and $44 per hundredweight from April though August, but for September averaged only $36 per hundredweight. This was the lowest average of any month since 1980 and the lowest for September since 1974. As of mid October, prices had slipped even further. In general, the setback stemmed from a seasonal rise in hog marketings as well as stiff competition from increased supplies of beef and poultry. Prices are expected to level off and perhaps post a seasonal increase near the end of the year. The USDA's current projection pegs the average fourth-quarter barrow and gilt price at $35 per hundredweight, nearly one fourth below the level recorded last year. Though recent forecasts of a record corn and soybean harvest indicate there will be ample supplies of modestly-priced feed in the coming year, the recent decline in hog prices may well lead farmers to curb their expansion plans in the months ahead.

Mike A. Singer

Selected agricultural economic indicators

	Latest period	Value	Percent change from: Prior period	Year ago	Two years ago
Prices received by farmers *(index, 1977=100)*	September	134	−2.2	−8	−4
Crops *(index, 1977=100)*	September	122	−0.8	−5	4
Corn *($ per bu.)*	September	2.09	−3.2	−5	−3
Hay *($ per ton)*	September	82.40	−0.8	5	19
Soybeans *($ per bu.)*	September	5.31	−4.8	−14	−1
Wheat *($ per bu.)*	September	3.60	10.8	16	13
Livestock and products *(index, 1977=100)*	September	146	−2.7	−9	−8
Barrows and gilts *($ per cwt.)*	September	36.40	−14.8	−25	−15
Steers and heifers *($ per cwt.)*	September	66.70	−2.3	−10	−12
Milk *($ per cwt.)*	September	12.70	1.6	−1	−6
Eggs *(¢ per doz.)*	September	60.5	1.0	9	2
Consumer prices *(index, 1982-84=100)*	September	149	0.3	3	6
Food	September	145	0.1	3	5
Production or stocks					
Corn stocks *(mil. bu.)*	September 1	850	N.A.	−60	−23
Soybean stocks *(mil. bu.)*	September 1	209	N.A.	−28	−25
Wheat stocks *(mil. bu.)*	September 1	2,053	N.A.	−3	−3
Beef production *(bil. lb.)*	August	2.22	9.3	7	12
Pork production *(bil. lb.)*	August	1.49	15.4	7	8
Milk production* *(bil. lb.)*	September	10.5	−3.5	3	2
Receipts from farm marketings *(mil. dol.)*	May	12,766	−5.7	−6	2
Crops**	May	4,739	−6.0	0	7
Livestock	May	7,292	1.9	−7	0
Government payments	May	735	−45.0	−24	1
Agricultural exports *(mil. dol.)*	July	3,148	−4.5	2	−4
Corn *(mil. bu.)*	July	93	7.6	2	−36
Soybeans *(mil. bu.)*	July	17	−36.2	−60	−60
Wheat *(mil. bu.)*	July	73	−4.1	−32	−28
Farm machinery sales *(units)*					
Tractors, over 40 HP	September	5,013	15.1	26	35
40 to 100 HP	September	3,051	−4.0	11	13
100 HP or more	September	1,962	66.8	61	96
Combines	September	777	24.3	3	−5

N.A. Not applicable
*21 selected states.
**Includes net CCC loans.

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