FEDERAL RESERVE BANK OF CHICAGO

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THE GROWTH IN FARM DEBT slowed in 1980, but trends so far this year indicate the possibility of some recovery. Recently revised estimates from the USDA show outstanding farm debt approached $175 billion at the end of 1980. That marked an increase of 10.6 percent from the year before, well below the 1975-79 average annual rise of more than 14 percent. The slowing was generally attributed to high interest rates and low farm earnings. These conditions still prevail. Nevertheless, preliminary reports for the first half of this year show nonreal estate farm borrowings are on the upswing.

Last year's slower rise in outstanding farm debt was most apparent in short- and intermediate-term borrowing. Reflecting this, outstanding nonreal estate farm debt by the end of last year, at $82.5 billion, was only 9.7 percent higher than the year before. During the preceding five years, the annual rise in nonreal estate farm debt had averaged more than 16 percent. Farm real estate debt rose 11.3 percent in 1980, only 1 percentage point below its average annual rise during the previous five years.

Among lending institutions, last year's rise in farm loan portfolios at banks was held to a 24-year low of 1.7 percent. The modest gain culminated a six-year span in which the share of outstanding farm debt held by banks declined from a peak of 30 percent to 23 percent; a low exceeded in only one other year since the late 1940s. The market share lost by banks since the mid-1970s was captured by the accelerated lending of government agencies, particularly the nonreal estate lending by the Farmers Home Administration and—for a brief period—the Small Business Administration.

A ten-year review of farm debt held by various lenders

	Amount outstanding, December 31					Market share		
				1980				
	1970	1975	1979	Amount	Change*	1970	1975	1980
	(billion dollars)				(percent)	(percent of total)		
Nonreal estate								
Banks	11.1	20.2	31.0	31.6	1.7	46	51	38
Production credit associations**	5.5	11.1	19.0	20.8	9.9	23	28	25
Farmers Home Administration***	.8	1.8	11.4	14.4	26.1	3	4	17
Commodity Credit Corporation	1.9	.4	4.5	4.4	- 3.0	8	1	5
Individuals and others	4.8	6.4	9.3	11.4	22.3	20	16	14
Total	24.1	39.8	75.2	82.5	9.7	100	100	100
Real estate								
Banks	3.8	6.3	8.6	8.7	1.4	12	12	10
Federal land banks	7.1	16.0	29.6	35.9	21.3	24	31	39
Farmers Home Administration	2.4	3.4	7.1	7.7	8.5	8	7	8
Life insurance companies	5.6	6.7	12.2	12.9	6.3	18	13	14
Individuals and others	11.4	18.7	25.1	26.7	6.2	37	37	29
Total	30.3	51.1	82.7	92.0	11.3	100	100	100
Total farm debt								
Banks	14.9	26.5	39.7	40.3	1.7	27	29	23
Farm credit system****	12.7	27.1	48.6	56.8	16.8	23	30	33
Farmers Home Administration***	3.2	5.1	18.5	22.1	19.3	6	6	13
Life insurance companies	5.6	6.7	12.2	12.9	6.3	10	7	7
Commodity Credit Corporation	1.9	.4	4.5	4.4	- 3.0	3	—	3
Individuals and others	16.2	25.1	34.5	38.1	10.5	30	28	22
Total	54.5	90.8	157.9	174.5	10.6	100	100	100

*From previous year.

**Includes a small amount of loans discounted by Federal Intermediate Credit Banks for financial institutions other than production credit associations.

***Figures for 1979 and 1980 include $2.4 billion and $2.6 billion in estimated outstandings held by the Small Business Administration.

****Figures for the farm credit system represent the total for production credit associations and federal land banks.

Developments so far this year are mixed, but a rebound in nonreal estate farm lending by reporting lenders was apparent in the first half. After narrowing considerably in the second half of last year, year-to-year gains in loans made by production credit associations have been widening in recent months. In the second quarter loans made by PCAs were up 13 percent from the year before and in July the rise was 18 percent. By the end of July, PCA loans were up 14 percent from the end of 1980 and nearly 11 percent higher than the year before. The increase since December was slightly larger than the norm of recent years.

Preliminary estimates indicate a significant rebound in first-half nonreal estate farm lending by banks and continued strong growth in government agency lending to farmers. Nonreal estate farm loans held by banks at the end of June were up 5 percent from the ending 1980 level and up nearly 7 percent from the year before. The first-half increase was particularly striking compared to the flat performance during the first six months of last year and was comparable to the first-half increases recorded in 1978 and 1979. The portfolio of nonreal estate farm loans held by the FmHA at midyear was up 33 percent from the ending 1980 level and up 35 percent from the year before. Although not out of line with the accelerated pace of recent years, the huge first-half increase for the FmHA reflected the disbursement of funds against emergency (disaster) losses in 1980 as well as substantial growth in economic emergency loans. Despite the large increase for the FmHA, the overall lending of government agencies to farmers was partially offset by a sharp second-quarter decline in the loans held by the CCC. As farmers repaid loans on grain removed from the three-year reserve program, midyear outstanding CCC loans fell 40 percent below the year before to a four-year low.

Among farm mortgage lenders, activity at FLBs was on the rebound in the first half, while mortgage lending by banks and life insurance companies remained sluggish and that at the FmHA was held well below the unusually strong pace of the past two years. New loans made by FLBs, after dipping below year-earlier levels in the latter half of 1980, were on the upswing during the first half of this year. At the end of July, outstanding loans at FLBs were up nearly 14 percent from the end of 1980 and up 20 percent from the year before. The increase since December, although less than in the same months a year ago, was large by the standards of the five years prior to 1980.

In contrast to the renewed strength in FLB lending, farm mortgages acquired by life insurance companies during the first half of this year fell 40 percent below the same period a year ago and 60 percent below the corresponding period two years ago. The extended downturn in new lending held outstanding farm mortgages at life insurance companies at midyear virtually unchanged from the ending 1980 level and only 2 percent higher than the year earlier. At banks the portfolio of farm mortgages, for the second consecutive year, declined slightly in the first half and by the end of June was less than 1 percent higher than the year before. Farm mortgages held by the FmHA rose 4 percent in the first half, considerably below the first-half increases of 16 percent and 35 percent the past two years.

Lending activity for the rest of this year will be mostly influenced by the impact of low farm earnings and high interest rates on loan demand and the willingness and ability of lenders to serve farmers during these uncertain times. Low farm earnings and high interest rates will likely continue to forestall major discretionary expenditures by most farmers. Nevertheless, low farm earnings may result in slower repayments on existing loans. Prospects for a large harvest and depressed prices may tend to heighten demand for crop storage loans if farmers anticipate storage returns will offset the extremely high carrying costs.

Banks and the various lending arms of the cooperative farm credit system have ample funds, or access to ample funds, for lending. But the availability of mortgage funds from life insurance companies will likely remain tight. Moreover, some tightening has already occurred in government agency lending to farmers and more may come. The FmHA, for instance, has tightened eligibility requirements for emergency (disaster) loans, and new lending authority for some farmer loan programs for fiscal 1982 has been lowered. Also, the FmHA's Economic Emergency Loan Program expires this month. For CCC loans, moreover, the first-year interest waiver on grain enrolled in the reserve has been eliminated, terms on loans for storage facilities have been tightened, and interest rates on CCC commodity loans will henceforth be adjusted semiannually to closer parallel the government's cost of funds. These factors may tend to discourage some use of CCC loans. The major factor regarding CCC loans, however, is the issue of direct entry of 1981 corn into the three-year grain reserve. If direct entry is permitted, as it has been for wheat, CCC outstandings may rebound this fall.

Gary L. Benjamin

U.S. AGRICULTURAL EXPORTS have slowed in recent months but for all of fiscal 1981 will likely hit another new high. The USDA now expects agricultural exports for the year ending this month to reach $44.7 billion, up from $40.5 billion in fiscal 1980. Agricultural imports are forecast to hold virtually unchanged from last year. As a result, the agricultural trade surplus will set another new high of $27 billion this year, up a fifth from last year.

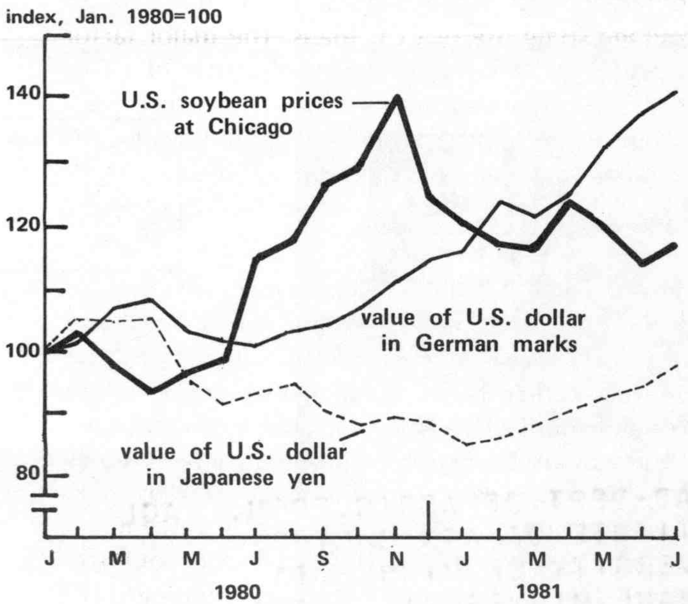
During the first three quarters of this fiscal year, the value of agricultural exports exceeded the year-earlier level by 12 percent. Higher prices contributed most of the rise as the volume of shipments increased less than 2 percent from a year ago. Exports through June were above year-earlier levels to all major areas except Europe and South Asia—which includes India, Pakistan, and Afghanistan. Exports to Latin America were up 44 percent, owing to a sharp increase in purchases by Mexico. Exports to Africa and Asia increased 30 percent and 18 percent, respectively, as less-developed countries increased their food imports. Sluggish economic growth in the European countries, however, contributed to a downturn in export sales to these countries. Exports to Western and Eastern Europe were 5 percent and 11 percent, respectively, below last year.

Although shipments of wheat and corn—which account for about three-fifths of export volume—were up from year-ago levels during the nine-month period, reduced shipments of cotton and oilseeds and related products substantially offset these gains. Wheat and corn shipments in the first three quarters of fiscal 1981 were 16 percent and 2 percent, respectively, above a year ago. However, soybeans—the major oilseed—were down a sixth for the period from last year's level. Soybeans represent a little over a tenth of the export volume.

So far this summer there has been a marked slowing in corn shipments along with a continuing sluggishness in soybean shipments. Record exportable supplies of soybeans and coarse grains in the Southern Hemisphere have been a major factor in the slowing. High interest rates and the sharply higher value of the U.S. dollar have also contributed to the slower shipments. In July of this year the value of the U.S. dollar was equivalent to 2.43 German marks and 232 Japanese yen. Exchange rates that prevailed at the beginning of fiscal 1981 equated the U.S. dollar with 1.84 German marks and 209 Japanese yen. Although U.S. commodity prices have subsequently declined, the substantial change in exchange rates in favor of the U.S. dollar has, nevertheless, left U.S. farm commodities more expensive for most foreign customers.

Lower corn and soybean shipments in the fourth quarter (July-September) of this fiscal year will cause overall export volume to trail year-ago levels. Corn shipments may be down about 30 percent in this quarter from the same quarter a year ago while soybean shipments could be off 40 percent. Despite the dismal performance of corn and soybean shipments, the USDA still expects the value of exports in the last quarter of the fiscal year to exceed the same quarter a year ago by 4 percent because of higher prices for wheat, livestock and poultry products, and fruits, nuts, and vegetables.

Despite declining U.S. soybean prices, the higher value of the dollar has led to rising prices for foreigners



SOURCE: USDA, ERS.

For all of fiscal 1981, the USDA now expects the volume of agricultural exports to be slightly lower than fiscal 1980's 163.9 million metric tons but expects the value of agricultural exports to be $44.7 billion, a tenth above last year's record level. In view of sagging export shipments in recent months, these estimates represent substantive revisions from earlier forecasts of 170 million metric tons and $48.5 billion.

Agricultural imports during the first nine months—at $13.4 billion—were 1 percent above the year before. Increases in most import categories were mostly offset by a substantial decline in coffee imports. The volume of coffee imports declined a tenth from last year and prices were one-third below a year ago. For the fourth quarter imports may not change any from last year's level of $4 billion, as price declines—in part reflecting the stronger value of the U.S. dollar—likely offset a modest increase in volume. For all of fiscal 1981, agricultural imports are forecast at $17.4 billion, very close to last year's level.

The USDA expects agricultural exports may range between $44 and $48 billion in fiscal 1982. Export tonnage will be somewhat higher in fiscal 1982, perhaps topping 170 million metric tons, but prospects that higher prices will add significantly to export value are slim. Wheat exports are expected to rise a tenth above this year's record high, while feed grain and soybean exports may recover from this year's reduced shipments.

One particular bright spot in the year ahead is the increasing likelihood that the USSR may purchase substantially larger amounts of corn and wheat. Signs of a third consecutive dismal harvest in the USSR have convinced many analysts that the USSR may import at least 40 million metric tons of grain. The U.S. has reportedly offered the Russians up to 18 million metric tons of grain to meet these needs. The Russians already have agreed to purchase from 6 to 8 million metric tons of grain under an extension of the old five-year grain agreement. Additional quantities may be purchased following consultation between the countries. Exports to the Russians in fiscal 1981 have amounted to about 9 million metric tons.

Jeffrey Miller

Selected agricultural economic developments

Subject	Unit	Latest period	Value	Percent change from	
				Prior period	Year ago
Index of prices received by farmers	1977=100	August	138	– 2.1	– 2
Crops	1977=100	August	131	– 3.7	0
Livestock	1977=100	August	145	– 0.7	– 3
Index of prices paid by farmers	1977=100	August	151	+ 0.7	+ 8
Production items	1977=100	August	149	0	+ 6
Producer price index* *(finished goods)*	1967=100	July	273	+ 0.5	+ 8
Foods	1967=100	July	257	+ 1.5	+ 6
Processed foods and feeds	1967=100	July	252	+ 1.0	+ 4
Agricultural chemicals	1967=100	July	289	0	+12
Agricultural machinery and equipment	1967=100	July	287	+ 0.5	+11
Consumer price index** *(all items)*	1967=100	July	274	+ 1.1	+11
Food at home	1967=100	July	272	+ 1.1	+ 8
Cash prices received by farmers					
Corn	dol. per bu.	August	2.82	–10.2	– 3
Soybeans	dol. per bu.	August	6.69	– 6.6	– 7
Wheat	dol. per bu.	August	3.63	+ 0.3	– 8
Sorghum	dol. per cwt.	August	4.54	– 6.2	–11
Oats	dol. per bu.	August	1.78	– 2.2	+16
Steers and heifers	dol. per cwt.	August	62.40	– 2.0	–10
Hogs	dol. per cwt.	August	49.40	+ 0.2	+ 7
Milk, all sold to plants	dol. per cwt.	August	13.50	+ 0.7	+ 5
Broilers	cents per lb.	August	29.2	– 3.9	– 9
Eggs	cents per doz.	August	59.3	+ 1.5	+ 3
Income *(seasonally adjusted annual rate)*					
Cash receipts from farm marketings	bil. dol.	2nd Quarter	146	+ 2.1	+10
Net farm income	bil. dol.	2nd Quarter	23	+18.8	+43
Nonagricultural personal income	bil. dol.	July	2,368	+ 1.5	+12

*Formerly called wholesale price index.

**For all urban consumers.

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