FEDERAL RESERVE BANK OF CHICAGO

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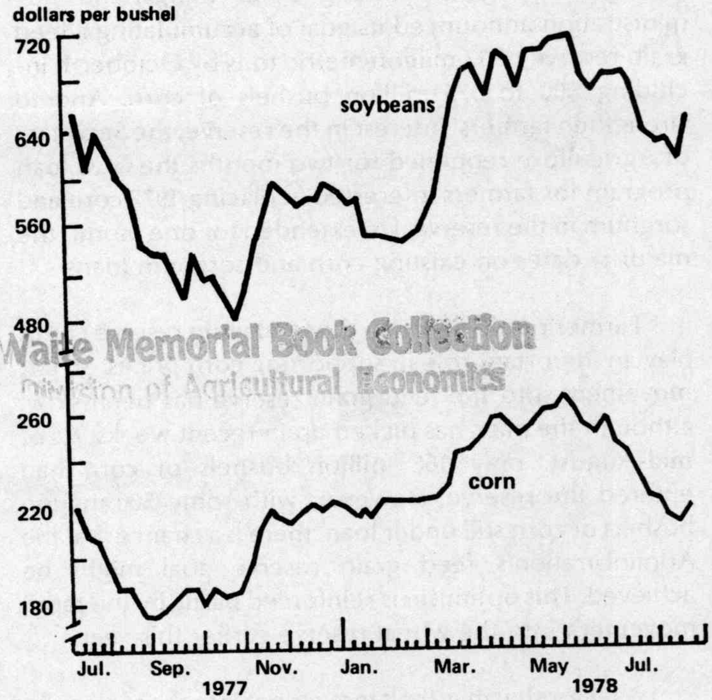
GRAIN AND SOYBEAN PRICES have trended downward recently as crop conditions point to another bumper harvest. Reports from the USDA show not only record harvests of feed grains and soybeans for the United States but also large harvests in Canada, Western Europe, and the Soviet Union. The resulting softness in grain prices has initiated several farm program announcements and again raised the question of the potential impact of the long-term grain reserve program.

Crop production prospects, here and abroad, seem sufficient to meet projected utilization over the next year and will likely result in a further buildup in carryover stocks. As of August 1, the 1978 U.S. corn harvest was estimated at 6.5 billion bushels, up 6 percent from the July estimate and 2 percent from last year's record. Total feed grain production was estimated at 202 million metric tons, nominally above the 1977 record. Soybean production was pegged at nearly 1.8 billion bushels, nearly 3 percent more than the 1977 harvest.

Prospects for bumper crops here are characteristic of several other major grain-producing areas of the world. The USSR grain harvest is projected at 220 million metric tons, although the USDA concedes that with normal weather the Soviet harvest might surpass the 1976 record of almost 224 million tons. Last year, the Soviet harvest fell to 196 million tons. This year's Canadian grain harvest is expected to equal or exceed last year's 42 million metric tons, somewhat short of the 1976 record of nearly 45 million tons. Prospects for Western Europe point to a 5 percent larger grain harvest this year and possibly a new record of 142 million tons. In Southern Hemisphere countries, evidence that the drought has been broken coupled with reports of expanded wheat plantings portend larger grain harvests this winter and spring from Australia, Argentina, and Brazil. Weather permitting, the Brazilian soybean harvest next spring is expected to register a huge increase from the shortfall of a few months ago.

The large world grain production prospects lessen the likelihood of any major shortfall in some area of the world that might greatly strengthen utilization of U.S. grains during the 1978/79 crop year. Although most

Corn and soybean prices at Chicago have trended lower since May



analysts expect increased domestic utilization of feed grains, it appears that the record-setting pace in corn exports will not continue next year. Current indications, although still very tentative, suggest carryover stocks of corn a year from this fall may rise 200 million bushels above the 1.1 billion carryover estimated for this year. USDA projections of soybean carryover next year portend only a nominal increase from the relatively tight level this year. However, this assumes further strengthening from this year's exceptional pace in both exports and domestic crush of soybeans, a view questioned by some analysts.

Farm program announcements have been fairly numerous in recent weeks. Initial details of the 1979 wheat program were disclosed last week to comply with the mandated August 15 announcement date. For the most part, next year's wheat program will closely resemble this year's. The loan rate and the target price will remain at \$2.35 and \$3.40 per bushel, respectively.

Likewise, the set-aside requirement will remain at 20 percent, implying that to be eligible for program benefits, producers will have to set aside an acre of land for every five acres planted to wheat. The voluntary acreage reduction option—which provides farmers a guarantee of receiving 100 percent of any deficiency payment that might be made—has been reduced from 20 to 15 percent for next year's wheat program. As yet, there are no provisions for a paid graze-out or haying option such as was implemented last spring for the 1978 wheat program.

Other recent announcements pertain to this year's feed grain program. Among other things, the Administration announced its goal of accumulating a feed grain reserve of 17 million metric tons by October 1, including 500 to 575 million bushels of corn. And to strengthen farmers' interest in the reserve, the Secretary of Agriculture reopened for two months the CCC loan program for farmers interested in placing 1977 corn and sorghum in the reserve. He extended for one month the maturity dates on existing corn and sorghum loans.

Farmer participation in the feed grain reserve could play an important role in supporting corn prices. So far, movement into the feed grain reserve has been slow, although the pace has picked up in recent weeks. As of mid-August, only 168 million bushels of corn had entered the reserve. However, with some 500 million bushels of corn still under loan, there is a chance that the Administration's feed grain reserve goal might be achieved. This optimism is reinforced partly by the rapid movement into the wheat reserve earlier this year.

A factor that may limit movement into the feed grain reserve, particularly with prospects of another record fall harvest, is the availability of storage. Although construction of grain storage facilities has progressed rapidly in

U.S. grain storage capacity

	On-farm				
	Shelled corn and other grains	Ear corn	Total*	Commercial off-farm	Total
	(million bushels)				
District states					
Illinois	947	130	1,154	787	1,941
Indiana	430	52	507	283	790
Iowa	1,071	293	1,492	635	2,127
Michigan	116	38	188	97	285
Wisconsin	245	111	437	130	567
Other selected states					
Minnesota	996	107	1,192	368	1,560
Nebraska	716	52	833	488	1,321
Kansas	341	4	370	831	1,201
Texas	238	6	264	838	1,102
North Dakota	681	1	691	142	833
Missouri	309	20	346	210	557
Ohio	225	51	292	245	536
United States	8,117	1,074	9,924	6,987	16,911

*On-farm total includes structures for storing high-moisture grain not listed separately.

SOURCE: U.S. Department of Agriculture.

the past couple of years, it is doubtful that storage in all areas will be sufficient to handle existing stocks plus a fall harvest of the size being projected. This problem could be further aggravated if the lingering transportation bottlenecks hinder normal utilization of terminal elevator storage facilities during the peak of the harvest glut. The overall storage problems may be less acute than last year. But as was the case last summer, some farmers may be forced to dispose of old crop supplies to ensure the availability of commercial storage for the new crop.

Gary L. Benjamin
Agricultural Economist

NET WORTH of the farm sector increased last year at the slowest rate of the past seven years. According to preliminary USDA estimates, farm equity rose to $590 billion last year—up 7 percent. The increase was approximately half the average annual rise of the preceding five-year period, but was almost double the average annual increase for the 1960s.

prices

Farm asset values totaled roughly $708 billion at the end of 1977, marking a year-to-year increase of 8 percent. Most of the rise was attributed to a 9 percent increase in the value of farm real estate last year. Real estate accounted for nearly three-fourths of total assets at the beginning of this year, compared with 69 percent at the start of the decade.

priced

Although farm real estate was valued at nearly $526 billion on January 1, last year's rise was well below the average annual increase of 15 percent for the 1972-76 period. In contrast, the value of nonreal estate assets (livestock, machinery, crops, and household furnishings) rose 7 percent to $146 billion at the end of 1977. Farmer holdings of financial assets (U.S. savings bonds, currency, bank deposits, and investments in cooperatives) were valued at $36 billion, up more than 9 percent, with the bulk of the increase attributed to a one-fifth increase in investments in cooperatives.

price

Last year's slower rise in farm real estate values coincided with a smaller number of farm transfers but a larger acreage sold. According to the USDA's *Farm Real Estate*

Market Developments, the number of farms transferred in the 12 months ending February 1, 1978 was down 4 percent. The actual acreage sold, however, was roughly 7 percent greater. Slightly less than three-fifths of the farm transfers involved buyers that bought the land to enlarge existing operations. Although down slightly from last year, farm enlargement has become the dominant type of purchase, while as recently as 1954 most transfers were for complete farm units. Individuals bought most of the farmland transferred last year, accounting for almost three-fourths of the total acreage purchased, while partnerships and private corporations purchased roughly the remaining one-fourth. As a group, partnerships and private corporations sold 2 percent more acres than they bought but the value of the land purchased exceeded the value sold. The converse was true of the relationship between sales and purchases by individuals.

A record 89 percent of farm real estate transfers of 10 or more acres in the year ended March 1 involved some degree of credit financing. However, the ratio of debt to purchase price on the credit-financed transfers declined slightly to 76 percent—down from 77 percent last year and the record 78 percent five years ago. Sellers still had a clear plurality among lender groups in providing new funds for farm purchasers. But at 38 percent, the proportion of new money loaned by sellers was down sharply from 51 percent in 1971.

Farm debt rose to an estimated $119 billion by the end of 1977, marking a record increase in net farm borrowings of $16 billion. This represented a rise of almost 16 percent for the year, compared with average annual increases of less than 12 and 9 percent for the preceding five- and ten-year periods, respectively. Of special significance was the year-to-year increase in Commodity Credit Corporation (CCC) loans secured by farmer-owned crops, which were more than three times the level of a year earlier, marking a record $4.5 billion.

All major groups of farm lenders reported higher loan outstandings in 1977. Farm real estate borrowings totaled $63 billion at year-end, up nearly 12 percent. Nonreal estate debt outstanding rose one-fifth to $55 billion. As a result, the farm debt-to-asset ratio rose to 16.8 percent, an increase of 1.1 percentage points from the year before and approximately equal the level at the start of the decade.

Net worth increases slowed in 1977

	January 1 1977	January 1 1978p	Percent change 1977-78	Average annual percent change 1972-76
	(billion dollars)			
Assets:				
Real estate	483.8	525.8	8.7	15.1
Nonreal estate	136.5	146.3	7.2	9.6
Financial	33.1	36.2	9.3	5.9
Total	653.5	708.3	8.4	13.2
Claims:				
Real estate debt	56.6	63.3	11.9	11.9
Nonreal estate debt[1]	46.1	55.5	20.3	11.4
Total	102.7	118.8	15.7	11.7
Net worth	550.8	589.5	7.0	13.5

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[1]Includes CCC loans.

Federal Land Banks (FLBs) set the pace among farm real estate lenders in calendar year 1977, enlarging upon their lead as the dominant institutional lender. The record $3 billion increase represented a 16 percent rise and boosted the proportion of total farm real estate debt owed FLBs to slightly more than one-third. In contrast, the share of total real estate outstandings held by individuals and others edged lower and on January 1 exceeded the proportion held by FLBs by less than 1 percent. The Farmers Home Administration (FmHA) reported the smallest net rise in real estate debt among lenders last year with an increase of 8 percent to $4 billion.

Nonreal estate farm debt increased relative to real estate debt for the fourth consecutive year, accounting for nearly 47 percent of total outstandings on January 1, 1978. This compared with 45 percent in 1970 and the record 55 percent in 1950. Both commercial banks and Production Credit Associations (PCAs)—the two largest sources for nonreal estate farm borrowings—increased loan outstandings by roughly one-tenth last year. However, the largest percentage increase was in CCC and FmHA loan outstandings which, combined, rose to $7.6 billion—up from $2.9 billion the year before—accounting for half the total increase in nonreal estate farm debt.

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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	July	181	− 0.5	+ 9
Time deposits	1972-73=100	July	212	+ 0.4	+ 9
Demand deposits	1972-73=100	July	129	− 3.0	+ 7
Total loans at agricultural banks†	1972-73=100	July	219	+ 1.9	+12
Production credit associations					
Loans outstanding					
United States	mil. dol.	June	14,312	+ 2.9	+ 4
Seventh District states	mil. dol.	June	2,747	+ 3.0	+ 6
Loans made					
United States	mil. dol.	June	1,788	− 6.4	+11
Seventh District states	mil. dol.	June	373	− 2.1	+11
Federal land banks					
Loans outstanding					
United States	mil. dol.	June	23,131	+ 1.4	+15
Seventh District states	mil. dol.	June	4,871	+ 1.9	+21
New money loaned					
United States	mil. dol.	June	442	− 2.5	+11
Seventh District states	mil. dol.	June	116	− 4.9	+21
Interest rates					
Feeder cattle loans††	percent	2nd Quarter	9.01	+ 1.5	+ 3
Farm real estate loans††	percent	2nd Quarter	9.19	+ 1.7	+ 3
Three-month Treasury bills	percent	9/10-9/16	6.96	+ 3.0	+25
Federal funds rate	percent	9/10-9/16	7.87	+ 0.5	+32
Government bonds *(long-term)*	percent	9/14-9/18	8.53	+ 1.4	+11
Agricultural trade					
Agricultural exports	mil. dol.	June	2,640	− 3.2	+40
Agricultural imports	mil. dol.	June	1,149	−10.0	− 7
Farm machinery sales					
Farm tractors	units	June	12,180	− 6.6	+11
Combines	units	June	2,097	+114.2	−22
Balers	units	June	5,514	+235.2	+ 8

†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.

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