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Federal Reserve Bank of Chicago - -

May 2, 1975

AGRICULTURAL CREDIT CONDITIONS among district banks continue to reflect strong loan demand, a further slowing in the rate of loan repayments, and a rise in loan renewals and extensions. On the other hand, there has been an apparent easing in the tight availability of funds and a moderate decline in interest rates. These findings represent the consensus of the nearly 750 agricultural banks that responded to an April 1 survey.

More than one-half of the bankers indicated the demand for non-real estate farm loans exceeded the year-earlier level during the first quarter. Moreover, 55 percent of the respondents expected the trend to continue into the second quarter. The continued strong farm loan demand reflects several interrelated factors. The high cost of inputs and the prospective large crop plantings are bolstering the demand for operating loans. This was reflected by the unusually high 78 percent of the bankers that indicated they expect the demand for operating loans to exceed the high, year-earlier level during the second quarter. Expectations concerning the comparative strength in demand for other types of farm loans suggest that borrowings for machinery and equipment may remain at a high level, while borrowings to finance feeder cattle and dairy operations will continue to be low. It should be noted, however, that the movement of cattle into feedlots has picked up in recent weeks.

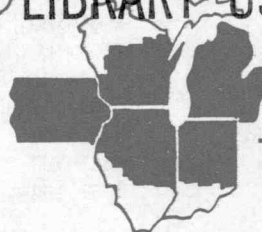
More restrictive credit policies of merchants and dealers have also contributed to the strong farm loan demand facing banks. Over three-fourths of the bankers indicated the current credit policies of fertilizer dealers were even more restrictive than a year earlier, while two-thirds of the bankers held similar views about the credit policies of feed and fuel suppliers. Less restrictive credit policies among feed, fertilizer, and fuel suppliers were noted by only about 2 percent of the bankers. Credit policies of machinery dealers were considered more restrictive than a year earlier by over two-fifths of the responding bankers and less restrictive by 6 percent.

The availability of funds for lending among rural banks has apparently eased from the tight conditions experienced late last year. Overall, 29 percent of the bankers reported the availability of funds exceeded the year-earlier level during the first quarter, while 22 percent reported year-to-year declines. Of the past four quarterly surveys this is the first in which the proportion of bankers expressing year-to-year increases in fund availability has exceeded those indicating declines in availability.

The easing in fund availability appears to be more a reflection of changing asset portfolios than deposit growth and loan repayments. Although deposits are up, loan growth at district member banks heavily

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Letter

Number 1324

engaged in agricultural lending has shown even larger increases. (See back of *Letter*.) Moreover, lendable funds generated by loan repayments appear to be comparatively low. For example, the proportion of bankers indicating the rate of loan repayments has fallen below year-earlier levels rose to 44 percent in the last quarterly survey, up from 37 percent in January and 8 percent a year-ago. Further evidence of slow repayments is suggested by the unusually high 51 percent of the bankers that indicated loan renewals and extensions were above year-earlier levels. Therefore, it would appear that the easing in fund availability may reflect primarily the asset restructuring resulting from declining rates of interest on money market instruments. Such declines decrease bankers' incentives to purchase government securities and to sell fed funds, while encouraging the sale of high-interest bearing securities to realize capital gains. These actions, as well as a probable reduction in the demand for instalment loans, have apparently augmented the funds available for agricultural lending.

Interest rates on agricultural loans made by banks declined slightly during the first quarter. Current rates charged on feeder cattle loans averaged 8.84 percent, while those charged on farm real estate averaged 8.94 percent. In both cases, the current averages are about 20 basis points below the highs reported in October 1974 but about 50 basis points above the year-earlier level.

The issue of adequate financing to maintain agricultural operations has been widely debated in recent months. Although most bankers feel that farmers will receive sufficient credit, about one-fifth of the bankers responding to the latest survey felt that inadequate financing may prevent a few farmers from maintaining 1975 planted acreage at last year's high level. The proportion of bankers holding such views, however, ranged from well over one-third of those in Michigan and Wisconsin to around one-sixth of the bankers in Illinois, Indiana, and Iowa. Major reasons cited by bankers that acknowledged the possibility of some farmers not receiving adequate financing included extensions and/or refinancing of 1974 loans, the shortage of merchant and dealer credit, and the reduced equity of farmers.

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AGRICULTURAL ECONOMIC DEVELOPMENTS

Subject	Unit	Latest period	Value	Percent change	
				Prior period	Year ago
INDEX OF PRICES					
Received by farmers	1967=100	March	165	- 2	-15
Crops	1967=100	March	184	- 4	-15
Livestock	1967=100	March	152	+ 1	-15
Paid by farmers	1967=100	March	179	- 1	+10
Production items	1967=100	March	179	- 1	+10
Family living items	1967=100	March	173	- 1	+11
Ratio of prices received to prices paid	1967=100	March	92	- 1	-23
Consumer price index (all items)	1967=100	March	158	0	+11
Food at home	1967=100	March	171	0	+ 7
CASH FARM PRICES (U. S. average)					
Corn	dol. per bu.	March	2.67	- 7	0
Soybeans	dol. per bu.	March	5.31	- 7	-11
Wheat (all)	dol. per bu.	March	3.65	- 8	-26
Sorghum grain	dol. per cwt.	March	4.03	- 4	- 5
Oats	dol. per bu.	March	1.46	- 8	+ 2
Beef steers and heifers	dol. per cwt.	March	30.50	+ 3	-29
Hogs	dol. per cwt.	March	38.30	0	+ 9
Milk, all sold to plants	dol. per cwt.	March	8.17	- 1	- 9
Milk cows	dol. per head	March	390	0	-28
Chickens, broilers, live	cents per lb.	March	9.7	+ 3	- 9
Eggs	cents per doz.	March	54.1	0	- 4
INCOME (seasonally adjusted annual rate)					
Cash receipts from farm marketings	bil. dol.	4th Qtr.	96.2	+ 2	- 2
Net farm income	bil. dol.	4th Qtr.	26.9	- 3	-37
Nonagricultural personal income	bil. dol.	February	1,160.0	0	+ 9
FARM FINANCE					
Total deposits at agricultural banks ¹	1972-73=100	March	131	+ 1	+ 9
Time deposits	1972-73=100	March	142	+ 2	+16
Demand deposits	1972-73=100	March	114	- 1	- 3
Total loans at agricultural banks ¹	1972-73=100	March	137	+ 2	+15
Production Credit Associations					
loans outstanding:					
United States	mil. dol.	January	9,605	+ 1	+23
Seventh District states	mil. dol.	January	1,622	+ 1	+22
new loans made:					
United States	mil. dol.	January	1,585	- 5	+ 6
Seventh District states	mil. dol.	January	272	-13	0
Federal Land Bank Associations					
loans outstanding:					
United States	mil. dol.	January	14,086	+ 2	+25
Seventh District states	mil. dol.	January	2,411	0	+21
new loans made:					
United States	mil. dol.	January	359	+15	+18
Seventh District states	mil. dol.	January	57	+19	+43
Interest rates					
		Week Ended			
Three-month Treasury bills	percent	4/23	5.57	+ 1	-30
Federal funds rate	percent	4/23	5.54	+ 2	-49
Government bonds (long-term)	percent	4/23	8.40	+ 1	+ 6
AGRICULTURAL TRADE					
Agricultural exports	mil. dol.	January	2,478	+16	+34
Agricultural imports	mil. dol.	January	828	-14	+ 2
FARM MACHINERY SALES					
Farm tractors	units	February	8,896	- 9	-27
Combines	units	February	1,035	-19	+37
Balers	units	February	551	-19	-24

¹ Member banks in Seventh District having a large proportion of agricultural loans in towns of less than 15,000 population.