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AGRICULTURAL CREDIT CONDITIONS eased during the third quarter despite continued strength in the demand for loans. Forty-six percent of over 700 agricultural bankers responding to an early October survey reported a year-to-year increase in the demand for loans during the third quarter. In the same survey 41 percent of the bankers noted a year-to-year increase in fund availability, up from 14 percent of the bankers holding such views a year ago—and the highest proportion since April 1, 1974. The improved liquidity position stems from a pickup in the rate of loan repayments and a simultaneous decline in loan renewals or extensions.

Banker's view of credit conditions

Year-to-year increases in:	1974				1975		
	I	II	III	IV	I	II	III
	(percent of banks reporting)						
Loan demand	47	56	46	47	52	55	46
Fund availability	44	21	14	28	29	35	41
Loan repayments	43	14	13	17	8	10	21
Renewals and extensions	13	30	32	41	51	33	19

The loan-to-deposit ratios of reporting agricultural banks averaged slightly over 57 percent, up slightly from July 1 but somewhat below the year-earlier figure. Furthermore, nearly 42 percent of the bankers indicated that their loan-to-deposit ratios were below the desired level, double the proportion of bankers who felt their actual loan-to-deposit ratios exceeded their desired ratios.

A sharp turnaround in livestock prices plus renewed strength in crop prices prompted a rise in net farm income during the third quarter, probably the major factor behind the improved position of many agricultural banks. Net farm income jumped to a seasonally adjusted annual rate of over \$28 billion in the third quarter, up about one-third from the level recorded in the first two quarters. This enabled many farmers to bring loan payments up to date and enhance their deposit balances.

Seventh District bankers also indicated that agricultural loan portfolios have improved since earlier this year, probably a reflection of the increase in net farm income. One-half of the respondents indicated the quality of their agricultural loan portfolios had improved, while less than 3 percent reported a deterioration. The most significant improvement was indicated in Illinois where two-thirds of the banks reported improved agricultural loan portfolios; the remainder suggested no change since early in the year. In Michigan, the only state where bankers indicated any significant decline in the quality of agricultural

loan portfolios, only 9 percent of the bankers reported a deterioration compared to the 28 percent that reported an increase in the quality of loan portfolios. For the first time in over a year more banks reported an increase in loan repayments than reported a decrease. Banks reporting increases in extensions or renewals also were at the lowest level in a year.

Banks extending farm mortgage loans in 1975 reported an increase in the proportion of such funds utilized to finance farmland transfers and to refinance operating debt. Nearly one-half of the banks reporting farm mortgage activity indicated that a higher proportion of mortgage funds was being used for farmland transfers, while slightly over 30 percent indicated a decrease in the proportion of mortgage funds used to buy farmland. Two-fifths of the banks also indicated that a greater-than-normal proportion of their farm mortgage funds was being used to refinance operating debt with land equity. This was most apparent in Iowa where one-half of the banks reported this type of activity. The Iowa situation is probably a reflection of the losses cattle feeders sustained during most of 1974 and the first four or five months of 1975. During this period operating losses forced many feeders to convert short-term operating debt to longer-term mortgages.

Interest rates charged by agricultural banks rose slightly during the third quarter, thus halting the downtrend of the past nine months. Banks responding to the survey charged an average of 8.81 percent on feeder cattle loans, up 5 basis points from midyear. The average rate charged on longer-term farm real estate loans rose to 8.96 percent, up 7 basis points.

Seventh District bankers generally anticipate a slight easing in the demand for credit in the fourth quarter. The two notable exceptions are in the area of feeder cattle and farm machinery loans. Bankers look for a continuation in the trend towards more feeder cattle placements. Likewise, almost one-half the bankers responding to the survey also anticipate increases in farm machinery loans in the fourth period. However, a record harvest and relatively high farm prices suggest the demand for credit in most other areas may fall below year-earlier needs in the last quarter of 1975.

Terry Francil
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AGRICULTURAL ECONOMIC DEVELOPMENTS

Subject	Unit	Latest period	Value	Percent change from	
				Prior period	Year ago
INDEX OF PRICES					
Received by farmers	1967=100	October	193	- 0.5	+ 4
Crops	1967=100	October	199	- 1.5	- 13
Livestock	1967=100	October	190	+ 1.1	+ 22
Paid by farmers	1967=100	October	188	- 0.5	+ 6
Production items	1967=100	October	192	- 1.0	+ 5
Wholesale price index (all commodities)	1967=100	October	179	+ 0.6	+ 5
Foods	1967=100	October	187	+ 0.4	+ 9
Processed foods and feeds	1967=100	October	186	+ 0	+ 2
Agricultural chemicals	1967=100	October	200	- 0.6	+ 17
Agricultural machinery and equipment	1967=100	October	171	+ 1.2	+ 11
Consumer price index (all items)	1967=100	September	164	+ 0.5	+ 8
Food at home	1967=100	September	178	- 0.4	+ 8
CASH PRICES					
Corn	dol. per bu.	October	2.62	- 5.1	- 24
Soybeans	dol. per bu.	October	4.92	- 7.5	- 40
Wheat	dol. per bu.	October	4.02	- 2.2	- 17
Sorghum	dol. per cwt.	October	4.43	- 1.2	- 23
Oats	dol. per bu.	October	1.41	- 2.8	- 16
Steers and heifers	dol. per cwt.	October	38.30	- 1.0	+ 15
Hogs	dol. per cwt.	October	58.00	- 0.9	+ 56
Milk, all sold to plants	dol. per cwt.	October	9.53	+ 4.0	+ 14
Broilers	cents per lb.	October	28.80	- 3.4	+ 26
Eggs	cents per doz.	October	52.80	- 5.4	- 4
INCOME (seasonally adjusted annual rate)					
Cash receipts from farm marketings	bil. dol.	3rd Quarter	98	+ 11.4	+ 7
Net realized farm income	bil. dol.	3rd Quarter	28	+ 37.6	+ 11
Nonagricultural personal income	bil. dol.	September	1,226	+ 1.0	+ 8
FARM FINANCE					
Total deposits at agricultural banks ¹	1972-73=100	October	143	+ 2.4	+ 13
Time deposits	1972-73=100	October	157	+ 1.4	+ 18
Demand deposits	1972-73=100	October	124	+ 4.7	+ 5
Total loans at agricultural banks ¹	1972-73=100	October	149	+ 1.7	+ 14
Production credit associations					
loans outstanding:					
United States	mil. dol.	August	10,884	+ 0	+ 16
Seventh District states	mil. dol.	August	1,836	+ 0	+ 23
loans made:					
United States	mil. dol.	August	984	- 13.8	+ 0
Seventh District states	mil. dol.	August	173	- 14.4	+ 26
Federal land banks					
loans outstanding:					
United States	mil. dol.	August	15,332	- 2.1	+ 18
Seventh District states	mil. dol.	August	2,794	+ 1.1	+ 23
new money loaned:					
United States	mil. dol.	August	253	- 10.9	- 19
Seventh District states	mil. dol.	August	42	- 8.7	- 7
Interest rates					
Feeder cattle loans ²	percent	3rd Quarter	8.79	- 0.1	- 2
Farm real estate loans ²	percent	3rd Quarter	8.90	- 0.1	- 1
Three-month Treasury bills	percent	10/30-11/5	5.52	- 2.5	- 29
Federal funds rate	percent	10/30-11/5	5.17	- 8.5	- 46
Government bonds (long-term)	percent	10/30-11/5	8.18	- 0.7	- 7
AGRICULTURAL TRADE					
Agricultural exports	mil. dol.	August	1,601	+ 3.5	+ 10
Agricultural imports	mil. dol.	August	688	- 9.9	- 19
FARM MACHINERY SALES					
Farm tractors	units	August	10,134	+ 10.5	- 5
Combines	units	August	3,036	+ 1.7	- 10
Balers	units	August	3,642	- 37.0	- 8

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

² Average of rates reported by district agricultural banks.