Federal Reserve Bank of Chicago - -
December 19, 1975

Agricultural Letter

Number 1357

THE AGRICULTURAL FINANCE OUTLOOK includes prospects for further large gains in expenditures and borrowings, stable to slightly higher interest rates, and a slowing in the rate of appreciation in land values. These prospective trends represent the views expressed by the U.S. Department of Agriculture in its recent annual outlook conference.

Farm debt outstanding is expected to total $90.6 billion at the end of this year, up from $81.8 billion at the end of 1974. Current estimates indicate farm real estate debt, which accounts for nearly three-fifths of total outstandings, rose 12 percent this year, while non-real estate farm debt rose about 9 percent. Among institutional lenders, farm debt held by banks is expected to rise about 5 percent this year, while the increases for PCAs and FLBs are pegged at 15 and 21 percent, respectively.

The U.S. Department of Agriculture currently projects a record increase in farm borrowing in 1976. Total farm debt outstanding is expected to rise by at least $10 billion, surpassing the previous record gain established in 1973. Reflecting the surge in farmland values in recent years, farm real estate debt is expected to rise more than $6 billion in the year ahead. A recovery in livestock production, particularly in cattle feeding, is expected to pace the projected $4.5 billion increase in outstanding non-real estate farm debt.

Farm sector balance sheet
(December 31)

	1972	1973	1974	1975*
	(billion dollars)			
Assets				
Real estate	260.6	325.3	371.4	423.3
Other physical assets	100.3	122.0	119.0	139.6
Financial assets	26.6	28.6	29.8	31.4
Total assets	387.5	475.9	520.2	594.3
Liabilities				
Real estate debt	35.8	41.3	46.3	51.9
Non-real estate debt	27.8	32.1	35.2	38.4
CCC loans	1.8	0.7	0.3	0.3
Total debt	65.4	74.1	81.8	90.6
Equity	322.1	401.8	438.4	503.7

*Preliminary.

Farmland values currently are estimated to have risen about 14 percent in 1975, equal to the rise posted in 1974. Increases in corn belt states and north central states apparently paced the overall rise. For the year ahead, the rate of appreciation in land values is expected to slow to around 9 percent, the slowest since 1971. The anticipated slowing reflects prospects for no major change in net farm income, a moderation in the overall rate of inflation, and relatively high interest rates on farm mortgages.

Interest rates on farm loans are expected to range from stable to slightly higher in the year ahead. Current estimates for 1975 indicate rates on short-term loans averaged about 9 percent, while those for long-term loans averaged just under 8.75 percent. The possibility that rates might average slightly higher in 1976 reflects large Treasury borrowings to finance federal deficits, plus the possibility of a strong recovery in business loan demand.

Capital expenditures by farmers are expected to register further significant gains in the year ahead, although the rate of increase will be below the accelerated pace estimated for 1975. Current estimates suggest farmers' expenditures for machinery totaled about $9 billion this year, up 15 percent from a year ago due to higher prices. Reflecting the marked upgrading in farm machinery and equipment during the past few years, the rate of increase in machinery purchases is expected to slow to around 4 percent in 1976. Capital expenditures for farm real estate improvements are expected to rise to $5.6 billion in 1976, up about 13 percent from the estimated level for this year and 60 percent from 1974.

The above scenario of the U.S. Department of Agriculture is based largely on model projections that in some cases in the past have been subject to significant revisions. In general, the projected trends appear fairly realistic in terms of the overall developments anticipated through most of the first half of 1976. But the unknowns associated with second-half 1976 developments render a high degree of uncertainty to some of the projections. The unknowns surrounding 1976 crop production and prices as well as the extent of the recovery in livestock production will be major factors influencing farmers' borrowings and expenditures. The lack of a post-harvest recovery in crop prices to date, plus the possibility of another record year of crop production in 1976, raises the possibility that crop farmers may not enjoy the prosperity of recent years. Moreover, the recent drop in livestock prices may temper the expansion in livestock production now under way. Such conditions could hold farmers' capital expenditures and borrowings below the projected levels.

Gary L. Benjamin
Agricultural Economist