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Agricultural Letter

Waite Memorial Book Collection
Division of Agricultural Economics



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AGRICULTURAL LOANS outstanding reported at Seventh District member banks grew at a slightly slower pace in 1975. In contrast to 1974, however, the rate of growth for loans secured by farmland exceeded that of farm loans for operating purposes by a wide margin reflecting last year's cutback in livestock feeding, the continued upward pressures on farmland prices, and perhaps some refinancing of non-real estate debt with real estate loans.

Federal Reserve member banks increased total agricultural loans outstanding 7.3 percent during 1975, compared to 7.9 percent in 1974. The slight slowdown in loan growth somewhat parallels the experience of lending institutions connected with the Farm Credit Administration (FCA) operating within Seventh District states during 1975. Although the rate of growth in total FCA outstandings was much higher than member banks—slightly over 20 percent in 1975—it was, nevertheless, down from the 24 percent increase reported the previous year.

Real estate loans accounting for approximately one-fifth of the member banks' total agricultural loan portfolios grew by 10.4 percent in 1975. This was about three times the rate of growth experienced in this category in 1974. In contrast, the growth rate for Federal Land Banks operating in Seventh District states dropped from 28 percent in 1974 to 21 percent in 1975. One factor influencing real estate loan volume was livestock producers who shifted short-term debt to longer-term real estate loans in the first part of 1975. Also, lower returns on alternative investments in 1975 may have made real estate loans more attractive to banks.

Non-real estate loans outstanding at member banks increased 6.4 percent in 1975, down from the 9.2 percent rise recorded in 1974. The relatively moderate growth rate in district outstandings stems largely from a 6.0 percent decline in Illinois banks; all other states recorded increases. Moreover, it is the opposite of 1974 when Illinois recorded an increase in loans over twice that of any other state.

The experience of a few Chicago banks, presumably heavily involved in financing cattle being placed in feedlots, was the primary reason the Illinois totals declined in 1975. If the Chicago banks would have held non-real estate farm activity at the year-earlier level, non-real estate farm loan growth in Illinois would have been a 6 percent increase rather than a decline. The severely depressed cattle feeding industry in the first half of 1975 was, no doubt, the primary reason for the decline at Chicago banks. However, much of the decline was due to the drop in cattle feeding activities being financed in areas outside the Seventh District.

The relatively large shift in agricultural loan activity at city banks points out the important role city banks play in financing agriculture. Seventh District member and nonmember banks located in Standard Metropolitan Statistical Areas (SMSAs) account for about 27 percent of all agricultural loans outstanding. However, national economic conditions have a significant impact on banks in SMSAs, and the flow of funds to agriculture from these banks appears to follow the cyclical pattern of the credit markets.

Agricultural loans grow in 1975

	Loans secured by farmland		Non-real estate loans		Total farm loans	
	(million dollars)	(percent change)	(million dollars)	(percent change)	(million dollars)	(percent change)
Illinois	118.7	17.5	608.3	-6.0	727.0	-2.8
Indiana	115.1	11.2	190.9	15.8	306.0	14.1
Iowa	64.0	15.7	612.3	19.9	676.3	19.5
Michigan	88.6	5.6	158.4	6.7	247.0	6.3
Wisconsin	74.8	1.3	98.5	2.3	173.3	1.9
Seventh District	461.2	10.4	1,668.4	6.4	2,129.5	7.3

Outstanding loans held by member banks December 31.

On the other hand, fund availability at agricultural banks—broadly defined as those located outside of SMSAs with more than 35 percent of their loan portfolios in agricultural loans in Illinois, Indiana, and Iowa, and more than 25 percent in Michigan and Wisconsin—appear to more nearly reflect the general economic condition of the rural area. Agricultural bankers tend to allocate almost a constant percentage of their assets to loans. During the past eight years the loan-to-asset ratio of Seventh District member and nonmember agricultural banks has averaged about 49 percent and has fluctuated only about 2 percentage points from the high to the low. Agricultural bankers tend to allocate almost a constant percentage of their assets to loans. During the agricultural enterprises. Given the relative prosperity of the agricultural sector—as measured by net farm income—all banks located in areas outside of SMSAs have captured a slightly larger proportion of agricultural loans outstanding in recent years, rising from 70 percent in the late sixties to around 73 percent last year.

Terry Francl
Agricultural Economist

AGRICULTURAL ECONOMIC DEVELOPMENTS

Subject	Unit	Latest period	Value	Percent change from	
				Prior period	Year ago
INDEX OF PRICES					
Received by farmers	1967=100	March	184	- 1.6	+12
Crops	1967=100	March	192	+ 1.1	+ 4
Livestock	1967=100	March	179	- 3.2	+18
Paid by farmers	1967=100	March	194	+ 0.5	+ 8
Production items	1967=100	March	196	+ 1.0	+ 9
Wholesale price index (all commodities)	1967=100	March	180	+ 0.2	+ 6
Foods	1967=100	March	179	- 0.9	+ 4
Processed foods and feeds	1967=100	March	176	- 0.3	- 1
Agricultural chemicals	1967=100	March	191	- 0.8	-10
Agricultural machinery and equipment	1967=100	March	179	+ 0.7	+ 8
Consumer price index (all items)	1967=100	February	167	+ 0.2	+ 6
Food at home	1967=100	February	180	- 0.7	+ 4
CASH PRICES					
Corn	dol. per bu.	March	2.50	+ 0.8	- 6
Soybeans	dol. per bu.	March	4.46	- 0.9	-16
Wheat	dol. per bu.	March	3.65	- 0.3	0
Sorghum	dol. per cwt.	March	4.13	+ 1.0	+ 2
Oats	dol. per bu.	March	1.46	0	0
Steers and heifers	dol. per cwt.	March	35.30	- 4.1	+16
Hogs	dol. per cwt.	March	45.50	- 5.0	+19
Milk, all sold to plants	dol. per cwt.	March	9.71	- 0.8	+19
Broilers	cents per lb.	March	24.4	- 3.2	+ 3
Eggs	cents per doz.	March	54.1	- 9.5	0
INCOME (seasonally adjusted annual rate)					
Cash receipts from farm marketings	bil. dol.	3rd Quarter	95	+ 3.3	+ 3
Net realized farm income	bil. dol.	3rd Quarter	26	+ 4.9	+ 1
Nonagricultural personal income	bil. dol.	January	1,277	+ 1.1	+ 9
FARM FINANCE					
Total deposits at agricultural banks¹	1972-73=100	March	147	+ 1.0	+13
Time deposits	1972-73=100	March	167	+ 1.4	+17
Demand deposits	1972-73=100	March	120	+ 0.1	+ 5
Total loans at agricultural banks¹	1972-73=100	March	158	+ 2.1	+15
Production credit associations					
loans outstanding:					
United States	mil. dol.	January	10,711	- 2.8	+12
Seventh District states	mil. dol.	January	1,905	- 0.5	+17
loans made:					
United States	mil. dol.	January	1,795	-11.2	+14
Seventh District states	mil. dol.	January	341	- 4.5	+25
Federal land banks					
loans outstanding:					
United States	mil. dol.	January	16,190	+ 1.1	+19
Seventh District states	mil. dol.	January	2,964	+ 1.4	+23
new money loaned:					
United States	mil. dol.	January	325	+ 4.2	- 3
Seventh District states	mil. dol.	January	67	+20.9	+21
Interest rates					
Feeder cattle loans ²	percent	4th Quarter	8.81	+ 0.2	- 2
Farm real estate loans ²	percent	4th Quarter	8.97	+ 0.4	- 1
Three-month Treasury bills	percent	3/25-3/31	4.92	+ 0.2	-12
Federal funds rate	percent	3/25-3/31	4.84	+ 1.0	-13
Government bonds (long-term)	percent	3/25-3/31	7.88	- 0.6	- 5
AGRICULTURAL TRADE					
Agricultural exports	mil. dol.	January	1,994	+ 1.7	-22
Agricultural imports	mil. dol.	January	818	+ 6.5	+ 1
FARM MACHINERY SALES					
Farm tractors	units	January	11,021	-19.4	+ 6
Combines	units	January	1,226	-45.5	-41
Balers	units	January	876	- 8.8	+28

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.