Federal Reserve Bank of Chicago . . .

Agricultural Letter

June 25, 1976

Number 1384

NON-REAL ESTATE FARM LOANS at member banks showed modest gains in the first quarter of 1976. Production Credit Associations (PCAs) and Federal Land Banks (FLBs) operating within Seventh District states continued to experience more rapid increases in farm credit than banks. However, the rate of growth in PCA loans is lagging a year ago.

Non-real estate farm loans held by district member banks totaled $1.69 billion on March 31, up 1.5 percent from the ending 1975 level. (Comparable year-ago data is not available because the March Call Report this year was the first since the early sixties that contained detailed information on loans outstanding.) Member banks in Iowa and Michigan accounted for all of the increase, registering gains of 4 and 9 percent, respectively, during the first quarter. Declines of 1 to 3 percent were evident among member banks in Illinois, Indiana, and Wisconsin.

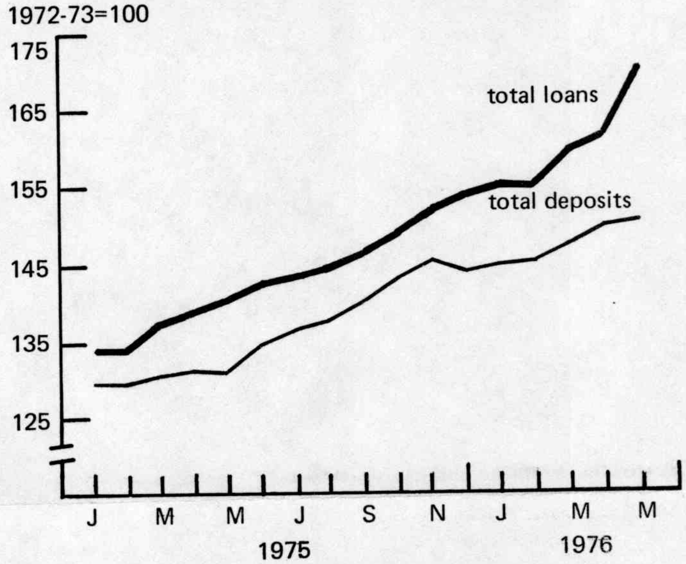
Seventh District member banks showed a similar first-quarter growth rate in the area of farm real estate loans. Outstandings totaled $469 million on March 31, up 1.6 percent from the ending 1975 level. When viewed on a state-by-state basis, the growth pattern was entirely different than that for non-real estate loans, however. Illinois and Indiana both experienced a 6 percent rise in farm real estate loans outstanding, while Iowa and Wisconsin banks had virtually no change. Michigan banks reported over a 7 percent decline in real estate outstandings.

The experience of Seventh District member banks also appears somewhat in contrast to that of PCAs who offer non-real estate farm loans. PCAs operating within district states recorded a 2.5 percent rise in outstandings during the first quarter. However, this was less than one-half the growth rate recorded in first-quarter 1975. FLBs operating within Seventh District states expanded outstandings 11 percent in the first quarter of 1976, well above the 7 percent rate of growth in the first quarter of 1975.

Even though the first-quarter rate of growth in non-real estate outstandings is down for PCAs operating within district states, PCAs still experienced a larger increase in outstandings than did member banks. Thus, PCAs and FLBs apparently continued the long-term trend of capturing a larger share of the total farm credit market during the first quarter of 1976.

Deposit growth in rural areas has been fairly strong in recent months, according to an index maintained for over 200 district member banks heavily engaged in agricultural lending. The index of deposits advanced 3.5 percent from January to May, almost double the growth rate typically experienced in recent years. For the first time in four years the May index of total deposits was greater than April due mainly to a much smaller than usual decline in demand deposits. The rise in deposit growth probably reflects the increases in crop and livestock prices that occurred in the last couple of months as well as a larger volume of marketings. Combined, these two factors boosted cash receipts from marketings in district states 17 percent above the same year-earlier period in the first four months of 1975.

Loans pace rural bank growth



Source: Monthly index of over 200 rural agricultural banks.

The index of loans at Seventh District agricultural banks increased at a record pace in May. The May index was 10 percent higher than in January. The loan index advanced 5.5 percent in May alone, suggesting that growth in agricultural loans at Seventh District banks during the second quarter of 1976 may substantially exceed year-ago growth rates. Despite the greater than usual growth in the index of total deposits, the loan-to-deposit ratio reached 57.2 percent, up more than 2.5 percentage points from April and the highest average loan-to-deposit ratio recorded in the last four years.

Terry Francl
Agricultural Economist