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FARM LOANS OUTSTANDING at banks in Seventh District states rose sharply in 1976, and the trend appears to be continuing. Total agricultural loans outstanding at commercial banks totaled $7.3 billion at the end of last year, up 18 percent from the 1975 close. The rise substantially exceeded the 11 percent increase witnessed in 1975 and accounted for a proportionately large part of the increase in all loans outstanding at banks last year. Among banks in District states, farm loans comprise only 8 percent of the total loan portfolio; yet, during 1976 such loans accounted for nearly 16 percent of the increase in total loans outstanding.

Non-real estate loans outstanding at commercial banks in District states rose nearly 18 percent in 1976, well ahead of the 12 percent increase of the previous year. Banks in Iowa set the pace with an increase of more than 19 percent, while the 13 percent rise in Wisconsin was the smallest of the five states. Despite last year's strong performance by banks, Production Credit Associations (PCAs) operating in the five District states recorded an even larger increase with loans up more than a fifth. Commercial banks and PCAs operating in District states experienced larger increases in non-real estate loans to farmers than did their counterparts throughout the remainder of the United States.

Agricultural loans grow in 1976

	Non-real estate loans		Real estate loans	
	PCAs	Banks	FLBs	Banks
	(percent change, year ending December 31, 1976)			
Illinois	18.6	18.2	25.5	22.2
Indiana	24.4	16.3	16.7	20.7
Iowa	21.7	19.2	28.6	21.3
Michigan	19.3	18.5	11.0	7.9
Wisconsin	16.1	12.8	12.5	13.6
District States	20.3	17.9	20.9	18.0
United States	13.6	15.5	15.5	5.4

Real estate loans secured by farmland at commercial banks in Seventh District states also increased 18 percent during the year ending December 31, 1976—nearly double the rise recorded during 1975. Among District states the increase in farm real estate loans held by Federal Land Banks (FLBs) was only slightly greater than that for commercial banks. Nationwide, however, FLB outstandings grew at nearly three times the rate for banks.

The sharp rise in farm loans during 1976 can be attributed to several factors. Large capital expenditures, increased crop production expenses, and continued strength in Midwest farmland values contributed to greater needs for new borrowings. Moreover, the latter part of the year was characterized by slower loan repayments—reflecting low prices for cattle and grain as well as drought-reduced harvests in some areas. During the fourth quarter of last year, these factors helped push net realized farm income down to $20.3 billion (seasonally adjusted annual rate)—15 percent below the year-earlier level and the lowest for any quarter since late 1972, with the exception of the first quarter of 1975.

Agricultural loan demand thus far into 1977 is continuing strong. Total loans outstanding at District agricultural banks through May of this year have held about one-fifth above year-earlier levels. Both PCAs and FLBs operating in District states have experienced similar rates of increase in their loan portfolios during the early part of this year. The demand for new loans as well as the continuation of slow loan repayments and the simultaneous rise in farm loan renewals and extensions are contributing to the large increases.

Continued advances in farmland values are in all likelihood a major factor behind the large increase in loan requests this year. The value of good District farmland as of April 1 was up 7.6 percent from the ending 1976 level and nearly 30 percent above the year-earlier level. Continued strength in capital expenditures by farmers—unit sales of tractors among the District states for the January-April period rose 9 percent above the corresponding year-earlier period—also have contributed to the demand for new borrowings. Moreover, larger purchases of higher-priced inputs have increased the need for operating credit. The May estimate of the Index of Prices Paid by Farmers was up 7 percent from the year-earlier level. Increases were apparent for most production items with the exception of agricultural chemicals and fertilizer. The largest year-to-year gain was reported for seed, which rose slightly over 13 pecent from the previous year's level.

In summary, upward trending farmland prices in conjunction with higher farm production expenses and expectations for low wheat and feed grain prices in 1977 are apt to keep continued pressure on agricultural loan demand. To date, indications are that agricultural bankers have accommodated the strong loan demand. However, since deposit growth at agricultural banks has not paralleled the rise in loans, banks are operating with substantially higher loan-to-deposit ratios. These conditions may have already resulted in some tightening in credit policies among rural banks.

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