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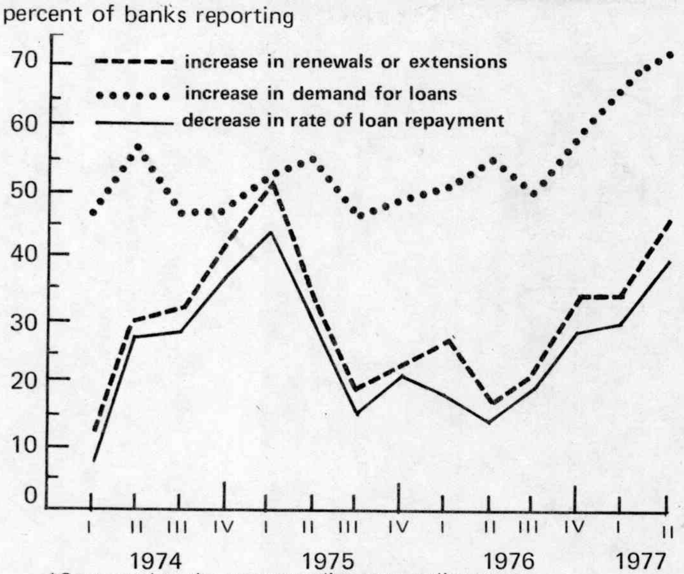
FARM LOAN DEMAND continued at an exceptionally strong pace during the second quarter of 1977 at Seventh District agricultural banks. Seventy-two percent of the nearly 600 agricultural banks responding to a July 1 survey indicated that demand for farm loans exceeded the year-earlier level in the April-June period, while only 3 percent reported a decline. This constitutes the strongest evidence of year-to-year strength in farm loan demand in more than a decade of quarterly surveys. Coinciding with, and in all likelihood, a significant contributing factor to this situation is the simultaneous slowing in loan repayment rates and the rise in farm loan renewals and extensions.

Seventh District trends in non-real estate farm loans*



*Compared to the corresponding year-earlier quarter.

Slower loan repayment rates and increased renewals and extensions—compared to a year earlier—were evident in all District states for the April-June period (with the exception of a slight improvement in Michigan's farm loan renewals and extensions). In particular, bankers in Illinois and Iowa indicated deteriorating conditions relative to a year ago. For example, the proportion of bankers in Illinois and Iowa that reported a slower rate of loan repayment during the quarter substantially exceeded those noting an increase, while the percentage of bankers responding with a higher incidence of farm loan renewals and extensions significantly exceeded those reporting a decrease. This "net" response of bankers suggests the possibility of greater loan repayment problems in Illinois and Iowa than exist generally in other portions of the District. While this relationship was evident in Iowa a year ago, the same was not true for Illinois, which has apparently experienced a rather dramatic deterioration in this respect. Numerous factors are no doubt reflected in the slower debt paydown; but among significant contributors are low grain and livestock prices, generally higher operating expenses and machinery costs, drought-reduced crop harvests in selected areas last year, and the increased incidence of farmers holding old crop grains in anticipation of higher prices.

Fund availability at District agricultural banks showed only a moderate increase over the year-earlier level. Each of the states reported a slight rise with the exception of Wisconsin, which, for the second consecutive quarter, reported a "net" negative response suggestive of a general decrease in fund availability.

Loan-to-deposit ratios rose substantially in all District states during the second quarter, reaching a new high at 61.2 percent—up from 59.4 percent in the previous quarter and 57.3 percent a year ago. Michigan and Wisconsin banks consistently report higher ratios than the District average, while banks in Illinois invariably reflect the low. Wisconsin's average loan-to-deposit ratio of 67.2 percent was the highest reported among the District states while Illinois reported the lowest at 56.1 percent. Bankers indicating current loan-to-deposit ratios in excess of desired levels ranged from 31 percent in Indiana to slightly more than one-half in Wisconsin. Overall, the survey reflected a significant increase in the proportion of bankers Districtwide who consider current ratios to be above desired levels.

The majority of respondents anticipate continued strength for the aggregate of all non-real estate farm loans during the third quarter of 1977, although within this group responses varied by loan purpose. Continued strength was expected for operating and crop storage loan volume, while a relative weakness was anticipated for feeder cattle and dairy loan volume as well as for farm real estate loan volume. A significant change was observed in responses concerning expectations of farm machinery loan volume for the forthcoming period. For the first time in approximately six years, the proportion of bankers anticipating an increase in farm machinery loan volume failed to exceed by a substantial margin the proportion expecting a decrease.

Expectations of grain prices near loan levels have undoubtedly been taken into consideration by bankers in their responses to anticipated third-quarter farm loan demand. Therefore, the relative shifts in expectations toward higher crop storage loan demand and lower farm machinery loan volume are indeed plausible. Prevailing conditions which suggest the likelihood of reduced cash flows to farmers throughout 1977 are not conducive to servicing subtantial increases in new debt.

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