Federal Reserve Bank of Chicago . . .

Agricultural Letter

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AGRICULTURAL CREDIT CONDITIONS in the Seventh Federal Reserve District have deteriorated during the past several months. Results from a midyear credit conditions survey indicate agricultural bankers are experiencing exceptionally strong farm loan demand, slower loan repayment rates, increased requests for renewals and extensions of existing loans, reduced liquidity, and some deterioration in the quality of their farm loan portfolios. (See *Agricultural Letter*, No. 1442, for additional comments.) The problems reflect the cash-flow squeeze confronting many farmers. On the one hand, earnings have been depressed by low commodity prices, while cash outflows are up because of higher input prices and/or the increased financial commitments acquired in recent years. In view of the prospects for continued low earnings, the current problems could become more evident in the near future.

Tightening liquidity pressures have apparently caused rural banks to utilize other lenders more intensively. Nearly one-fifth reported greater-than-normal utilization of correspondent banks to help finance farm customers, while only 7 percent noted a decline. Roughly the same proportion reported making more referrals of farm loan requests to other lending institutions during the second quarter. Furthermore, more than one-fifth of the banks indicated they were somewhat less aggressive than normal in seeking new farm loan customers.

Credit requests of regular farm loan customers apparently were fairly well accommodated during the first half of this year. Reporting bankers indicated that only a small proportion—typically less than one-tenth—of the farm loan requests they received were denied or scaled down. Nevertheless, the incidence of such actions was somewhat above normal, particularly for requests to finance land purchases. Numerous factors contributed to the increased denials and scaled-down loans, but those most frequently cited were: borrower already overextended, insufficient borrower equity, and the amount requested deemed unjustified based on income prospects.

Declining commodity prices and farm earnings have resulted in some deterioration in farm loan portfolios at District agricultural banks. However, the extent of the problem does not yet appear to be of major proportion. Responding bankers indicated that, on average, about 3.5 percent of the dollar volume of their farm loan portfolios would normally have "major" or "severe" repayment problems whereas at midyear roughly 6 percent of their portfolios were so classified. Although nearly doubled, the proportion of the portfolios experiencing these problems is still relatively small.

Expectations of large worldwide crop harvests, in light of the already large grain stocks, have suppressed crop prices since midyear and will probably continue to do so for some time. The likelihood of reduced net farm earnings in the months ahead suggests that current problems of farmers and their lenders could conceivably become more pronounced and more widespread in the future. Under such conditions bankers and other lenders will likely monitor farm lending activities more closely. Future lending activities will undoubtedly be geared more toward the borrower's repayment capabilities based on depressed commodity prices. Thus, farmers may experience an increased rate of loan denial or more instances where they are unable to obtain the desired amount of borrowed funds. Situations requiring farmers to sell assets—including inventories and/or capital assets—to meet their fixed financial obligations may occur more frequently.

Farm loan portfolios at District banks deteriorate

	Percent of portfolio by degree of repayment problem	
	Currently	Normally
No significant repayment problems	82.6	87.6
Minor repayment problems which have been, or can be, remedied rather easily with short-term solutions	11.4	8.9
Major repayment problems requiring additional collateral and/or long-term workouts	4.7	2.8
Severe repayment problems which will likely result in loan losses and/or require forced sales of borrower's real assets	1.3	0.6
	100%	100%

Disaster for agriculture is not in the offing, however. The "cost-price squeeze" and tight cash flows have been experienced previously by the agricultural sector. In many respects the 1973-75 boom in farm earnings will help ease the current problems. Many farmers apparently converted portions of their recent high earnings into liquid assets, which could help alleviate the current stress. Sharply higher land values will provide a buffer for many farmers and their lenders. Likewise, the enhanced off-farm earnings of farmers—which are about 75 percent above the level of five years ago on a per farm basis—will provide an important cushion against the tight cash-flow. Therefore, without denying instances of rather severe ramifications, the current problems are not likely to undermine the basic structure of agriculture.

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AGRICULTURAL ECONOMIC DEVELOPMENTS

Subject	Unit	Latest period	Value	Percent change from Prior period	Percent change from Year ago
INDEX OF PRICES					
Received by farmers	1967=100	August	174	− 3.3	− 6
Crops	1967=100	August	172	− 5.5	− 14
Livestock	1967=100	August	177	− 1.1	+ 1
Paid by farmers	1967=100	August	202	− 0.5	+ 5
Production items	1967=100	August	199	− 1.0	+ 3
Wholesale price index *(all commodities)*	1967=100	August	195	− 0.2	+ 6
Foods	1967=100	August	190	− 1.2	+ 7
Processed foods and feeds	1967=100	August	185	− 1.4	+ 5
Agricultural chemicals	1967=100	August	189	+ 0.3	+ 2
Agricultural machinery and equipment	1967=100	August	198	+ 0.9	+ 8
Consumer price index *(all items)*	1967=100	July	183	+ 0.4	+ 7
Food at home	1967=100	July	193	+ 0.5	+ 7
CASH PRICES					
Corn	dol. per bu.	August	1.64	− 12.8	− 38
Soybeans	dol. per bu.	August	5.34	− 19.1	− 12
Wheat	dol. per bu.	August	2.02	− 1.0	− 32
Sorghum	dol. per cwt.	August	2.75	− 3.2	− 32
Oats	dol. per bu.	August	.91	− 11.2	− 39
Steers and heifers	dol. per cwt.	August	37.50	− 1.3	+ 6
Hogs	dol. per cwt.	August	42.80	− 4.7	0
Milk, all sold to plants	dol. per cwt.	August	9.67	+ 1.8	0
Broilers	cents per lb.	August	23.9	− 8.8	0
Eggs	cents per doz.	August	51.5	+ 1.6	− 14
INCOME *(seasonally adjusted annual rate)*					
Cash receipts from farm marketings	bil. dol.	2nd Quarter	99	+ 3.2	− 1
Net realized farm income	bil. dol.	2nd Quarter	22	− 3.6	− 15
Nonagricultural personal income	bil. dol.	July	1,505	+ 0.9	+ 11
FARM FINANCE					
Total deposits at agricultural banks[1]	1972-73=100	August	170	+ 0.4	+ 11
Time deposits	1972-73=100	August	210	+ 0.8	+ 18
Demand deposits	1972-73=100	August	122	− 1.0	+ 1
Total loans at agricultural banks[1]	1972-73=100	August	209	+ 0.6	+ 23
Production credit associations					
loans outstanding:					
United States	mil. dol.	July	14,038	+ 2.1	+ 15
Seventh District states	mil. dol.	July	2,636	+ 1.9	+ 22
loans made:					
United States	mil. dol.	July	1,292	− 20.0	+ 10
Seventh District states	mil. dol.	July	255	− 24.4	+ 17
Federal land banks					
loans outstanding:					
United States	mil. dol.	July	20,441	+ 1.2	+ 16
Seventh District states	mil. dol.	July	4,101	+ 1.5	+ 23
new money loaned:					
United States	mil. dol.	July	382	− 4.2	+ 28
Seventh District states	mil. dol.	July	79	− 17.8	+ 23
Interest rates					
Feeder cattle loans[2]	percent	2nd Quarter	8.73	+ 0.2	0
Farm real estate loans[2]	percent	2nd Quarter	8.92	0	0
Three-month Treasury bills	percent	8/25–8/31	5.56	+ 0.7	+ 9
Federal funds rate	percent	8/25–8/31	6.02	+ 0.5	+ 14
Government bonds *(long-term)*	percent	8/29–9/2	7.53	− 0.7	− 4
AGRICULTURAL TRADE					
Agricultural exports	mil. dol.	June	1,882	− 14.4	+ 3
Agricultural imports	mil. dol.	June	1,240	− 1.3	+ 22
FARM MACHINERY SALES					
Farm tractors	units	June	12,379	+ 0.5	+ 6
Combines	units	June	2,688	+166.1	− 19
Balers	units	June	5,087	+155.5	+ 11

[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.