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FARM FINANCIAL SITUATION IN THE SOUTHEAST*

Southeastern farmers ended 1977 with a substantial reduction in income from 1976's level. A combination of severe early summer drought and a sharp reduction in crop prices dropped cumulative cash receipts from crops 5 percent in the combined states in the Sixth Federal Reserve District and as much as 11 to 12 percent in Georgia and Alabama, where the drought impact was most severe. Cash receipts from livestock were less than 3 percent higher than the 1976 level, despite an unusually heavy rate of cattle marketings as herds were liquidated during the year (see Table 1).

The financial bind of crop farmers was more severe than the downturn in cash receipts indicates because farmers intended to expand production of most crops in 1977. They substantially increased plantings and production expenditures to accomplish that objective. Final crop revenue was approximately one-fourth less than farmers had anticipated at planting time, based on normal yields and price levels in the spring of 1977. As a result, returns from crops were not sufficient to permit full repayment of many production loans.

As the dimensions of the disaster became apparent and the opportunity for securing credit for disaster relief from the Small Business Administration became known, large numbers of applications began to pour into state SBA offices. From the first disaster declaration date on July 22, 1977, through July 5, 1978, SBA Region IV, which includes seven southeastern states, had accepted 23,675 loan applications for \$1,793,302,100. Georgia alone accounted

*Remarks prepared by Gene D. Sullivan, Research Officer and Senior Agricultural Economist, Federal Reserve Bank of Atlanta, for presentation to the symposium on current farm financial conditions and credit policy responses to financial stress at the annual meeting of the American Agricultural Economics Association, Blacksburg, Virginia, August 7, 1978.

-2-

for 10,349, or 44 percent, of the total number of applications and \$898 million, or 50 percent, of the dollar volume (see Table 2).

By December 30, 1977, less than \$200 million of the \$557 million of loans approved had been disbursed and Georgia accounted for \$130 million, or more than two-thirds, of those disbursements. At the year's end, farmers had received about 15 percent of the total funds for which they had applied.

On July 5, 1978, six months later, \$1.0 billion, or 55 percent, of the total amount applied for in SBA Region IV had been approved and \$886.7 million had been disbursed. Georgia's share of disbursements had dropped below 50 percent, closer to its share of total applications and approvals.

Alabama ranked next to Georgia in importance in the Region's disaster loan activity, but applications, approvals, and disbursements were only one-fourth as large as Georgia's. The other five states combined did not equal Georgia's activity.

Some recent changes in farm loan volume in the Sixth Federal Reserve District are undoubtedly attributable to the impact of SBA disaster lending, but other factors have also been influential. In Georgia, total farm loans outstanding at banks reached a peak of \$696 million on September 30, 1977, and had fallen to \$636 million by December 30, 1977 (see Table 3). During the comparable period of 1976, outstanding agricultural loans at Georgia banks were reduced only slightly. In spite of the larger reduction during 1977, Georgia's year-end loan volume stood nearly \$50 million higher than 1976's ending level. For the District as a whole, repayments during the September-to-December period in 1977 also exceeded the pace in 1976, ~~but the volume of SBA loan disbursements by that date was hardly sufficient to account for the loan paydown.~~

-3-

Loan volume outstanding also declined substantially from September to December 1977 at production credit associations in the Third Farm Credit District (including Georgia, Florida, and the Carolinas) and in the Fifth Farm Credit District (including Mississippi, Alabama, and Louisiana). During 1976, by comparison, the volume of loans outstanding was nearly unchanged from September to December in the Columbia District. Although it would appear tha SBA loans enabled farmers to repay more of their loans in 1977, the volume of SBA loan disbursements by that date was hardly sufficient to account for the loan paydowns that occurred.

Since the majority of the SBA disaster loan funds were disbursed after January 1, 1978, the major impact on borrowings and credit outstanding would be expected to show up in early 1978. In the Sixth District, preliminary data indicate that agricultural loan growth at banks has been slightly less rapid than during the 1977 period. The volume of loans outstanding at production credit associations was down from a year ago in the Third Farm Credit District, especially in Georgia, and up only slightly in the Fifth Farm Credit District (see Table 4). SBA loans may also have replaced a substantial volume of credit extended directly to farmers by merchants and dealers, but data are not available to substantiate that development.

Changes in farmers' planting decisions are probably an additional major factor in changed credit demand in 1978. The poor experience in 1977 with cotton, corn, and most other grain crops caused farmers to reduce plantings in 1978, while plantings of soybeans were increased sharply because farmers saw that alternative as the brightest possibility for increasing income in 1978.

-4-

Reductions in corn and cotton acreage translated into a substantial decline in production expenditures in affected areas. Corn is about twice and cotton is about three times as expensive to produce on a per acre basis as is soybeans. The downturn in agricultural loan volume in the eastern area of the Sixth Federal Reserve District could reflect a reduction in expenditures resulting from the substitution of soybeans for corn and cotton as well as the substitution of SBA loans for credit from the usual sources of farm loans. Elsewhere in the District, the massive increase in soybean acreage came nearer to offsetting the decline in acreage planted to other crops than was true in Georgia and Florida.

Prospects for income in the District states appear to be much improved from prospects in July of 1977. In spite of another siege of dry weather in June and early July of this year, sporadic rainfall has kept crop deterioration from proceeding as far as it did during 1977. Corn production has been severely limited again, but other crops are reported to be making relatively good progress.

Income levels on farms are expected to rise sharply in 1978. Production of most crops will be higher than a year ago, even though acreage has declined, because yields will be much improved from the disastrous levels experienced during last year's drought. In addition, a combination of government programs and improved demand has lifted prices for crops about 11 percent above year-ago levels. Some individual commodities such as rice and wheat are bringing prices as much as one-third above the comparable level in 1977.

Combined income from 11 major crops is estimated to increase by \$1.4 billion from 1977's level. The major income gainers, based on current

-5-

indications, are oranges, soybeans, corn, peanuts, and rice. Cotton will account for the major downturn. A reduction in acreage and production will drop income to cotton producers by an estimated 16 percent from 1977's income level.

Income to livestock producers was also rising briskly through midyear. Sharp price increases from year-ago levels for cattle and hogs are the primary sources of gain. The midyear cattle inventory shows that heavy marketings of breeding stock have continued during 1978. The reduced calf crop has contributed to rapidly rising prices of feeder calves, and the supply will apparently be restricted further in coming months, forecasting continually improving incomes for the remaining cow-calf operators.

Broiler production has grown at a rate of 6 to 8 percent throughout the first half of the year, and prices have followed the rise in beef and pork prices. A sharp increase in broiler income has contributed to the increase of \$280 million in the District livestock sector through May of 1978, and the increase could easily amount to \$750 million by the end of the year.

In the Southeast, farm income prospects for 1978 are brighter than they have been during the past several years. Rising prices, especially in the livestock sector, and prospects for increased crop production, most notably soybeans, are the major contributors to the improved outlook. Loan repayments should present considerably less problems to farmers than they did in 1977.

TABLE 1

FARM CASH RECEIPTS

Cumulative January-December
(\$ Millions)

	Livestock			Crops			Total		
	1977	1978	% Change	1977	1978	% Change	1977	1978	% Change
Alabama	993.2	1 007.5	+ 1.4	624.7	555.3	- 11.1	1 617.9	1 562.8	- 3.4
Florida	692.7	710.0	+ 2.5	1 840.1	1 795.7	- 2.4	2 532.8	2 505.8	- 1.1
Georgia	1 165.7	1 194.4	+ 2.5	1 103.3	974.3	- 11.7	2 269.0	2 168.8	- 4.4
Louisiana	405.5	414.6	+ 2.2	868.4	826.0	- 4.9	1 273.9	1 240.6	- 2.6
Mississippi	682.2	716.2	+ 5.0	989.6	896.5	- 9.4	1 671.8	1 612.7	- 3.5
Tennessee	675.4	695.6	+ 3.0	635.2	689.3	+ 8.5	1 310.5	1 384.9	+ 5.7
District ^{1/}	4 614.7	4 738.3	+ 2.7	6 061.3	5 737.1	- 5.3	10 675.9	10 475.6	- 1.9
U. S. ^{2/}	46 388.6	47 452.7	+ 2.3	47 937.2	47 572.2	- 0.8	94 325.8	95 024.9	+ 0.7

^{1/} Total for states either partially or totally included in the Sixth Federal Reserve District.^{2/} Total for 50 states.

Sources: Cash receipts from farm marketings by states (monthly release), Economics, Statistics, and Cooperative Service, USDA.

TABLE 2

DROUGHT DISASTER LOAN ACTIVITY, REGION IV,
SMALL BUSINESS ADMINISTRATION

Cumulative July 22-December 30, 1977

	<u>Applications Accepted</u>		<u>Applications Approved</u>		<u>Loans Disbursed</u>	
	(#s)	(\$000)	(#s)	(\$000)	(#s)	(\$000)
Georgia	8,733	823,737.1	7,573	351,687.3	4,642	129,874.3
Alabama	1,409	104,569.0	723	29,970.0	262	4,690.0
Other States*	4,817	314,866.1	3,247	175,272.7	1,438	54,084.6
Regional Totals	14,959	1,243,172.2	11,543	556,930.0	6,342	188,648.9

Cumulative July 22, 1977-July 5, 1978

Georgia	10,349	898,027.2	9,634	432,396.6	9,126	412,415.6
Alabama	2,900	256,173.0	2,298	116,984.0	2,242	110,195.0
Other States*	10,426	639,101.9	8,973	451,356.1	7,687	364,111.3
Regional Totals	23,675	1,793,302.1	20,905	1,000,736.7	19,055	886,721.9

*North Carolina, South Carolina, Mississippi, Florida, and Tennessee.

Source: U. S. Small Business Administration Regional Office, Atlanta, Georgia.

TABLE 3

FARM LOAN VOLUME OF COMMERCIAL BANKS, SIXTH FEDERAL RESERVE DISTRICT^{1/}
(millions \$)

	1976			1977			1978		
	<u>Nonreal</u> <u>Estate</u> ^{2/}	<u>Real</u> <u>Estate</u> ^{3/}	<u>Total</u> <u>Farm</u> <u>Loans</u> ^{4/}	<u>Nonreal</u> <u>Estate</u>	<u>Real</u> <u>Estate</u>	<u>Total</u> <u>Farm</u> <u>Loans</u>	<u>Nonreal</u> <u>Estate</u>	<u>Real</u> <u>Estate</u>	<u>Total</u> <u>Farm</u> <u>Loans</u>
	-----March 30-----								
Alabama	220.1	156.4	376.5	248.8	169.6	418.4	265.6	196.8	462.4
Florida	140.6	125.8	266.4	153.7	129.0	282.8	165.8	150.0	315.8
Georgia	264.5	303.8	568.3	316.5	319.7	636.1	282.4	330.9	613.3
Louisiana	187.9	115.9	303.8	208.1	138.8	346.8	243.9	173.2	417.0
Mississippi	226.9	182.2	409.1	248.6	207.3	455.9	268.1	219.7	487.8
Tennessee	236.1	275.1	511.2	258.7	309.4	568.1	297.8	343.6	641.4
District	1,276.1	1,159.1	2,435.2	1,434.4	1,273.7	2,708.1			
	-----June 30-----								
Alabama	246.9	156.6	403.5	292.2	181.8	474.1			
Florida	138.0	119.4	257.4	156.5	138.5	294.9			
Georgia	295.7	316.3	611.9	348.4	343.6	691.9			
Louisiana	209.9	129.9	339.9	252.8	145.7	398.5			
Mississippi	246.0	186.9	432.9	281.3	212.2	493.5			
Tennessee	247.3	281.3	528.6	295.8	325.8	621.5			
District	1,838.9	1,190.4	2,574.2	1,627.0	1,347.6	2,974.4			
	-----September 30-----								
Alabama	250.2	161.7	411.8	306.7	185.9	492.7			
Florida	144.5	122.2	266.7	155.3	139.9	295.3			
Georgia	282.4	309.5	591.9	348.7	347.3	696.0			
Louisiana	226.1	129.9	355.9	281.6	151.1	432.7			
Mississippi	278.8	199.8	478.6	327.0	222.3	549.3			
Tennessee	267.7	287.3	555.0	318.6	339.2	657.7			
District	1,449.7	1,210.4	2,659.9	1,737.9	1,385.8	3,123.7			

(TABLE 3 (CONTINUED))

	-----December 30-----					
Alabama	231.6	161.2	392.8	276.1	191.6	467.7
Florida	160.8	121.2	282.1	168.1	148.1	316.1
Georgia	272.8	314.8	587.6	302.9	333.4	636.3
Louisiana	187.7	134.9	322.6	232.7	156.4	389.0
Mississippi	244.5	199.4	443.8	284.9	225.9	510.9
Tennessee	246.3	300.4	546.7	296.4	333.3	629.7
District	1,343.7	1,231.9	2,575.6	1,561.1	1,388.7	2,949.7

1/ District totals include all state totals, even though only portions of Louisiana, Mississippi, and Tennessee are included in the Sixth Federal Reserve District.

2/ Listed as loans to farmers, item A4 on the Report of Call.

3/ Listed as loans secured by farmland, item Alb.

4/ Total farm loans include only the sum of the categories shown. Bank financing of agricultural production through direct lines of credit to vertically integrated operations is usually not identified as farm credit. A substantial portion of the agricultural loan volume of banks may be undetected in areas where production of broilers, eggs, fruits, and vegetables are concentrated, i.e., the Southeast.

Source: Quarterly Report of Call.

TABLE 4

VOLUME OF FARM LOANS OUTSTANDING
AT PRODUCTION CREDIT ASSOCIATIONS

	Georgia	Third Farm Credit District ^{1/}	Fifth Farm Credit District ^{2/}
	-----(\$ Million)-----		
<u>1977</u>			
Jan.	488.0	1,515.5	468.4
Feb.	504.2	1,561.1	474.1
Mar.	528.0	1,624.5	497.1
Apr.	553.8	1,688.7	533.3
May	579.4	1,742.8	575.9
June	597.3	1,806.5	620.8
July	619.4	1,844.0	652.4
Aug.	614.1	1,801.2	682.0
Sept.	604.6	1,750.2	693.2
Oct.	563.7	1,684.3	638.5
Nov.	550.8	1,667.3	576.8
Dec.	537.7	1,661.1	551.7
<u>1978</u>			
Jan.	537.2	1,680.5	534.8
Feb.	522.7	1,668.9	542.0
Mar.	510.1	1,667.3	549.0
Apr.	512.8	1,685.0	572.6
May	526.4	1,713.9	593.7
June	540.7	1,783.8	626.1
July			

¹Headquartered at Columbia, South Carolina, and including North Carolina, South Carolina, Georgia, and Florida.

²Headquartered at New Orleans, Louisiana, and including Alabama, Mississippi, and Louisiana.

Source: Farm Credit Administration, Washington, D. C.

TABLE 5

ESTIMATED PRODUCTION, COSTS, AND PROJECTED RETURNS,
 SELECTED CROPS IN SIXTH FEDERAL RESERVE DISTRICT STATES,
 1977 AND 1978

	<u>Acreage</u> ^{1/} (000)	<u>Total Variable Cost</u> ^{2/} (\$ millions)	<u>Total Production</u> ^{3/} (1,000 bales)	<u>Total Return</u> ^{4/} (\$ millions)
<u>Cotton</u>				
1977	2,771	496.0	2,930	693.4
1978	<u>2,447</u>	<u>488.5</u>	<u>2,292</u>	<u>580.9</u>
Change (Percent)	-324 (-11.7)	-7.5 (-1.5)	-638 (-21.8)	-112.5 (-16.2)
<u>Soybeans</u>				
			(mil. bu.)	
1977	11,547	774.8	251.7	1,497.6
1978	<u>13,320</u>	<u>887.2</u>	<u>314.5</u>	<u>2,160.6</u>
Change (Percent)	1,773 (15.4)	112.4 (14.5)	62.8 (25.0)	663.0 (44.3)
<u>Winter Wheat</u>				
1977	615	34.0	20.7	44.3
1978	<u>531</u>	<u>30.0</u>	<u>17.5</u>	<u>48.7</u>
Change (Percent)	-84 (-13.7)	-4.0 (-11.7)	-3.2 (-15.5)	4.4 (9.9)
<u>Corn</u>				
1977	4,939	520.9	101.9	198.8
1978	<u>3,825</u>	<u>422.4</u>	<u>181.2</u>	<u>462.1</u>
Change (Percent)	-1,114 (-22.6)	-98.5 (-18.9)	79.3 (77.8)	263.3 (132.4)

(TABLE 5 CONTINUED)

	<u>Acreage</u> (000)	<u>Total Variable Cost</u> (\$ mil.)	<u>Total Production</u> (mil. bu.)	<u>Total Return</u> (\$ mil.)
<u>Peanuts</u>				
1977	803	198.5	2,257.9	485.4
1978	<u>801</u>	<u>198.6</u>	<u>2,690.8</u>	<u>581.2</u>
Change (Percent)	-2 (-0.2)	.1 (0.1)	432.9 (19.6)	95.8 (19.7)
<u>Rice</u>				
			(mil. cwt.)	
1977	586	130.9	21.9	206.4
1978	<u>744</u>	<u>176.7</u>	<u>28.7</u>	<u>300.1</u>
Change (Percent)	158 (27.0)	45.8 (35.0)	6.8 (31.1)	93.6 (45.3)
<u>Tobacco</u>				
			(mil. lbs.)	
1977	146	150.4	304.9	35.2
1978	<u>140</u>	<u>144.2</u>	<u>280.2</u>	<u>32.4</u>
Change (Percent)	-6 (-4.2)	-6.2 (-4.1)	-24.7 (-8.1)	-2.8 (-8.0)
<u>Spring Potatoes</u>				
			(mil. cwt.)	
1977	35.3	26.0	6.2	47.5
1978	<u>36.4</u>	<u>27.1</u>	<u>5.5</u>	<u>36.7</u>
Change (Percent)	1.1 (3.1)	1.1 (4.2)	-0.7 (-11.3)	-10.8 (-22.7)
<u>Peaches</u>				
			(mil. lbs.)	
1977	N.A.	N.A.	118.5	19.4
1978	N.A.	N.A.	<u>154.4</u>	<u>30.4</u>
Change (Percent)			35.9 (30.3)	11.0 (56.7)

(TABLE 5 CONTINUED)

	<u>Acreage</u> (000)	<u>Total Variable Cost</u> (\$ mil.)	<u>Total Production</u> (mil. boxes)	<u>Total Return</u> (\$ mil.)
<u>Oranges</u>				
1977	N.A.	N.A.	186.8	576.4
1978	N.A.	N.A.	<u>168.3</u>	<u>958.4</u>
Change (Percent)			-18.5 (-9.9)	382.0 (66.3)
<u>Grapefruit</u>				
1977	N.A.	N.A.	51.5	94.6
1978	N.A.	N.A.	<u>51.0</u>	<u>98.4</u>
Change (Percent)			-0.5 (-1.0)	3.8 (4.0)
Change, All Crops	402.1	--	--	1,390.8

1/ Acreage harvested in 1977 and acreage intended for harvest in 1978, except that acreage planted is used for corn, since drought in 1977 distorted the acreage harvested.

2/ Variable costs per acre obtained from the U. S. Department of Agriculture or various state experiment stations multiplied by the acreage for each crop.

3/ Actual production for 1977 and estimates for 1978 derived from acreage for harvest multiplied by the average yield in the three most recent years, except where production estimates were given in USDA's monthly publication, Crop Production.

4/ The season average price multiplied by production in 1977. The average price received by farmers in April, May, and June multiplied by estimated production in 1978.

TABLE 6

FARM CASH RECEIPTS

Cumulative January-May
(\$ Millions)

	Livestock			Crops			Total		
	1977	1978	% Change	1977	1978	% Change	1977	1978	% Change
Alabama	433.6	434.5	+ 0.2	131.2	139.5	+ 6.3	564.7	574.0	+ 1.6
Florida	303.0	366.9	+ 21.1	1 096.0	1 419.2	+ 29.5	1 399.0	1 786.1	+ 27.7
Georgia	507.4	569.8	+ 12.3	200.3	144.6	- 27.8	707.6	714.4	+ 1.0
Louisiana	175.0	202.1	+ 15.5	185.5	183.2	- 1.2	360.5	385.3	+ 6.9
Mississippi	282.5	357.1	+ 26.4	204.0	210.4	+ 3.1	486.6	567.4	+ 16.6
Tennessee	293.1	345.2	+ 17.8	196.4	146.1	- 25.6	489.5	491.4	+ 0.4
District ^{1/}	1 994.6	2 275.6	+ 14.1	2 013.4	2 243.0	+ 11.4	4 007.9	4 518.6	+ 12.7
U. S. ^{2/}	19 007.6	22 343.4	+ 17.5	16 124.9	15 251.9	- 5.4	35 132.4	37 595.3	+ 7.0

^{1/} Total for states either partially or totally included in the Sixth Federal Reserve District.^{2/} Total for 50 states.

Sources: Cash receipts from farm marketings by states (monthly release), Economics, Statistics, and Cooperative Service, USDA.