Financial

1978

Financial Situation and Conditions
in the Corn Belt*

My comments today are based primarily on the results of the Land Value and Credit Conditions Survey conducted by Federal Reserve Bank of Chicago. The survey is mailed quarterly to over 800 agricultural banks in The Chicago Federal Reserve District, which includes all of Iowa and major portions of Illinois, Indiana, Michigan, and Wisconsin. Around 600 banks typically respond to the survey. The most recent survey was conducted July 1.

Many of the questions regarding agricultural credit conditions are subjective in nature. Bankers are asked to indicate whether current conditions are "higher", "lower", or "the same" as a year ago. The bulk of my remarks will refer to a "quasi-index" measure that we use to summarize the results of these types of questions. The index is computed by subtracting the percent of banks that report current conditions are "lower" than a year ago from the percent that respond "higher", and adding 100. Combining the two views into a single measure--rather than concentrating on just one aspect of the comparison with a year ago--provides a more complete, or balanced, summary of the of the current situation. And a time series presentation of these index measures--such as in the following charts--adds an important temporal perspective to the current trends.

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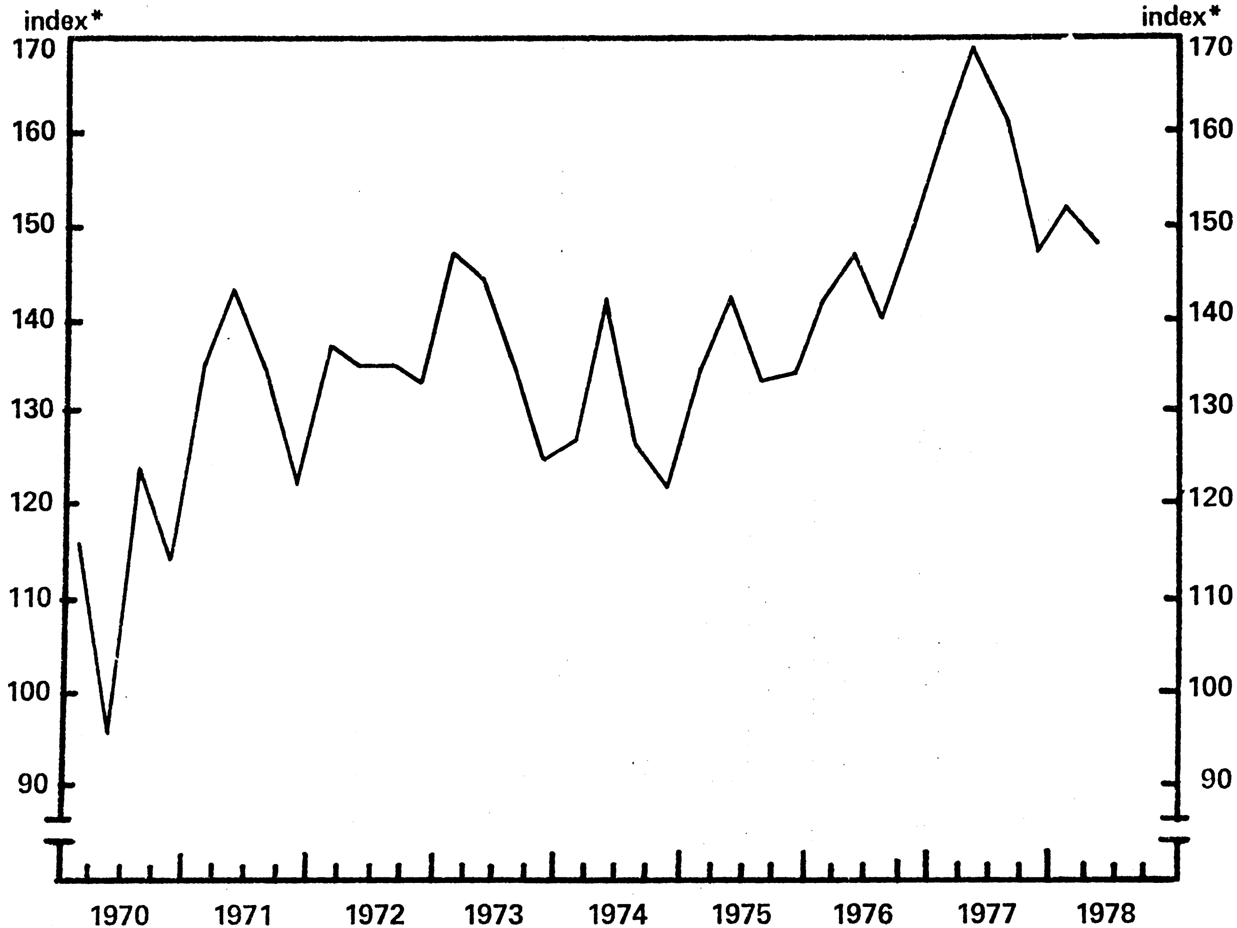
*Remarks by Gary L. Benjamin, Senior Economist, Federal Reserve Bank of Chicago, at the annual meeting of the American Agricultural Economics Association, Blacksburg, Virginia, August 7, 1978.

FARM LOAN DEMAND IS STILL RELATIVELY STRONG
BUT LESS INTENSE THAN IN 1977



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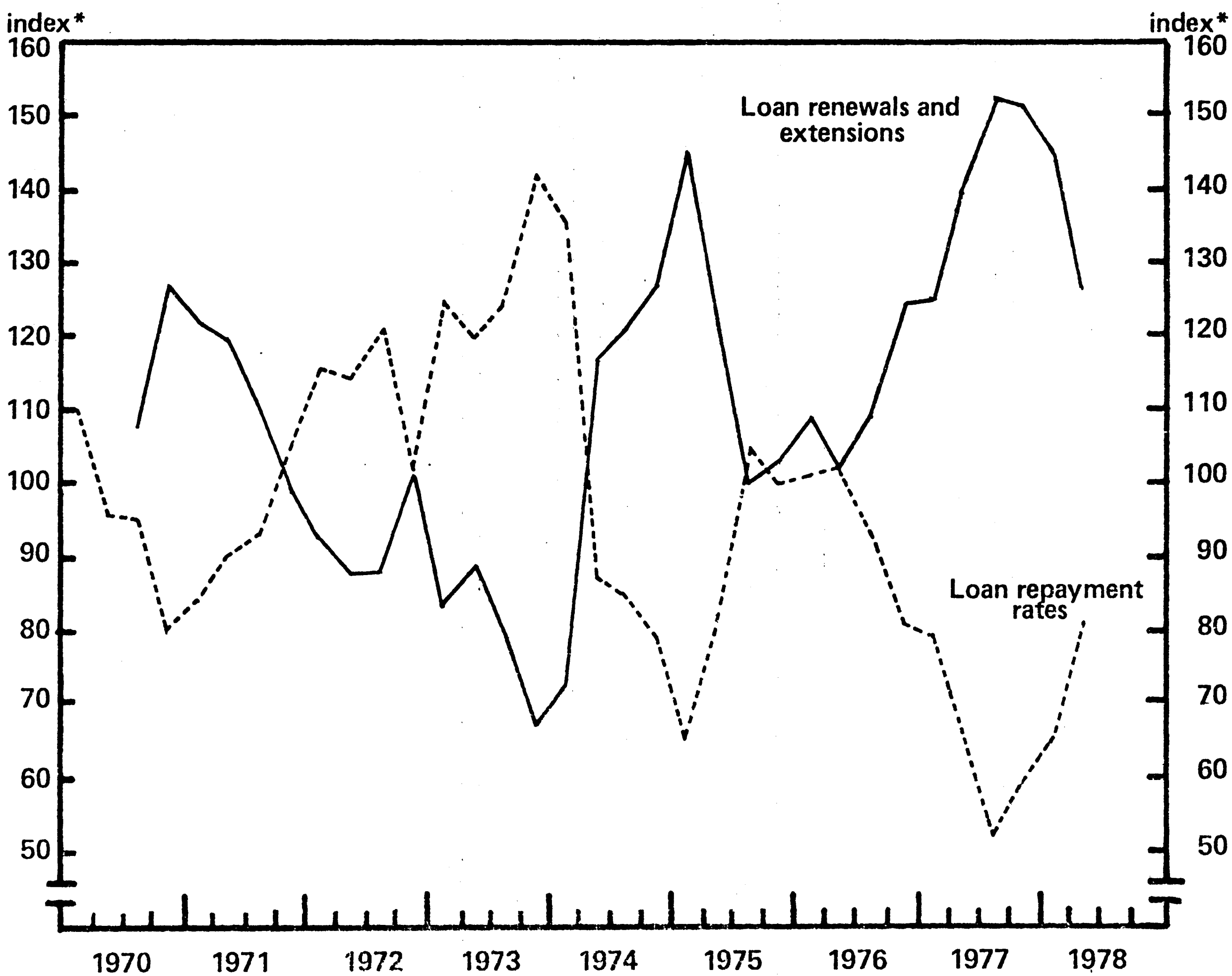
The demand for nonreal estate farm loans at agricultural banks was still relatively strong during the first half of 1978. But compared to the unusual strength in 1977, loan demand pressures have abated considerably. A number of factors, including sharply higher farm commodity prices, and expanded use of CCC loan programs, and government disaster loans and payments have contributed to the easing in loan demand at agricultural banks.

PROBLEMS IN FARM LOAN PORTFOLIOS ARE EASING;
REPAYMENTS ARE PICKING UP AND RENEWALS ARE SLOWING



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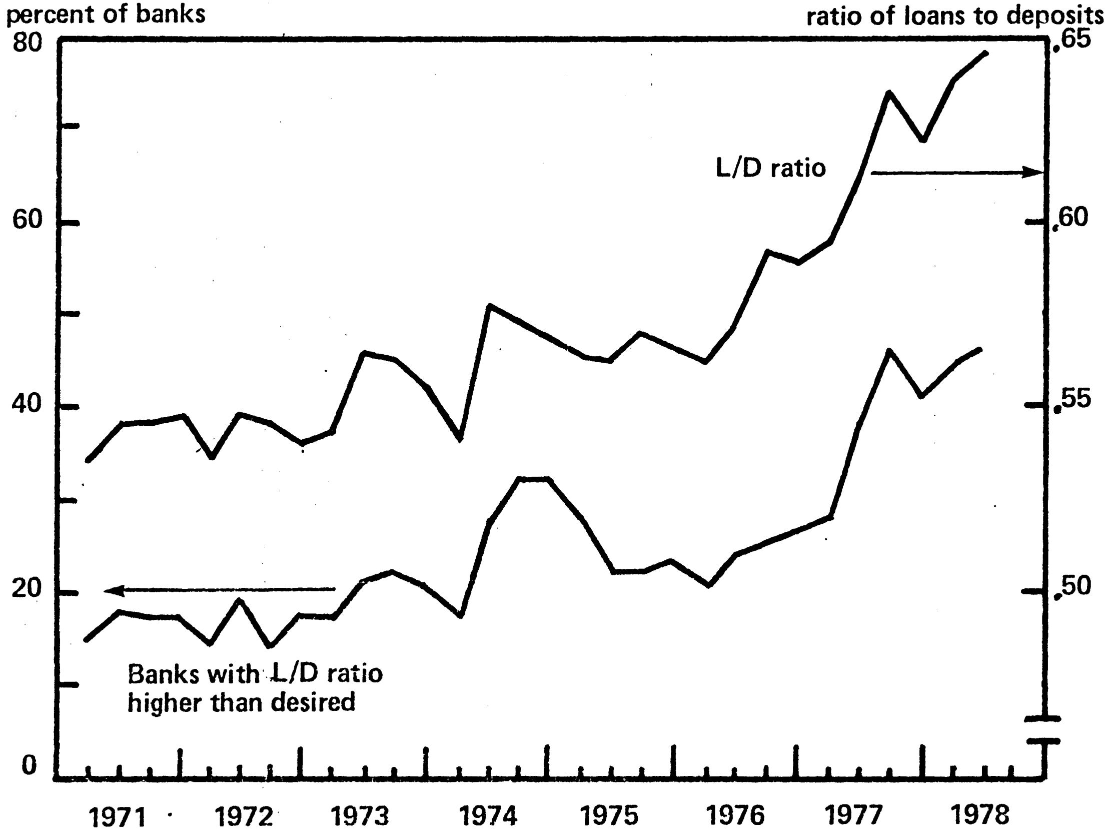
Improved cash flows to farmers have considerably eased the farm loan portfolio problems evident among rural banks during the latter part of 1977. The index of farm loan repayment rates rose to 81 in the second quarter. Although this indicates that the proportion of banks noting a year-to-year decline in repayments still exceeds the proportion reporting an increase, it marks the best balance between the two views since the fourth quarter of 1976. Moreover, the index has improved considerably from the low point registered during the collapse in farm commodity prices last summer. Similar indications are apparent from the slowing in loan renewals and extensions.

LOAN-TO-DEPOSIT RATIOS ARE AT RECORD LEVELS AND HIGHER THAN MANY BANKS DESIRE



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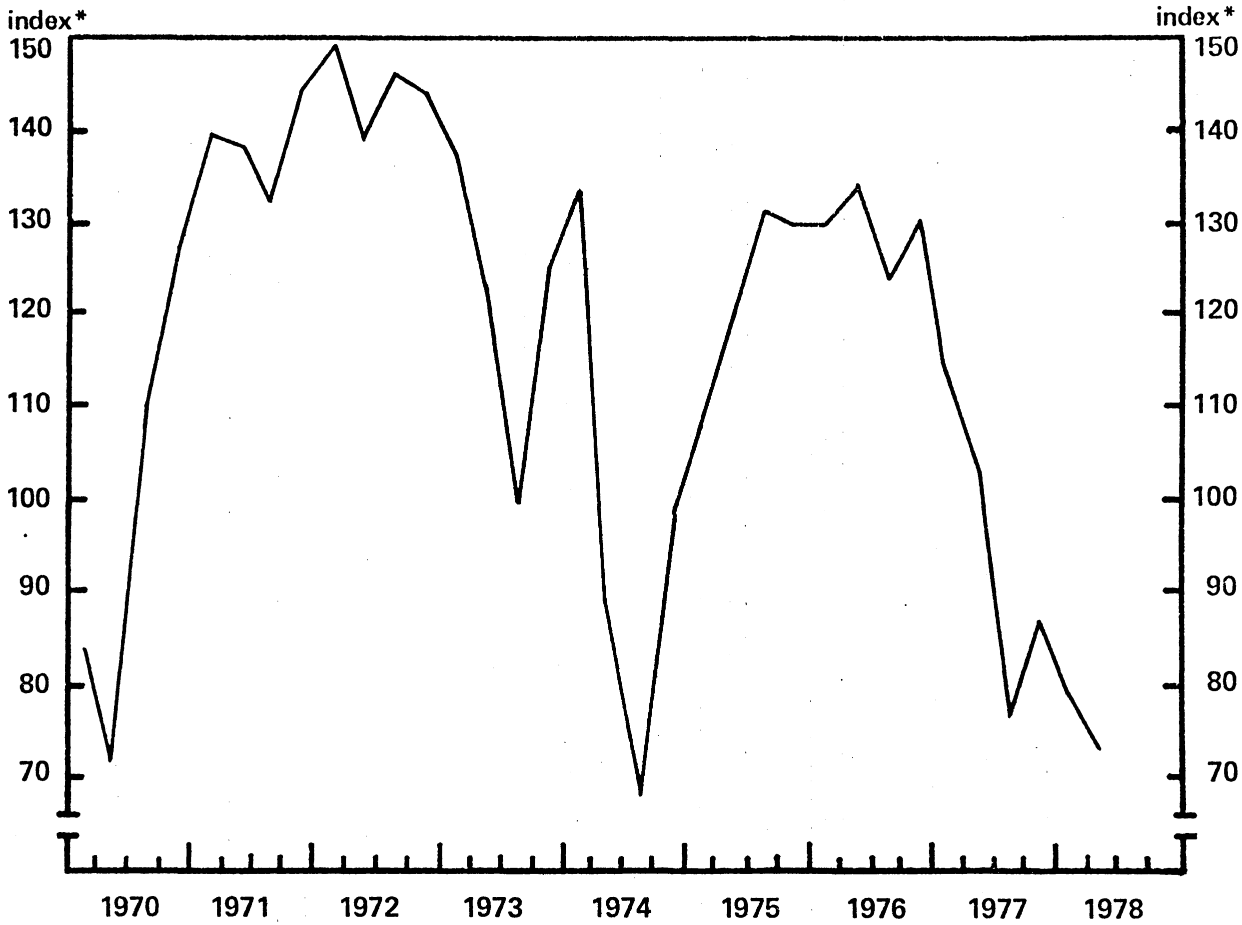
Liquidity pressures are still widespread among agricultural banks in the midwest. Loan-to-deposit ratios, which rose rapidly in 1976 and 1977, continued to edge higher during the first half of this year. As of the end of the second quarter, the average ratio exceeded 0.64, up from 0.61 a year ago and 0.57 in mid-1976.

Evidence of the continuing liquidity pressure is also reflected in the high proportion of banks who consider their current loan-to-deposit ratio higher than they would like. Nearly one-half (46 percent) of the banks that responded to the July 1 survey were operating with a higher-than-desired ratio of loans to deposits. Normally, the proportion of banks holding such a view is considerably smaller.

THE AVAILABILITY OF FUNDS FOR LENDING IS VERY TIGHT



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Liquidity pressures are also apparent in bankers perception of the availability of funds for agricultural loans. Fund availability reflects a number of interrelated factors, including loan demand, deposit growth, and competitive rates of return between loans and alternative investment opportunities for banks.

Deposit growth at mid-west agricultural banks so far this year about parallels that of recent years, although the mix in deposit growth has shifted. The heretofore sluggish growth in demand deposits has picked up substantially. In contrast, growth in time and savings deposits has slowed, perhaps reflecting the increased competition banks face for customer savings as a result of the uptrend in interest rates.

Interest rates on bank loans to farmers have edged higher during the first half, but not nearly as much as rates on alternative bank investments. The resulting shift in the competitive balance encourages banks to allocate a larger proportion of new inflows of funds to alternative investments, and (because of the potential capital loss) discourages the selling the investments to meet loan demand.

OTHER SELECTED MEASURES OF AGRICULTURAL CREDIT CONDITIONS

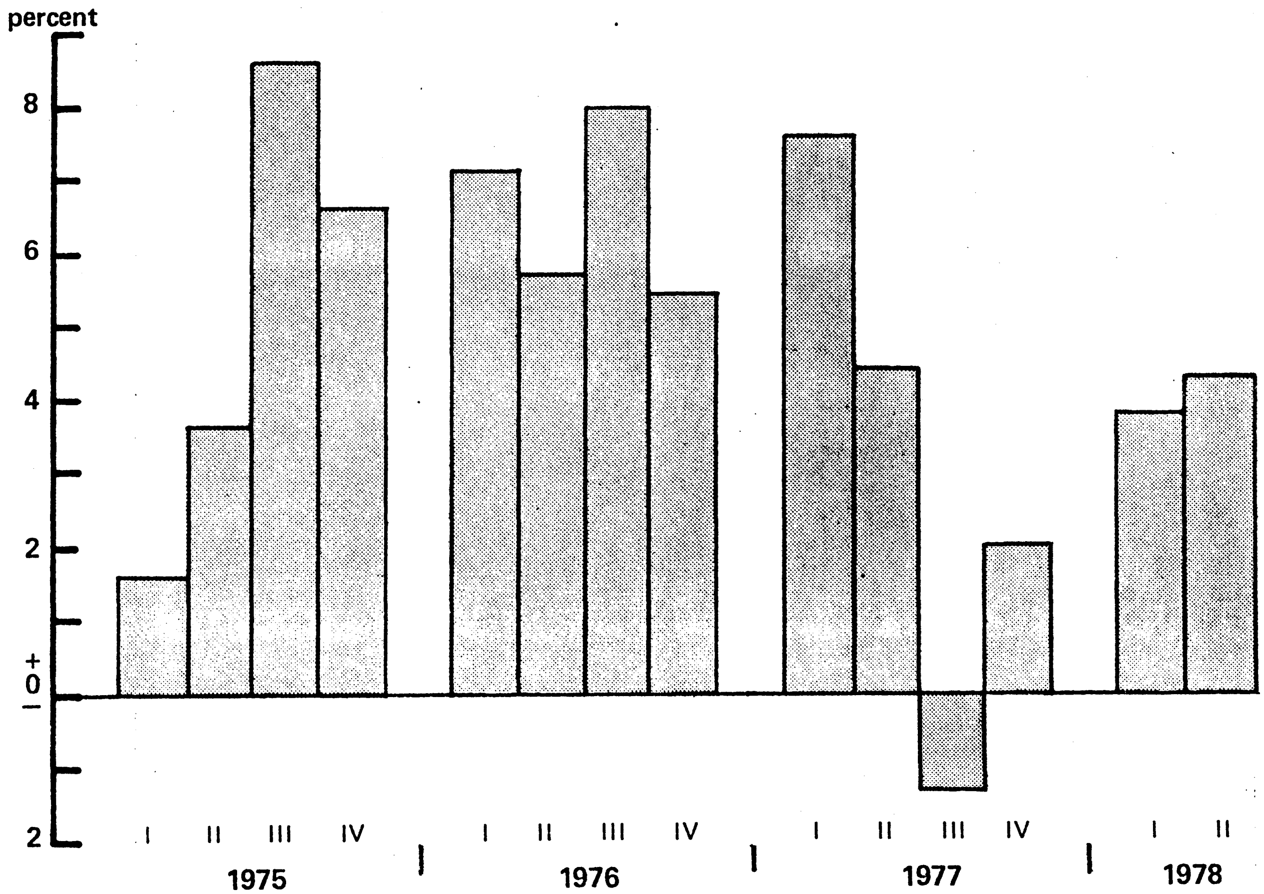
	Index* as of	
	July 1 1977	July 1 1978
Utilization of correspondent banks to service farm loan customers	112	109
Number of farm loan requests referred to other institutions	113	114
Adequacy of federal emergency credit programs with respect to current farm problems	84	102
The number of foreclosures or forced sales of farms	85	82
Efforts in seeking new farm loan customers	92	82
Quality of agricultural loan portfolio	n.a.	115
Availability of credit to farmers from all sources	n.a.	82

*The index is computed by subtracting the percent of banks that respond "lower" than normal from the percent that report "higher", and adding 100.

Other questions in our quarterly survey related to agricultural credit conditions are noted in this table. In contrasting bankers responses in the most recent survey with those of a year ago, two points seem noteworthy. First, banks apparently view existing federal emergency credit programs as more adequate with respect to current farm problems than they did a year ago. This either suggests that bankers view current farm problems with less concern than a year-ago or that their recent experience with federal emergency credit programs has been favorable. Or perhaps they were anticipating the expanded emergency lending powers of the Farmers Home Administration which were enacted just last week.

The other point I wanted to make is that the most recent survey suggests banks have reduced there efforts in seeking new farm loan customers. This, no doubt, is related to the lingering liquidity pressures at agricultural banks.

QUARTERLY CHANGES IN DISTRICT FARMLAND VALUES



In closing, I might indicate that the uptrend in farmland values in the mid-west has resumed following the rather stable conditions of the latter half of 1977. Our survey results suggest district farmland values rose about 4 percent in both the first and the second quarter of this year. Quarterly increases of this magnitude are rather substantial by historical comparison, although considerably less than what generally prevailed during the 1973 to 1977 boom.