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BANK LOANS to farmers in the Seventh Federal Reserve District expanded sharply during 1965; non-real estate loans showed the largest increase since 1962, and loans secured by farm real estate mortgages showed the largest increase ever recorded. Moreover, reports of more than 350 country bankers, responding to a recent survey on agricultural credit conditions in the District states, indicate that this strong demand for credit has continued through the first quarter of this year.

More than three-fifths of the bankers reported that during the first quarter of 1966 the volume of non-real estate farm loans—those loans typically made to finance purchases of farm machinery, livestock and feed and to pay taxes, wages and other current operating expenses—had increased 5 percent or more from the comparable year-earlier period. About one-third or 120 of the bankers indicated little change in the demand for short-term loans while only about 20 banks reported a slackening in demand.

Demand for mortgage credit also continued strong during the first quarter. More than one-third of the bankers indicated that the volume of loans secured by farm real estate exceeded the year-earlier level by 5 percent or more while most of the other banks reported little change.

Increased costs of farming, reflecting rising prices as well as larger purchases of production items, apparently have been in large part responsible for the strong demand for farm credit. The index of prices paid by farmers reached a record high as of April 15—about 4 percent above last year's level. Prices of farm machinery averaged about 3 percent above a year-earlier and farmers' purchases of farm equipment were substantially larger than during the first part of 1965. For example, during the first quarter retail sales of tractors—the major farm equipment expenditure—was more than 50 percent above year-ago sales in the Seventh District states, according to the Farm and Industrial Equipment Institute.

Farmers in the Midwest have also purchased a larger number of feeder cattle and at substantially higher prices than last year. Feeder cattle inshipments to the three District Corn Belt states during the first three months of 1966 were about 35 percent above the comparable 1965 period, and the prices paid for feeder animals averaged about 25 percent higher. Outlays for fertilizer, insecticides, building materials and other production items were also higher than a year ago.

Rising land prices and the further pressures to expand the size of existing farms apparently contributed to the demand for real estate credit. Farmland values in the Seventh District jumped about 4 percent during the first quarter. Land prices were 10 percent higher than a year ago—the largest year-to-year increase in more than a decade. Preliminary data from the 1964 Census of Agriculture for three of the District states—Illinois, Iowa and Wisconsin—indicate that the consolidation and merging of small farms has increased the average size of farms by 10 to 25 acres between 1959 and 1964. Other evidence indicates that this trend may have accelerated since 1964.

Demand for both real and non-real estate loans is expected to continue strong as prices and purchases of many items used in the production of agricultural commodities are expected to advance further. About three-fifths of the bankers reporting in the April survey expected farmers to increase their purchases of fertilizer during the second quarter relative to a year ago and more than two-fifths foresaw an increase in farm machinery purchases. Furthermore, more than four-fifths of the bankers expected the trend in land prices to continue upward.

The adequacy of funds at country banks to handle the strong demand for farm loans was reported to be slightly improved in many of the District areas. This apparently reflects the sharply higher incomes of most farmers during the past year.

Nevertheless, over two-fifths of the bankers view their loan policy as somewhat tighter than a year ago. Tighter credit conditions in rural areas are also reflected in the higher interest rates being charged for most types of loans. Nearly three-fifths of the bankers responding in the survey indicated some increase in interest rates charged on non-real estate loans since April 1965; about 10 percent of the banks had increased rates by 1 percent or more. Moreover, nearly three-fourths of the bankers reported that higher rates were being charged by major farm real estate lenders, with most of these increases occurring since the beginning of the year.

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