Federal Reserve Bank of Chicago

September 9, 1966

Agricultural Letter

Number 873

BANK LOANS to farmers in the Seventh Federal Reserve District increased further during the 12-month period ended June 30. Agricultural loans secured by farm real estate continued their long-term upward trend but at a somewhat slower pace than during the comparable year-earlier period while non-real estate loans—made chiefly to finance crop and livestock production increased more rapidly compared with other recent periods (see back of Letter).

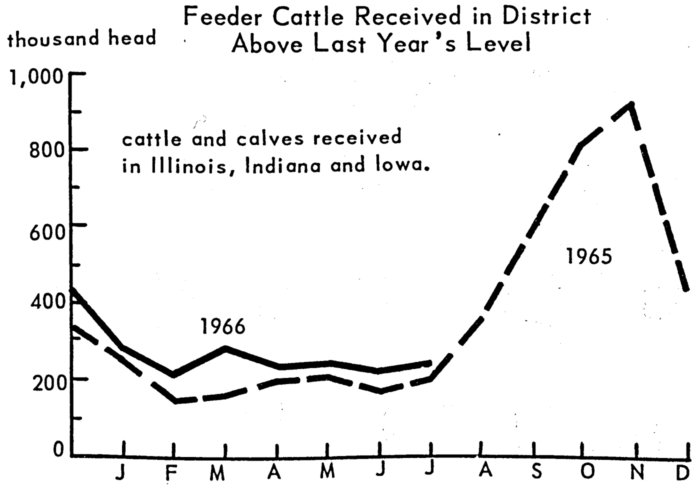
Non-real estate farm loans outstanding at District member banks were 13.5 percent above the year-earlier level at midyear. Since the beginning of the year, short-term loans to farmers have advanced nearly 7 percent compared to a gain of less than 5 percent during the first half of 1965. This accelerated pace of short-term lending largely reflects the sharp increases in farm prices and income.

During the first half of 1966, cash receipts from farm marketings in the District totaled $4.5 billion—up 16 percent from the similar 1965 period while for the nation the annual rate of net farm income was estimated at $16.4 billion during the first half of this year, up $1.2 billion from the realized 1965 figure. An optimistic outlook on the part of farmers usually results in increased spending for capital and production goods and is subsequently accompanied by increased borrowing to finance these items.

Increases in short-term loans outstanding from a year earlier were reported in all District areas except western Michigan. Short-term lending declined sharply in this area during the latter half of 1965 but has risen markedly since the beginning of the year. Banks in Iowa showed the largest increase in non-real estate loans to farmers.

Larger purchases of farm machinery and of feeder cattle coupled with higher prices for each were major factors in the strong short-term loan demand. Since January 1966, the number of cattle received in District Corn Belt states averaged 26 percent more than the similar period last year. Moreover, feeder cattle prices averaged $4 to $6 per hundredweight above those of the previous year.

Feeder Cattle Received in District
Above Last Year's Level



SOURCE: USDA.

Retail sales of farm tractors in the District states, the major equipment expenditure, averaged 27 percent above the year-earlier level during the first five months of 1966, according to the Farm and Industrial Equipment Institute. Sales of other machinery were also reported to be running well above a year earlier. In addition farm machinery prices increased 2 percent from March to June of this year. The combination of these factors have undoubtedly generated the need for sharply expanded amounts of agricultural credit.

Farm real estate loans outstanding at District member banks have continued to advance—up 12 percent from a year ago. The rise has not been as great as might have been expected considering the increases in farmland values. Most of the increase from a year ago occurred during the latter part of 1965.

Each of the District states except Michigan experienced a smaller rise during the first half of the year than during the first six months of 1965, apparently reflecting generally tighter credit conditions and a shortage of farm mortgage funds in some areas. Banks in 4 of the 17 reporting areas had a smaller volume of outstanding farm real estate loans on June 30, 1966, than six months earlier. Rising interest rates and more selective lending policies have probably contributed to the slackening of the rate of increase of farm mortgage lending.

Most institutional farm mortgage lenders have raised their interest rates since the latter part of 1965. A survey of country member banks in the Seventh District earlier this year indicated that rates on farm mortgages had moved up a half percent or more from a year earlier. Furthermore, most of the 12 Federal Land Banks are now charging 6 percent compared to 5.5 percent or less during the first half of the year and a majority of life insurance companies are now charging 6 percent or more on new farm mortgage loans. There have also been many reports of higher down payments and shortening of maturities on farm real estate loans.

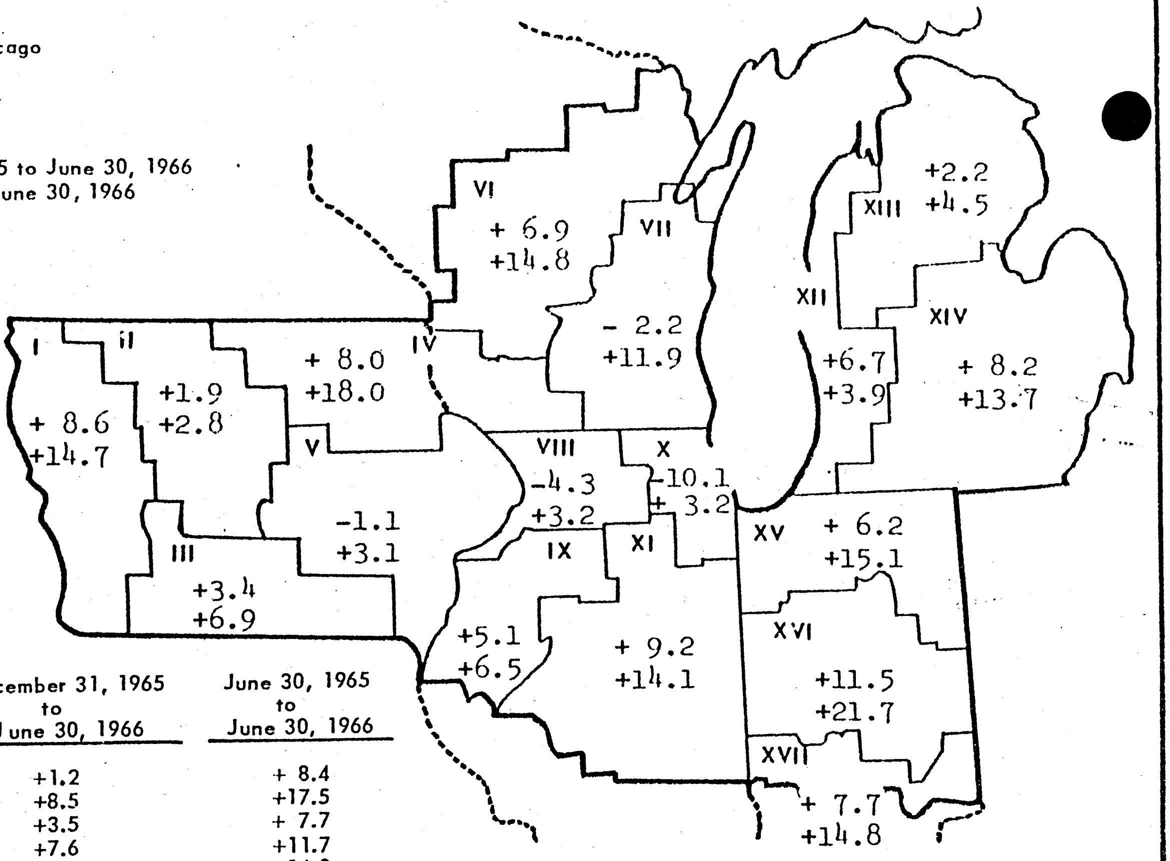
The demand for farm real estate loans has remained strong since farmers are still seeking land to consolidate into larger units and prospects of continued farm prosperity has encouraged additional investment in farm property. The sellers of farmland appear to be a more important source of funds to finance real estate transfers as credit availability from institutional lenders deminishes. Land contracts as a method of transferring farmland are reported to be on the increase in recent months.

David W. Maaske
Economist

Farm real estate loans outstanding
District member banks outside Chicago

Percent change:

TOP: December 31, 1965 to June 30, 1966
BOTTOM: June 30, 1965 to June 30, 1966

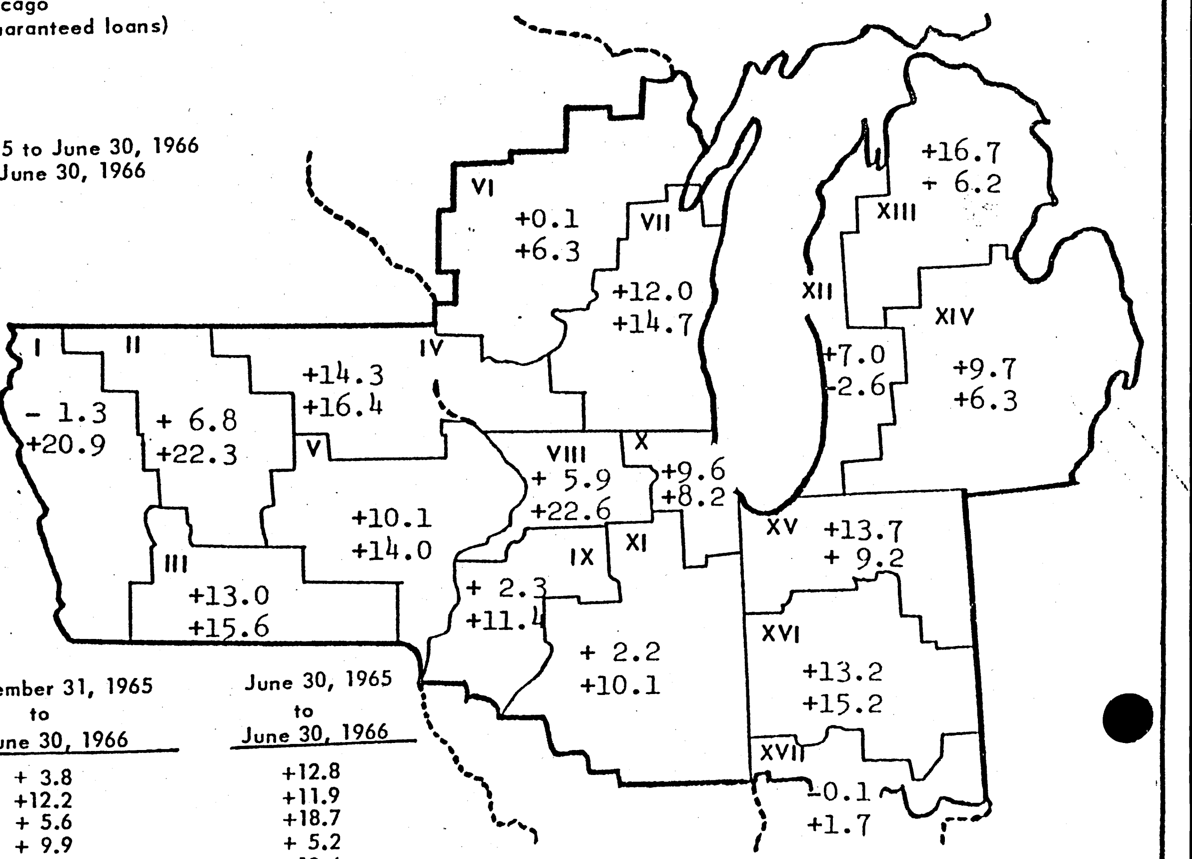


	December 31, 1965 to June 30, 1966	June 30, 1965 to June 30, 1966
Illinois	+1.2	+ 8.4
Indiana	+8.5	+17.5
Iowa	+3.5	+ 7.7
Michigan	+7.6	+11.7
Wisconsin	+1.3	+14.0
SEVENTH DISTRICT	+4.9	+11.9

"Short-term" farm loans outstanding
District member banks outside Chicago
(excludes real estate and CCC guaranteed loans)

Percent change:

TOP: December 31, 1965 to June 30, 1966
BOTTOM: June 30, 1965 to June 30, 1966



	December 31, 1965 to June 30, 1966	June 30, 1965 to June 30, 1966
Illinois	+ 3.8	+12.8
Indiana	+12.2	+11.9
Iowa	+ 5.6	+18.7
Michigan	+ 9.9	+ 5.2
Wisconsin	+ 9.5	+13.4
SEVENTH DISTRICT	+ 6.6	+13.5