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MIDWEST BANKS continued to experience a strong demand for agricultural loans during the third quarter of this year. This was the consensus of more than 350 country bankers responding to an early October survey on credit conditions in the Seventh Federal Reserve District. About one-half of the bankers reported that the non-real estate loan demand—those loans typically made to finance purchases of farm machinery, livestock and feed and to pay taxes, wages and other current operating expenses—was on a par with the high level experienced during the same period last year while most of the remaining bankers reported a more active demand. Only 7 percent of the responding bankers indicated a slackening in the demand for farm credit.

Larger purchases of feeder cattle and farm machinery along with generally higher operating expense apparently have continued to be largely responsible for the upward pressure on farm credit demands. Inshipments of feeder cattle to the three District Corn Belt states during July and August rose about 9 percent above the year-ago level while prices of feeder cattle averaged about $2-4 per hundredweight higher. Wages, taxes and prices paid for family living items all have continued to rise—up about 5 percent from a year earlier.

While the demand for new loans has been strong, repayments on outstanding loans have been stepped up and renewals and extensions have declined in many areas, apparently reflecting the further substantial rise in farm income. During the first eight months of this year, cash receipts from farm marketings in the Seventh District states have exceeded the year-earlier level by about 16 percent.

Demand for non-real estate credit in the District during the remainder of the year is expected to continue strong, according to the survey respondents. More than one-third of the bankers anticipated an increase in farm credit demands while most of the remaining bankers expected the demand to be maintained at a high level. Only 4 percent foresaw a decline in loan demand. Demands for funds for the purchase of farm machinery and feeder cattle are expected to be especially strong with most of the increase in the Corn Belt states. This may reflect the anticipated expansion in feed grain acreage during 1967 and the favorable outlook for prices of fed cattle next year.

While the demand for farm loans is expected to continue strong, deposits at most "agricultural" banks also have risen sharply this year, partially reflecting the higher farm income. Demand deposits at these banks in September were about 5 percent above the same month a year ago. Moreover, time deposits at agricultural banks continued to advance sharply, with increases of 10 percent or more in each of the District states. Favorable crop and livestock prices should continue to bolster deposits at these banks during the remainder of the year.

Deposits at "Agricultural" Banks Rise*

	Increase September, 1965-66 Demand	Time
	(percent)	
Illinois	5	11
Indiana	6	21
Iowa	4	15
Michigan	10	10
Wisconsin	4	10
Seventh District	5	14

*Agricultural banks are those in which farm loans account for a relatively large proportion of total loans and are located in towns of less than 15,000 population.

Consequently, funds available to accommodate farmers' expected credit needs are apparently adequate in most areas. Less than 2 percent of the banks (only 6) indicated insufficient funds to accommodate their regular customers. However, a number of banks—about 10 percent—have imposed, or plan to impose, some additional limitations on the credit extended, such as shortening loan maturities and requiring increased collateral. A relatively small proportion of these banks' customers were expected to be affected by these limitations, however.

Interest charges on farm loans—reflecting the increased credit demands and the generally higher costs of money—have risen sharply. More than three-fourths of the banks reported higher rates than a year ago. A "typical" rate on feeder cattle loans of 6.5 percent or more was being charged by about three-fifths of the banks as of October 1; nearly one-fifth of the banks were charging 7 percent. In July of this year, more than 60 percent of these banks were charging less than 6.5 percent on feeder cattle loans, and as of a year ago the proportion was nearly 80 percent. The geographic pattern of interest rates remains principally unchanged: Illinois and Iowa banks reported rates generally lower than Michigan, Wisconsin or Indiana and the lowest rates were reported by banks in the major cattle feeding areas of both Illinois and Iowa.

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