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Agricultural Letter

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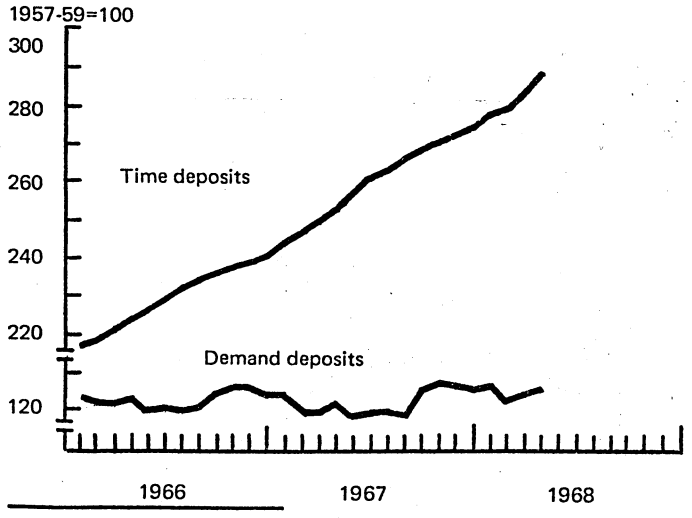
DEPOSITS at "agricultural" member banks in the Seventh Federal Reserve District continued well above year-ago levels during the first part of this year. Demand deposits were nearly 4 percent higher in April than a year before, and time deposits were more than 14 percent higher.

Deposits at "Agricultural" Banks Well Ahead of Last Year



Note: Agricultural banks are those located in towns with populations under 15,000 and in which farm loans account for a relatively large proportion of total loans.

With prices of most Midwest agricultural commodities off sharply last year and the financial reserves of many district farmers probably reduced, demand deposits showed practically no gain between 1966 and 1967. But with prices of most important Midwest commodities up somewhat in recent months, farmers' deposits apparently have increased. Booming activity in other economic sectors of the district has also helped boost deposits at agricultural banks.

Demand deposits at these banks usually decline this time of year because of the seasonally large cash demand for purchases of machinery and expenses of planting and fertilizing crops. Although demand deposits at these banks have declined since the beginning of the year, the decline has been less than usual. The rate of decline was probably slowed both by improvements in farm income and by reductions in the acreage of crops planted under government feed-grain and wheat programs.

Farmers' cash receipts were about 5 percent higher in the district states in the first quarter than a year before. And early this spring farmers reported plans to plant about 8 percent fewer acres to corn—the smallest acreage in years.

Time deposits at agricultural banks in the district continued to rise at about the same rate as in recent years. Except for a leveling off at the end of 1959 and the beginning of 1960, time deposits at these banks have followed a steady rise since 1955. The one interruption in the rise may have been partly in response to sharply reduced farm income in 1959 and to a general sluggishness in other areas of economic activity. In line with the general movement to higher interest rates paid by banks and the continued upswing in business activity, time deposits have grown at an annual rate of about 14 percent since early 1962—about twice the average rate in most other years since the mid-1950s.

With the increase in the rate of growth of time deposits in recent years, the ratio of time to total deposits has increased sharply. At the end of 1967, time deposits at agricultural banks in the district accounted for well over half the total deposits. The ratio was about 45 percent in 1964 and only 37 percent at the end of 1960. It has been considerably higher at banks in Michigan and Wisconsin than at banks in the three Corn Belt states of the district.

Ratio of Time to Total Deposits Rises Sharply

	1960	1964	1968
		(percent)	
Illinois	30	39	46
Indiana	38	45	55
Iowa	31	40	49
Michigan	61	66	68
Wisconsin	58	63	66
Seventh District	**37**	**45**	**53**

Because the higher proportion of time deposits raises deposit costs but tends to reduce seasonal fluctuations in deposits, the trend has enabled and possibly encouraged banks to increase the volume of farm loans and lengthen their maturities. Agricultural loans outstanding at district banks have risen about 80 percent since 1960, and the average loan-deposit ratio at agricultural banks has increased to more than 50 percent—from less than 45 percent in 1960. A survey of insured banks conducted by the Federal Reserve System in mid-1966 indicated that while farm loans were still predominantly short term, there had been a considerable lengthening of maturities. Of the farm loans outstanding at district banks in 1966, more than two-thirds were written for six months or more. Ten years before, the proportion was about three-fifths.

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