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FARMERS' DEMAND FOR CREDIT remained strong in the second quarter. About half the bankers responding to a July survey of credit conditions in the Seventh Federal Reserve District reported demand for nonreal-estate farm loans stronger than a year before. Less than 5 percent saw any slackening in demand for these loans, which are chiefly to cover general operating expenses and purchases of livestock and machinery.

Demand for credit to buy farm real estate was probably about the same as last year. Nearly 60 percent of the bankers thought demand had not changed, although about 30 percent thought it was stronger.

The continued strong demand for farm credit is not surprising. While cash receipts were lower than last year in three states of the district—Indiana, Michigan, and Wisconsin—farm costs were up sharply. Outlays for farm machinery continue high. While units of machinery sold have declined in recent months, with the trend toward larger units and the general increase in prices, the dollar-volume of sales has increased in many areas.

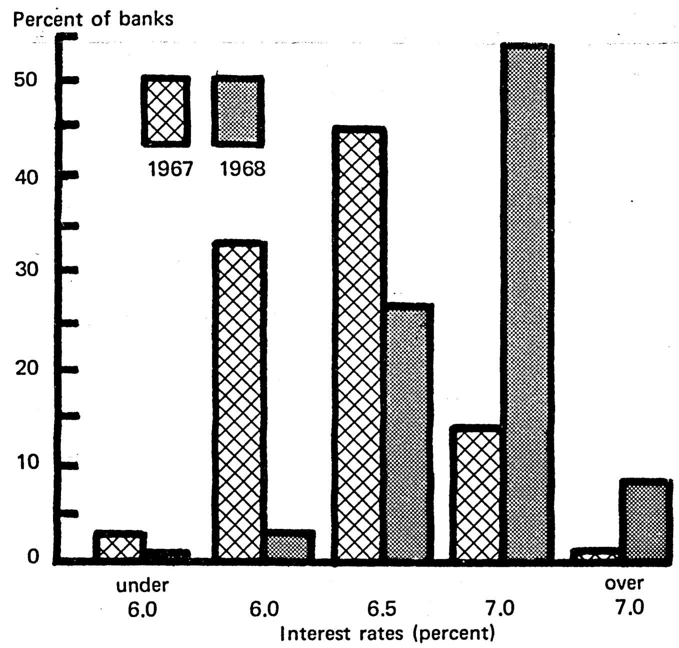
Farmers also continue to spend more for commercial fertilizer. High production of fertilizer has held prices down, and the increasing costs of other farm inputs provide incentive for greater use of fertilizer. Use of fertilizer in the Seventh District increased 13 percent last year—30 percent in Iowa. Its use will probably increase again this year, despite cutbacks in acreage. Shipments of potash for agricultural purposes, for example, were 21 percent greater in the first quarter than a year before.

The rapid increase in cattle feeding in the district in recent months has also increased demand for nonreal-estate credit. Not only were more animals placed on feed in the second quarter—about 5 percent more than last year—but prices of feeder cattle were also higher. Choice feeder steers at Kansas City have been averaging \$1 to \$2 a hundredweight higher than a year before, boosting the average cost \$10 to \$15 a head.

Most bankers responding to the survey viewed the availability of credit about the same this year as last. They indicated, however, that funds were tighter for farm real-estate loans than for nonreal-estate loans. More than a third of the bankers thought fewer funds were available for real-estate loans and about a fifth of them thought fewer funds were available for nonreal-estate loans.

Interest rates have continued to trend upward from year-ago levels. More than half the bankers surveyed indicated they were charging 7 percent on cattle loans—the maximum allowed in Illinois and Iowa. A year ago, almost four-fifths of the banks were charging between 6 and 6.5 percent on cattle loans. As recently as March, more than half the bankers surveyed in Iowa and Illinois, the district's leading cattle feeding states were still charging 6.5 percent. Most of them are now charging between 6.75 percent and 7 percent.

Interest Rates on Feeder Cattle Loans Shift Upward



Interest rates on farm real-estate loans have also increased. More than three-fifths of the bankers reported charging 7 percent in June. A year ago, less than one in ten were charging 7 percent. More than half were charging 6.5 percent.

The movement toward higher interest charges on real-estate loans and generally more stringent credit terms may be causing some farmers to delay land purchases in hopes of easier terms in the future. The rate of increase in land values in the district has slowed in recent months. Values rose by only 1 percent in the second quarter.

Bankers expect continued strong demand for agricultural credit during the second half of the year. More than half the bankers foresee demand for nonreal-estate loans to be about the same as in the last half of last year. About a third of the bankers expect demand, especially for general operating loans, to be even stronger than a year ago. Only about a tenth of the bankers expect a strengthening in demand for real-estate credit. More than three-fifths of them expect demand to be about the same.

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