



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

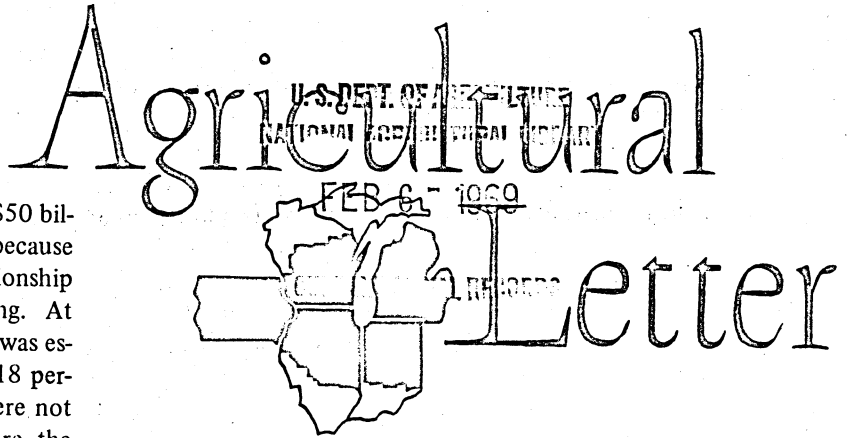
AgEcon Search
<http://ageconsearch.umn.edu>
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

281.9
F313

Federal Reserve Bank of Chicago - -

December 6, 1968



Number 990

TOTAL FARM DEBT is currently estimated at \$50 billion—more than twice what it was a decade ago. But because of the steady rise in asset values, mainly land, the relationship of farm debts to assets remains low, although it is rising. At the beginning of the year, owners' equity in agriculture was estimated at 82 percent, with debts amounting to only 18 percent of total assets. However, because these debts were not evenly distributed among all the participants in agriculture, the financial strength of different groups varied greatly.

A recent supplement to the 1964 Census of Agriculture, as well as other studies of farm debt, provide considerable information on the differing financial positions of those with interests in agriculture. There are significant differences, for example, between those owning farmland but not operating it themselves and those engaged in farming as an occupation. People other than farm operators own over 30 percent of the total assets in agriculture but account for only about 19 percent of the total farm debt.

A substantially smaller proportion of landlords are encumbered by agricultural debts than are farm operators. In 1966, about a fourth of all landlords owed agricultural debts, while about two-thirds of all farm operators had some farm debt. Many farms have more than one landlord, but by census definition a farm can have only one operator. In many cases, landlords may have only minor interests in farms, which accounts partly for the wide differences in the incidence of debt between landlords and farm operators.

Farm Operators Account for Largest Share of Agricultural Debt

Landlords

| | |
|---------------------------------|-----------|
| Number | 2,244,000 |
| Percent indebted | 22 |
| Percent of total farm debt owed | 19 |
| Real estate | 23 |
| Nonreal estate | 10 |

Commercial Farm Operators

| | |
|---------------------------------|-----------|
| Number | 2,298,000 |
| Percent indebted | 65 |
| Percent of total farm debt owed | 81 |
| Real estate | 77 |
| Nonreal estate | 90 |

It is nevertheless clear that aggregate figures on the financial position of agriculture, such as those often quoted from the USDA's *Balance Sheet of Agriculture*, overstate the equity positions of most farm operators. When total assets and liabilities are divided between operators and landlords, operators have a debt-to-asset ratio of about 21 percent while landlords have only about an 11 percent ratio. These ratios are, of course, higher for those actually owing debt.

Several factors are associated with the extent to which various groups of farm operators are indebted. The most important is probably the size of their operations. Recent census data show in all cases that the higher the gross sales the higher the incidence of farm debt. About three-fourths of the operators with sales greater than \$10,000 had farm debts in 1966, compared to about three-fifths of those with sales less than \$10,000. It should be noted that it is the most heavily indebted group of farms that are increasing in number. The number of farms with sales of more than \$10,000 has increased 18 percent since 1960, while the number with sales less than \$10,000 has declined 30 percent.

Another factor associated with farm indebtedness is the age of the operator. In 1966, almost four-fifths of the farm operators under 45 years old were indebted, while less than half those over 45 had farm debts. Younger farmers have, of course, started farming since the Depression and at a time when far greater capital outlays have been required to start efficient operations than was the case with their predecessors. This may partly explain their willingness as well as their need to make greater use of credit.

Indebtedness is also related to tenure. Part-owners—those farming rented land as well as their own—are more apt to be indebted than are tenants or full-owners. Full-owners are the least likely to be indebted. In 1966, about 74 percent of the part-owners were indebted, 68 percent of the tenant operators, and 58 percent of the full-owners. Part-owners tend to operate larger farms than either full-owners or tenants, which helps explain their larger credit needs. This group is also most representative of farmers oriented toward expansion. According to census figures, acreage operated by part-owners in states of the Seventh District increased nearly 14 percent from 1959 to 1964, even though total acreage operated by all farmers declined about 3 percent.

These findings tend to emphasize the importance of credit to the growing sector of agriculture. To expansion-minded farmers, credit is a much more important tool than aggregate figures seem to indicate.

Dennis B. Sharpe
Agricultural Economist

FARM BUSINESS CONDITIONS
October 1968 with Comparisons

| I T E M S | 1968 | | 1967 |
|--|---------------------|---------------------|---------|
| | October | September | October |
| PRICES: | | | |
| Received by farmers (1957-59=100) | 108 | 110 | 104 |
| Paid by farmers (1957-59=100) | 122 | 122 | 118 |
| Parity price ratio (1910-14=100) | 73 | 75 | 73 |
| Wholesale, all commodities (1957-59=100) | 109.1 | 109.1 | 106 |
| Paid by consumers (1957-59=100) | 122.9 | 122.2 | 117.5 |
| Wheat, No. 2 red winter, Chicago (dol. per bu.) | 1.25 | 1.52 | 1.20 |
| Corn, No. 2 yellow, Chicago (dol. per bu.) | 1.09 | 1.09 | 1.17 |
| Oats, No. 2 white, Chicago (dol. per bu.) | .61 | .62 | .74 |
| Soybeans, No. 1 yellow, Chicago (dol. per bu.) | 2.46 | 2.61 | 2.60 |
| Hogs, barrows and gilts, Chicago (dol. per cwt.) | 18.71 | 20.48 | 18.61 |
| Beef steers, choice grade, Chicago (dol. per cwt.) | 28.21 | 28.20 | 26.97 |
| Milk, wholesale, U. S. (dol. per cwt.) | 5.62 | 5.46 | 5.32 |
| Butterfat, local markets, U. S. (dol. per lb.) | .68 | .68 | .66 |
| Chickens, local markets, U. S. (dol. per lb.) | .12 | .13 | .12 |
| Eggs, local markets, U. S. (dol. per doz.) | .38 | .43 | .29 |
| Milk cows, U. S. (dol. per head) | 280 | 278 | 265 |
| | | | |
| Farm labor, U. S. (dol. per week without board) | 66.50 | -- | 60.50 |
| Factory labor, U. S. (dol. earned per week) | 125.36 ^P | 125.25 ^P | 116.28 |
| PRODUCTION: | | | |
| Industrial, physical volume (1957-59=100) | 165.0 | 164.4 | 157.2 |
| Farm marketings, physical volume (1957-59=100) | 174 | 142 | 173 |
| INCOME PAYMENTS: | | | |
| Total personal income, U. S. (annual rate, bil. of dol.) | 702.2 | 699.7 | 638.0 |
| Cash farm income, U. S. ¹ (annual rate, bil. of dol.) . . | 48.1 | 45.6 | 45.6 |
| EMPLOYMENT: | | | |
| Farm (millions) | 3.8 | 3.8 | 4.0 |
| Nonagricultural (millions) | 72.6 | 72.1 | 71.1 |
| FINANCIAL (District member banks): | | | |
| Demand deposits: | | | |
| Agricultural banks (1957-59=100) | 135.4 | 133.6 | 127.0 |
| Nonagricultural banks (1957-59=100) | 127.1 | 124.2 | 120.6 |
| Time deposits: | | | |
| Agricultural banks (1957-59=100) | 305.5 | 302.8 | 270.4 |
| Nonagricultural banks (1957-59=100) | 323.0 | 318.4 | 291.8 |
| ¹ Based on estimated monthly income. ^P Preliminary. | | | |

Compiled from official sources by the Research Department, Federal Reserve Bank of Chicago.