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DEMAND FOR FARM CREDIT apparently slacked off in the Midwest late last year. Over three-fifths of the more than 350 country bankers responding to a recent survey indicated a stable or declining demand for nonreal-estate farm loans—the loans typically made to finance purchases of farm machinery, livestock, and feed and to pay taxes, wages, and other current operating expenses.

The proportion of bankers reporting a stable or declining demand for loans secured by farm real estate was even larger. About a fifth of the bankers indicated reduced demand and about three-fifths said demand was about the same as a year before.

Several developments might have accounted for the apparent slowing in expansion of farm credit. Demand for mortgage credit has no doubt been influenced by the reduction in transfers of farmland as well as the softening in prices of land. The number of voluntary farm transfers in Corn Belt states declined in early 1968, and indications are that the decline continued through the rest of the year. There were moderate advances in land values in the district last year, but declines were also numerous. Farmers' decisions to delay or curtail capital expenditures, their greater participation in the government's acreage diversion program, and their efforts to hold back increases in production expenses also contributed to the reduction in demand for credit.

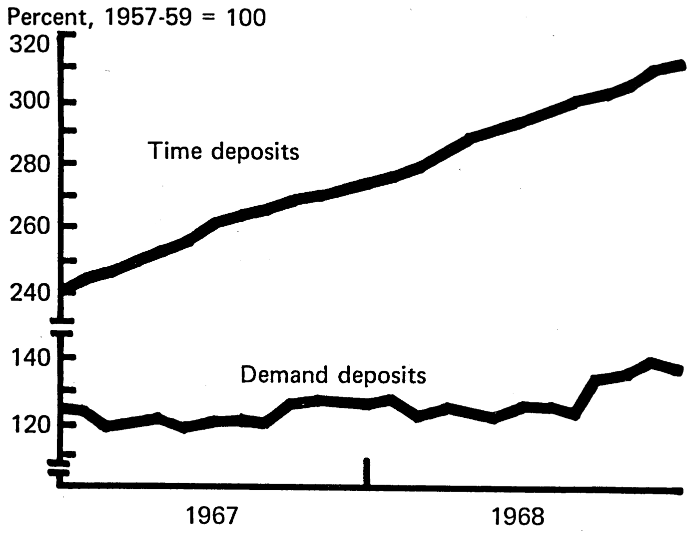
Expenditures for most capital items were off last year from the high levels of the two preceding years. In November, tractor sales were running about a fifth less than a year before. Sales of combines were off 15, and balers 7 percent. About 60 percent more acreage was idled under the feed-grain program in the district states last year than the year before—which not only helped hold down expenditures on such items as seed and fertilizer but also provided ready cash in the form of larger government payments, thereby further moderating the need for borrowed funds.

Loan repayments picked up in the fourth quarter, while renewals and extensions declined from levels of a year before. Harvesting of the corn crop was more orderly in 1968 than in 1967, which tended to reduce outstanding loans.

For the first part of 1969, demand for farm loans is not expected to be strong. Only about 7 percent of the bankers foresee any increase in demand for loans secured by farm real estate and about 12 percent expect some reduction. About a third of the bankers expect demand for nonreal-estate loans to be stronger than a year ago, but most of the others expect demand to be about the same. Demand for loans to buy machinery is expected to continue relatively weak, while demand for loans to buy feeder cattle is expected to be only moderately stronger.

Deposits at agricultural banks rose sharply last year, especially in view of the general performance of the farm economy. Demand deposits at agricultural banks in December were up about 9 percent from a year before. By contrast, the average annual increase had been about 4 percent in the five preceding years. Time deposits were up about 14 percent, with gains of at least 11 percent in every state of the district.

More Loanable Funds Available from Increased Deposits*



*Deposits at banks in towns of less than 15,000 population and in which farm loans are important.

With faster deposit growth and an easing in demand for farm loans, most banks are apparently in better positions to handle farmers' credit needs than they were a year ago. The average loan-to-deposit ratio of the responding banks edged downward from a year before in Corn Belt states and increased only slightly in Michigan and Wisconsin. Furthermore, about 40 percent of the bankers reported they would find a higher ratio desirable. Only about 16 percent would have liked to see a lower ratio.

Interest costs are expected to remain at historically high levels, however. About 80 percent of the bankers reported that they were charging 7 percent or more on loans secured by farm real estate at the beginning of the year. That was an increase from 75 percent in September and 27 percent a year before. About 60 percent of the bankers were charging rates of at least 7 percent on feeder cattle loans—about the same proportion as in September but twice the proportion of a year before.

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