Federal Reserve Bank of Chicago - -

Agricultural Letter

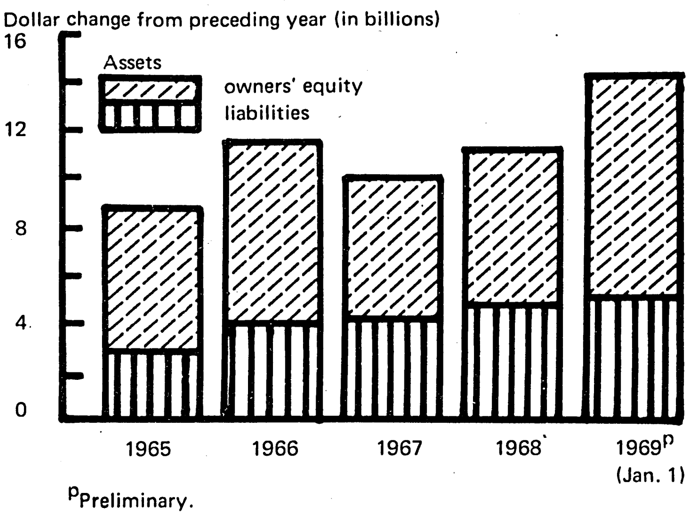
February 28, 1969

Number 1002

FARMERS STARTED 1969 in a slightly better financial position than 1968. While they owed $5 billion more than at the start of 1968, they had $14 billion more in assets- an increase of 4 percent in owners' equity. Their gain had been just over 3 percent a year before.

The value of farm real estate, which accounts for 68 percent of all farm assets, increased only about 4.6 percent last year, compared with 6 percent in 1967. The drop reflected a leveling off in land prices, especially in the Corn Belt and Mountain States. Even so, the increase in land values accounted for more than three-fifths of the increase in farm assets.

Farmers' Equity Position Stronger



The rest of the increase came from a sharp 6.6-percent rise in nonreal-estate assets attributed to higher prices for livestock (and larger numbers in the case of hogs and pigs) and significantly larger inventories of grains.

The value of all livestock and poultry on farms January 1 has been estimated at about $20 billion–6 percent more than a year before. About half again more feed grains were stored under government loans than a year before. The carryover of soybeans in 1968 was the largest on record--167 million bushels, four-fifths more than in the preceding marketing year. After allowances for depreciation and obsolescence, the value of machinery and motor vehicles probably advanced very little.

Farm debts continued to rise but not as fast as in recent years. Total liabilities on January 1 have been estimated at more than $55 billion. That was an increase of 9.9 percent over the previous New Year compared with a 10.7-percent average increase for the previous three years.

Despite the apparent slowing in the accumulation of farm debts, total debts still rose faster than total assets. As a result, the average debt-to-asset ratio advanced from 17.8 percent at the beginning of 1968 to 18.6 percent at the beginning of 1969.

Real-estate debt, which accounts for about half of all farm liabilities, rose 9 percent- slightly less than the increase in 1967 but nearly twice the rate of increase in land values. Nonreal-estate debt, on the other hand, rose 7.6 percent substantially less than the 10.8-percent increase a year before.

Several factors helped brake the rise in farm debt. Higher interest rates may have discouraged many farmers from purchasing land or making other capital investments. Interest rates on long-term loans increased between a half and a full percentage point last year. The net effect may have been partially offset, however, by a slower rate of payment and a general reluctance to prepay low-interest mortgages. Associated with high interest rates was a sluggish market in farm real estate. The total number of voluntary transfers for the year ended March 1, 1968 was estimated at 85,000--4 percent less than the year before. (Most farm sales are made in the winter and early spring.)

Were it not for seller financing, the effects of record-high interest rates and tight money would be even more severe. It has been estimated that nearly half the dollar-volume of all farm real-estate credit is extended by sellers mostly through instalment contracts. These contracts often have significantly shorter term lengths than those with commercial lenders usually 10 to 15 years- and interest rates 0.3 to 0.5 percentage point lower.

The slower increase in nonreal-estate debt was probably due to lower farm incomes in 1967. Purchases of machinery and equipment were off last year. About 8 percent fewer tractors were sold than in 1967 and about 18 percent fewer combines. With prices lower, more farmers participated in government programs last year. Advanced payments from the government and fewer acres under cultivation lowered farmers' needs for credit to cover operating expenses. Also, farmers tend to spend less on fertilizers, herbicides, and other supplies when their incomes are low. This could have further reduced the need for borrowing. In addition, farmers planned their production in a climate of pessimism about farm incomes in 1968.

In general, however, farmers' returns were actually higher than expected. Although 8 percent lower than in 1966, net farm income last year was almost 5 percent higher than in 1967. This suggests an increase in farmers' expenditures this year. Their spending may be retarded slightly in the first half of the year, however, by the expectations of lower price levels and easing of interest rates in the second half.

Dennis B. Sharpe
Agricultural Economist