Federal Reserve Bank of Chicago - -

Agricultural Letter

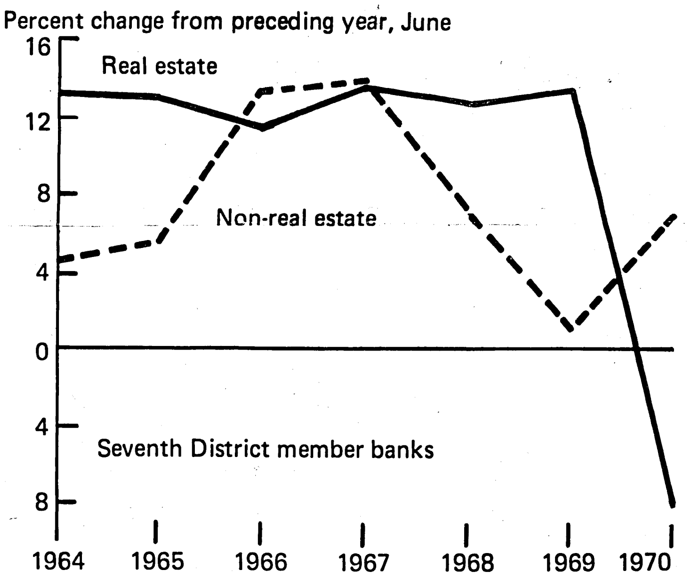
September 4, 1970

Number 1081

FARM BORROWING picked up in the first half at Midwest banks following a slowdown over the previous several months. Member banks in the Seventh Federal Reserve District report that farm credit outstanding at midyear was up about 3 percent from the beginning of the year. This compares with no gain in the latter half of 1969, and an increase of only 1 percent in the comparable period a year ago. All of the gain was due to an increase in non-real estate loans outstanding; credit secured by farm real estate dropped from both the beginning of the year and from mid-1969.

Non-real estate lending is up in all district states, except Michigan. The recent strengthening in the demand for non-real estate farm loans apparently stems from the general increase in production expenses. Larger purchases and higher price tags have combined to push production outlays to new highs. Larger acreage planted to crops has tended to boost associated production expenditures (such as for fertilizer, petroleum, and seed). Increased livestock feeding activity through midyear has led to larger outlays for feed and livestock. At midyear, prices paid by farmers for all production items averaged 4 percent higher than in the same period in 1969. Farm production expenditures are currently estimated at an annual rate of around $40 billion—nearly $2 billion higher than last year.

Non-real Estate Loans Rebound



Production credit associations are handling a larger share of the increased demand for non-real estate loans. At midyear, loans outstanding at production credit associations in the Seventh District were 17 percent above a year ago. Gains in loans outstanding ranged from 7 percent in Michigan to nearly 30 percent in Iowa. At the same time, most agricultural banks report they have funds available for qualified borrowers.

Real estate credit continued to decline in the district both during the first six months of 1970 and from midyear. But changes in real estate loans outstanding varied widely by state. In Michigan, farm real estate loans plummeted about 25 percent from last year, while in Wisconsin they were up about 7 percent. A major factor behind the reduction in real estate credit in Michigan is the state's 7 percent usury ceiling on farm real estate loans. Most country banks in the Midwest are charging 8 or more percent on farm real estate loans, and Federal Land Banks in this area are charging 8.5 to 9 percent. Rising interest rates and generally tight credit conditions curtailed mortgage lending by almost all commercial banks during the first six months of 1970, but not to the extent evident in Michigan.

The reduced number of land ownership transfers and the general softness of land prices also have contributed to the reduced demand for long-term bank credit in recent months. Farmland values in the Seventh District declined during the past year for the first time in nine years according to a midyear survey of country banks.

These same forces also have affected the amount of credit extended by other institutional lenders. Federal Land Banks sharply reduced lending in each of the district states through the first half of 1970 compared to last year—down about 41 percent for the district as a whole. New credit extended by life insurance companies in the Midwest appears to have been reduced even more sharply.

Increased lending activity by individuals, mainly sellers of farmland, has partially offset reduced lending by institutions. For 1969, sellers provided 60 percent of the credit for farmland purchases, compared to 54 percent in the previous year. No doubt, the role of seller-financing has increased further in recent months.

Demand for farm credit may strengthen further over the next several months. Farm costs are expected to continue advancing at a rapid rate. At the same time, gains in farm income are apt to slow, especially incomes of livestock farmers. The recent corn blight infestation and resulting impact on grain prices should bolster grain farmers' incomes overall, but individuals whose crops are seriously affected by the blight may have difficulty meeting scheduled loan repayments.

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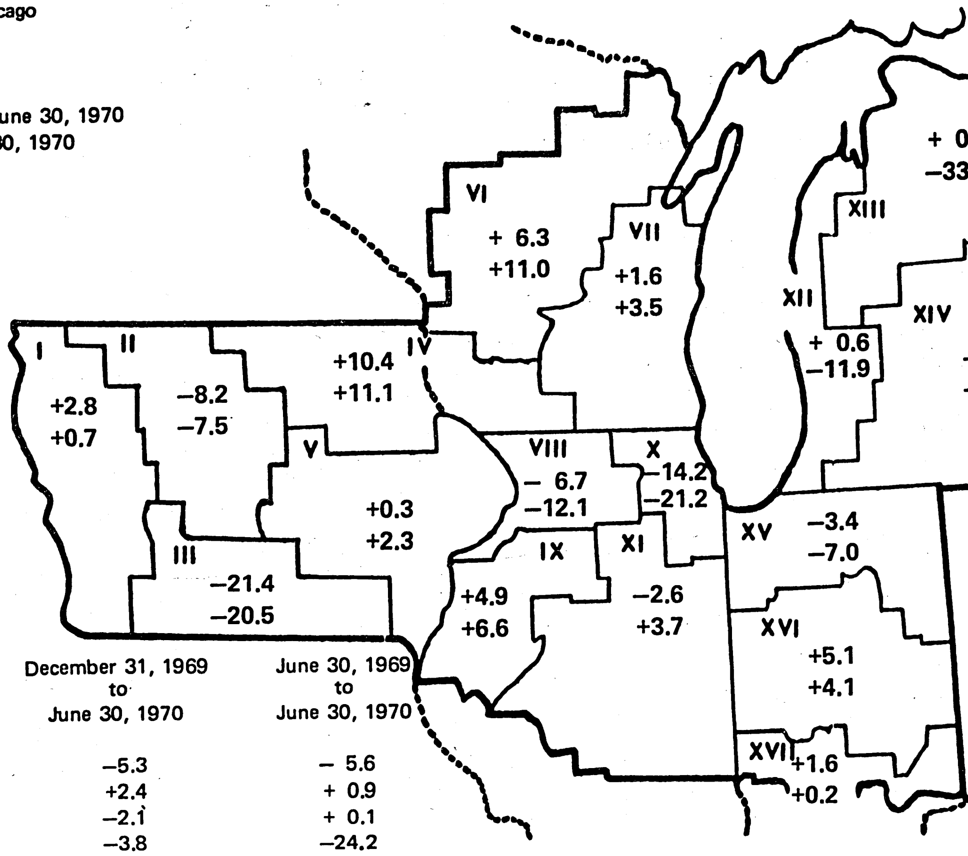
Farm real estate loans outstanding
district member banks outside Chicago

Percent change:

TOP: December 31, 1969 to June 30, 1970
BOTTOM: June 30, 1969 to June 30, 1970

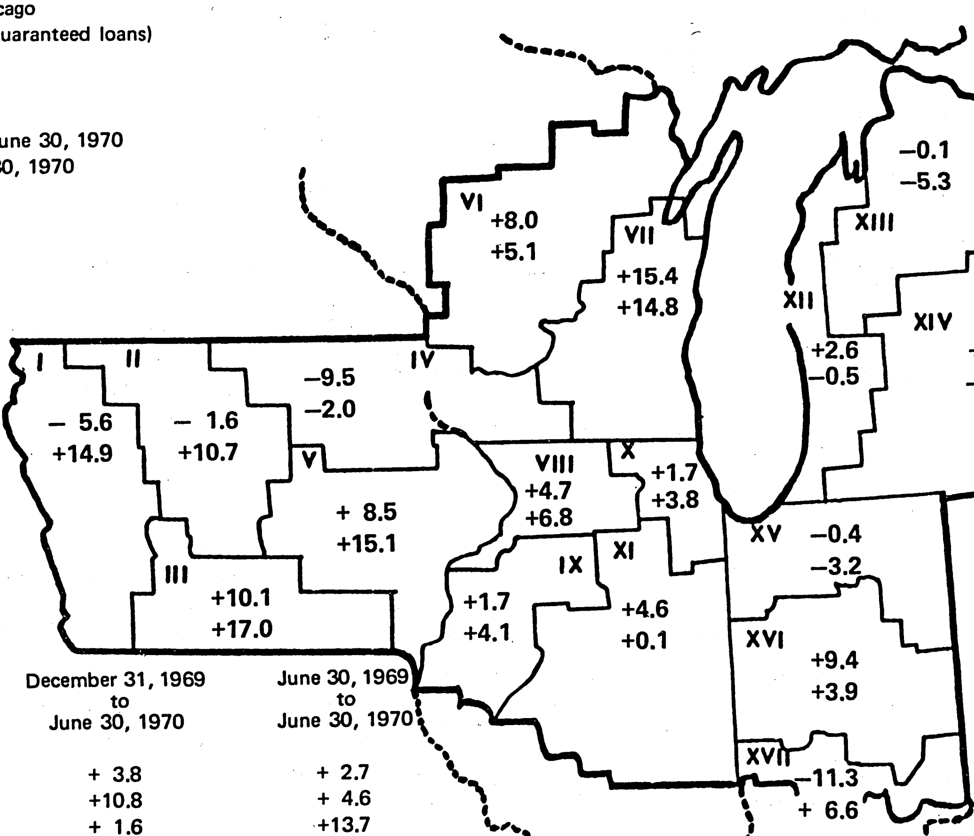


	December 31, 1969 to June 30, 1970	June 30, 1969 to June 30, 1970
Illinois	−5.3	− 5.6
Indiana	+2.4	+ 0.9
Iowa	−2.1	+ 0.1
Michigan	−3.8	−24.2
Wisconsin	+3.6	+ 6.5
SEVENTH DISTRICT	−1.6	− 7.7

"Short-term" farm loans outstanding
district member banks outside Chicago
(excludes real estate and CCC guaranteed loans)

Percent change:

TOP: December 31, 1969 to June 30, 1970
BOTTOM: June 30, 1969 to June 30, 1970



	December 31, 1969 to June 30, 1970	June 30, 1969 to June 30, 1970
Illinois	+ 3.8	+ 2.7
Indiana	+10.8	+ 4.6
Iowa	+ 1.6	+13.7
Michigan	+ 1.8	− 3.9
Wisconsin	+13.7	+13.9
SEVENTH DISTRICT	+ 4.2	+ 6.7