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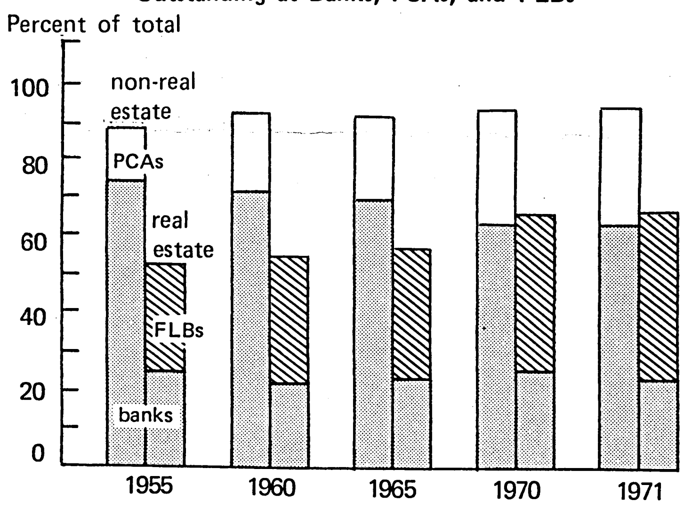
FARM DEBT in 1972 will approach the $71 billion mark. During 1971, total farm debt rose 9.3 percent to a year-ending level of $64.6 billion. Periodic reports filed this year by the major farm lending institutions suggest that this pace likely will be duplicated in 1972—thus marking the first year in which the increase in farm debt may total $6 billion.

Farm real estate debt is likely to register a substantially larger gain this year than the 6.3 percent recorded in 1971. Outstandings at Federal Land Banks—the leading institutional farm real estate mortgage holder—were nearly 13 percent above the year-ago level at the end of September. Farm real estate loans outstanding at commercial banks at midyear were 14 percent above the year-earlier level. Somewhat offsetting these gains, however, was a large increase in repayments at major life insurance companies which limited their gains in outstandings through midyear. Nevertheless, life insurance companies have reported a large year-to-year rise in commitments. This suggests that their gain in outstandings has picked up in recent months.

Non-real estate farm debt—which totaled $33.3 billion at the end of 1971—will also record a substantial increase this year, but the gain likely will fall short of the 12.1 percent recorded in 1971. Non-real estate farm loans outstanding at commercial banks were more than 11 percent over the year-earlier level at the end of June. Production Credit Associations experienced smaller increases—up 7 percent through September. These year-to-year increases may be boosted upward by the end of this year, particularly if weather-caused harvesting delays slow loan repayments.

Institutionally-Held Farm Debt Outstanding at Banks, PCAs, and FLBs



One noteworthy development among farm lenders this year is the large gains reported by commercial banks relative to the gains experienced by agencies of the Farm Credit System. In only one year since 1955 have commercial banks recorded a larger relative gain in outstanding non-real estate farm loans than Production Credit Associations. Similarly, in only four years during the same time span have the relative gains in farm real estate loans outstanding at commercial banks exceeded those of Federal Land Banks.

The expanded farm-lending role played by commercial banks is particularly evident in Seventh District states. Midyear outstanding non-real estate farm loans at banks in district states were more than 9 percent above the year-earlier level. In contrast, Production Credit Association outstandings in district states—which were nearly 4 percent above a year ago at the end of June—totaled less than 1 percent over the year-earlier level at the end of September. Similarly, midyear farm real estate loans outstanding at banks in district states were more than 14 percent ahead of a year ago, while Federal Land Bank outstandings in the same five states were only up about 9 percent from year-ago levels at the end of both the second and third quarters.

The potentially large gain in farm debt is somewhat surprising in light of this year's sharp gains in cash receipts from farm marketings and government payments. Combined, these are expected to boost net farm income to a record $18.9 billion—up from $16.1 billion in 1971. Everything else constant, higher income levels would tend to lower farm borrowing needs. However, studies have shown that new investment is highly correlated with income—perhaps reflecting the more optimistic expectations normally associated with higher incomes. Indeed, investments in structures and durable equipment in the farm sector averaged nearly 17 percent above year-ago levels during the first three quarters. Moreover, the demand for farmland has also apparently expanded. Reflecting this, a recent survey indicated that farmland values in the Seventh Federal Reserve District rose 3 percent during the third quarter—the largest quarterly gain since the second quarter of 1966.

The expanded farm borrowing demand has coincided with a favorable lending climate among major farm lenders. Midyear deposits at commercial banks totaled 10 percent above the year-earlier level. More recent evidence for the Seventh District suggests the year-to-year deposit gain may have been even greater among banks located in predominately agricultural areas. The various agencies of the Farm Credit System also found the availability of funds improved this year, reflecting the lower interest rates on their debentures sold in national money markets. But even aside from the greater supplies of lendable funds, major farm lenders probably were more willing to grant farm loan requests because of this year's generally favorable level of farm prices.

Gary L. Benjamin
Agricultural Economist