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Agricultural Letter



Number 1222

FARM CREDIT DEMAND continued to grow during the first quarter of 1973 according to an April survey of more than 750 agricultural bankers in the Seventh Federal Reserve District. The bankers indicated, however, that the supply of loanable funds was generally sufficient to meet the increasing demand for agricultural credit. Repayment difficulties appear to be less of a problem than during the fourth quarter of 1972, but still they are reported somewhat more frequently than usual. The marked increase in farm loan demand at Seventh District banks also was confirmed by other reports. April loan volume at a selected sample of banks heavily engaged in agricultural lending was up 23 percent over the previous year.

Just as Seventh District banks continue to make impressive gains in agricultural loan volume, other financial institutions serving the agricultural sector are expanding their lending activity, but at a slower rate. Outstanding loans at Production Credit Associations (PCAs) and Federal Land Banks (FLBs) in district states at the end of March were up 3 percent and 12 percent, respectively, over the year-earlier period. New money extended by PCAs and FLBs is increasing at much faster rates, reflecting the more recent expansion in farm loan demand. During the first quarter, new money loaned by PCAs was up 16 percent from a year earlier, while FLBs posted a 69 percent gain.

Interest rates on agricultural loans were slightly higher than those recorded in the previous quarter, following a fairly long period of relatively stable rates. The average rate on feeder cattle loans in the district rose to 7.64 percent, up 12 basis points over the fourth quarter. Rates on farm real estate loans increased to 7.99 percent, 32 basis points above the December level. These interest rates mirror trends that have been occurring in national money markets. Seventh District rates on agricultural loans are approximately the same as those reported in a national Federal Reserve survey for the same period.

Bankers expect continued growth in the demand for funds during the second quarter of 1973. Sixty-one percent of the Seventh District bankers felt that non-real estate farm loan volume would continue to grow the next quarter. Loans for farm machinery and general operations are projected to make up the bulk of the increase. Only 32 percent of the bankers responding foresaw continued increases in farm real estate loan volume. Rising farmland prices and higher interest rates, no doubt, are factors bankers considered in making the more reserved projection. Nevertheless, very few bankers anticipate a decrease in the expanded agricultural loan volume experienced the first quarter.

Farmers in the Seventh District are expected to increase their crop acreage, weather permitting, by approximately 13 percent. This will require a significant increase in the purchase of production items such as fuel, fertilizer, seed, and chemi-

cals. Prices of these crop production inputs are up sharply as a result of the general increase in demand and/or limited supplies. As of mid-April, farm machinery prices paid were up 8 percent over a year ago, while fertilizer and seed prices were up 9 percent and 24 percent, respectively. Increases in the cost of farm production items are likely to continue in coming months. As a result, farm production expenditures and the funds needed to finance these purchases are virtually certain to rise in the next few months.

Reduced government payments to farmers participating in the feed grain program also will likely add to loan demand. These payments are distributed in July. However, this year, feed grain payments will be substantially less than those received last year. Total 1973 feed grain payments will be approximately \$1.1 billion, down some \$800 million from 1972. Seventh District farmers typically receive from 35 percent to 40 percent of the total U. S. feed grain payments. Thus, payments to district farmers will be reduced around \$300 million compared to last year. Farmers will likely offset much of the reduction in payments by borrowing more or drawing down deposits.

Availability of funds for agriculture appears quite adequate at present in most areas. And if banks continue to experience a rapid rate of growth in their deposits—April deposits in district agricultural banks were up 18 percent from the previous year—ample funds should continue to be available. Slightly more than 50 percent of the bankers responding to the survey indicated a desire to increase their loan-deposit ratio, which indicates that additional loanable funds are available in many areas. One-third of the bankers considered their present loan-deposit ratio to be at the desired level. Less than 17 percent of the bankers reporting expressed a desire to lower their loan-deposit ratio.

The new seasonal borrowing privilege which is now available to Federal Reserve member banks may also prove helpful in meeting the expected increase in farm credit requirements. This new Federal Reserve program is designed to benefit member banks experiencing significant seasonal variation in their loans and/or deposits. Current estimates indicate that at least 70 percent of the member banks at which farm loans make up half or more of their total loan volume will qualify for the seasonal borrowing arrangement sometime during the year.

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AGRICULTURAL ECONOMIC DEVELOPMENTS

Subject	Unit	Latest period	Value	Percent change	
				Prior period	Year ago
INDEX OF PRICES					
Received by farmers	1967=100	April	157	- 1	+32
Crops	1967=100	April	143	+ 2	+28
Livestock	1967=100	April	168	- 3	+34
Paid by farmers	1967=100	April	140	+ 1	+12
Production items	1967=100	April	139	+ 1	+17
Family living items	1967=100	April	134	+ 2	+ 9
Ratio of prices received to prices paid	1967=100	April	112	- 3	+18
Consumer price index (all items)	1967=100	March	130	+ 1	+ 5
Food at home	1967=100	March	134	+ 3	+11
CASH FARM PRICES (U. S. average)					
Corn	dol. per bu.	April	1.42	+ 4	+26
Soybeans	dol. per bu.	April	6.14	+ 1	+82
Wheat (all)	dol. per bu.	April	2.15	+ 4	+58
Sorghum grain	dol. per cwt.	April	2.56	- 2	+37
Oats	dol. per bu.	April	.774	0	+22
Beef steers and heifers	dol. per cwt.	April	44.70	- 3	+31
Hogs	dol. per cwt.	April	35.10	- 8	+56
Milk, all sold to plants	dol. per cwt.	April	6.38	- 2	+ 9
Milk cows	dol. per head	April	472	+ 2	+23
Chickens, broilers, live	cents per lb.	April	25.5	+ 9	+98
Eggs	cents per doz.	April	46.9	- 1	+69
INCOME (seasonally adjusted annual rate)					
Cash receipts from farm marketings	bil. dol.	4th Qtr.	62.5	+ 8	+14
Net farm income	bil. dol.	4th Qtr.	21.2	+13	+25
Nonagricultural personal income	bil. dol.	January	956.4	0	+10
FARM FINANCE					
Total deposits at agricultural banks ¹	1967-69=100	April	174	+ 2	+18
Time deposits	1967-69=100	April	208	+ 2	+21
Net demand deposits	1967-69=100	April	139	+ 2	+17
Total loans at agricultural banks ¹	1967-69=100	April	192	+ 3	+23
Production Credit Associations					
loans outstanding:					
United States	mil. dol.	March	6,964	+ 3	+ 8
Seventh District states	mil. dol.	March	1,201	+ 2	+ 3
new loans made:					
United States	mil. dol.	March	1,239	+11	+16
Seventh District states	mil. dol.	March	244	+11	+17
Federal Land Bank Associations					
loans outstanding:					
United States	mil. dol.	March	9,568	+ 2	+18
Seventh District states	mil. dol.	March	1,785	+ 3	+12
new loans made:					
United States	mil. dol.	March	269	+37	+69
Seventh District states	mil. dol.	March	63	+85	+75
Interest rates					
		week ending			
Three-month Treasury bills	percent	5/7	6.10	- 2	+73
Federal funds rate	percent	5/7	7.60	+ 2	+81
Government bonds (long-term)	percent	5/7	6.97	+ 1	+14
AGRICULTURAL TRADE					
Agricultural exports	mil. dol.	March	1,407.7	+19	+111
Agricultural imports	mil. dol.	March	666.0	+ 8	+31
FARM MACHINERY SALES					
Farm tractors	units	March	23,188	+92	+36
Combines	units	March	1,125	+26	+ 4
Balers	units	March	1,278	+79	+ 2

¹ Member banks in Seventh District having a large proportion of agricultural loans in towns of less than 15,000 population.