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Agricultural Letter

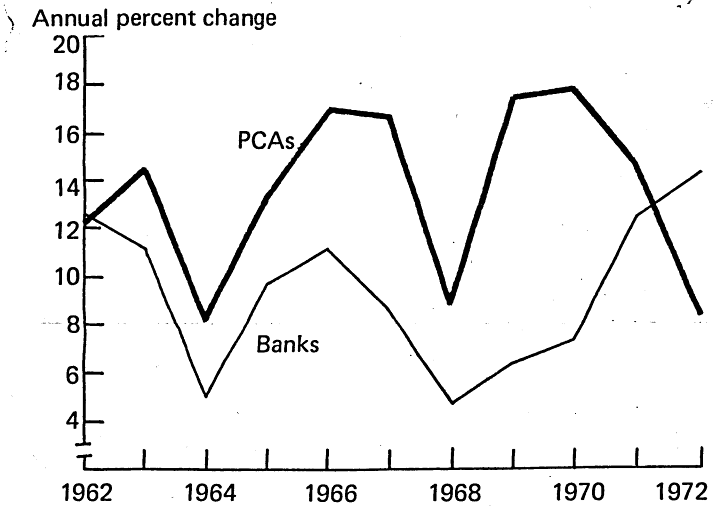
September 28, 1973

Number 1241

CREDIT DEMANDS of the agricultural sector are expected to continue exceptionally strong during the next several months. Sharply higher harvesttime prices plus the anticipated record corn and soybean harvests portend substantial increases in financing requirements of elevators and processors. High prices for feed and feeder stock will also boost financing requirements of livestock producers. Moreover, crop farmers are likely to seek a larger volume of storage financing this fall as well as financing to secure high-priced fuels and fertilizers needed for both this fall and next spring.

These credit needs will fall heavily on the commercial banking system which accounts for nearly two-thirds of the institutionally-held non-real estate farm debt. During the year ending December 31, 1972, non-real estate farm debt rose 12.1 percent, the largest percentage increase in a decade. A 14.5 percent rise in such loans outstanding at commercial banks paced the overall advance and marked the first time since 1962 that the annual percentage increase in non-real estate farm loans outstanding at banks has exceeded that of Production Credit Associations—banks' chief competitors for short- and intermediate-term farm loans. Current estimates based on farm receipt and expenditure flows now indicate that non-real estate farm debt may rise by 12-14 percent this year.

Banks Pace Gains in Non-real Estate Farm Loans



Agricultural lending by commercial banks has accelerated so far this year and likely will again pace the growth in non-real estate farm debt. As of midyear, such loans outstanding among banks in the Seventh District that are members of the Federal Reserve System were up a sharp 19 percent from the year-earlier level. More current information indicates that the agricultural credit demands have continued strong throughout the third quarter and that the credit demands are broadly based. For example, among the 18 large banks in the Seventh District that report loans by type of borrower, outstanding loans to firms involved in food, liquor, and tobacco manufacturing were up nearly two-thirds from the year-earlier level in mid-September. Moreover, outstanding loans among smaller district banks heavily engaged in agricultural lending were up 23 percent from the year-ago level in August.

These year-to-year gains could be maintained for the next few months. It now appears that the harvesttime value of this year's corn crop will nearly double that of a year ago, while the value of the soybean harvest will be up nearly 2.5-fold. This suggests that the inventory financing needs of elevators and processors will rise sharply this fall if the normal seasonal movement of corn and soybeans is to be duplicated this year.

Farmers in Illinois, Indiana, and Iowa have typically received about 40 to 50 percent of their annual cash receipts from crop marketings during the fourth quarter. (The proportion for farmers in Michigan and Wisconsin is slightly lower—around 30 percent—reflecting the comparatively greater importance of other crops that have a different seasonal marketing pattern.) While it is clear that this fall's marketings will boost deposit inflows and loan repayments at rural banks, the gain may be less than the projected increase in the harvesttime crop values. Farmers may store a larger proportion of their crops for longer periods this year, after experiencing comparatively low prices from early-season marketings last year. This was evident following the summer wheat harvest. Also, there may be some marketings deferred into 1974 to minimize 1973 income tax payments. Such marketing patterns most likely would boost demand for storage loans as well as curtail deposit inflows. Moreover, the deposit inflows that rural bankers experience this fall may tend to be more volatile considering the current uptrend in expenditures for new equipment and machinery, as well as the anticipated earlier-than-normal purchases of fuels and fertilizers by farmers attempting to secure their needs out of the available tight supplies.

Increased cash expenditures by livestock producers will also boost farm loan demand this fall. Although feed prices have dropped sharply in recent weeks, prices this fall will remain well above year-earlier levels. Moreover, feeder cattle prices are expected to remain substantially above year-earlier levels this fall—a period that typically results in a large seasonal increase in placements of cattle on feed in district states.

The expected strong agricultural loan demand is likely to keep interest rates at high levels. Although interest rates on money market instruments have eased in recent weeks, significant declines are not expected in the near future.

Gary L. Benjamin
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