Outlook for United States Agriculture as a Whole

Liquid Assets.- Farmers' holdings of liquid assets in the years ahead will be determined mainly by the volume of liquid assets in the hands of all persons and businesses in the United States and by the relation of farm income to national income. Barring war, no considerable change in the publics' aggregate holdings of bank deposits, currency, and Federal securities is anticipated for the outlook period.

With regard to national income the basic assumptions for the 1950-54 outlook are indicated by a projected range of gross national product from 6 percent above to 24 percent below the 1947 level and by a projected range of disposable personal income from 9 percent above to 17 percent below the 1947 level. Projected net realized income of farm operators ranges from 22 percent below the 1947 level under the most favorable conditions to 42 percent below under the least favorable conditions. In either event, the relative income position of farmers during the outlook period is expected to be considerably lower than at present.

The prospects are, therefore, that farmers' holdings of liquid assets will decline from the present level of more than 20 billion dollars to about 16 or 17 billion dollars under the most favorable conditions assumed for the period and to about 13 or 14 billion dollars under the least favorable conditions. These estimates are based on past relationships between the proportion of national income received by farmers and the proportion of all liquid assets held by farmers and on the relationships projected for the outlook period. They should be regarded only as levels toward which farmers' holdings of liquid assets might be expected to move under the conditions assumed for the outlook period. The liquid asset holdings of farmers will probably not drop suddenly but they can be expected to decline gradually as a result of the "wearing away" of farmers' financial reserves under conditions less favorable to agriculture than those now existing.

Depletion of the liquid assets of farmers under both of the assumptions considered for the outlook period could be accentuated or moderated by a number of other possible developments. It is assumed that farmers' debts in the aggregate will expand during the outlook period, that the liquid funds taken out of agriculture by retiring farmers will not be fully replaced by those of new farmers entering agriculture, and that farmers' expenditures will not decline as rapidly as farm income.

Non-real-estate Debt.- Notwithstanding the recent decline of many agricultural prices and the still lower prices assumed for the outlook period, it appears that the non-real-estate debt of farmers will move to a higher level during such period. Lower agricultural prices will doubtless bring downward adjustments in loans to many farmers. However, these adjustments will probably be outweighted by factors leading to further expansion of the non-real-estate debt of farmers. Among these factors are the following.

From the borrower standpoint lower farm receipts and continued high costs will create increased need for operating credit. Large numbers of farmers who have been able during recent years to finance their operations from current income will find it necessary to obtain credit. Moreover, the increase in

livestock numbers anticipated for the outlook period will probably create additional need for credit despite lower prices for livestock and feed. The non-real-estate loans of farmers are now at a low level in relation to farmers' costs and to their requirements for machinery, building materials, and other goods necessary to restore buildings and equipment which deteriorated during the war and to make other desirable improvements.

From the lender standpoint there should be far less pressure for liquidation of farmers' loans under the conditions assumed for the outlook than in earlier periods when farm income declined such as in 1920-21 and 1929-33. Country banks may sustain substantial deposit shrinkages but they hold large reserves of cash assets and Federal securities with which to meet such shrinkages. At the beginning of earlier periods of declining farm income the reserves held by country banks were much smaller. Shrinkages of deposits thus forced them to reduce their loans. Not only are country banks stronger but there are now more agencies that finance farmers' production credit requirements, such as the production credit associations and the Farmers Home Administration. The lending agencies may find it necessary to adjust some loans to farmers downward in order to protect themselves against loss but there is little likelihood of any pressure on farmer borrowers arriving from shortages of loanable funds.

Some of the non real-estate debt of farmers will probably be converted into long-term farm-mortgage loans, particularly under the least favorable conditions assumed for the outlook period. Moreover, some borrowers may get into financial difficulty and require rehabilitation by the Farmers Home Administration or other Federal agencies. Such shifts will probably occur on the largest scale in areas where farm income is most drastically reduced, for it is in such areas that financial difficulties among farmers will be greatest.

<u>Farm-mortgage Debt</u>.- Assuming a drop in net farm income to 10 or 15 billion dollars, the factors tending to increase farm-mortgage debt probably will outweigh those tending to decrease it during the period considered. If net incomes should fall to the 15-billion-dollar level early in the outlook period and stabilize at that level, the farm-mortgage debt could rise rather abruptly and by as much as 3 or 4 hundred million dollars a year. Should net farm income drop to the 10-billion-dollar level, it is still probable that the farm-mortgage debt would increase but the annual increment would be smaller and the rate of increase would tend to fall off as the cumulative effects of falling net incomes were felt. It is unlikely, however, under either assumption, that the farm-mortgage debt would become as great a financial problem for farmers generally ~~as great a financial problem for farmers generally~~ as in either the early twenties or thirties. The bulk of the mortgages have been paid down to relatively safe levels and interest rates are low. But some considerable number of borrowers have borrowed to buy farms the last year or two and debts have been for large amounts relative to average values and probable incomes. These borrowers may face real financial problems.

Whether the decline in farm income is of major or minor importance, its first influence would be to reduce substantially, if not to eliminate entirely, advance payments on the mortgage debt. Such payments, which are made by farmers

on their debts prior to maturity, reached a substantial volume during the war but in the last 2 or 3 years they have declined substantially due largely to increased purchases of machinery, building materials, and other goods with funds which would otherwise have been used to repay debts.

In addition, lower farm incomes would bring the amount of funds available to farmers for regular debt servicing down to a lower level and would thereby increase delinquency on many loans. Delinquencies would be more numerous if the decline in income should be very severe in certain sections of agriculture. This would further reduce principal repayments. At the same time it would probably result in the funding or refinancing of many of the debts to higher levels. It is likely that during a considerable period lenders would carry such delinquencies rather than foreclose. Only if the recession should continue for a considerable period would lenders be likely to start foreclosure proceedings and thus cause the debt to decrease through forced liquidations.

Lower farm income or even the prospect of lower farm income is likely to cause lenders to tighten up on their loan standards. This will probably mean higher down payments and greater equity requirements on credit-financed transactions. On the other hand, there are likely to be more borrowers. Many farmers who previously could pay cash for purchases out of past savings or current income will find these sources of funds depleted, yet they will have sufficient equities to justify credit. Should incomes drop to the lower level, the decline in volume of total transactions may tend to offset the tendency to use increased amounts of credit.

Should net incomes decline moderately and then tend to stabilize at, say, as high a level as 15 billion, this stability might create a feeling that the economy is on a new price level. This feeling of optimism might stimulate additional purchases of both land and machinery and thus encourage a new wave of borrowing. In a period of relative prosperity of this sort, technological advances in agriculture probably would be rapid. It is difficult to foretell how such addition to farm capital would be financed - whether by farm operators, landlords, or creditors. Capital furnished by sources outside of agriculture would be provided by landlords as well as by creditors.

The influence of income changes on the farm-mortgage debt might be very great if net farm income in some sections should drop to depression levels. If costs should remain high, net incomes could be reduced drastically even though prices in general should stabilize at relatively high levels. Fairly large segments of agriculture might find either costs or returns unfavorable in the outlook period, with financial distress severe for heavily indebted borrowers. In such areas substantial amounts of farm-mortgage debt might be liquidated by distress transfers of farms to creditors. A situation of this kind, however, is more extreme than that projected for the outlook period.

In the light of the above considerations, it is felt that any moderate reduction in farm income is likely to result both in lower principal repayments on the farm-mortgage debt and reduced amounts of new debts incurred. However, the decrease in principal repayments is likely to be greater than any reduction in new loans with a resulting further increase in the outstanding farm-mortgage debt. This increase in debt could be expected to continue so long as incomes remain at a moderately lower level than at present. Should a recession of some

magnitude and duration develop, factors tending to decrease the debt would again become more prominent, but it is expected that these factors would not overbalance those tending to increase the debt for several years. We may thus find the farm-mortgage debt increasing several hundred million dollars a year for the next 3 to 5 years, with a gradual reduction in the rate of increase. Even so, the debt would not be so important a factor in the financial distress of farmers as it was in either the 1920's or the 1930's because it has started from a much lower level, and because interest rates are substantially lower than in those periods.

Land Values.- On the basis of the most favorable farm income and parity price situations projected for the outlook period, it appears probable that land values would stay within 10 percent of current levels. Whether they would tend to rise or fall from current levels would depend primarily upon long-run implications of basic economic trends, price-support programs and other circumstances under which the projected income levels were realized. If, as under the second assumption, cash farm income should drop to 19 billion dollars and the parity ratio to 90, however, it is probable that land values would drop 15 to 20 percent from current levels.

The long-term level of land values is determined by two basic factors: (1) expected net land earnings, and (2) capitalization rates. Land earnings in turn depend upon farm income levels and the share of such income that may be attributed to land as compared with other productive factors. Capitalization rates are influenced principally by rates of returns on alternative investments, considering differences in risk and liquidity, and the mortgage rate of interest. Earning ratios likely to be acceptable to land purchasers probably will be as high or higher than those prevailing during the more stable past periods. Such rates would be definitely lower than those recently prevailing, but would be above interest rates on farm mortgages in order to allow for the difference in the risk involved in the two types of investments.

Trends in the proportion of farm income that land may claim will depend mainly upon alternative employment opportunities, production costs, and the amount of non-real-estate capital required in production. During the World War I period, about 30 percent of total farm income was estimated as return to land alone. Larger investments in machinery and non-real-estate items, and the adoption of more technical production methods, however, have caused the share of the farm income assigned to land to drop to about 20 percent. If relatively high rates of employment and returns to labor and management are maintained, it is possible for the share of farm income going to land to continue at relatively lower levels in the years ahead.

Any forecast of future value levels is further complicated by the lag in the response of values to income changes. The lag in values in response to increased income has been somewhat greater during the current period than during the last war period. This lag in the response of values to increased income indicates that consideration is being given to the possibility that future income levels may be definitely lower than those currently prevailing. Whether the allowance has been sufficient is still open to question. In any case, income levels prevailing in a given year or even for a given short period of years are of some-

what limited significance in projecting either actual or justifiable future value levels.

A level of land values considerably higher than those prevailing could be maintained in many areas under the high employment projection for the 1950-54 period, assuming that such conditions could be expected to continue. Obviously, the effect of any given income level on land values depends to a considerable extent upon the conditions under which the income is realized. Should the average annual income represent a reasonably stable level, the accompanying land-value levels would be materially higher than if the amount of income was an average of a declining period. Also, should the realization of the income depend largely upon support prices for a number of major crops, the effect on values would be less stimulating than if prevailing demand and supply conditions held most farm prices above support levels.

A decline to a 25-billion cash farm income level might be considered by most buyers as the forerunner of further declines. Hence it would not necessarily be regarded as a level likely to be maintained over the longer run. Should such an income level in the 1950-54 period either depend heavily on support prices or represent an average of a declining period, it is probable that average values for the country would not be above current levels and they might well be as much as 10 percent lower. However, should income appear reasonably stable and self-sustaining at as high a level as 25 billion dollars, the accompanying value levels are likely to be as much as 10 percent higher than those prevailing in mid-1948.

A drop in farm income to a 19-billion-dollar level would probably cause average values to decline as much as 15 to 20 percent. Unless farm incomes were dropping sharply during the 1950-54 period, the decline would probably not be greater because prevailing land value levels already allow for the possibility of a material decrease in incomes. Based on prewar land value and land earning relationships, a maintained income level of 19 billion dollars would appear almost sufficient to support values at current levels. However, a drop of this size in farm earnings would probably be interpreted by most land buyers as an indication of lower future levels, and this expectation would be reflected in their offering prices.

Thus with the 25-billion-dollar income under the high employment level, land values during the 1950-54 period are likely to range between 160 and 190 percent of the 1912-14 average. With a cash-income level of 19 billion dollars, land values are likely to be in the neighborhood of 140 to 150 percent of the 1912-14 average. In either case, there is likely to be some slowing down in the volume of transfers, with a sharper decline in case the lower income level is realized.

<u>The Over-all Financial Situation</u>.- The foregoing evaluations of the outlook for the value of farm real estate and for the debts and liquid assets of farmers suggest that the net worths of farmers may be expected to decline considerably, particularly under the least favorable conditions. This impression is reinforced by the prospects for lower prices at which the crop and livestock inventories of farmers will be valued. Value of farm machinery, automobiles, and motorturcks and of household goods on farms may increase as farmers continue to mechanize their farms and to provide more conveniences for their homes, but these increases in assets seem unlikely to equal the declines in values of farm

real estate, crop and livestock inventories, and liquid assets. Moreover, farmers' debts are expected to increase under the conditions assumed. These developments would reduce the net worths of farmers.

In appraising the significance of such a development, it must be remembered that the rapid growth of farmers' net worths from 1940 to 1948 resulted mainly from the increase in prices at which farm assets were valued. It was chiefly a "paper" gain, as most farmers did not sell their farms or greatly change their other inventories of physical assets. The most tangible gains of farmers were reflected by the increased purchasing power of their incomes and liquid savings and by a reduction of their debt burdens.

Similarly, a decline in farmers' net worths from the January 1, 1948 level will reflect, to a considerable extent, merely lower valuations for a volume of farm assets not greatly different from those they now own. The real losses of farmers will be reflected by the extent to which their lower incomes and liquid assets have reduced purchasing power and the extent to which their debts become more burdensome. However, not all depletions of liquid assets or increases in debt will reflect a deterioration of the financial conditions of farmers, as such changes will often result from farmers purchasing more land or improving their farms.

From the basic projections for the outlook period, it appears that farmers' incomes will be more than twice as large and that they will have at least a half more purchasing power for goods, than farmers' prewar incomes. Their debts probably will rise above the prewar level, but they will be less burdensome in relation to income than was the prewar debt. Their liquid reserves should remain approximately four times as large as before the war, and they should have at least twice the aggregate purchasing power of the prewar liquid reserves of farmers. Thus farmers may be expected to retain a considerable part of the real gains made since 1940, even though their position will not be so favorable under the conditions projected for the outlook period as at present.

Financial Conditions of Individual Farmers will Vary Widely.- A reduction in the net worth of farmers will bring about varying degrees of financial problems among farmers, depending upon the composition of their assets and liabilities and the amount of decline in their individual net incomes. Farmers free of debt will find that the reduction in income merely reduces the amount of their current savings. Their reduction in net worth may be principally a paper loss with little or no resulting financial distress. Other farmers will find the drop in income sufficient to require the use of some of their past savings or liquid assets to meet expenses. Some of these may also find it necessary to borrow on equities in their property. For those farmers whose properties have been freed of debt and whose savings have been substantial, the financial problems that arise can be met without any particular distress.

However, a substantial number of farmers have been unable to acquire any substantial savings or equities in their farms because their farms are small and the high incomes of the war still did not exceed both their increased farm costs and their living expenses. Other farmers acquired liquid assets during the war and immediate postwar period but they spent these savings and acquired additional liabilities to buy land, machinery, and livestock, and otherwise to improve and enlarge their farms. A substantial number of these farmers may find that their reduced income is too small to cover their fixed expenses. With little or no

savings or equities as reserves, these farmers are likely to be forced into debt delinquency, their living standards may be lowered; they may be forced into mining their soils and into other actions characteristic of periods of financial distress

The financial situation of individual farmers in the outlook period will vary widely from those whose financial position in effect will be largely maintained to those whose financial position will be critical. More farmers, of course, will have financial difficulties if prices and incomes fall to the lower assumed level but the volume will not approach the general distress of the early twenties or thirties.

Northeastern States

As a whole, agriculture has shown relatively more economic stability in the Northeastern States than in most other regions of the country. This stability is closely associated with the proportion of urban population in the region and the character of the farm products produced there. Farmers in this region do not prosper as much in good times nor do they experience as much financial distress in depressions as do farmers in most other regions.

The 1950-54 outlook for northeastern agriculture appears better, relatively, than the outlook for other regions. The lower feed prices assumed for the outlook period and the probability of gradually declining prices for dairy cattle should reduce the necessary expenditures of farmers in this region. Moreover, prices of dairy and poultry products are likely to decline less than are prices of other agricultural products. Thus farmers in this region will probably retain during the outlook period a larger proportion of the gains made since 1940 than will farmers in the other three regions considered. But some localities, those specializing in fruit, potatoes, and other vegetables, for instance, may experience conditions that are considerably less favorable than average for the region.

The economic stability of the Northeastern States is reflected in land values which have fluctuated less over the last four decades in this region than in any other section of the country. This greater stability in values has continued during the present war period. An increase in gross income of 180 percent was accompanied by an increase in per acre land values of 65 percent. For each 10-percent increase in income, values increased 3.6 percent, a lower rate of response than for any other section of the country. With either the high or the low employment assumption, values in the Northeast are likely to change less than the United States average.

The liquid asset holdings of northeastern farmers on January 1, 1948 are estimated at about 2.5 billion dollars. This is about 150 percent greater than the amount held on January 1, 1942. The increase in liquid assets of farmers between 1942 and 1948 for the United States as a whole is estimated at about 280 percent. Any decline from present levels in the Northeast, however, is expected to be moderate in the outlook period. Under the most unfavorable conditions assumed, they are not expected to fall below 2 billion dollars, and under the more favorable conditions assumed, they might increase slightly. The mere fact that incomes are expected to decline does not mean that savings, or the accumulation of liquid assets, must necessarily cease. Conditions are expected to be more conducive to saving in the Northeastern States than in any other agricultural region.

Relatively stable conditions in the Northeast - particularly of land values - have resulted in a level of farm-mortgage debt which has changed comparatively little since World War I. On January 1, 1948 the total mortgage debt for this region was 437 million dollars or about 11 percent greater than the low of 394 million reached 2 years earlier. This upward trend is likely to continue for only a few years; it will then tend to level off.

Non-real-estate loans of the principal lending institutions showed exceptionally great expansion in this region during 1946 and 1947. In large measure, this appears to be due to the high cost of dairy cattle and feed and to increased purchases of machinery and building materials during the postwar period. With the prospect of a decline in costs of feed and dairy cows in the next few years, a leveling-off of the non-real-estate debt of farmers in the Northeastern region may be expected.

The North Central States

For this area as a whole, the outlook appears at least as favorable as for the entire country. This is particularly true for livestock and dairy areas, as prices of meat animals and dairy products are expected to be maintained at fairly satisfactory levels. However, prices of wheat and corn are expected to drop rather sharply, particularly if above-average crops continue to be produced in this area.

This is the only large area in which land values are still substantially lower than those of 1920. In the North Central area, values were highly inflated in the World War I boom, and during the depression and the drought of the 1930's, the drop in values was greater here. During the current rise, land values in this area have been less responsive to income increases than the average for the country as a whole. An increase of 280 percent in the gross farm income was accompanied by an increase in per acre land values of 104 percent. Thus, for each 10-percent increase in gross income values increased only 3.7 percent.

Two factors probably contribute to this somewhat more conservative response of values to income increases - the foreclosures experienced in the interwar period, and the curbing effect on the market of creditor-agency holdings in the area during the earlier war years. Also in the western part of this region, weather conditions have been extremely favorable to crop production for the last several years and recognition of a possible recurrence of drought has probably tempered the value increases.

Changes in values in this area as a whole are likely to follow about the same trend as those for the entire United States under the two sets of employment assumptions. Even under the high employment assumption, values in the areas that specialize in crop production are likely to be somewhat lower than those currently prevailing. Under the lower employment assumption, values in such areas may decrease more than the projected decrease in the United States average. On the other hand, developments in the areas that emphasize livestock production are likely to counterbalance developments in the crop areas. In the livestock areas, values are likely to increase somewhat further in case of high employment, and to decrease less than the United States average in case the lower levels prevail.

On January 1, 1948, farmers in the North Central States are estimated to have held about 8.3 billion dollars in liquid assets, or about 41 percent of all liquid-asset holdings of farmers in the United States. For January 1, 1942, the ratio was 38 percent. This increase reflects the greatly strengthened financial

position of farmers in this region, and particularly of those in the western parts where during the last few years wheat produced exceptional returns.

Farmers' holdings of liquid assets in this region are expected to decline, with reduced incomes, to about 6.5 billion dollars, under the more favorable conditions, and 5.5 billion dollars under the less favorable income assumption. Lower prices for wheat are likely to mean less favorable conditions and greater liquid asset depletion for farmers in the Great Plains States than for farmers in either the dairy areas of the Lake States or the livestock and general farming areas of the central Corn Belt.

Farmers in the North Central States appear to have owed about 42 percent of the total non-real-estate debts of all farmers in the United States on January 1, 1948. This type of debt expanded during 1946 and 1947 at approximately the same rate as in the United States as a whole. On January 1, 1940, however, nearly 50 percent of the non-real-estate debt was concentrated in this area.

With reduced farm income probable during the outlook period, fewer farmers will be able to finance their operations with cash and more will require credit. The number of livestock on feed in this region will probably increase, and purchases of farm machinery will continue at a high, although a possibly declining level. Further, a considerable number of farmers will find it desirable to extend their credit over longer periods. These factors will tend to maintain or to increase the outstanding amount of short-term loans. On the other hand, livestock prices and other costs may be expected to decline, and with lower farm prices and incomes, lenders may reduce the amounts loaned per borrower. However, on balance, a further increase in non-real-estate loans of farmers in this region is expected for the outlook period.

The farm-mortgage debt in the North Central region on January 1, 1948 was less than one-third of that on January 1, 1924 and at the beginning of this year it was nearly as low as the debt in 1910. Current data indicate that the debt may still be going down but at a much lower rate. It is possible that for 1948 the debt may level off or increase slightly. Even though farm income declines, it is probable that this area will see a reversal in the downward trend as has already occurred in other areas. Farmers in the North Central States will continue to make substantial farm and home improvements and the volume of land transfers will probably remain high. Farm improvements often will reduce labor and other costs and they will thus stimulate investment. Although a considerable part of the investment can be made out of available savings and income, substantial amounts of borrowed funds will be required.

Recently, recordings of mortgages have tended to increase in this region and releases have tended to decline. With lower incomes, the amount of releases can be expected to decline further. New mortgages incurred may also decrease from present levels but to a lesser extent. Thus it is believed that the amount of farm-mortgage debt will increase rather sharply in the next few years. Only if the recession in agricultural prices should become severe is this upward trend likely to be modified, and then only if an active program of refinancing by Federal agencies fails to materialize.

With a projected net farm income during the outlook period of from 10 to 15 billion dollars for the country as a whole and with the net income prospects for the North Central region relatively as favorable, it appears that the decline in liquid assets and the increase in farmers' debts will not be sufficient to bring about serious financial distress for any large proportion of farmers. Some farmers who have bought farms in the last year or two and some of those who may buy farms in the next few years, will probably find it difficult to meet their debt-repayment schedules. Delinquencies on both short-term and long-term debts will no doubt increase, and foreclosures and bankruptcies will be more numerous. But financial distress will probably be confined chiefly to those individuals who have incurred excessive debts or depleted their liquid assets, and to farmers in areas in which crop or price conditions are especially unfavorable.

Southern States

The financial position of agriculture in the South was considerably improved during the World War II period, both actually and relative to other parts of the country. Although the current outlook is less favorable for the major cash crops of the South than for those of other major regions, it is probable that southern agriculture will realize permanent gain from the readjustments that were made during the war period and from those that may be made in the outlook period.

The importance of cash crops in the South, especially those which depend heavily upon export demand, has made this area subject to wide fluctuations in the economic conditions. The pressures of an excess farm population on limited land resources, a slow rate in the adoption of technological improvements, and deficiencies in operating capital have also contributed to the economic problems of the area.

Marked improvements have occurred in the South during the war years and they are likely to continue in the outlook period. In recent years increased industrialization has tended to raise employment and income levels and to reduce population pressure on land resources. The larger farm incomes of the war years speeded up adjustments in size of farms that are essential to efficient use of modern mechanical equipment. Changes in farm organization were also made to increase diversification and to reduce dependence upon cotton and tobacco as cash crops. And the accompanying improvements in land management and conservation practices are likely to contribute to greater stability and production efficiency in the future.

With a high volume of production and with favorable prices, in contrast with restricted production and support prices in the prewar period, gross farm earnings were more than three times as high in the South in 1947 as they were in 1935-39. And, as was generally true, net farm and per capita earnings increased much more than did gross farm earnings. Moreover, in the South, there was an exceptionally heavy migration of underemployed workers from agricultural to non-agricultural employment during the war period. This migration contributed to relatively great increases in per capita output and net earnings of those remaining in agriculture.

This war-period increase in agricultural earnings was accompanied by a rapid rise in values of land and other farm inventory items, and particularly in liquid assets. The increases in liquid assets of farmers and in values of farm real estate were both greater in the Southern States than for the country as a whole. On January 1, 1948, southern farmers held 34 percent of the liquid assets held by all farmers, compared with 31 percent on January 1, 1942. And in March 1948, land values were 115 percent higher in the Southern States than they were in 1935-39, compared with an increase of 105 percent for the country as a whole. Values of other inventory items also increased. But these improvements in financial status were offset in part by less favorable situations with reference to indebtedness. The southern region was the only major area where the non-real-estate debt of farmers was considerably greater at the end of the war than in 1940. Also the decline in farm-mortgage debt was less rapid in the Southern States during the war period than in other parts of the country. And during the last 2 years farm-mortgage debt increased sharply in the Southern States. This was in marked contrast to some other areas, the North Central States in particular.

If farm earnings decline more rapidly in the South than in other parts of the country during the outlook period, it is probable that the values of farm assets will also decline more rapidly. The response of farm real estate values to war-period increases in farm earnings was much higher in the South than for the country as a whole. For each increase of 10 percent in gross farm income, land values per acre rose 5.4 percent, as compared with 4.3 percent for the country as a whole. In view of this higher response to increases in income, it appears likely that land values will decline more in the Southern States under either set of outlook assumptions than will be true for the entire country. The liquid assets of southern farmers are also expected to decline, from an estimated 6.8 billion dollars on January 1, 1948 to about 5.0 billion dollars under the most favorable conditions and to about 4.5 billion dollars under the least favorable conditions assumed for the outlook period.

The South has had a greater expansion in non-real-estate agricultural debt since 1940 than any other part of the country. On January 1, 1948 southern farmers owed 30 percent of such debt in the United States, as compared with 24 percent on January 1, 1940. Because of the high level of current borrowings and the prospective declines in farm earnings, this type of indebtedness will probably level off in the near future. This tendency may be influenced, in part, by some funding of these relatively short-term, high-interest loans into farm-mortgage debts.

The farm-mortgage debt in the Southern States is still nearly two-thirds as high as the peak level. And, during the last 2 years mortgage debts in the South have increased by nearly 18 percent. Under the squeeze of high fixed costs and declining incomes, it is probable that this upward trend will continue during the outlook period. If prices of major crops in the South decline substantially, however, it is likely that the rate of increase will be less rapid than it has been during the last 2 years. An increase in the use of credit to finance technological and other farm improvements might be of major importance in offsetting this tendency.

Western States

Although the Western region contains widely diverse kinds of agriculture, the region as a whole has in common certain general characteristics that make the financial outlook for agriculture here different from other regions. Many parts of this region will continue to experience economic growth at a greater rate than will older regions. This growth will be reflected in value of assets used in agriculture and in credit used by farmers. The rapid growth of urban population along the Pacific seaboard will provide a greater demand for farm products that are sold in local markets. This will help to bolster the agriculture against general downward readjustments in incomes, prices, and asset values.

But these downward adjustments may still be substantial. With falling income during the outlook period, land values may be in for a somewhat greater downward readjustment than in the North Central region. Land values in fruit and truck-crop production areas have already shown considerable weakness, and this tendency is likely to continue. In those areas in which livestock bulks large in total farm assets, the prospective decline in prices of livestock will influence directly to an appreciable extent the value of total farm assets. Despite the influence of population and general economic growth in the area, therefore, the value of assets used in farming is likely to decline somewhat more during the outlook period than in the country as a whole. Within the region, however, the trends are likely to diverge.

Liquid assets held by western farmers increased at about the same rate from January 1, 1942 to January 1, 1948, as for the entire country. On January 1, 1948, liquid assets held by western farmers are estimated at 2.7 billion dollars. No reasons are apparent as to why the trend for this region should differ greatly from that of the entire country. Liquid assets of farmers in this area are not expected to fall below 2 billion dollars during the outlook period, and under the most favorable conditions assumed they might remain as high as 2.3 billion.

Throughout the period 1940-48, non-real-estate debts of western farmers to the principal credit institutions were about 21 percent of the total for the country. Although some further increase may be anticipated, a moderate reduction in the amount of such credit used by farmers is expected to accompany the reduction in costs projected for the outlook period. Real estate debts are likely to continue their upward trend. Continued growth of the area in the form of new irrigation developments and expansion of dairying is likely to draw in substantial amounts of capital in the form of mortgage loans, and lower incomes in many parts of the region will reduce the rate of principal repayments. This new debt, however, will be matched in part with new assets, so that the change in the net-worth position of western farmers may differ very little from that for farmers generally.