

SOUTHEASTERN AGRICULTURE: DESPAIR GIVES WAY TO OPTIMISM

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The financial situation of southeastern farmers has improved greatly in 1978. Following a widespread drought disaster that drew large amounts of emergency credit to the Southeast in 1977, a turnabout in production and prices has brightened the farm income picture on nearly all fronts. Farmers' loan repayment problems should have diminished significantly by the time the farm gate closes on 1978's financial operations.

The 1977 Disaster. The contrast is stark between farmers' experiences in 1978 and 1977. Southeastern farmers ended that year with a substantial reduction in income from 1976's level. A combination of a severe early summer drought and a plunge in crop prices dropped total cash receipts from crops by \$320 million, or 5 percent, in the combined states of the Sixth Federal Reserve District. The decline was nearly 12 percent in Georgia and Alabama, where the dry weather's impact was most devastating. Receipts from livestock were boosted by an unusually heavy rate of cattle marketings

as herds were liquidated during the year, but the gain was less than 3 percent.

The financial bind of crop farmers was more severe than the downturn in cash receipts indicated because farmers had intended to expand production of most crops in 1977. They had increased plantings and production expenditures substantially to accomplish that objective. Final crop revenue was approximately one-fourth less than farmers had anticipated at planting time, based on an expectation of normal yields and the price levels existing in the spring of 1977. Returns to corn producers were cut by four-fifths from early season expectations. As a result, earnings on crops were not sufficient to permit full repayment of many production loans.

Emergency Credit Relief. As the dimensions of the southeastern farmer's plight became apparent and the opportunity for securing credit for disaster relief from the Small Business Administration became known, large numbers of applications poured into state SBA

TABLE 1
SMALL BUSINESS ADMINISTRATION
DROUGHT DISASTER LOAN ACTIVITY, REGION IV

| | <u>Applications Accepted</u> | | <u>Applications Approved</u> | | <u>Loans Disbursed</u> | |
|---------------------------------------|------------------------------|--------------------|------------------------------|--------------------|------------------------|------------------|
| | No. | (\$000) | No. | (\$000) | No. | (\$000) |
| Cumulative July 22-December 30, 1977 | | | | | | |
| Georgia | 8,733 | \$823,737 | 7,573 | \$351,687 | 4,642 | \$129,874 |
| Alabama | 1,409 | 104,569 | 723 | 29,970 | 262 | 4,690 |
| Other States* | 4,817 | 314,866 | 3,247 | 175,273 | 1,438 | 54,085 |
| Regional Totals | 14,959 | \$1,243,172 | 11,543 | \$556,930 | 6,342 | \$188,649 |
| Cumulative July 22, 1977-July 5, 1978 | | | | | | |
| Georgia | 10,349 | \$898,027 | 9,634 | \$432,397 | 9,126 | \$412,416 |
| Alabama | 2,900 | 256,173 | 2,298 | 116,984 | 2,242 | 110,195 |
| Other States* | 10,426 | 639,102 | 8,973 | 451,356 | 7,687 | 364,111 |
| Regional Totals | 23,675 | \$1,793,302 | 20,905 | \$1,000,737 | 19,055 | \$886,722 |

*North Carolina, South Carolina, Mississippi, Florida, and Tennessee.

Source: U.S. Small Business Administration, Regional Office, Atlanta, Georgia.

offices. From the first disaster declaration on July 22, 1977, through July 5, 1978, the seven states in Administrative Region IV (identified in Table 1) accepted 23,675 loan applications for \$1,793,302,000. Evidencing the drought's unusual severity in Georgia, farmers in that state made 10,349, or 44 percent, of the total number of applications and asked for \$898 million, or 50 percent, of the dollar volume of loan requests (see Table 1).

The SBA encountered difficulties in handling the sudden deluge of agricultural loan requests. By December 30, 1977, about \$189 million had been disbursed in Region IV—less than half of the \$557 million approved and only about 15 percent of the loan funds that had been requested. Georgia farmers received more than two-thirds of those disbursements.

By July 5, 1978, six months later, 55 percent of the total emergency credit applied for in Region IV had been approved and \$887 million had been

disbursed. Georgia's share of disbursements had dropped below 50 percent, closer to its share of total applications and approvals. Alabama ranked second to Georgia in the region's disaster loan activity, but its applications, approvals, and disbursements were only one-fourth as large as Georgia's. Activity in the other five states combined did not equal Georgia's.

The Farmers Home Administration, the traditional source of emergency credit for farmers, also extended a heavy volume of emergency loans, starting in July of 1977. From October 1 through December 31, 1977, FmHA emergency loans in Georgia, where the volume was greatest, amounted to \$158 million. By July 31, 1978, the volume of these loans outstanding reached \$315 million, about three-fourths of the SBA's loan volume in Georgia.

The impact of emergency credit seems readily apparent in the late 1977 pattern of agricultural credit from other sources.

TABLE 2
FARM LOANS OUTSTANDING AT COMMERCIAL BANKS,
SIXTH FEDERAL RESERVE DISTRICT¹
(million \$)

| <u>Date</u> | <u>Ala.</u> | <u>Fla.</u> | <u>Ga.</u> | <u>La.</u> | <u>Miss.</u> | <u>Tenn.</u> | <u>District States</u> |
|--|-------------|-------------|------------|------------|--------------|--------------|------------------------|
| <u>Nonreal Estate Loans²</u> | | | | | | | |
| 3/30/76 | 220 | 141 | 265 | 188 | 227 | 236 | 1,276 |
| 6/30/76 | 247 | 138 | 296 | 210 | 246 | 247 | 1,384 |
| 9/30/76 | 250 | 145 | 282 | 226 | 279 | 268 | 1,450 |
| 12/30/76 | 232 | 161 | 273 | 188 | 245 | 246 | 1,344 |
| 3/30/77 | 249 | 154 | 317 | 208 | 249 | 259 | 1,434 |
| 6/30/77 | 292 | 157 | 348 | 253 | 281 | 296 | 1,627 |
| 9/30/77 | 307 | 155 | 349 | 282 | 327 | 319 | 1,738 |
| 12/30/77 | 276 | 168 | 303 | 233 | 285 | 296 | 1,561 |
| 3/30/78 | 266 | 166 | 282 | 244 | 268 | 298 | 1,524 |
| 6/30/78 | 280 | 155 | 310 | 280 | 291 | 313 | 1,628 |
| <u>Total Farm Loans³</u> | | | | | | | |
| 3/30/76 | 377 | 266 | 568 | 304 | 409 | 511 | 2,435 |
| 6/30/76 | 404 | 257 | 612 | 340 | 433 | 529 | 2,574 |
| 9/30/76 | 412 | 267 | 592 | 356 | 479 | 555 | 2,660 |
| 12/30/76 | 393 | 282 | 588 | 323 | 444 | 547 | 2,576 |
| 3/30/77 | 418 | 283 | 636 | 347 | 456 | 568 | 2,708 |
| 6/30/77 | 474 | 295 | 692 | 399 | 494 | 622 | 2,974 |
| 9/30/77 | 493 | 295 | 696 | 433 | 549 | 658 | 3,124 |
| 12/30/77 | 468 | 316 | 636 | 389 | 511 | 630 | 2,950 |
| 3/30/78 | 462 | 316 | 613 | 417 | 488 | 641 | 2,938 |
| 6/30/78 | 482 | 306 | 649 | 462 | 513 | 667 | 3,078 |

¹Data for Louisiana, Mississippi, and Tennessee and the District totals include both in- and out-of-District portions of these states.

²Listed as "Loans to Farmers," Item A4, on the Report of Condition.

³Total farm loans are the sum of nonreal estate loans and loans secured by farmland, Item A1b, on the Report of Condition. Bank financing of agricultural production through direct lines of credit to vertically integrated operations is usually not identified as farm credit. A substantial portion of the agricultural loan volume of banks may be undetected in areas where production of broilers, eggs, fruits, and vegetables are concentrated, i.e., the Southeast.

Source: F.D.I.C.

Total farm loans outstanding at commercial banks in the Sixth District states reached a peak on September 30, 1977, and declined substantially by December 30, 1977, due to a reduction in nonreal estate loans (see Table 2). Georgia,

where most of the emergency credit had been disbursed by December 30, accounted for more of the decrease in bank loan outstandings than any other state. During the comparable period of 1976, outstanding agricultural loans at

District banks had fallen much less and hardly at all in Georgia. Despite the larger pay-down during 1977, year-end loan outstandings stood significantly higher than 1976's ending level.

The pattern of loan repayments at banks was also experienced by other lenders. Loan outstandings declined substantially from September to December of 1977 at production credit associations (PCAs) in both the Third and Fifth Farm Credit Districts, which overlap the Sixth Federal Reserve District (see Table 3). Again, liquidations at PCAs were most prominent in Georgia. During 1976, by comparison, PCA loans outstanding had been nearly unchanged from September to December.

Undoubtedly, emergency credit helped southeastern farmers repay a greater proportion of their loans in 1977. However, it is doubtful if the volume of loans that had been disbursed by December 31 was sufficient to account for all of the loan pay-downs that occurred.

Since the majority of the emergency loan funds were disbursed after January 1, 1978, the major impact on borrowings and credit outstanding came in early 1978. In the Sixth Federal Reserve District, agricultural loan growth at banks in the first half of this year was less rapid than during the early 1977 period. Georgia was the only District state in which the March 30 volume of loans outstanding showed an actual downturn from the year-ago level. On July 1, 1978, loans at production credit associations in Georgia, as well as in the Third Farm Credit District, were also lower than on the same date last year (see Table 3). Although confirming data are not available, emergency loans may also have replaced a substantial volume of direct credit from merchants and dealers during the early months of 1978.

Changes in farmers' planting decisions undoubtedly were an additional major influence on credit demand in 1978. Their poor experiences with cotton, corn, and most other grain crops in 1977 gave farmers reason to reduce plantings of those crops in 1978 while they expanded soybean acreage sharply. Many farmers viewed soybean production as the brightest possibility for increasing income this year.

TABLE 3
FARM LOANS OUTSTANDING
AT PRODUCTION CREDIT ASSOCIATIONS
(million \$)

| | <u>Georgia</u> | <u>Third Farm Credit District¹</u> | <u>Fifth Farm Credit District²</u> |
|-------------|----------------|---|---|
| <u>1976</u> | | | |
| January | 416 | 1,346 | 524 |
| July | 499 | 1,557 | 615 |
| September | 466 | 1,483 | 634 |
| December | 466 | 1,478 | 481 |
| <u>1977</u> | | | |
| January | 488 | 1,516 | 468 |
| March | 528 | 1,625 | 497 |
| June | 597 | 1,807 | 621 |
| July | 619 | 1,844 | 652 |
| September | 605 | 1,750 | 693 |
| December | 538 | 1,661 | 552 |
| <u>1978</u> | | | |
| January | 537 | 1,681 | 535 |
| February | 523 | 1,669 | 542 |
| March | 510 | 1,667 | 549 |
| April | 513 | 1,685 | 573 |
| May | 526 | 1,714 | 594 |
| June | 541 | 1,784 | 626 |
| July | 547 | 1,810 | 659 |
| August | 548 | 1,789 | 685 |
| September | 527 | 1,736 | 701 |

¹Includes North Carolina, South Carolina, Georgia, and Florida

²Includes Alabama, Mississippi, and Louisiana.

Source: Farm Credit Administration, Washington, D. C.

Reductions in corn and cotton acreage were tantamount to a substantial decline in production expenditures in affected areas. Corn is nearly twice as costly per acre to produce as are soybeans, and cotton is about three times as expensive. The downturn in agricultural loan volume at banks and PCAs in Georgia could reflect the cutback in expenditures resulting from farmers' shift to soybeans from corn and cotton as well as the substitution of emergency loans for credit from conventional sources.

Crop Progress in 1978. Going into the harvest season, income prospects were much better this year than in 1977. In spite of another siege of dry weather

TABLE 4
ESTIMATED PRODUCTION, COSTS, AND PROJECTED RETURNS,
SELECTED CROPS, SIXTH FEDERAL RESERVE DISTRICT STATES,
1977 AND 1978

| | <u>Acreage¹</u> (000) | <u>Estimated Total Variable Cost²</u> (million \$) | <u>Total Production³</u> (1,000 bales) | <u>Total Return⁴</u> (million \$) |
|-----------------|-------------------------------------|--|--|---|
| COTTON | | | | |
| 1977 | 2,771 | \$496.0 | 2,930 | \$693.4 |
| 1978 | <u>2,404</u> | <u>480.8</u> | <u>2,304</u> | <u>619.3</u> |
| Change | -367 | -15.2 | -626 | -74.1 |
| (Percent) | (-13.2) | (-3.1) | (-21.4) | (-10.7) |
| SOYBEANS | | | | |
| 1977 | 11,547 | \$774.8 | (mil. bu.) 251.7 | \$1,497.6 |
| 1978 | <u>13,320</u> | <u>887.2</u> | <u>295.7</u> | <u>1,883.6</u> |
| Change | 1,773 | 112.4 | 44.0 | 386.0 |
| (Percent) | (15.4) | (14.5) | (17.5) | (25.8) |
| CORN | | | | |
| 1977 | 4,939 | \$520.9 | (mil. bu.) 101.9 | \$198.8 |
| 1978 | <u>3,825</u> | <u>422.4</u> | <u>175.9</u> | <u>394.0</u> |
| Change | -1,114 | -98.5 | 74.0 | 195.2 |
| (Percent) | (-22.6) | (-18.9) | (72.6) | (98.2) |
| PEANUTS | | | | |
| 1977 | 803 | \$198.5 | (mil. lbs.) 2,257.9 | \$485.4 |
| 1978 | <u>801</u> | <u>198.6</u> | <u>2,501.7</u> | <u>532.9</u> |
| Change | -2 | .1 | 243.8 | 47.5 |
| (Percent) | (-0.2) | (0.1) | (10.8) | (9.8) |

in June and early July of this year and again during September, sporadic rainfall kept crop deterioration from proceeding as far as it did last year. Although significantly higher than in 1977, corn production has been severely limited again. Most other crops are reported to have made relatively good progress.

Because of the intensity of last year's drought, production of most crops was

cut so sharply that 1978's crop output should be greater despite some large reductions in plantings. For the District as a whole, the most notable changes in crop acreages in 1978 were a decline of 1.1 million acres, or 23 percent, in corn plantings and an increase of 1.8 million acres (15 percent) in soybeans (see Table 4). Both cotton and wheat acreages were pared by 13 percent, but the number

TABLE 4 CONTINUED

| | <u>Acreage¹</u> (000) | <u>Estimated Total Variable Cost²</u> (million \$) | <u>Total Production³</u> (mil. lbs.) | <u>Total Return⁴</u> (million \$) |
|---------------------|-------------------------------------|--|--|---|
| TOBACCO | | | | |
| 1977 | 146 | \$150.4 | 304.9 | \$352.2 |
| 1978 | <u>140</u> | <u>144.2</u> | <u>304.4</u> | <u>406.7</u> |
| Change (Percent) | -6 (-4.2) | -6.2 (-4.1) | -0.5 (-0.2) | 54.5 (15.5) |
| RICE | | | | |
| | | | (000 cwt.) | |
| 1977 | 586 | \$130.9 | 21,885 | \$206.4 |
| 1978 | <u>798</u> | <u>189.5</u> | <u>30,601</u> | <u>259.8</u> |
| Change (Percent) | 212 (36.2) | 58.6 (44.8) | 8,716 (39.8) | 53.4 (25.9) |
| ORANGES | | | | |
| | | | (mil. boxes) | |
| 1977 | n.a. | n.a. | 186.8 | \$576.4 |
| 1978 | n.a. | n.a. | <u>168.3</u> | <u>958.4</u> |
| Change (Percent) | | | -18.5 (-9.9) | 382.0 (66.3) |

n.a.—not available.

¹Acreage harvested in 1977 and acreage intended for harvest in 1978, except that acreage planted is shown for corn, since drought in 1977 distorted the acreage harvested.²The product of the acreage for each crop multiplied by variable costs per acre as estimated by the U.S. Department of Agriculture or various state experiment stations.³Actual production for 1977 and USDA's indications for 1978.⁴The season average price multiplied by production in 1977; the average price received by farmers in July, August, and September (April, May, and June for citrus crops) multiplied by indicated production in 1978.

of acres involved is small compared with the huge changes in corn and soybean plantings.

The combined income from 12 major regional crops is expected to increase by nearly \$1.2 billion in 1978. The major gainers, based on recent price and production indications, will be soybeans, oranges, corn, tobacco, rice, and peanuts. However, income is projected to rise

above 1977 levels for all crops except cotton. Yields should be greatly improved from the drought-shriveled levels last year. In addition, a combination of government programs and stronger demand has lifted prices of crops about 25 percent this year. Wheat, corn, and tobacco prices have averaged around one-third above the comparable level in 1977.

TABLE 5
JULY 1 CATTLE INVENTORIES
(thousand head)

| | <u>1976</u> | <u>1977</u> | <u>1978</u> | <u>1978 as Percent of 1977</u> |
|--|--------------|--------------|--------------|------------------------------------|
| <u>Replacement Beef Heifers 500 Lbs. and Over</u> | | | | |
| Alabama | 164 | 143 | 112 | 79 |
| Florida | 204 | 191 | 186 | 97 |
| Georgia | 135 | 102 | 109 | 107 |
| Louisiana | 150 | 112 | 91 | 81 |
| Mississippi | 246 | 182 | 151 | 83 |
| Tennessee | <u>218</u> | <u>196</u> | <u>141</u> | 72 |
| District States | 1,117 | 926 | 790 | 84 |
| United States | 6,527 | 5,839 | 5,362 | 92 |
| <u>Calf Crop</u> | | | | |
| Alabama | 1,050 | 1,020 | 920 | 89 |
| Florida | 1,170 | 1,135 | 1,090 | 96 |
| Georgia | 910 | 850 | 800 | 94 |
| Louisiana | 810 | 730 | 740 | 101 |
| Mississippi | 1,230 | 1,150 | 1,080 | 94 |
| Tennessee | <u>1,238</u> | <u>1,230</u> | <u>1,210</u> | 98 |
| District States | 6,408 | 6,115 | 5,840 | 96 |
| United States | 47,440 | 46,057 | 44,138 | 96 |

Sources: USDA, **Cattle**, Crop Reporting Board, and ESCS, July 1978.

Strong Prices in the Livestock Sector.

Income to livestock producers was also rising briskly through midyear. Sharp price increases for cattle and broilers were the primary sources of gain. The midyear cattle inventory showed that heavy marketings of breeding stock continued during 1978. Cattle numbers on July 1 were 11 percent less than the mid-1977 count and 17 percent below 1976's inventory. The smaller calf crop (see Table 5) has contributed to rapidly rising prices of feeder calves, and the supply will apparently be restricted further in coming months, foreshadowing continually improving incomes for the remaining cow-calf operators.

Georgia was the only District state to show an increase in replacement beef heifers from 1977's number, a sign that some herd rebuilding may be in the

offing. The reason that herd replacements have risen in Georgia and not in other southeastern states is not entirely clear. Georgia's receipt of the lion's share of emergency credit from government agencies may be one explanation. That credit might have provided a significant number of Georgia farmers with the means to either purchase heifers or withhold calves they've raised from the market while financial pressure precluded similar actions by farmers in other states.

In much of the Southeast, it is doubtful that cattle prices have yet advanced enough for the beef cattle enterprise to compare favorably with the alternative of using land to produce soybeans. With the persistent strength in prices of soybeans, in spite of record high production, it is not surprising that many farmers are still opting to reduce beef

cattle herds, plow up their pastures, and plant the land in soybeans. The trend is likely to continue until soybean prices decline or cattle prices reach considerably higher levels.

Pork producers have been slow to respond to prices averaging 15 to 20 percent above the year-earlier level since the second half of 1977. An expansion finally appeared to be getting under way at midyear. The June 1 inventory showed an 8-percent increase from 1977's level in Georgia's total hog numbers, including both breeding stock and pigs for market. (Georgia is the only District state included in the quarterly survey of hog numbers.) On September 1, the inventory was slightly larger than in June, but there was not much gain from the previous fall's tally. Producers indicated that they planned to expand output further during the fourth quarter.

By year-end, a 5-percent increase in hog marketings, combined with the 15- to 20-percent price increase, should lift income to hog producers by 20 to 25 percent. Considering the prospects for further reductions in the nation's beef output, hog prices have a good chance of remaining strong during the months ahead.

Broiler production grew at a rate of 10 percent or more during most of the first half of the year, and prices followed the uptrend in beef and pork prices. A sharp advance in broiler income contributed a good share of the \$400-million rise in the region's livestock receipts through June of 1978. Egg producers ran afoul of a sensitive market that responds to slight increases in output with price declines. Prices have shown renewed strength recently, but all in all, there has been little gain from the year-earlier level for egg producers.

Throughout the Southeast, farm income prospects for 1978 are brighter than they have been during the past several years. Total growth in cash receipts from livestock could easily amount to \$1.0 billion by the end of the year. When the final returns are counted, crop and livestock incomes combined could rise by more than \$2.0 billion, or 20 percent, in 1978. Higher prices, especially in the livestock sector, and the expected increase in crop production, most notably soybeans, corn, and rice, are the major contributors to the improved outlook. ■