A Fifth District Review of . . .

1971 FARM FINANCIAL AND CREDIT CONDITIONS

This analysis, prepared in December 1971 at the request of USDA's Agricultural Finance Branch, is based on a sample survey of Fifth District bank agricultural specialists and on data from the U. S. Department of Agriculture, the Farm Credit Administration, and the Federal Deposit Insurance Corporation.

Weather's capricious nature, continued tightening of the cost-price squeeze, effects of present Government farm programs, less expensive credit, and an increase in the availability of funds for farm loans were prime factors influencing the financial and credit conditions of Fifth District farmers in 1971. A full review of the situation turned up the following major findings. Farmers' cash income from farming may well have been slightly below the improved level of 1970, but their off-farm income continued to climb. Farm and family living costs also rose further. Expenditures for capital items showed a slight advance, as did spending for family living items. Prices of farmland continued to rise and at a much faster pace than in the past several years. Farm real estate market activity remained slow but apparently not as slow as in 1970. Farmers' demand for farm credit was strong, and the availability of bank loan funds improved. Bankers' loan policies were generally about the same as those a year earlier.

Farm Income and Costs Location and type of farming determined the level of farm income more than ever in 1971. Many livestock farmers, especially poultry and hog producers, experienced a poor year. Crop farmers had widely different experiences. Viewed as a whole, it seems quite likely that total District farm income was moderately below that in 1970. Bankers' views concerning farm income in 1971 relative to farm income in 1970 varied considerably but indicated a slightly improved level overall. Even if gross cash income from farming records a modest increase, the gain will probably not be high enough to offset the persistent rise in farm production expenses.

Lower livestock prices, particularly for poultry and hogs, were the major reason for the reduced level of income from livestock and livestock products in 1971. Livestock prices were below year-earlier levels in all District states, in fact, with average decreases ranging from 2% in Maryland to 8% in the Carolinas. Market supplies of milk and cattle and calves were about the same as in 1970. Broiler supplies were about 5% smaller, and supplies of eggs were down around 2%. Hog marketings, on the other hand, were 13% larger, and the number of turkeys marketed was up some 4%.

Farmers' January-October cash receipts from sales of livestock and livestock products were 5% below those in the comparable period of 1970. Losses were recorded in all District states and ranged from 1% in Virginia to 8% in North Carolina. The production and price indications since October, coupled with the fact that more than four-fifths of all livestock income is normally received during the first ten months of the year, suggest that the reduction in livestock receipts for the entire year may approximate that of the January-October period.

The 1971 growing season was generally good, and farmers had prospects for excellent harvests. Yields per acre were up, and, except for tobacco, acreages for harvest were mostly larger because of the changes in Government farm programs. During the height of the harvesting season, however, Hurricane Ginger struck, followed by four weeks of heavy rains. Damage to the cotton, corn, and soybean crops was high, and losses suffered by the Virginia-North Carolina peanut crop were of drastic proportions. Seven per cent of the peanut acreage had to be abandoned, yields dropped 25% below 1970 yields, and total production was down 31%.

Despite the cotton, corn, and soybean losses resulting from the poor harvesting conditions, production of these crops was well above that in 1970—cotton by 8%, corn by 23%, and soybeans by 15%. Output of each of the small grains showed impressive gains, and the pecan crop was five times the small 1970 crop. Other production increases were: Irish potatoes, 7%; hay, 6%; and apples, 3%. The

tobacco, peach, and sweet potato crops were smaller, however—tobacco by 7%; sweet potatoes, 8%; and peaches, 11%.

With the price of corn the chief exception, crop prices generally proved to be a major source of strength in 1971. Except in West Virginia, where prices were lower, crop prices averaged moderately higher in Maryland, Virginia, and North Carolina and were up some 4% in South Carolina. Flue-cured tobacco prices were the highest in history, averaging some 8% above those a year earlier. Prices of peanuts, soybeans, and cotton were also higher.

District farmers' cash receipts from crop marketings for the first ten months of 1971 were some 2% larger that at the same time the previous year. In view of overall crop production prospects and the generally favorable price situation which has prevailed, it would seem that total crop receipts for the year as a whole might well be on the plus side. The increase will help to offset a good part of the reduction in livestock income.

Farm production expenses appear to have kept up their record-setting pace in 1971. Prices paid by farmers for commodities and services, including interest, taxes, and farm wage rates, advanced almost 5%—about the same as in 1970. Many farmers' costs were further increased because they had to buy additional inputs. Nearly two-fifths of the responding bankers, in fact, held the view that the volume of purchased inputs had risen. The increase appears to have been somewhat larger than in 1970.

Income from off-farm employment—an important source of buying power for farm families—continued to increase. This belief, expressed by three-tenths of the replying bankers, applied to both farm operators and to other members of farm families. The pace of this upward trend in nonfarm earnings appeared to have tapered off in some localities, however, since some bankers reported slight declines in this source of income. The declines, which applied chiefly to the off-farm income of farm family members other than the operator, resulted in several instances from the closing down of industrial plants in rural communities.

Farmers' Savings and Spending The financial savings and reserves of Fifth District farmers at year's end appeared, on balance, to be slightly larger than a year earlier. This situation no doubt resulted from several factors. With the lowering of interest rates, for example, farmers generally were not as reluctant to borrow as they were in 1970 and hence did not draw down their savings to meet current operating and capital needs. Still others reduced their expenditures for machinery and equipment, facilities, and other capital goods.

Farmers' spending for family living purposes continued to advance. Like their urban counterparts, farmers were again confronted with a general increase in the cost of living. The farm family living index—a measure of the prices farm families pay for food and tobacco, clothing, household operation items and furnishings, house building materials, and so on—rose some 4% during 1971, the same as in 1970. With this increase and farmers' spending patterns generally, it is not surprising that 65% of our survey responses indicated that farmers' expenditures for family living items were slightly higher than a year earlier. Most of the remaining respondents felt that farmers had held this type spending to about the same level as in 1970.

Farmers also stepped up their investment in capital goods in 1971. Capital outlays for machinery and equipment appear to have been larger than those for facilities and other capital goods, however. Farmers' purchases of machinery and equipment were reported to be larger—though just slightly so—than in 1970 by 45% of the replying bankers. A like proportion were of the opinion that there had been little change in this kind of spending, while 10% expressed the belief that machinery and equipment purchases had declined. Spending for facilities and other capital goods was believed to have been slightly larger by 35% of the respondents, one-half felt that purchases of this nature had changed little, and the remaining 15% thought that there had been a slight decline. Much of the increase in capital expenditures in 1971, which is in sharp contrast to the situation in 1969 and 1970, can doubtless be attributed to the lower cost and increased availability of credit.

Farm real estate prices in the District as a whole picked up momentum during the year ended March 1, 1971, rising slightly more than 8%. The rate of increase marked the fastest year-to-year advance since 1967 and compared with only a 3% gain nationally. Market values moved upward in all District states, with increases of 8% or better occurring in all states except West Virginia. There the advance was about 4%. Though no official state estimates of farmland prices have been released since March 1, our banker respondents, when asked how prices of farmland for calendar year 1971 compared with those a year earlier, indicated for the most part that the uptrend in prices had continued.

On balance, activity in the farm real estate market in 1971 appears to have remained rather slow, although slightly renewed activity occurred in some

areas. In certain instances, very little farmland was reported to be for sale. Purchases of farmland for farm enlargement were apparently not quite as slow as in 1970. Slight declines in the number of enlargement purchases were indicated by only one-fifth of the bankers surveyed in 1971, compared with 65% a year earlier. On the other hand, one-fourth of the survey responses noted an increase, mostly slight, in the purchase of land for farm expansion, while only 5% reported such gains in 1970. The remaining 55% believed there had been little change in purchases of this type.

Buying farmland for nonfarm purposes seems to have generated a little more market activity than purchases for farm enlargement; however, market demand overall was apparently somewhat below that of the previous year. One-third of the responding bankers reported slight increases in buying for nonfarm reasons as against one-fourth who noted gains in purchases for farm enlargement. The 33% who felt increases in nonfarm purchases had occurred in 1971 compared with 40% who believed likewise in 1970. In contrast, 27% of the 1971 respondents, about the same proportion as a year earlier, indicated slight declines in the purchase of farmland by nonfarm buyers. Generally, quite a few who bought farmland for reasons other than farm enlargement were said to have done so for speculative purposes.

Farm Credit Situation Farmers' demand for credit showed renewed strength in 1971. With the softening in interest rates and an increase in the availability of loan funds, the District's farmers accelerated their use of both long-term and short-term credit as they sought to catch up on capital improvements and meet the seemingly ever-increasing costs of production inputs. As a result, short-term farm debt grew at a faster pace than a year earlier, both at commercial banks and at production credit associations. There was some slackening in the growth of long-term debt held by the Federal land banks. Commercial banks, however, resumed more vigorous activity in the farm-mortgage lending field after having cut back in 1970. The resulting increase in the dollar volume of long-term loans held by banks was more than double the amount by which the growth in Federal land bank loans was reduced. (The gain in the volume of bank held farm real estate loans would have been even larger had the method of reporting Farmers Home Administration insured notes on the Call Report not been changed as of mid-1971. Because of this change, FHA insured notes are no longer reported as farm real estate loans.)

Our survey findings showed that the overall demand for farm credit strengthened in 1971. Statistical evidence supports these findings. Farm-mortgage loans held by all the District's insured commercial banks in mid-1971, for example, totaled $304.7 million, around 5% or $13.9 million above a year earlier. This increase contrasts with a reduction of roughly 1% or $1.7 million in bank held long-term farm debt during the year ending at mid-year 1970. In comparison, outstanding loans held by the Federal land banks on June 30, 1971 amounted

FARM DEBT: AMOUNT OUTSTANDING HELD BY SPECIFIED LENDERS, BY TYPE
United States and Fifth District by States, June 30, 1971 compared with June 30, 1970

State or Area	Farm-Mortgage Debt				Non-Real-Estate Farm Debt			
	All Insured Commercial Banks		Federal Land Banks		All Insured Commercial Banks		Production Credit Associations	
	Amount Outstanding 1971	Change from 1970	Amount Outstanding 1971	Change from 1970	Amount Outstanding 1971	Change from 1970	Amount Outstanding 1971	Change from 1970
	$ Million	Per Cent	$ Million	Per Cent	$ Million	Per Cent	$ Million	Per Cent
Maryland*	74.6	+8.6	66.8	+10.2	38.4	+1.4	40.5	+ 6.4
Virginia	89.5	+7.1	120.1	+ 6.7	114.2	+5.3	61.5	+10.4
West Virginia	35.1	+6.6	12.3	− 0.7	19.2	−0.7	9.0	+ 7.6
North Carolina	76.5	−1.1	206.6	+11.3	137.7	+7.2	225.0	+20.7
South Carolina	28.9	+2.8	118.3	+ 8.6	43.3	−3.6	110.7	+17.2
Fifth District	304.7	+4.8	524.0	+ 9.1	352.9	+4.1	446.8	+16.6
United States**	3,970.2	−1.5	7,578.7	+ 8.4	12,232.2	+8.8	6,273.2	+17.1

* Includes District of Columbia. ** States and other areas.
Note: Data may not add to totals because of rounding.
Source: Federal Deposit Insurance Corporation and Farm Credit Administration.

to $524.0 million for a gain of 9% or $43.8 million during the same 12-month period. The increase, however, was lower than the 12% or $49.6 million gain recorded by the Federal land banks during the preceding 12 months.

Non-real-estate farm debt outstanding at District banks at midyear 1971 totaled $352.9 million. The loans outstanding were up 4.1% or $13.8 million, compared with a gain of 3.8% or $12.5 million during the year ended in mid-1970. The volume of non-real-estate debt held by the PCA's, on the other hand, amounted to $446.8 million for an increase of 17% or $63.7 million during the same 12 months. The gain in PCA loans compares with the 15% or $48.8 million upturn recorded by the PCA's during the 12-month period ended in mid-1970.

The number of farmers borrowing from commercial banks dropped slightly, primarily because of fewer farmers. But the average size farm loan increased again, and in a good many cases by a considerable amount. Bankers' farm loan repayments, on balance, were better than in 1970, and the number of delinquencies was generally lower. Farm loan renewals were down, but only moderately so.

Bankers' loan policies or practices, for the most part, were about the same as a year earlier, or generally tight. One-fifth of the respondents indicated, however, that they adopted more lenient policies during 1971. Bankers in general continued to weigh heavily good management ability and repayment capacity when evaluating loan requests.

Bank funds available for lending to farmers in 1971 were reported to have been larger than in 1970 by 55% of the bankers surveyed. The remainder indicated that their available funds had been about the same as in the previous year. Without exception, all bankers said they had not found it necessary to turn down farm loan applications because of lack of funds.

Fifty-five per cent of the sampled banks indicated that they had had requests for farm loans from corporations during 1971. Of those replying in the affirmative, 18% said their requests came from family farm corporations, 27% indicated they came from other types of corporations, and 55% pointed out that the requests had come from both kinds. Overall, there seemed to have been little change from 1970, either in number or amount, in the requests of corporations for farm loans. Where changes were indicated, they were in an upward direction. On the whole, a higher proportion of family farm corporations increased their requests for farm loans than did other types.

Farm Financial and Credit Outlook for 1972 On balance, some improvement in farm income is anticipated in 1972. Assuming that the weather will be average or better during both the growing and harvesting seasons, one-half of the replying bankers looked for an increase—primarily slight—in income from farming, two-fifths expected little change, while the remainder foresaw a decline.

Farm operating costs appear likely to increase further. This view was held by four-fifths of the survey respondents. The remainder believed there would be little change. Of those anticipating a further rise in farm costs, the majority felt that the increase over 1971 would be slight.

Farmers' demand for credit in 1972 is expected to be about the same as, or slightly larger than, that in 1971. Half of the participating bankers, in fact, looked for farm loan demand to continue at roughly the same level as in the current year. The other half anticipated some slight step-up in demand. The expected increase in the costs of farm production items will no doubt add to the credit demand.

The level of farmers' spending and investment in 1972 may well be moderately higher than a year earlier. This was the opinion of two-fifths of the survey participants. The remaining three-fifths believed farmers will hold their spending and investment to about the same level as in 1971.

The outlook indicates that bank funds for farm loans will be more readily available to farm borrowers in 1972 than in 1971. This indication applies more to funds for short- and intermediate-term loans than to those for long-term loans. Some increase in the availability of funds for long-term farm loans was anticipated by 16% of the banker respondents, however. Despite the expected increase in available loan funds, bankers emphasized that the more creditworthy farmers with sound farming operations would have the best chance of obtaining needed loans. Basically, little change in bankers' current policies on farm loans, already said to be fairly restrictive, is expected for 1972. A tally of survey responses revealed that although 85% of the bankers indicated they would adhere to about the same policies as in 1971, the remaining 15% said their loan policies would be more lenient.

The somewhat softer interest rates that banks charged on farm loans in 1971 can be expected to prevail in 1972. The most prevalent rates quoted, according to survey results, were 8% for long-term loans and a range of 7½% to 8% for both short- and intermediate-term loans. But interest rates cited for 1972 showed considerable variation. Rates

ranging from 7% to 9% were quoted for long-term loans, from 7% to 8% for short-term loans, and from 7% to 10% for intermediate-term loans. To the question "What trends in interest rates do you foresee?" seven-tenths of the responses indicated little change, one-fifth looked for some further softening, and the remaining one-tenth expected an upward trend.

The general debt and financial position of District farmers overall apparently will not be substantially different in 1972 from that in 1971. With the advance in the market values of farmland in 1971, most farm owners are in an improved equity position as they enter the new year. The cash income position of farmers varies considerably, however. Better incomes in 1971 enabled a good many farmers to improve their debt position by paying off old debts. But unfavorable 1971 returns reduced the financial position of farmers in some locations—especially in the Coastal Plains of North Carolina and Virginia. Many of these farmers were unable to meet their loan obligations in 1971 and will need to borrow heavily if they are to continue in farming.

Sada L. Clarke

The Federal Reserve Bank of Richmond is pleased to announce the publication of FIFTH DISTRICT FIGURES—*1971 Edition and* BUSINESS FORECASTS FOR 1972. FIFTH DISTRICT FIGURES *is a compilation of economic statistics on Fifth District States and Standard Metropolitan Statistical Areas, as well as on the United States.* BUSINESS FORECASTS *is a compilation of representative business forecasts, with names and details of estimates, for the coming year. Both publications are available free of charge from this Bank. Please address requests to Bank and Public Relations, Federal Reserve Bank of Richmond, P. O.Box 27622, Richmond, Virginia 23261.*