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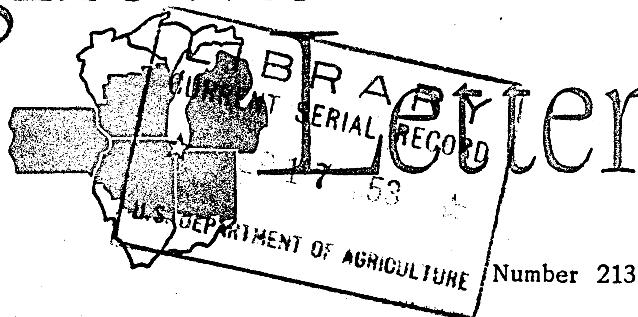
from the Federal Reserve Bank of Chicago

Agricultural Letter

September 11, 1953

Number 213



THE DEMAND FOR AGRICULTURAL CREDIT continues active. Although loan developments in the first half of 1953 showed diverse movements, they generally indicate a sustained pressure for additional agricultural credit, especially farm mortgage loans. The situation is confused somewhat by the sharp decline in cattle prices, but in areas where this does not dominate the picture, outstandings of short-term (production) loans to farmers have also continued to increase.

In the Chicago Federal Reserve District, for example, an 8 per cent decline in outstanding short-term farm loans at member banks in the year ended June 30 was due almost entirely to a reduction in the amount of credit used to finance feeder cattle. In areas where cattle feeding accounts for a small part of the farm business, loan totals continued to increase. Production Credit Associations, which make substantially the same type of loan, had a similar experience, although their loan volume is much smaller than that of commercial banks. The percentage change for District states and the U.S. in the year ended June 30 follows:

	Member banks	PCA's
Illinois	-7.0	-9.3
Indiana	-0.4	-4.0
Iowa	-18.4	-27.4
Michigan	+1.3	-0.3
Wisconsin	+9.3	+6.9
U. S.	-6.2	-3.7

This credit pattern for production loans extended generally across the nation. Member banks in the Federal Reserve Districts of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, and San Francisco showed increases over a year ago in short-term farm loans, while banks in the Chicago, St. Louis, Minneapolis, Kansas City, and Dallas Districts showed decreases. This pattern apparently indicates that credit needs for crop production have continued to expand.

FARM MORTGAGE CREDIT in the past year continued the steady uptrend which has been experienced since World War II. The gradual settling of land values which got under way about the middle of last year has not yet affected this trend. The relative rates of growth for member banks and the Federal Land Banks in the year ended June 30 are indicated by the following per cent changes:

	Member banks	Federal Land Banks
Illinois	+2.8	+7.6
Indiana	+1.6	+9.3
Iowa	-4.0	+3.3
Michigan	+3.6	+12.9
Wisconsin	+6.8	+8.8
U. S.	+3.3	+8.5

Commercial banks are a little less important source of farm mortgage credit than the Federal Land Banks or life insurance companies. Furthermore, the latter two types of lenders are now increasing in relative importance in the farm mortgage field, following the rather rapid expansion by commercial banks in the early postwar years. If the demand for short-term farm loans continues active, an even larger share of the farm mortgage credit probably will be provided by the Federal Land Banks and insurance companies. There are indications also that farm mortgage loans will be used more generally than in the past to provide farm operating capital.

TOTAL FARM DEBT, although rising, remains at a rather nominal level as compared with the current value of farm assets. Real estate debt, for example, is equal to less than 8 per cent of the value of farm real estate, whereas in 1940 it was equal to nearly 20 per cent of the value of farm real estate.

Non-real estate debt (other than CCC loans) is equal to only 23 per cent of the value of livestock, machinery, and motor vehicles on farms, compared with about 37 per cent in 1940. However, a continued rise in farm debts, on one hand, and a decline in value of farm assets, on the other, narrowed the ratio of debts to value of farm assets in the past year. This trend is likely to continue.

There is no indication that the uptrend in farm mortgage debt has run its course. And, while lower prices for livestock, feed, and some other items used in farm production may reduce the overall requirement for operating capital in agriculture, the proportion of short-term capital provided through credit may increase further. Thus, the credit outlook is for a continued active demand for both short-term and farm mortgage credit in agriculture.

As profit margins narrow further, lenders and farmers alike will need to emphasize selectivity in their credit operations. But loans enabling farmers to adopt or continue recommended farm management practices should remain a high-quality outlet for capital. By past standards, credit certainly is not overextended in agriculture at this time.

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