Federal Reserve Bank of Chicago --
October 15, 1954

Agricultural Letter

Number 270

A Western Corn Belt Credit Conference was held at Iowa State College last week, and judging from the spirited participation of the 60 credit men in attendance, this promises to be the beginning of a long succession of successful conferences. The program included a wide variety of topics with the discussions led by specialists of the College staff and by bankers.

AGRICULTURAL INCOME AND PRICES will continue to drag somewhat in the years immediately ahead, according to Professor F. A. Kutish, with the parity ratio hanging near the 85 per cent level. In recent months the ratio has stood at 88-89 per cent. Cotton, wheat and butter were tabbed as problem areas in the farm sector of the economy.

"There is little chance to eat our way out of the surplus problem," he believes. Even over the long pull increases in farm production will keep pace with the growth in the domestic economy and only moderate increases in exports can be expected.

In attempting to control agricultural output, three approaches were briefly outlined. One approach is a shift toward a larger production of forage crops relative to feed grains and food crops. This shift would have the effect of lowering total food output as less calories are produced from an acre of grass that is fed to livestock than from an agriculture which is based on a higher proportion of food crops. "Tough" production controls are a second possibility. To date, however, production controls have had little effect on total agricultural output as acres diverted from one crop are used to produce other crops. "Total acreage allotments" designed to cope with this problem have been discarded. Cross-compliance regulations are still in effect but are considerably less restrictive. A third alternative is to shift labor and capital resources out of agriculture. If agriculture should go "through the wringer" while other segments of the economy continued to expand, a shift of this sort would occur involuntarily.

The cattle-feeding outlook was described as having lower profit possibilities than during the year just being completed. Recent profits of around $30 per head may be trimmed substantially. For example, 500 pound feeder calves cost almost $3 more per hundredweight than in 1953--$15 more per head. Assuming 50 bushels of corn are fed to each calf and that it is worth an additional 10 cents per bushel, costs are increased another $5. Thus, the $30 per head profit margin would be repeated only if fat cattle sell for around $2 a hundredweight higher next year than in the season now ending. While substantial profits will be made by some feeders in the coming year, this example highlights the importance of efficient gains and careful purchasing of feeders.

The worst of the hog situation is close at hand, according to Professor Kutish. The low point on the market is expected to be around 17-18 cents. Next year the hog market is expected to show seasonal fluctuations near the average price for the last half of 1954.

Incomes from poultry and dairy are not expected to improve. Moderate decreases in income through 1955 are in the picture as many operators do not curtail production in the face of lower prices. In cases where farmers have a net profit margin, the tendency frequently is to produce more in an attempt to offset the effects of lower prices.

Relatively stable land values were projected for the next few years by Professor W. G. Murray. Deviations from present land prices are expected to be small as he sees little change in the near-term level of farm commodity prices. Professor Murray also commented that the relatively few voluntary sales of farms in recent years have been a firming influence in the land market. Many owner-operated farms are transferred to other members of the family and hence do not come onto the market. Another factor is the capital gains tax which causes many owners to refuse to sell.

Financing young farmers was a topic which again generated considerable interest. It is clear that many agricultural lenders are quite aware of the key position they hold in determining who gets started farming and recognize the need for better information on which to base credit decisions. It was suggested that character is perhaps the most important asset to look for in the extension of credit to those getting set up in farming.

One of the problems involved in making loans to borrowers with little collateral is the large amount of time required for loan supervision. One banker stated that perhaps 15 loans could be made to established farmers in the same time required to make one loan to a young farmer with limited experience and resources. Rewards accrue, of course, in the form of good bank-community relations and from the fact that the borrower will probably continue to be a customer of the bank the rest of his life.

It was agreed that continued study of the problems of young farmers and what can be done to help them is needed. Some sort of insured credit arrangement was suggested as meriting consideration. It was pointed out also that, while a large amount of capital is needed to make most efficient use of a farmer's labor, there are risks to the borrower as well as the lender if there is excessive dependence on borrowed funds. Hence, since beginning farmers typically are "long on labor" and "short on capital," it was suggested that they might be set up on farms having good potential, but with less than the optimum amount of capital. Under this arrangement, a smaller loan would be required and more capital would be forthcoming both from his earnings and additional credit as the young farmer demonstrated progress and management skill.

Research Department