Federal Reserve Bank of Chicago - -

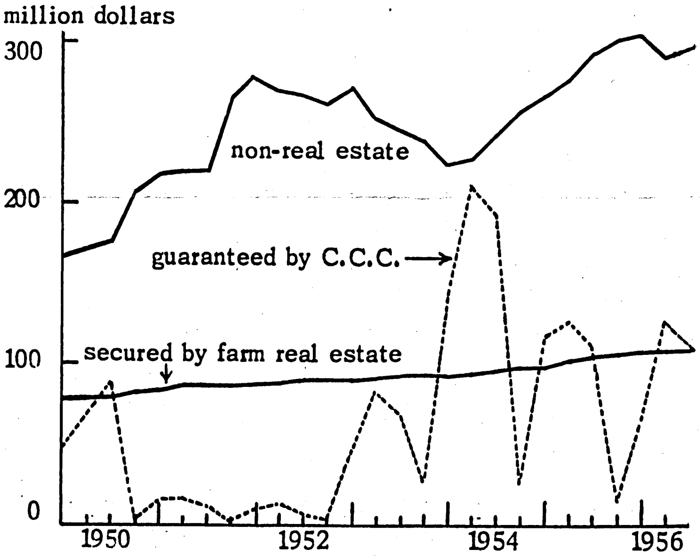
Agricultural Letter

August 10, 1956

Number 365

FARM LOANS at Midwest banks on June 30 stood 2 per cent above the mid-1955 level. "Short-term" loans--to finance crop and livestock production--showed a year-to-year gain of only 1 per cent while loans secured by farm real estate gained 4 per cent. There were, however, widely different changes among the various District areas (see maps on back of *Letter*).

Farm loans at District member banks (excludes Chicago)



"Short-term" farm loans in the second quarter of the year showed the largest gains in the more intensive crop areas, reflecting seasonal borrowings during the planting season. In central Illinois, Indiana and southern Michigan increases ranged from 5 to 13 per cent compared with declines in many Corn Belt livestock areas.

However, banks located in the major cattle-feeding areas of Illinois and Iowa had a smaller volume of "short-term" loans outstanding on June 30 than a year earlier. This reflects in part the decline in cattle feeding. On July 1 the number of cattle on feed in Illinois and Iowa was estimated to be about 9 and 6 per cent, respectively, below the year-earlier level. Moreover, shipments of feeder cattle into the two states in the January-June period lagged 1955 first-half totals, and prices averaged about $3.00 lower. By June, however, there was some evidence that the seasonal movement of cattle into feeding areas was beginning as inshipments rose above the year-earlier volume.

Farm real estate loans outstanding at District banks continued their postwar rise between mid-April and the end of June. However, the gain in the total farm mortgage debt this year will probably not be as large as in 1955 when it increased at a faster rate than any time since the early 1920's.

The 4 per cent increase over a year ago at District member banks was less than half as large as occurred in 1955. Moreover, incomplete data on the volume of real estate loans written by the Federal Land Banks and insurance companies during the first six months of the year indicate that the gains are not as large as in the first half of 1955, when farm mortgage recordings spurted nearly 30 per cent over year-earlier levels. A small volume of farm transfers, along with relatively favorable crop prospects and improved commodity prices, has apparently slowed the demand for long-term financing in many areas.

THE FARMERS HOME ADMINISTRATION'S credit services have recently been expanded to provide loans for refinancing existing debts and to provide credit for part-time farmers in certain areas. The new loans, like the loans already available from the FHA, will be made only to applicants who are unable to obtain credit from other sources.

While previously only loans for farm ownership and soil and water conservation purposes were made on an insured basis, new loans to refinance existing debts will also be granted on this basis. Insured loans bear 3½ per cent interest plus a 1 per cent insurance charge.

Present loan services of the FHA include loans for production expenses, purchase of farms, farm housing, soil and water conservation and loans to meet emergency credit needs. At the beginning of the year, loans under these programs accounted for about 3 per cent of the total farm mortgage debt and about 10 per cent of the non-real estate loans outstanding at banks and Federally sponsored credit agencies.

THE 1956 CALF CROP was recently estimated by the USDA at a record 43.3 million head, 1 per cent above a year earlier. Cattle and calf slaughter also is expected to reach a record high this year and to about match the size of the calf crop. Thus, cattle numbers would tread the narrow path marked "stability" for the fourth consecutive year.

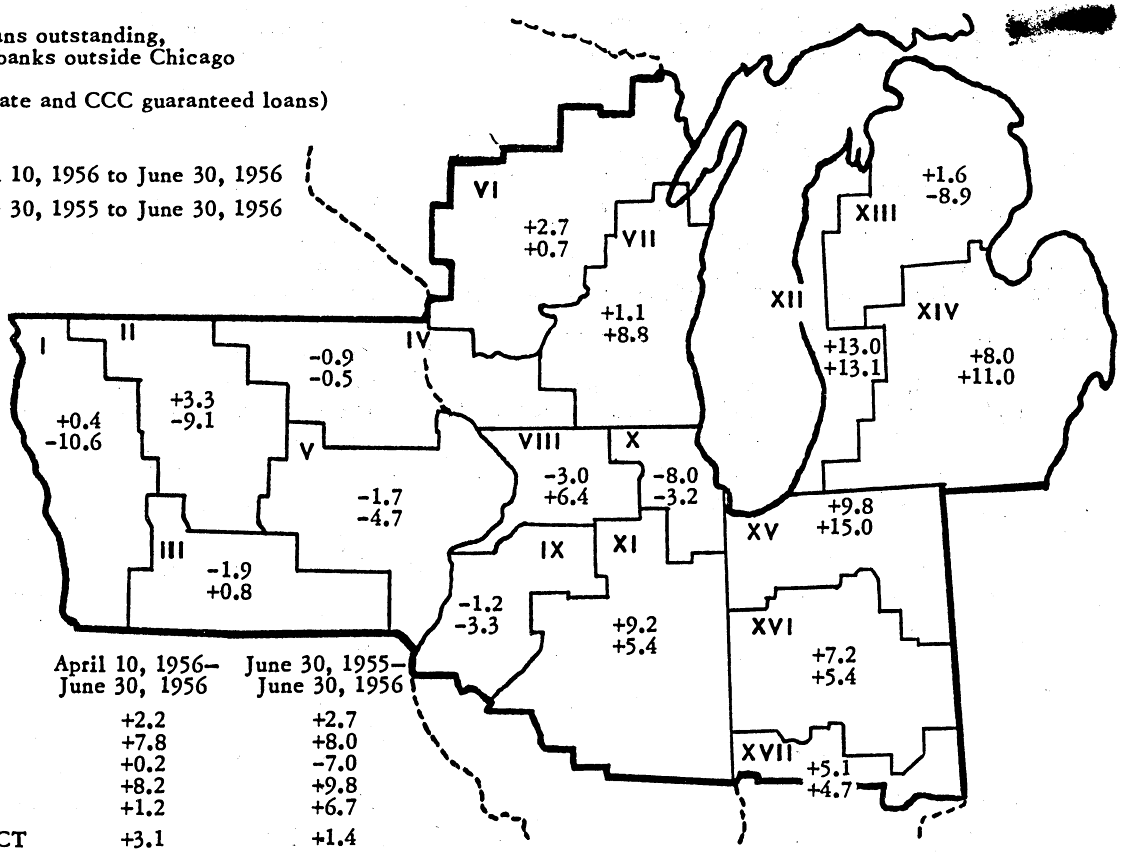
So long as farmers and ranchers desire to carry about the current inventory of cattle and calves, the only thing likely to cause a substantial reduction would be forced sales due to drouth. In that event, cattle prices probably would decline sharply. However, the more prevalent view is that the volume of marketings will hold close to the high level of recent years and that prices will remain relatively stable except for usual seasonal and grade movements.

Research Department

Short-term farm loans outstanding,
District member banks outside Chicago

(Excludes real estate and CCC guaranteed loans)

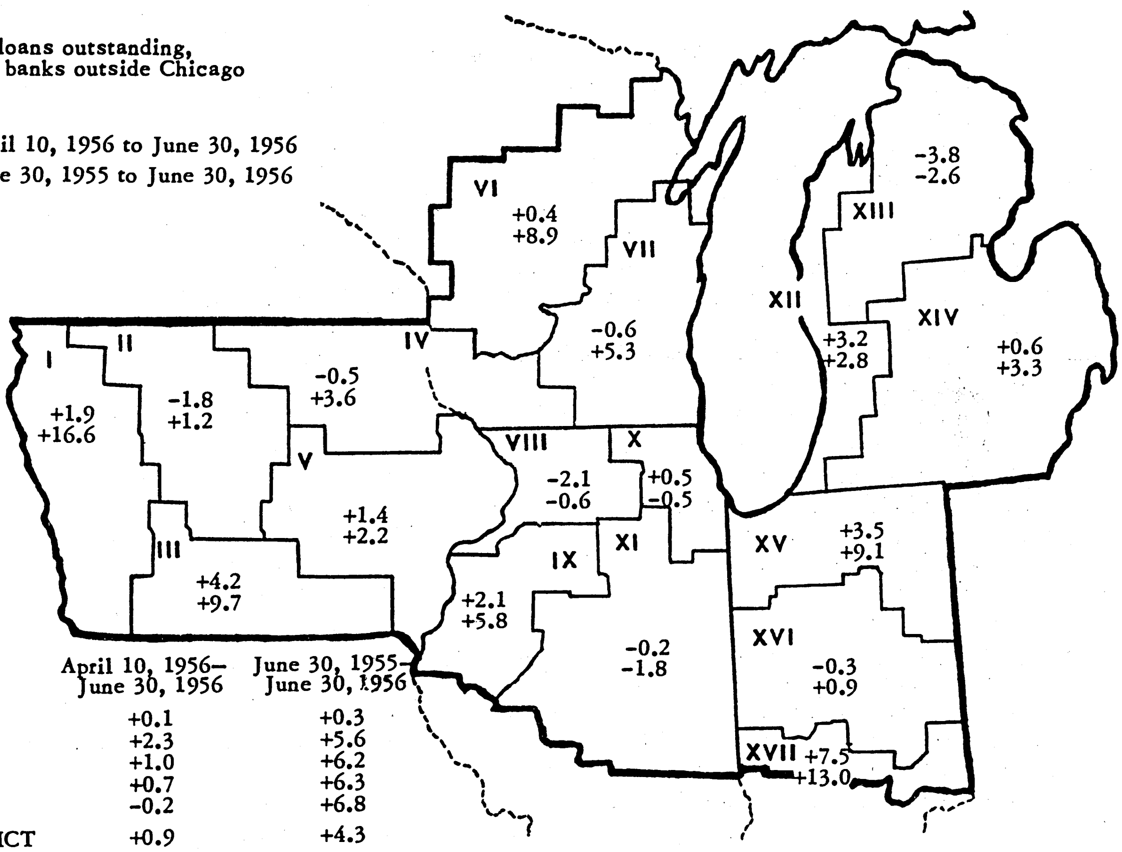
Per cent change:
TOP: April 10, 1956 to June 30, 1956
BOTTOM: June 30, 1955 to June 30, 1956



	April 10, 1956– June 30, 1956	June 30, 1955– June 30, 1956
Illinois	+2.2	+2.7
Indiana	+7.8	+8.0
Iowa	+0.2	-7.0
Michigan	+8.2	+9.8
Wisconsin	+1.2	+6.7
SEVENTH DISTRICT	+3.1	+1.4

Farm real estate loans outstanding,
District member banks outside Chicago

Per cent change:
TOP: April 10, 1956 to June 30, 1956
BOTTOM: June 30, 1955 to June 30, 1956



	April 10, 1956– June 30, 1956	June 30, 1955– June 30, 1956
Illinois	+0.1	+0.3
Indiana	+2.3	+5.6
Iowa	+1.0	+6.2
Michigan	+0.7	+6.3
Wisconsin	-0.2	+6.8
SEVENTH DISTRICT	+0.9	+4.3