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Agricultural Letter

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THE IMPACT of a changing agriculture on farm credit service was discussed in Chicago last week by Charles N. Shepardson, Member, Board of Governors, Federal Reserve System. The occasion—the National Credit Conference, sponsored by the American Bankers Association.

Governor Shepardson noted that agriculture continues to show a strong credit position. Farm real estate debt is estimated to have increased $700 million (7 per cent) during 1957 and non-real estate debt increased about $100 million (1 per cent). But the value of farm assets increased substantially, with the result that owners' equities rose and total farm debt declined relative to the value of farm assets. At the turn of the year, farm debt was equal to about 10.6 per cent of the value of farm assets.

In periods of rapid change some practices may not keep abreast of shifting demands. It is always appropriate, therefore, to undertake reviews of current practices relative to present-day needs.

The total amount of credit service available to agriculture was judged fairly adequate, but some of the credit terms which have been widely used in past years may be getting out of date, according to Shepardson.

The sharp advance in real estate values—20 per cent from early 1954 to November 1957—and the need for larger farms contribute to the very large investment required for efficient family farms in many agricultural areas. In the central Corn Belt, for example, the investment represented by an efficient commercial family farm may be more than the typical farmer can reasonably expect to accumulate during his lifetime.

A question arises, therefore, as to how land shall be provided for use in the farm business. The usual goal is ownership by the farm operator, free of debt. But the farmer's requirement is merely that he have continuous use of land over a period of years. This can be provided through suitable rental contracts as well as as through outright ownership. Farmers who are "short of capital" will often find that renting is more profitable than owning the real estate.

However, there may be a place also for a type of mortgage loan that can be amortized down to a conservative level and the balance carried for a relatively long term.

A fairly common error in farm finance is that of tying up too much of farmers' resources in land, with the result that inadequate capital is available for current operating needs. These needs can fluctuate greatly in response to changes in prices and weather conditions.

The major factors contributing to the sharp rise in land values in recent years, and therefore to the rapid rise in capital required per farm, will remain in the picture. But they may not continue to push land values up rapidly. Interest in buying land as a hedge against inflation by nonfarm investors, for example, will likely become more or less dormant as inflationary pressures ease. However, such factors as the demand for land to enlarge farms and the growth in number of residential and part-time farms will continue to support farm land values, as will the demand for land for subdivision and public uses.

In the area of short-term credit, Governor Shepardson called attention to the increasing volume of farm expenditures, as the agricultural production processes utilize an ever-increasing flow of industrial products, and suggested that this may necessitate an increased use of "lines of credit" to individual farmers. This would enable farmers to utilize credit in varying amounts in response to the day-to-day requirements of the farm business. Such lines, of course, must be tailored as closely as possible to individual situations.

A third credit area relates to the capital items which have relatively long, useful lives—machinery, foundation livestock, land improvements, buildings and consumer durables. These items are of growing importance in a mechanized agriculture which is in the process of adjusting to changing markets.

Much of the credit extended for these purposes is provided on terms which appear quite short, especially in comparison with terms commonly offered to consumers on automobiles and other durables. The "typical" terms on these types of farm loans probably are, in part, a carry-over from earlier years when relatively little credit was used for these purposes. Thus, credit terms appear to merit close review in relation to today's agriculture.

However, the farm in its entirety must be kept clearly in the foreground when analyzing its credit potential. While credit is used for short-, intermediate- and long-term purposes, and may be obtained possibly from different sources, still the farm and its earning capacity must justify the total amount of credit. Some agricultural lenders may find that they must be prepared to provide a broader range of credit services than in the past, including arrangements to channel credit from two or more lenders through a single, local outlet.

Research Department

FARM BUSINESS CONDITIONS

December 1957, with Comparisons

ITEMS	1957 December	1957 November	1956 December	1940 December
PRICES:				
Received by farmers (1947 - 49 = 100)	89	89	87	38
Paid by farmers (1947 - 49 = 100)	120	119	116	50
Parity price ratio (1910 - 14 = 100)	81	81	81	84
Wholesale, all commodities (1947 - 49 = 100)	118	118	116	52
Paid by consumers (1947 - 49 = 100)	122	122	118	60
Wheat, No. 2 red winter, Chicago (dol. per bu.)	2.21	2.19	2.43	.93
Corn, No. 2 yellow, Chicago (dol. per bu.)	1.19	1.19	1.38	.63
Oats, No. 2 white, Chicago (dol. per bu.)	.74	.76	.83	.41
Soybeans, No. 1 yellow, Chicago (dol. per bu.)	2.28	2.29	2.50	.95
Hogs, barrows and gilts, Chicago (dol. per cwt.)	18.64	17.17	16.82	6.37
Beef steers, choice grade, Chicago (dol. per cwt.)	25.98	25.20	21.99	13.92
Milk, wholesale, U.S. (dol. per cwt.)	4.53	4.62	4.52	2.07
Butterfat, local markets, U.S. (dol. per lb.)	.59	.59	.60	.35
Chickens, local markets, U.S. (dol. per lb.)	.16	.16	.16	.14
Eggs, local markets, U.S. (dol. per doz.)	.44	.45	.37	.27
Milk cows, U.S. (dol. per head)	178	174	155	63
Farm labor, U.S. (dol. per week without board)	–	41.00[b]	39.75[b]	–
Factory labor, U.S. (dol. earned per week)	82.92	82.92	84.05	27.89
PRODUCTION:				
Industrial, physical volume (1947 - 49 = 100)	136	139	147	75
Farm marketings, physical volume (1947 - 49 = 100)	151[a]	167[b]	158[a]	88[a]
INCOME PAYMENTS:				
Total personal income, U.S. (annual rate, bil. of dol.)	343	345	335	85
Cash farm income, U.S. [1] (annual rate, bil. of dol.)	–	30[b]	33[b]	9[b]
EMPLOYMENT:				
Farm (millions)	5.4	5.8	5.1	8.2
Nonagricultural (millions)	59.0	59.1	59.4	38.2
FINANCIAL (District member banks):				
Demand deposits:				
Agricultural banks (1955 monthly average = 100)	102.4[a]	104.5[b]	105.0[a]	–
Nonagricultural banks (1955 monthly average = 100)	101.4[a]	100.0[b]	103.3[a]	–
Time deposits:				
Agricultural banks (1955 monthly average = 100)	113.2[a]	112.4[b]	104.4[a]	–
Nonagricultural banks (1955 monthly average = 100)	111.5[a]	111.9[b]	105.5[a]	–

[1] *Based on estimated monthly income.*
[a] *November*
[b] *October*

Compiled from official sources by the Research Department, Federal Reserve Bank of Chicago