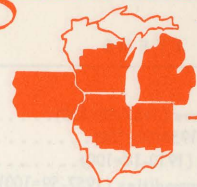


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# Agricultural Letter



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CREDIT outstanding to farmers continued to rise rapidly during 1966. Furthermore, the underlying factors exerting upward pressure on the amount of borrowed funds utilized by farmers are likely to be present during the coming year.

Borrowing by farmers during 1966 was largely influenced by rising expenditures. Buoyed by rapidly rising commodity prices, which boosted incomes to near record levels, farmers sharply increased their spending for production goods. Farm production outlays rose about 8 percent, about \$2.5 billion, from the year-ago level. Purchases of farm machinery increased sharply—possibly one-fifth above the relatively high 1965 level—and farmers continued to actively seek additional farmland to add to their present units.

Availability of credit during 1966, compared with other recent years, was reduced somewhat and interest rates rose markedly, especially during the second half of the year. This was particularly true of mortgage credit. Life insurance companies sharply curtailed commitments for new farm mortgage loans, partially reflecting more attractive uses for funds. During the first quarter of 1966, such commitments were running about 18 percent above a year ago, but in the second and third quarters commitments dropped 21 and 45 percent, respectively, from last year. Interest rates were also increased. The average rate charged by life insurance companies during the second quarter rose to 6.16 percent from 5.74 percent during the same period in 1965. Further increases were posted during the second half of the year. Similarly, all of the Federal land banks increased their rates to 6 percent—the maximum permitted by statute.

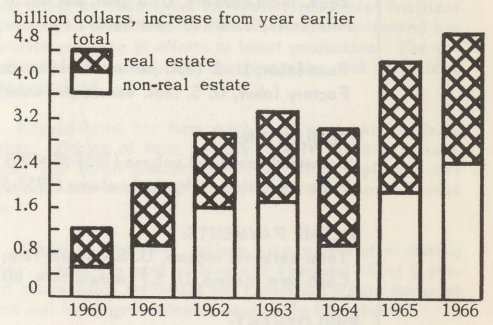
Lenders of short- and intermediate-term credit also posted interest rate increases more because of exceptionally strong demands than a reduction in available funds. In the Seventh Federal Reserve District, for example, about three-fifths of the bankers responding to an October survey indicated they were charging 6.5 percent or more on feeder cattle loans. Less than one-fifth were charging such a rate a year ago. Production credit associations reported rate increases of 0.5 percent or more from last year.

Nevertheless, information from major institutional lenders indicates that total agricultural loans outstanding have increased somewhat more during 1966 than in the preceding year. The rise in non-real estate credit is indicated to have been more rapid than a year ago while mortgage credit has increased at about the same pace as last year.

Loans outstanding at production credit associations at midyear—which are primarily non-real estate loans—increased about 15 percent, slightly more than that during the previous 12-month period. Midyear data from commercial banks also showed a larger than year-earlier increase in non-real estate loans outstanding—up 11 per-

cent compared with a 9 percent gain in the preceding period. Farm real estate loans outstanding at commercial banks, however, rose only 4 percent during the first half of 1966 compared with a 6 percent gain in 1965. Although the volume of mortgage lending by the Federal land banks and insurance companies slowed appreciably during the latter part of 1966, new loans rose sharply during the first half—up 13 and 24 percent, respectively.

Rapid Rate of Increase in Farm Debt Continues



Estimates by the U. S. Department of Agriculture indicate that total farm debt at year-end probably will total about \$44.9 billion, \$4.7 billion above the year-earlier amount. Loans secured by farm mortgages are expected to account for nearly \$2.3 billion of the anticipated increase (about the same as last year) and non-real estate loans—made typically to finance purchases of machinery, livestock and feed and to pay wages, taxes and other current operating expenses—are expected to increase \$2.4 billion, compared with a \$1.9 billion rise last year.

Many farmers probably will find it profitable to use even larger amounts of borrowed funds during 1967, even though credit costs are likely to continue high, at least during the early part of the year. Changes in the Government's wheat and feed grain programs are expected to result in a substantial expansion in crop acreage; additional credit will be needed to help finance associated production expenditures.

Roby L. Sloan  
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## FARM BUSINESS CONDITIONS

September 1966 with Comparisons

I T E M S	1966		1965
	September	August	September
<b>PRICES:</b>			
Received by farmers (1957-59=100) . . . . .	112	113	103
Paid by farmers (1957-59=100) . . . . .	115	114	110
Parity price ratio (1910-14=100) . . . . .	80	81	78
Wholesale, all commodities (1957-59=100) . . . . .	107	107	103
Paid by consumers (1957-59=100) . . . . .	114	114	110
Wheat, No. 2 red winter, Chicago (dol. per bu.) . . . . .	1.86	1.90	1.58
Corn, No. 2 yellow, Chicago (dol. per bu.) . . . . .	1.46	1.49	1.32
Oats, No. 2 white, Chicago (dol. per bu.) . . . . .	.76	.76	.72
Soybeans, No. 1 yellow, Chicago (dol. per bu.) . . . . .	3.19	3.73	2.69
Hogs, barrows and gilts, Chicago (dol. per cwt.) . . . . .	23.47	25.99	23.16
Beef steers, choice grade, Chicago (dol. per cwt.) . . . . .	26.11	25.85	27.08
Milk, wholesale, U. S. (dol. per cwt.) . . . . .	5.28	4.99	4.43
Butterfat, local markets, U. S. (dol. per lb.) . . . . .	.71	.70	.60
Chickens, local markets, U. S. (dol. per lb.) . . . . .	.14	.15	.14
Eggs, local markets, U. S. (dol. per doz.) . . . . .	.43	.40	.36
Milk cows, U. S. (dol. per head) . . . . .	255	249	214
Farm labor, U. S. (dol. per week without board) . . . . .	--	--	--
Factory labor, U. S. (dol. earned per week) . . . . .	113.71	111.78	109.03
<b>PRODUCTION:</b>			
Industrial, physical volume (1957-59=100) . . . . .	158	158	144
Farm marketings, physical volume (1957-59=100) . . . . .	137	117	140
<b>INCOME PAYMENTS:</b>			
Total personal income, U. S. (annual rate, bil. of dol.) . . . . .	590	585	553
Cash farm income, U. S. <sup>1</sup> (annual rate, bil. of dol.) . . . . .	48.9	53.4	43.8
<b>EMPLOYMENT:</b>			
Farm (millions) . . . . .	4.4	4.7	4.8
Nonagricultural (millions) . . . . .	69.9	71.7	67.7
<b>FINANCIAL (District member banks):</b>			
<b>Demand deposits:</b>			
Agricultural banks (1957-59=100) . . . . .	124.4	120.3	113.9
Nonagricultural banks (1957-59=100) . . . . .	115.4	113.7	112.0
<b>Time deposits:</b>			
Agricultural banks (1957-59=100) . . . . .	235.9	234.2	207.3
Nonagricultural banks (1957-59=100) . . . . .	250.7	251.5	227.1
1 Based on estimated monthly income.			

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