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Agricultural Letter

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DEMAND FOR AGRICULTURAL LOANS in the Seventh Federal Reserve District continued strong during the second quarter. This was the consensus of country bankers responding to a recent survey of credit conditions in the District states. About half of the bankers reported that demand for non-real estate loans—those loans typically made to finance purchases of farm machinery, livestock and feed, and to pay taxes, wages and other current expenses—was more active than a year ago. Most of the remaining bankers indicated that the demand for such loans was on a par with the high level experienced last year; only about 6 percent indicated a slackening in the demand for farm credit.

The strong demand for farm credit this year probably can be partly attributed to increased operating costs associated with expanded crop production. Changes in the Government's 1967 feed grain and wheat programs plus relatively high prices during the planting season encouraged farmers to sharply expand acreage planted to crops. According to U. S. Department of Agriculture estimates, acreage planted to all crops this year is the largest since 1960. Acreage planted to corn in the Seventh District states was increased about 8 percent from last year and soybean acreage is up about 4 percent.

Higher prices for most of the items farmers buy for use in their business have also boosted production expenses and in turn the demand for farm credit. The index of prices paid by farmers averaged about 3.5 percent higher than a year ago during the first five months of this year. Nationally, outlays for farm production items during the first half of the year were about 4 percent above the record 1966 level.

Demand for farm mortgage loans, while continuing strong, has apparently stabilized somewhat in recent months. About two-thirds of the bankers responding to the recent survey reported that the volume of loans secured by farm real estate during the second quarter was about equal to that of last year; about 10 percent reported a decline in the demand for such credit. These developments probably reflect, in part, the slowing of the upward trend in land prices in recent months. Farmland prices in the Seventh District, according to country bankers, increased about 3 percent during the first half of this year compared with a 5 percent rise in the same period last year.

Funds available to accommodate these credit demands apparently have been adequate in most areas, although about 12 percent of the banks reported reduced availability of funds as compared with a year ago. Deposit growth at "agricultural" banks this year, however, has not been as rapid as in 1966.

Time deposits continued to rise, with sizable increases posted in each of the District states, but demand deposits at midyear were about 1 percent lower than a year ago. This probably reflects the reduced level of farm income, especially in the District Corn Belt states.

Advance in Deposits at "Agricultural" Banks Slows*

	Percent change June 1966 to June 1967	
	Demand	Time
Illinois	-1	+14
Indiana	-2	+17
Iowa	-2	+15
Michigan	+4	+ 8
Wisconsin	+3	+12
District	-1	+14

*Agricultural banks are those located in towns of less than 15,000 population in which farm loans account for a relatively large proportion of total loans.

Interest rates charged by country banks apparently have stabilized at relatively high levels following several months of sharp increases. Virtually all of the banks were charging 6 percent or more on loans secured by farmland, and about two-thirds of the banks were charging 6.5 percent or more compared with around one-fourth a year ago. Similarly, a "typical" rate on feeder cattle loans of 6.5 percent or more was being charged by two-thirds of the banks as of July 1, and slightly less than one-fifth were charging 7 percent. The proportions reporting these rates were about the same as in March, but in July 1966, about two-thirds of these banks were charging less than 6.5 percent.

Many bankers expect some slackening in farm credit demands during the remainder of the year. About one-fourth of the bankers anticipated a reduction in the demand for credit to purchase feeder cattle, probably because of the relatively poor returns in feedlot operations during the first half of the year. However, with the recent upward trend in fed cattle prices and the prospects for a record corn crop, farmers may now be more interested in increasing their feeding activities, thereby increasing their demand for funds. About one-fifth of the bankers also expected some slackening in the demand for machinery loans, but most bankers expected the demand for operating loans to be higher. Loan demand for the purchase of farmland during the second half of the year was expected to be about on par with that of last year.

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FARM BUSINESS CONDITIONS

May 1967 with Comparisons

ITEMS	1967 May	1967 April	1966 May
PRICES:			
Received by farmers (1957-59=100)	104	101	109
Paid by farmers (1957-59=100)	117	116	114
Parity price ratio (1910-14=100)	74	72	79
Wholesale, all commodities (1957-59=100)	106	106	106
Paid by consumers (1957-59=100)	116	115	113
Wheat, No. 2 red winter, Chicago (dol. per bu.)	1.67	1.73	1.66
Corn, No. 2 yellow, Chicago (dol. per bu.)	1.39	1.38	1.31
Oats, No. 2 white, Chicago (dol. per bu.)	.76	.76	.75
Soybeans, No. 1 yellow, Chicago (dol. per bu.)	2.87	2.88	3.05
Hogs, barrows and gilts, Chicago (dol. per cwt.)	22.33	17.81	23.48
Beef steers, choice grade, Chicago (dol. per cwt.)	25.46	24.66	26.75
Milk, wholesale, U. S. (dol. per cwt.)	4.74	4.77	4.34
Butterfat, local markets, U. S. (dol. per lb.)	.65	.66	.62
Chickens, local markets, U. S. (dol. per lb.)	.13	.13	.16
Eggs, local markets, U. S. (dol. per doz.)	.29	.30	.33
Milk cows, U. S. (dol. per head)	259	257	243
Farm labor, U. S. (dol. per week without board)	--	58.75	--
Factory labor, U. S. (dol. earned per week)	113.52	112.56	112.05
PRODUCTION:			
Industrial, physical volume (1957-59=100)	156	156	155
Farm marketings, physical volume (1957-59=100)	93	93	90
INCOME PAYMENTS:			
Total personal income, U. S. (annual rate, bil. of dol.)	618.2	616.5	576.1
Cash farm income, U. S.[1] (annual rate, bil. of dol.)	41.1	45.8	41.6
EMPLOYMENT:			
Farm (millions)	3.8	3.7	4.3
Nonagricultural (millions)	69.8	69.7	69.5
FINANCIAL (District member banks):			
Demand deposits:			
Agricultural banks (1957-59=100)	118.1	121.0	119.5
Nonagricultural banks (1957-59=100)	118.9	118.9	116.5
Time deposits:			
Agricultural banks (1957-59=100)	256.8	252.6	227.5
Nonagricultural banks (1957-59=100)	278.8	273.6	244.7

[1] Based on estimated monthly income.

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