

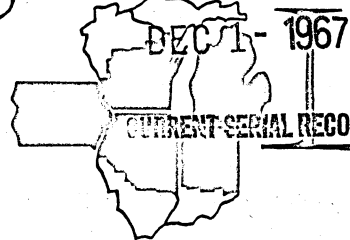
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Federal Reserve Bank of Chicago - -

November 10, 1967

Agricultural

U. S. DEPT. OF AGRICULTURE
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Letter

Number 934

THE FINANCIAL POSITION of farmers improved rapidly during 1966. Total farm assets rose nearly \$14 billion and at year-end were at a record \$270 billion. This increase, although exceeded by the \$17 billion gain in 1965, was the second largest since 1958 and was well above the average annual increase since 1950. Farm debts increased also, but not as much as assets. Consequently, owners' equities reached \$224 billion—up about \$10 billion from the previous year.

Comparative Balance Sheet of Agriculture
for the United States

	January 1		Change (percent)
	1966 (billion dollars)	1967 (billion dollars)	
Assets			
Physical			
Real estate	172.2	182.0	+ 6
Nonreal estate			
Livestock	17.5	18.8	+ 7
Machinery and motor vehicles	27.1	28.9	+ 6
Crops	9.7	10.0	+ 3
Household furnishings	8.6	8.5	
Financial	<u>20.6</u>	<u>21.3</u>	+ 3
Total assets	255.7	269.5	+ 5
Claims			
Liabilities			
Real estate debt	21.2	23.3	+10
Nonreal estate			
CCC	1.4	1.2	-18
Other	19.0	21.2	+12
Proprietors' equities	<u>214.1</u>	<u>223.8</u>	+ 5
Total claims	255.7	269.5	+ 5

The improved financial situation of farmers, as in other years, reflects primarily higher prices for most farm assets. The major proportion—over 70 percent of the \$14 billion increase—resulted from rising farm real estate prices. The average value of farm acreage increased 6 percent with most of the increase occurring during the first half of 1966 when net farm income rose to a near record level. During the latter part of the year, farmland prices rose at a slower rate because of the reduced availability of funds to finance real estate purchases and a sharp rise in interest rates charged on farm mortgage loans.

The value of assets other than farm real estate also increased during 1966, but here, too, much of the gain was a result of higher prices rather than actual increases in amounts of such assets. Although the amounts of livestock and crop inventories on farms were slightly smaller than a year earlier the value of these inventories was up about \$1.6 billion because of higher prices.

The value of machinery and equipment on farms also increased as farm expenditures for machinery and motor

vehicles in 1966 were a record \$5.9 billion. After allowing for depreciation on existing machinery and vehicles, the value of the machinery inventory rose by \$1.8 billion. The production capacity of farmers' machinery and equipment, however, may have risen more rapidly than is indicated by the rise in net investment. Many of the new machines were larger and more efficient than the machines they replaced.

Total farm debt outstanding (excluding CCC loans) rose more than \$4 billion to a record \$44.5 billion, with the increase about equally divided between real estate and other debt. The increase in new farm real estate debt in 1966, however, was substantially below that of the previous year—up 5 percent compared with 10 percent in 1965. The volume of new loans closed during the second half of 1966 was sharply curtailed as some farm real estate lenders diverted funds to more profitable loans on urban properties. A slower rate of repayment on existing farm mortgages, however, contributed to the continued growth of debt on farm real estate.

Other farm debt—largely to finance greater purchases of production items, such as machinery and feeder livestock—increased sharply in 1966. The number of cattle on feed at year-end was 7 percent larger than a year earlier and the cost of purchasing these animals was up 10 to 15 percent. Farm machinery purchases in 1966 were 20 percent above the previous year's purchases, and loans extended by farm machinery manufacturers were nearly 40 percent above the 1965 level.

Although the \$4 billion rise in total farm debt in 1966 was less than the rise in the current value of assets, the rate of increase of farm debt was about 10 percent, compared with 5 percent for assets. As a result the borrowed capital used by the nation's farmers increased further as a proportion of total farm capital. The proportion of debt to assets has been rising during the last two decades as farmers have used more credit to enlarge their businesses and adopt new technology. On January 1, 1967 farm debt accounted for 17 percent of total assets compared to about 11 percent only a decade earlier. Recent studies have indicated that the capital requirements for an average farm will nearly double by 1980. Although the number of farms will decline further, the larger capital requirements per farm will likely result in a further rise in farm debt and a further decline in the proportion of capital provided by equity of farm operators.

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FARM BUSINESS CONDITIONS

August 1967 with Comparisons

I T E M S	1967		1966
	August	July	August
PRICES:			
Received by farmers (1957-59=100)	106	106	112
Paid by farmers (1957-59=100)	117	118	114
Parity price ratio (1910-14=100)	80	80	81
Wholesale, all commodities (1957-59=100)	106	107	107
Paid by consumers (1957-59=100)	117	117	114
Wheat, No. 2 red winter, Chicago (dol. per bu.)	1.49	1.50	1.90
Corn, No. 2 yellow, Chicago (dol. per bu.)	1.23	1.31	1.49
Oats, No. 2 white, Chicago (dol. per bu.) . . . . .	.75	.75	.76
Soybeans, No. 1 yellow, Chicago (dol. per bu.)	2.81	2.83	3.73
Hogs, barrows and gilts, Chicago (dol. per cwt.)	21.18	22.90	25.99
Beef steers, choice grade, Chicago (dol. per cwt.)	27.22	26.40	25.85
Milk, wholesale, U. S. (dol. per cwt.)	4.98	4.80	4.99
Butterfat, local markets, U. S. (dol. per lb.) . . . . .	.66	.66	.70
Chickens, local markets, U. S. (dol. per lb.) . . . . .	.13	.14	.15
Eggs, local markets, U. S. (dol. per doz.) . . . . .	.30	.30	.40
Milk cows, U. S. (dol. per head)	263	262	249
Farm labor, U. S. (dol. per week without board)	--	65.00	--
Factory labor, U. S. (dol. earned per week)	114.77	113.65	111.78
PRODUCTION:			
Industrial, physical volume (1957-59=100)	158	157	158
Farm marketings, physical volume (1957-59=100)	128	116	117
INCOME PAYMENTS:			
Total personal income, U. S. (annual rate, bil. of dol.)	631.5	627.0	589.1
Cash farm income, U. S. ¹ (annual rate, bil. of dol.)	51.1	44.6	53.4
EMPLOYMENT:			
Farm (millions)	4.4	4.5	4.7
Nonagricultural (millions)	71.8	71.7	71.7
FINANCIAL (District member banks):			
Demand deposits:			
Agricultural banks (1957-59=100)	119.2	119.6	120.3
Nonagricultural banks (1957-59=100)	115.3	120.8	113.7
Time deposits:			
Agricultural banks (1957-59=100)	266.8	263.7	234.2
Nonagricultural banks (1957-59=100)	289.9	284.9	251.5
¹ Based on estimated monthly income.			

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