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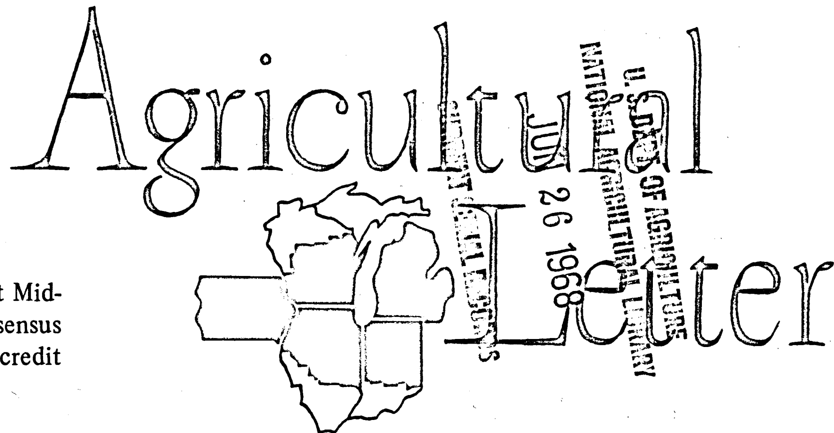
Federal Reserve Bank of Chicago - -



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DEMAND FOR FARM LOANS will be strong at Midwest banks for the next few months. This was the consensus of country bankers responding to a recent survey of credit conditions in the Seventh Federal Reserve District.

The volume of non-real estate loans to farmers rose about 9 percent last year, apparently reflecting greater outlays associated with larger crop production. This strong demand for credit apparently continued through the first quarter of 1968. More than half the bankers responding to the survey reported increased loan demand from farmers. Only 6 percent indicated a slackening in demand.

Part of the increased loan volume doubtlessly resulted from farmers carrying over old loans while seeking additional new credit. A smaller proportion of bankers reported increased renewals and extensions of loans than in January. Nevertheless, more than half reported loan renewals higher than a year before. Moreover, nearly two-fifths reported that the rate of loan repayment was lagging behind that of a year ago. These developments have been associated with difficulties in harvesting, storing, and marketing last year's record corn crop.

Smaller production is expected this year, however. The nation's farmers indicated in early March that they intended to plant about 8 percent fewer acres of corn. If so, this will be the smallest corn crop since before the turn of the century. Acreage is expected to be down 12 percent in Iowa, 9 percent in Indiana and 6 percent in Illinois.

Bankers in the district nevertheless expect lending to be more active in the second quarter than it was a year before. Despite cutbacks in production, nearly half the bankers foresee increased demand for farm loans. Most of the others expect demand to reach at least the high level of last year. These are larger proportions expecting increased lending activity than in the previous year.

Much of the increase will result from stronger demand for general operating credit. Nearly three-fifths of the bankers expect a stronger demand for this purpose. This opinion apparently reflects the higher price tags on many important production items and the need for larger purchases of some items. Both factors point to a further rise in farm production costs. Nationally, outlays for farm production expenses may rise 4 percent or more from last year's record level.

Demand for loans to buy feeder cattle will probably not change much. Feeder cattle prices are about the same level as last year, as is the level of feeding activity. Demand for credit to finance purchases of farm machinery may even be down some. Prices of machinery are higher, but the Farm and Industrial Equipment Institute reports retail tractor sales in the district well below year-ago levels. Loan demand from dairy farmers will also probably be weaker in many areas.

According to most bankers, adequate funds are available to handle farm credit needs, despite the increased demand. Deposits in "agricultural" banks have increased sharply since last year, despite lower farm incomes. Demand deposits at these banks were about 4 percent higher in March than a year before. Time deposits were about 14 percent higher.

Deposits at "Agricultural" Banks Rise*

	Increase March 1967-1968	
	Demand	Time
	(percent)	
Illinois	3	13
Indiana	3	13
Iowa	4	17
Michigan	7	10
Wisconsin	1	14
Seventh District	4	14

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

Interest charges on farm loans are edging up again, reflecting the strong public and private demand for credit. None of the bankers responding to the survey in early April thought interest rates would be lower in the second quarter. More than 90 percent of them were charging rates of 6.5 percent or more on feeder cattle loans, and about 40 percent were charging 7 percent or more. These proportions were higher than at the beginning of the year or a year ago.

Rate differences continued to follow about the same geographical distribution as last year. The lowest rates were in the main cattle feeding areas of Illinois and Iowa. Rates were considerably higher on the periphery of the cattle feeding areas and outside the heart of the Corn Belt.

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