

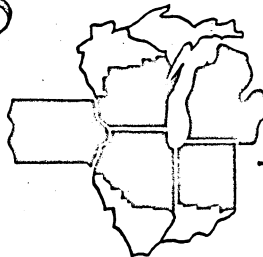
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Federal Reserve Bank of Chicago - -

February 2, 1973

Agricultural Letter



Number 1207

FARM LOAN DEMAND rose sharply above year-earlier levels during the fourth quarter according to a January 1 survey of agricultural banks in the Seventh Federal Reserve District. Approximately one-half of the bankers indicated sizable increases in loans to farmers. A similar portion indicated the availability of funds for lending had also improved. Some repayment difficulties were cropping up in a few areas, however, reflecting the unusually late harvest of 1972 crops.

Rising farm loan demand and growth in deposits are substantiated by other information. Both deposits and loans at a selected group of district banks which are actively engaged in agricultural lending averaged 17 percent above year-earlier levels during the last three months of 1972. This uniform growth in loans and deposits was most evident among banks in Iowa. In contrast, agricultural banks in Michigan and Wisconsin registered a comparatively greater growth in loans than deposits, while the reverse held true for banks in Illinois and Indiana.

Emerging problems in farm loan repayments due to the extremely late corn and soybean harvest were evident in some areas of the district—particularly in Indiana and Michigan. Three-fourths of the surveyed bankers from these two states indicated that the repayment ability of their farm borrowers would be adversely affected because of the late harvest. In comparison, similar views were expressed by less than one-third of the Iowa bankers, less than one-half of the Illinois bankers, and around three-fifths of the bankers in Wisconsin. Interestingly, about 30 percent of the bankers in Illinois and Iowa felt the higher prices that have accompanied the late harvest would improve the repayment ability of their farm borrowers—no doubt suggesting that harvesting delays in these states had less of an impact than in other district states.

Interest rates on bank loans to farmers rose slightly during the fourth quarter and are now about even with the year-earlier level but about 10 basis points above the 1972 lows which occurred around midyear. Rates reported for feeder cattle loans on the recent survey averaged 7.5 percent, while those for farm real estate loans averaged 7.7 percent. The recent gains in money market rates are expected to result in continued upward pressures on interest rates for farm loans. But the gains are likely to be heavily influenced by local conditions surrounding the demand for, and the supply of, farm loan funds.

Interest rates vary considerably between district states, but the variations have been consistent over the past year. Banks in Illinois consistently reported the lowest average interest rates on both feeder cattle loans and farm real estate loans. In contrast, bankers in Wisconsin consistently reported the highest average rates on feeder cattle loans, and bankers in Michigan the highest rates on farm real estate loans. The range between the low and high state averages was typically about 50 basis points for feeder cattle loans and approximately 40 basis points for farm real estate loans.

Farm Numbers and Land in Farms

	Farm numbers			Land in farms		
	1963 (thousand)	1973 (thousand)	Change (percent)	1963 (million acres)	1973 (million acres)	Change (percent)
Illinois	148	127	-14	30.4	29.3	- 4
Indiana	121	107	-12	18.7	17.5	- 6
Iowa	167	139	-17	34.6	34.3	- 1
Michigan	106	80	-25	14.6	12.3	-16
Wisconsin	130	106	-18	21.8	19.7	-10
District	672	559	-17	120.1	113.1	- 6
United States	3,572	2,831	-21	1,152	1,089	- 5

Farm numbers and land in farms declined moderately during the past year. Preliminary estimates by the U. S. Department of Agriculture indicate 2.8 million farms will be in operation this year—down 1.4 percent from 1972 and 21 percent fewer than ten years ago. The 1,089 million-acre estimate for land in farms is virtually unchanged from a year ago and only 5.5 percent below the decade-earlier level. Overall, land in farms constitutes about one-half the total land acreage in the United States.

Changes in farm numbers and land in farms have varied widely between district states over the past ten years. Michigan and Wisconsin have experienced the greatest declines in both categories, undoubtedly reflecting the greater tendency to convert farmland into recreational and wildlife uses in those states. Farm numbers in Iowa declined nearly 17 percent during the past decade, but land in farms fell by less than 1 percent, suggesting practically all of the decline in numbers represented a restructuring into larger units.

Land use across the 48 contiguous states has not changed appreciably during the past 20 years, despite the oft-expressed concern of rapidly-expanding urban areas. Overall, cropland still accounts for approximately one-fourth of the total land area, while forest land and pasture and range land each absorbs about one-third. Although urban land has doubled, it still accounts for less than 2 percent of total land area, while land used for transportation purposes absorbs only about 1.5 percent of the total.

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