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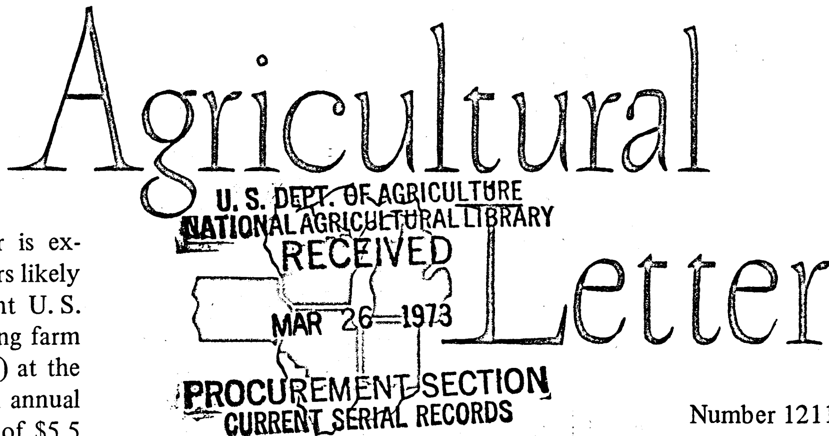

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FARM BORROWING during the current year is expected to exceed the 1972 level but major farm lenders likely will have ample funds available for lending. A recent U. S. Department of Agriculture forecast pegged outstanding farm debt (excluding Commodity Credit Corporation loans) at the end of 1973 at $75.8 billion. This would represent an annual increase of $5.7 billion, compared to the 1972 gain of $5.5 billion. Non-real estate farm debt is expected to account for a slightly larger share of the increase than last year, while loans secured by farm mortgages are expected to account for a slightly smaller portion.

Rising production expenditures will be a major factor behind the gain in farm debt. Planted crop acreage in 1973 will be up sharply, reflecting the changes in the government's acreage control programs, and the unusually high farm-level prices of recent months. While final results will not be available until after the program sign-up period ends on March 16, participants in this year's farm programs are expected to set aside about 40 million fewer acres. The traditional practice of summer fallowing—particularly in wheat-growing regions—plus some anticipated slippage in the number of productive acres actually included in last year's set-aside will limit the portion of this increased acreage that will be planted. Nevertheless, most forecasters anticipate 1973 plantings will rise by as much as 20 million acres—roughly equivalent to 7 percent of total acreage in 1972.

Higher prices of purchased inputs (such as seed, fuel, fertilizer, and chemicals) and the projected one-fourth reduction in government payments are expected to further boost borrowings by crop producers. The combination of relaxed controls afforded under Phase III, short supplies, and transportation bottlenecks that could hinder an orderly distribution during the spring planting season, all seem to point toward a potentially large increase in prices paid by crop farmers.

Livestock producers also will experience rising production expenditures, due to expanding operations and higher prices for feeder stock and feed. Choice 400-500 pound feeder steers have averaged around $54 per hundredweight in recent weeks, 32 percent over year-ago levels. Similarly, feed prices paid by farmers are up around 38 percent from a year ago, largely reflecting higher prices for both feed grains and soybean meal—a major protein supplement in most feed rations.

Increased farm borrowings to finance capital investments will accompany the strong loan demand for operating credit. Last year's sharp increase in net farm income appears to have been associated with a rising level of optimism that encouraged farmers to expand investments in machinery, and bid aggressively on farmland. Farm tractors sold at retail during 1972 rose nearly 20 percent over the year-earlier level. More importantly in terms of borrowing requirements, unit sales of tractors with over 100 horsepower leaped 40 percent and now account for 29 percent of all farm tractors sold at retail, as opposed to less than 19 percent only two years ago. Although net farm income in 1973 is expected to fall slightly from last year's unprecedented record $19.2 billion, it will be sufficiently high to encourage continued expansion of investments in farm machinery and capital improvements.

Funds for agricultural lending are expected to be adequate to meet the projected increase in farm borrowings. Commercial banks, the leading institutional lender for non-real estate farm loans, have experienced substantial gains in deposits in recent months. Deposits at banks in the Seventh Federal Reserve District that are heavily committed to agricultural lending, for example, averaged 19 percent over the year-ago level in January. Whether year-to-year gains of this magnitude can be sustained in the months ahead is uncertain. Nevertheless, even a slowing in deposit growth, coupled with the recent gains, should provide an adequate base with which most banks can meet farm borrowing demands.

Production Credit Associations and Federal Land Banks —the short- and long-term lending arms of the Farm Credit System, respectively—obtain the majority of their funds for lending from the sale of bonds and debentures in national money and capital markets. Although upward pressures on interest rates will make these funds slightly more expensive this year, investor demand likely will be sufficient to provide adequate funds for rechanneling into farm loans.

Interest rates on farm loans in the months ahead, for the most part, will be jointly determined by the demand for, and the supply of, funds in all sectors of the economy. Overall, the current upward pressure on interest rates is expected to spill over into farm loans. But the pressure on rates charged on farm loans may be partially moderated by rural banks whose supply of lendable funds (primarily deposits) are somewhat isolated from national pressures. Bank rates on farm loans will have to remain competitive with yields on alternative bank investments, however. On balance, therefore, most forecasters anticipate interest rates on short-term farm loans may rise by one-half of a percent during the current year, with rates on long-term farm loans rising somewhat less.

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