Federal Reserve Bank of Chicago - -

Agricultural Letter

August 9, 1974

Number 1286

DEMAND FOR FARM CREDIT strengthened during the second quarter according to an early July survey of nearly 750 Seventh District agricultural bankers. Fifty-six percent of the bankers responding to the survey reported heavier farm loan demand in the second quarter of 1974 than a year earlier. The increase closely parallels the rate of credit expansion reported by Seventh District agricultural bankers during the first half of 1973. The respondents also indicated a slowing in loan repayments and an upward shift in the loan/deposit ratios of their banks.

Other reports show that increases in credit utilization were prevalent in all major agriculture credit institutions. Loans made by Production Credit Associations (PCAs) operating in district states were up 15 percent over the first half of 1973, and outstandings at the end of June were up 16 percent over a year earlier. The amount of new money loaned by Federal Land Banks (FLBs) in district states was 40 percent larger in the first half of 1974 than the same 1973 period, and outstandings at the end of the first half jumped 18 percent over a year earlier. Outstanding loan volume at a selected sample of Seventh District banks heavily engaged in agriculture was up 13 percent over the previous year in July. The increase in bank loans was impressive in view of the fact that loans also were expanding rapidly a year ago.

Major factors contributing to strong farm loan demand in the first half of 1974 were the sharp rise in farm production expenditures and the rather substantial losses sustained by livestock producers during the second quarter. Prices of motor supplies—including petroleum products—and fertilizer were up more than one-third from a year ago this past spring, and seed prices during March and April were nearly half again as expensive as in 1973. Demand for these and other high-priced inputs was intensified because farmers planted more acres and because untimely spring rains forced many farmers to replant crops. The overall supply/demand situation was aggravated by product shortages that resulted in sharp reductions in many dealer/merchant credit lines. Many farmers were forced to seek alternative lines of credit, usually from banks and PCAs. In addition, many farmers refinanced losses from livestock operations by pledging other types of collateral. Nearly two-fifths of the banks responding to the July 1 survey reported they had requested some borrowers to secure overdue or under-collateralized loans with additional collateral, including real estate.

Interest rates charged by banks continue to reflect the upward trend in national money markets. The average rate charged by responding banks on a typical feeder loan reached 8.63 percent as of midyear, up 33 basis points from the end of the first quarter. Likewise, the average rate charged on longer-term farm real estate loans rose to 8.63 percent, 24 basis points over the first-quarter rate reported by the agriculture banks.

Bankers anticipate that demand for feeder cattle loans will be down in the third quarter, while the need for operating loans likely will increase. Three-fifths of respondent bankers expect feeder cattle loan volume in the third quarter to slip below the year-previous level. These expectations stem from the lower cost of feeder cattle and, probably more important, the recent losses experienced by cattle feeders that have led to a reluctance to expand feeding operations until margins improve.

About two-thirds of respondents expect the demand for operating loans to surpass third-quarter 1973 levels. And while over 40 percent of the surveyed bankers project an increase in the demand for farm machinery loans, this proportion is down noticeably from the previous quarter, and at the lowest level in the past one and one half years. There have been some reports that farmers are delaying major investments pending further developments; such reports are especially widespread in heavy livestock-producing areas and in areas where crop producers have experienced unfavorable weather and face the possibility of sharp reductions in output.

Availability of funds has been generally adequate in the first half of this year, but there are signs that fund availability in the agriculture sector may tighten in the remainder of 1974. The inflow of deposits to agricultural banks has leveled off while loan demand remains relatively strong. Nearly 27 percent of the bankers responding to the July 1 survey indicated that their present loan/deposit ratio was above the "desirable level," up 10 percentage points from the preceding quarter. Agricultural banks in areas with high livestock production and drought conditions, no doubt, will face increasing difficulty in acquiring funds to meet the anticipated loan demand during the second half of 1974.

Terry Francl
Agricultural Economist