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AGRICULTURAL CREDIT DEMAND continues strong, according to almost 60 percent of the 650 Seventh District agricultural bankers who responded to a January 1977 survey on fourth-quarter agricultural credit conditions. However, somewhat contrary to prior 1976 surveys, there were fairly sizable differences in the strength of credit demand in various states. And while fund availability remains good in the majority of areas, there are increasing signs that banks in some areas may be experiencing declines in liquidity positions. Nevertheless, interest rates on loans were unchanged, following a pattern established at the onset of 1976.

Three-quarters of the Iowa bankers responding to the survey indicated that loan demand surpassed the level experienced in the fourth quarter of 1975, up substantially from the third-quarter survey and one of the highest percentages ever reported. This reflects the culminating effect of bad weather and declining livestock prices which plagued Iowa farmers much of the second half of 1976. Although bankers in each of the other district states reported increases in loan demand, they were much more moderate.

Loan demand at both Production Credit Associations (PCAs) and Federal Land Banks (FLBs) was unusually strong in the fourth quarter. PCA outstandings in the district states were up 21 percent from a year earlier at the end of November compared to a 15 percent rise for the total United States. Almost identical increases on outstandings were reported by the FLBs. Even more impressive was the sharp jump in new money loaned by FLBs during October and November. Increases for the district states ranged from 11 percent to 82 percent over the same 1975 period, up an average of 36 percent compared to a 12 percent rise for the nation as a whole.

Renewals and extensions of farm loans also showed a marked increase in the fourth quarter compared to a year earlier, according to the agricultural bankers. With the exception of Indiana the upward trend was universal among all district states, with Iowa bankers indicating the largest increases. Indiana bankers indicating a drop in renewals and extensions exceeded those reporting an increase, a reflection on the relatively good financial situation Indiana farmers enjoyed as a whole in 1976.

The quality of crop loans held by banks is below that of a year earlier, according to bankers in Iowa, Michigan, and Wisconsin. (Quality is defined in terms of the value of collateral, timeliness of repayments, risk of default, etc.) In all cases from one-half to nearly three-fourths of the bankers reported no appreciable change in quality for the three categories of loans mentioned. Nevertheless, 29 percent of Wisconsin bankers, 27 percent in Iowa, and 23 percent in Michigan reported a decline in the quality of crop loans held versus the 9 percent, 23 percent, and 17 percent, respectively, who suggested that the quality of their crop loan portfolios improved. In all cases more banks reported improvement in livestock loan quality as opposed to deterioration, although the differences in Iowa and Wisconsin were not large. Furthermore, measured on a state basis, from 34 to 38 percent of the bankers reported an increase in the quality of real estate loans compared to 1 percent who indicated a decline.

Fund availability at the agricultural banks remains good despite the pressures of increased loans, renewals, and extensions, according to the bankers. Forty-two percent indicated more funds were available than a year earlier, while only 12 percent suggested a decline. Moreover, the level of improvement is spread fairly evenly among the district states with the one possible exception of Wisconsin. While 36 percent of the Wisconsin respondents indicated improved fund availability, 16 percent reported a decline, leaving a "net difference" of 20 percent. Furthermore, the number of Wisconsin bankers who felt their loan-to-deposit ratios were *above the most desirable level*—another measure of liquidity—exceeded those who said the ratios were *below the most desirable level* by 4 percent, the first time there has been a net difference on the high side in any state during any quarter of this year and an indication that some liquidity problems may be developing. The net difference has been in favor of increasing loan-to-deposit ratios in all the other district states—markedly so in many instances—throughout 1976. However, the net difference has declined slightly in each progressive quarter. The one noticeable exception to this general trend is in Indiana where the largest net difference, 40 percent of respondents, desired higher ratios in the last quarter, the largest differential reported during the year.

The majority of respondents anticipate continued strong agricultural loan demand in the first quarter of 1977. However, according to the bankers, most of the increase will probably come in the non-real estate category. Bankers in all states look for a particularly strong rise in the demand for operating loans. The next largest increase may come from farm machinery loans followed by feeder cattle loans. Fund availability should remain adequate overall, although some Wisconsin banks as well as a few Iowa banks may face increasing liquidity problems. Interest rates on loans will most likely hold to the steady course established this past year.

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