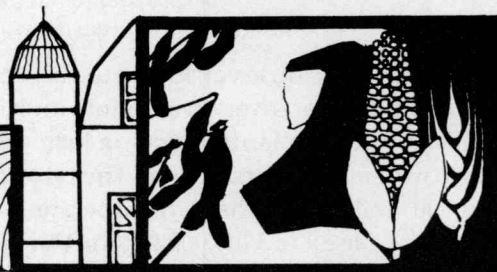


FEDERAL RESERVE BANK OF CHICAGO

AGRICULTURAL



LETTER

June 2, 1978

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A FARM CREDIT SURVEY indicates a small, but larger than normal, number of farmers are having difficulty obtaining credit. The survey, conducted in mid-March by the USDA, covers banks and Production Credit Associations (PCAs) in Indiana, Iowa, Colorado, Georgia, Minnesota, Montana, and the six Plains states stretching from North Dakota to Texas. It was estimated that banks in this 12-state area serve about 714,000 non-real estate farm loan customers and that PCAs serve about 90,000. Although only a small proportion of these borrowers are not being financed this year, pending legislation that would provide new lending provisions for the Farmers Home Administration (FmHA) appears adequate to take up the slack.

The survey was undertaken because of widespread concern over farmers' cash flows. Flows turned tight late last year, largely because of the sharp decline in grain prices. In addition, credit problems in some areas were affected by drought and by the prolonged losses to cattlemen. The survey was designed to measure some of the actions taken by both farmers and lenders as a result of the financial squeeze.

To ease the squeeze by reducing annual debt-service payments, many farmers refinanced their debt into longer maturities. The proportion of farm customers that refinanced short-term debt with real estate debt during the year preceding the survey rose to 7 percent at banks and 9 percent at PCAs. Normally, only about 2 percent of the farm customers at banks and 3 percent of PCA customers refinance short-term debt into long-term debt. In Indiana and Iowa, the proportion of bank customers that refinanced was well below the 12-state average. But at least a fifth of the bank customers in South Dakota and Georgia also refinanced.

Several questions in the survey were related to the extent to which lenders would continue to finance farm customers in 1978. For instance, banks reported that they had refused 6 percent of the requests for new loans received during the 2½ months preceding the survey. For PCAs, the refusal rate during the same period was 9

percent. For both PCAs and banks, the refusal rate for new loans earlier this year was two percentage points higher than normal.

The bulk of the loan refusals, no doubt, represented requests from loan customers that were already at their debt-carrying capacity and simply were not permitted to add new debt. Nevertheless, the survey found that a small proportion of farmers that had been financed in 1977 would not have qualified for such financing under conditions this year. Banks reported that 3 percent of the farm loan customers financed last year would not qualify for non-real estate financing this year. For PCAs, the attrition rate this year was 4 percent. Normally, the attrition rate is about 1 percent for bank customers and 2 percent for PCA customers. Insufficient equity, inadequate income, and poor management were major reasons for some previously financed farmers not qualifying for financing in 1978.

Despite widespread concern over farm credit problems last year, a fairly large portion of lenders reported that the quality of their farm loan portfolios had improved. Over the 12 states, an average of 26 percent of both the banks and the PCAs reported the quality of their farm loan portfolio was better at mid-March than a year earlier. On the other hand, 24 percent of the banks (and 47 percent of the PCAs) reported a decline in the quality of their farm loan portfolios.

Pending legislation may help some farmers particularly affected by credit problems this year. Both the House and the Senate have passed legislation (HR 11504) that revises and expands the farm lending programs of the Farmers Home Administration. Although the legislation is currently awaiting action in Conference Committee, there appear to be no major obstacles in reaching a compromise or obtaining the President's signature for enacting the legislation.

Both versions of the pending legislation would extend FmHA loan eligibility to farms organized as limited partnerships and as closely held farm family cor-

porations. The House version would also extend eligibility to farm cooperatives. In addition, individual borrower limits in both the farm operating loan program and the farm ownership program would be boosted. The current \$50,000 ceiling on the farm operating loan program would be raised to \$100,000 for FmHA insured loans and to \$200,000 for operating loans guaranteed by the FmHA. The ceiling on the farm ownership loan program would be raised from \$100,000 to \$200,000 for direct loans and to \$300,000 for loans guaranteed by the FmHA. In addition, the Emergency Livestock Credit program scheduled to expire in September would be extended for another year.

Banks in district states have increased loans to farmers by more than a third over the past two years

| | Non-real estate farm loans | | | Farm real estate loans | | |
|-----------|--|------------------|------------------|--|------------------|------------------|
| | Outstanding Dec. 31, 1977 (mil. dollars) | Change since | | Outstanding Dec. 31, 1977 (mil. dollars) | Change since | |
| | | Dec. 31, 1976 | Dec. 31, 1975 | | Dec. 31, 1976 | Dec. 31, 1975 |
| | | (percent) | (percent) | | (percent) | (percent) |
| Illinois | 1,818 | 14 | 35 | 521 | 17 | 43 |
| Indiana | 761 | 18 | 37 | 510 | 17 | 42 |
| Iowa | 2,784 | 15 | 37 | 331 | 16 | 41 |
| Michigan | 378 | 13 | 34 | 198 | 15 | 24 |
| Wisconsin | 661 | 15 | 29 | 497 | 15 | 30 |
| Total | 6,401 | 15 | 35 | 2,057 | 16 | 37 |

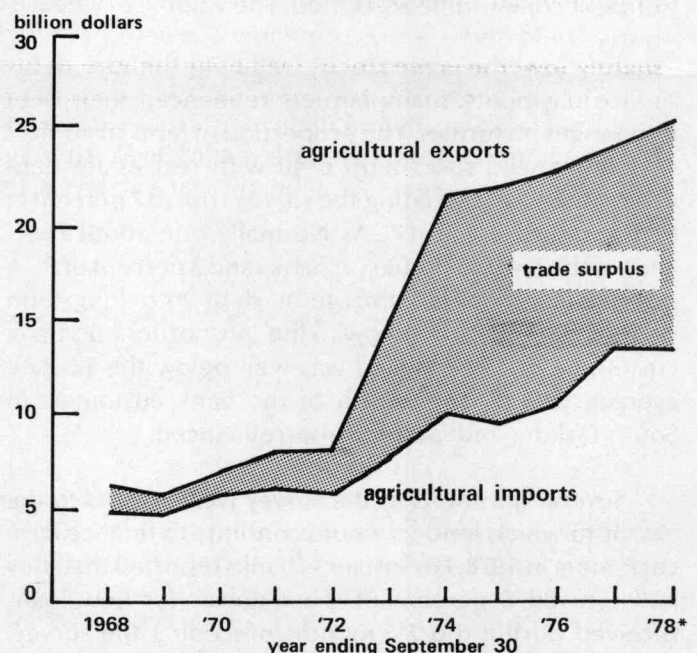
The major new lending provision embodied in the pending legislation is the Emergency Agricultural Credit Adjustment Act of 1978. This act, designed especially to help alleviate recent credit problems of farmers and lenders, would authorize up to \$4 billion in government-insured and guaranteed loans to farmers by the end of 1979. In essence, this act would offer individual farmers that cannot obtain credit elsewhere up to \$400,000 (\$500,000 in the Senate version) in loans to repay debt incurred since January 1, 1973. The loans could be used to meet overdue instalments on existing debt, to refinance the entire outstanding debts of the farmer, or to meet current operating expenses. Interest rates on loans guaranteed by the FmHA would be negotiated between the borrower and the lender. Rates on loans insured by the FmHA would be either pegged at one percentage point over the government's cost of funds (House version) or determined by the Secretary of Agriculture (Senate version). Maturities on loans provided under the new act would extend to 30 years if secured by real estate and seven years—renewable for another five years—if secured by other collateral.

Gary L. Benjamin
Agricultural Economist

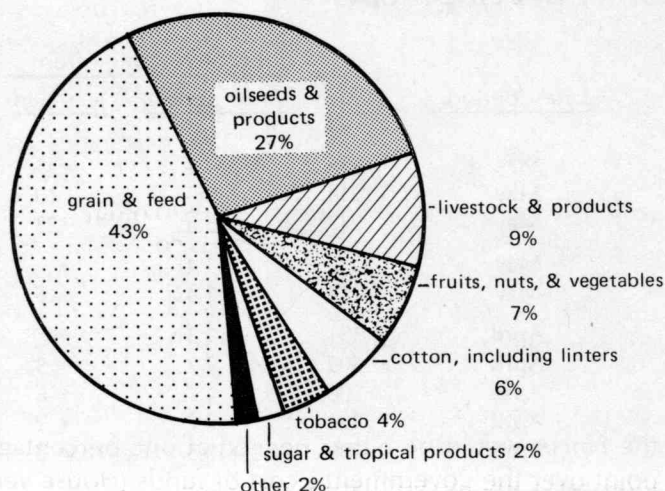
U.S. AGRICULTURAL EXPORTS could exceed \$25 billion in fiscal 1978, according to a recently revised estimate by the Department of Agriculture. It was believed last winter that lower commodity prices would more than offset an estimated 10 percent increase in the volume of agricultural shipments, thereby reducing the value of such shipments below the record level of fiscal 1977. However, the substantial improvement in grain and livestock prices has prompted the USDA to raise its earlier projection. A rise in fiscal 1978 exports would mark a new record and represent the ninth consecutive year-to-year increase.

Several factors have contributed to the enhanced outlook for U.S. farm exports. The sharp reduction in the Brazilian soybean crop has boosted domestic prices as well as foreign demand for oilseed products. Stronger demand for U.S. cotton than was earlier anticipated has caused an upward revision in the estimates of both export volume and value. Farmer participation in the grain reserve program has bolstered wheat prices, while a strong foreign demand has boosted rice prices. The decline in the value of the dollar relative to many currencies has made U.S. agricultural products more attractive

U.S. farm exports expected to rise in fiscal 1978



1978 agricultural exports* (\$25.5 billion)



*USDA projection for fiscal 1978.

to foreigners. Expansion of livestock industries in Japan and Western Europe has bolstered export demand for U.S. feedstuffs. Moreover, the recent return to the U.S. market for cotton, wheat, soybeans, and soybean oil by the People's Republic of China has contributed to the brightened prospects for fiscal 1978 agricultural exports.

These developments pushed March exports to \$2.5 billion—the highest monthly total on record. April was a continuation of the heavy export activity of March as it recorded the second highest monthly export value on record. Exceptionally strong export activity in March and April offset earlier lags and boosted the value of agricultural exports for the October-April period to \$15.1 billion, nearly 2 percent higher than a year earlier.

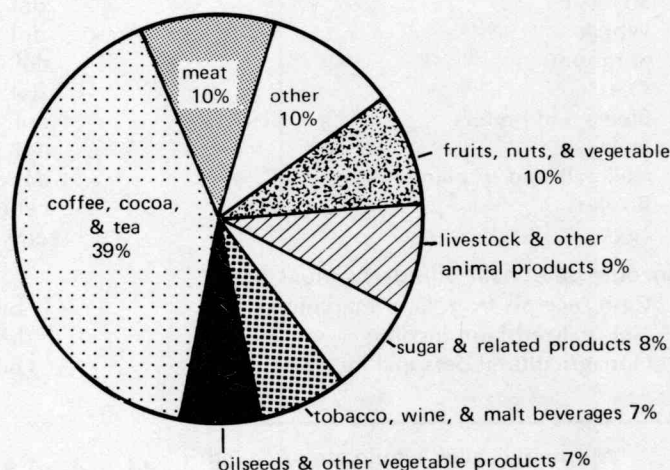
Year-to-year increases appear likely in the quantities of most commodities exported. The volume of wheat exports could show a rise of nearly 27 percent, though slightly lower average prices may hold the gain in total value to a 24 percent rise of \$3.7 billion. Soybean exports are projected at nearly 18 million metric tons—up roughly 2.5 million tons from last year's record level. Although soybean prices are averaging below year-ago levels, the export value of all oilseeds and products is expected to exceed the fiscal 1977 record by about 8 percent, bringing the total to almost \$7 billion. An estimated increase of nearly 27 percent in the volume of cotton exports will likely be offset to a large extent by lower prices. The volume of feed grain exports could show a slight increase this year, but lower prices are expected to reduce the export value to \$5 billion—3 percent below a year ago.

Although prospects continue to suggest that Japan and the European Community will spend less for U.S. farm products than in fiscal 1977, increased purchases by several other countries are expected to more than offset the loss. The second year of the grain agreement with the USSR could witness a two-thirds increase in the volume

of Soviet wheat purchases to 5 million metric tons and more than a threefold increase in feed grain purchases to 10 million metric tons. Substantial increases are expected in shipments to Eastern Europe, Latin America, Africa, and Southeast Asia. The return of Mainland China to the U.S. market could amount to more than \$300 million in agricultural sales this year. There is not enough reason yet, however, to think that China will become a regular U.S. customer.

The value of agricultural imports is expected to average near last year's record level. Slightly increased purchases of meat animals and related products are anticipated but may be largely counterbalanced by reduced imports of coffee, tea, and sugar. Based on current projections of imports and exports, the fiscal 1978 agricultural trade surplus could equal \$12 billion, 13 percent above the level of a year earlier and the third largest on record.

1978 agricultural imports* (\$13.5 billion)



*USDA projection for fiscal 1978.

In recent months numerous concerns about transportation-related difficulties have prompted speculation that crop-year shipments of grains and soybeans might fall short of the strong world demands. Favorable spring weather and the reopening of Great Lakes ports, however, has enabled a sharp pickup in the combined exports of grains and soybeans. Export inspections of corn, wheat, and soybeans for the first four weeks of May indicate that the volume of grain and soybean exports since April has continued at an exceptionally strong pace. So strong, in fact, that the volume of May corn exports will likely set a single-month record, superseding November 1976 shipments. Barring unforeseen developments, a continuation of the current pace of shipments through summer would be more than sufficient to meet the record crop-year export estimates currently projected by the USDA for corn and soybeans.

Don A. Langford
Agricultural Economist

Selected agricultural economic developments

| Subject | Unit | Latest period | Value | Percent change from | |
|---|----------------|---------------|-------|---------------------|----------|
| | | | | Prior period | Year ago |
| Index of prices received by farmers | 1967=100 | May | 215 | + 3.4 | +11 |
| Crops | 1967=100 | May | 214 | + 2.9 | 0 |
| Livestock | 1967=100 | May | 217 | + 3.8 | +23 |
| Index of prices paid by farmers | 1967=100 | May | 219 | + 1.4 | + 7 |
| Production items | 1967=100 | May | 217 | + 1.4 | + 6 |
| Producer price index* (finished goods) | 1967=100 | April | 191 | + 1.3 | + 7 |
| Foods | 1967=100 | April | 205 | + 2.2 | + 9 |
| Processed foods and feeds | 1967=100 | April | 200 | + 1.7 | + 6 |
| Agricultural chemicals | 1967=100 | April | 192 | + 0.7 | + 2 |
| Agricultural machinery and equipment | 1967=100 | April | 209 | + 0.5 | + 7 |
| Consumer price index** (all items) | 1967=100 | April | 192 | + 0.9 | + 7 |
| Food at home | 1967=100 | April | 206 | + 2.0 | + 9 |
| Cash prices received by farmers | | | | | |
| Corn | dol. per bu. | May | 2.28 | + 1.8 | + 1 |
| Soybeans | dol. per bu. | May | 6.82 | + 5.1 | -26 |
| Wheat | dol. per bu. | May | 2.80 | - 0.1 | +28 |
| Sorghum | dol. per cwt. | May | 3.59 | - 0.1 | +12 |
| Oats | dol. per bu. | May | 1.21 | + 2.5 | -20 |
| Steers and heifers | dol. per cwt. | May | 53.60 | + 6.6 | +38 |
| Hogs | dol. per cwt. | May | 47.80 | + 6.7 | +17 |
| Milk, all sold to plants | dol. per cwt. | May | 10.00 | - 1.0 | + 7 |
| Broilers | cents per lb. | May | 27.2 | - 3.2 | +13 |
| Eggs | cents per doz. | May | 49.3 | - 5.6 | 0 |
| Income (seasonally adjusted annual rate) | | | | | |
| Cash receipts from farm marketings | bil. dol. | 1st Quarter | 101 | + 5.5 | + 5 |
| Net realized farm income | bil. dol. | 1st Quarter | 21 | - 0.9 | - 3 |
| Nonagricultural personal income | bil. dol. | April | 1,645 | + 1.4 | +12 |

*Formerly called wholesale price index.

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