Federal Reserve Bank of Dallas

FARM and RANCH BULLETIN

August 1973

FARM REAL ESTATE VALUES CONTINUE TO RISE AT ACCELERATING RATE

Farm real estate values in the nation rose an average 13 percent in the year ended March 1, with the index of farmland values reaching 150 percent of its 1967 base. This sharp increase, partially a reflection of higher farm incomes, is in line with the trend of accelerating gain that began in 1971, following a period of tight credit conditions.

Wide range of increase

Wisconsin showed the largest increase in the nation, with values up 21 percent. The rise in California was only 2 percent, the smallest in the nation. The only other states with gains of less than 10 percent were Utah and—in the Eleventh Federal Reserve District—Arizona and Louisiana. In the other states of the Eleventh District, New Mexico gained 11 percent, Texas 13 percent, and Oklahoma 15 percent.

Two years of good farm income and favorable prices—and expectations of another year of the same—influenced the rise. Availability of credit and generally stable interest rates also contributed to the increase in values. Demand for rural homes and private recreation areas has continued strong, and demand for land for housing and commercial development has remained stable. Additional pressure on land values may have been created as individuals and businesses with investment funds sought to hedge these funds against inflation by buying land.

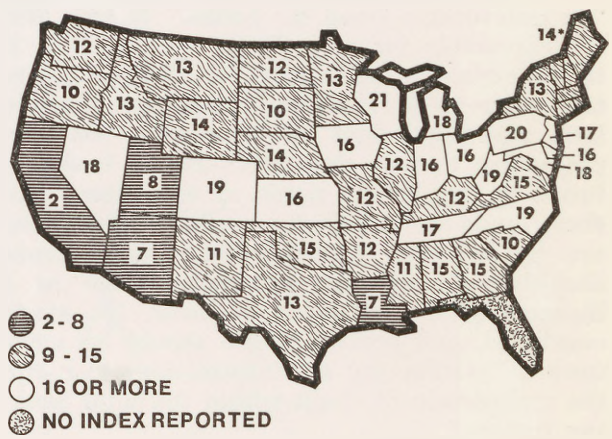
Future prospects

The land values survey by the U.S. Department of Agriculture indicated that the number of people looking for farm real estate increased in the year ended March 1 although the number of farms offered for sale was largely unchanged. The number of actual transfers increased, and at prices up sharply from a year before. Credit apparently remained readily available, and loan limits may have increased modestly. Interest rates may also have moved up slightly.

Although it seems unlikely that the current high rate of increase in farm real estate values can be maintained indefinitely, strong gains are expected to continue for at least a few more years. There appears to be some likelihood of a sharp rise in interest rates this year, which

CHANGE IN DOLLAR VALUE OF FARMLAND

PERCENT INCREASE, MARCH 1972 TO MARCH 1973



*Average increase for Maine, Vermont, New Hampshire, Massachusetts, Rhode Island and Connecticut.

NOTE: Based on index numbers of average values per acre
SOURCE: U.S. Department of Agriculture

could lead to a reduction in demand for farm real estate and, consequently, a decline in the rate of increase in land values. However, if current expectations for 1973 farm income are realized and crop and livestock price expectations remain strong into 1974, land price increases this year could match those of the year ended in March.

BANKER GROUP PROPOSES AGRICULTURAL CREDIT REFORMS

A task force of the American Bankers Association recently published a series of recommendations designed to expand the role of banks in financing agriculture. After more than a year's study, the Agricultural Credit Task Force concluded that such expanded service would be to the advantage of both banks and farmers.

Defining goals

An increasing proportion of agricultural credit is being supplied by sources other than banks, a situation that the task force sees clearly as "an unfavorable trend for banks." It feels this is unfavorable for agriculture, too, since it is to the advantage of farmers for all their potential lenders to be strong and competitive. Certain laws and regulations are currently "counterproductive to this objective." Banks have the funds to supply the needs of agriculture, but these funds are not always available where they are needed, the committee reported. Banks should begin treating agriculture more as a business in the extension of loans, the study concluded, and greater efforts should be made toward "getting the agricultural borrower into the mainstream of credit within the total banking system."

The financing of agriculture is expected to become an ever larger task in the near future. Projections cited by the task force show that by 1980, farmers will use well over $400 billion of capital, of which more than $100 billion must be borrowed. In 1972, capital use was nearly $340 billion, of which $67 billion was borrowed. A debt-asset ratio of about 26 percent is expected for 1980. It was almost 20 percent in 1972.

Suggested reforms

Recommendations of the task force treat four main areas—the broadening and improvement of existing practices, the implementation of a new mechanism to supplement these practices, the development of innovative bank agricultural education programs, and the revision of certain laws and regulations that the task force believes to be unnecessarily restrictive.

The committee recommended that banks shift some funds from investments in government securities to farm loans. It was noted that even a minimum shift such as this by all insured commercial banks with less than $50 million in deposits would have freed more than $1.6 billion for agricultural lending in 1971. Banks were also encouraged to seek better methods of serving loan applicants.

A growing number of individual farmers have credit requirements that are increasing faster than the size of individual rural banks. Better utilization of correspondent banking relationships could help solve this problem, as could the formation of agricultural credit corporations.

Credit corporations

Agricultural finance corporations are seen as an important supplement to existing credit mechanisms. Such a corporation would be capitalized by major banks or a group of participating banks and could sell negotiable debt instruments in the money markets. It could be a specialized subsidiary of an existing bank holding company or a regional or national corporation formed by small banks.

The ABA study found that many rural bankers put their money into other types of investments because they are not fully aware of the profitability of agricultural loans. This problem might be solved by educating the rural banker on better use of the assets of his bank—an improvement that would not only benefit the bank's earnings but also keep local funds in the community.

Education in agricultural lending should be aimed at both top management of rural banks and banking specialists in agricultural credit, the task force recommended. It also suggested that bank examinations might be made more educational if they were designed to head off potential problems, as well as correct existing ones. Support for the recent revision of the Federal Reserve regulation governing discount window operations to include seasonal borrowing privileges was voiced by the committee.

Competition for funds

Accelerating rural development in such areas as housing, industry, schools, and roads places extra demands on the loan funds of rural banks, in competition with agriculture, the report noted. A big step in meeting these demands, it indicated, might be the implementation of the guaranteed loan programs of the 1972 Rural Development Act.

"Rural banks and their communities find that when money becomes tight, they are not in a favorable position to compete for funds from outside sources," the report said. Again, the correspondent relationship could help alleviate some of this shortage. In addition, other financial investors, such as insurance companies, were encouraged not to stem their flow of funds into these communities in times of tight money.

TEXAS AGRICULTURE INDUSTRY RELIES HEAVILY ON BEEF

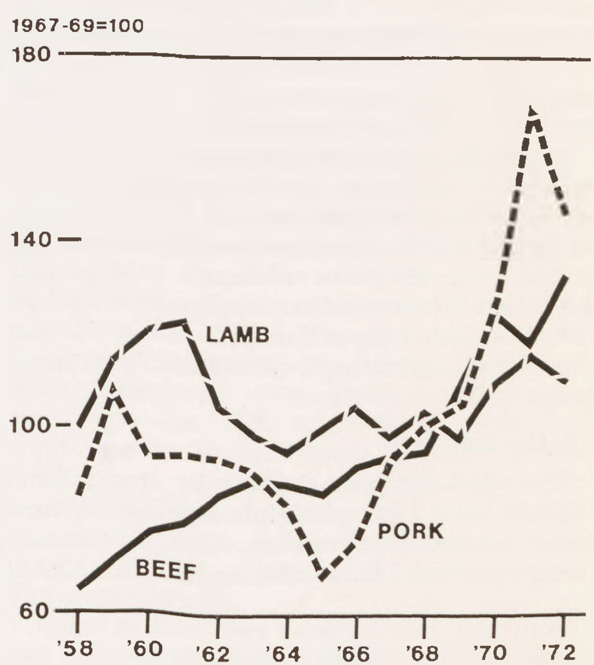
Meat animal production in Texas advanced about 40 percent in the past four years. And beef production more than doubled since 1958, as herds grew steadily and cattle feeding expanded sharply. Expanding demand for meat and more favorable prices greatly stimulated this growth.

The natural resources of the state were also an important factor, since these are well adapted to livestock production. Much of the land has both a favorable climate and soils suitable to a variety of grasses. And the state's productive farmland produces a large amount of grain to support livestock feeding.

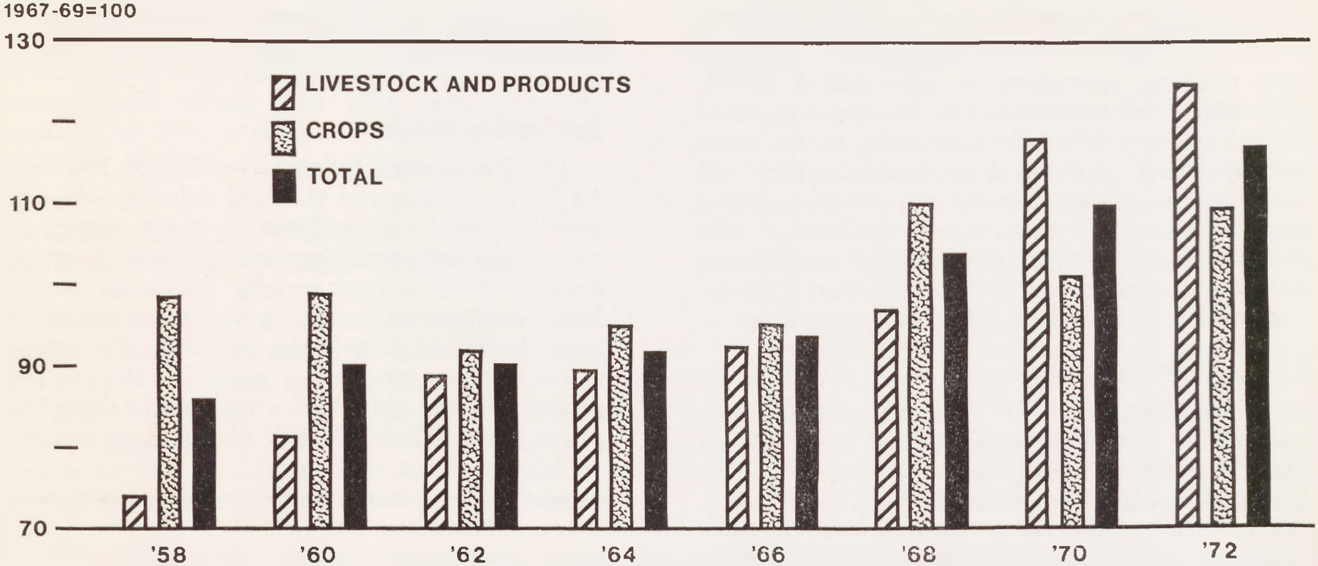
Production trends

The Texas pork industry—although less than 10 percent as large as the beef industry—has expanded greatly since 1968, as many producers recognized opportunities in large-scale hog production. Pork output usually fluctuates greatly from year to year, but there was a general downtrend apparent from 1959 to 1966. The subsequent upturn reached a peak in 1971, when production was cut back in response to depressed prices. Production of lamb and mutton showed

TEXAS MEAT ANIMAL PRODUCTION



TEXAS AGRICULTURAL PRODUCTION IN SELECTED YEARS



some growth in the past few years but remained below levels of a decade earlier.

The rapid growth in meat animal production, especially production of beef animals, has allowed the livestock and livestock products industry to dominate agricultural expansion in Texas for the past 15 years. Although crop production rose a little more than 10 percent in this period, livestock output jumped nearly 70 percent. Total agricultural production grew more than a third.

A better future

The relatively poor showing by crop growers resulted from the plentiful supplies of most crops, generally low prices, and Government acreage controls that left much land idle. In contrast, livestock producers were favored by substantial increases in demand that provided a growing market for their products.

With worldwide demand for agricultural products on the upswing, crop production could show a marked increase in the years ahead. Bolstered by a sharp advance in the demand for protein feeds and grains, Texas crop production should begin expanding much faster than it has in recent years. And with beef demand still growing, livestock production is expected to continue expanding rapidly. On balance, then, growth in agricultural production in the future can be expected to accelerate above the levels achieved in the past 15 years.

Prepared by Carl G. Anderson, Jr.