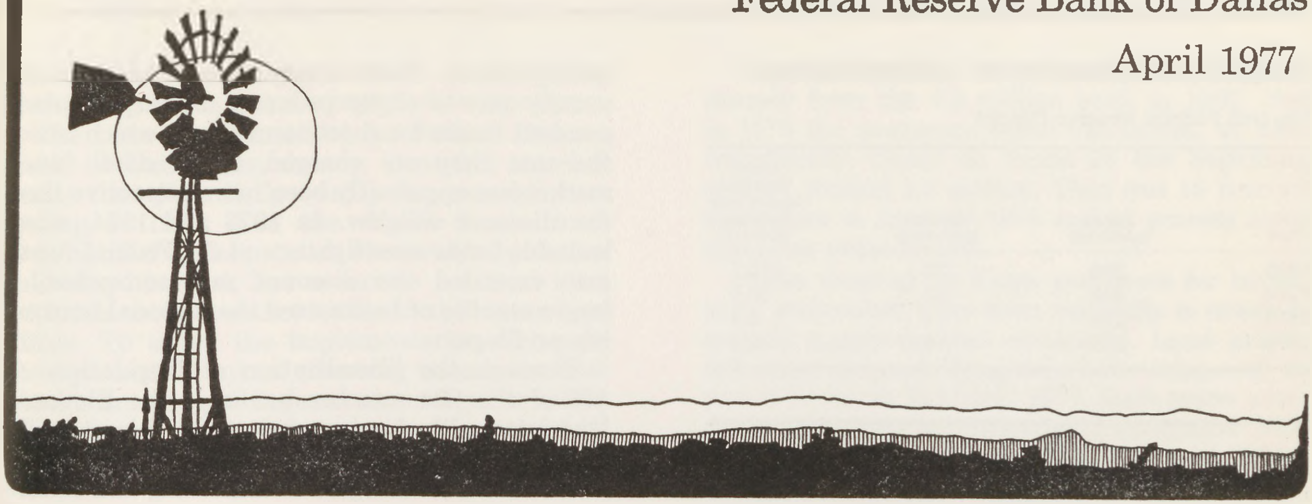
FARM and RANCH BULLETIN

Federal Reserve Bank of Dallas

April 1977



MORE LIBERAL GUIDELINES ESTABLISHED FOR SEASONAL BORROWING PRIVILEGE

The rules and guidelines of Regulation A that cover access to seasonal credit at Federal Reserve banks were liberalized last year by the Board of Governors of the Federal Reserve System. The change further increases the ability of banks having significant seasonal loan demand or deposit fluctuations to meet financial needs of their customers. Moreover, a large number of member banks in the Eleventh Federal Reserve District that are heavily involved in financing farming, ranching, and related businesses now qualify for seasonal credit.

Rules changes

The revision has significantly expanded the seasonal loan program. For one thing, banks may now borrow under the program even though they have net sales of Federal funds, as long as such sales conform to normal operating patterns. But banks cannot borrow under the seasonal program for the purpose of increasing sales of Federal funds. Using the seasonal borrowing privilege still does not preclude concurrent adjustment borrowing from Reserve banks for appropriate purposes.

Under the revised program, recurring fluctuations in loans, deposits, or both must be evident at least four consecutive weeks for a member bank to qualify for seasonal borrowing. The minimum period in eligibility computations was formerly eight weeks. The Reserve bank determines the seasonal patterns by analyzing a member bank's loan-deposit data for the previous four to five years.

Another revision concerns the proportion of seasonal needs member banks are expected to supply from their own resources. Formerly, a qualified bank could seek seasonal assistance if the funds needed during its peak loan season exceeded 5 percent of average deposits in the preceding year. The proportion has been changed to 4 percent of the first $100 million of deposits, 7 percent of the next $100 million, and 10 percent of any deposits over $200 million.

The limit on the size of banks that can qualify was raised. Where the upper limit had been $250 million, member banks with deposits up to $500 million are now eligible. Smaller banks that do not have ready access to national money markets for their seasonal credit needs are the principal

SEASONAL BORROWING BY MEMBER BANKS

Eleventh Federal Reserve District

Year	Banks qualifying	Banks borrowing	Daily average borrowings (Million dollars)
1973	286	33	$16.7
1974	322	52	39.0
1975	359	14	5.4
1976	355	14	9.6

beneficiaries of the seasonal borrowing privilege under Regulation A.

Lackluster participation

The number of banks in the Eleventh District that have used the seasonal borrowing privilege since its implementation in 1973 has been small compared with the number qualified. In 1976, for example, only 14 of the 355 qualifying banks participated in the program.

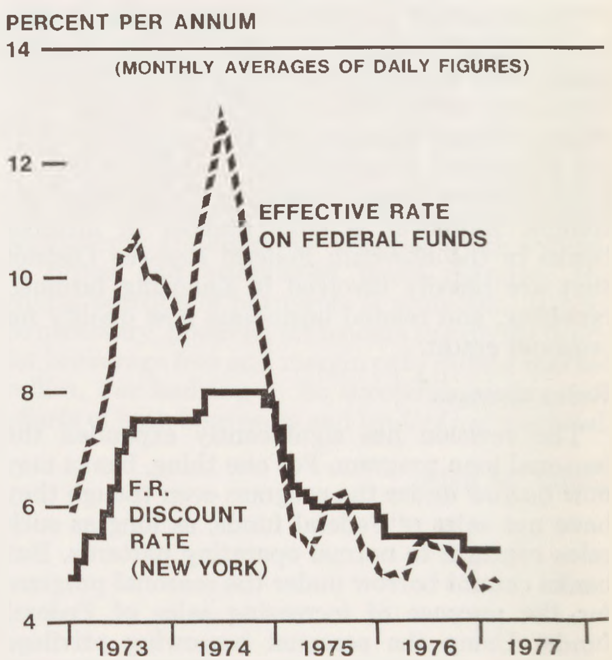
Participation may have been curtailed by the relatively more stringent rules under the original program. With the recent liberalization of rules, qualifications for eligibility are easier to meet. Too, some bankers may have been reluctant to borrow because of the collateral requirements.

Whatever the reasons, the number of banks using the privilege in the four-year existence of the program has been far short of the number potentially qualified. The program became operative in May 1973. The response that year may have been small because the program started too late for some banks to take advantage of it.

Use of the seasonal borrowing privilege was exceptionally low in 1975 and 1976, however. With an ample supply of loanable funds available, the effective rate on Federal funds has averaged below the discount rate for member bank loans at Reserve banks since early 1975. And bankers, being prudent businessmen, have been obtaining cheaper funds through correspondent banking arrangements. Even though small rural banks usually pay a slight premium to large correspondent banks for short-term funds, which raises the rate they are charged, the Federal funds market has apparently been more attractive than the discount window. In 1973 and 1974, when loanable funds were tighter and the Federal funds rate exceeded the discount rate somewhat, a larger number of banks used the seasonal borrowing privilege.

Through the liberalization of Regulation A, 486 of the 694 member banks in the Eleventh District qualify for seasonal credit this year. In view of the low levels of grain and cattle prices now and the climbing costs of farming and ranch-

SHORT-TERM INTEREST RATES



SOURCE: Board of Governors, Federal Reserve System.

ing, the demand for agricultural credit during peak loan periods may be expected to increase.

The Loan Department of the Federal Reserve Bank of Dallas has already identified member banks that potentially qualify for seasonal borrowing in 1977. And the eligible banks have been notified of their status. However, any banker believing his bank has a serious seasonal need for funds should contact his Federal Reserve loan officer. To speed the implementation of credit arrangements, bankers planning to use the seasonal borrowing privilege are encouraged to establish a line of credit a few weeks prior to actual need.

SHEEP, GOAT FLOCKS MAY NOT GROW REGARDLESS OF HIGHER PRICES

High prices for lambs, wool, and mohair may not lead to prolonged expansion in the sheep and goat industry in Texas in the foreseeable future. A turnaround in the industry goes beyond prospects that higher prices could more than offset increasing costs of labor, feed, medical supplies, machinery and equipment, and fuel. The major deterrents to raising sheep and goats are scarcity of dependable labor, ineffective control of predators, and high prices for replacement stock. Equal or higher earnings from cattle operations may also slow expansion in sheep and goat numbers.

The number of sheep and goats on Texas farms has been declining steadily for many years. Sheep and lambs numbered 2.5 million at the start of 1977—substantially below the peak of 10.8 million in January 1943. But the decline has slowed in the past two years as prices for lambs and wool have risen somewhat. There were 2.7 million head on farms in January 1975 and 2.6 million a year later. Despite a sharp price increase, producers reduced the number of stock ewes in 1976, which suggests that numbers may not expand in 1977. Moreover, commercial operations involving sheep in Texas fell to 9,000 last year, or 500 less than in 1975.

Goat numbers in Texas have been dropping sharply from the 4.2 million peak in 1966. But in 1976 the downward trend was halted, at least temporarily. Goats on farms at the beginning of 1977 totaled 1.3 million. That was 16 percent more than in January 1976 and 13 percent more than two years earlier.

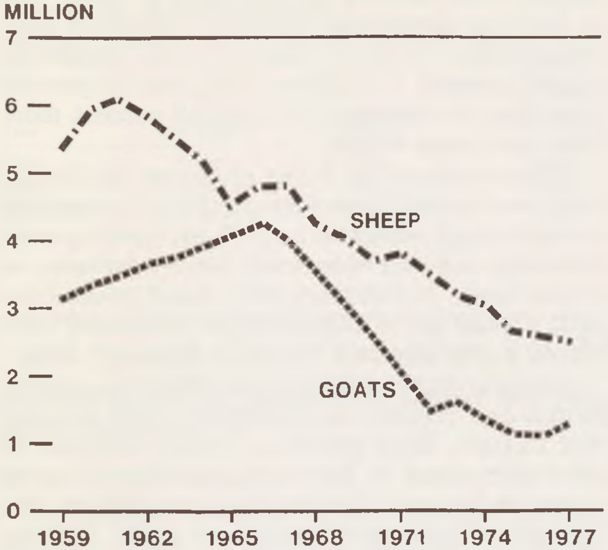
Prices received by Texas producers for lambs, wool, and mohair have risen markedly in response to tight supply-demand conditions. Lamb prices, reflecting reduced slaughter, have advanced to record levels. In February 1977, lamb prices averaged \$52.20 per hundredweight, compared with \$46.40 a year ago and \$34.60 in February 1975.

A strong demand for natural fibers for apparel fabrics and carpets has bolstered prices for wool and mohair. Wool prices in Texas averaged 93 cents per pound in February, up from 75 cents a year earlier and 50 cents two years earlier. Mohair prices have also shown large gains. Producers received \$3.40 per pound for mohair in February, 50 cents more than in February 1976 and 2½ times more than in the same month in 1975.

Despite the sharp rise in prices, expansion in the sheep and goat industry will be tempered by problems concerning labor, predators, and replacement stock. Sheep and goat production is basically a labor-intensive operation, requiring many man-hours for handling, tending, and shearing or clipping animals. Producers have had difficulty in maintaining work forces, as nonfarm manual jobs usually pay herdsmen higher wages and compete directly for farm labor. Lack of sufficient and reliable labor has caused many producers to restrict the size of herds and, thus, limits potential growth in production.

The labor situation has had an impact on the predator problem as well. Coyotes have long been a nemesis of the sheep and goat industry in Texas since producers generally conduct their operations on rangeland, not in confinement-type systems. Because of the tight labor supply, many producers have had to operate and manage their enterprises less intensively, making it easier for coyotes to gain access to sheep and goat herds.

SHEEP AND GOATS IN TEXAS, JANUARY 1



SOURCE: U.S. Department of Agriculture.

Controlling the predator population has always been a major task because coyotes are prolific. While the use of some toxicants is regulated, sheep and goat producers have relied on a variety of other methods—M-44 guns, trapping, and hunting—to control the predator population. Interest in independent trapping has been renewed recently by higher prices for coyote pelts.

Another deterrent to rebuilding sheep and goat flocks is the shortage of replacement females. With slaughter prices increasing, large numbers of ewe lambs have been marketed recently, reducing the supply available for stock replacement. Subsequently, the cost of replacement ewes has increased sharply. The number of ewe lambs on January 1 was down 5 percent from a year earlier and 11 percent from two years earlier.

Implementation of additional livestock husbandry practices—for example, shed lambing and confined feeding and grazing operations—would help to minimize losses to predators and increase production. In areas with tight labor supplies, such intensively controlled operations would be handicapped. But expansion of sheep and goat numbers might be accomplished under semiconfinement circumstances in some crop-producing areas. Flocks would be grazed part-time on wheat pasture, crop stubble, or other forage. These joint enterprises, however, would have to yield returns competitive with crop and cattle alternatives.

Prices for lambs, wool, and mohair will likely rise further in1977, pressured by reduced domestic supplies in the United States and resurgent demand for wool. But increased competition from imports and man-made fibers will limit gains in wool and mohair prices. Lamb prices may edge higher because slaughter rates are expected to decline somewhat from last year. Nevertheless, under the present open-range system of production in many areas of Texas, sustained expansion in sheep and goat numbers probably will not develop.

Alan M. Young