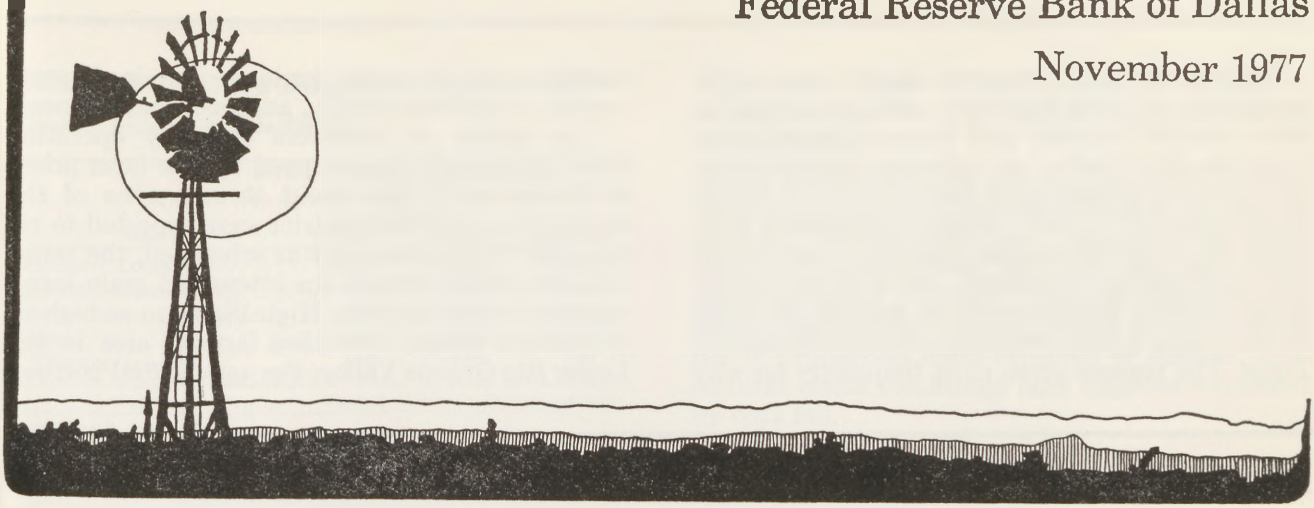
FARM and RANCH BULLETIN

Federal Reserve Bank of Dallas

November 1977



AGRICULTURAL CREDIT CONDITIONS ERODED BY FARM INCOME REDUCTION

Agricultural credit conditions across the Eleventh District have deteriorated since last fall as farmers and ranchers have been beset with cash flow and income problems. According to approximately 180 agribankers surveyed by the Federal Reserve Bank of Dallas in early October, repayment of loans has slowed substantially in the past year and many loans have been extended for another year. Furthermore, more borrowers than usual are meeting current debt obligations by refinancing long-term debt. As a result, agribankers are closely scrutinizing the repayment ability of their borrowers, and they indicated that customers lacking sufficient income potential and/or equity to reasonably support debt obligations were being referred to Government lending agencies.

Farmers and ranchers are encountering cash flow and income difficulties because of unfavorable cost-price developments. Production expenses have risen, but grain prices are currently near or below break-even costs and cotton and soybean prices have fallen dramatically since planting time last spring. Cash receipts from wheat, for example, were not large enough for many farmers to pay back both the principal and the interest on operating loans. And although cattle prices have strengthened in recent months, giving producers a basis for cautious optimism that a more profitable year is ahead, cattlemen continue to be plagued by low net returns.

As a consequence, total deposit growth at rural banks has not kept pace with the strong loan demand. Data from a selected group of Texas banks heavily engaged in agricultural lending indicate loans in September were up 19 percent over a year earlier while deposits rose 12 percent. Across the District, the ratio of loans to deposits for the survey banks averaged 63 percent, up 3 percentage points from a year before.

The reduction in the ability of farmers and ranchers to repay debts and the outstripping of deposit growth by the rise in loans have caused the availability of loanable funds to decrease at most rural banks. In the latest survey, 18 percent of the bankers indicated greater availability of funds than usual while 19 percent indicated less. A year earlier, 24 percent reported greater than usual funds and 14 percent reported fewer funds. Loanable funds were most limited in the Texas High Plains and northern Louisiana.

Agribankers are reviewing closely the creditworthiness of their borrowers and are requiring more detailed records and financial statements. They are also firming up collateral requirements, as well as increasing participations with nonbank credit agencies. In fact, District agribankers indicated they will discontinue financing 6 percent of their agricultural borrowers. The number of borrowers refused financing will be greatest at banks in the large grain-producing area of Northwest Texas. The reasons given most frequently for why borrowers fail to qualify for loans were inadequate income, insufficient equity, and poor management.

The ability of borrowers to repay operating loans is seriously handicapped by low farm prices and incomes. Where about three-fourths of the borrowers across the District were expected to repay their short-term debt as scheduled, the range was from 50 percent in the intensified grain-farming area in the northern High Plains to as high as 89 percent in the diversified farming area in the Lower Rio Grande Valley. For agricultural borrow-

AGRICULTURAL CREDIT CONDITIONS AT SURVEY BANKS

Eleventh Federal Reserve District

Item	Compared with usual	Percent of respondents 1976 Oct. 1	1977 Jan. 1	1977 April 1	1977 July 1	1977 Oct. 1
Demand for loans	Greater	47	35	40	52	55
	Less	7	14	7	5	3
Availability of funds	Greater	24	34	34	22	18
	Less	14	15	12	15	19
Renewals or extensions	Greater	27	33	35	31	44
	Less	5	8	5	4	4
Amount of collateral required	Greater	33	25	30	38	32
	Less	0	1	0	1	1
Number of referrals to:						
Correspondent banks	Greater	18	14	10	17	20
	Less	19	16	18	17	12
Nonbank credit agencies	Greater	10	15	22	21	29
	Less	17	12	13	14	7
Loan-deposit ratio						
40% or less		5	9	9	5	5
41% through 50%		16	20	18	12	14
51% through 60%		29	27	25	28	26
61% through 70%		28	32	38	30	24
71% or more		22	12	10	26	30

	Average reported rates (Percent) 1976 Oct. 1	1977 Jan. 1	1977 April 1	1977 July 1	1977 Oct. 1
Interest rates					
Feeder cattle loans	9.33	9.27	9.30	9.28	9.30
Other farm operating loans	9.31	9.28	9.25	9.24	9.26
Intermediate-term farm loans	9.41	9.37	9.37	9.40	9.43
Farm real estate loans	9.35	9.31	9.32	9.33	9.39

RURAL REAL ESTATE VALUES, OCTOBER 1, 1977

Eleventh Federal Reserve District

	Average per-acre values reported by survey respondents		
	Cropland		
Area	Dryland	Irrigated	Ranchland
Northern Louisiana	$732	$845	$532
Southern New Mexico	133	800	61
Southeastern Oklahoma	325	490	320
Texas	406	688	302
District average	415	700	295
Period	Percent change in District average		
October 1, 1977, from:			
July 1, 1977	0.2	–3.0	–2.6
October 1, 1976	7.2	4.5	3.9

ers that cannot repay operating loans as scheduled, it was indicated there is no possibility of any repayment by 15 percent; another 17 percent will have to resort to refinancing long-term debt to meet current obligations.

Rural banks have increased their reliance on outside sources of funds and help to service the growing loan demand. Referrals to correspondent banks and, in particular, participations in the guaranteed loan programs of the Farmers Home Administration and the Small Business Administration have picked up. This was especially true for the High Plains, Rolling Plains, northern Blacklands of Texas, northern Louisiana, and southern New Mexico.

The downturn in farm income has also been reflected in land values in the Southwest. As of October 1, survey bankers reported that values of dryland cropland, irrigated cropland, and ranchland had increased 7.2 percent, 4.5 percent, and 3.9 percent, respectively, over a year earlier. However, the trend in land values is apparently changing. Since midyear, for example, irrigated cropland and ranchland values reported by the agribankers have declined about 3 percent while dryland cropland values have risen only 0.2 percent. And with crop prices at low levels this fall, 13 percent of the respondents expected land values to decline in coming months while 71 percent expected them to remain stable.

The outlook for the coming year already suggests that prices for the major crops in the Southwest will likely remain near the loan rates established in the new farm program. But the higher target prices in 1978 will probably keep farm incomes from slipping lower. Hence, with the rapid rise in production costs expected to slacken, agricultural credit conditions may improve somewhat by next fall.

RECORD 1977 CROP DROPS SOYBEAN PRICES

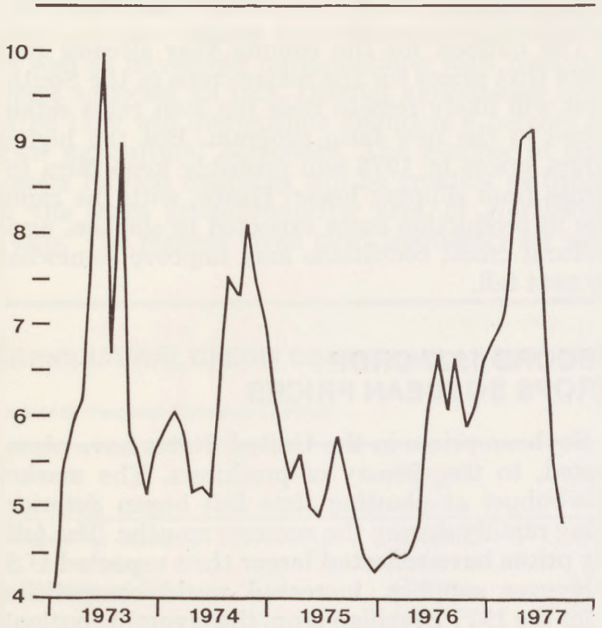
Soybean prices in the United States have plummeted, to the dismay of producers. The market was robust at planting time but began deteriorating rapidly during the summer months. The falling prices have reflected larger than expected U.S. carryover supplies, increased world competition from the 1977 Brazilian crop, the favorable outlook for 1977-crop U.S. soybeans, and declining wheat and feed grain prices. However, prudent managers who forward-priced at least a portion of their crop at a profitable price early in the year have avoided the full impact of the sharp drop in market prices.

The farm price of U.S. soybeans, pressured by tightening supplies and strong demand, was rising steadily last spring. In fact, average prices climbed sharply from about $5.90 per bushel in October 1976 to $9.21 in May this year. The May price was the highest level since the record average price of $10 per bushel in June 1973. Responding to the upswing in prices, farmers increased plantings this year by 17 percent to a total of 59 million acres. The highly favorable soybean prices encouraged some acreage shifts from lower-priced grains.

Along with the increased acreage, favorable growing conditions are expected to boost yields well above a year before. As a result, a crop of around 1.64 billion bushels is expected in 1977, up 30 percent over a year before. Supplies available for domestic use and exports in the 1977-78 season

SOYBEAN PRICES RECEIVED BY U.S. FARMERS

DOLLARS PER BUSHEL



SOURCE: U.S. Department of Agriculture.

may total about 1.75 billion bushels. A record disappearance is projected for the upcoming season.

Demand for soybean meal for feeding livestock is expected to rise, and lower prices and strong demand for protein worldwide will likely boost exports. But despite the rise in total use, production is likely to outpace consumption somewhat, and ending U.S. stocks on August 31, 1978, may total 215 million bushels—more than twice the level a year earlier.

Besides the larger size of the 1977 crop, the bullish market for U.S. soybeans earlier this year was tempered by other factors. Supplies carried over into the 1977-78 season totaled 103 million bushels, up substantially from the 65 million projected early last season. Also, lower wheat and feed grain prices and higher protein prices caused livestock feeders to increase the percentage of concentrates in rations, leading to decreased soybean meal usage in 1976-77. The record 1977 crop in Brazil is expected to increase that country's exports, which compete directly with U.S. exports in foreign markets. Moreover, U.S. farmers have increased plantings of cotton, flaxseed, and sunflowers; and the larger supplies of cottonseed, cottonseed meal, flaxseed, and sunflower seed will compete with soybeans in both domestic and foreign markets.

Prices for soybeans fell almost 50 percent from May to September. That represented the sharpest decline on record. The average price for U.S. soybeans in September was $4.81 per bushel, the lowest level since April 1976.

The marked price decline will have a substantial impact on incomes of farmers who were long in the market. However, foresighted managers who forward-priced their crop at the high prices last spring—either by cash contracting or by hedging—and locked in a price will likely reap large profits. For example, November soybeans could have been hedged (excluding basis and other deductions) for about $7.25 per bushel in April this year. The November soybean futures contract will probably close around $5.25—giving an added return of approximately $2.00 per bushel from hedging (less brokerage fees).

While the impact of the sharp downturn in soybean prices on next year's supply and demand is uncertain, the impending large 1977 crop is expected to rebuild supplies somewhat. Prices during 1977-78 are projected to average around $5 per bushel, compared with slightly more than $7 last season. Plantings in 1978, however, will be determined largely by the profitability of soybeans relative to grains and other crops.

Alan M. Young