

FEDERAL RESERVE BANK OF RICHMOND

MONTHLY REVIEW

Forecasts 1970
Construction Costs
*Farm Financial and Credit
Conditions*



FEBRUARY 1970

FORECASTS 1970

A Cooling Economy?

Forecasting what lies ahead for the economy is a complex and often frustrating task, but once again economic seers have examined the business indicators and have come up with their preview of 1970. As usual, each forecaster was careful to point to the several uncertainties which clouded his glimpse into the future. The most common assumption was that the income tax surcharge would be allowed to expire in June, after having dropped to a 5% rate throughout the first half of 1970. Since many of the forecasts were made before the final tax bill was passed, very few of the forecasters could examine the impact that the tax reform legislation will have on the economy. Most assume that the reform provisions will have a relatively small impact on the economy during calendar 1970. They seem to be in agreement that defense spending will fall from its 1969 level, but uncertainty about the Vietnam war continues to obscure the future in that area.

The 1970 forecasts summarized in this article represent the best efforts of business and academic economists during the autumn and winter of 1969 to predict the performance of the U. S. economy in 1970. This brief article attempts to convey the general tone and pattern of some 30 forecasts reviewed by the Research Department of this Bank. Not all of them are comprehensive forecasts, and some incorporate estimates of the future behavior of only a few key economic indicators. Several represent group rather than individual efforts.

The views and opinions set forth here are those of the various forecasters. No agreement or endorsement by this Bank is implied. A compilation of forecasts in booklet form, with names and details of estimates, may be obtained from the Federal Reserve Bank of Richmond.

The consensus of the forecasts examined in this article calls for a 1970 GNP in the range of \$985 to \$988 billion. Based upon current Department of Commerce estimates for 1969 GNP, this figure, if

accurate, would represent a gain of around 6%. A 6% increase would mean that the rate of expansion of the economy in the new year would be less than the 7.7% rate in 1969 and the 9.0% increase in 1968.

This year several economists are predicting a recession, although one of short duration and small in magnitude. They are careful to define a recession as does the National Bureau of Economic Research—two or more successive quarters of contraction in GNP measured in constant dollars. Those who anticipate a recession think that we will emerge from it during the second half of 1970. Nearly all of the forecasts are for saucer-like quarter-by-quarter growth rates. The “saucer-shaped forecast” is a term coined in recent years to mean slowing in the rate of expansion in the first half of the year and some acceleration of the rate of expansion in the second. Also, it may be worth mentioning that most of the pundits predict that GNP measured at an annual rate will exceed \$1 trillion in the fourth quarter of 1970.

None of the forecasters expect an end to inflation in 1970, but many of them think that the rate of inflation will slow during the latter part of the year. The consensus is that prices will account for around 4% to 4.5% of the 6% predicted rise in current dollar GNP. These price predictions mean that real GNP is expected to increase by 1.8% to 2.0%, and slower real growth is expected in the first half of the year than in the second.

1969 Forecasts in Perspective A year ago most projections of GNP for 1969 fell between \$912 to \$915 billion in current dollars, an increase of 6% over 1968. The 52 forecasts ranged from a low of \$900 billion to a high of \$933 billion. After allowance for expected price increases, the growth of real GNP was predicted to account for about half of the 6% increase. Since latest Department of Commerce estimates now indicate a 1969 GNP total of \$932.3

billion, an increase of nearly 8.0% over 1968, it is clear that the \$915 billion figure severely underestimated actual 1969 GNP. As was stated in the University of Michigan's economic outlook publication, "Now it can be told, 1969 was not a vintage year for forecasts."

In defense of the predictors, however, only part of their error was due to mistaken judgments about 1969. In the first place, the Department of Commerce published a revision of the GNP accounts in July. This revision pushed the 1968 and subsequent 1969 quarterly figures upward by about \$5 billion. Clearly, if the forecasters had known of the pending revision, they would have made correspondingly higher estimates of 1969 GNP. Also, most of the 1969 forecasts were made before the fourth quarter (and some before the third quarter) GNP estimates for 1968 were announced, and the performance of the economy during these quarters surprised nearly everyone. Due to the income tax surcharge, forecasters had been expecting some significant amount of cooling in the economy during the third quarter, or if not then, at least in the fourth quarter. Since this did not happen, almost all of the forecasters underestimated 1968 GNP.

In any event, the 52 forecasts for 1969 GNP probably would have ranged between \$905 and \$938 billion after allowance for the GNP accounts revision. Even so, only three of the 52 would have predicted a 1969 GNP total of over \$930 billion. The estimates would have fared better had the consensus been drawn in percentage terms since percentage changes would not be affected by either the July revision or the mistaken estimates for the last half of 1968.

The most frequent percentage increase projected for 1969 GNP measured in current dollars would have been 6.5%, and the guesses ranged from 5.3% to 9.1%. Using revised figures, a 6.5% increase would place 1969 GNP at approximately \$922 billion, and the percentage figures would put the range of 1969 forecasts from \$911.6 to \$944.5 billion. Also, most forecasters predicted that around 3.5% of the increase would be due to price increases and that the remaining 3% would be the "real" growth in GNP. Actually, prices increased by 4.7% for the year. GNP measured in constant dollars did increase by approximately 3%, so the error in the 1969 forecasts is mostly attributable to an underestimation of the rate of inflation during the year.

The forecasters who predicted the quarter-by-

quarter expansion of the 1969 economy generally thought that GNP would increase at an annual rate of \$11 to \$11.5 billion in the first and second quarters and at an annual rate of \$14 to \$16 billion in each of the last two. The actual quarterly rate of expansion, however, was \$16.2 billion in the first quarter, \$16.1 billion in the second, and \$18.0 billion in the third.

Estimates of the various components of GNP, as well as other important economic indicators which were projected for 1969, generally showed the same tendency on the part of observers to overestimate the slowing of the economy from its 1968 pace. The rate of unemployment, predicted to average 4.3% to 4.5% for the year, was actually only 3.6%. This was about the same as the 1968 average, the lowest yearly figures since 1953. Gross private domestic investment was expected to increase by 5% to about \$132 to \$136 billion; it actually rose 10.8% to \$140 billion.

On the consumer side, 1969 personal consumption expenditures were expected to be around \$567 or \$568 billion, but indications now are that they totaled \$576 billion. The consumer price index rose almost 6% from a 1968 average of 121.3, twice the average forecast of a 3% rise. Forecasters were high on their estimates of domestic automobile sales. Actual sales were 8.5 million units against a predicted 9 million units.

The forecasters also tended to overestimate the slowing of the business sector of the economy. Corporate profits before taxes amounted to almost \$94 billion, well above the estimated range of \$89 to \$91 billion. The index of industrial production, which was predicted to average between 168 and 169 for the year, averaged 172.2. On the other hand, forecasters underestimated the slowing in residential construction. New construction put in place was very close to its predicted range of \$89 to \$91 billion, but forecasts for 1.65 to 1.70 million housing starts were substantially higher than the 1.5 million units started in 1969. Finally, net exports of goods and services, which were expected to total between \$2 and \$4 billion, actually amounted to \$2.1 billion in 1969.

It should perhaps be noted that many of the forecasters who made quarter-to-quarter estimates periodically raised their estimates as the year progressed. The most common forecast for quarter-to-quarter growth in 1969 called for the rate of expansion of the

economy to slow during the first half of 1969 and to accelerate during the second half. It became apparent early, however, that this saucer-shaped forecast did not accurately depict the performance of the 1969 economy since the economy did not respond to fiscal and monetary restraints as quickly as had been anticipated. As prices continued to rise during 1969, consumers and businessmen apparently responded by increasing purchases of goods as a hedge against further price increases. This pervasive "inflationary psychology" is at least one explanation for the disparity between the forecasts and the results for 1969, particularly in the realm of price level increases.

THE 1970 FORECASTS IN BRIEF

Gross National Product Forecasts for 1970 GNP are concentrated in the area of \$985 to \$988 billion. This estimate represents an approximate 5.8% yearly gain, substantially less than the 7.7% advance registered for 1969. The forecasts range from a low of \$966 billion to a high of \$900 billion. Price rises are expected to account for about two-thirds of the anticipated increase in current dollar GNP. Most of those who made quarterly forecasts expect GNP, measured at annual rates and in current dollars, to increase by \$10 billion during the first quarter, \$10.5 billion in the second, \$14 billion in the third, and \$16 billion in the fourth quarter.

As a rule, personal consumption expenditures are estimated to range between \$613 and \$615 billion. The midpoint of this range represents an increase of 6.7% which is somewhat less than the 7.3% increase registered during 1969. Government purchases of goods and services are expected to total \$226 to \$227 billion. This increase of approximately 5.4% is again projected to be less than the 1969 gain of 7.3%. The forecasters expect some decline in defense spending, but they think that other Federal Government expenditures, as well as state and local government expenditures, will rise enough to more than offset this decline.

Gross private domestic investment is expected to rise by about 4.0%, to \$145 or \$146 billion, substantially less than the 10.8% rise during 1969. The growth rate of plant and equipment spending is projected to slow during the year, and the overwhelming majority of forecasters expect the change in business inventories to be less than in 1969.

Industrial Production Most predictions call for the Federal Reserve index of industrial production

(1957-59=100) to average around 172 or 173 during 1970. This estimate represents almost no increase in the index, as compared to the actual percentage increase of 4% on record for 1969. The forecasters not only expect a decline in automobile production and sales, but they also think that steel production will fall from its 1969 level. They predict a continued slump in private residential housing and almost no increase in the rate of spending for furniture and household equipment. Several of the forecasters, in fact, expect total production of consumer durable goods to remain constant or decline in 1970. However, a large majority of them predict an increase of around 3% in the production of nondurable goods.

Construction The value of new construction put in place is expected to total \$94 to \$94.5 billion in 1970, an increase of around 2.3% over 1969. Residential outlays are expected to show a smaller percentage gain than nonresidential construction, but nevertheless, an increase. These anticipated advances in construction outlays, however, are predicted to be less than the rate of increase in building costs during the year so that "real" outlays will not rise. Private housing starts are commonly expected to fall slightly in 1970. A prediction of more Federal aid to housing provides the basis for expecting housing starts to drop only slightly.

New Plant and Equipment Most of the forecasts indicate that firms will spend \$73.5 to \$74.5 billion for plant and equipment during 1970. The midpoint of this range would indicate an increase of nearly 4%, which is a substantially smaller growth rate than the 11.2% recorded during 1969. The 4% estimate seems to underscore the general bearish feelings of the forecasters, since usually reliable surveys based upon businessmen's intentions in the fall of 1969 showed that they then planned to increase their plant and equipment spending by about 10% in 1970.

Corporate Profits Forecasters are far from unanimous about the future for corporate profits, and the predictions for before-tax profit range from constancy at the 1969 level to an estimated 15% decline. The predictors seem to fall into two groups as far as profit estimates are concerned. More of them think that profits will be \$90 to \$91 billion for 1970, but almost as many think that corporate profits before taxes will fall by around 10%, which would place their 1970 consensus at about \$84 billion. Profits after taxes are expected to be \$47.5 to \$48 billion, which is almost a 6% decline from the 1969

RESULTS FOR 1969 AND TYPICAL FORECAST FOR 1970

	Unit or Base	1969*	1970**	
Gross national product	\$ billions	932.3	985	to 988
Personal consumption expenditures	\$ billions	576.0	613	to 615
Government purchases of goods and services	\$ billions	214.7	226	to 227
Gross private domestic investment	\$ billions	139.9	145	to 146
Net exports of goods and services	\$ billions	2.1	1.0	to 3.9
New plant and equipment expenditures	\$ billions	71.3	73.5	to 74.5
Change in business inventories	\$ billions	+7.8	+6.0	to +7.0
Corporate profits before taxes	\$ billions	93.7	90	to 91
New construction put in place	\$ billions	91.9	94.0	to 94.5
Private housing starts	millions	1.49	1.45	to 1.46
Domestic automobile sales	millions	8.5	7.9	to 8.0
Rate of unemployment	per cent	3.6	4.3	to 4.5
Index of industrial production	1957-1959	172.2	172	to 173
Wholesale price index	1957-1959	112.8	116.0	to 117.0
Consumer price index	1957-1959	127.4	133.0	to 134.0
Implicit price deflator	1958	128.1	133.2	to 133.8

*Preliminary or estimated figures.

**Figures are rough approximations of the typical forecast for 1970.

figure. Since most forecasters estimate either before-tax profits or after-tax profits, the two profit consensuses imply nothing whatsoever about the corporate tax liability in 1970.

Unemployment The unemployment rate is projected to average 4.3% to 4.5% by most of the observers of the 1970 scene. The forecasts range between 3.7% and 5.0% with all of them showing a higher unemployment rate for 1970 than the average in either 1968 or 1969.

Prices This year more persons estimated the rate of increase in the implicit deflator for GNP than for any of the other price indexes, and the consensus is for an increase of from 4 to 4.5%. Compared to the 4.7% increase registered in 1969, the 1970 price predictions show only a moderate slowing in the rate of inflation. The "standard" forecast for quarterly price behavior during 1970 calls for little if any progress on the inflation front until the second half of the year. The most common estimate for consumer prices indicates an increase of about 5%. The wholesale price index is expected to increase by approximately 3%.

Summary The economy advanced considerably faster than anticipated during 1969. The 1969 GNP had been expected to be 6.5% higher than 1968, with prices rising by about 3.5% during the year. Actually, prices rose by 4.7% for the year, although GNP measured in constant dollars did increase at the 3% rate which had been expected. The quarter-by-quarter growth in 1969 was expected to be saucer-like, with slowing in the rate of growth in the first half and expansion in the second.

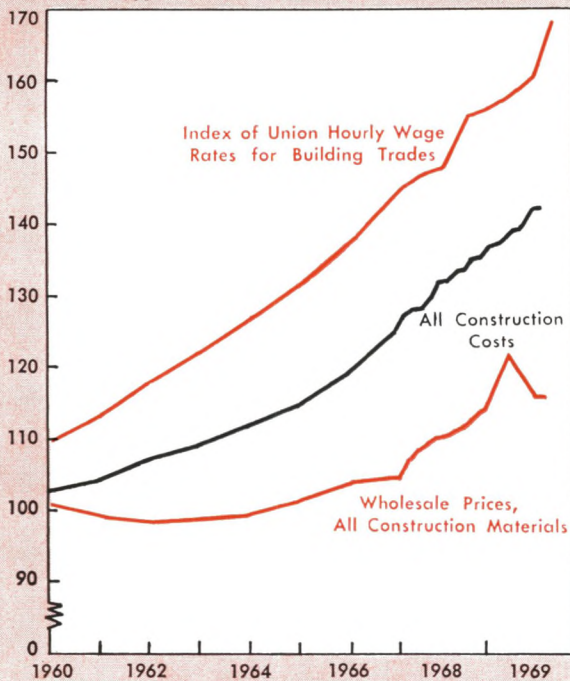
The 1970 quarter-by-quarter consensus is also for a saucer-like expansion path for GNP, and again the seers are calling for a slower rate of expansion of GNP for the year. In fact, some economists expect a recession (strictly defined) to come and go during 1970. The general feeling is that the second half of 1970 will see a slowing in the rate of price advances and an increase in the growth of real GNP.

In summary, most of the experts are looking for a year of less real growth in the economy, less inflation, and more unemployment. They seem to be in virtual agreement that the tightened monetary and fiscal policies of 1969 will have some results in 1970.

William E. Cullison

INDEXES OF CONSTRUCTION COSTS

1957-1959 = 100

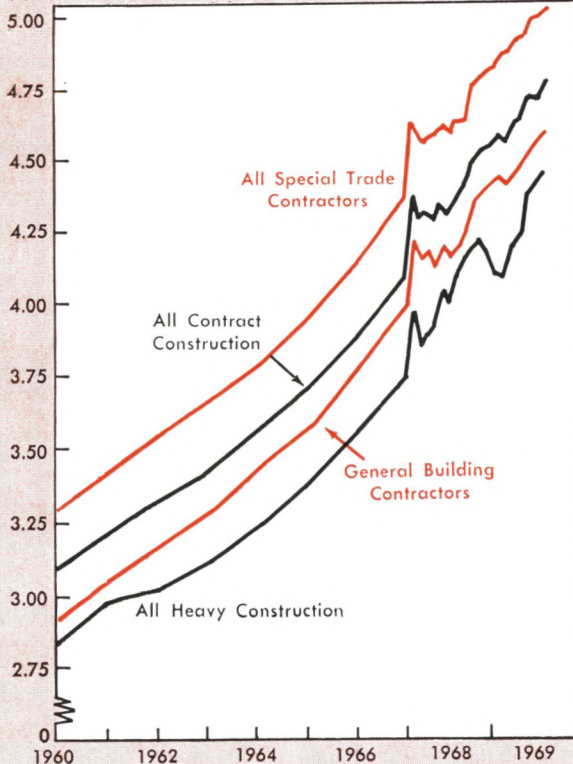


While inflation has reached virtually every sector of the economy, perhaps the most dramatic price increases have occurred in the construction industry. Between 1965 and August 1969, construction costs as measured by the Department of Commerce composite index rose 24% to 143% of the 1957-59 average. In comparison, the consumer price index during the same time span climbed 17% to 128.7% of the 1957-59 level, and the wholesale price index advanced about 11% to 113.4%.

Construction materials, which constitute about one-third of the construction dollar, generally have trended upward in price although some highly publicized lumber price increases of 1968 and early 1969 have been modified or eliminated. For example, the recent meteoric rise in softwood plywood prices, which reflected in part heavy demand by the Defense Department and accelerated exports to Japan, was totally reversed by the fall of 1969.

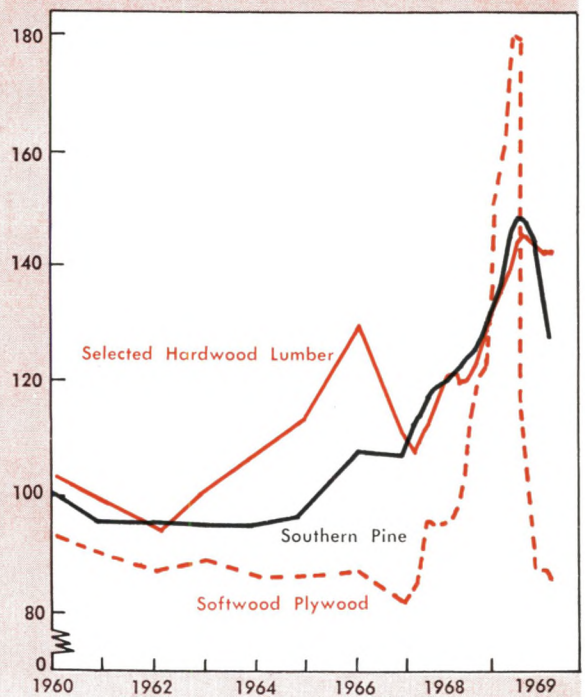
AVERAGE GROSS HOURLY EARNINGS OF CONSTRUCTION WORKERS

Dollars



INDEX OF WHOLESALE PRICES OF SELECTED CONSTRUCTION MATERIALS

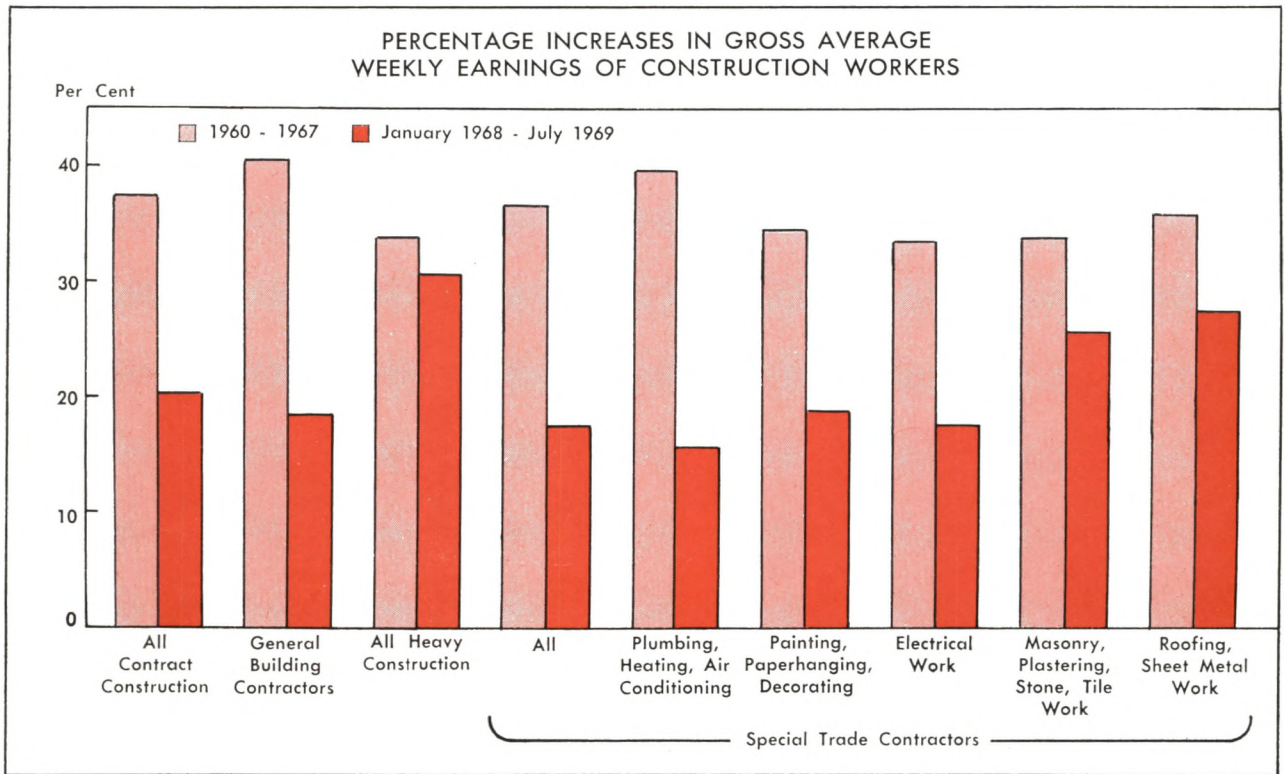
1957-1959 = 100



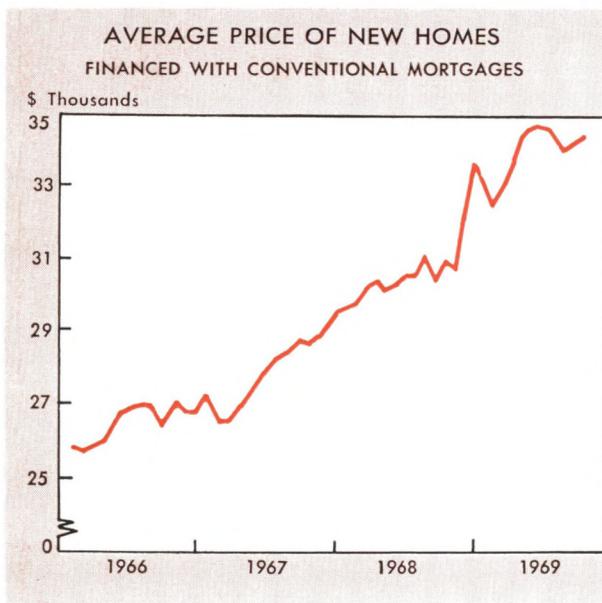
Recently, steep increases in wage rates have contributed to the upward pressures on construction costs.

Note: Data in Charts 1 through 3 are yearly through 1967 and monthly thereafter with the exception of the Index of Union Hourly Wage Rates which is quarterly from 1968.

ION COSTS



During the 18-month period ending July 1969, the increases in the average weekly earnings of workers in most types of construction were at least half as large as during the preceding seven years. Among the factors tending to cause an acceleration in earnings are mounting demand for construction from both the public and private sectors of the economy, and the slow growth in the number of construction workers relative to demand. These factors, in turn, have led to a sharp increase in overtime earnings.



Soaring construction costs, together with rising land prices and high financing costs, have contributed to the steep rise in the average price of new homes.

Jane F. Nelson

Sources: Charts 1 through 4, U. S. Department of Commerce, *Construction Review*; Chart 5, Federal Home Loan Bank Board.

FARM FINANCIAL AND CREDIT CONDITIONS

This analysis, prepared in December 1969 at the request of USDA's Agricultural Finance Branch, is based on a sample survey of Fifth District bank agricultural specialists and on data from the U. S. Department of Agriculture, the Farm Credit Administration, and the Federal Deposit Insurance Corporation.

Latest information compiled from official sources, coupled with a sample survey of bankers' opinions, combine to tell the story of the financial and credit conditions of Fifth District farmers in 1969. Briefly, it reads like this. Gross farm income recorded a healthy gain over 1968's reduced level. Off-farm income also rose. Farm and family living costs were high and rising. Spending for family living items and farm inputs increased, but purchases of machinery and equipment were generally smaller. Farmland values continued to advance but showed signs of slowing down. Farmers' demand for credit was up, but loan funds were tighter and more costly. Bankers screened farm loan applications more carefully. Generally, their farm loan repayment experience was better.

Farm Income and Costs District farmers' income situation improved materially in 1969. A year earlier, cash receipts from marketings were the smallest since 1965, and realized net farm income was at its lowest level since 1959. Cash receipts from farm marketings in 1969 showed a healthy increase over 1968, probably surpassing the record level attained in 1967. Direct Government payments from the various farm programs may have been up slightly. With these indications, a substantial boost in realized gross farm income seems assured. No doubt there was some gain in realized net farm income, but the sharp rise in farm production expenses limited its advance. Earnings from off-farm employment continued to increase, adding further to farmers' improved income position in 1969.

Bankers' views concerning farm income in 1969 compared with that in 1968 were generally on the plus side. Expectations for an increase in gross income from farming were voiced by 80% of the reporting bankers. One-fourth looked for a considerable increase, while 55% felt the upturn would be slight. Of the remaining 20%, half expected little change and half anticipated a slight decline.

Our opinion is generally in line with the expressed belief of those bankers who felt that gross cash receipts from farming in 1969 advanced substantially. True, 1969 cash income from farming doubtless was

lower than a year ago on some types of farms and in some entire localities. Farmers producing cotton and truck crops and those in Virginia's James River Basin, which suffered the disaster of Hurricane Camille, are cases in point. Gains elsewhere and on other types of farms give every indication of more than offsetting these declines, however.

Livestock production and prices, in the District as in the nation, provided the basis for a high and improved level of income from livestock and livestock products in 1969. Market supplies of cattle and calves, hogs, and milk were roughly the same as in 1968. Supplies of poultry and poultry products were larger, however: eggs, 4%; broilers, 11%; and turkeys, some 14%. Livestock prices were up sharply from year-earlier levels in all District states, with average increases ranging from 7% in Maryland to 12% in North Carolina. Farmers' January-November cash receipts from sales of livestock and livestock products were 11% above those in 1968. Gains were recorded by all states and ranged from 7% in West Virginia to 15% in North Carolina. In view of the indicated increased annual production of poultry and eggs and the continued high prices, and since poultry and poultry products are the District's leading source of livestock income, the improved January-November level of livestock receipts was probably maintained in December.

District crop production and prices, as was the case with livestock, also provided the basis for a high and improved level of farm income in 1969. Gains over 1968 in the output of the major field crops were substantial. Flue-cured tobacco, soybeans, and corn—in order, the first, second, and third principal crop income producers—recorded production increases of 10%, 51%, and 12%, respectively. Other major output gains were: sweet potatoes, 16%; apples, 15%; sorghum grain, 28%; and pecans, 171%. Virginia's fire-cured and sun-cured tobacco crops were also larger, with impressive increases of 8% and 5%, in that order. Peanut production—the fourth major source of crop income—was slightly smaller, but quality was good. Cotton, with 1969 output down 19%, recorded the chief decline. The District's favorable crop production

picture in 1969 relative to that in 1968 was in marked contrast to the national situation where crop output, though a record, was only slightly above that a year earlier.

The District's crop sector, unlike the nation's, was generally a source of price strength in 1969. Average crop prices were up moderately in North Carolina and fairly substantially in Maryland and Virginia. Flue-cured tobacco, peanut, soybean, and corn prices received during the fall harvesting season were all above their respective support levels. Flue-cured tobacco prices were at an all-time high, some 9% above 1968's average. Peanut and corn prices were also well above those a year earlier.

District farmers' cash receipts from crop marketings for the first eleven months of 1969, as reported by USDA's Economic Research Service, were 9% larger than a year ago. Yet, value of the District's total crop output in 1969, reported by USDA's Statistical Reporting Service, was roughly 13% above that in 1968. In view of the generally favorable crop production and price situations which prevailed in the District during the fall marketing season and the value of production data, it would seem that the gain in the District's crop receipts for the year as a whole was even larger than the 9% reported for the January-November period.

Taking all cost factors into consideration, there seems little doubt that farm production expenses continued their record-setting pace in 1969. Average prices paid by farmers, including interest, taxes, and farm wage rates, rose sharply—advancing more than 5% during the year. Costs for many farmers were further increased by the need to purchase more inputs. Half the reporting bankers, in fact, were of the opinion that the volume of purchased inputs had risen. (Two-fifths said the increase had been slight but one-tenth felt it had been considerable.) Only 15% believed that the volume of purchased inputs had been reduced—and only slightly so, at that.

Earnings from nonfarm employment—a growing source of buying power for farm families—continued to advance. This opinion, voiced by half the replying bankers, applied equally to both farm operators and other members of farm families. Much of the reported increase resulted from more jobs in industrial plants which have located in, or on the fringe of, rural communities. Some resulted from higher wages in well-established nonfarm jobs.

Farmers' Savings and Spending Financial savings and reserves of Fifth District farmers at year's end appeared, on balance, to be roughly the same as, or slightly larger than, a year earlier. This situation

probably resulted from a combination of two factors: (1) an improved level of income, and (2) reduced expenditures for machinery and equipment, facilities, and other capital goods.

Farmers' spending for family living items, like that of other consumers, continued to advance. This resulted not only from the general increase in the cost of living but also from the fact that farmers' spending patterns generally continue, each year, to become more and more like those of their urban counterparts. Actually, only 15% of the bankers surveyed felt that farmers had exhibited consumer resistance to 1969's higher price tags for family living items.

Farmers' expenditures for farm machinery and equipment, facilities, and other capital goods were in strong contrast to their spending for family living purposes. On balance, their purchases of capital items were below those in 1968—more so for machinery and equipment than for facilities and other capital goods. The high cost of capital items, especially machinery and equipment, appeared to be a major determining factor in farmers' attempts to reduce expenses. There were cases, too, where farmers had purchased new equipment quite recently, and hence did not need replacements. There were, however, exceptions to the generally reduced level of expenditures for capital items in 1969. In instances where replacements were badly needed, especially in states (the Carolinas) where increases in "usury" limits were under serious consideration in their legislative bodies, farmers upped their spending for machinery and automated equipment over that in 1968. With an eye toward beating the expected higher cost of borrowed funds for use in making these purchases, farmers reportedly obtained financing and did their buying early in 1969. Growing labor shortages and higher farm wage rates were also among the deciding factors in cases where purchases of capital items were larger.

Farmland values, in the District as in the nation, continued to rise but showed indications of slowing down. The advance in the District was somewhat smaller than that in the nation as a whole. Respondents' replies to the question "How did prices of farmland in calendar year 1969 compare with those in calendar 1968?" were in general agreement with the situation revealed by data from the Department of Agriculture. North Carolina bankers reported that prices of flue-cured tobacco land had not only leveled off in recent years but had actually declined. Where five years ago flue-cured tobacco allotments sold for \$5,000 to \$7,000 per acre, they were selling for \$3,000 to \$4,000 in 1969. Much of this price

decline was attributed to the labor situation in the flue-cured areas.

The slowdown in the purchase of farmland for farm enlargement, evidenced to a slight degree in 1968, continued to an even greater extent in 1969. Tight money and expensive credit appeared to be the chief reasons for this slowdown. Because of this situation, sellers were reported to be providing increasing amounts of farm real estate financing in some areas. And bankers said they were referring more and more farmers to the Federal land banks for this type of financing. Some slight increase in buying land for farm enlargement was noted by 20% of the survey respondents, and 45% believed there had been little change in this type of market activity. In areas where enlargement purchases had declined, farm rental or leasing arrangements had increased. By enlarging their farming operations in this manner, farmers can, of course, still make more efficient use of available capital and labor and yet reduce their debt load at the same time.

Buying farmland for nonfarm purposes appears to have generated a great deal of market activity during 1969. Fifty-five per cent of the bankers surveyed reported increased purchases of this type, with 30% indicating that the increase had been considerable. Only 10% felt that a slight decline from a year earlier had occurred. Among the reasons given for increased purchases of farmland by nonfarm buyers were: development of recreational sites, subdivisions, and industrial parks; construction of motels, restaurants, service stations, and truck stops along interstate highways; buying lots for vacation cabins and retirement homes; for speculative purposes, tax shelters, and as a hedge against inflation. Generally, where purchases of farmland by nonfarm buyers had risen, the rise in the price of farmland had been significant.

Farm Credit Situation Farmers' demand for credit continued upward in 1969. The number of farmers borrowing from banks dropped slightly, but the average size farm loan increased. Farm loan repayments at banks were generally better than in 1968, and the number of delinquencies was lower. Farm loan renewals in general were down.

Bankers' loan policies were, for the most part, tighter. This credit tightening was evidenced in a number of ways: requiring shorter terms, being more selective, making loans to regular customers only, and charging higher rates of interest. And some bankers were no longer making farm-mortgage loans because of the shortage of long-term money.

Without exception, all bankers reported that in-

terest rates charged farmers in 1969 were higher than those in 1968. The most prevalent rate in 1969, by far, was 8%. But interest charges ranged from 7% to 8% for farm-mortgage loans, from 7% to 9% for short-term loans, and from 7% to 12% for intermediate-term loans. Legislation raising "usury" limits was passed in both North and South Carolina during 1969. The new legal limits in South Carolina became effective on May 21, raising the ceiling on the contract rate of interest from 7% to 8% on loans up to \$50,000, to 10% on loans ranging from \$50,000 to \$100,000, and to 12% on loans in the \$100,000 to \$500,000 range. There is no limit on loans in excess of \$500,000, or on loans to corporations. North Carolina's new legal limits went into effect on July 2. Prior to this date, North Carolina bankers had been subject to a 6% legal limit on farm-mortgage loans and to 6% plus the addition of permissible fees on non-real-estate loans. North Carolina's new contract interest rates applicable to farm loans are: 8% on loans of \$50,000 or less secured by a first mortgage or deed of trust on real property, 9% on farm-mortgage loans in excess of \$50,000 up to \$100,000 and on short-term loans of \$100,000 or less, and 12% on loans ranging from more than \$100,000 to \$300,000. There is no limit on loans in excess of \$300,000. On instalment loans, the ceilings are 15% for those of \$5,000 or less, 12% for those not exceeding \$300,000. Similar legislation increasing contract interest rate ceilings from 6% to 8% was enacted in Virginia, Maryland, and West Virginia in 1968. An interesting observation: Most bankers were of the opinion that "truth in lending" had had no deterring effect on farmers' borrowings at all. If farmers needed and could get loan funds, bankers said they considered the interest charge to be just another input cost.

Bank funds available for lending to farmers in 1969 were reported to be smaller than in 1968 by one-fourth of the bankers surveyed. Some bankers noted that they had been losing deposits as the result of disintermediation. Sixty-five per cent indicated that their available funds had been about the same as a year earlier. Where this was the case, however, these bankers frequently pointed out that they were making only short-term or intermediate-term loans. Too, they said they were generally lending only to regular customers whom they considered to be good managers and sound credit risks. The remaining 10% of the respondents stated that their funds were larger. Included in this group was a Virginia bank which has formed its own farm loan corporation as a subsidiary to provide additional credit for the growing capital needs of worthy farm

customers. This corporation, established in mid-1968, makes seven-year farm loans for such purposes as the purchase of breeding livestock, construction of facilities, and general operating needs. Its funds, obtained from the Federal intermediate credit bank, augment the funds available in the bank for agricultural purposes. The corporation's president reports that as a result of having this additional source of loan funds, farmers are using more consumer credit as well as more production credit.

In response to the question "Have you had to turn down farm loan applications this year because of lack of funds?" 10% of the replying bankers said, "Yes."

Farm debt held by three of the District's major institutional lenders—insured commercial banks, Federal land banks, and production credit associations (PCA's)—continued to increase during the year ended June 30, 1969. Farm real estate loans held by all insured commercial banks in mid-1969 totaled \$292.5 million, 5% above a year earlier. (This increase, both percentagewise and in dollar terms, was less than during the year ended June 30, 1968.) By comparison, outstanding loans held by the Federal land banks amounted to \$430.6 million for a gain of 16% during the same period. Non-real-estate farm debt held by banks at midyear totaled \$326.6 million, up about 4% for the same 12-month period. (The gain was fractionally larger in terms of dollars, but slightly smaller on a percentage basis, than during the preceding 12 months.) The volume of non-real-estate debt held by the PCA's was \$334.2 million, only slightly larger than the amount held by banks but 19% above their volume outstanding in mid-1968. These data, shown in the accompanying table, indicate that during periods of tight money farmers do

have access to other sources of financing when they are unable to obtain loan funds from banks.

Farm Financial and Credit Outlook for 1970
Bankers' views concerning 1970 farm income relative to that in 1969 showed a fair amount of variation, as would normally be expected. On balance, however, some further improvement in farm income is anticipated. When we asked our banker respondents to "gaze into their crystal balls" and give us their thinking on the outlook for farm income in 1970, we prefaced our question with three basic assumptions: (1) weather, average or better; (2) little change in Government farm programs; and (3) continued strong consumer demand. Given these assumptions, 60% estimated that farm income might be up slightly, 35% foresaw little change, and the remainder anticipated a slight decline. Farm costs appear likely to rise further in 1970, according to the expectations of 80% of the survey respondents. The remainder looked for little change. Of those anticipating a continued rise in the prices of farm inputs, all expressed the belief that the advance would be at a slower rate than in 1969.

Farmers in many sections of the District will enter 1970 in a generally more favorable financial position than at the beginning of 1969 because of improvement in their income and equity positions during the year. Unfavorable 1969 returns and somewhat lower equities will reduce the overall financial position of farmers in some localities, however. The major portion of the replying bankers—65%—felt that farmers' general financial situation would show some slight improvement as they entered 1970. One-fifth believed there would be little change, while the remaining 15% indicated a slight decline.

The debt position of a good many farmers appears

FARM DEBT: AMOUNT OUTSTANDING HELD BY SPECIFIED LENDERS, BY TYPE
United States and Fifth District by States, June 30, 1969 compared with June 30, 1968

State or Area	Farm-Mortgage Debt				Non-Real-Estate Farm Debt			
	All Insured Commercial Banks		Federal Land Banks		All Insured Commercial Banks		Production Credit Associations	
	Amount Outstanding	Change from 1968	Amount Outstanding	Change from 1968	Amount Outstanding	Change from 1968	Amount Outstanding	Change from 1968
	\$ Million	Per Cent	\$ Million	Per Cent	\$ Million	Per Cent	\$ Million	Per Cent
Maryland*	70.0	+8.2	54.4	+15.4	35.0	-3.3	35.7	+12.0
Virginia	85.2	+3.7	100.8	+18.4	101.8	+4.3	50.6	+12.3
West Virginia	30.9	+5.8	12.2	+ 4.7	17.1	+2.3	8.2	+12.3
North Carolina	79.3	+3.4	168.1	+13.2	130.0	+4.7	156.8	+18.7
South Carolina	27.1	+6.7	95.1	+22.1	42.7	+5.6	82.9	+26.9
Fifth District	292.5	+5.2	430.6	+16.3	326.6	+3.6	334.2	+18.7
United States**	4,061.5	+8.8	6,555.9	+ 9.8	10,546.1	+5.6	4,569.1	+11.5

to have improved during 1969 because better incomes enabled them to meet their loan obligations on time and, in some instances, to step up their debt repayments. Two-fifths of the bankers surveyed indicated, in fact, that the number of farmers in debt difficulty in 1970 would be somewhat smaller than in 1969, while 5% stated that they had no farmer customers who were in a difficult debt position. Forty-five per cent believed the number would remain about the same, while one-tenth felt a slight increase was likely.

Farmers' demand for credit in 1970 is expected to be roughly the same as, to slightly larger than, in 1969. Half of the participating bankers, in fact, looked for farm loan demand to continue at about the same level as in the current year. The remaining half looked for a slight increase.

There was considerable diversity of opinion expressed concerning the anticipated levels of farmers' spending and investment in 1970. Half the responding bankers were of the opinion that farmers will increase their spending and investment slightly. One-fifth believed that they will continue to spend and invest at about the same level as in 1969, while 30% expected a decline. Most of those anticipating a decrease felt that it would be slight. Bankers generally noted that farmers, like many other people, are becoming more sophisticated in the manner in which they invest their savings.

The supply of bank funds available for loans to farmers in 1970 will vary considerably by type of loan. The continued impact of the tight money situation has resulted in a shortage of funds for long-term farm loans, and bankers expect this shortage to continue in 1970. Three-tenths of the respondents stated, in fact, that they would make no funds available for new mortgage loans to farmers in the year ahead. Thirty-five per cent reported there would be a decrease, with 10% indicating the decline would be considerable. Only 35% felt that funds for farm mortgages would remain about the same as in 1969. Of the seven in this group, one

pointed out that his bank's policy was to make only first-mortgage loans to farmers—and those for only ten years. The outlook for funds for short- and intermediate-term farm loans is more favorable. For short-term loans, 70% felt that available funds would be about the same as those in 1969, 20% expected a moderate increase, while the remaining 10% anticipated a slight decrease. Prospects for intermediate-term loan funds to farmers were somewhat similar, though not quite as good. The availability of loan funds for agriculture will, of course, be strongly influenced by general economic developments, the competitive demand for loan funds, the possibility of further increases in "usury" limits in some states, and the prime rate charged by the large city banks which are being used increasingly by country banks as correspondents for farm loans.

Fifty-five per cent of the respondents indicated that no change in bankers' current policies on farm loans was expected for 1970. Tighter loan policies were planned by 40%, more lenient policies (for regular customers only) by 5%.

Interest rates banks charge on farm loans in 1970 will vary considerably, according to our survey responses. An 8% simple rate of interest, however, was the most prevalent cited by far for all three types of farm loans. Interest rates ranging from 7% to 8% were quoted for long-term loans, from 7% to 9% for short-term loans, and from 7% to 12% for loans in the intermediate-term category. (Many of the latter type are carried as instalment loans, hence the higher rates of interest.) To the question "What trends in interest rates on farm loans do you foresee?" 85% expected little change and the remaining 15% indicated an upward trend. Where an upward trend in interest rates was foreseen, some of these bankers were located in Maryland where a further increase in "usury" limits was reported to be under study. The remainder in this group were those bankers whose interest rates in 1969 were still below the new interest ceilings of 8% established in 1968.

Sada L. Clarke