

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date October 12, 1979

To Federal Reserve and other U.S. Government economists Subject: Clarification of Business Week
From E. Melichar article on farm lending

You may have seen the article, "A rush for loans down on the farm," on pages 140-141 of the October 15 issue of Business Week. If so, you may have been puzzled by lead paragraph's statement that "...farm-related bank lending has soared by nearly 30% since January,..." and by the chart labelled "total non-real estate agricultural loans." The Washington office of Business Week has provided the following clarification of these items: (1) the statement in the text should not have referred to "farm-related bank lending," but rather to "total non-real estate agricultural loans;" (2) the rise of 30% should not have been stated as an actual increase "since January," but rather as a Business Week projection of the total increase for 1979; and (3) the dashed line in the chart was intended to illustrate this projected increase of 30% in the series during 1979.

With this clarification in hand, the following additional comments are relevant:

(1) The series charted is not "total" non-real estate agricultural loans, but rather that owed to reporting lending institutions, thus excluding debt owed to CCC and to "individuals and others" (Balance Sheet, 1979, Table 7, column 5). Data plotted for each year are actually as of January 1; thus the solid line should have continued beyond the value of \$42.7 billion plotted for January 1, 1978 to also show a value of \$49.6 billion as of January 1, 1979. The dashed projection line for 1979 experience should have begun at that point and continued to January 1, 1980.

(2) Rather than rising by 30% during 1979, the increase in this series will be well under 20%, particularly since the rise in loans outstanding at banks (which comprise over one-half of the series total) appears likely to fall in the neighborhood of only 10%. It is inconceivable that anybody or any model would be projecting an increase of 30%.

The above clarifications and comments appear to provide a basis for conjecturing that the errors in the text and the chart may be related in the sense that the January 1, 1979 value of \$49.6 billion may have been overlooked in the text as it was in the chart. Thus if the writer had been provided with an estimate of about \$55.5 billion for January 1, 1980, which he mistakenly took for (and did chart as) "1979," he would have calculated a rise of 30% since "1978" (which, however, was really January 1, 1978). This rise, however, would have actually covered a two-year span encompassing an increase of 16% in 1978 and a projected increase of only 12% for 1979.

The remainder of the article correlates well with Federal Reserve surveys and analyses indicating strong farm loan demand in the face of a tight liquidity position at most rural banks. Mid-year data indicate that the net result of these conflicting forces has been a relatively slow increase in outstanding farm loans in the banking system--which is the exact opposite of the Business Week statement and chart discussed above.