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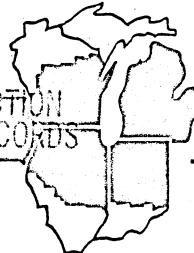
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# Agricultural

JAN 29 '74



# Letter

Federal Reserve Bank of Chicago - -

December 28, 1973

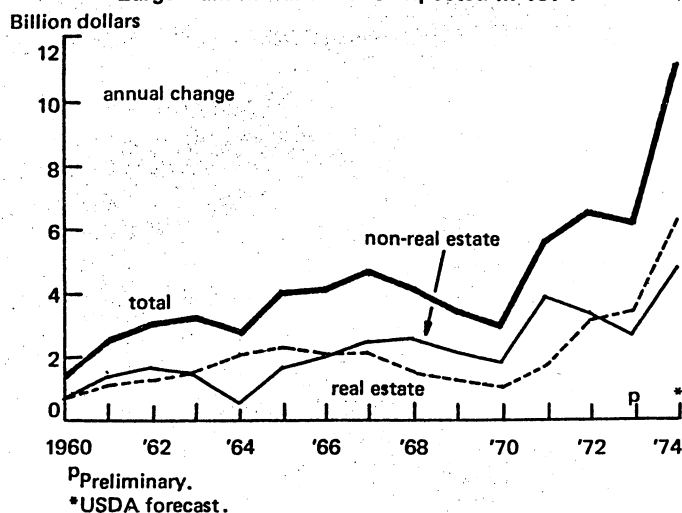
**FARM DEBT** rose sharply this year and another large increase is forecast for the year ahead. Outstanding farm debt at the end of 1973 is expected to total nearly \$80 billion according to a recent estimate by the U. S. Department of Agriculture, up \$6.3 billion from the ending 1972 mark. Moreover, preliminary data from major farm lenders suggest that this total may be revised upward. A year from now, farm debt is projected to range between \$90 and \$92 billion, depending on interest rate levels. The forecast for 1974 portends the largest annual percentage increase in farm debt since 1958.

AGRICULTURE SECTION  
SERIAL RECORDS

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rate loans outstanding at commercial banks were up 15 percent at midyear, while outstandings at major life insurance companies were up 3.5 percent from the year-earlier level in August.

Large Gain in Farm Debt Expected in 1974



The increase in farm debt was rather dramatic in light of the record \$25 billion in net farm income that permitted a large increase in equity financing. However, rising prices and increased purchases boosted expenditures to a record high during 1973. Equity financing is expected to slow in 1974 in line with the projected \$3 to \$5 billion reduction in net farm income.

Farm mortgage debt accounts for a large proportion of the latest estimates of the increases in total farm debt. In 1973, outstanding farm real estate debt is estimated to have risen more than 10 percent to \$38 billion at year end. A year from now, such debt is expected to total around \$44.5 billion, a gain of about 17 percent. Rising land values are a major factor behind the prospective gains in farm mortgage debt. Preliminary estimates by the U. S. Department of Agriculture indicate farmland values rose more than 20 percent overall this year and may rise another 15 percent in the year ahead.

Federal land banks (FLBs) have accounted for a large portion of the recent gains in farm real estate debt and will likely continue to do so in 1974. During the first ten months of this year, new money loaned for agricultural purposes by FLBs averaged 56 percent above year-earlier levels. The increase more than offset a sharp advance in principal repayments and left outstandings at the end of October nearly 21 percent above the year-ago level. In comparison, farm real es-

Non-real estate farm debt rose an estimated 7.2 percent this year and, depending on interest rates, is forecast to advance 10.5 to 12.6 percent in the year ahead. The current estimate for this year's gain appears somewhat low in light of the increases in outstandings at institutional lenders. For example, outstanding loans for agricultural purposes at production credit associations (PCAs) were up nearly 17 percent from the year-earlier mark at the end of October. Similarly, outstandings at commercial banks were 17 percent ahead of a year ago at midyear. Nevertheless, a significant reduction in Commodity Credit Corporation (CCC) loans outstanding is likely to have trimmed the overall expansion. As of the end of this year, CCC loans are expected to be at the lowest level since 1948.

The sharp expansion projected for farm debt in 1974 likely will result in some shifting between lenders. Individuals will likely play a more important role in providing credit for farm real estate transfers, reflecting the lower down payments and lower interest rates typically associated with seller-financing. On the other hand, non-real estate credit typically provided by merchants and dealers is likely to be more difficult to obtain as the practice of "cash on the barrelhead" becomes more common while shortages of a number of major inputs persist. This suggests that institutional lenders may experience a particularly large demand for the short- and intermediate-term credit in the year ahead.

Interest rates on farm loans in the year ahead are expected to average above 1973 levels. Although many observers anticipate some easing in money market rates in 1974, the traditional delays in movements in rates on farm loans coupled with the strong farm loan demand suggest comparable declines on farm loans may not be evident until late in the year. Rates charged by PCAs and FLBs are likely to continue upward in the near future, reflecting the replacement of maturing bonds and debentures with comparatively higher interest bearing issues. Although rural banks have experienced strong deposit inflows this year, the year-to-year gains may ease in the months ahead. Consequently, loan demand will likely hold rates on bank loans to farmers at slightly higher levels in the next few months.

Gary L. Benjamin  
Agricultural Economist

## AGRICULTURAL ECONOMIC DEVELOPMENTS

Subject	Unit	Latest period	Value	Percent change	
				Prior period	Year ago
<b>INDEX OF PRICES</b>					
Received by farmers	1967=100	November	181	- 2	+ 38
Crops	1967=100	November	181	- 1	+ 51
Livestock	1967=100	November	182	- 3	+ 32
Paid by farmers	1967=100	November	151	+ 1	+ 16
Production items	1967=100	November	153	0	+ 21
Family living items	1967=100	November	146	+ 3	+ 15
Ratio of prices received to prices paid	1967=100	November	120	- 2	+ 19
Consumer price index ( <i>all items</i> )	1967=100	October	137	+ 1	+ 8
Food at home	1967=100	October	149	0	+ 21
<b>CASH FARM PRICES (<i>U. S. average</i>)</b>					
Corn	dol. per bu.	November	2.18	0	+ 82
Soybeans	dol. per bu.	November	5.14	- 9	+ 52
Wheat ( <i>all</i> )	dol. per bu.	November	4.20	0	+113
Sorghum grain	dol. per cwt.	November	3.66	0	+ 67
Oats	dol. per bu.	November	1.13	- 1	+ 61
Beef steers and heifers	dol. per cwt.	November	42.10	- 6	+ 19
Hogs	dol. per cwt.	November	40.40	- 1	+ 51
Milk, all sold to plants	dol. per cwt.	November	8.55	+ 3	+ 31
Milk cows	dol. per head	November	533	0	+ 32
Chickens, broilers, live	cents per lb.	November	19.4	-20	+ 40
Eggs	cents per doz.	November	59.3	- 1	+ 60
<b>INCOME (<i>seasonally adjusted annual rate</i>)</b>					
Cash receipts from farm marketings	bil. dol.	3rd Qtr.	84.5	+12	+ 40
Net farm income	bil. dol.	3rd Qtr.	25.5	+ 4	+ 32
Nonagricultural personal income	bil. dol.	October	1,030.8	+ 1	+ 10
<b>FARM FINANCE</b>					
Total deposits at agricultural banks <sup>1</sup>	1967-69=100	November	192	+ 3	+ 19
Time deposits	1967-69=100	November	227	+ 1	+ 20
Net demand deposits	1967-69=100	November	157	+ 6	+ 20
Total loans at agricultural banks <sup>1</sup>	1967-69=100	November	214	+ 3	+ 22
<b>Production Credit Associations</b>					
loans outstanding:					
United States	mil. dol.	October	7,642	- 1	+ 17
Seventh District states	mil. dol.	October	1,325	+ 1	+ 10
new loans made:					
United States	mil. dol.	October	1,116	+29	+ 28
Seventh District states	mil. dol.	October	169	+17	+ 29
<b>Federal Land Bank Associations</b>					
loans outstanding:					
United States	mil. dol.	October	10,778	+ 2	+ 22
Seventh District states	mil. dol.	October	1,937	+ 1	+ 15
new loans made:					
United States	mil. dol.	October	245	+26	+ 54
Seventh District states	mil. dol.	October	31	+19	+ 72
<b>Interest rates</b>					
Three-month Treasury bills	percent	12/12	7.55	+ 3	+ 49
Federal funds rate	percent	12/12	10.04	- 1	+ 90
Government bonds ( <i>long-term</i> )	percent	12/12	7.28	0	+ 23
<b>AGRICULTURAL TRADE</b>					
Agricultural exports	mil. dol.	September	1,448.7	- 1	+104
Agricultural imports	mil. dol.	September	644.5	-11	+ 18
<b>FARM MACHINERY SALES</b>					
Farm tractors	units	October	21,982	+33	+ 18
Combines	units	October	8,724	+27	+ 27
Balers	units	October	2,021	-44	- 15

<sup>1</sup>Member banks in Seventh District having a large proportion of agricultural loans in towns of less than 15,000 population.