

DOUBLING THE FARM DEBT

Farmers are expected to drive up outstanding farm debt to \$107 billion in 1980—double the 1970 mark

This projection by a Federal Reserve Board economist, writing in the July issue of ERS's *Agricultural Finance Review*, is based mainly on the growing costs of farm inputs.

According to the economist, records for each of the major uses of capital (machinery, buildings, land improvements, money balances, and inventories of crops and livestock) reveal that during the last 2 decades there has been relatively slow growth in most items in constant prices, and an actual decrease in some items. On balance, the capital flows—farmland transfers and other outlays—rose because price increases drove up the cost of expenditures

One of the larger capital flows is the purchase of farmland from retiring farmers and nonfarmers. This capital need is directly related to farmland prices. Land prices are expected to climb nearly 4 percent a year, based on projected rates of general price inflation and a decrease in farm numbers. By 1980, \$6 billion a year may be required to transfer farmland not directly inherited by farmers, compared with less than \$4 billion in 1970

Machinery purchases are the other big expenditure, accounting for around \$5 billion annually in recent years. Most goes to replace wornout or obsolete machinery, since net additions to existing stock are small. But with projected annual price increases of nearly 3 percent, farmers would be spending over \$8 billion a year for machinery by 1980.

Expenditures for buildings and land improvements are projected at around \$1.5 billion in 1980, about the same as currently. The cost of net annual additions to financial assets and to inventories of livestock and stored crops may average about \$800 million by 1980, compared with less than \$500 million during 1950-

70. Of that amount, additions to livestock inventories are projected to use \$200 million annually.

Summing all these items, farmers' total annual capital flow is expected to reach \$16.7 billion by 1980—up more than 50 percent from 1970.

Farmers pay for these capital expenditures either out of their

own pocket or by borrowing. If farmers use the same share of their income this decade as in the 1960's, out-of-pocket spending would account for about 60 percent of the projected capital flow.

Borrowing for the remainder will cause outstanding debt to rise nearly 7 percent a year in the 1970's—reaching the \$107 billion total by 1980. This is less than the 9-percent growth rate in farm debt during the 1960's.

Examination of credit supply factors at major farm lender groups led the economist to believe that the projected credit demands can be easily met by lenders.

For example, if land prices rise as projected, causing the cost of farmland transfers to increase, sellers of farms will also be relatively better able to "invest" sizable funds in farm mortgages or land contracts.

However, life insurance companies may tend to move in and out of farm lending due to variations in their supply of funds and in the profitability of farm loans relative to other investments.

Rural banks, though faced with similar fund supply and profitability conditions, have a long-run incentive to favor local lending. Future deposit growth at rural banks could match the projected 7-percent annual rise in farm credit demands.

But individual rural banks are unlikely to grow as fast as credit use per farm—projected to rise 145 percent during this decade. As a result, some rural banks may seek increased lending capacity through merger or by affiliation with holding companies.

Other important farm lenders include Federal land banks, production credit associations, the Farmers Home Administration, large banks, and farm supply and equipment corporations. They obtain part or all of their loanable funds in the national money market.

Because the money market is an elastic source of funds for agriculture, these lenders can assure an adequate supply of

credit to farmers—even if farm credit demands run higher than projected—provided that farmers pay the going market price for these funds. Too, these lenders can fill in the gaps at times when others reduce their farm lending.

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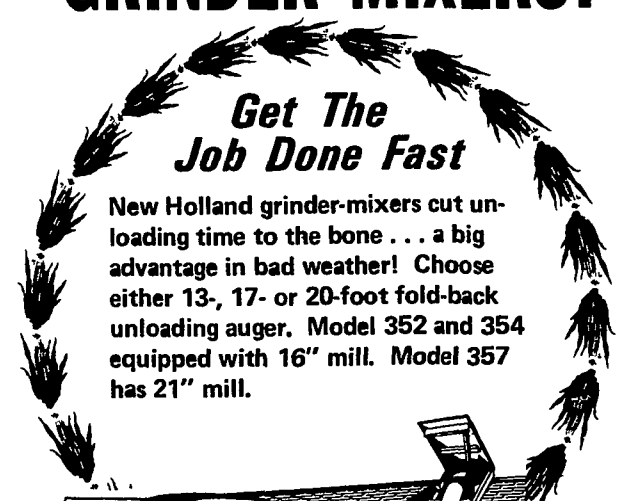
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