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AGRICULTURAL FINANCE OUTLOOK

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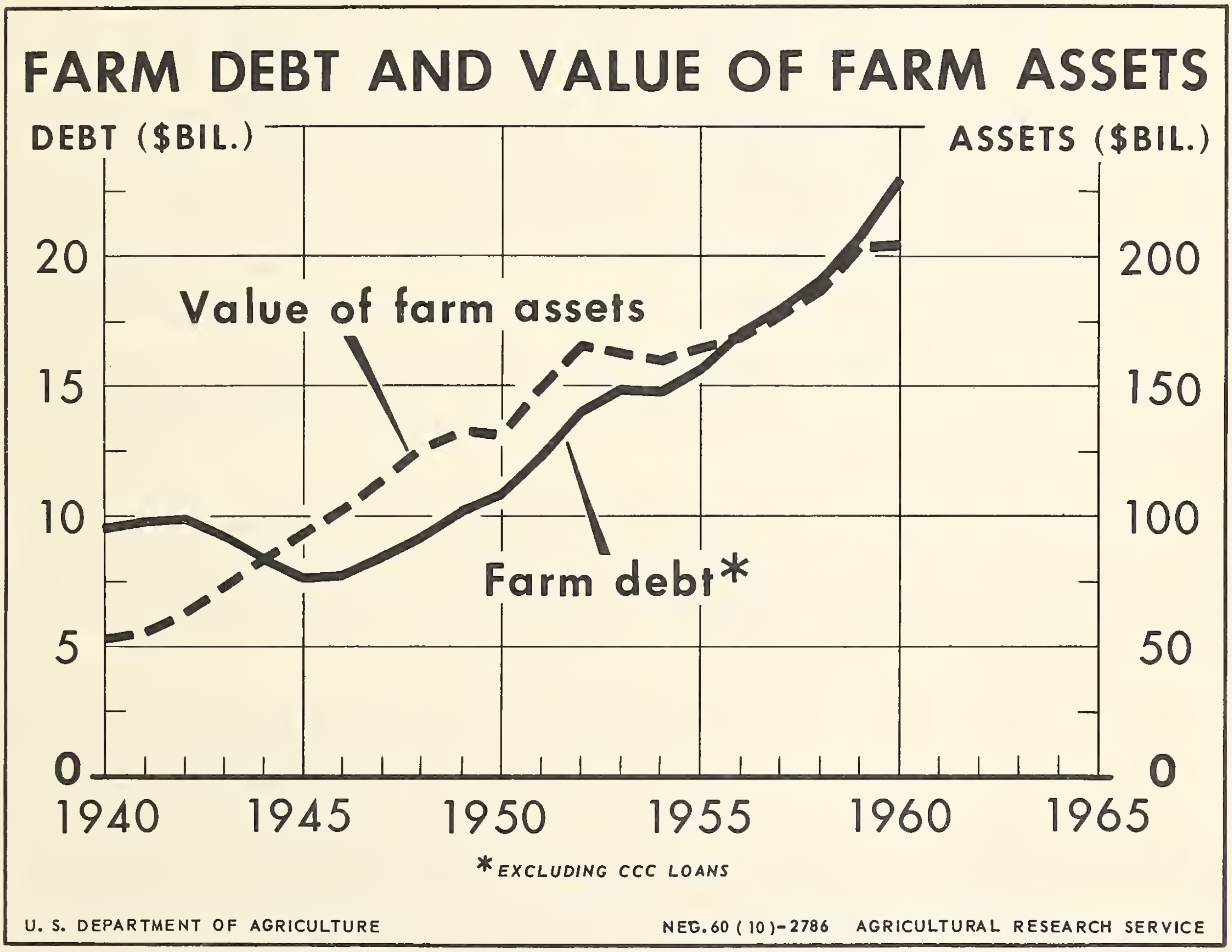

Approved by Outlook and Situation Board, November 3, 1960

1961 CREDIT AND FINANCIAL OUTLOOK FOR FARMERS

The farm financial outlook for 1961 in the country as a whole reflects little change from the average situation during 1960. Because of this year's excellent crops, and increased prices for hogs and poultry products, it seems probable that realized net farm income in 1960 may equal or possibly exceed that of 1959. Income in 1961 is expected to continue at about the same level. However, the value of farm assets and equities, which reached record levels at the beginning of 1960, fell off slightly during the year and seems likely to show some further drop in 1961.

The decline in farm asset values is chiefly the result of a downward turn from the recent record high in land values. In most States, land values have trended slightly downward since March of this year. On a national basis, the price of farm real estate in July 1960 was about 9.5 times net income per acre, whereas a ratio of about 6 to 1 prevailed in 1950-54 and 1935-39. In addition, the lower price of cattle is pulling down the value of the livestock inventory and so far in 1960, depreciation has exceeded new investment in farm machinery and motor vehicles.

The equities of farmers and other owners of farm property have been slightly reduced during the past year as a joint result of declining asset values and rising farm debt. Some further increases in farm debt and declines in asset values in 1961 seem probable.

The decline in asset values and proprietors' equities during 1960 has been small. Farm debts will still be less than 13 percent of the value of farm assets at the beginning of 1961. Lenders report that more loans are being renewed and that payments on farm debt are down somewhat from last year. However, farm foreclosures remain near a record low.

A sustaining factor in the farm income situation has been the growth of off-farm income earned by farmers and their families. The average income per person on

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1/ In preparing this report, the Farm Economics Research Division, Agricultural Research Service, had the benefit of information received during late September from the district Farm Credit banks, the State offices of the Farmers Home Administration, the agricultural economists of the Federal Reserve banks, and the farm-mortgage departments of several life insurance companies in various parts of the United States. Survey information from more than 1,000 banks was summarized and made available by the Agricultural Commission of the American Bankers Association. Special surveys in 26 selected counties, covering different types of farming and farm conditions, were made by agricultural economists of the Division. In these counties, 306 farmers and ranchers, 153 bankers and lenders, and 153 merchants and dealers were interviewed.

farms from farming and off-farm sources was higher in 1959 than in any other recent year except 1958, a year favored both by bumper crops and by high prices of hogs and cattle. Further increases in average income per person on farms are indicated for 1960 and 1961, as proportionately more farmers are supplementing their farm earnings by obtaining off-farm employment. In addition, with the continued decline in number of farms, available farm income is being distributed among fewer farm families.

The interest rates paid by farmers continued to increase during the first half of 1960, despite declining yields of marketable securities in the central money markets. Indications are that a peak in farm loan rates was reached about midyear. The lower rates in central money markets have reduced the cost of recent issues of securities offered by banks of the Farm Credit System and also yields on alternative investments for other farm lenders. Some production credit associations have already reduced their rates. Moderate reductions by some other lenders may occur before long.

The financial outlook for 1961 is now least favorable in the Mountain States, where lower prices of cattle and sheep seem likely to lower farm income and the value of livestock inventories. In addition, a large part of Wyoming has been affected by drought (fig. 1). In the Dakotas and western Minnesota, the financial situation of farmers should be stronger in 1961 than in 1960 as a result of this year's better crops. This is true also in the Corn Belt, where higher prices of hogs and lower costs of feeder cattle this year give hope of better returns from livestock next year.

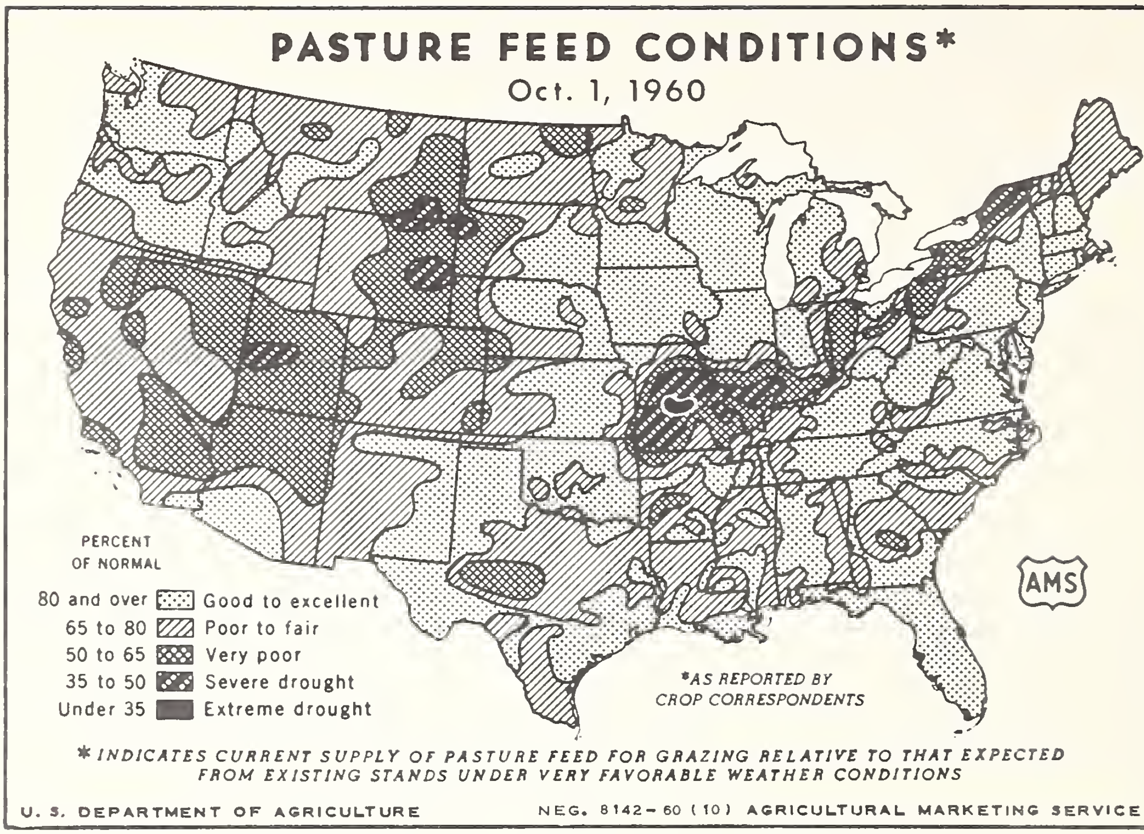
CREDIT AND FINANCIAL SITUATION OF FARMERS IN 1960

The financial situation of farmers this fall is reported to be the same as, or moderately stronger than, the situation last fall in most parts of the Northeast, eastern Corn Belt, and Lake States. Higher prices for fruit, potatoes, hogs, poultry, and eggs, a strong market for milk, large output of feed crops, and lower prices of purchased feed, are largely responsible for the relatively good situation in these regions. In most other regions, the situation is reported to be moderately less favorable than last year, chiefly because of adverse growing conditions, and the lower cattle prices. However, some parts of these regions, notably the Dakotas and western Minnesota, are in a stronger position than last year, because of better crops.

Farm assets and equities

The value of farm assets is expected to recede this year to a total of about $199.3 billion on January 1, 1961 (table 1). This would be nearly $4 1/2 billion, or 2 percent less than the record value of $203.6 billion reached at the beginning of this year. A softening in land values is the principal cause of the decrease. However, small declines are expected in the value of livestock and of machinery and motor vehicles on farms, and in farmers' holdings of deposits and currency.

Farm debts continue to rise; they are expected to total about $25.7 billion on January 1, 1961. The increase in farm debt, accompanied by a decline in the value of farm assets, is expected to reduce the equities of farmers and other owners of farm property to about $173.6 billion, 3 percent below the amount a year


PASTURE FEED CONDITIONS*
Oct. 1, 1960
PERCENT
OF NORMAL
80 and over Good to excellent
65 to 80 Poor to fair
50 to 65 Very poor
35 to 50 Severe drought
Under 35 Extreme drought
AMS
*AS REPORTED BY
CROP CORRESPONDENTS
* INDICATES CURRENT SUPPLY OF PASTURE FEED FOR GRAZING RELATIVE TO THAT EXPECTED
FROM EXISTING STANDS UNDER VERY FAVORABLE WEATHER CONDITIONS
U. S. DEPARTMENT OF AGRICULTURE
NEG. 8142-60 (10) AGRICULTURAL MARKETING SERVICE

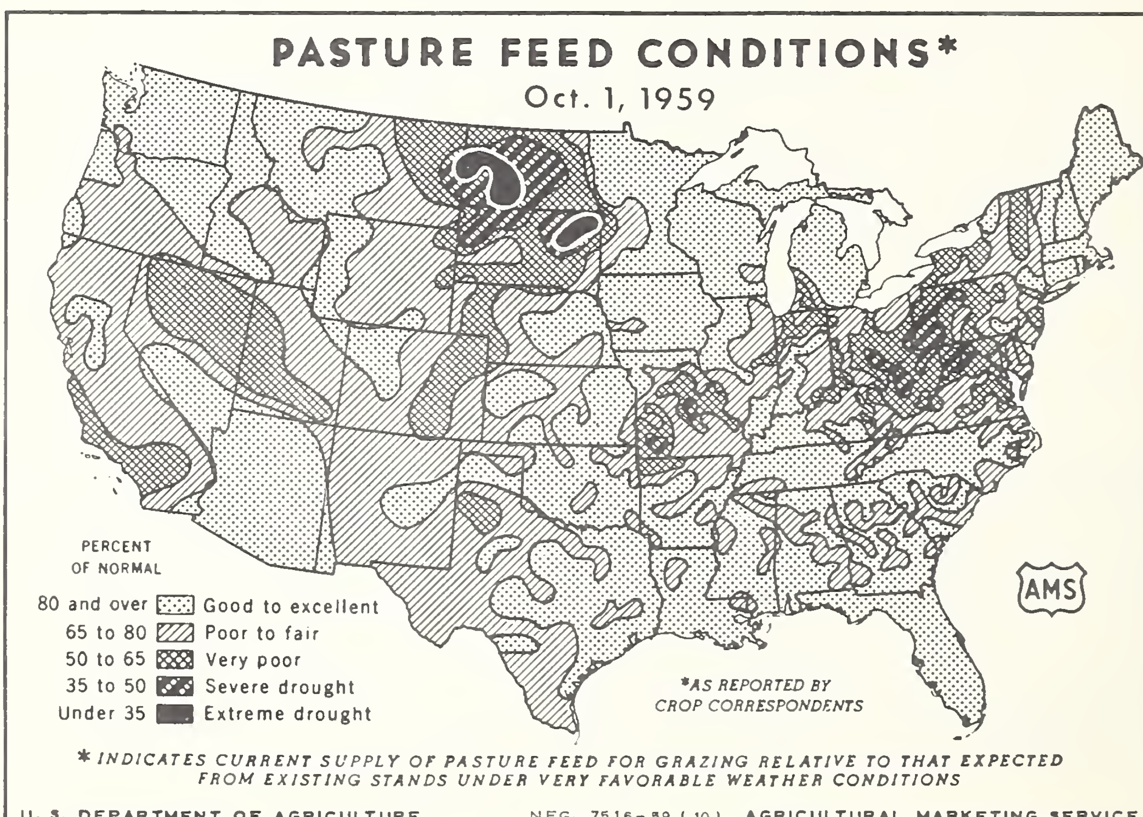

PASTURE FEED CONDITIONS*
Oct. 1, 1959
PERCENT
OF NORMAL
80 and over Good to excellent
65 to 80 Poor to fair
50 to 65 Very poor
35 to 50 Severe drought
Under 35 Extreme drought
AMS
*AS REPORTED BY
CROP CORRESPONDENTS
* INDICATES CURRENT SUPPLY OF PASTURE FEED FOR GRAZING RELATIVE TO THAT EXPECTED
FROM EXISTING STANDS UNDER VERY FAVORABLE WEATHER CONDITIONS
U. S. DEPARTMENT OF AGRICULTURE
NEG. 7516-59 (10) AGRICULTURAL MARKETING SERVICE

Figure 1

Table 1.- Balance sheet of agriculture, Jan. 1, 1960, and estimate for Jan. 1, 1961

Item	Jan. 1, 1960	Estimate for Jan. 1, 1961	Percentage change
	Billion dollars	Billion dollars	Percent
ASSETS			
Physical assets:			
Real estate	129.1	125.0	-3.2
Non-real-estate	56.1	55.8	-.5
Financial assets	18.4	18.5	.5
Total	203.6	199.3	-2.1
CLAIMS			
Liabilities:			
Real estate debt	12.3	13.1	6.5
Non-real-estate debt to-			
Commodity credit corporation	1.4	1.3	-7.1
Other reporting and non-reporting creditors	10.6	11.3	6.6
Total	24.3	25.7	5.8
Equities	179.3	173.6	-3.2

earlier. As a result of these changes, the ratio of farm debts to assets is expected to rise from 11.9 percent on January 1, 1960, to about 12.9 percent on January 1, 1961. These ratios compare with debt to asset ratios of nearly 19 percent in 1940 and a low of about 7.5 percent in 1947.

Farm real estate

Some further softening in prices of farm real estate is in prospect for 1961. The leveling off in prices which was first apparent a year ago was extended over a large part of the country in the 4 months ended July 1. Nearly a third of the States showed small declines and the national index turned downward for the first time since 1952. Values increased only 1 percent in the year ended July 1, 1960, after rising at an average rate of about 6 percent in each of the previous 5 years (fig. 2).

This unprecedented rise in the last 5 years when farm income did not change much has resulted in the highest level of values in relation to income since the

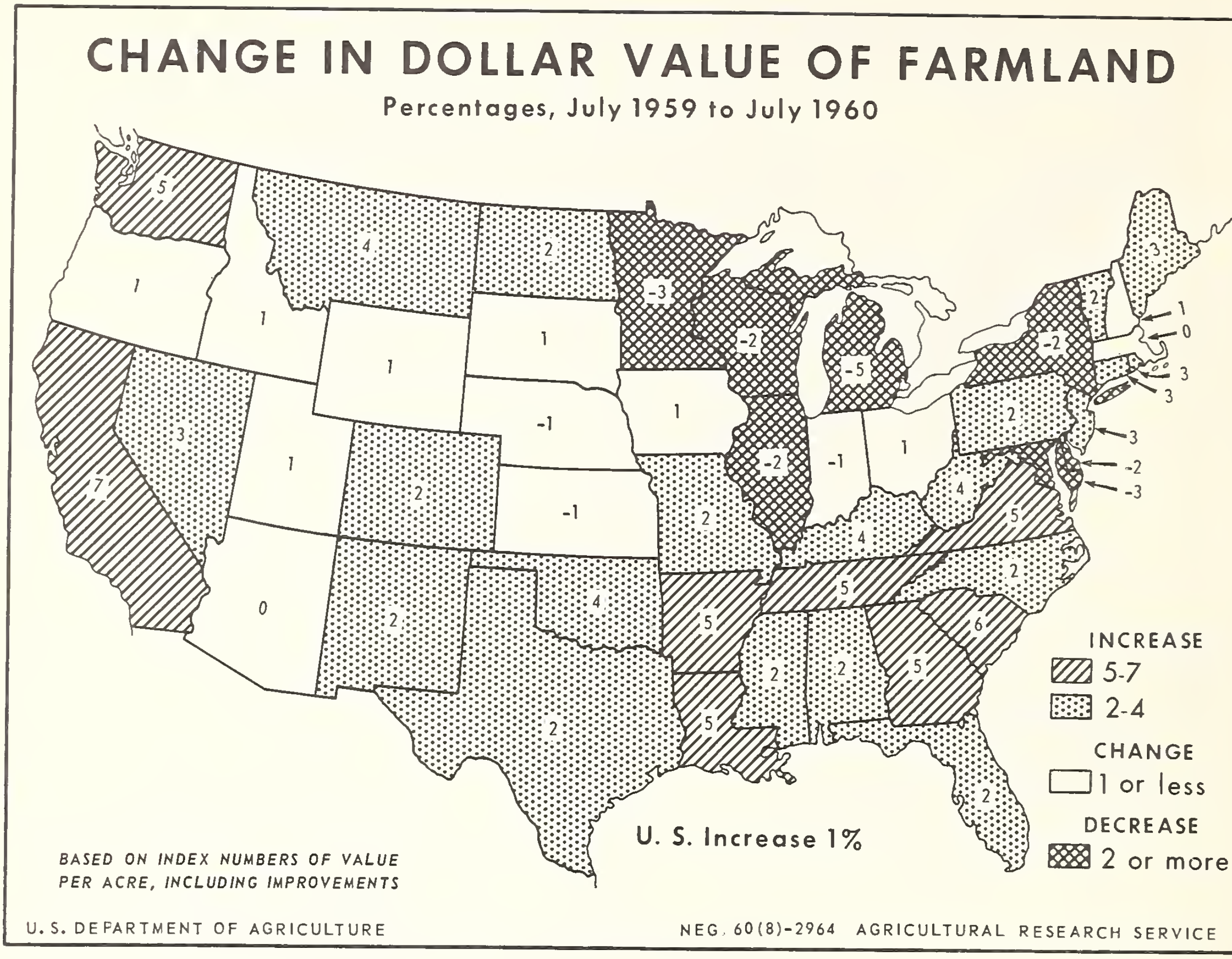


Figure 2

early thirties. In 1960, the market price of farm real estate was 9.5 times net income, compared with ratios of 6.0 in 1950-54 and 6.2 in 1935-39. The calculated rate of return on the current market value of farm real estate has been below the average rate of interest on farm mortgages in 5 of the last 6 years.

Record-high prices of farmland have created financing problems for both prospective sellers and buyers. The proportion of all sales that are credit - financed has remained unchanged at about two-thirds of all transfers, but potential buyers have had greater difficulty in meeting equity requirements for conventional mortgage financing. Most institutional lenders (banks, insurance companies, and Federal and federally sponsored credit agencies) make mortgage loans on the basis of an equity of about half or more of the purchase price of farm real estate. Sellers have increasingly provided credit to buyers, either by taking back a high debt-ratio mortgage, or by selling property on an installment sales contract. More than two-fifths of the sales of farm real estate in the year ended March 1, 1960, that involved credit were financed by the seller. The average downpayment received by sellers who provided financing was 29 percent.

The proportion of all land transfers financed by land contracts has doubled in the last 10 years. Their use has increased most in the Corn Belt and Lake States, although they are used widely in most of the Northern Plains States and the

West (fig. 3). Other transfer devices, such as the deed of trust and vendor's lien, serve similar function for low-equity purchases of land in the Southeast, where contracts are used infrequently.

Downpayments on purchases financed by land contracts averaged 27 percent nationally in 1959-60, and ranged between 24 and 33 percent in the various regions. The average term of contracts was 13 years, slightly less than for mortgages. The shorter term for contracts suggests that they may be used as a means of building up the buyer's equity to the level required for conventional mortgage financing. If the full amount of the debt were to be paid off in the relatively short term of the contract, annual payments often would be prohibitively high because of the small downpayment. Consequently, many contracts provide that only part of the principal amount will be paid in the contract term, and that when this part has been paid, the remaining balance will be refinanced with a mortgage to the seller or other lender. This procedure has the effect of reducing the size of the annual payments and extending the repayment term of the indebtedness.

Contracts involve considerable risks for buyers of farmland, especially when real estate values are falling. Because of the buyer's small equity and because

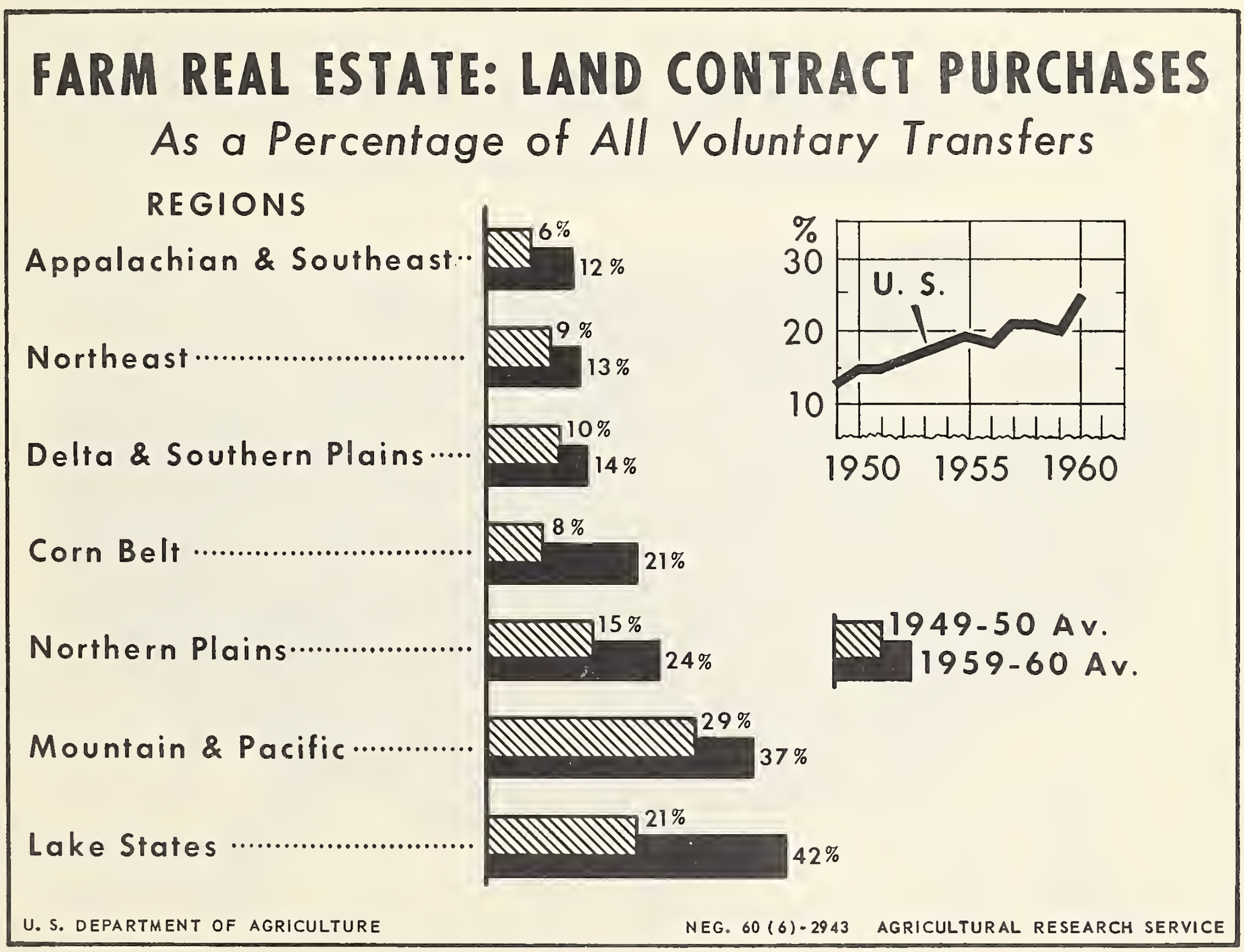


Figure 3

only a small part of the payment during the first few years is applied to the principal of the debt, even a small decline in market value can make it difficult to achieve any real progress toward ownership.

Financial assets

The value of the financial assets owned by farmers on January 1, 1961, is expected to differ little from the value owned a year earlier. Some further decline, following the sharp drop in 1959, apparently has occurred in farmers' holdings of deposits and currency, but this decline will be offset by an increase in the value of farmers' investments in cooperative associations. Accrual of interest will hold the value of the savings bonds owned by farmers at about the same level as a year earlier, although redemptions of savings bonds by farmers continue to exceed purchases.

Farm debt

The non-real-estate debt of farmers, excluding CCC price-support loans, is expected to be about $11.3 billion on January 1, 1961. This increase of 7 percent compares with an increase of 16 percent the previous year (fig. 4). This type of

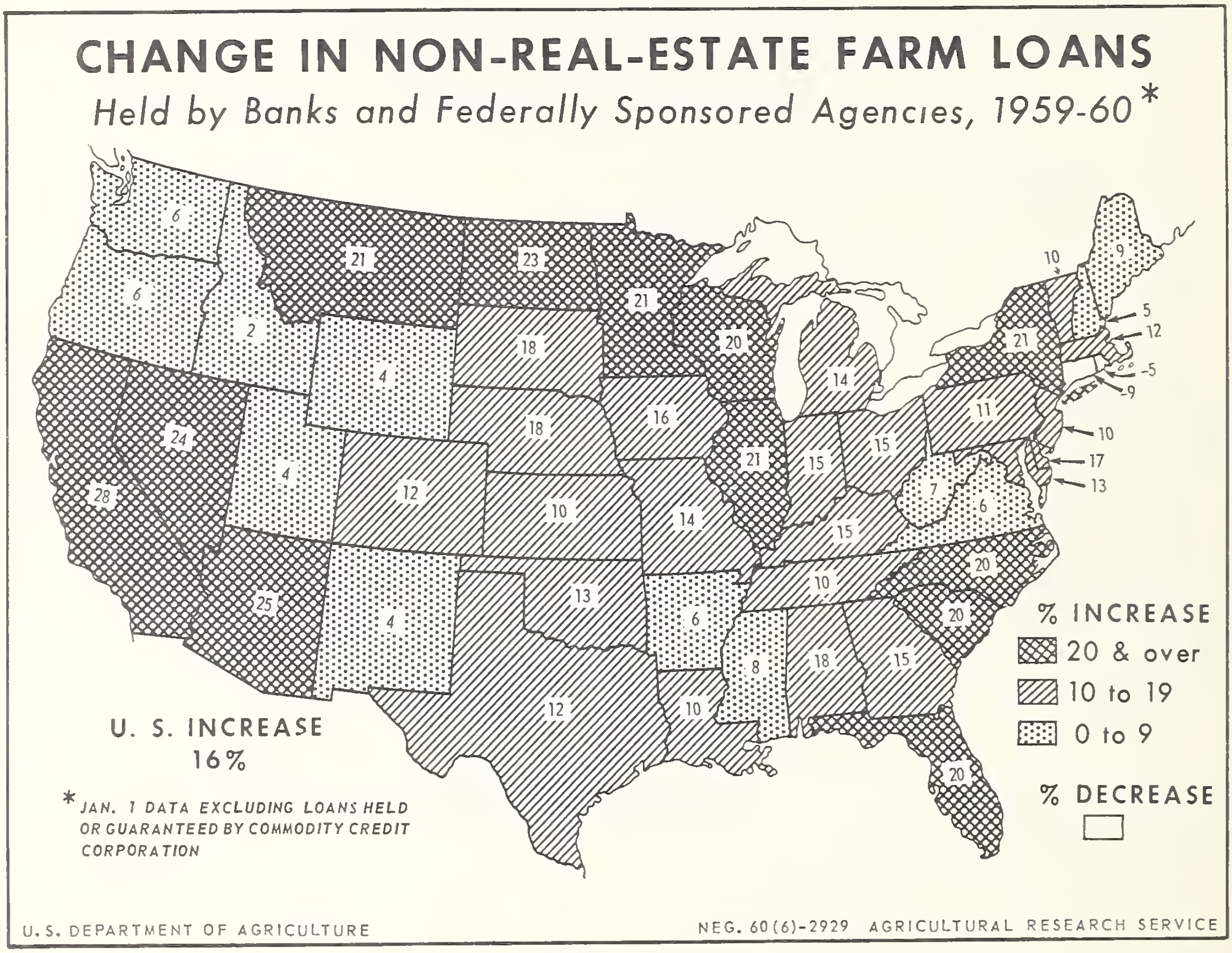


Figure 4

debt, which arises chiefly from borrowing for production purposes and capital equipment, has increased less in 1960 than in any other year since 1957. Among the factors responsible for the lower growth rate in 1960 are reduced expenditures by farmers for capital equipment and farm improvements, lower prices of feeder cattle, and the delayed movement of feeders from the range to feed lots. Contributing factors are the higher interest rates on farm loans and a more careful screening of borrowers by lending agencies. The non-real-estate debt of farmers will probably increase further in 1961 because of the continuing increase in size of farms, which expands per farm requirements for operating funds and capital equipment, and the encouragement lent by improved farm income during the second half of this year.

Farm-mortgage debt on January 1, 1961, is expected to total $13.1 billion, up $0.8 billion, or 6.5 percent, from a year earlier. This rate of increase compares with 9.1 percent in 1959, 7.1 percent in 1958, and 6.0 percent in 1957 (fig. 5). The absolute rise in the total debt resulted from (1) an increase in credit as a percentage of the purchase price of land bought, (2) an increase in the use of farm-mortgage loans to refinance indebtedness other than that incurred by purchasing land, and (3) a decrease in the rate of payment on outstanding indebtedness. Farm-mortgage debt is expected to increase further in 1961 as a result of the

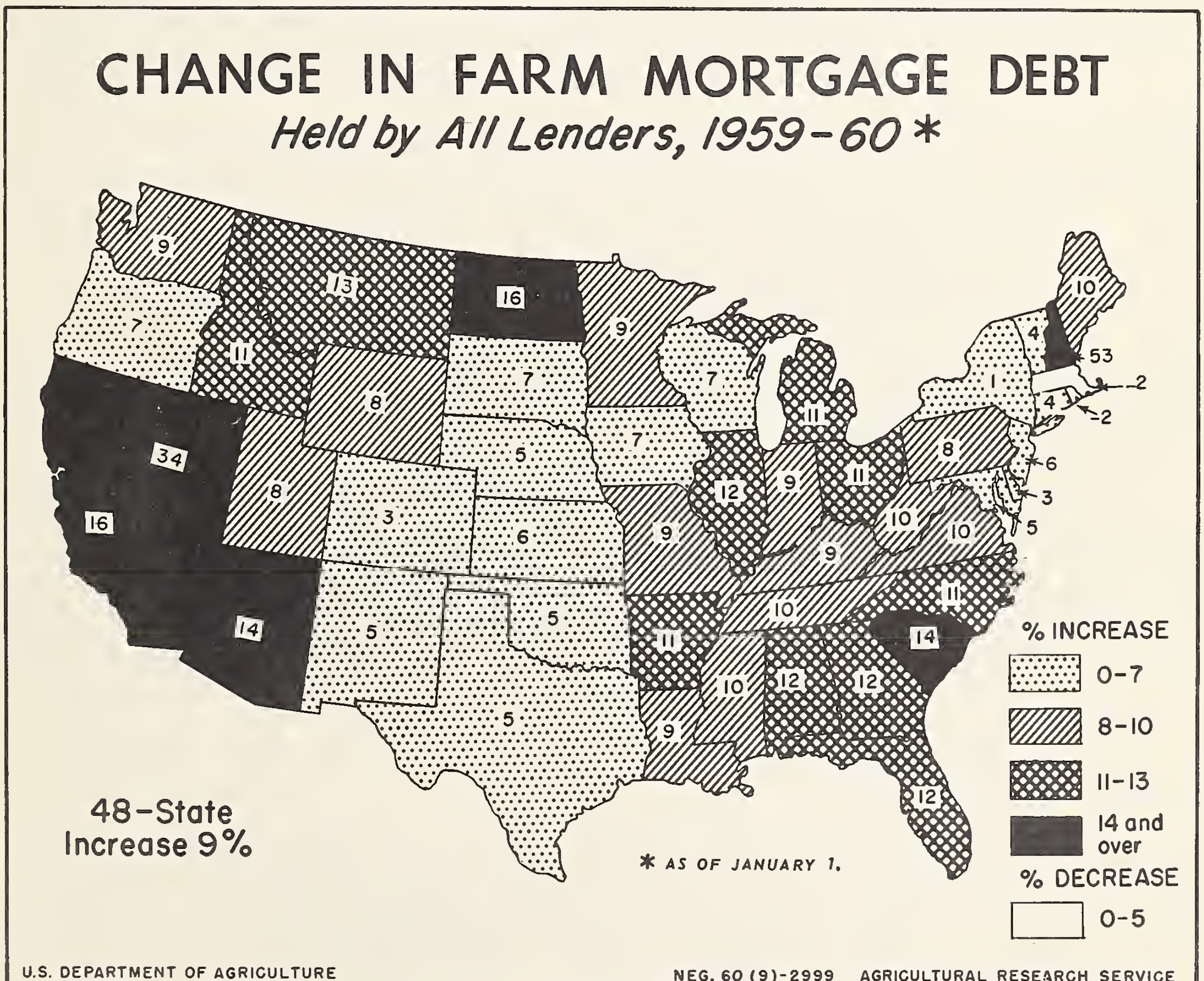


Figure 5

continuing uptrend in both acreage and capital requirements per farm. Refinancing short-term loans into long-term loans secured by farm real estate, in an attempt to avoid heavy payment schedules and to reduce short-term price risks, will also contribute to the expected increase.

The price-support loans owed by farmers to the Commodity Credit Corporation on January 1, 1961, are expected to show little change from a year earlier.

Cost of credit

Interest rates to farm borrowers continued to increase during the first half of 1960. The Federal land banks had a 6-percent loan rate throughout the first half of 1960, but average rates charged by life insurance companies and by the production credit associations were higher at midyear than at the beginning of 1960. A survey conducted by the American Bankers Association indicated that rates charged by banks on farm loans were higher in September 1960 than a year earlier.

Although factors that affect the rates charged by various lenders differ, indications are that a peak in farm loan rates may have been reached about mid-year. Some production credit associations have reduced their rates. Moderate reductions by some other lenders may be made before long. Yields of marketable securities in the central money markets have declined sharply since last winter. This has reduced the cost of recent issues of securities offered by the banks of the Farm Credit System and lowered the yields of alternative investments for other farm lenders. Rates paid on 9-month Federal intermediate credit bank debentures decreased from 5.25 percent as of February 1 to 3.10 percent as of September 1, 1960. A 5-year issue of Federal land bank bonds was sold in October 1960 at a price to yield 4.03 percent. A 10-year issue sold in January yielded 5.09 percent.

In general, reports indicate that since last fall, there has been more improvement in the availability of credit than in the terms on which credit is offered. The decline of deposits last year, which was most acute in Iowa and surrounding hog-producing States, apparently has been stopped; and the loan-deposit ratios of Corn Belt banks have been eased by the lower prices for, and the delayed purchases of, feeder cattle.

Loan-deposit ratios of many banks are still high and they have led to more selective loan policies. Moreover, lenders generally have been screening borrowers more carefully than in earlier years, as good management and farm units of adequate size have become more and more necessary to success in farming. For those who can meet lenders' requirements, credit seems to be more readily available this fall than a year ago. However, applications for loans from the Farmers Home Administration are up considerably, in both number and amount. This increase probably reflects the more selective policies of other lenders.

Farm income and expenditures

Cash receipts from farm marketings for the first 9 months of 1960 totaled $22.9 billion compared with $22.7 billion for the same period of 1959. Receipts from marketings of livestock and livestock products were down about 2 percent, primarily because of lower prices for cattle and hogs from January to May. Since May, with hog prices above the levels of last year, receipts from livestock and livestock products have exceeded 1959 receipts for the same period by about 1 percent. Slaughter of meat animals is running well above last year's total. Receipts from poultry and eggs were up from a year ago, as higher prices combined with a greater output of poultry meat more than offset reduced egg production.

Larger marketings of corn and soybeans and higher prices for potatoes helped cash receipts from crops to increase about 5 percent in the January to September period over the same period last year. Prices received for feed grains, cotton, tobacco, and oil crops averaged lower than for a year earlier. The decreased income from these crops was partly offset by better prices for commercial vegetables and fruit.

Government payments to farmers in 1960 are about the same as in 1959, as the programs themselves are unchanged. Nonmoney income will decline slightly in 1960 compared with 1959.

Realized gross farm income in 1960 is running about the same as in 1959; a small increase in cash receipts from farm marketings is offset by the decline in nonmoney income.

Farm production expenses so far in 1960 are up slightly from 1959. Prices paid by farmers for inputs purchased from the nonfarm sector are up slightly, while prices paid for inputs from the farm sector, particularly feeder livestock, are considerably below prices in 1959. Interest and tax payments and charges for depreciation continue to increase.

Investment by farmers in capital equipment - tractors, other farm machinery, motortrucks, and buildings - has been considerably below the levels attained in 1959. The poor income prospects early in 1960 and the decline in number of farms were contributing factors. Prices paid for farm machinery have averaged higher in 1960 than in 1959, while prices paid for motor vehicles have averaged lower.

Taxes

Owners of farmland will pay about 7 percent more in property taxes in 1961, according to advance reports on taxes levied in 1960. This increase comes on top of an 8-percent rise registered this year; it would bring the total tax bill on farm real estate to a record $1,275 million, or $1.19 per acre.

A similar increase appears to be in store for owners of personal property, including livestock, farm machinery, and household furnishings. Taxes paid on such property totaled $253 million in 1960 and will probably rise to around $273 million in 1961, reflecting increased quantities, higher unit assessed values, and some rise in tax rates.

In 1959, farm real estate and personal property taxes together involved payments exceeding $1.4 billion, or more than 10 percent of net farm income (before taxes and rent paid to nonfarm landlords). In 1958, the proportion was 8 percent.

This persistent uptrend in farm property taxes, unbroken now since 1942, is a direct outgrowth of the steadily expanding revenue requirements of local governments. All except about 2 percent of the general property taxes collected in the United States go to local governments. Public schools account for close to two-thirds of local government expenditure in rural areas. The rest is distributed among roads, public welfare, and a host of miscellaneous governmental functions. (fig. 6).

The outlook for farm property taxes, therefore, depends largely on prospects for public school financing. In semirural areas around growing cities, school costs have been rising in response to expanding enrollments. Many other rural communities, even those with stable or declining school enrollments, have experienced rising school costs in connection with efforts to upgrade the quality of their public schools. As both these trends seem likely to continue, an early downturn in school outlays cannot be expected.

Although local property taxes in rural areas are used mainly for schools, property taxes typically supply only a fraction of total school revenues. Substantial amounts are obtained through grants-in-aid from the State, and to a lesser extent the Federal, governments. Farm property tax trends thus would be affected by any developments in State or Federal programs to give financial aid to education.

Another factor in the outlook is the trend in market values of farm real estate, which are related to assessments for tax purposes. After a long uptrend

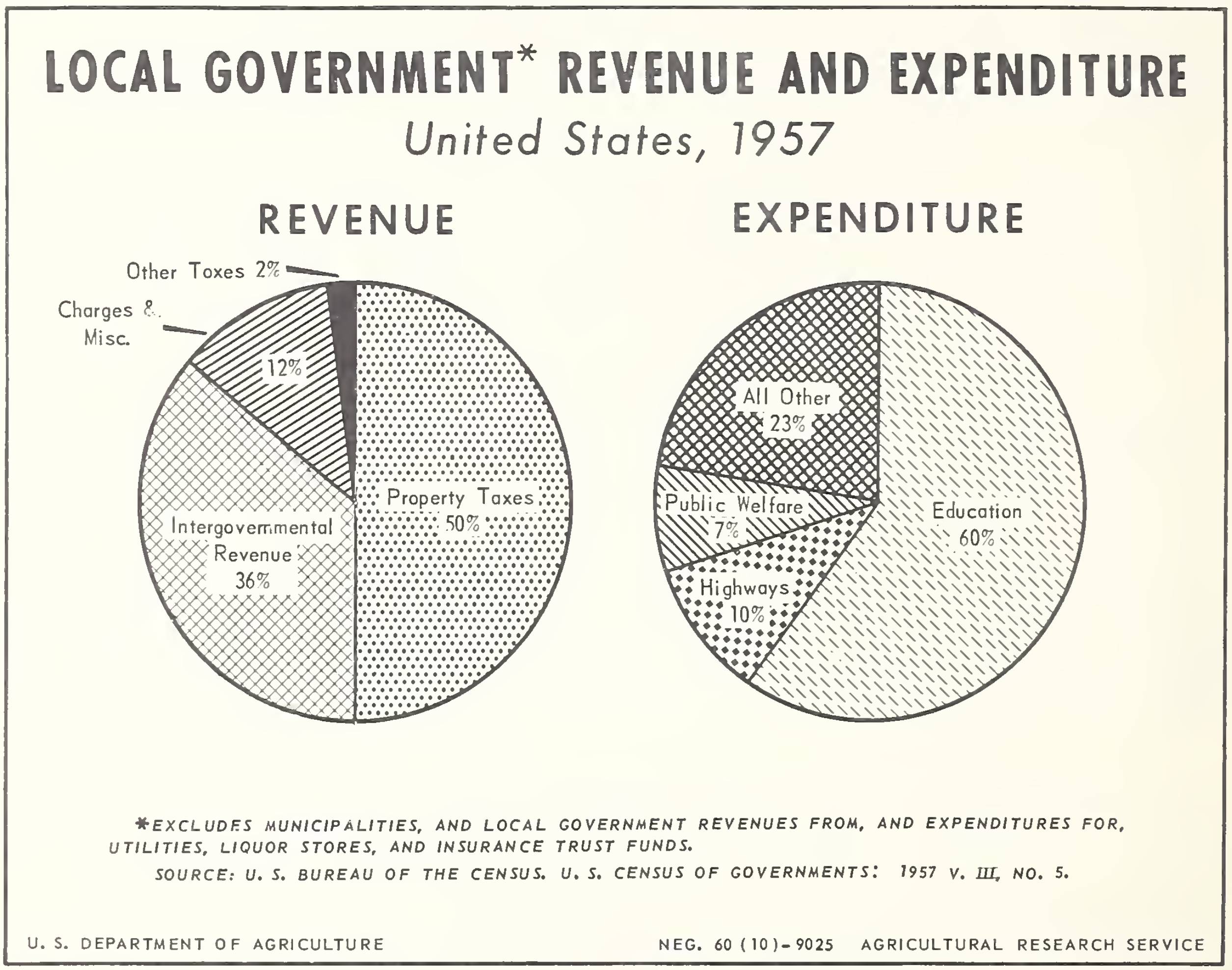


Figure 6

that brought values in July 1959 to a level one-third above that of mid-1953, the market for farm real estate now seems to have turned downward. With farmland values no longer rising, local assessors may be less willing to increase assessments for tax purposes. But assessments typically lag behind market values, and apparently the past rise in market values has not yet been fully reflected in assessed values. Owners of farmland can probably expect some further upward adjustment in assessments.

With prospects for some further increase in assessed values, coupled with continued expansion in revenue requirements for schools and other local government services, the trend in farm property taxes in the next several years will probably continue to be upward.

Social Security and Conservation Reserve

Social Security payments to farm families will continue to increase in 1961. More farmers attain retirement age each year and a number of minor changes in the law, included in the 1960 amendments, will also increase slightly both the number and the amount of benefit payments. The number of quarters of coverage required before retirement was reduced from not more than half down to a third of the elapsed quarters since 1950. A farmer who reaches retirement age in 1961 will need only 13 quarters of coverage to retire instead of the minimum of 20 quarters required under the old law. Disability benefit payments may now be made at any age, instead of after age 50 only. The "earning test" after retirement was liberalized, so that most retired farmers who earn more than $1,200 a year will receive a higher annuity than under the previous law. The number of farmers who retire in 1961 will be increased by each of these changes in the law.

Rental payments from the Conservation Reserve program in 1961 will continue at almost the same rate as in 1960. Existing contracts for 1960 and previous years remain in effect for the contract period. Payments of about $338 million will be made in 1961 on about 305,000 contracts. About 70 percent of the Conservation Reserve contracts effective for 1961 are on whole farms. In many instances, these farms are owned by older farmers who are also receiving retirement benefit payments from Social Security.

REGIONAL SITUATION AND OUTLOOK

In the following pages, the financial condition of farmers in the various regions is discussed.

Northeast 2/

Farm income in the Northeast depends to a considerable extent upon the prices and production of a limited number of commodities. For example, the severe price drop in 1959 for potatoes and eggs was a major contributor to the 4-percent decline in income in 1959 compared with 1958. The recovery of potato and egg prices from 1959 levels is the primary reason for the slight increase in gross farm income in 1960. Production of milk in 1960, the chief source of farm income in the area, is

2/ Maine, New Hampshire, Vermont, Massachusetts, Connecticut, Rhode Island, New York, New Jersey, Pennsylvania, Delaware, Maryland.

expected to average higher than in 1959, offsetting the slight decline in price. Increased egg prices in 1960 are expected to offset part of the decline in output caused by fewer laying hens. As the bulk of the 1960 potato crop is still to be sold, the price for the crop will be determined later in the crop year and will affect 1961 income; however, because production exceeded 1959 output, prices are expected to decline from 1960 levels. Total production expenses in 1960 are about the same as in 1959. Feed prices are a little lower than in 1959, but labor costs are slightly higher.

In the aggregate, the income level of dairy farmers in 1960 is about the same as the relatively favorable level of 1959. Incomes of poultry farmers vary. Those who reduced the size of their flocks will not gain from the higher egg prices prevailing in 1960, while those who maintained flock size will be much better off than in 1959. Potato producers, especially those growing the late varieties, had a good return from the 1959 crop. Apple growers had a year of low returns from the larger than average 1959 crop.

Credit requirements generally were higher this year than last. Farmers continued to use credit to expand and mechanize in an attempt to increase efficiency. However, lender and borrower experience in 1959 induced a cautious attitude toward use and extension of credit in 1960. The equity position of applicants, particularly poultrymen, was scrutinized more carefully by lenders than had been true in prior years. This worked a hardship on those producers who had exhausted their reserves through 1959 and were forced to turn to borrowed capital in 1960 or go out of business. There were some reports of banks reducing their long-term loans.

In general, most delinquencies were cleared up in 1960 and the carryover of debts into 1961 will be less than the carryover from 1959. Payments on debts have been at about the same rate as last year and foreclosures, kept at a minimum by the renewal policies of lenders, are at a very low level for the area in general. Foreclosures on poultry farms that had gone out of business continued relatively high.

Most farmers are combating the decline in profits by increasing the size of their operation (which usually means increased capital investments), adopting new selling methods, or supplementing farm income with off-farm employment. The Northeast is an ideal area for nonfarm employment because of the proximity to farms of industrial plants and urban areas. Nonfarm income also provides the means whereby some inefficient farm units are continued in operation. Conservation Reserve payments also supplemented income. Enrollment in the Conservation Reserve was heaviest in Maine, where acreage in the Conservation Reserve was 9.7 percent of total cropland as shown by the 1954 census. In Rhode Island, the percentage was 0.1 percent.

In the Northeast, the movement off farms continues at about the same rate as in 1959. Farmers in sourthern New England are moving out of farming faster than in 1959, offsetting the decreased rate of movement out of farming in northern New England. Many of the older farm operators stayed on their farms because they were receiving Social Security payments.

In the aggregate, the financial position of farmers in the Northeast at the end of 1960 will range from much stronger in Aroostook County, Maine, to moderately weaker in Connecticut, parts of Pennsylvania, and large areas of New York.

The outlook for 1961 in the Northeast is for credit conditions practically unchanged from 1960. Interest rates are expected to hold firm for long-term loans, while rates for short-term loans will likely ease off a little. Lenders expect to have ample funds available for "qualified borrowers."

The financial situation of farmers in Aroostook County, Me., has improved from last year because of higher income than in 1959 and lower debt carryover and delinquencies. Although production costs average higher this year than last, farmers expect to have more savings and financial reserves at the end of 1960 than they had at the end of 1959.

There was less borrowing in the county this year than in 1959 because of better returns from the 1959 crop. Interest rates have remained at the legal maximum of 6 percent. For the first time in 10 or 12 years some lenders have charged an additional fee for servicing in order to meet costs.

Operating costs continued the trend of the past and moved higher in 1960. In addition, farmers stepped up their investment in capital equipment for replacement purposes and additions, increasing the trade of farm equipment and supply concerns in the area.

Some of the land in the Conservation Reserve in the county will be out of the program before the beginning of the 1961 crop year. County residents are speculating as to what will happen to this land. The consensus, as reported, is that only a small percentage of the "whole" farms coming out will be operated as complete units again.

Dairymen of Merrimack County, N. H., interviewed in the September financial survey, were generally optimistic about conditions in 1960 and the outlook for 1961. Because of the past history of egg prices, many egg producers in the county were pessimistic about conditions generally.

Actions and expenditures during 1960 were governed by the same farmer attitudes. Many poultrymen, disappointed by the past and pessimistic about the future, reduced the size of their laying flocks, their capital outlays. The optimists increased the size of their laying flocks and added automatic equipment, and gained most from better prices in 1960. Generally, most dairymen will be getting higher gross returns in 1960 because of more cows per farm and higher production per cow.

Current operating costs on dairy farms were slightly higher in 1960 than in 1959. On poultry farms, they were about the same. Investment in capital equipment also was higher on dairy farms than in 1959.

The amount of debt outstanding on dairy farms is higher than last year because of larger than average expansion in herd size in 1960. Indebtedness on poultry farms in the county was not large because (1) credit, other than dealer credit, was not readily available, and (2) producers with large debt loads had been forced out of business previously. Credit was readily available for dairy operations and none of the lenders anticipated any change in the situation.

Conditions in Orleans County, N. Y., are more encouraging this year than they were in 1959. Gross income is about the same or slightly better than last year, and none of the farmers interviewed in the annual survey expected to be in a weaker financial position at the end of the year. Farm operators are spending more for operating goods and services in 1960 than they spent in 1959. Expenditures for capital equipment and household furnishings are lower in 1960 than in 1959 because of relatively poor income in 1959.

Nonfarm income is an important supplement to farm income in Orleans County. Half of the farmers interviewed reported some income from off-farm work in 1960. Conservation Reserve payments, currently made on about 11 percent of the cropland, are another important source of income.

Credit needs and use in the county, as in the rest of the area, have increased. Although the number of farmers borrowing has remained constant, the amount borrowed by each has increased. For many farmers, the amount of debt outstanding represents carryovers from 1959 and refinancing of old debts. Lender attitudes have not changed greatly in 1960, although some creditors are more cautious in extending long-term financing. Lenders in general report slower collections.

The poor crop year of 1959 has accelerated off-farm migration. Conservation Reserve payments and the existence of Social Security have also contributed to the retirement of farms and farmers.

The outlook for 1961 is encouraging for fruit and vegetable farms. Many operators on these farms expect to make capital investments next year that they wanted to make this year but did not do so. Dairy farm expansion will probably continue in 1961.

With few exceptions, the expression "about the same as last year" describes the 1960 financial situation in Lebanon County, Pa., for farmers, dealers, and various lenders. One exception is the much improved income situation of poultry farmers in 1960 compared with 1959.

Egg producers in the county expect a higher total gross income in 1960 than in 1959 because of better average egg prices and slightly higher production per farm from increased flock size. Since production costs per unit rose only slightly from 1959 levels, net income will be higher than it was last year.

Milk prices are about the same as in 1959. Producers in general will net slightly less per cow this year than last because of the small increase in cost of production. However, many producers have expanded their herds and will net more on a per farm basis than last year.

Farm capital investment, most of which was for replacement purposes, continued at about the same rate as last year. There were some reports of new investment in diesel-powered tractors and a shifting from conventional milking machines to pipeline systems. Many respondents reported that they expected to invest about the same amount of money in capital equipment in 1961 as they did in 1960.

There were no reports of increased off-farm work by farmers in 1960. Family living expenditures were about the same as in 1959.

Although farmers reported that they were using about the same amount of credit as last year, reports from the institutional lenders indicate that the average per borrower has increased. The amount of debt outstanding in 1960 was higher than the amount outstanding in 1959. Delinquencies were comparable to those last year. No farm foreclosures were anticipated or reported in process by the lenders contacted.

Because of the greatly improved situation of egg producers, the aggregate financial condition of farmers in the county will average slightly better in 1960 than in 1959.

Lake States 3/

The financial position of farmers in most parts of the Lake States does not differ a great deal from that of last year. Variations in weather have caused some areas to be better off than others. A late spring with excessive rainfall resulted in late planting of crops and some water damage on poorly drained soils. The cool, wet weather was generally favorable for hay and pasture production, so livestock farmers have had large supplies of feed. Yields of most fruit crops were below those of 1959, but prices have been higher.

Nearly half of the cash receipts from livestock and livestock products in the Lake States comes from the sale of dairy products. Milk production this year will be approximately the same as last year and prices are slightly higher. This factor plus higher income from hogs should offset the income-depressing effect of lower cattle prices.

Total cash receipts from farm marketings in the first 8 months of 1960 were 3.0 percent higher than those of 1959 and about the same as the 1958 receipts. Production costs increased in both 1958 and 1959, and the upward trend is expected to continue this year. Lenders and farmers alike report that expenses are running slightly above last year's, even though many farmers have cut back their purchases of machinery. Net income for 1960 as a whole is expected to be close to the 1959 level.

Lenders report that farmers used record amounts of credit this year. Many country banks reported that loans have risen to 50 to 60 percent of deposits. Farm mortgage debt increased nearly 9 percent in 1959 compared with a 5-percent increase in 1958. Part of this debt was used to finance this year's operations, as well as to refinance some existing indebtedness. The demand for credit for farmland purchases is reported to be lower than that of last year. Interest rates have remained high, and loan applications have been carefully screened to eliminate poor credit risks. Lenders commented frequently on the need for increased attention to the managerial ability of a prospective borrower, as well as the security he is able to offer.

The demand for credit is expected to be at least as high in 1961 as it has been this year, because substantially stable income and rising production costs in 1960 tend to prevent any increase in self-financing on most farms. Moreover, the pressure to expand farm size will continue.

3/ Michigan, Wisconsin, and Minnesota.

On the supply side, there is the possibility that the easing of the general money market may make credit more readily available. Lenders whose supplies of funds depend upon the general money market may be able to make more or larger loans, possibly at lower interest rates. Those lenders with relatively fixed supplies of funds will make little adjustment in interest rates or total loans.

Farmers in Mecosta County, Mich., have had 2 consecutive years of good crops. Although a cold, wet spring prevented the planting of most crops until relatively late, growing conditions improved during the summer. As a result, excellent yields of all cash crops except wheat were obtained. The corn crop is maturing somewhat later than usual, but the expected yield will be well above average. Hay and pasture conditions were among the best ever recorded. Consequently, farmers have large supplies of livestock feed for the coming year.

Gross income is expected to be practically the same as last year on cash-crop farms. General and livestock farms will have somewhat lower incomes because of low cattle prices and lower volume of production. Egg producers' incomes have improved in recent months. On the dairy farms, income is reported to be about the same or slightly higher than last year. Fluid milk prices were higher this year, and prices of manufacturing milk and of cream approximated last year's.

Off-farm earnings were about the same as in 1959. Movement of farmers into nonfarm occupations is continuing at the same pace as last year. The number of farmers eligible for Social Security has increased, and some retirees have cut back their farming operations in order to be eligible for payments.

Production costs were slightly higher on most of the farms covered by the survey. Fertilizer purchases were generally up, but this was partly offset by lower feed purchases. Building remodeling and repair were higher on about half the farms in the sample. Machinery purchases were the same to lower on most farms. Dealers reported decreased sales of machinery, including tractors and motortrucks, and no increase in automobile sales to farmers. Property taxes continued their upward trend.

Living expenses remained generally at last year's level. Expenditures for household appliances and equipment were the same to lower for most farms, and appliance dealers reported some decrease in sales.

Most of the farmers interviewed reported little difficulty in obtaining the credit needed to finance their present operations. They also expected to be able to pay off all bills and installments on loans as they come due this year. Merchants and dealers reported a slightly higher proportion of sales on credit, but payments on bills and installment purchases have been made on schedule.

Lenders reported an increase in loans for operating expenses, mainly for fertilizer. Bank loans for farm improvement and machinery purchases were about the same as last year, but nonbank loans were higher. A decrease in loans for purchase of land was reported. There were no marked changes in lending policies and no reports of foreclosures. It seems that the growth in importance of nonbank credit is continuing, with a 20-percent increase in PCA loans this year.

Two consecutive years of high crop production plus reasonably good milk prices have placed Mecosta County dairy farmers in a favorable position. Those who are expanding seem to be optimistic about the future. Those who have been unable or unwilling to expand acreage or size of business, however, do not share this optimism. Farmers who depend upon part- or full-time outside earnings to supplement their farm incomes also express little optimism, because they feel that nonfarm employment may be lower in 1961 than in 1960. The demand for credit will likely continue at a high level, thus enabling lenders to be selective in making loans.

Corn Belt 4/

Financial conditions on farms showed considerable variation throughout the Corn Belt this year, largely because of differences in crop production and livestock prices. Planting of crops was delayed last spring because of cool, wet weather. Crop production conditions improved during the growing season, however, and total production of the major crops should be only slightly below last year's. In general, crops are better in the eastern than in the western part of the area. Prices of most crops are lower.

Cash receipts from farm marketings for the first 8 months of this year were about 4 percent above the same period last year. Income from crops was about 17 percent higher but decreased income from livestock, which makes up about three-fourths of total cash receipts, offset most of the gain. Lower prices for beef cattle were the apparent cause of the slight decline in livestock income. Income from egg production was higher while incomes from hogs and dairy products were about the same to slightly higher than a year earlier. Production costs were a little higher this year than last. Higher taxes were reported throughout the area. In contrast, outlays for machinery, new farm buildings, and other capital purchases were cut back this year.

Nonfarm income is less important on Corn Belt farms than on farms in most other sections of the country. Yet most lenders reported greater availability of off-farm employment this year, especially in those areas close to industrial plants. Apparently, relatively high employment, except in the farm machinery industry, has accelerated the off-farm movement of farmers.

Nearly all lenders report increased demand for credit for operating expenses, but supplies of credit have been adequate. Demands for credit for purchase of feeder cattle have been below last year's levels, partly because of lower prices for feeder cattle and partly because farmers have delayed purchases beyond the time when they were expected to buy.

Farm-mortgage credit also appears to be adequate. Relatively high interest rates have attracted investors to the farm-mortgage market, while prospective borrowers seem to be postponing purchases in the hope of obtaining lower rates. The total amount of farm mortgages recorded in Illinois during the first half of 1960 was 16 percent less than the amount recorded in the same period of last year. In Missouri, the amount was 13 percent lower. This development seems to be in line with the recently reported decrease in sales of farms.

The debt-repayment situation is somewhat mixed. In the eastern half of the Corn Belt, payments have held up well. In the western half, there are more

4/ Ohio, Indiana, Illinois, Iowa, and Missouri.

carryovers and delinquencies, possibly because of poorer crop production and the greater importance of feeder cattle loans. Throughout the Corn Belt, FHA representatives report an increase in delinquencies and increased numbers of applications from farmers who formerly were financed by banks. This indicates a tendency of banks to shift their marginal borrowers to other sources of funds, and particularly to sources that provide lower interest rates and more fully supervised credit.

The outlook for 1961 is for relatively stable income and increasing production costs. Farmers may also increase purchases of machinery. This will tend to offset the cutback in purchases that was reported over most of the Corn Belt this year. The demand for short-term credit will remain high. The greater availability of farm mortgage money may result in a shift from short-term to long-term credit on some farms, however.

Surveys of three Corn Belt counties provide details on local farm credit and financial conditions.

Benton County, Ind., is a cash grain area. For this reason, crop yields and grain prices are important determinants of income in the area. Much of the corn and soybean crop is held over for sale in the year after it is produced, so crop production in the previous year affects current income.

Cash income from crops was lower in the early part of the year because of low corn and soybean production in 1959. The reduction in income was partly offset by higher yields of wheat and oats this year, but the acreages of these crops are small. Prices have been slightly lower for all crops.

Income from beef cow herds is lower than in 1959, because of lower prices for feeder calves. Higher hog prices have improved the cash income position of farmers with hogs, but not sufficiently to offset the reduced crop production of 1959.

The county's five major lending institutions loaned 12 percent more for operating expenses in 1960 than in 1959. At the beginning of the 1960 season, there were more carryover loans than in 1959, and loan renewals were sometimes larger than had been expected. But delinquencies have not been numerous, and no foreclosures were noted. Some merchants have carried open accounts for farmers for more than 90 days. One feed dealer reported 180 accounts more than 30 days old and 98 more than 90 days old. However, he had made collections on 92 accounts within 2 weeks after starting a new credit policy.

During the last 18 months, bank deposits have declined, as some money has been taken from deposits and placed in more attractive investments, but there has been little cashing of savings bonds and bond-purchase quotas have been reached. Farmers' savings and reserves vary widely; apparently, they are related to age and length of time in farming, with older farmers generally having more reserves.

Farm operating expenses have risen slightly. Taxes payable in 1961 have increased with the higher tax rates. Expenditures for production items were essentially the same as in 1959. Expenditures for land improvements and building repairs show little or no difference. Major remodeling of buildings and new construction seem to be curtailed somewhat.

As a group, cattle feeders in Bureau County, Ill. did not fare as well in 1960 as they did in 1959, largely because of an unfavorable price spread between feeders and fat cattle. Variations in income among farms were substantial, however. Late-purchased feeders and short-fed yearlings sold in March or April fared much better in the market than other cattle. Incomes on farms with hog enterprises were maintained at higher levels than on those without hogs. Grain prices have trended downward, but yields have been good except in small areas where crops were damaged by the late, wet spring. Off-farm income has never been important in this area of Illinois, especially on livestock farms.

Farmers cut expenses in 1960 to compensate for lower income. Outlays for feeder cattle will be less on most farms because prices of replacements are somewhat lower than they were last year. Intermediate and long-term investments, such as automobiles, trucks, machinery, and equipment and buildings, bore the brunt of the cutback. Farmer intentions are to maintain a rather low level of outlay for these items in 1961. Outlays for operating expenses and other inputs that would affect the current volume of business were maintained or increased in 1960.

Because of a relatively high carryover of 1959 loans, the amount of loans outstanding was greater in October 1960 than in October 1959. The high carryover was due to the large outlay for cattle in 1959, lower returns with which to retire loans, and the fact that farmers held cattle longer than usual in hopes of a strengthening market. A few farmers will not be able to pay debts as promptly or in the amounts they had planned to pay, but except for the occasional poor manager, no operator was reported to be under pressure.

Cattle feeders in this study made little use of interest-bearing credit for items other than cattle. Charge accounts that did not involve interest or finance charges were used more freely, however. Merchants reported that farmers tend to lean heavily on this source of financing during periods such as the 1959-60 decline in cattle-feeding profits.

Prices for fat cattle are expected to run $1.50 to $2.00 per cwt. lower in 1961 than in 1960. Profits in 1961 will depend on prices paid for feeders this fall, and few droves had been purchased at the time of the survey. Bureau County is representative of the State as a whole with respect to cattle feeding.

Hog farms rank somewhat better to much better in 1960, depending on the proportion of hogs that reached the higher second-half markets. Conditions on dairy farms have changed little in the last several years. A few costs have been creeping upward, but feed prices have been going down. These situations are statewide.

Grain farms in Bureau County are likely to fare somewhat better in 1960 than in 1959, despite excessive spring rains. Wheat yields were excellent, the 1960 crop running a fourth above the 1959 crop. Production of both soybeans and oats are improved over last year, but corn production may be off a little. Local areas also suffered from drought late in the season, but on the whole, the outlook for crop production is good.

Crop and livestock returns are lower in Story County, Iowa, and production costs have increased. High-moisture corn from the 1959 crop, much of which was sold this year, contributed to the lower crop income. Good soybean yields are expected this year; they will partially make up for the loss of income from corn. Farmers paid high prices for feeder cattle last fall and sold at low prices this year, so livestock returns were considerably lower. As in other years and in other parts of the Corn Belt, nonfarm income was relatively unimportant despite the fact that more farmers worked off their farms this year.

The need for large amounts of credit continued this year. Lenders and dealers reported that farmers seemed to be more willing to use credit for operating expenses, and that many farmers have used larger amounts this year. Some lenders raised their interest rates this year and most of them demanded more security on loans. Payments on loans have been made on schedule, but most dealers complained of slower collections on credit sales this year than last.

In contrast to the increase in loans for operating expenses, loans for feeder cattle purchases are lower than they were at this time last year. Farmers have adopted a "wait and see" attitude toward cattle purchases this fall, possibly because some of them were hurt by paying high prices last fall. Most loans from last year have been paid off despite low returns. Farmers may have drawn on reserves and savings to pay off loans, because banks reported lower savings deposits for farmers.

Farmers and dealers alike mentioned a general curtailing of capital investment this year. Major building repairs and machinery purchases have been postponed. Apparently, some farmers are "living off depreciation," as living expenses were higher for more than half of those in the survey. A cautious attitude was noted also with respect to purchases of farm real estate. One lender reported that a number of farms have been for sale but have attracted few prospective buyers.

The outlook for 1961 varies with type of farm. Like many other areas, Story County suffered from too much rain early this year. Some farmers were predicting lower corn yields for the current year, and this would affect the income of cash grain farmers next year. Feeder cattle prices are lower this fall, which will tend to reduce cattle feeders' credit needs. Hog prices are expected to remain strong through the rest of this year and the first of 1961. Dairy farmers will be able to maintain gross income if production is stable.

Conditions in Story County are typical of much of Iowa, except for the southern fourth and an area in the northeastern corner of the State. In both these areas, crop production is much lower this year because of adverse weather. The resulting decrease in income will affect farmers' credit needs for financing next year's production.

Appalachian and Southeast 5/

The financial condition of farmers in the Appalachian Region and Southeast is about the same to moderately weaker than a year ago. Cash receipts from farm

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5/ Alabama, Florida, Georgia, Kentucky, North Carolina, South Carolina, Tennessee, Virginia, and West Virginia.

marketings during the first 8 months of 1960 decreased about 4 percent from the same period a year earlier.

In general, 1960 has been a favorable crop year. Except in some areas of cotton and vegetables, yields of most crops are expected to be good. Tobacco and peanut producers are experiencing higher yields, along with slightly higher prices. Cotton production varies between States because of variations in weather. In general, lower yields along with slightly lower prices, predominate. Despite the effect of the hurricane, citrus producers have had a good year productionwise, and prices have been about average. Vegetable producers have suffered another poor year because of adverse weather. The livestock situation is somewhat weaker this year primarily because of lower prices for beef cattle. Dairy and hog farmers have about the same incomes as last year. Broiler and egg producers have received slightly higher prices during 1960 than in 1959.

Reduced gross farm income, along with higher operating costs, has caused some reduction in net farm income. In many areas, the reduction is offset by income from off-farm employment. New industrial developments have provided employment for family members, particularly in areas of small farms. Social Security payments have helped to maintain the standard of living of older farmers in some areas.

Because farms are increasing in size and becoming more mechanized, and because of higher operating costs, farmers' need for credit continues to increase. Lending institutions report that they are serving about the same number of farmers as last year but that the average amount loaned per farmer is higher. In general, ample credit is available to farmers, but lenders are screening their applications more closely. Carryovers and delinquencies are no particular problem, even though they have increased slightly over a year ago. The number of foreclosures continues to be at a very low level.

Financial reserves of farmers remain at a low level. Some reduction has occurred this year for operating and living expenses. Despite higher expenses and reduced income from farming, the standard of living for most farmers has been maintained or increased by off-farm employment and other income from nonfarm sources.

Some farmers are moving to off-farm employment in industrial areas; others are becoming part-time farmers.

More detailed information for important types of farming in these regions was obtained through special surveys. Most farmers in Wilson County, N.C. are tobacco farmers. The yield per acre of flue-cured tobacco will be about 200 pounds above last year. The quality of flue-cured tobacco has held up quite well thus far, and prices are averaging about 60 cents a pound. Even though costs of labor and some of the other inputs are up from last year, net income from tobacco should be substantially higher than in 1959. Although hurricane "Donna" blew the corn down rather badly, most of it will be saved and the corn crop is expected to be about the same as last year. The cotton crop is predicted as only fair. Wilson County farmers grow relatively few livestock for sale, although numbers of hogs and poultry have increased during recent years.

Farmers' attitudes toward use of credit do not appear to have changed significantly. Loan payments have held up rather well and should improve with the marketing of the tobacco crop. There will be few delinquencies and almost no foreclosures. Lenders' practices and policies are pretty much the same as last year.

There is a continued tendency for farm tenants to stop operating as tenants and to become farm laborers on the tobacco farms in the county. Many farm families continue to move to employment in the nonfarm sectors of the economy. This trend is likely to continue.

Cotton is the major crop in Laurens County, S. C. Most farmers expect a short crop in 1960 because of poor weather and heavy damage from boll weevil. With increased production costs and lower prices for cotton, net income from farm operations will be reduced considerably from last year. Cotton farmers who have dairy or poultry operations have had as good incomes this year as last from these enterprises. Farmers with beef cattle have had reduced income from this enterprise, as well as from cotton.

Even though farmers in this area are reluctant to use large amounts of credit, many had to do so this year because of adverse weather and disease. The additional credit used this year was not expected to cause any increase in delinquencies or carryovers.

Two relatively poor years for cotton production have caused some farmers to leave farming. Incomes received from work in nearby mills is more attractive. The larger farmers are in better position to withstand a period of low prices and production than the smaller farmers.

In Grainger County, Tenn., where small-scale farming predominates, gross farm receipts in 1960 were about the same as in 1959. Substantially lower beef cattle prices were largely offset by an increase in number of beef cattle, a steadily rising milk output, and an expansion in production of specialty crops, especially peppers. Despite late plantings, receipts from burley tobacco, which accounts for two-thirds of the cash farm income, are expected to equal returns from the good 1959 crop. With generally stable costs, except for the rising cost of seasonal labor, operators generally have about the same net cash income from farming as a year ago. Nonfarm incomes continue to rise because of some expansion in off-farm employment and increases in Social Security payments. This upward trend in nonfarm income was accompanied by increased expenditures for household equipment and furnishings.

The 1960 volume of loans made by credit agencies was only slightly larger than the 1959 volume. Loans for purchase of tractors and farm equipment declined, but the volume of loans for farm improvements, chiefly dwellings, increased. Improvement loans were made largely to part-time and residential farmers, reflecting the increasing importance of these groups in the economy of the county. Small-scale farmers continue to depend on merchant and dealer credit for the greater part of their needs.

In the year ahead, farmers in Grainger County expected to be in about as strong a financial position as they were in 1960. The volume of credit available to farmers in 1961, should be as large as that in 1960.

Farmers in Terrell County, Ga., are experiencing one of the best crop years on record. Favorable weather during most of the year has increased both the yield and quality of crops over last year. Peanut prices are slightly higher than a year ago, but cotton is bringing a slightly lower price. Farmers are receiving lower prices for beef cattle this year; hog prices are slightly higher than a year ago.

Gross farm income in Terrell County is expected to be considerably higher than last year, mainly because of good crops and the increase in the price of peanuts. To some extent, however, increasing costs of production have offset the gain in gross income this year. Operating expenses are higher in 1960 than in 1959 on most farms. Most farmers reported larger expenditures for machinery and equipment than last year. Higher prices and machinery replacements accounted for most of this increase. Many farmers seem to be making machinery replacements that were delayed from the last 2 or 3 years. Others are mechanizing their farming operations more fully.

The credit needs of farmers in Terrell County were greater this year than in 1959. Most lenders indicated that the average amount loaned per borrower was larger and most merchants reported an increase in sales on credit. Increased operating expenses and lack of cash reserves from last year's crop were the main cause of the increase.

Credit from most sources seems to be adequate. However, there is some indication that credit is becoming more restrictive for the higher risk operations. Each year, farmers who operate on a small scale experience a greater difficulty in obtaining adequate credit.

Livestock and row-crop farming predominate in Dallas County, Ala. Most farms produce some livestock, usually beef cattle on a cow-calf operation. Although dairy farmers usually do not grow cotton, they often have beef cow herds. If the cotton crop can be harvested without bad weather, it promises to be the best since 1955. The corn crop seems better than average. Hay will be average in quantity, but it tends to be poorer in quality.

Production expenses have increased on most farms during 1960. The increased expenditures and the relatively poor 1959 cotton crop have resulted in about a 10-percent increase in bank loans to farmers. Although the banks and equipment dealers had not noticed a change in their collections on loans and on credit purchases, the managers of two cooperatives reported that some farmers, particularly dairy farmers, were slower in making payments this year than last.

Because of good cotton yields this year, even with lower cattle prices, the financial situation of livestock-cotton farmers should be better at the beginning of 1961 than it was a year earlier. The financial situation of beef cattle and dairy farmers is expected to be somewhat weaker for 1961 because of declining cattle prices and increased capital outlays in 1960. Several of the smaller, more inefficient dairymen have gone out of business, while the larger, more efficient dairymen are expanding their operations in an effort to maintain net income.

The vagaries of the weather during the 1959-60 season were easily the most important factor affecting the vegetable growers of central Florida. Three bad years in a row have left many west-central Florida vegetable growers in a very serious financial situation. They have used up their capital reserves. Many have been unable to meet their payments on borrowed capital, and debt carryovers and delinquencies have increased a great deal. As a result, merchants have cut down on sales for credit. Lending institutions do not look with favor on loans to vegetable growers; they screen their prospects very carefully. While some vegetable growers are still able to carry on, many have quit farming, others have become part-time farmers, and still others have shifted into livestock production.

In the rest of central Florida, vegetables are grown on muck lands on farms which are generally organized on a large-scale basis. These operators have fared somewhat better than other vegetable farmers during the last year. They have little difficulty either in meeting their credit obligations or in obtaining additional credit.

In contrast to vegetable producers, citrus growers in central Florida had another good year during the 1959-60 season. Production was high, and prices were high enough to assure good returns. Expansion in the industry continues. Hurricane "Donna" caused considerable damage to the 1960-61 crop. The grapefruit crop was hit the hardest.

Delta States 6/

The production of cotton in 1960, the chief cash crop in the delta, is expected to total less in the area than in 1959. Increased output in Mississippi will be offset by declines in Arkansas and Louisiana. As prices received for cotton average lower than for the same period a year earlier, gross income from cotton in 1960 is expected to be less than in 1959. Production of sugarcane in Louisiana appears to be well above last year's output, while rice production in the three States will be up slightly from a year ago. Production of hay, sorghum grain, corn, and oats is running considerably lower in 1960 than in 1959 in all three States. Prices are no higher this year than last for any of the commodities, except sugarcane; consequently, gross income from farm marketings in the area is lower than in 1959. Net income of farmers will be less than in 1959 because of lower receipts and higher operating costs.

Contributing to higher operating costs were increased outlays for feed, necessitated by the unfavorable winter, which curtailed winter grazing, and a droughty summer, which reduced hay and pasture yields. Higher costs and lower incomes weakened the financial position of farmers in 1960 compared with 1959.

Credit demands and use in 1960 were about the same as in 1959, although the carryover of income from 1959 enabled many farmers to hold their borrowings lower than they would ordinarily be. Lenders in the Delta region, like many of their counterparts in other regions of the United States, tightened conditions for

6/ Arkansas, Mississippi, Louisiana

loans in 1960. Many were requiring real estate, as well as crop, collateral for farm operating loans. Loan payments were maintained in 1960 and debt carryover into 1961 will be comparable with that into 1960. Foreclosures in the area were infrequent.

Expenditures for capital equipment varied, but on the average, they were less than they were in 1959. Building-maintenance outlays were unchanged from last year. The off-farm movement of farm operators unable to expand or increase their farm efficiency continued at about the same rate as a year earlier.

Nonfarm employment was about the same as that of last year, with a slight increase in the number of rural people drawing Social Security payments.

The outlook for 1961 is for a greater need for credit than in 1960 because of the smaller expected proceeds from the 1960 crop. Lenders anticipate a decline in the use of credit for enlargement purposes and an increase in its use for refinancing and for family living purposes.

1960 farm income prospects for cotton farmers in Mississippi County, Ark., are slightly below average but considerably below the levels of 1959. Off-farm income, which is relatively unimportant and derived mainly from custom work, is also down this year because of the increased number of machines on farms and the short crop.

Production costs in 1960 increased because of adverse weather. In the spring, from 85 to 90 percent of the cotton acreage was replanted. Farmers were chopping cotton after the operation was usually discontinued, because the cotton plants did not grow tall or bushy enough to shade out weeds and grass. The short cotton stalks also increased the difficulty and added to the cost of machine harvesting.

Farmers interviewed in the county increased their investments in machinery in 1960 compared with 1959, primarily because the good year of 1959 enabled them to make replacements postponed from 1957 and 1958.

Credit and its use in Mississippi County remained about the same as last year except for machinery debt, which was higher. Lender attitudes toward regular farmer borrowers were unchanged from a year earlier. Banks and other private lenders did not solicit new business. Debt carryovers into 1961 were expected to remain unchanged from 1960.

At the end of 1960, farmers are expected to be in a moderately weaker financial position than they were at the end of 1959. The need for credit in 1961 will increase, as there will be less income from 1960, and available reserves will have been drawn down during 1960.

Southern Plains 7/

Average prices received for cattle - one of the three major products in the Southern Plains - are considerably lower in 1960 than they were in 1959.

7/ Oklahoma and Texas.

These low prices for cattle accounted for most of the decline in farm income. Total crop production is higher in 1960 than in 1959 and will offset lower average crop prices. The output of wheat, cotton, oats, sorghum, and soybeans, is expected to exceed the 1959 production, while production of corn and hay probably will be lower.

Farm operating costs and expenditures for family living in 1960 were reported to be higher than in 1959. The unfavorable winter of 1959-60, which checked growth of winter pastures and necessitated prolonged supplemental feeding, contributed to increased production costs of livestock producers. Higher labor and machinery costs are two additional items responsible for generally higher farm operating costs.

Income from nonfarm sources is almost unchanged from 1959 - employment growth in the area was moderate and the low level of activity in the petroleum industry kept oil-lease and production payments at modest levels.

Farmers used more credit in 1960 than in 1959, especially for production purposes, but there were some reports of borrowers "running out of collateral." Applicants were carefully checked for equity position and for managerial ability. Borrowers who were unable to meet optimum standards were referred to other credit sources.

Farmers and lenders do not expect debt carryover into 1961 to change much from the previous year. Delinquencies and foreclosures in 1960 decreased from 1959 levels. Foreclosures were kept low by voluntary liquidations.

Indications are that on the average, the financial position of farmers will be about the same at the end of 1960 as it was in 1959. Operators on the better and larger operations continue to improve their income position, while operators on small units are losing ground because they have limited means of increasing efficiency. Many owners of small units are moving out of farming in 1960, but at a slower rate than in 1959.

The consensus of cotton farmers interviewed in Navarro County, Tex., for the 1960 financial survey was that the financial position of part-time farmers will be unchanged from last year, but that the situation of those without off-farm income will be worse at the end of 1960 than it was a year earlier. Agricultural income on all types of farms is down generally. Although more acres were planted to cotton in 1960 than in 1959, total production is about the same as last year because of yield losses resulting from root rot and heavy insect damage. The income of cotton farmers with supplementary incomes from beef production will also be adversely affected by the decline in cattle prices.

Merchants in the county report a slack in business. An increasing volume of their trade comes from farm families with nonfarm income; other farm families have adopted a more cautious attitude toward expenditures of any type.

The amount of debt outstanding held by the different lenders in Navarro County has increased from last year. However, the number of farmers served has remained constant. A large proportion of the loans secured by real estate were for purposes of expanding livestock enterprises and refinancing other debts. This was also a characteristic of short-term operating loans made by the production credit associations. Debt carryover from 1960 will be less than from 1959.

The West 8/

Cash receipts from farming in the first 8 months of 1960 were estimated at $5.9 billion for the 15 Western States. This is about the same as receipts during the like period of the preceding year. As the 1960 bumper wheat crop moves into market or is placed under Commodity Credit Corporation loan, it seems almost certain that farm income in this region will exceed that of 1959.

In the Western States, an area of some 1.5 million square miles, weather varies widely. This variation is partly responsible for widely differing financial situations among individual communities. In the aggregate, the weather was more suited to crop and livestock production in 1960 than in 1959. Moisture generally has been adequate this fall for winter wheat, pasture, and rangeland.

Credit is expected to be almost as tight in 1961 as it was during the latter part of 1960. As the exodus from farming continues and the remaining individuals add land to existing farms, they require long-term credit to finance their acquisitions. In localities where crops have been poor, some farmers are shifting their short-term loans into long-term indebtedness. This debt consolidation and subsequent refinancing will continue in 1961.

Short-term bank loans, which are customarily used for current farm production, are averaging larger this year as farm sizes and costs of inputs increase. Almost without exception, lenders throughout these 15 States report that "applicants for loans are on the increase and the average amount per borrower is greater due to higher operating costs."

In certain areas, the 1959-60 loan carryover was above normal because of 1959 crop failures. This year, the carryover may be less as crop output was higher. But some carryover will remain because, "you can't make two years' living on one year's crop." There is some evidence that a few commercial banks are attempting to reduce their risks by referring some of their clients to local FHA offices for financial assistance. In some regions, where a particular bank feels that its portfolio is heavy with short-term paper, an effort may be made to convert some of this paper into long-term, real estate loans for greater security. Some farmers are encouraging this switch, as, not only is the interest rate lower on long-term loans, but the smaller annual payments help to conserve cash.

Farm mortgage debt increased during the 12 months ended January 1, 1960. For these 15 States, long-term debt jumped 10.6 percent in calendar-year 1959. This increase was 2 percent greater than for the 33 remaining States. In the West, however, 1959 was a poor crop year, and in 1960, the need for credit was relatively greater than normal.

8/ The West encompasses three major agricultural regions for this report: Northern Plains, Mountain, and Pacific States.

Farmers' bank deposits have been shrinking throughout the West. Concurrently, their purchase of savings bonds has generally been the same or lower; at the same time, the amount of bonds cashed has been higher.

Operating costs are edging upward in most farming areas. This movement is expected to continue in 1961, although the rate of increase may diminish. As a result, the number of farmers and ranchers seeking credit from all categories of lending institutions is likely to be larger next year. In addition, their loan applications are likely to specify greater amounts.

Northern Plains States 9/

Wheat production in 1960 was excellent in the Northern Plains States. As this is the major agricultural enterprise in this region, the financial situation is much improved over 1959, a relatively poor year for wheat. Wheat prices have been only slightly below those of a year ago, with the result that gross farm income was substantially higher this year.

Cattle prices were lower in 1960 and it is probable that they will not improve in 1961. Cattle numbers are at high levels, and yields of feed crops were good in much of the region. In a few sections, drought was severe and substantial reductions were made in livestock numbers because of lack of feed. This is particularly true of western South Dakota and in a part of the Sand Hills area of Nebraska.

McLean County, N. Dak., farmers are still in a cost-price squeeze, as is revealed by a special survey of the financial and credit situation. Prices of most of the farm commodities produced decreased during the last 12 months, while prices of many things the farmers buy have tended to edge higher during 1960.

Participation in the Conservation Reserve, which had been rather low in McLean County, increased to nearly 51,000 acres this year, up 31,000 acres over 1959. This rapid increase during the last year has cut into purchases of machinery and petroleum products but has stimulated purchases of grass seed.

There seems to have been ample credit available to farmers despite a greatly expanded need for operating funds caused by an unusually long 1959-60 winter-feeding period, coupled with poor crop returns in 1959. Credit agencies expanded the volume of loans outstanding by 25 to 50 percent to meet the situation. Most credit agencies indicated that they would have been financially able to handle a larger volume of loans had farmers applied for them.

For the county as a whole, farmers' financial reserves are reported to be down from last year. At the same time, a smaller proportion bought savings bonds, and a larger proportion cashed bonds than last year. Farmers and stockmen in this area apparently will draw on this reserve before going into debt for current operations. By the end of 1960, when farmers and stockmen have received the cash from crop sales, price-support loans, and cattle marketings, total bank deposits of farmers will be up considerably compared with the amount a year ago.

9/ North Dakota, South Dakota, Nebraska, and Kansas.

Although the financial condition of McLean County farmers has improved considerably during the last year, they have not fully recovered from the effects of the 1959 drought. The demand for short-term operating credit will be relatively strong next spring, although somewhat less than it was this year.

The average size of loan per borrower will continue to increase. This will be true of all classes of loans. For the last two decades, average size of farm has increased at an average annual rate of about 2 percent, and so far there has been no noticeable tendency for this rate to slow down. Bigger farms mean larger power units, more expensive implements, and higher operating costs.

Cattle ranchers in Cherry County, Nebr., report that their 1960 financial position is considerably weaker than last year. Bank deposits were reduced, more money was borrowed, more merchant credit was used, and debts were larger than in 1959. The reason is that cattle prices are down for the second year in a row, and prices this year are $4 to $6 per hundredweight below last year.

Since early September, a marked change had been reported in the availability of short- and intermediate-term credit. Lower cattle prices have reduced net worth, repayment capacity, and bank deposits. According to reports, reduced bank deposits have resulted in a higher loan to deposit ratio and, in order to restore a more favorable ratio, many bankers are requesting a sizable reduction in the size of loans coming up for renewal. This situation is creating an acute shortage of short-term credit. Ranchers with sufficient equities in their lands and who are able to transfer some of their short-term indebtedness into long-term real estate loans will not be greatly affected by a shortage of short-term credit. Those who are not able to do so may be in serious trouble in 1961.

In Cherry County, moisture has been adequate. Range and feed supplies are excellent. In some of the southern and western Sand Hills areas, however, drought is a serious problem. Carrying capacity has been reduced by as much as a third to half of normal. Hay is in short supply in these sections, and some reduction in cattle numbers is expected.

Credit and financial conditions in the southern sector of the Northern Plains were represented by a survey conducted in Ness County, Kans. Gross farm incomes in the county were substantially higher in 1960 than in 1959 because of an excellent wheat crop and increased cattle marketings.

Credit seemed to be adequate. Fewer farmers in the county used credit this year than last. Agencies extending credit indicated that there was little change in farmers' attitudes toward using credit and that few changes have occurred in lenders' policies. Some increase in interest rates and a greater desire to make mortgage loans were reported by some lenders. Few delinquent accounts were carried into the 1960 season. The FHA delinquencies are expected to drop from 40 percent at the beginning of 1960 to about 10 percent by January 1, 1961. Reported carry-overs of banks, the production credit associations, and Federal land bank associations were negligible.

Mountain States 10/

Declining prices for cattle and sheep during 1960 have caused some deterioration in the financial condition of many ranchers throughout the Mountain States. The situation was further aggravated by a continuing upward trend in operating costs.

Numbers of both cattle and lambs are up this year. Additions to the beef herd have expanded it to a point at which increased marketings of all classes of cattle are almost inevitable. With generally average range conditions throughout the area, marketings can be orderly, and relatively gradual changes in marketings and prices are the outlook for 1961. Lower cattle prices, combined with prospects for slightly increased marketings of sheep and lambs, will tend to weaken lamb prices in 1961.

In Custer County, Mont., the credit and financial situation of ranchers and farmers for 1961 is expected to be about the same as that prevailing in 1960. The ranchers' consensus is that having survived 3 poor years in a row, the situation can only improve. If it rains, cow herds may build up and bring an increased demand for rangeland.

Spring grains were poor, and winter wheat was spotty with yields ranging from 4 to 30 bushels per acre. Timely rains were responsible for the better crops.

Some ranchers had trouble with a higher than usual rate of abortion at calving time. This was blamed on a vitamin deficiency in the grass arising directly from drought conditions. In addition, calves are "turning off" extremely light. Consequently, the profit margin is small. Little hay was raised in the area this year and demand in 1961 will be high as ranchers began to buy supplemental winter feed.

There is a definite trend toward fencing sheep range. This involves an outlay of something like $500 per mile for woven sheep fence. The fencing has been forced on sheepmen because competent herdsmen are scarce. The costs of a sheep enterprise are increasing, either because of the expense of fencing or the poor gains and high mortality rates associated with incompetent labor.

Bankers report only a small reduction in deposits. Most lenders and many ranchers expect a higher than normal volume of carryover of debt in the 1960-61 winter but not an alarming amount.

Spring frosts in Canyon County, Idaho, caused widespread damage to sugar beets, fruit, and hay crops. The cold wet spring, together with the record low April temperatures, delayed most crops. Many beet growers replanted their beets because of frost damage, and some planted three times. Yields were expected to average 2.5 tons below the 1959 production. In addition, the initial fall beet payment will be reduced about $2 per ton because of uncertainty as to the final sugar prices. This reduced fall payment, coupled with lower yields and higher operating costs, will put the sugar beet grower in a weaker financial condition

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10/ Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, and Nevada.

as 1960 ends. As a result, many farm operating loans normally paid in the fall will be carried over into the spring of 1961.

With big crops of both ensilage and corn for grain and the lowest feeder cattle prices in several years, more cattle will be on feed this season than during last year. Cattle feeders may receive somewhat higher gross returns in 1961 than they realized in 1960.

Most agricultural lenders served more farmers with larger loans this year than in 1959. They anticipate that more borrowers than did so this year will need to carry over past-due installments into 1961.

Merchants report that 1960 sales are down from 1959. Petroleum products, lumber, fencing, and hardware are down from 3 to 11 percent. Automobile and truck sales are down as much as 25 to 30 percent at some agencies.

Potato and onion producers have had a good year and their financial position has improved. At the same time, hop growers will end 1960 in a somewhat poorer financial condition because hop prices are lower this year than last.

"I've been here since 1932 and it's the best I've ever seen it," said one Guadalupe County, N. Mex., rancher about 1960 range conditions. Ample 1960-61 winter range forage seems assured.

Although cattle and lamb prices are down this year, lower feed costs will tend to offset the lower prices, and the net effect will probably be moderately lower income in 1960 compared with the preceding year.

Cattle numbers are up. Some estimates run as high as 10 percent over last year. This is attributed largely to improved range conditions. Sheep numbers, following a longtime trend in this county, will be below those of 1959.

The credit situation has been satisfactory. Most ranches are large, and operators have little difficulty in obtaining adequate funds. Interest rates have firmed this year. They are generally 0.5 to 1 percent above a year ago. Delinquencies and carryovers have been low in the last several years, and they are expected to be virtually nonexistent this season. In the absence of severe drought, the outlook into 1961 is good.

Pacific States 11/

Of special concern to farmers and ranchers in the Pacific States is the increased cost of labor. The farm labor requirements in these three States as a unit are substantial and outlays for harvest labor account for a major part of harvesting costs. Hence, wage increases - reported to be as high as 20 to 25 percent in some areas of California, for example - cut sharply into the net income of farmers.

11/ Washington, Oregon, and California.

Cattle feeding activity in the area continued to rise sharply during 1960, with an accompanying increase in demand for funds. In southern California, dairy farms, too, are expanding.

Farmers throughout the tri-State area are utilizing more short-term and long-term credit. The rising cost of production was cited as a principal reason for the increase in short-term credit. Consolidation of short-term debt into credit obligations of longer maturity appeared to be a factor in the rise in long-term debt.

The general financial and credit situation of farmers in the Pacific States in 1961 will be the same as, or weaker than, it was this year.

An area of general farming, Polk County, Oreg., has relatively few highly specialized farmers. This year's survey revealed that the financial situation for the area is slightly weaker than it was a year ago.

In this county, nonfarm employment of the operator and family members has increased, and income from this source is considered by many farmers to be the main factor in maintaining a solvent position, particularly by those on the smaller units.

Farmers' needs for credit are increasing. A larger number of farmers have not been able to repay their 1960 production loans this fall because of crop failures or low-quality crops. Production loans, too, are becoming larger because of a rise in operating costs. There will be more loan carryovers into 1961 than there were into 1960 but there are no indications that the rate of foreclosures will be greater than usual.

Polk County farmers expect that in the coming year, their financial situation will remain relatively the same as in 1960.

Madera County, Calif., represents a diversified crop area. The major agricultural enterprises are cotton, beef cattle, grapes, dairy, and dryland farming. The farmers interviewed were of the opinion that their net financial position in 1960 was about the same as, or moderately weaker than, in 1959. One of the contributing factors mentioned was an increase in operating costs in 1960 over last year. Labor costs showed the greatest relative increase.

Lending agencies are examining their loans more carefully, but few of the farmers interviewed had difficulty in securing credit. Most of the lending agencies expected the carryover of past-due installments into the 1961 season to be about the same as a year ago. Because of unfavorable harvest conditions, raisin producers have experienced some difficulty in repaying loans in the last 2 years.

An increasing number of farmers have delayed repairs, improvements, and replacements of equipment this year because of higher costs and anticipated lower income, according to the lending agencies. However, banks have observed no substantial change in 1960 with respect to farmers either drawing down their deposits or cashing their savings bonds to meet expenses. Although the farm debt load is higher than in 1959, farmers are optimistic about their ability to meet obligations and to obtain credit.

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