Federal Reserve Bank of Chicago - -

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Agricultural Letter

Number 998

THE MARKET FOR FARM REAL ESTATE has been characterized since 1960 by a relatively strong demand for farmland. With credit generally available to finance transfers during most of this period, land values responded by increasing rapidly and at a fairly steady rate.

For the past several months, however, it has been clear that the situation was changing in the Seventh District. After rising around 50 percent since the start of the decade, land values have recently leveled off and in some areas actually declined.

Two factors influencing land values for the last year or so have been the relatively low prices for principal Midwest crops, especially corn and soybeans, and the difficulty some potential buyers of land have had obtaining sufficient financing at acceptable terms. By reducing returns to farms, depressed prices, along with poor crops in some areas, left many farmers with fewer funds available for enlarging their farms.

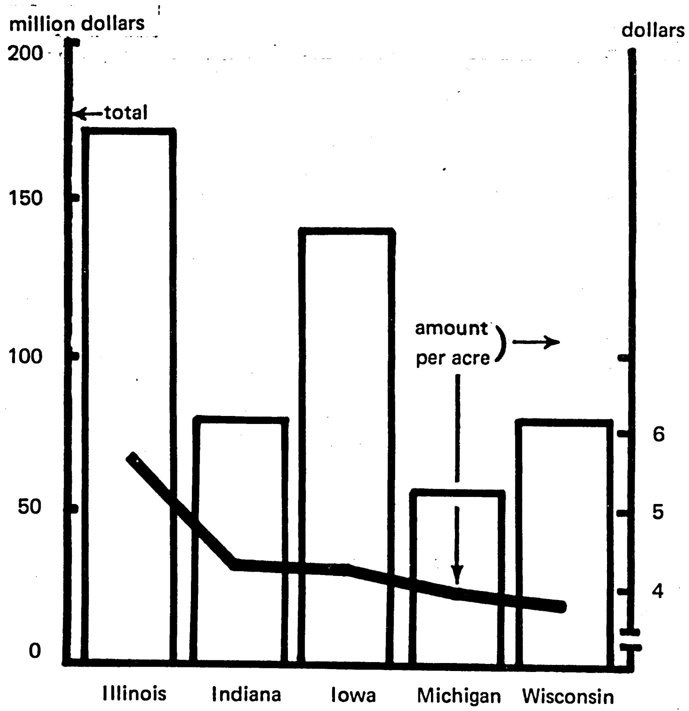
In addition, demand for land by investors other than farmers may have been dampened by the increasing attractiveness of rising returns on government bonds and other securities. Yields on long-term government bonds are now around 6 percent, compared with 4.5 percent two years ago and 4 percent four years ago. Mortgage rates, of course, have also moved up sharply. According to an early-January survey of country bankers, about four-fifths of the reporting banks were charging 7 percent or more on farm mortgages. A year ago, only about a fourth were charging that much.

The survey showed that, for the district as a whole, the value of "good" farmland rose about 2 percent in the last quarter, pushing January values 5 percent higher than a year before. Even so, price declines were numerous. Seven out of 17 areas reported lower prices in the fourth quarter, although only two indicated prices lower than a year before. (See back of **Letter**.)

There has also been a shift in attitudes toward the trend in land values, especially in Corn Belt states. About two-thirds of the reporting banks foresaw stable land prices, compared with three-fifths a year ago. And the proportion was higher in Illinois and Iowa. About 8 percent of the bankers—again largely in Corn Belt states—expected land values to edge downward over the next several months.

Taxes on farm real estate have continued to increase in line with the rise in land values. Although tax rates remained fairly stable, total taxes levied on farm real estate in the nation nearly doubled between 1957 and 1967, rising from slightly over $1 billion to $1.9 billion. (Taxes are payable the following year.)

Taxes Levied in 1967 Reach Record High



The rise in farm income was not nearly so sharp. Nationally, farm real-estate taxes equaled about 11 percent of total net farm income in 1967, compared with about 7 percent in 1957. Property taxes in the Seventh District states rose even higher relative to income. In 1967, taxes on farm property were equal to 17 percent of farm income in Michigan and more than 12 percent in Illinois, Indiana, and Wisconsin.

The increase in property taxes has been caused, of course, by the rapid rise in costs of local government. For the past decade, spending by local government has increased at an average annual rate of 13 percent. The most important item has been public education. Although increased amounts of state aid—largely from nonproperty taxes—have been made available by most states, most funds for education are still provided through local property taxes.

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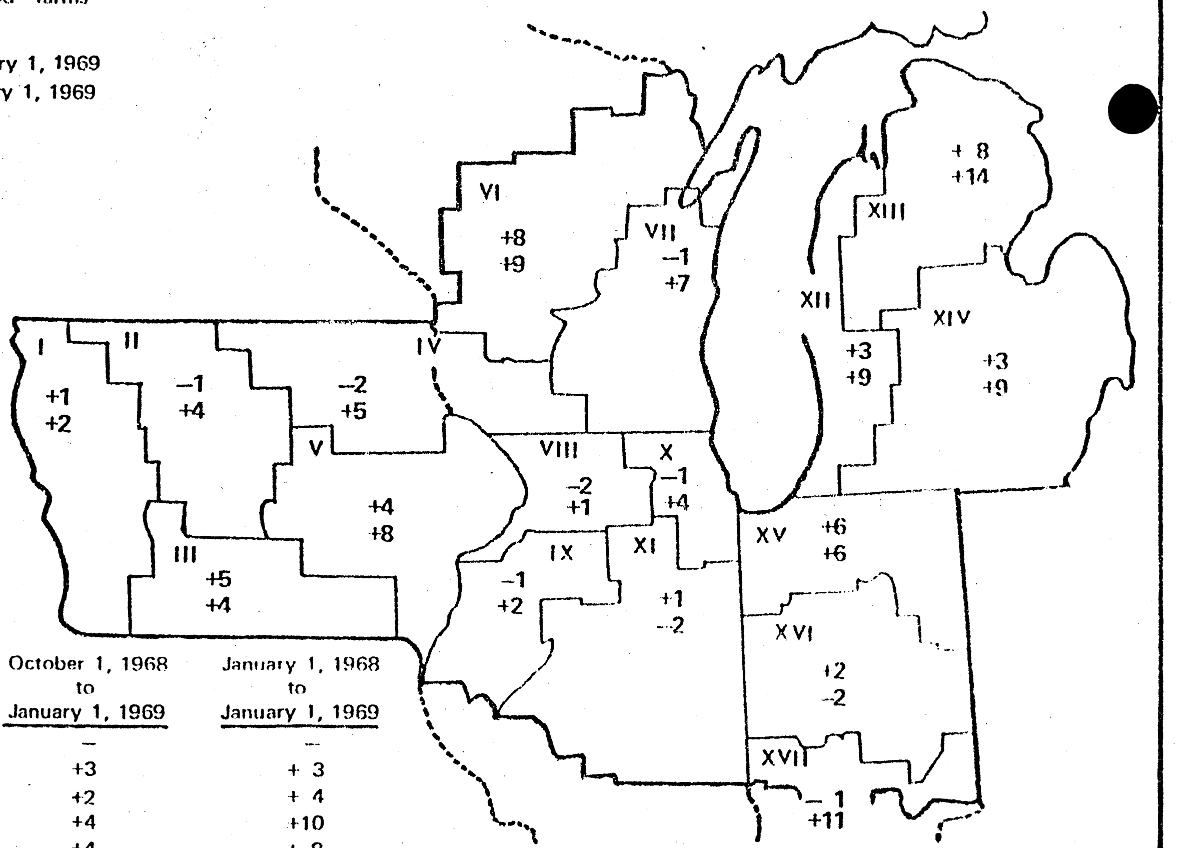
Percent change in dollar value of "good" farms

TOP: October 1, 1968 to January 1, 1969
BOTTOM: January 1, 1968 to January 1, 1969

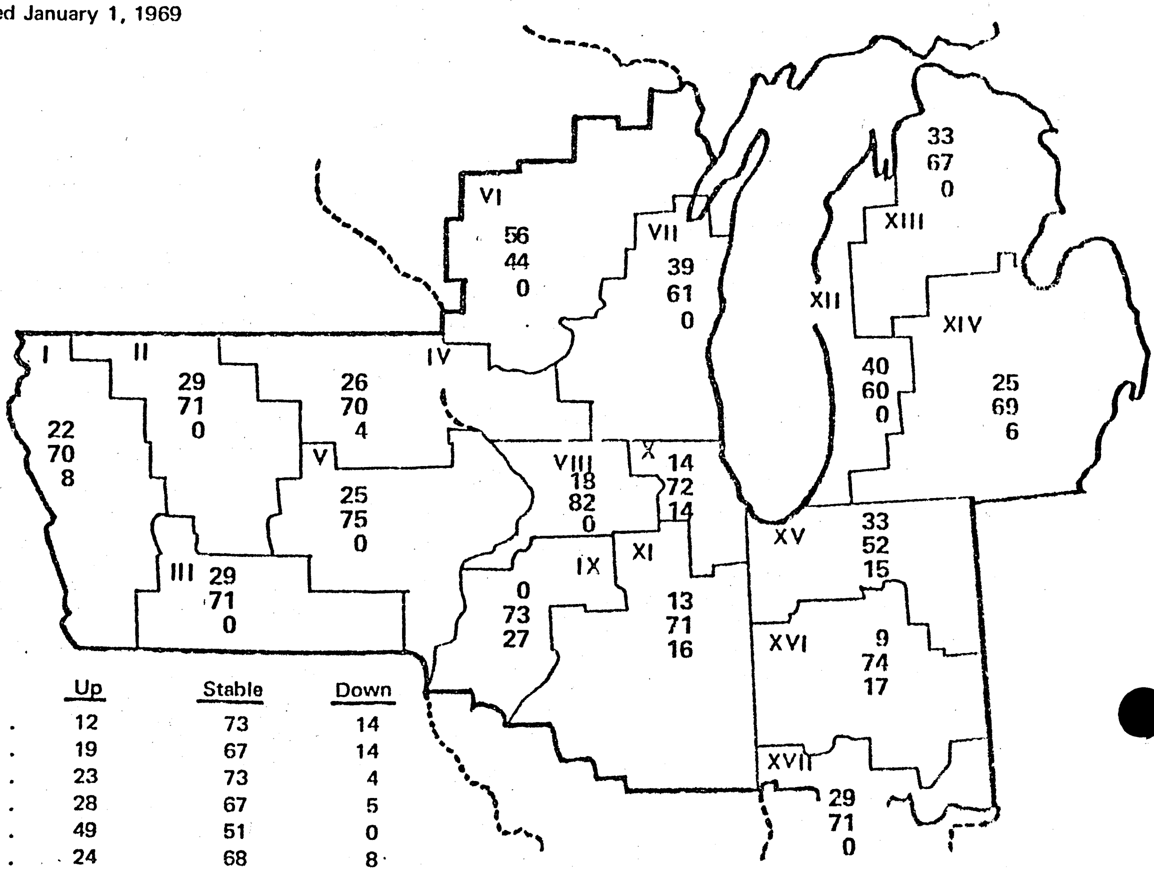
(Based on reports of identical banks)



	October 1, 1968 to January 1, 1969	January 1, 1968 to January 1, 1969
Illinois	—	—
Indiana	+3	+ 3
Iowa	+2	+ 4
Michigan	+4	+10
Wisconsin	+4	+ 8
SEVENTH DISTRICT	+2	+ 5

Current trend in farmland values based on opinions of country banks as reported January 1, 1969

TOP: Up
CENTER: Stable
BOTTOM: Down



	Up	Stable	Down
Illinois	12	73	14
Indiana	19	67	14
Iowa	23	73	4
Michigan	28	67	5
Wisconsin	49	51	0
SEVENTH DISTRICT	24	68	8