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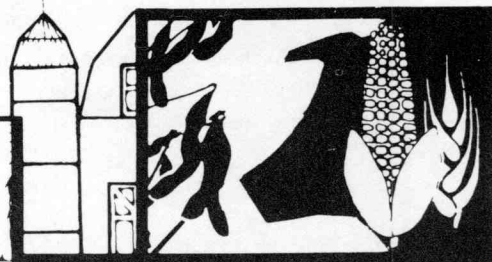
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FEDERAL RESERVE BANK OF CHICAGO

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LETTER

FARMLAND VALUES IN THE SEVENTH DISTRICT

edged lower again in the second quarter. According to a recent survey of more than 500 bankers in the Chicago Federal Reserve District, the value of good farmland declined 3.1 percent during the three months ending in June. This marks the third consecutive quarterly decline in District land values, an unprecedented occurrence in the 20-year history of the quarterly surveys. As a result, District land values at the end of June, on average, were down 10 percent from the peak of last fall. Rural bankers expect the downturn to continue, as over half of them forecast a decline in land values in the current quarter.

Land values in four of the five District states declined during the second quarter (see map on page 2). Michigan was the exception, as bankers reported an increase of 3 percent. The upturn in Michigan land values is surprising, but limited indications pointed to some energy-related developments there. Bankers in the District portion of Indiana reported the sharpest decline, 7 percent. In Iowa and the District portion of Illinois, land values declined 4 percent, while Wisconsin bankers indicated a decline of 1 percent. Relative to a year ago, the latest measures show that land values in four of the states are down by proportions ranging from 3 percent in Wisconsin to 19 percent in Indiana. In contrast, land values in Michigan are up 1 percent from a year ago. The sharp fall-off in land values in Indiana and to a somewhat lesser extent in Illinois probably reflects the low returns from corn and soybean production. Crop earnings comprise a larger portion of overall earnings in those states.

The decline in land values apparently has been most severe in the Corn Belt, which includes Ohio, Indiana, Illinois, Iowa, and Missouri. According to the USDA, which conducts a nationwide annual survey on changes in land values, the declines in values in those states averaged 10 percent from February 1, 1981 to April 1, 1982. Land values for the U.S. overall were down 1 percent during the period, the first decline since 1953. Average values declined in 22 states, nearly all of which

were in the eastern half of the U.S. The sharpest decline was reported in Ohio.

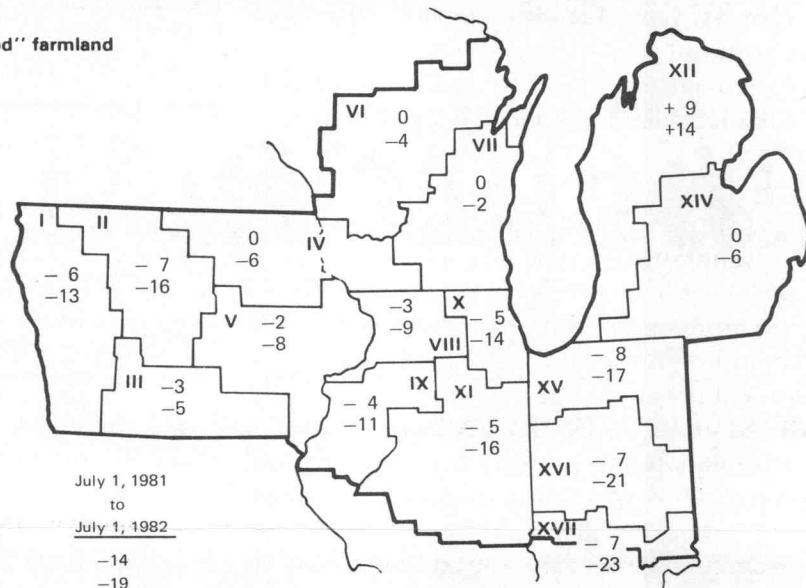
Low farm earnings and high interest rates have undermined land values and buyers' interest in purchasing land. Low farm earnings have resulted in a serious cash-flow squeeze for crop farmers, a loss of equity for some farmers, and reduced expectations of future returns for those contemplating land purchases. The index of prices received by farmers for crops this June was down nearly a tenth from the year before. High interest rates have meant sharply higher debt-servicing costs on new land purchases and higher returns on alternative investments, such as interest-sensitive money market certificates. The impact of these factors on farmland sales is very evident. Many observers in the Midwest have indicated that the land market is quite weak, with few buyers and few sales.

The erosion in the value of farmland is particularly significant to farmers who own the land they operate. Since, in the aggregate, real estate accounts for about three-fourths of the value of farm sector assets, any significant decline in farmland values reduces the equity of farmers. Since land often serves as collateral for loans, the deterioration in land values also reduces the borrowing power of farmers and increases the risk to lenders. In conjunction with a cash-flow squeeze, it aggravates the problems of highly leveraged farmers—those who have high debt levels relative to equity. These farmers may need to liquidate some farm assets to pay off debts or trim the size of operation. However, waning farmland values and a thin market make restructuring more difficult. Highly leveraged farmers, however, are a small proportion of all farmers. Despite the loss in equity, most farmers still have considerable coverage of debts. Farmers' aggregate debt-to-equity ratio at the beginning of the year was .22—i.e., debt was slightly more than a fifth of total farm equity.

The near-term outlook for farmland values remains bleak. Farm earnings in the second half are not expected

Percent change in dollar value of "good" farmland

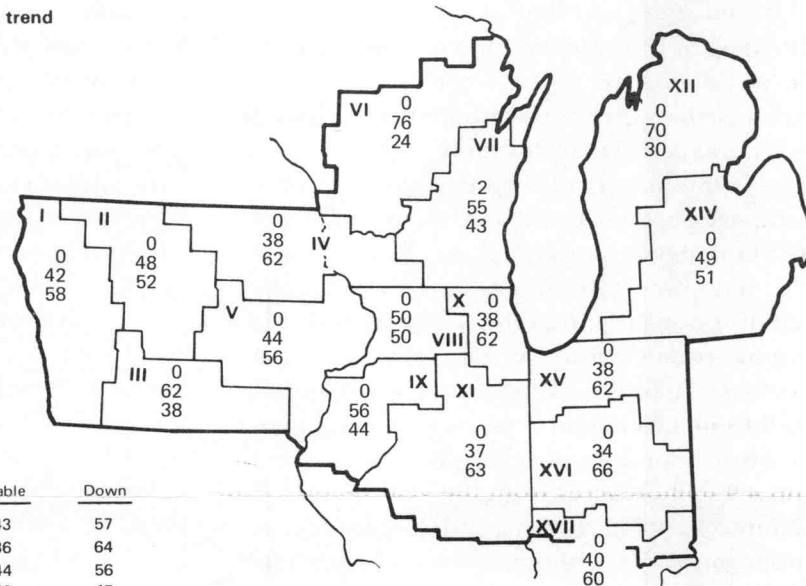
Top: April 1, 1982 to July 1, 1982
Bottom: July 1, 1981 to July 1, 1982



| | April 1, 1982 to July 1, 1982 | July 1, 1981 to July 1, 1982 |
|------------------------|-------------------------------------|------------------------------------|
| Illinois | -4 | -14 |
| Indiana | -7 | -19 |
| Iowa | -4 | -10 |
| Michigan | +3 | +1 |
| Wisconsin | -1 | -3 |
| Seventh District | -3 | -10 |

Percent of banks reporting the current trend in farmland values is:

Top: Up
Center: Stable
Bottom: Down



| | Up | Stable | Down |
|------------------------|----|--------|------|
| Illinois | 0 | 43 | 57 |
| Indiana | 0 | 36 | 64 |
| Iowa | 0 | 44 | 56 |
| Michigan | 0 | 53 | 47 |
| Wisconsin | 1 | 60 | 39 |
| Seventh District | 0 | 46 | 54 |

to increase enough to bolster the farmland market. Although cash receipts to livestock producers will be up considerably, receipts from crops may not improve. Expectations of higher corn and soybean prices have been dimmed by prospects for large corn and soybean harvests again this year. Price support programs may enhance prices somewhat, but other factors—including the low level of participation in acreage reduction programs and the uncertainties associated with future trade with the USSR—make a significant recovery in crop

prices less likely. Also, interest rates are not expected to decline enough in the near term to help the farmland market.

Bankers remain pessimistic about the outlook for farmland values. Fifty-four percent expect land values to decline this quarter, while the rest expect farmland values to be stable. This is the second consecutive quarter that virtually none of the bankers have expected an increase in land values in the current quarter.

FOREIGN INVESTMENT IN U.S. AGRICULTURAL LAND rose last year. According to the USDA, foreign sources acquired 2.6 million acres of U.S. land in 1981. Despite the increase, foreign ownership still accounts for less than 1 percent of the U.S. land in farms and forests.

Since February of 1979, the USDA has required foreigners to report their holdings, acquisitions, and dispositions of U.S. agricultural land as part of the Agricultural Foreign Investment Disclosure Act of 1978. Foreign entities that must report include individuals, governments, and other entities such as partnerships. Even a domestic landowning entity, such as a U.S. corporation, must report if foreigners account for 5 percent or more of its ownership.

Foreign interest must be reported if it involves at least one acre of U.S. agricultural land or if the annual gross sales of agricultural products from the land are more than \$1,000. Foreign interest in idle U.S. land must also be reported if the land was used for agricultural purposes within the last five years.

The types of foreign interest that must be reported include ownership, purchase contracts, leaseholds of ten years or more, and noncontingent rights to future possession—which are, for example, ownership rights that become possessory upon termination of a present estate. However, interests such as mortgages and other debt-securing devices are excluded.

According to the latest report, foreigners held partial or whole interests in 12.7 million acres of U.S. agricultural land as of December 31, 1981. That represented 0.94 percent of the 1.36 billion acres of agricultural land in this country. Total foreign land holdings in December were up 4.9 million acres from the year before. However, 2.3 million acres of that total represented acquisitions prior to 1981 that were reported in 1981. Another 2.1 million acres involved land held by a U.S. corporation that became 20 percent foreign-owned in 1981. Thus, it appears that the amount of U.S. agricultural land directly purchased by foreigners in 1981 was actually quite small. However, some upward adjustment in the estimate may be forthcoming since disclosure forms are sometimes submitted late.

Foreign ownership was reported in every state except Rhode Island, but it was concentrated in the South and West. Foreign holdings in ten states—Maine, Georgia, California, Texas, New Mexico, Alabama, Oregon, Florida, South Carolina, and Washington—accounted for 65 percent of the acreage nationwide. In terms of the percentage of land that is owned by for-

eigners, Maine led the list with 15 percent, followed by South Carolina and Georgia with 3 percent.

In District states, the percentage of land owned by foreigners ranged from less than 0.1 percent in Wisconsin to 0.5 percent in Indiana. Illinois had the largest amount of foreign-owned land, 144,000 acres. Since December 31, 1980, foreign holdings of agricultural land increased by 11,500 acres in Illinois and by only 600 acres in Michigan. In other District states, foreign ownership of land declined in 1981.

Of the U.S. agricultural land owned by foreigners, 56 percent is forestland, another 13 percent is cropland, and 26 percent is pastureland. The remaining 5 percent is idle agricultural land or used for farmsteads. Thus, only about 0.4 percent of the U.S. cropland base is owned by foreign interests, while nearly 2 percent of the U.S. forestland base is held by foreign investors.

Interestingly, corporations—both domestic and foreign—own 85 percent of the foreign-held acreage. However, U.S. corporations, which are counted only if foreigners hold 5 percent or more of their ownership, owned nearly two-thirds of all the acreage attributed to foreigners. Partnerships accounted for 8 percent of the acreage while individuals held only 6 percent. The remaining 1 percent was held by estates, trusts, institutions, and others. This means that direct foreign investment in U.S. agricultural land is really quite small, since the amount wholly owned by foreign individuals, partnerships, and corporations (excluding U.S. corporations with 5 percent or more foreign ownership) is only about 4 million acres.

Foreign entities with interests in U.S. agricultural land represent a number of countries, but those from Canada, France, the United Kingdom, West Germany, and the Netherlands Antilles are most prevalent. Canadians account for nearly a third of the acreage while the French hold about a sixth. The country of origin, however, is not always clearly identified because of multiple layers of ownership.

At the time of acquisition, the foreign entities planned to keep nearly all of their U.S. acreage in agricultural production. Also, fewer than half of the acquisitions resulted in changes in tenancy or rental arrangements. Research has been conducted in a few states to compare management of foreign-owned land to that of domestically owned, but it has not been conclusive in showing differences. Nevertheless, foreign ownership of agricultural land remains the focus of considerable attention. Thirty states have some kind of foreign land-ownership restrictions and eight of these have strengthened the restrictions or regulations in the last five years.

Jeffrey L. Miller

Selected agricultural economic developments

| Subject | Unit | Latest period | Value | Percent change from | |
|---|-------------|---------------|--------|---------------------|----------|
| | | | | Prior period | Year ago |
| Farm finance | | | | | |
| Total deposits at agricultural banks† | 1972-73=100 | June | 254 | + 0.9 | +10 |
| Total loans at agricultural banks† | 1972-73=100 | June | 273 | + 1.3 | + 4 |
| Production credit associations | | | | | |
| Loans outstanding | | | | | |
| United States | mil. dol. | June | 21,898 | + 2.7 | - 1 |
| Seventh District states | mil. dol. | June | 4,885 | +14.2 | + 8 |
| Loans made | | | | | |
| United States | mil. dol. | June | 2,861 | + 3.5 | + 5 |
| Seventh District states | mil. dol. | June | 650 | + 1.1 | + 5 |
| Federal land banks | | | | | |
| Loans outstanding | | | | | |
| United States | mil. dol. | June | 46,316 | + 0.9 | +15 |
| Seventh District states | mil. dol. | June | 11,072 | + 0.7 | +15 |
| New money loaned | | | | | |
| United States | mil. dol. | June | 552 | + 7.0 | -33 |
| Seventh District states | mil. dol. | June | 114 | - 6.3 | -48 |
| Interest rates | | | | | |
| Feeder cattle loans†† | percent | 2nd Quarter | 17.25 | + 0.8 | + 1 |
| Farm real estate loans†† | percent | 2nd Quarter | 16.74 | + 0.5 | + 5 |
| Three-month Treasury bills | percent | 7/15-7/21 | 11.06 | -12.9 | -27 |
| Federal funds rate | percent | 7/15-7-21 | 12.14 | -14.3 | -36 |
| Government bonds (long-term) | percent | 7/15-7/21 | 13.36 | - 5.8 | - 2 |
| Agricultural trade | | | | | |
| Agricultural exports | mil. dol. | May | 3,403 | - 2.3 | - 5 |
| Agricultural imports | mil. dol. | May | 1,328 | +11.7 | -13 |
| Farm machinery sales^P | | | | | |
| Farm tractors | units | June | 6,816 | +16.9 | -16 |
| Combines | units | June | 1,092 | +82.9 | -39 |
| Balers | units | June | 1,777 | +164.8 | -33 |

†Member banks in Seventh District having a large proportion of agricultural loans in towns of less than 15,000 population.

††Average of rates reported by District agricultural banks at beginning and end of quarter.

^PPreliminary.

**AGRICULTURAL LETTER
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