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FEDERAL RESERVE BANK OF CHICAGO

AGRICULTURAL LETTER

ISSN 0002 - 1512

October 29, 1982 Number 1589

THE DOWNTURN IN DISTRICT FARMLAND VALUES steepened in the third quarter, according to a recent survey of 500 agricultural bankers. The bankers indicated that the value of good farmland in the Seventh Federal Reserve District declined 5.0 percent in the three months ending with September. That marked the fourth consecutive quarterly decline and it represented the sharpest quarterly rate of decline since the downturn began a year ago. In the intervening 12 months, bankers indicated that farmland values, on average, declined nearly 16 percent. The decline has already dropped District land values to the levels of the late 1970s and further declines are expected in the months ahead.

The farmland market remains very weak, greatly complicating the task of determining land values. Armslength land transactions between willing buyers and willing sellers—which typically are a major factor in land values determinations—are occurring with less-than-normal frequency. Several factors have temporarily pushed many potential land buyers to the sidelines. The prolonged squeeze on farm earnings, the dismal short-run prospects for returns on new land purchases, the equity losses suffered by existing landowners, the high debt servicing costs associated with financing new land purchases, and a desire to delay purchases until the downturn in land values has ended are some of the major factors currently undermining the demand for farmland. Simultaneously, some landowners are caught in a severe cash-flow squeeze because of low commodity prices and operating losses and/or large debt repayment burdens. Many of these landowners would like to liquidate some of their real estate in order to stay afloat financially. The resulting increase in "distress sales" has coincided with a weakened demand for farmland and in some cases resulted in marked declines in transaction prices.

Bankers from all five District states reported a decline in farmland values in the third quarter. The reported rates of decline, however, varied widely. Bankers from the District portion of Illinois reported a third-quarter decline of nearly 7 percent. The smallest decline, 2 percent, was noted by Wisconsin bankers. Bankers from the other District States—Indiana, Iowa, and Michigan—reported third-quarter declines of about 5 percent. Relative to a year ago, the declines in District farmland values ranged from 6 percent in Wisconsin to 21 percent in Indiana (see map on page 2).

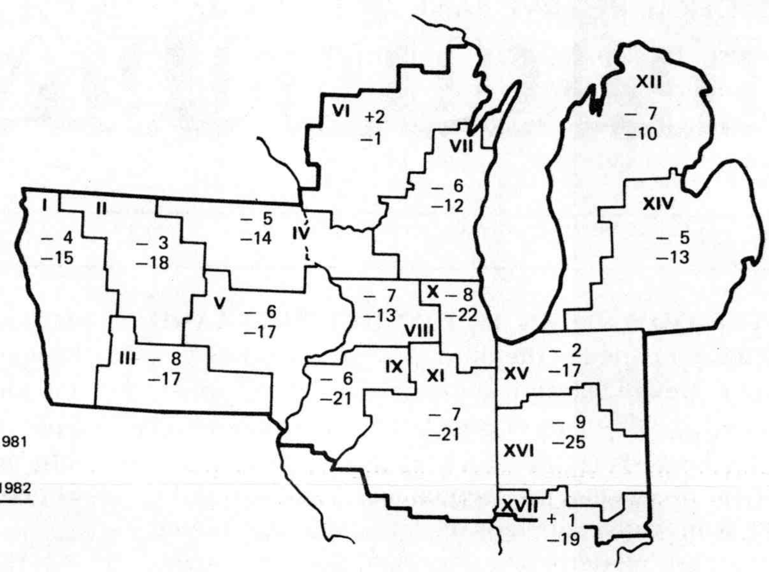
The implications of declining farmland values contain positive and negative aspects, both for individuals and for the U.S. agricultural sector overall. From the viewpoint of individuals, the positive aspects relate to the lower production costs implied by declining land values. These lower costs would be most immediately available to buyers who acquire land at the lower prices and to farm operators who cash rent the land they operate. The negative aspects for individuals mostly relate to the declining equity and borrowing power that confront existing landowners when land values fall.

From the perspective of the overall U.S. agricultural sector, declining land values represent a fundamental cost adjustment that enhances the sector's longer-run ability to compete in product markets domestically and worldwide. For an industry buffeted by a prolonged earnings squeeze and facing stronger competition in export markets—because of the usually high value of the dollar and the growing subsidization of exports by other countries—this is a positive development. But at the same time, declining land values reflect the depressed returns to land employed in agriculture. In the short run, this permits other uses of land—such as energy, urbanization, wildlife preserves, etc.—to compete more aggressively with agriculture for the scarce land resources.

The outlook for farmland values remains bleak. Recent declines in interest rates offer some hope that the burdensome debt service costs of financing land purchases will ease. More generous government farm programs that offer advance payments and greater incentives for lowering 1983 crop acreage portend some offset to the distressed cash flows of crop farmers. But the overriding factor in farmland values is still likely to be farm income. Despite some optimism for livestock earn-

Percent change in dollar value of "good" farmland

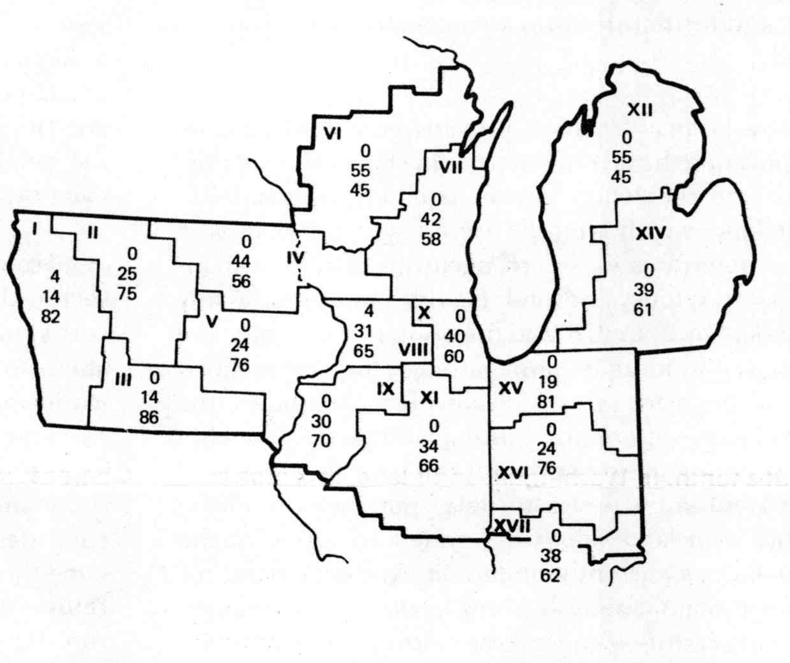
Top: July 1, 1982 to October 1, 1982
Bottom: October 1, 1981 to October 1, 1982



	July 1, 1982 to October 1, 1982	October 1, 1981 to October 1, 1982
Illinois	−7	−20
Indiana	−5	−21
Iowa	−5	−17
Michigan	−5	−12
Wisconsin	−2	− 6
Seventh District	−5	−16

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

Top: Up
Center: Stable
Bottom: Down



	Up	Stable	Down
Illinois	1	33	66
Indiana	0	24	76
Iowa	1	24	75
Michigan	0	43	57
Wisconsin	0	48	52
Seventh District	1	32	67

ings, the huge crop supplies and the sluggish foreign demand are likely to hold overall farm sector earnings at very depressed levels for several more months.

Agricultural bankers foresee little chance of a near-term recovery in land values. Nearly a third of the surveyed bankers expected land values would stabilize in the final three months of this year. But virtually all of the remaining bankers expected further declines in land values. The prevailing expectation of further declines was strongest among bankers in Indiana and Iowa, and weakest in Wisconsin, where about half of the bankers expect further declines and the other half expect land values to stabilize.

Gary L. Benjamin

CATTLE ON FEED INVENTORIES remained above year-earlier levels in the third quarter. According to the USDA, the number of cattle on feed October 1 in 13 major states was 8.8 million head, up 7 percent from the year before. Placements on feed in the third quarter were considerably above the year-earlier level. Fed cattle marketings in the third quarter were up 6 percent and in the current quarter may be up a comparable amount.

The USDA's quarterly *Cattle on Feed* report summarizes recent and prospective trends in fed cattle marketings in 13 major feeding states. The 13 states—Arizona, California, Colorado, Idaho, Illinois, Iowa, Kansas, Minnesota, Nebraska, Oklahoma, South Dakota, Texas, and Washington—account for about 85 percent of the cattle on feed in the U.S. Prior to this year, surveys of producers in 23 states served as the basis for the report. The 10 states no longer surveyed accounted for only about 10 percent of the cattle on feed in the U.S.

The October report indicates a fifth more heifers and cows were in feedlots than last year but the number of steers was unchanged. The large number of heifers and cows in feedlots may reflect cow/calf operators' response to the depressed incentives for retaining these animals in the breeding herd. Latest developments increasingly suggest that the nation's beef cow inventory will decline this year following an abnormally abbreviated upturn the past couple of years.

Inventory numbers were up in all major states except three. Within the Seventh District, cattle on feed inventories were down 2 percent in Iowa, but were up 13 percent in Illinois. (These are the only two District states now surveyed.) Among other key states, inventories in Kansas, Nebraska, and Texas, which together account for half of the cattle on feed in the 13 major states, were up about a tenth. In Washington and Idaho, inventories were down about a tenth from a year ago.

The movement of cattle into feedlots this summer totaled 5.9 million head, the largest since 1978. Placements were 11 percent above a year ago but still 14 percent short of the third-quarter record set in 1978. Placements in the seven major feeding states for which monthly data are available were especially strong in August, averaging 22 percent above the year-earlier level. Together with smaller increases in July and September, placements in these seven states in the third quarter were 14 percent higher than the year before.

Fed cattle marketings in the third quarter at 5.8 million head were 6 percent higher than a year ago and were slightly above the intentions reported in July. However, total commercial cattle slaughter in the third quarter was only 4 percent above the previous year. Reduced slaughter of nonfed steers and heifers partially offset the rise in fed cattle and cow slaughter. Cow slaughter in the third quarter was up 8 percent from the year before.

Cattle feeders intend to market 5.5 million head in the fourth quarter, up 8 percent from a year-ago. These intentions are about in line with the relatively high proportion of heavier weight animals on feed. Total commercial cattle slaughter may be 2 to 3 percent above year-earlier levels in the fourth quarter as nonfed steer and heifer slaughter continues well below year-ago levels. If cattle feeders carry out their intentions, the total number of fed cattle marketed for the 13 states in 1982 may be 3 percent higher than a year ago but a tenth below 1978's record marketings. In comparison, commercial cattle slaughter for 1982 may be up only about 2 percent from the year earlier because of the decline relative to a year ago in nonfed slaughter evident most of this year. Cow slaughter for 1982 could be nearly a tenth higher than a year ago.

Total commercial cattle slaughter in the first half of 1983 may exceed year-earlier levels by 1 to 2 percent. Though fed cattle slaughter is expected to be up because of the larger inventories, slaughter of nonfed steers and heifers may be down from the levels experienced during the first half of this year. However, commercial cattle slaughter could rise further if liquidation becomes more evident. Some liquidations of herds has appeared, particularly in mixed agriculture areas where the beef-cow herd is a supplemental enterprise. Some farmers have resorted to selling off herds to improve their cash-flow situation and to wait out the depressed grain markets.

Cattle prices have trended lower in recent months. Choice steers at Omaha in recent weeks averaged $58 to $60 per hundredweight, down from $62 per hundredweight a year ago, and also down from a third-quarter average of $64. These prices are likely to be very close to break-even for most Midwestern producers, since according to Iowa State University budgets, break-even was about $59 per hundredweight this summer. Nevertheless, with low feed costs and abundant supplies of forages and grains, cattle feeders were able to sustain several consecutive months of profits (February-September), a first since early 1979. Cattle prices may average about $60 per hundredweight in the fourth quarter, but could trend higher in the first half of next year. Prospects for continued reduction in pork production and smaller supplies of all meats could push choice steer prices to average in the mid-$60s per hundredweight in the first half.

Jeffrey Miller

Selected agricultural economic developments

Subject	Unit	Latest period	Value	Percent change from Prior period	Percent change from Year ago
Index of prices received by farmers	1977=100	October	129	– 5.1	– 1
Crops	1977=100	October	114	– 8.8	– 5
Livestock	1977=100	October	143	– 2.1	+ 2
Index of prices paid by farmers	1977=100	October	155	– 0.6	+ 3
Production items	1977=100	October	149	– 0.7	+ 1
Producer price index* *(finished goods)*	1967=100	September	281	– 0.4	+ 4
Foods	1967=100	September	260	0	+ 1
Processed foods and feeds	1967=100	September	254	0	+ 2
Agricultural chemicals	1967=100	September	290	– 0.2	– 1
Agricultural machinery and equipment	1967=100	September	314	+ 0.7	+ 7
Consumer price index** *(all items)*	1967=100	September	293	+ 0.2	+ 5
Food at home	1967=100	September	281	– 0.1	+ 3
Cash prices received by farmers					
Corn	dol. per bu.	October	2.03	– 5.6	–17
Soybeans	dol. per bu.	October	5.03	– 3.6	–17
Wheat	dol. per bu.	October	3.35	– 0.9	–11
Sorghum	dol. per cwt.	October	3.72	– 2.1	– 5
Oats	dol. per bu.	October	1.34	– 0.7	–25
Steers and heifers	dol. per cwt.	October	59.00	– 1.7	– 2
Hogs	dol. per cwt.	October	56.50	– 8.0	+26
Milk, all sold to plants	dol. per cwt.	October	13.80	+ 2.2	– 1
Broilers	cents per lb.	October	25.1	– 7.4	– 3
Eggs	cents per doz.	October	58.1	+ 2.3	– 9
Income *(seasonally adjusted annual rate)*					
Cash receipts from farm marketings	bil. dol.	2nd Quarter	144	+ 0.8	+ 1
Net farm income	bil. dol.	2nd Quarter	18	– 4.3	–24
Nonagricultural personal income	bil. dol.	September	2,605	+ 0.3	+ 5

*Formerly called wholesale price index.

**For all urban consumers.

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