



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

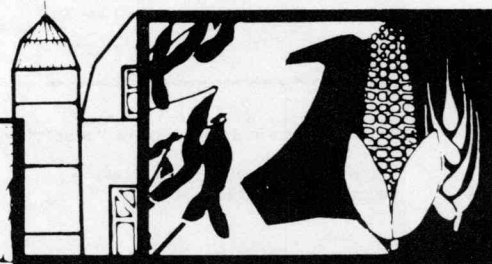
AgEcon Search
<http://ageconsearch.umn.edu>
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

Head

FEDERAL RESERVE BANK OF CHICAGO

AGRICULTURAL



ISSN 0002 - 1512

April 29, 1983

Number 1603

LETTER

WAITE MEMORIAL BOOK COLLECTION
DEPT. OF AGRIC. AND APPLIED ECONOMICS

FARMLAND VALUES rebounded some this winter, following five consecutive quarterly declines. An April 1 survey of agricultural banks showed that the value of good farmland in the Seventh Federal Reserve District rose 2.0 percent in the first quarter. Because of earlier declines, however, District farmland values are still down 10 percent from a year ago and down 16 percent from the peak in the third quarter of 1981.

Land values increased in all five District states during the first quarter (see map on page 2), but the rates of increase varied. Bankers from the District portion of Illinois reported the largest increase, 4.2 percent. In the District portion of Indiana and in Iowa, land values increased 1.9 percent and 1.4 percent, respectively. Land values in Michigan and Wisconsin rose about 1 percent. Compared to the year earlier, land values were down 14 percent in Indiana, 13 percent in Iowa, and 11 percent in Illinois. However, land values were down only 4 percent in Michigan and 3 percent in Wisconsin relative to a year ago.

The first quarter rise in land values was in marked contrast to the pattern observed over the previous five quarters. Quarter-to-quarter declines in 1981 and 1982 averaged 3.8 percent and ranged from 3 to 5 percent. During this extended period, plummeting crop prices and prospects for low crop earnings contributed to the weakened land market. Crop prices in the 9 months ending June 1982 averaged 13 percent below the year earlier and in the last six months of 1982 were 5 percent below the year before. In addition, net farm income (after inventory adjustment) in 1981 was down a fifth from 1979's near record level and in 1982 was nearly 40 percent below the 1979 level.

The upturn in farmland values may reflect recent developments in several key measures pertinent to land value trends. Prices for some Midwest crops—such as corn and soybeans—have risen substantially from levels at the beginning of the year. The increase reflects the

large movement of 1982 crops under CCC loan and the high participation in PIK. Also, prospects for farm earnings this year have been enhanced by payments from government programs, lower production expenses associated with the much smaller 1983 planted acreage, and the curtailed production risks associated with "in-kind" payments. Debt service requirements are lower because of a decline in rates charged by lenders. At the end of the first quarter, interest rates on farm real estate mortgages at District agricultural banks averaged 13½ percent, down from 14¼ three months ago. Rates charged by federal land banks—the largest farm mortgage lender—were about 11¾ percent, down from the high of 12½ percent in fourth quarter 1982.

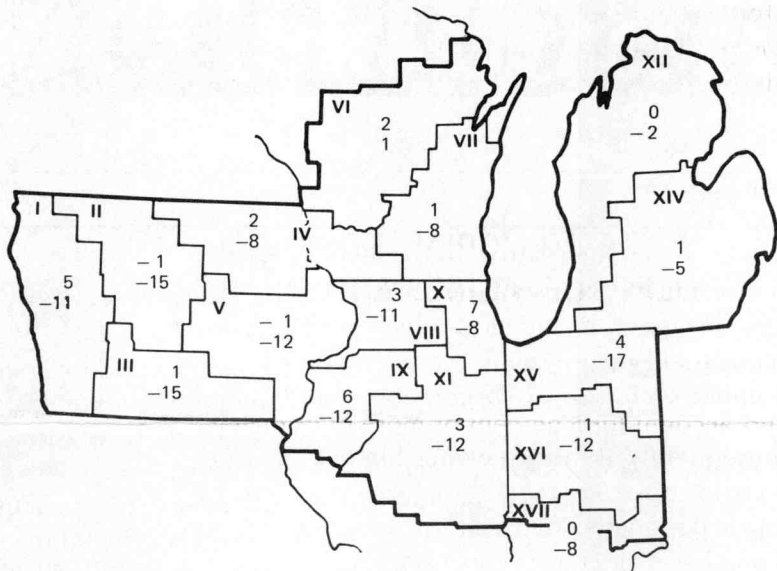
Despite higher land values, the bankers did not indicate any pick up in farmland market transactions. Nearly 41 percent of the bankers indicated that the number of farm units sold in the six months ending in March was down from the same months a year ago. (Farm real estate activity a year ago was also very slow.) About a fourth reported an increase in transfers, while a third indicated that the number of transfers was about equal to the year before. Similar results were indicated for the amount of acreage sold, with 38 percent of the bankers reporting the amount of acreage sold was below a year ago and 22 percent reporting it was higher. The proportion of acreage purchased by farmers was about the same in the last six months as compared to the year earlier.

Cash rental rates for farmland also apparently held up fairly well in most District states. Bankers in the District indicated that cash rental rates for 1983 are down 6 percent from 1982's level. Cash rental rates are down the most, 11 percent, in Indiana, but in Michigan rental rates are down only 3 percent. Average 1983 cash rental rates range from \$65 per acre in Michigan to \$128 per acre in Illinois.

The near term outlook for farmland values is im-

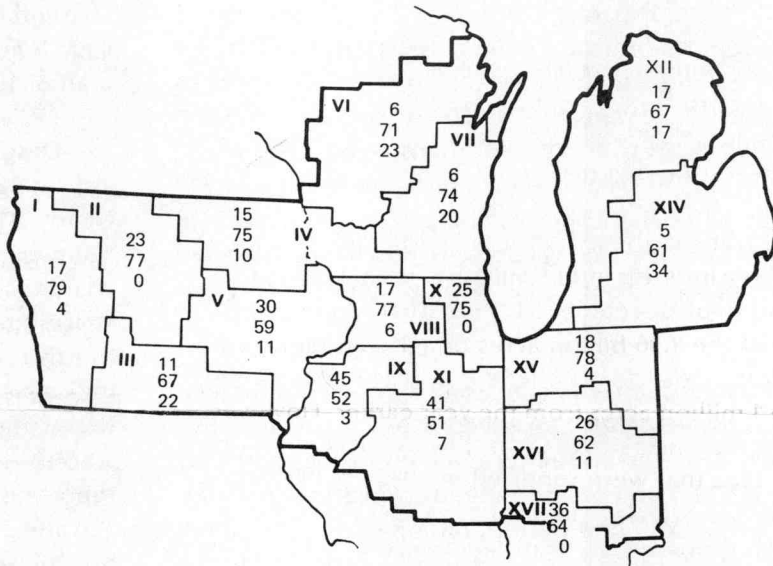
Percent change in dollar value of "good" farmland

Top: January 1, 1983 to April 1, 1983
 Bottom: April 1, 1982 to April 1, 1983



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

Top: Up
 Center: Stable
 Bottom: Down



	Up	Stable	Down
Illinois	36	58	6
Indiana	25	67	8
Iowa	21	73	6
Michigan	8	62	30
Wisconsin	5	73	22
Seventh District	22	67	11

proved. Most analysts expect net farm income this year will exceed the USDA's recent projection of \$18 to \$22 billion. Because of government efforts to improve crop prices, returns to land may be considerably improved. In addition, lower interest rates, if they continue to materialize, would lower financing costs associated with land purchases.

Compared to their views when land values were declining, bankers are much more optimistic about the current trend in land values. About 22 percent expect farmland values to increase this quarter, compared to only 11 percent who expect farm land values to decline in the second quarter. But the majority—67 percent—expect land values to remain stable.

FOREIGN INVESTMENT IN U.S. AGRICULTURAL LAND increased slightly last year. According to the USDA, foreign sources acquired 600 thousand acres of U.S. land in 1982. Nevertheless, foreign ownership accounts for only 1 percent of the U.S. land in farms and forests.

Since February 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, partnerships, corporations, and governments. Even a domestic land-owning entity, such as a U.S. corporation, must report if foreigners account for 5 percent or more of its ownership. Consequently, if foreign ownership of a U.S. corporation rose above 5 percent during the year, its land holdings are designated as foreign-owned even though no land purchases may have been made during the year.

A foreign interest must be reported if it involves at least one acre of U.S. agricultural land or if annual gross sales of agricultural products from the land are more than \$1,000. Foreign investment 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 reported include direct ownership, purchase contracts, leaseholds of 10 years or more, and rights to future possession that may result from an estate.

According to the latest report, foreigners held partial or whole interests in 13.5 million acres of U.S. agricultural land as of December 31, 1982. That represented 1 percent of the 1.36 billion acres of agricultural land in this country. Total foreign land holdings in December were up 1 million acres from the year earlier. However, over 400 thousand acres of that represented acquisitions prior to 1982 that were reported in 1982. In 1981, after adjusting for special circumstances and late filings, about 500 thousand acres of land were purchased by foreigners. (The special circumstances involved acquisition by foreigners of interests in two major U.S. corporations that held land). Foreign acquisitions of agricultural land since reporting was initiated have ranged between 500 thousand and one million acres annually, net of dispositions. Thus, despite the sharp downturn in farmland values in 1982, foreign acquisition of farmland did not increase as compared to prior years. However, a surge in the value of the dollar, which may have kept the relative cost of U.S. farmland high, probably was an offsetting factor.

Foreign ownership was reported in every state

Foreign ownership of agricultural land in district states is quite small

	Foreign-owned agricultural land*	
	Acres	Percent**
Illinois	148,774	0.5
Indiana	95,581	0.5
Iowa	35,529	0.1
Michigan	192,012	0.7
Wisconsin	18,664	0.1
Seventh District	490,560	0.3
United States	13,461,028	1.0

*As of December 31, 1982.

**Proportion of total agricultural land.

except Rhode Island, but it was concentrated in the South and West. Foreign holdings in 10 states—Maine, Georgia, Texas, California, New Mexico, Alabama, Oregon, South Carolina, Florida, and Colorado—accounted for 64 percent of the acreage nationwide. In terms of the percentage of land that is owned by foreigners, Maine leads the list with 20 percent.

In District states, foreign interests have acquired 490,560 acres. This represents 3.6 percent of all the foreign-held agricultural land, but only 0.35 percent of all the agricultural land in these states. The largest amount of foreign-owned land, 192,012 acres, is in Michigan, while the smallest amount, 18,664 acres, is in Wisconsin.

Of the U.S. agricultural land owned by foreigners, 55 percent is forestland, 13 percent is cropland, and 27 percent is pastureland. The remaining 5 percent was not designated by use or is now idled. Interestingly, only 0.4 percent of the U.S. cropland base is owned by foreign interests.

Corporations, both domestic and foreign, own 84 percent of the foreign-held acreage of U.S. agricultural land. However, U.S. corporations—those with foreign ownership interests of 5 percent or more—alone own 63 percent of the foreign-held acreage. Partnerships account for 9 percent of the acreage while individuals hold 6 percent. The remaining 1 percent was held by estates, trusts, institutions, and others. Thus, direct foreign investment—excluding U.S. corporations with 5 percent or more foreign ownership—is only about 4.9 million acres, or 0.36 percent of the agricultural land base.

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	April	278	+ 1.7	+11
Total loans at agricultural banks†	1972-73=100	April	283	+ 1.2	+ 6
Production credit associations					
Loans outstanding					
United States	mil. dol.	March	19,486	+ 0.6	- 6
Seventh District states	mil. dol.	March	3,824	+ 0.6	-10
Loans made					
United States	mil. dol.	March	3,408	+31.7	- 7
Seventh District states	mil. dol.	March	814	+39.8	-10
Federal land banks					
Loans outstanding					
United States	mil. dol.	March	47,485	+ 0.3	+ 5
Seventh District states	mil. dol.	March	11,328	+ 0.4	+ 5
New money loaned					
United States	mil. dol.	March	443	+61.8	-44
Seventh District states	mil. dol.	March	137	+153.6	-50
Interest rates					
Feeder cattle loans††	percent	1st Quarter	14.00	- 6.4	-10
Farm real estate loans††	percent	1st Quarter	13.86	- 7.0	- 8
Three-month Treasury bills	percent	4/21-4/27	8.14	- 5.5	-34
Federal funds rate	percent	4/21-4/27	8.58	- 3.4	-42
Government bonds (<i>long-term</i>)	percent	4/21-4/27	10.49	- 1.7	-21
Agricultural trade					
Agricultural exports	mil. dol.	February	3,018	- 3.1	-14
Agricultural imports	mil. dol.	February	1,275	-14.7	+19
Farm machinery sales^P					
Farm tractors	units	March	10,253	+58.1	-13
Combines	units	March	602	-14.9	+24
Balers	units	March	521	+60.8	+64

†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
FEDERAL RESERVE BANK
OF CHICAGO
 Public Information Center
 P.O. Box 834
 Chicago, Illinois 60690
 Tel. no. (312) 322-5112



FIRST-CLASS MAIL
 U.S. POSTAGE
 PAID
 Chicago, Il.
 Permit No. 1942

AG001
 HEAD-DEPT. OF AGRIC. ECON.
 INSTITUTE OF AGRICULTURE
 UNIVERSITY OF MINNESOTA
 ST. PAUL, MN

55101