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FEDERAL RESERVE BANK OF CHICAGO

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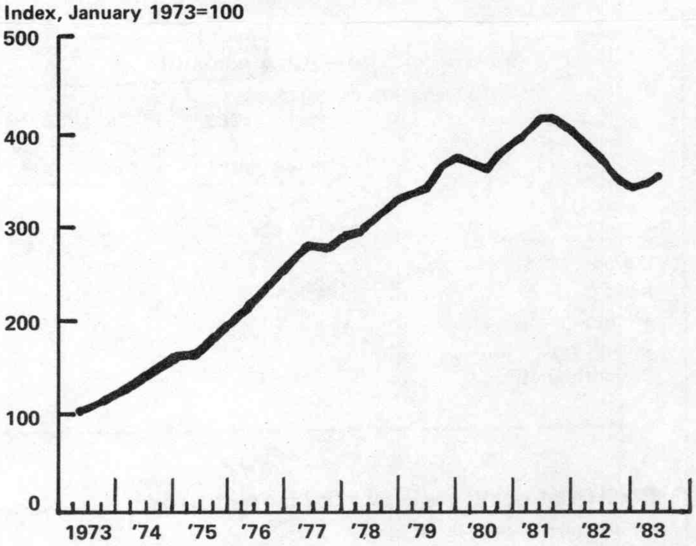
DISTRICT FARMLAND VALUES, although down from year-ago levels, have been edging higher this year. Our latest survey of nearly 600 District agricultural bankers shows that the value of good farmland, on average, rose about 1.6 percent in the three months ending with June. This marks the second consecutive survey that has registered a modest quarterly upturn in District land values. Because of sharp declines in the preceding five quarters, however, District farmland values remain 5 percent below the year-earlier level and 14 percent below the peak reached in the summer of 1981.

As was the case for the first quarter, bankers from all five District states reported rising land values for the second quarter. Bankers from the District portion of Illinois again reported the largest increase, slightly more than 2.5 percent. For the other four states, the quarterly increases ranged from 1.0 percent in Indiana to nearly 1.5 percent in Wisconsin. Relative to a year ago, land prices are still down in all five District states, ranging from about 1 percent in Wisconsin to nearly 7 percent in Indiana and Iowa.

Much of the first-half turnaround in District farmland values no doubt reflects the perceived implications of the PIK program. The generosity of the PIK program attracted widespread participation among farmers. The high level of participation buoyed hopes that the imbalance in grain markets from two years of record crop production and two to three years of declining exports could be corrected. This plus the emerging "tightness" that developed in free market supplies of old crop corn—through farmers heavy reliance on CCC loans, entry into the reserve program, and the encumbrances that evolved with PIK entitlements—considerably enhanced crop prices beyond what would otherwise have been the case. While many farmers are still confronting a severe financial squeeze, the developments through the spring of 1983 produced a mood of optimism that suggested the worst was over for the stress on farm earnings. This, in turn, added some upward momentum that ended the slide in farmland values.

District farmland values are edging upward from late 1982 trough

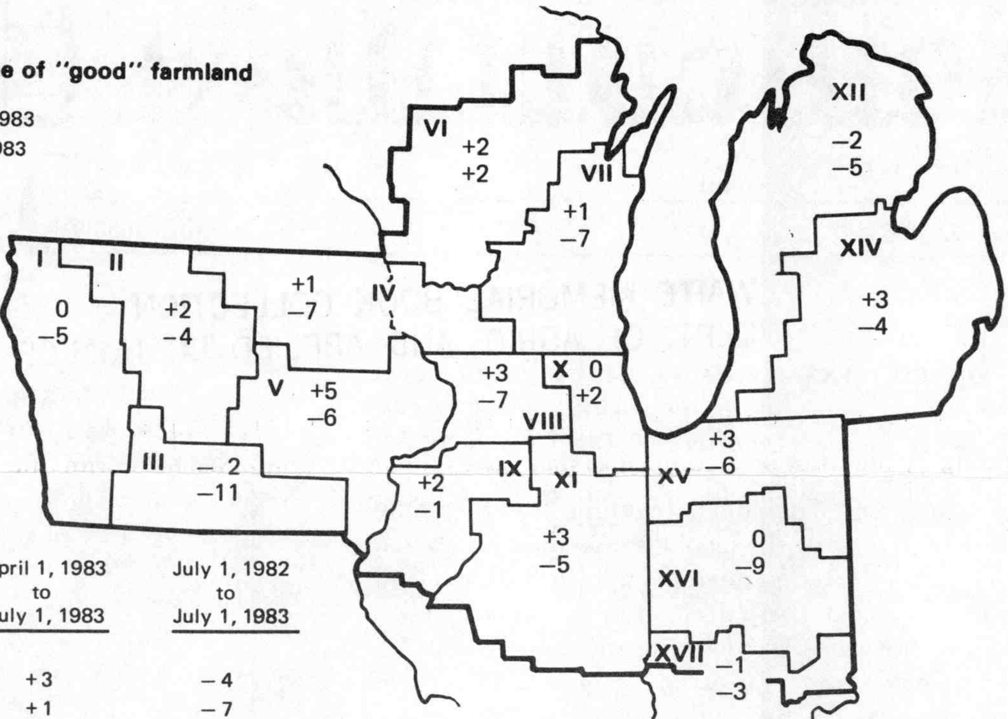


Lower farm mortgage rates have also given support to the upward momentum in farmland values. Farm mortgage loan rates charged by District agricultural banks at midyear averaged a little under 13¼ percent, down from 14¼ percent at the end of 1982 and down from 16¾ percent a year ago. Rates charged by Federal Land Banks that serve farmers in District states now range from 11¼ to 12 percent with new loan fees ranging from 0 to 4 percent. A year ago, FLB loan rates ranged from 12½ to 13 percent with new loan fees ranging from 3 to 5 percent.

While the land market has been spurred by a modest upward momentum in values and lower interest rates, the volume of farm real estate transactions is still apparently quite limited. Although conditions seem to vary considerably by area, a number of bankers commented about the continuing low volume of transactions. A similar conclusion can be drawn from the low volume of new lending by commercial farm mortgage lenders. Through May of this year, new money loaned by FLBs lagged the pace of the preceding year by 43

Percent change in dollar value of "good" farmland

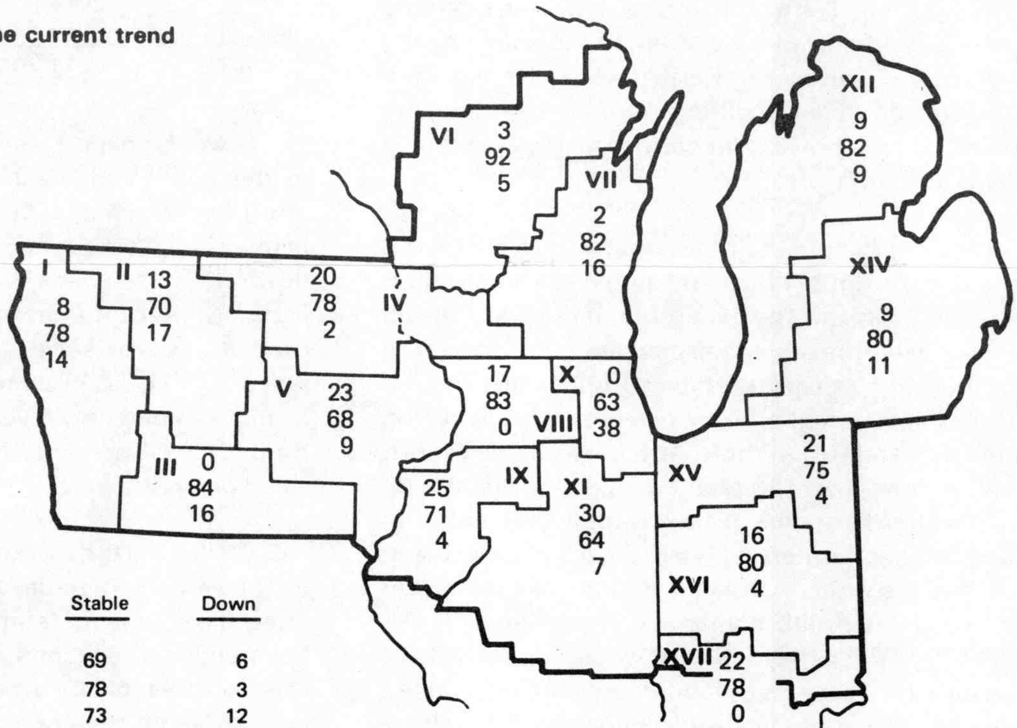
Top: April 1, 1983 to July 1, 1983
Bottom: July 1, 1982 to July 1, 1983



	April 1, 1983 to July 1, 1983	July 1, 1982 to July 1, 1983
Illinois	+3	–4
Indiana	+1	–7
Iowa	+1	–7
Michigan	+1	–5
Wisconsin	+1	–1
Seventh District	+2	–5

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

Top: Up
Center: Stable
Bottom: Down



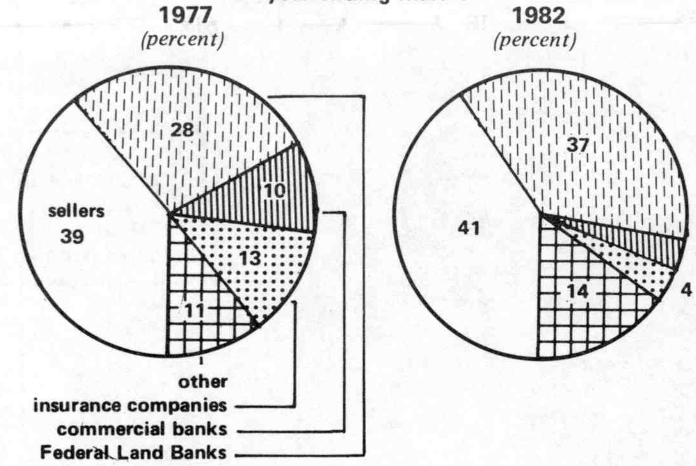
	Up	Stable	Down
Illinois	25	69	6
Indiana	19	78	3
Iowa	15	73	12
Michigan	9	81	11
Wisconsin	2	89	9
Seventh District	16	76	8

percent and the pace of two years ago by 59 percent. FLBs, long the dominant farm mortgage lender, hold 43 percent of the outstanding farm real estate debt and extend about 37 percent of the debt funds used annually in credit-finance farm real estate transactions. In terms of outstanding farm real estate debt, the share held by FLBs far outranks the 29 percent share held by individuals and others. In terms of debt funds extended in credit-financed farm real estate transfers, the share from FLBs usually ranks a close second to the share provided through seller financing.

In contrast to the continuing downturn in FLB lending, it appears that the long downturn in farm mortgage lending by life insurance companies may have ended. Prior to the beginning of this year, farm mortgages acquired by life insurance companies had fallen about 80 percent over a three and one-half year period. But in the first quarter of 1983, their acquisitions were up 6.5 percent from the year before. Moreover, in both the fourth quarter of last year and the first quarter of this year, the dollar volume of new farm mortgage commitments made by life insurance companies exceeded the extremely low year-earlier levels by about 70 percent. The jump in commitments suggests that farm mortgage acquisitions by life insurance companies probably continued to register year-to-year gains in the second quarter. A few years ago, life insurance companies provided about 13 percent of the debt funds used annually in credit-financed farm real estate transfers. But following the prolonged slide, their share dropped to 4 percent.

Share of debt extended in debt-financed farmland transfers

year-ending Mar. 1



For the next few months, many observers believe farmland values will be fairly stable. Of the bankers responding to the most recent survey, 76 percent thought that farmland values in the current quarter would remain steady. An additional 16 percent thought land values would rise this quarter, while 8 percent foresaw declining land values. On balance, this distribution of bankers' views is slightly less hopeful than in April when 23 percent thought land values would rise in the second quarter and only 11 percent foresaw declines.

The shift in bankers' attitudes seems to mirror a waning in the initial optimism about how quickly the surplus production in U.S. agriculture could be drawn into balance with the decline in utilization. Unless recent weather problems lead to extensive crop damage, another year of large acreage cuts will be needed. Initial suggestions indicate that program provisions in 1984 will be less attractive to farmers and therefore may not attract as much participation. Moreover, current discussions regarding the possibility of freezing target prices and lowering loan support rates for 1984 price support programs for grain farmers—while probably of merit for the long-run benefit of agriculture—have cast some doubts about the strength of the short-run recovery in farm earnings. Additional doubts about the short-run recovery in farm earnings have been triggered by the evidence that hog production has rebounded to an unexpected degree. As a result, livestock prices have declined, which, coupled with recent feed prices, has squeezed the operating margins of livestock producers. Also, earnings prospects for dairy farmers have waned with the imposition of producer assessments and the growing likelihood that Congress and the Administration will scale-down the costly dairy price support program.

With these developments moderating earlier optimism, it seems likely that farmland values will hold close to current levels in the short-term. There seems to be little on the horizon that would support prospects for substantial strength in farmland values. But at the same time, it does not seem likely that conditions will revert to the sharp declines in land values that occurred in much of 1981 and all of 1982.

Gary L. Benjamin

Selected agricultural economic developments

Subject	Unit	Latest period	Value	Percent change from: Prior period	Percent change from: Year ago
Farm finance					
Total deposits at agricultural banks†	1972-73=100	June	281	+ 0.5	+10
Total loans at agricultural banks†	1972-73=100	June	290	+ 1.8	+ 6
Production credit associations					
Loans outstanding					
United States	mil. dol.	May	19,813	+ 1.0	– 7
Seventh District states	mil. dol.		N.A.	N.A.	N.A.
Loans made					
United States	mil. dol.	May	2,507	–12.4	– 9
Seventh District states	mil. dol.		N.A.	N.A.	N.A.
Federal land banks					
Loans outstanding					
United States	mil. dol.	May	47,710	+ 0.2	+ 4
Seventh District states	mil. dol.		N.A.	N.A.	N.A.
New money loaned					
United States	mil. dol.	May	333	– 5.0	–36
Seventh District states	mil. dol.		N.A.	N.A.	N.A.
Interest rates					
Feeder cattle loans††	percent	2nd Quarter	13.58	– 3.0	–21
Farm real estate loans††	percent	2nd Quarter	13.32	– 3.9	–20
Three-month Treasury bills	percent	7/14-7/20	9.11	+ 3.1	–18
Federal funds rate	percent	7/14-7/20	9.43	+ 3.2	–22
Government bonds *(long-term)*	percent	7/14-7/20	11.37	+ 5.1	–15
Agricultural trade					
Agricultural exports	mil. dol.	May	2,680	–10.1	–21
Agricultural imports	mil. dol.	May	1,495	+ 1.8	+12
Farm machinery sales[p]					
Farm tractors	units	June	14,740	+19.0	+28
Combines	units	June	506	+40.9	–54
Balers	units	June	2,021	+165.6	+11

†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.

[p]Preliminary.

N.A. - Not available.

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