FEDERAL RESERVE BANK OF CHICAGO

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DISTRICT FARMLAND VALUES, on average, were unchanged during the third quarter, according to a recent survey of 575 District agricultural bankers. The leveling-off in land values this summer interrupts, at least temporarily, the modest uptrend that was underway in the first half of this year. The first-half increase offset the tail-end of the downturn in land values that occurred in the fourth quarter of last year, leaving District land values as of the end of September about the same as a year earlier. Relative to the summer 1981 peak, however, farmland values are off nearly 15 percent.

Third quarter trends in land values differed considerably among the five states of the Seventh Federal Reserve District (see map on page 2). Bankers from three of the states reported that land values continued to rise while those in the other District states reported a decline. Bankers from the District portion of Indiana reported the largest third-quarter increase, nearly 2 percent. Bankers from Michigan reported a rise of about 1 percent while those in Illinois reported a nominal rise of just over 0.5 percent. In contrast, bankers in Iowa reported that farmland values in that state declined nearly 0.5 percent, on average, in the third quarter while bankers in Wisconsin noted a decline of 2 percent. The year-to-year comparisons indicated by the bankers ranged from declines of approximately 2 percent in Iowa and Wisconsin to an increase of 2 percent in Illinois.

A leveling-off in farmland values is also reflected in the bankers' views about expected trends this fall. District-wide, nearly 7 out of every 10 of the bankers expect that land values will be stable through the fourth quarter. The remainder expecting some movement in land values were about evenly divided between those expecting an uptrend and those expecting a decline. Among District states, however, the proportions expecting a certain trend varied considerably. For example, the proportion of bankers in Illinois expecting fourth-quarter increases in farmland values, while not particularly large, exceeded the share expecting a decline by a considerable margin. In contrast, the sentiment for fourth-quarter declines in land values considerably outweighed that for an increase among Wisconsin bankers.

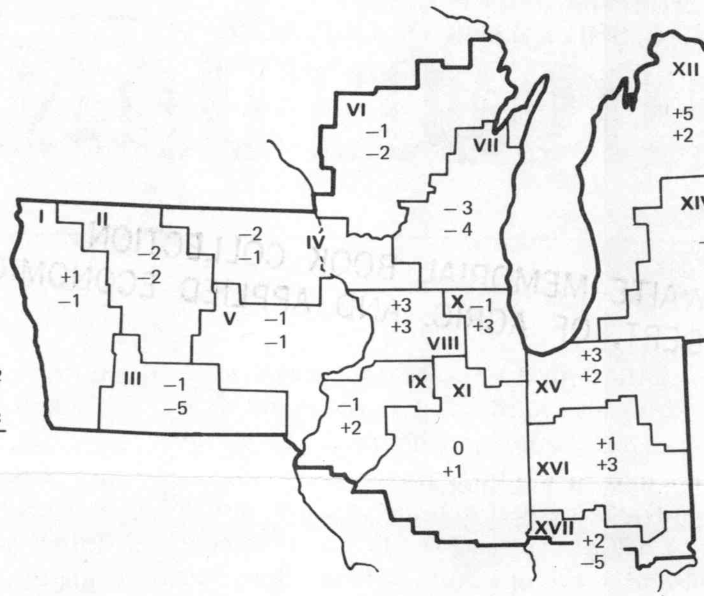
The apparent leveling-off in farmland values has occurred despite higher-than-expected crop prices and forecasts of higher farm earnings this year. In the third quarter, corn prices received by farmers averaged nearly a tenth higher than in the second quarter and 40 percent higher than in the same months a year ago. Soybean prices averaged a fourth higher than in the second quarter and a third higher than in the summer of 1982. The higher crop prices and the support programs for agriculture—which have lowered production expenses and swelled government payments to farmers—are the major factors underlying the USDA's expectations that net realized farm income will rise from $24 billion last year to around $28 billion this year. If reached, that would mark the highest level for net realized farm income—which excludes the value of inventory changes—since 1974. Adjusted for inflation, however, the level of net realized farm income that is forecasted for this year would still be among the lowest for the past 10 years.

Despite the higher income prospects, other factors have undermined the farmland market. The drought likely had an impact, particularly in areas where yields were hurt the most. In those areas, the drought may have been the last straw for some highly-leveraged farmers who have been in a financial squeeze the past few years and who were not enrolled in PIK or protected by crop insurance this year. This probably led to more land being placed on the market in an area where the drought has simultaneously sapped the bidding potential of land buyers.

Other factors that influence potential returns to land probably contributed to the leveling-off in land values. Current and prospective short-term earnings of livestock and dairy farmers have been squeezed by the drought-related escalation in feed costs. Moreover, assessments recently imposed on dairy farmers—now totaling $1 per hundredweight of milk—have lowered effective milk prices about 8 percent from year-earlier

Percent change in dollar value of "good" farmland

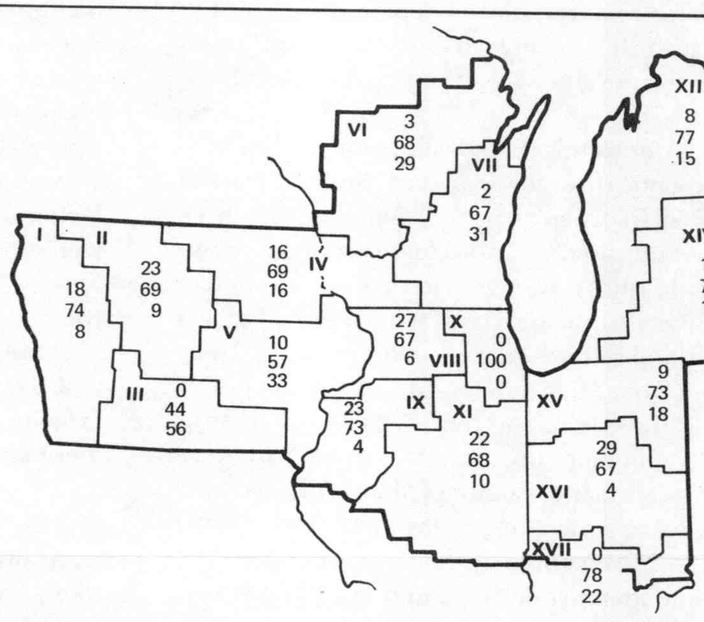
Top: July 1, 1983 to October 1, 1983
Bottom: October 1, 1982 to October 1, 1983



	July 1, 1983 to October 1, 1983	October 1, 1982 to October 1, 1983
Illinois	+1	+2
Indiana	+2	+1
Iowa	0	−2
Michigan	+1	0
Wisconsin	−2	−2
Seventh District	0	0

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

Top: Up
Center: Stable
Bottom: Down



	Up	Stable	Down
Illinois	22	70	8
Indiana	18	70	11
Iowa	15	65	20
Michigan	11	75	13
Wisconsin	3	69	28
Seventh District	15	69	16

levels. Although favorable in the short-run, longer-term earnings prospects for crop farmers are highly uncertain because of the continuing weakness in exports, the likelihood of large 1984 plantings, the lowering of CCC loan rates on 1984 crops, and the ongoing debate over freezing target prices at 1983 levels.

In the months ahead, farmland values in some areas may be pressured downward because of the compounding financial squeeze the drought has placed on some highly leveraged farmers in those areas. Yet few analysts are expecting a return to the widespread declines in farmland values that prevailed from mid-1981 through 1982. Some farmers have profited handsomely this year because of high grain prices and their participation in PIK or their good luck in escaping the brunt of the summer drought. The potential land buyers among these farmers will likely provide an effective counter balance to the downward pressures, causing land values to hold stable and possibly edge higher in the months ahead.

Gary L. Benjamin

CATTLE ON FEED numbers are down 4 percent from a year ago according to the USDA's October 1 survey. The decline reflects a cutback in the movement of cattle onto feedlots in the third quarter and a rise in fed cattle marketings. For the next few months, fed cattle marketings will likely trend lower. However, total beef production may remain above year-earlier levels as high feed costs and depleted forage supplies augment the slaughter of cows and grass-fed steers and heifers. By spring, however, a downturn in cattle marketings could lead to a rebound in cattle prices.

The October report covers feedlots in the 13 major cattle feeding states that usually account for 85 percent of all cattle in feedlots. It indicates fewer steers and heifers on feed, but an increase in the number of cows. Steers on feed declined 3 percent from last year to the lowest level since 1976. Heifer numbers were down 6 percent from year-ago levels. For both steers and heifers much of the decline was realized in the lower weight categories while inventories of heavier weight animals remained at or above the previous year's levels. The number of cows on feed, however, was up 4 percent.

The two District states covered in the quarterly report exhibited even sharper declines. The number of cattle on feed in Illinois was down 7 percent from the previous year's level, but still 5 percent above the number on feed in 1981. In Iowa, which traditionally accounts for more than half of the cattle on feed in District states, inventories were down 24 percent from a year ago. Kansas and Nebraska also experienced large inventory declines of 5 and 11 percent respectively. Only three of the 13 states—Texas, Arizona, and California—showed increases over the previous year.

The movement of cattle onto feedlots this summer totaled 5.59 million head. This represents a 4 percent decline from the number placed on feed during the third quarter of 1982 but is still well above the level placed in 1981. It appears that much of this decline was realized during August. Placements in the seven major producing states for which monthly data are collected dropped 10 percent in August.

Third quarter fed cattle marketings reached their highest level since 1978. Marketings during the period were 2 percent higher than a year ago and corresponded closely to operators' marketing intentions reported in July. However, commercial slaughter of all cattle in the third quarter was almost 4 percent above last year as higher grain prices and parched grazing conditions contributed to a substantial movement of forage fed cattle to market. Preliminary data suggests that slaughter of grass-fed steers and heifers—after lagging year-earlier levels since early 1982—jumped nearly a tenth above year-ago levels in the third quarter. In addition, cow slaughter was up 7 percent during the period.

Cattle feeders intend to market 1 percent fewer animals than last year during the fourth quarter. These intentions are consistent with the October 1 inventory of animals on feed in the heaviest weight groups. However, poor grazing conditions, higher feed costs, and low feeder cattle prices could combine to hold forage fed cattle slaughter well above year-earlier levels for the next several months. If this is the case, total commercial cattle slaughter during the final months of this year could show a 1 percent increase from last year. Combined with earlier quarter increases, commercial cattle slaughter for all of this year could exceed the 1982 level by 2 percent.

Commercial cattle slaughter may remain above year-earlier levels through early 1984 but declines are expected by spring. For the first quarter, continued gains in slaughter of forage-fed cattle may offset the declines for fed cattle. By spring, however, cattle slaughter will likely drop below year-earlier levels. The sharp reductions of lightweight animals on feed evident in the October report portend a considerable cutback in fed cattle marketings. Moreover, the greening up of spring pastures could slow the movement of forage fed cattle to market. The extent of the cutback will partially hinge on the outcome of the Congressional debate concerning the implementation of a paid diversion feature in the dairy support program. The proposed $10 per hundredweight diversion payment would create a considerable incentive for dairy producers to cull their herds. Some analysts project as many as 1.5 million additional dairy cows could be slaughtered over the life of the program which could offset a portion of the expected decline in beef cattle marketing.

After trending lower for the last several months, cattle prices have strengthened slightly in recent weeks. So far this month, choice steers at Omaha have been averaging about $60 per hundredweight, up about $1 from the September average but unchanged from a year ago. Although the economic recovery may bolster consumer demand, cattle prices through year-end will likely be held in check by modest gains in beef production and large gains in pork production. Prices may rebound by spring, however, as cattle marketings decline.

Peter J. Heffernan

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	September	137	− 1.4	+ 1
Crops	1977=100	September	137	− 1.4	+10
Livestock	1977=100	September	137	− 1.4	− 7
Index of prices paid by farmers	1977=100	September	161	+ 0.6	+ 3
Production items	1977=100	September	154	+ 0.7	+ 3
Producer price index* *(finished goods)*	1967=100	September	285	− 0.4	+ 1
Foods	1967=100	September	263	+ 0.9	+ 1
Processed foods and feeds	1967=100	September	260	+ 1.5	+ 2
Agricultural chemicals	1967=100	September	276	− 0.6	− 5
Agricultural machinery and equipment	1967=100	September	328	+ 0.3	+ 4
Consumer price index** *(all items)*	1967=100	September	302	+ 0.5	+ 3
Food at home	1967=100	September	283	0	+ 1
Cash prices received by farmers					
Corn	dol. per bu.	September	3.37	+ 0.6	+57
Soybeans	dol. per bu.	September	8.46	+11.8	+62
Wheat	dol. per bu.	September	3.60	− 0.3	+ 7
Sorghum	dol. per cwt.	September	5.46	+ 3.2	+44
Oats	dol. per bu.	September	1.59	+ 9.7	+18
Steers and heifers	dol. per cwt.	September	56.00	− 3.6	− 7
Hogs	dol. per cwt.	September	44.40	− 4.9	−28
Milk, all sold to plants	dol. per cwt.	September	13.50	+ 1.5	− 1
Broilers	cents per lb.	September	33.8	+ 6.3	+26
Eggs	cents per doz.	September	65.4	+ 3.3	+15
Income *(seasonally adjusted annual rate)*					
Cash receipts from farm marketings	bil. dol.	2nd Quarter	141	− 0.6	0
Net farm income	bil. dol.	2nd Quarter	26	+ 6.5	+55
Nonagricultural personal income	bil. dol.	September	2,736	+ 0.9	+ 7

*Formerly called wholesale price index.

**For all urban consumers.

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