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FEDERAL RESERVE BANK OF CHICAGO

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DISTRICT FARMLAND VALUES registered a slight decline during the final three months of 1983. According to a January survey of about 500 agricultural bankers in the Seventh Federal Reserve District, the price of good farmland dropped 1.5 percent during the fourth quarter of last year. The fourth-quarter decline, following no change in the third quarter, trimmed part of the gains posted in the first half of the year. As a result, District farmland values, on average, rose only 1 percent in 1983.

Among individual District states, only Illinois registered an increase in land values during the fourth quarter (see map page 2). Bankers in the District portion of that state noted an increase of 1 percent in the last three months of 1983. Iowa and Michigan experienced the largest declines, with bankers in those states reporting drops of 3 and 2 percent, respectively, during the fourth quarter. Wisconsin bankers reported a 1 percent fall in the value of farmland in the fourth quarter of 1983, while those in Indiana reported virtually no change.

District states exhibited a wide disparity in land value changes for the entire year as well. Bankers in District portions of Illinois and Indiana reported land value gains of 6 and 4 percent, respectively, for all of 1983. Bankers from the other District states reported declines of 1 percent during 1983. The relative strength of the land markets in Illinois and Indiana may be partially attributable to high prices for corn and soybeans, which account for a larger proportion of overall farm earnings in those states compared to other District states.

Although the gain in land values in District states was limited to a marginal increase in 1983, it represented a considerable improvement over the dismal performance of land values the previous year. Land values dropped continuously throughout 1982, reflecting sharp declines in commodity prices, and showed an overall decline of 16 percent by the end of the year. Following this large decline, farm real estate values in District states jumped 3 percent in the first half of 1983. Substantial gains in corn and soybean prices, along with widespread participation in the PIK program, contributed to the increase in land values.

By the third quarter, however, farmland values leveled off as the effects of the drought became more apparent. Although crop prices averaged well above second quarter levels, other factors held farmland values in check. The drought placed additional pressure on highly leveraged farmers who were not protected by crop insurance or enrolled in the PIK program. As a result more land was placed on the market, dampening gains in value. Moreover, areas severely affected by the drought saw the bidding potential of land buyers eroded. Simultaneously, the drought-related escalation of feed costs, and low product prices reduced livestock and dairy producers' earnings.

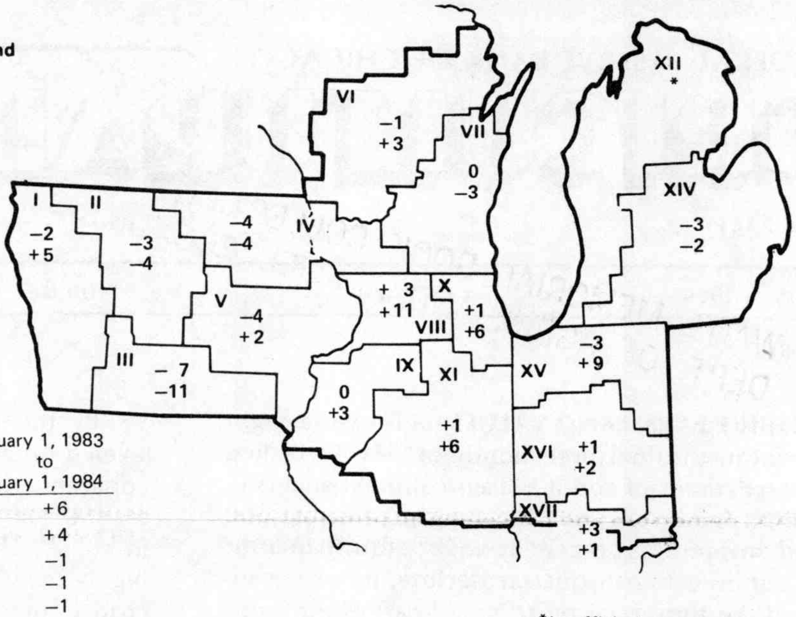
These factors continued to depress land values into the fourth quarter of 1983. Many of the bankers surveyed indicated that the amount of land available for sale was up, but that there was a lack of buyers. Others commented that few land transactions were taking place, and those that did occur were the result of forced sales. Many cited the cash-flow squeeze on livestock and dairy producers as contributing to weak demand for farmland. Moreover, both corn and soybean prices fell considerably during the fourth quarter, and USDA estimates of the season average prices for both were continuously revised downward.

Interest rates charged on farm real estate loans at District agricultural banks, although down from year-ago levels, showed no improvement in the second half of 1983. The average rate for surveyed banks, at 13.3 percent, was down almost 1 percentage point from a year ago, but all of that drop occurred in the first half of the year. Loan rates at Federal Land Banks serving District states—the largest source of farm mortgages—exhibited similar trends. After beginning the year at an average of 12.5 percent, rates charged by Federal Land Banks had dropped to 11.5 percent early in the summer. However, the decline stalled and rates held at that level through the remainder of 1983.

In the months ahead, farmland values in some areas will continue to be pressured by the cash-flow squeeze the drought has exerted on some highly leveraged farmers. Several bankers noted that the financial squeeze

Percent change in dollar value of "good" farmland

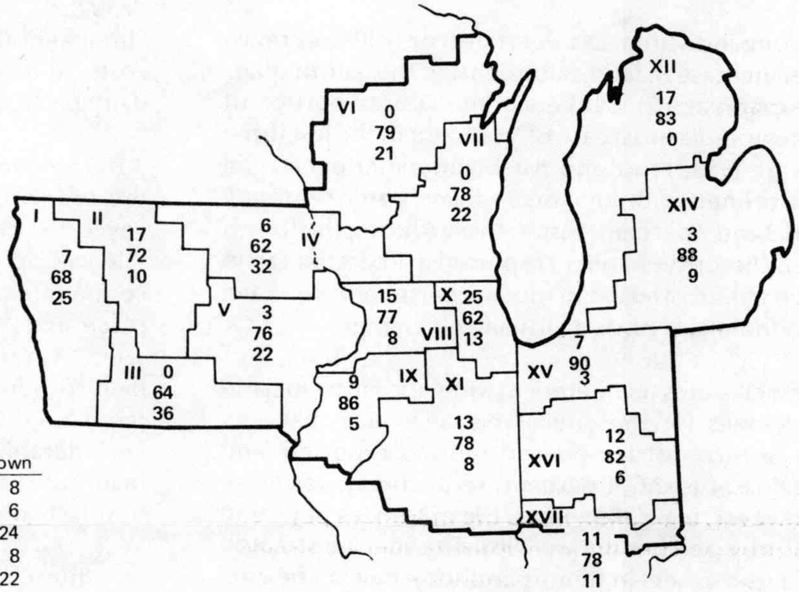
Top: October 1, 1983 to January 1, 1984
Bottom: January 1, 1983 to January 1, 1984



	October 1, 1983 to January 1, 1984	January 1, 1983 to January 1, 1984
Illinois	+1	+6
Indiana	0	+4
Iowa	−3	−1
Michigan	−2	−1
Wisconsin	−1	−1
Seventh District	−1	+1

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

Top: Up
Center: Stable
Bottom: Down



	Up	Stable	Down
Illinois	14	78	8
Indiana	10	84	6
Iowa	7	70	24
Michigan	5	87	8
Wisconsin	1	76	22
Seventh District	8	77	15

will force additional land onto the market in their areas. However, few bankers expect widespread declines in land values in the first quarter of 1984. Many feel the improving outlook for livestock producers will help buoy land values. Morover, survey responses indicate that in some areas top quality farmland continues to move and at strong prices. While some areas will continue to experience downward pressure, it is likely that farmland values in District states will remain stable during the next few months.

Peter J. Heffernan

1984 GOVERNMENT FARM PROGRAMS for feed grain and wheat farmers are presumably fairly well established. Last-minute changes by the Administration or Congress are always a possibility, although such changes are not considered likely this year. Major differences in this year's programs include lower loan rates, higher target prices for most grains, the elimination of advance payments, and the deletion of land diversion options for cash payments. Also, PIK options have been deleted from the 1984 feed grain program and made less attractive for the wheat program. The sign-up period for enrolling in the programs ends February 24.

Loan rates and target prices for the 1984 programs have been adjusted from last year's levels. Loan rates have been lowered while target prices for corn, sorghum, and wheat have been raised in accordance with statutory requirements. The 1984 corn loan rate has been lowered to $2.55 a bushel (national average), down 10 cents from the loan rate on 1983 corn. The 1984 corn target price has been raised to $3.03 a bushel, up from $2.86 in 1983.

Loan rates reflect the amount of money a participating farmer can borrow from the Commodity Credit Corporation (CCC) for each bushel of grain put under loan with the CCC. Because of the loan provisions, CCC loan rates usually provide a floor under cash market prices. Regular CCC loans mature in 9 months. The loan can be repaid at any time through the maturity date, permitting the farmer to sell the grain. At maturity, the farmer can default on the loan (thus turning the grain over to CCC ownership and cancelling all principal and interest repayment obligations) or—if the reserve program is open—convert the regular loan to a reserve program loan. The chances that the grain reserve programs will be opened for 1984 crops are considered to be good for feed grains but slim for wheat.

Target prices are used to determine whether deficiency payments will be made to participating farmers. Deficiency payments will be made if the average price received by all farmers in the first five months of the marketing year (October 1984-February 1985 for corn) is less than the target price. The deficiency payment rate per bushel is equal to the difference between the target price and the higher of the loan rate or the five-month average market price. The maximum deficiency payment rate for 1984 corn will be 48 cents per bushel ($3.03 minus $2.55). If a deficiency payment is made, a participating corn farmer would receive a total payment equal to the payment rate per bushel times the normal—not actual—per acre corn yield for the participating farm, and the number of acres the farmer planted to corn in 1984. However, legislation limits the maximum payment from all programs to any individual farmer to $50,000. For participating wheat farmers, only the first 90 cents of the possible maximum $1.15 deficiency payment rate counts toward the $50,000 payment ceiling.

Certain acreage restrictions must be met by participating farmers. All program participants must comply with the ARP (acreage reduction program) and the corresponding ACR (acreage conservation reserve) requirements. Compliance insures a participant's eligibility for CCC loans and deficiency payments, but there is no specific reimbursement for the land withheld from production through the ARP. The ARP requires that participating corn farmers limit their 1984 planted corn acreage to at least 10 percent less than their corn/sorghum base acreage, or alternatively, to no more than 90 percent of their base acreage. Moreover, they must devote an acreage equivalent to 11.11 percent of the acreage they actually plant to corn in 1984 to the ACR. A participant's base acreage of any crop is defined as the average acreage considered to have been planted to that crop in 1982 and 1983, including any acreage removed from production in those years due to program participation. The ACR acreage must be productive land that, for 1984, is devoted to approved conservation practices. It can not be used to grow hay or other crops for harvest and it can not be grazed during the six principal growing months. Participants who sign up for the program but fail to meet the ARP and ACR requirements will be assessed a penalty equivalent to 20 percent of the target price times the required ACR acreage times the established yield.

1984 feed grain and wheat program provisions

	CCC loan rate	Target price	Maximum deficiency payment	Maximum allowable plantings	ACR factor
	(dollars per bushel)			(% of base)	(% of plantings)
Corn	2.55	3.03	.48	90	11.11
Sorghum	2.42	2.88	.46	90	11.11
Oats	1.31	1.60	.29	90	11.11
Barley	2.08	2.60	.52	90	11.11
Wheat*	3.30	4.45	1.15	70	42.86

*The wheat program includes a PIK option that permits a farmer to place an additional 10 to 20% of his base acreage in the ACR in exchange for "in-kind" wheat payments equivalent to 75 percent of the normal yield on each acre placed in the ACR.

For wheat participants, the ARP and the corresponding ACR factors are 30 percent and 42.86 percent, respectively. Wheat participants can also choose a PIK option that permits them to put additional acreage—equivalent to 10 to 20 percent of their wheat base—in the ACR. In return, they will receive "in-kind" payments of wheat equivalent to 75 percent of their normal yield for each PIK acre so removed from production. Wheat farmers who elect this option must have sufficient wheat under CCC loan—from 1984 plantings or from earlier wheat crops—to cover their PIK entitlement. Moreover, new regulations this year stipulate that 1984 PIK entitlements of wheat count toward a participant's total payment ceiling of $50,000.

Decisions to participate in the programs must be based on a number of factors tailored to an individual farmer's circumstances. However, analysts have concluded that participation would likely benefit most farmers. Several analysts have found that a 1984 corn price of $2.80 a bushel represents a rough measure of the indifference point, with prices lower than that favoring participation. The chance that corn prices will fall below the indifference point is regarded to be fairly high, reflecting prospects for a huge rebound in 1984 corn acreage and per acre yields and the lack of any evidence of a significant near-term recovery in exports. Crop farmers least able to withstand the risk of low grain prices should give serious consideration to participating in the 1984 programs.

Gary L. Benjamin

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	December	287	− 0.3	+10
Total loans at agricultural banks†	1972-73=100	December	299	+ 0.2	+ 7
Production credit associations					
Loans outstanding					
United States	mil. dol.	December	18,735	− 0.1	− 7
Seventh District states	mil. dol.		N.A.	N.A.	N.A.
Loans made					
United States	mil. dol.	December	2,902	+36.0	−10
Seventh District states	mil. dol.		N.A.	N.A.	N.A.
Federal land banks					
Loans outstanding					
United States	mil. dol.	December	48,052	− 0.1	+ 2
Seventh District states	mil. dol.		N.A.	N.A.	N.A.
New money loaned					
United States	mil. dol.	December	262	+14.3	−17
Seventh District states	mil. dol.		N.A.	N.A.	N.A.
Interest rates					
Feeder cattle loans††	percent	4rd Quarter	13.68	+ 0.6	− 9
Farm real estate loans††	percent	4rd Quarter	13.33	+ 0.4	−11
Three-month Treasury bills	percent	1/26-2/1	8.90	− 0.9	+10
Federal funds rate	percent	1/26-2/1	9.75	− 3.1	+14
Government bonds *(long-term)*	percent	1/26-2/1	11.74	− 1.1	+ 7
Agricultural trade					
Agricultural exports	mil. dol.	December	3,499	+ 0.6	+21
Agricultural imports	mil. dol.	December	1,335	− 3.7	+ 9
Farm machinery sales[P]					
Farm tractors	units	December	6,801	−16.1	− 8
Combines	units	December	1,210	− 4.8	−46
Balers	units	December	173	−22.8	−28

†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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