Waite

FEDERAL RESERVE BANK OF CHICAGO

AGRICULTURAL LETTER

ISSN 0002 - 1512

April 27, 1984 Number 1628

DISTRICT FARMLAND VALUES declined again in the first quarter, according to an April survey of 440 agricultural bankers in the Seventh Federal Reserve District. The survey indicates that the value of good farmland declined 2.9 percent during the three months ending in March. The first quarter downturn, coupled with a 1.5 percent drop in the fourth quarter of 1983, encompasses a six-month slide in District farmland values that has more than offset the gains registered in the first half of 1983. As a result, District farmland values, on average, were nearly 5 percent below the level of a year ago and about 18 percent below the 1981 peak.

Farmland market trends in District states varied widely in the first quarter (see map on page 2). Land values in Illinois and Iowa registered large declines, with bankers in those states indicating drops of 3 and 6 percent, respectively, during the first three months of the year. Bankers in Wisconsin reported a 1 percent decline in the value of farmland in the first quarter, while those in Michigan and Indiana reported virtually no change.

Relative to a year ago, the changes in District farmland values were even more variable. Except for District portions of Indiana, which showed a 6 percent year-to-year increase, land values were well below April 1983 levels. The year-to-year declines ranged from 1 percent in Illinois to 11.5 percent in Iowa.

An apparent increase in the amount of farmland for sale in District states contributed to the downward pressure on land values. Many of the bankers surveyed commented that the amount of land for sale in their areas was up and that some of the increase was the result of forced sales. The increase in the volume of farm real estate transactions was most pronounced in Iowa where nearly 60 percent of the bankers surveyed reported that there were more units sold during the six months ending in March than in the comparable period the year before, while less than 23 percent noted a decline. In the other District states, a third of the bankers indicated an increase in sales, while a fourth reported the number of land transactions during the six-month period was below the previous year's level. A similar trend was indicated for the amount of acreage sold. Among all District states, 38 percent of the surveyed bankers reported an increase, and 23 percent reported that the amount of acreage transferred during the six-month period was less than a year ago. The proportion of acreage purchased by farmers over the period was reported to be about the same as the previous year.

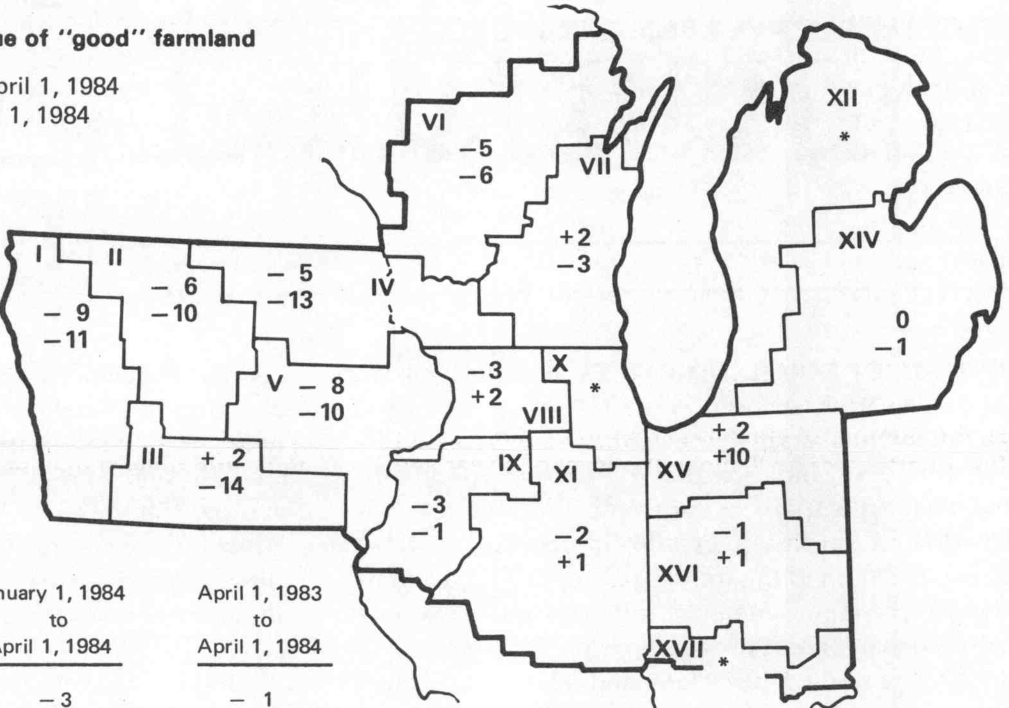
Interest rates charged on farm real estate loans continued to creep upward during the first quarter. The average rate charged by surveyed banks moved up to 13.4 percent during the quarter from the 13.3 percent average reported in January. That placed the rate at a level comparable to a year ago, erasing the decline registered in the first half of 1983. Among District states, the rate charged by banks on farm real estate loans ranged from 13.1 percent in Wisconsin to 13.7 percent in Indiana. Loan rates at the Federal Land Banks serving District states—the largest source of farm mortgages—have remained stable over the last three quarters at an average of 11.5 percent.

Further evidence of the weakness in District farmland markets is apparent in the 3 percent year-to-year decrease in cash rental rates reported by the agricultural bankers. Among individual District states, Michigan shows a 5 percent increase from last year's level, but the other District states all register declines. Cash rental rates show a sharp 6 percent decline in Iowa and are down 2 percent from year-ago levels in the remaining District states. Average 1984 cash rental rates range from $71 per acre in Wisconsin to $133 per acre in Illinois.

Bankers' expectations concerning farmland values appear cautious. Many bankers commented that another bad year will force some highly leveraged operators out of business, perhaps putting more downward pressure on land values by placing additional land on the market. Others indicated that the current level of interest rates on farm real estate loans present cash flow problems to potential buyers, contributing to weakness on the demand side. One-third of the bankers expect land values

Percent change in dollar value of "good" farmland

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

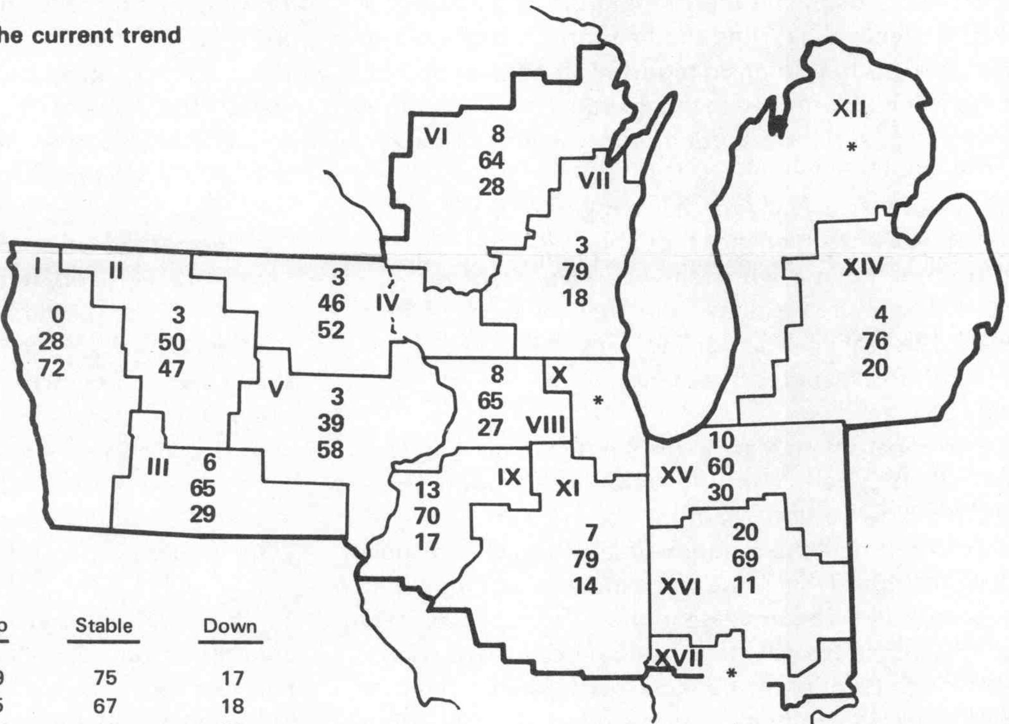


	January 1, 1984 to April 1, 1984	April 1, 1983 to April 1, 1984
Illinois	– 3	– 1
Indiana	0	+ 6
Iowa	– 6	– 12
Michigan	0	– 4
Wisconsin	– 1	– 6
Seventh District	– 3	– 5

*Insufficient response.

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

Top: Up
Center: Stable
Bottom: Down



	Up	Stable	Down
Illinois	9	75	17
Indiana	15	67	18
Iowa	3	41	56
Michigan	12	68	21
Wisconsin	4	71	25
Seventh District	7	61	32

*Insufficient response.

to fall, while only 7 percent of the bankers surveyed foresee an upturn in land values during the next few months. More than 60 percent of the bankers expect farmland values to remain stable in their areas this quarter. Bankers in Iowa appear more pessimistic in their outlook, with more than half responding that they expect farmland values to fall in the second quarter, and only 3 percent expecting a rise.

CATTLE ON FEED numbers on April 1 were up 2 percent from a year ago, surprising many analysts who had expected no change. According to the USDA's April 1 survey of feedlots in the thirteen major cattle feeding states, the number of animals placed in feedlots during the first quarter was well above the level of a year ago, while marketings of fed cattle were at a five-year high. Cattle slaughter is expected to continue above year-ago levels in the second quarter with an increase in fed cattle marketings and continued culling of the dairy herd. However, cattle slaughter during the second half of the year is expected to lag year-earlier levels.

The quarterly survey, which generally accounts for 85 percent of all cattle in U.S. feedlots, indicates that a substantial year-to-year increase in the number of steers on feed as of April 1 was partially offset by declines in the numbers of heifers and cows. The number of steers on feed was up 6.5 percent from a year ago and up 9 percent from two years ago. Heifer numbers, however, were down 6 percent from the previous year and about equal to the 1982 level.

The net movement of cattle onto feedlots this winter, at 5.15 million head, jumped 12 percent from last year, but was nearly 2 percent below the first quarter total of 1982. Data for the seven major feeding states that are surveyed monthly suggest that a March surge accounted for most of the first quarter rise in net placements. Following increases of 9 and 17 percent in January and February, respectively, net cattle placements in the seven monthly states jumped 30 percent in March, above the year-ago level. Heavy-weight feeder cattle accounted for a disproportionately large share of the first-quarter placements, foreshadowing shorter than normal feeding periods in the months ahead.

Fed cattle marketings in the first quarter, at 5.71 million head, were up only slightly from last year's level. Nevertheless, first quarter marketings were at the highest level for that period since 1979 and 5 percent above the 1982 cyclical low. Total commercial cattle slaughter in the first quarter exceeded the year-ago level by 5 percent. Part of the increase reflected the extra "leap day" this year and the tight roughage supplies which resulted in a considerable rise in slaughter of forage-fed steers and heifers. But a more important factor was the 23 percent rise in cow slaughter at federally inspected plants. The surge in cow slaughter reflects a substantial culling of dairy herds and perhaps further liquidation of beef cow herds. Reflecting the increased slaughter of lighter carcass weight animals, commercial beef production this winter registered only a 3 percent year-to-year increase despite the 5 percent rise in the number of cattle slaughtered.

Cattle feeders in the thirteen states intend to hold marketings above year-ago levels during the second quarter. Their intentions to market 5.69 million head of fed cattle suggest that fed cattle slaughter in the second quarter will be up 3 percent from last year and at the highest level for that period since 1978. While forage-fed steer and heifer slaughter may drop below year-ago levels this spring with the greening up of pastures, producers' intentions to market more fed cattle and the continued increase in cow slaughter due to the dairy program will likely hold cattle slaughter above year-earlier levels through the second quarter of 1984.

By this summer, however, slaughter and beef production are expected to fall below year-ago levels. The number of light-weight animals on feed as of April 1, up slightly from a year ago, suggests that fed cattle marketings in the third quarter will be little changed from last year's level. Moreover, culling of the dairy herd due to the paid diversion program for milk producers will fall off sharply during the second quarter. The current USDA projection of beef production for the third quarter of 1984 indicates a 4 percent decrease from the previous year's level.

After holding at the $60 per hundredweight level through most of the fourth quarter, choice cattle prices at Omaha jumped sharply in January and have remained in the $67 per hundredweight range through the first three months of 1984. Although a continuation of the economic recovery is likely to buoy consumer demand, year-to-year price gains in the second quarter will be limited by continued large supplies of beef and other meats, holding average cattle prices in the upper $60s per hundredweight range. However, the expected third quarter declines in beef and pork production of 4 and 13 percent, respectively, will boost prices above year-ago levels. Reflecting the expected decline in red meat supplies, the USDA price forecast for choice steers at Omaha during the third quarter, ranging from $65 to $71 per hundredweight, signifies a substantial rise from the year-ago level of $61.

Peter J. Heffernan

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	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.	February	18,300	– 0.1	– 6
Seventh District states	mil. dol.		N.A.	N.A.	N.A.
Loans made					
United States	mil. dol.	February	2,587	–13.3	0
Seventh District states	mil. dol.		N.A.	N.A.	N.A.
Federal land banks					
Loans outstanding					
United States	mil. dol.	February	47,982	–0.1	+ 1
Seventh District states	mil. dol.		N.A.	N.A.	N.A.
New money loaned					
United States	mil. dol.	February	269	–28.9	– 2
Seventh District states	mil. dol.		N.A.	N.A.	N.A.
Interest rates					
Feeder cattle loans††	percent	1st Quarter	13.74	+ 0.4	– 2
Farm real estate loans††	percent	1st Quarter	13.36	+ 0.2	– 4
Three-month Treasury bills	percent	4/19-4/25	9.67	– 0.9	+19
Federal funds rate	percent	4/19-4/25	9.98	+ 0.1	+16
Government bonds *(long-term)*	percent	4/19-4/25	12.77	+ 2.2	+22
Agricultural trade					
Agricultural exports	mil. dol.	February	3,361	– 5.2	+11
Agricultural imports	mil. dol.	February	1,586	– 6.4	+24
Farm machinery sales[p]					
Farm tractors	units	March	10,667	+45.4	+ 3
Combines	units	March	306	–50.5	–49
Balers	units	March	553	+73.9	+ 7

†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.

AGRICULTURAL LETTER
FEDERAL RESERVE BANK
OF CHICAGO
Public Information Center
P.O. Box 834
Chicago, Illinois 60690
Tel no. (312) 322-5111

FEDERAL RESERVE BANK OF CHICAGO
AGRICULTURAL LETTER

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

AG
HEAD-DEPT.OF AGRIC.ECON.
INSTITUTE OF AGRICULTURE
UNIVESITY OF MINNESOTA
ST.PAUL,MN 55101