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Farmland values

Our mid-year survey of over 400 agricultural bankers in the Seventh Federal Reserve District found that farmland values were little changed during the second quarter. With modest gains in two of the five District states offsetting slight declines elsewhere, the weighted average rise in District land values during the three months ending with June was a negligible 0.2 percent. The lackluster performance of both this spring and last fall limited the rise in District farmland values for the year ending with June to only 2 percent. A large majority of the bankers believe that the trend in land values will remain flat this summer.

The sluggish performance characterizing recent and prospective trends in District farmland values undoubtedly reflects several factors that have tended to trim agricultural earnings in the Midwest. Sharp declines in milk prices and in corn and soybean exports over the past year have reduced farm earnings in most areas of the District. More recently, 1991 crop prospects have been guarded because of adverse weather problems. Earnings of livestock producers have held up well over the past year. Yet more recent developments have brought lower-than-expected cattle prices and evidence that the expansion now under-

way will significantly trim hog farmer earnings next year. In addition to the above, the apprehensions in the farmland market probably reflect concerns of adjusting to cuts in government farm income and price support programs as a result of federal legislation enacted last fall. Also, environmental issues related to land ownership have grown over the past year and, in many cases, added to the costs of acquiring and owning additional land.

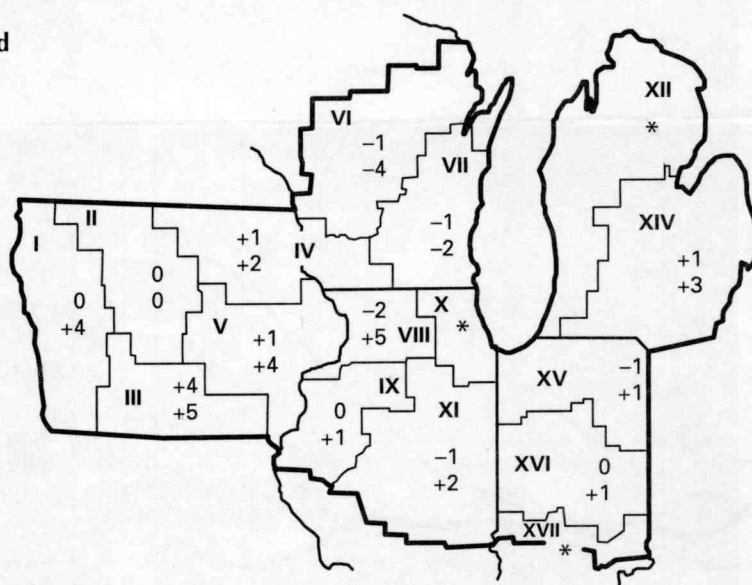
The most recent survey found that the trend in farmland values this spring varied among the five states of the Seventh Federal Reserve District. Bankers from both Iowa and the District-portion of Michigan reported that land values continued to edge upward, rising about 1 percent during the second quarter. With the continued uptrend, land values in those two states were up some 3 to 4 percent from a year ago. In contrast, bankers from each of the other three District states (Illinois, Indiana, and Wisconsin) reported second-quarter declines of about 1 percent. Despite the recent downturn, land values in Illinois and Indiana as of the end of June were still up 1 to 2 percent from a year ago. However, in Wisconsin—the District state hardest hit by the decline in milk prices—farmland values were reported to be down nearly 3 percent from a year ago.

Percent change in dollar value of "good" farmland

Top: April 1, 1991 to July 1, 1991

Bottom: July 1, 1990 to July 1, 1991

	April 1, 1991 to July 1, 1991	July 1, 1990 to July 1, 1991
Illinois	-1	+2
Indiana	-1	+1
Iowa	+1	+3
Michigan	+1	+4
Wisconsin	-1	-3
Seventh District	0	+2



*Insufficient response

The leveling-off in District farmland values this spring occurred despite a further easing in interest rates on farm real estate mortgages. Reflecting this, the typical rate charged on new farm real estate mortgages by the recently surveyed banks averaged 10.4 percent. The mid-year average marked declines of 15 basis points from three months earlier and 70 basis points from a year ago. It was also among the lowest average rates reported on farm mortgages for any quarterly survey since early 1979. Among District states, the average of the reported farm mortgage rates as of the end of June ranged from a low of 10.3 percent among banks in Iowa to a high of 10.9 percent among banks in Michigan. Banks account for about a fourth of all outstanding farm mortgage debt in District states and—as indicated in the accompanying article—about 40 percent of the credit extended to finance farmland transfers.

A large majority of the bankers from all District states believe that the trend in farmland values will remain flat this summer. Overall, 81 percent of the bankers felt that land values would be stable during the third quarter. Another 13 percent of the bankers felt that land values would decline this summer. The remaining 6 percent expected an increase. Compared to past quarterly surveys, this is the smallest share of bankers to project a rise since the up-trend in farmland values resumed in early 1987.

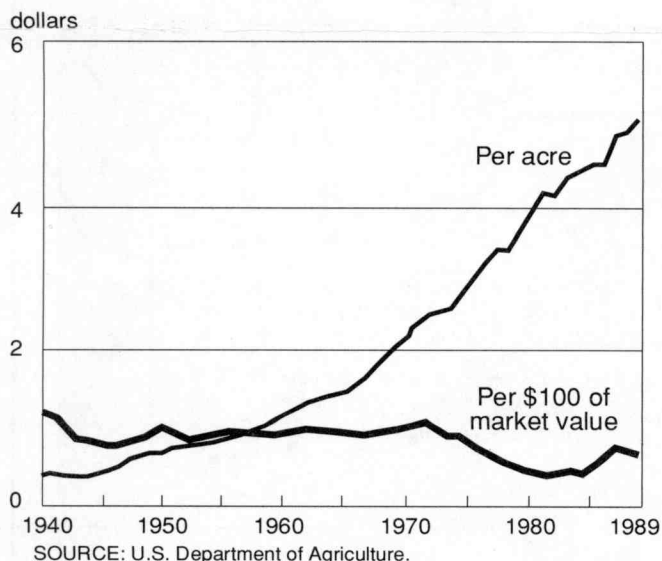
Farmland taxes and transfers

A recent report from the U.S. Department of Agriculture provides an update on several issues related to farm real estate. Among other things, the report focuses on real estate taxes and the results from the USDA's latest annual

survey of farmland transfers. It notes that the amount of taxes levied on farm real estate by State and local governments rose to more than \$4.4 billion in 1989. The total covers taxes on land and buildings in 49 states (Alaska is excluded) but excludes taxes for special assessments for improvements (such as for drainage and irrigation). The latest tally marks an increase of 2.7 percent from the taxes levied in 1988 and a rise of 28 percent from 1980. Expressed in terms of more common denominators, the 1989 tax bill amounted to an average of \$5.06 for each acre of farmland, and an average of 76 cents per \$100 of full market value on the underlying farm real estate. In comparison, the 1980 tax bill averaged \$3.83 per acre and 49 cents per \$100 of market value.

State and local government taxes on farm real estate vary widely among states. The variation mostly reflects differences among states in the mix of tax revenues (real estate versus income and sales taxes) and differences in the extent to which states permit preferential assessments on farmland. The variation in farm real estate taxes is particularly apparent among District states. On a per acre basis, for example, the 1989 taxes ranged from a low of \$7.51 in Indiana to a high of \$32.31 in Michigan. The tax bills in the other three District states were clustered between \$11.21 an acre (Iowa) and \$16.58 an acre (Wisconsin). The variation is even more pronounced in terms of taxes per \$100 of market value. Indiana had the lowest levy per \$100 of full market value (60 cents) while Michigan (at \$3.29) was the highest among District states and all states nationwide. The farm real estate tax per \$100 of market value in the other three District states was \$1.02 for Iowa, \$1.15 for Illinois, and \$1.96 for Wisconsin. The farm real estate taxes for all five District states combined in 1989 was over \$1.5 billion, up 28 percent from 1980 and equivalent to more than a third of the nationwide total.

Farm real estate taxes



The USDA's latest survey on farmland transfers was conducted during the four months ending with December 1990. It included information on some 6,700 voluntary and estate sales that transferred the ownership of nearly 2.1 million acres of farmland. It is estimated that voluntary and estate sales account for about 71 percent of all farmland transfers nationwide. The remaining shares are distributed among family transfers (17 percent), foreclosures, bankruptcies, and condemnation sales and transfers (9 percent), and "other sales and transfers" (3 percent).

The transfers detailed in the most recent survey contained a little over 300 acres on average, unchanged from a year ago but up considerably from the acreage per transfer reported in surveys conducted during the mid 1980s. In the Corn Belt and the Lake States regions where higher-valued cropland accounted for a much larger share of the acreage sold, the acreage per transfer was less than half the nationwide average.

Farmers continue to account for a large majority of farm real estate buyers. Owner-operators bought 57 percent of the acreage involved in the most recent survey on farmland transfers. Tenant farmers purchased an additional 14 percent. Retired farmers acquired 1 percent of the acreage and nonfarmers bought the remaining 28 percent of the acreage. The combined share of the acreage acquired by tenants and owner-operators (at 71 percent) was up slightly from the share reported a year ago but well within the range of 66 to 74 percent that has been tallied in annual surveys since the mid 1980s. In the Corn Belt, the distribution of farmland acquired by type of buyer was very similar to the overall distribution. The distribution for the Lake States contained a higher proportion of acreage acquired by tenants (22 percent) and a relatively small share (19 percent) acquired by nonfarmers.

Estates were the sellers of 15 percent of the acreage sold in the most recent survey on farmland transfers. Active farm operators who continued in farming were the sellers of an additional 22 percent of the acreage while retiring or quitting farmers accounted for another 17 percent. Previously retired farmers sold 11 percent of the acreage covered in the most recent survey. The remaining 35 percent of the acreage was sold by nonfarmers or nonfarm businesses. Estates accounted for a proportionately larger share of the acreage sold in the Corn Belt (28 percent) while previously retired farmers were the sellers of a proportionately large share of the acreage transferred in the Lake States (21 percent).

The use of debt financing to acquire farm real estate declined again in the most recent survey, extending one of the more pronounced trends in farm real estate transfers of the past decade. Some 64 percent of the farmland transfers in the most recent USDA survey involved debt financing, down from 66 percent in the previous survey and 90 percent a decade ago. The share of debt-financed farmland transfers in the Lake States retreated to 74 percent in the most recent survey. Despite the decline, debt-financed transfers are more common in the Lake States than any of the other nine geographic regions of the United States. The share of debt-financed transfers in the Corn Belt rose slightly to 66 percent in the most recent survey.

Among the debt-financed transfers reported in the most recent survey, the amount of debt incurred, on average, was equivalent to 74 percent of the purchase price. This was about midway between the decade-low of 69 percent set last year and the decade-high of 78 percent set in 1981. The debt-to-purchase price ratio on farmland transfers financed in the Lake States averaged 76 percent, down from 83 percent a decade ago. The average for Corn Belt states was 72 percent in the most recent survey compared to 79 percent a decade ago.

Trends in debt-financed farmland transfers

	1980	1985	1989	1990	1991
Percent of transfers which involve debt financing					
Corn Belt	93	77	65	64	66
Lake States	95	87	80	77	74
48 States	91	82	66	66	64
Debt incurred as percent of purchase price					
Corn Belt	79	76	73	72	72
Lake States	82	81	78	78	76
48 States	78	76	73	69	74
Percent of financing provided by major lenders					
Corn Belt					
Banks	3	16	44	37	43
Sellers	34	27	20	21	18
FCS	42	33	25	25	28
Lake States					
Banks	3	12	37	39	36
Sellers	55	49	38	33	37
FCS	28	24	20	16	14
48 States					
Banks	4	13	34	28	32
Sellers	38	33	24	28	23
FCS	34	31	29	27	26

SOURCE: U.S. Department of Agriculture.

Commercial banks provided 32 percent of the debt financing incurred in the USDA's most recent survey of debt-financed farmland transfers. The Farm Credit System provided another 26 percent while sellers provided 23 percent. The share provided by insurance companies (at 13 percent) was up considerably from previous years, due mostly to large gains in the Southeast. While lender shares vary from year to year, commercial banks were by far the largest source of financing on debt-financed transfers in the Corn Belt. In the Lake States, sellers and banks each held a share of about 36 percent, followed by the Farm Credit System at 14 percent.

Gary L. Benjamin

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Selected agricultural economic indicators

	Latest period	Value	Percent change from		
			Prior period	Year ago	Two years ago
Receipts from farm marketings (\$ millions)					
Crops*	March	14,817	27.1	1	15
Livestock	March	5,557	22.9	13	19
Government payments	March	7,514	13.1	2	10
	March	1,746	252.0	-27	30
Real estate farm debt outstanding (\$ billions)					
Commercial banks	March 31	17.5	1.5**	4	11
Farm Credit System	March 31	29.1	-1.2**	-3	-6
Life insurance companies	December 31	10.8	1.4**	12	12
Nonreal estate farm debt outstanding (\$ billions)					
Commercial banks	March 31	32.0	-2.7**	9	13
Farm Credit System	March 31	10.5	-1.9**	8	13
Interest rates on farm loans (percent)					
7th District agricultural banks					
Operating loans	July 1	11.19	-1.8**	-6	-10
Real estate loans	July 1	10.43	-1.2**	-6	-10
Commodity Credit Corporation	August	6.37	2.0	-20	-22
Agricultural exports (\$ millions)					
Corn (mil. bu.)	May	3,092	-1.7	-6	-7
Soybeans (mil. bu.)	May	125	-13.5	-42	-41
Wheat (mil. bu.)	May	39	-8.8	71	69
	May	85	-7.5	14	-12
Farm machinery sales^p (units)					
Tractors, over 40 HP	June	6,625	0.0	5	20
40 to 100 HP	June	4,238	1.9	-7	7
100 HP or more	June	2,387	-3.2	36	51
Combines	June	1,165	-10.9	23	52

*Includes net CCC loans.

**Prior period is three months earlier.

^pPreliminary

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