FRB CHICAGO

AGRICULTURAL LETTER

FEDERAL RESERVE BANK OF CHICAGO

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Farmland values

Survey responses from 420 agricultural bankers suggest that farmland values in the Seventh Federal Reserve District continued their rise during the spring months, recording a fourteenth consecutive quarterly gain. However, the second quarter increase of just under 1 percent is down sharply from the very strong growth registered during the first three months of 1990. On the other hand, the slower rate of growth this spring about matches the 1 percent gain of a year ago and is consistent with a pattern of moderate changes in farmland values during the spring and early summer months. The second quarter increase further boosted District land value above the low recorded in 1986. In the three and a half years since the trough, District farmland has risen a third in value. The bankers responses indicate that a majority expect the farmland market to remain stable, although a significant proportion expects further strengthening in land values during the third quarter.

Moderate increases in land values were evident in each of the District states except Indiana, where farmland values showed strong gains during the second quarter. Farmland values in the District portion of Indiana rose more than 2 percent during the spring after showing no change during the first three months of 1990. Bankers in Illinois and Wisconsin reported second quarter increases in farmland values of just under 1 percent, while bankers in Iowa and Michigan reported very small gains of only .3 percent from the previous quarter's level.

Although all five states recorded increases for the year ending in June, the trend in farmland values across the District shows a wide variation. Iowa farmland values showed the largest gain over the twelve month period, rising about 8 percent. Wisconsin farmland values followed closely with an increase of about 7.5 percent compared to a year earlier. Agricultural bankers in Illinois and Indiana reported annual gains of 5.6 and 5 percent, respectively, in farmland values. The smallest annual increase was reported by Michigan respondents, who indicated that land values in the District portion of that state had risen about 3.5 percent during the four quarter period. For the District as a whole, farmland values posted a 6.4 percent increase during the twelve month period ending in June.

Interest rates charged on farm real estate mortgages at District agricultural banks remained stable during the second quarter. After rising sharply during 1988, farm mortgage interest rates peaked in April of last year. During the next twelve months rates declined continuously. However, at 11.08 percent at the end of June, the average rate charged on farm mortgages by District agricultural banks was unchanged from three months earlier, but almost half a percentage point lower than the average rate reported a year ago.

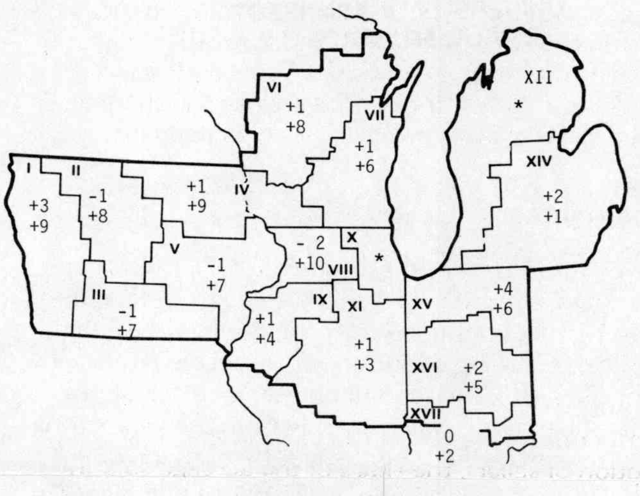
Among individual District states, there was some variation in average interest rates on farm real estate loans. Agricultural banks in Iowa reported the lowest average rate of 10.9 percent, up slightly from three months earlier but still 45 basis points lower than a year ago. Bankers in Illinois and Wisconsin reported average farm mortgage rates at the end of June of about 11.1 percent. That represents a drop of about 10 basis points from the end of the first quarter for Illinois respondents and half a percentage point drop from a year earlier. For Wisconsin banks, the latest average rate is up slightly from last quarter but about 30 basis points below mid year 1989. At 11.25 percent, the average farm real estate loan rate at agricultural banks in the District portion of Indiana is down slightly from the end of the first quarter and about half a percentage point below last year. The average rate charged by Michigan agricultural banks showed declines from three months and twelve months earlier that were the same as reported by Illinois bankers. However, the average rate of just under 11.6 percent at the end of June remained somewhat higher than the other District states.

Farm real estate lending by District agricultural banks will likely continue to rise during the third quarter. The proportion of survey respondents indicating that their volume of farm real estate lending would be up from a year ago was nearly double the proportion indicating that volume would be down. However, two-thirds of the respondents noted that the volume of farm real estate lending at their institutions during the third quarter would be unchanged from the same months of a year ago.

Since the turnaround in the farmland market began, agricultural banks throughout the United States, and particularly in the Corn Belt states, have acquired a growing share of the outstanding institutional farm

Percent change in dollar value of "good" farmland

Top: April 1, 1990 to July 1, 1990
Bottom: July 1, 1989 to July 1, 1990



	April 1, 1990 to July 1, 1990	July 1, 1989 to July 1, 1990
Illinois	+1	+6
Indiana	+2	+5
Iowa	0	+8
Michigan	0	+3
Wisconsin	+1	+8
Seventh District	+1	+6

*Insufficient response.

real estate debt. Although farm real estate debt held by major farm lending institutions at the end of the first quarter was down more than 9 percent from three years earlier, farm real estate debt held by commercial banks had jumped more than 27 percent. As a result of these trends, farm banks in early 1990 accounted for almost 26 percent of outstanding farm real estate debt held by financial institutions, up from 18.4 percent at the beginning of 1987. Most of that gain has come at the expense of the Farm Credit System. Although still the dominant farm real estate lender, the Farm Credit System share of outstandings dropped from 52.5 percent to 46.1 percent over the three year period. The position of the Farmers Home Administration among institutional lenders has eroded during the last few years as well, with outstanding real estate debt down 16.5 percent and accounting for 13.3 percent of outstandings at the end of the first quarter. Farm real estate debt held by life insurance companies has followed the overall trend for the major farm lending institutions, declining about 9 percent and maintaining a market share of 14.7 percent over the past three years. At the end of the first quarter of this year, the farm real estate debt held by these major institutional lenders totaled $64.8 billion.

District agricultural bankers remain optimistic regarding the near term trend in land values, with none of the respondents expecting a decline during the summer months. More than 74 percent of the bankers expect farmland values to remain stable during the third quarter, with the remaining 26 percent expecting the upward trend to continue. Sentiments for continued gains during the period were strongest among Indiana bankers, with a third expecting further increases. In contrast, only about 11 percent of the Michigan respondents expect farmland values to rise during the summer months.

Peter J. Heffernan

Farmland transfers

A recent U.S. Department of Agriculture report summarizes the results of its latest farmland market survey. This year's findings are based on some 6,600 voluntary and estate sales that transferred the ownership of about 2 million acres during the four months ending January 1. Among other things, the survey focuses on the characteristics of buyers and sellers, as well as the price, acreage, intended use, and sources of financing associated with recent farmland transfers. In general, the results of the latest survey were little changed from those of recent years.

The size of the farmland transfers reported in this year's survey, on average, encompassed just over 300 acres per transfer at an average price of nearly $655 per acre. The acreage associated with transfers in both the Corn Belt and the Lake States was considerably smaller, averaging about 135 acres per transfer in the most recent survey. Conversely, the price per acre was higher, averaging $800 per acre in the Lake States and nearly $1,100 in the Corn Belt.

Most of the buyers associated with the recent farmland transfers were farmers. Some 57 percent of the acreage transferred in the latest survey was acquired by existing farm owner-operators. An additional 9 percent of the acreage was acquired by tenant farmers. Retired farmers bought 1 percent of the acreage while nonfarmers acquired the remaining 33 percent. Among recent farmland transfers in the Corn Belt and the Lake States, the combined share of the acreage acquired by owner-operators and tenant farmers was closer to 75 percent while the share acquired by nonfarmers was closer to 25 percent.

Estates were the sellers of 15 percent of the acreage covered in the recent survey on farmland transfers. Active farm operators were the sellers of an additional 23 percent of the acreage while retiring farm operators were the sellers associated with another 17 percent of the acreage. Previously retired farmers sold 10 percent of the acreage while the sellers of the remaining 35 percent of the acreage were identified as nonfarmers or nonfarm businesses. Compared to the overall distribution of sellers, the share of the acreage sold by retired or retiring farm operators was slightly higher in the Lake States while estates accounted for more of the acreage sold in the Corn Belt.

In terms of intended use, some 88 percent of the acreage associated with the recent survey on farmland transfers is expected to remain in agricultural uses over the next five years. Another 2 percent is expected to be used in forestry. The remaining 10 percent of the acreage is expected to shift to other uses, such as recreational, housing, or commercial or industrial. In the Corn Belt and the Lake States, the share of the acreage in recent transfers that is expected to shift to "other" uses was closer to 5 percent.

The proportion of farmland transfers on which debt was incurred leveled off at 66 percent in the most recent survey, unchanged from a year earlier but down from 91 percent a decade ago. Among geographic regions, the proportion of debt-financed farmland transfers continued to be the highest in the Lake States at 77 percent. The share in the Corn Belt, at 64 percent, was among the lowest for all regions.

Among recent debt-financed farmland transfers, the amount of debt incurred retreated slightly to an average of 69 percent of the purchase price. Virtually all of the decline reflected a sharply lower debt-to-purchase price ratio in the Pacific region. Debt as a percentage of purchase price held at 78 percent in the Lake States in the most recent survey and 72 percent in the Corn Belt.

Over the last decade, there have been substantial swings in the various lender shares of the financing provided for farmland transfers. In particular, the share provided by banks has risen sharply from the nominal levels of 10 years ago. In the most recent survey, the share provided by banks retreated slightly and, at 28 percent, about matched the shares provided through seller financing and by the Farm Credit System. However, banks continued to provide the largest share of financing associated with recent farmland transfer in the Corn Belt and the Lake States, 37 and 39 percent, respectively.

Gary L. Benjamin

Trends in credit-financed farmland transfers

	1980	1985	1988	1989	1990
Percent of transfers on which debt was incurred					
Corn Belt	93	77	67	65	64
Lake States	95	87	78	80	77
48 States	91	82	70	66	66
Debt incurred as percent of purchase price					
Corn Belt	79	76	70	73	72
Lake States	82	81	77	78	78
48 States	78	76	72	73	69
Percent of credit extended by lenders					
Corn Belt					
Sellers	34	27	17	20	21
Banks	3	16	54	44	37
FCS	42	33	15	25	25
Lake States					
Sellers	55	49	39	38	33
Banks	3	12	31	37	39
FCS	28	24	20	20	16
48 States					
Sellers	38	33	24	24	28
Banks	4	13	32	34	28
FCS	34	31	25	29	27

SOURCE: USDA

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Selected Agricultural Economic Indicators

	Latest period	Value	Percent change from: Prior period	Year ago	Two years ago
Prices received by farmers *(1977=100)*	June	152	-1.3	3	9
Crops *(1977=100)*	June	130	-3.0	-6	1
Corn *($ per bu.)*	June	2.69	2.7	7	12
Oats *($ per bu.)*	June	1.37	-6.2	-25	-48
Soybeans *($ per bu.)*	June	5.75	-3.5	-18	-30
Wheat *($ per bu.)*	June	3.15	-7.4	-18	-7
Livestock and products *(1977=100)*	June	172	-0.6	10	17
Barrows and gilts *($ per cwt.)*	June	61.10	-1.5	32	25
Steers and heifers *($ per cwt.)*	June	78.10	-0.3	9	11
Milk *($ per cwt.)*	June	13.60	0.7	10	20
Eggs *(¢ per doz.)*	June	62.7	4.2	-2	35
Prices paid by farmers *(1977=100)*	April	183	1.1†	3	9
Production items	April	169	0.6†	2	9
Feed	April	128	0.0†	-9	14
Feeder livestock	April	213	3.9†	15	9
Fuels and energy	April	187	-6.5†	2	13
Producer Prices *(1982=100)*	June	118	0.2	3	9
Agricultural machinery and equipment	June	120	0.2	2	7
Fertilizer materials	June	92	-1.6	-11	-5
Agricultural chemicals	June	120	-0.2	3	11
Consumer prices *(1982-84=100)*	June	130	0.5	5	10
Food	June	132	0.5	6	12
Production or stocks					
Corn stocks *(mil. bu.)*	June 1	2,839	N.A.	-17	-51
Soybean stocks *(mil. bu.)*	June 1	596	N.A.	28	-9
Beef production *(bil. lbs.)*	June	1.98	-1.4	-2	-2
Pork production *(bil. lbs.)*	June	1.14	-9.1	-10	-7
Milk production *(bil. lbs.)*††	June	10.7	-4.9	3	1

N.A. Not applicable.
†Prior period is three months earlier.
††21 selected states.

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