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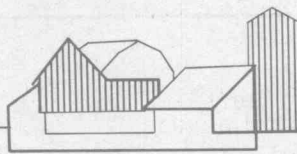
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Farmland values

Survey responses from almost 500 agricultural bankers indicated that farmland values in the Seventh Federal Reserve District continued their upward trend during the summer months. Following a lackluster second quarter rise, land values rose 1.7 percent during the three months ending in September. In addition, many of the bankers expect the farmland market to remain active this fall and winter, with continued interest by both farmer and nonfarmer investors. As a result, there is very little sentiment among the respondents that the farmland values will weaken during the final months of 1989.

Despite the overall rise in land values across the District, the individual states continued to exhibit some variation. Following several lackluster quarters, Wisconsin farmland values moved significantly higher during the summer months, recording a 3.6 percent rise during the period. Farmland values in the District portion of Illinois and in Iowa continued to show strong gains as well, recording increases of about 2 percent from three months earlier. The gains in those District states, however, were tempered by virtually no change in farmland values in Indiana and Michigan during the third quarter. Weakness in central Indiana farmland values offset increases in other areas, holding the District portion of the state unchanged from three months earlier. Similarly, declines in farmland values in southern Michigan were offset by increases in the northern and western portions of the state.

After trending higher over a two year period ending in early 1989, interest rates charged on farm real estate loans at District agricultural banks have recorded two consecutive quarterly declines. At 11.34 percent at the end of September the average rate charged on farm mortgages was down about 20 basis points from three months earlier and about 37 basis points lower than the recent high recorded at the end of the first quarter of 1989. Rates charged on farm real estate loans varied considerably across the District states. Bankers in Iowa reported the lowest average rates at just over 11 percent, followed closely by an 11.2 percent average rate in Wisconsin. Farm real estate loan rates in Illinois and Indiana averaged 11.4 and 11.5 percent, respectively. Michigan agricultural bankers again reported somewhat higher rates on farm mort-

gages than the other District states, averaging about 12 percent at the end of the third quarter.

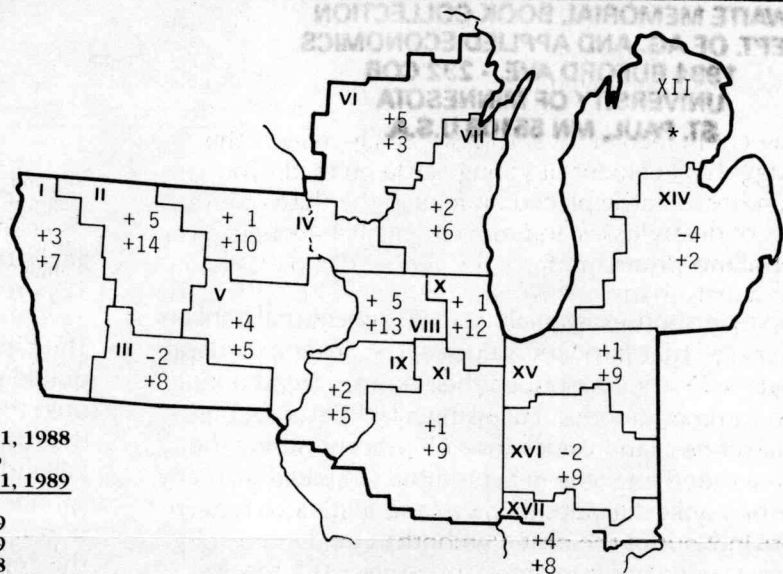
The recent softening in rates and indications of continued strength in demand for farmland have contributed to expectations among the survey respondents that the farmland market will remain active over the fall and winter months. More than a third of the respondents stated they expect the volume of farmland transfers over the next six months to be higher than the comparable period of a year ago, while an additional 53 percent expect no change. Only 12 percent of the survey respondents expect the trend in farmland transfers to be down compared to last fall and winter. Responses from Indiana and Wisconsin bankers point toward a somewhat larger increase in transfers than the other District states, with more than 40 percent expecting an increase compared to last year. Iowa bankers responses, on the other hand, suggest a somewhat slower pace of transactions compared to the rest of the District states. While almost a third of the respondents from Iowa expect an increase in transfers over the next six months, 26 percent expect the volume of farmland transfers to be down from the year-ago level.

The demand for farmland over the next six months is expected to strengthen among both farmer and nonfarmer investors. More than 36 percent of the respondents expect the demand for farmland to be up among investors who are not currently farming, while less than 12 percent foresee a drop in demand among this group. The remaining majority of the bankers expect demand from nonfarmer investors to be unchanged from a year earlier. In contrast to the responses of a year ago, almost half of the surveyed bankers expect farmer demand for land this fall and winter to be up from the same months a year ago. About 9 percent expect demand among farmers will be down while the remaining 44 percent indicated they expect no change from last year in farmer demand for land. Increased demand for farmland among farmers and nonfarmer investors was noted by bankers in all of the District states.

The bankers' responses suggest they expect the increased demand to translate into an uptrend in farmland values this fall. Almost 32 percent of the surveyed bankers expect farmland in their areas to rise in value during the fourth quarter of 1989, while only

Percent change in dollar value of "good" farmland

Top: July 1, 1989 to October 1, 1989
 Bottom: October 1, 1988 to October 1, 1989



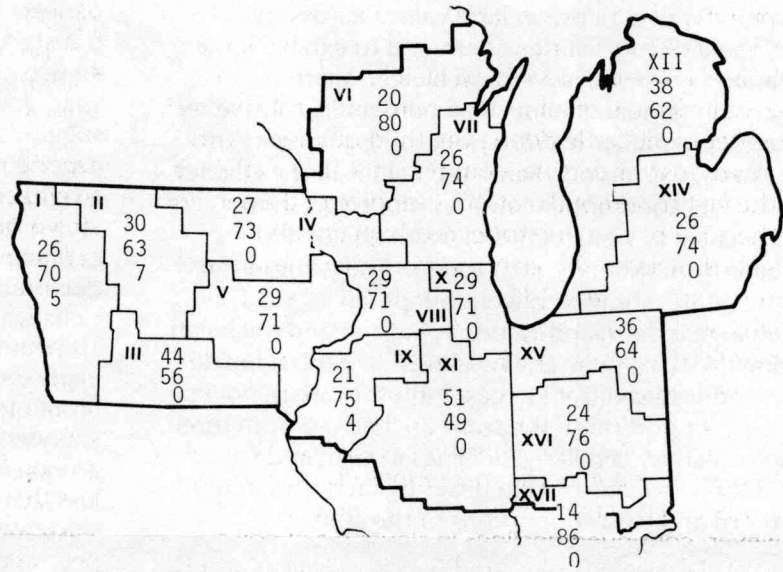
July 1, 1989 to October 1, 1989
 October 1, 1988 to October 1, 1989

| | | |
|------------------|----|----|
| Illinois | +2 | +9 |
| Indiana | 0 | +9 |
| Iowa | +2 | +8 |
| Michigan | 0 | +4 |
| Wisconsin | +4 | +6 |
| Seventh District | +2 | +8 |

*Insufficient response

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

Top: Up
 Center: Stable
 Bottom: Down



Up Stable Down

| | | | |
|------------------|----|----|---|
| Illinois | 40 | 59 | 1 |
| Indiana | 27 | 73 | 0 |
| Iowa | 28 | 69 | 3 |
| Michigan | 28 | 72 | 0 |
| Wisconsin | 28 | 72 | 0 |
| Seventh District | 32 | 67 | 1 |

1 percent foresee a decline. The remaining two-thirds of the respondents expect stable farmland values during the final three months of the year.

Peter J. Heffernan

Cattle on feed numbers continue down

The USDA's latest quarterly survey of operators in the 13 major cattle feeding states found that the October 1 inventory of cattle on feed was down 6 percent from

a year earlier and the lowest for that date since 1985. As a result, fed cattle marketings and total beef production are expected to be lower during the remainder of this year and the early months of next year. Although total meat supplies are expected to remain at record levels, the cut in beef production will help to support fat cattle prices in the months ahead.

The October 1 inventory of cattle on feed was at or below the year-earlier level in all 13 of the states surveyed. The year-over-year changes for the two District states included in the survey bracketed the

changes for the other 11 states. The number of cattle on feed in Illinois was down 18 percent while that for Iowa was unchanged from a year earlier.

The cut in feedlot inventories partially reflects the sluggish placement of young cattle on feed. The number of cattle placed on feed in the third quarter, net of death losses and movements between feedlots, was down 5 percent from the year-earlier pace. Except for a first-quarter bulge, the movement of cattle into feedlots has been sluggish since mid-1988. The slow placements reflect a combination of tight supplies and high prices for feeder cattle, which coupled with last year's drought-related surge in feed costs, has placed a squeeze on returns to feedlot operators. Iowa State University budgets indicate that fed cattle marketings from a typical feedlot in Iowa have generated a net loss in 9 out of the past 15 months.

The number of fed cattle that moved from feedlots in the 13-major states to slaughter plants during the third quarter was down 5 percent from the same period a year earlier and down contraseasonally from the 11-year high set in the second quarter. The cut in fed cattle marketings, along with sizable declines for cows, bulls, and grass-fed steers and heifers, led to a year-over-year decline of almost 6.5 percent in commercial slaughter of all cattle during the third quarter. With the third quarter decline, commercial cattle slaughter for the first nine months of this year dropped 4 percent off the 1988 pace. Due to record-high dressed weights, however, the year-over-year declines in beef production have been slightly smaller. The dressed weight of all cattle slaughtered so far this year has averaged 680 pounds, up 1.3 percent from the same period a year ago and up 6.8 percent from ten years ago.

Based on the intentions of feedlot operators, the year-over-year lag in fed cattle marketings during the current quarter may narrow to about 2 percent. However, continued declines in slaughter of cows, bulls, and grass-fed steers and heifers will likely result in a 4 to 5 percent year-over-year decline in total slaughter during the current quarter. The decline in cow slaughter could be somewhat larger than the 7 percent cut in the third quarter, particularly if high milk prices slow the culling of the dairy herd.

In terms of beef production, the latest USDA forecasts point to continued, but narrowing declines for the near term, followed by an upturn in the second half of next year. For the current quarter, beef production is projected to decline seasonally and lag the year-earlier level by 3 to 4 percent. For next year, beef production is projected to be down about 1 percent in the first half, followed by a year-over-year rise of about 2 percent during the second half.

The October 1 inventory of cattle on feed in 13 major states

| | 1980 | 1985 | 1988 | 1989 | Change |
|--------------|----------------------------|-------|-------|-------|-----------|
| | (------thousand head-----) | | | | (percent) |
| Arizona | 317 | 248 | 214 | 193 | -10 |
| California | 614 | 448 | 530 | 505 | -5 |
| Colorado | 740 | 740 | 795 | 750 | -6 |
| Idaho | 239 | 177 | 226 | 212 | -6 |
| Illinois | 410 | 340 | 280 | 230 | -18 |
| Iowa | 1,120 | 470 | 500 | 500 | 0 |
| Kansas | 1,200 | 1,285 | 1,475 | 1,410 | -4 |
| Minnesota | 310 | 215 | 220 | 210 | -5 |
| Nebraska | 1,430 | 1,400 | 1,740 | 1,670 | -4 |
| Oklahoma | 295 | 280 | 305 | 290 | -5 |
| South Dakota | 305 | 260 | 215 | 185 | -14 |
| Texas | 1,830 | 1,870 | 1,890 | 1,720 | -9 |
| Washington | 165 | 204 | 201 | 186 | -7 |
| Total | 8,975 | 7,937 | 8,591 | 8,061 | -6 |

Total meat production, however, will likely remain at record levels through all of next year. Pork production this fall and winter is expected to hold at, or slightly above, the cyclical highs of a year earlier before edging lower next spring. More significantly, quarterly projections for this fall and the first half of next year point to year-over-year gains of 7 to 9 percent for poultry production. With the large rise for poultry, total meat production is forecast to average 2 percent above year-earlier levels for the next three quarters.

During the third quarter, fed steer prices at Omaha averaged about \$70 per hundredweight. That was down from the first half average of just under \$74 but still above the year-earlier level of \$67 a hundredweight. With beef production declining seasonally this fall and winter, prices are expected to trend higher and remain above year-earlier levels. The mid points of the latest USDA forecasts suggest choice steer prices at Omaha might average \$72 this fall, and \$75 during the first half of next year. These levels, along with lower feed costs, offer some hope that the recent squeeze on returns to feedlot operators may ease somewhat.

Gary L. Benjamin

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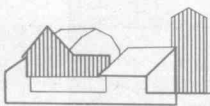
Selected Agricultural Economic Indicators

| | Latest period | Value | Percent change from | | |
|---|---------------|--------|---------------------|----------|---------------|
| | | | Prior period | Year ago | Two years ago |
| Receipts from farm marketings (\$ millions) | | | | | |
| Crops* | June | 11,271 | -4.0 | -17 | 9 |
| Livestock | June | 5,153 | 9.5 | -15 | 33 |
| Government payments | June | 5,880 | -5.3 | -3 | -2 |
| | June | 237 | -71.1 | -85 | -44 |
| Real estate farm debt outstanding (\$ billions) | | | | | |
| Commercial banks | June 30 | 15.0 | 3.1 [†] | 8 | 18 |
| Farm Credit System | June 30 | 26.7 | -1.4 [†] | -7 | -16 |
| Life insurance companies | March 31 | 8.85 | -1.8 [†] | -2 | -9 |
| Nonreal estate farm debt outstanding (\$ billions) | | | | | |
| Commercial banks | June 30 | 29.1 | 8.2 [†] | 2 | 1 |
| Farm Credit System | June 30 | 9.45 | 7.5 [†] | -1 | -6 |
| Interest rates on farm loans (percent) | | | | | |
| 7th District agricultural banks | | | | | |
| Operating loans | October 1 | 12.19 | -1.9 [†] | 4 | 8 |
| Real estate loans | October 1 | 11.34 | -1.8 [†] | 3 | 6 |
| Commodity Credit Corporation | November | 8.12 | -1.5 | 0 | 2 |
| Agricultural exports (\$ millions) | | | | | |
| Corn (mil. bu.) | August | 2,768 | -6.7 | -4 | 30 |
| Soybeans (mil. bu.) | August | 109 | -19.1 | -29 | -2 |
| Wheat (mil. bu.) | August | 18 | 9.4 | -51 | -66 |
| | August | 138 | -1.2 | 21 | 17 |
| Farm machinery sales^D (units) | | | | | |
| Tractors, over 40 HP | September | 4,622 | 25.4 | 21 | -9 |
| 40 to 139 HP | September | 2,938 | 4.2 | 9 | -3 |
| 140 HP or more | September | 1,684 | 94.5 | 50 | -17 |
| Combines | September | 1,257 | 47.4 | 47 | -9 |

*Includes net CCC loans.

[†]Prior period is three months earlier.

^DPreliminary



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