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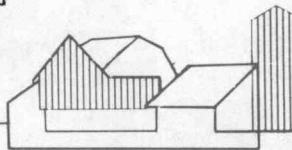
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Farmland values continue to rise

A recent survey of about 500 agricultural banks indicated that farmland values in the Seventh Federal Reserve District continued to register gains during the final months of 1987. The most recent increase of 3.2 percent marks the fourth consecutive quarterly rise in the value of the District's farmland and contributes to a gain of more than 7 percent in all of 1987. Despite this longest sustained increase since land values started their downturn, District farmland values remain well below the peaks attained in late 1981. For the District as a whole, farmland values at the end of 1987 were still about 45 percent below their peak, and there was considerable variation around that level among the individual District states.

Despite the overall gains in farm real estate values during the fourth quarter, the individual District states continue to show a large variation in trends. Bankers in Indiana and Iowa continued to report strong gains, with land values rising 5.8 and 4.9 percent, respectively, during the last three months of 1987. Respondents in Illinois reported a somewhat smaller increase of 2.1 percent for the period. Reported farmland value increases in Michigan and Wisconsin continued to lag the other District states during the fourth quarter of last year. Wisconsin bankers reported a quarterly increase of 1 percent, while the responses of Michigan bankers indicated virtually no change in land values from the previous quarter.

Changes in farmland values for the year as a whole exhibited a similar pattern. After four consecutive quarterly gains, the value of Iowa farmland is up 13 percent from the year-end 1986 level. The responses of Illinois and Indiana bankers show 7.2 and 8.2 percent gains, respectively, compared to a year ago. Michigan bankers, on the other hand, reported that farmland values rose only about 2 percent during 1987, while bankers in Wisconsin indicated that farmland values in the fourth quarter of 1987 were essentially unchanged from the year-earlier level.

The reversal last year of the long downtrend in farmland values stems largely from the improving income trend of the sector. Net cash income of the farm sector last year reached an estimated \$58 billion, up 11.5 percent from a year earlier and about 56 percent higher than the 1983 low. Net farm income, which in-

cludes noncash income and expenses as well as an accounting for the value of the change in farm inventories, jumped 20 percent from the previous year's level in 1987. While much of the improvement in farm sector earnings is attributable to large government payments, strong livestock returns over the last few years and sharply curtailed production expenses have also contributed to the sector's improved income performance.

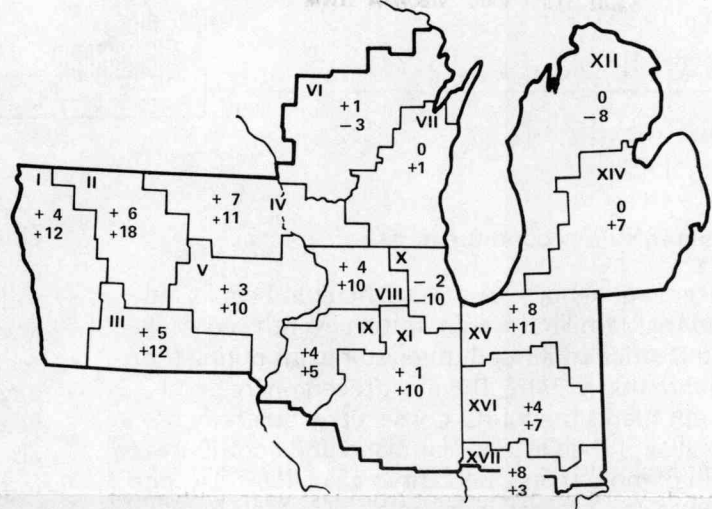
The Conservation Reserve Program has also influenced the land market in 1987. Enrollment of land in the program has provided an alternative to placing more land on the market for financially stressed farms that need to restructure their operations. For those who still had to sell land, the potential enrollment into the program tended to support land values.

The firming in farmland values last year was evident despite upward pressure on farm mortgage rates during the latter part of the year. The typical interest rate charged on farm real estate loans by the responding banks averaged 10.7 percent at the end of 1987. Although unchanged from three months earlier, the average rate was about 21 basis points above the year-ending 1986 average, more than offsetting declines that had been registered during the first half of 1987. Among four of the individual District states farm real estate loan rates were near or below the District average, with only Michigan bankers reporting a somewhat higher average of 11.3 percent.

District bankers remain optimistic regarding the farmland market in early 1988. The vast majority of surveyed bankers, almost 70 percent, expect farmland values in their areas to remain stable during the first quarter of this year. Another 28 percent foresee a continued uptrend during the period, while only 2 percent expect farmland values to decline during the first three months of 1988. Sentiment for continued strengthening in the farmland market was strongest in Illinois and Iowa, where 34 percent and 46 percent of the respondents expect land values to trend up and only 1 percent expect declines. Bankers in Indiana were a little less optimistic, with 17 percent expecting an uptrend and the remaining 83 percent expecting stability in farmland values. Most of the bankers in Michigan and Wisconsin, more than 85 percent, expect stable values in the farmland market during the first quarter. Among Michigan respondents, 13 per-

Percent change in dollar value of "good" farmland

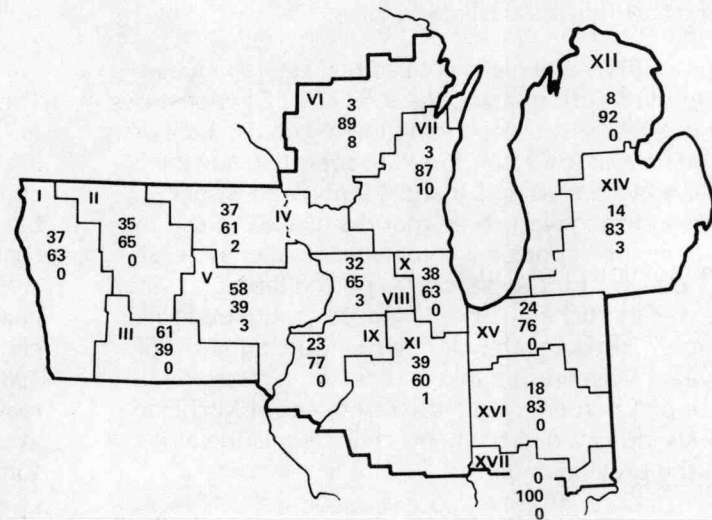
Top: October 1, 1987 to January 1, 1988
 Bottom: January 1, 1987 to January 1, 1988



	October 1, 1987 to January 1, 1988	January 1, 1987 to January 1, 1988
Illinois	+2	+ 7
Indiana	+6	+ 8
Iowa	+5	+13
Michigan	0	+ 2
Wisconsin	+1	0
Seventh District	+3	+ 8

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

Top: Up
 Center: Stable
 Bottom: Down



	Up	Stable	Down
Illinois	34	65	1
Indiana	17	83	0
Iowa	46	54	1
Michigan	13	85	2
Wisconsin	4	87	9
Seventh District	28	70	2

cent expect an upward trend in the first quarter while only 2 percent foresee declines. Wisconsin bankers were the only group in which the 9 percent of respondents who expected farmland values to weaken in the early months of 1988 exceeded the 4 percent expecting an uptrend.

Cattle on feed

The number of cattle and calves in feedlots registered a year-to-year gain at the start of 1988. USDA's

January 1 quarterly survey of feedlots in the thirteen major cattle feeding states indicated that the number of animals on feed was up almost 6 percent from the beginning 1987 level. The increase is tied to the sharp year-to-year rise in the October inventory of cattle on feed and occurred despite a slight year-to-year drop in placements and an increase in fourth quarter marketings. Fed cattle slaughter will likely hold above year-ago levels for the next few months as operators plan to increase marketings 2 percent from the first quarter of 1987. However, a drop in forage fed cattle slaughter

is expected to offset fed cattle marketings, lowering beef supplies from last year's level and providing strength to prices.

The USDA report, which covers the thirteen states that generally account for about 85 percent of the cattle on feed in the United States, indicates that more than three-fourths of the inventory gain was accounted for by a 7 percent year-to-year increase in number of steers and steer calves on feed. The inventory of heifers and heifer calves on feed registered an increase of almost 3 percent as well. Cows on feed January 1, which account for a very small proportion of the total, were up almost 14 percent from the previous year's level.

The inventory gains were concentrated in the heaviest weight categories. Steers weighing more than 900 pounds were up 12 percent from last year, with most of the increase occurring in the heaviest weight category of animals over 1,100 pounds, which would have been largely marketed during January. The inventory of steers between 500 and 900 pounds was up about 3 percent, while the inventory of calves weighing less than 500 pounds was unchanged from a year ago. Heifers weighing more than 900 pounds numbered 13 percent more than last year. The inventory of heifers weighing 700 to 899 pounds was down about 5 percent, while those weighing between 500 and 699 were up 5 percent from a year earlier. The inventory of heifer calves weighing less than 500 pounds was down 14 percent from a year ago.

The movement of cattle onto feedlots this fall totaled 6.7 million head. That represented a 1 percent decline from the previous year, and the smallest fourth quarter placement since 1981. Data from the seven largest producing states, which are surveyed monthly, show placements up from a year earlier in October, but dropping below year-earlier levels during the final two months of 1987.

Fourth quarter fed cattle marketings in the thirteen states were at their highest level since 1978. At almost 5.6 million head, fed cattle marketings were more than 3 percent above the year-earlier level during the fourth quarter, consistent with producers fourth quarter marketing intentions reported in October. Commercial slaughter of all cattle during the final three months of 1987 was down about 4 percent from the same pe-

riod a year earlier, reflecting a sharp slowdown in the movement of forage fed cattle to market. In addition, federally inspected cow slaughter continued to run well below year-earlier levels, dropping 19 percent during the fourth quarter. For all of last year, cow slaughter was more than 16 percent below the 1986 level.

Operators' expected marketings for the first three months of the year point to an increase in fed cattle slaughter. At almost 5.9 million head, marketings in the thirteen major producing states would be up more than 2 percent from a year ago. The current inventory of heavy weight cattle on feed that are likely to be marketed during the first quarter account for an unusually large proportion of expected marketings, reflecting the current tight supplies of feeder cattle. With a drop in forage fed cattle expected to more than offset slightly higher marketings from feedlots, USDA estimates of first quarter commercial beef production point to a decline of about 2 percent from the year-ago level.

Below year ago beef supplies and signs of a smaller than expected expansion in hog production will place upward pressure on cattle prices. Compared to the \$60 per hundredweight average of a year ago, choice steer prices at Omaha may average in the mid-to-upper \$60 range this winter. USDA projections of spring production point to another 2 percent decline in beef output, which combined with a seasonal decline in output will likely lend some additional support to cattle prices.

Peter J. Heffernan

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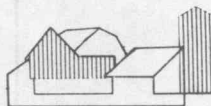
Selected Agricultural Economic Indicators

	Latest period	Value	Percent change from		
			Prior period	Year ago	Two years ago
Prices received by farmers (1977=100)	January	130	2.4	7	5
Crops (1977=100)	January	114	0.9	14	1
Corn (\$per bu.)	January	1.77	2.9	20	-24
Oats (\$per bu.)	January	1.76	0.0	21	49
Soybeans (\$per bu.)	January	5.90	4.8	26	14
Wheat (\$per bu.)	January	2.77	2.6	9	-13
Livestock and products (1977=100)	January	146	3.5	3	8
Barrows and gilts (\$per cwt.)	January	43.60	6.3	-8	-4
Steers and heifers (\$per cwt.)	January	69.70	4.7	17	20
Milk (\$per cwt.)	January	12.60	-0.8	-5	1
Eggs (¢per doz.)	January	49.3	1.4	-17	-24
Prices paid by farmers (1977=100)	January	165	0.0 [†]	4	4
Production items	January	152	1.3 [†]	7	2
Feed	January	112	6.7 [†]	13	-2
Feeder livestock	January	193	1.6 [†]	18	31
Fuels and energy	January	161	-4.2 [†]	5	-19
Producer Prices (1967=100)	December	297	-0.4	2	0
Agricultural machinery and equipment	December	340	-0.8	0	0
Fertilizer materials	December	222	0.2	12	-1
Agricultural chemicals	December	488	-0.3	3	8
Consumer prices (1967=100)	December	346	0.0	4	6
Food	December	337	0.5	4	8
Production or stocks					
Corn stocks (mil. bu.)	December 1	9,767	N.A.	-5	13
Soybean stocks (mil. bu.)	December 1	1,755	N.A.	-10	-10
Beef production (bil. lbs.)	December	1.93	5.2	-2	4
Pork production (bil. lbs.)	December	1.39	5.9	14	14
Milk production (bil. lbs.)††	December	10.0	4.2	3	0

N.A. Not applicable

† Prior period is three months earlier.

†† 21 selected states.



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