



**AgEcon** SEARCH  
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

*The World's Largest Open Access Agricultural & Applied Economics Digital Library*

**This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.**

**Help ensure our sustainability.**

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

[aesearch@umn.edu](mailto:aesearch@umn.edu)

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

## Farmland values

A recent survey of over 500 agricultural bankers in the Seventh Federal Reserve District indicates that farmland values continued their upward trend during the early part of this year. The most recent increase of 3.9 percent for the three months ending with March marks the fifth consecutive quarterly rise in District farmland values. Moreover, the pace of transactions continues to quicken, with a majority of the respondents noting an increase from a year earlier in the number of farm real estate units sold. In addition, the survey responses suggest that cash rental rates on farmland have also started to edge higher. During the second quarter of the year, most of the responding bankers expect farmland values to stabilize, but more than a third expect continued increases.

Despite the overall gain in farmland values, some variation in trends persists among the District states. Bankers in Illinois, Indiana, and Iowa continue to report somewhat larger increases in farmland values, with respondents in those states reporting gains of about 5 percent during the first quarter. Farmland values in Michigan and Wisconsin, however, continued to lag the recovery being registered in the other District states. Wisconsin bankers reported a quarterly increase of slightly more than 1 percent, while Michigan bankers' responses indicated essentially no change in land values during the January-March period. As a result of these smaller increases, farmland values in Michigan are unchanged compared to the level of a year ago, while farmland values in Wisconsin are up about 3 percent. In comparison, the faster gains in the remaining District states have led to year-over-year gains ranging from more than 12 percent in Illinois as of the end of March to 19 percent in Iowa.

Reflecting the increases in farmland values, the pace of farm real estate transactions appears to have quickened in recent months. Across the District, 57 percent of the surveyed bankers indicated that the number of farm units sold in their area during the previous six months was up from the comparable period of a year ago. In contrast, only 11 percent of the respondents reported a drop in the number of units sold, while the remaining 32 percent reported no change. It also appears from the bankers' responses that the acreage associated with these increased sales is up from a year ago. Almost 46 percent of the bankers

noted an increase from year-earlier levels in the acreage sold during the six month period, while less than 10 percent noted a decline.

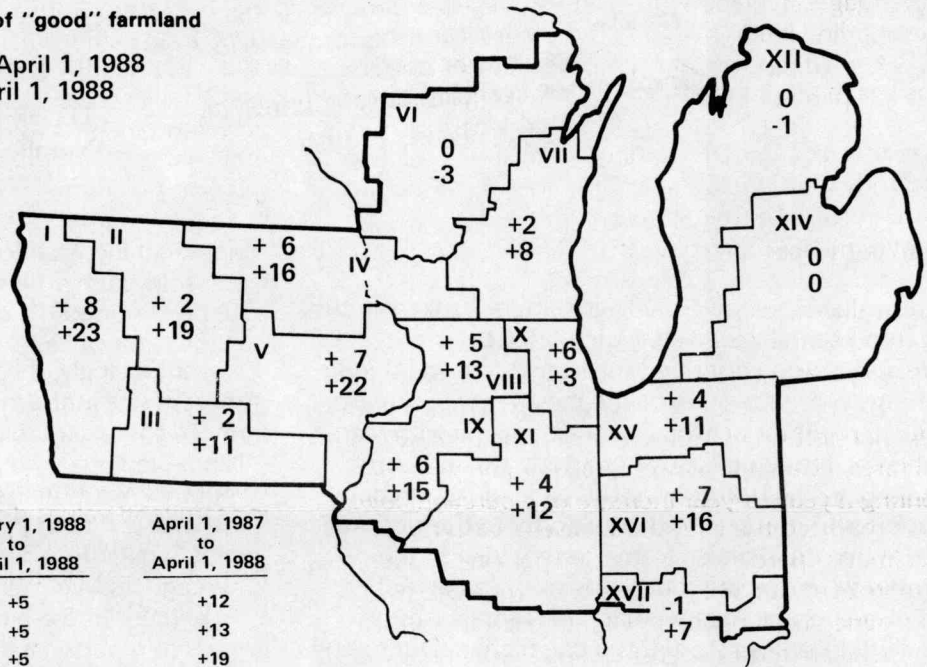
Not surprisingly, the land market appears to have been most active in those District states that have experienced the most rapid gains in farmland values. In Illinois, Indiana, and Iowa the proportion of bankers reporting an increase in the number of units sold during the six month period averaged more than 61 percent, while those reporting declines averaged only 9 percent. In Michigan and Wisconsin, however, about 40 percent of the bankers reported an increase and 20 percent reported a decline from a year ago in farm real estate transfers.

The bankers' responses suggest that a growing proportion of the land buying activity is accounted for by farmers. About 30 percent of the survey respondents indicated that the proportion of the acreage sold to farmers during the previous six months was larger than during the comparable period of a year ago, while 58 percent indicated the proportion was unchanged. The remaining 12 percent of the bankers reported a drop from a year ago in the proportion of farmland sold in their area that was purchased by farmers. The responses of bankers from Illinois, Indiana, and Iowa, suggested a year-to-year increase in farm real estate purchases by farmers. In comparison, a substantially larger proportion of Michigan and Wisconsin bankers reported that farmers acquired a smaller proportion of the total acreage sold in the areas than had been the case a year earlier. The respondents from Michigan and Wisconsin were about evenly divided, with a fourth indicating an increase in the proportion of land bought by farmers and an almost equal proportion indicating a decline.

The rise in District farmland values over the past year coincided with a slight upward trend in farm real estate mortgage rates. The average of rates charged by District agricultural banks rose from a cyclical low of 10.3 percent at the end of March 1987 to about 10.7 percent at the end of December. However, the typical interest rate charged on farm real estate loans by these banks edged lower during the first three months of 1988, declining to less than 10.5 percent as of the end of March. Farm real estate loan rates were fairly consistent across the District states, with the exception of Michigan, where rates charged on farm real es-

**Percent change in dollar value of "good" farmland**

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

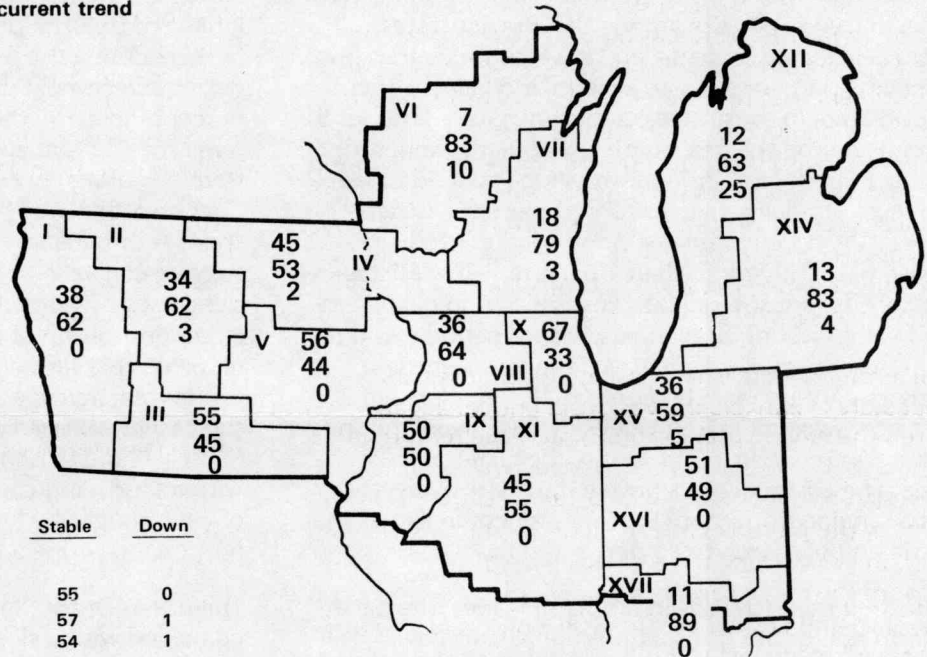


	January 1, 1988 to April 1, 1988	April 1, 1987 to April 1, 1988
--	--	--------------------------------------

Illinois .....	+5	+12
Indiana .....	+5	+13
Iowa .....	+5	+19
Michigan .....	0	0
Wisconsin .....	+1	+3
Seventh District .....	+4	+12

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

Top: Up  
 Center: Stable  
 Bottom: Down



	Up	Stable	Down
--	----	--------	------

Illinois .....	45	55	0
Indiana .....	42	57	1
Iowa .....	45	54	1
Michigan .....	13	78	9
Wisconsin .....	19	75	6
Seventh District .....	38	60	2

tate mortgages averaged just over 11 percent among the responding banks. Among the other District states, average reported farm mortgage rates ranged from 10.34 percent in Iowa to 10.55 percent in Indiana.

Cash rental rates for District farmland, after declining significantly over the last several years, appear to have risen in recent months. However, just as the drop in rents over the last several years did not match the decline in land values, the recent rent increases lag the gains in value recorded in most District states since early 1987. On average, bankers that responded to the most recent survey indicated that cash rental rates were up 4.2 percent from a year earlier. Bankers from the District portion of Illinois reported the highest cash rental rates, averaging almost \$105 per acre, and representing a year-to-year increase of 4 percent. Iowa bankers reported the largest increase in cash rental rates, almost 7 percent to about \$89 per acre. Average cash rents of about \$82 per acre were reported by Indiana agricultural bankers, a 3 percent gain from last year. Michigan and Wisconsin respondents noted average cash rental rates of \$54 and \$53, respectively, representing increases of 3 percent and 1 percent from 1987 levels.

Although cash rent is still the most prevalent form of farmland rental arrangement across the District, renting on a crop-share basis has become almost as common. Bankers that responded to the latest survey, on average, indicated that more than 49 percent of the farmland in their area that is operated by someone other than the landowner is farmed under a cash rental agreement. Another 46 percent is farmed under crop-share rental arrangements, while the remaining 5 percent is operated under some other rental arrangement.

Rental arrangements vary considerably across the District states. Bankers in Wisconsin and Michigan reported the largest proportions of acreage rented on a cash basis, 79 and 66 percent, respectively. Crop-share rental arrangements accounted for about 27 percent of the rented acres in Michigan and only 16 percent in Wisconsin. Iowa bankers reported that 94 percent of the rented acreage was evenly divided between cash and crop-share rental arrangements, while Indiana bankers reported a split of 51 percent cash and 43 percent crop-share rent. At the other extreme, Illinois bankers characterized the distribution of rental arrangements as 34 percent cash and 62 percent crop-share.

The continued improvement in farmland values and rents is attributable to a number of factors. High income in the farm sector in recent years is expected to continue in 1988. Although the USDA expects net cash farm income to decline slightly this year from the 1987 record of \$57 billion, other analysts are projecting a modest increase. Despite some reduction in the level of government payments, higher grain and soybean prices, major crops in District states, are expected to buoy crop receipts in 1988, while the livestock sector is expected to generate somewhat lower, but still near record receipts. Strong income along with declining farm real estate debt over the last several years has improved the financial position of many farm operations.

District agricultural bankers remain optimistic regarding farmland values during the spring months. The majority of surveyed bankers, 60 percent, expect farmland values in their areas to remain stable during the second quarter of 1988. Another 38 percent expect the upward trend in farmland values to continue during the period, while only 2 percent expect farmland values to decline during the second quarter. Sentiment for continued increases in farmland values were strongest among Illinois, Indiana, and Iowa bankers, with almost 45 percent expecting an increase during the period and less than 1 percent expecting a decline. Although most of the bankers in Michigan and Wisconsin, more than 76 percent, expect a stable land market during the second quarter, very few expect to see land values rising. Among Michigan respondents, less than 13 percent expect land values to rise while 9 percent expect declines. In Wisconsin, almost 19 percent of the bankers expect land values to trend up in the period while 6 percent foresee declines.

Peter J. Heffernan

AGRICULTURAL LETTER (ISSN 0002-1512) is published bi-weekly by the Research Department of the Federal Reserve Bank of Chicago. It is prepared by Gary L. Benjamin, economic adviser and vice-president, Peter J. Heffernan, economist, and members of the Bank's Research Department, and is distributed free of charge by the Bank's Public Information Center. The information used in the preparation of this publication is obtained from sources considered reliable, but its use does not constitute an endorsement of its accuracy or intent by the Federal Reserve Bank of Chicago.

To subscribe, please write or telephone:  
Public Information Center  
Federal Reserve Bank of Chicago  
P.O. Box 834  
Chicago, IL 60690  
Tel.no. (312) 322-5111

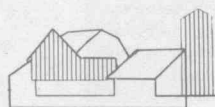
## Selected Agricultural Economic Indicators

	Latest period	Value	Percent change from		
			Prior period	Year ago	Two years ago
<b>Receipts from farm marketings (\$ millions)</b>					
Crops*	December	13,523	-13.5	-14	-12
Livestock	December	6,134	-29.7	-23	-30
Government payments	December	5,959	-11.0	4	6
	December	1,430	559.0	-27	46
<b>Real estate farm debt outstanding (\$ billions)</b>					
Commercial banks	December 31	14.5	2.6 <sup>†</sup>	14	27
Federal Land Banks	December 31	32.7	-6.9 <sup>†</sup>	-13	-27
Life insurance companies	December 31	9.90	-0.8 <sup>†</sup>	-10	-16
Farmers Home Administration	December 31	10.1	0.1 <sup>†</sup>	-3	-3
<b>Nonreal estate farm debt outstanding (\$ billions)</b>					
Commercial banks	December 31	29.1	-5.0 <sup>†</sup>	-7	-18
Production Credit Associations	December 31	9.17	-6.1 <sup>†</sup>	-15	-35
Farmers Home Administration	December 31	16.0	-1.1 <sup>†</sup>	-2	-4
<b>Interest rates on farm loans (percent)</b>					
7th District agricultural banks					
Operating loans	April 1	11.06	-2.0 <sup>†</sup>	2	-11
Real estate loans	April 1	10.47	-2.1 <sup>†</sup>	2	-11
Commodity Credit Corporation	May	6.87	3.8	10	6
<b>Agricultural exports (\$ millions)</b>					
Corn (mil. bu.)	February	3,156	9.7	42	29
Soybeans (mil. bu.)	February	125	-7.2	25	3
Wheat (mil. bu.)	February	97	26.0	31	5
	February	147	-0.4	104	90
<b>Farm machinery sales<sup>P</sup> (units)</b>					
Tractors, over 40 HP	March	5,122	62.5	83	73
40 to 139 HP	March	3,638	50.2	56	56
140 HP or more	March	1,484	103.3	213	137
Combines	March	579	163.2	662	271

\*Includes net CCC loans.

<sup>†</sup>Prior period is three months earlier.

<sup>P</sup>Preliminary



### AGRICULTURAL LETTER

FEDERAL RESERVE BANK OF CHICAGO

Public Information Center

P.O. Box 834

Chicago, Illinois 60690

(312) 322-5112



AG001  
 HEAD-DEPT OF AGRIC ECON  
 INSTITUTE OF AGRICULTURE  
 UNIVERSITY OF MINNESOTA  
 ST PAUL MN 55101