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FRB CHICAGO

AGRICULTURAL LETTER

FEDERAL RESERVE BANK OF CHICAGO
July 29, 1988 Number 1739

District farmland values

Survey responses from 500 agricultural bankers indicated that farmland values in the Seventh Federal Reserve District continued to rise during the second quarter, but at a sharply slower rate. Up 1 percent from the previous three month period, the rise marks the sixth consecutive quarterly increase in District farmland values. However, the most recent quarterly gain was not registered across all District states. With the overall slowing in the rate of increase and undoubtedly effected by uncertainty about the drought, the bankers expectations regarding the third quarter trend in farmland values is less optimistic than in earlier surveys.

Bankers from Illinois and Iowa continued to report increases in land values during the three months ending in June. Iowa bankers noted the strongest increase in land values, up 3.2 percent from the previous quarter, which boosted land values about a fifth higher than a year ago. Responses from Illinois banks indicate that land values in the District portions of that state rose about 1.4 percent during the three months ending in June and show an increase from a year ago of 12 percent. Indiana farmland values were reported essentially unchanged from the previous quarter and up almost 13 percent from the second quarter of 1987.

Quarterly declines in farmland values in Michigan and Wisconsin partially offset the gains registered elsewhere in the District. In the District portion of Michigan, farmland values dropped almost 2 percent during the second quarter and held near the year-ago level. Wisconsin bankers reported a 1 percent quarterly decline, but indicated that farmland values remained almost 4 percent above the level of the comparable period last year.

Interest rates charged on farm real estate loans at District banks have remained quite stable over the last year, averaging between 10.5 and 10.7 percent since last June. At the end of the second quarter, farm mortgage rates averaged 10.6 percent across District agricultural banks, slightly higher than at the end of the first quarter. Interest rates charged on farm real estate loans at the end of June were fairly consistent across the District states, ranging from just over 10.5 percent in Iowa and Wisconsin to almost 11 percent in Michigan.

The financial pressures on farmers and the associated sharp declines in farmland values during the first half of the 1980s had a significant effect on the agricultural sector. One of the major changes spurred by that experience has been a marked reduction in the use of debt in farm real estate transactions. Over the last several years as the sector has restructured an unmanageable debt load, both the incidence and level of debt financing for land purchases has been sharply reduced.

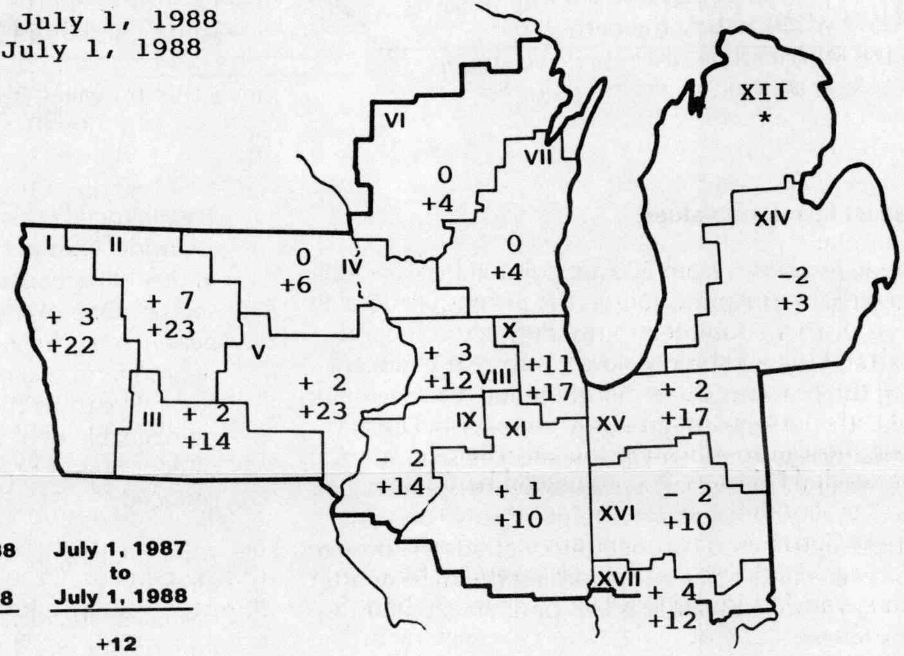
After peaking at 91 percent in 1980, the proportion of farmland transfers in which some debt was incurred has fallen steadily. USDA figures show that in the year ended February 1, 1988, debt was incurred in an estimated 70 percent of farmland transactions. In the Corn Belt the drop has been even more pronounced, falling from 93 percent at the start of the decade to 67 percent in the most recent period. In the Lake States, which include Michigan and Wisconsin, farmland transfers in which debt was incurred dropped from 95 percent in the early 1980s to 78 percent last year.

Among the debt financed farmland transfers, the USDA reports a significant drop in the proportion of the purchase price that was financed. After averaging in a range of 76 percent to 78 percent throughout the 1980s, debt as a percent of purchase price dropped to 72 percent in the year ending February 1, 1988. In the Corn Belt, the average proportion of the purchase price financed with debt dropped to 70 percent last year from a high of 80 percent in 1979. In contrast, debt plays a larger role in the Lake States. In that region, debt as a percent of purchase price averaged 77 percent last year, down from a high of 83 percent earlier in the decade.

Changing patterns in the use of debt to finance farmland transactions have been associated with shifts in the relative importance of different lenders. The most significant shift has been the emergence of commercial banks as leading providers of credit to the farmland market. USDA figures indicate that in the year ended February 1, 1988, commercial banks accounted for 32 percent of the credit volume extended to finance farmland transactions, that was up from 28 percent the year before and well above the 4 percent level of the early 1980s. For Federal Land Banks, traditionally the largest institutional lender, the share of

Percent change in dollar value of "good" farmland

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

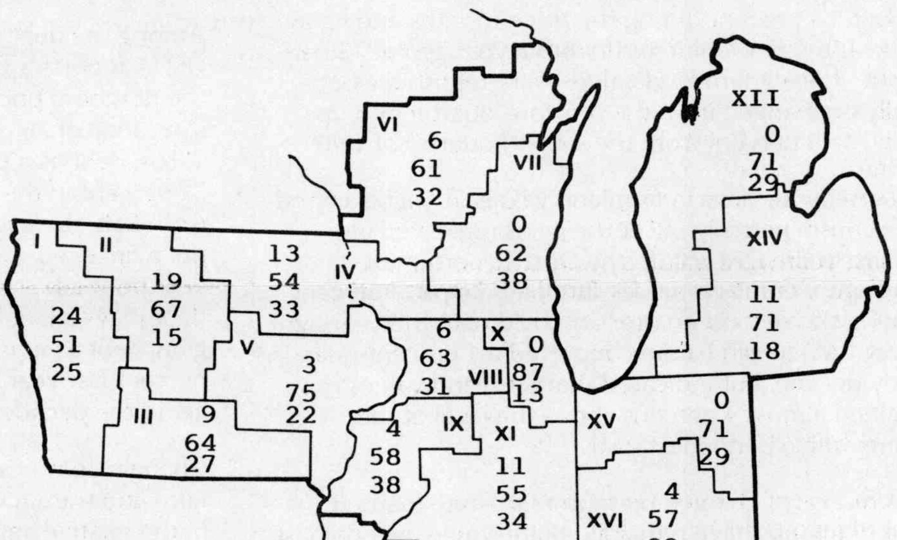


	April 1, 1988 to July 1, 1988	July 1, 1987 to July 1, 1988
Illinois	+1	+12
Indiana	0	+13
Iowa	+3	+20
Michigan	−2	0
Wisconsin	−1	+ 4
Seventh District	+1	+12

*Insufficient response

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

Top: Up
Center: Stable
Bottom: Down



	Up	Stable	Down
Illinois	8	59	33
Indiana	4	59	37
Iowa	15	62	23
Michigan	9	71	20
Wisconsin	3	57	40
Seventh District	9	60	31

credit volume extended for farmland sales last year was 25 percent. That was up from the 19 percent share of the previous year, but still well below the 37 share held by FLBs during the early 1980s. Seller financing of farmland transfers has dropped significantly as well during the 1980s. At 24 percent last year, the share of credit volume extended by sellers was down from 30 percent the previous year and as much as 41 percent in the early 1980s. Insurance companies accounted for only 5 percent of new lending for farmland purchases last year, down slightly from the year before, but within the 3 percent to 7 percent range that has prevailed in the 1980s.

Although the role of commercial banks in financing farm real estate transactions has grown in most regions of the county during the last several years, it is by far the most pronounced in the Corn Belt. In the year that ended February 1, commercial banks provided 54 percent of the financing for farm real estate transfers in Corn Belt states, up from 45 percent the previous year. Banks' share of credit extended for farm real estate transfers in the Corn Belt was more than triple the share of any other lender in the region. Individual sellers accounted for 17 percent of the volume last year, down from 20 percent in the previous year, while Federal Land Banks held at a 15 percent share. The share of credit extended by life insurance companies for farmland purchases in the Corn Belt fell to 2 percent in the year ended February 1, down from 7 percent a year earlier and well below the 5.5 percent yearly average of the 1980s.

Farmers continue to be the principle purchasers of farmland. The USDA estimates that owner-operators accounted for 56 percent of the farmland purchases in the year ended February 1, 1988. During that period, tenant farmers accounted for 12 percent of the purchases while retired farmers accounted for another 2 percent. The remaining 30 percent of farmland purchases last year were made by nonfarmers. Similar distributions were reported for farmland buyers in the Corn Belt and Lake States, with about 28 percent and 26 percent of the purchasers being nonfarmer investors.

Some shifts in the distribution of farmland sellers has taken place over the last few years as well. According to the USDA report, estate sales accounted for 18 percent of land transactions last year, down from more than a fifth in the early 1980s. Active farm operators who sold land but remained in farming have represented a steadily declining share of farmland sellers. Last year this group accounted for 22 percent of all farmland sellers, down from 30 percent five years earlier. The proportion of sellers represented by farmers who retired or quit farming last year declined to 18 percent compared to the 20 percent to 22 percent level that prevailed in the mid-1980s. The proportion of sales attributable to retired farmers has remained quit stable though the 1980s, equaling 11 percent in the year ended February 1, 1988. In contrast, farmland sales by nonfarmers and nonfarm businesses have risen sharply in recent years. After holding at about a fifth of all sellers in the early 1980s, the proportion of sellers accounted for by this group reached 31 percent last year.

The optimism expressed during the past year by District agricultural bankers regarding expected trends in farmland values appears to have been tempered in the most recent survey. Undoubtedly the problems and uncertainties surrounding the effects of the drought had a significant bearing on their responses. Reflecting this, 31 percent of the respondents expect the trend in farmland values to be downward during the third quarter, a sharp reversal from the 2 to 3 percent expecting a downtrend in the previous four surveys. Among individual District states the largest proportions of bankers expecting declines in land values were in Illinois, Indiana, and Wisconsin, ranging from 33 percent to 40 percent. About a fifth of the respondents from Michigan and Iowa expected declines in farmland values in their areas during the summer months. Despite the growing sentiment for a downturn among these survey respondents, 60 percent of the bankers expect farmland values in their areas to remain stable during the third quarter and 9 percent expect a continued uptrend.

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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.

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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)*	March	11,761	14.6	1	24
Crops*	March	4,097	-0.3	19	8
Livestock	March	6,505	7.6	6	14
Government payments	March	1,160	1,004.8	-45	2,622
Real estate farm debt outstanding *($ billions)*					
Commercial banks	December 31	14.5	2.6†	14	27
Federal Land Banks	December 31	32.7	-6.9†	-13	-27
Life insurance companies	March 31	9.66	-2.4†	-7	-17
Farmers Home Administration	December 31	10.1	0.1†	-3	-3
Nonreal estate farm debt outstanding *($ billions)*					
Commercial banks	December 31	29.1	-5.0†	-7	-18
Production Credit Associations	December 31	9.17	-6.1†	-15	-35
Farmers Home Administration	December 31	16.0	-1.1†	-2	-4
Interest rates on farm loans *(percent)*					
7th District agricultural banks					
Operating loans	July 1	11.24	1.6†	2	-5
Real estate loans	July 1	10.63	1.4†	2	-6
Commodity Credit Corporation	August	7.62	15.1	2	5
Agricultural exports *($ millions)*	May	2,971	-2.7	36	60
Corn *(mil. bu.)*	May	180	8.2	6	277
Soybeans *(mil. bu.)*	May	40	-38.9	6	-31
Wheat *(mil. bu.)*	May	154	-1.8	114	203
Farm machinery sales[p] *(units)*					
Tractors, over 40 HP	June	4,903	15.4	5	-26
40 to 139 HP	June	3,927	16.2	-2	-21
140 HP or more	June	976	12.6	47	-42
Combines	June	499	142.2	27	8

*Includes net CCC loans.
†Prior period is three months earlier.
[p]Preliminary

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