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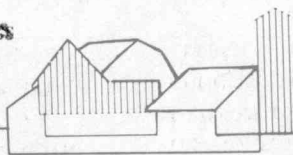
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## Farmland values

A recent survey of about 500 agricultural bankers in the Seventh Federal Reserve District indicates that farmland values continued to rise during the drought stressed summer months. The reported increase of 2.8 percent during the third quarter suggests that the upward momentum in farmland values was renewed following a lackluster second quarter gain. Moreover, many of the respondents expect the volume of farmland transfers to pickup this fall and winter with growing interest by nonfarmer investors. As a result, the bankers expectations concerning the trend in farmland values is more favorable than the outlook reported last quarter amid mounting concerns and uncertainties about the drought.

Despite the overall gain reported across the District, considerable variation in farmland values remains among the individual states. Bankers in Indiana, Iowa, and Michigan reported strong quarterly gains, while land values were essentially unchanged in Illinois and Wisconsin. Iowa respondents continued to note the largest increases in farmland values, up almost 5.2 percent from the previous quarter, which boosted land values more than a fifth higher than a year ago. A reported 3.2 percent increase during the three months ending in September lifted farmland values in Indiana almost 14 percent above last year's level. Michigan bankers, after reporting a drop during the second quarter, showed land values up 2.3 percent during the quarter and about 4 percent higher than last year.

Little change in land values in Illinois and Wisconsin tempered the overall increase across the District. In the District portion of Illinois farmland values rose less than 1 percent during the third quarter, contributing to a year-to-year increase of almost 9 percent. Survey respondents from Wisconsin indicated that farmland values were stable during the summer months and that over the last year farmland values had risen about 1 percent.

The uptrend in land values across the District continued despite upward pressure on interest rates. After holding in the range of 10.5 to 10.7 percent since last summer, interest rates charged on farm real estate loans at District agricultural banks jumped 41 basis points since the end of the second quarter. At 11.04

percent, the rate at the end of the third quarter was at its highest level in more than two years. As was the case during the second quarter, Iowa and Wisconsin bankers reported the lowest farm mortgage rates at about 10.9 percent, while Michigan respondents reported the highest average rate of almost 11.5 percent on farm real estate loans at the end of the third quarter.

Despite the recent increase in interest rates, the survey responses suggest that the farmland market will remain quite active during the fall and winter months. Regarding the pace of farmland transactions, almost 28 percent of the bankers across the District expect an increase in the number of transfers during the fall and winter months compared to a year earlier, while almost 53 percent expect the level of farmland transfers during the period to be unchanged from last year. Only 19 percent of the bankers, on the other hand, expect the volume of farmland transfers to be down from a year ago through the winter months. While most of the individual District states showed a similar distribution of responses, the proportion of Michigan bankers expecting a drop in the volume of transactions exceeded the proportion expecting an increase.

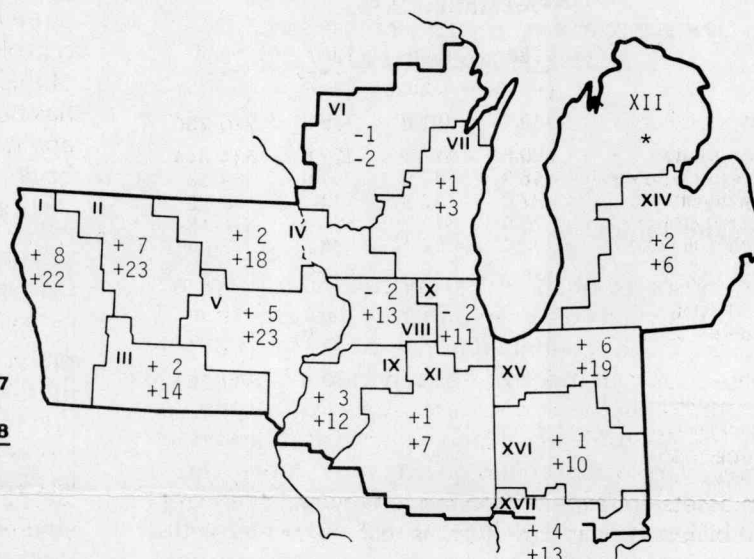
The bankers' responses point to a pickup in nonfarmer investor demand as an important factor in the continued strength of the farmland market this fall and winter. More than 36 percent of the bankers District wide expect the demand for farmland among these investors to be up from a year ago during the period, while only 19 percent expect nonfarmer investor demand to be down. These sentiments were strongest among Illinois bankers, with more than 43 percent expecting stronger demand than a year ago from nonfarmer investors and less than 17 percent expecting a decline. In contrast, the demand for farmland among farmers appears to have softened somewhat except in Iowa. Almost half of the respondents in that state expect farmland demand among farmers to be stronger than a year ago through the winter months and only 17 percent expect a drop. Among the other District states, however, less than 18 percent of the bankers expected stronger demand among farmers than a year ago, while more than 40 percent expected a drop.

Despite some weakening in demand among farmers, the bankers have returned to a more optimistic out-

Percent change in dollar value of "good" farmland

Top: July 1, 1988 to October 1, 1988

Bottom: October 1, 1987 to October 1, 1988



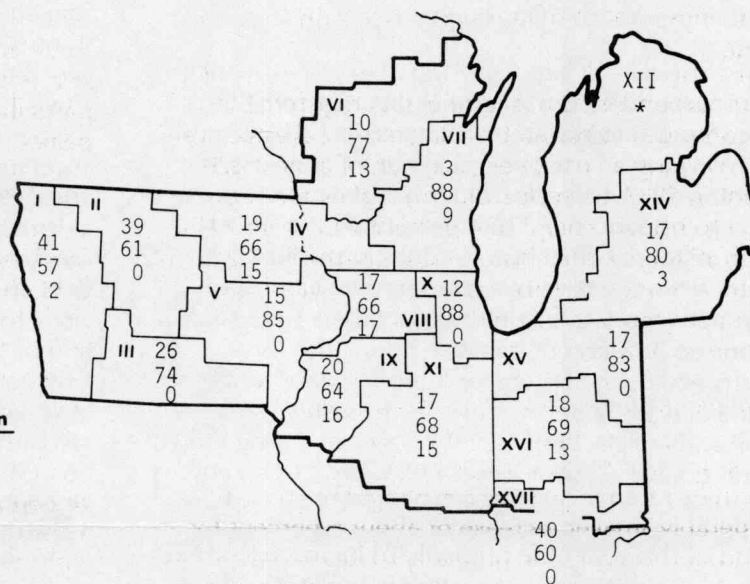
\*Insufficient response.

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

Top: Up

Center: Stable

Bottom: Down



\*Insufficient response.

look regarding the trend in farmland values during the final months of 1988. Uncertainty about the effect of the drought contributed to expectations of a weakening trend in farmland values among many bankers in the previous quarterly survey, but current expectations are more in line with the stable to rising market that had typified the bankers' responses prior to the onset of the drought. Reflecting this, 20 percent of the respondents expect land values to move higher this fall while only 9 percent expect a downturn. The remaining 71 percent of the bankers expect farmland values

to remain stable during the final three months of the year.

### Farm sector balance sheet

The financial condition of the farm sector is expected to show continued improvement this year. Preliminary USDA estimates for ending 1988 suggest that last year's trends of rising asset values and declining debt have continued to boost sector equity. However, the sharp declines in debt registered over the past few years are forecast to slow somewhat this year. Total



**Balance sheet of the farm sector\***  
(December 31)

	1985	1986	1987	1988
	(-----billion dollars-----)			
Assets	749.0	691.6	708.9	720-730
Real estate	558.6	510.1	522.6	534-544
Livestock/poultry	46.3	47.6	57.6	59-63
Machinery	87.6	80.3	73.9	72-76
Stored crops	23.5	19.1	20.5	14-18
Financial assets	33.0	34.4	34.3	33-35
Debts	175.2	155.3	142.7	136-144
Real estate	97.7	88.5	80.8	76-80
Nonreal estate	77.5	66.8	61.9	60-64
Equity	573.8	536.3	566.3	580-590

\*Excludes operator households and CCC price support loans.

SOURCE: USDA

farm assets are expected to range between \$720 and \$730 billion at year end 1988, as real estate values rise and other asset values hold near year-earlier levels. As a result of these trends, the USDA forecast points to an increase in farm sector equity of 2 to 4 percent from the ending 1987 level, which will mark only the second increase in equity since the beginning of the decade.

The turnaround in farm sector assets registered last year continues to be led by rising farm real estate values. Following a year-over-year gain of almost 2.5 percent in 1987, the value of farm real estate is expected to rise another 2 to 4 percent this year. Although still well below historical highs, the increases in farm real estate values over the last two years have added between \$24 billion and \$34 billion to the value of farm sector assets.

The value of nonreal estate assets may slip somewhat, despite continued gains in some categories. The value of livestock and poultry inventories, after jumping more than a fifth in 1987, are expected to show a considerably smaller increase of about 6 percent by the end of this year, due primarily to increased cattle prices. The value of farm machinery and equipment after an extended decline since the late 1970s is projected to hold at last year's level as stronger sales of higher priced machinery begin to offset depreciation of older items. The value of stored crops on the other hand, will drop sharply as large reductions of inventories are only partially offset by higher prices. Farm financial assets, the bulk of which represent investments in cooperatives, are expected to total between \$33 and \$35 billion at the end of 1988, about the same as a year earlier.

Total farm debt, excluding operator household debt and Commodity Credit Corporation price support loans is projected to register further, but more mod-

erate declines this year. After dropping \$50 billion, or more than a fourth, between 1983 and 1987, farm debt is likely to be down another 3 to 4 percent by the end of this year. The long slide in outstanding farm debt has been about evenly divided between real estate and nonreal estate debt. During the four year period beginning at the end of 1983, farm real estate debt registered a 23 percent decline, falling some \$24 billion. Over the same time, nonreal estate debt outstanding registered a 29 percent drop as farmers reduced borrowings by \$26 billion. Current USDA estimates point to a drop in real estate debt of as much as 6 percent in 1988, although analysts expect a more moderate decline will be registered if farmland purchases remain strong for the balance of the year. Nonreal estate debt, however, is expected to hold near last year's level.

With the continued increase in asset values and further declines in debt projected for 1988, farm sector equity is expected to show marked improvement again in 1988. Farm equity at the end of the year is forecast to total between \$580 and \$590 billion, well above the ending 1987 level of \$566.3 billion. While total farm equity in this range would represent a 9 percent increase from the 1985 low, it would only partially offset the 35 percent drop from the 1980 peak.

The overall stabilization in the sector is also reflected in lower debt-to-asset and debt-to-equity ratios. After reaching a high of 23.4 percent in 1985, the farm sector debt-to-asset ratio fell to 20.1 percent in 1987 and is likely to show another drop to about 19 percent at the end of this year. Similarly, the farm sector's ratio of debts to equity, which stood at 30.5 percent at the end of 1985, had fallen to 25.2 percent in 1987. The current USDA forecast for the farm sector's debt-to-equity ratio at the end of 1988 points to a further drop to about 24 percent.

Peter J. Heffernan

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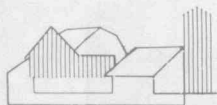
## Selected Agricultural Economic Indicators

	Latest period	Value	Percent change from		
			Prior period	Year ago	Two years ago
<b>Receipts from farm marketings (\$ millions)</b>					
Crops*	June	11,392	2.9	11	11
Livestock	June	5,196	21.9	34	44
Government payments	June	6,056	-5.0	1	12
	June	140	-67.5	-67	-89
<b>Real estate farm debt outstanding (\$ billions)</b>					
Commercial banks	June 30	15.2	3.3 <sup>†</sup>	10	24
Federal Land Banks	December 31	32.7	-6.9 <sup>†</sup>	-13	-27
Life insurance companies	March 31	9.66	-2.4 <sup>†</sup>	-7	-17
Farmers Home Administration	December 31	10.1	0.1 <sup>†</sup>	-3	-3
<b>Nonreal estate farm debt outstanding (\$ billions)</b>					
Commercial banks	June 30	30.3	7.7 <sup>†</sup>	0	-11
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	July 1	11.24	1.6 <sup>†</sup>	2	-5
Real estate loans	July 1	10.63	1.4 <sup>†</sup>	2	-6
Commodity Credit Corporation	October	8.12	1.6	8	42
<b>Agricultural exports (\$ millions)</b>					
Corn (mil. bu.)	August	2,876	9.7	35	53
Soybeans (mil. bu.)	August	154	21.8	38	199
Wheat (mil. bu.)	July	29	0.4	-46	11
	July	120	-7.0	-28	8
<b>Farm machinery sales<sup>p</sup> (units)</b>					
Tractors, over 40 HP	September	3,833	11.5	-24	11
40 to 139 HP	September	2,707	6.8	-11	-5
140 HP or more	September	1,126	24.4	-44	88
Combines	September	853	125.7	-38	-10

\*Includes net CCC loans.

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

<sup>p</sup> Preliminary



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