FRB CHICAGO

AGRICULTURAL LETTER

FEDERAL RESERVE BANK OF CHICAGO

April 24, 1987 Number 1706

Farmland values stabilized in first quarter

A recent survey of over 525 agricultural bankers found that District farmland values, on average, rose a nominal 0.4 percent in the first quarter but were still down nearly 8 percent from a year earlier. The first quarter leveling stands in marked contrast to the pronounced downtrend that had prevailed since 1981 and provides further encouragement that factors underlying the financial distress in the farm sector are starting to turn around. Although cash rental rates for farmland have declined, special features related to the February enrollment in the CRP apparently triggered increased farm real estate transactions. These special features may account for most of the recent firming in land prices. Nevertheless, a majority of the responding bankers believe that farmland values will remain stable in the current quarter.

Bankers from the five District states noted diverging first-quarter trends in farmland values (see map on page 2). Those from the District portions of Indiana and Wisconsin reported first-quarter declines of about 1 and 1.5 percent, respectively. In contrast, bankers from the other three District states reported increases. Bankers from Iowa reported an increase of just under half of a percent while those in Illinois and Michigan reported a first-quarter rise of 1.5 and 3 percent, respectively. The strong rise noted for Michigan follows sharp declines during the latter half of 1986 that were presumably related to the extensive flooding and crop damage in that state last fall.

While farmland values have firmed in some areas recently, both values and cash rental rates are down from year-ago levels in all District states. Typical cash rental rates reported by respondents to the most recent survey average 9 percent lower than the rates reported a year ago. Illinois bankers reported proportionately large declines in cash rental rates. As a result, the cash rent-to-value ratio in Illinois has declined from a little over 7.5 percent a year ago to nearly 7.0 percent this year. Rent-to-value ratios in the other District states, while varying widely, appear to be unchanged to up modestly from a year ago. In these states, rent-to-value ratios approximate 6.5 percent in Michigan, 7.5 percent in Indiana and Wisconsin, and 9 percent in Iowa.

Bankers from each of the District states noted a pick-up in farm real estate transactions during the fall and winter months. Over half, 52 percent, of the bankers indicated that the number of farm real estate transfers during the past 6 months exceeded the pace of a year earlier. Another 15 percent said there were fewer transfers and 33 percent said that the number of recent transfers was unchanged from a year ago. The proportion of bankers noting an increase in farm real estate activity was particularly high in Iowa where it reached 71 percent.

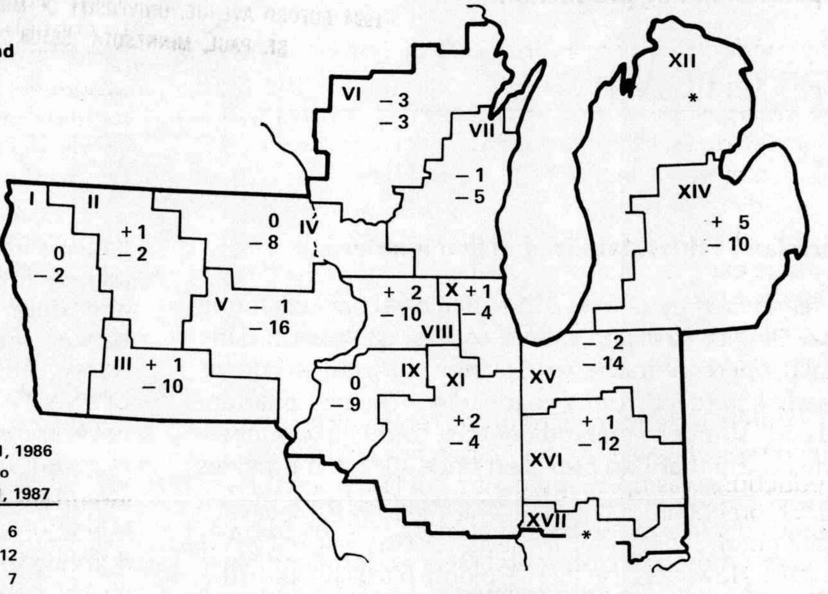
The pick-up in farm real estate transactions and the recent firming in land values may have been heavily influenced by trends that may not extend into the months ahead. For example, the downtrend in mortgage interest rates continued through the first quarter but may have ended with the sudden upturn in market interest rates in April. As of the end of March, the typical farm mortgage interest rate charged by District agriculture banks averaged 10.25 percent, down 25 basis points from the ending 1986 level, 145 basis points lower than a year ago, and the lowest survey average since early 1979.

Another factor that may have had a unique first-quarter influence on farmland prices was the special incentive to enroll corn base acreage in the Conservation Reserve Program during the February bidding period. That incentive, which offered a $2 per bushel one-time bonus payment for corn base acreage accepted into the program in February, triggered considerable interest among land buyers and provided a valuable bargaining chip in price negotiations for land sellers. As yet, there is no indication this special feature will be offered in future enrollment periods for the CRP.

Following the prolonged downturn of the past several years, and acknowledging that possibly nonrecurring factors could have contributed to a first quarter firming, future trends in farmland values remain uncertain. However, there are signs that farm sector production is coming into a better balance with market needs. Recent strength in exports, larger-than-expected gains in domestic consumption, and planned cuts in 1987 crop acreage have raised hopes for lowering the burdensome grain surpluses. The Milk Termination Program and continuing gains in commercial usage have trimmed excess production in the dairy sector. Earlier

Percent change in dollar value of "good" farmland

Top: **January 1, 1987 to April 1, 1987**
Bottom: **April 1, 1986 to April 1, 1987**

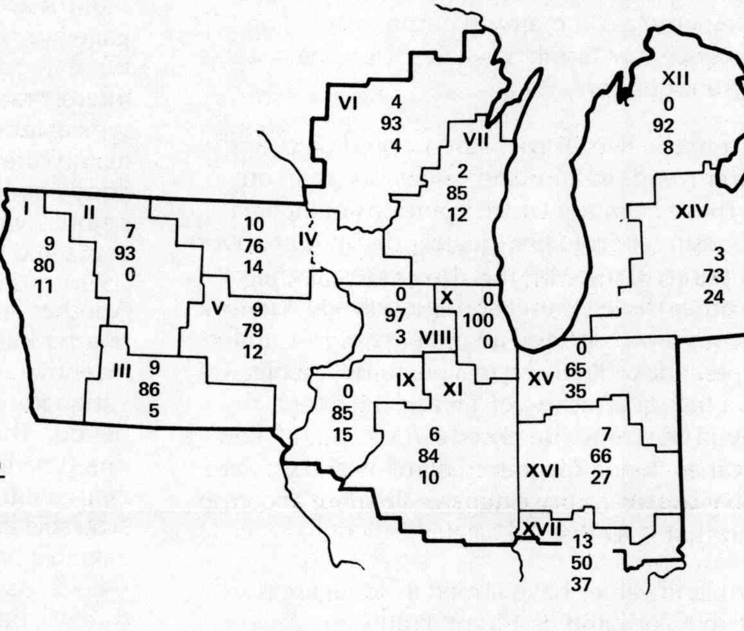


*Insufficient response.

	January 1, 1987 to April 1, 1987	April 1, 1986 to April 1, 1987
Illinois	+2	−6
Indiana	−1	−12
Iowa	0	−7
Michigan	+3	−10
Wisconsin	−2	−5
Seventh District	0	−8

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

Top: **Up**
Center: **Stable**
Bottom: **Down**



	Up	Stable	Down
Illinois	3	88	9
Indiana	6	64	31
Iowa	9	82	9
Michigan	2	78	20
Wisconsin	4	87	10
Seventh District	5	81	13

cuts in breeding herds have lowered red meat supplies and helped to restore the fortunes of cattle and hog farmers.

But overall, conditions in the farm sector remain very tenuous, with heavy reliance on large government subsidies to sustain the sector through a period of difficult adjustments. As such, fundamental market conditions would not seem to warrant expectations for a pronounced upturn in land prices. Yet the recent stabilizing in land values could continue in the months ahead. This is the expectation of most bankers that responded to the recent survey. Over 80 percent thought land values would hold steady in the second quarter. Another 5 percent thought land values would rise while 13 percent expected a downturn in the second quarter. These represent the most optimistic expectations for land value trends since 1983 when the introduction of the PIK program had a temporary firming influence on land prices.

Gary L. Benjamin

Expansion in hog production

Hog production, after a three-year downturn, appears to be on an expansion path. Breeding inventories in the 10 largest producing states, after 13 consecutive quarterly declines, registered a substantial increase this winter according to USDA estimates. In addition, the readings of market hog inventories on March 1 suggest that pork supplies may register year-to-year gains as early as this spring and will be above a year ago this summer. With producers' intentions pointing to continued gains in farrowings, hog slaughter is likely to show increases into early 1988.

The March 1 breeding herd in the ten leading states, which typically account for 78 percent of U.S. hog production, was up 5.7 percent from last year when March breeding hog numbers hit their lowest level since quarterly data for these states was first recorded in 1973. However, the increase only partially offset the cumulative decline of the last several years, leaving March breeding hog numbers 13 percent below the previous high recorded in 1973. Market hog inventories on hand March 1 registered a year-to-year increase as well, rising more than 2 percent from the previous year's level. Most of the increase was accounted for by an almost 5 percent rise in the number of market hogs weighing less than 60 pounds, although hogs weighing more than 60 pounds increased almost 1 percent.

The ten-state inventory of hogs weighing between 60 and 179 pounds along with the size of last fall's pig crop provide an indication of slaughter levels during the second quarter. With last fall's pig crop recording a year-to-year decline of about 3 percent, a March 1 inventory reading showing a 1 percent increase from a year ago in hogs weighing between 60 and 179 pounds was somewhat higher than many analysts had expected. If the inventory estimate is a more accurate indicator, second-quarter hog slaughter could be near the level of a year ago.

The sizable increase in the lighter-weight market hogs is indicative of the past winter's farrowings and pig crop. Farrowings between December and February increased 5 percent from a year earlier. In addition, the number of pigs saved per litter continued its upward trend, gaining 1 percent from the same period last year and contributing to a 6 percent increase in the winter pig crop. Consistent with the reading on the December-February pig crop, estimates of market hogs weighing less than 60 pounds showed a year-to-year gain of about 5 percent. These two measures suggest that third-quarter hog slaughter will likely rise between 5 and 6 percent from the year-ago level.

Initial indicators of spring and summer pig crops point to continued year-to-year gains in hog slaughter during the final months of 1987 and into early 1988. Hog producers in the ten major producing states intend to increase farrowings almost 7 percent from a year earlier during the spring months. If these intentions are carried through and the number of pigs per litter holds near last year's high level, hog slaughter this fall could register a similarly large year-to-year increase. Summer-quarter farrowing intentions suggest an even larger year-to-year increase in the June-August pig crop. With the number of pigs per litter holding steady, an intended 8 percent boost in farrowings could lead to a comparable increase in hog slaughter during the early months of 1988.

Given that some adjustment can take place, farrowing intentions provide only a rough indication of future hog slaughter. However, producers' returns suggest that hog production will likely expand by at least as much as the survey of intentions indicate. With feed prices expected to remain low, operators' break-even prices will likely hold at the recent low levels. Although increased marketings of hogs will certainly exert downward pressure on prices, margins should remain sufficient to spur the expansion.

Hog prices during the first quarter of 1987 continued the downtrend from the highs of last August, but remained above year-earlier levels. At $48 per hundredweight, the first-quarter average of barrow and gilt prices at the seven major markets was well above the $43.30 average of a year earlier. Current USDA estimates have second-quarter prices ranging from $45 to $49 per hundredweight, near the $47.23 average recorded last year. Third-quarter prices, however, are expected to drop well below the $63.13 average of last summer. The current forecast range points to hog prices at the seven major markets averaging in the mid-to-upper $40-per-hundredweight range, which at current production costs would still provide a positive return.

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
Prices received by farmers *(1977=100)*	March	122	0.0	0	-9
Crops *(1977=100)*	March	101	2.0	-9	-20
Corn *($ per bu.)*	March	1.41	-0.7	-38	-47
Oats *($ per bu.)*	March	1.39	-5.4	22	-17
Soybeans *($ per bu.)*	March	4.69	0.0	-10	-20
Wheat *($ per bu.)*	March	2.57	-0.4	-22	-24
Livestock and products *(1977=100)*	March	142	-1.4	8	1
Barrows and gilts *($ per cwt.)*	March	47.20	-3.3	16	8
Steers and heifers *($ per cwt.)*	March	62.60	0.3	13	3
Milk *($ per cwt.)*	March	12.60	-2.3	3	-5
Eggs *(¢ per doz.)*	March	54.4	-6.7	-20	-6
Prices paid by farmers *(1977=100)*	January	159	0.6†	-1	-3
Production items	January	143	0.7†	-4	-7
Feed	January	99	0.0†	-13	-20
Feeder livestock	January	164	2.5†	11	1
Fuels and energy	January	158	5.3†	-21	-19
Producer Prices *(1967=100)*	March	292	0.0	1	0
Agricultural machinery and equipment	March	342	0.1	1	1
Fertilizer materials	March	211	2.0	-4	-9
Agricultural chemicals	March	471	0.6	0	3
Consumer prices *(1967=100)*	March	336	0.4	3	5
Food	March	330	0.0	5	7
Production or stocks					
Corn stocks *(mil. bu.)*	March 1	8,247	N.A.	25	78
Soybean stocks *(mil. bu.)*	March 1	1,384	N.A.	1	30
Beef production *(bil. lbs.)*	March	1.91	9.2	3	3
Pork production *(bil. lbs.)*	March	1.23	14.6	2	0
Milk production *(bil. lbs.)*††	March	10.4	11.8	-3	3

N.A. Not applicable
† Prior period is three months earlier.
†† 21 selected states.

AGRICULTURAL LETTER
FEDERAL RESERVE BANK OF CHICAGO
Public Information Center
P.O. Box 834
Chicago, Illinois 60690

(312) 322-5111

AG001
LOUISE LETNES LIBRARIAN
DEPT OF AGRIC & APPLIED ECON
231 CLASSROOM OFFICE BUILDING
1994 BUFORD AVENUE
ST PAUL MN 55108