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Farmland values firming

A recent survey of 535 agricultural banks found that farmland values in the Seventh Federal Reserve District rose 1.8 percent during the three months ending with June. The second-quarter rise follows on the heels of a nominal increase during the first three months of this year. Except for a brief two-quarter rise following the USDA's introduction of a major land retirement (PIK) program in early 1983, the first half increase marks the first signs of a firming in farmland values since the downturn that began in 1981. Despite the recent firming, District farmland values as of the end of June were still 4 percent lower than the year before and 47 percent below the 1981 peak.

Bankers from each of the five District states noted a firming in farmland values during the second quarter (see map on page 2). Those from the District portion of Indiana reported the largest second-quarter rise, just over 3 percent. Bankers from Illinois, Iowa, and Wisconsin reported gains of approximately 1.5 percent while those from Michigan reported a second quarter rise of less than 0.5 percent. The second quarter increases noted for Indiana and Wisconsin marked turning points from declines that extended through the first quarter. For Illinois, Iowa, and Michigan, the second quarter increases in farmland values represent an extension of upturns that started in the first quarter.

The firming in farmland values stems largely from improved income returns to land ownership. This has become particularly apparent following recent, and substantive, upward revisions to the USDA's estimates of farm sector income for 1985 through 1987. Factoring the revised estimates into the residual income return to farm sector assets and equity reveals a more favorable picture for farmland than had been thought the case just a few months ago. Coupled with past declines in asset and equity values, the revisions indicate that the rate of income return on farm assets and equity last year slightly exceeded past norms. For instance, the revised figures suggest that the rate of income return to equity in the farm sector rose from 1.8 percent in 1985 to 3.0 percent in 1986. The figure for 1986 was well above the typically negative income returns in the first half of the 1980s, and it exceeded the annual average of 2.8 percent that prevailed during the three decades that ended with the 1970s. Since real estate accounts for the bulk of farm sector assets

and equity, the more favorable returns have strengthened land values, at least for the time being.

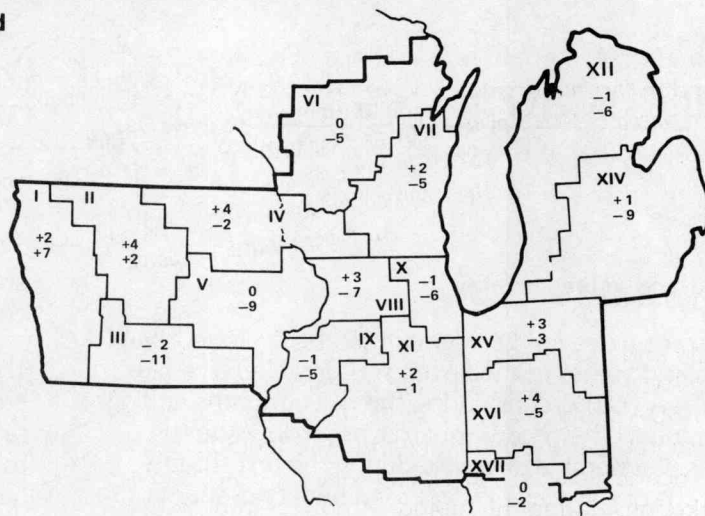
The second quarter increase in farmland values occurred despite an upturn in farm mortgage interest rates charged by District agricultural banks. Among the respondents to the most recent survey, the typical farm real estate loan rates charged as of mid-year averaged nearly 10.5 percent. While up about 20 basis points from three months earlier, the mid-year rate was otherwise the lowest since 1978 and down 80 basis points from a year earlier. Among the five District states, the average farm real estate loan rates ranged from 10.4 in Illinois to 10.7 in Michigan.

Updated USDA reports show that while the proportion of debt-financed farm real estate transfers is declining, banks are garnering an increased share of the financing that is provided in those transfers. During the year ended February 1, 1987, debt was incurred in 73 percent of all farm real estate transfers, down from 76 percent the previous year and the peak of 91 percent during the year ending in early 1980. Among the debt-financed farmland transfers during the most recent year, the debt incurred, on average, was equivalent to 77 percent of the purchase price of the land, unchanged from the year before and roughly comparable to the percentages that have prevailed since the early 1970s. Among geographic regions, farmland transfers in Lake States (Michigan, Wisconsin, and Minnesota) are more likely to incur debt (79 percent) and the debt-to-purchase price ratio tends to be higher (81 percent) than the national average. In Corn Belt states (Illinois, Indiana, Iowa, Missouri, and Ohio), the reverse is apparently the case, with debt incurred on 70 percent of the transfers and the debt-to-purchase price ratio averaging 73 percent last year.

The role of commercial banks in providing financing on debt-financed farm real estate transfers has expanded markedly in recent years. During the year ending February 1, banks provided 28 percent of such financing nationwide, up from 21 percent the year before and 4 percent during the early 1980s. Sellers of farm real estate continued to provide the largest share of the financing, 30 percent. Following sharp declines the past three years, the share provided by Federal Land Banks dropped to 19 percent last year, down from 25 percent the year before and the typical FLB

Percent change in dollar value of "good" farmland

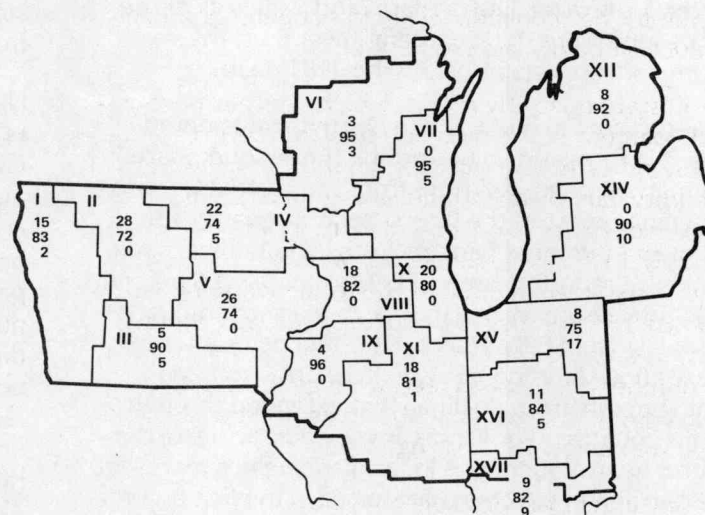
Top: April 1, 1987 to July 1, 1987
Bottom: July 1, 1986 to July 1, 1987



	April 1, 1987 to July 1, 1987	July 1, 1986 to July 1, 1987
Illinois	+1	-3
Indiana	+3	-4
Iowa	+2	-2
Michigan	+0	-8
Wisconsin	+1	-5
Seventh District	+2	-4

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

Top: Up
Center: Stable
Bottom: Down



	Up	Stable	Down
Illinois	16	84	1
Indiana	10	81	9
Iowa	20	78	2
Michigan	2	90	7
Wisconsin	3	92	4
Seventh District	13	84	3

share of 34 to 37 percent that prevailed from 1979 through 1983.

The role of commercial bank financing of farm real estate transfers is particularly apparent in Lake States and the Corn Belt. The share provided by banks reached 45 percent last year in the Corn Belt and 30 percent in Lake States, up from 38 and 16 percent, respectively, the year before and the 2 to 4 percent that was typical for both regions in the early 1980s. In the Corn Belt, the increased share for banks has come mostly from the share previously held by Federal Land Banks. In Lake States, the greater share for banks has come primarily from declines in seller financing.

While future trends in land values are difficult to predict, an increasing proportion of the agricultural bankers are looking for land values to hold stable or rise further this summer. In the most recent survey, 13 percent of the bankers projected an increase for the current quarter while only 3 percent anticipated a decline. The remaining 84 percent of the bankers expect land values to be stable. Compared to bankers' views in similar surveys over the past several years, these proportions clearly denote a strengthening consensus that the downturn in land values has ended, at least for the near term. At the same time, however, the proportions also exhibit considerable skepticism

among bankers about expectations of a strong rebound in farmland values. Given the many uncertainties regarding future developments that might alter returns to land, this skepticism is probably warranted.

Gary L. Benjamin

Cattle on feed up at mid year

Cattle and calves on feed in the 13 major producing states were up 9 percent from a year ago according to the USDA's July 1 survey. The rise reflects a sharp increase in the movement of cattle into feedlots during the second quarter and a slight year-to-year drop in marketings during the period. Producer intentions concerning marketings during the third quarter of 1987 point to an increase from year-earlier levels. However, slow movement of forage-fed cattle to market, reduced cow slaughter, and possible heifer retention for herd buildup will hold slaughter and beef production below last year's level.

The 13 state quarterly report, which typically accounts for 85 percent of the cattle on feed in the United States, indicates that virtually all of the year-to-year inventory gain is attributable to a 14 percent rise in the number of steers on feed. The number of cows on feed July 1 was up 13 percent as well, but represents only a very small fraction of the total inventory. In contrast, the number of heifers on feed was about equal to a year earlier. The proportional increases in the number of steers on feed were greatest in the lower weight categories, with the heaviest weight category well below the year-ago level.

The movement of cattle onto feedlots in the 13 states this spring totaled nearly 6 million head. That represented an increase of 14 percent from the level of a year ago and the largest second quarter placement of cattle since 1978. Data from the seven largest cattle-feeding states, which are surveyed monthly, indicate that the rise in placements occurred throughout the quarter, but accelerated sharply in June.

Second quarter fed-cattle marketings in the 13 states dropped slightly from a year earlier. At almost 5.7 million head, fed-cattle marketings were down only about 2.6 percent from the comparable period in 1986, much less than the 7 percent decline suggested by the second quarter marketing intentions reported in April.

The two District states included in the quarterly report exhibited contrasting trends. The number of cattle on feed in Iowa was up 11 percent from a year earlier, while Illinois registered the only decline among the 13 state group, dropping 10 percent. In Iowa, second quarter placements and marketings were up 22 and

10 percent, respectively. Placements of cattle on feedlots in Illinois were down about 3 percent from the comparable period last year while marketings rose about 5 percent. Regarding third quarter marketing intentions, cattle feeders in both Illinois and Iowa expect to market 10 percent more cattle than during the same period last year.

Cattle feeders in all 13 states intend to market 4 percent more animals than last year in the third quarter. The June 1 inventory of heavier weight cattle on feed represent a somewhat larger proportion of intended third quarter marketings than was the case a year ago. This suggests that tight feeder cattle supplies will likely limit placements of heavy-weight cattle on feed for marketing during the summer months. However, with tight supplies firming prices and good range conditions, the movement of forage-fed cattle to market will slow, more than offsetting the increase in fed cattle marketings. As a result, third quarter commercial beef production is expected to hold 5 percent below last year.

During the final months of 1987, cattle slaughter and beef production are expected to remain below year-earlier levels despite continued increases in fed cattle marketings. Again, limited supplies of feeder cattle will contribute to the drop. If cow slaughter continues to hold below year-ago levels and some buildup in herds gets underway, fourth quarter slaughter and beef output would be further limited. As a result, fourth quarter beef production is expected to hold about 4 percent lower than last year.

After trending higher through the first five months of the year, cattle prices have weakened seasonally in June and July. Nevertheless, recent prices in the mid to upper \$60 per hundredweight range remain well above year-ago prices. Moreover, USDA estimates suggest that average cattle prices are likely to stay in this range during the second half of 1987.

Peter J. Heffernan

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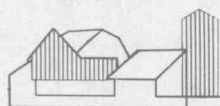
Selected Agricultural Economic Indicators

	Latest period	Value	Percent change from		
			Prior period	Year ago	Two years ago
Receipts from farm marketings (\$ millions)	February	9,952	-22.2	2	-11
Crops*	February	2,792	-58.0	-30	-30
Livestock	February	5,661	0.0	12	-2
Government payments	February	1,499	212.9	114	3
Real estate farm debt outstanding (\$ billions)					
Commercial banks	March 31	13.2	4.0 [†]	13	28
Federal Land Banks	March 31	35.9	-5.2 [†]	-18	-27
Life insurance companies	February 28	10.6	-2.1 [†]	-9	-14
Farmers Home Administration	March 31	10.3	-0.8 [†]	-1	0
Nonreal estate farm debt outstanding (\$ billions)					
Commercial banks	March 31	28.8	-7.6 [†]	-15	-25
Production Credit Associations	March 31	9.61	-10.4 [†]	-25	-42
Farmers Home Administration	March 31	16.3	-0.4 [†]	-3	0
Commodity Credit Corporation	December 31	18.8	19.3 [†]	11	110
Farm loans made (\$ millions)					
Life insurance companies	February	127	59.8	187	208
Interest rates on farm loans (percent)					
7th District agricultural banks					
Operating loans	July 1	11.01	1.1 [†]	-7	-15
Real estate loans	July 1	10.47	2.0 [†]	-7	-17
Commodity Credit Corporation	July	6.88	0.0	2	-13
Agricultural exports (\$ millions)					
Corn (mil. bu.)	May	2,179	-4.0	17	3
Soybeans (mil. bu.)	May	172	-7.2	260	25
Wheat (mil. bu.)	May	38	-30.3	-34	13
	May	72	-1.2	42	14
Farm machinery sales^P (units)					
Tractors, over 40 HP	June	4,768	35.1	-28	-38
40 to 139 HP	June	4,091	39.4	-17	-37
140 HP or more	June	677	13.8	-60	-39
Combines	June	391	255.5	-16	-18

*Includes net CCC loans.

[†]Prior period is three months earlier.

^PPreliminary



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FEDERAL RESERVE BANK OF CHICAGO
Public Information Center
P.O. Box 834
Chicago, Illinois 60690
(312) 322-5112



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