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Farmland values up again in third quarter

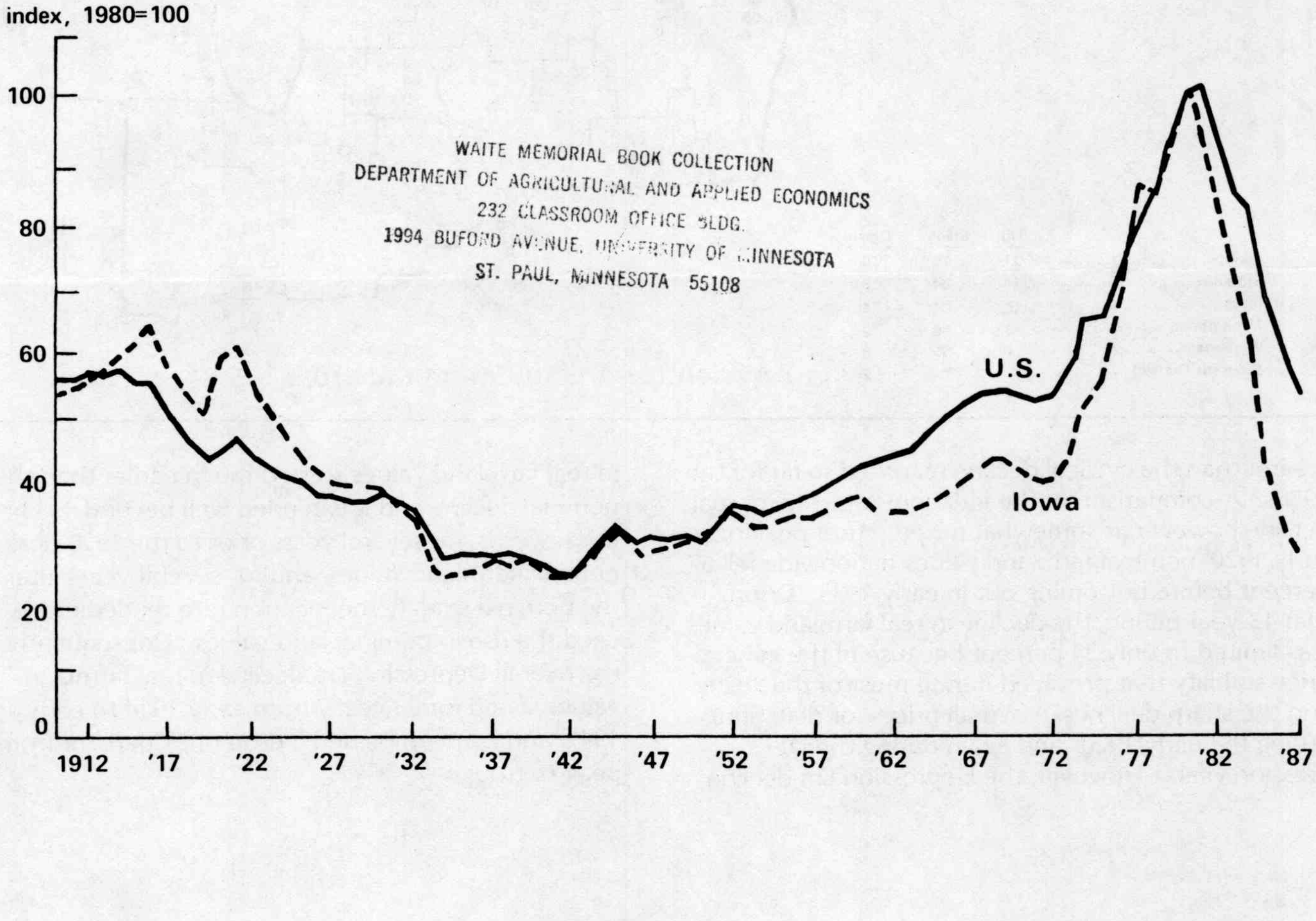
A recent survey of 525 agricultural bankers from the Seventh Federal Reserve District found that the recent upturn in farmland values continued in the third quarter. The banker's responses indicated that, on average, District farmland values rose 3.3 percent in the third quarter. The latest increase marks the third consecutive quarterly rise following the steep downturn in land values during the six years ending with 1986. With the latest quarterly increase, however, District farmland values as of the end of September were up about 3 percent from the downward trending level of a year earlier.

Bankers from four of the five District states reported an increase in land values during the third quarter. The exception was the District portion of Michigan where bankers reported no change for the summer quarter. Elsewhere, the increases varied widely, ranging from less than 1 percent in Wisconsin to nearly 5.5 percent in Iowa. Bankers from the District portions of Illinois and Indiana reported third quarter increases of 4 and 3 percent, respectively.

The apparent turnaround now underway for land values, and the questions being raised regarding possible ties between the recent stock market plunge and the 1929 crash, provide an opportunity to compare the extent of the cyclical downturn of the 1980s with that associated with the Great Depression. According to USDA figures, the nation's average per acre farmland value fell from a peak of $823 in early 1982 to $548 in early 1987, a drop of 33 percent. When adjusted for inflation, however, the peak in "real" per acre farmland values occurred in 1981 and the subsequent decline through early this year amounted to 47 percent.

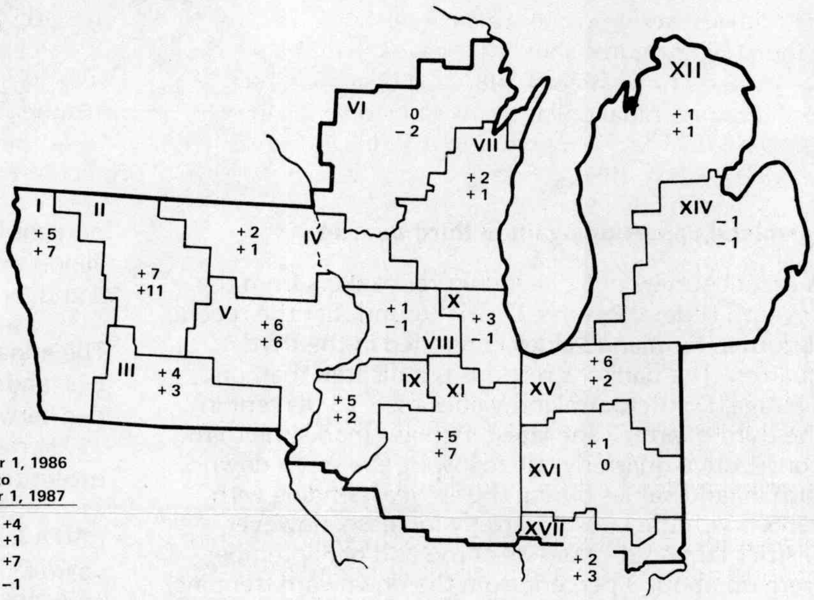
In comparison, the Depression Era decline in farmland values lasted much longer and the percentage decline in nominal, or actual, dollar farmland values was

Inflation-adjusted farmland values



Percent change in dollar value of "good" farmland

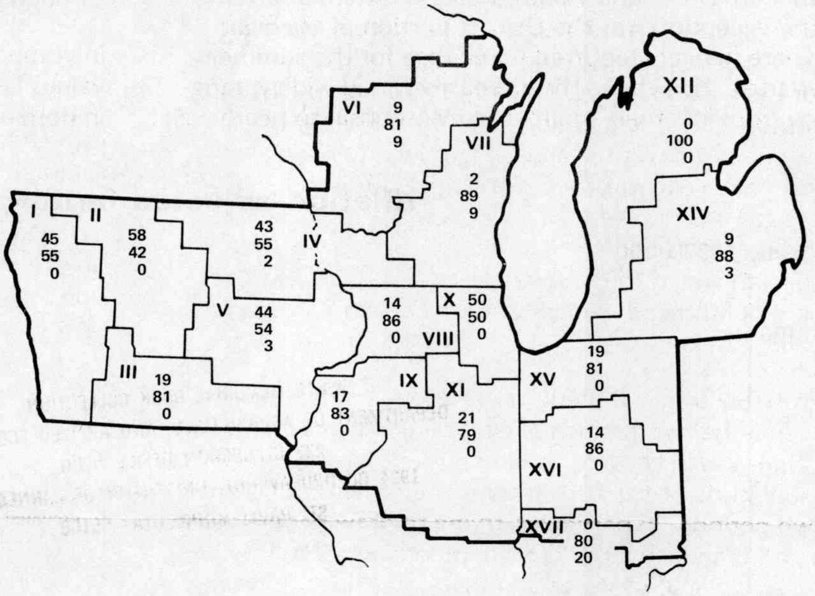
Top: July 1, 1987 to October 1, 1987
Bottom: October 1, 1986 to October 1, 1987



	July 1, 1987 to October 1, 1987	October 1, 1986 to October 1, 1987
Illinois	+4	+4
Indiana	+3	+1
Iowa	+5	+7
Michigan	0	−1
Wisconsin	+1	−2
Seventh District	+3	+3

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

Top: Up
Center: Stable
Bottom: Down



	Up	Stable	Down
Illinois	21	79	0
Indiana	14	84	3
Iowa	45	54	1
Michigan	7	90	2
Wisconsin	7	85	9
Seventh District	24	74	2

greater than the cyclical decline recorded so far for the 1980s. A comparison of the inflation-adjusted, or real, decline however, is somewhat mixed. After peaking in early 1920, nominal farmland values nationwide fell 57 percent before bottoming out in early 1933. During that 13-year period, the decline in real farmland values was limited to only 34 percent because of the general price stability that prevailed during most of the 1920s and the sharp declines in overall prices (or deflation) during the early 1920s and again during the Depression years. However, the Depression Era decline in real farmland values started much earlier than the nominal decline and it extended well beyond 1933. In other words, for several years prior to the 1920 peak in nominal farmland values, and for several years after the nominal trough, the inflation rate tended to exceed the rise in nominal land values. Consequently, the overall Depression Era decline in real farmland values lasted for 28 years (from early 1914 to early 1942) and it encompassed a drop of 55 percent from peak to trough.

During both cyclical downturns, farmland values in the Midwest suffered the steepest declines. For instance USDA figures show that per acre farmland values in Iowa through early 1987 had declined 63 percent in nominal dollar terms since peaking in early 1981 and declined 71 percent in real dollar terms since peaking in early 1980. In comparison, the Depression Era decline in Iowa farmland values was 71 percent in nominal dollars (from the early 1920 peak to the early 1933 trough) while the drop in real terms over a much longer period (from 1916 to 1942) was only 61 percent. In short, the most recent downturn in real farmland values in Iowa was steeper than in the Depression Era and it was concentrated within a much shorter time span. In several respects it is remarkable that agriculture in the Midwest has weathered the latest adjustment in farmland values as well as it has.

As an aside, it is interesting to note the relationship of inflation-adjusted farmland values as of early 1987 to earlier years. Nationwide, the real value of an average acre of farmland as of early this year had retreated to the lowest level since early 1967 and was also below the levels for several years prior to 1917. But otherwise, the purchasing power of an average acre of farmland in 1987 was above the levels that prevailed for over 50 years prior to early 1968. For Iowa, the comparison is remarkably different. The purchasing power of an average acre of farmland in Iowa as of early this year was the lowest since 1947 and also below the downward trending levels that prevailed through 1932. Since 1910, there have only been 13 years in which the purchasing power of an average acre of farmland in Iowa was lower than it was in early 1987.

Probably the only merit in the above comparison between the two periods of cyclical declines in farmland values lies in the information it offers regarding the magnitude of the adjustments that occurred in those two periods. In particular, trying to draw parallels with stock market-related developments between the two periods could prove to be of limited value. Because of many things now in place that did not exist during the Depression (such as government farm programs, extensive safety nets for consumers and financial markets, and more enlightened guidelines for conducting macro-economic policies worldwide) it is highly unlikely that the same forces that pushed land values downward after 1929 will reappear in post 1987 developments.

In looking ahead, over half of the bankers believe that the demand to acquire farmland during the next three to six months will exceed the year-earlier level while only 10 percent foresee a weaker demand. The remainder, about 38 percent, believe that the demand for farmland will be the same as a year ago. The expectations of a stronger demand to acquire farmland were equally apparent in the bankers' evaluation of the demand among farmers as in their judgement of the demand among nonfarmer investors. In conjunction with expectations of continued strength in the demand for farmland, close to half of the bankers (46 percent) believe that the volume of farm real estate transfers over the next 3 to 6 months will exceed year-earlier levels. Another 41 percent expect the volume of transfers will be about the same as a year ago and 13 percent expect fewer transfers.

Despite a modest upturn in land values during the first three quarters of this year, and despite expectations for a stronger demand and increased farm real estate transfers in the months ahead, bankers are cautious about characterizing the current land market as being in an uptrend. Reflecting this, a large majority (74 percent) of the bankers expect that farmland values during the fourth quarter of this year will hold stable. Another 24 percent expect an uptrend and only 2 percent expect a decline. On balance, the proportions expecting an uptrend in the next quarter are the highest for any quarterly survey since just prior to the 1981 peak in land values. Yet the large majority of bankers anticipating stable farmland values during the fourth quarter may well reflect a substantial degree of caution regarding the robustness of the apparent recovery now underway in farmland values.

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Selected Agricultural Economic Indicators

	Latest period	Value	Percent change from: Prior period	Year ago	Two years ago
Prices received by farmers *(1977=100)*	October	127	-1.6	5	3
Crops *(1977=100)*	October	106	1.0	9	-5
Corn *($per bu.)*	October	1.55	4.0	11	-27
Oats *($per bu.)*	October	1.54	4.1	40	43
Soybeans *($per bu.)*	October	5.00	0.2	10	3
Wheat *($per bu.)*	October	2.62	3.1	14	-15
Livestock and products *(1977=100)*	October	148	-2.6	2	10
Barrows and gilts *($per cwt.)*	October	50.50	-8.0	-6	15
Steers and heifers *($per cwt.)*	October	67.80	-0.1	15	20
Milk *($per cwt.)*	October	12.80	0.8	-3	2
Eggs *(¢per doz.)*	October	51.3	-14.1	-12	-20
Prices paid by farmers *(1977=100)*	October	166	1.2†	5	2
Production items	October	151	1.3†	6	2
Feed	October	105	0.0†	6	-3
Feeder livestock	October	190	4.4†	19	28
Fuels and energy	October	172	1.2†	15	-15
Producer Prices *(1967=100)*	September	297	-0.2	3	2
Agricultural machinery and equipment	September	341	0.0	0	1
Fertilizer materials	September	219	-0.2	8	-4
Agricultural chemicals	September	490	1.8	2	7
Consumer prices *(1967=100)*	September	344	0.5	4	6
Food	September	335	0.3	4	8
Production or stocks					
Corn stocks *(mil. bu.)*	September 1	4,882	N.A.	21	196
Soybean stocks *(mil. bu.)*	September 1	436	N.A.	-19	38
Beef production *(bil. lbs.)*	September	2.04	1.8	0	3
Pork production *(bil. lbs.)*	September	1.23	14.3	8	3
Milk production *(bil. lbs.)*††	September	9.89	-3.7	2	-1

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

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