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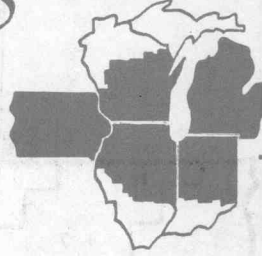
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January 25, 1974

Agricultural Letter



Number 1258

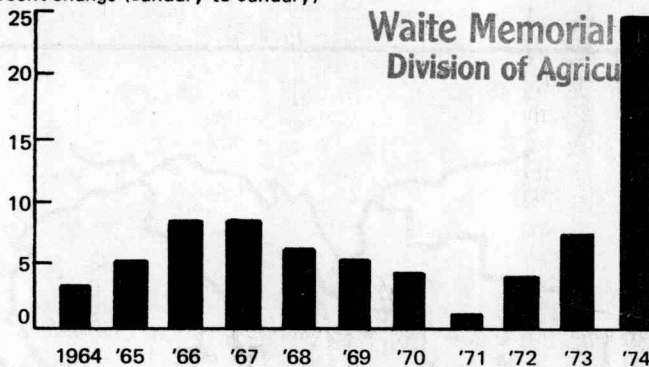
FARMLAND VALUES increased at an unprecedented rate during 1973 according to the Federal Reserve Bank of Chicago's quarterly land value survey of over 600 agricultural bankers in the Seventh District. The average value of good farmland increased 5 percent during the last quarter of 1973 and stood 24 percent above a year earlier at the end of December. Not only is this the largest annual increase ever recorded in the survey, but it also marks the third consecutive year in which farmland values have risen at an increasing rate.

Illinois bankers reported the largest annual increase in farmland prices, up an average of 28 percent. (See back of letter.) Iowa and Indiana bankers reported year-to-year increases of 26 and 24 percent, respectively. Michigan and Wisconsin bankers indicated farmland price increases of 19 and 16 percent, respectively. North central Iowa (Area II) showed the largest year-to-year increase, up 32 percent, while southeastern Wisconsin (Area VII) recorded the smallest year-to-year increase, up 10 percent. Quarterly average increases in prices of farmland ranged from 1 to 10 percent in the 17 areas surveyed.

volume boosted FLB outstandings 10 percent above the year-earlier level at the end of November. FLB outstandings at the national level rose 22 percent in the same time period. During the first three quarters of 1973, new farm mortgage loans acquired by insurance companies rose 47 percent over the same 1972 period. At the end of September, outstanding farm mortgages held by insurance companies were up 4 percent over the same year-ago date.

Farmland Values Increase at Record Pace

Percent change (January to January)



Note: Based on quarterly land value survey, Federal Reserve Bank of Chicago.

Net farm income rose more than 60 percent during the past two years and provided the major impetus for the rapid increase in farmland prices. Strong domestic and foreign demand caused prices of many farm commodities to reach record levels in 1973. Cash receipts from farm marketings in Seventh District states jumped 44 percent in the first 11 months of 1973, about 7 percentage points more than the increase posted by all U. S. farmers. The largest increase came from crop marketings, up 51 percent through November, while cash receipts from sales of livestock and related products rose 27 percent.

The marked expansion in farm real estate credit facilitated last year's boom in land values. Although interest rates averaged higher in 1973, funds to finance farmland acquisitions were readily available. New money loaned by Federal Land Banks (FLBs) during the first 11 months of 1973 rose more than 50 percent above the comparable year-earlier period, both in the district and nationally. Although repayment rates rose sharply, the district-wide increase in loan

The majority of the bankers responding to the survey felt that land prices would stabilize in the first quarter of 1974. Nevertheless, 46 percent of the bankers anticipated higher land prices in the current quarter. This is a departure from the three previous quarterly surveys when 56 percent of the bankers responding thought farmland prices would rise in the current quarter.

Overall prospects for 1974 continue to look good, supporting the bankers' optimism about land prices. Net farm income is projected to fall some \$2 to \$5 billion in 1974 due mainly to increasing production costs. However, if net income reaches the projected level of about \$22 billion this would be the second highest ever recorded.

The borrowing capacity of farmers has improved as a result of the increase in land value. Farm mortgage loans outstanding in the United States rose approximately \$3.5 billion in 1973, only a small fraction of the increase in farmland value. The ratio of debt claims to total assets declined to 17.6 percent as of January 1, 1974, down 1.6 percentage points from a year ago according to the U. S. Department of Agriculture. The resulting increase in borrowing capacity, along with more optimistic long-term farm income prospects, will likely serve to extend the upward trend in Seventh District farmland prices throughout most of 1974, although probably at a slower rate than experienced in 1973.

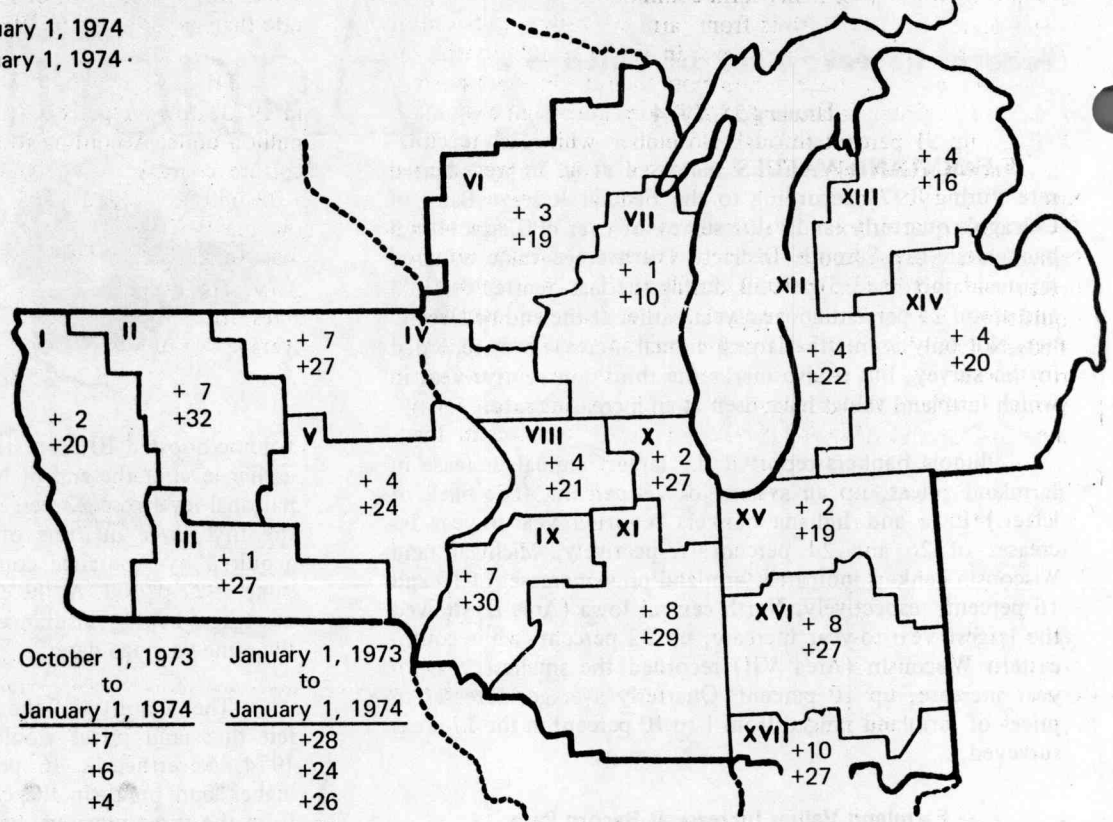
THE NUMBER OF U. S. FARMS continued to decline in 1973, down 1 percent from 1972, and currently totals 2.84 million units. According to a recent U. S. Department of Agriculture estimate, total land in farms declined to just under 1.09 billion acres in 1973, down about 4 million acres from the previous year. With farm numbers declining more rapidly than total land in farms, the average size farm continues to grow. The average size farm was 383 acres in 1973, up two acres from the 1972 estimate. During the last decade, the average size of a farm has increased nearly one-fifth.

Terry Francl
Agricultural Economist

Percentage change in dollar value of "good" farms

TOP: October 1, 1973 to January 1, 1974

BOTTOM: January 1, 1973 to January 1, 1974

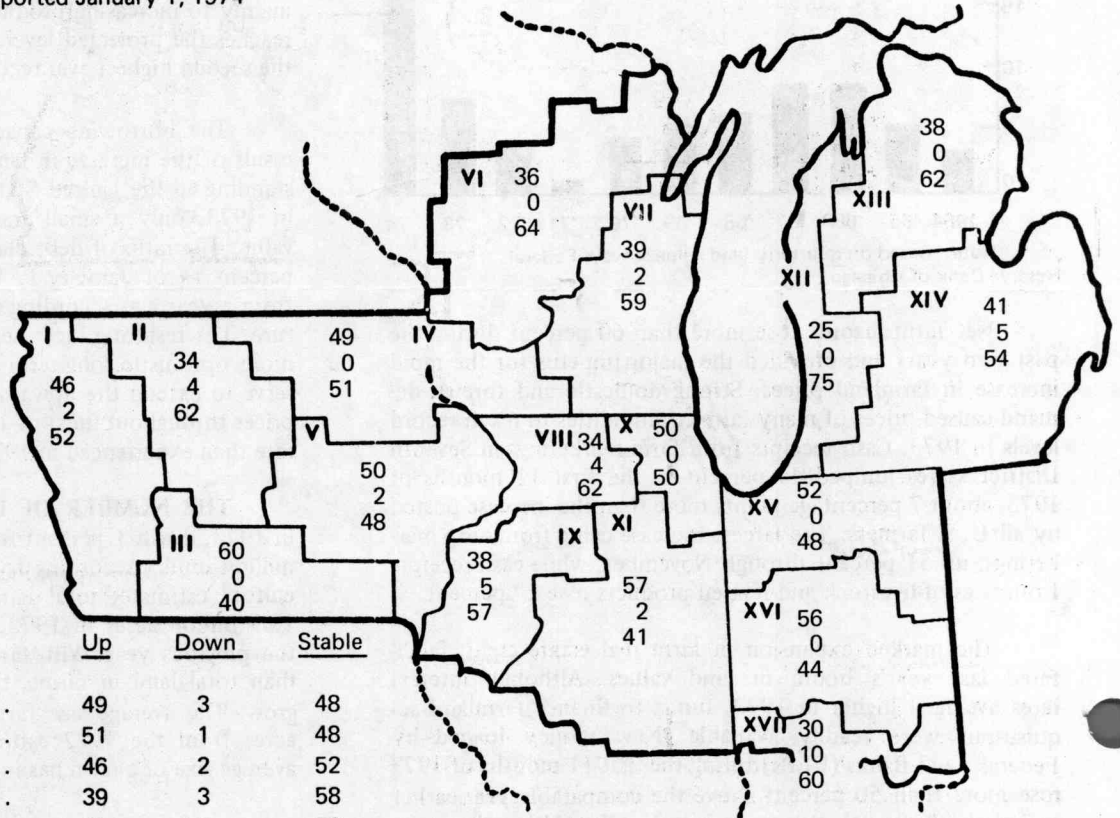


October 1, 1973 to January 1, 1974
 January 1, 1973 to January 1, 1974

Illinois	+7	+28
Indiana	+6	+24
Iowa	+4	+26
Michigan	+4	+19
Wisconsin	+3	+16
SEVENTH DISTRICT	+5	+24

Current trend in farmland values based on opinions of country banks as reported January 1, 1974

TOP: Up
 CENTER: Down
 BOTTOM: Stable



	Up	Down	Stable
Illinois	49	3	48
Indiana	51	1	48
Iowa	46	2	52
Michigan	39	3	58
Wisconsin	40	1	59
SEVENTH DISTRICT	46	2	52