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Wants

FEDERAL RESERVE BANK OF CHICAGO AGRICULTURAL

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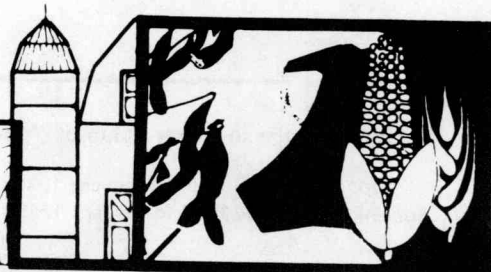
January 23, 1981

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LETTER

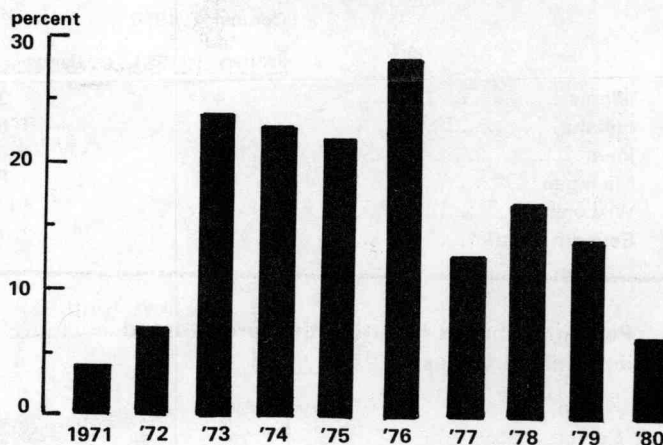


DISTRICT FARMLAND VALUES recorded another substantial increase in the fourth quarter. According to a recent survey of 550 District agricultural banks, the value of good farmland rose 4.4 percent in the fourth quarter. The fourth-quarter rise, coupled with a slightly larger rise in the third quarter, offset the significant declines experienced during the first half when tight mortgage markets and low farm earnings temporarily sapped the strength in farmland values. For all of last year, District farmland values rose about 6.5 percent. While that increase is striking in light of the dismal first-half performance, it still marks the smallest annual increase in District farmland values since 1971.

All District states shared in the rise in land values, although the rate of increase varied considerably (see map on page 2). Bankers in the District portion of Indiana reported an increase of 6 percent for the fourth quarter. In Iowa bankers reported an increase of 5 percent. In District portions of Illinois and Wisconsin, the rise was about 3 percent and 4 percent, respectively. For Michigan the increase was 2 percent. Among the five District states, last year's annual increases ranged from a low of 3 percent in Illinois to nearly 11 percent in Wisconsin. The stronger performance in Wisconsin probably reflected the predominance of dairy in that state. Dairy farmers enjoyed a comparatively prosperous year in 1980 as production rose 4 percent and the dairy support program helped boost milk prices about 9 percent. The larger rise in Wisconsin's land values may also stem from that state's good fortune in achieving record crops in 1980. Crop yields in other District states were affected by varying degrees of weather and drought stress.

The fourth-quarter rise in land values reflects the second-half rebound in farm income prospects. Although profits of livestock producers were significantly squeezed late in the year, overall profits in the second half were vastly improved from the first half. And since crop production in the five-state area was less affected by last summer's drought than in other areas, earnings of District crop farmers benefited to a greater extent from the sharp second-half rise in grain and soybean prices.

Last year's rise in District farmland values was the smallest since 1971



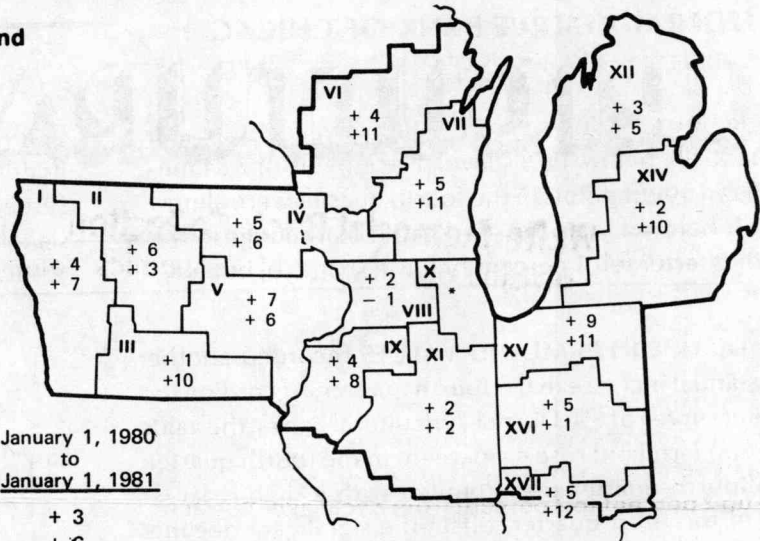
The support that higher farm earnings provided land values in the fourth quarter more than offset the negative impact of rising interest rates. Interest rates charged on farm real estate mortgages by District agricultural banks rose to 15¾ percent at the end of the fourth quarter, up from 13¾ percent three months earlier and close to the peak of 16¼ percent at the end of the first quarter. Although banks no longer provide as much farm mortgage financing as in earlier years, the rise in farm mortgage rates at banks is probably indicative of the fourth-quarter rise in farm mortgage rates offered by life insurance companies.

Rates charged by federal land banks, the dominant farm mortgage lender, were virtually unchanged in the fourth quarter and—because of their practice of pricing loans on the basis of their average cost of funds—were very low relative to other lenders. Farm mortgage rates at FLBs serving District states now range from 10 percent to 11 percent, unchanged from the rates in September.

The outlook seems to point toward further gains in land values, although high interest rates remain a perplexing problem and farm income prospects for the near term are somewhat less optimistic than a short time ago. Because of the large volume of debt refinancing

Percent change in dollar value of "good" farmland

Top: October 1, 1980 to January 1, 1981
Bottom: January 1, 1980 to January 1, 1981

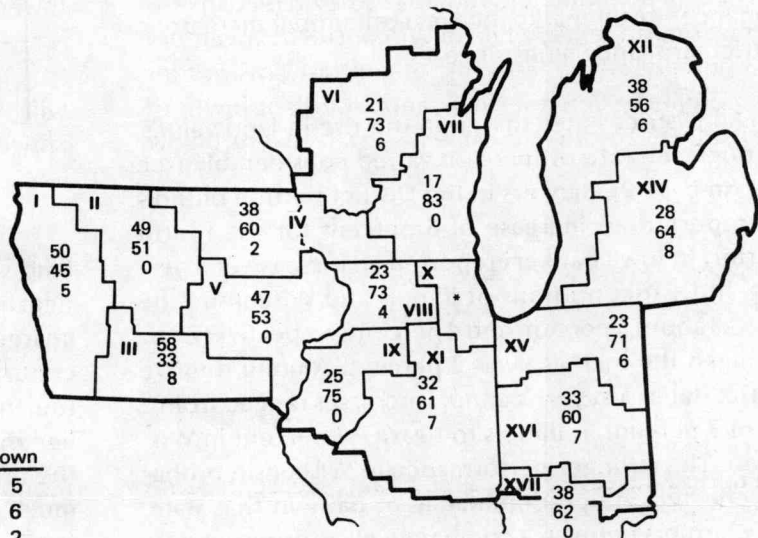


	October 1, 1980 to January 1, 1981	January 1, 1980 to January 1, 1981
Illinois	+3	+3
Indiana	+6	+6
Iowa	+5	+6
Michigan	+2	+8
Wisconsin	+4	+11
Seventh District	+4	+7

*Insufficient response.

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

Top: Up
Center: Stable
Bottom: Down



	Up	Stable	Down
Illinois	29	66	5
Indiana	30	64	6
Iowa	47	51	2
Michigan	31	61	8
Wisconsin	22	75	3
Seventh District	33	63	4

*Insufficient response.

that will be conducted by FLBs, interest rates on FLB mortgages will likely rise significantly in the first quarter and be closer in line with other farm mortgage lenders. As a result, the adverse effects of higher interest rates on land values may be more apparent in the first quarter than in recent months. But farm income may continue to add overall support to land values. Profits of livestock producers have been eroded by the recent declines in hog and cattle prices. However, prices are expected to trend upward and could be significantly higher by summer. These favorable prospects, coupled with the relatively favorable crop prices—particularly for corn—

may result in sufficiently strong income expectations to support reasonably aggressive bidding on farmland.

District bankers generally concur that the uptrend in land values will continue in the first quarter. Of those responding to the recent survey, a third foresee further increases in the first quarter, while three-fifths expect land values to be stable. Only 4 percent were expecting a decline in land values this quarter. This distribution of bankers' views is about in line with their expectations of three months ago.

Gary L. Benjamin

CATTLE ON FEED INVENTORIES dropped below the year-ago level in the fourth quarter, reflecting fewer placements of feeder cattle. According to the USDA, the number of cattle on feed January 1 in 23 states was 11.1 million head, down 5 percent from the year before and substantially below 1979's level. Placements of 7.34 million head into feedlots in the fourth quarter were almost a tenth below a year ago. Fed cattle marketings in the fourth quarter fell 1 percent below a year ago, but marketings in the current quarter may be up 2 percent over last year's level.

The January inventory encompassed a relatively large number of heavier-weight cattle and comparatively few lightweights. Heavyweight steer and heifer numbers were up 2 percent to 3 percent from a year ago. But steer and heifer calf numbers dropped one-fourth from the year before to account for a smaller proportion of the inventory.

In District states the trends in inventory numbers were mixed. In Illinois and Indiana cattle on feed inventories were up a tenth, while in Wisconsin the inventory was 3 percent above last year. In contrast, inventories were nominally down in Iowa and 3 percent lower in Michigan. Inventories in other key states were below year-ago levels. California, Colorado, and Kansas had sharp declines of 10 percent or more.

Higher feed costs and interest rates and low fed cattle prices probably discouraged the movement of cattle onto feedlots this fall. Since September feed costs have risen at least a tenth, and the interest rate charged on feeder cattle loans has moved sharply higher, no doubt surpassing earlier peaks set last spring. During this same period fat cattle prices fell about 7 percent, dampening feeders' prospects for profits. Net placements of cattle on feed—which adjust for death losses and movement of cattle between feedlots and from feedlots to pasture—in the fourth quarter were down 9 percent from a year ago. With the exception of the third quarter—when drought temporarily swelled the movement of cattle into feedlots—placements have lagged year-earlier levels since the summer of 1978. Although combined placements in District states were down a comparable percentage, Iowa—the District's largest cattle feeding state—reported a one-seventh decline from last year in placements on feed.

Fed cattle marketings declined for the eighth consecutive quarter in the latter part of 1980. Marketings in the fourth quarter were down nominally from a year ago

and were below the intentions reported in October. Despite the decline in fed cattle marketings, preliminary estimates indicate commercial cattle slaughter in the fourth quarter was 4 percent higher than the year before. Heavy slaughter of cows and nonfed steers and heifers contributed to the rise in commercial slaughter. Large increases in cow and nonfed steer and heifer slaughter have been evident since the first quarter of 1980, a trend that reflects the drought-related shortages of pasture and roughages. For all of 1980 commercial cattle slaughter was only nominally higher than the six-year low set the year before. Total beef production, however, rose 1 percent last year because of heavier average slaughter weights.

Cattle feeders intend to market 6.29 million head in the current quarter, up about 2 percent from a year ago. These intentions are in line with the relatively high proportion of heavier-weight animals on feed. By the second quarter, however, fed cattle marketings will likely fall below the year-ago level corresponding to the lower number of lighter-weight animals in inventory.

Total commercial cattle slaughter in the first quarter will likely be somewhat lower than in the fourth quarter. However, the anticipated rise in fed cattle marketings and a continuation of the relatively high volume of nonfed slaughter will likely hold total cattle slaughter above year-earlier levels. But by the second quarter, total slaughter could be sharply lower—both seasonally and relative to a year ago—particularly if the greening-up of spring pastures stems the flow of nonfed cattle to slaughter markets.

Cattle prices have trended lower in the past few months. Choice steers at Omaha have recently averaged \$63.50 per hundredweight. At these prices finished choice steers provide returns that are below breakeven, according to Iowa State University budgets. A year ago prices averaged \$66 per hundredweight. However, prices may trend upward. Smaller supplies of beef expected by the second quarter of this year will coincide with lower pork production. Pork supplies in the first half of 1981 are estimated to be about 6 percent below last year. Although broiler production may be up nominally by midyear, this leaves total red meat and poultry supplies in the first half 1 percent to 2 percent below a year ago. Consequently, cattle prices may average in the mid-\$70s in the second quarter.

Jeffrey L. Miller

Selected agricultural economic developments

Subject	Unit	Latest period	Value	Percent change from	
				Prior period	Year ago
Index of prices received by farmers	1967=100	December	261	- 1.1	+ 9
Crops	1967=100	December	266	- 1.5	+20
Livestock	1967=100	December	258	- 0.8	+ 1
Index of prices paid by farmers	1967=100	December	291	+ 0.3	+12
Production items	1967=100	December	287	0	+11
Producer price index* (finished goods)	1967=100	December	255	+ 0.6	+12
Foods	1967=100	December	247	+ 0.1	+ 7
Processed foods and feeds	1967=100	December	251	- 2.2	+ 9
Agricultural chemicals	1967=100	December	263	+ 0.9	+13
Agricultural machinery and equipment	1967=100	December	270	+ 1.3	+10
Consumer price index** (all items)	1967=100	December	258	+ 0.9	+12
Food at home	1967=100	December	264	+ 0.7	+11
Cash prices received by farmers					
Corn	dol. per bu.	December	3.20	+ 3.2	+34
Soybeans	dol. per bu.	December	7.26	-11.2	+16
Wheat	dol. per bu.	December	4.09	- 5.3	+ 8
Sorghum	dol. per cwt.	December	5.47	+ 0.6	+40
Oats	dol. per bu.	December	1.91	+ 3.8	+46
Steers and heifers	dol. per cwt.	December	64.70	- 1.8	- 6
Hogs	dol. per cwt.	December	43.90	- 3.7	+17
Milk, all sold to plants	dol. per cwt.	December	14.00	0	+ 9
Broilers	cents per lb.	December	29.7	- 1.7	+18
Eggs	cents per doz.	December	72.6	+10.8	+14
Income (seasonally adjusted annual rate)					
Cash receipts from farm marketings	bil. dol.	3rd Quarter	143	+ 6.1	+ 9
Net farm income	bil. dol.	3rd Quarter	23	- 0.4	-25
Nonagricultural personal income	bil. dol.	December	2,233	+ 0.9	+12

*Formerly called wholesale price index.

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