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FARM VALUES rebounded this summer, following declines in the previous two quarters. An October 1 survey of 600 agricultural banks shows that the value of good farmland in the Seventh Federal Reserve District rose 5.2 percent in the third quarter. The increase more than offset the 4 percent decline recorded in the first half, pushing land values 3 percent above the year-earlier level as of the end of September. The rebound primarily reflects the surge in farm commodity prices this summer and the simultaneous recovery in farm income prospects. Conditions in farm mortgage markets, although tight, eased temporarily this summer and may have been a minor factor contributing to the rebound in farmland values.

All district states shared in the third-quarter recovery in land values (see map on page 2). Bankers in Iowa, where land values declined the most in the first half, reported the largest increase for the third quarter. In contrast, bankers in the district portion of Michigan—where land values were least affected by the first-half decline—reported the smallest increase. The third quarter rise for Iowa was nearly 7 percent, while that for Michigan was slightly less than 4 percent. Bankers in the district portion of Indiana reported a third-quarter increase of just over 4 percent, while those in district portions of Illinois and Wisconsin reported an increase of nearly 5 percent.

A sharp increase in farm commodity prices and the vastly improved farm income prospects are probably the major factor in the turnaround in farmland values this summer. During the first half, farm income prospects for this year grew progressively dimmer. Farm commodity prices averaged 4 percent below the year before and the index of prices paid by farmers averaged 12 percent higher.

Although farm production costs continued to increase this summer, farm income prospects improved substantially as the impact of drought and the evidence of a marked tightening in world grain supplies began to unfold. The index of farm commodity prices rose 12.5 percent in the third quarter and by September exceeded the year-earlier level by 9 percent. The uptrend was led by the major commodities produced in district states. Corn and soybean prices rose a fifth or more. Hog prices soared a third this summer, pulling hog producers out of the large operating losses they had faced in the first half. The sharp upswing in these major commodity prices, and—except for Illinois—the relatively modest weather damage to district crops no doubt encouraged more aggressive bidding on farmland in district states.

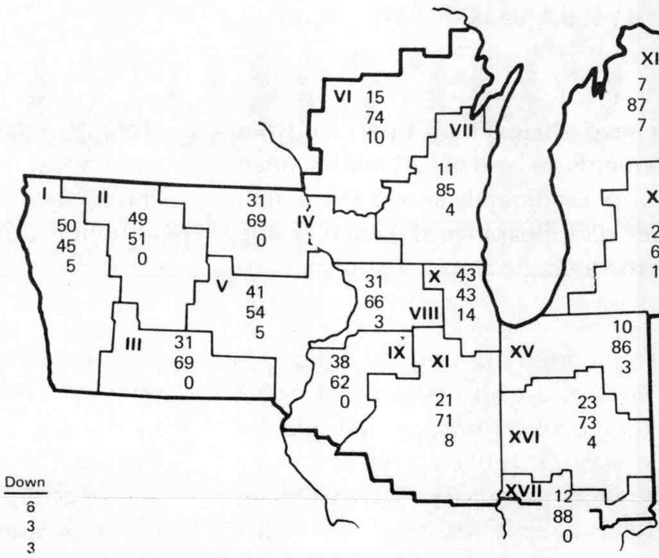
Farm mortgage markets remained tight by historical standards this summer. Some conditions eased temporarily, however, and may have contributed in a small way to the third-quarter rebound in farmland values. The high "new loan fees" adopted earlier this year by Federal Land Banks that serve district states were scaled down considerably this summer. Moreover, farm mortgage rates charged by three of the FLBs in district states leveled off this summer and declined at the fourth. These rates presently range from 10 to 11 percent. Despite these developments, new money loaned by FLBs in district states in July and August was 5 percent below the year-earlier level, down considerably from the 42 percent year-to-year gain recorded in the first half.

Farm mortgage activity at life insurance companies apparently picked up somewhat this summer, but remained at a very low level. New farm mortgage commitments made by major life insurance companies fell sharply earlier this year, bottoming out in April and May at a level that was only a tenth of the year before. In June and July, new commitments began to recover, but remained at only 40 percent of the year-earlier level. Some observers believe the recovery in new commitments probably continued further into the summer but may have been halted recently by the escalation in long-term market rates of interest.

The sluggish performance in new money loaned by FLBs and new farm mortgage commitments by life insurance companies suggests that the volume of farmland transfers probably remained at a very low level this

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

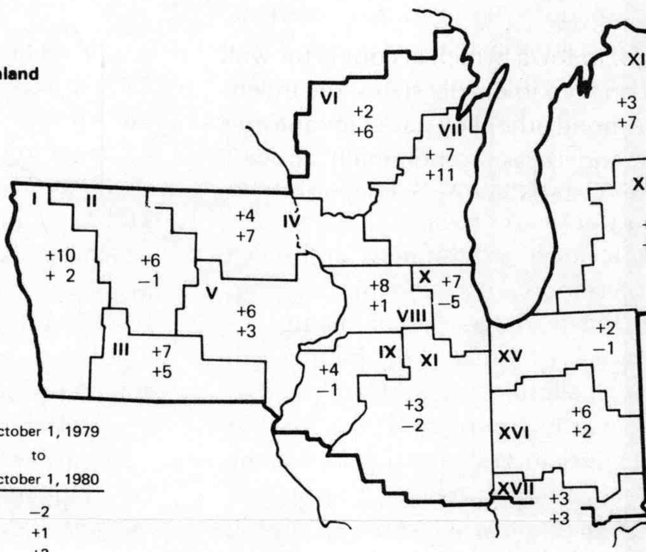
Top: Up
Center: Stable
Bottom: Down



	Up	Stable	Down
Illinois	27	67	6
Indiana	18	79	3
Iowa	44	53	3
Michigan	20	70	10
Wisconsin	13	81	6
Seventh District	29	66	5

Percent change in dollar value of "good" farmland

Top: July 1, 1980 to October 1, 1980
Bottom: October 1, 1979 to October 1, 1980



	July 1, 1980 to October 1, 1980	October 1, 1979 to October 1, 1980
Illinois	+5	−2
Indiana	+4	+1
Iowa	+7	+3
Michigan	+4	+7
Wisconsin	+5	+9
Seventh District	+5	+3

summer. As was the case earlier in the year, seller financing probably accounted for more than the normal share of the transactions that were consummated. Over the past five years, seller financing has accounted for about 40 percent of all credit extended to finance farmland transfers. The share extended by FLBs has averaged 30 percent, while that for life insurance companies has averaged about 10 percent.

The outlook for farmland values has been materially brightened by the recovery in farm income prospects, despite lingering uncertainties about conditions in mortgage markets. This assessment is evident in bankers' expectations for the current quarter. Twenty-nine percent of the surveyed bankers expect land values will rise during the current quarter. Only 5 percent expect a decline, while 66 percent expect land values to be stable. These are the most optimistic expectations in the past four quarters and much improved from the last two surveys when only about 5 percent of the bankers were projecting an increase in farmland values.

Gary L. Benjamin

CATTLE ON FEED inventories are virtually unchanged from a year ago. According to the USDA, the number of cattle on feed October 1 in 23 states—which account for over nine-tenths of the nation's total inventory—was 10 million head, up less than 1 percent from the year before. Placements on feed of 6.41 million head in the third quarter were moderately above a year ago. Marketings and other disappearance declined in the third quarter relative to a year ago but expected marketings in the fourth quarter may show a modest increase.

The October inventory reflected more steers and cows than last year but fewer heifers. The number of steers on feed was 3 percent above the year-earlier level with most of the increase in the middleweight class. Heifer numbers were 4 percent below a year ago with lightweight animals showing the largest decline.

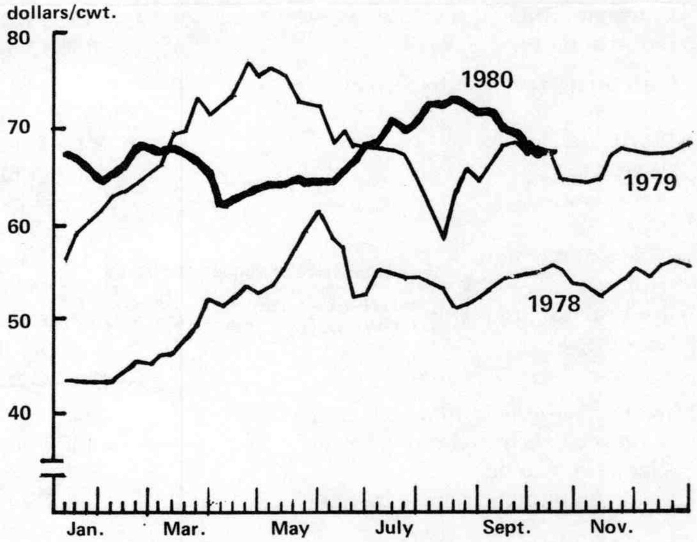
In district states, the inventory of cattle on feed is up significantly from a year ago. Inventories in Illinois and Indiana are up more than 20 percent. Numbers in Michigan and Wisconsin are up 16 and 11 percent, respectively, from a year ago. In Iowa, which accounts for well over half of all cattle on feed in district states, the inventory is up 2 percent. Among other key states, inventories in Kansas, Nebraska, and Texas are nominally above a year ago. But in Colorado and California, inventories are down more than 10 percent.

The movement of cattle onto feedlots this summer exceeded year-earlier levels for the first time in eight quarters. Placements were 8 percent above a year ago but still 13 percent short of the third quarter record set in 1978. Drought-induced conditions which affected both pasture quality and hay crops probably spurred this movement into lots. District states combined showed only a modest gain over the year-earlier level, largely due to an 11 percent decline in Iowa's placements. Kansas was the only other key state to record a year-to-year decline.

Marketings and other disappearance in the third quarter were below year-earlier levels. Fed cattle marketings were down 4 percent from a year ago, but up 2 percent from the second quarter. The number of cattle marketed very closely matched the intentions reported in July. Marketings were up in three of the district states—Illinois, Michigan, and Wisconsin—but down in the other two. While fed cattle slaughter declined in the third quarter, total cattle slaughter was up 4 percent from the year before. The increase reflected a substantial rise in slaughter of cows and nonfed steers and heifers.

Cattle feeders intend to market 5.88 million head in the fourth quarter, up 2.5 percent from both the third quarter and from a year ago. These intentions are about in line with the relatively high proportion of heavier-weight animals on feed. If cattle feeders carry out their intentions, the total number of fed cattle marketed for the 23 states in 1980 may be the lowest in five years—although down just 4 percent from last year and 12 percent below the record 1978 marketings. In contrast, commercial cattle slaughter in 1980 may slightly exceed last year because of the high nonfed slaughter through most of this year.

Choice steer prices at Omaha



Slaughter may be up nominally in the first quarter of 1981 and drop in the second quarter as compared to year-earlier levels. October's inventory revealed larger numbers of mid-weight animals which will come to market early next year. On the other hand, the inventory indicated a lower number of lightweight animals which are likely to be marketed in the second quarter.

Cattle prices have retreated after climbing to $73 in August. Choice steer prices at Omaha have held at $67.50 per hundredweight in October. A year ago, prices averaged $66. Cattle prices may be stable in the near term but could trend sharply higher in the first half of next year. Prospects for a substantial reduction in pork production and smaller supplies of all meats could push choice steer prices to an average of around $75 per hundredweight in the first half.

Jeffrey Miller

Selected agricultural economic developments

Subject	Unit	Latest period	Value	Percent change from Prior period	Percent change from Year ago
Index of prices received by farmers	1967=100	September	261	+ 2.0	+ 9
Crops	1967=100	September	258	+ 3.2	+14
Livestock	1967=100	September	263	+ 0.4	+ 4
Index of prices paid by farmers	1967=100	September	286	+ 1.1	+12
Production items	1967=100	September	282	+ 1.4	+11
Producer price index* *(finished goods)*	1967=100	September	249	0	+13
Foods	1967=100	September	246	+ 0.4	+ 8
Processed foods and feeds	1967=100	September	250	+ 0.3	+11
Agricultural chemicals	1967=100	September	260	+ 0.3	+19
Agricultural machinery and equipment	1967=100	September	262	+ 1.4	+11
Consumer price index** *(all items)*	1967=100	September	252	+ 0.9	+13
Food at home	1967=100	September	259	+ 1.0	+10
Cash prices received by farmers					
Corn	dol. per bu.	September	3.03	+ 3.8	+21
Soybeans	dol. per bu.	September	7.69	+ 7.1	+13
Wheat	dol. per bu.	September	3.97	+ 0.8	+ 3
Sorghum	dol. per cwt.	September	5.22	+ 2.0	+23
Oats	dol. per bu.	September	1.63	+ 6.5	+26
Steers and heifers	dol. per cwt.	September	68.30	– 1.2	– 3
Hogs	dol. per cwt.	September	45.80	– 0.9	+23
Milk, all sold to plants	dol. per cwt.	September	13.10	+ 2.3	+ 7
Broilers	cents per lb.	September	32.1	+ 1.9	+40
Eggs	cents per doz.	September	61.9	+ 6.7	+12
Income *(seasonally adjusted annual rate)*					
Cash receipts from farm marketings	bil. dol.	2nd Quarter	132	– 0.8	+ 1
Net farm income	bil. dol.	2nd Quarter	22	–15.4	–33
Nonagricultural personal income	bil. dol.	September	2,114	+ 0.9	+10

*Formerly called wholesale price index.

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