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DISTRICT FARMLAND VALUES continued to rise during the fourth quarter, but the increase was the smallest for any quarter in over two years. A recent survey of more than 550 agricultural bankers shows that district farmland values rose an average of 2 percent during the fourth quarter. That comes on the heels of a very large 5.7 increase in the third quarter, but was still the smallest rise since the brief downturn that occurred during the summer of 1977. The most recent gain pushed the rise in district land values for all of last year to 14 percent. For the decade, last year's increase capped a fourfold increase in district farmland values. But adjusted for inflation, last year's increase represented the smallest real annual gain since early in the decade.

The rate of increase in district farmland values slowed appreciably in all five district states during the fourth quarter. But, as was the case for most of last year, the land market was apparently the softest in Illinois (see map on page 2). The survey shows land values in the district portion of Illinois were unchanged during the fourth quarter and up only 7 percent for all of last year. Bankers in Michigan and Wisconsin reported average increases of about 2 percent for the most recent quarter, while those in Indiana and Iowa reported increases of just under 3 percent. For the year, land values were up the most in Iowa (18 percent), followed closely by Wisconsin with an increase of about 17 percent.

The number of land transfers apparently slowed last year. Nevertheless, funds for financing land transactions were generally available, although at higher interest rates. Evidence on new money loaned by Federal Land Banks (FLBs) shows year-to-year gains of over 40 percent during October and November, slightly above the large average gain for the preceding 9 months. As of the end of November, loans outstanding at FLBs were nearly a fifth higher than the year before, marking the biggest year-to-year increase since 1975.

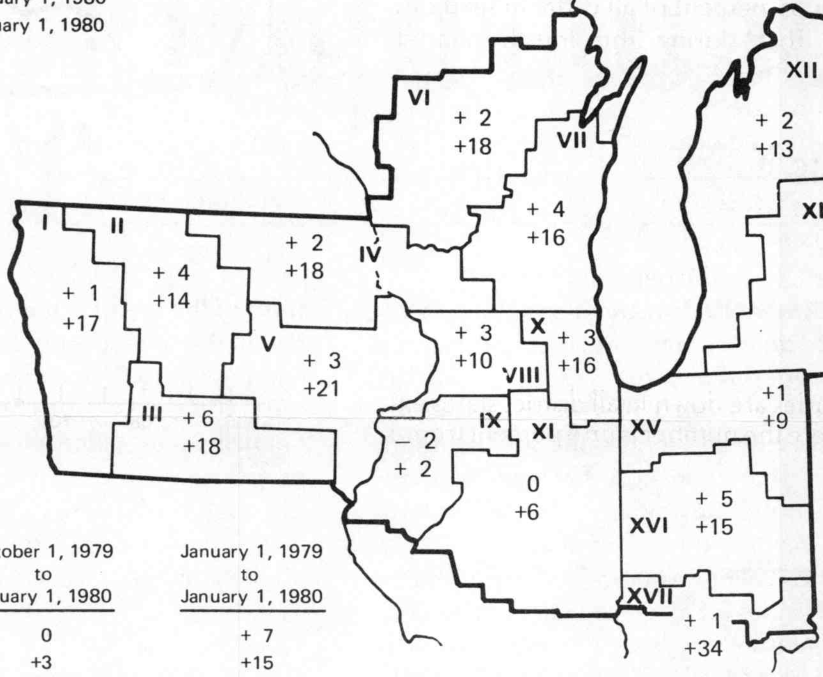
Only a portion of the FLB lending is used to finance land transfers. However, FLBs account for roughly a third of the credit extended to finance farm real estate transfers. In Corn Belt states, FLBs account for over two-fifths of the credit extended to finance land transfers. Individual sellers account for 36 percent of the credit used nationwide to finance land transfers, and 31 percent of the credit used in Corn Belt states. Most individual seller financing is provided in land contract sales. Although the proportion of credit to finance farmland transfers provided by individual sellers has trended sharply lower in the past decade, the high interest rates of recent months may have reversed the downtrend.

In contrast to other lenders, the availability of farm mortgage funds from banks and life insurance companies probably tightened in recent months. In 1978, these two lenders provided a sixth of the credit extended to finance farm land transfers. But tight liquidity pressures have restricted farm mortgage lending by banks all year. Although farm mortgages outstanding at life insurance companies in October were well above the year-earlier level, pressures from high policy loan demand and increasing usury problems probably slowed new lending activity late in the year.

It may be premature to attribute too much importance to the slower rise in farmland values in the fourth quarter, particularly since it followed a very large rise in the third quarter. There are, however, some ominous signs looming on the horizon. Most importantly is the growing likelihood of a substantial decline in farm earnings this year. Because of the partial embargo on grain shipments to the Soviet Union and the upward revised crop production estimates, carryover stocks of corn and soybeans next fall will be unusually large relative to annual utilization. Crop prices have held up remarkably well in light of recent developments. Nevertheless, it is not yet certain to what extent government programs will be able to shield prices from the downward pressures these large stocks would otherwise exert. Despite earlier skepticism, many analysts are now accepting previous USDA projections that net farm income may decline to around $25 billion this year. If that is the case, the demand for farmland will likely ease because of the implications for farmers' cash flows and the implications for farmers' expectations for the future.

Percent change in dollar value of "good" farmland

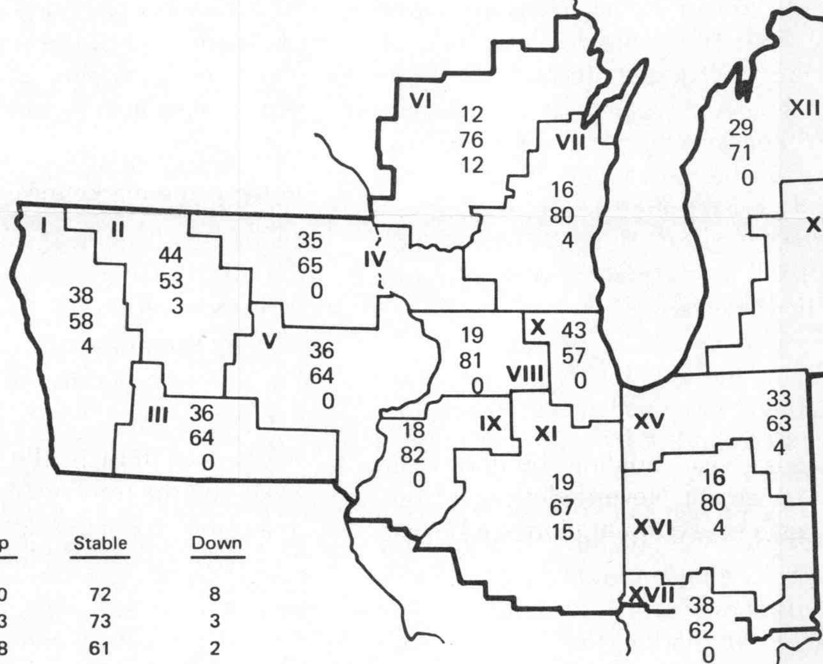
Top: October 1, 1979 to January 1, 1980
Bottom: January 1, 1979 to January 1, 1980



	October 1, 1979 to January 1, 1980	January 1, 1979 to January 1, 1980
Illinois	0	+ 7
Indiana	+3	+15
Iowa	+3	+18
Michigan	+2	+11
Wisconsin	+2	+17
Seventh District	+2	+14

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

Top: Up
Center: Stable
Bottom: Down



	Up	Stable	Down
Illinois	20	72	8
Indiana	23	73	3
Iowa	38	61	2
Michigan	18	79	3
Wisconsin	19	75	6
Seventh District	26	70	4

CATTLE FEEDING ACTIVITY was sluggish during the fourth quarter, according to the USDA's latest *Cattle on Feed* report. The report summarizes the activities of producers in the 23 major cattle feeding states that typically account for 95 percent of all cattle in feedlots. The report shows that during the fourth quarter cattlemen put 7 percent fewer young cattle on feed than the year before. During the same period, the number of cattle marketed out of feedlots was 15 percent less than the year before. These patterns resulted in a January 1 inventory of cattle on feed of 11.7 million head. The proportion of heavyweight cattle is still fairly large. The overall inventory, however, is 7 percent less than a year before and—excepting for 1975—the lowest for that date in 12 years.

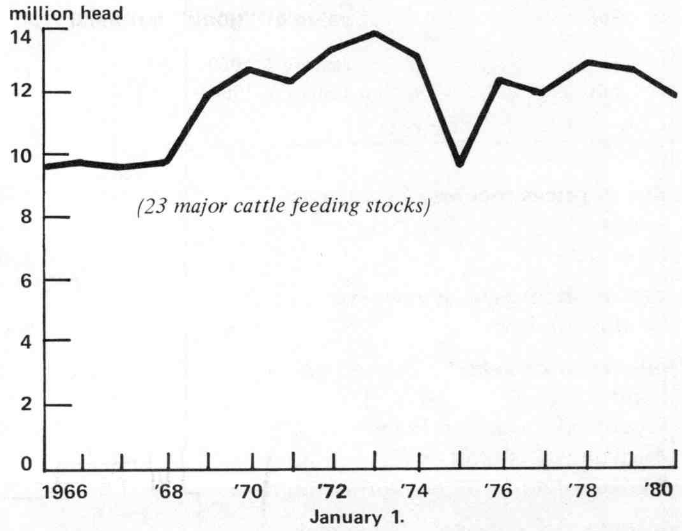
Feedlot inventories are down in all district states except Wisconsin, where the number is up 6 percent from a year ago. In Iowa, which accounts for nearly three-fifths of all cattle on feed in the five district states, the inventory is down 14 percent. Numbers are down 10 percent in Illinois, 8 percent in Michigan, and 4 percent in Indiana.

The past decade has seen a huge decline in feedlot inventories in district states. Compared to ten years ago, the number of cattle on feed in the five district states is down more than a third. That compares to a 4 percent rise for all the other major cattle feeding states. Inventories in Illinois and Iowa are down the most, nearly 40 percent from ten years ago. In the three other district states, numbers are down slightly more than a fifth. Because of the large declines, district states now account for only 20 percent of the 23 state total inventory on feed, down from 29 percent ten years ago. This trend, at least in part, reflects the generally strong crop prices in the 1970s which encouraged Midwest farmers to specialize in crop production.

Cattle slaughter fell to a very low level last year and the downturn is expected to continue into the early months of this year. Preliminary estimates show commercial cattle slaughter in the fourth quarter was nearly 13 percent less than in the same months a year before. For all last year, slaughter was down 15 percent and, at 33.7 million head, the lowest since 1965. Carcass weights were slightly heavier last year, holding the decline in beef production to 12 percent. Nevertheless, that large decline pulled per capita beef consumption to a 12-year low of nearly 79 pounds (retail weight basis). That compares to the very high 1976 peak of 95.7 pounds and the average of 84.2 pounds during the first half of the 1970s.

The past three years of declining beef production stems from the unusually sharp downturn in the cattle cycle during the four years ending with 1978. During that period of heavy financial losses to cattlemen, the inventory of all cattle fell 16 percent and the inventory of beef cows fell 19 percent. Most analysts believe that beef cow numbers turned upward last year. But, because of the biological lag in production, it will probably be another year before beef supplies begin to consistently exceed year-earlier levels.

The number of cattle in feedlots is the smallest since 1975



Preliminary estimates show cattle slaughter at federally inspected plants was 15 percent below year-ago levels during the first three weeks of January. That is considerably below expectations based on feedlot operators' intentions to market only 5 per fewer fed cattle in the first quarter. Based on historical patterns, moreover, the inventory of heavier weight cattle on feed appears sufficient to result in a slightly smaller decline. This would be particularly true if the mild winter weather continues to support faster-than-normal weight gains, as it has for several weeks. Along with the expected decline in fed cattle marketings, slaughter of cows and nonfed steers and heifers are likely to continue below year-earlier levels. Last year, cow slaughter fell 30 percent as cow-calf operators were expanding their herds. The decline may narrow appreciably in the early part of this year as herd culling returns to more normal patterns.

Cattle prices have declined in recent weeks, in marked contrast to the early-year uptrends of recent years and the trend many analysts had expected for this year. Choice steer prices at Omaha earlier this week fell to nearly $64 per hundredweight. That is down from $68 in late December and only 5 percent above the rapidly rising level of a year ago. From a fundamental perspective, it would appear that cattle prices may work higher in the near term. However, abundant supplies of pork and poultry may keep cattle prices from rising much above the low $70s during the next few months.

Gary L. Benjamin

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	December	239	+ 0.4	+ 8
Crops	1967=100	December	220	− 1.3	+ 7
Livestock	1967=100	December	256	+ 2.0	+ 7
Index of prices paid by farmers	1967=100	December	259	+ 1.2	+15
Production items	1967=100	December	258	+ 1.2	+15
Producer price index* *(finished goods)*	1967=100	December	228	+ 0.8	+12
Foods	1967=100	December	232	+ 0.7	+ 8
Processed foods and feeds	1967=100	December	229	+ 0.9	+ 8
Agricultural chemicals	1967=100	December	233	+ 1.5	+15
Agricultural machinery and equipment	1967=100	December	243	+ 0.7	+10
Consumer price index** *(all items)*	1967=100	December	230	+ 1.1	+13
Food at home	1967=100	December	239	+ 1.1	+10
Cash prices received by farmers					
Corn	dol. per bu.	December	2.41	+ 6.2	+15
Soybeans	dol. per bu.	December	6.22	− 1.3	− 4
Wheat	dol. per bu.	December	3.82	− 3.0	+27
Sorghum	dol. per cwt.	December	4.09	+ 2.5	+14
Oats	dol. per bu.	December	1.37	− 2.1	+15
Steers and heifers	dol. per cwt.	December	69.10	+ 0.3	+19
Hogs	dol. per cwt.	December	37.50	+ 9.0	−22
Milk, all sold to plants	dol. per cwt.	December	13.00	+ 0.8	+10
Broilers	cents per lb.	December	25.2	+ 2.4	+ 1
Eggs	cents per doz.	December	63.8	+11.1	+ 4
Income *(seasonally adjusted annual rate)*					
Cash receipts from farm marketings	bil. dol.	3rd Quarter	130	− 0.6	+19
Net realized farm income	bil. dol.	3rd Quarter	27	−15.8	+10
Nonagricultural personal income	bil. dol.	December	1,974	+ 1.1	+11

*Formerly called wholesale price index.

**For all urban consumers.

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