FEDERAL RESERVE BANK OF CHICAGO

AGRICULTURAL LETTER

ISSN 0002 - 1512

November 16, 1979 Number 1512

FARMLAND VALUES in the Seventh Federal Reserve District continued on a surprisingly sharp uptrend in the third quarter of 1979. According to survey responses of approximately 600 rural bankers, the value of good farmland increased 5.7 percent from July to September. The rise—larger than the increase reported for the first half of the year—boosted land values 16.5 percent higher than on October 1, 1978. The sustained strength in the farmland market reflects this year's higher crop and cattle prices and prospects for record crop production. Net farm earnings are forecast about a tenth higher than last year and more than 50 percent higher than two years ago.

Iowa led the growth in district farmland values with a third-quarter increase of 7 percent. Indiana agricultural bankers reported a 6 percent quarterly increase, while bankers in district portions of Michigan and Wisconsin indicated roughly 5 percent increases. Illinois farmland was priced about 3 percent higher than in the second quarter. All district states reported substantially higher prices than a year earlier with the increases ranging from a low of 9 percent in Illinois to a high of 21 percent in Iowa (see map on page 2).

The combined effects of higher land values and sharply higher interest rates contribute substantially to the cash flow burden of financing land purchases. To a great extent, therefore, the continuing strength in the farmland market presumably reflects higher farm commodity prices. Third-quarter average corn prices at Chicago were up more than 30 percent from a year earlier, while soybean prices were up almost 12 percent. Soybean prices have averaged below year-ago levels since mid-October, but the impact on farm receipts will be more than offset by the record production. And although cattle prices this summer were well below the April peak, they have continued to average well above year-earlier levels. Choice steer prices at Omaha in the third quarter averaged 32 percent above a year before. According to USDA estimates, cash receipts from farming for all of 1979 will likely be 15 percent higher than last year's record $111 billion.

Farm mortgage interest rates have risen sharply during the past 12 months. Mortgage funds were still readily available in the third quarter, but tight liquidity pressures at rural banks probably caused some cutback in mortgage lending. District agricultural bankers responding to the recent survey reported that on October 1 they were charging a record 11.4 percent on new mortgage loans. That compares with a rate of 10.8 percent three months earlier and 9.6 percent a year before. In the five states, mortgage rates ranged from 11 percent in Iowa to 12.4 percent in Michigan.

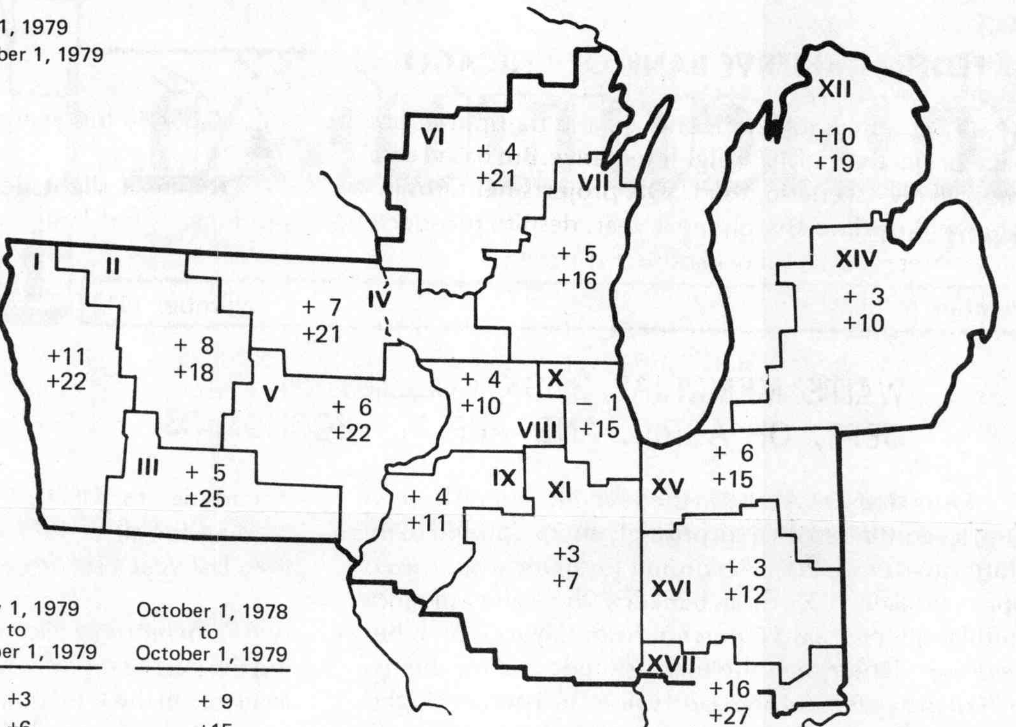
Federal land banks (FLBs), the largest institutional lender of farm mortgage credit, have faced strong demand for mortgage credit this year. Loan outstandings at FLBs in district states totaled $6.4 billion in September, a fourth more than a year before. New money loaned in the third quarter by FLBs in the five-state area was 30 percent more than a year earlier. The largest increases have been in Michigan and Wisconsin, where three-fifths more new money was loaned in the first nine months of 1979 than in the same period a year earlier.

Survey results indicate rural bankers expect farmland prices to rise still further. Two-fifths of the responding bankers felt that the trend would be up in the current quarter, while only 3 percent thought it would be down. This was the largest positive net response from bankers in two and a half years. The largest proportion of bankers that expect continued increases were in Iowa. Bankers in the other four states were somewhat less optimistic. Roughly two-thirds of the respondents from these states expected stable prices.

Don A. Langford
Agricultural Economist

Percent change in dollar value of "good" farmland

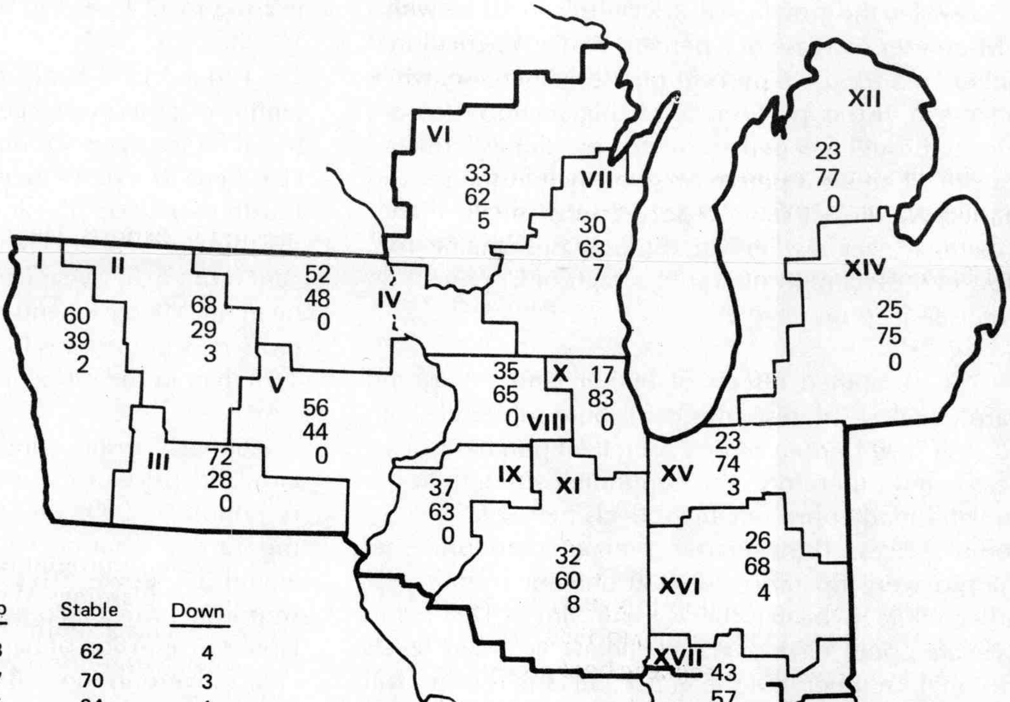
Top: July 1, 1979 to October 1, 1979
Bottom: October 1, 1978 to October 1, 1979



	July 1, 1979 to October 1, 1979	October 1, 1978 to October 1, 1979
Illinois	+3	+ 9
Indiana	+6	+15
Iowa	+7	+21
Michigan	+5	+13
Wisconsin	+5	+19
Seventh District	+6	+17

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

Top: Up
Center: Stable
Bottom: Down



	Up	Stable	Down
Illinois	33	62	4
Indiana	27	70	3
Iowa	65	34	1
Michigan	25	75	0
Wisconsin	31	64	5
Seventh District	41	56	3

THE 56TH ANNUAL AGRICULTURAL OUTLOOK CONFERENCE, sponsored by the USDA, was held in Washington last week. The USDA acknowledged that uncertainties in several areas (particularly regarding the overall economy, inflation, energy, and transportation) make projections of 1980 highly tentative. But based on a "most likely" scenario, the USDA projects net farm income will decline sharply next year, despite prospects for another record year of exports. Farm debt is expected to increase substantially, despite high interest rates. The rise in farmland values, estimated at 16 percent this year, is expected to be cut in half next year. And the rise in retail food prices is expected to slow from 11 percent this year to 8 percent next year.

The strongest part of the agricultural outlook is clearly exports, reflecting record domestic crops and smaller harvests in other countries. The USDA expects agricultural exports to reach $38 billion in fiscal 1980. That would mark a rise of 19 percent from the year just completed and more than a fivefold increase in ten years. The large increase in exports, coupled with a slower rise in imports, is expected to boost the agricultural trade surplus to $20.5 billion in fiscal 1980, up from $15.8 billion last year and $1.3 billion ten years ago.

Despite the boom in exports, net farm income is expected to drop to around $25 billion next year, down from an estimated $31 billion this year. The downturn reflects prospects for only a modest increase in prices received by farmers and large increases in production expenses. Fuel, fertilizer, and interest are likely to pace next year's rise in production expenses.

The livestock outlook portends somewhat larger supplies of meats, milk, and eggs. Milk production will probably be up a little more than 1 percent this year, and the USDA expects another 1 percent rise next year. Farm milk prices, which averaged $10.58 per hundredweight in 1978, will probably be up 14 percent this year and another 10 percent next year. The outlook for next year partly reflects prospects for a large boost in the milk support price on April 1.

The cattle cycle has apparently turned upward this year, indicating 1980 may mark the first year-to-year increase in the calf crop since 1974. Nevertheless, the downturn in beef production this year, estimated at 12 percent, is expected to extend into 1980. USDA projections point to a 1 percent decline in beef production next year, suggesting per capita beef consumption in 1980 could reach a 14-year low. Although placements on feed may be slightly higher next year, the volume of fed cattle marketings in 1980 is expected to about equal this year's level. Cow and nonfed steer and heifer slaughter, after sharp declines this year, is expected to stabilize. Although some observers are slightly more optimistic, the USDA projects fed cattle prices will average a little over $70 per hundredweight in 1980. That compares with around $67.50 this year and $52.34 in 1978.

Despite a slight decline for beef, increased pork production and large poultry supplies are expected to raise per capita consumption of all meat a little more than 1 percent next year. Pork production, headed toward a 15 percent rise this year, is expected to be up 9 percent next year, paced by large first-half gains. Barrow and gilt prices, which averaged $48.50 per hundredweight in 1978 and about $42 this year, are expected to average in the mid $30s next year. Because that level will not cover production costs for many producers, the upswing in sow farrowings evident for the past several quarters will probably end by mid-1980.

The grain and oilseed outlook, as modified by more recent production estimates, is characterized by record supplies and a strong export demand that will test U.S. exporting capacity. This year's corn crop, now estimated at nearly 7.6 billion bushels, will be enough to meet the projected 4 percent increase in domestic utilization and the 17 percent increase in exports for 1979/80. As a result, the USDA expects carryover stocks of corn, after rising a sixth to nearly 1.3 billion bushels this fall, may be slightly higher next fall. Farm level corn prices, which averaged $2.02 per bushel in 1977/78 and $2.20 in 1978/79, are projected to average around $2.40 in 1979/80.

This year's soybean crop, estimated at 2.2 billion bushels—20 percent more than a year ago—offers a comfortable balance against the projected 7 percent increase in crushings and the nearly 10 percent rise expected in exports. Hence, carryover stocks of soybeans could approximate 400 million bushels next fall, compared with 173 million this fall. The USDA projects soybean prices at the farm level might average a little over $6 per bushel during the 1979/80 marketing year, down from $6.75 last year but above the 1977/78 average of $5.88.

The expected grain and oilseed price relationships, plus the elimination of acreage set-aside provisions in the 1980 farm programs, indicate farmers will try to expand their plantings. Wheat acreage may be up substantially, maybe a tenth. Feed grain acreage may also be somewhat larger next year. On the other hand, soybean plantings may dip slightly, interrupting the 42 percent expansion in soybean plantings over the past three years.

Gary L. Benjamin
Agricultural Economist

Selected agricultural economic developments

Subject	Unit	Latest period	Value	Percent change from	
				Prior period	Year ago
Farm finance					
Total deposits at agricultural banks†	1972-73=100	October	202	+ 1.7	+ 7
Time deposits	1972-73=100	October	242	+ 1.7	+11
Demand deposits	1972-73=100	October	135	+ 1.9	− 1
Total loans at agricultural banks†	1972-73=100	October	257	+ 1.0	+12
Production credit associations					
Loans outstanding					
United States	mil. dol.	September	17,452	+ 1.2	+17
Seventh District states	mil. dol.	September	3,541	+ 2.3	+21
Loans made					
United States	mil. dol.	September	1,880	− 1.6	+19
Seventh District states	mil. dol.	September	392	+ 1.2	+19
Federal land banks					
Loans outstanding					
United States	mil. dol.	September	28,430	+ 1.2	+19
Seventh District states	mil. dol.	September	6,392	+ 1.4	+25
New money loaned					
United States	mil. dol.	September	412	−25.6	+18
Seventh District states	mil. dol.	September	106	−20.1	+18
Interest rates					
Feeder cattle loans††	percent	3rd Quarter	11.24	+ 5.6	+21
Farm real estate loans††	percent	3rd Quarter	11.12	+ 4.4	+18
Three-month Treasury bills	percent	11/1-11/7	12.16	+ 8.5	+37
Federal funds rate	percent	11/1-11/7	13.77	+14.8	+41
Government bonds *(long-term)*	percent	11/5-11/9	10.61	+ 7.7	+21
Agricultural trade					
Agricultural exports	mil. dol.	September	2,735	0	+21
Agricultural imports	mil. dol.	September	1,263	− 3.7	+13
Farm machinery sales					
Farm tractors	units	August	8,021	− 5.3	+ 9
Combines	units	August	3,148	+ 5.9	− 3
Balers	units	August	2,371	−36.8	+ 5

†Member banks in Seventh District having a large proportion of agricultural loans in towns of less than 15,000 population.

††Average of rates reported by District agricultural banks.

FEDERAL RESERVE BANK OF CHICAGO
Public Information Center
P. O. Box 834
Chicago, Illinois 60690
Tel. no. (312) 322-5112

FEDERAL RESERVE BANK OF CHICAGO
AGRICULTURAL LETTER

MR.MARTIN K.CHRISTIANSEN AGL
EXTENSION ECONOMIST AGR.POLICY
ROOM 217 CLASSROOM OFFICE BLDG
UNIVERSITY OF MINNESOTA
ST.PAUL,MINNESOTA 55101