FEDERAL RESERVE BANK OF CHICAGO

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prices

DISTRICT FARMLAND VALUES edged higher in the second quarter. A recent survey of more than 550 district agricultural bankers shows the value of good farmland rose an average of 3 percent. The increase, slightly larger than the increase in the first quarter, culminated in an annual rise of 13 percent for the 12 months ended in June. Higher land values and rising mortgage rates have substantially increased debt servicing costs for recent land buyers. Nevertheless, a large proportion of district bankers expect further gains in land values in the current quarter.

The rate of increase in farmland values varied widely among the five district states (see map on page 2). Moreover, the second quarter trends in some states were substantially different from the trends reported in the fall and winter. Bankers in the lower peninsula of Michigan, for instance, reported farmland values up nearly 5 percent during the second quarter. That contrasted sharply with the nominal gains reported in Michigan last fall and winter. Land values in the district portion of Illinois rose nearly 4 percent this spring, sharply above the sluggish performance of last fall and winter. In Iowa, land values rose a little over 3 percent, while in district portions of Indiana and Wisconsin, increases of less than 2 percent were reported. In Wisconsin, the second-quarter rise in land values was the slowest in several quarters.

The continuing strength in farmland values reflects the comparatively high farm earnings during the past several quarters and prospects for favorable earnings for the foreseeable future. According to revised USDA estimates, net realized farm income rose more than 40 percent last year to nearly $27 billion. In the first quarter this year, preliminary estimates show net realized farm income exceeded $35 billion (seasonally adjusted annual rate). Although the average for the last three quarters of 1979 could be somewhat less, net realized farm income for the year will probably be well above the 1973 record of $30 billion. It now appears, moreover, that grains and soybeans will account for more of the underlying strength in farm earnings in future months. Crop earnings typically influence land values more than livestock earnings.

Despite prospects for strong farm earnings, higher land values and higher mortgage rates imply substantially larger debt service requirements for recent buyers. District agricultural bankers report rates on new farm mortgages are now averaging more than 10¾ percent. That compares with less than 10½ percent three months ago and an average of less than 9½ percent a year ago. Together, the higher land values and the higher interest rates imply that the annual debt service requirement on recently financed land purchases is probably a fourth to a third higher than a year ago.

Although interest rates on farm mortgages are up sharply, mortgage funds appear to be readily available. In the Midwest, however, more of the mortgage lending may be shifting from rural banks to other lenders. Tight liquidity pressures have probably resulted in some cutback in mortgage lending by rural banks. But new money loaned by federal land banks, the leading farm mortgage lender, was 38 percent higher in the first half of the year than in the same period a year earlier.

The rise in farmland values will likely continue for the next few months. The recent strength in grain and soybean prices stemming from concern over a probable tightening in world supplies will likely sustain the aggressive bidding on farmland. And mounting inflationary pressures in the overall economy could heighten the interests of potential buyers that view land as a good hedge against inflation.

Some negative considerations may be on the horizon, however. For instance, in areas where farmland values are subject to recreational and second-home influences, such as in northern Wisconsin and Michigan, the recent escalation in energy prices could have a dampening impact. Nevertheless, over a third of the district agricultural bankers expect land values to increase in the current quarter. Only 2 percent expect land values to decline.

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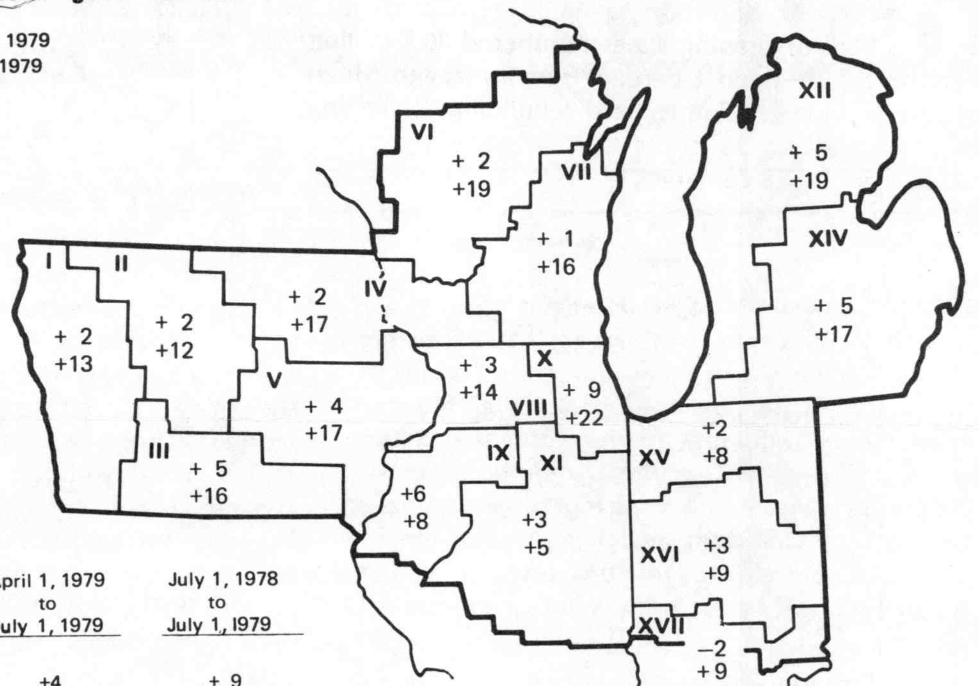
Percent change in dollar value of "good" farmland

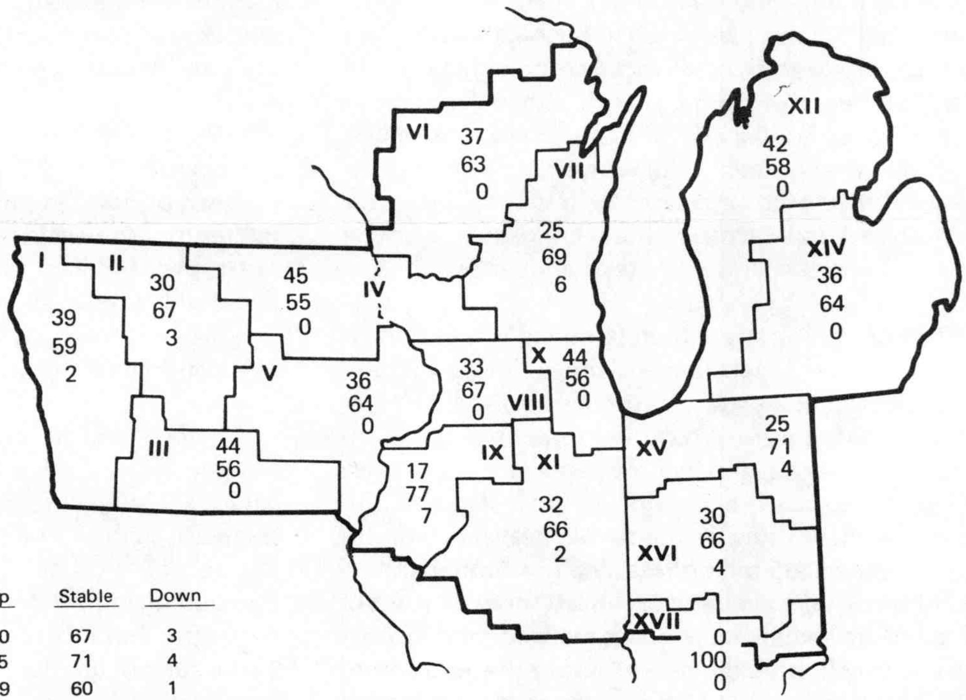
Top: April 1, 1979 to July 1, 1979
Bottom: July 1, 1978 to July 1, 1979



	April 1, 1979 to July 1, 1979	July 1, 1978 to July 1, 1979
Illinois	+4	+ 9
Indiana	+2	+ 9
Iowa	+3	+15
Michigan	+5	+17
Wisconsin	+2	+17
Seventh District	+3	+13

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

Top: Up
Center: Stable
Bottom: Down



	Up	Stable	Down
Illinois	30	67	3
Indiana	25	71	4
Iowa	39	60	1
Michigan	38	62	0
Wisconsin	32	65	3
Seventh District	33	65	2

CATTLE ON FEED INVENTORIES dropped below the year-earlier level last fall and the trend has continued through midyear. According to the USDA, cattle on feed in the 23 major feeding states numbered 10.3 million head on July 1—down 6 percent from a year ago. Much of the decline was due to herd rebuilding. Reflecting this, the number of heifers and cows in feedlots was more than 14 percent below the record level a year earlier, while the inventory of steers was down less than 1 percent. Despite the year-to-year reduction in inventory numbers, cattle feeding activity is still heavy by historical comparison. This, coupled with the sharp drop in nonfed steer and heifer slaughter, suggests that 1979 will mark the fourth consecutive year in which fed cattle will account for more of total commercial slaughter.

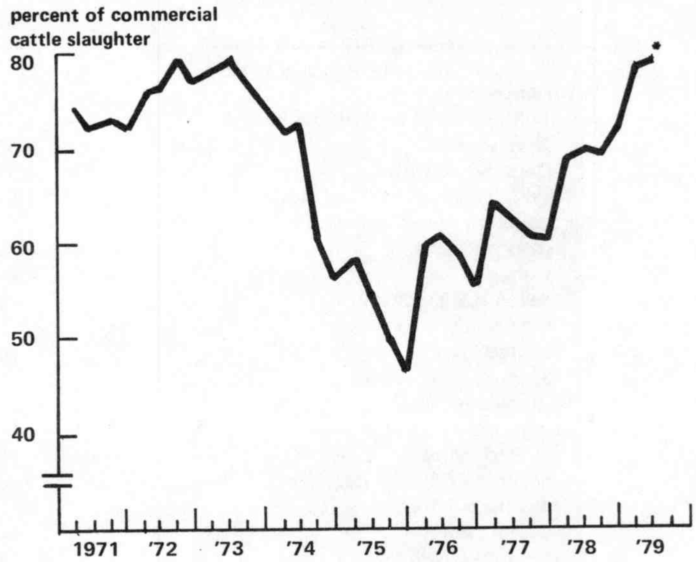
Placements of cattle on feed in the second quarter totaled 6.1 million head, 7 percent fewer than the high level of a year earlier, but still 2 percent more than in the corresponding period two years earlier. This was due largely to declines in the seven largest feeding states, which averaged a 9 percent drop. These seven states accounted for four-fifths of the total placements in the 23 states in the second quarter. Net placements—which adjust for death losses and movement of cattle from feedlots to pastures and to other feedlots—were down 8 percent from a year earlier. This marked the third consecutive quarter of year-to-year declines.

District states are cutting back on cattle feeding faster than the rest of the nation

	Placements on feed		Fed cattle marketings		Inventory on feed July 1
	IQ	IIQ	IQ	IIQ	
	(percent change from year earlier)				
Illinois	- 6.7	54.5	- 8.0	0	-13.0
Indiana	24.3	-18.7	-13.7	- 8.7	2.4
Iowa	-17.3	-18.1	-10.6	-13.9	- 9.2
Michigan	- 4.3	-16.7	5.5	24.0	- 9.4
Wisconsin	0	36.4	-13.3	4.8	- 6.6
District states	-11.2	- 7.2	- 9.7	-10.8	- 8.8
23 states	- 9.5	- 6.8	0	- 7.7	- 5.6

Fed cattle marketings in the second quarter were 8 percent less than a year earlier. That was the largest year-to-year decline in three and a half years. Moreover, for the foreseeable future, marketings are apt to average below year-earlier levels. Cattle feeders report they expect to market 5 percent fewer cattle in the third quarter than in the same period last year. Nonfed cattle slaughter in the first half was more than two-fifths below the year-earlier level and the trend will likely continue through the second half. Therefore, as a proportion of total commercial slaughter, fed cattle will likely remain high and could reach 78 percent for 1979—a record high.

Fed cattle accounted for record share of slaughter in first half



*Estimate.

The July 1 inventory of all cattle and calves was down 3 percent, according to a recent USDA report. Moreover, the report indicated the 1979 calf crop is expected to total 43.5 million head, down 1 percent from last year and the smallest crop since 1963. This, coupled with generally favorable pasture conditions nationwide, suggests feedlot placements—and, consequently, fed cattle marketings—are not likely to show a year-to-year increase for the next several quarters.

Cattle prices have trended lower since late April. Choice steer prices at Omaha averaged above $67 per hundredweight last week, down from $68 a month ago and $73 two months ago. In the first half of 1979, cattle prices averaged roughly a third higher than a year earlier. Most observers expect prices to average in the high $60s to low $70s per hundredweight in the second half compared to $54 last year. Prospects for abundant supplies of pork and poultry could counteract some of the strength in consumer beef demand. This, in turn, would be reflected in cattle prices. However, beef production in the first half of 1979 was down 12 percent from a year ago and could be down nearly a tenth in the second half. In light of the consumer's clear preference for beef, this will likely be sufficient to keep cattle prices above year-earlier levels for the foreseeable future.

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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	June	195	+ 1.4	+ 7
Time deposits	1972-73=100	June	231	+ 0.8	+10
Demand deposits	1972-73=100	June	133	+ 3.3	0
Total loans at agricultural banks†	1972-73=100	June	248	+ 1.2	+15
Production credit associations					
Loans outstanding					
United States	mil. dol.	June	16,688	+ 1.0	+17
Seventh District states	mil. dol.	June	3,357	+ 4.3	+22
Loans made					
United States	mil. dol.	June	2,148	− 8.7	+20
Seventh District states	mil. dol.	June	459	− 2.0	+23
Federal land banks					
Loans outstanding					
United States	mil. dol.	June	27,261	+ 1.8	+18
Seventh District states	mil. dol.	June	6,092	+ 1.0	+25
New money loaned					
United States	mil. dol.	June	597	− 3.4	+35
Seventh District states	mil. dol.	June	157	− 7.0	+35
Interest rates					
Feeder cattle loans††	percent	2nd Quarter	10.64	+ 3.5	+18
Farm real estate loans††	percent	2nd Quarter	10.65	+ 3.1	+16
Three-month Treasury bills	percent	7/12-7/18	9.29	+ 3.5	+31
Federal funds rate	percent	7/12-7/18	10.35	+ 0.7	+30
Government bonds *(long-term)*	percent	7/16-7/20	8.97	+ 0.4	+ 3
Agricultural trade					
Agricultural exports	mil. dol.	May	2,509	− 5.4	+ 8
Agricultural imports	mil. dol.	May	1,375	− 7.1	+ 8
Farm machinery sales					
Farm tractors	units	May	12,471	−38.2	− 5
Combines	units	May	945	−49.0	− 3
Balers	units	May	1,531	+82.3	− 7

†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.

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