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LETTER

FARMLAND VALUES in the Seventh Federal Reserve District continued to edge upward in the first quarter, but the increase was among the smallest since 1972. According to an April 1 survey of roughly 580 agricultural bankers, the average value of good farmland increased 2.4 percent during the January-March period. The year-to-year gain was 16 percent. First-quarter land price increases were smaller than they were in the previous quarter over much of the district, with several areas showing declines or no change. The cost of credit may have curbed some of the bidding appetite of prospective buyers in the latest quarter.

As was the case in the fourth quarter, the slower rise in farmland values in the January-March period was particularly evident in district portions of Illinois, Indiana, and Michigan, where quarterly gains averaged 1 percent. Iowa bankers reported land values rose 3 percent in the quarter, while the district portion of Wisconsin paced the five-state area with an average increase of nearly 6 percent. The proportion of total cash farm receipts attributable to livestock enterprises is higher in Iowa and Wisconsin than in the other district states and may account for part of the apparently greater strength in farmland prices reported in these states. The range of year-to-year increases among district states widened for the third consecutive quarter. Illinois was at the lower end of the range with an 8 percent rise, while Wisconsin was at the upper end with a 23 percent increase (see map on page 2).

The April 1 survey posed a series of special questions to bankers in an attempt to provide insight into some of the characteristics of the current farmland market. Bankers were asked to compare farm real estate market developments in the October 1978-March 1979 period with those of the same six-month period a year before. In some instances, the findings revealed rather striking differences among the district states.

In general, bankers in all five states were in agreement in indicating that the number of farm transfers in

Index of farmland market trends*

	<u>Ill.</u>	<u>Ind.</u>	<u>Iowa</u>	<u>Mich.</u>	<u>Wis.</u>	<u>Dist.</u>
Number of farmland units sold	79	78	99	93	94	89
Acreage of farmland units sold	85	88	107	100	94	95
Proportion of acreage financed by institutions	108	112	107	98	84	103
Proportion of acreage purchased by farmers	123	112	125	98	101	115
Proportion of acreage that will continue to be operated as farmland	97	103	101	84	92	97

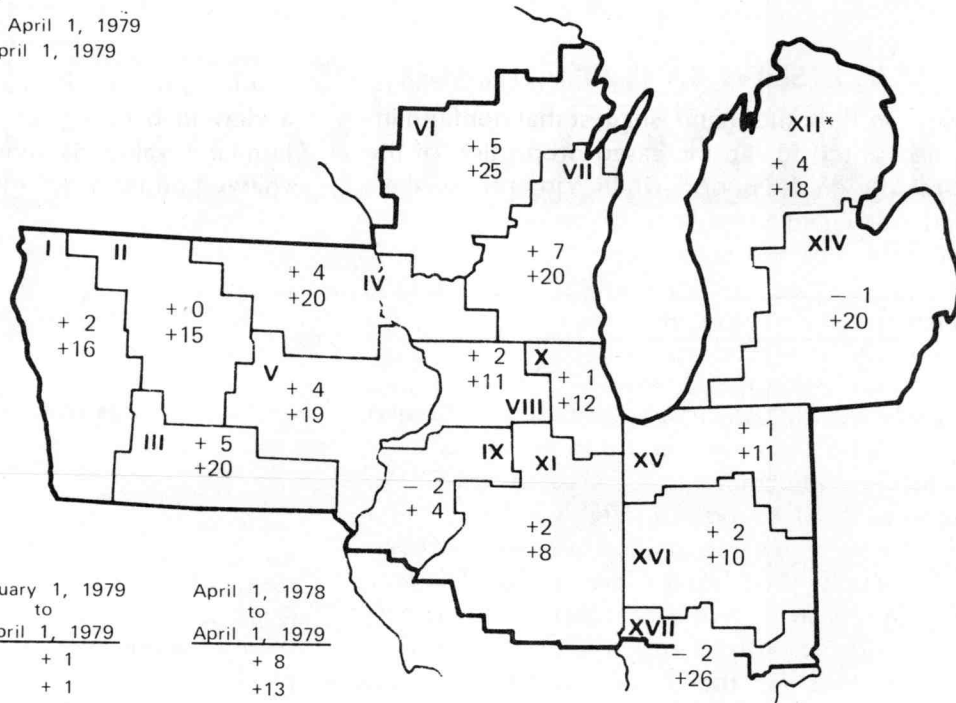
*Bankers responded to each item by indicating whether trends during the past six months were higher, lower, or the same as in the corresponding period a year earlier. The index numbers are computed by subtracting the percent of bankers that indicated "lower" from the percent that responded "higher" and adding 100.

the period was down from a year before. In terms of the number of acres of farmland sold in the period, however, bankers' responses varied somewhat. The net response of bankers in district portions of Illinois, Indiana, and Wisconsin suggested a decrease in the acreage transferred, while Iowa bankers' responses indicated that more acres were sold. Responses of Michigan bankers suggested the quantity of farmland sold was roughly unchanged. In light of the rather strong indication of a reduction in farmland transfers in Illinois and Indiana in the past six months, the smaller increases in land values reported for these states in the past two quarters may reflect an underlying weakness in the land market in these two states.

The net responses of bankers in Illinois, Indiana, and Iowa indicated that a larger proportion of farm real estate transferred in the recent October-March period was financed by institutions than was the case a year earlier. Wisconsin and Michigan bankers, on the other hand, observed the converse and reported an increase in the proportion of farmland that was financed by sellers.

Percent change in dollar value of "good" farmland

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

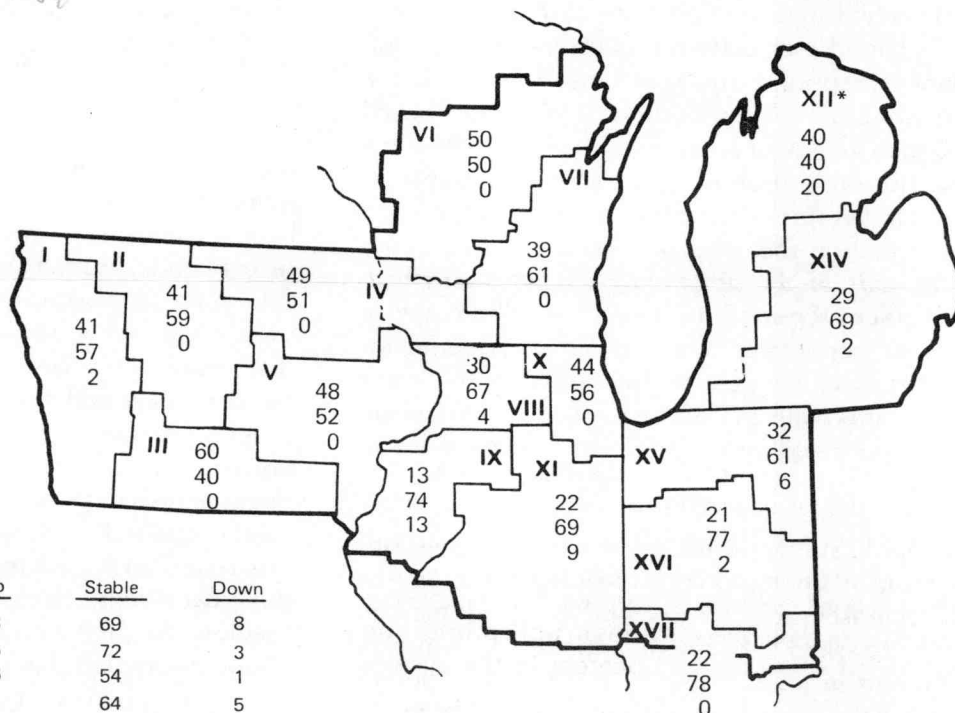


	January 1, 1979 to April 1, 1979	April 1, 1978 to April 1, 1979
Illinois	+ 1	+ 8
Indiana	+ 1	+13
Iowa	+ 3	+17
Michigan	+ 1	+19
Wisconsin	+ 6	+23
Seventh District	+ 2	+16

*Due to insufficient responses, area XII in Michigan will henceforth encompass areas previously designated as XII and XIII. All other area designations remain the same.

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

Top: Up
Center: Stable
Bottom: Down



	Up	Stable	Down
Illinois	23	69	8
Indiana	25	72	3
Iowa	46	54	1
Michigan	31	64	5
Wisconsin	44	56	0
Seventh District	35	62	3

*Due to insufficient responses, area XII in Michigan will henceforth encompass areas previously designated as XII and XIII. All other area designations remain the same.

Bankers in district states differed on other points as well. The net responses of bankers in Illinois, Indiana, and Iowa indicated rather strongly that the proportion of farmland purchased by farmers in the October-March period was up from a year earlier. Michigan bankers' responses, on the other hand, suggest that nonfarm investors accounted for an increased proportion of the land purchased in the period, while Wisconsin bankers indicated little change from a year before. According to bankers' responses, the proportion of land sold in the past six months that will continue to be operated as farmland increased in Iowa and Indiana compared to a year earlier, while the proportion of land sold that will be used for nonfarm purposes apparently increased in Michigan, Wisconsin, and Illinois.

Agricultural bankers in the district anticipate additional upward pressures on farmland values in the current quarter. More than a third of the bankers responding to the survey thought the upward trend would continue—the largest proportion to express such a view in over a year. Nevertheless, the outlook for farmland values is somewhat clouded. Interest rates charged on farm real estate loans at district agricultural banks currently average nearly 10.5 percent. That is approximately 1.5 percentage points above a year ago. Rates charged by other mortgage lenders have also increased. Prospects of the high cost of servicing debt on future purchases of land at even higher prices may deter some prospective buyers of farmland.

Don A. Langford
Agricultural Economist

MEAT PRODUCTION during the first quarter totaled about 12 billion pounds, according to USDA estimates. That was 2 percent less than a year ago, 7 percent less than in the fourth quarter of 1978, and the lowest for any quarter since the second quarter of 1976. The reduced output coupled with very strong consumer demand pushed retail meat prices to record levels. The index for retail prices of red meats during the first quarter averaged 26 percent higher than a year ago, while retail poultry prices averaged 15 percent higher. For the rest of this year, production of all meats will rise seasonally, and—for the year as a whole—may about match the 1978 output. These prospects suggest the upward pressures on retail meat prices will abate considerably, although beef prices will remain at very high levels.

Beef accounted for virtually all of the cutback in total meat production during the first quarter. Pork production was up 5 percent from a year ago and poultry production was up 10 percent. But beef production declined 9 percent and—at 5.55 billion pounds—was the lowest for any quarter since the first quarter of 1974.

For the remaining three quarters of this year, it appears total meat production will be somewhat larger than in the first quarter and perhaps slightly above year-earlier levels. But as was the case in the first quarter, these prospects hinge on large increases in pork and poultry production. A March survey of producers in major states indicated that the year-to-year gains in pork production could widen to more than 10 percent in the current quarter and possibly 16 percent in the third quarter. Fourth-quarter pork production could be well over a fifth larger than a year ago if producers carry out the spring farrowing intentions reported last month. Evidence on poultry production points to year-to-year gains of around a tenth for both the second and third quarters.

Fewer cattle on feed, coupled with prospects for continued large declines in cow and nonfed steer and heifer slaughter, point to seasonally smaller supplies of beef this spring and summer. According to a recent USDA survey, cattle on feed in the 23 major states on April 1 numbered almost 6 percent less than a year ago. The inventory of heavyweight cattle on feed was virtually the same as a year ago. However, producers' marketing intentions suggest fed cattle slaughter in the current quarter will be down 4 percent from a year ago and 6 percent below the record-matching pace of the first quarter.

In addition to the prospective declines in fed cattle marketings this spring and summer, cow and nonfed steer and heifer slaughter will probably remain at sharply reduced levels. Nonfed steer and heifer slaughter plunged 80 percent below a year ago during the first quarter. Cow slaughter fell nearly a third to the lowest first-quarter level since 1972. If these trends continue this spring and summer, cattle slaughter may be down about 15 percent from a year ago. Allowing for heavier carcass weights, beef production may be down about a tenth.

While the cutback in nonfed steer and heifer slaughter portends tight beef supplies through the rest of this year, there are indications that rebuilding of the cow herd has begun. The sharp cutback in cow slaughter implies reduced culling. And the 14 percent decline—from last year's high level—in the number of heifers in feedlots, coupled with the overall reduction in nonfed slaughter, implies that replacement heifers are moving into the cow herd at a greater rate. Allowing for the long physiological lags in raising cattle, this would suggest beef production may begin trending upward in a couple of 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 bankst	1972-73=100	December	188	- 0.9	+ 8
Time deposits	1972-73=100	December	219	- 0.1	+ 9
Demand deposits	1972-73=100	December	135	- 3.0	+ 6
Total loans at agricultural bankst	1972-73=100	December	234	+ 0.6	+14
Production credit associations					
Loans outstanding					
United States	mil. dol.	March	15,381	+ 2.6	+15
Seventh District states	mil. dol.	March	3,106	+ 4.7	+17
Loans made					
United States	mil. dol.	March	2,890	+22.9	+20
Seventh District states	mil. dol.	March	693	+20.5	+17
Federal land banks					
Loans outstanding					
United States	mil. dol.	March	25,851	+ 1.9	+16
Seventh District states	mil. dol.	March	5,707	+ 3.7	+24
New money loaned					
United States	mil. dol.	March	651	+52.1	+33
Seventh District states	mil. dol.	March	243	+108.0	+45
Interest rates					
Feeder cattle loanst†	percent	1st Quarter	10.28	+ 5.2	+16
Farm real estate loanst†	percent	1st Quarter	10.33	+ 4.3	+14
Three-month Treasury bills	percent	4/19-4/25	9.20	- 3.3	+48
Federal funds rate	percent	4/19-4/25	10.09	+ 0.9	+44
Government bonds (long-term)	percent	4/23-4/28	9.19	+ 1.5	+10
Agricultural trade					
Agricultural exports	mil. dol.	March	2,877	+22.1	+14
Agricultural imports	mil. dol.	March	1,389	+12.5	0
Farm machinery sales					
Farm tractors	units	February	8,809	-20.7	+14
Combines	units	February	703	-58.8	-16
Balers	units	February	493	-39.1	+27

†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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