FEDERAL RESERVE BANK OF CHICAGO

AGRICULTURAL LETTER

May 5, 1978 Number 1472

FARMLAND VALUES in the Seventh Federal Reserve District made a surprisingly large gain in the first quarter. The value of good farmland increased an average of nearly 4 percent according to approximately 600 agricultural bankers in the district. The comparative weakness in land prices the preceding two quarters, however, held the year-to-year increase to only 7 percent—the lowest since the January 1973 survey. The strong first-quarter advance has apparently heightened bankers' expectations for further gains. For the first time since the July 1977 survey, the number of bankers expecting a further increase in farmland values in the current quarter exceeded the number expecting a decline.

The strength in first-quarter farmland values varied considerably among individual district states. Wisconsin set the pace with a surge of more than 7 percent. After two consecutive quarters of almost no change, land values in Iowa rose 4 percent. Both Indiana and Illinois saw increases of 3 percent while Michigan trailed with an increase of less than 2 percent. Year-to-year changes in farmland values ranged from a rise of 19 percent in Wisconsin to a decline of 2 percent in Illinois. The decline in Illinois reflected the sharp drop in land prices that occurred last summer.

Upward trending farm commodity prices are probably the major factor behind the first-quarter rise in farmland values, although fewer transfers of farmland could also have played a part. Nearly forty percent of the bankers reported a decline in the amount of farm acreage transferred during the previous six months, while only 20 percent reported an increase. The index of prices received by farmers has risen, moreover, in every month since last September, reaching the third highest level on record in mid-April. The sharp advance in commodity prices has no doubt rekindled optimism among farmers and prompted more aggressive bidding for farmland than existed during the second half of last year.

Foreign investment in farmland has apparently not been a significant factor in the Seventh District farm real estate market. Despite the expressed concerns of recent months over increased purchases of U.S. farmland by foreign investors, district bankers have observed little evidence to support such claims. Fewer than a tenth of the bankers reported an increase from the level of a year ago in the amount of farmland purchased by foreigners during the six months ended in March. Four percent of the banks reported less farmland bought by foreigners than the year before while 86 percent saw no change.

Regarding the amount of farmland sold during this period, 93 percent of the banks reported that none had been sold to foreign investors. And of the few banks that did report foreign purchases, the vast majority reported such purchases accounted for no more than a tenth of the land sold in their area. Overall, the amount of district farmland transferred during this period that could be attributed to purchases of foreign investors averaged less than 1 percent. Moreover, less than 5 percent of the total farm acreage sold during the previous six months was purchased by the combined categories of foreign investors, trusts of unknown ownership, and unknown purchasers. Therefore, more than 95 percent of the farmland transferred was purchased by domestic investors. Farm operators were credited with buying an average of 81 percent of the farm acreage sold during that period. The proportion attributed to domestic nonfarmer investors averaged over 14 percent.

Rural bankers in Michigan reported the highest incidence of foreign-purchased farmland in the five-state area. Even so, only 3 percent of the acreage purchased in district portions of that state during the past six months was attributed to foreign interests. Bankers in the other states reported that foreign purchases of farmland in their area accounted for less than 1 percent of the land transferred. In Iowa, where there was the least evidence of recent foreign purchases of farmland, over 92 percent of the bankers reported that foreigners had accounted for none of the transfers in their area in the previous six months. Only 0.3 percent of the Iowa farmland sold in the previous six months was bought by foreign investors.

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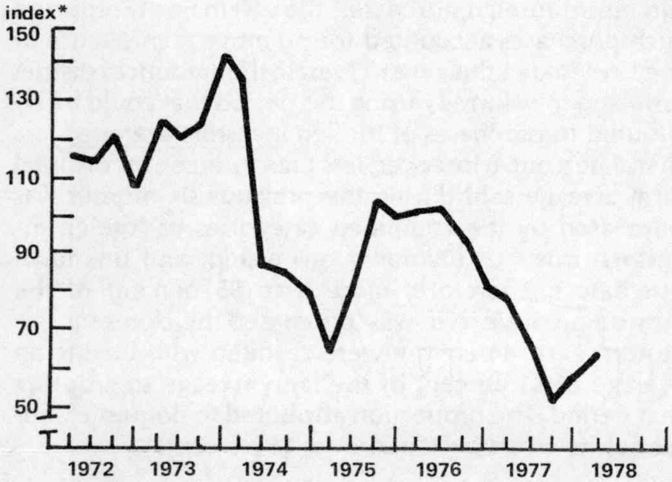
Agricultural Economist

TRENDS IN CREDIT CONDITIONS among Seventh District agricultural banks were mixed in the first quarter, according to an April 1 survey. For the second consecutive quarter there was some easing in the problems with farm loan repayments and renewals and extensions of loans. The problems were still more apparent than in most past surveys, however. At the same time, farm loan demand continued fairly strong, boosting loan-to-deposit ratios to a new high and suggesting that rural banks still face considerable liquidity pressures.

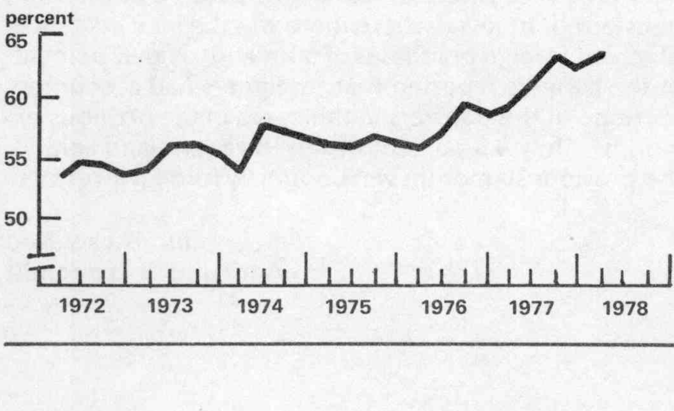
The first-quarter index of farm loan repayment rates (see chart) rose to 64, up from 59 in the fourth quarter of last year and the exceptionally low level of 52 last summer. Although the index is still low by historical standards, farm loan repayments seem to have picked up from the very slow pace of the recent past. Among district states, slow loan repayment rates appear most widespread in Illinois and Indiana, where improvement since last summer has been only nominal.

Loan repayment problems eased again in the first quarter . . .



*The index is computed by subtracting the percent of banks that report the loan repayment rate is "lower" than a year ago from the percent that respond "higher," and adding 100.

. . . but loan-to-deposit ratios edged up to new high



Improved cash flows to farmers are, no doubt, a major factor behind the pickup in loan repayment rates and the slowing in farm loan renewals and extensions. The improved cash flows stem from the sharp upswing in agricultural commodity prices, the first-quarter movement of over 300 million bushels of corn under loan with the Commodity Credit Corporation, and—in some areas—government program disaster payments. During the first quarter, the index of prices received by farmers averaged 4 percent higher than a year ago and 10 percent above the plunging levels during the third quarter last year. District farmers have particularly benefited from the uptend, reflecting the 22 percent rise in average feed grain prices between the third quarter of last year and the first quarter of 1978, and a simultaneous increase of nearly 14 percent in meat animal prices.

Liquity pressures among district agricultural banks are still widespread despite the apparent easing in problems with farm loan portfolios. Loan-to-deposit ratios rose seasonally in the first quarter, a period when the ratios normally remain flat or decline some. As of April 1, loan-to-deposit ratios among agricultural banks in the district averaged a record-high 63.7 percent, up 4.3 percentage points from the high year-earlier level and 7.5 percentage points above the more typical level of two years ago. In conjunction with the uptrend, an unusually high proportion—44 percent—of the banks reported their current loan-to-deposit ratio was above the desired level.

Evidence of continuing liquidity pressures at rural banks is also reflected in their assessment of the availability of funds for agricultural loans. The index of fund availability declined to 79 in the first quarter, down from 87 in January and only marginally above the unusually low 77 registered in the third quarter of 1977.

Farm loan demand remained comparatively strong during the first quarter, although somewhat less so than for most of 1977. The major components behind the strength were, no doubt, demands for feeder cattle loans and operating loans. Farmers in district states—paced by Iowa—placed 11 percent more cattle on feed than in the first quarter last year. The increased number of placements plus sharply higher prices for feeder cattle resulted in a substantial boost in new borrowings by livestock producers.

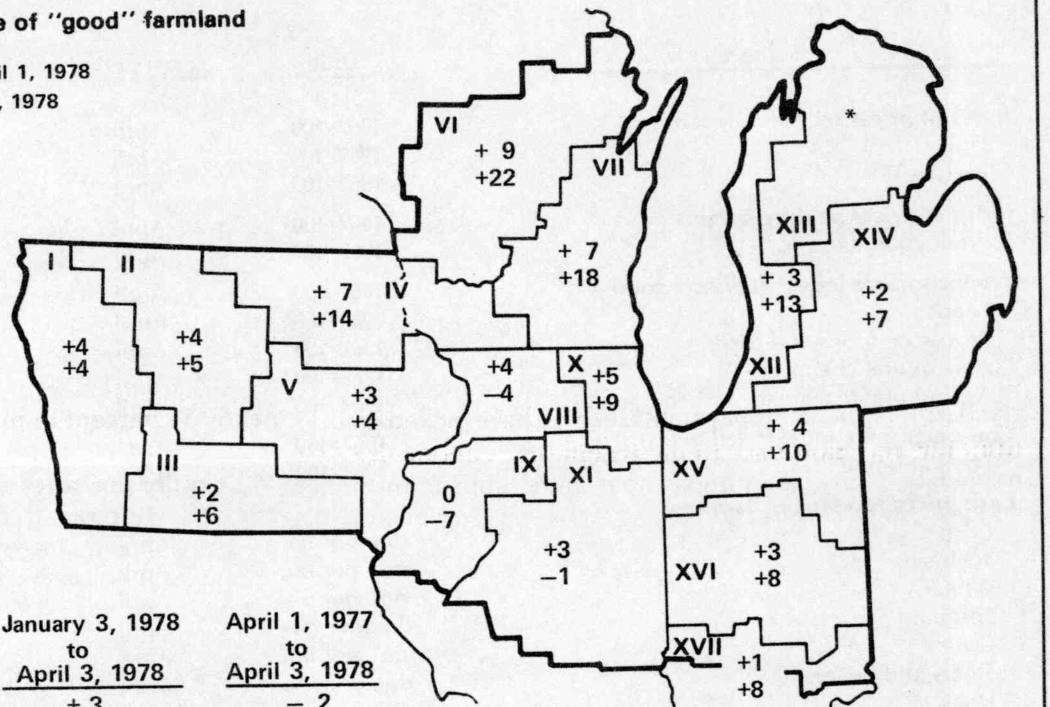
Interest rates on farm loans edged higher reflecting strong loan demand, liquidity pressures at rural banks, and the general uptrend in money market interest rates. Interest rates on feeder cattle loans averaged 8.90 percent on April 1, up nearly ¼ percentage point from the rather stable levels that had prevailed through 1976 and most of 1977.

Gary L. Benjamin
Agricultural Economist

Trends in district farmland values

Percent change in dollar value of "good" farmland

Top: January 1, 1978 to April 1, 1978
Bottom: April 1, 1977 to April 1, 1978

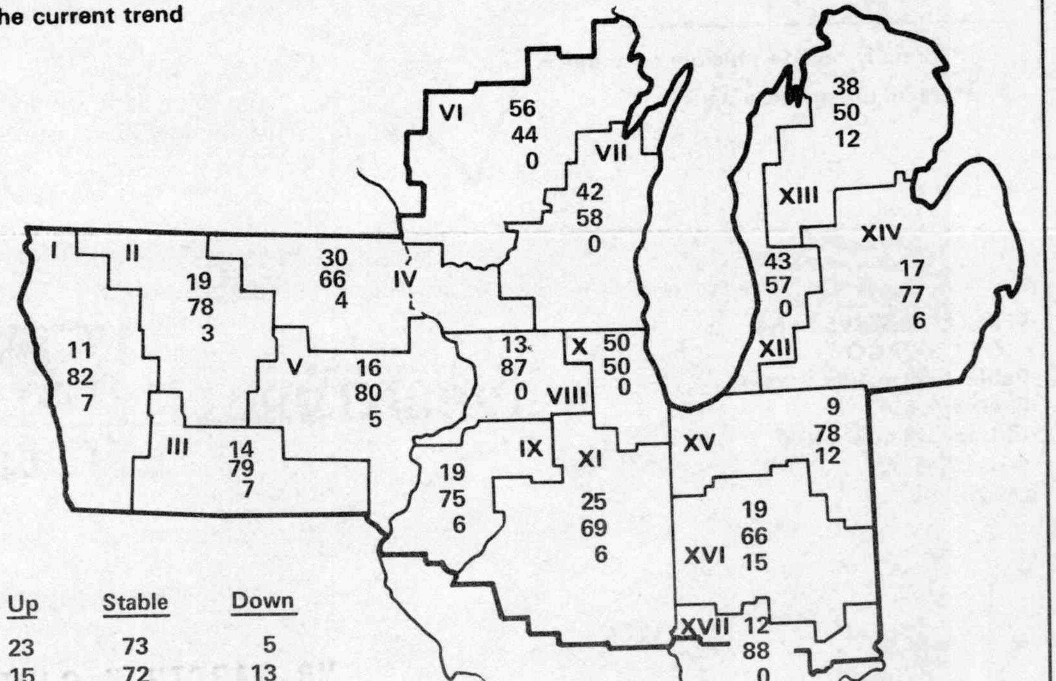


	January 3, 1978 to April 3, 1978	April 1, 1977 to April 3, 1978
Illinois	+ 3	– 2
Indiana	+ 3	+ 9
Iowa	+ 4	+ 6
Michigan	+ 2	+ 9
Wisconsin	+ 7	+19
Seventh District	+ 4	+ 7

*Insufficient response.

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

Top: Up
Center: Stable
Bottom: Down



	Up	Stable	Down
Illinois	23	73	5
Indiana	15	72	13
Iowa	15	80	5
Michigan	23	71	6
Wisconsin	47	52	1
Seventh District	23	71	6

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	April	208	+ 4.0	+ 9
Crops	1967=100	April	208	+ 5.1	− 3
Livestock	1967=100	April	209	+ 2.5	+22
Index of prices paid by farmers	1967=100	April	216	+ 0.9	+ 6
Production items	1967=100	April	214	+ 1.4	+ 5
Producer price index* *(finished goods)*	1967=100	April	191	+ 1.3	+ 7
Foods	1967=100	April	205	+ 2.2	+ 9
Processed foods and feeds	1967=100	April	200	+ 1.7	+ 6
Agricultural chemicals	1967=100	April	192	+ 0.7	+ 2
Agricultural machinery and equipment	1967=100	April	209	+ 0.5	+ 7
Consumer price index** *(all items)*	1967=100	March	190	+ 0.7	+ 7
Food at home	1967=100	March	203	+ 1.2	+ 8
Cash prices received by farmers					
Corn	dol. per bu.	April	2.26	+ 5.1	− 2
Soybeans	dol. per bu.	April	6.74	+ 8.7	−26
Wheat	dol. per bu.	April	2.83	+ 6.0	+19
Sorghum	dol. per cwt.	April	3.52	+ 4.5	+ 2
Oats	dol. per bu.	April	1.21	+ 4.3	−26
Steers and heifers	dol. per cwt.	April	50.30	+ 7.7	+34
Hogs	dol. per cwt.	April	44.80	− 4.3	+24
Milk, all sold to plants	dol. per cwt.	April	10.10	− 1.0	+ 7
Broilers	cents per lb.	April	28.1	+13.3	+16
Eggs	cents per doz.	April	52.2	− 5.8	− 6
Income *(seasonally adjusted annual rate)*					
Cash receipts from farm marketings	bil. dol.	1st Quarter	101	+ 5.5	+ 5
Net realized farm income	bil. dol.	1st Quarter	21	− 0.9	− 3
Nonagricultural personal income	bil. dol.	March	1,619	+ 1.3	+11

*Formerly called wholesale price index.

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