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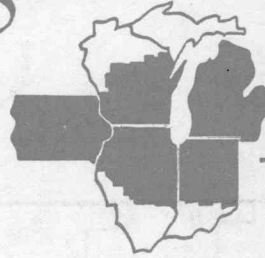
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August 2, 1974

# Agricultural Letter



Number 1285

**FARMLAND VALUES** continued to rise in the second quarter, but the rate of increase slowed appreciably from the record-breaking first-quarter increase. According to nearly 750 Seventh District agricultural bankers responding to a July 1 survey, farmland values rose 3 percent during the second quarter, an increase only one-fourth as large as in the first quarter. The year-to-year increase in values averaged 29 percent, with most of the rise occurring in the previous three quarters.

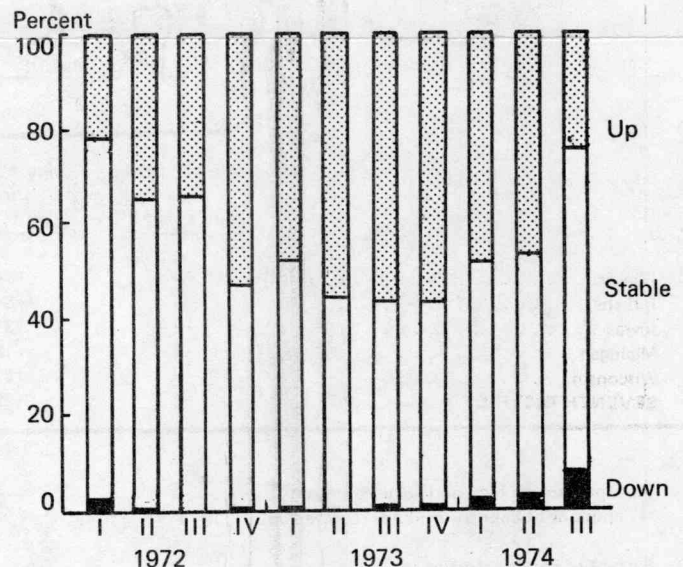
Slowing of an upward price spiral that has spanned two and one-half years was evident in all district states. Average state increases in the second quarter ranged from a low of 2 percent to a high of 5 percent, far below the 10 to 16 percent range recorded during the first quarter. (See back of letter.) Furthermore, on a year-to-year basis, the increase in land values at the end of the second quarter fell below the increase of the previous quarter for the first time since mid-1972. The 34 percent year-to-year district increase recorded in the first quarter of 1974 may stand as a record for some time.

Demand for farmland was affected by declining farm prices in the second quarter and by prospects for sharply lower profits in 1974. Livestock prices were severely depressed throughout the period, and many crop prices were declining during the early part of the second quarter. Sharply higher production costs resulted in substantial losses for livestock producers and suggest a narrowing in the profits of crop producers. Uncertainty about the level of crop yields mounted because of inclement weather in many areas of the district during the second quarter.

**Credit secured by farm real estate** continued to expand rapidly during the first half of 1974 despite high interest rates. Federal Land Bank (FLB) outstandings in district states were up 18 percent as of midyear, while total U. S. outstandings grew 23 percent. New money loaned by FLBs increased 40 percent in the Seventh District and 27 percent in the nation. Outstanding farm mortgages held by life insurance companies at the end of the first quarter were 6 percent higher than a year ago but down slightly from fourth-quarter 1973.

Bankers responding to the July 1 survey indicated that a considerable amount of the new farm mortgage money represents refinancing efforts to cover losses sustained from cattle operations. Consequently, while the level of farm real estate credit volume is expanding, a smaller than normal percentage is being used to purchase land. Moreover, since land prices are up sharply, a given amount of current dollars can only purchase about 70 percent as much land as a year earlier. Therefore, the amount of farm mortgage credit available for land purchases—in real terms—is actually down in many areas, perhaps significantly in major livestock-producing areas.

Expected Trends in Farmland Values\*



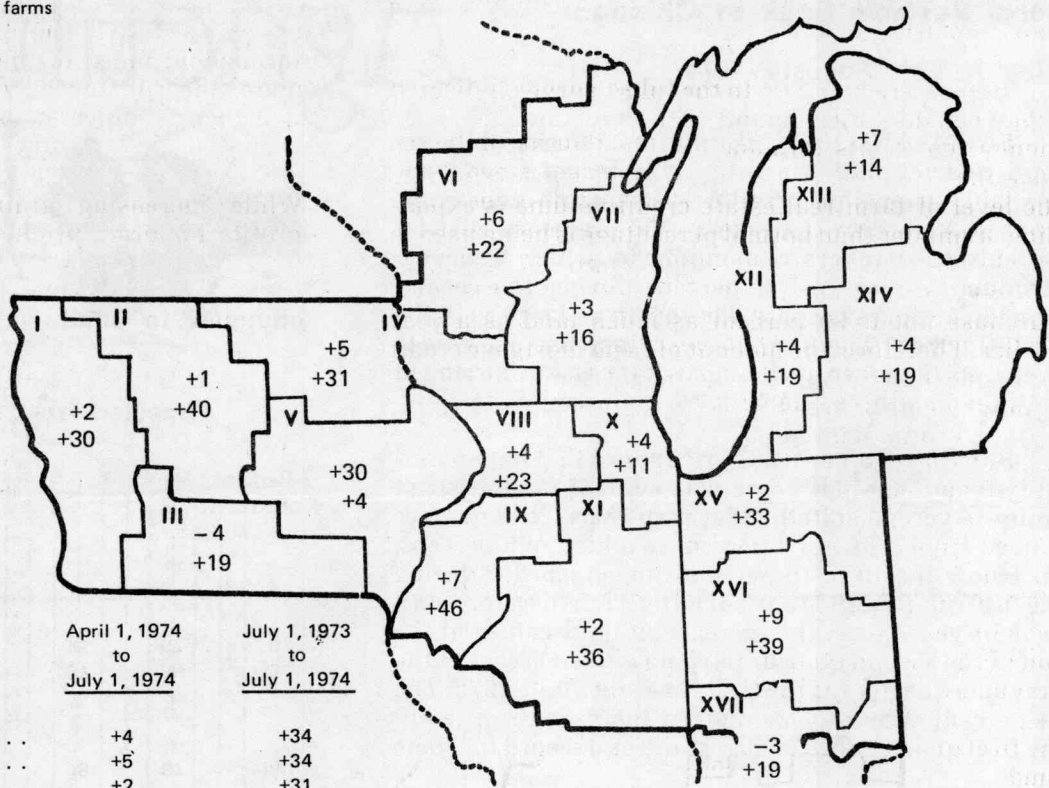
\*Quarterly projections by bankers responding to Land Value and Credit Conditions Surveys.

Bankers anticipate that the upward trend in Seventh District farmland prices will continue to moderate in the third quarter. At the start of the second quarter, 44 percent of responding bankers expected farmland values to increase over the next three months. Only about one-half as many bankers look for farmland prices to increase in the third quarter of 1974. Three-fourths anticipate that district farmland values will either stabilize or decline. No doubt, bankers are considering the lower net farm income projections for 1974 as well as the likelihood that interest rates will continue at relatively high levels throughout much of the remainder of 1974. Furthermore, the substantial equity losses experienced by livestock producers and the limited prospects for profits in the near future leave producers with little incentive, or financial ability, to acquire additional land. While increasing grain prices suggest improved profits for grain producers, weather conditions will likely cause substantial variation to historical crop production patterns. This may result in uneven changes in land values between local areas.

Terry Francl  
Agricultural Economist

Percent change in dollar value of "good" farms

TOP: April 1, 1974 to July 1, 1974  
 BOTTOM: July 1, 1973 to July 1, 1974

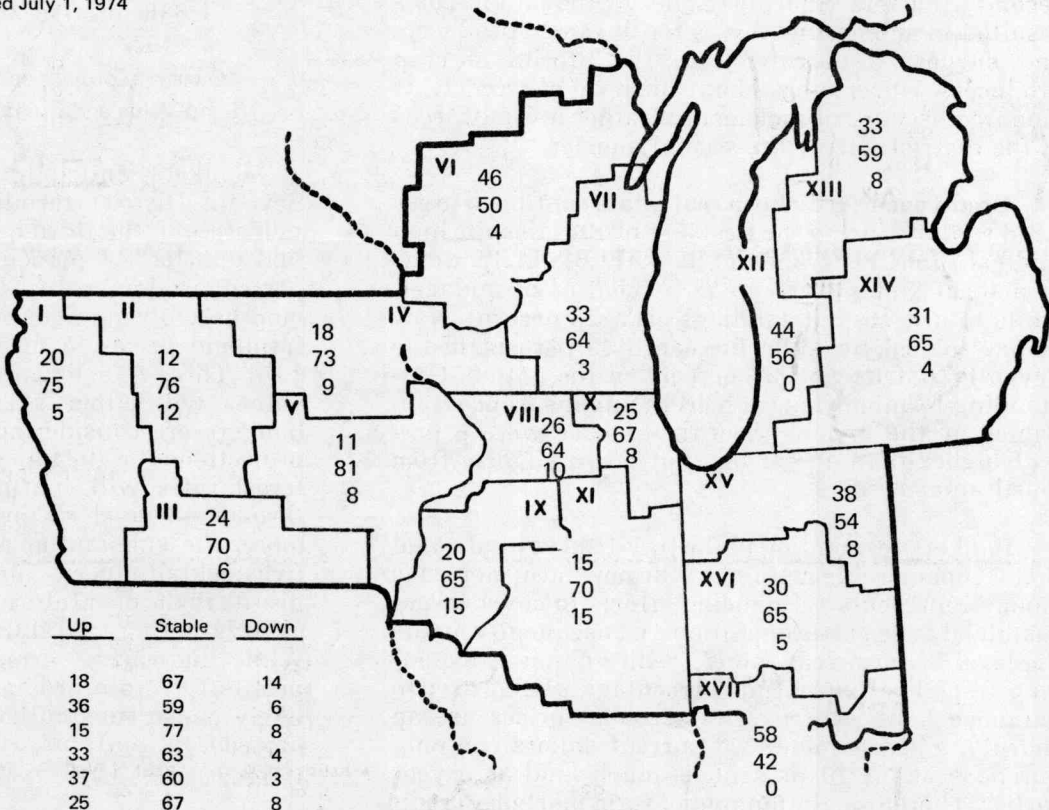


Illinois	+4	+34
Indiana	+5	+34
Iowa	+2	+31
Michigan	+4	+18
Wisconsin	+5	+20
SEVENTH DISTRICT	+3	+29

Current trend in farmland values based on opinions of country banks as reported July 1, 1974

Percent of banks reporting is:

TOP: Up  
 CENTER: Stable  
 BOTTOM: Down



	Up	Stable	Down
Illinois	18	67	14
Indiana	36	59	6
Iowa	15	77	8
Michigan	33	63	4
Wisconsin	37	60	3
SEVENTH DISTRICT	25	67	8

Note: Totals may not add due to rounding.