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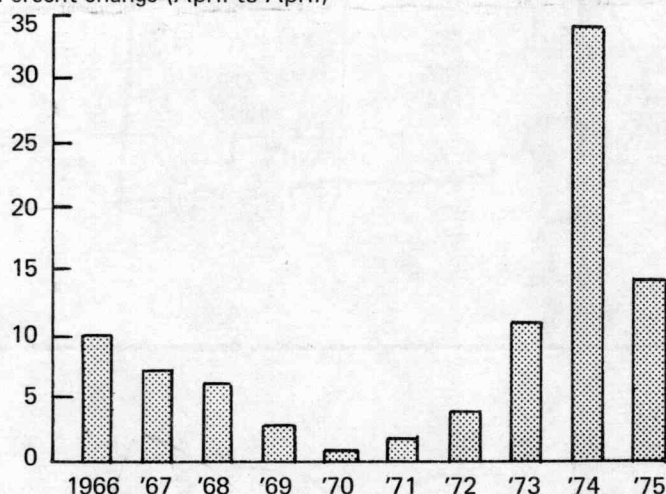
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April 25, 1975

FARMLAND VALUES in the Seventh Federal Reserve District rose slightly in the first quarter, but there are signs that the price boom of 1973 and 1974 has ended. According to a survey of nearly 750 agricultural bankers, the value of good district farmland rose slightly less than 2 percent during the past quarter, the smallest quarterly increase recorded in three years. The marked slowing left land values only 14 percent above the year-ago level on April 1, down 9 percentage points from the annual increase reported at the end of 1974.

Boom in Farmland Values Slackens

Percent change (April to April)



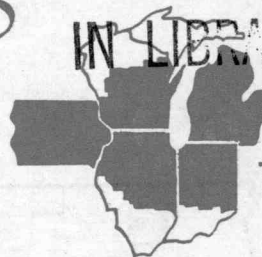
Note: Based on quarterly land value survey, Federal Reserve Bank of Chicago.

Apparently there was some renewed, although limited, interest in Michigan and Wisconsin farmland. Prices there rose sparingly in the first quarter, compared to no change in the previous quarter. (See back of Letter.) Farmland values in Illinois, Indiana, and Iowa showed minimal increases of 1 to 2 percent, as opposed to increases of 3 to 5 percent in the fourth quarter of 1974.

Two successive years of high net farm income was the major factor behind the upsurge in land prices. Another significant factor affecting farmland values in 1974 was the shift of cash flow within the two major sectors of agriculture. Cash receipts for crop sales surpassed those from livestock for the first time in nearly a half century.

But an abrupt reversal in crop prices could have a depressing effect on farmland values. A short harvest brought record harvesttime crop prices in 1974 and prompted farmers to expect continued high prices. Crop prices had been relatively strong until the end of last year but then fell sharply in 1975, and as of mid-March crop prices had fallen about 16 percent under year-earlier levels. One of the most recent pronounced drops was in feed grains—the major crop enterprise among Seventh District farmers—down 20 percent in the first quarter.

Agricultural Letter



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Number 1323

Over the same period crop production costs continued to escalate. The cost of motor supplies was up nearly 20 percent and farm machinery costs were up 25 percent over the year-earlier period. Even larger cost increases were recorded for chemicals, fertilizer, and seed. As a result of sharply higher costs, farm income may slip below \$20 billion in 1975, with much of the drop accruing to crop farmers. This turn of events has led to a substantial easing in land price pressures.

Four-fifths of the bankers responding to the survey suggest that land prices will be stable in the second quarter, up from two-thirds of the respondents that held similar views in the two previous quarterly surveys. Only about 13 percent of the bankers think there may be further increases in farmland values in the next quarter, while 8 percent look for some decline.

Farm mortgage lending activity continues strong. The amount of new money loaned by Federal Land Banks (FLBs) was up 28 percent in the first two months of 1975, and outstandings at FLBs were 23 percent larger than a year ago at the end of February. However, a larger than usual part of these loans may have been for other than land purchases. Short-term debt is sometimes refinanced with farm mortgages, a practice being used more frequently by cattle feeders who have experienced large losses.

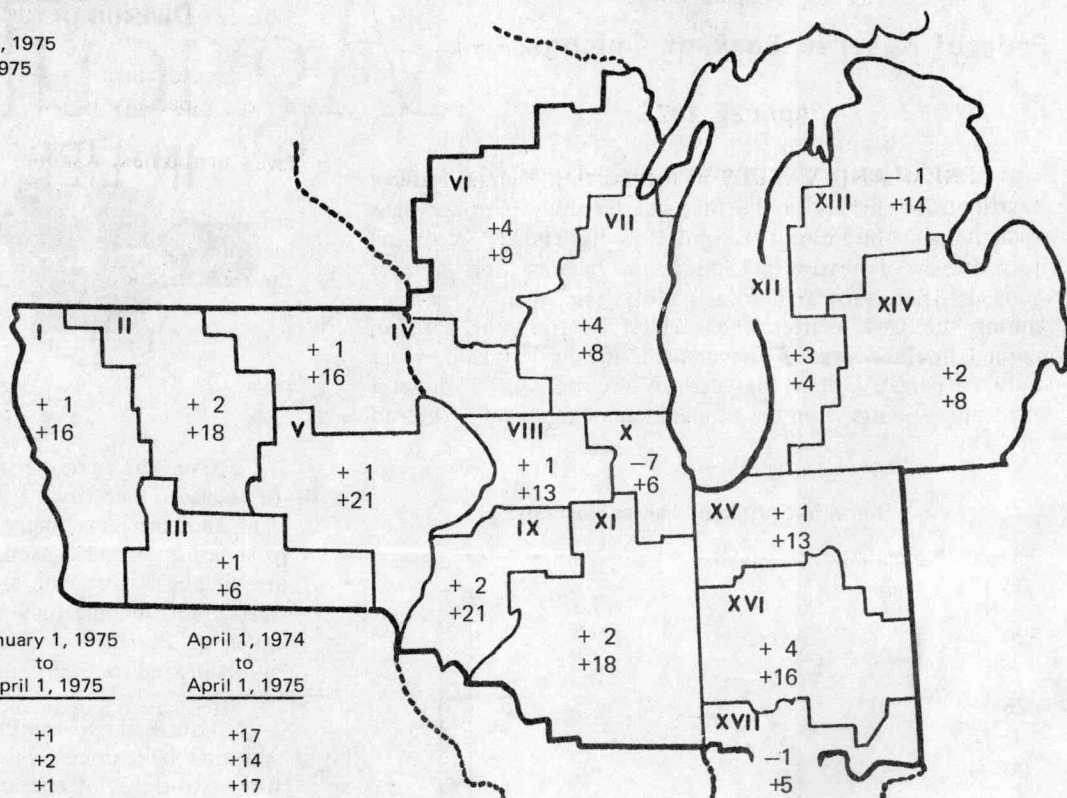
Interest rates on farm mortgage loans are beginning to moderate slightly. The average rate charged by Seventh District rural banks surveyed was down 10 basis points from the previous quarter. However, farm mortgage rates lagged the increase when other money market rates peaked in late 1974. Also, usury ceilings that pertained to lenders in some states have been eased by recent federal legislation. Therefore, further declines in farm mortgage interest rates probably will continue to be rather moderate.

Improvement in the earnings potential of the livestock sector, especially for dairy farmers and those feeding cattle, may serve to hold Seventh District farmland values at current levels in the next few months. However, if the trend towards lower crop prices persists—as expected if planting intentions are fulfilled and relatively normal weather prevails—crop farmers may lose interest in further land acquisitions, perhaps to the point that average farmland values may start to slip below current levels sometime in the latter half of 1975.

Terry Franci
Agricultural Economist

Percent change in dollar value of "good" farmland

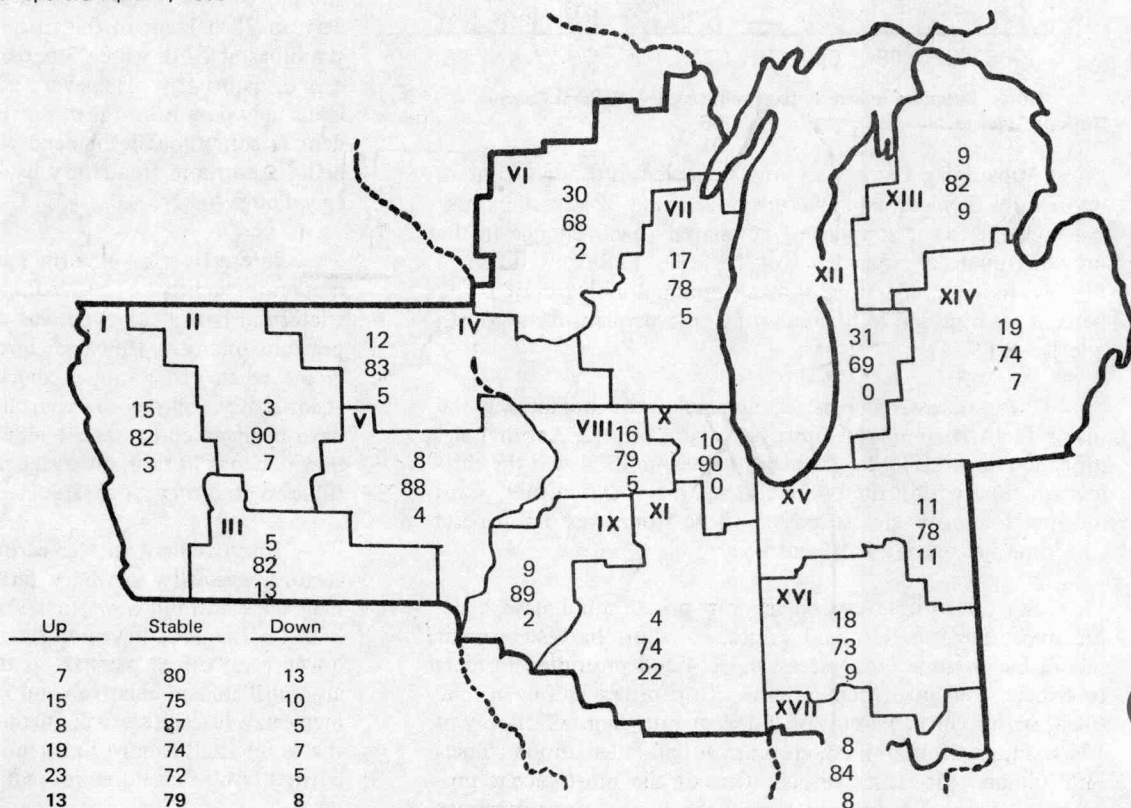
TOP: January 1, 1975 to April 1, 1975
 BOTTOM: April 1, 1974 to April 1, 1975



Current trend in farmland values based on
 opinions of country banks as reported April 1, 1975

Percent of banks reporting is:

TOP: Up
 CENTER: Stable
 BOTTOM: Down



Note: Totals may not add due to rounding.