Federal Reserve Bank of Chicago - -

Agricultural Letter

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Number 1337

prices

FARMLAND VALUES in the Seventh District registered a surprisingly large gain during the second quarter. Results from a July 1 survey of around 750 district agricultural bankers indicated farmland prices values rose nearly 4 percent during the April-June period, exceeding the rate of expansion posted during each of the preceding two quarters. Compared to a year ago, farmland values were up 15 percent at midyear. The latest quarterly increase was larger than anticipated since most prevailing conditions seemed to support expectations of a significant easing in the pressures on land prices.

Bankers from all but one of the 17 areas of the district reported increases in land values during the second quarter (see back of Letter). Bankers in Iowa indicated farmland values rose nearly 5 percent during the second quarter, while bankers in Indiana and Wisconsin reported gains of 4 percent. In Illinois and Michigan farmland values rose 3 percent during the second quarter.

Most conditions during the second quarter supported prospects for a continuation of slow growth in farmland values. Crop plantings were completed early, and all indications pointed toward a rebuilding of carryover stocks and moderating prices. The livestock sector retrenched further causing recovery prospects for domestic feed demand to dim. Congress failed to override the Presidential veto of the bill calling for sizable increases in target prices and support rates. Crop production expenditures continued to rise, while most observers agreed with the projected declines in both gross and net farm income.

Nevertheless, there were several isolated factors that apparently contributed to the significant second-quarter rise in land values. Livestock prices surged throughout the April-June period as commercial red meat production fell sharply below the year-earlier level. By late June, prices of both cattle and hogs were well above $50 per hundredweight compared to less than $40 in late March. The increase was particularly significant for cattle feeders since it propelled them out of a prolonged period of financial losses and may have triggered the release of a pent-up demand for farm enlargement.

Federal Land Banks indirectly supported the rise in farmland values with continued large increases in the volume of new money loaned in district states. Evidence for April and May indicates new money loaned in district states by FLBs exceeded the year-earlier level by 21 percent and the level of two years ago by 79 percent. In comparison, new money loaned by FLBs throughout the nation rose only 7 percent above a year earlier during April and May. The much larger increase in district states supports other indications that the district farmland market is stronger than in other parts of the country.

There are several other factors that may have contributed to the large second-quarter rise in land values. For example, the boom in farm tractor and machinery purchases during the past two years has no doubt left many farmers with excess machinery capacity—perhaps best reflected in the extreme timelessness of this year's plantings—as well as large debts to repay. Farmers in such situations may have sought to expand acreage in order to complement the additional machinery capacity and to generate increased revenues.

The outlook for farmland values has been clouded by the unexpectedly large second-quarter spurt as well as breaking developments associated with Russian grain purchases. While there is considerable uncertainty about the domestic impact of large grain sales to the Soviet Union (or even the eventual magnitude of the sales), there is little doubt that crop prices will be higher than would have been the case in the absence of such sales. And in conjunction with the recent strength in livestock prices, farm income prospects have improved from previous estimates. Thus, in deference to earlier expectations of a generally flat land market, one might assume land values will continue to show moderate gains during the second half.

On the other hand, 81 percent of the bankers responding to the midyear survey foresee stable land prices during the third quarter. Only 6 percent of the bankers anticipate declines, while only 13 percent expect further gains in land values during the current quarter. These proportions are virtually identical with those obtained in each of the two previous quarterly surveys.

Gary L. Benjamin
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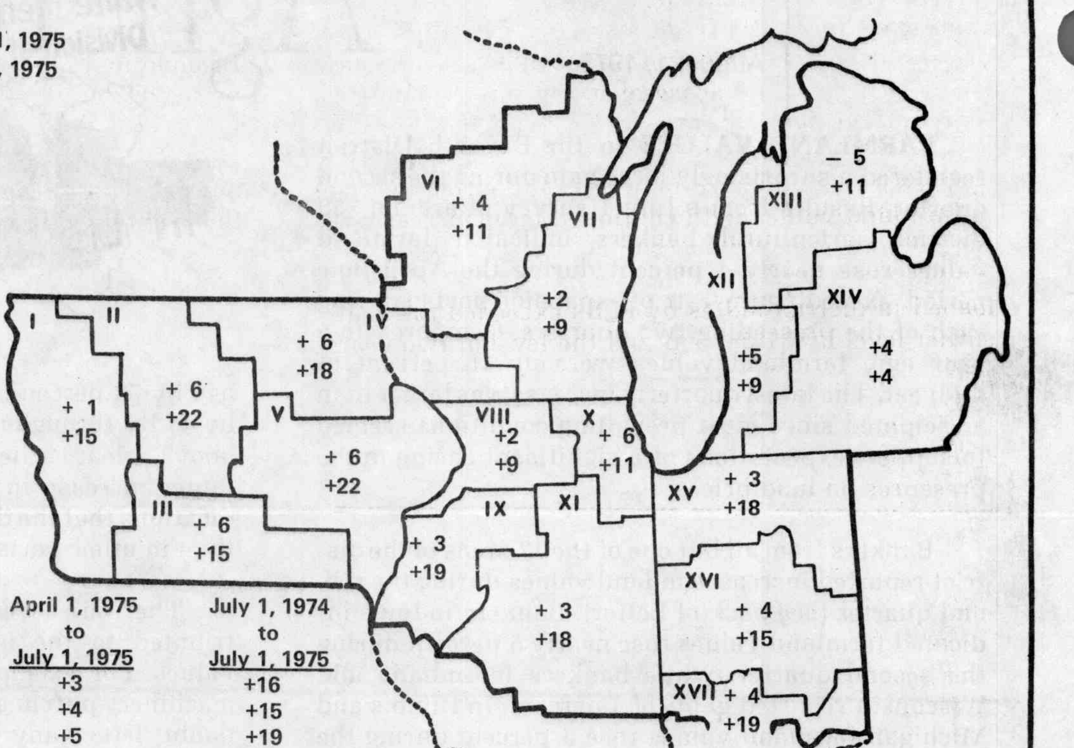
Percent change in dollar value of "good" farmland

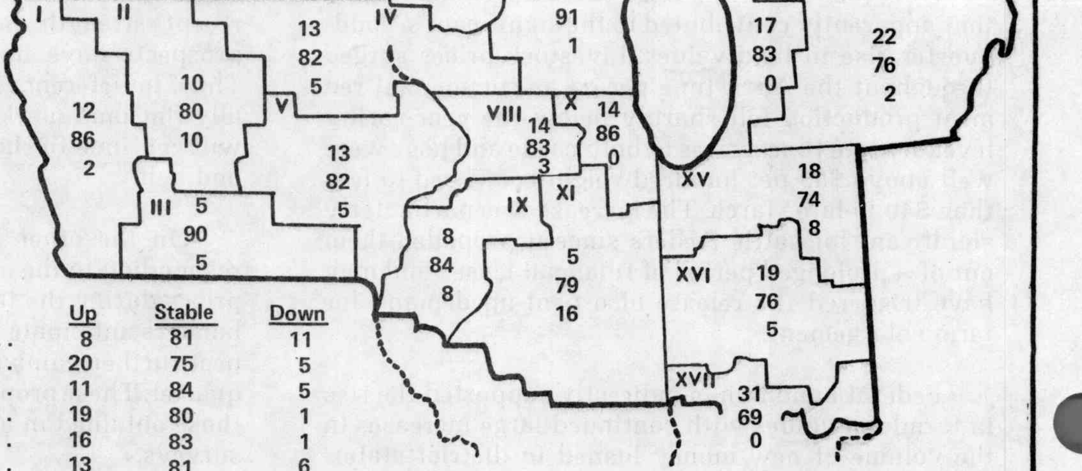
TOP: April 1, 1975 to July 1, 1975
BOTTOM: July 1, 1974 to July 1, 1975



	April 1, 1975 to July 1, 1975	July 1, 1974 to July 1, 1975
Illinois	+3	+16
Indiana	+4	+15
Iowa	+5	+19
Michigan	+3	+ 6
Wisconsin	+4	+10
Seventh District	+4	+15

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

Percent of banks' reporting trend is:
TOP: Up
CENTER: Stable
BOTTOM: Down



	Up	Stable	Down
Illinois	8	81	11
Indiana	20	75	5
Iowa	11	84	5
Michigan	19	80	1
Wisconsin	16	83	1
Seventh District	13	81	6