Federal Reserve Bank of Chicago . . .

# Agricultural Letter

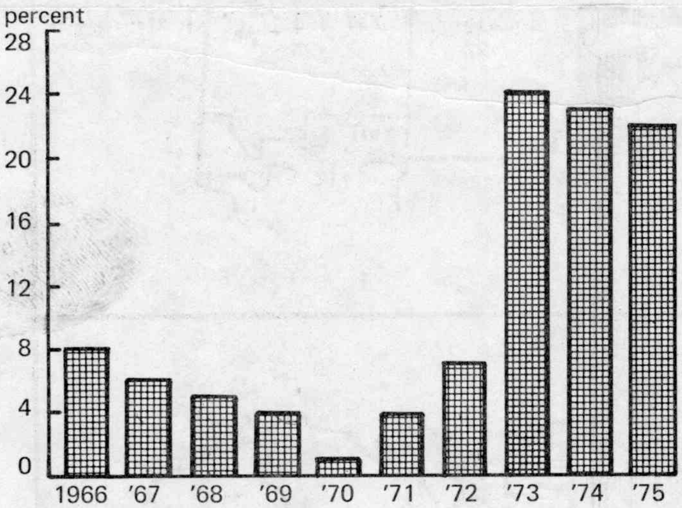
January 23, 1976

Number 1362



**FARMLAND VALUES** registered another large gain in the fourth quarter of 1975. Reports from over 700 agricultural bankers indicate the value of good farmland in the Seventh Federal Reserve District rose nearly 7 percent during the last three months of the year. At the end of 1975 land values were 22 percent above the year-ago level. The most recent quarterly rise was substantially above the gains posted during the first two quarters of the year, but somewhat below the third-quarter increase. Moreover, the annual increase for all of 1975 virtually equaled the unusually large advances posted during the preceding two years.

**District farmland values score another large gain in 1975**




Areas of the district predominately engaged in grain and livestock feeding activities registered the largest increases in farmland values in 1975. Reflecting this, increases in farmland values in Illinois, Indiana, and Iowa ranged from 23 to 27 percent. (See back of Letter.) In contrast, the 1975 appreciation in land values in Michigan and Wisconsin was 12 and 13 percent, respectively. This marks the third consecutive year in which annual gains in farmland values in Illinois, Indiana, and Iowa have decidedly outpaced the increases reported for Michigan and Wisconsin. Moreover, it marks a significant departure from the trend that prevailed during the late sixties and the early seventies when the annual increases in land values in Michigan and Wisconsin exceeded those of the other district states.

While a number of factors no doubt have contributed to the altered trends, the relative importance of the dairy industry in Michigan and Wisconsin is likely a major factor. The dairy industry has experienced a particularly tight squeeze on operating margins in recent years and dairy farmers probably have been less aggressive bidders in purchasing more land. In addition, the continuing decline in the number of dairy farms may have resulted in a relatively larger supply of farmland available for sale in Michigan and Wisconsin.

Another factor may represent the declining interests of nonfarmer investors in farmland. The comparatively larger gains in land values in Michigan and Wisconsin during the latter half of the sixties and the early seventies often were attributed to nonfarmers purchasing farmland for recreational purposes. Most reports now indicate that the nonfarmer interest has subsided in recent years, while farmers seeking to enlarge their operations have become the dominate element in the demand for farmland.

**The outlook** for farmland values is clouded by a number of issues. Many observers anticipate further sizable increases in the current year—albeit at somewhat slower rates. While such projections appear fairly reasonable at the present time, there are several emerging concerns. A prominent one is the present level of crop prices. Corn prices at the end of 1975 were at a two-year low and soybean prices were hovering at a three-year low. While some marginal seasonal gains may occur in the months ahead, the possibility of two consecutive years of record or near-record crop production leaves plenty of room for a potential downtrend in crop prices. And if crop prices fall significantly below current levels, the possibility of piggybacking another large increase in land values onto the increases experienced in the past three years would seem relatively small.

Another concern lies in the debt-servicing capacity of high-priced land, an issue that has been prevalent throughout the post-World War II period of sustained gains in land values. The interest charge on an acre of farmland mortgaged today is probably more than double what it was three years ago—reflecting both higher land values and increased interest rates. Although corn prices are well above the level of three years ago, per acre yields during the past three years have averaged below those of the 1970-72 period. Consequently, it now takes a considerably larger proportion of the output from an acre of corn to meet annual interest charges.

Another issue of concern is the impact of high land prices on the availability of mortgage financing and mortgage financing practices. Lenders as well as producers now face vastly increased risks should farm prices tumble further from the highs experienced during the past two years. A restructuring of mortgage terms could lessen lender risks. However, an increase in mortgage maturities would tend to reduce lender incentives to provide mortgages while higher equity requirements would reduce the ability of borrowers to obtain mortgages.

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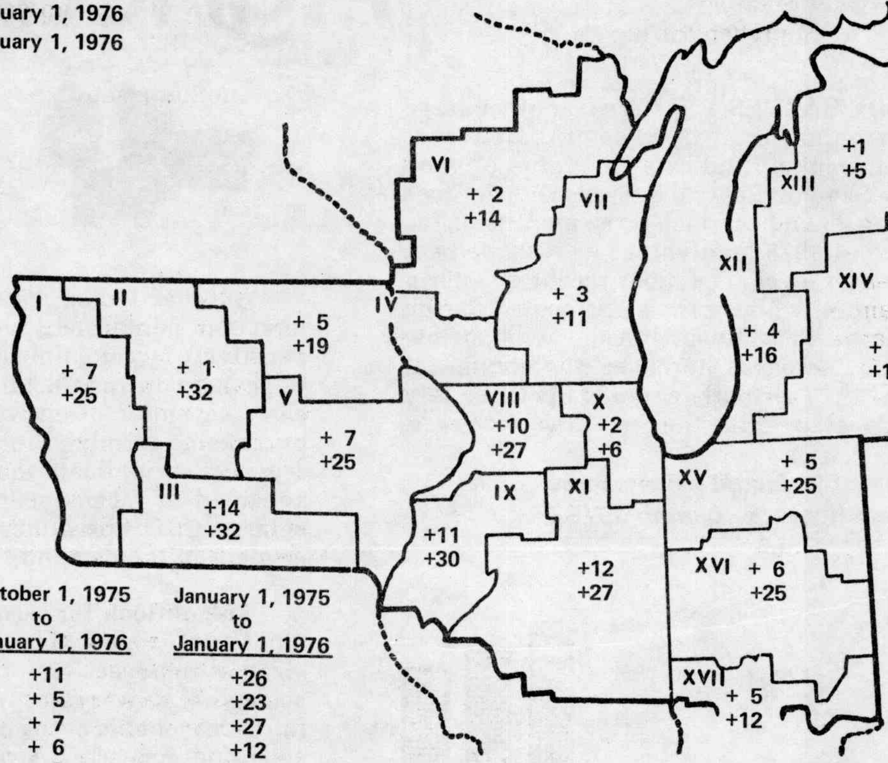
Percent change in dollar value of "good" farmland

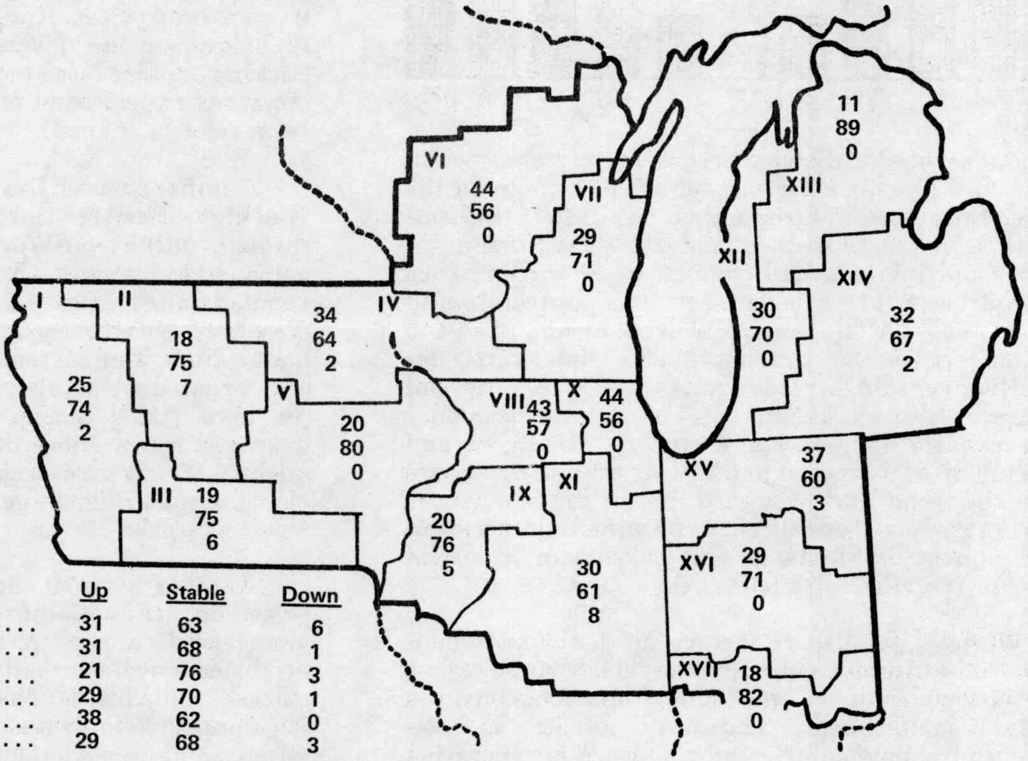
TOP: October 1, 1975 to January 1, 1976
BOTTOM: January 1, 1975 to January 1, 1976




| | October 1, 1975 to January 1, 1976 | January 1, 1975 to January 1, 1976 |
|---|---|---|
| Illinois | +11 | +26 |
| Indiana | + 5 | +23 |
| Iowa | + 7 | +27 |
| Michigan | + 6 | +12 |
| Wisconsin | + 2 | +13 |
| Seventh District | + 7 | +22 |

Current trend in farmland values based on opinions of country banks as reported January 1, 1976

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




| | Up | Stable | Down |
|---|---|---|---|
| Illinois | 31 | 63 | 6 |
| Indiana | 31 | 68 | 1 |
| Iowa | 21 | 76 | 3 |
| Michigan | 29 | 70 | 1 |
| Wisconsin | 38 | 62 | 0 |
| Seventh District | 29 | 68 | 3 |

NOTE: Totals may not add due to rounding.