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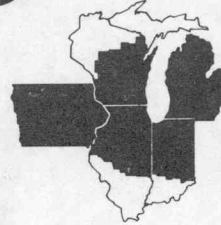
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Agricultural Letter



April 22, 1977

Number 1427

FARMLAND VALUES in the Seventh Federal Reserve District continued on a surprisingly sharp up-trend during the first quarter of 1977. Responses from around 600 banks indicate the value of good farmland as of April 1 was up 7.6 percent from the ending 1976 level and nearly 30 percent above the year-earlier level. The most recent quarterly rise is up substantially from the 5.5 percent gain recorded in the fourth quarter of 1976, and is one of the larger quarterly increases since the current boom began in early 1973.

Illinois continues to pace the upswing in District farmland values. Bankers reported that farmland values in the Seventh District portion of Illinois rose 10 percent during the first quarter of this year and 41 percent during the past 12 months. The first-quarter rise in the Seventh District portions of Wisconsin and Indiana approximated 9 and 8 percent, respectively. Iowa bankers indicated a first-quarter increase of 7 percent, while those in Michigan reported a first-quarter increase of about 4 percent.

The sustained strength in farmland prices is baffling. It had generally been presumed that the concerns about extremely dry conditions which prevailed throughout most of the first quarter would perhaps have offset the apparent slowing in the rate of appreciation exhibited during the fourth quarter of 1976. However, earnings of most District farmers—with the exception of soybean producers—probably showed no significant improvement during the first quarter. Receipts of cattle feeders were down in the first quarter, reflecting both lower marketings and lower prices. Below year-earlier prices no doubt more than offset the larger volume of hog marketings in District states. Wheat and corn prices were considerably below year-earlier levels. Milk prices were also down from a year earlier, although increased production may have held receipts of dairy farmers in District states slightly above the year-ago level.

The continuing strength in farmland values is also baffling because of the implications on farmers' cash flows, particularly in Illinois. Although land prices vary widely, \$2,500 per acre would appear to be representative of recent transaction prices in the Seventh District portion of Illinois. Assuming 75 percent financing, the debt per acre from purchasing such land would amount to \$1,875. If the debt is financed through a conventional 30-year mortgage at 8½ percent interest, the annual principle and interest (P&I) payment would amount to \$175 per acre. If one assumes the land is capable of producing 150 bushels of corn per acre—which is about 50 percent above the state average—and corn prices of \$2.50 per bushel, annual gross receipts would amount to \$375 per acre.

These calculations indicate that 47 percent of the gross receipts from raising corn would be required to meet the annual principle and interest payment on recent land purchases in Illinois. In contrast, the annual

Index of farmland market trends*

	Ill.	Ind.	Iowa	Mich.	Wis.
Number of farmland units sold	118	115	110	111	136
Acreage of all units sold	113	124	111	122	138
Average acres per unit sold	105	120	116	111	124
Proportion of acreage financed by institutions	126	125	116	102	107
Loan-to-value ratios	125	136	136	109	131
Maturities of new financing	134	123	116	119	127
Proportion of acreage purchased by farmers	137	119	125	96	89
Proportion of acreage that will continue to be operated as farmland	108	108	110	89	77

*Bankers responded to each item by indicating whether trends during the past six months were higher, lower, or the same as in the corresponding period a year earlier. The index numbers are computed by subtracting the percent of bankers that indicated "lower" from the percent that responded "higher" and adding 100.

P&I payment on land purchased in early 1972—when land in Illinois was probably around \$750 per acre, interest rates were 7½ percent, and corn prices were \$1.15 per bushel—amounted to only about 28 percent of the annual receipts. At current land prices cash receipts would have to rise to \$625 per acre in order for the annual P&I payment to again equal 28 percent of receipts. Such a level would require per acre corn yields of 250 bushels (assuming corn is \$2.50 per bushel) or corn prices of over \$4.15 per bushel (assuming a yield of 150 bushels).

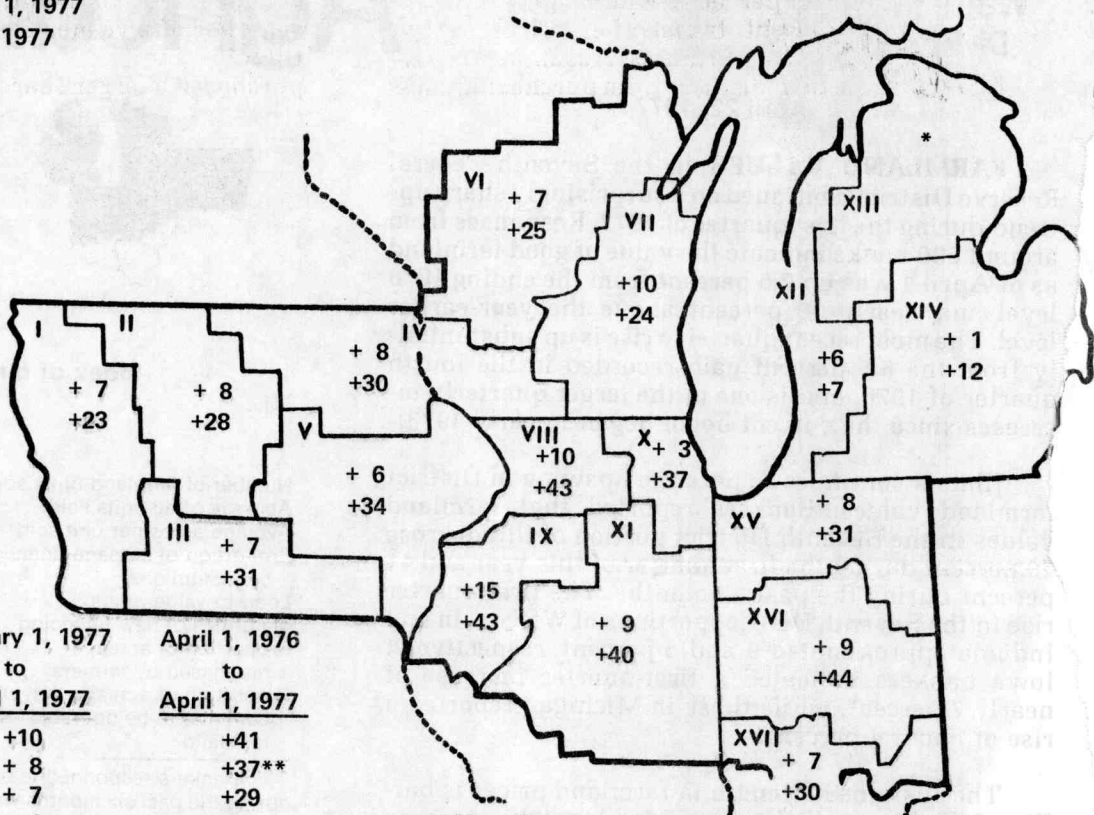
Farmers are increasingly the predominate purchasers of farmland in Illinois, Indiana, and Iowa, although the opposite trend is apparently the case in Wisconsin and perhaps in Michigan. In comparing the characteristics of the farm real estate acreage sold over the past six months with the trends during the same period a year earlier, the proportion of bankers in Illinois, Indiana, and Iowa that noted farmers purchased a larger share of the acreage exceeded those reporting declines by a substantial margin (see Table). The reverse was the case among Wisconsin bankers. Similar indications can be drawn from bankers' reactions to the future use of farm acreage transferred during the past six months. On balance, bankers in Illinois, Indiana, and Iowa indicated that a larger share of recent transfers will continue to be utilized as farmland, whereas the response from Michigan and Wisconsin suggested a slight loss in land that will remain in farm production.

Gary L. Benjamin
 Agricultural Economist

Percent change in dollar value of "good" farmland

Top: January 1, 1977 to April 1, 1977

Bottom: April 1, 1976 to April 1, 1977



January 1, 1977 to April 1, 1977
 April 1, 1976 to April 1, 1977

- Illinois
- Indiana
- Iowa
- Michigan
- Wisconsin
- Seventh District

Illinois	+10	+41
Indiana	+ 8	+37**
Iowa	+ 7	+29
Michigan	+ 4	+10
Wisconsin	+ 9	+25
Seventh District	+ 8	+30

*Insufficient response.

**Agricultural Letter No. 1413 incorrectly reported the increase for the year-ending January 1, 1977. The correct figure is 34 percent.

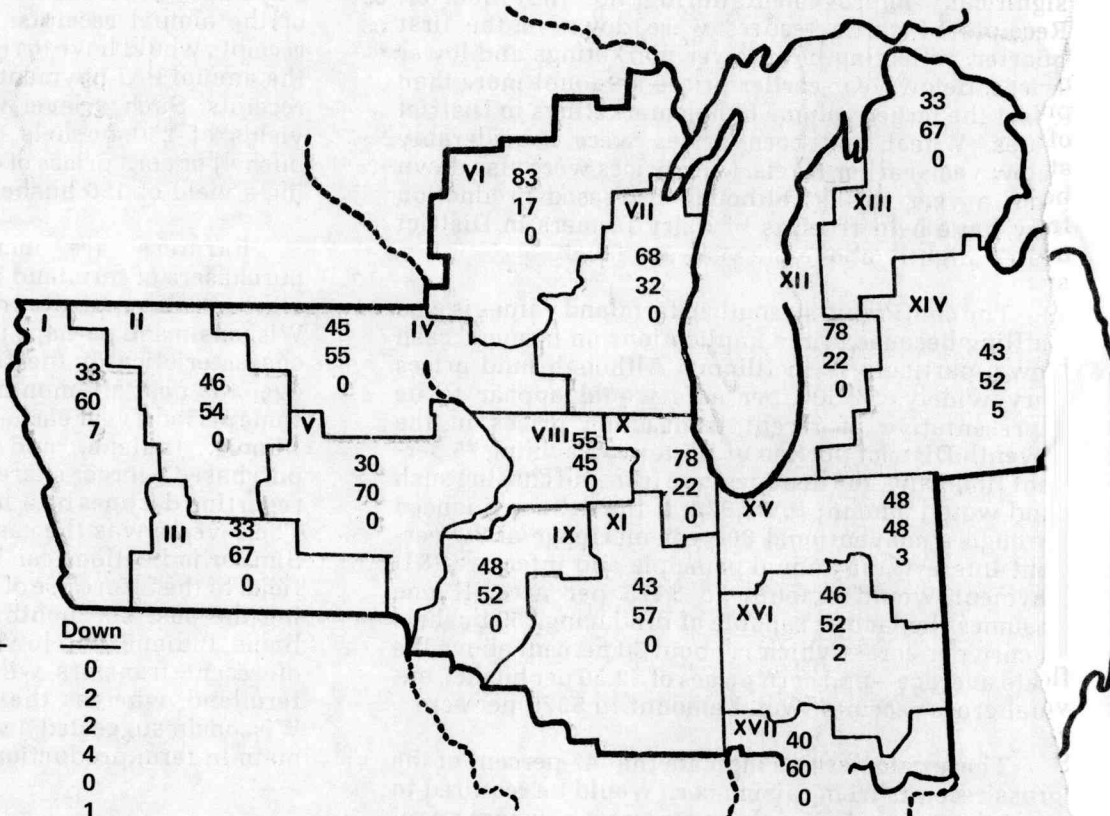
Current Trend in Farmland Values

Percent of banks reporting the trend is

Top: Up

Center: Stable

Bottom: Down



- Illinois
- Indiana
- Iowa
- Michigan
- Wisconsin
- Seventh District .

	Up	Stable	Down
Illinois	48	52	0
Indiana	46	52	2
Iowa	35	63	2
Michigan	47	49	4
Wisconsin	71	29	0
Seventh District	48	51	1

Note: Figures may not add to 100 due to rounding.