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Agricultural Letter

October 28, 1977



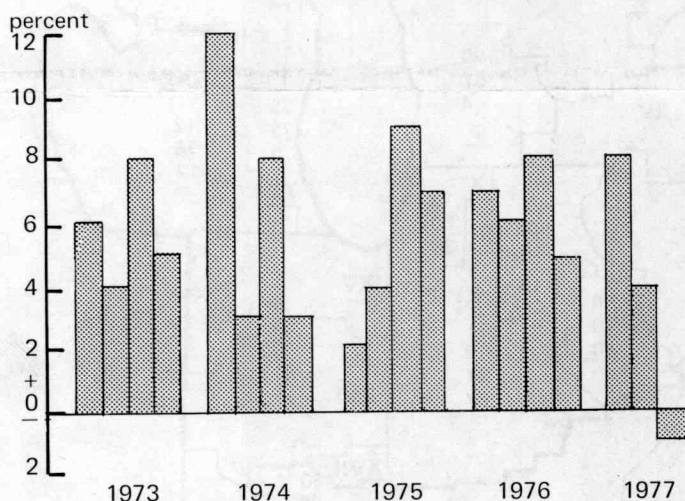
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 Number 1454

FARMLAND VALUES in the Seventh Federal Reserve District declined 1.2 percent during the third quarter of 1977, according to survey responses of approximately 600 District agricultural bankers. This marks the first such decline since the fourth quarter of 1960 and ends the boom of recent years. Moreover, an unusually large proportion of the bankers expect the downtrend to continue during the current quarter. If these expectations should become reality, the 1977 net gain could well be the lowest in five years.

Third-quarter changes in farmland values varied widely among District states, ranging from an increase of 4 percent in Wisconsin to a decrease of 8 percent in Illinois. Indiana farmland values also declined slightly, while Iowa and Michigan bankers reported essentially no change during the period. (See back of Letter.) Despite the weakness in land values during the July-September period, year-to-year increases still exist among all District states—ranging from a low of 13 percent in Illinois to a high of 24 percent in Wisconsin.

The end of the boom closes a five-year period during which the rise in farmland values had been unprecedented during this century. A compounding of the annual growth rates over the past five years indicates that District farmland values, on average, are currently 2.6 times the level in October 1972. The multiple varies from a low of 2.0 in Michigan to a high of 2.9 in Illinois. For the most part the large increases had been sustained by high farm earnings and commodity prices.

Third-quarter decline ends five-year boom in farmland values



The softening in farmland values had been widely anticipated for several months, reflecting the steady decline in net farm income since 1973. The purchasing power of last year's net farm earnings was among the lowest since the Depression years. Moreover, the likelihood of the downtrend in farm earnings con-

tinuing this year among District states has been reinforced by the sharp declines in corn and soybean prices experienced since last spring. The lower earnings prospects for District farmers have no doubt triggered a reduction in the cash rents that tenant farmers are willing to pay and have simultaneously curbed the aggressive bidding for farmland experienced recently among farmers and other land purchasers. The one notable exception to this general trend would appear to be the relatively high earnings anticipated by dairy farmers due to high milk prices and low feed costs. This factor no doubt contributed to the sharp third-quarter rise in Wisconsin farmland values.

Despite the overall decline in farmland values during the third quarter, the demand for mortgage financing continued at a strong pace. Federal Land Banks (FLBs) operating in District states experienced an increase in loan outstandings of 23 percent during the 12 months ended August 31, 1977. Current income prospects in the farm sector and the apparent decline in the value of farmland transfers suggest the likelihood that some of the growth in FLB loan outstandings may stem from efforts to refinance existing equity positions in farm real estate, thereby reducing this year's debt servicing requirement.

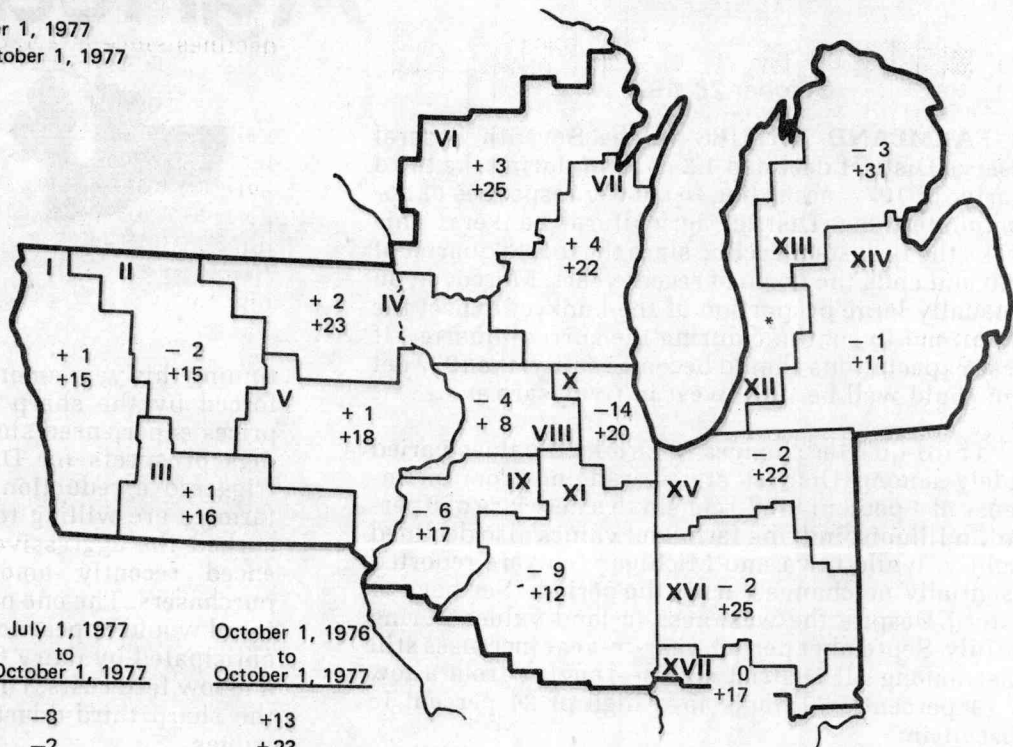
Future trends in farmland values will likely continue to reflect farm income prospects to a large extent. Agricultural bankers responding to the quarterly survey were asked to indicate their expectations of the trend in land values during the current quarter. Less than one-tenth of the bankers anticipate an increase, while 56 percent believe the trend will remain stable, and one-third expect the trend to be downward during the fourth quarter. This represents the largest proportion of District agricultural bankers anticipating declines since late 1960.

Anticipated fourth-quarter trends in farmland values varied widely among District states. The largest degree of pessimism seemed to exist among agricultural bankers in District portions of Illinois: 61 percent anticipate further declines in farmland prices during the fourth quarter, while only 2 percent anticipate a rise. On the other hand the greatest degree of optimism existed in Wisconsin: 32 percent of the bankers anticipate an uptrend and only 5 percent foresee a decline.

Don A. Langford
 Agricultural Economist

Percent change in dollar value of "good" farmland

Top: July 1, 1977 to October 1, 1977
 Bottom: October 1, 1976 to October 1, 1977

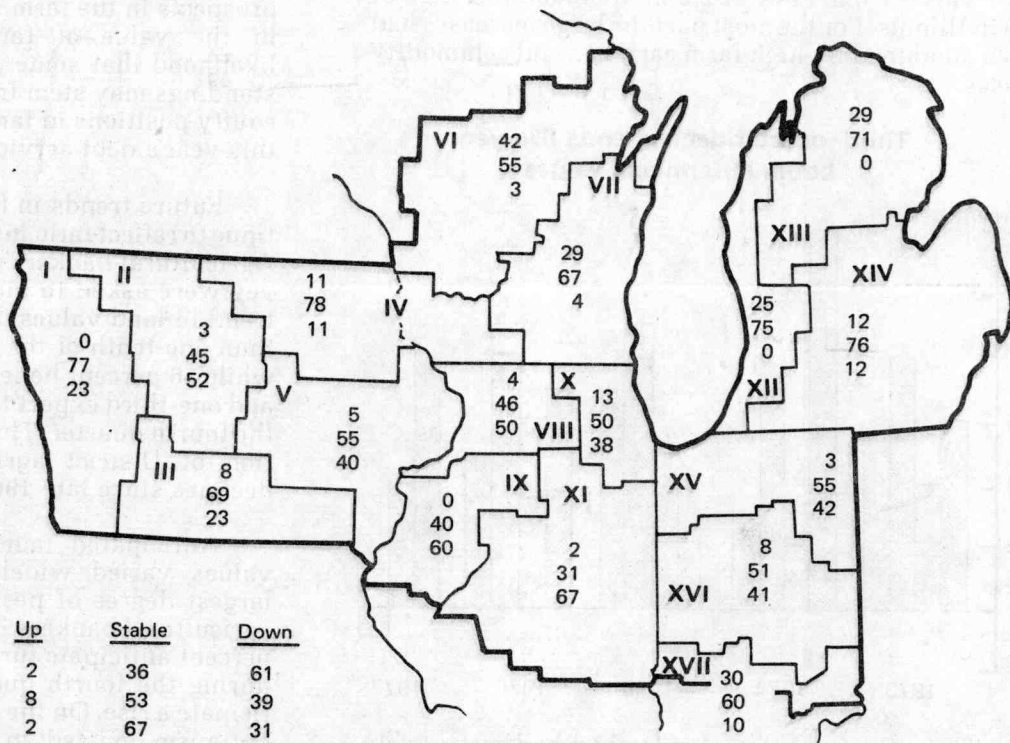


| | July 1, 1977 to October 1, 1977 | October 1, 1976 to October 1, 1977 |
|------------------------|---------------------------------|------------------------------------|
| Illinois | -8 | +13 |
| Indiana | -2 | +23 |
| Iowa | 0 | +17 |
| Michigan | 0 | +15 |
| Wisconsin | +4 | +24 |
| Seventh District | -1 | +18 |

*Insufficient response.

Percent of banks reporting the current trend in farmland values is:

Top: Up
 Center: Stable
 Bottom: Down



| | Up | Stable | Down |
|------------------------|----|--------|------|
| Illinois | 2 | 36 | 61 |
| Indiana | 8 | 53 | 39 |
| Iowa | 2 | 67 | 31 |
| Michigan | 16 | 75 | 9 |
| Wisconsin | 32 | 63 | 5 |
| Seventh District | 10 | 56 | 34 |