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Federal Reserve Bank of Chicago -

October 24, 1958

FARM LAND VALUES have turned upward after a sideways movement for almost a year. Reports from over 400 country bankers in the Seventh District show values increased moderately from July to October in all states of the District, though not in all areas within each state (see back of Letter).

The amount of change is still small. For the District the increase is 2 per cent. Iowa with a 3 per cent gain is leading the parade, and Western Iowa is out in front. Only small changes were posted in Illinois and Wisconsin.

The current trend of land values as reported by country bankers is unequivocally on the up side. In all districts of Iowa more than half the bankers stated that land values are trending higher. In July, less than a quarter of the bankers in Iowa indicated an upward movement in land values. In northern Illinois, nearly half the bankers reported a similar view. In the other areas the preponderance of opinion was for stable land values, although a sizable proportion of bankers indicated the trend was upward.

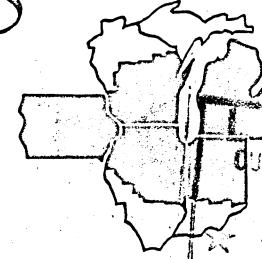
A number of factors are responsible for the resurgence of land values. The foreign situation, first in the Middle East and then in the Far East, caused temporary flurries of excitement about possible war and in turn possible increases in demand for important agricultural commodities. While prices of agricultural commodities were affected only briefly and have since continued downward under heavy pressure from the record-breaking crops this year, the possibility of new trouble spots breaking out has brought some prospective purchasers of farmland into an already "thin" market.

Another factor is the apparently vigorous turnaround in the economic picture during the summer. As new evidence accumulated that the bottom had been reached and passed last summer, the new optimism brought in turn a readiness of purchasers to bid aggressively for farmland.

Coupled with the upturn in the economy has been a renewed obsession with inflation and the desire on the part of many individuals to find investments as a hedge against inflation. One result of this is the renewed boom in the stock market, with new records being set in stock prices. As the rate of return on stocks falls, the attractiveness of farmland to some investors increases.

The surge in farm income probably has played the major role in the current acceleration of the rise in land values. High livestock prices and bumper crops have boosted total net farm income in the first three quarters of 1958 13 per cent above last year and to the highest level since 1953. This has provided both the necessary

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*U. S. DEPT. OF AGRICULTURE*  
cash for farmers to purchase farm land and the incentive for them to bid for land to expand their operations.

Farm enlargement has become increasingly important as a reason for farm land purchases. According to the U. S. Department of Agriculture, nearly half the purchases of farm land in the Corn Belt in 1958 were for this purpose. In 1954 the proportion was under one-third. In the United States, as a whole, the figure increased to 40 per cent from 29 per cent.

The USDA also reports that of the farms which were operated as single units before sale, nearly one-fourth were operated as a part of another farm after sale. Of those farms operated before sale as a part of another farm, three-fourths were operated as part of another farm after sale. The net result is a reduction of one in the number of separately operated farms for every eight farms transferred.

FARMERS' EXPENDITURES have also been affected by the increase in income. Country bankers in Iowa report that farm machinery dealers' sales and farm building supply dealers' sales in September increased substantially over last year. Part of the explanation is that the biggest jump in cash receipts has come in that state—up 14 per cent over last year. Other states showed increases in cash receipts of 4 per cent or less, and sales of farm supplies in turn have reflected the smaller change in income.

	Per cent changes in:		
	Farm machinery sales*	Building materials sales*	Cash receipts**
Illinois . . . . .	+ 3	+ 2	+ 4
Indiana . . . . .	+ 2	+ 2	+ 4
Iowa . . . . .	+12	+ 7	+14
Michigan . . . . .	- 1	+ 1	0
Wisconsin . . . . .	0	- 1	+ 4
Seventh District . . .	+ 4	+ 3	+ 7

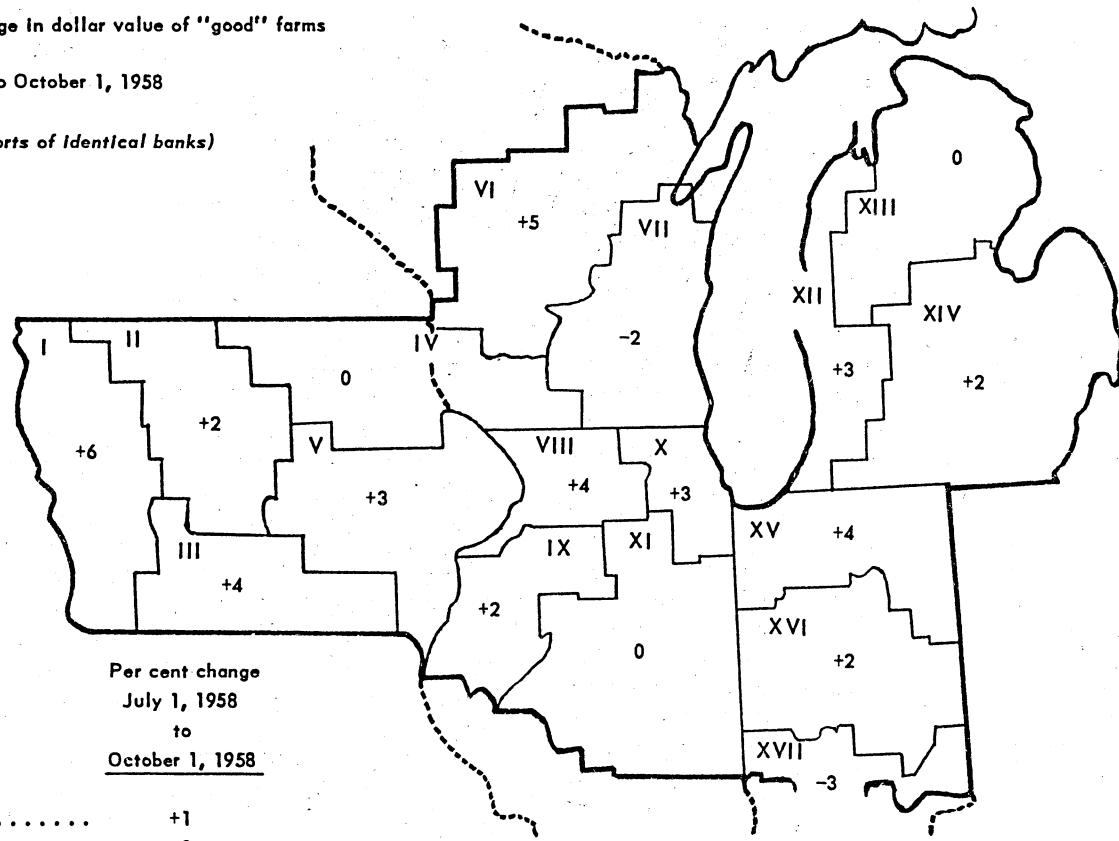
\* September compared with a year ago.

\*\*First eight months compared with a year ago.

Per cent change in dollar value of "good" farms

July 1, 1958 to October 1, 1958

(based on reports of identical banks)



Per cent change

July 1, 1958

to

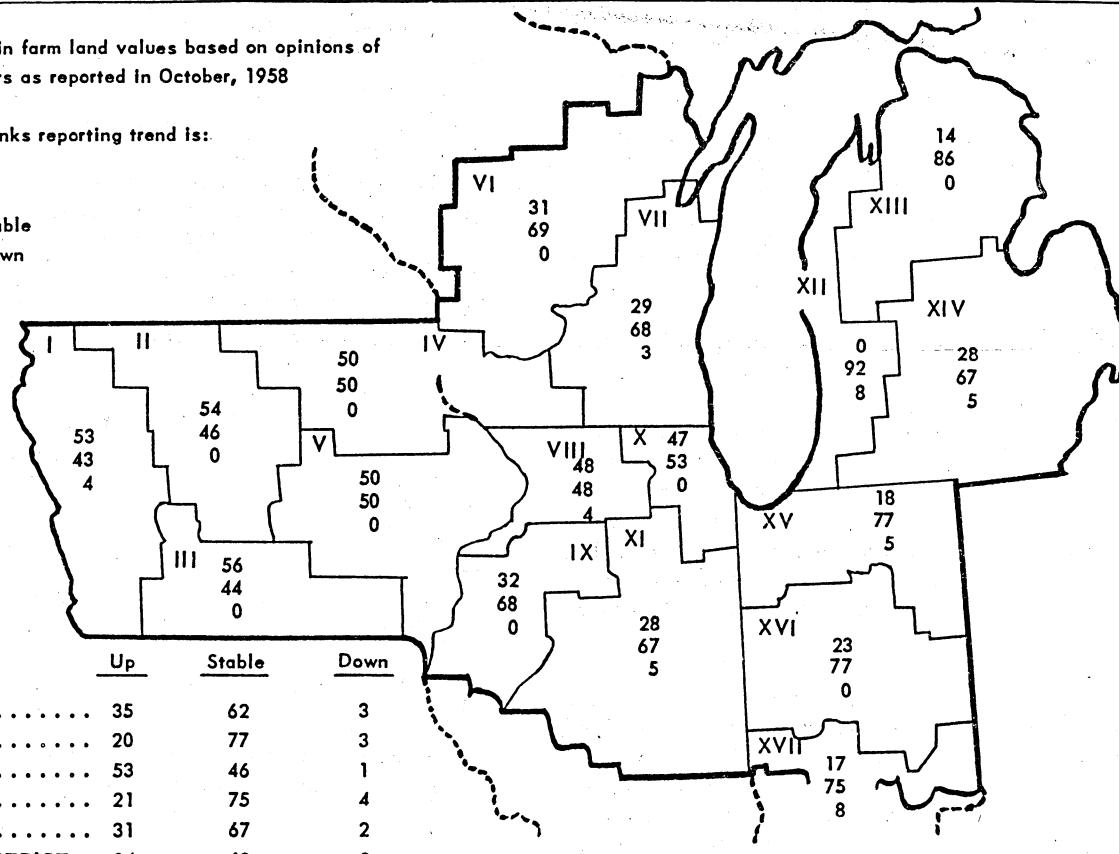
October 1, 1958

Illinois .....	+1
Indiana .....	+2
Iowa .....	+3
Michigan .....	+2
Wisconsin .....	+1
<b>SEVENTH DISTRICT.:</b>	<b>+2</b>

Current trend in farm land values based on opinions of country bankers as reported in October, 1958

Per cent of banks reporting trend is:

TOP: Up  
CENTER: Stable  
BOTTOM: Down



	Up	Stable	Down
Illinois .....	35	62	3
Indiana .....	20	77	3
Iowa .....	53	46	1
Michigan.....	21	75	4
Wisconsin .....	31	67	2
<b>SEVENTH DISTRICT.:</b>	<b>34</b>	<b>63</b>	<b>3</b>