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Federal Reserve Bank of Chicago - -

January 29, 1960

In the past five years, the farm real estate market has been characterized by strong demand for a relatively limited supply of farm land. With credit generally available to finance sales, farm land values have responded by increasing steadily since early 1954.

However, as the end of 1959 approached, it became apparent that the bloom was off the rise in farm land values. After having risen nearly 25 per cent in five years, they began leveling off and in some areas actually declined.

Two important factors influencing farm land values during the last half of 1959 have been the sharp drop in farm income and the rise in interest rates. The steady decline in net farm income during the year left many farmers with less capital funds available for enlarging their farms and also reduced the return on farm real estate below already low levels. Also, demand by non-farm investors was dampened by the increasing attractiveness of rising returns on Government bonds and other securities. Investors' decisions were further influenced by the growing uncertainty concerning the future of farm price support programs in view of their increasing expense and mounting surplus stocks. The decline in demand for farms was intensified by the end of the year with the rising interest cost of real estate mortgages and some reduction in mortgage credit availability.

Farm land values in the last half of 1959 declined in most areas of the Seventh Federal Reserve District, according to reports from country bankers, whereas increases had been reported in most areas in the first half of the year (see back of Letter). The greatest decreases in the period July 1 to January 1 were noted in western Iowa and the northern part of Michigan's lower peninsula, down 8 and 7 per cent, respectively. Small increases were reported in only three areas.

Perhaps the greatest significance can be attached to the shift in attitude concerning the trend in land values in the Corn Belt states—Illinois, Indiana and Iowa. In the livestock areas of Iowa and north and west central Illinois, nearly half the bankers thought the trend was up on July 1, 1959, and only 1 per cent reported the trend to be down; by the beginning of this year, one-third of the bankers in these same areas reported the trend to be down and only 7 per cent considered it to be up. In the remainder of the Corn Belt a similar though less dramatic shift occurred, while in the dairy states of Michigan and Wisconsin the trend was still considered stable or up though a smaller proportion of bankers indicated optimism.

These attitudes reflect to a considerable extent the income pattern of the two areas the past two years. In the Corn Belt states, livestock income rose substantially during 1958 in response to high prices of cattle and hogs but followed the opposite course during 1959. The dairy states have had a much more stable income pattern with



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fluctuations in hog and cattle prices having a relatively small effect.

CATTLE ON FEED on January 1, 1960, numbered 9 per cent above a year earlier in 21 cattle feeding states. The three largest cattle feeding states of Iowa, Illinois and Nebraska had increases of 6 per cent, 7 per cent and 4 per cent, respectively. The largest rise occurred in California, up 33 per cent.

Cattle on Feed

	January 1, 1959	January 1, 1960	Per cent change
	----- (thousand head) -----		
Illinois	643	688	+7
Indiana	255	224	-22
Iowa	1,425	1,510	+6
Minnesota . .	400	416	+4
Nebraska . .	637	665	+4
21 states . .	6,324	6,871	+9

Heavy cattle showed the greatest increase in number on feed, with cattle and calves weighing over 900 pounds up 17 per cent from January 1 a year earlier. The number weighing 500 to 900 pounds increased 7 per cent and those weighing less than 500 pounds increased just 1 per cent.

The number of cattle and calves on feed less than three months was about equal to a year ago. However, the number on feed three to six months was up 36 per cent and over six months was up 39 per cent. This reflects in part the 25 per cent higher inshipments of feeder cattle into the major feeding states during the first half of 1959 compared with a year earlier. In addition, with large supplies of available corn—in many cases with moisture content too high to qualify for Government storage—and lower fed beef prices during December, many feeders held back heavier animals from markets in anticipation of higher prices in early 1960.

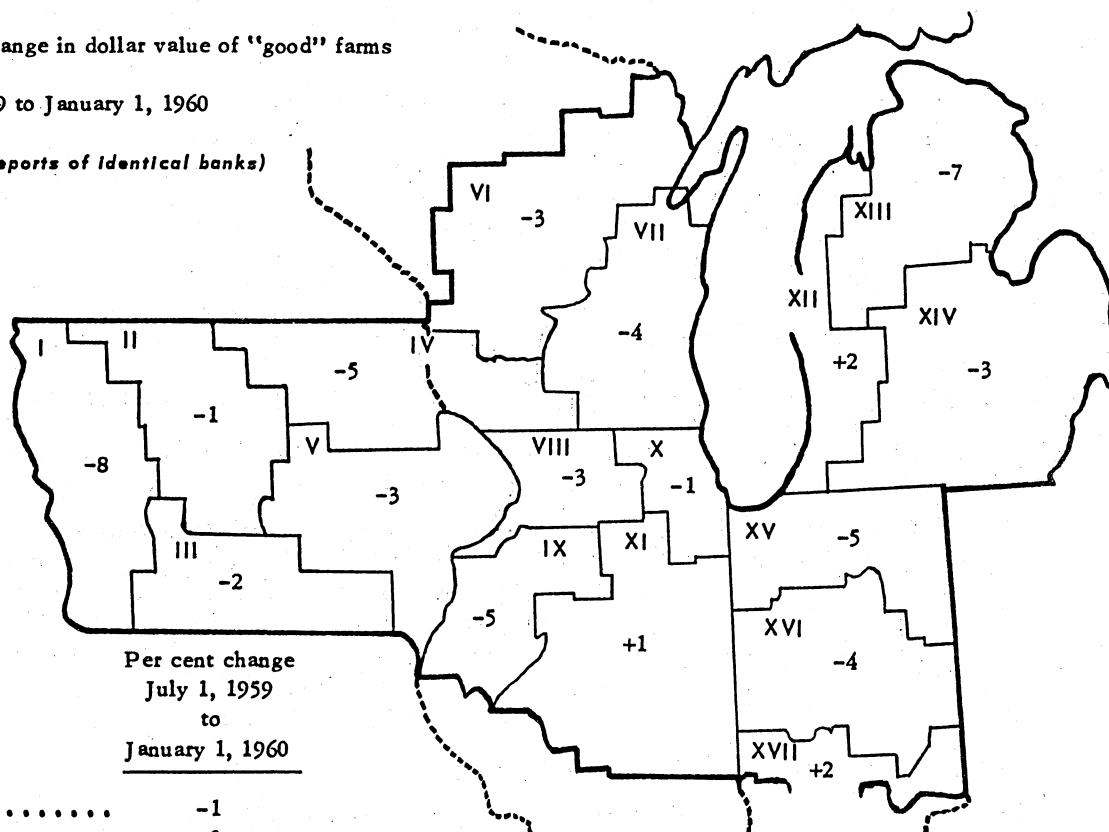
Thus marketings of fat cattle will likely be at high levels during the first part of 1960, then will taper off later in the spring and summer. Any price rise for high grades of fat cattle in the late winter and spring probably will be much smaller than in the past two years.

Research Department

Per cent change in dollar value of "good" farms

July 1, 1959 to January 1, 1960

(based on reports of identical banks)



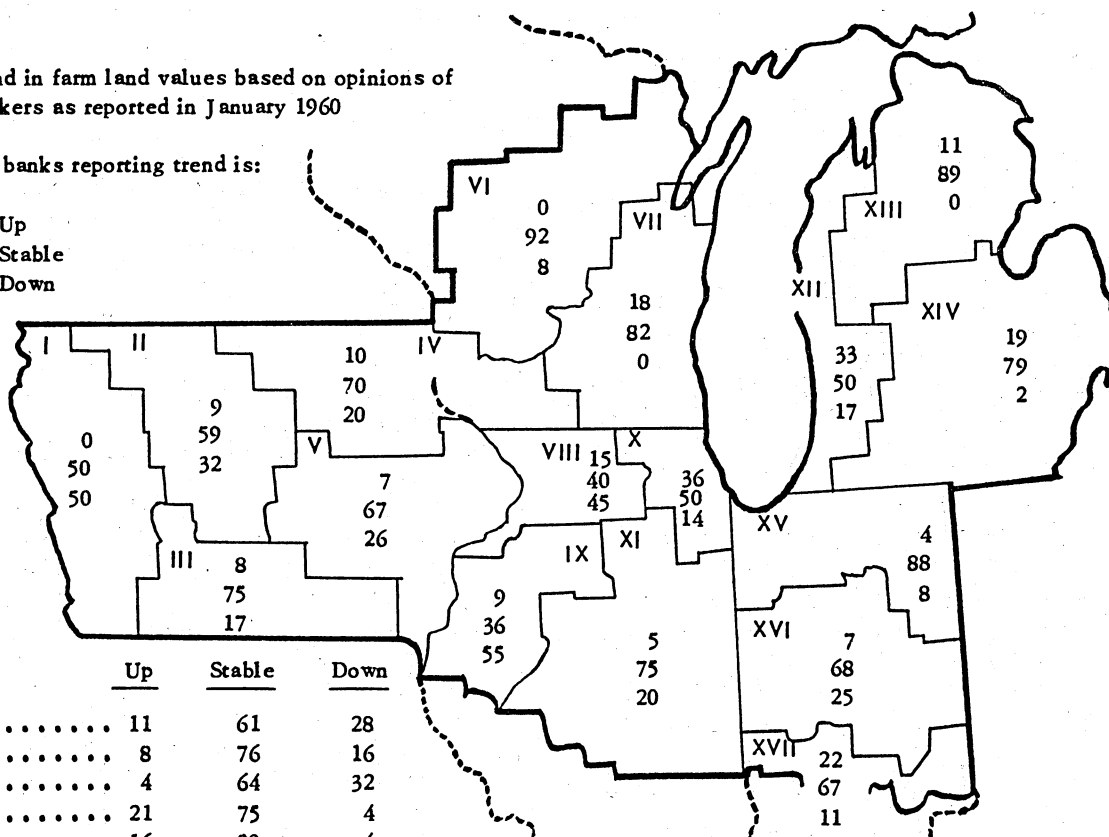
Per cent change
July 1, 1959
to
January 1, 1960

Illinois	-1
Indiana	-3
Iowa	-4
Michigan	-3
Wisconsin	-3
SEVENTH DISTRICT	-3

Current trend in farm land values based on opinions of
country bankers as reported in January 1960

Per cent of banks reporting trend is:

TOP: Up
CENTER: Stable
BOTTOM: Down



	Up	Stable	Down
Illinois	11	61	28
Indiana	8	76	16
Iowa	4	64	32
Michigan	21	75	4
Wisconsin	16	80	4
SEVENTH DISTRICT	11	69	20