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Agricultural Letter

Number 711

FARMLAND VALUES in the Seventh Federal Reserve District have inched up since last fall despite lower livestock prices and reduced net farm income during much of 1963. The value of "good farmland"—according to a recent survey of country bankers—increased about 2 per cent since April when the last previous survey was conducted (see back of Letter).

Gains in land values were widespread; only 2 areas out of 17 reported declines from October 1962. The decreases in these 2 areas, southern Iowa and southern Indiana, possibly reflect lower farm income in 1962. Most country bankers expect stable land values but a sizable number of country bankers—about one in four—consider the current trend in land values to be up. Only 3 per cent of the bankers expect values to decline soon.

The long-run tendency toward larger farm units remains the major factor behind the continued strong demand for farmland: since 1950, the proportion of all farm transfers to enlarge farms has about doubled and now accounts for 46 per cent of all land transfers. The demand for this purpose probably will remain active as farmers continue to mechanize and need additional land to provide full-time work.

Credit now plays an increasingly important role in the purchase of farmland. The U. S. Department of Agriculture estimates that 71 per cent of all farmland purchased during the year ending March 1962 involved the use of some form of credit. In contrast, the proportion of farmland purchases financed in whole or in part by credit was 67 per cent in each of the four preceding years.

Individuals can turn to four major sources for long-term credit. Federal land banks supply about 20 per cent; life insurance companies, 23 per cent; commercial banks, 13 per cent, and individual and miscellaneous sources supply about 44 per cent of the farm mortgage credit. Most loans extended by the institutional lenders, however, are used to refinance farm mortgages and such other indebtedness as operating expenditures rather than for acquisition of real estate.

REAL ESTATE FARM LOANS OUTSTANDING
Amount and Per Cent of Total

End of Year	Federal Land Banks		Life Insur. Co.		Commercial Banks		Individuals and Misc.		Total
	(dollar amounts in billions)								
1956	$1.5	16%	$2.3	25%	$1.3	15%	$3.9	43%	$ 9.0
1957	1.7	18	2.5	25	1.4	14	4.2	43	9.8
1958	1.9	18	2.6	25	1.4	14	4.5	43	10.4
1959	2.1	19	2.7	24	1.5	14	4.9	44	11.1
1960	2.3	19	2.8	23	1.6	14	5.3	44	12.1
1961	2.5	20	3.0	23	1.7	13	5.6	44	12.8
1962	2.8	20	3.2	23	1.8	13	6.1	44	13.9

The enlargement of farms and the rise of land values have boosted the total investment required for land acquisition and improvements during the past decade. Mortgage funds available from commercial lenders generally have been in adequate supply. Many prospective buyers, of course, cannot muster the required down payment. Federal land banks can lend up to 65 per cent of the appraised value and other major institutional lenders have similar restrictions. As a result, farmers have turned increasingly to individual lenders willing to extend high risk loans. During the period from 1955 to 1962, the proportion of farm purchases involving credit extended by individual lenders increased from 43 per cent to 48 per cent of the purchases requiring the use of credit. At the same time, the proportion of such purchases financed by insurance companies and the Federal land banks declined 5 per cent and 1 per cent, respectively.

Low-equity financing methods have been largely responsible for the upsurge in financing by individual lenders. Individual lenders typically require the smallest down payments. Buyers' equities—already low where financing was supplied by the seller—edged even lower in 1962. The average initial payment made by buyers last year was only 26 per cent of the purchase price—down 1 per cent from 1961. This compares with an average down payment of 45 per cent for farm purchases financed by insurance companies and 44 per cent for those handled by Federal land banks last year.

Net farm income in the United States during the first half of 1963 was at an annual rate of $12.2 billion, some 4 per cent below the rate for the corresponding period of 1962. Gross income, however, was estimated to be slightly higher than last year—$40.6 billion compared with $40.5 billion in 1962. The slight improvement in gross income in the first half of 1962 reflected the continued high rate of Government payments, higher prices for crops and increased volume of farm marketings.

Country bankers reported that most cattle feeders in the Corn Belt had returns well below average on animals sold during the first half of the year. Many bankers commented that farmers made slightly below normal returns during the first quarter but experienced sharp losses in cattle sold at the low prices prevailing the second quarter.

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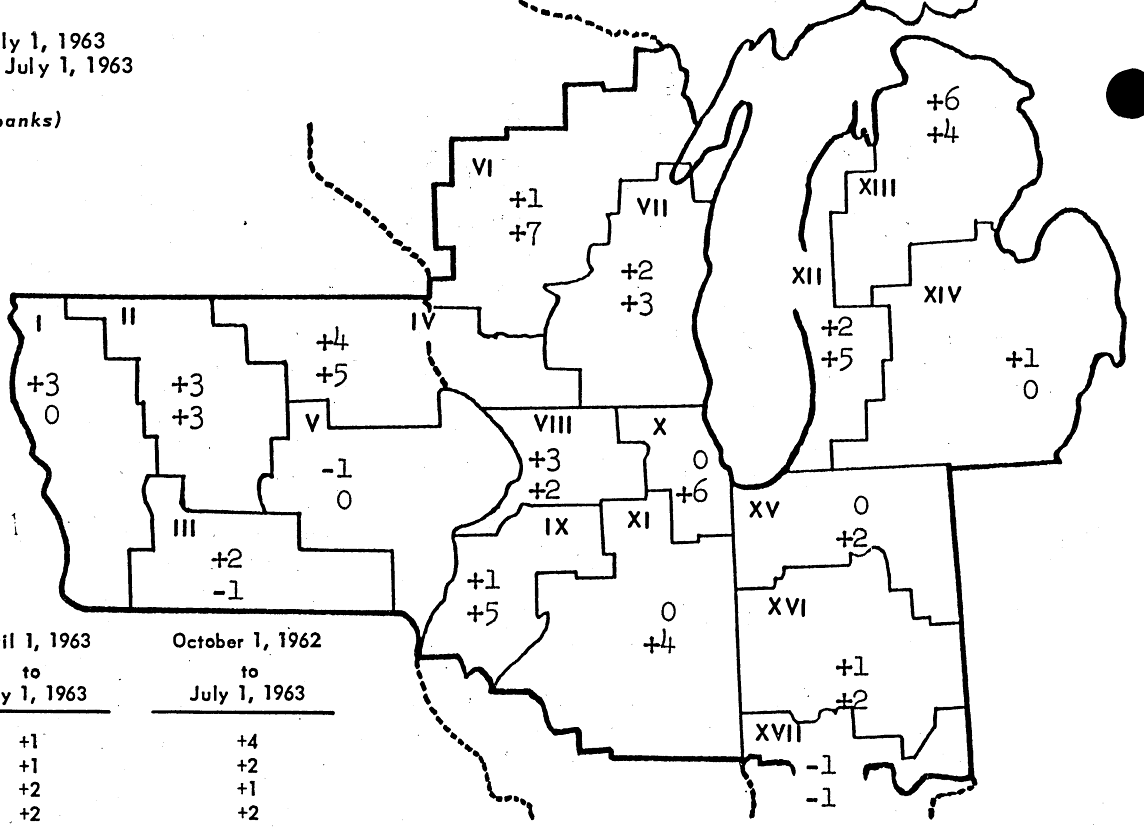
Per cent change in dollar value per acre of "good" farms

TOP: April 1, 1963 to July 1, 1963
BOTTOM: October 1, 1962 to July 1, 1963

(based on reports of identical banks)

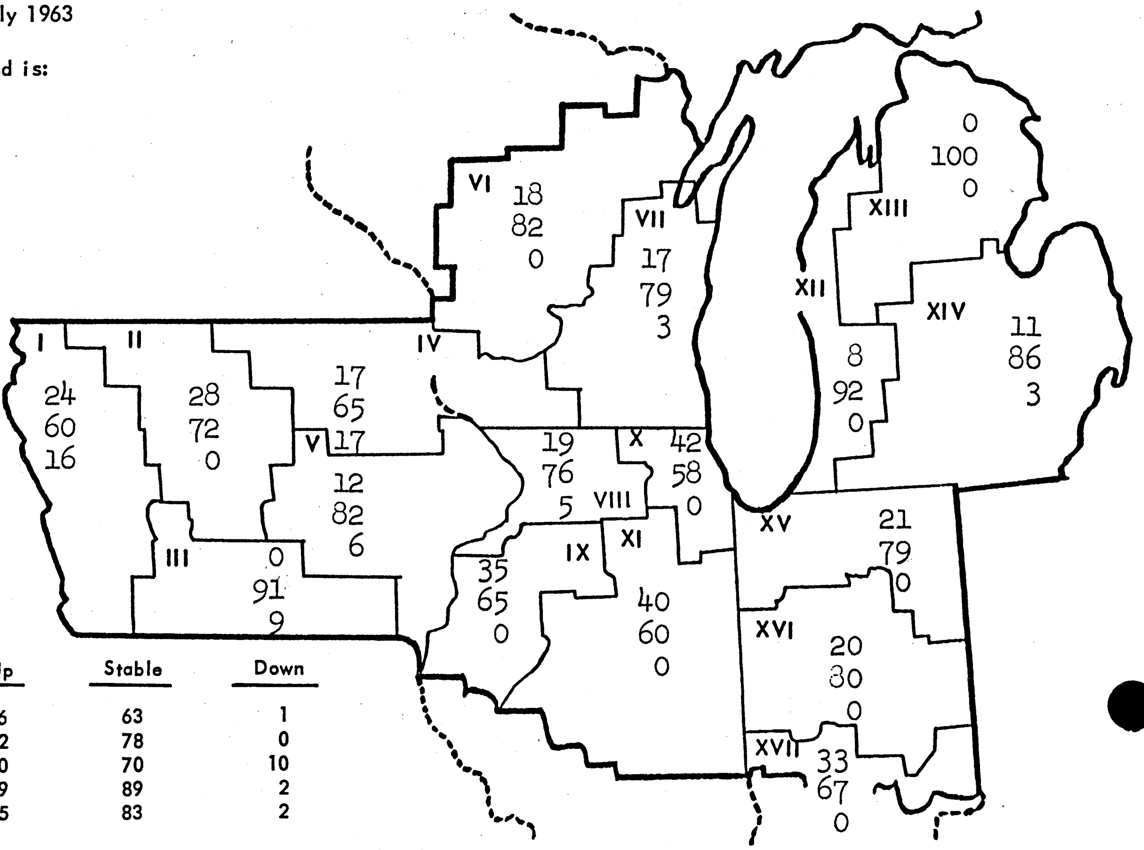


	April 1, 1963 to July 1, 1963	October 1, 1962 to July 1, 1963
Illinois	+1	+4
Indiana	+1	+2
Iowa	+2	+1
Michigan	+2	+2
Wisconsin	+2	+6
SEVENTH DISTRICT	+2	+3

Current trend in farm land values based on opinions of country banks as reported in July 1963

Per cent of banks reporting trend is:

TOP: Up
CENTER: Stable
BOTTOM Down



	Up	Stable	Down
Illinois	36	63	1
Indiana	22	78	0
Iowa	20	70	10
Michigan	9	89	2
Wisconsin	15	83	2
SEVENTH DISTRICT	23	74	3