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Federal Reserve Bank of Chicago - -

January 21, 1966

Agricultural Letter

Number 840

FARMLAND VALUES in the Seventh Federal Reserve District advanced at an accelerated pace during 1965, continuing the upward trend of the past several years. The average value of "good" farmland in the District rose about 8 per cent during the past year compared with a 5 per cent gain in the previous 12-month period. About 2 per cent of the increase occurred in the final quarter of 1965, according to a recent survey of country bankers (see back of Letter).

Furthermore, it is the consensus of country bankers that land values will continue upward. About three-fourths of those responding to the recent survey now view the trend in land prices as upward compared with about one-half a year ago. In the Corn Belt states, more than four-fifths of the bankers now foresee further advances in farm real estate prices.

Increases in land values from both a year ago and from the third quarter were widespread throughout the District states. Only 4 of the 17 reporting areas failed to show gains during the last quarter of 1965 and all areas but one reported increases from a year ago.

The largest gains in land values were in the District Corn Belt states although sizable gains were also reported in Michigan and Wisconsin—up 6 and 7 per cent, respectively. Land prices rose 10 per cent from a year ago in Illinois and a gain of 9 per cent was reported in both Indiana and Iowa. Considerably smaller increases during the previous year were recorded in each of the District states.

The general upward trend in land values in most areas during 1965 was undoubtedly reinforced by the relatively high prices received for livestock and the harvest of bumper soybean and corn crops. Farmers in each of the District Corn Belt states had record corn yields. In Indiana and Illinois more than 90 bushels per acre were harvested and in Iowa corn production exceeded 80 bushels per acre. Soybean production was at a record level. Moreover, in recent weeks corn prices have averaged about 4 cents per bushel above the relatively higher year-earlier level and soybean prices have been only slightly below the previous year's prices.

Total Cash Receipts from Farm Marketings

| | January to November | | |
|------------------|---------------------|--------|------------|
| | 1964 | 1965 | Change |
| | (million dollars) | | (per cent) |
| Illinois | 2,056 | 2,219 | + 8 |
| Indiana | 1,117 | 1,199 | + 7 |
| Iowa | 2,444 | 2,678 | +10 |
| Michigan | 727 | 729 | 0 |
| Wisconsin | 1,054 | 1,118 | + 6 |
| Seventh District | 7,398 | 7,943 | + 7 |
| United States | 33,420 | 35,231 | + 5 |

Livestock prices were substantially above year-earlier levels throughout most of 1965 and, as a result, returns to cattle feeding operations were the highest in six or seven years and receipts from hogs were probably the highest on record. Total cash receipts from farm marketings in the District states during the first 11 months of 1965 were about 7 per cent above the comparable year-earlier level.

Country bankers in nearly all of the District areas reported that the demand for land to enlarge existing farm operations continued to be a major factor affecting land prices. The greatly improved farm income picture, especially in the Corn Belt states, apparently made it possible for more farmers to accumulate funds for down payments on farm real estate purchases. Farm consolidation and enlargement will likely continue to be a major factor in the rural land market as long as farmers view this as a feasible way to both expand output and reduce operating costs. There still remains a large number of relatively small farms.

Farm real estate taxes have risen rapidly in recent years. Although tax rates have remained relatively constant, the increase in taxes paid has paralleled the rise in farmland values. Total taxes on farm real estate more than doubled from \$742 million in 1950 to \$1,546 million in 1964.

While real estate taxes have risen sharply, the trend in farm income over this period was relatively stable. As a consequence, these taxes now take a larger portion of farm income. In 1950 farm real estate taxes were equal to less than 5 per cent of total net farm income whereas by 1964, farmers' tax payments on farm real estate were equal to more than 10 per cent of total net farm income. In the Seventh District states, property taxes were even higher relative to net farm income. In 1964, taxes on real estate were 16 per cent of net farm income in Illinois, 15 per cent in Indiana and 13 per cent in Michigan, Wisconsin and Iowa.

The basic cause of the rise in property taxes, of course, is the rising cost of local government. During the past decade local governments increased annual spending at an average rate of 14 per cent per year. The most important category of local spending is public education. Although increased amounts of state aid—largely from non-property taxes—have been made available, local government expenditures for schools have more than doubled in the past 10 years.

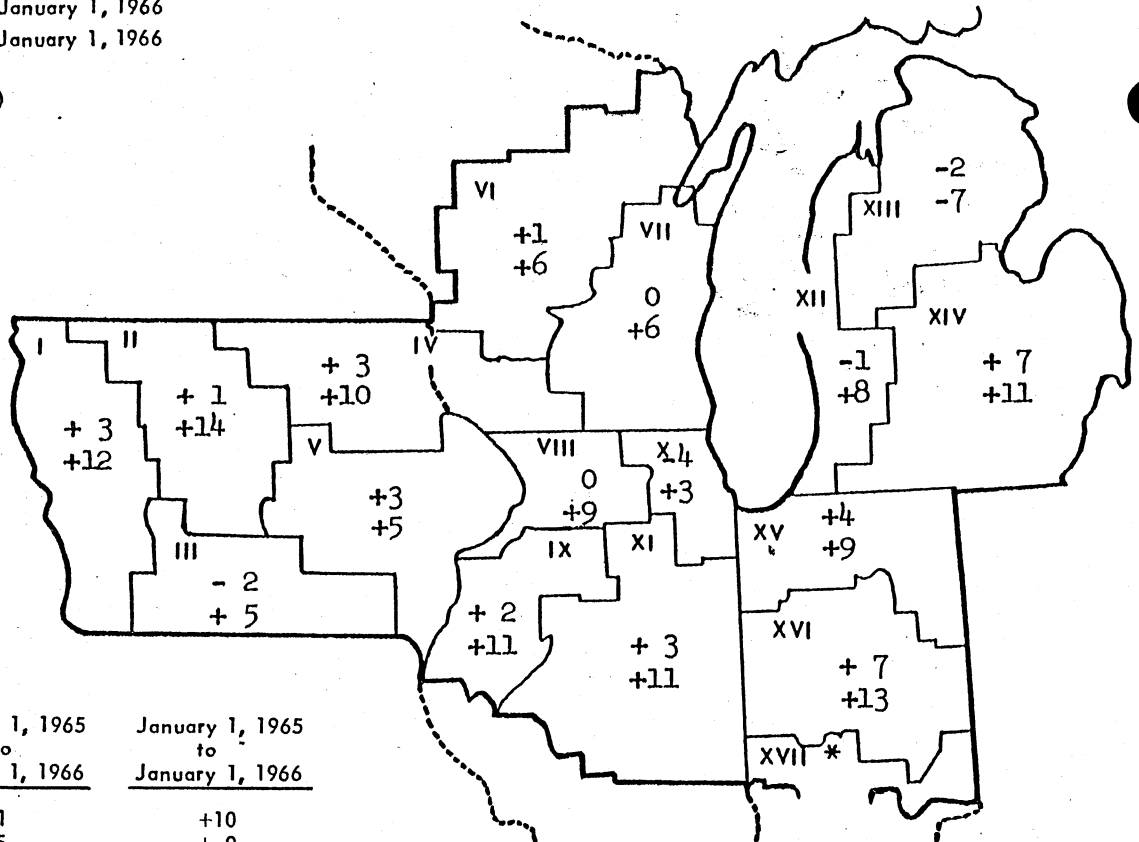
David W. Maaske
Economist

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

TOP: October 1, 1965 to January 1, 1966

BOTTOM: January 1, 1965 to January 1, 1966

(based on reports of identical banks)



October 1, 1965 to January 1, 1966

January 1, 1965 to January 1, 1966

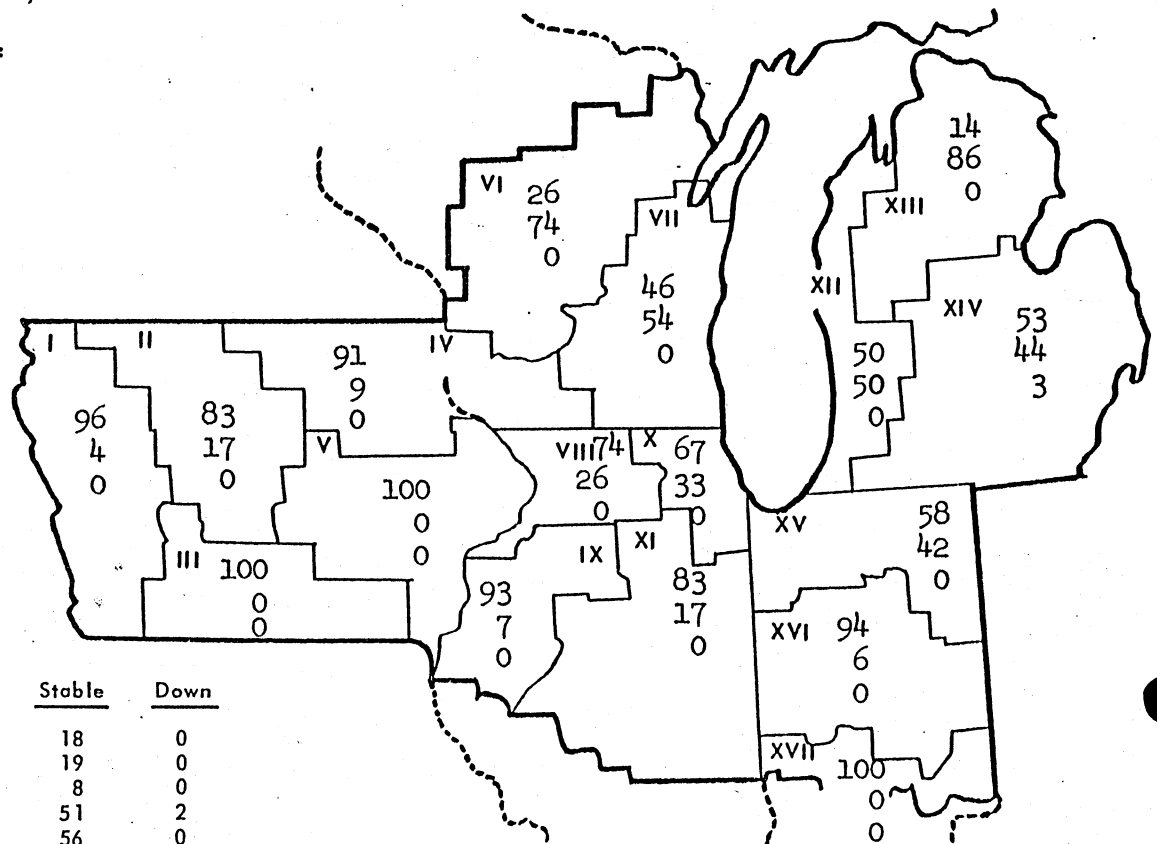
| | | |
|------------------|----|-----|
| Illinois | +1 | +10 |
| Indiana | +5 | +9 |
| Iowa | +2 | +9 |
| Michigan | +4 | +7 |
| Wisconsin | 0 | +6 |
| SEVENTH DISTRICT | +2 | +8 |

*Insufficient number of banks reporting.

Current trend in farm land values based on opinions of country banks as reported in January 1966

Per cent of banks reporting trend is:

TOP: Up
CENTER: Stable
BOTTOM: Down



| | Up | Stable | Down |
|------------------|----|--------|------|
| Illinois | 82 | 18 | 0 |
| Indiana | 81 | 19 | 0 |
| Iowa | 92 | 8 | 0 |
| Michigan | 47 | 51 | 2 |
| Wisconsin | 44 | 56 | 0 |
| SEVENTH DISTRICT | 74 | 26 | 0 |