



The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

No endorsement of AgEcon Search or its fundraising activities by the author(s) of the following work or their employer(s) is intended or implied.

281.9
F 313

Federal Reserve Bank of Chicago

U. S. DEPT. OF AGRICULTURE
NATIONAL AGRICULTURAL EXPERIMENT STATION
AUG 1 1966
CURRENT CREDIT RECORDS

July 29, 1966

Agricultural Letter



Number 867

FARMLAND PRICES advanced to new highs during the past year. The U. S. Department of Agriculture reports that the national index of land prices rose to 150 percent of the 1957-59 average as of March 1, 1966—3 percent above the November level and 8 percent higher than March a year ago. While values increased in all states, the largest gains were noted in the Midwest and in the Mississippi Delta areas. In Indiana, land values jumped 15 percent from a year ago while in Illinois and Iowa gains of 12 percent are estimated, about double the annual rate of increase during the past several years.

Although a number of factors contributed to the recent upsurge in land prices, the marked increase in farm income, beginning early in 1965, enabled more farmers to accumulate sufficient downpayments for real estate purchases and undoubtedly provided added impetus to the upward trend. Net farm income in the nation during 1965 totaled more than 14 billion dollars—about 9 percent above the previous year. Gains were somewhat larger in the Midwest and have continued into this year.

In the Seventh Federal Reserve District states, cash receipts from farm marketings averaged about 22 percent above a year earlier during the first quarter and for the nation were up about 18 percent.

Land prices in the District continued to advance during the second quarter of this year although at a reduced pace, according to a recent survey of country bankers. Bankers in the District estimated that the average value of "good" farmland increased about 1 percent from April to July, compared with a 4 percent advance during the first quarter. Compared with July 1965, land values were estimated to have risen about 9 percent higher (see back of Letter).

Most bankers responding to the early July survey still view the current trend in land values as upward. However, a noticeably larger proportion of bankers now expect land prices to stabilize in the months ahead than at the time of the April survey. About 28 percent of the respondents foresee stable land prices compared with only 17 percent in the previous survey. This shift in expectations and the apparent slower advance in land prices during the second quarter undoubtedly stems in large part from generally tighter credit conditions since the beginning of the year.

Most country bankers indicated that major real estate lenders have increased interest rates one-half percent or more since the beginning of the year. Eleven of the 12 Federal Land Banks are now charging 6 percent compared to 5.5 percent or less during the first half of 1966. There have also been numerous reports of higher downpayment requirements and shortening of maturities on farm real estate loans.

The use of credit in the transfer of farm properties has become increasingly important in recent years. The proportion of farmland transfers financed with borrowed funds has increased steadily and a greater proportion of the purchase price is being financed. The U. S. Department of Agriculture estimates that 73 percent of all farmland purchased during the year ending March 1965 involved the use of some form of credit. During the 1955-59 period, the corresponding proportion was about 66 percent. Moreover, the ratio of debt to purchase price in 1965 rose to 72 percent—up from 62 percent during the 1955-59 period.

Sellers and Individuals Provide Bulk of Funds

Year ending March 1, 1965	Total sales financed			Total credit extended		
	Corn Belt ¹	Lake States ²	United States	Corn Belt ¹	Lake States ²	United States
	(percent)			(percent)		
Seller	32	47	38	37	54	44
Individual and other	14	14	18	14	14	19
Commercial banks	19	19	18	11	10	9
Federal Land Banks	12	8	10	8	8	8
Insurance companies	23	22	16	29	14	20

¹ Iowa, Illinois, Indiana, Missouri and Ohio.

² Michigan, Wisconsin and Minnesota.

SOURCE: U. S. Department of Agriculture.

Individuals, including the sellers of farmland, are by far the major source of funds for financing farm real estate transfers—both in terms of number of farms financed and the amount of credit extended. However, their importance in the market diminished somewhat during recent years of ready credit availability from other lenders. This trend, however, apparently has reversed in recent months with the development of exceptionally large demands for credit and the tighter credit conditions. Total mortgage lending continued to rise during the first quarter—up about 11 percent from a year earlier—but the gain was smaller than normally would be expected, considering the increases in farm income and real estate prices.

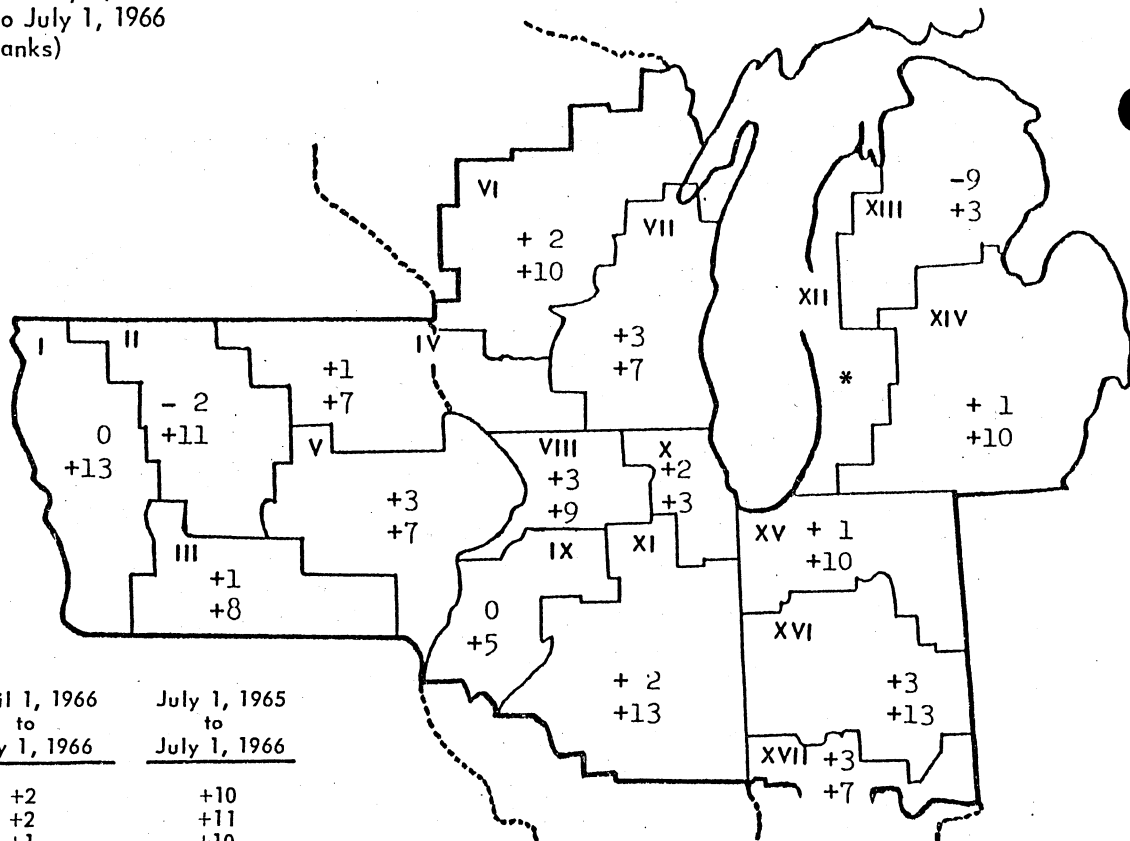
Roby L. Sloan
Agricultural Economist

Percent change in dollar value per acre of "good" farms

TOP: April 1, 1966 to July 1, 1966

BOTTOM: July 1, 1965 to July 1, 1966

(based on reports of identical banks)



	April 1, 1966 to July 1, 1966	July 1, 1965 to July 1, 1966
--	-------------------------------------	------------------------------------

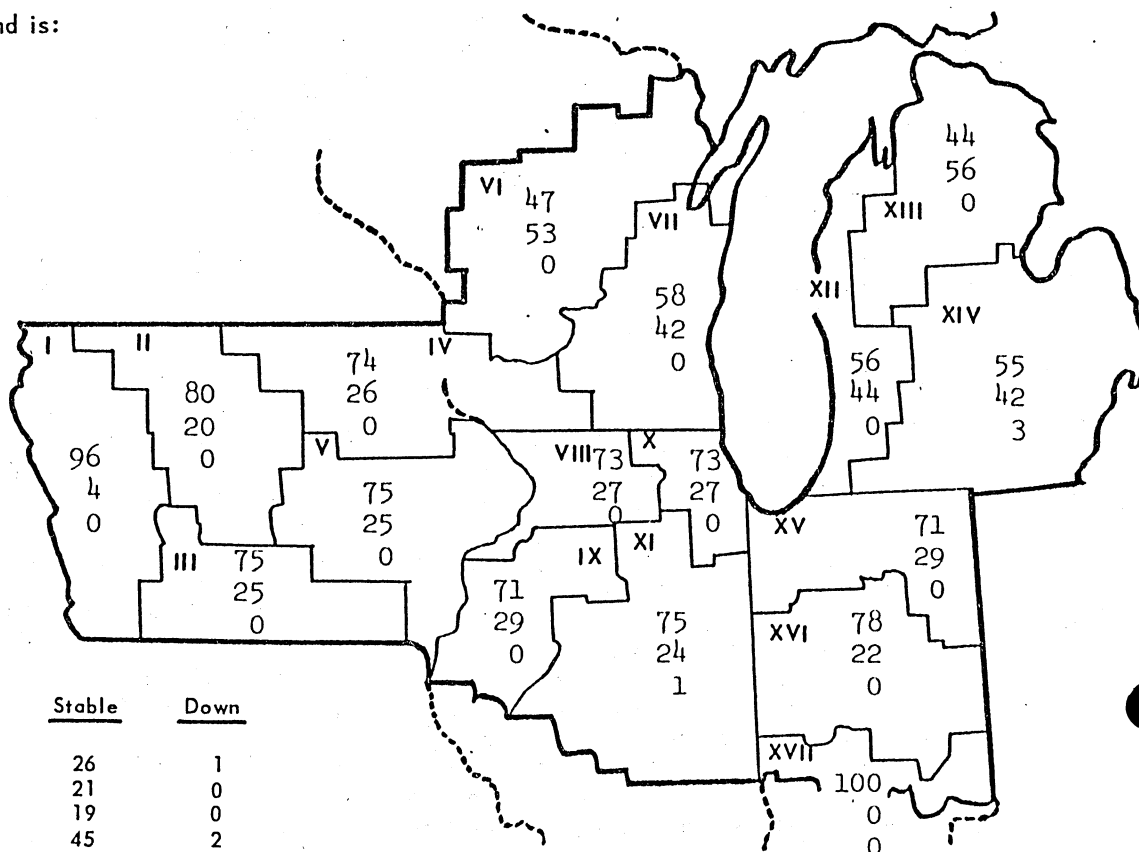
Illinois.....	+2	+10
Indiana.....	+2	+11
Iowa.....	+1	+10
Michigan.....	-1	+6
Wisconsin.....	+1	+7
SEVENTH DISTRICT	+1	+9

*Insufficient number of banks reporting.

Current trend in farm land values based on opinions
of country banks as reported in April 1965

Percent of banks reporting trend is:

TOP: Up
CENTER: Stable
BOTTOM: Down



	Up	Stable	Down
--	----	--------	------

Illinois.....	73	26	1
Indiana.....	79	21	0
Iowa.....	81	19	0
Michigan.....	53	45	2
Wisconsin.....	58	42	0
SEVENTH DISTRICT	71	28	1