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Federal Reserve Bank of Chicago -

February 2, 1968



Number 946

**PRICES OF FARMLAND** in the Seventh Federal Reserve District continued to increase during 1967, but not as rapidly as a year before. According to a survey of country bankers, the average per-acre price of "good" district farmland rose about 2 percent in the last quarter, reaching a level about 6 percent higher than a year before. That compares with an increase of 8 percent in 1966. Gains in land values continue to be widespread with 15 out of 17 agricultural areas reporting increases over 1966 (see back of Letter).

The lower rate of increase in most areas of the district reflects declines in commodity prices and farm income as well as continued tight credit on real estate. Prices farmers received for commodities in 1967 declined an average of 5 percent. A slightly larger volume of marketings partly offset the lower prices. Compared with the same period in 1966, income from farm marketings in the Seventh District declined nearly 3 percent during the first ten months.

Many potential buyers of farmland had difficulties in obtaining financing at acceptable terms and rates. The volume of new farm real-estate loans was below the year-before level for the first three quarters. Interest rates life insurance companies charged on farm mortgage loans averaged 6.7 percent in the third quarter of 1967—up nearly one-half percentage point from 1966.

Bankers estimate the current trend in land prices will slow even more. Nearly 60 percent of the bankers responding to the early January survey described current prices "stable," compared with 45 percent in early October. About 8 percent of the bankers expected land prices to decline. These are the largest proportions of bankers expecting land values to be stable or to decline since mid-1963.

The number of farms has declined rapidly for several years, and the average size of farms has continued to increase. Recent estimates by the Department of Agriculture indicate the number of farms decreased about 3 percent last year to a total of about 3.1 million. A decline of similar magnitude has been projected for 1968.

As small farms have merged with existing units to form larger enterprises, the average size of farms has increased almost proportionately to the decline in total number. The size of the average farm has increased by more than a fourth since 1959.

Lower operating costs per unit of production, reflecting primarily the benefits of new technology and mechanization, have provided the incentive for consolidating units. These economic pressures will probably continue. There are still large numbers of small farms that cannot fully realize the lower costs. A recent study conducted for the National Advisory Commission on Food and Fiber indicates the number of farms will decline more than a fourth by 1980. Moreover, the optimum operating size of farm will continue to increase as new technologies become available. The desire to enlarge farm units still further will continue to be a major factor in bolstering the long-term demand for farmland.

**Farm real-estate taxes** have continued their rapid rise. Although tax rates have remained fairly stable in recent years, the increase in total taxes paid has paralleled the rise in farmland values. Taxes paid on farm real estate reached a record \$1.8 billion in 1966—nearly 9 percent more than in 1965 and the largest percentage increase since 1947.

Taxes per acre in states of the Seventh District are higher than the average for the nation. In 1966, they ranged from \$3.25 in Wisconsin to about \$5.29 in Illinois, compared with \$1.74 for the nation. While most of the difference can be attributed to higher average land values, tax rates in these states are also higher.

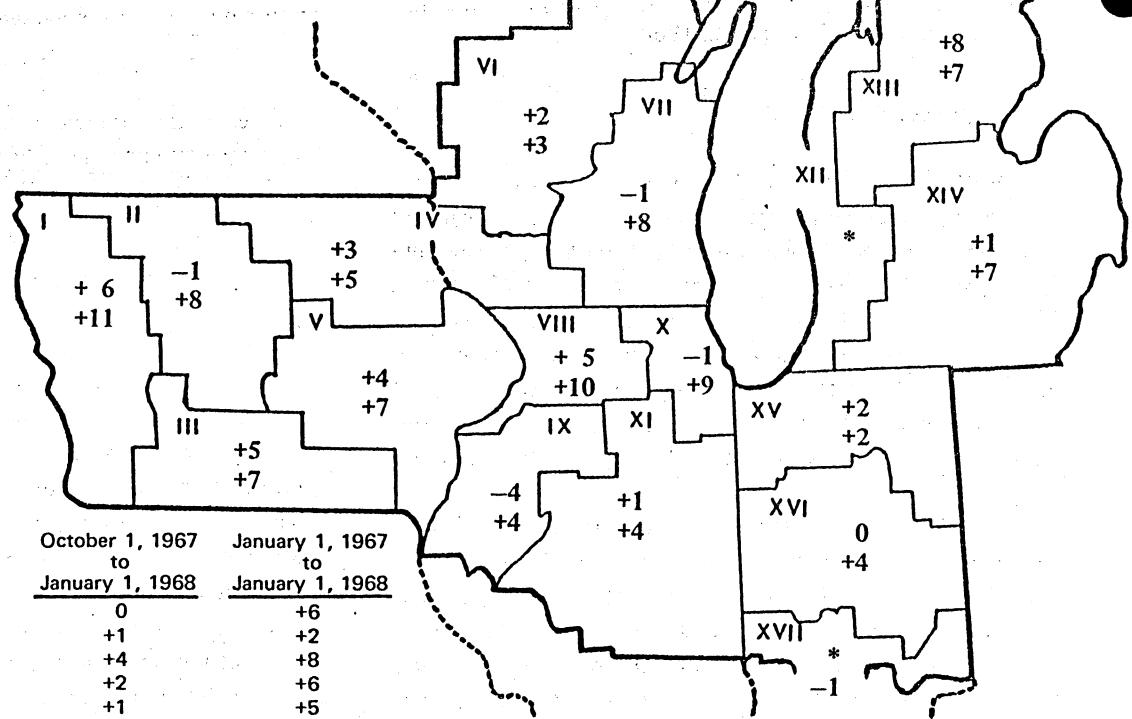
The basic cause of the rise in property taxes is, of course, the rising cost of local government. Spending of local governments during 1966 increased about 10 percent from the year-earlier level. The most important category of local spending is public education and this has more than doubled in the past ten years. Increased amounts of state aid—mostly from non-property taxes—have been made available to local governments, but this has not eliminated the need for greater taxes on property.

David W. Maaske  
Economist

Percent change in dollar value of "good" farms

TOP: October 1, 1967 to January 1, 1968  
 BOTTOM: January 1, 1967 to January 1, 1968

(Based on reports of identical banks)



\*Insufficient number of banks reporting.

Current trend in farm land values based on  
opinions of country banks as reported January 1, 1968

Percent of banks reporting is:

TOP: Up  
 CENTER: Stable  
 BOTTOM: Down

