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Federal Reserve Bank of Chicago --

November 1, 1968

FARM LAND VALUES in the Seventh Federal Reserve District remained almost unchanged for the second consecutive quarter (see back of Letter). Bankers in the district reported increases of less than 1 percent in the third quarter and just slightly over 3 percent since October 1967.

Although the rate of increase has been more pronounced in recent months, it has been slowing for two years. Farmland prices in the district were increasing at an average annual rate of 8 percent in 1966. In 1967, they were increasing at 6 percent. Indications are that the rate of increase may be halved this year.

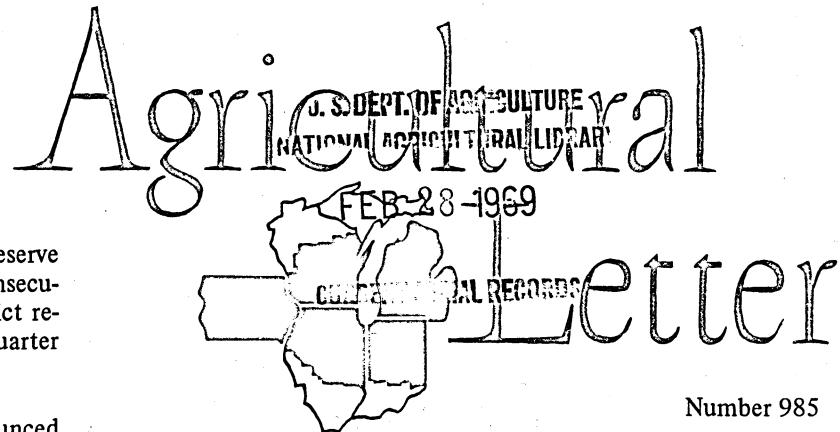
This leveling-off has prompted bankers in the district to moderate their forecasts for coming months. Almost three-fourths of the bankers surveyed October 1 expected land prices to remain level or decline. The proportion of bankers forecasting increased land prices has been declining steadily since early 1966. But not until late last year did most bankers begin expecting land prices to stabilize. At this time last year, only 2 percent of the bankers forecast declining land values. Now, 13 percent foresee declines.

**Demand for Farmland Weak in Corn Belt—
Strong in Lake States**

			Weakened		Weakened	
	Still strong		since midyear		since year ago	
	1967	1968	1967	1968	1967	1968
(percent of banks reporting)						
Illinois	81	40	9	34	10	26
Indiana	69	36	13	29	18	35
Iowa	73	43	13	35	14	22
Michigan	78	61	13	23	9	16
Wisconsin	78	80	12	14	10	6
Seventh District	76	48	12	29	12	23

One important factor influencing prices of farmland is the value of the commodities it produces. Land values in Illinois, the leading producer of corn and soybeans—prices of which have been depressed—declined in the third quarter. In Iowa and Indiana, the district's other major grain producing states, land prices made statewide gains of less than 1 percent. Declines were reported in the most important grain producing areas of both states.

In Michigan and Wisconsin, where cash-grain farming is less important, land prices made large advances in the third quarter. This was especially true of Michigan, where land values were up more than 3 percent. Unlike prices of corn and soybeans, prices of milk, fruit, and vegetables—important commodities in Michigan and Wisconsin—have advanced this year. As a consequence, incomes of Michigan and Wisconsin farmers have increased.



Number 985

The price of farmland is also affected by the demand of nonfarmers for land as an investment. An earlier survey this year found that almost a fourth of the farm purchases in the district were made by nonfarmers. Rising land prices and sharply increased interest rates on farm mortgages reduce the net annual return investors can expect from farmland. Also, booming activity in the business sector tends to make other investments more attractive.

Still another factor influencing farmland prices is the farm programs carried out by the federal government. These programs are related to farm income insofar as they are successful in raising farm prices but more importantly because they involve acreage allotments and diversion payments which also add to the value of the land.

Land values have been climbing steadily since before World War II. But unlike the land boom of the early 1900s that reached its peak in 1919-20 and was perpetuated by inflated commodity prices and rampant land speculation, the higher land prices since World War II have been sustained largely by rapid technological innovations in farm production, government support of farm commodity prices, and the persistent mild inflation. Corn yields have gone from 37 bushels per acre in 1950 to almost 80 bushels per acre today. Soybean acreage has increased nearly three fold since 1950, replacing less profitable crops, such as oats. In short, new seeds, herbicides, fertilizers, machinery, and power have combined to increase output per acre and the ability of farmers to handle larger acreages. Not only have these developments increased the value of farmland by boosting returns per acre, but they have also resulted in land prices being bid up even further as farmers seek to enlarge their farming units to take advantage of the inherent "economies of scale" of new farming technology.

The factors behind the long-term uptrend in land prices are still present, although the future role of government programs is uncertain. Barring any major shifts in agricultural policy, further gains can reasonably be expected, but the short-term influences of current crop surpluses, high mortgage interest rates, and uncertainty about the general economic outlook are causing temporary abatement in the rate of increase in land values, at least in the Corn Belt.

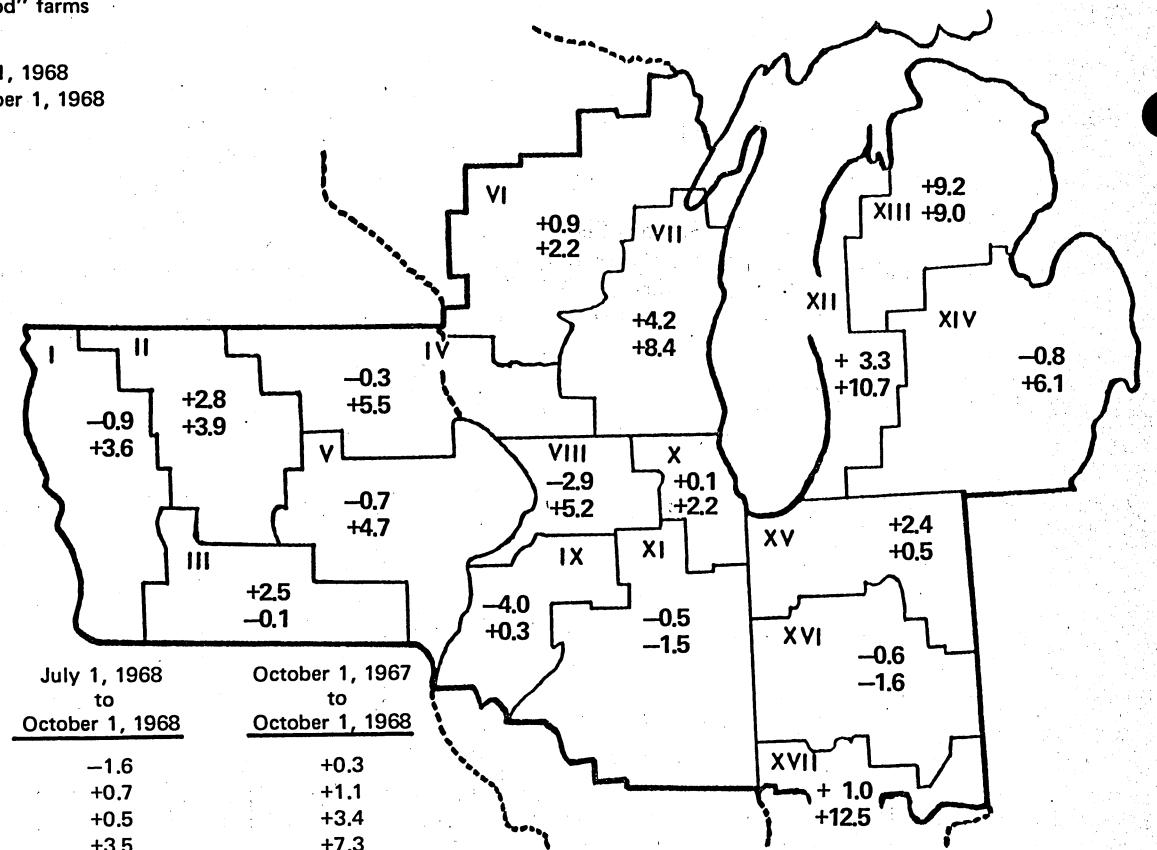
Dennis B. Sharpe
Agricultural Economist

Percent change in dollar value of "good" farms

TOP: July 1, 1968 to October 1, 1968

BOTTOM: October 1, 1967 to October 1, 1968

(Based on reports of identical banks)

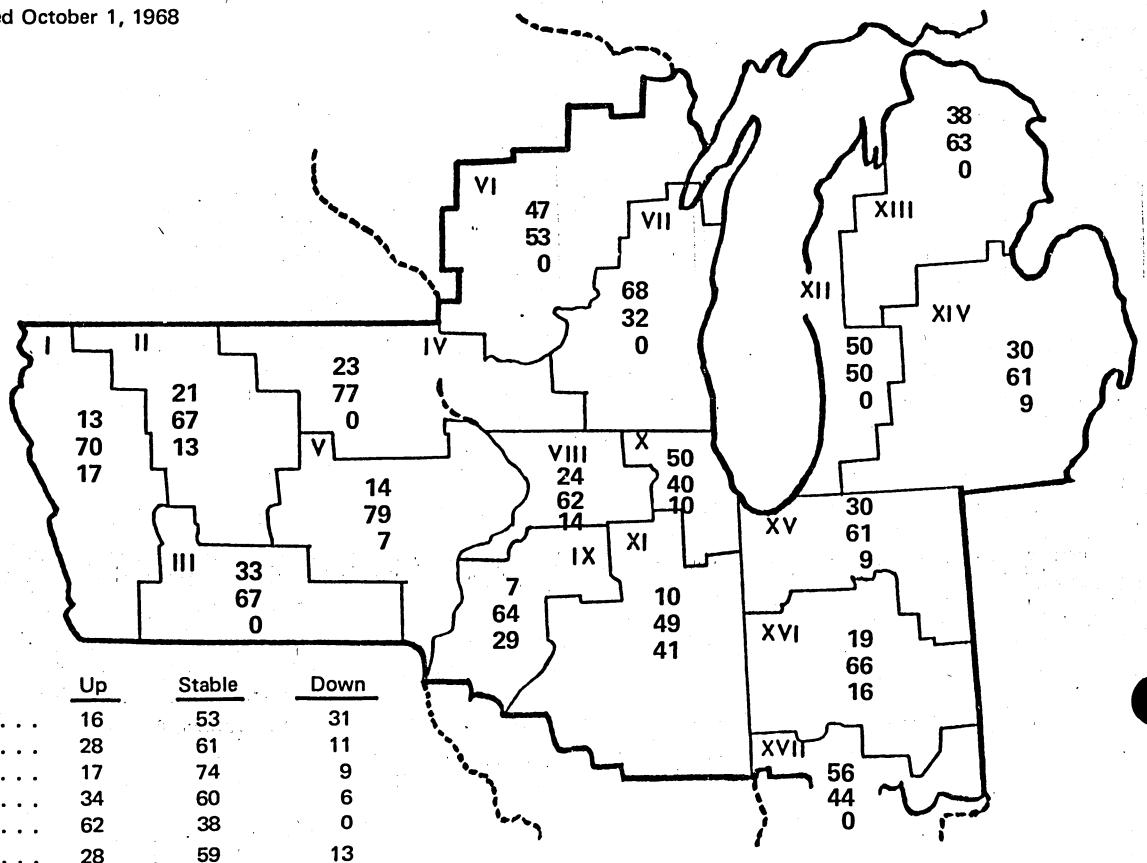


	July 1, 1968 to October 1, 1968	October 1, 1967 to October 1, 1968
Illinois	-1.6	+0.3
Indiana	+0.7	+1.1
Iowa	+0.5	+3.4
Michigan	+3.5	+7.3
Wisconsin	+2.0	+5.7
SEVENTH DISTRICT	+0.7	+3.3

Current trend in farmland values based on
opinions of country banks as reported October 1, 1968

Percent of banks reporting is:

TOP: Up
CENTER: Stable
BOTTOM: Down



	Up	Stable	Down
Illinois	16	53	31
Indiana	28	61	11
Iowa	17	74	9
Michigan	34	60	6
Wisconsin	62	38	0
SEVENTH DISTRICT	28	59	13