controlling credit

August 3, 1943
CEP

For the Information of Chairman Eccles

Farm Land Values. - Figures showing since 1912 the course of farm-product prices, farm land value, and the number of farm sales are summarized on the attached chart.

The average value per acre of farm land rose to a peak in 1920, declined thereafter till 1933 (to a level more than 25 per cent below that of 1912-14), then increased gradually until about 2 years ago and then more rapidly, along with a sharp advance in farm-product prices, between the spring of 1941 and the spring of 1943. The increase in land values during the last 2 years has exceeded 16 per cent for the country as a whole, and amounted to 20 per cent or more over large areas. The number of farm sales per thousand of all farms, which as a rule has seldom been more than about 30 per annum and which rose to nearly 50 in 1920, has been rising year by year since 1939 and was nearly 45 in 1942.

The farm mortgage debt, which was about $4.3 billions in 1912-14, increased to more than $10 billions in 1923 and has been declining almost ever since, most rapidly in the period 1924-26 and 1930-34. It declined by more in 1942 than it did in 1941, and is now at a level somewhat under $6.4 billions.

None of the foregoing figures covers very recent months. During 1943 to date farm-product prices have increased somewhat to a level about 100 per cent above that of 1939. Farm land values have also increased further, but precise figures are not available.

A substantial majority of all buyers during recent years have been operating farmers, whose purchases have reflected the high and rising level of farm income. As estimated by the Department of Agriculture, net farm income, which approximated $4.7 billions in 1940, amounted to about $6.7 billions in 1941, $10.2 billions in 1942, and is expected to be between $11.5 and $12 billions in 1943.

Non-farmer buyers have been increasing in relative importance, but are known to constitute considerably less than half of all buyers and believed by some students of the subject to be not more than 1/3rd and probably less than that.

Residential real estate. - For residential real estate, information relative to the course of the price level and the number of transfers is not available on a precise basis. Over a considerable part of the country, the price level for residential real estate has been rising for about 5 years. Since the country began to prepare for war, prices of residential properties have advanced considerably in many war-production areas and have probably advanced somewhat in most other areas. In a number of the war-production areas, but perhaps not in most of them, the advance has at times been so rapid as to excite public comment. With new construction much reduced in most places, the activity in the real estate market has in most places been rather moderate, but this does not hold for some of the war-production areas. An important factor during the last 9 months has been the OPA rule, now under fire in Congress, that requires cash down payments of at least 1/3rd on certain sales of residential property.

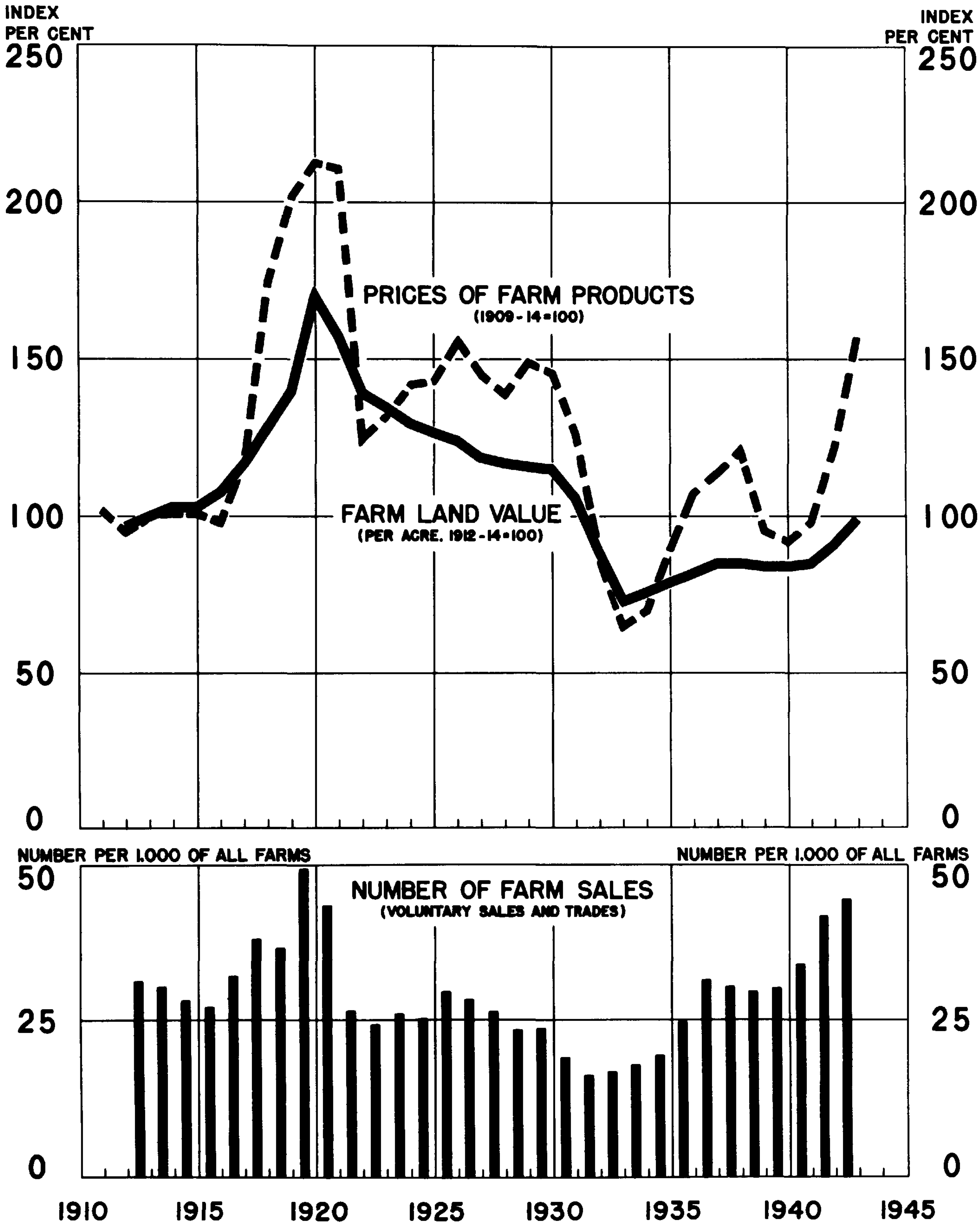
The volume of mortgage loans outstanding on one-to-four-family houses was at its peak in 1930 at about $21 billions, from which it declined during the depression of the early 30's to $17 billions in 1936, and then increased from year to year to about $20.5 billions at the end of 1942. The volume outstanding increased by about $1 billion in 1941, and by 1/2 that amount (or less than 1/2) in 1942. It is believed that the rate of increase during recent months has been tapering off, and that during 1943 the increase is not likely to amount to much (if any) more than 1/4 billion dollars. The principal reason why the rate of increase has been slowing down has been, of course, the substantial reduction in new construction. A substantial part of the increase, particularly in 1942, reflected new construction of the type covered by Title VI of the National Housing Act, and there is ample reason to believe that during the current year there will be no net increase in the outstandings after allowance is made for those insured under Title VI. In fact, there is likely to be a net decrease of perhaps as much as 1/4 billion dollars if the mortgages on war housing are excluded.

Securities. - It is known that the prices of unregistered securities, like those of registered securities, have been advancing but comprehensive data on the former are not readily available. It is a matter of common knowledge that in the past purchases of unregistered securities have usually been made on a cash basis.

Commodities. - At the present time, opportunities for speculation in basic commodities, either for the short term or for the intermediate term, seem to be quite limited, largely because of the direct or indirect influence of price ceilings. Wheat, for example, has no price ceiling, but its price is influenced by the existence of ceilings on flour and bread.

Accompanying documents. - In addition to the attached chart, there is being sent along with this memorandum (1) a release of the Bureau of Agricultural Economics, dated April 1943 and entitled "Current Developments in the Farm Real Estate Market", and (2) a copy of "Land Boom Controls", by William G. Murray, Professor of Agricultural Economics, Iowa State College.

FARM LAND VALUE AND FARM SALES



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UNITED STATES DEPARTMENT OF AGRICULTURE

Bureau of Agricultural Economics

Washington, D. C.

CURRENT DEVELOPMENTS IN THE FARM REAL ESTATE MARKET

Sharp increases in land values characterized the farm real estate market from November 1, 1942 to March 1, 1943. Fear of labor and machinery shortages and increased income taxes continued as factors modifying prices and the demand for land. Those influences, however, were more than offset by current high levels of farm income, sustained investor interest, decrease in number of farms held by unwilling owners, and higher and firmer asking prices of other owners. As in the first 3 quarters of 1942, operating farmers during the last quarter continued to make up a substantial majority of all buyers, but non-farmer buyers increased further in relative importance. Some seasonal increase in sales activity occurred, although the volume of sales for the country as a whole was somewhat below that of a year earlier.

Sharp Rise in Values

The Bureau of Agricultural Economics' preliminary index of average value per acre of farm real estate (1912-14 = 100) rose from 93 on November 1, 1942, to 99 on March 1, 1943. The March 1 index was 91 in 1942, as compared with 85 in 1941, 84 in 1940, and a low of 73 in 1933. Values on March 1, 1943, were 36 percent above the 1933 low, about even with the 1912-14 base, and 42 percent under the 1920 peak.

The 9 percent increase during the year ended March 1, 1943 was the largest annual increase since 1920. This rate of increase is practically equal to the rates of the years 1917-18 and 1918-19. It is significantly exceeded only by the record rate of increase for 1919-20.

Values advanced in all geographic divisions during the past year, and in each of the 48 States. Values rose 12 percent in the East South Central States, which was more than for any other region. Increases almost as large occurred in the Middle Atlantic, West North Central, Mountain and Pacific geographic divisions, where advances of 10 percent were reported. With the exception of a 3 percent rise in farm land values in New England, increases in the 3 remaining regions ranged from 7 to 9 percent.

The largest State increases were reported in Kentucky and Kansas, where values were up 14 percent. Increases of 12 percent or more were reported in 9 additional States, while 12 States reported increases of from 10 to 12 percent. In only 7 States were increases of less than 5 percent reported. For nearly all regions and States a substantial part of the increases during the last year occurred since last November.

Measured from 1935-39 averages, values have increased almost two-fifths in the East South Central States and more than one-fourth in the East North Central and South Atlantic divisions. Rises in other geographical divisions ranged from 24 percent in the Mountain States down to 6 percent in New England, with an increase of 20 percent for the country as a whole.

In some individual States and in particular areas within States, much larger increases than these have occurred. A rise of more than 50 percent from the 1935-39 average is reported for Kentucky; more than 40 percent for Indiana and Tennessee; and more than 30 percent for 8 other States. In North Dakota, South Dakota and Nebraska values are still below the 1935-39 averages despite substantial increases during the past two years.

Table 1 shows the index of values per acre on March 1 for selected years, and for July 1 and November 1, 1942, by geographic divisions.

Table 1.--Farm Real Estate: Index numbers of estimated value per acre, by geographic divisions, selected years, 1912-43 1/
(1912-14 = 100)

Year	New England	Middle Atlantic	East North Central	West North Central	South Atlantic	East South Central	West South Central	Mountain	Pacific	United States
1912	99	98	97	97	98	97	96	98	94	97
1920	140	136	161	184	198	199	177	151	156	170
1925	127	114	116	126	148	141	144	105	146	127
1930	127	106	96	109	128	128	136	102	142	115
1933	105	82	62	64	80	79	82	69	96	73
1934	104	83	65	67	87	85	88	69	97	76
1935	104	85	68	68	93	93	91	70	101	79
1936	105	88	72	71	97	96	94	73	105	82
1937	107	89	76	71	104	102	96	75	110	85
1938	106	90	78	70	106	107	99	75	109	85
1939	105	89	77	67	106	109	97	75	107	84
1940	106	90	78	65	107	112	99	76	108	84
1941	107	91	80	65	110	115	99	78	109	85
1942										
Mar. 1	109	94	89	69	117	126	105	84	115	91
July 1 2/	109	94	87	68	117	126	104	86	119	91
Nov. 1 2/	109	95	90	70	121	128	105	89	120	93
1943										
Mar. 1 2/	112	103	96	76	127	141	112	92	126	99

1/ All farm land with improvements, as of March 1 only, to 1942.
2/ Preliminary.

Volume of Transfers Continues High

Frequency of voluntary sales during 1942 continued higher than in any year since the boom period of 1919-20, with exception of 1941. For the country as a whole, the volume of transfers in each quarter ran somewhat below the levels of comparable periods the previous year.

In the last quarter of 1942 general regional increases in sales frequency, beyond seasonal movements, appears to have occurred only in the Southeastern States and in the Pacific Northwest, where brisk market activity was reported. However, extra-seasonal increases were registered in a considerable number of States and counties within other regions.

Little change was reported from the previous proportions of land purchases made by farmers. Incomplete data indicate that these purchases continued to make up almost three-fifths of all voluntary transfers. In the Northern Great Plains, farmers intending to operate the land were buying three-fourths of the land sold. In the North Central region, the corresponding ratio was two-thirds. In Illinois only about two-fifths of the buyers were farmers. Tenants bought about one-fifth of the tracts transferred in the North Central region in recent months.

In the East North Central States and in other areas where land holdings of institutional lenders are no longer important, sales by active farmers and by estates are now a more significant element in the market. In the Northern Plains region, however, somewhat more than half the sales are being made by private corporations, public credit agencies, and States and counties. Although corporate and public owners are rapidly liquidating their land holdings in this region, these sources of supply will be a major factor in the market for some time.

Despite the increase in sales by active farmers, a substantial net movement of land into the hands of owner-operators continued. This movement was most marked in the Northern Plains and least evident in the South. In several Corn Belt States, investor buying and farmer selling have considerably reduced the "operator purchase-sale ratio."

Financing of Purchases

Further increases in the proportion of cash purchases were recorded during recent months. This development reflects the huge amounts of liquid purchasing power held by individuals in demand deposits. Moreover, the increase of purchases for cash has occurred in the face of extremely easy money conditions.

In practically all the better agricultural areas, and to a considerable extent elsewhere, there is keen competition among some classes of lenders to place farm mortgage loans. In many parts of the country, an increasing proportion of the loans for financing farm purchases are being made by local commercial banks and individuals.

In most sections, ratios of loans to sales prices have shown little or no increase; but this fact indicates that as sales prices increased, the absolute amounts loaned on comparable farms also increased. Interest rates on farm mortgage loans have continued at low levels, with rates of 4 percent and under often reported in the better farming areas.

Data from selected counties in the North Central region indicate that only a little more than half the tracts bought in the fourth quarter of 1942 were mortgaged after purchase. Where mortgaged, the average percentage equity of buyers was 35 percent. Sellers took a substantially smaller proportion of the new mortgages in the fourth quarter of 1942 as compared with the first half of the year. New mortgage loans not made by the seller came chiefly from local banks.

In the Northern Plains, according to sample data for the fourth quarter of 1942, cash sales were 53 percent of all recorded voluntary transfers. Another 18 percent involved mortgages, and the remaining 29 percent were sales by contract for deed. An additional undetermined number of sales by contract were unrecorded. The average percentage down payment was 38 percent of the purchase price in sales involving mortgages and 23 percent in recorded sales by contract for deed. The number of second mortgages increased considerably.

A substantial proportion of the mortgage loans now being made by commercial banks and individuals are for five years or less; many are for only one or three-year terms. Purchasers of land are attracted by the ease of obtaining funds from these sources. Small-town banks and individuals seldom require more than casual appraisals; loans are usually made without delay; no stock purchases are required; and interest rates are frequently as favorable as those of insurance companies and the Federal land banks. However, there is danger that buyers giving short-term mortgages may later encounter difficulties in renewing or refinancing their loans.

Influences in the Land Market

In most parts of the country, the predominant forces now operating in the land market stem from the condition of high farm commodity prices, record levels of farm incomes, and a large accumulation of liquid funds of farmers and others.

March 1943 levels of farm product prices were almost 16 percent above the average for 1942. Net income to farmers in 1943 is expected to be in excess of the estimated record 10.2 billion dollars for 1942. Demand deposits of country banks (Federal Reserve System members only) in 20 leading agricultural States more than doubled from January 1940 to January 1943; and more than three-fifths of the increase occurred in 1942.

For most farmers and for many residents of small towns in agricultural areas, land or loans on land constitute the only major type of investment, other than war bonds, seriously considered. The strong underlying propensity to acquire land is being increasingly implemented by growing funds of purchasing power. Demand for farms appears to be increasing generally, but little evidence of purely speculative activity has been reported.

At the same time, reports indicate that market supply of land for sale is decreasing. As the land holdings of lending institutions are liquidated, this source of supply comes closer to the point of exhaustion. Recent and current purchases are, for the most part, in the hands of operating farmers and investors who are not at present particularly interested in reselling. Listings of farms for sale, especially the better farms, have tended to decline in most areas. Asking prices have advanced sharply in many of the better agricultural sections, and apparently an increasing proportion of farm real estate is not for sale at existing market values. In most areas, the average quality of land on the market has declined during the last two years.

In opposition to the value-stimulating forces is a number of bearish elements. These factors include fear of shortages of farm labor, machinery, equipment, and fertilizers, and transportation difficulties. In addition, income taxes and purchases of war bonds -- with the prospect of an increasing flow of individuals' funds to Government -- have probably dampened to some extent the demand for farms.

Further, many farmers and others are still acutely aware of the long-run disastrous results of the boom in farm real estate during and after World War I. Substantial recessions in farm commodity prices sometime after the close of the present war would bring lower farm incomes, which would be incapable of sustaining an inflated level of land values.