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Federal Reserve Bank of Chicago - -

July 25, 1958

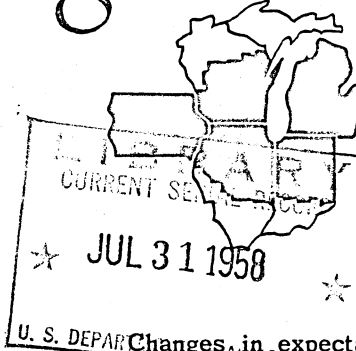
FARM LAND VALUES continued their sideways movement this spring. Reports from country bankers in the Seventh District show that from April to July values are substantially unchanged although above the levels of year earlier. Bankers in Michigan estimated values at 2 per cent below April while bankers in other states estimated little or no change in values.

All this suggests a breathing spell has been reached in the rapid advance in farm land prices of the past few years. However, the potential of further increases remains. While the estimates of land values were essentially unchanged, 22 per cent of the bankers estimated the underlying "trend" in land values to be up. Only one banker out of twenty thought the trend was down and nearly three out of four said it was stable. This was an upward shift in expectations from the April survey when only 18 per cent of the bankers thought the trend was up and 9 per cent said it was down.

Historically, farm land prices have fluctuated with the movements in farm prices and farm incomes. During both World War I and World War II these measures experienced large rises. After World War I the sharp drop in farm prices and incomes was accompanied by a decline in land values. However, when it became evident that farm land values were beginning to drop after World War II, the Korean War brought a new spurt to prices.

The puzzling event has been the resurgence of land values since 1954. Numerous explanations have been put forth, but they have had to rest on factors other than farm income. A number of factors have pointed toward lower rather than higher farm land prices in the past several years—the decline in farm prices and income until 1957, increases in interest rates and the decline in farm population. Now, this year, when farm prices and incomes have increased, land values have leveled off.

Agricultural Letter

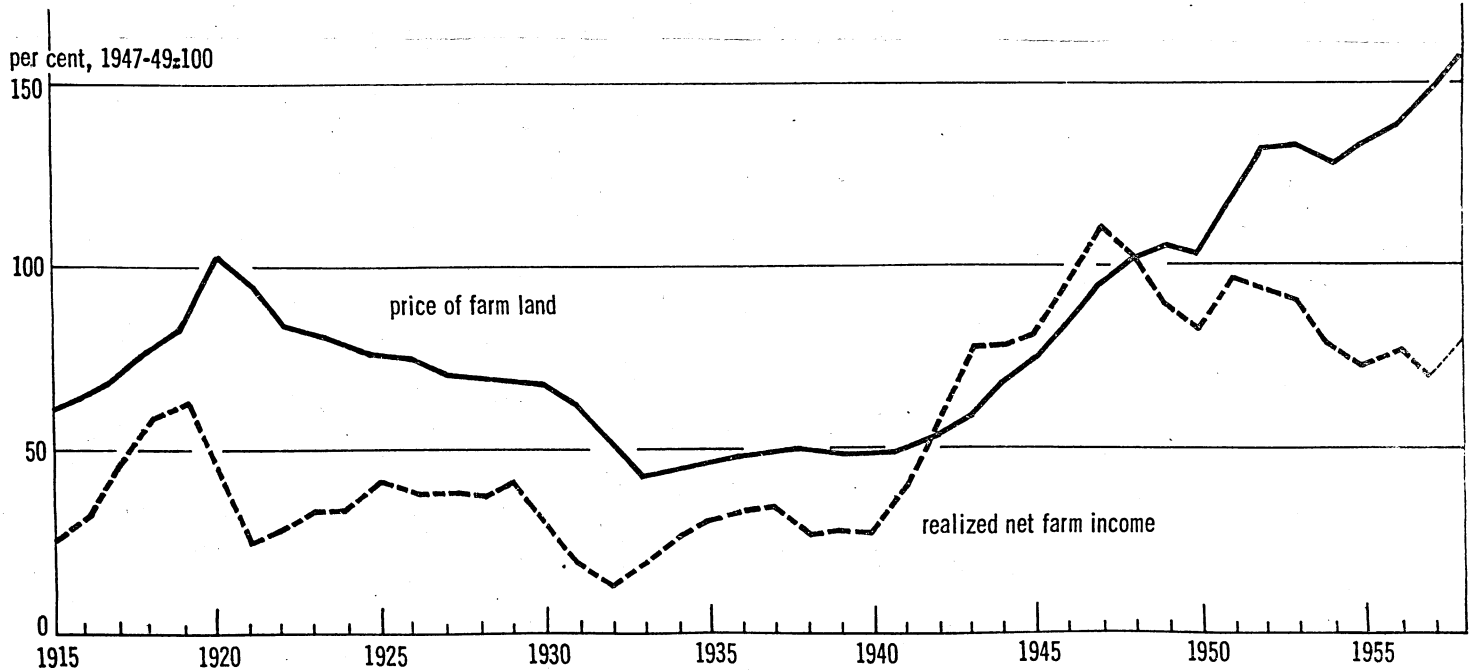


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Changes in expectations have apparently played a predominant role in the movement of land prices. With the continued inflation after the end of the Korean War, land became a "hedge against inflation." Coupled with declines in returns on other types of investment, such as yields on common stock, this led to a willingness to purchase land at the current prices even though the rate of return was not as large as during the previous decade. This motive seems now to have been dulled, if not stopped. The bankers report that farmers this year are spending money cautiously, repaying debts and refraining from undertaking new debts. Of course, if a real shooting war should break out in the Middle East, this would all be changed.

The future trend of land values, of course, remains uncertain. Over a fairly long period of years, farm income must play a key role in determining the trend. However, some hold views much less uncertain than others. A large farm management firm, for example, has recently stated: "The question is not, 'Will land prices go up?' but, 'How fast will land prices advance?'" The present leveling off of values, in this context, would be merely a temporary interruption of an upward surge. On the other hand, it could signal the end of a 25-year rise.

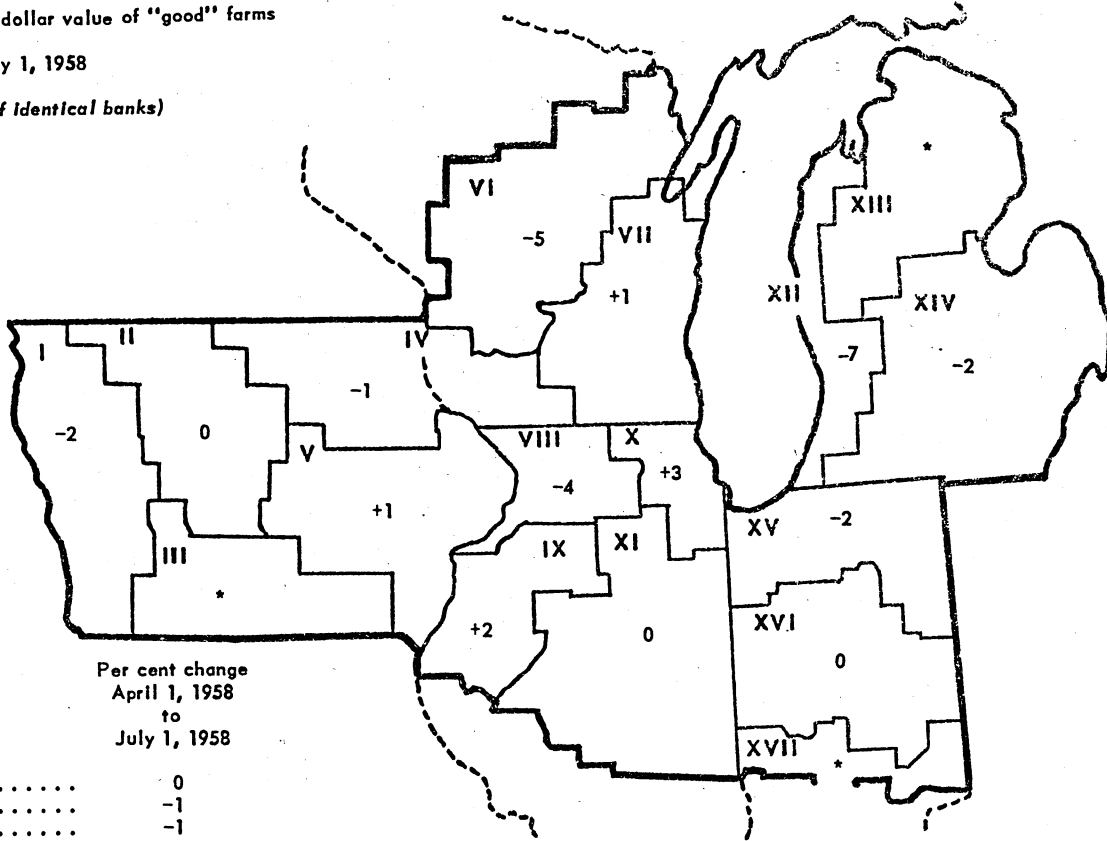
Research Department



Per cent change in dollar value of "good" farms

April 1, 1958 to July 1, 1958

(based on reports of identical banks)



Per cent change
April 1, 1958
to
July 1, 1958

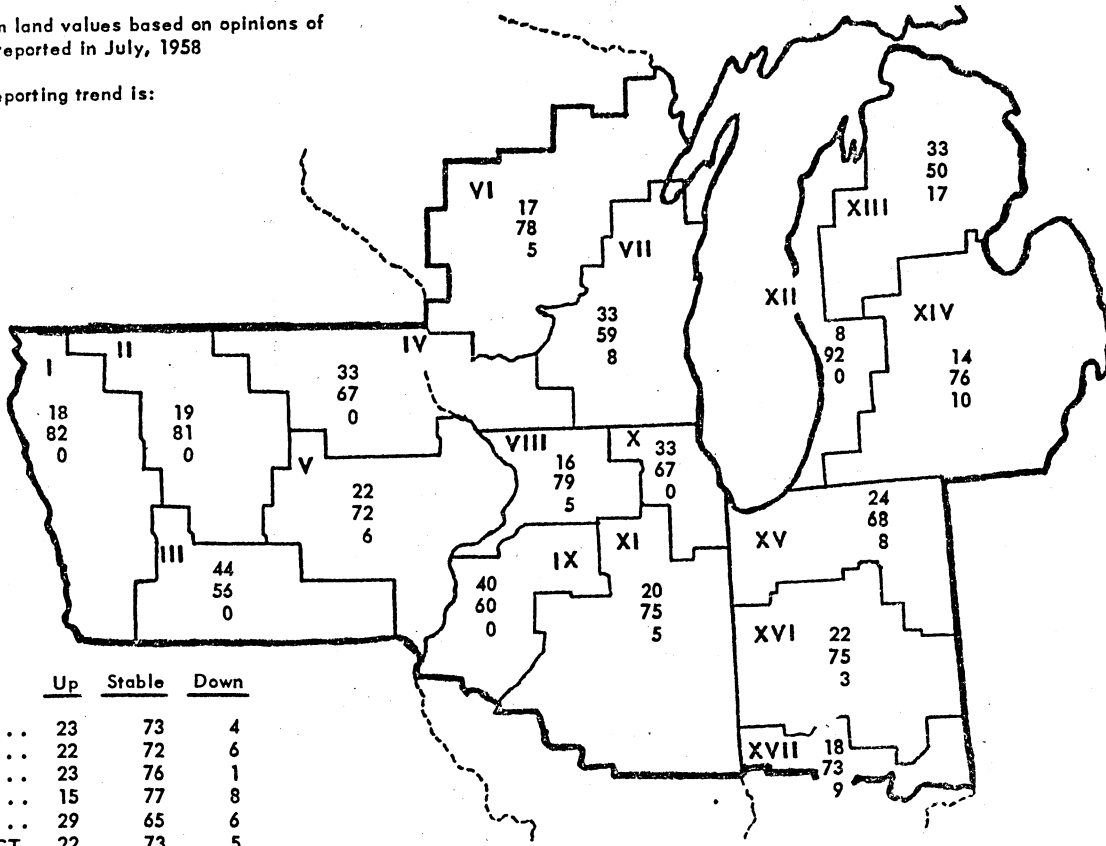
Illinois	0
Indiana	-1
Iowa	-1
Michigan	-2
Wisconsin	-1
SEVENTH DISTRICT ...	-1

* Figures not included due to limited number of reports

Current trend in farm land values based on opinions of country bankers as reported in July, 1958

Per cent of banks reporting trend is:

TOP: Up
CENTER: Stable
BOTTOM: Down



Up Stable Down

Illinois	23	73	4
Indiana	22	72	6
Iowa	23	76	1
Michigan	15	77	8
Wisconsin	29	65	6
SEVENTH DISTRICT	22	73	5