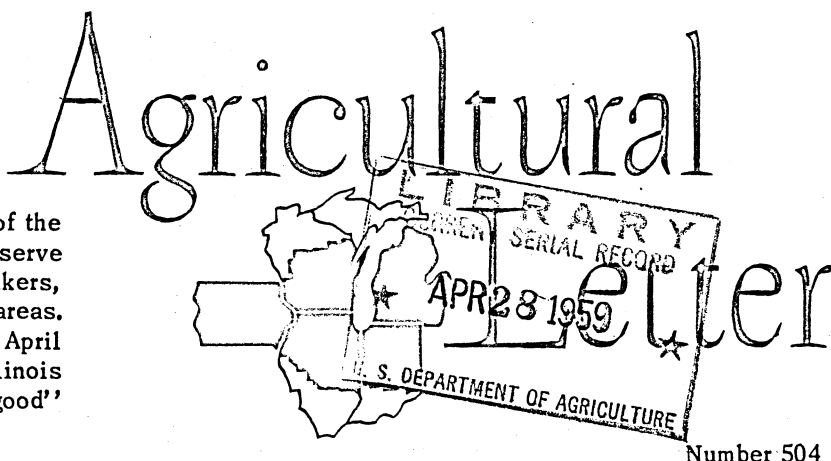


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Federal Reserve Bank of Chicago - -

April 17, 1959



LAND VALUES have increased since the first of the year in half the areas of the Seventh Federal Reserve District, according to a recent survey of rural bankers, and values are higher than a year ago in almost all areas. However, the amount of change from January to April was small. In that three-month period, only Illinois showed a significant increase in the value of "good" farm land (see back of Letter).

However, many bankers continue to describe the trend of land values as being upward. Half the bankers in Iowa and Illinois report the trend to be up, while in Indiana, Michigan and Wisconsin, the proportion is one-third. Only four bankers in over 400 replies judged the trend to be down.

The pressures behind these increases are, in the case of farmers, the general influence of the trend toward larger farm units and the special influence of higher farm incomes in most areas in 1958. Even with the less optimistic outlook for hog prices and returns on cattle feeding in 1959, many farmers are expanding their operations.

To this, of course, must be added "inflation hedge" buying. Thus, even though the average rate of return from current investment in farm land appears very low, the expected return is higher for an extra piece of land added to another farm or for those who expect continued inflation in farm land prices.

Other indicators of the farm economy also reflect the improved income in the agricultural areas the past year. Bankers' estimates of sales of farm machinery, fertilizer and building materials show gains in sales during March compared with year earlier in most District areas. In the case of fertilizer and building materials, many bankers in the northern areas said sales were slowed in March because of the severe weather. Indeed it is interesting to note the strong showing in sales of farm supplies, in spite of the snowstorms and poor roads. With the advent of good weather, bankers expected substantial increases in sales.

Bankers' Estimates of Dealers' Sales  
March 1959

	Farm machinery	Fertilizer	Building materials
	(per cent change from year ago)		
Illinois.....	+2	+4	0
Indiana.....	0	+4	0
Iowa.....	+8	+4	+3
Michigan.....	+3	+2	0
Wisconsin.....	0	0	-3
Seventh District...	+3	+3	+1

Farm machinery sales have also been affected by bad weather but many bankers indicated the impact of

strikes on some of the important farm machinery manufacturers was important in holding down sales increases. As these strikes are settled and production returns to normal, bankers expected farm machinery sales to show larger increases. Forecasts of sales by farm machinery manufacturers have been quite optimistic for 1959.

Among states in the District, Iowa with the greatest gain in farm income continues to show the largest increases. Bankers in Iowa reported farm machinery sales were up 8 per cent compared with a District increase of 3 per cent. Building materials dealers' sales in March were up 3 per cent in Iowa compared with no change or declines in the rest of the District. The increase of 4 per cent in fertilizer sales in Iowa was matched in Illinois and Indiana, reflecting the increased corn acreage in these three states.

Demand deposits of farm customers in these banks have also posted gains over year-earlier levels. Again, as in the case of sales of farm supplies, Iowa banks reported the largest increases.

DEMAND FOR FARM LOANS remains strong. New bank loans granted to farmers in three Midwest areas show increases in dollar volume since the first of the year. In eastern Iowa, the volume has increased 18 per cent in the January-March period, as compared with year earlier, and in western Iowa and north and west central Illinois the gains have been 15 and 12 per cent. Southeastern Wisconsin, however, has shown a modest decline of 3 per cent from the year-earlier levels.

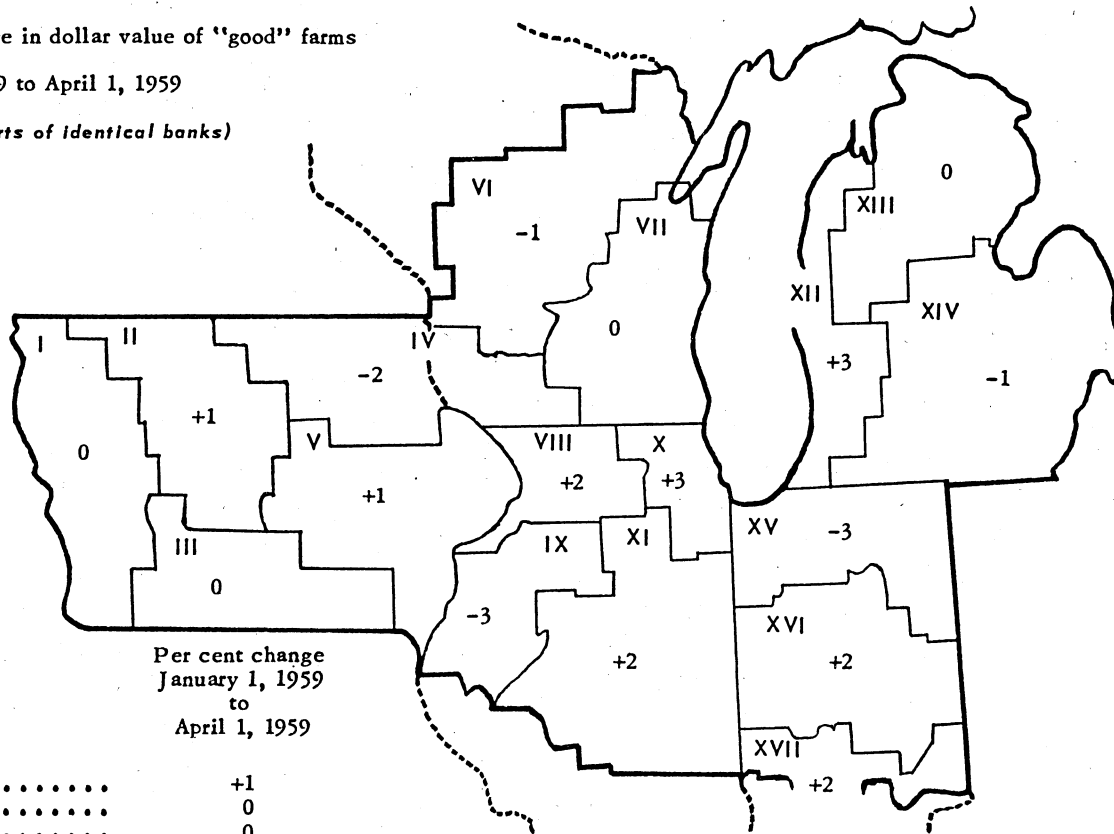
Interest rates on farm mortgage loans have increased recently, reflecting both the high level of demand for farm loans and the higher interest rates on other types of investments. If the expansion of activity in the business sector of the economy continues and credit demands of business and consumer increase accordingly, some farmer mortgage lenders will be under pressure to allocate more funds to these nonagricultural borrowers.

Interest rates on Commodity Credit Corporation loans on 1958 crops held by banks and other lending agencies will be increased on May 1 to 2-3/4 per cent. The rate which the Department of Agriculture has been paying for farm price support loans is 2-1/2 per cent. Officials of the Department said the boost will bring the rate "more in line with current rates" in the money market.

Per cent change in dollar value of "good" farms

January 1, 1959 to April 1, 1959

(based on reports of identical banks)



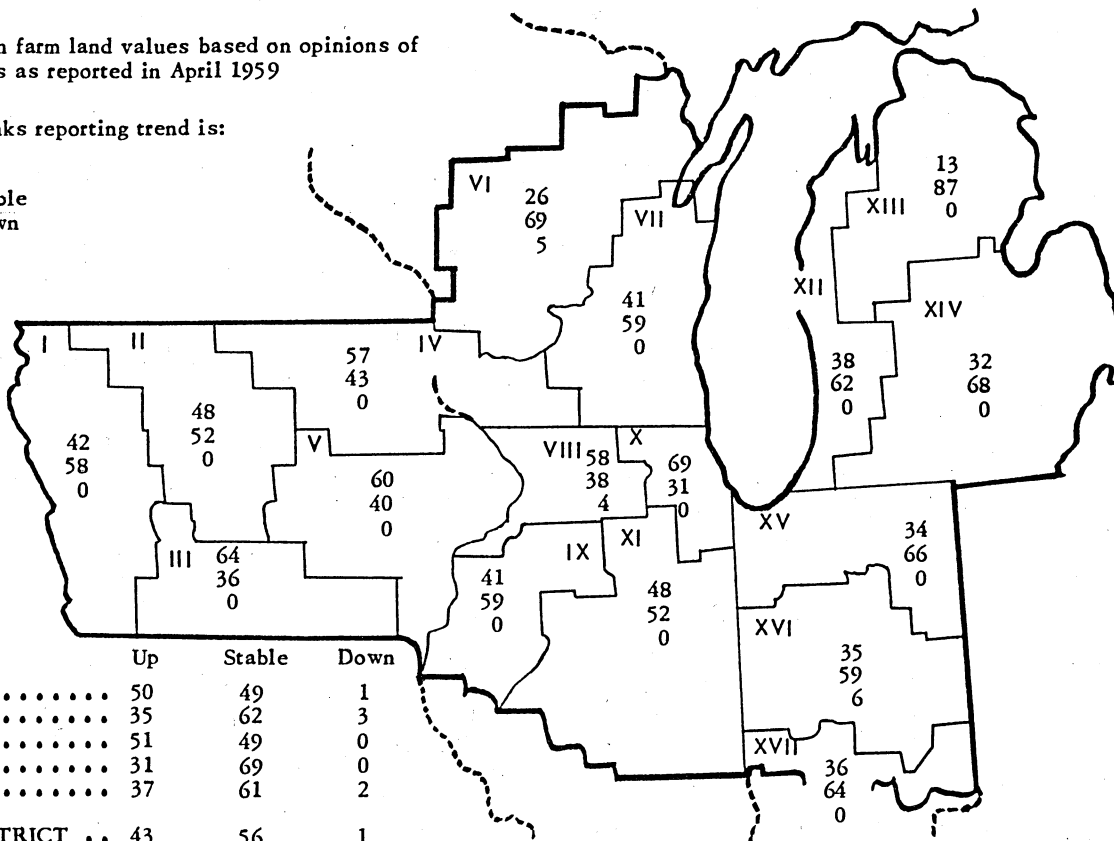
Per cent change  
January 1, 1959  
to  
April 1, 1959

Illinois .....	+1
Indiana .....	0
Iowa .....	0
Michigan .....	0
Wisconsin .....	0
SEVENTH DISTRICT ..	0

Current trend in farm land values based on opinions of country bankers as reported in April 1959

Per cent of banks reporting trend is:

TOP: Up  
CENTER: Stable  
BOTTOM: Down



	Up	Stable	Down
Illinois .....	50	49	1
Indiana .....	35	62	3
Iowa .....	51	49	0
Michigan .....	31	69	0
Wisconsin .....	37	61	2
SEVENTH DISTRICT ..	43	56	1