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Federal Reserve Bank of Chicago - -

April 15, 1965

FARMLAND VALUES continued to move upward in nearly all areas of the Seventh Federal Reserve District during the first quarter of this year. Some evidence appears to indicate that this trend has accelerated in recent months. The average value of "good" farmland in the District rose about 2 per cent during the first three months of 1965 and as of early April was about 6 per cent higher than a year ago, according to a recent survey of country bankers. (See back of Letter.)

Increases from both a year ago and from the first of the year were widespread and fairly uniform throughout the District states. Only 3 of the 17 reporting areas failed to show gains during the first quarter; all areas reported increases from a year ago.

Farmers Purchase Bulk of Farms Sold

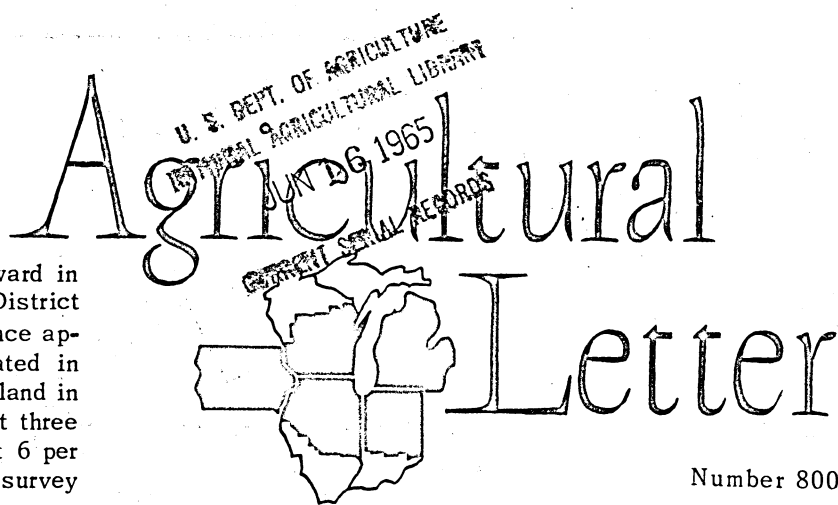
	Tenants	Owner-	Non-farmer operators		Other
		operators	In area (per cent)	Outside area	
Iowa	23	62	10	4	1
Illinois	13	62	12	10	3
Indiana	18	66	9	5	2
Michigan	5	67	10	13	5
Wisconsin	22	62	9	5	2
Seventh District	16	64	10	7	3

Farmers have been by far the largest buyers of farmland, according to the survey. About four-fifths of the farms sold in the five states during the past 12 months were purchased either by owner operators who are adding to their present holdings or by tenant operators who desire to become owners. Nonfarm operator investors purchased about 17 per cent of the farms sold.

The demand for farmland has apparently strengthened somewhat during the past few months since a larger proportion of bankers now view the current trend in land values as upward than was the case at the time of the year-earlier survey. This shift in expectations was especially strong in the three Corn Belt states. About 60 per cent of the bankers in the District now report the probable trend in land values as upward compared with about 40 per cent a year ago. Only about 1 per cent expected prices to decline.

Historically, farmland prices have fluctuated with the movements in farm prices and farm incomes. During both world wars 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. When it became evident that land values were beginning to drop after World War II, however, the Korean conflict brought a new spurt to prices.

The puzzling event to most observers has been the steady upward movement of land values since the mid-Fifties. Numerous explanations have been put forth, but they have had to rest on factors other than farm income. Since the mid-Fifties land values have increased at an average annual rate of about 5 per cent. Farm income on



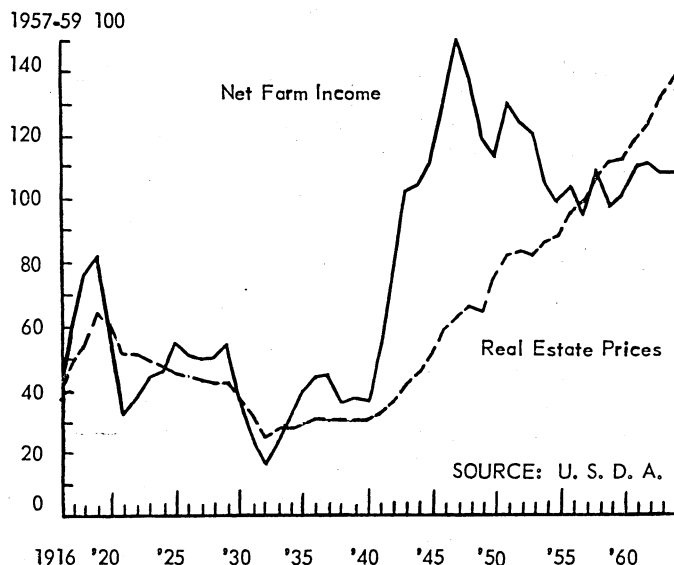
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the other hand, fluctuated sharply during the late Fifties, tending slightly upward, but has remained virtually stable during the past four years.

Efforts have been made to explain changes in the price of farmland in terms of changes in interest rates, prices of common stocks of business corporations, utilization of land for nonagricultural purposes and other factors, but the results have been less than satisfactory.

The value of land, of course, is affected by many factors, of which expectations as to probable price at some future time is presumably one of the most important. This appears to be true for all resources which are believed to be useful over a long time period. Expectations, however, change from time to time.

Farm Income Less Reliable Indicator of Land Prices



The foregoing is not to suggest that prices of farmland are at a peak from which a decline is imminent. To the contrary, there are several important supporting forces, as indicated by the recent survey of country bankers, including—on the demand side—the strong demand for land to enlarge farms, favorable long-term investment (inflation-hedge buying), purchases for non-agricultural uses and more liberal lending practices, while on the supply side—offerings are restricted by taxes on capital gains, satisfaction by many owners with current and prospective returns from their land, lack of more attractive alternative investments, and apparently, expectation of continued large farm subsidies, of which at least part is capitalized into the price of land.

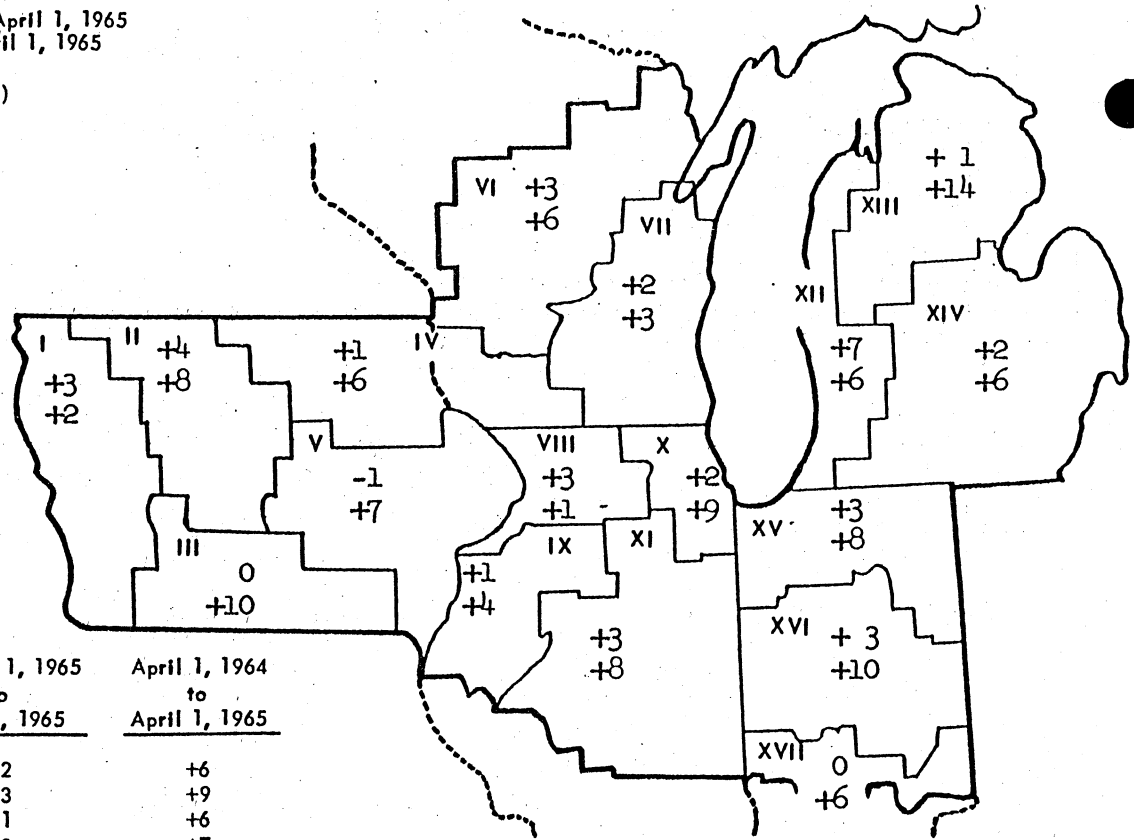
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Per cent change in dollar value per acre of "good" farms

TOP: January 1, 1965 to April 1, 1965

BOTTOM: April 1, 1964 to April 1, 1965

(based on reports of identical banks)



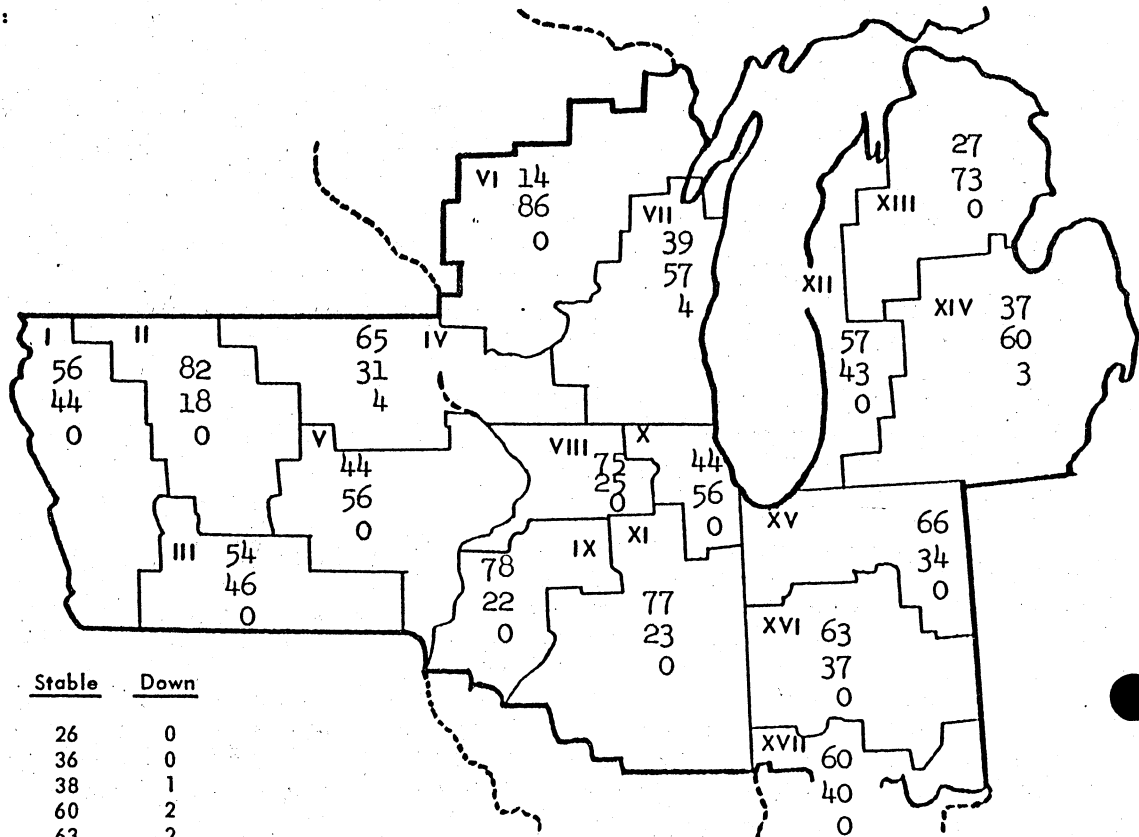
	January 1, 1965 to April 1, 1965	April 1, 1964 to April 1, 1965
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Illinois.....	+2	+6
Indiana.....	+3	+9
Iowa.....	+1	+6
Michigan.....	+3	+7
Wisconsin.....	+2	+5
SEVENTH DISTRICT.	+2	+6

Current trend in farm land values based on opinions of country banks as reported in April 1965

Per cent of banks reporting trend is:

TOP: Up
CENTER: Stable
BOTTOM: Down



	Up	Stable	Down
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Illinois.....	74	26	0
Indiana.....	64	36	0
Iowa.....	61	38	1
Michigan.....	38	60	2
Wisconsin.....	35	63	2
SEVENTH DISTRICT.	60	39	1