Federal Reserve Bank of Chicago - -

# Agricultural Letter



April 24, 1970

Number 1062

**FARMLAND VALUES** continued weak in many regions of the Seventh Federal Reserve District during the first quarter of 1970. Values in the "high priced" cash grain farming regions of the district and areas where land use is strictly agricultural showed the greatest weakness. Three-fifths of the areas reporting in an early April survey showed either declining or stable farmland values since January. Overall, average values for the district rose 1 percent, but this was attributable to increases in the Lake states. Wisconsin bankers reported a substantial increase—up 6 percent since January—and Michigan bankers reported a 1 percent increase. In the past 12 months, farmland values in the district rose only 1 percent. This was the smallest April-to-April increase since 1963 and contrasts with a 3 percent increase in the comparable year-ago period. Again, most of the increase was due to the sharp rise in Wisconsin land values during the last three months. Declines from a year ago were reported in over two-fifths of the survey areas (see back of **Letter**).

Farmland values in the Seventh District and in the nation as a whole have been on a rising trend throughout the post World War II period. Among the factors behind this sustained rise in values have been increasing farm mechanization and the accompanying drive for farm enlargement, increased productivity per acre, and expectation of capital gains from land ownership. This last element, of course, is based on the premise that productivity will continue to increase and that land owners will receive the benefits through increased income per acre.

The desire of operating farmers to enlarge their acreage is probably the greatest positive influence on the demand for farmland. Farm enlargement allows the operator to become more efficient by utilizing large scale machinery and equipment and by spreading his fixed capital investments over more units of output. Furthermore, although a farmer may have reached optimum size in terms of minimum cost of production, he may still want to enlarge his acreage in order to increase his personal income. This assumes his additional costs do not exceed his additional revenue per unit of output. According to the district bankers surveyed on April 1, about 62 percent of the purchasers of farmland were owner-operators and 16 percent were tenants. About 10 percent of the buyers were nonfarmers living in the area and 11 percent were nonfarmers from outside the area. Bankers in the Lake states of Michigan and Wisconsin, where much farmland is suitable for recreation purposes, reported the greatest percentage of purchases by nonfarmers outside the area—about a fifth of the purchases in each state. This, in part, explains the continued strength in land values in these states while widespread weakness is being reported in the Corn Belt region of the district.

Much of the recent weakness in land values may be attributed to the scarcity and costliness of farm real estate credit. Farm mortgage rates increased from around 7 percent to as high as 9 percent during 1969. Historically high interest rates have bumped against the usury rate ceilings in at least three of the five district states. One result of this has been a sharp curtailment of farm mortgage lending by life insurance companies, once a major supplier of such credit particularly in the Corn Belt. With tight monetary conditions and strong credit demands in other sectors of the economy, insurance companies have invested their funds in other areas where they are free to charge the market rate of interest. Since insurance companies specialized in making very large transaction loans, their withdrawal has probably had the greatest impact on whole farm sales, estate sales, and sales in the "high valued," most productive regions of the district. Sellers, which have historically provided the greatest proportion of credit for farmland purchases, have substantially increased their lending share. The proportion of farmland sales financed by federal land banks has also increased.

**Tight Credit Leads to Greater Seller Financing**

| | Corn Belt | | Lake states | | U. S. | |
|---|---|---|---|---|---|---|
| | 1968 | 1969 | 1968 | 1969 | 1968 | 1969 |
| | *(percent of dollar volume of loans to purchase farmland)* | | | | | |
| Sellers | 49 | 55 | 66 | 75 | 54 | 60 |
| Federal land banks | 12 | 15 | 7 | 6 | 9 | 11 |
| Commercial banks | 14 | 13 | 9 | 9 | 11 | 11 |
| Insurance companies | 18 | 7 | 8 | 3 | 17 | 8 |
| Others | 7 | 10 | 10 | 7 | 9 | 10 |

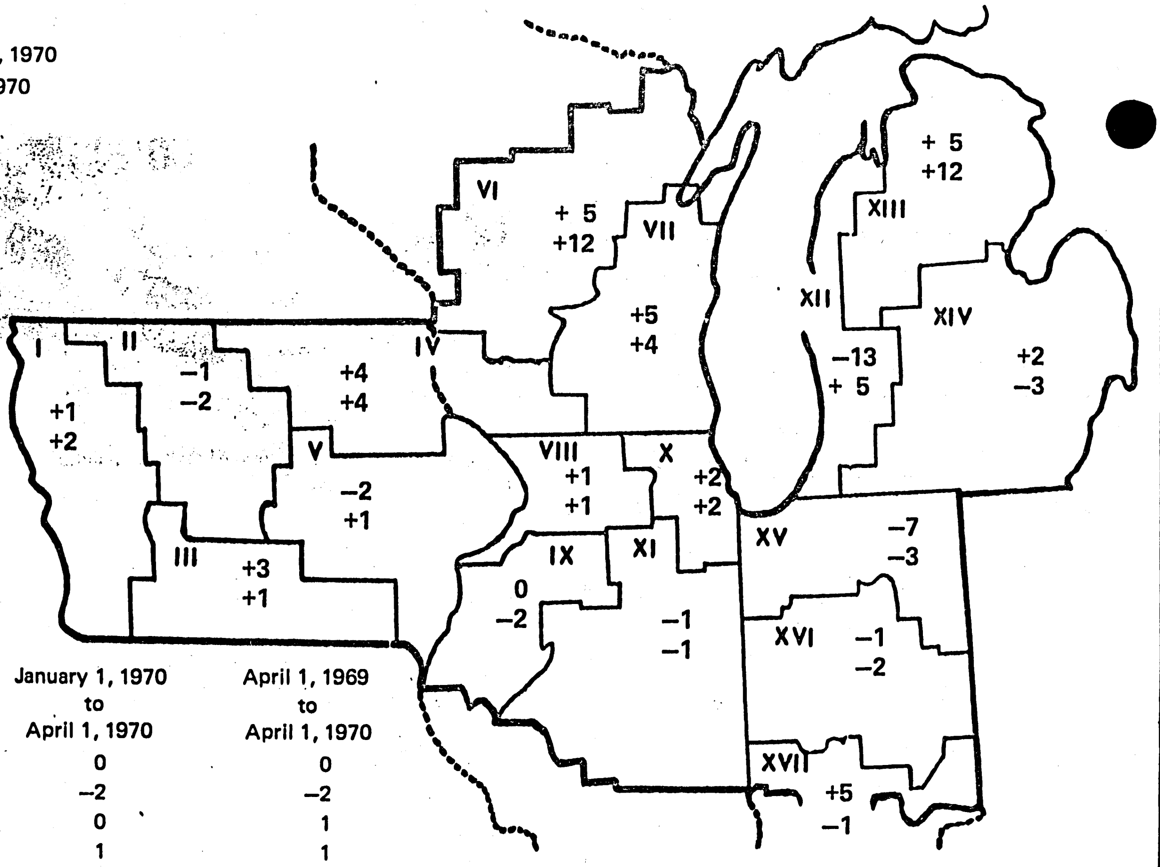
SOURCE: U. S. Department of Agriculture for years ending October 1968 and 1969.

As the rise in farmland values has slowed, bankers, and probably others as well, have become increasingly less optimistic about future increases in value. As of April 1, only 11 percent of the district bankers surveyed viewed the trend in land values as rising, two-thirds indicated values are stabilizing. Over a fifth foresee declining values. Just a year ago, twice as many viewed values as rising and only two-thirds as many indicated a downtrend.

Dennis B. Sharpe
Agricultural Economist

Percent change in dollar value of "good" farms

TOP: January 1, 1970 to April 1, 1970
BOTTOM: April 1, 1969 to April 1, 1970

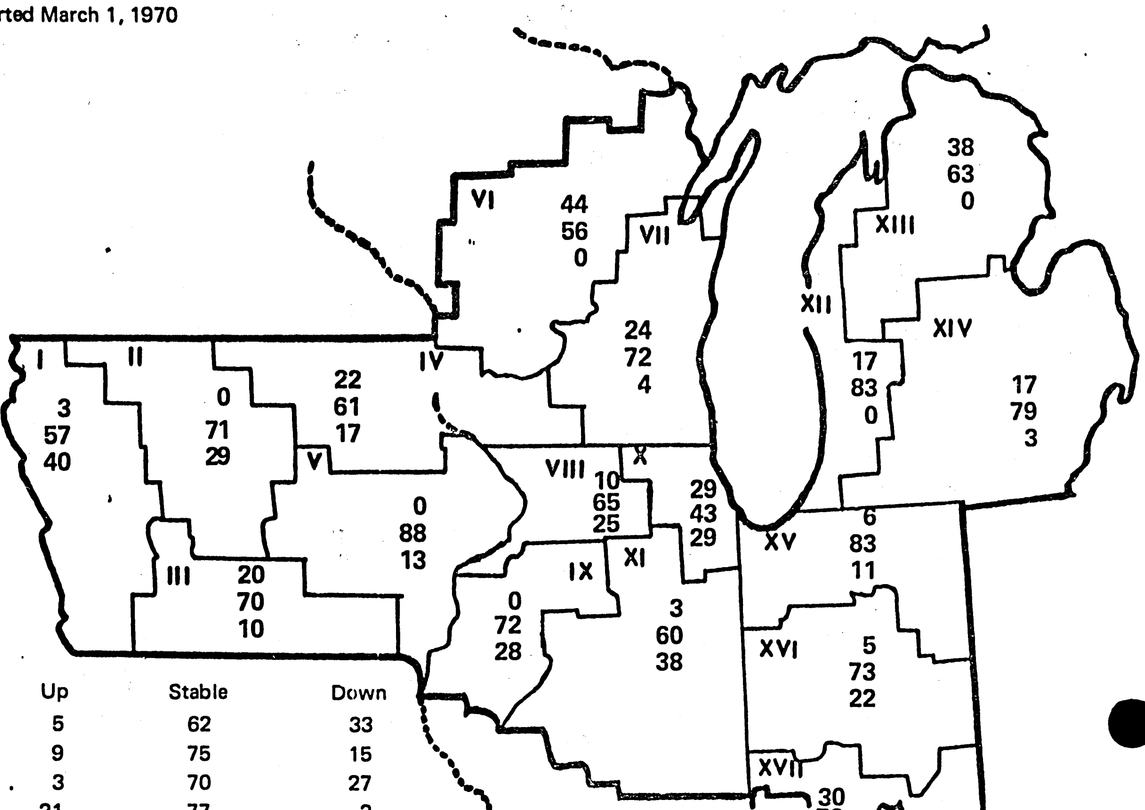



| | January 1, 1970 to April 1, 1970 | April 1, 1969 to April 1, 1970 |
|---|---|---|
| Illinois | 0 | 0 |
| Indiana | –2 | –2 |
| Iowa | 0 | 1 |
| Michigan | 1 | 1 |
| Wisconsin | 6 | 7 |
| SEVENTH DISTRICT | 1 | 1 |

Current trends in farmland values based on opinions of country bankers as reported March 1, 1970

Percent of banks reporting:

TOP: Up
CENTER: Stable
BOTTOM: Down




| | Up | Stable | Down |
|---|---|---|---|
| Illinois | 5 | 62 | 33 |
| Indiana | 9 | 75 | 15 |
| Iowa | 3 | 70 | 27 |
| Michigan | 21 | 77 | 2 |
| Wisconsin | 38 | 60 | 2 |
| SEVENTH DISTRICT | 11 | 68 | 21 |

Note: Totals may not add due to rounding.