

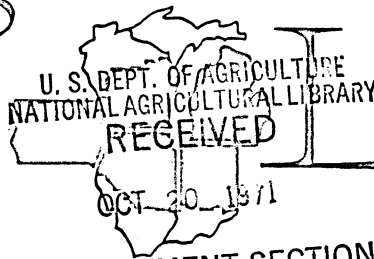
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Federal Reserve Bank of Chicago - -

July 23, 1971

Agricultural Letter



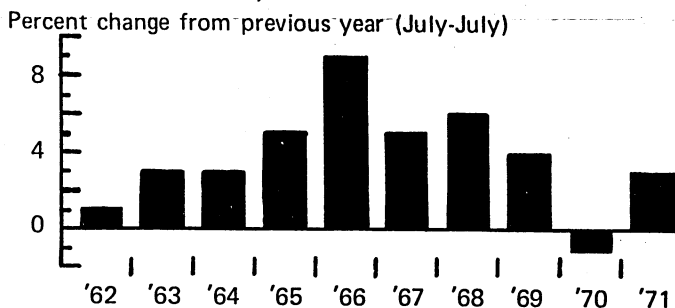
PROCUREMENT SECTION
CURRENT SERIAL RECORDS

Number 1127

FARMLAND VALUES in the Seventh Federal Reserve District continued to rise during the second quarter. According to a July 1 survey of over 300 agricultural banks, the average value of good farmland increased 2 percent from April 1, and 3 percent from a year ago. This was the third consecutive quarterly increase and highlights the reversal in a previously sluggish farmland market.

Although most of the increase from a year ago has occurred since January, the 12-month rise follows a 1 percent decline in the comparable period of 1969-70. Even so, this is the smallest increase since a similar 3 percent rise in 1963-64.

District Land Values Improve



The recovery in land values varied considerably between district states. Farmland in Michigan and Wisconsin rose 6 percent from year-ago levels, while values in Illinois increased 4 percent. Bankers in Indiana reported land values increased 2 percent, and those in Iowa reported no change from year-ago levels. (See back of Letter)

The increased availability of mortgage money and lower interest rates are perhaps the major factors contributing to higher land values. These trends, which started in late-1970, continued into the first half of the current year. For example, new money loaned by the Federal Land Banks during the first four months of 1971 rose to \$416 million—nearly 30 percent above the comparable period in 1970. This increase was even more pronounced in the five district states, where new money loaned increased nearly 76 percent. This surge in borrowing is undoubtedly fostered by lower interest rates. As of May, interest rates charged by the Federal Land Banks ranged from 7.5 to 8 percent, compared to rates of 8.5 to 9 percent in 1970.

The lower interest rates on real estate loans was also confirmed by bankers responding to the recent survey. While over one-fifth of the bankers were charging more than 8 percent on new real estate loans made in June 1970, only 5 percent reported charging similar rates last month. These lower rates have reduced the pressure on usury ceilings in most states.

Expectations of favorable farm prices and incomes, and the desire to achieve scale economies, most likely have contributed to the rising land values. In both 1969 and 1970, net income per farm stood at \$5,563—33 percent above the annual average for the 1960s. In addition, current price levels of most crops tend to enhance farmers' expectations. In mid-June, the index of prices received by farmers for feed grains was more than one-fifth above the year-ago level.

Interest Rates Lower at Many District Banks

	Percent of banks charging specified rates in*		
	June 1971	March 1971	June 1970
7 percent or less	9	8	9
7.1-7.5 percent	44	34	15
7.6-8.0 percent	44	49	54
Over 8 percent	5	10	22

*Totals may not add to 100 due to rounding.

Nonagricultural interests also play an important role in changes in farmland values—especially in Michigan and Wisconsin. Lakes, wildlife cover, and open spaces in these states provide tourist and recreational attractions. Between 1964 and 1969, a larger population fortified with larger per-capita incomes and more leisure time caused recreational expenditures to rise 48 percent. This tends to enlarge the demand for land suitable for conversion into recreational facilities. Although the less productive farmland may be preferred for this type of development, at least a portion of the higher prices that result are incorporated into the value of more productive land.

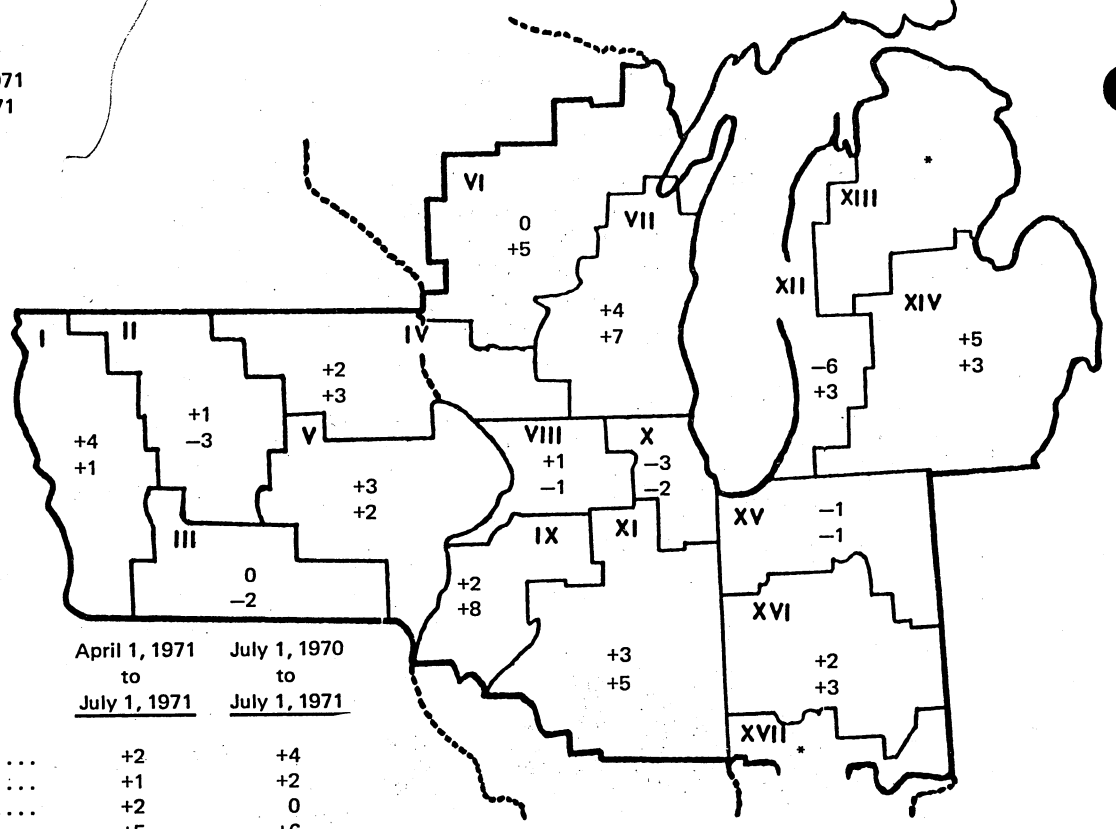
In the opinion of an increasing number of bankers, land values will likely show further increases during the remainder of the year. Three-fourths of the bankers responding to the recent survey felt that land values would be stable during the next three months. Only 1 percent anticipated declines, and 16 percent expected increases. This is the largest percentage anticipating increases since the July 1969 survey, and the smallest percentage expecting decreases since July 1967. Whether or not these expectations are fulfilled depends largely upon the continued availability of mortgage money and stable or declining interest rates. Long-term rates have undergone some upward adjustments, however. For example, yields on new issues of corporate Aaa bonds recently have been averaging 7.8 percent, compared to their 1971 low of 6.8 percent.

Special reports based on the 1969 Census of Agriculture, highlighting changes in Illinois and Wisconsin agriculture are available. Similar reports will be prepared for each of the other district states as data become available. Free copies may be obtained from the Research Department, Federal Reserve Bank of Chicago, Box 834, Chicago, Illinois 60690.

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Percentage change in the dollar value of "good" farmland

TOP: April 1, 1971 to July 1, 1971
 BOTTOM: July 1, 1970 to July 1, 1971



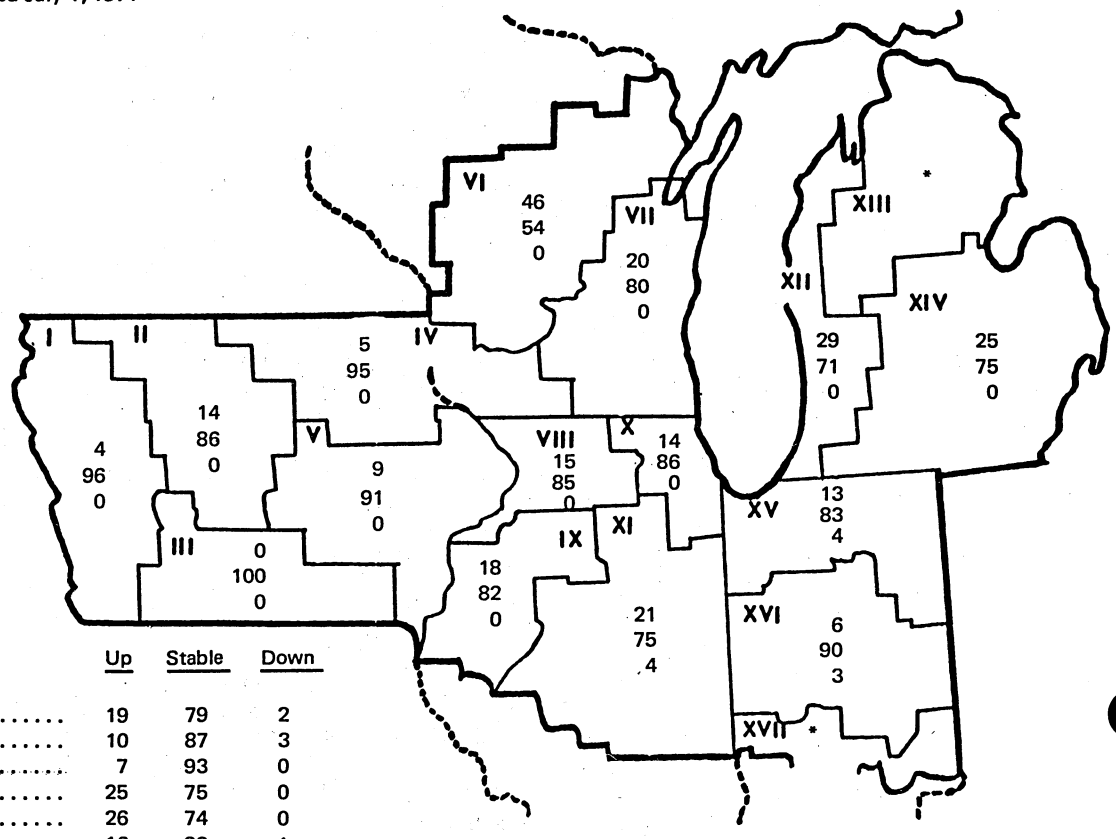
Illinois	+2	+4
Indiana	+1	+2
Iowa	+2	0
Michigan	+5	+6
Wisconsin	+2	+6
SEVENTH DISTRICT	+2	+3

*Insufficient number of banks reporting.

Current trend in farmland values based on opinions of country banks as reported July 1, 1971

Percent of banks reporting:

TOP: Up
 CENTER: Stable
 BOTTOM: Down



	Up	Stable	Down
Illinois	19	79	2
Indiana	10	87	3
Iowa	7	93	0
Michigan	25	75	0
Wisconsin	26	74	0
SEVENTH DISTRICT	16	83	1

*Insufficient number of banks reporting.

Note: Totals may not add to 100 due to rounding.