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Agricultural Letter

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prices
FARMLAND VALUES, while continuing their upward pace, slackened appreciably during the fourth quarter of 1974. According to a January survey of nearly 700 Seventh District agricultural bankers, the value of good district farmland rose slightly less than 3 percent, down sharply from the 8 percent increase reported during the third quarter. Furthermore, this is the third consecutive quarterly survey indicating a drop in the annual rate of farmland appreciation.

Slowdowns in rates of advance were particularly evident in Michigan and Wisconsin, where bankers reported virtually no rise in values during the fourth quarter. (See back of Letter.) Farmland values in Illinois, Indiana, and Iowa rose 3 percent, 4 percent, and 5 percent, respectively.

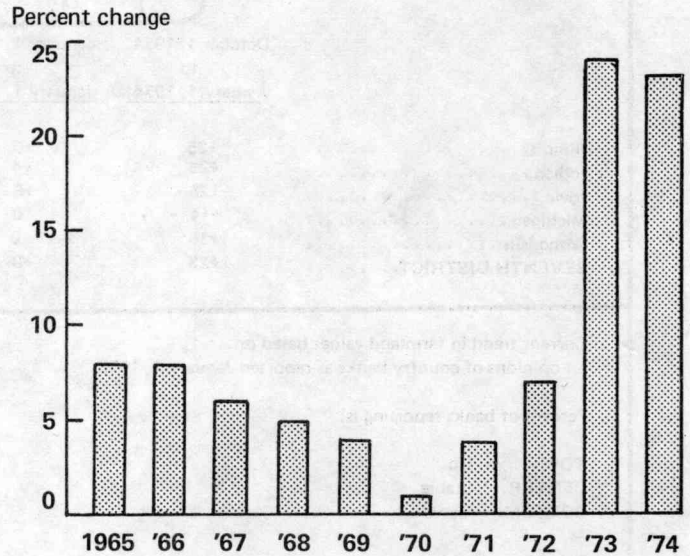
Seventh District bankers also indicated that the number of farms sold during 1974 was off slightly from 1973. (Two states, Michigan and Wisconsin, were responsible for most of the decline.) This situation corresponds with a recent USDA report indicating that while the supply of farms offered for sale in the nation remained virtually unchanged, fewer people were looking for farmland.

Contributing to the marked slowdown in land value appreciation was the fact that agricultural prices trended downward during the fourth quarter. More importantly, however, might be the longer-term outlook for the economy and for the agricultural sector in particular. Continuing recession and increasing unemployment suggest that expansion in domestic demand for agricultural products will be limited during 1975. The cost of farm production inputs, nevertheless, continues to increase with only limited relief in sight. World demand may wane as a result of the deteriorating international economic situation. Exports have accounted for about one-fourth of the total value of U.S. agricultural production in recent years.

The surge in farmland values in the last two years—up nearly 50 percent—can be compared to only two other periods in this century. During 1919-20 and 1951-52, farmland values measured nationally rose about 30 and 25 percent, respectively. In both periods crop prices increased sharply and substantial inflationary pressures were evident throughout the general economy. Both periods were followed by drops in crop prices and declines in inflationary pressures. Land prices dropped sharply after 1920 and did not return to their 1920 levels until 1951. The adjustment

after 1952 was much less severe. Prices stabilized for a couple of years and then a slow but steady growth pattern emerged.

prices
Unprecedented Gains in Farmland Values Span Two Consecutive Years



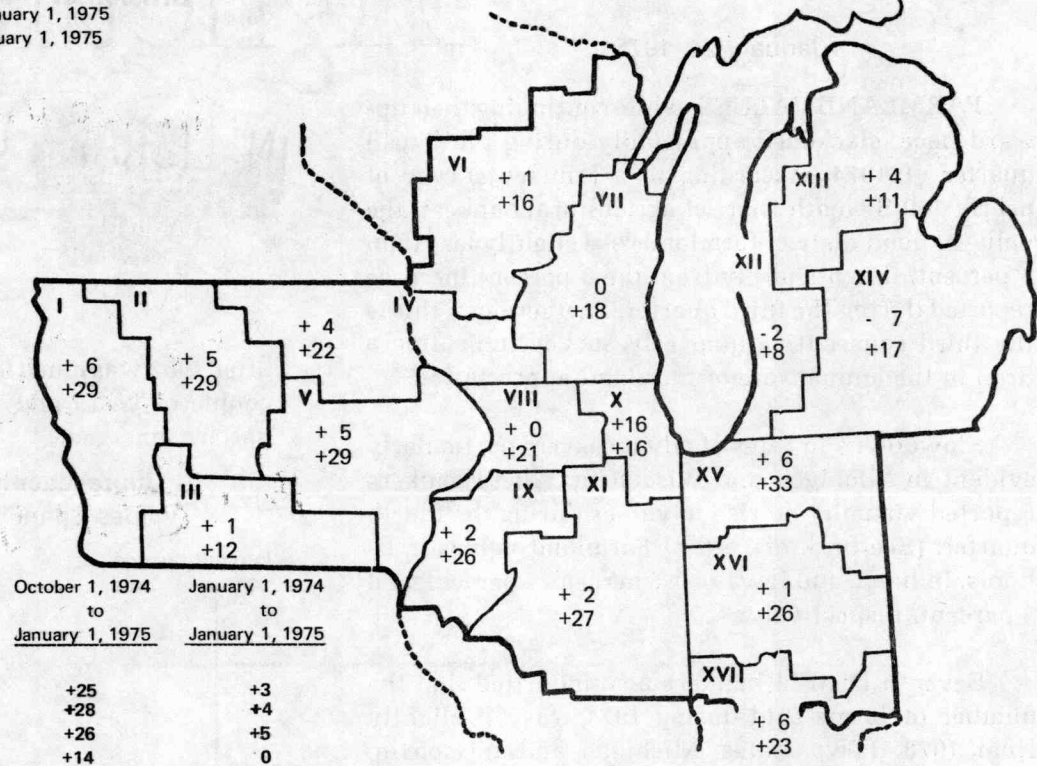
Note: Based on quarterly land value survey, Federal Reserve Bank of Chicago.

Although neither of the two periods are direct parallels of the past two years, it seems likely that substantial adjustments in the rate of increase in land appreciation will be forthcoming in the near future—and the latest survey tends to confirm this. Over three-fourths of the bankers responding to the survey felt that farmland values would stabilize in the first quarter of 1975; about 14 percent suggested farmland values might continue to rise, while nearly 10 percent thought values might decline. Given the aggregate increase in farmland values over the past two years, the recent downward trends in livestock production, weakening crop prices, and the high degree of uncertainty in domestic and world economic conditions, it appears that near-term upward pressures on farmland values may diminish. Accumulating circumstances suggest that farmland prices will likely remain near current levels during 1975.

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Percent change in dollar value of "good" farmland

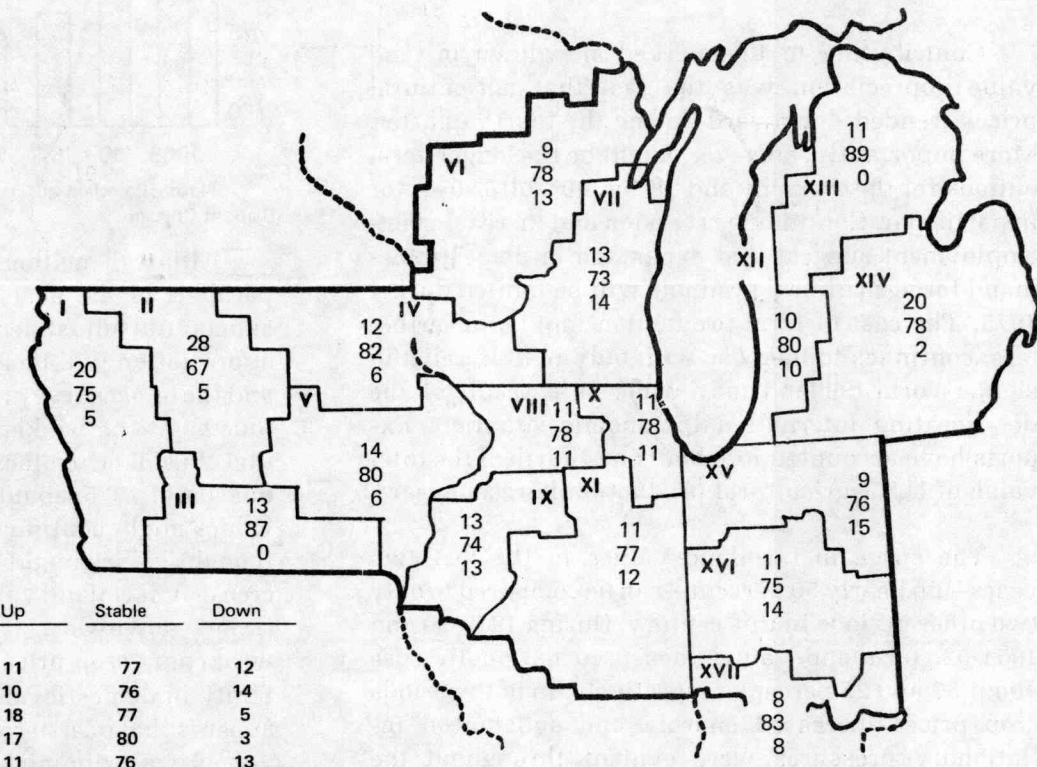
TOP: October 1, 1974 to January 1, 1975
 BOTTOM: January 1, 1974 to January 1, 1975



	October 1, 1974 to January 1, 1975	January 1, 1974 to January 1, 1975
Illinois	+25	+3
Indiana	+28	+4
Iowa	+26	+5
Michigan	+14	0
Wisconsin	+16	0
SEVENTH DISTRICT	+23	+3

Current trend in farmland values based on opinions of country banks as reported January 1, 1975

Percent of banks reporting is:
 TOP: Up
 CENTER: Stable
 BOTTOM: Down



	Up	Stable	Down
Illinois	11	77	12
Indiana	10	76	14
Iowa	18	77	5
Michigan	17	80	3
Wisconsin	11	76	13
SEVENTH DISTRICT	14	77	9

Note: Totals may not add due to rounding.