FARM and RANCH BULLETIN

Federal Reserve Bank of Dallas

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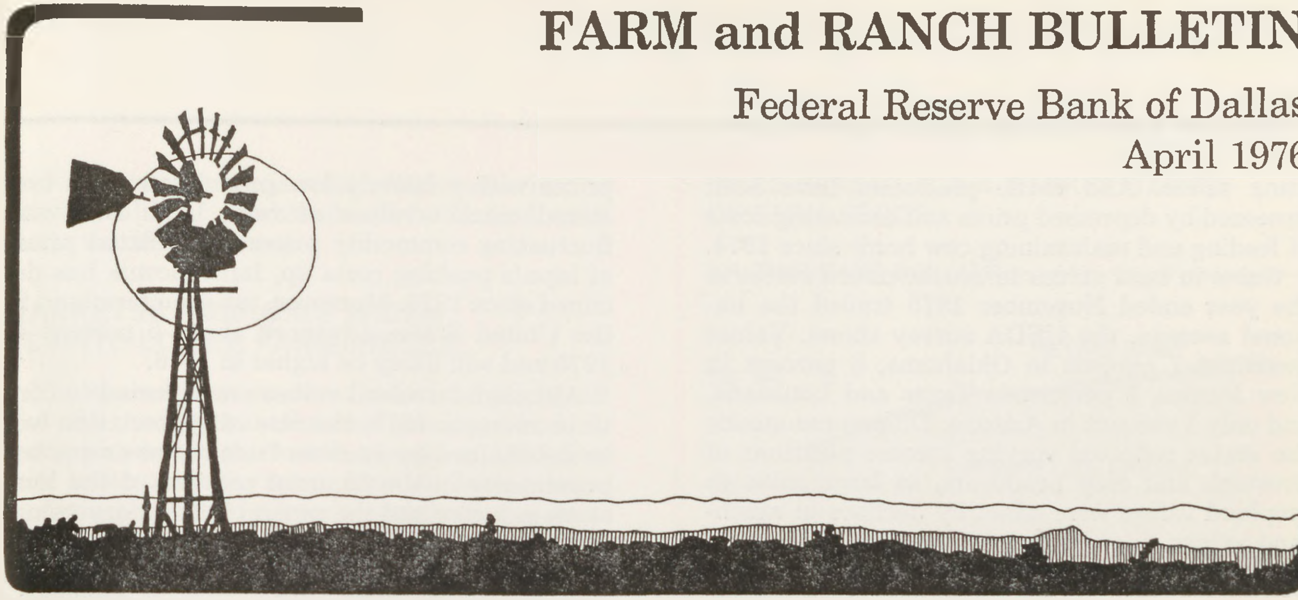


RISE IN FARMLAND VALUES SLOWS AS FARM INCOME SLIDES

Farmland values in the United States continued rising in 1975 but at a slower pace than in recent years. The rate of increase in land values had begun easing in 1974, when net farm income dropped from its record high in 1973. Appreciation in rural land values was also tempered by the slowdown in the general economy in 1974 and early 1975.

National survey

According to a recent U.S. Department of Argriculture survey, the average per-acre value of the nation's farm and ranch land rose 12 percent in the year ended in November 1975, well below the 21-percent gain for the previous 12 months. Where the monthly rate of increase was 1.75 percent between November 1973 and November 1974, it dropped to 1 percent by November 1975. However, the average price of rural land in the United States has nearly doubled since November 1969.

Even though grain prices weakened in the second half of 1975, states in the major grain-producing areas—the Northern Plains and the Corn Belt—registered the largest increases in per-acre values. North Dakota and Indiana, with 27 and 25 percent increases, had the largest year-to-year gains. And farmland values in Iowa, Minnesota, Illinois, and West Virginia also increased over 20 percent. Moreover, cropland values increased more than grazing land in the states where livestock makes an important contribution to income.

Most respondents to the USDA survey expected farm and ranch land values to increase or remain unchanged in coming months. Only 6 percent of them believed values would fall.

The number of potential buyers of farm real estate increased moderately in the year ended November 1975. But the number of farms and ranches offered for sale was essentially the same as a year earlier. And credit remained readily available despite slightly higher interest rates on farm mortgage loans.

Appreciation in farm real estate values in the Southwest has been curtailed by low farm and ranch income in 1974 and 1975. Incomes of cotton growers have been reduced by low output and more costly inputs in the past two years, while grain farmers have been faced with fluctuating prices. And cattle producers have been squeezed by depressed prices and escalating costs of feeding and maintaining cow herds since 1974.

Gains in land values in southwestern states in the year ended November 1975 trailed the national average, the USDA survey shows. Values increased 7 percent in Oklahoma, 6 percent in New Mexico, 3 percent in Texas and Louisiana, and only 1 percent in Arizona. Differences among the states reflected varying income positions of livestock and crop producers, as large gains in cropland values were offset by declines in ranchland values.

Southwest survey

According to a January 1976 survey of Eleventh District commercial bankers conducted by the Federal Reserve Bank of Dallas, the average per-acre values of farmland in the Southwest rose less than 5 percent from January 1975 to January 1976. Dryland cropland and ranchland values advanced 3 percent, while irrigated land appreciated 5 percent.

Survey respondents expected only moderate increases in farmland values this spring. Sixteen percent expected an upward trend in farmland values, while 81 percent believed values would not change. And 3 percent indicated rural land values would drop.

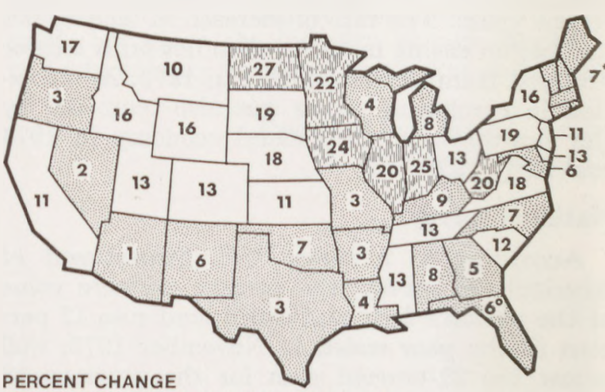
The change in farmland values last year varied across the Southwest. Respondents in East Texas reported marginal price declines in dryland farmland and ranchland. In Upper South Texas, the Upper Coastal Prairie, and the Northern Blacklands of Texas land values were stable. Locales with the largest gains in land values were the Lower Rio Grande Valley, Southern New Mexico, and the Northern High Plains.

Outlook uncertain

The acceleration in land values that began in 1972 can be largely attributed to record farm prices. Before costs of inputs—fuel, fertilizer, labor, equipment, and building materials—began climbing rapidly in early 1973, high farm prices with relatively low production costs bolstered market values of rural land. But with fluctuating commodity prices and inflated prices of inputs pushing costs up, farm income has declined since 1973. Moreover, taxes on farmland in the United States advanced about 5 percent in 1975 and will likely be higher in 1976.

Although farmland values are expected to continue rising in 1976, the rate of appreciation will be determined by incomes from major crops, improvements in the financial position of the livestock industry and the general inflationary trend. But the rise in rural land prices in the High Plains of Texas, New Mexico, Oklahoma, and Kansas could be dampened by drouth conditions that already have curtailed wheat production,

INCREASE IN AVERAGE PER-ACRE VALUE OF FARMLAND



PERCENT CHANGE
NOVEMBER 1975 FROM NOVEMBER 1974

0 – 9

10 – 19

20 – 27

°Average of Georgia and Alabama indexes

*Average for Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, and Connecticut

SOURCE: U.S. Department of Agriculture

thus reducing farm income. And gains in the market value of ranchland will be limited until cattle markets improve.

MARKETING MARGINS WIDEN DESPITE LOWER FARM PRICES

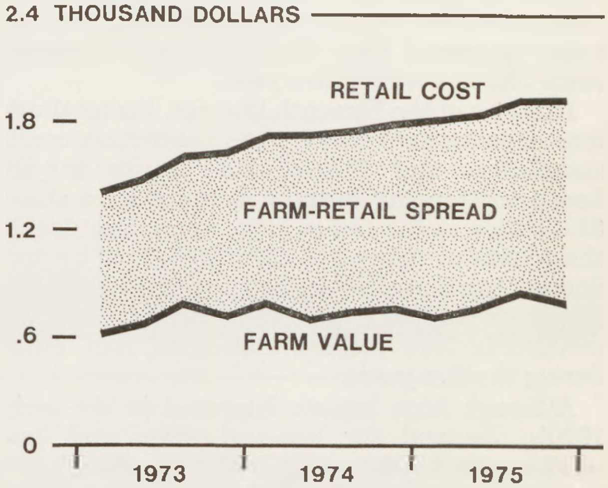
The spread between farm value and the retail cost of a market basket of food produced on U.S. farms widened in the fourth quarter of 1975. Despite lower prices for many farm products—hogs, broilers, wheat, and oilseeds—marketing spreads for all foods were pressured by rising nonfarm costs of packaging materials, energy, interest rates, and transportation. And labor costs, the biggest nonfarm expense for food marketing firms, accelerated last year.

The rate of gain in prices of materials and services purchased by food marketing firms is expected to slow as inflationary pressures on the economy ease. Therefore, growth in marketing spreads this year may be moderately less than the 9-percent increase last year.

Retail costs of a market basket of food—the average quantities of U.S. farm-originated foods purchased annually per household—averaged $1,923 in the fourth quarter of 1975, 2 percent higher than in the third quarter and 7 percent higher than a year earlier. Meanwhile, the farmer's share averaged $804, 4 percent lower than in the third quarter and only 6 percent above a year earlier. Consequently, the farm-retail spread was $1,119 at the end of 1975, 3 percent more than $1,082 at the end of the third quarter. In addition, the farmer's share of each dollar that consumers spent for food in 1975 averaged 42 cents—down 15 cents from 1974.

Marketing is a complex process involving assembling, processing, transporting, storing, distributing, and selling food commodities. And marketing margins reflect the added costs of moving food products from farms to consumers in the package, form, and size demanded. Therefore, prices consumers pay for food reflect more than the farm value of products.

PRICE SPREAD FOR A MARKET BASKET OF FARM FOODS



SOURCE: U.S. Department of Agriculture

Seasonal or cyclical changes in prices of crop and livestock products are likely to cause short-term changes in consumer food prices. But changes in the costs and profits of marketing firms are more likely to cause long-run changes in food prices. Generally, farm prices fluctuate upward and downward, reflecting changing supplies of crop and livestock products. But rising food marketing costs are closely linked with nonfarm costs. Moreover, retail prices tend to increase over time, but when reductions do occur, they usually lag farm price declines.

FARM CREDIT SYSTEM UPS SHARE OF FARM LOANS

Growth in lending by the Farm Credit System has increased faster than lending by commercial banks in recent years. Agricultural loans in the United States held by production credit associations and Federal land banks—two branches of the cooperative Farm Credit System—more than doubled from the beginning of 1971 through 1975, increasing from $12.5 billion to $27.4 billion. Loans held by commercial banks, on the other hand, increased from $14.9 billion to around $26.0 billion over the five years.

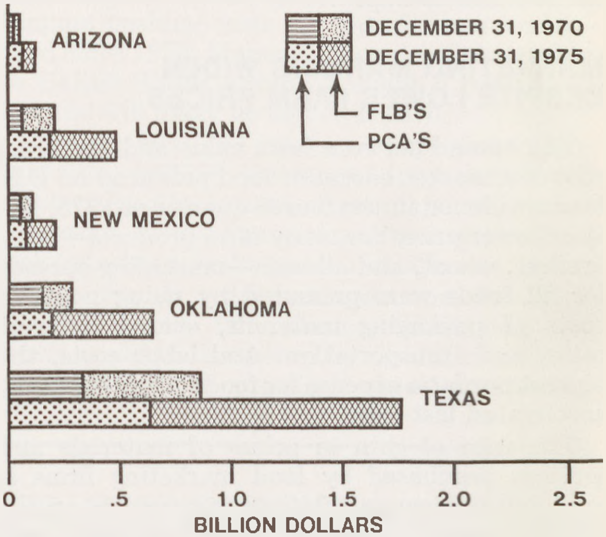
In states of the Eleventh District, the total volume of loans extended by the production credit associations and Federal land banks surged. Loans outstanding in the five states were about $3.3 billion at the end of 1975, more than double the volume at the end of 1970. Debt held by production credit associations tripled in Arizona and Louisiana, and loans held by Federal land banks doubled in New Mexico, Oklahoma, and Texas during the five years.

Although farm income improved in the early 1970's, demand for non-real-estate and real estate credit has accelerated. Highly inflated production costs and skyrocketing farmland values have increased the credit needs of operators.

Farmland prices have almost doubled since November 1969. And with the trend toward consolidating farms and ranches, demand for long-term credit has risen. Short and intermediate credit requirements have grown with increasing operating and machinery costs. Prices paid for all commodities and services have risen about 62 percent, and fertilizer costs have increased more than twofold. And with increased mechanization of farm and ranch operations, machinery prices have advanced 75 percent. In addition, agribusiness industries have expanded their operations, requiring large amounts of capital and credit.

To meet the growing needs for farm credit, production credit associations, Federal land banks, and commercial banks have expanded their loan volumes, albeit at different rates. The Farm Credit System, a nationwide operation with local and regional offices, obtains funds mainly by selling securities in money and capital markets. Through this System, the farming sector has a flexible supply of funds at a cost closely linked with interest rates in the national money markets. Since production credit associations and Federal land banks specialize in extending loans to farmers and ranchers, their staffs can efficiently provide credit to agriculture.

LOANS HELD BY FEDERAL LAND BANKS AND PRODUCTION CREDIT ASSOCIATIONS



SOURCE: Farm Credit Administration

Commercial banks, especially those in rural areas, tend to obtain most of their loanable funds from deposits of individuals and businesses in the community. The bank serves as an intermediary between local savers and borrowers. Through a system of correspondent banking relationships, however, banks can obtain funds nationwide. Loanable funds at banks, nevertheless, are affected by the rate of deposit growth and the relative strength of loan demand from other sectors. And the aggressiveness with which bankers make farm loans depends largely on alternative uses and demand for funds.

Prepared by Alan M. Young