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DC BRANCH

Federal Reserve Bank of Chicago - -

October 26, 1973



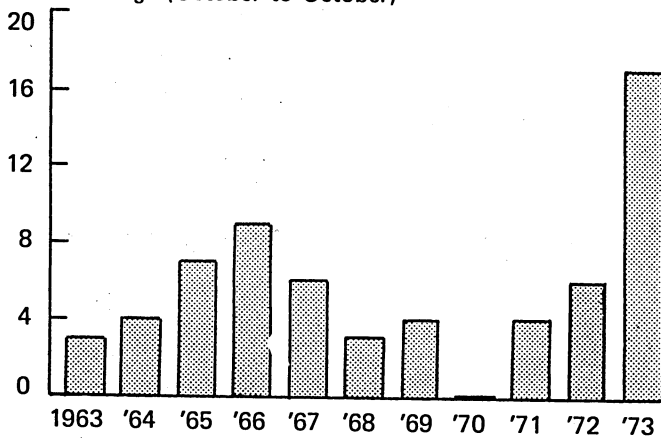
Number 1245

**FARMLAND VALUES** in the Seventh District rose sharply in the third quarter of 1973. The October 1 Federal Reserve Bank of Chicago survey of nearly 750 bankers indicated that the value of good farmland rose 8 percent during the third quarter of 1973 and is up 17 percent from a year earlier. The price increases for both periods were the largest recorded in the survey.

All 17 areas surveyed showed an increase in both the quarterly and year-to-year periods. (See back of *Letter*.) Bankers in Illinois and Iowa reported the largest increases, up 19 percent from a year-ago in both states. Indiana, Michigan, and Wisconsin recorded annual increases of 16, 14, and 13 percent, respectively. Seventh District year-to-year land values have risen at an increased rate for the fifth quarter in a row.

**Farmland Value Accelerates in 1973**

Percent change (October to October)



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

A rapid increase in farm commodity prices and expectations for continued higher prices have undoubtedly provided the major impetus to this upsurge in land prices. Net farm income in 1973 is likely to exceed \$24 billion, up over 20 percent from 1972. At the end of August, marketing cash receipts in Seventh District states were up more than one-third from the same year-ago period. Seventh District crop cash receipts grew at a faster pace than the national average, up 52 percent as compared to 39 percent nationally, while livestock receipts—up 24 percent—increased at the same rate as recorded on the national level. Total cash receipts received from marketings by farmers in Seventh District states were up \$2.5 billion at the end of August, totaling just over \$10 billion. One-half of this increase came from livestock and related product sales and the other half came from crop sales. Although the cost of farm production inputs is also up sharply, 22 percent in 1973 to date, farm profits remain viable as indicated by the increase in net farm income.

Rising interest rates apparently have been little deterrent to increasing farmland values. While interest rates on farm

mortgages were relatively stable throughout the first quarter of 1973, rates of all major institutional lenders have risen within the last six months. During the first half of 1973, Federal Land Bank (FLB) interest rates on farm mortgages ranged from 7 to 7½ percent. Effective September 1, 1973, FLB interest rates rose to a 7½ to 8 percent range. Life insurance commitments as of June 30, 1973 carried an average interest rate of nearly 8½ percent, up nearly ¼ percent from the first-quarter average. Banks have raised average interest rates on farm mortgages approximately ¾ percent in the last six months. On October 1, 1973, over half of the banks responding to Land Value and Credit Conditions Survey charged over 8 percent interest for farm mortgage loans. Just one year ago, only 1 percent of the bankers responding charged over 8 percent interest on farm mortgage loans.

Seventh District agricultural bankers continue to expect further increases in farmland prices in the fourth quarter. Fifty-six percent of the survey respondents anticipate additional increases in farmland value, while 43 percent expect prices to stabilize. This is almost exactly the same response to this question as in the two previous quarterly surveys.

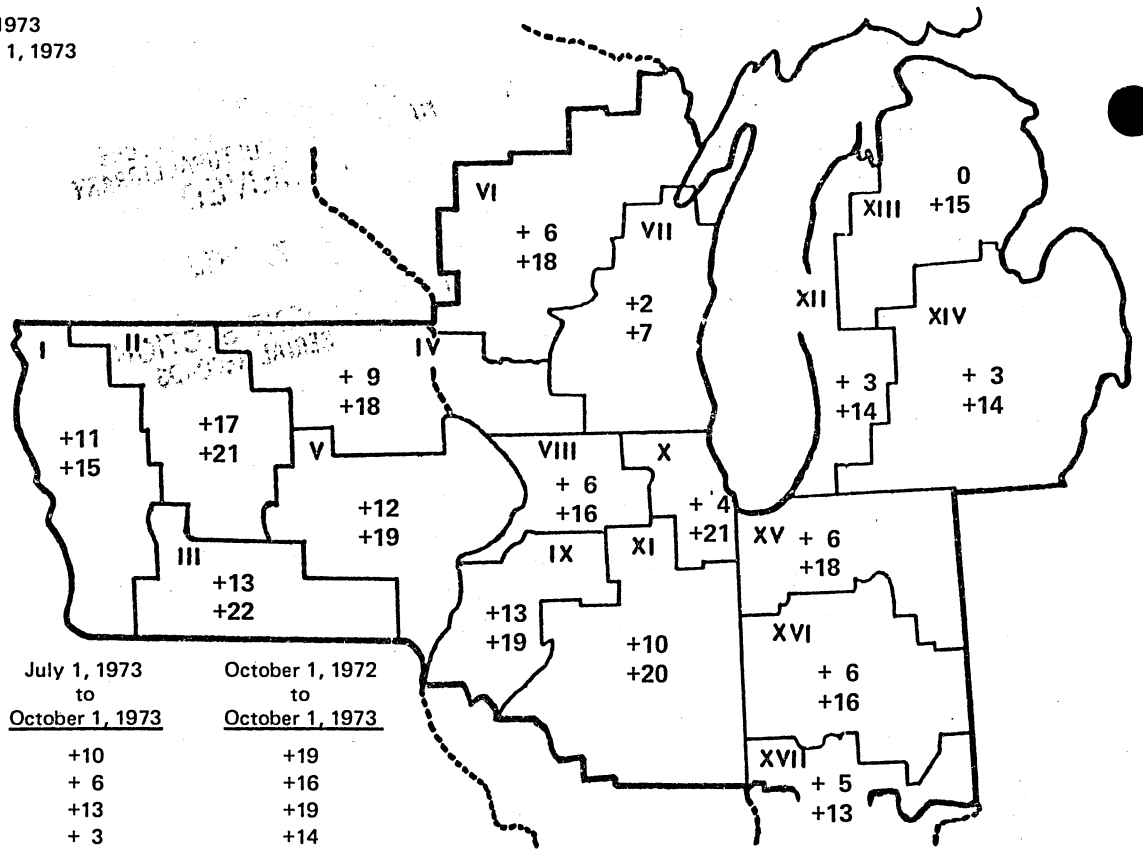
The majority of Seventh District agricultural bankers, 62 percent, anticipate that farm mortgage loan volume will be about the same in the fourth quarter as it was in the same year-ago period. About one-fifth of the respondents expect a higher volume of loans, while about the same proportion expect a reduced volume of farm mortgage loans in the fourth quarter.

Upward pressures on land prices probably will continue throughout the fourth quarter. Although available loan funds will likely remain relatively tight, available internal funds generated by rising farm income will be up sharply. Current crop price levels provide significant incentive to bid up farmland prices as farmers attempt to expand. A sharp increase in 1973 year-to-date farm machinery sales suggests that many farmers may be attempting to increase the size of their basic operation so they can further enhance the productive capacity of their newly acquired tractors and equipment; another positive factor that will continue to add upward pressure to land prices. The only negative factor appears to be the current high interest rates, a condition that has had little effect on rising farmland values so far this year.

Terry Francl  
Agricultural Economist

Percent change in dollar value of "good" farmland

TOP: July 1, 1973 to October 1, 1973  
 BOTTOM: October 1, 1972 to October 1, 1973



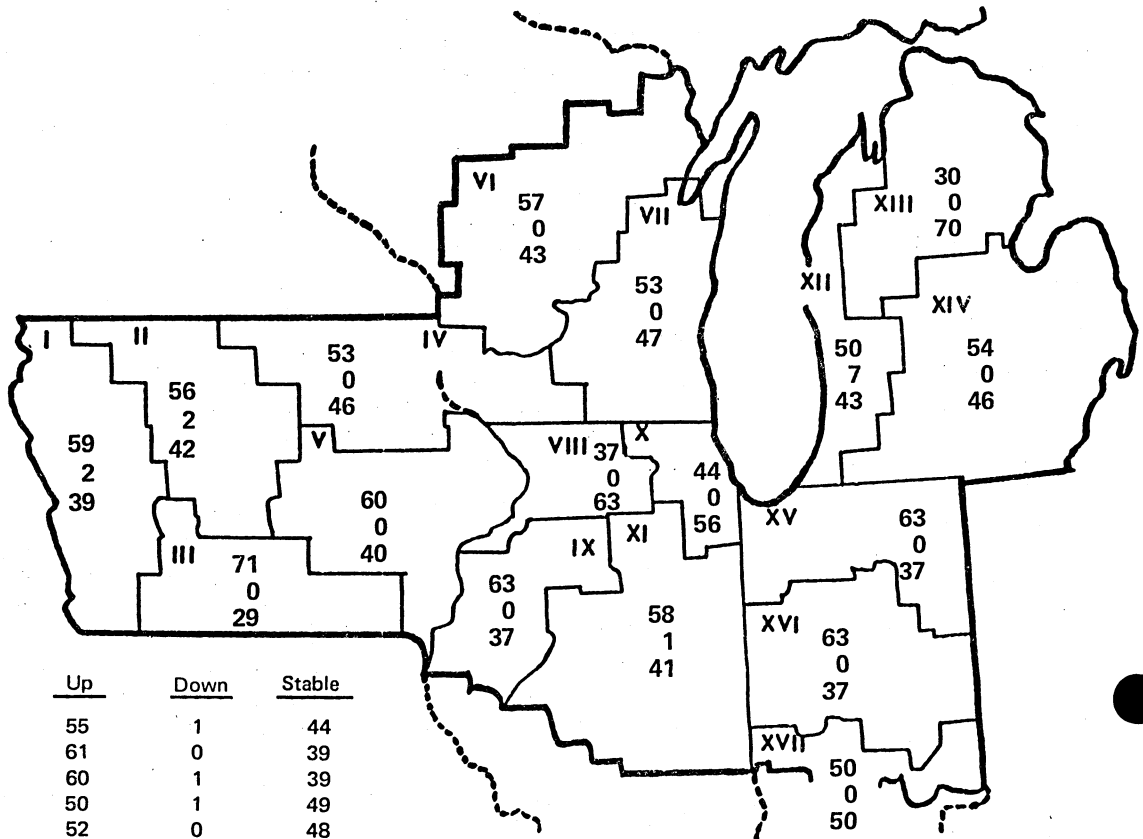
July 1, 1973 to October 1, 1973      October 1, 1972 to October 1, 1973

Illinois .....	+10	+19
Indiana .....	+6	+16
Iowa .....	+13	+19
Michigan .....	+3	+14
Wisconsin .....	+4	+13
Seventh District .....	+8	+17

Current trend in farmland values based on opinions of country banks as reported October 1, 1973

Percent of banks reporting is:

TOP: Up  
 CENTER: Down  
 BOTTOM: Stable



Up      Down      Stable

Illinois .....	55	1	44
Indiana .....	61	0	39
Iowa .....	60	1	39
Michigan .....	50	1	49
Wisconsin .....	52	0	48
Seventh District .....	56	1	43