ILLINOIS FARM AND FOOD OUTLOOK

COLLEGE OF AGRICULTURE
DEPARTMENT OF AGRICULTURAL ECONOMICS

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OUTLOOK FOR FARMLAND PRICES--OR HOW HIGH IS UP?

RECENT SALES (LATE SUMMER AND EARLY FALL) in east-central Illinois have registered record prices paid for farmland. The USDA index of land values for Illinois stood at 209 in March, 1975 (when March, 1967 = 100), and observations suggest that the market is now well above that level. The outlook in the farmland market is thus a question of "Where do you go from the top?"

The present strength in the farmland market can be viewed as a short-term response to high yields and favorable prices, at least in east-central Illinois. However, land is not bought and paid for out of one year's crop, even though the incomes from the 1975 crop may contribute equity dollars toward the purchase of additional land by many Illinois farmers.

Land prices appear to rest on a more optimistic outlook for an enduring export demand for U.S. farm products. Just what long-term price expectations for commodities are held by farmers and potential land buyers is not known, but we are of the opinion that they are higher now than they were early in the summer of 1975 before the Soviet Union entered the market.

One can postulate expectations of continued inflation and capital gains in land values; and if these materialize, they would make investments in land attractive and thus give support to farmland prices. This is true, but farmers and other land buyers are equally or more aware of the need to meet the cash-flow requirements in the purchase of land; hence, the sensitivity of land prices to the tone of commodity markets. Gains in the capital value of land may well justify premium prices, but they do not generate the dollars to meet the payments. The outlook for farmland is, therefore, closely tied to commodity prices and to the level of net incomes they help generate.

Are we suggesting that the current high levels of net farm income will continue? No, we are not! We do expect, however, that as farm costs rise and net returns shrink, there will still be enough cash flow dollars to amortize the purchase of land at current prices. Continued inflation, on the other hand, should exert an upward push on commodity prices as well as on farm costs.

Two additional potential price-depressing factors must be recognized. One is high mortgage interest rates, and the other is the probability of higher real estate taxes. Interest rates now developing in the central money markets can only mean firm or rising mortgage interest rates. This can aggravate the cash-flow problems of the low-equity buyer if the rates of return on land prices are substantially below mortgage rates.

Illinois will be going through a reassessment of real property in response to the newly legislated assessment level of 33-1/3 percent of the fair market value. An equitable assessment of farmland relative to nonfarm real estate will almost certainly increase the tax base for farmland.

On balance, farmland is likely to enjoy a sufficient income base to maintain values in the near future. Beyond that, as the economy seeks new equilibrium positions, there appears to be room for modest rates of growth in value even from these admittedly high levels.

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