

Eleventh District Agricultural Land Values Turn Around At Last

In the 1970s, an agricultural export boom brought prosperity to the farm sector nationwide. Agricultural land values rose rapidly. In 1981, the export boom faded and farmers' asset values rapidly eroded in many parts of the U.S., particularly in the Midwest. By early 1987, land values bottomed out in the Midwest and then headed back up. In the Eleventh District, however, average farmland values did not start to decline until 1984, and only recently have turned up.

Land Values and Regional Economies

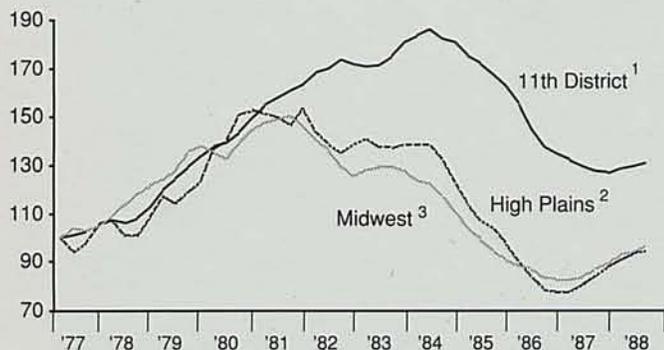
When the agricultural export boom fizzled in 1982, current farm income and the expectations of future growth in income fell. In the Midwest and the Texas High Plains, where agriculture is the dominant use of rural land, land values declined (*See Chart*). In the Eleventh District, however, land values in rural areas close to urban centers continued to rise. This increase

was driven by nonagricultural demands for commercial development, rural residences, and hobby farms and ranches. The higher values for farmland close to urban centers more than offset the declines elsewhere, and Eleventh-District-average values rose. District-average land values topped out in July 1984, as the construction sector of the economy nosedived. Although the District continued to grow for another year, after that it headed down, sealing the downturn in average farmland values.

passage of the Food Security Act of 1985, which ushered in a period of generous income support for farmers. The second was overseas economic growth, which restored foreign demand for U.S. farm output. The third was the decline of the U.S. dollar, which made U.S. agricultural products more competitive on world markets. In early 1987, farmland values began to rise in areas where land values are determined primarily by agricultural income streams, like the Midwest or the High Plains. District average values continued to fall, however, pulled down by the slumping economy. Given that rural land close to major urban areas was valued above its agricultural-use value, the recovery of the agricultural economy was not enough to offset the loss of nonagricultural demand for this land. In 1987, for example, farmland values in North Central Texas declined 8 percent while they rose 7 percent in the High Plains.

The Rise and Fall of Farmland Values

(Index—1977:Q1 = 100)



1. Eleventh Federal Reserve District (Texas, northern Louisiana and southern New Mexico)
2. Midwest is the Seventh Federal Reserve District (Iowa, plus portions of Wisconsin, Michigan, Illinois and Indiana)
3. Texas Southern High Plains—16 counties near Lubbock, Texas

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Farmland Values Rebound

Nationally, the recovery of farmland values was practically guaranteed by three events. One was the

By early 1988, District average farmland values finally started to rise. This turnaround was the result of continued growth in farmland values in regions like the High Plains, combined with the bottoming out of farmland values in several of the regions close to urban areas. At least three additional points are worth noting: one, farmland values in some areas of the District are still falling; two, the farmland values in regions influenced by nonagricultural demand not only increased more but also retained a greater percentage of their peak value than did land values in mostly agricultural areas; and three, the bottoming out of rural land values around areas like Dallas-Fort Worth is likely another sign that the region's economy is recovering.

—Hilary Smith

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