

# Farmland

## IN PERSPECTIVE

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### **G** GLAUB FARM MANAGEMENT

MANAGEMENT • REAL ESTATE • CONSULTING  
INVESTMENTS • LAND AUCTIONS

### *Insights on key trading partners*

U.S. and global trade are greatly affected by the growth and stability of world markets. Global food demand is most likely to be altered by changes in world population, economic growth, and income. Other factors affecting agricultural trade are global supplies and prices, changes in exchange rates, government support of agriculture, and trade protection policies.

With the productivity of U.S. agriculture growing faster than domestic food and fiber demand, U.S. farmers and agricultural firms rely heavily on export markets to sustain prices and revenues. Exports have exceeded imports by a large margin since 1973. Historically, U.S. imports have increased steadily, as demand for diversification in food expands. U.S. consumers benefit from imports because imports expand food variety, stabilize year-round supplies of fresh fruits and vegetables, and temper increases in food prices.

#### **Brazil**

The third largest agricultural exporter in the world — behind the United States and the European Union — Brazil ranks number one in world production and export of coffee, sugar, and frozen concentrate orange juice; number two in soybeans, tobacco, beef, and poultry; and is a major producer and exporter of corn, pork and cotton.

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## Several factors drive today's land prices

*by Michael Duffy • Extension Economist • Iowa State University*

In recent months, farmland has been generating considerable interest. In part, this is because farmland values are rising. However some individuals wonder whether or not agricultural land values are in a speculative bubble.

During 2010, land values increased significantly, as reported by various entities. The Chicago Federal Reserve estimates that land values in its district increased 3 percent in the third quarter of 2010 and 10 percent for the year from October 2009 to October 2010. The Kansas City Federal Reserve reported comparable increases in land values in its district, although non-irrigated land did not show as much increase in value as irrigated land. Wisconsin, Missouri and Oklahoma did not show the same level of increase as the other states in the district, but were up nonetheless. The Iowa State University land value survey reported a 15.9 percent increase in Iowa land values.

Land values have increased for many reasons, the major one being the rapid rise in commodity prices. From 2005 to 2009, the yearly average price for cotton increased 26 percent, rice 87 percent, corn 85 percent and soybeans 67 percent. From November 2009 to the preliminary November 2010 estimate, monthly cotton prices increased 35 percent, corn 26 percent and soybeans 18 percent. Only rice showed a decrease of 14 percent for the November-to-November 2010 preliminary price.

Input costs have increased during this time period, such as fertilizers and seeds, but studies show that land values most closely correlate with gross income. The land value increases we have seen are fueled by the level of commodity price increases.

Very low interest rates also contribute to the demand for land. The Chicago Federal Reserve Board reports the average real estate interest rate for the first half of 2010 was the lowest yearly rate recorded since 1974 when the data set began.

In addition, a fundamental shift in land supply and demand has occurred due to a lack of alternative investments. An analysis comparing the returns to Iowa farmland and the Standard and Poors index shows that farmland continues to be the more attractive investment. People who own land are not interested in selling, and people who don't own land are interested in buying for basically the same reason: they wonder where else to put their money.

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## Land Prices *cont. from page 1*

Another change in demand for land is the increase in the size of farming operations. As the operation size increases, so does the amount of rented land. One way to reduce the risks inherent in relying on rented land is to own more of the land being farmed.

Could the current increase in land values mean that we are experiencing a speculative bubble? Remember, while farmers are primary purchasers of farmland other investors continue to seek land as an investment option. Existing farmers purchase land for different reasons than pure investors. Farmers buy land to own it. The land becomes a part of their farming operation, retirement plan and legacy. As such, whether or not the land values increase or decrease does not prompt farmers to sell. The most important factor is the level of debt against the land. If income falls and the farmer can no longer service the debt, they may be forced to sell.

Currently, the amount of debt used to finance land purchases is not substantially increasing. The USDA forecasts national farm real estate debt will increase 3 percent in 2010

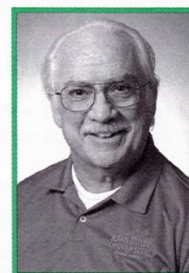
relative to 2009. Since 2006, the USDA estimates show a 10 percent increase in real estate debt. As a portion of total debt or in relation to the value of total assets, real estate debt has remained essentially unchanged since 2006.

For the next several months, land values should remain strong. Beyond that, whether or not land values continue the recent levels of increase is uncertain. Several key components merit watching. One is the amount of debt incurred with land acquisition. A second is government policies, especially policies related to energy. A third is what happens to input costs. Land is the residual claimant to any excess profits in agriculture. As such, if money remains after increases in other costs, land values will increase. The performance of the overall economy, especially with respect to income will be an important factor. Government monetary policies as they relate to inflation and interest rates will also be important factors to watch. The performance of the U.S. economy and economies throughout the world will impact commodity prices which impact land

values. Finally, weather related problems both here and worldwide will influence land values.

For farmers and investors, land value should be monitored, and buyers and sellers should analyze their potential purchases carefully, in line with their investment strategies. I do not think we need to be overly pessimistic or fear a crash in values. In 2009, land values dropped slightly. This shows discipline in the market. For now, land remains a good investment. The fundamental supply and demand factors currently appear strong.

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# 2010 Crop Production Summary

| Crop                 | Historic Size of Crop                       | Total Harvest             | Average Yield | Planted Acres      | Notes  |
|----------------------|---|---------------------------|---------------|--------------------|--|
| <b>Corn</b>          | 3rd largest in history                      | 12.4 billion bushels      | 152.8 bu/acre | 88.2 million acres | Total U.S. production was down 5% from the record high in 2009 with the U.S. average yield 11.9 bu/acre below 2009. Planted area was the second largest since 1946, behind 93.5 million acres record set in 2007.                              |
| <b>Cotton</b>        | Dramatic increase                           | 18.3 million 480-lb bales | 821lbs/acre   | 10.7 million acres | Cotton production climbed dramatically in 2010. Total U.S. production was up 50% from 2009 with average yields up 44 lbs/acre and harvested area up 42%.   |
| <b>Grain Sorghum</b> | Sharp decrease in planted & harvested acres | 345 million bushels       | 71.8 bu/acre  | 5.4 million acres  | Total U.S. production was down 10% from 2009, but average yield/acre was up 2.4% from 2009. Total acres planted decreased 19% from 2009 to the lowest planted area on record. The harvested area, 4.8 million acres, is the lowest since 1939. |
| <b>Rice</b>          | Largest in history                          | 243 million cwt           | 6,712 lb/acre | 3,636,000 acres    | Largest U.S. rice harvest recorded. The total acres planted were second only to 1981.  |
| <b>Soybeans</b>      | 2nd largest in history                      | 3.33 billion bushels      | 43.5 bu/acre  | 77.4 million acres | Total U.S. production was down 1% from the 2009 record high with an average yield 0.5 bushels below 2009.  |
| <b>All Wheat</b>     | Good year for U.S. production               | 2.21 billion bushels      | 46.4 bu/acre  | 54.3 million acres | Total U.S. production was down less than 1% from 2009, but average yield per acre was up 1.5 bushels from the previous record set in 2008.   |

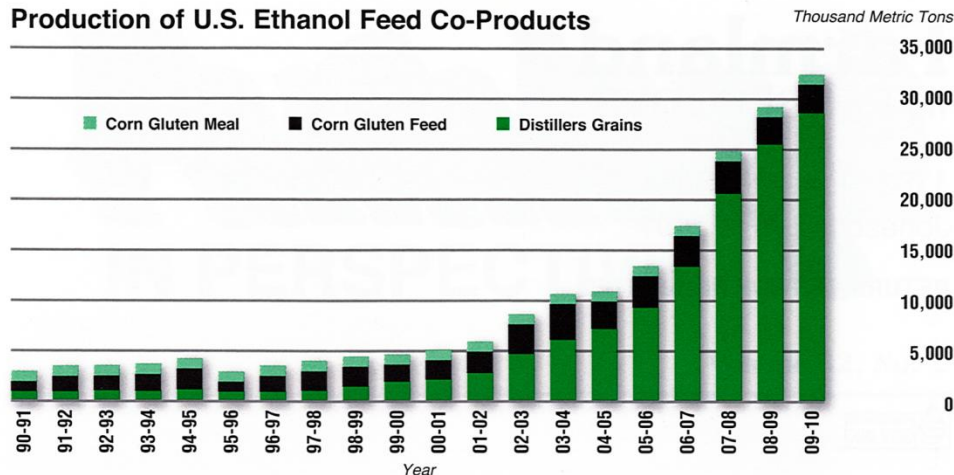


# Ethanol by-products become livestock feed

Ethanol production uses the starch in corn and concentrates the corn's protein, minerals, fat and fiber which are then sold as a livestock feed. Dry mill ethanol refineries, the majority of refineries, dry this byproduct and sell it as distillers dried grains with solubles (DDGS). Only approximately 20-25% of the byproduct is used wet locally.

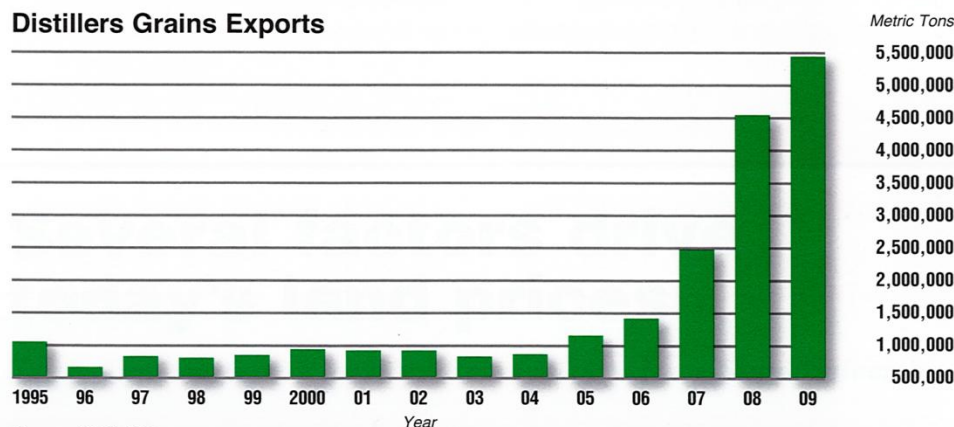
Now ethanol producers are investing in new technologies to improve the quality and quantity of the livestock feed they produce. A number of dry mills are installing technology that allows them to separate crude corn oil from the stillage at the back end of the process. This crude oil can be sold into the feed market (particularly for poultry), further refined and sold into the human food market, or used as a feedstock for biodiesel.

Production of U.S. Ethanol Feed Co-Products



Source: Renewable Fuels Association

Distillers Grains Exports



Source: USDA-FAS

## Trading Partners *cont. from page 1*

### Canada

Canada is the largest export market for U.S. agricultural products. Moreover, the United States and Canada have the world's largest bilateral agricultural trading relationship. Top U.S. exports to Canada are fresh vegetables and fruit, snack foods, red meat, and processed fruit and vegetables. Canada's top exports to the United States are snack foods, live animals, red meat and processed fruit and vegetables.

### China

China became the second largest market for U.S. agricultural products in calendar year 2009, and maintained that position in 2010. China's estimated 300 million middle-class consumers helped drive the country's total agricultural imports to \$71 billion in 2010, with the United States accounting for a quarter of the total.

### EU-27

The European Union is one of the most important trading partners and competitors of the United States in world agricultural markets, as well as one of the key participants in the World Trade Organization. In 2008, the EU-27 was the 5th largest destination market for U.S. agricultural goods, accounting for more than 10%, by value, of all U.S. agricultural exports.

### India

With more than one billion people, India is the world's second most populous country and the world's largest democracy. India is also among the world's poorest countries.

### Japan

The world's second largest economy, Japan is the largest food importer in the world. It relies on imports for 60% of its food on a caloric basis. The United States is Japan's largest and most reliable supplier of food.

### Mexico

Mexico is the United States' second largest agricultural trading partner with bilateral trade equal to more than \$20 billion. Mexico is the top export destination for beef, rice, soybean meal, sugars and sweeteners, apples and dry edible bean exports. It is the second export market for horticultural products, and third largest for pork, poultry and eggs. Agricultural trade between the United States and Mexico has been completely liberalized under the North American Free Trade Agreement, signed in 1994 and fully implemented in January 2008.

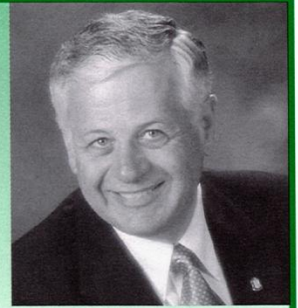
### Russia

The world's largest country and largest energy exporter, Russia has one of the fastest growing economies in the world. It is one of the leading export markets for U.S. poultry and a growing market for pork and beef. Russia is attempting to accede to the World Trade Organization (WTO), a process that began in 1993.





# Thinking About Buying/Selling?



TED GLAUB • AFM, ALC

This past year, we have seen land prices rise throughout the Mississippi Delta region. Many factors, as discussed in this newsletter, are pushing land prices higher. Although prices have been rising, farmland is still a stable long-term investment. If you are thinking about buying additional farmland, we can help you get the most for your investment.

At some point, you may find yourself ready to liquidate your farmland asset. If you are thinking about selling, we can successfully market your farmland. Our resources, both locally and nationally, will guarantee your property is exposed to the largest audience. In addition, we can discuss whether an auction or the typical listing agreement will generate the best possible deal for you.

Please feel free to contact us for buying or selling farmland, management services, or general consultations. All inquiries will be handled in a confidential manner with no obligations.

***We want to be Your Partner in Farming!***



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