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IFES 2018: Farmland Markets: Headwinds, Tailwinds, and Long Term Prospects

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This is a presentation summary from the 2018 Illinois Farm Economics Summit (IFES) which occurred December 17-21, 2018. A complete collection of presentations including PowerPoint Slides (PPT) and printable summaries (PDF) are available here.

Farmland prices across much of the Corn Belt region experienced a rapid appreciation from the early 2000s through roughly 2014, then retreated somewhat, but now appear to have plateaued. Current farmland market observers express a variety of opinions about the likely direction of farmland prices in the short and long term. This disagreement is driven by the uncertainty related to a number of important factors in the agricultural and broader economy.

Farmland prices are determined by buyer and seller expectations of current income, future income growth, and the cost of capital (discount rate). Continued increases in many of the factors of production coupled with decreases in agricultural commodity prices have resulted in significant declines to farm incomes and farm operating profit margins in recent years. In addition, the Federal Reserve has continued to increase the cost of short term borrowing (the Federal Funds rate) as the aggregate economy improves. Both of these forces place downward pressure on farmland prices in the near term. However, the impact of interest rate increases is often overstated given the weak relationship between short term borrowing and farm mortgage rates, and the longstanding positive correlation between inflation and farmland values.

Farmland prices are also pressured in periods of significant policy uncertainty related to the Farm Bill, as well as by the tariffs associated with trade disputes with China, a major consumer of U.S. agricultural products.

Many market observers, however, point toward the long run earning potential of farmland as a way to justify higher expected farmland prices. Farmland prices may be supported by continued increases in the global demand for calories and proteins supplied by agricultural commodities. The global demand reflects changes in both population and wealth, with more pronounced shifts occurring in developing and transitional economies. The natural geography of the Corn Belt ensures that the region is well-positioned to benefit from this expected growth. In addition, many believe that emerging technological developments have the opportunity to drastically alter production agriculture. Ag Tech is expected to increase yields, reduce production costs, and change access to consumer information. These developments would increase the growth rate of agricultural incomes and support farmland price growth.

Optimists also stress that farmland prices may be insulated from drastic declines as a result of the unique features of the modern agricultural sector. A relatively fixed supply of farmland and thin transaction markets, as well as the risk mitigation provided by the Federal Crop Insurance program, all help limit the potential for farmland prices to overreact to short run disturbances in underlying price fundamentals.

Additional Resources

The slides for this presentation can be found at:

http://www.farmdoc.illinois.edu/presentations/IFES_2018

For current outlook information, see:

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