



U.S. Land Outlook

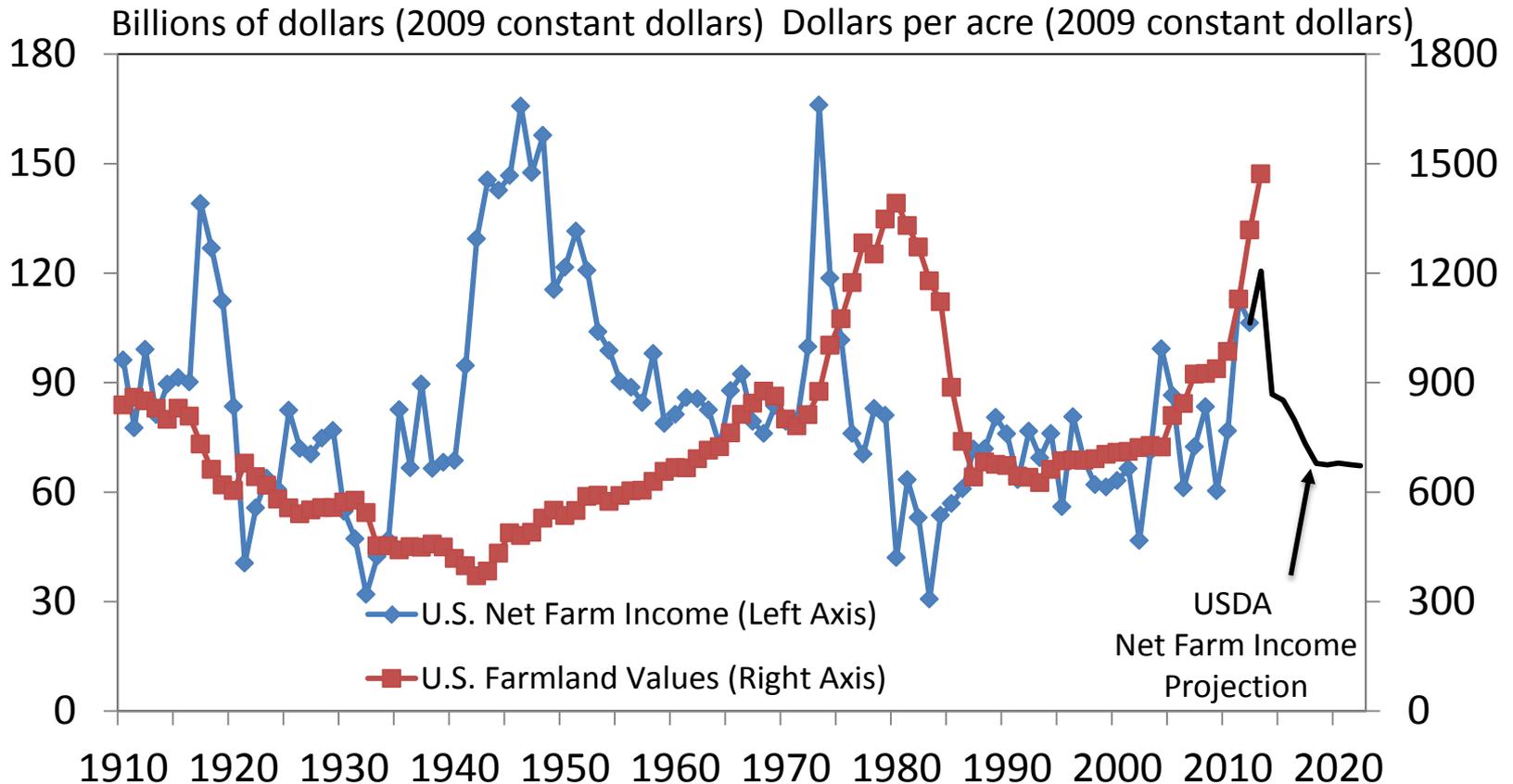
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A Golden Era for Agriculture?

U.S. Farm Income and Land Values



Calculations based on USDA data and CPI data from the Federal Reserve Bank of Minneapolis

Farmland Value Gains Slow

- Federal Reserve Banks
 - Kansas City District nonirrigated
 - Dec. 2012: 24.9% year-over-year gain
 - Dec. 2013: 9.2% year-over-year gain
 - Chicago District
 - Dec. 2012: 16% year-over-year gain
 - Dec. 2013: 5% year-over-year gain
 - Dallas District
 - Dec. 2012: 10% year-over-year gain
 - Dec. 2013: 5% year-over-year gain



Land values are based on expectations.



Capitalized Value Formula

$$\frac{\text{Cash rent or Net returns to land}}{\text{Expected Capitalization Rate}}$$

According to USDA, land costs are projected to account for a quarter of total corn production costs and a third of soybean production costs in 2012 and 2013

Cash rent or net return to land (dollars per acre)

	\$200	\$300	\$400	\$500	\$600	\$700
3%	6,667	10,000	13,333	16,667	20,000	23,333
4%	5,000	7,500	10,000	12,500	15,000	17,500
5%	4,000	6,000	8,000	10,000	12,000	14,000
6%	3,333	5,000	6,667	8,333	10,000	11,667
7%	2,857	4,286	5,714	7,143	8,571	10,000
8%	2,500	3,750	5,000	6,250	7,500	8,750

Capitalization Rate (percent)

What are your expectations for profits and interest rates?

Land values are based on expectations.

Example 1

(A) Corn Price	\$6.00
(B) Yield	200
(C) Gross Revenue	
(A x B)	\$1200
(D) Land's share	
of total cost	25%
(E) Net revenue	
for land	\$300
(C x D)	
(F) Cap Rate	4%
(G) NPV for land	
(E x F)	\$7,500

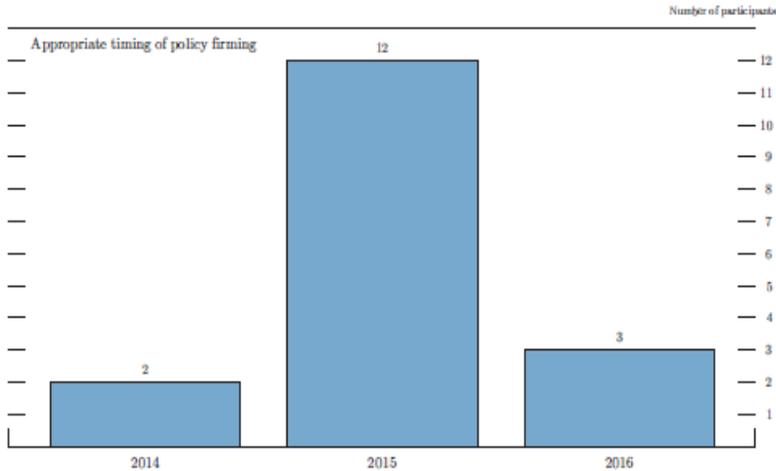
Example 2

(A) Corn Price	\$4.00
(B) Yield	200
(C) Gross Revenue	
(A x B)	800
(D) Land's share	
of total cost	25%
(E) Net revenue	
for land	200
(C x D)	
(F) Cap Rate	4%
(G) NPV for land	
(E x F)	\$5,000

Example 3

(A) Corn Price	\$4.00
(B) Yield	200
(C) Gross Revenue	
(A x B)	800
(D) Land's share	
of total cost	25%
(E) Net revenue	
for land	200
(C x D)	
(F) Cap Rate	6%
(G) NPV for land	
(E x F)	\$3,333

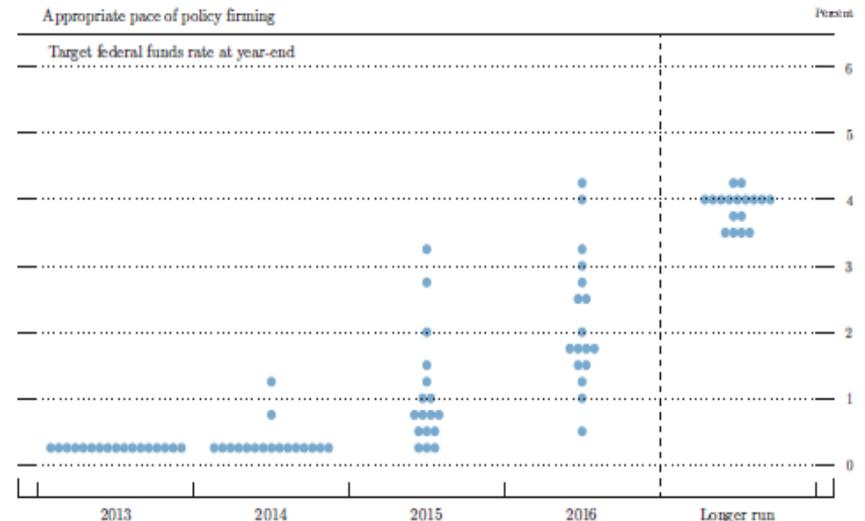
Federal Reserve Monetary Policy Projections



The Federal Open Market Committee suggests that the appropriate timing of policy firming is 2015

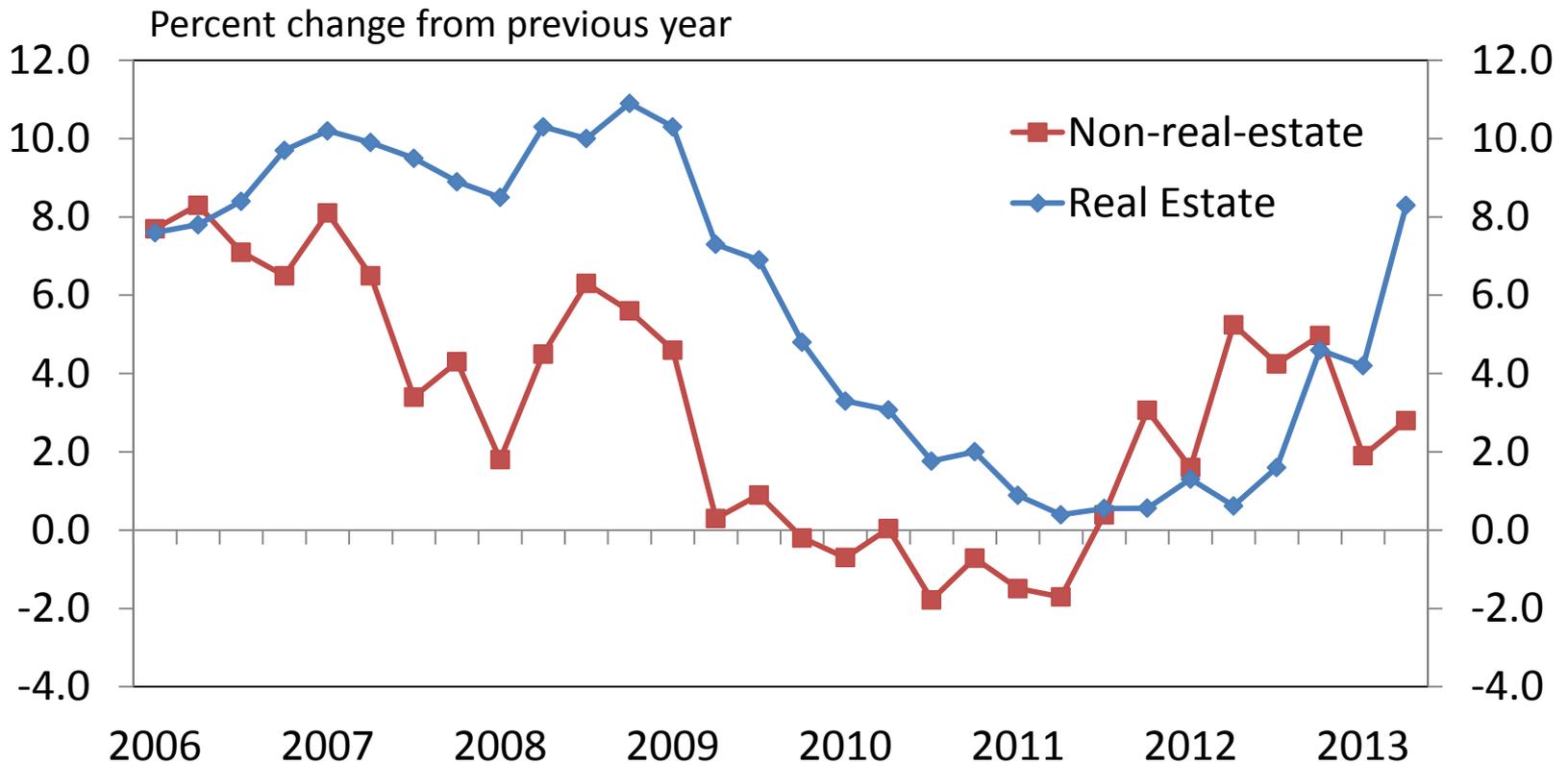
The Federal Open Market Committee suggests that interest rates will rise above 1 percent by the end of 2016, but the range is wide.

How soon will they get to the longer run of 4%?



Farm debt is rising again.

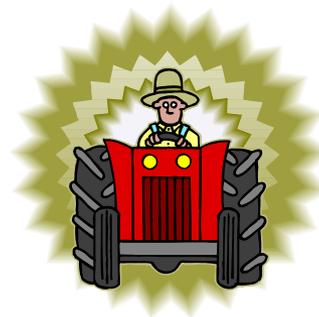
Farm Debt Outstanding at Commercial Banks



Source: FDIC, Call Report data

In conclusion ...

- Today, agriculture is well positioned.
 - ~~High~~ farm income expectations
 - Low Leverage



- How will agriculture respond to the following environment?
 - Margins narrow.
 - Expectations regarding the challenge of feeding the world persist.
 - Real interest rates are negative.



***Will farmers leverage long-term assets
to build working capital?***