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Johnson, Bruce, "Land Booms, Bubbles and Busts: Some Beginning Year 2013 Reflections" (2013). *Cornhusker Economics.* Paper 607.
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CORNHUSKER ECONOMICS

January 16, 2013

University of Nebraska–Lincoln Extension

Institute of Agriculture & Natural Resources
Department of Agricultural Economics
http://agecon.unl.edu/cornhuskereconomics

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Market Report	Yr Ago	4 Wks Ago	1/11/13
Livestock and Products, Weekly Average			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight.	$123.56	$123.56	$ *
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb.. . . .	181.06	170.19	173.83
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb.	154.13	152.79	151.36
Choice Boxed Beef, 600-750 lb. Carcass.	187.92	195.04	193.81
Western Corn Belt Base Hog Price Carcass, Negotiated.	83.01	79.21	82.30
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean..	83.82	83.69	83.42
Slaughter Lambs, Ch. & Pr., Heavy, Wooled, South Dakota, Direct..	148.75	95.50	107.75
National Carcass Lamb Cutout, FOB.	394.24	300.12	299.16
Crops, Daily Spot Prices			
Wheat, No. 1, H.W. Imperial, bu..	5.97	7.90	7.42
Corn, No. 2, Yellow Nebraska City, bu..	*	7.34	7.22
Soybeans, No. 1, Yellow Nebraska City, bu..	*	14.91	13.78
Grain Sorghum, No. 2, Yellow Dorchester, cwt..	10.09	12.34	11.96
Oats, No. 2, Heavy Minneapolis, MN , bu.	3.05	4.04	3.81
Feed			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton..	155.00	*	247.50
Alfalfa, Large Rounds, Good Platte Valley, ton..	137.50	215.00	230.00
Grass Hay, Large Rounds, Good Nebraska, ton.	100.00	215.00	212.50
Dried Distillers Grains, 10% Moisture, Nebraska Average.	208.00	281.00	270.00
Wet Distillers Grains, 65-70% Moisture, Nebraska Average.	70.25	103.00	103.50

*No Market

One lesson to be learned from economic history is this: *real estate **booms,** create **bubbles**, which lead to real estate **busts***. Having studied the agricultural land markets in Nebraska for nearly 40 years, I've witnessed the complete cycle: from the 1970's ***boom*** through the 1980's ***bust***, and the subsequent economic toll of foreclosures and asset devaluation which lingered across the agricultural landscape for more than a decade. To be sure, individuals, families and the business community learned hard lessons from the experience. Vowing to not fall into that trap again, market participants and financial institutions generally embraced a more conservative real estate investment strategy. Expected income earnings, with a good measure of risk management factored into bid levels led to a more deliberate land market pattern for a number of years. In fact, up until just five or six years ago, the market for agricultural land was generally moving on a gradually upward trajectory that was reflective of historical income levels and fairly conservative expectations.

Then the development of a *perfect economic storm* for agriculture – particularly crop-based – rolled onto the horizon, shooting commodity prices and farm income levels to new heights. In just five years, the value of this state's agricultural annual production rose nearly 80 percent, while Nebraska's annual net farm income more than doubled. At the same time, United States monetary policy of dollar stimulus and record low interest rates (for savers as well as borrowers) converged to make agricultural land ownership the new *Sweetheart* of investment.

Now, let's fast-forward to today in early 2013. Nebraska's all-land average value has more than doubled in less than five years, and in some areas of the state has climbed more than 125 percent. Between mid-year 2011 and mid-year 2012, the United States Department of Agriculture (USDA) land value series recorded a 33 percent increase for Nebraska farmland, the highest percentage gain

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of any state in the nation! In fact, only North Dakota and South Dakota recorded somewhat comparable annual gains of 27 and 24 percent, respectively; while the average for the 48 states was just 11 percent. Anecdotal evidence from late-year 2012 land auctions from across the state points to new price records for farmland, suggesting that even the pervasive 2012 drought hasn't dampened the fever pitch in local land markets.

Given the above, it's pretty clear we have recently experienced a multi-year ***land boom*** period. In fact, the rate of percentage run-up in values more than rivals the boom of the late 1970s. But has it reached the point of being a ***land bubble****?* If: (1) we define a bubble as one where current high-bid prices no longer reflect solid economic fundamentals, and (2) we consider the events and economic conditions of the past 12 to 18 months, then I would say, **YES**. I base that opinion on three factors.

First, the agricultural income performance of the past few years may not be a good gauge for expectations into the foreseeable future. Livestock producers have already seen incomes wilt under the drought conditions of the last half of 2012, with even greater concerns for 2013 when the full brunt of forage shortfalls and costly feed input costs is experienced. Non-irrigated crop producers enter this year with basically empty soil moisture profiles; while the favorable crop insurance premiums of 2012 (due to high commodity prices) can't be counted on for this year. Even irrigated crop producers face concerns over irrigation capacity should the drought turn into a multiple-year event, (and yes, global climate change issues relating to weather extremes are a consideration). In short, the phenomenal income levels of recent years are not looking sustainable to any of our producer groups right now.

In addition, the economic returns to agricultural land ownership have not kept pace with the run-up of values. For some time, buyers have been willing to bid up values on expectations of further growth in earnings in the future. Given the land prices being paid in recent auctions, the current percentage net rate of return on those bid prices has often fallen to two percent or below – a pattern similar to what occurred at the height of the land market before the bust of the 1980s. But, bullish expectations can swiftly turn bearish. And given the current realities noted above, buyers in the land market may no longer wager as much on future growth.

Second*,* one needs to factor into the recent land market conditions the fact that U.S. monetary policy has been a significant element. A cheap U.S. dollar in international exchange rates has promoted U.S. exports, of which agricultural exports are a major share; while the associated record-low interest rates have discouraged land owners from selling their land holdings, creating a scarcity-driven agricultural land market. In short, the world of macro-finance, which is essentially a tertiary (or paper) economy, seems to explain a significant share of this recent agricultural land boom. And while agricultural land is not exactly a toxic derivative, some portion of recent value gains is based on a financial environment that is not sustainable. Since interest rates can't get any lower, it's only a matter of time before they rise; and when that happens, land values will turn downward.

Third*,* the general state of the U.S. and global economy doesn't bode well for the agricultural land market in the near-term future. Recent congressional action to avert a fiscal cliff may have given a very short-run reprieve for Wall Street, but will still mean fewer disposable-income dollars in every U.S. household in 2013 – an impact that will show up in the food budget. New farm policy safety nets will face careful scrutiny in a federal cost-cutting environment before us. At the same time, global economic growth of recent years is not on a sustainable trajectory. In fact, the odds of a developing global recession seem to be rising. And since our agricultural economy is serving a global market, the repercussions can ripple back to every local land market in the state.

So, while there may be a fairly convincing case for a current ***land bubble***, does that infer an eminent ***land market bust****?* Here is where it gets interesting. Unlike the last boom/bust period of the 1970s and 1980s, we do not have an agricultural sector that seriously over-leveraged with debt. Widespread farm foreclosures and sheriff's auctions are not on the horizon. Recent market participants, buying at the top of the market have generally had considerable financial means (half of the purchases bought with cash with no mortgage debt incurred). So a total agricultural land market melt-down seems remote. That said, however, I believe there is still some "overshoot-nonsense" in the market today that is not reflective of the basic fundamentals, and will need to be purged to get back to more "sustainable value" levels. That could realistically mean a downward market correction of 30 percent or more in a few short years – particularly in this part of the country where the recent value run–ups have been most profound.

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