Farmland IN PERSPECTIVE

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GOODWIN

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Farmland Investments Increased 52X, 1900–2000

The average value of U.S. agricultural land and buildings increased 52 times between 1900 and 2000, from $20 per acre to $1,050 per acre. Values climbed through most of the century, with only a few periods of decline.

The first decline began in 1920 when U.S. agricultural land values averaged $69 per acre. While many industries were thriving in the 1920s, farm prices dropped due to huge agricultural surpluses, causing agricultural commodity prices and land values to drop steadily throughout the 1920s.

Agricultural land values saw the largest percentage declines of the century in the early 1930s, the beginning of the Great Depression. Agricultural land values dropped 37 percent over a period of 3 years and remained between $30 and $33 per acre throughout the 1930s. Following the Great Depression, land values were revitalized and began a climb that continued until the early 1980s.

The 1970s showed the largest percentage increase in agricultural land values. In 1970, the average value was $197 and increased to an average value of $737 by 1980, a yearly average increase of more than

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World Crops and Economic Prospects Affect U.S. Exports

By Darrel Good • Department of Agricultural and Consumer Economics • University of Illinois

While export demand for U.S. crops is expected to soften during the current marketing year (2008–2009), U.S. and world inventories of corn and soybeans are expected to remain tight. Meanwhile, some build-up of U.S. and world wheat inventories is expected.

A large number of factors affect the export demand for U.S. corn, wheat, and soybeans. These factors include the size and location of crop production outside of the U.S., the rate of world economic growth, the relative value of the U.S. dollar, and crop prices.

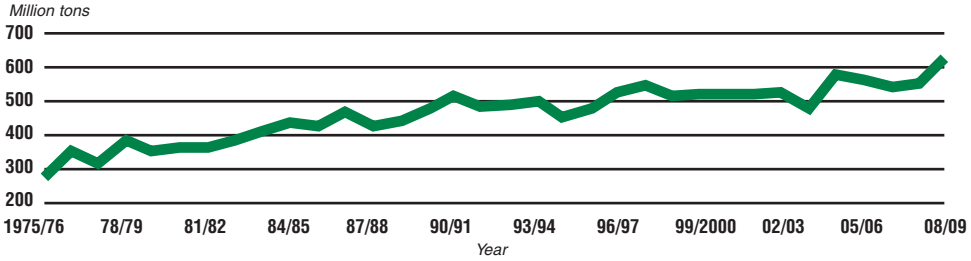
U.S. corn exports established a new record of 2.435 billion bushels during the 2007–08 marketing year. Soybean exports also were record large at 1.160 billion bushels, and wheat exports were at a 15-year high of 1.264 billion bushels.

Export Support

Exports were supported by a variety of factors even though prices for all three commodities were at record high levels:

- Production of wheat outside of the U.S. was extremely small in 2006–07 and again in 2007–08 *(Figure 1)*. The largest shortfalls in production occurred in Australia where production in both years was about 50% of normal. Small crops supported demand for both U.S. wheat and corn.
- High prices for soybeans failed to stimulate a substantial increase in South American production in 2007 or 2008.
- Foreign demand for agricultural commodities was supported by continued rapid economic growth in many countries, especially China and India.

Figure 1: Foreign Wheat Production



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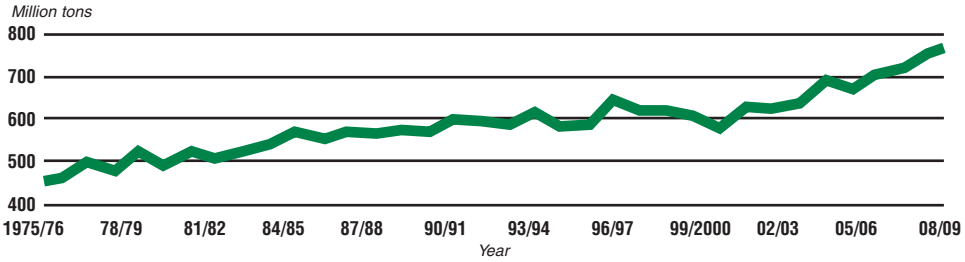
- Continued weakness in the value of the U.S. dollar offset some of the negative demand impact of higher commodity prices and more expensive ocean freight.

Early indications for 2008–09 suggested a reversal in some of these factors. Most importantly, foreign wheat production rebounded in the northern hemisphere in 2008 and is expected to rebound in the southern hemisphere in 2009 *(Figure 1)*. Large crops were harvested in Canada, India, the European Union, Russia and the Ukraine. The 2009 Australian harvest is projected at 21.5 million tons, 65% larger than the 2008 harvest and 99% larger than the 2007 harvest. The 2009 Argentine crop is projected at only 12 million tons, 25% smaller than the 2008 crop due to dry weather conditions. Foreign wheat production in 2008–09 is projected at a record 612.2 million tons, 10% larger than the harvest of 2007–08. While world wheat trade is projected at a nine-year high of 123.2 million tons, U.S. exports are projected at only 27.2 million tons, a decline of 21% from the exports of 2007–08.

Figure 2: Foreign Coarse Grain Production



Foreign Production

Foreign coarse grain production also is expected to be record large in 2008–09 *(Figure 2)*. The expected crop of 765.9 million tons is 10.5% larger than the 2007–08 crop, led by increases in Argentina, the European Union, Russia, and the Ukraine. These large crops, along with the large wheat crops, are expected to reduce the demand for U.S. corn during the 2008–09 marketing year. Demand for U.S. corn may also be influenced by the value of the U.S. dollar. From a high of 129.5 in August 2002, the broad-based trade-weighted value of the U.S. dollar declined to 95.5 in April 2008. By September 2008, however, the index had recovered to 99.8. A continuation of that recovery might soften the export demand for U.S. agricultural commodities.

The final factor influencing export demand for corn will be the rate of economic growth and related changes in livestock production outside of the U.S. Real per capita income growth outside the U.S. has exceeded 2% each year since 2004. Growth has exceeded 9% per year in China and 6% in India. Growth in the European Union has been close to the average of the world outside of the U.S. By the fall of 2008, however, signs of a slowdown in Europe were emerging. For the 2008–09 marketing year, the USDA projects U.S. corn exports at a four-year low of 1.95 billion bushels.

Other Factors

U.S. soybean exports will be influenced by the size of the 2009 South American soybean crop and demand from China. Early forecasts by the USDA are for only a 5% increase in South American production and a 5% increase in Chinese soybean consumption. Due to a 19% increase in domestic production, however, Chinese soybean imports are expected to decline marginally in 2008–09. USDA projects U.S. soybean exports at a three-year low of 1.02 billion bushels.

Export demand for U.S. crops may soften, but inventories of corn and soybeans could remain very tight. World wheat inventories may expand.

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Cotton lags as global economy slows

By H. Scott Stiles • Extension Economist • University of Arkansas • Cooperative Extension Service

Will cotton be profitable in 2009? For the dwindling number of cotton growers throughout the cotton belt, that is the question. Cotton, burdened with record-large U.S. and world inventories, has yet to benefit from the biofuels boom that had propelled grains to new highs in 2008. With greater profit potential in grains and soybeans, cotton acreage in 2008 was 13% lower than the previous year. Given fewer acres and a lower yield estimate, cotton production was 29% lower than in 2007 and yielded the smallest crop since 1989. The result is the expectation of reducing a 10 million bale carryover at the end of the 2007/08 marketing year to 6.2 million bales by the end of the 2008/09 crop year.

In early November, the December 2008 cotton futures were trading near 45 cents, due largely to cotton inventories and weak export demand. Demand for textile goods has been reduced due to higher fuel, food costs and general inflation in the U.S. Also, the generally weak economies in many foreign developed and developing countries contribute greatly to the decreased buying of cotton goods.

Due to the global economic conditions in 2008, the world price of cotton has fallen from its March 2008 highs and in early November was near 64 cents. However, the world stocks-to-use ratio for cotton is projected to decrease to 45% by the end of the 2008/09 marketing year. That would be the lowest stocks-to-use ratio since 1994/95.

A substantial drop in inventories by November 2009 would bring the possibility of higher prices. But, with dramatic increases in production costs, the December '09 futures price will have to rally well above 85 cents per pound to encourage more acreage, unless grain prices decrease substantially.

Price volatility has also been seen in the cotton futures market. In November 2008, cotton futures were being guided by the true fundamentals of supply and demand. However, the potential for price and basis volatility remains. The availability of price risk management tools in the form of cash contracts or forward contracts is unreliable and removes some of the producers' abilities to market and plan ahead. Producers are faced with utilizing the futures market as their sole alternative for managing price risk.

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Rice situation and outlook

By Robert Coats • Professor and Extension Economist • University of Arkansas Division of Agriculture

Is the USDA's estimate of long grain rice total supply overstated? Once an accounting determination can be established from this year's harvest on the total U.S. long grain rice production, we will have a better estimate of total supply for the 2008/09 marketing year. I expect data to show a tight but adequate 2008/09 U.S. long grain rice supply.

What would be supportive of rice prices above USDA's 2008/09 projection range of $15.35 to $16.35 per cwt? If 2008 corn and soybean production came in below expectation, this would be bullish for corn and soybean fundamentals and supportive for rice prices. By early November 2008, the price trend in energy and row crop commodities was expected to remain down into late 2008. Energy and row crop prices should then strengthen in the first three to six months of 2009. The global slowdown and its impact on commodity prices and rice prices specifically should be watched closely.

What about the long grain rice price outlook for the 2009 rice crop? As of November 2008, the financial crisis and slowing global growth appeared problematic for the 2009/10 long grain marketing period rice price outlook. Major rice producing and consuming countries have nightmarish memories of the 2008 scattered global food riots and concerns about global rice supply and availability. These concerns will:

- First, keep major global rice producers focused on maintaining adequate domestic and exportable supplies *and*
- Secondly, keep importers focused on assuring themselves an adequate available supply of rice. This is to say that governments are more than willing to intervene to maintain adequate supply and meet traditional export commitments. This tends to be bearish for global rice prices.

On the bullish side for the 2009/10 period, consider the following for U.S. long grain rice price outlook:

- By November 2008, my expectations were for a tight U.S. long grain rice ending stocks for the current marketing period that ends July 2009,
- Weak 2008 U.S. long grain yields by some producers would discourage the return of these acres to production in 2009,
- Expected high cost of production will likely restrain U.S. 2009 rice planting,
- Uncertainty about price outlook coupled with rice producers' overall expected risk exposure could easily reduce acreage, *and*
- Hurricane impacts along the Gulf Coast coupled with the economic setting could easily have an impact on 2009 long grain rice planting.

These are a few key factors that could cause U.S. long grain rice acreage to pull back, reducing 2009 production and provide 2009/10 marketing period price strength.

Globally, it has been a decade since a catastrophic global weather event occurred. Any disruption in global rice production due to a major disruptive weather event would probably not occur until the later part of 2009 or beyond. It is always fruitful to pay attention to domestic and global weather expectations. **Three management considerations for rice producers and landowners relating to the 2009 long grain rice production season are as follows:**

- Can the productivity of the land be improved and at what costs,
- On-farm grain storage and marketing assistance from co-ops and/or professional rice marketers,
- Rental rates should reflect the economic times, rice producers' risk exposure, and their ability to cash flow.

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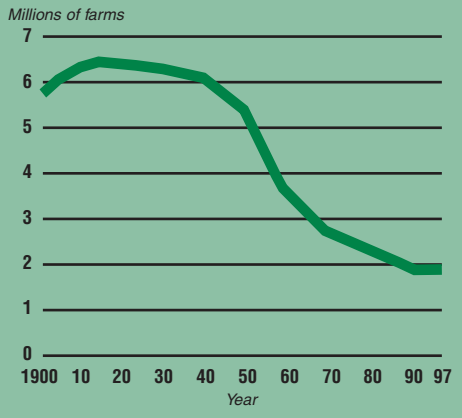
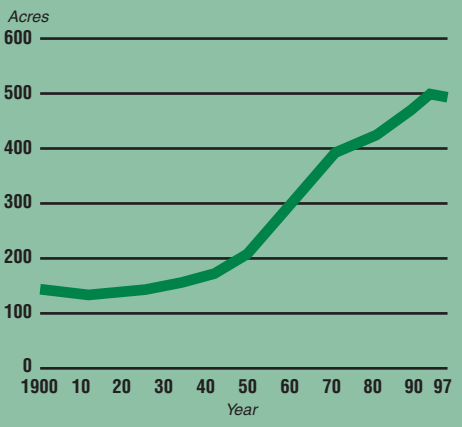
Number of U.S. Farms and Average Farm Size, 1900–1997

Number of Farms: 1900–1997



Average Farm Size: 1900–1997



Source: Census of Agriculture

Farmland Investments *cont. from page 1*

10 percent. The climb in land values was primarily due to strong farm prices, expanding trade, high inflation, and speculation that land values would continue to rise.

In the mid-1980s, however, farm prices dropped due to surpluses, slowing inflation, and decreased demand for agricultural land. These factors caused the second large decline of agricultural land values during the century. Land values dropped from $801 in 1984 to $599 in 1987, a decline of 25 percent. Agricultural land values have steadily increased since 1987 to $1,050 per acre in 2000, and even more today.

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