FARMLAND Insights

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# Is farmland currently a good investment?

**By Dr. Gary Schnitkey, University of Illinois**

Investments in farmland have historically performed well compared to other investments such as stocks and debt instruments. While there are a number of headwinds that face farmland, remaining committed to farmland for the long run continues to seem a wise alternative.

## Headwinds

Farmland prices over much of the nation have been relatively stable in recent years. For example, the U.S. Department of Agriculture reported the average Illinois land value in 2014 at $7,700 per acre. In 2018, the land value was $7,450 per acre, or down by $250 per acre from the peak in 2014.

There are reasons why farmland prices will continue to remain steady and perhaps even decrease. Recent trade disputes with China have clouded the agricultural return outlook and interest rates likely will continue to rise. Both decreasing agricultural returns and increasing interest rates put downward pressure on farmland prices.

Still, individuals who have made agricultural investments have fared reasonably well. Take $1 invested in Illinois farmland in 2000 and compare it to investing in the S&P 500, an index of stock prices. ***Figure 1*** shows the value of the farmland and the value of the S&P 500 for the beginning of each year from 2001 and 2018. These values do not include the rents from

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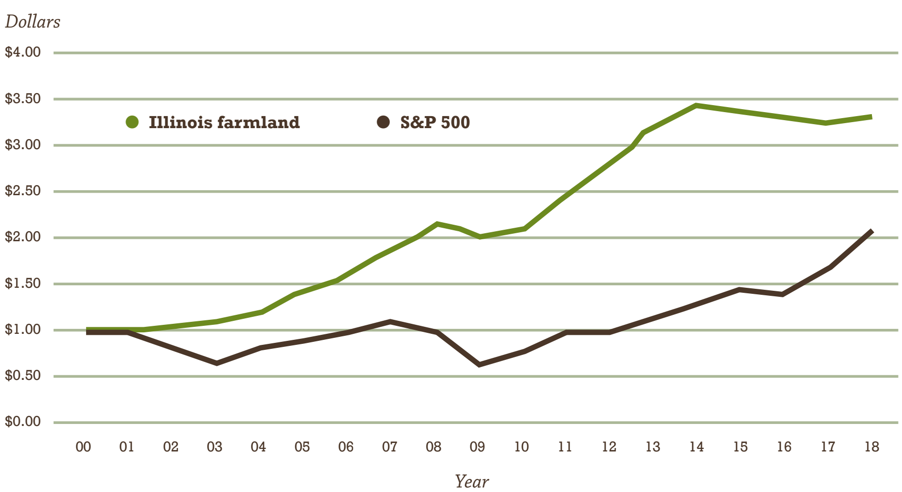
**Figure 1. Value of $1 invested in Illinois farmland and the S&P 500 in each year from 2001 to 2018**






## Agriculture Improvement Act of 2018: Highlights and implications

The United States addresses agricultural and food policy through a variety of programs, including nutrition assistance, crop insurance, commodity support, and conservation. Much of the legal framework for agricultural and food policy is set through a legislative process that occurs approximately every five years.

The current farm law, the Agriculture Improvement Act of 2018 (2018 Farm Act), was signed on December 20, 2018, and will remain in force through 2023, although some provisions extend beyond 2023.

- The 2018 Farm Act makes few major changes in agricultural and food policy. Nutrition policy, particularly the Supplemental Nutrition Assistance Program (SNAP), will continue with minor changes.
- Crop insurance options and agricultural commodity programs will exist much as under the 2014 Farm Act.
- All major conservation programs are continued, although some are modified significantly.

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farmland or the dividends from stocks. They represent the value of a $1 in each asset without reinvesting current returns. The $1 invested in farmland would have a value of $3.41 at the beginning of 2018 compared to $2.02 in the S&P 500. An investment in farmland would have fared better than a broad-based index of stock returns during this time period.

## Timing is everything

The time frame has much to do with the comparison. A large portion of the increase in farmland value occurred between 2009 and 2014 when farmland increased in value due to high prices for both corn and soybeans. Since 2014, the value of farmland has remained relatively constant.

Conversely, the $1 invested in the S&P 500 did very little from 2000 through 2008. In fact, a $1 invested in the S&P 500 in 2000 decreased in value and did not reach $1 again until 2013. Stock market returns have been relatively good from 2009 to 2017.

## Timing is hard

With hindsight, a person should have invested in farmland in 2000 and sold the farmland in 2014, then invested the proceeds in the S&P 500. Of course, that insight is clear after the time has passed.

It is difficult if not impossible to predict which investment will perform the best moving forward. Again, there are headwinds that could push farmland prices down. Alternatively, an end of the trade dispute with China, export growth, and perhaps ethanol growth could signal higher agricultural returns.

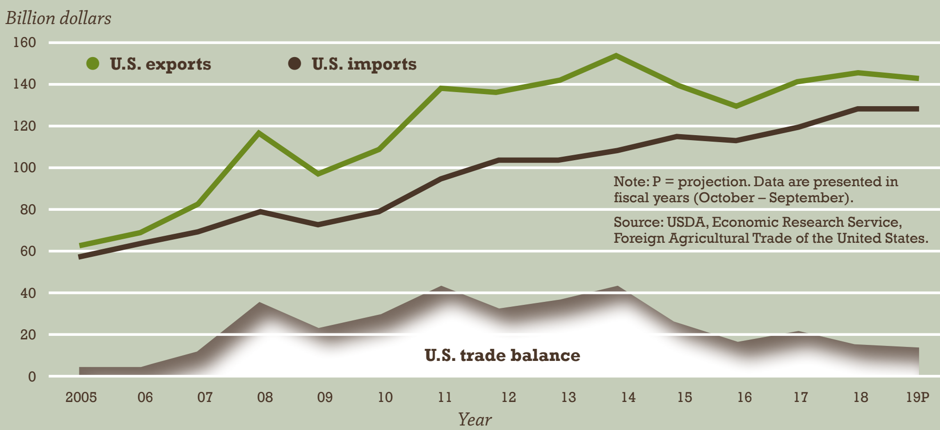
The same could be said for an investment in stocks. From the beginning to the end of 2018, the S&P 500 index declined by 4.2%. A recession could result in a period of low returns to stock market investing. Rising interest rates will impact the S&P 500, just as it will impact farmland.

## Long-run returns

Long-run returns likely provide the best barometer for long-run investing. From 1970 to 2017, farmland in most states in the midwest averaged yearly returns over 10% (***see Table 1***). These returns include gain on farmland prices as well as rents from farmland less property tax. Note that this period includes the 1980s, a period of low returns and financial stress in agriculture. The over 10% average yearly return roughly is similar returns to those of the general stock market, which averaged an 11.8% return (including dividends) from 1970 to 2018. Both farmland and stocks have higher returns than investments in treasury bills and notes.

## U.S. agricultural trade balance is projected to decline in FY 2019 to lowest level since 2007

**U.S. agricultural exports, imports, and trade balance**




U.S. agricultural exports are projected to total $141.5 billion in fiscal year (FY) 2019, while agricultural imports are expected to total $127 billion, according to the latest outlook for U.S. agricultural trade from the Economic Research Service (ERS) of the U.S. Department of Agriculture (USDA).

The $14.5 billion surplus projected for FY 2019 is the lowest since FY 2007, when the United States exported $12.2 billion more in agricultural goods and services than it imported. Unlike overall U.S. trade in goods and services, U.S. trade in the agricultural sector consistently runs at a surplus.

While agricultural exports have increased in value since 2016, the value of imports has risen at a slightly faster rate, leading to a declining trade balance. This is further compounded in FY 2019 by significant declines in projected exports to China. At the regional level, exports to East Asian countries are forecast to decline by $6.7 billion in FY 2019.

## Composition of U.S. agricultural exports, by category, remained relatively stable in 2000 –17

**U.S. agricultural exports, 2000 – 17**

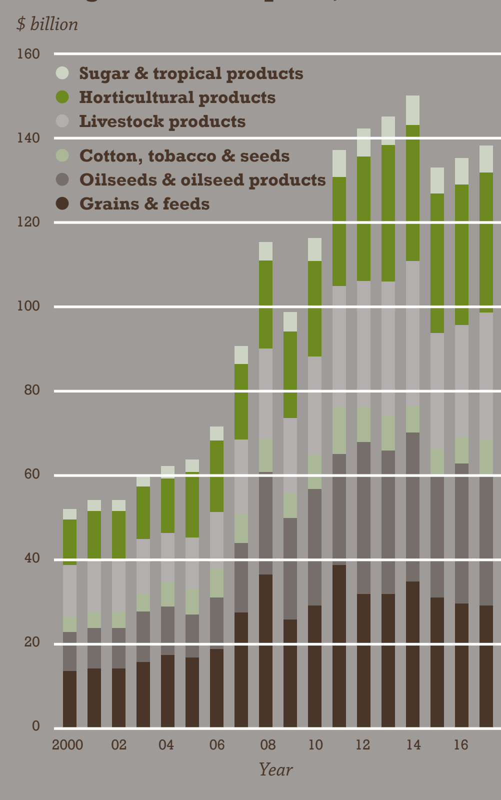


**Table 1. Average returns from farmland, stock market, and treasuries, 1970 to 2017**

| | |
|---|---|
| **Farmland**[1] | |
| Illinois | 10.1% |
| Indiana | 10.6% |
| Iowa | 12.1% |
| Michigan | 8.5% |
| Minnesota | 11.9% |
| Nebraska | 14.3% |
| Ohio | 9.3% |
| Wisconsin | 11.0% |
| **Stock Market**[2] | 11.8% |
| **Three Month T-bill**[2] | 4.8% |
| **Ten-year Treasury Notes**[2] | 7.5% |

[1] Returns from the Center for Farmland Research, University of Illinois.
[2] Data from Stern School of New York University.

There are good reasons to expect investments in farmland to perform well in the long run. Demand for agricultural products likely will continue to grow, leading to the continuing need for productive farmland.

Moreover, farmland is a real asset, having a rental stream not based on returns to financial assets. As debt of sovereign nations and governmental bodies continues to grow, having assets in real assets provides a hedge against possible disruptions as public financing continues to grow. Moreover, farmland in almost all years generates some rental return. There is not an occupancy issue for farmland.

## Summary

Farmland has provided returns comparable to the stock market over the long run. Returns over the next several years may not be as good as from 2006 through 2014, but that is only a conjecture. The same could be said for stock investments and returns between 2008 and 2017. Going forward, farmland likely will match stock market returns in the long-run. Moreover, it can provide a hedge against debt problems of sovereign nations.

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The United States exports a variety of agricultural products to destinations around the world. Although the total value of agricultural exports rises and falls depending on market and economic conditions, the shares of individual export categories within that total are generally more stable.

The highest valued export product categories include horticultural products (fruits and vegetables), oilseeds and oilseed products, livestock products, and grains and animal feeds. However, these top categories have trended differently in terms of value over time, according to the Economic Research Service (ERS) of the U.S. Department of Agriculture (USDA).

In recent years, the value of grains and animal feeds has fallen by 5%, reducing its share of total agricultural exports from 23% to 21% since 2015. The other top commodity groups have risen in value since 2015, but their shares have remained stable due to overall growth in agricultural export value. Among the lower valued commodity groups, the cotton, tobacco, and seeds category has grown significantly since 2015, rising by 31% in value and increasing its share of total agricultural exports from 5% to 6%.

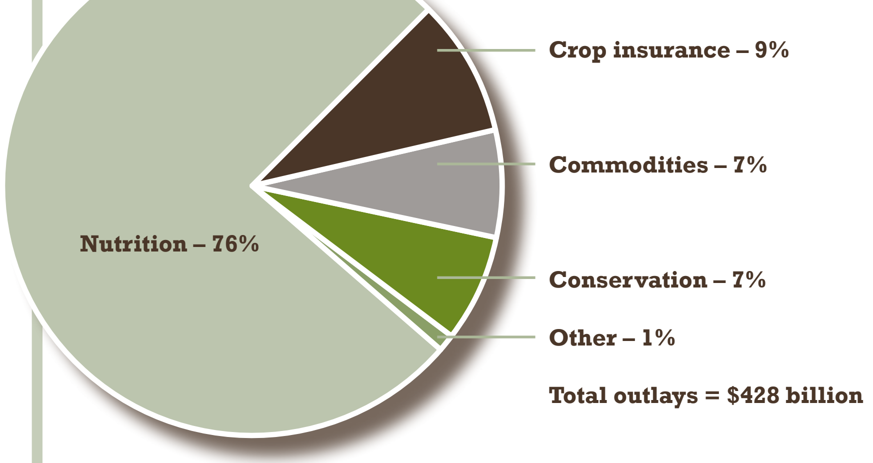
Source: USDA, Economic Research Service, using data from U.S. Census Bureau, Foreign Trade Database.

## Agriculture Improvement Act of 2018 continued from page 1

- Programs are expanded for trade, research and extension, energy, specialty crops, organic agriculture, local and regional foods, and beginning/socially disadvantaged/veteran farmers and ranchers.

The 2018 Farm Act increases FY 2019 – FY 2023 spending by $1.8 billion (less than 1%) above the level projected for a continuation of the previous farm act. The Congressional Budget Office projects that 76% of outlays under the 2018 Farm Act will fund nutrition programs, 9% will fund crop insurance programs, 7% will fund conservation programs, 7% will fund commodity programs, and the remaining 1% will fund all other programs, including trade, credit, rural development, research and extension, forestry, horticulture, and miscellaneous programs.

**Projected outlays under the 2018 Farm Act, 2019–2023**




Sources: USDA, Economic Research Service calculations based on Congressional Budget Office estimates.

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