Businesslink

WHY FARMLAND DOESN'T FACE ARMAGEDDON

MARCIA ZARLEY TAYLOR

Some Federal Reserve and bank regulators—as well as a few country bankers—think farmland conditions are ripe for a "bubble." They point to the 10% year-over-year appreciation in the Chicago Federal Reserve district in 2010 as proof of irrational exuberance. Parts of Iowa's ethanol alley hit 17% gains. Farmland nationwide has outpaced inflation by about 60% since 2000.

While worth debating, most ag sources I interview think such worries are premature, at least on a national basis. What's more, they see few parallels to the 1970s that triggered the disastrous price corrections of the 1980s.

PHOTO: JIM PATRICO

"A flattening is possible," but there's no imminent threat of a bust, says Danny Klinefelter, a Texas A&M University economist. "We're a couple of years away from any tailspin like the 1980s, at the very least."

Here are a few more rational reasons why concerns about a farmland price bust of 50% or more may be premature:

Most of today's land deals are farmers or outside investors with cash. "People aren't leveraged to the hilt like they were in the 1980s," Klinefelter says.

There's no such thing as no-money down, interest-only, liar loans in agriculture. If you're anywhere below a blue-chip customer, you need 25 to 30% down just to qualify for a mortgage, Klinefelter says.

Farmers have bullet-proofed their long-term interest rates. That's the opposite of the 1980s when virtually all farmland mortgages were variable-rate and growers couldn't pay the bills when rates jumped from 7 to 16%. Today 43% of Louisville-based Farm Credit Services of MidAmerica's total loan portfolio (including operating loans) has a fixed rate for 10 years or longer. The average rate for those loans stands at 5.70%, according to CFO Paul Bruce. In early November, you could still lock in a 20-year loan for 5.65%.

This last point is crucial because it's a good defense should commodity prices suddenly bottom as they did during the Asian currency crisis of the late 1990s, or after political interference like the Carter Administration's Soviet Union's grain embargo. This time around, farmers will have hedged their bets.

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YOU MAY E-MAIL MARCIA AT **marcia.taylor@dtn.com**

Letters

I'm delighted that *The Progressive Farmer* is focusing on the exchange of farmland in the U.S. This precious resource is often overlooked or underappreciated for our future food needs. I understand the critical need to conserve and preserve all the agricultural land we can. I would like to see some of the tools the various states are using to keep farmland in agricultural production. I'm not suggesting there are perfect solutions out there, but some states have pretty good incentives for farmland preservation.

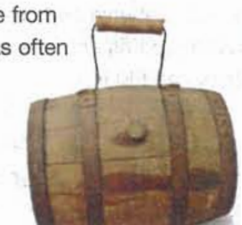
When I stopped farming full time in 2000, I went to work for a local environmental council/land trust. I worked with local farmers/landowners to help them understand the need for estate planning and farmland preservation. I continue that work today through my own consulting service.

In a lot of the U.S., most people refer to farmland as "undeveloped" because it doesn't have houses or factories on it. I prefer to refer to this land as "highly developed for agriculture production." If we are expecting to double our production of food in the U.S. with the next 30 to 50 years, we are going to need to have every possible acre of land for food production.

GRAY COYNER, UPPERVILLE, VA.

Tools from the past

ANSWER: This is a 2-gallon water cooler that provided a refreshing midmorning drink of cold well water. The cooler is made from oak staves and was often wrapped in a damp burlap bag and stored under a shade tree until needed.



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