

Jason Henderson
Vice President and Branch Executive
Federal Reserve Bank of Kansas City – Omaha Branch
www.kansascityfed.org/omaha
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Back to the Future: 1980s or 1920s Style?

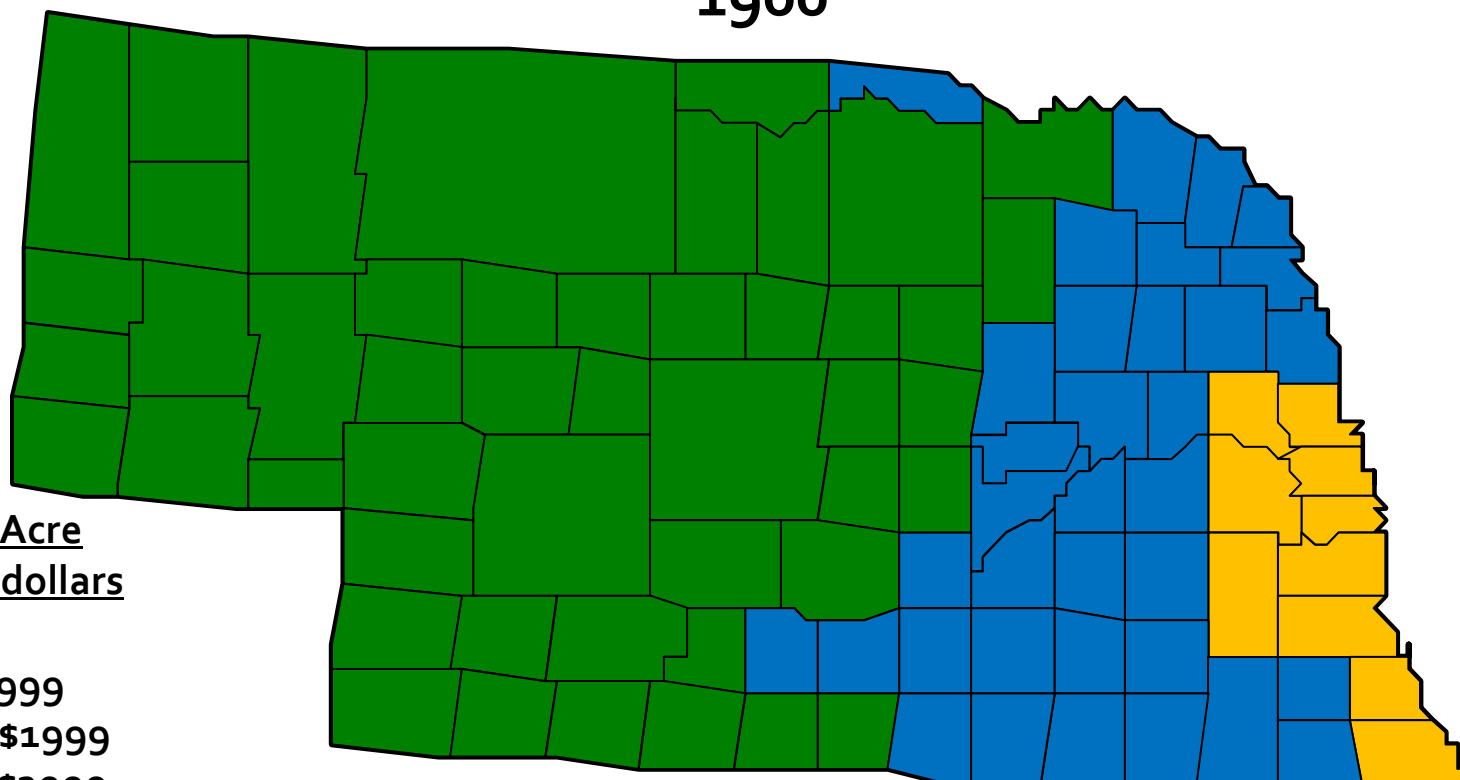


The views expressed are those of the author and do not necessarily reflect the opinions of the Federal Reserve Bank of Kansas City or the Federal Reserve System.

In 1900, high farmland values were concentrated along the Missouri River.

Nebraska Farm Real Estate Values

1900



\$Dollars per Acre
Constant 2011 dollars

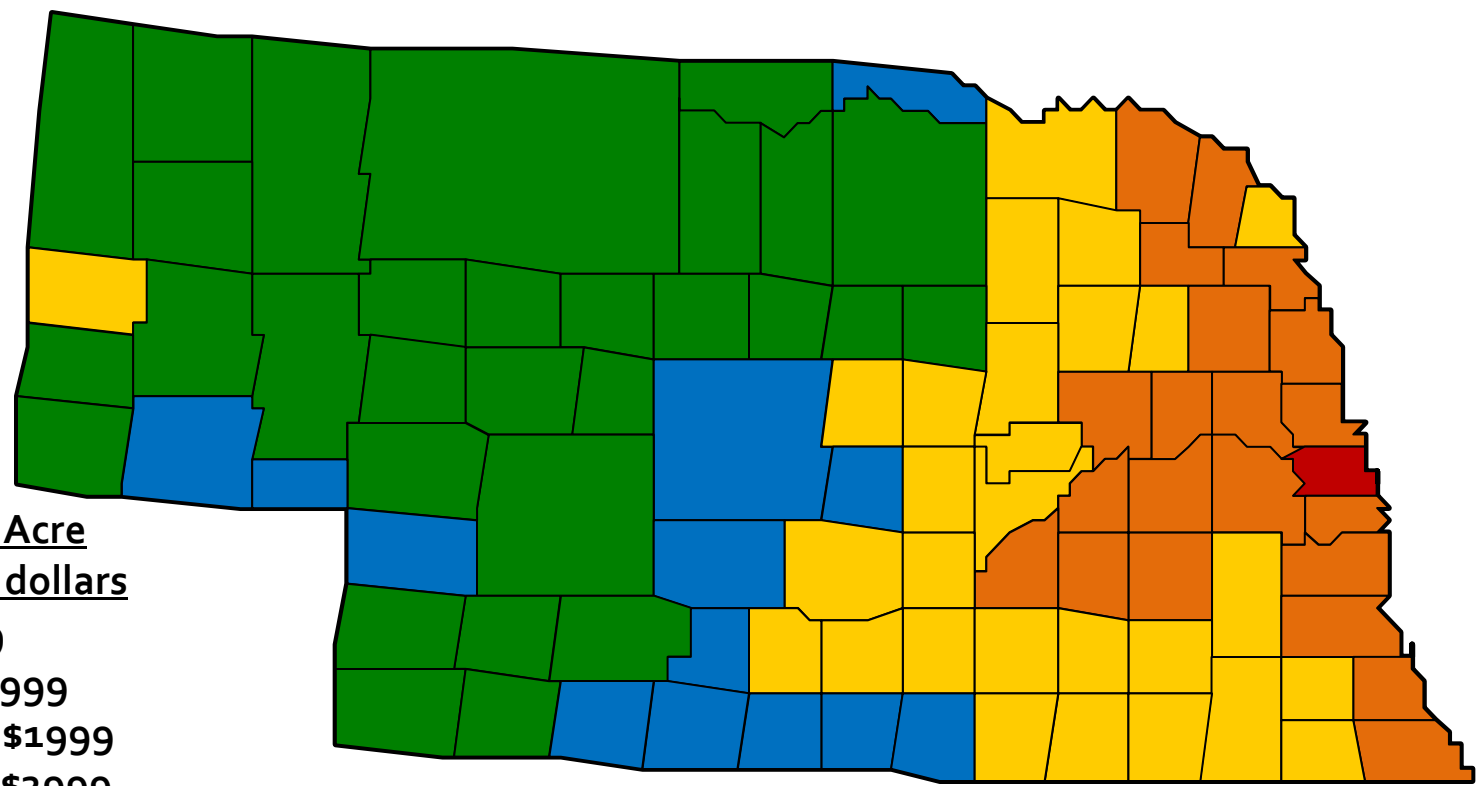
- Green: 0 - \$499
- Blue: \$500 - \$999
- Yellow: \$1000 - \$1999
- Orange: \$2000 - \$2999
- Red: \$3000 and up

Source: USDA



WWI and the "Golden Era for Agriculture" boost Nebraska's land values.

1920



\$Dollars per Acre
Constant 2011 dollars

- 0 - \$499
- \$500 - \$999
- \$1000 - \$1999
- \$2000 - \$2999
- \$3000 and up

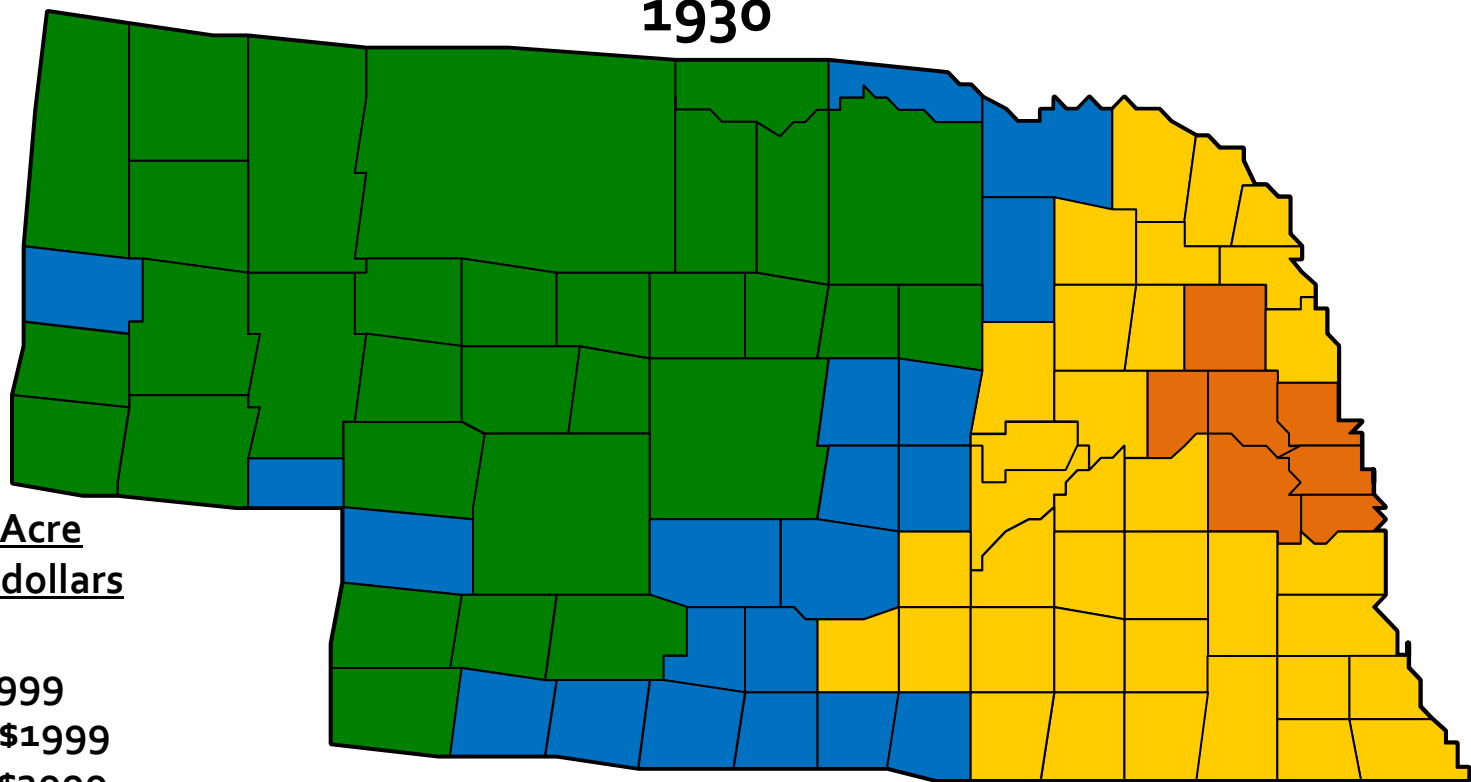
Source: USDA



Nebraska's farmland value decline during the "Roaring 20s"

Nebraska's Farm Real Estate Values

1930



\$Dollars per Acre
Constant 2011 dollars

- 0 - \$499
- \$500 - \$999
- \$1000 - \$1999
- \$2000 - \$2999
- \$3000 and up

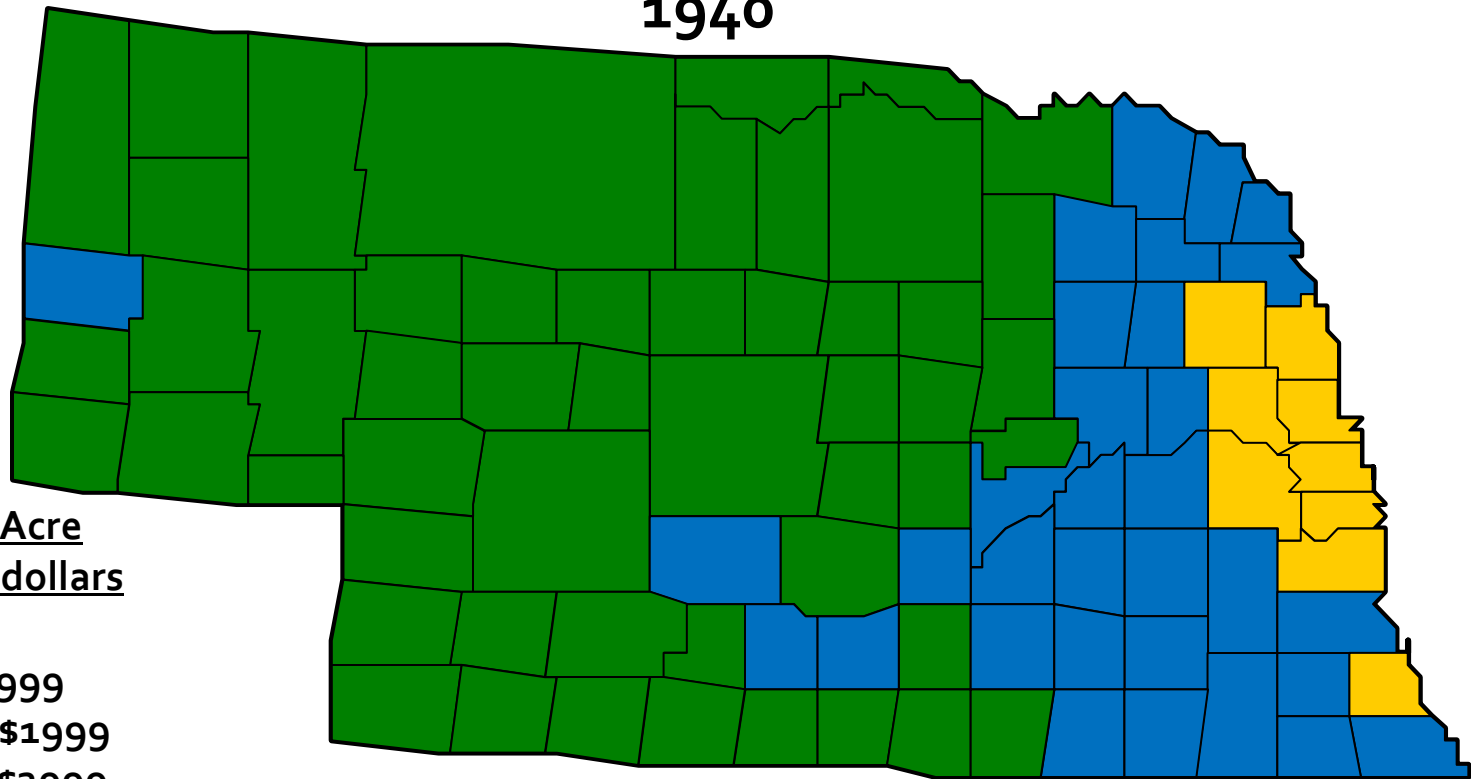
Source: USDA



The Great Depression pushed down farmland values further.

Nebraska's Farm Real Estate Values

1940



\$Dollars per Acre
Constant 2011 dollars

- 0 - \$499
- \$500 - \$999
- \$1000 - \$1999
- \$2000 - \$2999
- \$3000 and up

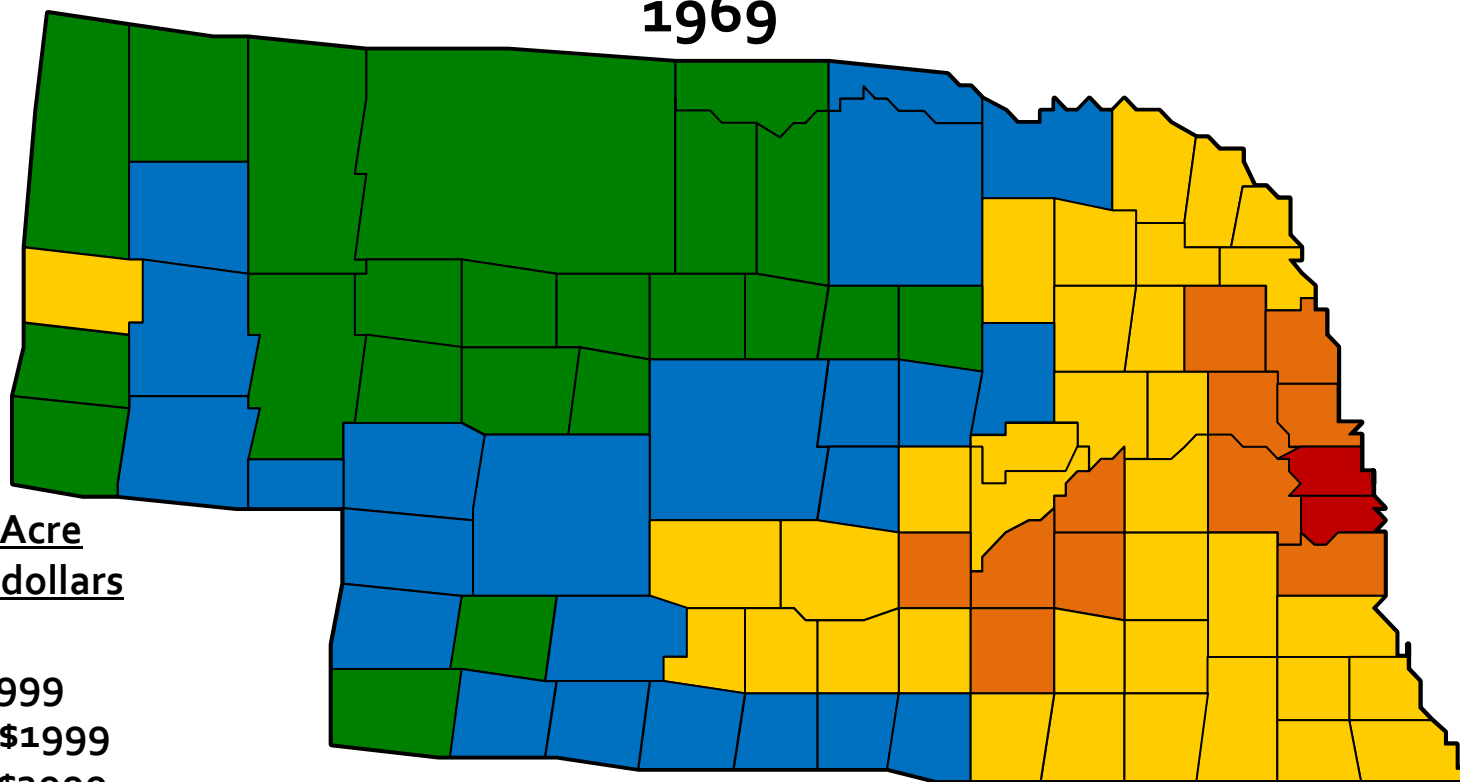
Source: USDA



Enhanced productivity lifts farmland values during the 1950s and 1960s.

Nebraska's Farm Real Estate Values

1969



\$Dollars per Acre
Constant 2011 dollars

- 0 - \$499
- \$500 - \$999
- \$1000 - \$1999
- \$2000 - \$2999
- \$3000 and up

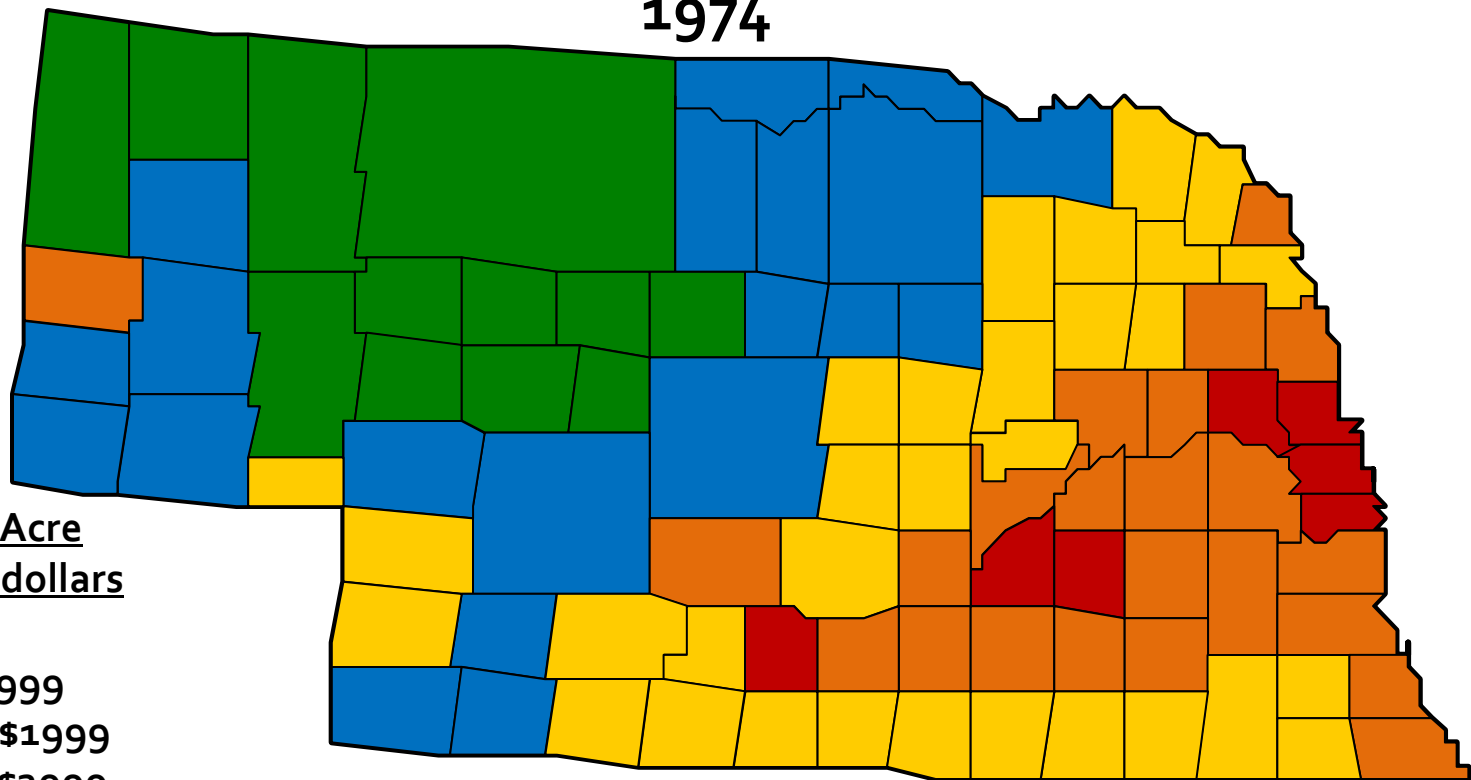
Source: USDA



The Russian grain deal sparks the farm real estate boom.

Nebraska's Farm Real Estate Values

1974



\$Dollars per Acre
Constant 2011 dollars

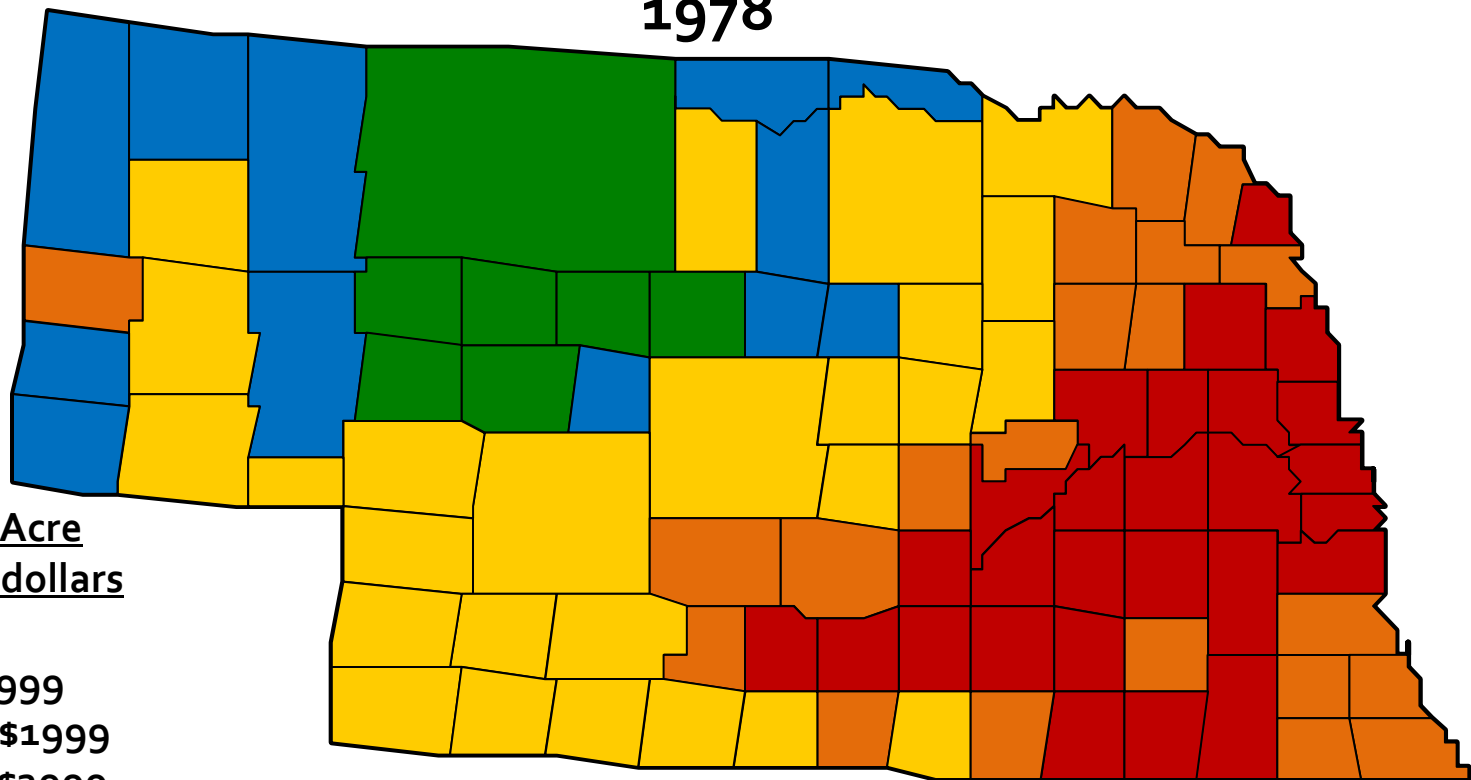
- 0 - \$499
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- \$1000 - \$1999
- \$2000 - \$2999
- \$3000 and up

Source: USDA



By the late 1970s, Nebraska's farmland values are "hot".

Nebraska's Farm Real Estate Values 1978



Source: USDA

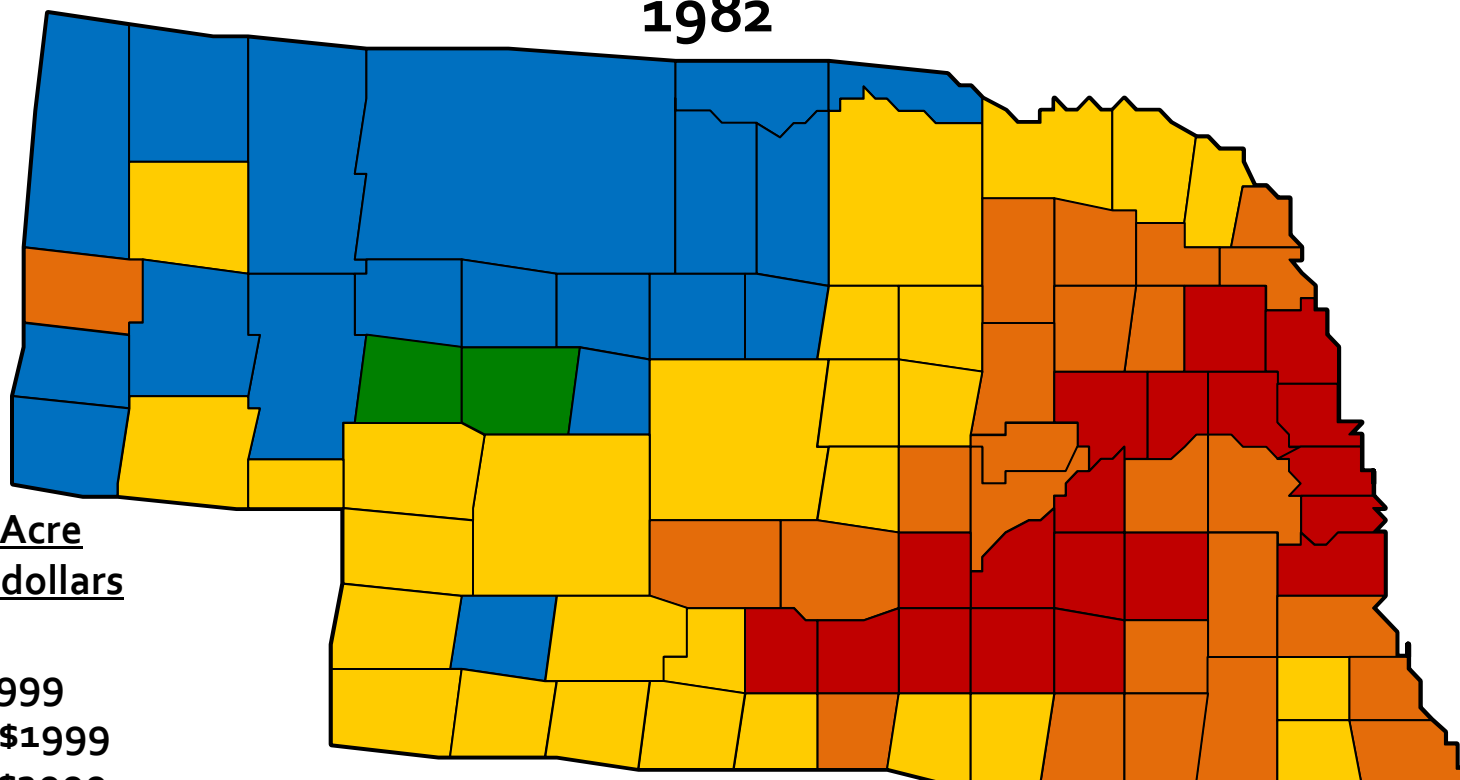
\$Dollars per Acre
Constant 2011 dollars

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- \$500 - \$999
- \$1000 - \$1999
- \$2000 - \$2999
- \$3000 and up



Higher interest rates and a grain embargo begin to cool land values.

Nebraska's Farm Real Estate Values 1982



\$Dollars per Acre
Constant 2011 dollars

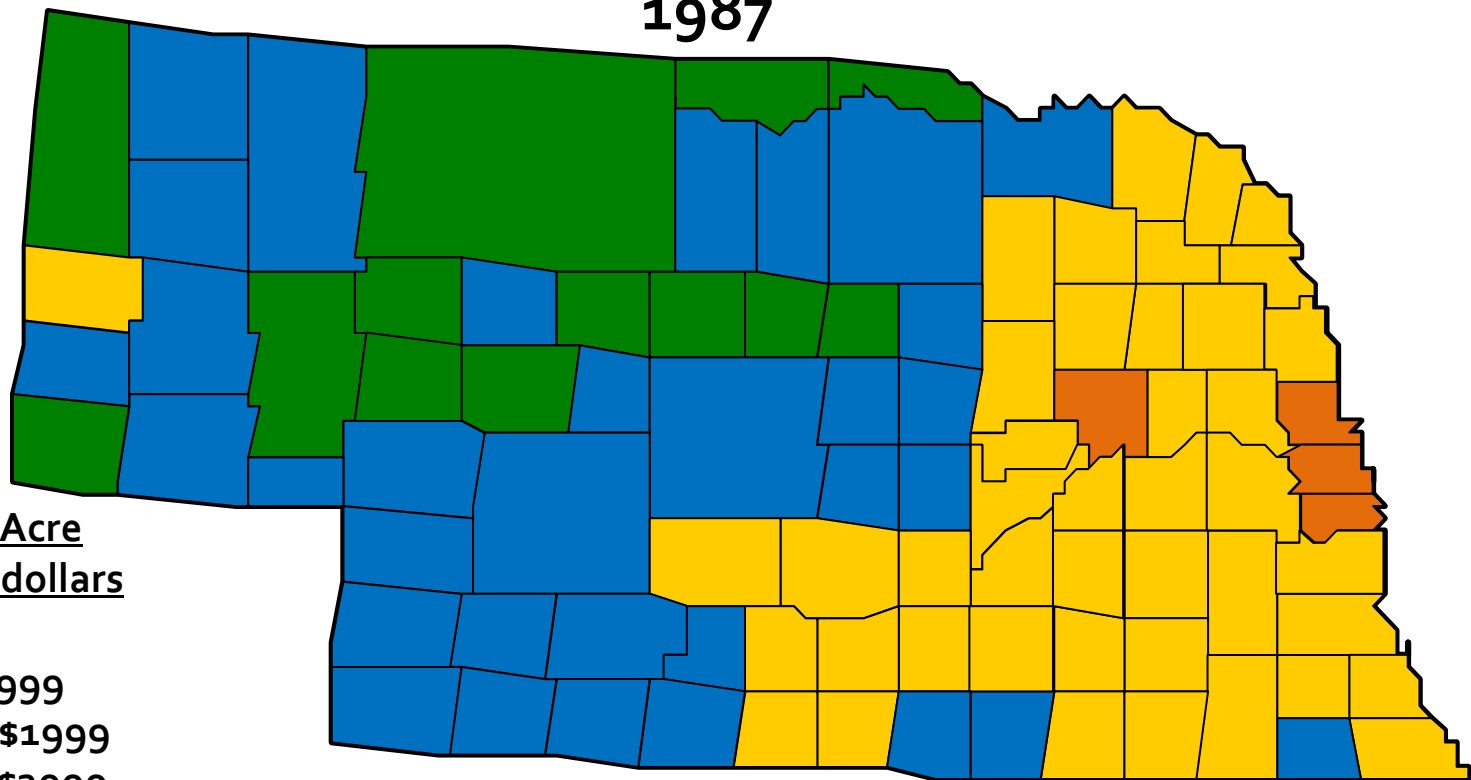
- 0 - \$499
- \$500 - \$999
- \$1000 - \$1999
- \$2000 - \$2999
- \$3000 and up

Source: USDA



At the end of the crisis land values are almost back to 1970 levels.

Nebraska's Farm Real Estate Values 1987



Source: USDA

\$Dollars per Acre
Constant 2011 dollars

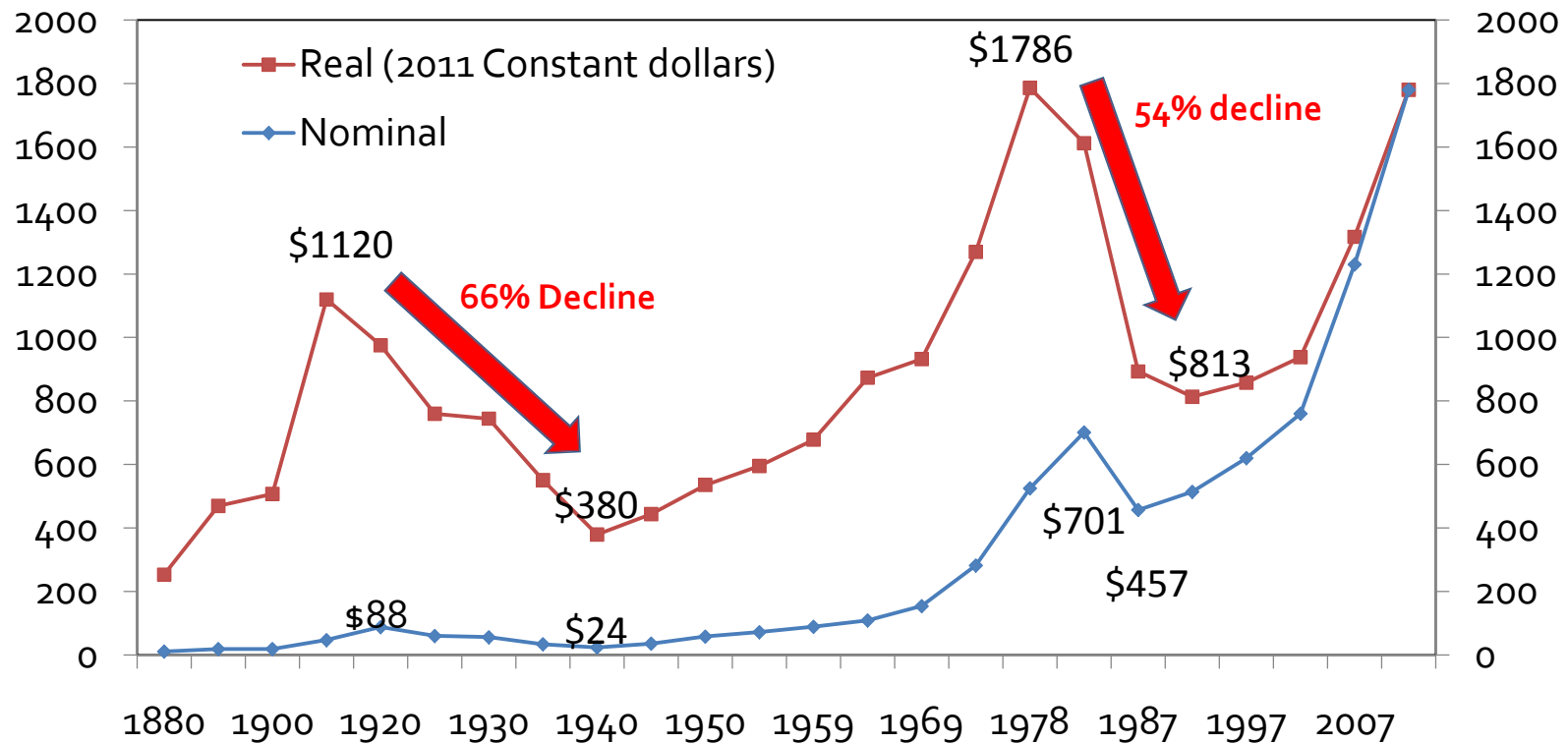
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- \$500 - \$999
- \$1000 - \$1999
- \$2000 - \$2999
- \$3000 and up



Nebraska Farm Real Estate Values

1900

Dollars per acre



The Drivers of Farm Booms/Busts

- Demand Shocks
 - Short-term demand viewed as long-term
 - 1910s – World War I
 - 1970s – Russian grain deal
 - 2000s – Exports (China) & Ethanol
- What are the Risks?
 - Slower growth in emerging countries
 - Elimination of the RFS mandate



The Drivers of Farm Booms/Busts

- Supply Shocks
 - *Farmer's Produce Themselves Out of Prosperity*
 - Technological change: supply outpaces demand
 - 1920s – Tractors
 - 1970s – Green Revolution
 - 2000s – Bio-technology
- What are the Risks?
 - Can the promises of bio-tech actually be delivered?



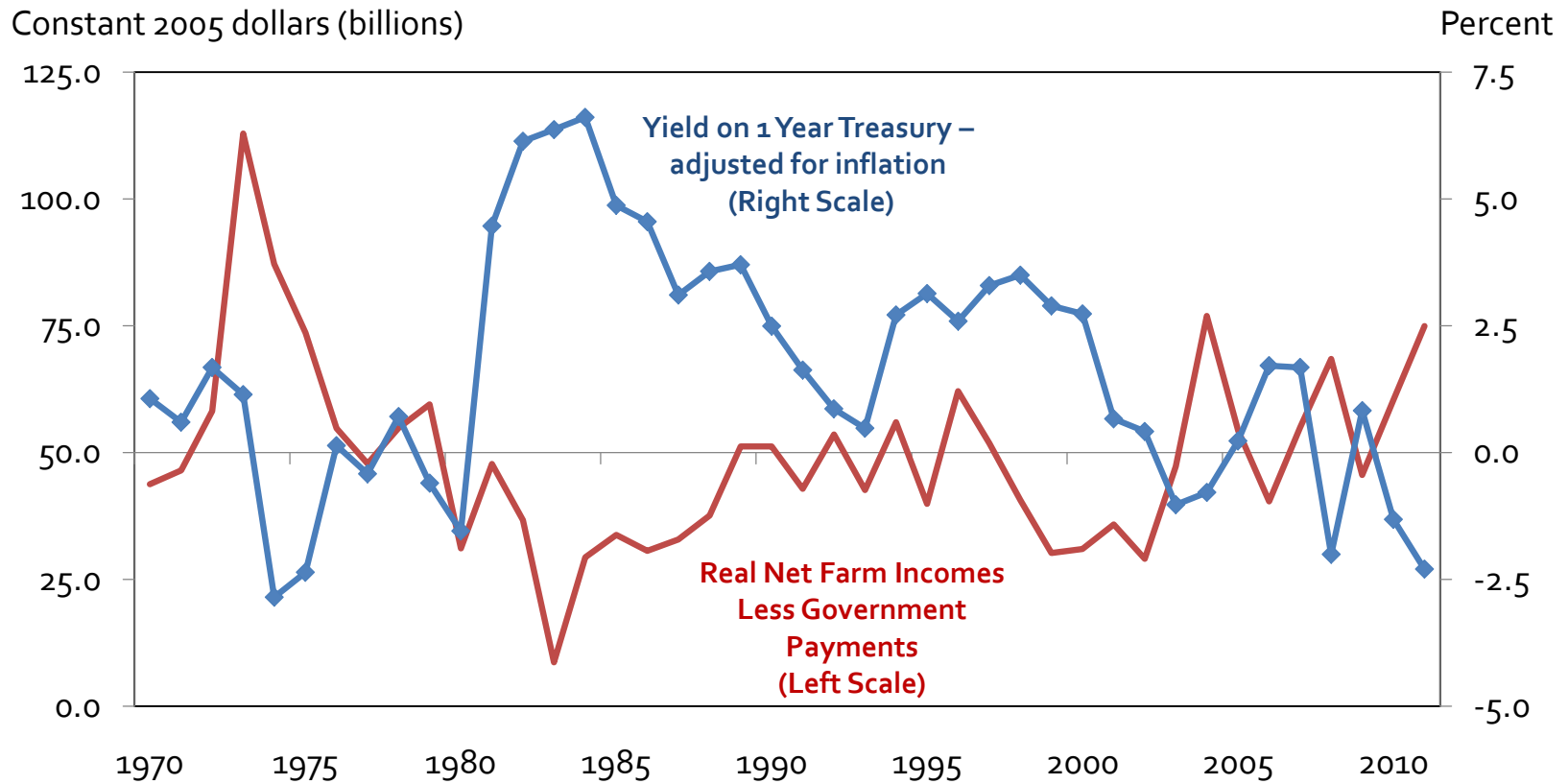
The Drivers of Farm Booms/Busts

- Interest rates
 - Interest rates shape cap rates and land values
 - Low interest rates associated with high farm incomes
 - 1970s – Low real rates and farm boom
 - 1980s – High real rates and farm bust
 - 1990s – High real rates and lower farm incomes
 - 2000s – Low real rate and higher farm incomes
 - 2010s ??



Farm incomes rise in low interest rate environments.

Farm Incomes and Interest Rates



Sources: Henderson (2011), "What are the Risks in Today's Farmland Market?" *Main Street Economist*, Federal Reserve Bank of Kansas City.



The Drivers of Farm Booms/Busts

- Interest rates
 - Interest rates shape cap rates and land values
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 - 1990s – High real rates and lower farm incomes
 - 2000s – Low real rate and higher farm incomes
 - 2010s ??
- What are the Risks?
 - Stronger economic gains and inflation.



For More Information on The Nebraska Economy and Rural America

www.kansascityfed.org/omaha

