THE OHIO STATE UNIVERSITY

Department of Agricultural, Environmental,
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Farmland Value, Cash Rent and Crop Input Outlook 2014

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Cropland values in Ohio have increased again in 2013. Data from the Ohio Ag Statistics Service shows an increase of 12% for bare cropland in Ohio for 2013. According to their data, bare cropland averages $5600/acre, up from $5000/acre the previous year.

The Ohio Cropland Values and Cash Rents Survey (AEDE) conducted in January 2013 shows that the increase in value of Western Ohio cropland in 2013 would be 6.8 to 15.4% depending on region and land class. The Chicago Federal Reserve Bank and Purdue University both conducted land value surveys in June 2013. The Chicago Fed survey of bankers found land values of "good" farmland increased by 21% year-over-year (the entire 7th Fed District increased 17%) while Purdue found that the statewide annual increase in cropland values ranged from 14.7 to 19.1% depending on the productivity of the farmland.

Crop profitability prospects were positive in 2013 as they have been for the most part since 2007. Profit margins in 2013 are projected to be positive as high yields should compensate for lower prices.

This period has seen some of the most profitable years in the last 50 years of crop production. These profit streams and healthier balance sheets have led many farmers to seek an investment option for these profits and many have chosen to invest in land. Investors outside of agriculture have also been actively seeking farmland as an investment alternative.

With many dollars and buyers chasing farmland, it isn't a surprise to see land values increase again substantially in 2013. Crop profitability along with low interest rates have been the primary drivers in this unprecedented run-up in cropland values. The relative scarcity of farmland has also been a driver in cropland values.

So all of this begs the question, "Where are land prices headed in 2014?" The key factors – crop profitability and interest rates – both show indications of "unfriendly" moves in 2014. Crop profits are projected to be lower (possibly negative) and interest rates have moved higher since last year. Does this mean land values will decline?

The projected numbers for 2014 point towards flat to lower cropland values for 2014. Projected budgets for Ohio's primary crops for 2014 show the potential for little to no profits (possibly losses). The Federal Reserve has indicated that it plans to maintain current low interest rates through mid-2015 although mortgage rates have moved higher.

Returns to Land (Gross Revenue minus all costs except land cost) are projected to be $7-$197/acre for Ohio Corn in 2014 depending on the land production capabilities. Budget projections for 2014 soybeans show returns to land to be $62-$248. Wheat budget projections for 2014 find returns to land to be between $16 and $150 per acre. This is assuming current prices of inputs and present December, November and September 2014 futures prices, respectively. These projections are based on OSU Extension Ohio Crop Enterprise Budgets available online at: http://aede.osu.edu/research/osu-farm-management/enterprise-budgets

Cash rental rates will move based on where they are in relation to the current market. Rents at the low end of the market may have some upside potential yet as they catch up. Rents at the high end of the market will be sticky as operators may be reluctant to ask for relief after one year of low prices for fear of losing part of their land base. Flex leases will likely decline due to lower crop prices.

To manage risk of volatile crop and input markets, producers and landowner should also strongly consider flexible cash leases. Producers and landowners should also understand and attempt to quantify in some way the non-cash benefits provided by the producer to the landowner and vice-versa.

Fertilizer continues to be the most volatile of the crop input costs and cost management of this important input may be the difference in being a low cost or high cost producer. Fertilizer prices are lower compared to last year at this same time and many producers are asking themselves if this is the right time to buy. While it is hard to know exactly what direction and when prices will move it is smart to keep up-to-date on important fertilizer products fundamentals.

Healthier farmer balance sheets and continued positive crop profit prospects have signaled the global marketplace to increase planted acreage. These same factors have also caused producers to maintain or increase fertilizer application rates which has led to strong global demand.

On the flipside, potentially large northern hemisphere crops have dampened prices which may lead to tighter profit margins in the short to medium term. These tighter margins may be a precursor to more judicious use of fertilizer as producers look to cut input costs.

Outlook information presented here was developed with data from AEDE research, the Energy Information Administration, USDA, other Land Grant research, futures markets and retail sector surveys. While gauged to the best of this author's capabilities, forward looking statements contained in this document may prove to be incorrect due to changes in supply and demand and other political and economic related events.