Examining Land Values, Rents, Crop Input Costs & Margins in 2016

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Low crop margins and uncertain land value and cash rental markets will continue to be important themes as we look ahead to 2016 as producers grapple with high costs relative to crop prices received.

According to data from the Ohio Ag Statistics Service, bare cropland value increased 3.5% in Ohio in 2015. According to this data, bare cropland averaged $5,850/acre, up from $5,650/acre the previous year. The Western Ohio Cropland Values and Cash Rents Survey (AEDE) was conducted in January 2015. The projected value for Average cropland in western Ohio was $7,315 per acre. Top cropland in western Ohio was projected to average $9,190 per acre while Poor cropland in western Ohio was expected to average $5,673 per acre. These values reflect projected decreases of 5.5 to 9.5%.

The Chicago Federal Reserve Bank October 1 survey of bankers found land values of “good” farmland were unchanged from last year however the 3rd quarter showed an increase in farmland values of 1% across the district. Purdue University conducted their annual land value survey in June 2015 and found decreases in farmland value that ranged from 3.8 to 5.1% depending on land productivity class.

Strong equity positions together with continued low interest rates continue to lend positive support to land values. Low projected profit margins in 2016 will likely restrict further land value increases and possibly cause values to decrease. These competing fundamentals create a continued uncertain picture for land values in 2016 although continued low margins together with the potential for higher interest rates suggest lower farmland values in 2016.

Enterprise budget projections for Ohio’s primary row crops for 2016 indicate the potential for low margins. Returns to Variable Costs (gross revenue minus variable costs) are projected to be $185-$345 per acre for Ohio corn in 2016 depending on land production capabilities. Budget projections for 2016 soybeans show Returns to Variable Costs to be $179-$331 per acre. Wheat budget projections for 2016 show Returns to Variable Costs to be between $125 and $218 per acre. This is assuming current prices of inputs and current December, November and September 2016 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

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Strong equity positions together with higher property taxes will continue to lend support to cash rental rates however low profit margins in 2016 will put downward pressure on rents. These competing fundamentals suggest a flat to slightly lower cash rental market outlook for 2016.

Variable costs for Ohio corn for 2016 will be 8.5% to 10.6% lower compared to 2015. Variable costs for corn for 2015 are projected to be $336 to $421 per acre. Variable costs for 2016 Ohio soybeans are projected to be 6.2% to 6.6% lower and range from $196 to $214 per acre. Wheat variable expenses for 2016 are projected to range from $169 to $211 per acre. Lower fuel and fertilizer prices will be the primary fundamental drivers of lower variable costs in 2016.

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.