Iowa farmland value at record level for fourth year in a row

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The average value of an acre of farmland in Iowa increased $290 to an all-time high of $3,204 in 2006, according to an annual survey conducted by Iowa State University. This is the fourth year in a row with a new record high.

The 2006 average value topped a previous record of $2,914 re-ported last year, and it represent-ed a 10.0 percent increase state-wide over the 2005 average and the first time the average value of an acre of land in Iowa topped $3,000. Values increased in all 99 counties in Iowa, with seven counties topping $4,000 an acre, and one, Scott County on the Mississippi River in eastern Iowa topping out at $5,073 per acre, the highest ever recorded in the history of the survey.

The total value of the state's 32.6 million acres of farmland is about $105 billion. The results of this year's survey are notable not just for the relative strength and record values reported. The increases can be tied to the rapid increases in grain prices. Corn prices averaged $2.07 per bushel from January to October of this year, but current cash corn pric-es are well over $3.00 and it is possible to sell corn for the next couple of years for that price.

The change in demand for corn, partly attributed to its role in the bioeconomy, is having far reach-ing impacts on Iowa agriculture. Land values and rents are in-creasing. One difference noted in this year's survey is that the percentage of land sales to exist-ing farmers increased this year for the first time in several years, after losing ground to investor purchases.

The double-digit percentage increases of the past three years raise the question of whether we are entering a time similar to the 1970s when land values increased rapidly, only to crash

Handbook updates

For those of you subscribing to the handbook, the following updates are included.

Livestock Planning Prices – B1-10 (1 page)

Hog Price Changes by Two-Week Period – B2-15 (1 page)

Cattle Price Changes by Two-Week Period – B2-20 (1 page)

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in the 1980s. There are several important differences to keep in mind when pondering that question. Iowa land values increased more than 30 percent per year for 1973, 1974 and 1975, but the current increases in values are no where near that level. The boom in the values in the early 1970s followed a period of relative stability in Iowa land values.

The increases we are seeing today are coming at a time when Iowa land values have been increasing fairly steadily over the past several years. Since 2000 Iowa land values have increased $1,347 per acre on average or a 73 percent increase. This is a substantial increase, to be sure, but it is no where near the over 125 percent increase in values from 1972 to 1975. There are other differences such as the level of inflation, the fact that the more land is held without debt and the fact that more land is being held by older people.

Values increased in all 99 Iowa counties and topped $1,400 an acre in every county for the first time since ISU began conducting the survey in 1941. The highest average values in the state were reported in the Northwest Iowa crop reporting district at $3,783 per acre. The South Central district had the lowest average values at $1,927, and that district also had the lowest percentage of increase at 7.5 percent on average. The highest percentage of increase was 14.7 percent in Southeast Iowa

The survey of real estate brokers, farm lenders, and others who work directly with the land markets, indicated nearly half of the counties (45) in the state showed increases of more than 10 percent. There were 59 counties with average values between $3,000 and $4,000 an acre. The smallest percentage increase was 2.9 percent in Jones County, and the largest increase was 17.2 percent in Audubon County. The average value increased for the seventh year in a row after slight declines in 1998 and 1999. The largest dollar increase was $495 per acre in Louisa County.

Good grain prices were a major factor in value increases this year and were mentioned by 42 percent of those responding to the survey. Other positive factors were good crop yields, mentioned by

18 percent of the respondents; low interest rates, tax-free treatment of transactions involving land exchanges, and bio-fuel demand, each mentioned by 14 percent; and scarcity of listings, mentioned by 13 percent.

Negative factors that worked against greater increases this year included an uptrend in interest rates, mentioned by 16 percent of the respondents, high input and machinery costs, mentioned by 12 percent, and land prices that are already too high, mentioned by 11 percent.

The survey indicated low grade land, which averaged $2,195 per acre in 2006, increased 11.9 percent over the previous year. Medium grade land averaged $3,011 per acre, a 10.0 percent increase, and high grade land averaged $3,835 per acre, an increase of 9.2 percent.

Fifty-one percent of the survey respondents said the number of sales this year was about the same as last year, while 26 percent said there were more sales in 2006, and 23 percent said there were fewer sales. Existing farmers were the buyers in about 60 percent of the transactions this year, with investors accounting for about 35 percent of the sales, new farmers 3 percent and other purchasers 2 percent.

About 1,100 copies of the survey are mailed each year to licensed real estate brokers, ag lenders, and others knowledgeable of Iowa land values. Respondents are asked to report values as of Nov. 1. Average response is 500 to 600 completed surveys, with 490 usable surveys returned this year. Respondents provided 623 individual county estimates, including land values in nearby counties if they had knowledge of values in those counties.

Only the state average and the averages for the nine crop reporting districts are based directly on data collected in the survey. The county estimates are derived through a procedure that combines ISU survey results with data from the U.S. Census of Agriculture. The ISU survey is the only one of several conducted throughout the year that reports data for all 99 counties.

The survey is sponsored by the Iowa Agriculture

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and Home Economics Experiment Station at ISU, with results reported by ISU Extension. I was assisted this year by Darnell Smith, extension program specialist in economics.

Additional information on the 2006 survey is available on the ISU Extension Web site at www.extension.iastate.edu/landvalue/ .

By Crop Reporting District:

District	2006 $/acre	2005 $/acre	2005-2006 Change $	2005-2006 Change %
Northwest	$3,783	$3,393	$391	11.50%
North Central	3,478	3,222	256	7.90%
Northeast	3,187	2,963	224	7.60%
West Central	3,410	3,048	362	11.90%
Central	3,716	3,415	301	8.80%
East Central	3,725	3,396	329	9.70%
Southwest	2,580	2,350	231	9.80%
South Central	1,927	1,793	134	7.50%
Southeast	2,849	2,483	366	14.70%
State Average	3,204	2,914	290	10.00%

By County:

County Name	2006 $/acre	2005 $/acre	2005–2006 $ Change	2005–2006 % Change
Adair	$2,198	$2,020	$179	8.80%
Adams	2,203	1,952	251	12.90%
Allamakee	2,126	1,978	148	7.50%
Appanoose	1,564	1,455	109	7.50%
Audubon	3,311	2,824	487	17.20%
Benton	3,619	3,314	305	9.20%
Black Hawk	3,952	3,636	316	8.70%
Boone	3,917	3,597	320	8.90%
Bremer	3,621	3,345	276	8.30%
Buchanan	3,562	3,289	273	8.30%
Buena Vista	3,914	3,555	359	10.10%
Butler	3,458	3,191	267	8.40%
Calhoun	3,958	3,626	332	9.20%
Carroll	3,581	3,307	274	8.30%
Cass	2,950	2,610	339	13.00%
Cedar	4,012	3,667	346	9.40%
Cerro Gordo	3,567	3,302	265	8.00%
Cherokee	3,581	3,186	395	12.40%
Chickasaw	2,909	2,746	163	5.90%
Clarke	1,811	1,607	205	12.70%
Clay	3,612	3,281	331	10.10%
Clayton	2,919	2,716	203	7.50%
Clinton	3,285	3,157	128	4.10%
Crawford	3,254	2,880	375	13.00%
Dallas	3,385	3,167	219	6.90%
Davis	1,956	1,676	280	16.70%
Decatur	1,465	1,321	144	10.90%
Delaware	3,866	3,494	372	10.60%
Des Moines	3,179	2,947	232	7.90%
Dickinson	$3,404	$3,049	$355	11.60%
Dubuque	3,513	3,267	245	7.50%

County Name	2006 $/acre	2005 $/acre	2005–2006 $ Change	2005–2006 % Change
Emmet	3,721	3,380	341	10.10%
Fayette	3,337	3,032	305	10.10%
Floyd	3,320	3,058	263	8.60%
Franklin	3,518	3,273	245	7.50%
Fremont	2,832	2,588	244	9.40%
Greene	3,470	3,154	316	10.00%
Grundy	3,996	3,759	237	6.30%
Guthrie	2,963	2,643	320	12.10%
Hamilton	4,097	3,785	312	8.20%
Hancock	3,592	3,344	248	7.40%
Hardin	3,667	3,387	279	8.20%
Harrison	3,093	2,756	337	12.20%
Henry	3,073	2,812	261	9.30%
Howard	2,621	2,422	199	8.20%
Humboldt	3,873	3,600	273	7.60%
Ida	3,668	3,243	425	13.10%
Iowa	3,131	2,708	423	15.60%
Jackson	2,931	2,724	207	7.60%
Jasper	3,301	2,924	376	12.90%
Jefferson	2,375	2,099	276	13.10%
Johnson	3,911	3,473	438	12.60%
Jones	3,147	3,059	88	2.90%
Keokuk	2,836	2,460	376	15.30%
Kossuth	3,707	3,456	251	7.30%
Lee	2,893	2,620	273	10.40%
Linn	3,983	3,661	322	8.80%
Louisa	3,413	2,918	495	17.00%
Lucas	1,672	1,555	117	7.50%
Lyon	3,447	3,088	360	11.60%
Madison	2,644	2,427	218	9.00%
Mahaska	2,963	2,619	344	13.10%
Marion	2,925	2,563	363	14.20%
Marshall	3,433	3,303	130	3.90%
Mills	3,095	2,714	381	14.00%
Mitchell	3,252	2,995	257	8.60%
Monona	2,838	2,492	346	13.90%
Monroe	1,981	1,718	263	15.30%
Montgomery	2,630	2,404	227	9.40%
Muscatine	3,647	3,311	336	10.10%
O'Brien	4,255	3,811	444	11.60%
Osceola	3,640	3,261	380	11.60%
Page	2,372	2,206	166	7.50%
Palo Alto	3,525	3,248	277	8.50%
Plymouth	3,830	3,386	444	13.10%
Pocahontas	3,830	3,547	283	8.00%
Polk	3,487	3,180	307	9.60%
Pottawattamie	3,294	2,973	321	10.80%
Poweshiek	3,124	2,767	358	12.90%
Ringgold	1,726	1,494	232	15.50%
Sac	3,824	3,425	399	11.60%
Scott	5,073	4,707	366	7.80%
Shelby	3,287	2,925	363	12.40%
Sioux	4,063	3,617	446	12.30%
Story	4,021	3,679	342	9.30%
Tama	3,320	3,015	305	10.10%
Taylor	1,948	1,791	157	8.80%
Union	2,085	1,927	158	8.20%
Van Buren	2,159	1,850	309	16.70%
Wapello	2,237	2,056	180	8.80%
Warren	2,935	2,716	219	8.10%
Washington	3,624	3,144	480	15.30%
Wayne	1,596	1,485	111	7.50%
Webster	4,040	3,732	308	8.30%
Winnebago	3,238	3,013	224	7.40%
Winneshiek	2,720	2,522	198	7.80%
Woodbury	3,014	2,650	364	13.70%
Worth	3,268	3,025	243	8.00%
Wright	3,988	3,707	281	7.60%

Subsidy elimination: Would it be the panacea seen by some?

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If many advocates of trade liberalization had their way, all agricultural subsidies would go the way of the passenger pigeon and dodo bird. They would simply disappear from the face of the earth. The argument is that subsidies distort market signals bringing about excess production of subsidized crops which drives their market prices downward, often below the cost of production. Since the global south cannot afford to pay subsidies, their farmers are forced to compete with below-the-cost-of-production imports coming from the global north.

Hence the argument is that farmers in the global south would benefit from the elimination of farm subsidies that are paid to farmers in the global north, primarily the U.S. and the European Union (EU). Without subsidies, it is argued that US and EU farmers would reduce their production of crops which would, in turn, reduce the supply and increase prices for all. In addition this lower production in the US and the EU would expand access for farmers in the global south, allowing them to sell additional products into the lucrative markets of the north.

There is scant evidence that aggregate agriculture responds to price changes with commensurate changes in the amount of land dedicated to crop production. In the period following the adoption of the 1996 Farm Bill, aggregate farm-level prices, adjusted to include all payment types, dropped by as much as 22 percent, while harvested acreage declined by as much as 3.5 percent. It should be noted that the harvested acres in the comparison year, 1996, were higher than in previous years because acreage previously diverted by annual seta-side programs was returned to production. Hence the 3.5 percent drop is from an acreage high point.

In those years, as always, farmers shifted land from one crop to another to try to take advantage of any crop that appeared to have the potential of providing a greater financial return. What they did not do was reduce total acreage farmed significantly.

Given this type of behavior on the part of farmers, we should expect that in the absence of subsidies, farmers would shift away from crops with high production costs in favor of crops with lower production costs. Some acreage would move out of cotton and rice production and into corn and soybean production. But farmers would plant all of their cropland all of the time unless prevented from doing so by weather events.

Over time some farmers would run out of resources to tap and would either go bankrupt or quit farming. In the former case, the land would be sold to a new operator who most likely would keep it in production. In the latter case, the farmer would lease it to a neighbor who also would return it to production. Farmers may leave the agricultural production sector, but, with few exceptions, the land remains as active as ever.

Over time, the price of land would drop in an attempt to lower the U.S. cost of production to better match the cost of production in competitor countries like Brazil. Under these constraints some small amount of acreage undoubtedly would be shifted to the production of minor crops or to pasture, but the resulting reduction in production likely would be minimal.

The financial impact of the decapitalization of land in farming areas would be significant especially on local school districts who receive a significant portion of their revenue from property taxes, much of which is based on agricultural land. Other government services from law enforcement to streets and roads would also be negatively affected by a deep and permanent cut in the value of agricultural land.

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Farmers who used land as a collateral for their loans (and many do) would find themselves in a financial crisis as the price of land fell. Country banks would have to pull their loans because of insufficient collateral and unless the farmer had another source of cash, the farm would have to be sold to satisfy the loan. As a result land prices would continue to tumble for some time. Under this scenario, banks with considerable ag based loans would face some solvency issues.

With less to spend, farmers would reduce their purchases of capital equipment like trucks, tractors, and combines using them for several years longer than they presently do. Implement dealers and Main Street retailers would be faced with lower farm related sales as well. Undoubtedly churches and civic organizations would also feel the pinch.

Stress levels would be high across rural farming communities. If the experience of the 1980's is at all relevant the number of suicides would increase dramatically as would the number of divorces. The decapitalization of farming communities, brought on by the ending of all subsidies, would also increase the rural to urban migration pattern that has been evident for the past century.

Through all this, the level of production of U.S. aggregate crop agriculture would decline very little. The crop mix would change, but the relatively small increase in crop prices would be a fraction of the per bushel payments farmers currently receive.

Overall Women Conference

Overall Women is for women involved in or affected by agriculture, whether it is managing your own farm operation, as a business partner, impacted by the farm economy, or just wanting to learn more about today's agriculture. Gather with other rural women to network and learn. This year's conference will be at the new Coralville Marriott Hotel, just off I-80 in the Iowa City area.

Dr. David Kohl, Professor emeritus of Agricultural and Applied Economics at Virginia Tech, headlines the conference. An internationally recognized expert on rural finance, he brings his high energy and entertaining style to the conference to share his vision of the global agricultural landscape.

More than 30 different workshop sessions will be offered and casual conversation and relaxation will follow the Friday evening banquet.

Come for both days, or register for a single day. Invite your neighbors, your co-workers, and your relatives to join you. We look forward to seeing you in Coralville on January 26 and 27, 2006.

Are you looking for a unique gift idea for a friend or relative? Give someone special the gift of enrichment by purchasing her a gift certificate for a conference registration. You may register for a gift certificate by visiting the register online tab on the sidebar of this page, and following the online registration directions, or calling 1-800-262-0015.

Updates, continued from page 1

Suggested Closing Inventory Prices– C1-40 (2 pages)

2006 Farmland Value Survey– C2-70 (5 pages)

Please add these files to your handbook and remove the out-of-date material.

Internet Updates

The following updates have been added to www.extension.iastate.edu/agdm.

Business Development vs. Economic Development – C5-13

Decision Tools

The following decision tool has been added to www.extension.iastate.edu/agdm.

Simple Hog Market Calculator – Use this *decision tool* to evaluate the added return per head from marketing hogs a few days later and at a heavier weight.

Swine Marketing Decision Calculator – Use this *decision tool* for help in evaluating optimal marketing weight.