



Economic Crisis: Linkages to Agriculture and Farmland Values

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Where do we start?



Economic Basics

$$\text{GDP} = C + I + G - (X - M)$$

US:

$$14,266 = 10,140 + 1,569 + 2,959 - 402$$

$$71\% + 11\% + 21\% - 3\%$$

Source: BEA 3rd Qtr 2009, estimate, current dollars

China

$$36\% + 42\% + 13\% + 9\%$$

Financial Health of the Consumer



■ Income Declines

- 15 million unemployed + 11.5 underemployed
- Average work week 33.2 hours
- Median unemployment 20.1 weeks (up 100% Nov 2008)

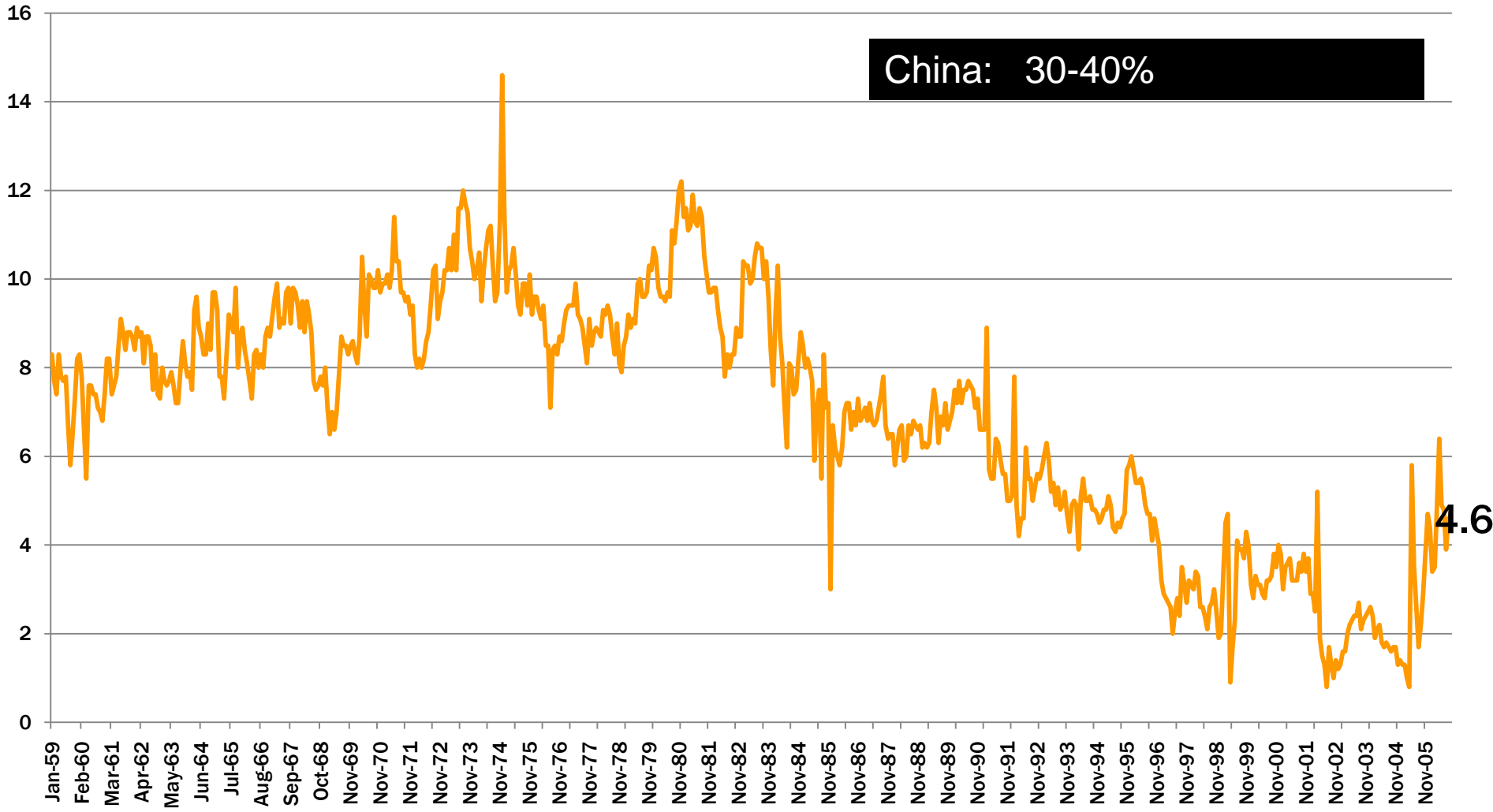
■ Wealth declines

- \$3.6 trillion off home price peak
- \$8.3 trillion off financial asset peak values

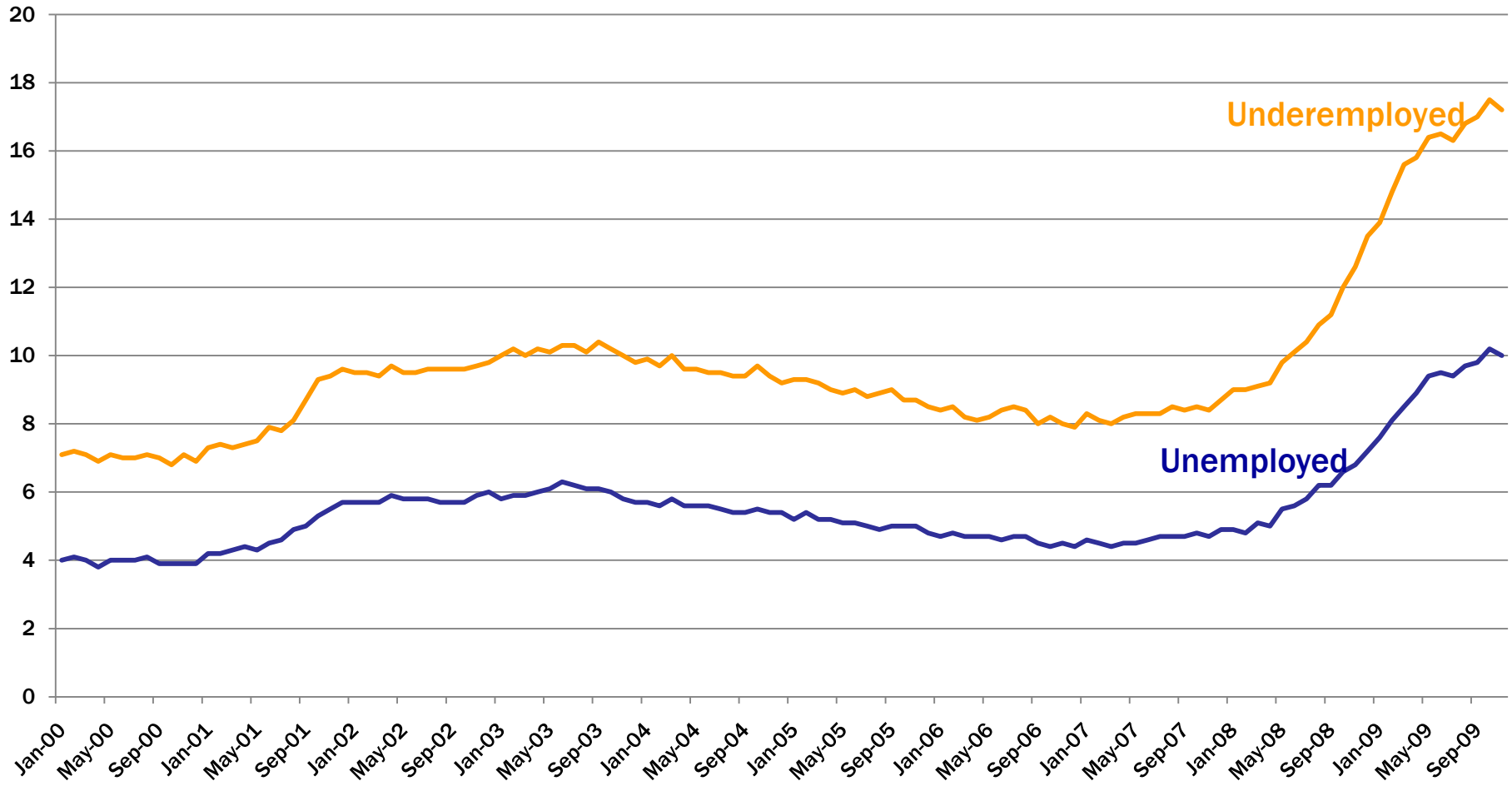
■ 23% of home mortgages have negative equity

■ 9.24% mortgages past due (up 44%)

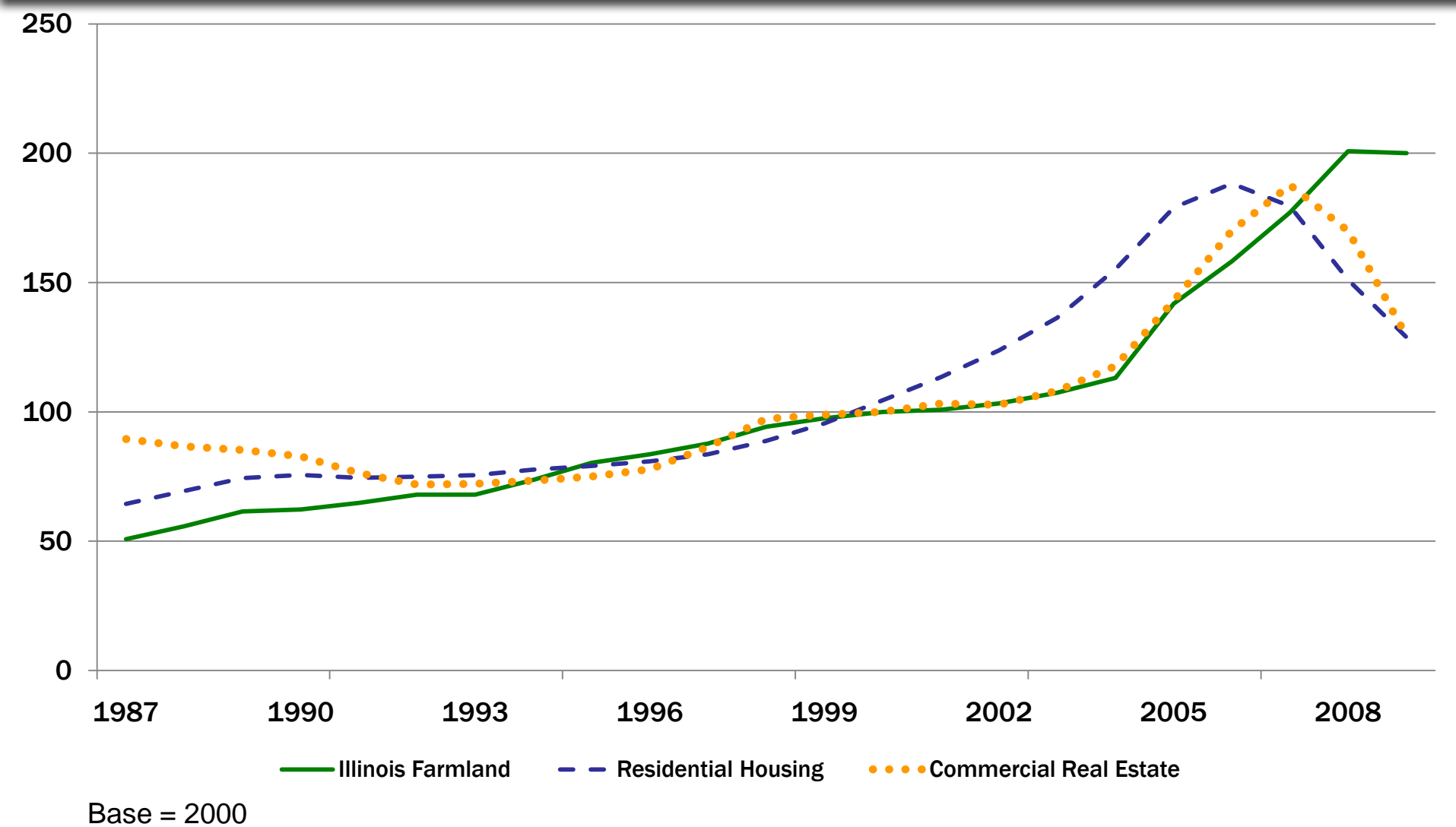
U.S. Savings Rate



Employment



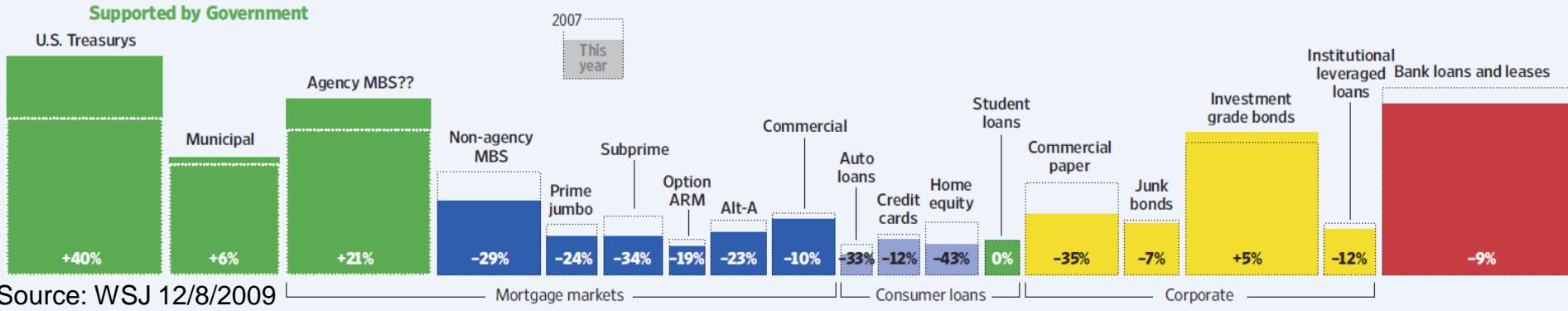
Commercial, Residential and Farm Real Estate Prices



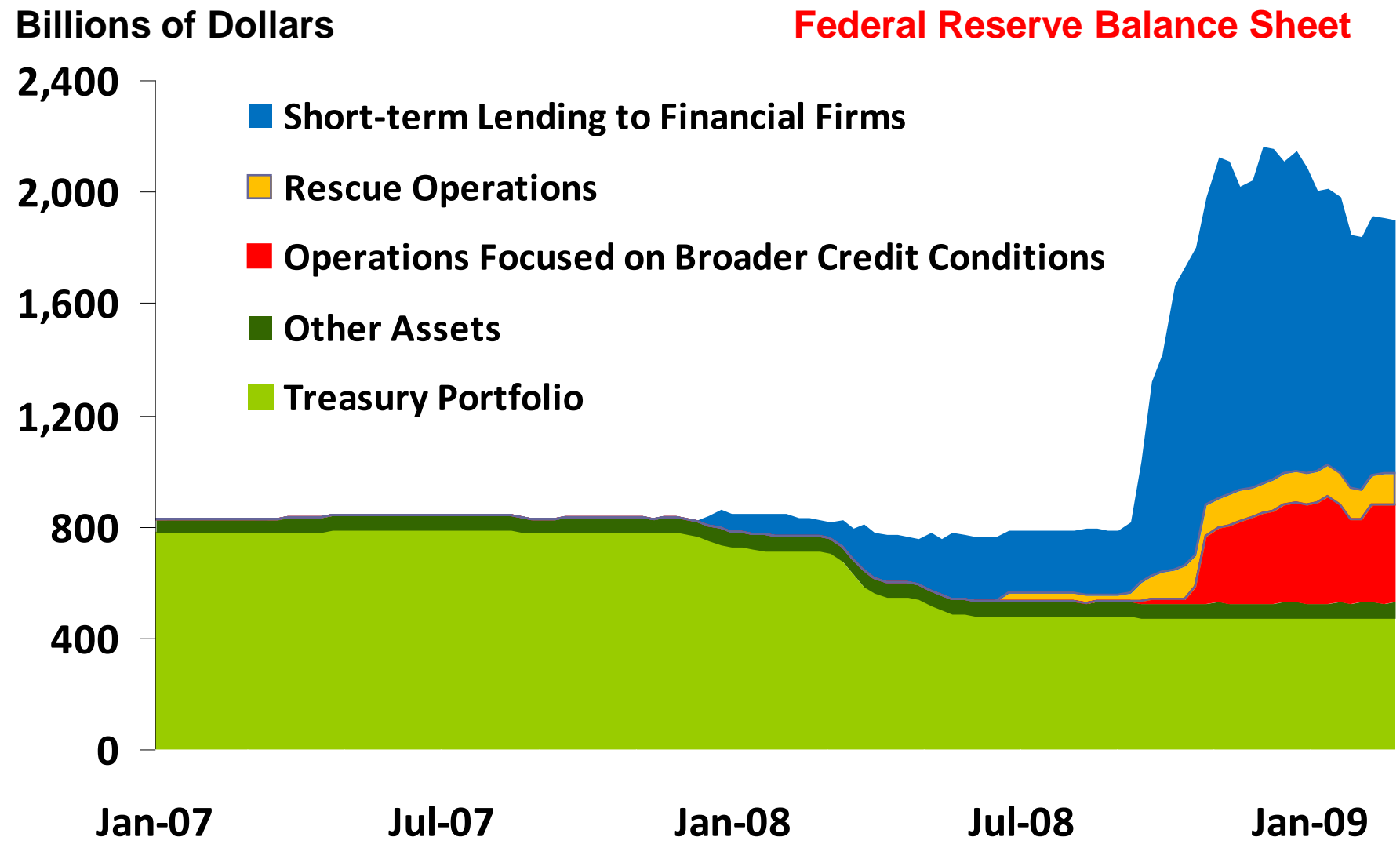
U.S. Debt Markets



U.S. Debt Markets | How markets have changed since the start of the recession



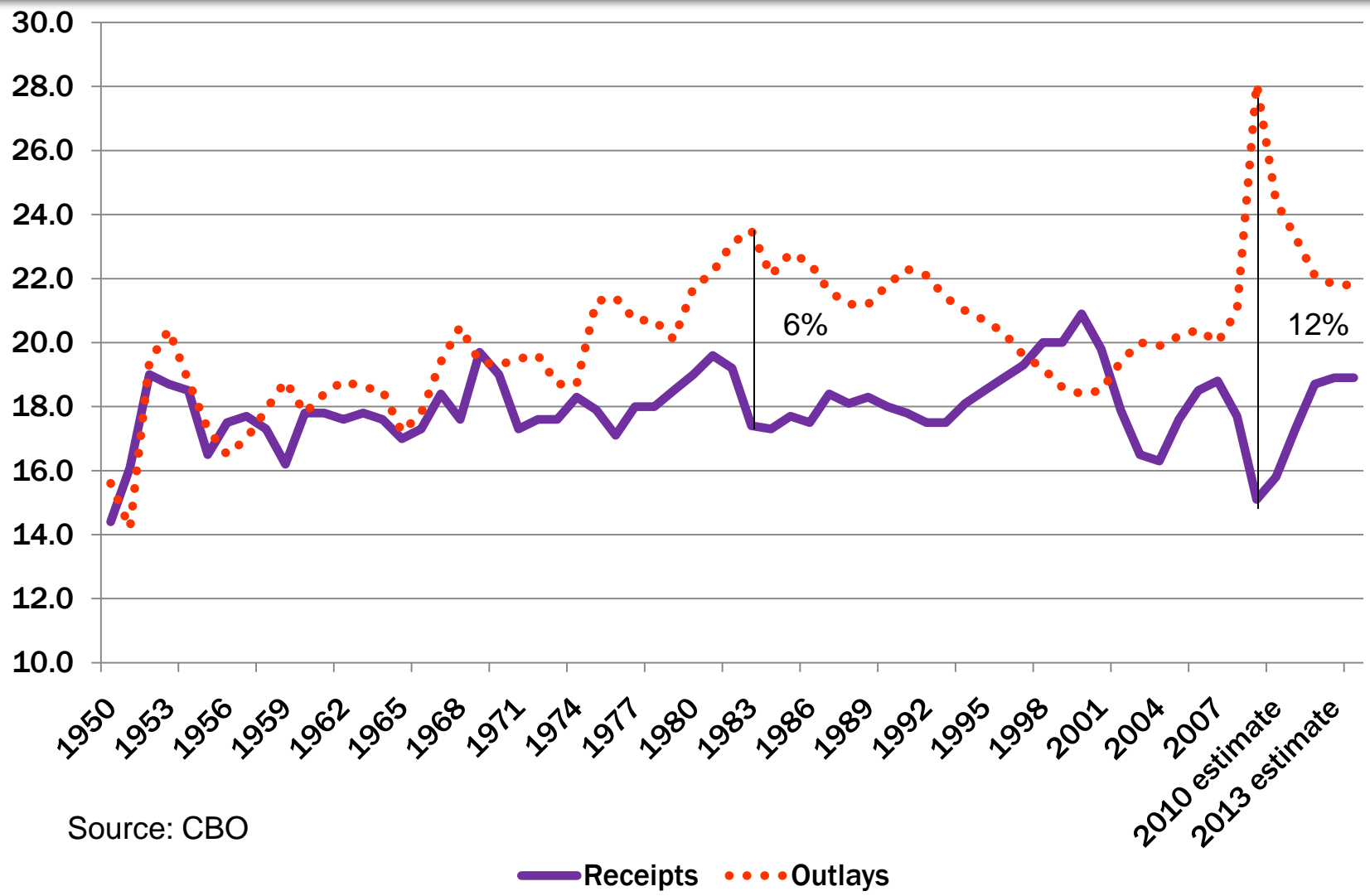
The Fed Has Expanded its Balance Sheet to Extend Credit to Banks



U.S. Outlays & Receipts/GDP



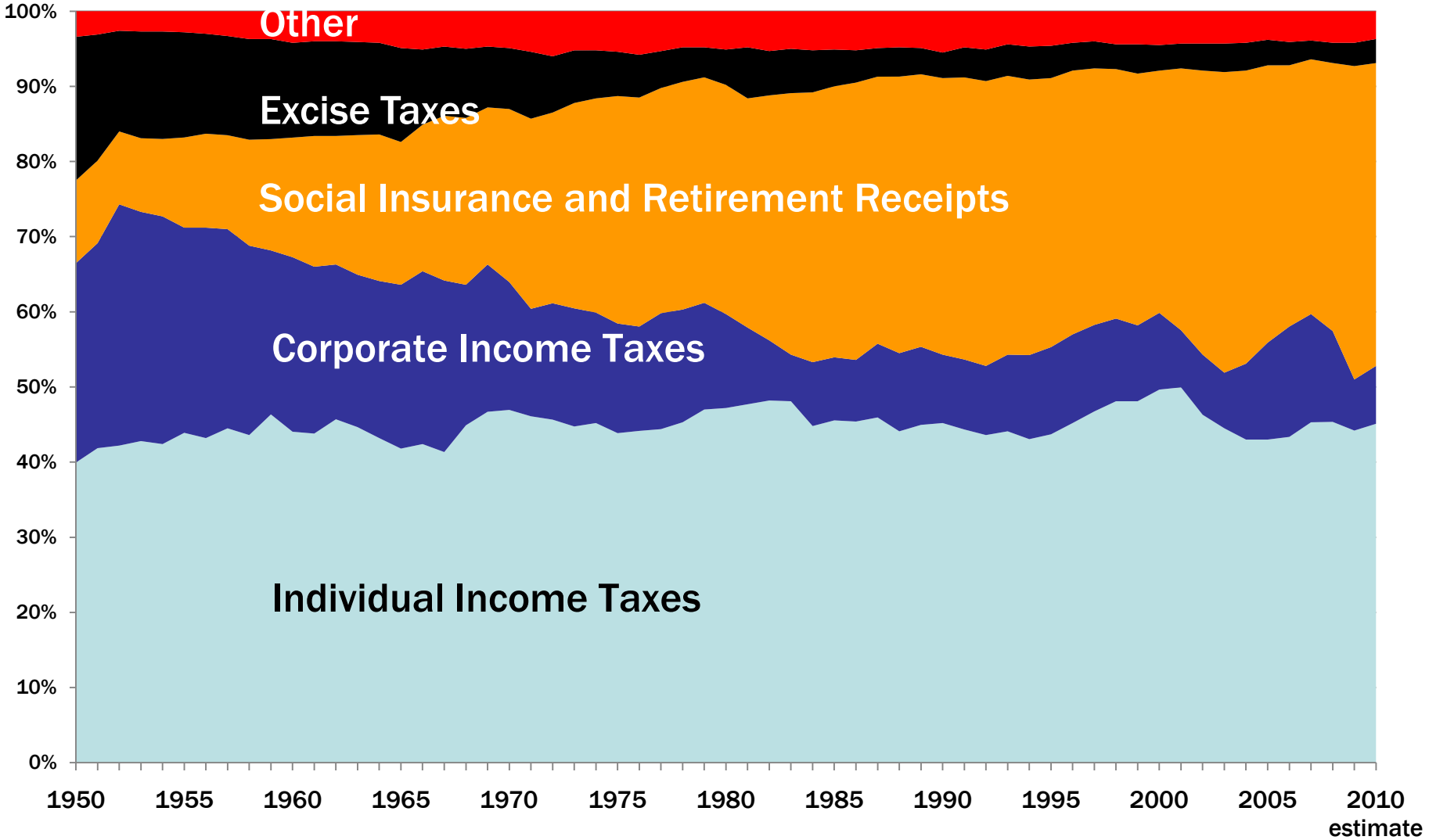
Harness the Power of the Internet



Sources of Tax Revenue



Harness the Power of the Internet

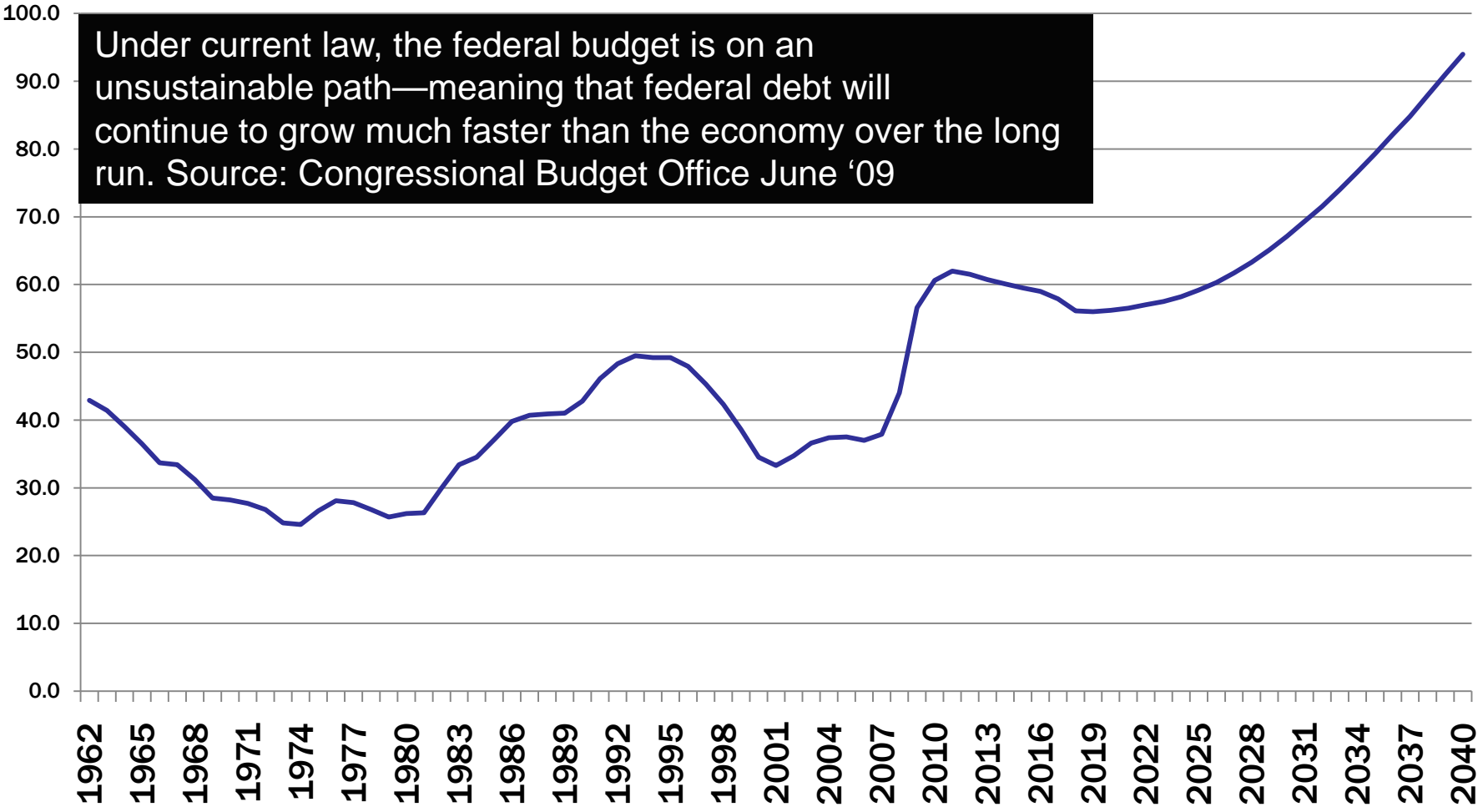


Public Debt / GDP

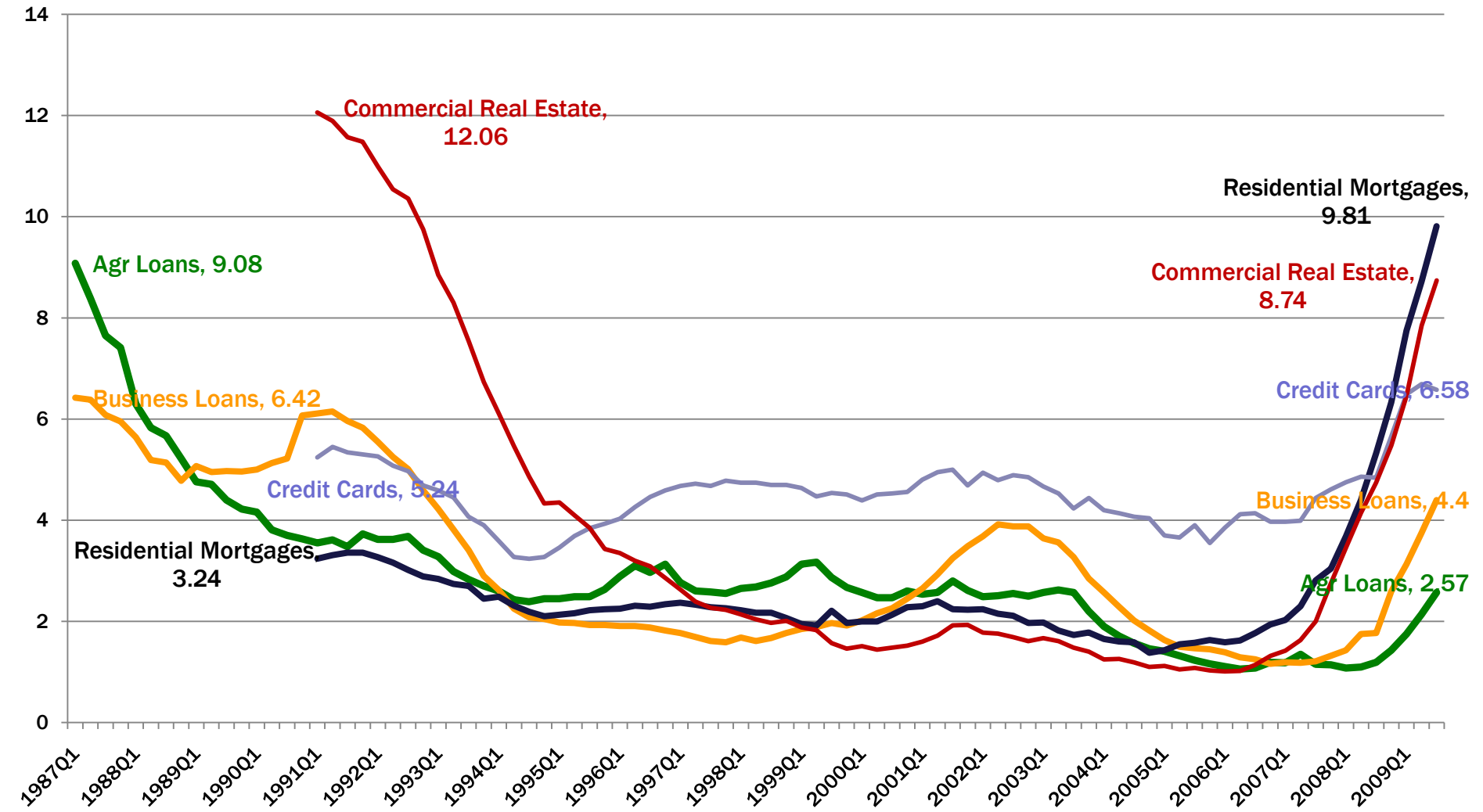


Harness the Power of the Internet

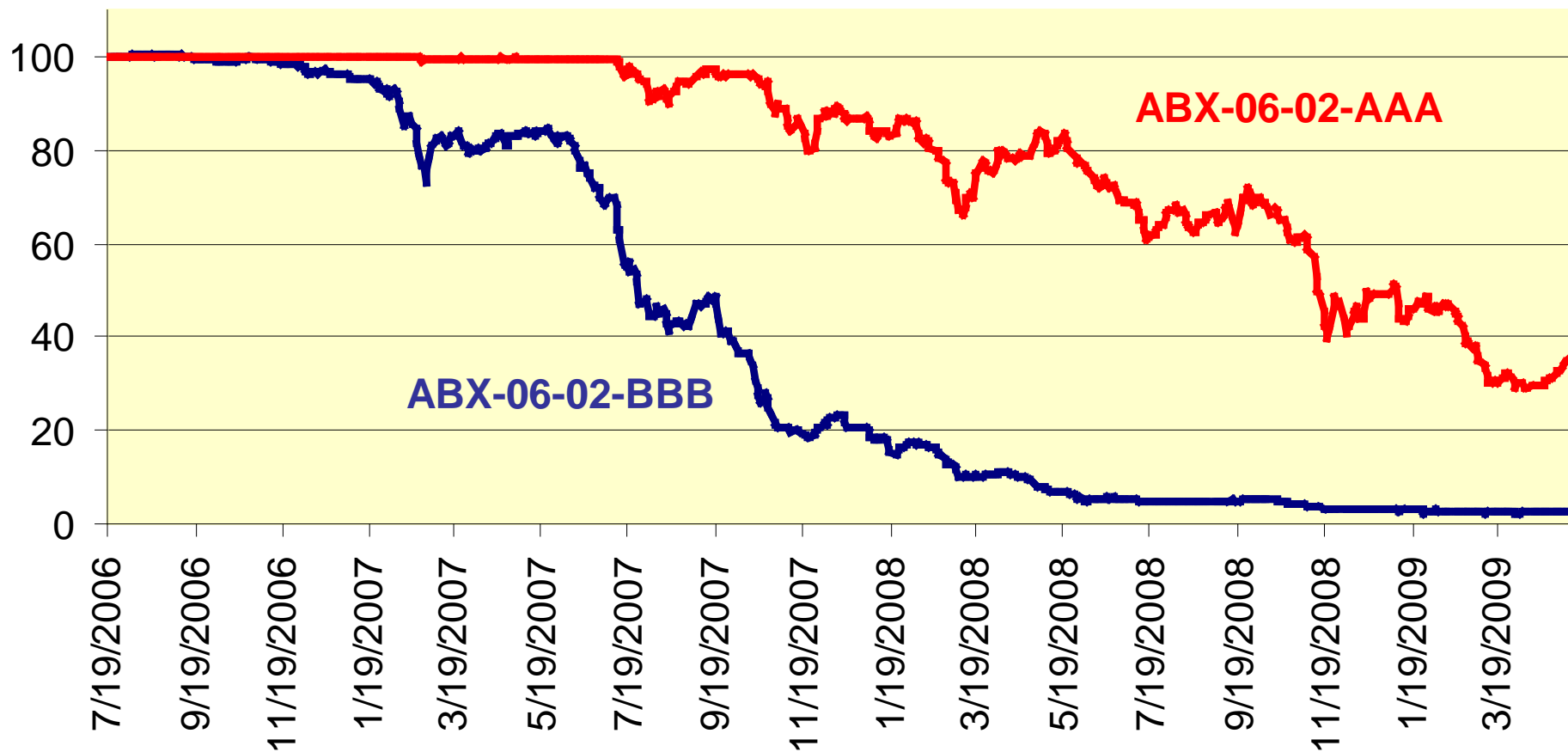
Under current law, the federal budget is on an unsustainable path—meaning that federal debt will continue to grow much faster than the economy over the long run. Source: Congressional Budget Office June '09



Delinquency Rates Commerical Banks



Price of Legacy/Toxic Securities





What about Agriculture?



2009 Illinois Farm Economics Summit
The Profitability of Illinois Agriculture: Profitability at a Crossroads

- **148 Commercial bank failures since June 2008**
- **Regional exposure to Commercial Development and Real Estate Loans**
- **Pork and dairy markets**
- **Exposure to interest rate changes**
- **Additional deposit insurance fees for banks**

Farmland Prices

- **Net returns to land**
 - **Level**
 - **Volatility**
- **Energy prices**
- **Interest / inflation rates**
- **Housing crisis**
- **Scope & economic situation of buyers**
- **Demand for recreational land**
- **Capital gains tax rates**



- "...quarterly decrease of 6% (...in 2009) ... the largest quarterly decline since 1985" (Chicago Fed AgLetter).
- "It's Confirmed: Farmland Prices are Correcting". Continuing with an attribution to USDA, "...both Bloomberg and the WSJ are reporting the first annual drop in U.S. farmland prices in 20 years of an average of -3.2%". (www.seekingalpha.com)
- Various sources have cited declines in Iowa farmland values from last year ranging from about 5% to nearly 7.6% (HPJ Land Journal, ISU Ag Decision Maker, others).
- In its mid-2009 survey, the Illinois Society of Professional Farm Managers and Rural Appraisers found high quality land to be down 2.38%, lower quality land off 5.6%, and were among the first to note evidence of expectations of declining cash rents.
- USDA sources show farmland values in Illinois down .4% from the same period in 2008, with steeper declines in IN and IA, though surveyed cash rents paid were still up into 2009 from a year earlier.

Is the sky falling?

	Dow Index	Case-Shiller House Price Index/year	Chicago House Price Index	Illinois Farmland Total return
1999-2008	1.10%	5.89%	3.00%	12.70%
2007	6.20%	-10.30%	-4.70%	16.20%
2008	-45.50%	-21.40%	-15.40%	18.90%
2009 to date	11.98%	0.41%	1.01%	-0.50%

Estimated Returns to Land

	Returns/ Acre	Imputed Land Price
Northern Illinois	265	5,893
Central Illinois High Productivity	263	5,849
Central Illinois Low Productivity	226	5,018
Southern Illinois	154	3,427

Assumptions:

Schnitkey budgets + \$50 return to land

\$4.00 / bu. Corn : \$10.00 / bu. Soybeans

4.5% Capitalization Rate

What have we learned from the Crisis?

- **Consumer has felt some pain**
- **Real estate prices can fall.**
- **Low documentation loans often don't work.**
- **Credit spreads can widen quickly.**
- **In crisis, diversification does not work well.**
- **Pain can be severe.**
- **Lack of regulatory “sympathy” to smaller institutions.**
- **Total agricultural debt low relative to others.**