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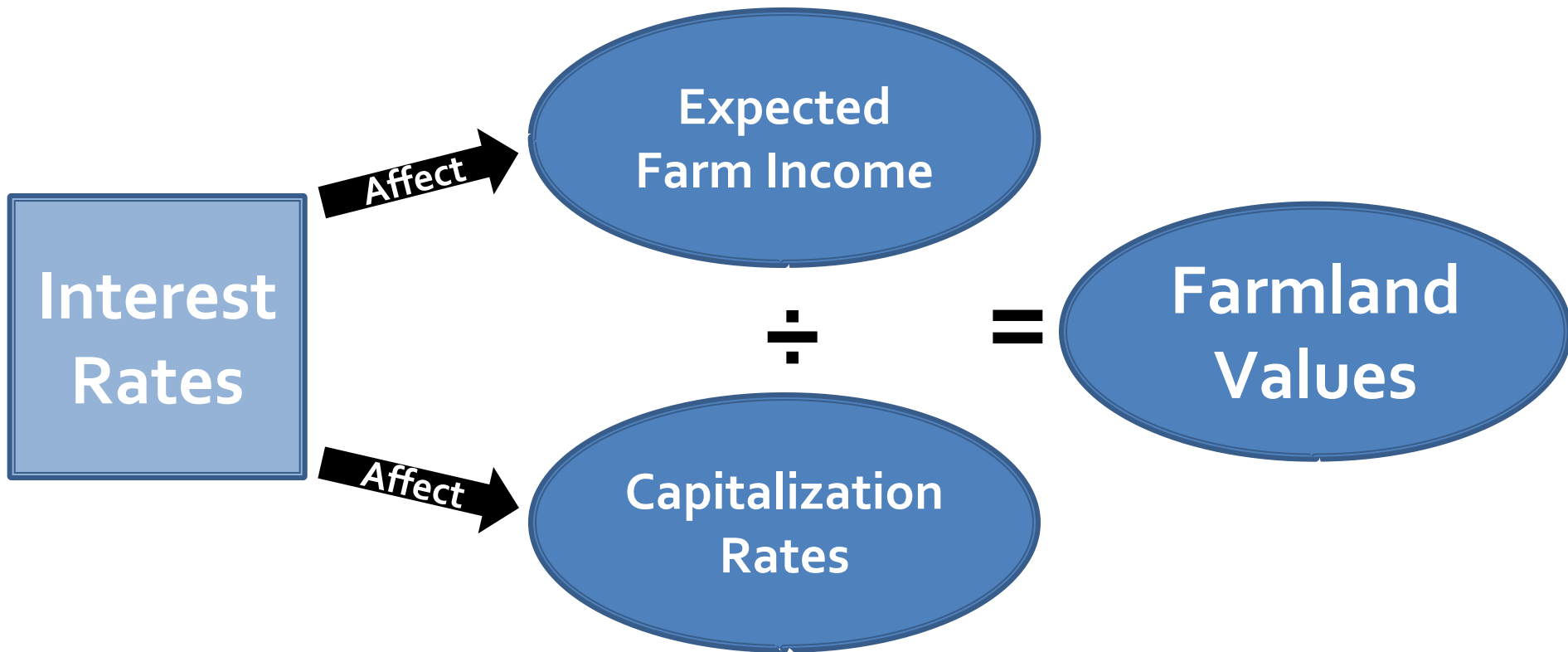
March 10, 2011

# Interest Rates and Farmland Values

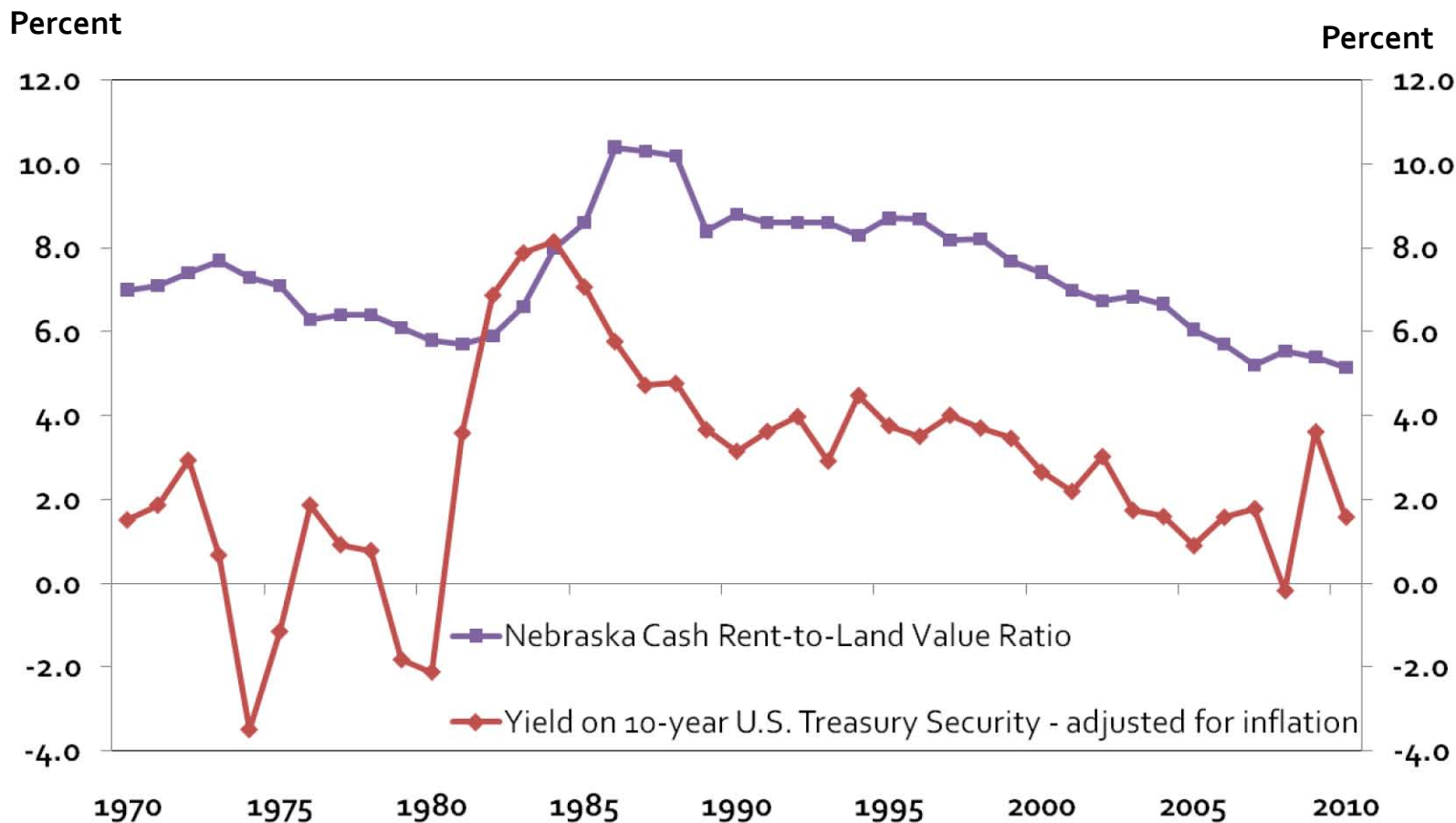


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# Interest rates can affect farmland values through two avenues.



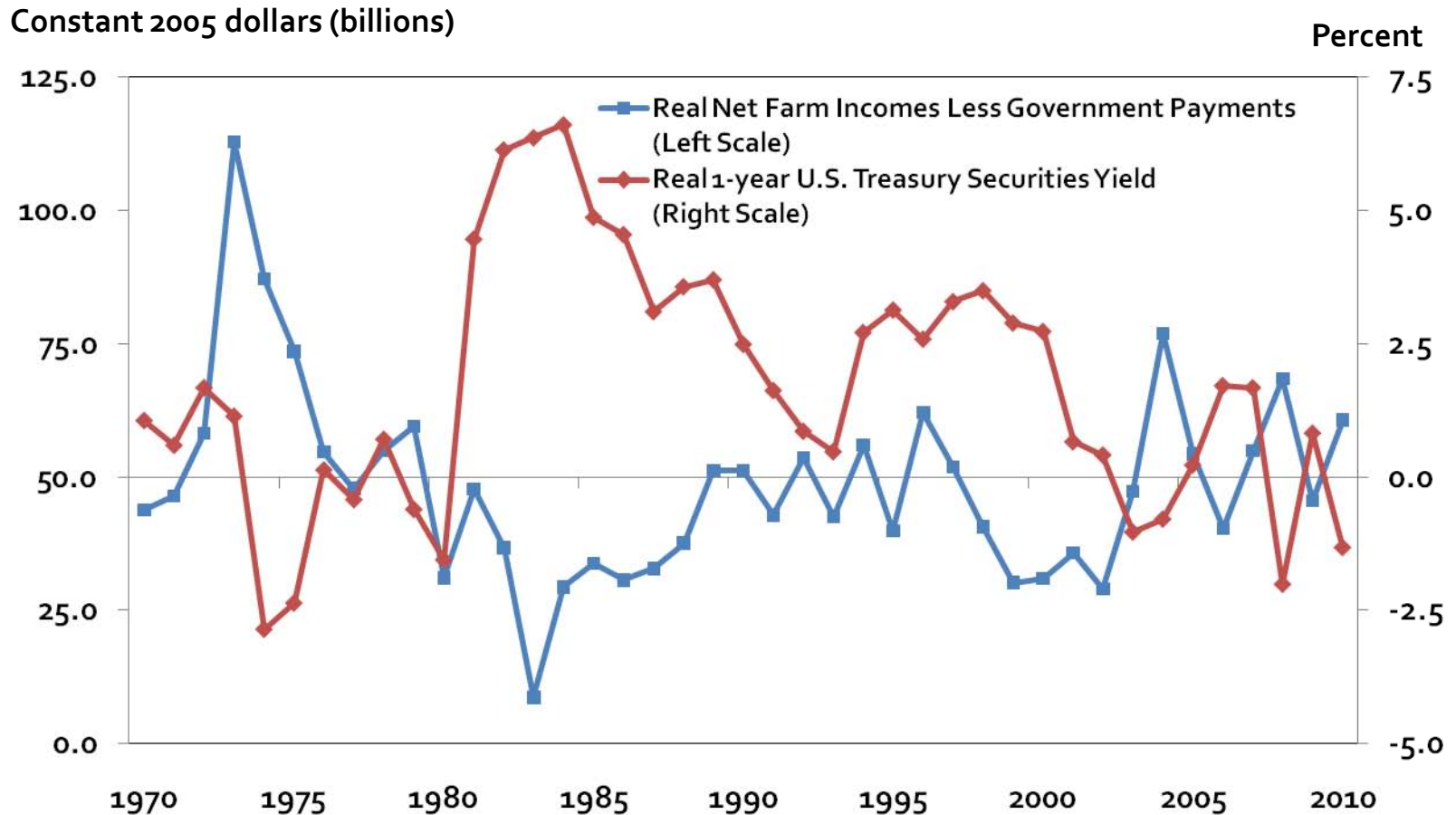
# Over time, real interest rates and capitalization rates tend to move together.



Sources: USDA , Federal Reserve and BLS



# Over time, real interest rates and real net farm income tend to move in opposite directions.

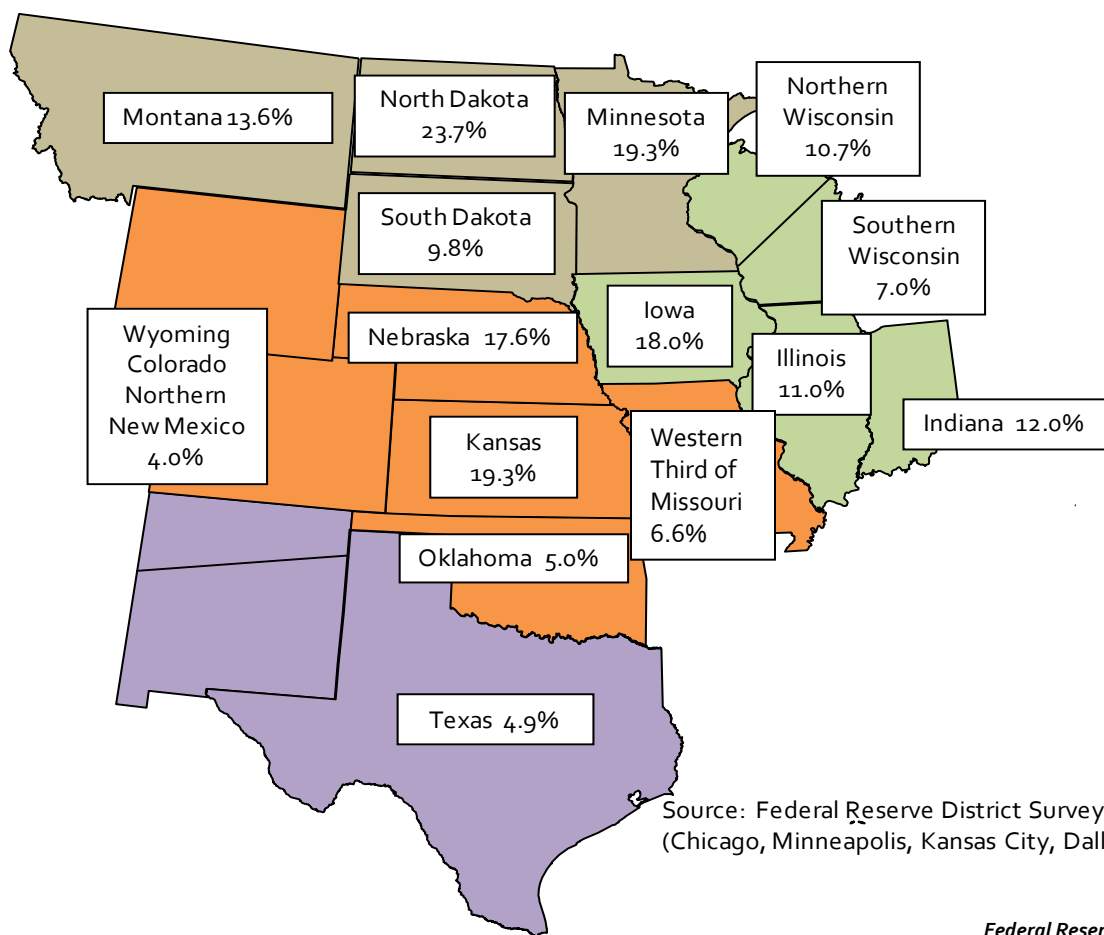


Sources: USDA, Federal Reserve, BLS



# With low capitalization rates and elevated farm income, farmland values have surged.

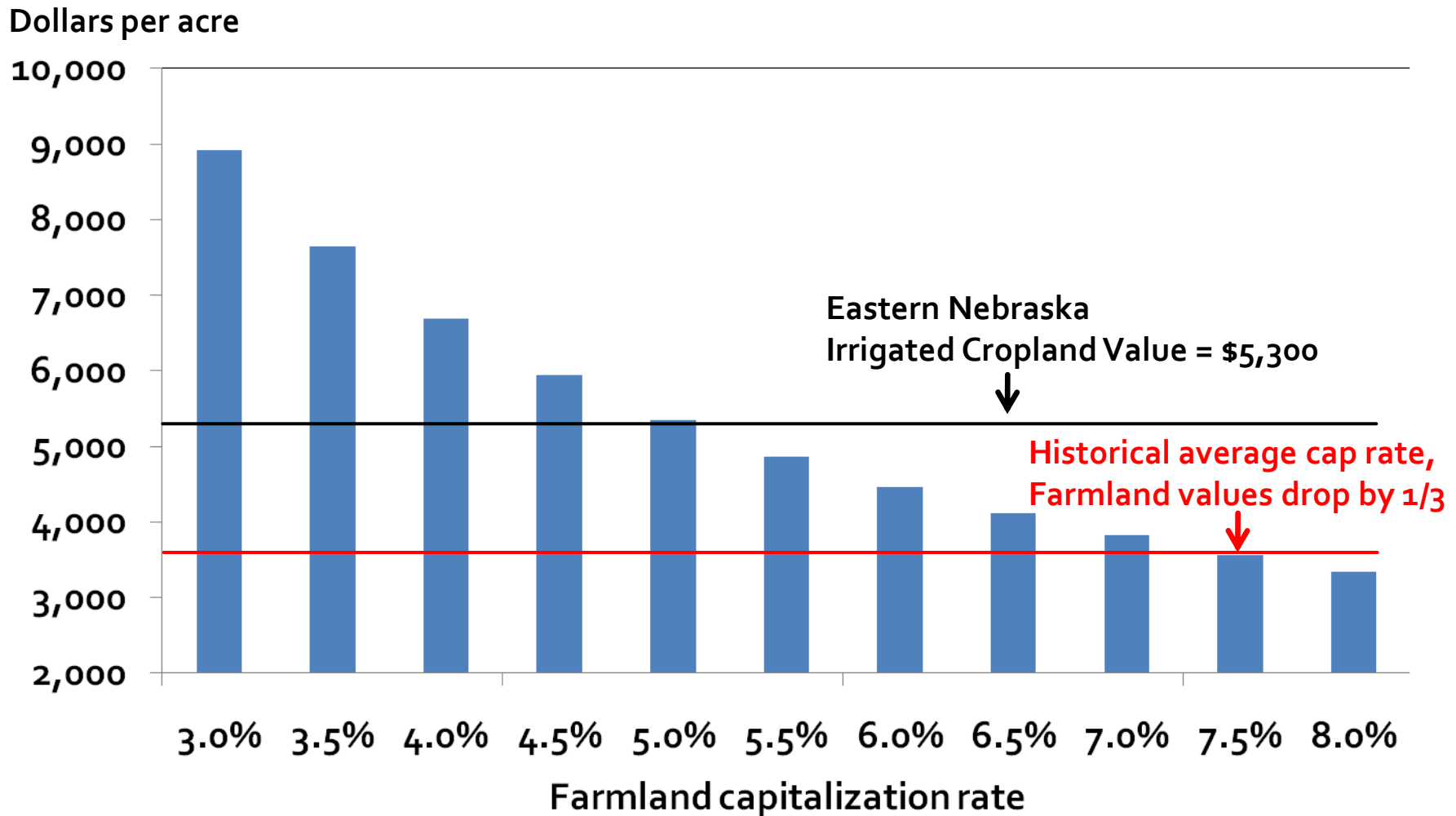
## Non-irrigated Cropland Values (Percent change from 2009:Q4 to 2010:Q4)



Source: Federal Reserve District Surveys  
(Chicago, Minneapolis, Kansas City, Dallas)



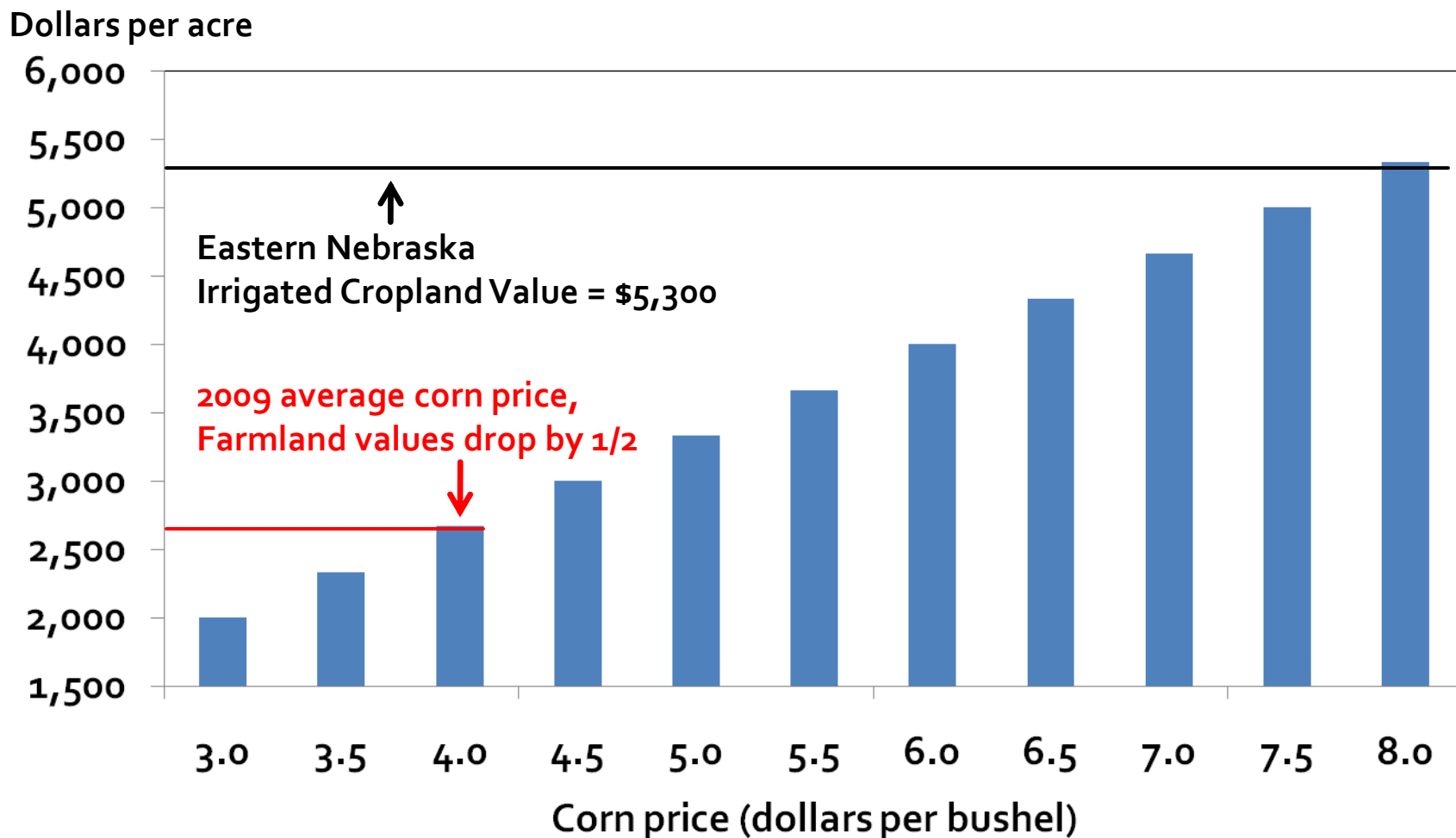
# Historically low capitalization rates help support current cropland values.



Authors' calculations assuming 200 bushels per acre, a corn price of \$5.35 per bushel, and 25% of gross revenues capitalized into land.



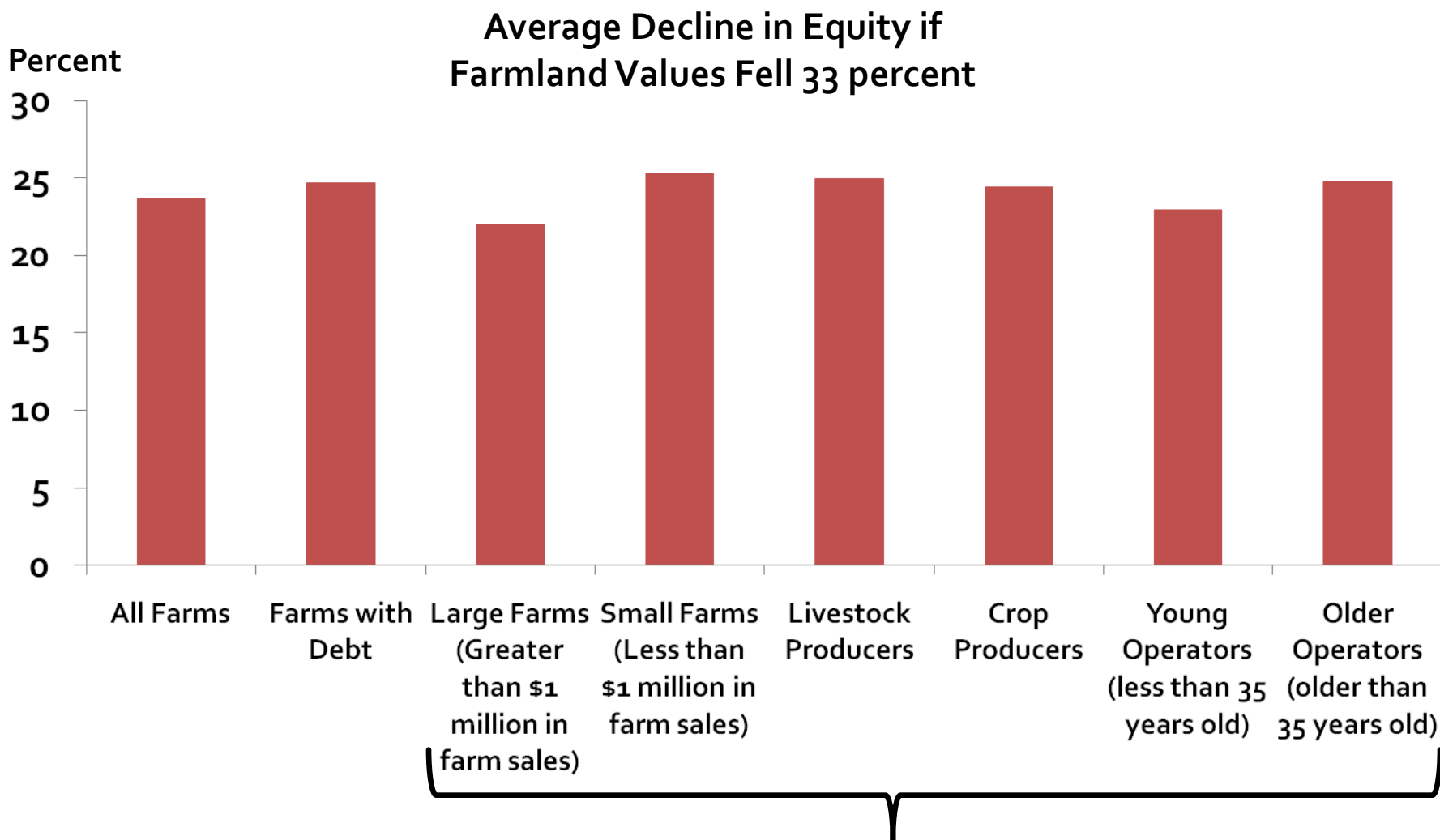
# If capitalization rates return to their historical average, then record high corn prices could support current cropland values.



Authors' calculations assuming 200 bushels per acre, the historical average capitalization rate of 7.5%, and 25% of gross revenues capitalized into land.



# If farmland values fell by one-third, farmers could lose a significant amount of wealth.





# Concluding comments

- **Today, the interest rate risk to farmland values is high.**
- **If capitalization rates return to more normal levels, farmland values could fall sharply.**
- **Such an event would impair farmers' balance sheets by eroding farm wealth.**



**Thank You**

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