

Farmland Values vs. Interest Rates



Note: The GDP chain-type price index is used to convert NASS current-dollar statistics to 2009=100 equivalents (Bureau of Economic Analysis, Department of Commerce). Farm real estate includes land and buildings.

Source: U.S. Bureau of Labor Statistics; USDA; Bloomberg.

A confluence of events in the mid-1980s, including the Savings and Loan crisis, led to a turbulent time in U.S. agriculture often referred to as a “farm crisis” whereby there was a (i) swift decline in farm income, (ii) reduced export demand resulting from a foreign grain sale embargo and (iii) decreased real estate values. In addition, the 1981 Farm Bill was implemented, which increased price supports for grain in the U.S., which in-turn led U.S. crop exports to become more expensive. The agricultural shock of that time endured during a period characterized by higher debt levels, high interest rates and a government imposed grain-sale embargo to the Soviet Union. Reduced income impaired the farmers’ ability to service debt on historically high leverage levels, supply of credit declined and the environment and circumstances led to a wave of farm bank failures. Today’s current conditions differ from those in the mid-1980s as interest rates are historically low and leverage levels are moderate and well below those experienced during the 1980s.