


# Land Value Considerations in Succession Planning


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July 2019

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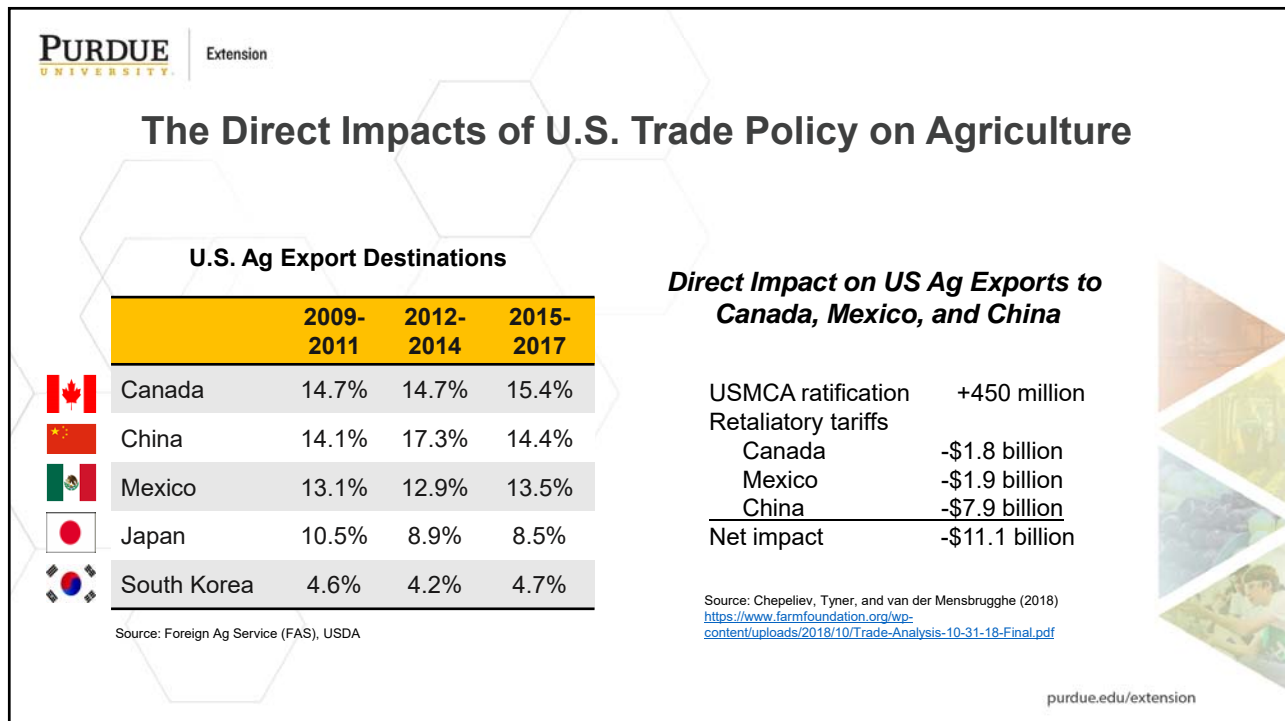
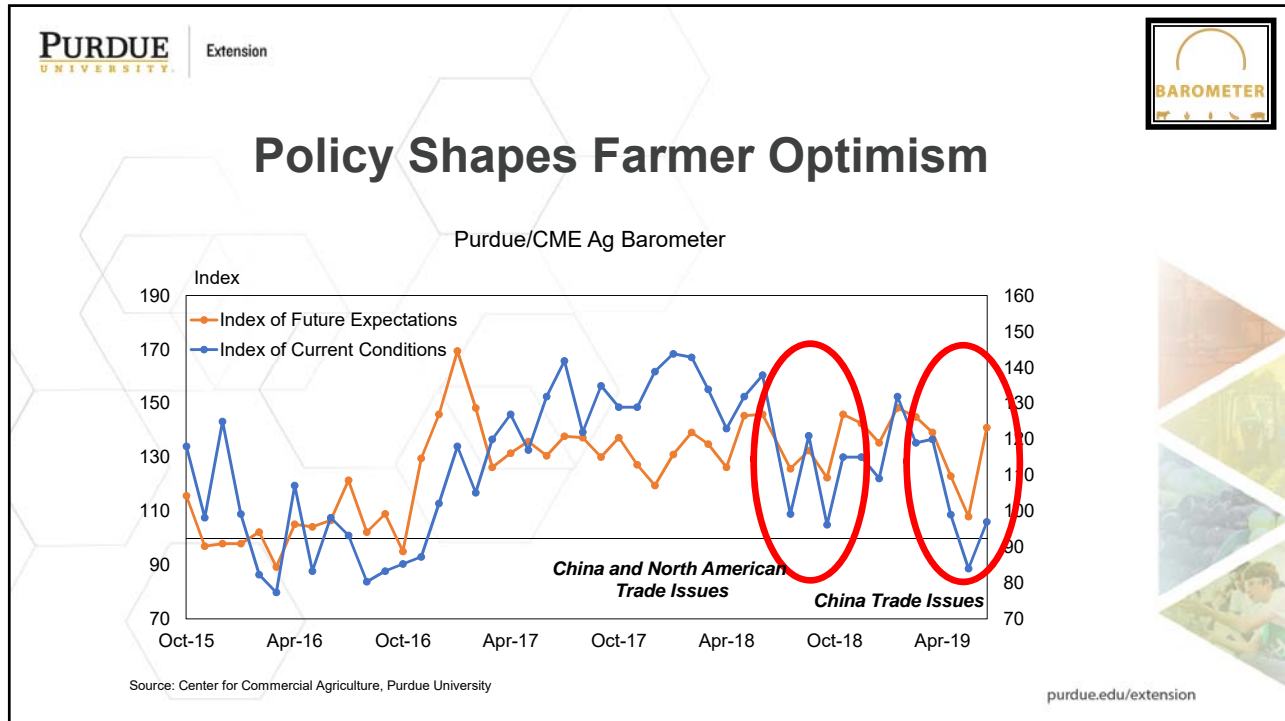



## The Big Picture of Agriculture

- Farm profits: policy vs market forces?
- Farm finances: will bankruptcies intensify?
- Farmland values: will the long-term rule?



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## Impact of Tariffs: Pork and Beans

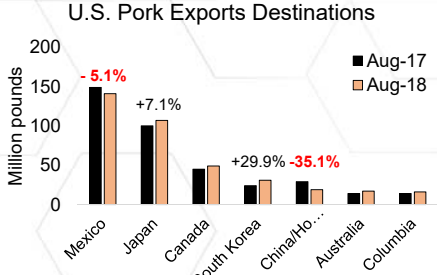
**Restructuring of US Pork Exports**  
*Replacing Mexico with Japan*  
*Replacing China with South Korea*

**U.S. Pork Prices Decline 6 to 10%**

**U.S. Soybean Stocks Build**  
*US Ending Stocks Double*

**U.S. Soybean Prices Plunge**

### U.S. Pork Exports Destinations



Destination	Aug-17 (Million pounds)	Aug-18 (Million pounds)	% Change
Mexico	~145	~138	-5.1%
Japan	~100	~107	+7.1%
Canada	~45	~50	+11.1%
South Korea	~25	~32	+29.9%
China/Hong Kong	~25	~16	-35.1%
Australia	~15	~15	0%
Columbia	~10	~10	0%

Source: USDA

Marketing Year	May 2018 Forecast (\$/bushel)	Oct. 2018 Forecast (\$/bushel)
2017-18	9.35	9.33
2018-19	8.75 - 11.25	7.35 - 9.85

Source: USDA

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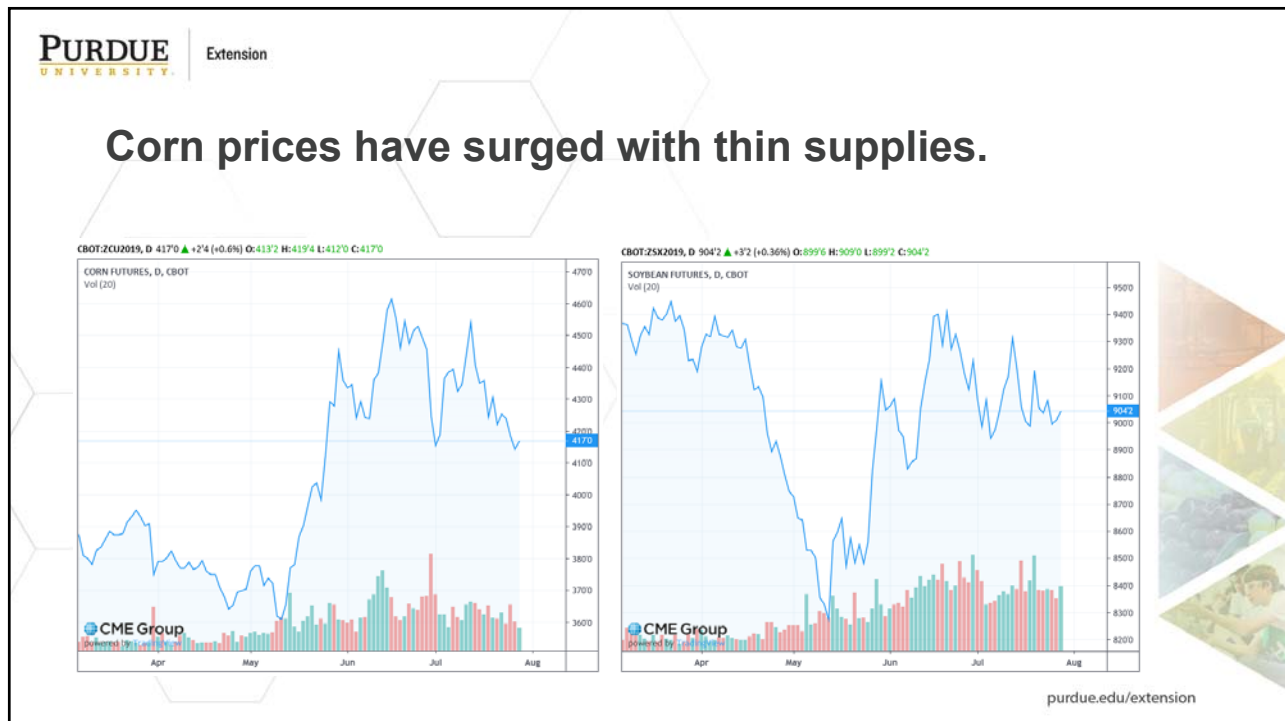
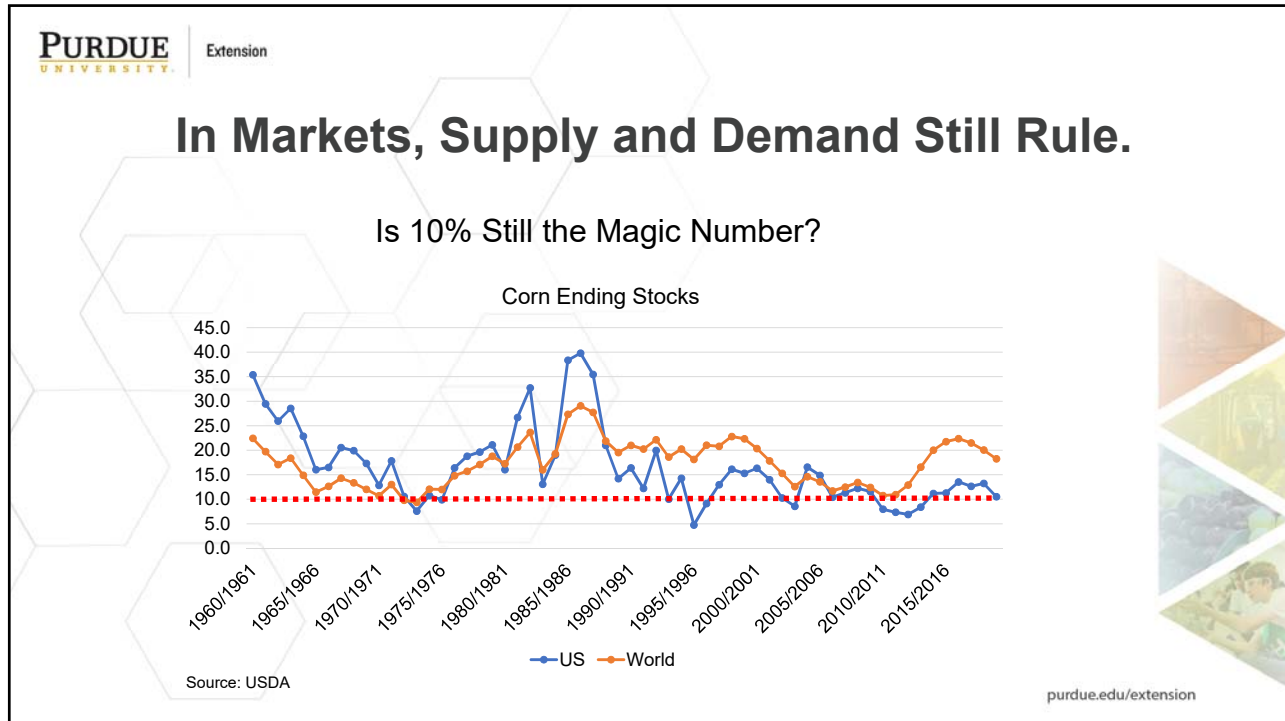


## If food prices move higher, will trade policy or market forces dominate?



Approximately 1/3 of Chinese household income is spent on food

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## Corn production should be profitable.

### U.S. Corn Breakeven Price

If you rent or have land payment ...	\$3.98 per bushel
If you do not rent or have a land payment ...	\$3.01 per bushel
Dec contract on CME 7/29/2019	\$4.17 per bushel
Source: USDA Cost of Production	

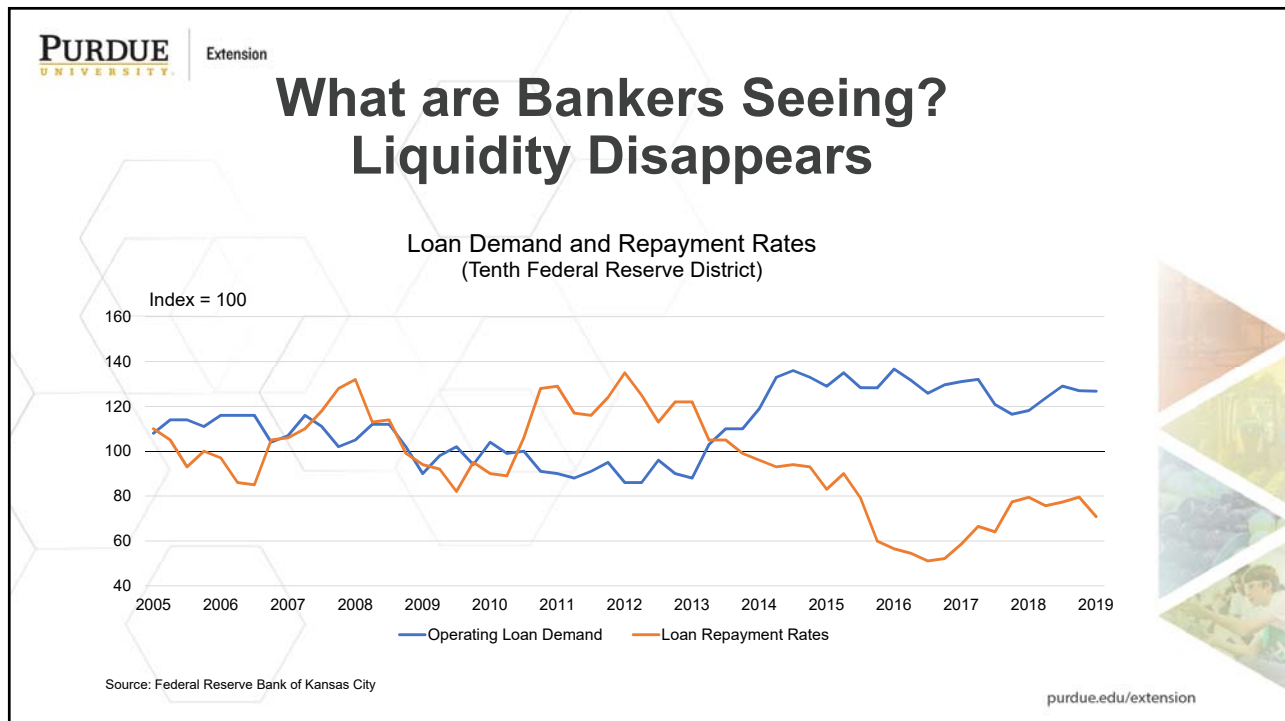
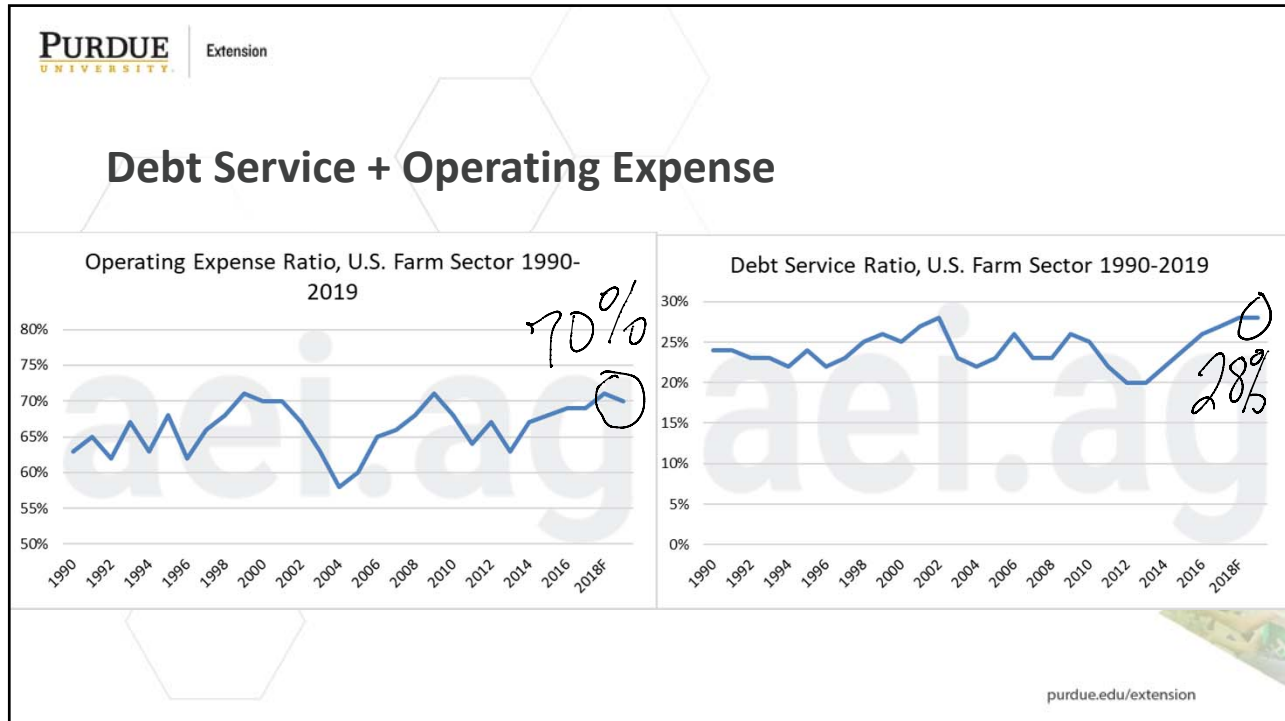
### U.S. Soybean Breakeven Price

If you rent or have land payment ...	\$9.21 per bushel
If you do not rent or have a land payment ...	\$6.31 per bushel
Dec contract on CME 7/29/2019	\$9.04 per bushel
Source: USDA Cost of Production	

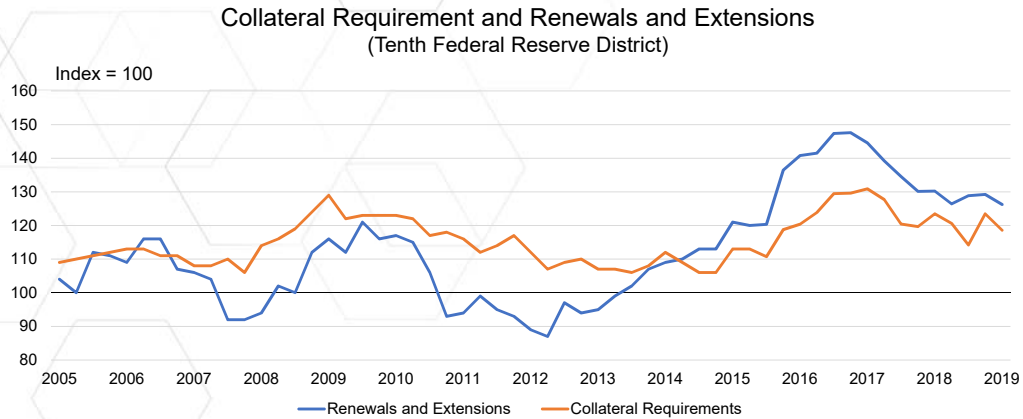
**Farmers with no land costs make the most money.**

## Cattle and hog prices drop, although milk prices rise.





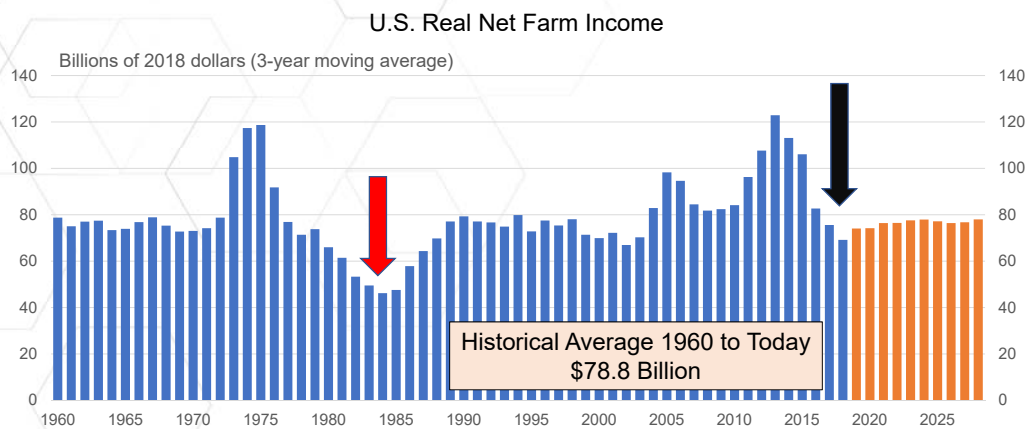
# How Are Bankers Responding? Rolling Loans with Higher Collateral Requirements



Source: Federal Reserve Bank of Kansas City

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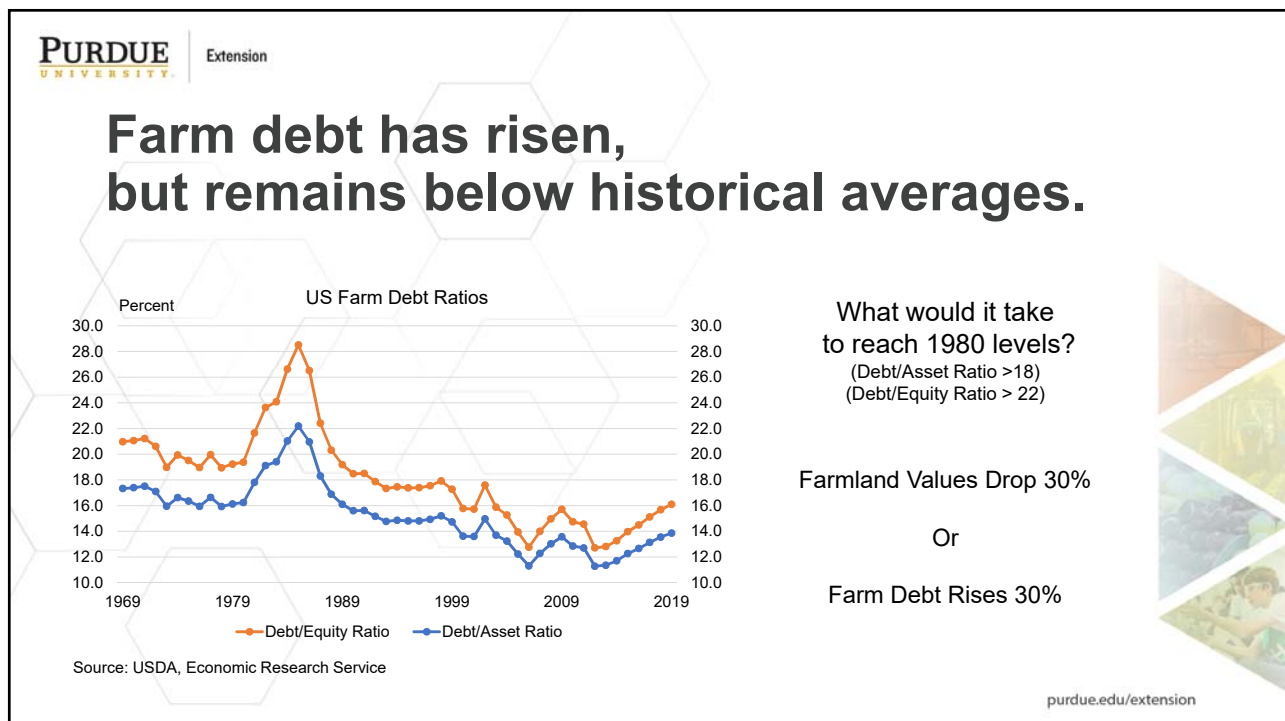
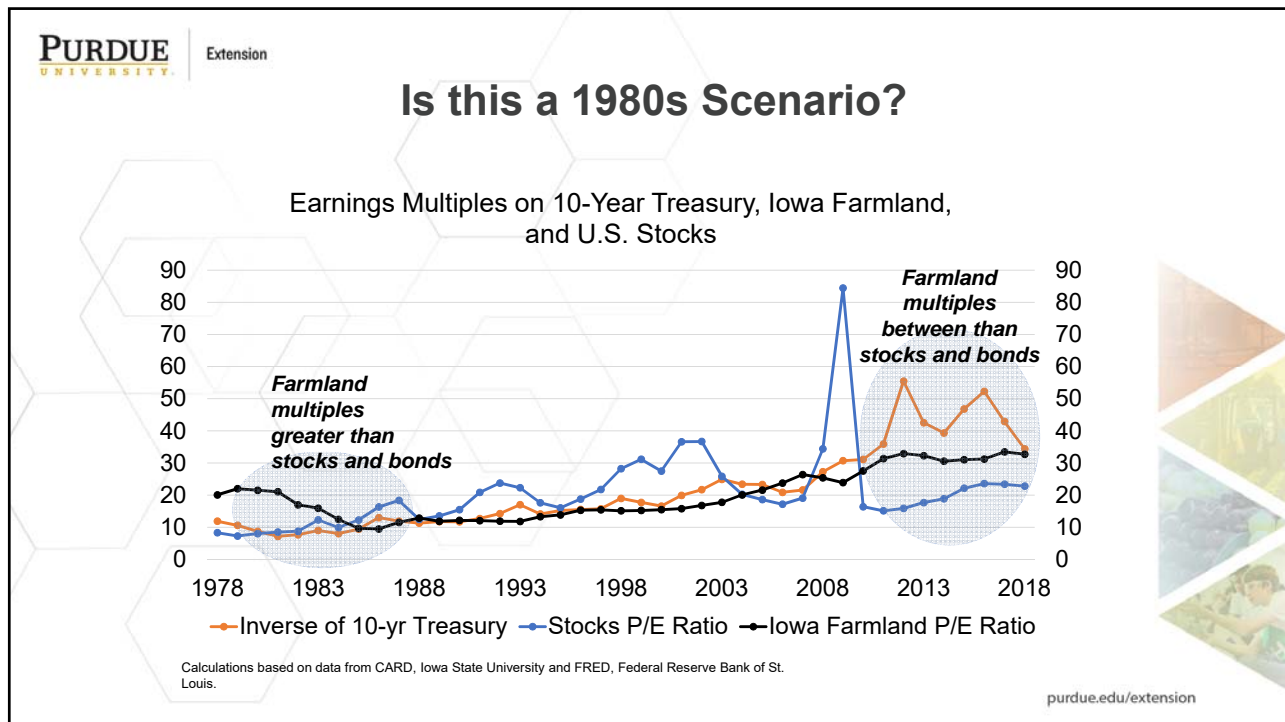
# Today is NOT the 1980s.



Source: Economic Research Service, USDA

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## Well, optimism has not completely disappeared as farm equipment sales are moving higher.

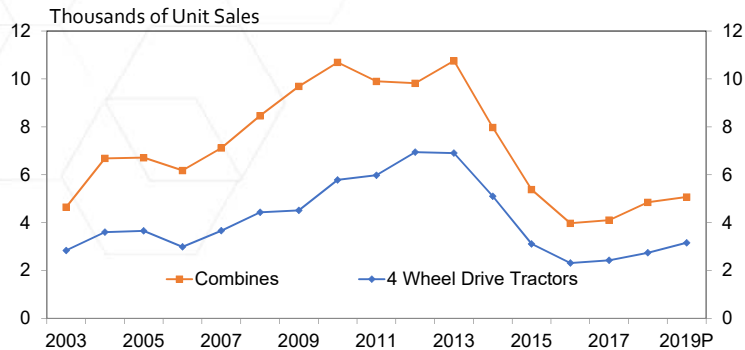


4WD Tractor sales up 15.2% in 2019YTD

Combine sales up 4.5% in 2019YTD

Data through June

U.S. Tractor and Combine Sales



Source: Association of Equipment Manufacturers  
2019 projection based on data through June 2019

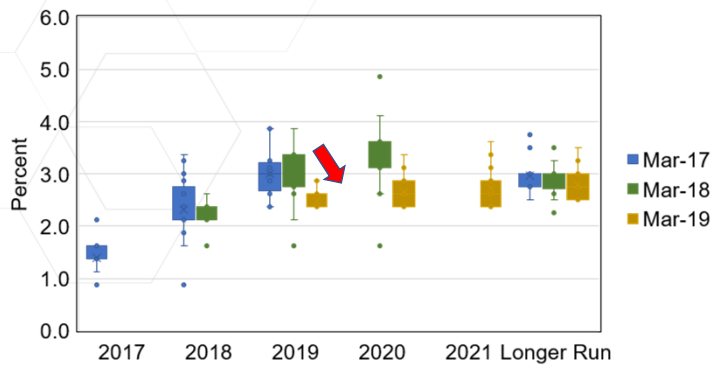
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## Federal Reserve is now talking about LOWERING rates.

### Outcome

- Lower debt service
- Asset values rise

FOMC Fed Funds Rate Projections



Source: Federal Reserve Board of Governors

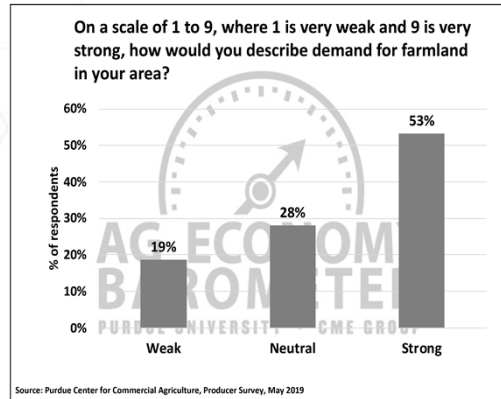
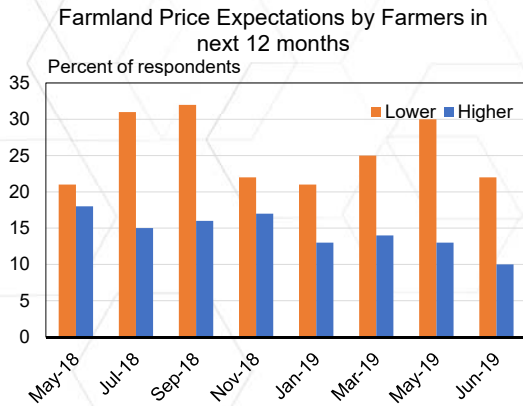
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# Where are farmland values headed?



**Survey says farmland price soften ....**

**But, farmland demand is strong ...**



Source: Ag Economy Barometer, Purdue Center for Commercial Agriculture and CME, <https://ag.purdue.edu/commercialag/ageconomybarometer/>

Source: Purdue Center for Commercial Agriculture, Producer Survey, May 2019

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# Tomorrow's economic battle is over productivity.

US Potential GDP (Average Annual Growth)

	1950 - 1973	1974- 1981	1982- 1990	1991- 2001	2002- 2007	2008- 2017	2018- 2022	2023- 2027
Potential GDP	4.0	3.3	3.2	3.2	2.8	1.4	<b>2.0</b>	<b>1.8</b>
Potential Labor Force	1.6	2.5	1.6	1.3	0.9	0.5	<b>0.6</b>	<b>0.4</b>
Potential Labor Force Productivity	2.4	0.8	1.6	1.9	1.9	0.9	<b>1.4</b>	<b>1.4</b>

Source: Congressional Budget Office, "The Budget and Economic Outlook 2018-2028" April 2018 <https://www.cbo.gov/system/files?file=115th-congress-2017-2018/reports/53651-outlook.pdf>

- Economic Potential Shrinks from 3% to 2%
- Need Higher Productivity to Offset Slower Labor Force Growth

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## Agriculture has two ways to increase productivity.

Efficiency: Producing the same products with less inputs

Value-added: Producing higher valued products

*Supply-oriented vs Demand-oriented*

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## Demand-Oriented Agriculture Who is a “Foodie”?

- International Food Information Council Foundation survey
- In 2017, 1 out of 7 people were identified as a “Foodie”

### Demographic Characteristics


- Older
- Female
- Wealthy

### 3 Attributes of Healthy Food

- No artificial ingredients or additives
  - High in healthy components
  - Minimally processed

**60% can name a food or nutrient associated with their most desired health benefit.**

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## Value-Added: Why Now? Millennials: What do they eat?

### U.S. Generations

How are the Different Generation Perceived?  
What Shaped their Formative Years?

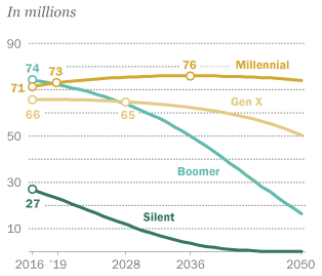
<https://www.purdue.edu/vpsl/resources/GenZ.html>

Birth Year	Generation	Age Today
1928 - 1945	Silent Generation	73 to 90 years old
1946 - 1964	Baby Boomers	54 to 72 year old
1965 - 1980	Generation X	38 to 53 years old
1981 - 1995	Millennials	23 to 37 years old
1996 -	Generation Z	22 and younger


Source: Pew Research Center

#### Projected population by generation


*In millions*



Note: Millennials refer to the population ages 20 to 35 as of 2016.  
Source: Pew Research Center tabulations of U.S. Census Bureau population projections released December 2014 and 2016 population estimates.  
PEW RESEARCH CENTER



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## How are Millennials Changing U.S. Food Consumption Patterns?

1. Truth from Food Manufacturers
2. Love customization
3. Want easy
4. Redefining "Healthy"
5. Better baby food
6. Value the planet
7. Love to snack
8. Love the keto diet
9. Will try anything

*Transparency*

*Individual foods*

*Convenience vs Taste*

*Organic or Locally-Grown*

*Gourmet baby food*

*Sustainable*


*Small, resealable packaging*

*Animal protein is healthy*

*Curious about different foods*

***Friends and family influence food choices***

Sources: International Food Information Council and  
Cara Rosenbloom, "9 ways millennials are changing the way we eat." Washington Post, Feb. 2018.



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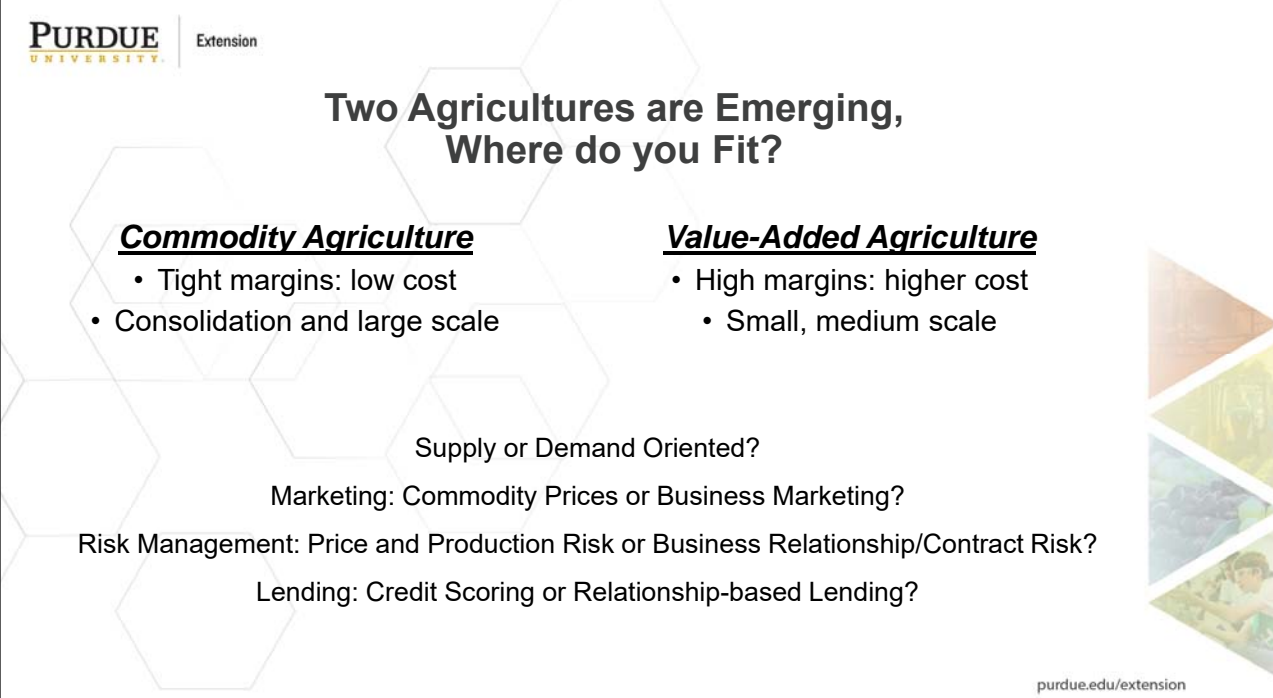
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## Two Agricultures are Emerging, Where do you Fit?

<p><b><u>Commodity Agriculture</u></b></p> <ul style="list-style-type: none"> <li>• Tight margins: low cost</li> <li>• Consolidation and large scale</li> </ul>	<p><b><u>Value-Added Agriculture</u></b></p> <ul style="list-style-type: none"> <li>• High margins: higher cost</li> <li>• Small, medium scale</li> </ul>
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Supply or Demand Oriented?  
Marketing: Commodity Prices or Business Marketing?  
Risk Management: Price and Production Risk or Business Relationship/Contract Risk?  
Lending: Credit Scoring or Relationship-based Lending?

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## Conclusion

- Farm incomes will be shaped by agricultural market factors (supply/demand) and macroeconomic factors (monetary/trade policy).
- How will global economies evolve?
  - Weaker growth – lower interest rates
  - Higher relative interest rates – stronger dollar
  - A lot of focus on trade policy and international money flows
- Will agriculture be more supply or demand-oriented in the future?
- How can you help rural communities get ready for two agricultures?

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