Update on Iowa Land Values & US-China Ag Trade

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Issues Impacting Iowa Landowners and Tenants for 2021, August 25, 2020
# Midwest Land Values

Stable, but trend lower

## Percent change in dollar value of “good” farmland

<table>
<thead>
<tr>
<th>State</th>
<th>April 1, 2020 to July 1, 2020</th>
<th>July 1, 2019 to July 1, 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Illinois</td>
<td>+1</td>
<td>0</td>
</tr>
<tr>
<td>Indiana</td>
<td>-1</td>
<td>+4</td>
</tr>
<tr>
<td>Iowa</td>
<td>-1</td>
<td>0</td>
</tr>
<tr>
<td>Michigan</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>+3</td>
<td>+1</td>
</tr>
<tr>
<td>Seventh District</td>
<td>0</td>
<td>+1</td>
</tr>
</tbody>
</table>

*Insufficient response.

**Top:** April 1, 2020 to July 1, 2020  
**Bottom:** July 1, 2020 to July 1, 2020

Some additional estimates from Aug 20 – Farm Credit & Kansas City Fed

Land Value Trends for 1st Half of 2020
Iowa, Wyoming: +0.3%
Nebraska: -0.4%
South Dakota: -2.0%
(pasture loss + residual flooding impacts)

Land Sales Move from Auction to Private or Brokered Sales in Q2
Nebraska: -21%; Wyoming: -35%
Iowa: -8%; S. Dakota: -31%

Iowa Tillable Farmland Auction Summary:
$/Soil Quality Index (CSR2)

<table>
<thead>
<tr>
<th></th>
<th>2019 Q1-2</th>
<th>2020 Q1-2</th>
</tr>
</thead>
<tbody>
<tr>
<td>$/CSR2</td>
<td>$111</td>
<td>$108</td>
</tr>
<tr>
<td>Tillable acres sold</td>
<td>25,180</td>
<td>20,282</td>
</tr>
<tr>
<td># auctions</td>
<td>325</td>
<td>224</td>
</tr>
</tbody>
</table>

Source: Jim Rothermich, Iowa Appraisal and Research

https://www.morningagclips.com/2020-farmland-values-are-stable/
https://www.iowaappraisal.com/iowa-land-auction-results/
## Some Additional Estimates & Data Sources

<table>
<thead>
<tr>
<th>District</th>
<th>Average Farmland Value as of November 2019 - ISU</th>
<th>% Change from November 2018 to November 2019</th>
<th>% Change from September 2019 to March 2020 – RLI Survey</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northwest</td>
<td>$9,352</td>
<td>0.4%</td>
<td>-0.6%</td>
</tr>
<tr>
<td>North Central</td>
<td>$7,912</td>
<td>1.6%</td>
<td>-0.1%</td>
</tr>
<tr>
<td>Northeast</td>
<td>$7,325</td>
<td>-2.9%</td>
<td>0.3%</td>
</tr>
<tr>
<td>West Central</td>
<td>$7,564</td>
<td>2.0%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Central</td>
<td>$8,336</td>
<td>5.5%</td>
<td>-0.3%</td>
</tr>
<tr>
<td>East Central</td>
<td>$8,475</td>
<td>5.9%</td>
<td>-0.2%</td>
</tr>
<tr>
<td>Southwest</td>
<td>$6,166</td>
<td>1.7%</td>
<td>-0.3%</td>
</tr>
<tr>
<td>South Central</td>
<td>$4,487</td>
<td>3.6%</td>
<td>-1.3%</td>
</tr>
<tr>
<td>Southeast</td>
<td>$6,868</td>
<td>3.8%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Iowa Avg.</td>
<td>$7,432</td>
<td>2.3%</td>
<td>0.1%</td>
</tr>
</tbody>
</table>

[https://www.card.iastate.edu/farmland/](https://www.card.iastate.edu/farmland/)  
[https://rliiowachapter.com/rli-land-trends-values](https://rliiowachapter.com/rli-land-trends-values)
Agricultural professionals expect lower farmland values over the next 18 months, continued from page 5

Table 2. 2020 SMLV estimated land price forecasts and gross capitalization rate for land value across Iowa regions

<table>
<thead>
<tr>
<th>Percent change in land value from May ’20 to Nov ’20</th>
<th>Northwest</th>
<th>Northeast</th>
<th>Southwest</th>
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<tr>
<td></td>
<td>-2.7%</td>
<td>-2.5%</td>
<td>-2.3%</td>
<td>-1.6%</td>
<td>-2.3%</td>
</tr>
<tr>
<td>Percent change in land value from May ’20 to Nov ’21</td>
<td>-2.1%</td>
<td>-1.4%</td>
<td>-0.6%</td>
<td>0.0%</td>
<td>-1.2%</td>
</tr>
<tr>
<td>Percent change in land value from May ’20 to Nov ’22</td>
<td>-0.7%</td>
<td>0.6%</td>
<td>1.7%</td>
<td>2.6%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Percent change in land value from May ’20 to Nov ’25</td>
<td>10.2%</td>
<td>9.2%</td>
<td>13.1%</td>
<td>10.3%</td>
<td>10.4%</td>
</tr>
<tr>
<td>Percent change in land value from May ’20 to Nov ’40</td>
<td>41.8%</td>
<td>47.5%</td>
<td>43.0%</td>
<td>46.5%</td>
<td>44.1%</td>
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<table>
<thead>
<tr>
<th>Gross capitalization rate May 1, 2020</th>
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<th>Gross capitalization rate Nov 1, 2040</th>
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[https://www.extension.iastate.edu/agdm/articles/zhang/ZhaJul20.html](https://www.extension.iastate.edu/agdm/articles/zhang/ZhaJul20.html)
Figure 1. The distribution of estimated price changes from May 2020 to November 2020 and November 2021

https://www.extension.iastate.edu/agdm/articles/zhang/ZhaJul20.html
Concluding Thoughts for Land Values

• **Farmland values** faces downward pressure but is still fairly stable with strong demand and limited sales.

• **Cash rent** still high & sticky and could face downward pressure especially if ad hoc federal payments are low.

• Expectation for **capitalization rate** is fairly stable around 3%.

• **Considerable uncertainty**
  • Impact of COVID-19 & federal payments
  • Trade situation especially with respect to China
  • Land value is roughly localized income divided by interest rates
    • Federal reserve moves on federal funds rate takes 10+ years to be fully capitalized
    • Ad hoc federal payments immediately impact farm income & land values next year.
News Analysis: How bad could U.S.-China relations get?

Senior U.S., Chinese Officials Say They Are Committed to Phase-One Trade Deal

Talks nod to rising tensions between the nations, as President Trump regularly criticizes Beijing

Trump doubles down on trade; China is far from meeting promises

By Bob Davis and Lingling Wei
Aug. 24, 2020 10:20 pm ET

Caveat:
The data show China imported $7.27 billion of agricultural and related products from US in the first half of 2020, which is 19.2% of the promised amount for 2020, indicating that China is still falling short of the targeted purchases.

Compared with the first quarter, China accelerates its agricultural purchases from US in the second quarter of 2020, especially for corn, pork and beef.

In the first half of 2020, China imported around $90 billion of agricultural products, much higher than its $51 billion agricultural imports in the first half of 2017. However, China imports a greater amount of agricultural products from non-US countries, which, in part, reflects a continued diversification away from US agricultural imports before and during the trade war. We predict China will import $18.97 billion in agricultural products from the United States in 2020, still far behind the phase one target of $36.5 billion. In addition, we predict that China will import 8.24 million metric tons of corn from all sources, exceeding its tariff rate quota of 7.2 million metric tons.
US-China phase one tracker: China’s purchases of US goods

US exports and China’s imports in 2020 of all goods covered by the phase one deal as of June 2020

Chad P. Bown (PIIE)
August 5, 2020

What remains unchanged after COVID-19: Chinese surging meat consumption & beyond

A Meatier Middle Kingdom

Unit: Kilograms per capita

Source: Caixin Data
Original Sources: Organization for Economic Co-operation and Development, Food and Agriculture Organization of the United Nations

Charts of the Day: China’s Growing Meat Consumption

Consumers buy cherries at a supermarket in Guangzhou, capital of Guangdong province. [Photo by Li Zhihao/For China Daily]
A possible & more balanced pathway for China’s ag import surge?

Key Chinese agricultural imports by commodity and country in 2017

- Soybeans
- Soybean meal
- Coarse Grains (ex. corn)
- Cotton
- Corn
- Wheat
- Rice
- Beef & Beef Products
- Pork & Pork Products
- Poultry Meat & Prods. (ex. eggs)
- Hides & Skins
- Live Animals
- Dairy Products
- Ethanol, incl. bev.
- Distillers Grains
- Fish Products
- Forest Products
- Fresh Fruit
- Fresh Vegetables
- Non-Alcoholic Bev. (ex. juices,...)
- Processed Fruit
- Processed Vegetables
- Wine & Beer
- Distilled Spirits

Billion Dollars

- USA
- Other Countries

Argentina
Australia
Brazil
Europe
New Zealand
Norway
United States
Vietnam
Russia
Other
What remains unchanged:
Comparative advantage for US Ag
Changes in my hometown?

Greenhouse – plastic film - Shandong Province

In China, 500+ million consumers shop on mobile phones, even before the coronavirus
My hometown was battling with storm damages too
China’s Not as Rich as You Think, but Higher Future Income Means Growing Demand

China has over 600 million poor with $140 monthly income: Premier Li Keqiang

Updated: May 28, 2020 08:53 PM IST
1000 yuan = 580 Real (2019); now 760 = $140

Note: data for 2019
Sources: China Institute for Income Distribution of Beijing Normal University, National Bureau of Statistics
https://www.caixinglobal.com/2020-06-06/opinion-china-has-600-million-people-with-monthly-income-less-than-141-is-that-true-101564071.html
What remains unchanged after COVID-19: Chinese surging middle class

88 percent of the next billion entrants into the middle class will be in Asia.

By 2030, Asia could represent 2/3 of the global middle class population.
Thank You!

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www.card.iastate.edu/farmland

www.card.iastate.edu/china