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Farmland Prices Surge Across the Plains States

By Ian Berry

Land prices in key U.S. farm states continued to soar in the second quarter, though the pace slackened as concerns over the drought pared down interest among farmers and other buyers, according to a new survey.

Prices of nonirrigated farmland in a seven-state stretch of the Plains rose 26% in the quarter through June 30, compared with a year earlier, the Federal Reserve Bank of Kansas City said in a survey published Wednesday.

Farmland prices nationwide had already nearly doubled in the past five years, as high prices for corn and other crops pushed up farmers' incomes and fueled competition with institutional investors in land auctions across the Farm Belt.

The Kansas City Fed report only captured deals struck before and in the early stages of what has become the worst drought in decades. Record-high temperatures and low moisture levels have damaged large portions of the Midwest's corn and soybean crops. That has driven up prices, which in turn has hurt ranchers who use the grains to feed livestock.

Soaring prices, along with the widespread use of crop insurance, are insulating many farmers from the drought's financial impact. Farm incomes are expected to approach all-time highs this year, farm-equipment maker Deere & Co. said.

Still, the drought has given some pause, as have the uncertainty over the prospects of a

pending farm bill and potential changes to federal mandates for the use of corn-based ethanol. Those factors could keep wouldbe buyers cautious in coming months.

The Kansas City Fed's report covered Nebraska, Kansas, Oklahoma, Colorado, Wyoming and parts of New Mexico and Missouri. A separate report expected Thursday from the Federal Reserve Bank of Chicago will provide data for Iowa and parts of Illinois and Indiana—an area where farmland values have been the highest and where corn is the dominant crop.

The Kansas City Fed's report noted that farmland values across its region rose less than 3% versus the prior quarter, half the rate seen earlier this year. More than 75% of the survey's respondents expected farmland values to stay roughly flat for the rest of the growing season, which ends in early fall.

Separate research shows farmland price gains across a 10-state region from Illinois to Wyoming slowed in August to the weakest rate since at least January 2006, according to Creighton University in Omaha, Neb., which surveys bank executives.

The drought is making the farmland market volatile and highly variable from region to region, said Ernie Goss, an economist at Creighton.

He said farmland values could decline in some areas with poor yields in the months ahead. But crop insurance and soaring grain prices, including corn futures near all-time records, will drive continued gains in other areas.