Ag News

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Aging Iowa farmers and **the anticipated farmland transfer**

The demographics of landowners in Iowa have significantly transformed over the years with a continued increase in the land owned by individuals 65 and older. One crucial aspect of this evolving landscape is the need to transfer farmland to young and beginning farmers. Iowa State extension economist Rabail Chandio explores some of the factors behind the shift in land ownership and the critical role of facilitating the transfer of farmland to the next generation.

Changing demographics and motivations

A significant portion of Iowa's farmland is currently held by individuals aged 65 and older. In 2022, approximately two-thirds of the land falls under their ownership, a sharp contrast to the situation in 1982 when less than one-third was owned by this age group. The aging rural population and the fact that 70-75% of farmers are now 55 years or older indicate the impending wave of land transfer.

Anticipated farmland transfer and its challenges

With farming becoming an aging occupation, one would expect a substantial portion of farmland to be transferred to the next generation soon. It is interesting to note, however, that it is neither a novel observation nor a newfound concern. Dr. Mike Duffy highlighted 15 years ago that a significantly higher proportion of land being held by people older than 65 is signaling an anticipated transfer of about 25% of Iowa farmland in the following decade. Recent data shows that about 40% of Iowa farmland changed ownership in the past 20 years, but a large-scale transfer to young farmers was not observed as the early-stage farmers own only about 2% of all Iowa farmland. It is quite possible that some of this farmland was transferred to mid-stage farmers, who are already or will soon be aged 65 and above. Therefore, the wave of land transfer has continued to linger just off-shore for some time without a noticeable surge.

One of the main challenges in transferring farmland to the younger generation is the financial barrier they face. While most respondents are optimistic about the longer-run success prospects of beginning farmers, the shorter-term financial barriers remain the most significant hurdle in facilitating the transfer of farmland to the next generation of farmers.

Farmland transfer can be complex and influenced by a number of factors. For questions and guidance, please contact Jon Holthe at (563) 262-3124.

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Chandio, Rabail. "Aging Iowa farmers and the anticipated farmland transfer." Accessed August 12, 2024. https://www.extension.iastate.edu/agdm/articles/chandio/ChaNov23.html

Land values, expectations, and land affordability

Land markets are changing directions after recent record highs, and agricultural professionals are mixed on the outlook for land values. While many expect values to fall before they rise again, over half the respondents from the 2023 ISU Land Value Survey expect land values to increase over the next year. This was not the first time such an expectation came to surface.

Interestingly, land value predictions from May 2023 also show a decline expected in the next three periods (6 months, 18 months, and 24 months into the future) ending in November 2025. In a way, last year's land value predictions are similar to 2019 despite very different economic conditions. On the other hand, the 2021 responses were very optimistic, predicting continual large increases as the onset of the pandemic brought, with the 2022 predictions tilting towards a more cautious optimism with smaller increases as pandemic support pulled back and interest rates increases were announced when predictions had to be made in May.

Such expectations, while reflective of the sentiment at the time, also influence market dynamics as they feed into the decision-making processes of buyers and sellers. When market data and forecasts suggest declining land values, sellers might be prompted to lower their expectations and accept lesser offers, while buyers adjust their perceived value of land downwards, thus affecting actual transaction prices.

Long-term thinking
Despite the short-term changes that may increase or decrease, investment in land remains a constant hedge against inflation to most, depicted in strong value expectations in 2030 and 2040. Even if that particular year in the future does not show an increase in land values, zooming out enough will show an upward trend in land values.

Changes in the land market
While land values will pick back up again given enough time and generally appreciate more than inflation, their fluctuations still significantly affect the prospective buyers and sellers currently active in the land markets. By extension, these changes also impact farm managers, rural appraisers, real estate brokers, and others interested in the land market, making it imperative to understand the drivers of land markets and be prepared for the upcoming changes.

Chandio, Rabail. "Land values, expectations, and land affordability." Accessed August 5, 2024. https://www.extension.iastate.edu/agdm/articles/chandio/ChaApr24.html

Increasing Pessimism About 2024 and 2025 Corn and Soybean Returns

Current levels of futures contracts suggest that appropriate budgeting prices for 2024 crops production are $4.00 per bushel for corn and $10.50 per bushel for soybeans. Those prices would result in low returns in 2024, far lower than the last low-price period from 2014 to 2019. Much higher costs cause lower 2024 returns. Those budget price forecasts could change with unforeseen events, as does occur in agriculture. Over the next several months, estimates for returns and incomes will solidify. Still, it seems prudent to plan for much lower prices.

Corn and Soybean Prices
Expectations generally have been for much lower corn and soybeans prices in 2024 compared with the 2021 to 2023. In February, the projected price used to set guarantees on crop insurance was set at $4.66 per bushel for corn. The projected price is the average of February settlement prices of the December corn traded on the Chicago Mercantile Exchange (CME) and represents an unbiased indicator of prices at harvest. The $4.66 projected price is well below the $5.90 projected price for 2022 and $5.91 for 2023.

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Since February, the December CME futures contract has fallen, currently trading near $4.10 per bushel. This decline in price is consistent with a growing belief that yields in the U.S. will be above trend. Moreover, no significant market surprises have occurred that would either reduce supply or increase demand. In other words, a good supply of corn and roughly stable demand are leading to lowered price expectations.

The current December futures price for corn is consistent with cash prices below $4.00 at harvest, roughly $3.80 per bushel. Given usual price patterns, one expects cash prices to increase over the marketing season, and an average cash price of $4.00 per bushel for 2024 production seems reasonable.

A $4.00 price is well below recent prices. USDA reports the national market year average (MYA) price at $6.00 for 2021 and $6.54 for 2022. The 2023 marketing year will end in August, with a current forecast of $4.65 per bushel. If a $4.00 price occurs for 2024, it would be the lowest since 2019, when the market year average price was $3.56 per bushel.

Futures markets are currently suggesting roughly similar prices for 2025 for corn. The December 2025 futures contract is trading near $4.60, indicating that cash corn prices at harvest in 2025 could be in the low $4.30 range.

A similar story exists for soybeans. The 2024 projected price for soybeans is $11.55 per bushel, well below projected prices in 2022 ($14.33) and 2023 ($13.76). November futures prices have fallen since February, now trading near $10.20 per bushel. Cash price at harvest below $10 per bushel are likely, with an overall 2024 MYA price of $10.50 being an appropriate projection. Futures prices suggest continuing low prices into 2025, with a $10.80 price being an appropriate projection for the 2025 MYA price.

2024 Return Implications

Current markets are pointing to corn prices averaging near $4.00 per bushel and soybeans prices averaging near $10.50 per bushel over the next several years. Overall, the higher prices from 2021 through 2023 appear transitory, and prices are now moving to lower levels.

Potential Positive Upsides

Some unanticipated events could increase prices, as happens in agriculture. As a reminder of possibilities, corn prices were approaching $3.00 per bushel in the summer of 2020, the beginning of the COVID pandemic. Then, a Derecho storm hit central Iowa in August, extending into northern Illinois, taking the top end off of U.S. yields. It also became evident that the China swine herd was being rebuilt after being severely impacted by African Swine Fever. Those two events began a period of higher prices, which were further fueled by the Ukraine-Russia conflict and lackluster yields across the world. Something similar could happen in late 2024, but those events are difficult to anticipate and seem unlikely.

Summary and Implications

Budgeting for $4.00 corn and $10.50 soybean prices seems appropriate for 2024. Slightly higher price expectations - $4.30 for corn and $10.80 for soybeans - are accurate estimates of market-driven estimates for 2025. Using these prices will result in negative returns for most cash-rented farms. Depending on a farm's debt position, owned farmland could still provide positive cash flows. Returns and farm income will come into clearer focus in the next several months.

Most farm operations have strong financial positions, with relatively low debt and high working capital. However, the low returns that are expected will quickly erode that position, particularly the working capital position. Some farms may need to make changes to their operations to avoid severe losses of liquidity.

The price and return outlook suggest downward adjustments in cash rental rates. However, cash rents typically have lags in moving downward when prices fall. Still, the severity of income declines may dictate that cash rents will come down for specific tracts, particularly it the farms operating those tracts currently have lower working capital levels.

Some have suggested that farming is a boom to bust business. Long periods of low incomes like those from 2014 to 2019 need to be survived to gain financial resources from higher price and income periods like those in 2021 and 2022. We may have now entered another extended period of low prices again. Time will tell.

Schnitkey, G., B. Zwilling, N. Paulson, C. Zulauf, B. Rhea and J. Baltz. "Increasing Pessimism About 2024 and 2025 Corn and Soybean Returns." farmdoc daily (14):141, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, July 30, 2024.

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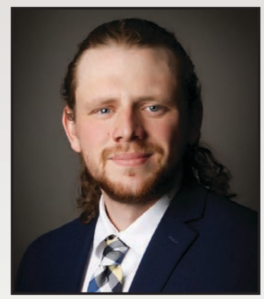

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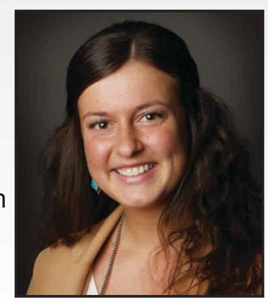

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