The Kansas Farm Economy: Navigating Rough Waters

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The price of land reflects the economic well-being of farmers better than most other metrics as it encompasses expectations of market participants of profitability in the agricultural sector. Land values escalated during the 2008 to 2014 period as farmers invested their profits from high commodity prices back into land through both the purchase and renting of farmland. Commodity prices fell quickly starting in 2015 and farmers found themselves having trouble covering land costs that had been bid up during the 2008 to 2014 boom period. For many farmers, cash flows were constrained and short-term debt started to build up. Land values responded to this new dynamic by falling approximately 20% statewide between 2015 and 2018.

The fall in land values has not been uniform across the state, with local land markets adjusting differentially to the lower ability of farmers to bid on land (see figure 1). Some of the differences in the reaction of land values across the state to worsening economic conditions come from alternative uses for land including hunting, oil and gas exploration, and wind turbine development. However, the primary use of most land in Kansas is for agriculture and there has been a softening of values statewide due to the economic downturn.

During the commodity boom from 2008 to 2014, net farm income for Kansas farms was relatively high, according to Kansas Farm Management Association data (see figure 2). This high level of profitability allowed farmers to buy and rent land at higher prices and make machinery purchases from local implement dealers. This brought income to local economies across the state. The economic downturn that began in 2015 has restricted farmer's spending on machinery and land.

The net farm income in 2018 appears to have significantly recovered from the previous years. However, it is important to realize that 38% of that income is from government payments including those provided in the Farm Bill and the additional money paid out by the current administration due to losses experienced by farmers from the trade conflicts over the past two years (see figure 3). Without these government payments, many farmers would have more trouble making both their debt and land payments.

While land values fell somewhat between 2015 and 2018, most analysts agree that things could have been much worse. Low interest rates have helped keep land values from falling off at a faster pace and the past two years have seen relatively steady land values. The recovery of land values and a return to historic rates of land price inflation (2-3%) will depend heavily on farmers' ability to turn a profit in these lean times until commodity prices can recover.

As of the third quarter of 2019, values statewide have fallen by an average of 5-7% for non-irrigated and pasture land as compared to 2018 values. This estimate is based on actual land sales from across the state and may be adjusted as the fourth quarter sales are reported.

Summary statistics of the sales data indicate that the overall quality of land sold in 2019 is lower than in the previous 4 years. A possible explanation for this decline in the average quality of land sold is the scenario where producers are selling land to help with debt repayment and they are selling their lowest quality land first. Another explanation for the fall in land values is that more non-irrigated land sales than normal (measured over the last 5 years) occurred in the Southwest portion of the state over the first three quarters of 2019. This land is lower in productivity and may be dragging down the average land sales price estimate. Final evaluations of the 2019 land market will require data from the fourth quarter, which will be available in March 2020.

The income picture for 2019 is stronger than 2018. The reason for this include an increased Market Facilitation Payment (MFP) to offset trade losses, an increased yield for crops in 2019 compared to 2018, and nearly level crop prices. Net farm income for the Kansas Farm Management Association farms could increase from $100,000 in 2018 to in excess of $115,000 in 2019. The average MFP payment is expected to increase from $37,691 to $58,446 from 2018 to 2019. The median is payment is expected to increase by $18,500. Crop yield for corn increased from 129 bushel per acre in 2018 to 133 in 2019. Wheat yield per acre increased from 38 bushel per acre in 2018 to 53 in 2019. Sorghum yields decrease by 2 bushel per acre, while soybean yields increased by 1 bushel per acre. Combined with estimated acreage harvested in 2019 and expected prices, the gross revenue for crop production in Kansas is expected to increase from 15.7% from 2018 to 2019. While expenses may increase by up to five percent in 2019 due to increased cost of inputs and shifting crop mix, gross income will still by nearly $750 million more in 2018 than in 2019. Concerns still exist in the future due to the uncertainty in MFP payments in 2020 (zero at this point in time) and how quickly prices might increase from the resolution of trade difficulties with China, Japan, and the USMCA.

Figure 1. Kansas Farmland Values, Statewide Average (source: www.AgManager.info)

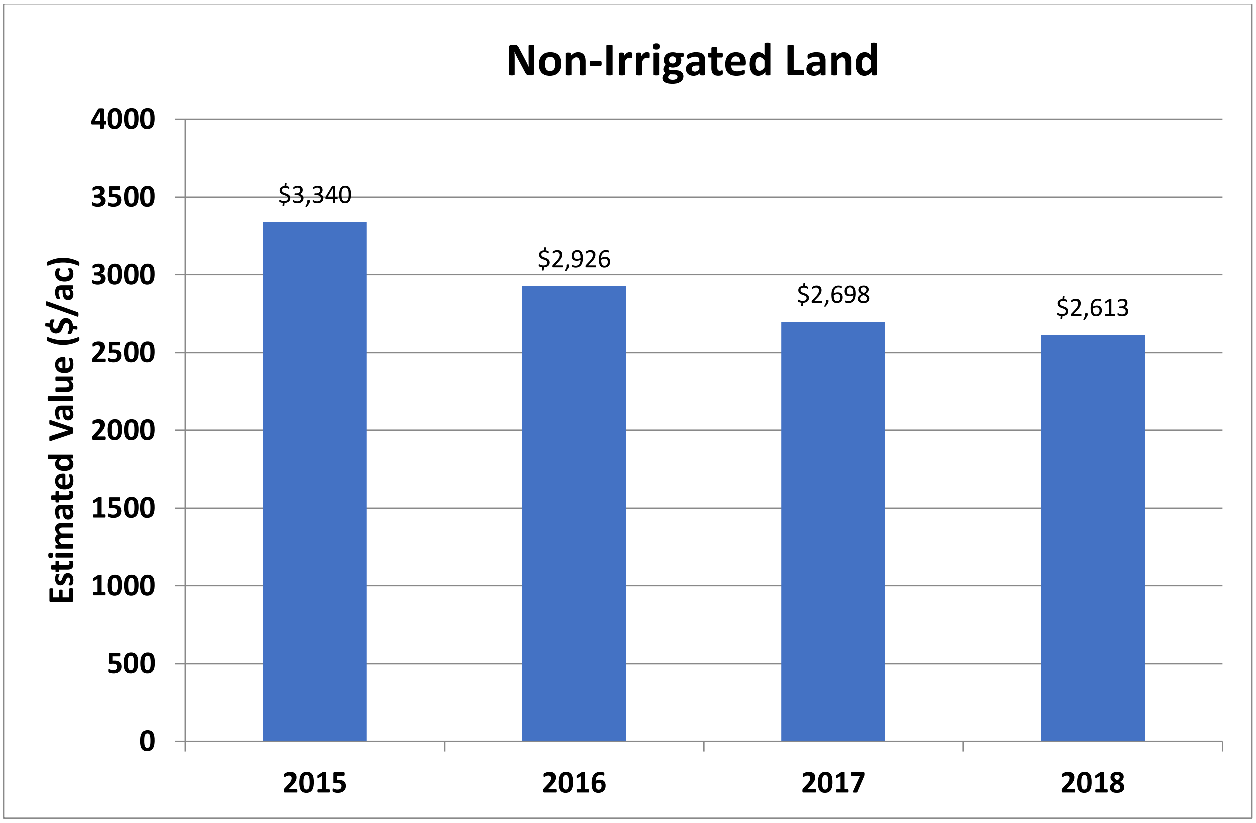

Figure 2. Net Farm Income Per Operator (source: Kansas Farm Management Association)

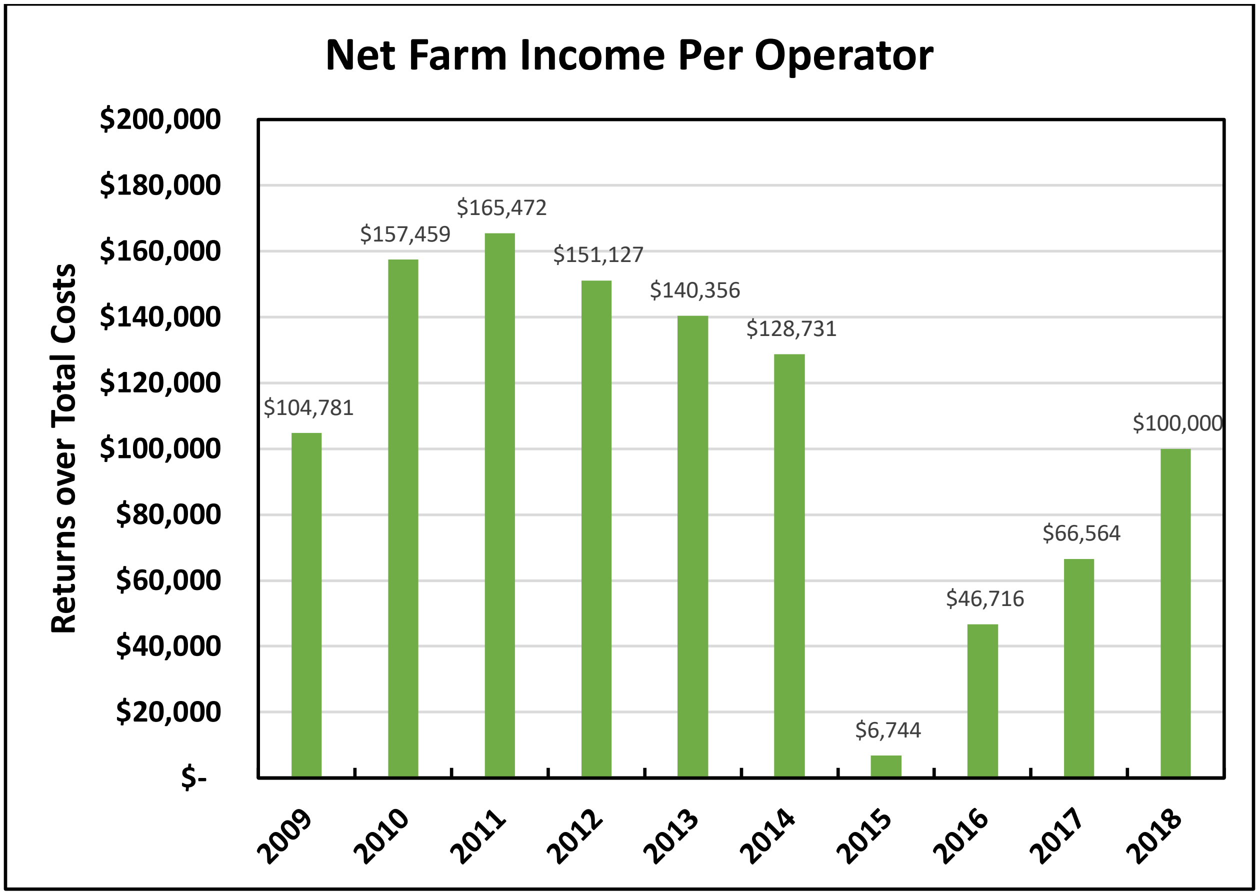

Figure 3. Government Payments as a Proportion of Net Farm Income (source: Kansas Farm Management Association)