# Will the Bubble Burst?

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## University economist-turned-farmer shares his view of the future for land prices and other hot topics.

*by* ***Kindra Gordon,*** *field editor*

Brent Gloy is someone with whom ag producers would love to have their morning coffee. Trained as an economist, Gloy has a keen grasp on the global ag scene. He has held tenured faculty positions in agricultural economics at Purdue University and Cornell University, and his research has been quoted and referenced in media ranging from the *Farm Press,* to the *Wall Street Journal, New York Times* and *USA Today,* among others.

For ag producers, Gloy's credentials become even more stellar when you learn that he is currently operating his family farming operation in southwest Nebraska.

So, back to having coffee with Gloy, he reports that the question he is asked most often these days is about land prices. Specifically, farmers want to know: Is this a bubble? Is it going to burst?

Gloy's reply usually starts by pointing out that he and his wife and their young children wouldn't have returned to the family farm if they weren't optimistic about the future of agriculture.

With that said, he acknowledges, many farmland values have gone "straight to the moon." One recent report based on numbers from USDA showed that only two states, Arizona and West Virginia, have experienced zero or negative change in land values from 2005 to 2013. Corn Belt farmland values have seen sharp increases, and land values in North and South Dakota and Nebraska have seen the largest increases — up to 218%.

Gloy notes, "Could it crash or be a bubble? It absolutely could. My view is that the land market is on a plateau with a slight downward tilt. It's not a free fall."

He also cautions, "Keep in mind, my expectations may not play out. If the 10-year treasury bond skyrockets (it went from 7.5 to 14 in the 1980s), all bets on farmland values are off."

With grain commodity prices coming down — and sky-high land values potentially outpacing production returns — Gloy recognizes the "land bubble" concerns. However, he remains bullish for farming's future, noting that the last few years have been somewhat of an anomaly. For grain farmers, the last several years haven't just been good, he explains, "they've been spectacular." Gloy says they are probably the best seven years in the last 100.

Thus, he's realistic about the future, and on the grain side of the farm economy, he says, "The next seven years may not be as good as the last seven … Farm incomes are likely to fall from historic highs, but not to historic lows."

Higher prices will, however, be seen in the livestock market — as has been occurring for 2014.

"It is livestock producers' turn, and I'm happy for them," Gloy says.

►**Brent Gloy, economist-turned-farmer, and his wife and their young children wouldn't have returned to the family farm if they weren't optimistic about the future of agriculture.**

### The rule of 72

Gloy notes that the global economy is stabilizing after the 2008 recession, which he says "was huge and felt around the world." However, the anticipated snap back in growth has been slow.

"There was a rebound, but it was not as good as we would expect," he explains.

Along with this, he points out that the most economic growth is occurring in emerging/developing countries — particularly for agriculture.

"Ag is a trade-based business, which is reason to hope that exchange rates remain favorable," he says, noting that one out of four acres planted to soybeans goes to China.

Here in the United States, GDP growth has stabilized at about 2.5%. Gloy explains

## Boom vs. Bust

"Farm booms always end. How they end is the concern," says Brent Gloy, a university ag economist who is now operating his family's farm in southwestern Nebraska.

Gloy shares this list of things that can cause booms to end poorly:

1. Dramatic reduction in demand
2. Over response on the supply side (coinciding with reduced demand)
3. Too much leverage
4. Turmoil in the broader economy

Gloy does not see grain supply going away, despite the drop in commodity prices. He reports that 123 million acres of cropland have been added worldwide during the past seven years. He explains that when landowners add irrigation pivots and tiling to make their crop production more efficient, they'll still keep growing crops on those acres.

Thus, Gloy calls it a perfect storm for the future with a lot of variables at play — corn demand for ethanol could be leveling off; emerging market demand has growth potential, but trade issues and consumers' purchasing power are unknown; interest rates could increase; and weather conditions are always a factor.

Says Gloy, "Could the great boom be coming to an end? In my opinion, yes; something has got to change."

that by using the "Rule of 72" — which is a quick division of the current rate into 72 to approximate the number of years it will take to determine how long until the economy doubles — it will take 29 years before the U.S. economy doubles.

"We are getting old as an economy," Gloy says. "I hope we grow faster than 2.5%."

One of the factors stalling U.S. economic growth is unemployment rates, which Gloy points out are still higher than 6%, and calls it "pretty high." The highest rates of unemployment are along the coasts, whereas in Nebraska, Iowa and North Dakota, unemployment rates are pretty favorable, he reports.

"We need people where the jobs are," he adds.

On the topic of interest rates, Gloy notes the Federal Reserve Bank doesn't want to raise interest rates because it could further stall economic recovery.

"As long as the Fed keeps interest rates low," he says, "land values will remain at current levels. If interest rates increase, land values could drop."

Gloy anticipates interest rates could stay low for the next three years, but adds, "unless something changes. Interest rates are the big unknown. In my mind, if they go up rapidly, we've got big problems."

Plus, at least one sign indicates change on the horizon. Gloy cites a March 2014 survey of the board of governors of the Federal Reserve System, which indicated most expect modest tightening ahead beginning in 2015.

While no one can precisely predict the future, Gloy's perspective is this: "A slow down will occur; they always do. I think, for good managers, the future will be acceptable."

He also encourages landowners to look at ways to gain value from land besides cropping alone. "To grow, think about diversity and different services you can offer instead of just buying more land," Gloy suggests.

Economic potential overseas is what keeps Gloy optimistic. Going back to the Rule of 72, he explains that if China's economy grows at 10%, it will only take about seven years to double. Gloy concludes, "That ought to be exciting for American farmers; 1 billion more people eating animal protein in seven years. This [Southeast Asia] is the great bull story for American agriculture. You want them to continue to do well. If they don't, we have challenges."

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**Editor's Note:** *Kindra Gordon is a freelancer and cattlewoman from Whitewood, S.D.*