Pasture Rent

Pasture rents climbing higher, faster? Blame it on ethanol.

Story by ***Troy Smith***

Advocates hail ethanol's value as an eco-friendly substitute for at least some portion of our nation's fuel needs, and as a way to reduce dependence on foreign oil. Its detractors have called ethanol an imposter thinly veiled in green, claiming the renewable fuel delivers less energy than is required to produce it. A few critics say, rather than reducing pollution and easing the effects of global warming, ethanol production and its combustion actually contribute to both problems. It has been blamed for rising food prices, too.

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In the search to lay blame for a multitude of ills, ethanol has become one of the usual suspects.

The ongoing debate between ethanol's accusers and its defenders has left cattle producers divided. The side on which a producer stands often depends on whether he or she also raises corn as a cash crop or must buy corn for feed. Producers falling into the latter category are more apt to voice concern over government policies aimed at shoring up the ethanol industry, as ethanol-driven demand for corn pushed feedgrain prices to last summer's record levels.

All feedgrain prices are higher, of course. Increased demand for corn has shifted more cropland to corn production, lowering production levels for other crops. That has been supportive of those markets. But competition for acreage has also affected alfalfa and other harvested forage supplies and their prices. And now, it appears to be influencing the cost of the most basic grazed forages. According to Kansas State University (K-State) agricultural economist Kevin Dhuyvetter, the ethanol-driven corn market is affecting pasture rents paid by cow-calf and stocker operators.

"Historically, there's been little relationship between corn price and pasture rents," Dhuyvetter states. "But that has changed. High prices for corn affect virtually all other crops, including hay and pasture."

Looking at the numbers

Dhuyvetter says a look at figures gathered by the U.S. Department of Agriculture (USDA) National Agricultural Statistics Service (NASS) shows what's been happening with pastureland values and pasture rents during a five-year period. Between January 2003 and January 2008, the value of U.S. pastureland increased by an average of 15.2% per year. That's a national average. Among the states whose pastureland increased in value most were Florida (30.7%), Montana (27.5%) and Nevada (24.4%).

Contrary to previous years when pasture rental rates made relatively small shifts up and down, 2003 initiated a five-year period of steadily increasing rates. However, rental rates did not climb nearly as rapidly as land values. Nationally, rental rates increased by an average of 7.6% per year. States showing the most annual growth included Wyoming (14.9%), Louisiana (13.3%) and New Mexico (13.4%).

High grain prices translate to high costs of gain in the feedyard.

"Generally, pasture rental rates lagged behind land value. Pastureland values were driven upward by nonagricultural influences, such as tax exchanges, urban sprawl and recreational uses like fee hunting. Those things had less effect on rental rates," Dhuyvetter says.

Toward the end of the five-year period, things started to change. During 2007, pasture rents actually climbed at a more rapid rate than pastureland values.

The accompanying illustrations show average pastureland values (Fig. 1) and average pasture rental rates (Fig. 2) per each of the contiguous 48 states as of January 2008. According to Dhuyvetter, U.S. pastureland values increased by 6%, on average, compared to the previous year. Nationally, the average increase in pasture rent was 8.3%.

In most regions, rent increases were more modest. That's true for most of the Northern Plains, Southern Plains and Mountain Regions, which collectively represent about 85% of all rented pasture in the U.S. The biggest jump in rental rates occurred in the Corn Belt states of Iowa, Illinois and Missouri. On average, that region's rented pasture cost $4.50 per acre more in 2008 than in 2007 — an increase of more than 14%.

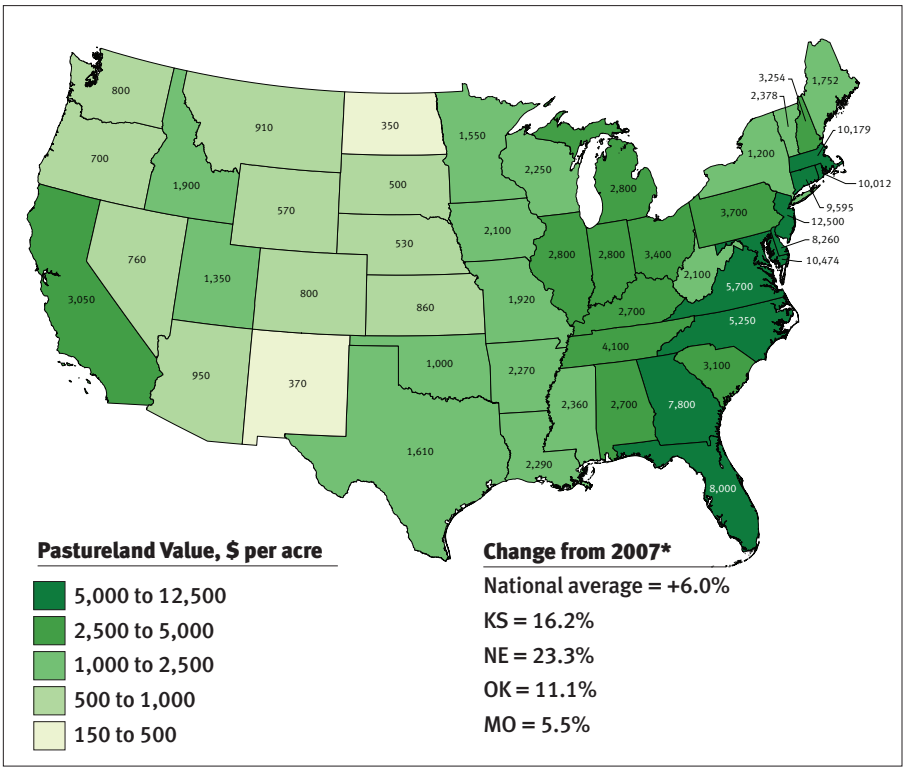
Looking to the future

Now the question is whether the cost of renting pasture will continue to increase. Evidence suggests that it could. High grain prices translate to high costs of gain in the feedyard and greater reluctance to place lightweight cattle requiring long feeding periods. The alternative is to grow calves to heavier weights prior to placement on high-forage diets, affording a cheaper cost of gain. Historically, the cheapest gains are achieved through grazing programs utilizing crop residues, wheat pasture or permanent pasture. That promises to increase demand.

The supply of pasture is not increasing. There is only so much grazing land available. And now there is a little less, as higher grain prices have brought land previously considered marginal into row-crop production.

Although corn prices retreated from their summertime highs, most pundits seem to agree that the ethanol industry is going to be with us for a good long while, continuing to bolster the market for corn. It represents an element of demand that didn't exist before, and it could continue to influence the value of virtually all feed resources, including rented pasture.

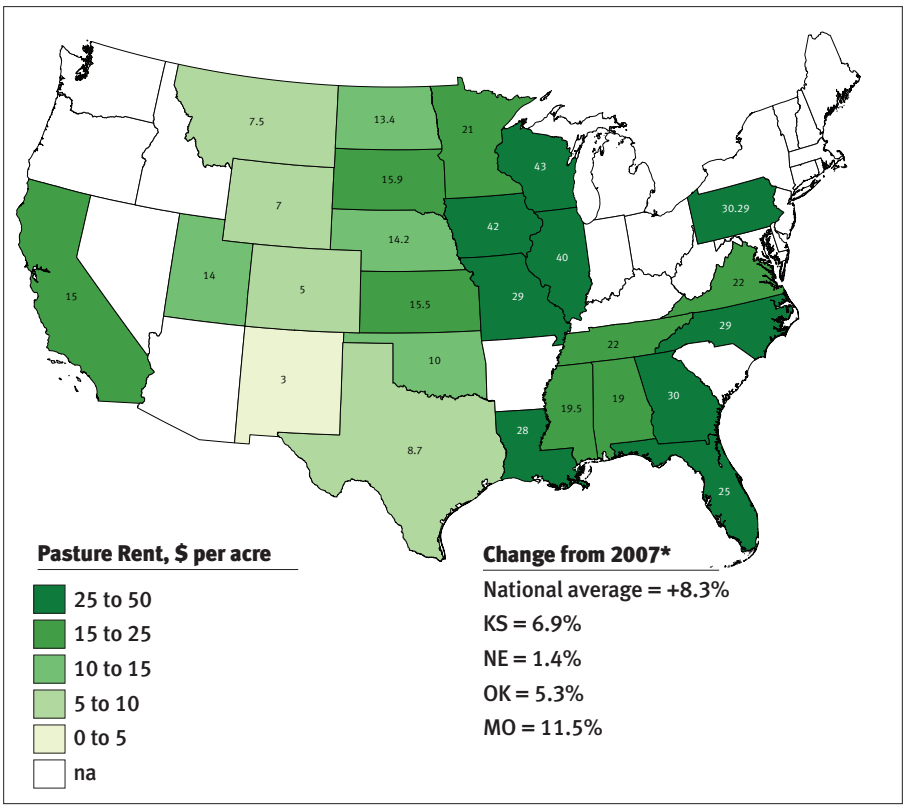
Fig. 1: Pastureland avg. value per acre, Jan. 1, 2008



Source: USDA NASS *Land Values and Cash Rents 2008 Summary* and Dhuyvetter and Kastens, August 2008.

*Corresponding changes in cropland values were U.S. = 10.4%; KS = 15.7%; NE = 20.1%; OK = 13.4%; and MO = 8.6%.

Fig. 2: Pastureland Average Rent per Acre



Source: USDA NASS *Land Values and Cash Rents 2008 Summary* and Dhuyvetter and Kastens, August 2008.

*Corresponding changes in cropland values were U.S. = 12.9%; KS = 9.8%; NE = 20.3%; OK = 7.4%; and MO = 7.6%.