Historic Land Values and the 1970s Land Price Bubble

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Missouri is typical
U.S. Farm Real Estate Values, 1950-2011*
USDA/NASS

$/acre

*Includes all land, buildings, and dwellings on farms.
*Value of all farm land and buildings.
*Value of all farm land and buildings.
Cropland v Pasture
Comparison of MU Survey and NASS Land Values

$/acre

- USDA/NASS Mo. farm real estate
- MU good cropland, July
- MU good pastureland, July

Year

50 54 58 62 66 70 74 78 82 86 90 94 98 02 06 10
Farmland Prices Usually Go Up
Missouri Farmland Values, 1950-2011*
USDA/NASS

*Value of all farm land and buildings.
At the start of 2011, Missouri land values were $292/acre above trend.

*Value of all farm land and buildings.
Change in Missouri Farmland Values, 1950-2011*

USDA/NASS

*Value of all farm land and buildings.

Average increase is $40 per year
Changing Farmland Values

Why do land prices go up?

☐ Inflation
Consumer Price Index, 1950-2011

1982-84=100

Source: Bureau of Labor Statistics
Changing Farmland Values

Why do land prices go up?

- Inflation
- Yield
U.S. Average Corn Yield, 1908-2011

Bu Per Acre

Source: USDA/NASS
Changing Farmland Values

Why do land prices go up?

- Inflation
- Yield
- Fewer acres per person
Price Bubbles
Wikipedia: An economic bubble (sometimes referred to as a speculative bubble, a market bubble, a price bubble, a financial bubble, a speculative mania or a balloon) is "trade in high volumes at prices that are considerably at variance with intrinsic values".
Price bubble: A rapid and unsustainable increase in the price of an item. You know for sure it is a bubble when it pops.
Missouri Farmland Values, 1910-2011*
USDA/NASS

*Value of all farm land and buildings.
Missouri Farmland Values, 1910-2011*
USDA/NASS

*Value of all farm land and buildings.
Missouri Farmland Values, 1910-1940*
USDA/NASS

Peak to trough: a decline of 65%

*Value of all farm land and buildings.
Missouri Farmland Values, 1910-1940*
USDA/NASS

First prices give back the W W I gains
Then slide further in the Depression

*Value of all farm land and buildings.
Missouri Farmland Values, 1950-2011*
USDA/NASS

*Value of all farm land and buildings.

Peak to trough: a decline of 39%
Two parts to a bubble: the boom and the bust
Missouri Farmland Values, 1950-2011*
USDA/NASS

$\$/acre

*Value of all farm land and buildings.
Changing Farmland Values

Why the boom in land prices in the 1970s?

- Rising crop prices
U.S. Average Corn Price, 1908-2011

Source: USDA/NASS
U.S. Average Corn Price, 1908-2011

$ Per Bushel

1908-1942
35 years
Avg $0.78

1942-1972
30 years
Avg $1.26

1973-2006
34 years
Avg $2.37

Source: USDA/NASS
U.S. Average Corn Yield, 1908-2011

Bu Per Acre

Source: USDA/NASS
U.S. Average Corn Gross, 1908-2011

$ Per Acre

Source: USDA/NASS
Changing Farmland Values

Why the boom in land prices in the 1970s?

- Rising crop prices
- Low “real” mortgage rates
  - High inflation
Change in Consumer Price Index, 1950-2011

Source: Bureau of Labor Statistics
Bank Prime Interest Rates, 1950-2011

Source: Federal Reserve Bank of St Louis
“Real” Bank Prime Interest Rates, 1950-2011

In the 1970s, inflation went up faster than interest rates and “real’ rates fell.

Source: Federal Reserve Bank of St Louis
Changing Farmland Values

Why the bust in land prices in the 1980s?

- Falling crop prices

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U.S. Average Corn Price, 1908-2011

- 1908-1942: 35 years, Avg $0.78
- 1942-1972: 30 years, Avg $1.26
- 1973-2006: 34 years, Avg $2.37

Source: USDA/NASS
Changing Farmland Values

Why the bust in land prices in the 1980s?

- Falling crop prices
- High “real” mortgage rates
  - Falling inflation
Change in Consumer Price Index, 1950-2011

Source: Bureau of Labor Statistics
Bank Prime Interest Rates, 1950-2011

Source: Federal Reserve Bank of St Louis
In the 1980s, inflation went down faster than interest rates and "real" rates rose.

Source: Federal Reserve Bank of St Louis
Mortgage rates above 11% are associated with declining land values.
“Real” mortgage rates above 7% are associated with declining land values.
Changing Farmland Values

Will the future be like the past, with rising crop prices causing a land price boom and rising real interest rates causing a land price bust?
Missouri Farmland Values, 1950-2011*
USDA/NASS

At the start of 2011, Missouri land values were $292/acre above trend.

*Value of all farm land and buildings.
Any Questions?