INTRODUCTION

What Goes Up…. : Cycles And The Current Boom In Agriculture

Agricultural production and prices have always been cyclical. The influence of weather on production is one factor. The tendency of individuals to react rather than anticipate market signals also contributes to boom and bust periods. Commodity prices increase and farmers produce more; they decrease and farmers reduce production. Demand also fluctuates as consumers switch to a cheaper alternative during high prices and switch back when prices fall. The length of the cycle differs with the commodity, and the weather and cyclical prices in one commodity will influence cyclical behavior in another market.

Commodity prices have increased significantly since the mid-2000s. Corn, soybeans and wheat all have seen record high prices during that period. Recent low prices have been above the pre-2005 high prices. Prices for cattle, hogs, poultry, eggs and milk also set new record high prices since 2005, although the higher prices have not kept pace with the higher feed costs, and production in these sectors has stalled or declined.

The ag retail sector has increased the value of sales and inventory handled, but volume and margins have not increased proportionally. Farmers have increased planted acres and are spending more on crop inputs, but yields have been stagnant for four years due to weather. As values increase, retailers have greater inventory risk and loss exposure.

The higher grain and oilseed prices have increased returns to farmland and Corn Belt land prices increased dramatically. Iowa farmland prices increased over 60% in two years and have more than doubled in five years. Higher land prices and rents have driven up cost of crop production, squeezing margins for farmers. The higher prices also have encouraged conversion of pasture and CRP to row crops.

Given the increases in prices and farmer wealth across much of agriculture, should we be concerned? Is this a bubble? Is agriculture still cyclical? Has growing world demand for food and new demand for fuel fundamentally changed the nature of agricultural markets, and farming in general? If something goes up, must it come down?

This collection of papers is an analysis of the current state of Iowa agriculture from the crop, livestock, and land market perspective. It examines the question of price levels and price risk going forward. It also includes a recent analysis and papers from the Federal Reserve Bank of Kansas City, which examines previous agricultural cycles and how they played out through borrower’s behavior. Combined, this analysis provides lessons from the past and milestones as potential guides to the future.

This analysis is not intended to be a forecast of annual prices in the coming months or years. Nor is it predicting gloom and doom for agriculture. Rather, it is intended to help put current economic conditions into a historic context, better understand the factors that will influence prices and margins in the future, and help you prepare for whatever direction the market turns.

Enjoy and learn.

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