WITH/WITHOUT PICTURE PAGE:

LINE LENGTH INCHES:

HEAD SLUG: edit\Miller

HEAD:

By Dale Johnson

Surging ethanol demand from corn could more than double Iowa farmland values in three years, a farm economist predicts.

“If corn stays at $4 a bushel for three years, land will become worth $9,000 an acre,” predicted David Miller, director of research and commodity for the Iowa Farm Bureau last week at a policy information conference in West Des Moines.

Miller told county Farm Bureau leaders that today’s high corn prices are not like 1996’s $5 per bushel corn price.

“That was driven by a short supply that corrected quickly with increased production. Today’s high corn prices are demand-driven,” he explained.

“I’m suggesting we are at the beginning of a fundamental shift in demand led by biofuels.”

Miller calls energy’s demand for corn a “disruptive” event, one similar to the 1972 launch of grain sales to Russia. That event drove grain prices and farmland values sharply higher.

Iowa farmland values jumped from a statewide average of $482 in 1972 to $2,147 per acre 1981. Cash rents jumped 400 percent.

Good times in agriculture rolled on until a U.S. grain embargo against Russia was imposed and the Federal Reserve slapped on high interest rate policies. High interest rates combined with high farmer debt loads caused a collapse and pushed land values to $787 in 1986. Values have since rebounded and in December 2006 were at an average of $3,204

an acre, up 10 percent from 2005.

“Yes, the land market crashed in the 1980s, but it never went back to $500 an acre,” he noted. And corn prices never dropped back to their 1960s’ average of about $1 per bushel.

<SH>Disruptive event

Today, energy is the “disruptive” event in agriculture, explained Miller.

Corn price influencers are changing and gasoline is now the price-setter. The price of corn, he said, will be about double the price of a gallon of gas. Corn is more valuable because of its higher energy content.

He cautioned that his outlook is predicated on continuance of the 51-cent-per-gallon federal ethanol tax credit due to expire in 2010 and U.S. resolve to lessen our dependence on oil imports from the unstable Middle East. Today, the United States imports nearly 70 percent of its oil.

“Agriculture has a huge stake in how this plays out,” Miller stated.

<SH>Ethanol from ag

Last year, the United States consumed 140 billion gallons of gasoline and 6 billion gallons of ethanol as an additive to gasoline, along with 43 billion gallons of diesel fuel and more than 250 million gallons of biodiesel.

Ethanol from all agricultural sources, including biomass, may be a 50 or 60-billion-gallon solution to U.S. energy needs—around 15 billion gallons from switchgrass, 15 billion gallons from stover and up to 30 billion gallons from corn. And that could be enough for cars if we get serious about energy efficiency.

The petroleum industry then could provide fuel for heavy-hauling, such as trucks, while biofuels supply automobiles and other light uses.

“The demand for biofuels, at some price, will take everything we can give it,” said Miller.

Last year, the United States produced 6 billion gallons of ethanol. As of February, 78 plants were under construction that will add 6 billion gallons of capacity within 18 months.

Future supplies of corn should not be a problem. Miller sees technology pushing the national average yield past 200 bushels per acre toward 300 bushels per acre.

“The technology is already in the pipeline,” he said, adding that average yields are increasing nearly 3.5 bushels annually.

He said $4 corn will stimulate research and development of additional technologies that boost yields further. A 20-billion-bushel corn crop will soon be raised, up from 10.5 billion bushels in 2006.

While the amount of cropland devoted to raising such a massive crop will increase, much of the increase in corn acres will come from shifting soybean, wheat and cotton acres to corn.

“Remember, we were planting 100 million acres of corn 100 years ago,” he pointed out.

“Can we move back toward 100 million acres? “Yes, we have the technology, plus some Conservation Reserve Program land will come back into production and we will convert some soybean ground to corn. There’s plenty of places to grow soybeans in the rest of the world, perhaps even more competitively.”

<SH>Ramifications

Whether the demand for energy is good or bad for agriculture depends

on if a person is buying or selling corn, and whether they own land or lease land, said Miller.

The 1970s were tough on young farmers, as agriculture experienced massive consolidation among farms. Energy and $4 corn could have a similar impact this go-around, he cautioned.

In any event, farmers, and lenders need to be prepared to better manage risk. “The reality is that it may take a $1.5 million line of credit on 1,500 acres,” observed Miller.

Livestock will adjust, just as it did in the 1970s when livestock farmers changed production with higher corn prices. “Hog farmers made more money after corn prices doubled in the 1970s,” noted Miller. “It was the same with cattle.” But the transition to higher prices can be disruptive and financially painful.

Farmers making plans to transition land to the next generation need to think ahead to set a fixed price or make a rapid asset transition to cope with the massive change, Miller added. It’s an area that should be closely scrutinized. If we do nothing, the next generation of farmers may have a very difficult time getting started.