## "Bi-flation" Means Boom For Farm Economy

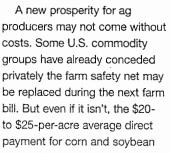
s deflation or inflation in your future? Perhaps both, says Gary Taylor, former president of Cargill Cotton. He thinks that economists should coin a new term for the conditions he sees as most likely in the decade ahead: bi-flation.

By that, Taylor means industries won't be affected equally as the U.S. struggles to recover from recession. Manufacturing like the clothing industry may face a slow recovery over the next decade as factories that migrated to China shift to cheaper labor in India and Asia in the next round. But U.S. agriculture stands to benefit from inflationary forces that will hike the price of food, land and precious metals during this global transition.

"We've lost the food reserves the world had," he says of harvests over the past eight years. "We'll be fighting for planted acres by bidding up commodity prices" repeatedly between now and 2020. Taylor believes the new normal for prices could be \$6 to \$7 com, \$12 to \$15 soybeans and \$7 to \$8 wheat, some of which will get translated back into higher farm real estate prices and input costs—much as it did in 2008.

Skeptics may feel they've heard predictions of a new price plateau before, only to see prices collapse from overproduction a year or two later. But what's different now versus the 1980s and 1990s is that 40 to 50 million Chinese are moving into the middle class each year, Taylor points out. Economic prosperity will also mean more fish and poultry in diets in India, a country that will soon outnumber China in population. That's a trend that can't be easily reversed and

will last at least another decade.



growers already falls in the "so-what" category, he says. Farmers who prepare for a day of limited farm programs will have a head start on their peers, he adds.

Over the last four decades, Taylor has seen grain embargoes, the Great Grain Robbery, the fall of the Soviet Union, the Asian flu and the lack of wheat and cotton futures market convergence. He believes the next decade will bring even greater opportunity, risk and price volatility. At the same time, higher commodity prices will offer hardworking and creative producers a chance to grow as never before. "This is the kind of climate that will make young people want to return to agriculture," he says. —Marcia Zarley Taylor

## **Investors View Farmland As A Safe Bet**

he Hancock Agricultural Investment Group manages \$1.4 billion worth of farmland it has purchased on behalf of institutional investors and pension funds.

That's up \$300 million in the past year and a half

alone. More than 90% of the holdings are in the U.S. with additional properties in Canada and Australia.

Farmland has long been an attractive holding in large, diversified investment funds, according to HAIG's president, Jeff Conrad. The appeal has only increased in the past decade as the returns to top-quality farms have kept up with or outpaced those of the stock and bond markets, commercial real estate and timber.

"One of the things institutions find very attractive about farmland right now is that it kicks out a lot of cash flow compared to a lot of alternatives," says Conrad.

Even in 2008, as the rest of the economy was nearly imploding, Hancock's investments in U.S. farmland had a total return of 18%—with half coming from income and half in appreciation.

"You don't write down your assets' values when you have earnings like that coming off them," he says.



Jeff Conrad

Additionally, according to Conrad, fund managers view an investment in farmland as a pretty safe bet because investors are unlikely to lose their initial capital. There is also less volatility in ag than other sectors, and the diversification farmland offers is healthy for a portfolio.

In the past 10 years, the average returns to farmland were 3.29% greater than the rate of inflation annually. Perhaps not super sexy but pretty reliable, according to Conrad.

The earnings also offer evidence as to why he believes there isn't a farmland bubble on the horizon. One of the mistakes those outside of agriculture make, according to Conrad, is to look at the big gains in farmland appreciation over the past several years and assume they have become inflated much like the residential housing market.

Agriculture has the earnings and income to back up the land appreciation, he says. While farmland values have certainly risen, those increases were not driven by the kinds of institutional investors that overinflated other sectors of the economy.

"Institutional capital is still a small fraction of transactions that take place every year," Conrad says. "In the farm sector, the market is still driven by farmer-to-farmer transactions. And farmers had money; they were immune to the global pull back of institutional capital." —Des Keller