INTERVIEWER: Now, you all know that the price of nearly everything is up, and that includes something you might not think about but that factors into the costs of the food you eat. It's the land where a lot of that food comes from. About 40% of farmland in the US is rented. Most of it owned by landlords, who are not actively involved in farming.

Farmland rent, like apartment rent, has gone up. So how does that affect a farmer's bottom line? We're joined by Kent Thiesse. He's a farm management analyst and senior vice president for MinnStar Bank. Hey, it's good to talk with you again, my friend. How you been?

KENT THIESSE: I'm doing good, doing good--

INTERVIEWER: Good.

KENT THIESSE: --in the end of the winter season.

INTERVIEWER: Yes. Yes, it had to come sooner or later, so here it is. Well, let's talk a little bit about farmland value. Now, I see that farmland value in Minnesota is about $6,100 an acre. Is that a good thing or a bad thing when you look at a farmer's bottom line?

KENT THIESSE: Well, you know, I guess having strong farmland values puts some stability in the overall farm economy because the value of ag land on a typical farm balance sheet makes up a good chunk of a table-end of a balance sheet, which is the long term assets. So having some strength in farmland values, overall, stabilizes it.

But when we get rapidly rising farm value rates, like we've seen the last two to three years, in the last two years, farmland values in many areas of, especially Southern and Western Minnesota, have probably went up 30 to 40%, and that's a relatively short period of time to have that kind of increase.

And what happens then, obviously, the people buying the land, especially if they're non-farmers, tend to want to get more return on their Investments. So the land rental rates go up. And when the land rental rates start going up, it goes up for everybody.

And that adds costs to all farmers and whether they're buying the land or their rent in the land. And probably, somewhere around 2/3 of the land in Minnesota and other midwest states is under a rental agreement. So what happens with rental rates is a pretty big key to what happens on farm profitability.

INTERVIEWER: Say, who's buying up the farmland nowadays? It probably varies, depending where you go. But overall, I think it's probably about 1/3, 2/3. 2/3 being existing farmers that buy land to expand their operation. The other third are people investing.

And of course, that can be folks that used to be in farming that maybe are buying it as an investment. It tends to be more people that are familiar with the land. Sometimes, we get what we call a 1031 exchange, which allows some tax advantages if, say, someone sells some land close to the Twin City's metro area or other regional centers, like Rochester or Mankato.

And then, they turn around and reinvest the dollars into buying some farmland further out. So we get some of that. What we see with a lot of the investor land is it'll be tied in. They connect themselves with some existing farm operations to rent that land.

So sometimes, you'll see situations, where maybe there's a half section of land, 320 acres, and the farmer maybe buys 160 of it, and the outside investor buys the other 160 with the contingency that the farm operator that bought the first part of the 160 there will farm the rest of it on some type of rental agreement.

So there's a lot of creative situations. States like Minnesota have quite a few restrictions on foreign buyers or other buyers coming in, so that kind of slows down that type of thing. Now, there are certain areas of the state where there are people that try to buy more land.

Certainly, you get in some specialty crops, like sugar beets and some of that, that tends to drive some of the land value decisions. But overall, it's been pretty stable. It'll vary from area to area, how much is farmer buying and investor buying, and some of that goes with the overall economy, how does land compared to other investments, like the stock market.

So as we've been talking here, this is clearly a big business, right? People are making money off of this. If someone wants to get into farming, it sounds like it'd be pretty darn tough to find the land and get it at a price where they can make some money off of it.

KENT THIESSE: Well, it really is, today, if you were going to. In fact, we've had people contact us about getting in the farming. And if you don't have a connection with family or someone else to help get started, it's very difficult.

Because if you've got to buy or rent the land, right now, it's very costly and, of course, interest rates have doubled since the beginning of the year on financing. And we just talked about rental rates. But then, you also got the cost, if you're going to raise crops, you need machinery.

And if you can't afford to buy the machinery, then you've got to hire somebody to custom apply, and plant and apply the products, and harvest. And then, of course, you got the input costs. So it's very difficult to start from scratch.

I guess if somebody was going to try to do that, their best option is probably to find something where they can some value-added, either specialty crops, raising organics, raising specialty, maybe cheeses, livestock products, meat products, where you can garner a little more income off relatively small acreage or small amounts of livestock that you're raising.

But those are kind of niche opportunities. That's not something everybody can go out there and do. And you got to have an end market for whatever you're raising to sell it.

INTERVIEWER: So Kent, then, as we're talking about rising rental rates, farmland rental rates, how does that work into just, say, the costs for food? Like, let's just take it maybe-- for instance, I don't know, someone's farming soybeans, right? So can you work out what would happen if, as your rental rates start going up, how does that affect, say, what we're paying in the stores?

KENT THIESSE: There's probably not a lot of direct correlation. Obviously, the big impact comes to the farm operation itself. If we look at the combination of rising rental rates with rising input costs for fertilizer, and seed, and chemicals, and fuel, and interest rates, labor costs, everything, looking at next year, it's probably going to cost the typical farmer 5 and 1/2 to $6 a bushel to raise corn at their normal yields.

And for this past year, that number was probably 5 to 5.50 a bushel. And if you go back to 2021, that was probably 4 to 4.50 a bushel. So it's added cost to the farmer. And so, how that plays out the actual amount when you go to a grocery store, the farmer is only getting about 14% of that.

So the rest of it is going in to all the other costs, the transportation, the distribution, the warehousing, all the way to the retail ends. So there's a lot of other factors going in there. And just because a farmer has those added costs, doesn't necessarily mean that they're going to get that price.

And that's where we've gotten in trouble in the farm economy in the past. There is some correlation, but, no, I don't think there's a lot of direct correlation between land rents or even costs on the farm and what happens in the grocery store.

INTERVIEWER: So as we look into your crystal ball, what are you looking for here going into 2023?

KENT THIESSE: We're still in a very strong farm economy right now. I mean, our commodity prices for crops and livestock are very strong. The margins are much tighter as we talked about. Our costs have went up, whether it's land rent or input costs, and the same is true raising livestock.

Definitely tighter margins. I think as long as we can continue to have strong domestic use for our products, then there's strong demand. And, certainly, on the livestock side, there's been very good demand for meat and dairy products we see in the grocery store, but part of that is consumer demand.

And so, I think, at least on the near term, things look good. A little caution, though, obviously, weather is certainly a factor. Much of the Midwest, including much of Minnesota, came out of last year very dry. So we're heading into the year, probably drier than we've been in a while, so that's always a concern.

And then, we're in a volatile situation out there, worldwide and even in our own country as where we're going, and that can affect export markets. And agriculture's one industry that is very global. 40% of our soybeans get exported and, probably, 25% of our corn.

And of course, China is a big player. And we see what's going on there. There's some exciting things. You know, obviously, the Green Energy Movement, it can be positive or negative for agriculture, depending how you look at it. Long term, we start using less gasoline. That means we may need less ethanol.

But on the flip side, we're also moving to using more e-15 in our blends of ethanol. And on the soybean side, a lot of excitement because we talk about renewable diesel. And obviously, we aren't going to get to all of our semis, and farm equipment, and everything else running on electric overnight.

We're going to need diesel fuel. And to go to renewable diesel, rather than petroleum-based diesel, certainly, as one of those solutions as we move down that direction. And the biggest benefactor, probably of moving to renewable diesel, is the soybean industry because they have the technology to make renewable diesel using soybeans as a seed stack.

So there is some excitement out there, I think, as we look forward. The agriculture industry is constantly in change, and I think it's going to be that way here as we go forward. But it's certainly not all negative. There's a lot of positives out there.

INTERVIEWER: All right. Well, it's good to get a look at what's to come here. I appreciate your time, Kent, as always. And I wish you happy holidays.

KENT THIESSE: Well, same day, everyone else out there.

INTERVIEWER: That was Kent Thiesse. He's a farm management analyst and senior vice president for MinnStar Bank.