

## 2016 Outlook

by: *Nathan Deters, AFM*

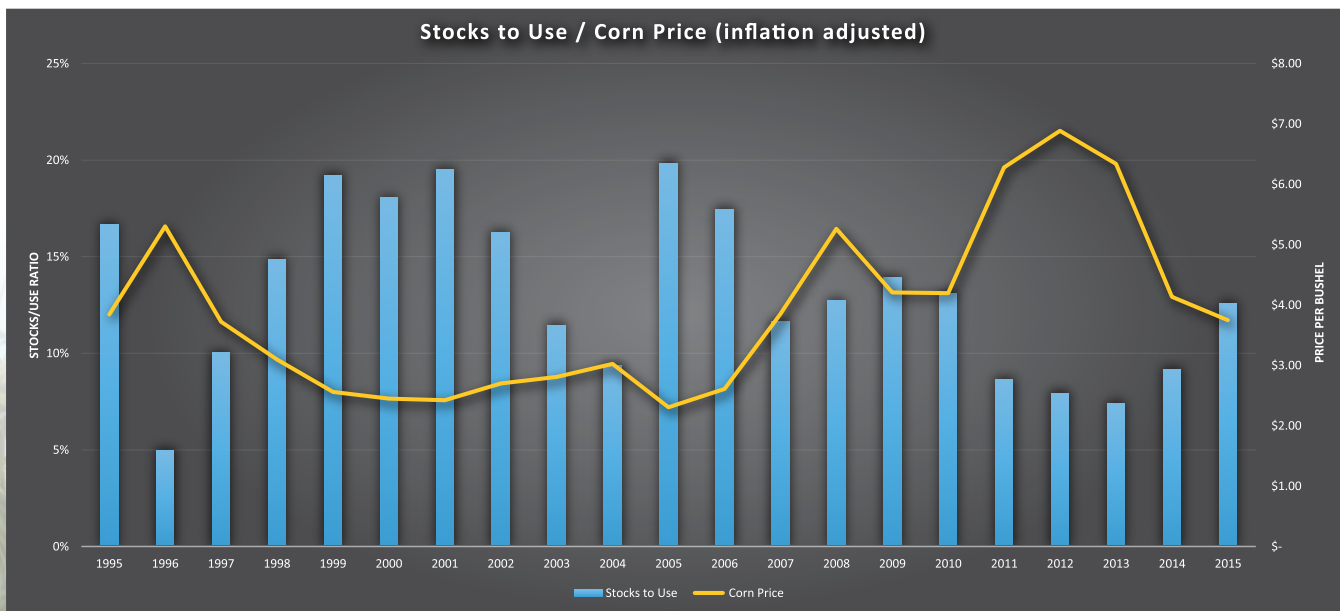


Winter allows the corn and soybean producer some down time to assess last year's results and more importantly, make plans and projections for the coming year. This winter is certainly providing a wealth of issues to consider, making the long nights go by faster.

January's USDA crop report gave us the final numbers of 168 bushel/acre for corn and 48 bushel/acre for soybeans. Corn yield was not quite a record while soybeans set a new record for yield per acre. This is the third year in a row of near or above trend-line yields, following three years below trend in 2010, 2011 and 2012. Once again, the American farmer has proven that given decent weather, our capacity to produce is substantial. Our world competitors also acted on the positive price signals and increased production as well. What this has amounted to is not only higher U.S. carryover numbers but also world stocks. These bushels will act as a strong cushion if we have any weather events this year and limit price advances.

It is not all bad news on the supply and demand front. **Low prices stimulate demand**, and usage of our crops is at record levels. As an illustration, since 2000 global corn demand has increased from 600 million metric tons to over 950 million metric tons, a 58% increase. Soybean usage over that same period has increased even more sharply, from 170 million metric tons to 310 million metric tons, an 82% increase. The last three years have seen the sharpest growth over this period. The only problem is that world production has ramped up to exceed these demand levels, through a combination of improved production practices, new acres brought into production, and generally favorable weather through most major crop areas. Until we see a change in weather fortunes or a reduction in acres caused by weaker prices, we are likely to continue to produce at or above what demand dictates.

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## Today's LAND OWNER

Stalcup Ag Service, located in Storm Lake, Iowa is an employee-owned partnership that has prospered by serving farm management, real estate, and appraisal needs of Northwest Iowa farm owners since 1942.

### Stalcup's Team

Rex Wilcox, AFM  
Kent Smith, AFM  
Dennis Reyman, AFM, ARA  
Nathan Deters, AFM  
Chad Husman, AFM  
Travis Nissen  
Grant Aschinger, AFM  
Mason Troendle  
Dan Niemeier

### Contact Us

Stalcup Ag Service, Inc.  
1705 N Lake Ave  
Storm Lake, IA 50588  
Phone: (712) 732-4811  
Fax: (712) 732-7371

stalcupag.com  
stalcup@stalcupag.com

Today's Land Owner

# TODAY'S LAND MARKET

by: Dennis Reyman, AFM, ARA



The land market continues to be a mixed bag. Some will argue that values are down substantially from the peak in 2013; others will argue it's only down moderately. Both could be right, depending on market segment or location. Generally, we've seen values off by 15-22% from the highs of two years ago. This would take \$12,000 land down to the \$9,500 to \$10,000 range. In referring back to this article in 2013, we noted that only half of the several hundred transactions we'd tracked in Northwest Iowa sold for \$10,000 or more. We tend to forget that many farms were still selling for four, not five figures.

For our region, which is the 23 northwestern counties in Iowa, the annual **Iowa State Land Value Survey** placed each county at slightly up to down moderately. Four counties in the northwestern corner were each assigned gains of 1.69% while ten counties slipped in value by 2% or less. Another nine counties in our eastern or southeastern areas were 2-6% lower over the past year. The ISU survey is down 12.4% state-wide from 2013 to 2015.

***The volume of sales have been close to average, although with considerable variance across the region.***

The quarterly survey by the **Federal Reserve Bank of Chicago** placed "good" western and north-central Iowa farmland at -3% and -4% for the last quarter of 2015, and -6% and

-10% for the year. While this is a little different territory than we've quoted for the ISU survey, the downtrend has been real. We feel the ISU survey (from realtors, appraisers, farm managers) and the Fed survey (from bankers) are generated from differing viewpoints, and that reality is probably in the middle. The Fed survey places western Iowa at -14% since 2013 and north-central at -21%.

**The volume of sales** has been close to average, although with considerable variance across the region. As usual, sellers mostly include estate settlements and multi-person or multi-family ownerships who desire to separate assets. We've also seen a few sales by farmers who are either alleviating some debt or retiring debt as they contemplate retirement. This is something we haven't seen in a number of years. It is a sign of the times as tight margins, debt, and cash availability are important concerns. Some "no-sales" have occurred at auction due to a mismatch of sellers' and buyers' expectations. Often, the property is sold soon thereafter.

So what does the **future** hold for farmland? There are a lot of moving parts which affect the answer. As discussed in our lead article, the



high prices of 2010-2013 inspired the world to increase production of corn and soybeans. Crop production in 2010, 2011, and 2012 declined year-over-year, the first time in history the US had three straight declining production years, culminating with the dramatic 2012 drought. That coincided with rapidly rising demand and a cheap US dollar to push grain prices higher than anyone could have imagined - prices which remained high for a long period of time. High grain prices, expectations of continued high prices, strong cash positions, and low interest rates drove the demand for land and pushed prices rapidly higher.

High prices motivated farmers around the world to grow more. Mother Nature cooperated with favorable growing conditions to the extent that the past three years have brought on the highest production years on record. Demand remains good but supply is not threatened. Economics 101 says that oversupply will depress prices until production is reduced, thereby increasing prices. We are at the low ebb of that supply/demand cycle from the price standpoint.

As long as we remain in a high supply/low price situation for grain prices, land values will remain under pressure. Crop incomes are not currently sufficient to drive land values higher. Low interest rates are still historically very favorable to borrowers but have risen slightly.

We know that **we are in a cycle of more extreme and variable weather**. Since these cycles remain in place for several decades, it is highly likely that we'll see grain prices rise in response to threatened crop production. If economics are strong enough to support higher prices, we could see stronger recovery in land values than we now expect.

We've discussed before that **land values will seek their long-term trend line**. After the 50% rise in 2012-13, preceded by years of double-digit gains, the only question was really whether it would be a rapid retracement to the trend or a long period of stagnant prices which would allow the trend line to catch up. We've seen some retracement and stabilization at lower values. It could be that we'll now see a period of fairly stable values even if farm income improves.

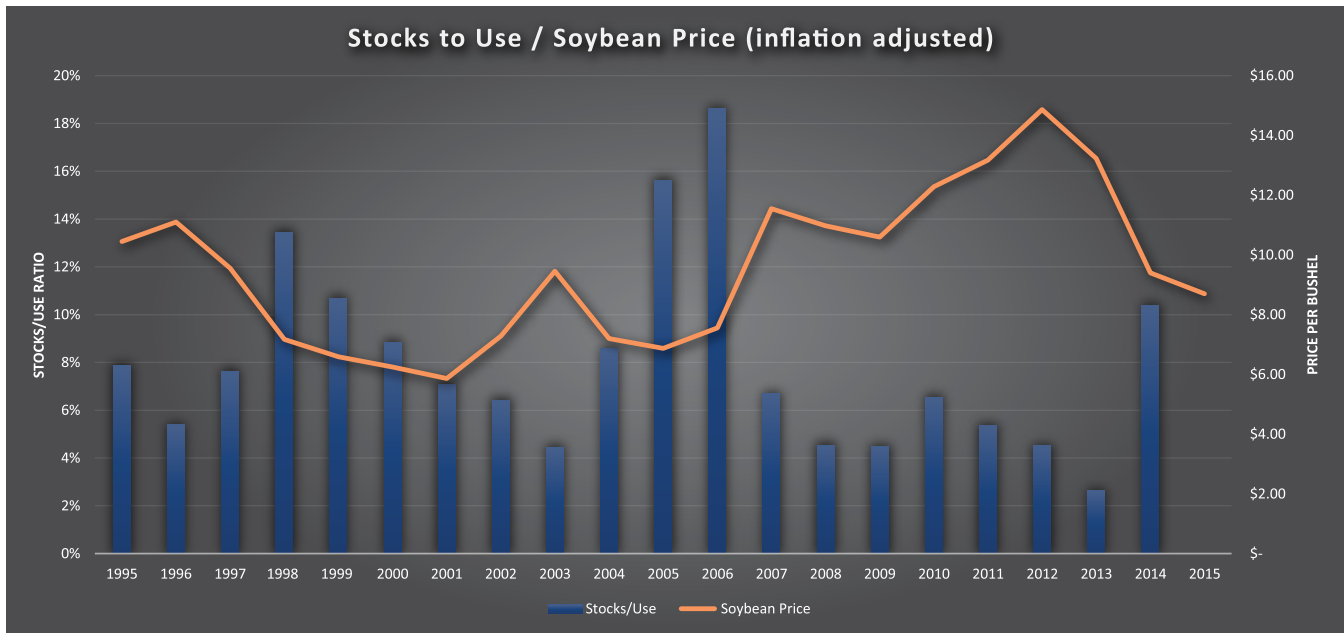
**Since 1950**, double-digit gains in Iowa land values occurred 19 times; 14 of those times were during the 1972-1979 or 2004-2012 time frames. Outside those times, double-digit gains never occurred more than two years in a row. Since 1950, Iowa land values declined 12 times. Five of those years were from 1982-1986.

Those years were harsh, but only five years of the past 65 exceeded 6.1% decline, one of those being 2014 at -8.87%. **Bottom line** is that the long-term trend is for higher land values. Long-term, we see no reason to argue with history.

The accompanying table includes a sampling of sales results in the region. Stalcup-brokered sales are in **bold\***.

Selected Sales of Good Farmland					
Date	County	Acres	CSR	\$/acre	% Tillable
<b>November</b>	<b>Buena Vista*</b>	<b>315.4</b>	<b>70.6</b>	<b>\$7,775</b>	<b>97%</b>
<b>November</b>	<b>Calhoun*</b>	<b>80.0</b>	<b>81.9</b>	<b>\$8,500</b>	<b>98%</b>
November	Sioux	141.6	69.1	\$14,200	93%
November	Lyon	70.8	68.5	\$12,600	98%
November	Buena Vista	80.0	76.2	\$9,900	99%
<b>November</b>	<b>Clay*</b>	<b>177.0</b>	<b>80.4</b>	<b>\$9,850</b>	<b>93%</b>
<b>November</b>	<b>Monona*</b>	<b>38.0</b>	<b>59.3</b>	<b>\$5,850</b>	<b>99%</b>
December	Greene	80.0	84.1	\$9,400	99%
December	Cherokee	160.0	67.3	\$10,000	97%
December	Clay	76.5	72.1	\$9,400	100%
December	Dickinson	160.0	72.0	\$9,700	99%
December	Palo Alto	481.0	71.3	\$7,600	92%
December	Pocahontas	74.5	81.9	\$9,400	99%
<b>January</b>	<b>Woodbury*</b>	<b>60.0</b>	<b>53.7</b>	<b>\$7,000</b>	<b>87%</b>
January	Woodbury	115.6	47.6	\$6,450	94%
January	Sioux	80.0	53.5	\$9,000	99%
January	Carroll	80.0	77.0	\$10,700	99%
January	Lyon	100.0	55.8	\$10,500	96%
<b>January</b>	<b>Buena Vista*</b>	<b>160.0</b>	<b>69.5</b>	<b>\$7,312</b>	<b>97%</b>
<b>January</b>	<b>Buena Vista*</b>	<b>154.7</b>	<b>70.5</b>	<b>\$6,000</b>	<b>88%</b>
<b>January</b>	<b>O'Brien*</b>	<b>160.0</b>	<b>72.6</b>	<b>\$9,900</b>	<b>95%</b>
February	Cherokee	160.0	60.2	\$8,450	93%
February	Carroll	80.0	71.2	\$11,500	99%
<b>February</b>	<b>Emmet*</b>	<b>150.7</b>	<b>77.4</b>	<b>\$8,900</b>	<b>98%</b>

\*Stalcup-brokered sales



Macroeconomic factors are a big topic this winter as well. China has been by far the largest driver in world commodity demand growth over the last decade, and their slowing economy has led to sharply lower prices for many raw materials. The oil price slump has also been a big player in the commodity downfall. Finally, the strong U.S. dollar has been an obstacle to exports, particularly as compared to our major South American grain producing competitors. Recently we have seen a drop in the dollar. We can hope this is the start of a trend.

A weak commodity environment is generally not good for grain prices. We are fortunate that grain exports to China have held up relatively well. Perhaps what we have heard about the large numbers of their population moving to the middle class and maintaining higher protein diets is proving true.

**Low oil prices are a double-edged sword for agriculture.**

Certainly lower prices should be a benefit to input costs as agriculture is an energy intensive industry. Conversely, we have become a large energy producer ourselves over the last decade and approximately 40% of our corn goes to ethanol production. With current low competing gas prices, ethanol producers are nearing break-even levels, even with very low prices for their main raw materials, corn and natural gas. We have seen strong usage of corn by the ethanol industry to this point, but worry whether this can continue if we would see a jump in corn prices or a further decline in oil prices.

## Weather Talk

Weather is always a consideration as we make plans for the new growing season. The first weather to look at is the current South American growing season, which is moving towards completion. While there were some areas of concern earlier in the winter, currently the weather in most areas is favorable, and estimates are for soybean production near last year's record levels. Corn production is forecast to be a little lower due to reduced acres.

**El Niño has been a staple in the news this winter.** This El Niño event was record strong but is starting to fade. The question is whether it will move towards neutral at a slow pace or transition

quickly to La Niña. Historically, El Niño or neutral conditions have been more favorable for Midwest crop production, while La Niña phases are known for more weather extremes and an increased likelihood of hot and dry during our growing season. Current forecasts give the odds of a La Niña forming during the June-July-August period at about 20%. These forecasts are updated monthly, and we will be watching the trends closely. We will enter the 2016 growing season with adequate soil moisture throughout the Corn Belt, giving some margin of reserves if dry conditions develop in the summer. A concern locally is excess moisture. Late November and December were near record wet and soil in much of the area is saturated. In addition we have had a good amount of wet snow over the last month. We may be looking at planting delays with anything other than a drier than normal April and May.

## Low Grain Prices Cause Concerns

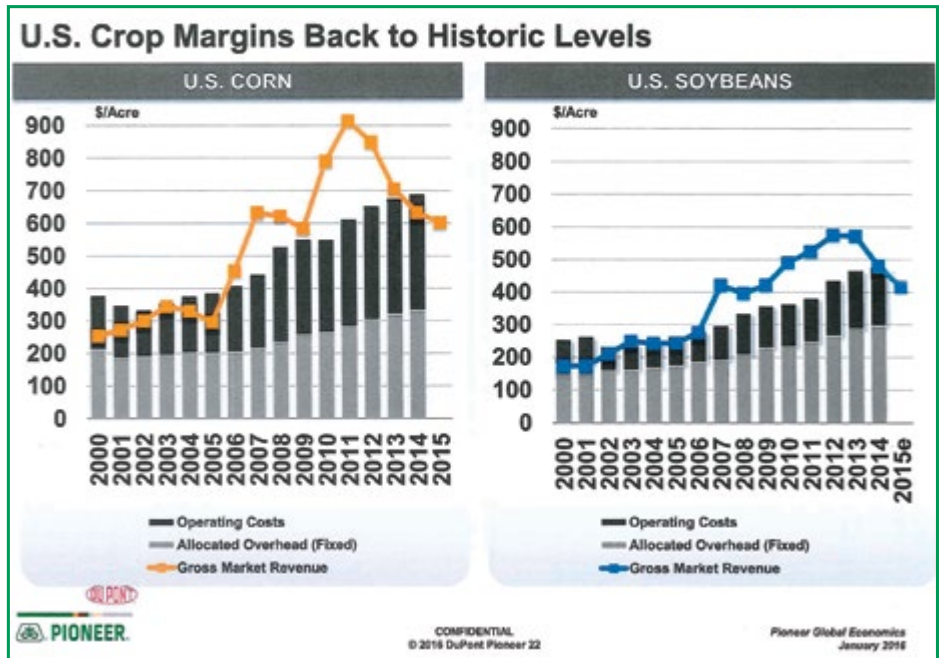
Current cash grain prices are near \$3.30 per bushel for corn and \$8.20 per bushel for soybeans. This is near the middle of the range they have been in since mid-July. New-crop 2016 grain bids are near these levels as well. There is a large amount of unpriced 2015 grain in the country and any improvement in prices is followed by a quick uptick in farmer selling. We look for this trend to continue into spring, keeping a lid on prices.

What will influence new crop prices? Acres and yields. On acres, we can expect a small reduction, as low prices will remove some marginal land from production. Acres of corn and soybeans will not drop as much as low prices should dictate. Prices for alternate crops such as wheat, cotton, rice, and sorghum are all down, eliminating the need for competition for acres this year. Yields will of course be determined largely by weather.

There is anxiety that a return to more normal yields coupled with low prices does not bode well for 2016. Most operators are well-situated from the good incomes of recent years, but will likely be operating in the red and eroding equity given the current outlook for 2016. We have seen this translated into pressure on cash rent levels and increased focus on input cost pricing.

## Summary

In seminars we have attended this winter, we have been often reminded that agriculture is a cyclical business, with every era of good profits followed by a reversion to more normal profit levels as farmers ramp up production to capture those good prices. The laws of economics have not been repealed, and we are currently in the midst of a lower period. Certainly living through the price spike of 2010-2013 was enjoyable, but those prices were not sustainable for the long run and adjustment was due. Likewise, prices below cost of production are not sustainable for the long run, although the down periods tend to last longer than the up. Low prices continue to build demand, as will continued growth of the world's population and middle class consumers. **A modest retracement of yields towards trend will eventually improve price outlook.** In the meantime, it will be important to work at managing margins. We are beginning to see lower prices for fertilizer and seed, which will help. Low interest rates and fuel



costs are also a plus. As always, yield per acre drives profits, and the most efficient producers will be the ones able to reap the benefits as we cycle higher again.

## Update on Landowner Issues in Iowa

by: Kent Smith, AFM



### Dakota Access Pipeline

The final decision by the Iowa Utilities Board whether to approve the permit for Dakota Access Pipeline should be in March. They will likely be granted the ability to use eminent domain to secure the balance of the land needed for the project at the same time. As of this writing Dakota Access claims to have 87% of the easements signed voluntarily.

Major concerns are liability if a spill were to occur, restoration of the land once construction is completed, and effects on the tile drainage on the farm with the pipeline interfering with grade of tile being altered. Most of these concerns have been addressed.

### Des Moines Water Works Lawsuit

Federal Court in Sioux City heard the first round of the lawsuit. A few points were thrown out with the rest sent to Iowa Supreme Court to decide. This lawsuit is likely several years from reaching an end.

Bill Stowe, CEO of the Des Moines Water Works, seems to have no intent to settle the matter. He wants Iowa farmers to pay for a new de-nitrification plant for Des Moines Water Works. Farmers are voluntarily making additional efforts to reduce runoff and keep nutrients on the farms.

Iowa State University's soil scientist Michael J. Castellano stated in a seminar at the 2015 Iowa Farm Bureau annual meeting in Des Moines that it is a myth that nitrate problems in Iowa waterways are primarily caused by farmers' mismanagement of fertilizers. Natural loss of nitrates is really the main thing that is causing us to lose nutrients into our waterways. Nitrogen fertilizer

applications have little to do with it. The mismatch of timing of when the nutrient is naturally released and when the crops' roots can take it up often leads to the nitrogen loss into the water.

Currently ag drainage and Drainage Districts are exempt from permitting since you cannot identify the exact spot on a farm or in a Drainage District that nitrate enters into the tile system – "non-point source." Permitting is required for a factory as it is considered "point source" since there is one distinct source of discharge. If Des Moines Water Works is successful in requiring permits for all tile discharge, it will take a lot more manpower for Iowa DNR to issue permits. The Iowa legislature is reluctant to push additional regulations but is supportive of programs to help landowners improve water quality.

### Waters of the U.S.

The EPA ruling had an injunction filed against it regarding changes in the rules of the Waters of the U.S. These changes will be tied up in court for a number of years also. It may be time to complete additional tile projects or get good outlets established for a tile system before regulations are established.

### Rock Island Clean Line

It appears that opposition to the transmission line was strong enough to put the project on hold indefinitely. Wind farms in northwest Iowa, especially O'Brien County, have found other transmission lines to transfer electricity out of Northwest Iowa.



# Farm Drainage Tile

by: Chad Husman, AFM



Drainage, whether natural or artificial, is one of the biggest factors that determines a farm's yield potential, and most of the time it can be improved with tile. While it may seem counterproductive to drain subsoil water during a dry year, tiling removes only excess water not available to plants. Benefits of tile drainage include:

- More consistent yields
- Earlier planting with better plant stand
- Improved harvesting conditions
- Fewer plant diseases
- Less soil compaction
- Increased value of land, both in basis and market value
- Can be depreciated or expensed (under certain lease types)

Drainage tile has a long history of improving production on farms across the Midwest, but environmental concerns have followed nearly as long. Recent issues like the Des Moines Water Works lawsuit and the EPA ruling on Waters of the U.S have the potential to change the way we use drainage tile in the future. In order to understand these current issues and the stakes involved, it's important to understand the history of farm drainage tile as well as current information.

## History

Without tile large portions of Illinois, Ohio, Indiana, Minnesota, Iowa, and Missouri would be swampland unfit to grow crop consistently. It's hard to imagine, but parts of north-central and northwest Iowa would not be the highly valuable farm ground we appreciate today without tile, and in fact many farms would be under water for a portion of each year. Midwest farms started digging clay and concrete tile in by hand during the early 1900's to a depth of 3 to 5 feet. Tile sections were placed together, and water seeped through the joints. Modern plastic tile showed up in the 1960's. The main advantages of perforated plastic tile over clay and concrete are low weight, flexibility, and efficient installation with modern equipment.

Federal and local government support for Drainage Districts, along with improvements in drainage technology accelerated the use of tile. Government programs started providing financial assistance in the 1930's to maintain and expand drainage systems. Drainage systems were coordinated among land owners in districts to work together on outlets. About 3,000 Drainage Districts are active in the state.

Starting in the 1970's and 1980's the federal government discouraged further draining of wetlands. The Swampbuster Act of 1985 made it illegal to drain land that has been determined a wetland. Today a wetland determination performed by the USDA-NRCS offices is required before tile can be installed.

## Current Tile Trends

Drainage tile itself hasn't changed much in 50 years, but the methods and technologies used to plan, layout, and install have advanced greatly. Here are a few examples:

Laser and RTK GPS equipment gives highly accurate elevation and distance information so that tile can be installed exactly in the right locations and depths.

*Today's Land Owner*

LIDAR (Light Detection And Ranging) is elevation data collected using lasers from airplanes. This data can be used with special software to calculate drainage area, design a drainage plan, and select the tile size.

Digital yield maps created from monitors and GPS on combines have helped show problem areas in fields that may need tile, and make it easier to quantify return on investment.

The use of smaller diameter tile set closer together has proven to be more effective than larger tile farther apart. Some farms benefit from "pattern tiling" where the entire farm may be tiled with a constant spacing.

Work is being done on water level control structures to regulate the amount of water released through the tile. Some of these structures also use a bioreactor, which is a buried trench filled with wood chips or corn stalks, which basically filters the tile water. Long-term maintenance of these systems may be problematic.

The future may be with combined drainage and sub-irrigation systems. The idea is, smaller tile is installed closer together than would be needed for drainage alone. Excess drainage water flows into a holding pond during wet periods, and the water is pumped back into the field when it's needed. The cost of a system like this would be a major setback.



*Aerial photo of recently pattern-tiled farm*

## Summary

New methods and technology are changing the way tile is used on farms. Some of these methods have potential to reduce the environmental impacts of drainage tile. Work is being done to control drainage by limiting, storing, or filtering it before it reaches streams or rivers. We expect this will be very expensive and possibly impractical in many situations.

Some believe governmental agencies will have more control and regulation on tiling in years to come. It's hard to predict what that could involve. If your farm is in need of tile, you may want to consider doing it before this happens.

Drainage tile has been improving soil productivity in the Midwest for over 100 years. There's no doubt the need for improving drainage will continue. In the future we will need more food from fewer acres and improved drainage is one way to meet this need.

# Grant Aschinger Awarded the Accredited Farm Manager (AFM) Designation

Grant Aschinger was awarded the Accredited Farm Manager (AFM) designation from the American Society of Farm Managers and Rural Appraisers (ASFMRA) at its annual meeting in San Antonio, Texas, October 2015.

Aschinger's A.F.M. designation demonstrates that he meets strict educational and experience requirements, has passed rigorous oral and written examinations, and maintains the highest standards of integrity, professionalism, and ethics.

Accredited Farm Managers are specially educated and experienced in agricultural management and understand efficient production and profitable marketing by focusing on procedure, analysis, critical thinking, and innovation. Farm Managers have specialized expertise in production, business, environmental issues, and government activities. In addition, an A.F.M. is directly connected to an international network of professionals and leaders in the industry.

ASMRA is the leading international organization for professionals who provide management, consultation, and appraisal services of agricultural assets. Stalcup Ag Service has a long standing involvement with the ASFMRA. All Stalcup managers are either accredited or working toward their accreditation.



*Grant Aschinger, Accredited Farm Manager*



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**Spring Newsletter 2015**

**Stalcup Ag Service Today's LAND OWNER**

Spring 2016 Volume: XXXVI No 1

**2016 Outlook** by Nathan Detert, AFM

What about the corn and soybean producer price index? It is a good indicator of the right and wrong time to plant and harvest. Low prices indicate demand and long crop cycles. A weak dollar is a double-edged sword. It is a good indicator of demand for exports, but it is also a good indicator of demand for imports. The dollar is a double-edged sword. It is a good indicator of demand for exports, but it is also a good indicator of demand for imports.

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**Check out what's new in this issue!**