Stalcup Ag Service

Today's LAND OWNER

Spring 2012 Volume XXXII No. 1

TODAY'S LAND MARKET

By Dennis Reyman

Land prices continue to be one of the most popular topics of conversation among ag circles. There is plenty to fuel the conversation.

Market Toppers

In our Spring 2011 newsletter, we noted the top sale in Sioux County was $13,950 per acre, certainly a noteworthy sale at the time and one that received a lot of press. Our Fall newsletter noted another sale in that area at $16,750 per acre – a price that was also quite an attention-getter. Shortly thereafter, however, another sale in that area hit the $20,000 mark for 73 acres. Neighborhood rivalry? Yes, but still it's an arms-length transaction. Another sale in that area brought $18,250 for 110 acres, which brought relatively little attention after the $20,000 sale had already hit the national news.

How common are these types of sale figures? Your land has to be located in a small area of Northwest Iowa where local competition will run to these price levels. Nearly identical land in other parts of the region might sell for $12-13,000 per acre. On March 6th Buena Vista County saw an all-time record sale of $13,000 per acre for 74 acres. Why? Well, for one thing, you can't feasibly haul manure 75 miles.

A good part of the competitive environment is due to livestock production. Sioux County has twice the number of cattle and hogs as the next most livestock-intense county in Iowa. Over the decades, this has produced more wealth and also the need for more land to apply manure. Large livestock operations must meet DNR-approved "manure management" plans. A century-plus of manure-enriched soils has made a very productive landscape. Sioux County has some of the best county yield averages in the state despite a county average CSR of 64.8.

Market Trends

We tracked 322 auction sales in the region in 2011. 68 sales were $10,000 per acre or more. Another 36 sales sold for $9,000 to $9,950. That leaves two-thirds of the sales at less than $9,000 per acre. Farmers remain the primary buyers, accounting for about 75% of all purchases. Sellers are mainly estates or family ownerships, sometimes as part of estate planning.

So what is the current land market? As you can see, it really varies depending on many factors but we generally say that good land will bring $9,000 to $13,000 per acre at this time. Please discuss land values with a professional before making business decisions.

Land Value Surveys

The annual Iowa State Land Value Survey is released in mid-December with values as of each November 1st. The results were dramatic but yet not surprising. Most counties increased by 32-35%. The entire state increased by 32.5%, the highest in survey history beating 31.7% in 1973. Inflation-adjusted values are also at an all-time high, beating out the 1979 level. The average value for the state was $6,708. The average value of high grade land in Northwest Iowa was $9,649 per acre.

The quarterly Federal Reserve Bank of Chicago's survey of banker's opinions also showed a 31-35% increase over the past year for our trade territory as of January 1st.

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2012?

It appeared the market was attempting to level off a bit in December and early January based on only a few sales. However, it now appears the market is moving higher although not at the blistering clip of 2011. Through March 22nd of 2011, there were 24 sales in our auction database. Through that date in 2012, we have noted at least 65 auctions scheduled to occur in the region. Considering that our 2011 database recorded $328 million in sales while 2010 was "only" $112 million, one has to wonder how much money is still available and interested in absorbing land at increasing prices. We've wondered this before and the land market has continued higher.

Other Bullish and Bearish Factors

Farm income reached a record $98 billion in 2011 led by high prices for corn, soybeans, livestock, and other commodities. 2012 is forecast to be a second-best $91.7 billion. After making a financially bloody adjustment to higher feed costs in 2008, the livestock complex has been able to enjoy profits despite the high feed costs brought along by high corn and soybean prices. For years we heard about the demand-driven market of the future, and since 2007 we've been living in that future. Will it continue? Considering the world population and the projections for improving incomes and diets, we have to think the future is bright but not without challenges.

Interest rates continue to be supportive of land values. A recent check of 15-year fixed rates was in the low 4% range. Lenders are prudent, keeping loans at $5,000 per acre or less. Even a $5,000 loan at 4.25% over 15 years is a $458 per acre payment. Overleverage does not appear to be a potential problem for the land market at this time. A downturn of the ag economy would likely affect aggressive cash renters first. And that would be a leading indicator toward possibly negative land values.

The future of the 2008-2012 USDA farm program is discussed in another article. It is an item that seems less important in these times of high prices. But when one considers the amount of money put into the farm economy since 1995 when direct payments came into effect, it has had a considerable impact, not to mention other payments such as the old LDP payments.

Aggressive acquisitions of ag production rights and facilities by some countries into other countries is something to consider. China has made considerable investments into South American agriculture and infrastructure to procure a stable source of food. Oil-rich countries are making inroads into African agriculture in the same way. Some of these countries represent basically a blank slate with serious obstacles to overcome but yet with great potential.

Overall, US agriculture remains the most stable, reliable, and resilient producer of food products in the world. We believe our region of Iowa is well-positioned to benefit from continued global demand.

The future of land values may include some choppy moments, but it appears to be on solid footing and should be poised for increasing values based on increasing revenue potential. Anything different would require a change in a 100+ year trend.

Following is a chart of sales from around the region over the past few months. These are not necessarily the highest sales in the area but attempt to show the diversity of sale prices for good land. Stalcup-brokered sales are in **bold***.

Selected Sales of Good Farmland

Date	County	Acres	CSR	$/acre	Tillable
***Nov**	**Plymouth**	**153.0**	**52.0**	**$8,800**	**95%**
***Nov**	**Buena Vista**	**58.2**	**78.3**	**$8,550**	**94%**
***Nov**	**Buena Vista**	**78.8**	**69.7**	**$7,600**	**88%**
Nov	Pocahontas	80.0	72.1	$8,550	100%
Nov	Crawford	151.7	72.3	$6,900	80%
Nov	O'Brien	80.0	77.9	$12,500	98%
Nov	Kossuth	200.0	74.1	$8,500	94%
Nov	Woodbury	125.0	59.1	$9,350	94%
Nov	Sioux	157.0	69.7	$9,800	89%
Nov	Osceola	157.0	55.7	$7,150	93%
Nov	Clay	160.0	76.3	$10,300	98%
Nov	Palo Alto	80.0	65.0	$7,405	97%
Nov	Emmet	160.0	63.9	$7,025	90%
Nov	Sac	145.0	78.7	$10,950	98%
***Dec**	**Cherokee**	**160.0**	**59.6**	**$9,350**	**94%**
***Dec**	**Ida**	**147.5**	**69.1**	**$12,542**	**97%**
Dec	Sioux	73.4	69.6	$20,000	99%
Dec	Osceola	40.0	65.1	$9,000	98%
Dec	O'Brien	60.0	69.9	$11,300	98%
Dec	Woodbury	80.0	55.7	$8,600	97%
Dec	Monona	235.0	57.8	$6,600	100%
Dec	Monona	177.0	42.0	$3,700	99%
Jan	Greene	160.0	71.8	$7,250	93%
Jan	Calhoun	120.0	76.3	$6,200	91%
Jan	Kossuth	80.0	73.6	$11,100	95%
Jan	Greene	80.0	82.4	$9,850	95%
Jan	Carroll	103.8	64.9	$7,500	93%
Feb	Ida	130.2	57.8	$9,000	91%
Feb	Plymouth	155.4	60.9	$10,850	98%
Feb	Sac	160.0	76.6	$7,725	79%
Feb	Lyon	160.0	62.2	$13,100	99%
Mar	Buena Vista	74.7	77.4	$13,000	97%

Upcoming Stalcup-brokered Auctions:

Date	County	Acres	CSR	Tillable
April 12	**O'Brien**	**80**	**72.0**	**92.5%**
June 6	**Kossuth**	**80**	**82.0**	**96.1%**

Log on to our website at **www.stalcupag.com** for listings and upcoming auctions.

USDA LONG-RANGE OUTLOOK

By Terry Argotsinger

We are often asked to dust off our crystal ball and project what farmland prices will do in the future. Our response is often, "Tell us what the revenue produced from that farmland will be and we can give a better idea." One way to get an idea of these numbers is provided by the USDA through their annual Outlook Conference. This year's report, released in February, makes projections through 2021. While admittedly, making projections this far out is about as safe as predicting the weather for next June, the report does provide some interesting reading. Some of the highlights:

- 2011 net farm income rose to record levels due to a run-up in prices. Net income is expected to fall in 2012-2015 as expenses and crop production rise in response to good income generated in 2010-2011. The trend is then higher from 2016-2021.
- Bio-fuel growth will slow. The elimination of the 45¢ per gallon blender's tax credit and the 54¢ per gallon tariff on imported ethanol at the end of 2011, along with a reduction in domestic gas consumption, will limit growth. Bio-fuel will still remain an important corn demand source, using an estimated 36% of production through the next decade.
- Developing countries become increasingly important to agricultural exports. Population increases in these countries along with increasing urbanization and expansion of a middle class of younger consumers bodes well for meat demand, which is projected to increase more than 2% annually.
- Corn and soybean returns are expected to stay strong as a result of the increased global demand for meat and steady demand for bio-fuels.

These projections are made using several assumptions; the main ones being global growth averaging 3.4%, underpinned by high growth rates in China, India, and other developing countries, slowly increasing oil prices and a continued weakening of the dollar. Any shocks to the system, similar to the 2008 economic crisis or the Asian meltdown of the late 1990's could dramatically change these outlooks. However, the macro trends look favorable for agriculture, and we feel that Northwest Iowa, in the center of one of the most intense livestock and ethanol production areas in the world, is especially well situated to capitalize on these trends.

WHAT'S AHEAD FOR 2012?

By Nathan Deters

The only thing certain in farming is uncertainty. 2012 will be no different. The world and U.S. economy, politics, and of course, weather, all play ever-changing roles in what we receive for our agriculture production. For 2012, the mix of these variables makes for a challenging scenario as grain marketing plans evolve.

The economy makes Page 1 news most days. The European situation seems to have calmed with the recent Greek bailout. Hopefully this will bring stability to the world economy, and especially China, whose agricultural imports have become increasingly important to the U.S.

The U.S. economy seems to be making a slow recovery, but a continuation of this trend will be challenged if the current high oil prices continue to increase as forecast. High oil and gas prices limit consumer discretionary income. In the past we have seen meat purchases decline during these periods. The value of the dollar is an important factor in the competiveness of our agricultural exports. The quantitative easing policy adopted by the Federal Reserve to help finance our rapidly expanding deficit continues to weaken the dollar and consequently help our exports. With gridlock seemingly entrenched in Washington at least through the November elections, it is unlikely that any meaningful steps to deal with our deficit problems are at hand, making it likely the dollar will stay in a weakened state.

Weather is the main wild card in grain prices. Some of the current weather issues we are looking at:

- Very low subsoil moisture levels in the Northwest Cornbelt as a result of moisture deficits stretching back to last July. February 2012 will be the first month since then with above average precipitation, but it will take more above average months to correct subsoil deficits.

- Very wet conditions in the Eastern Cornbelt. Harvest in some places did not finish until January. With La Nina still in place, this area is likely to receive above average spring moisture as well, which could slow planting progress.
- An intact, but weakening La Nina (below normal sea surface temperatures in the equatorial Pacific). Climatologists tell us that if the current La Nina dissipates by early summer, we will have weather conducive to a national corn yield over 160 bushels per acre. With expected near record corn acres this year the potential is set for prices well under $5.00 per bushel. We are a long way from harvest however, and Mother Nature always seems to make things interesting sometime during the growing season.

2012 USDA FARM PROGRAM

By Rex Wilcox

The Food, Conservation, & Energy Act of 2008 (aka, the "Farm"Bill) is set to expire on September 30, 2012. Farm programs have existed since the New Deal of the early '30's. The history of the current program actually dates back to the 1996 program which de-coupled payments from actual planted acres. At that time, direct payments were created which were compliant with WTO rules (World Trade Organization) because they were not considered "market-distorting" (not tied to actual yields or prices). Loan Deficiency Payments (LDP) were also created at that time. The 2002 farm program created counter-cyclical (CC) payments.

LDP's and CC payments occurred only if prices were low enough to trigger payments and have been obsolete since crop prices ratcheted higher beginning in 2006. Direct payments are a set annual payment. These were all helpful at that time when corn traded around \$2.00 and beans generally between \$5.00 and \$6.00 per bushel. In fact, these payments were referred to as "transition" payments. The idea was to transition production agriculture away from annual subsidies. Other features of the current farm program include a disaster relief program called SURE, along with the Conservation Reserve Program (CRP) which was created with the 1985 farm program.

Now, 17 years later and due to our Federal budget situation, it is likely we will indeed transition away from such payments. Most ag commodity groups, as spokesmen for their producer members, favor dropping or scaling back annual direct payments along with LDP and CC payments. Instead, ag producers favor the existing crop insurance program. Particularly in Midwestern corn and soybean country, crop insurance provides an adequate safety net based on actual revenue potential. Producers have the flexibility to participate or not, and to choose which level and type of coverage they prefer. Premiums are subsidized by the Federal government as part of the farm program.

Crop insurance works well for those of us in traditional corn and soybean country here in the upper Midwest; however, premium calculations have been changed to more accurately reflect risk. That is good for us; however, those in less productive and higher risk areas of the South and Great Plains are less enthusiastic. Yield fluctuations in those regions affect cost and revenue coverage. Coverage for some crops doesn't work well under the existing insurance program. Work is ongoing to make crop insurance work around the country for all crops.

Conservation programs are a popular feature of the farm program. CRP has been a very popular long-time program with more than 30 million acres enrolled.

CRP contracts are generally for 10-15 years at a set rental rate that does not adjust for economic changes. 5-10 year-old rental rates do not look very attractive compared to current crop income. CRP will stay in the program but most likely with fewer allowable acres which are more targeted to environmentally sensitive areas. Other conservation programs like CSP (Conservation Security Program) have had limited success, partially due to limited funding. It is questionable whether some of these programs will be retained.

It is important to remember that the most expensive part of the "farm program" is nutritional spending. Nutrition assistance programs (school lunch program, SNAP, WIC, etc.) account for 74% of total 2012 "farm bill" spending. It will be politically difficult to reduce this amount very much. Conservation, Forest Service, commodity program payments, and crop insurance account for a total of 20%. The total USDA budget for 2012 is \$145 billion. Of that, \$117 billion is mandatory spending with \$28 billion of discretionary spending. (See "USDA FY 2012 Budget Summary and Annual Performance Plan" on-line for details). Total outlays for 2012 are scheduled to be \$7 billion less than 2011.