



Summer 2020 Volume XLI No 2

Today's Land Market

The land market normally quiets down in April and May. This year, with the national coronavirus shutdown during that time, the land market in Northwest Iowa was as quiet as it's been in years. Activity normally begins ticking upward in late June and that is the case this year. More properties are currently listed for sale as compared to going the auction route. Listings make sense in many circumstances during a time of great uncertainty. The seller retains maximum control and does not risk an undesirable outcome at auction. However, high-quality farms still fit the auction route in most cases.

Sales that have occurred have mostly held up to earlier expectations. We've noticed that many sales are smaller in size and require a comparatively low amount of total dollars. Of the sales we've tracked from early March through mid-June, only 18% exceeded \$1 million purchase price and only two over \$1.15 million. The average dollar total on those sales under \$1 million was just under \$600,000. That's a digestible amount for more potential buyers and is a factor supporting current sale outcomes.

A million dollars is certainly a lot of money but when buying farmland, a million dollars is not out of the ordinary. The 2019 ISU Land Value Survey placed the average acre in Iowa at \$7,432. That would make 160 acres worth almost \$1.2 million. As you drive down the road past average Iowa farmland at 60 mph, you're driving past about \$4.75



Dennis Reyman, AFM, ARA

million in land value each minute. Considering last year's ISU study showing over 80% of Iowa farmland being debt-free, you can imagine the equity that is available to support some of these purchases.

That is not to say that each sale offering will produce a rash of bidders. Probably only a few will be involved in the bidding. Many factors play into the bidding decision. Aside from the normal factors of location, soil quality, farmability, etc., a potential bidder may refrain from bidding to "keep his powder dry" for that farm next door that he's rented for 30 years which may become available to purchase at any time. Or, he may have just purchased that farm and is currently out of the market. There are many who own land debt-free but are just not going to be potential buyers of more land. The neighbor lady who bought her farm in 1965 is probably not a candidate (although some are!). The debt-free farmer nearing retirement with no heirs may be very comfortable and not desire more land. The livestock feeder who just restructured his loans due to feeding losses may be out of the land-buying game for a while. Or, that successful farmer down the road with a son entering farming and is well-prepared for a land purchase may be in the bidding for whatever it takes. Are investors a driving force

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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.

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Today's Land Owner

NW IA Progress Report

Chad Husman, AFM



The 2020 planting season was a welcome change to less stressful conditions after the struggles of 2018 and 2019. Farmers in Iowa were nearly done planting corn and soybeans by the first week in May.

We have never had so much planting completed in April (especially soybeans). Nationally, planting progress was also ahead of schedule. However, there were problems in parts of the country particularly in North Dakota and parts of the Eastern Corn belt.

Early planting can be good or bad depending on the circumstances. If a uniform crop stand is reached early, it's a great opportunity to gain more energy from the sun (photosynthesis) which should result in higher yields. It essentially lengthens the growing season, allows the crops to reach reproductive stages sooner, and in turn extends the potential grain fill time. The early start may also help push the harvest timeline ahead and reduce corn moisture levels.

After planting, cool conditions and an early-May frost slowed plant emergence and initial growth. By late May warmer weather returned and the crops responded well. June started off very warm with temperatures generally remaining above average since then. Most of our region has had enough rain to avoid crop stress, but parts of Western Iowa, Nebraska, Kansas, and Minnesota have been too dry. If hot, dry conditions are prevalent in July and August, the crop size will be reduced.

Crop conditions are currently good to excellent in our territory. Like always, there are problems if you look hard enough, but the potential is there for a very good crop this year. According to USDA's Crop Progress Report as of June 22, the overall U.S. corn crop is rated 72% good to excellent and soybeans are 70% good to excellent. That's a little better than the 5-year average on both crops. June crop ratings don't always correlate with final yield - July and August weather will have a huge impact on the crops (good or bad).



These NW Iowa crops are rapidly growing and looking pretty good.

Covid Economics

2020 seemed to start out with lots of promise. Corn was floating along in the upper \$3's and soybeans in the mid \$8's (local cash bids). The China trade deal was to be signed in mid-January, which would surely push beans over \$9.00. Demand was strong for corn. As we approached the normal "selling season" for grain, which is March-June, the markets seemed poised for at least some sort of rally that would push corn over \$4.00 cash and beans over \$9.00. Sales would be finished up at prices we'd consider pretty good compared to the past five years.

Covid-19 and Grain Prices

Then Covid-19 hit the US full force, at least in New York. There's not much to the US past New York, some figure. The word went out that "we're shutting down the economy". What? Did we hear that right? What does that mean? We never "shut down" the economy! That's not what America does. It seemed to be too much to comprehend at the time. But shut it down, they did. Gasoline and therefore ethanol consumption dropped off the cliff. A number of ethanol plants shut down completely, while those that stayed online cut production significantly.

Local cash corn dropped from the \$3.70 area in early March to a low of \$2.64 on April 28th, even \$2.52 at one ethanol plant that obviously didn't need more corn at the time. Part of this was due to a drastic change in basis, which is the difference between the local cash bid and the Chicago CME price. As demand shut down, basis widened by at least 30 cents per bushel. Soybeans had dropped from the upper \$8's in early January to the lower \$8's by late January, a good example of "buy the rumor, sell the fact" on the China deal, at least for now. Cash soybeans fell to \$7.69 per bushel by mid-March.

As the initial shock and shut-down has run its course while we figure out how to move forward in the Covid world, corn and soybeans prices have recovered somewhat and have recently stabilized in the \$2.90 to \$3.00 range for corn with beans in the lower \$8's. Gasoline and ethanol consumption have improved weekly which is supportive for stable corn prices.

Dennis Reyman, AFM, ARA



Oil Price War

Let's not forget that corn was victim of a true double-whammy. Just as Covid was nailing the economy, the Saudis and Russians decided to enter into an oil price war. As oil price goes, so goes corn prices. West Texas Intermediate crude oil had traded mostly from \$40 to \$60 per barrel for the past five years, with a few periods higher or lower than that. However, pressure from the Saudi-Russia spat pushed WTI oil from \$45/barrel on March 5th to \$28 on March 9th and ultimately to \$13/barrel by late April. And who can forget April 13th when the nearby contract for oil went to minus \$37.63 per barrel. As in, you take my oil and I'll give you \$37.63 to take it. The nearby contract was closing the next day. Oil traders did not want to "take delivery" and incur storage costs, so were willing to make such deals on that day. As one energy analyst put it, "The demand shock was so massive that it overwhelmed anything that people could have expected". WTI oil has since stabilized and marched steadily back to the \$40/barrel area, currently about \$36. While cheap gas feels good, cheap corn almost always accompanies it.

Livestock Impact

Ethanol and exports garner a lot of attention in corn and soybean price discussions, but the biggest consumer is domestic livestock, mainly cattle, hogs, chickens, and turkeys. Fish is a growing feed segment as well. The June production estimate from USDA predicts nearly 16 billion bushels of corn will be produced this year, and just over 6 billion bushels will be consumed as feed. That's about 38% of the crop.

By comparison, ethanol will consume about 5.2 billion bushels or 33%, and exports are estimated at 2.15 billion or 13%. Another 1.4 billion bushels will go for other food, seed, or industrial uses. The ethanol process leaves a high-quality byproduct called distillers grains, which is in demand for livestock feed rations and competes directly with soybean meal.

Livestock, being a big consumer of corn, DDG's, and soybean meal, is an integral part of demand and

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Today's Land Market

in your neighborhood? Or is it nearly always a farmer making the purchases in your area? Is there one “big dog” who dominates your market? Since an auction requires bidding competition, he may actually suppress the market if others figure they can't compete. These are all important neighborhood considerations when considering the auction-or-listing decision.

What are the Financial Considerations?

Let's say the farm is 80 acres x \$7,500 or \$600,000. A 33% down payment would require a \$200,000 down payment and put \$400,000 on the mortgage. Say 4% interest over 20 years makes a land payment of nearly \$36,000 or \$450 per acre for 20 years. As they say, that won't pay for itself. Farmland rarely does at the time of purchase. That's why the requirement for a large down payment or placement of other equity against the purchase exists, which provides greater security for the lender. Veteran land buyers usually say that a land purchase will grow into itself. After all, part of property value is the **expectation of future benefits**. Since corn yields grow at nearly 2% per year on average thanks to improving genetics, a farm producing 225 bushels per acre today should average 250 bushels per acre in 10 years. However, the way corn yields have been going lately, we're gaining higher yields at a faster rate than that. More intensive management practices, improving equipment, and protective seed traits are all adding to the yield curve which feeds into the bottom line.

A low supply of farms on the market, very low interest rates, government price supports, and strong yields have been supportive of local land values. We've discussed before that 75% of annual land sale activity normally occurs in the 2nd half of the year. Knowledge of local markets will play even more of a factor in generating successful land sales during the balance of 2020.

If you're considering the sale or purchase of farmland in the northwestern parts of Iowa, give Stalcup Ag Service a call. Following is a list of land auction results from Today's Land Owner

March to mid-June. Many counties are not represented this time due to lack of auction activity.

Selected Sales of Good Farmland

Date	Acres	County	\$/Acre	CSR2	%/tillable
March	75.90	O'Brien	\$11,000	98.0	98%
March	156.00	Clay	\$6,700	68.7	94%
March	79.76	Monona	\$6,650	61.5	97%
March	115.53	Ida	\$9,650	87.4	95%
March	80.00	Dickinson	\$9,550	93.8	99%
March	40.00	Pocahontas	\$8,850	87.0	93%
March	66.86	Sioux	\$12,800	85.5	94%
April	155.00	Crawford	\$7,350	72.7	89%
April	80.0	Sioux	\$12,800	85.5	94%
April	80.41	Dickinson	\$9,450	88.5	99%
April	158.66	Emmet	\$5,000	62.7	95%
April	129.66	Palo Alto	\$6,500	78.6	96%
April	110.67	Plymouth	\$9,600	86.2	98%
April	27.81	O'Brien	\$12,700	96.1	96%
June	80.00	Clay	\$11,300	94.1	99%
June	146.00	Buena Vista	\$8,000	92.0	96%

Current Stalcup Listings:

Palo Alto County - 168 ac m/l

Described as part of the E1/2 NE1/4 of Sec 21, part of the NW1/4 of Sec 22 & part of the N1/2 SW1/4 of Sec 22. All in Booth Township, south of the drainage ditch. Contact Kent Smith (712) 299-2091.

See our website for updated sales results



A drone shot of a farm in Sac County.

Find up-to-date Crop Progress Reports, Sale results, listings and more at Stalcupag.com or like us on Facebook 

Covid Economics

therefore a big factor in the price of corn and soybeans. As Covid spread across the country, it naturally found its way into the meatpacking industry. Very close working conditions and other factors combined to create an environment where Covid was able to spread quickly. As packers were forced to either shut down or slow operations, cattle and hogs that were ready for slaughter were forced to stand pat. That is easier said than done. Livestock production, especially hogs and poultry, run on the “just in time” principal where little down time is allowed between groups.

A hog farrowing building may be scheduled to farrow a group of sows every 21 days. They’re moved out and another group of sows is moved in to keep the farrowing facility full and cost-efficient. The baby pigs are weaned on a schedule, moved to a nursery building, then moved on to a finisher building. Each group is fed and managed to achieve load-out on a given date. Shackle space is reserved at the packing plant. Any interruption to that schedule creates a cascade of space and inventory problems. When Covid started shutting or slowing the packing plants, “fat” hogs were put on a slow-down ration. Hogs exceeding 350 pounds became too large to efficiently fit packer’s facilities, and their cuts of meat were too large for existing packaging. In some cases, fat hogs and baby pigs had to be euthanized for lack of a place to go. Sows were aborted to avoid putting more pigs into the overloaded system.

Likewise, cattle packers were forced to slow capacity, which forced cattle feeders to revert to “maintenance” feed rations. Cattle have a little more leeway in growth management than hogs, but when an animal has been on its finishing ration, it’s kind of like an airplane taking off down the runway. Pulling back is not a great option. At the same time, packers have been making record profits while the cattle feeder suffers losses and consumers have experienced higher meat prices in the store. Local meat locker plants have been busier than ever and are scheduled well into 2021. Dairy producers have had to dump milk before and that occurred this time as well.

It has been said that if all meatpacking shut down, you would notice the impact in your grocery store the very next day. Just think of what an intricate system this country has built up.

Caring for livestock is a challenging and difficult occupation, but those who do it love it. Those who do not, cannot stay in it for an entire career. Having to euthanize animals, dump milk, or manage animals in a less than optimal way is a gut-wrenching heartache. All jobs have challenges, but this is the kind of thing that can induce nightmares.

This will all affect corn and bean meal consumption into the future. It’s hard to speculate how much the impact will be, but to be sure there will be some. USDA’s monthly Supply/Demand reports provide the best guidance. These estimates also include projections of average prices. For the upcoming crop (2020/21), the average price of corn is estimated to be \$3.20 and soybeans \$8.20 per bushel. A large crop could push prices considerably lower.

Congressional Help

“Never let a good crisis go to waste” said one politician. Certainly, this has been a crisis that demanded fast Congressional action. A number of expansive and expensive programs have been put in place in the past several months. The Payment Protection Program (PPP) broadly supported businesses to help meet payrolls. A package called CFAP (Coronavirus Food Assistance Program) is providing funding relief for many aspects of production agriculture.

For corn and soybeans, the CFAP basically pays on 2019 crop inventory which was unsold as of January 15th, up to 50% of total 2019 production. Farms that were sold out on 2019 crop inventory are not eligible. The payments come from two sources: the Commodity Credit Corporation (CCC) and the Coronavirus Aid, Relief, and Economic Security Act (CARES). For corn, the payment rate is 50% of 32 cents per bushel from CARES and 50% of 35 cents from CCC.

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Covid Economics

Beans receive 50% of 45 cents from CARES and 50% of 50 cents from CCC. CCC/CARES payments have been sent within several weeks of application by most county FSA offices. Livestock is included in this revenue support program, which marks the first time for beef cattle and the second for hog producers. Dairy has had price support programs for years.

Other Forms of Revenue Assistance

The standard farm program (ARC/PLC) may provide some assistance. ARC is Agricultural Risk Coverage while PLC is Price Loss Coverage. ARC is a revenue program (yield x price) while PLC provides price only. Most corn acres enrolled in PLC while soybeans indicated more of a split decision whether ARC or PLC had a greater chance of paying out. The price discovery period ends August 31st for the preceding crop year. Under PLC, if corn price averages less than \$3.70, or soybeans less than \$8.40, a payment will be made in October. Under ARC, a price/yield formula is calculated on a county basis.

Crop insurance is another standard tool that may provide some income support. The Spring price of corn and soybeans was established in February, before the Covid impact began. The corn price averaged \$3.88 per bushel on the December CME contract, while soybeans averaged \$9.17 per bushel on the November contract. Your 10-year trend-adjusted yields are multiplied times the price times your level of insured coverage. For example, \$3.88 x 200 bushels per acre x 80% coverage level would provide about \$660 per acre in corn revenue coverage.

Now let's say the October price average falls to \$3.00 per bushel and you harvest 200 bushels per acre. Your revenue calculation is \$600 or \$60 less than your insured coverage; hence, a \$60 per acre insurance payment. If your actual selling price is a little better than that, say \$3.25, you've got $200 \times \$3.25 = \$650 + \$60 = \710 gross income. Of course, these days we're not that excited about 200 bushels per acre but it makes for easy math.

A 55 bushel bean yield x \$8.40 x 80% would provide about \$370 per acre in revenue coverage. Those are

certainly not the gross income levels anyone strives for, but at least it provides a revenue floor. A Fall Price Option also exists which can provide for higher revenue coverage should prices rise. In the drought year of 2012, the Fall Price Option paid very well.

Summary

Society finds it easier to criticize than to compliment our elected government officials, but in this case they quickly enacted programs that have aided and supported the economy. While far from perfect, these programs have infused cash into the countryside in a manner that has been more timely and efficient from inception to delivery than we normally expect. It has made a difference. Perhaps a thank-you is in order.

The impact of the economic shut-down, our ongoing battle with the pandemic, and the global impact on supply and demand for our crops cannot be truly understood at this time. Just when we thought the supply/demand curve was beginning to bend favorably our way, we have this truly historic "black swan" event to deal with. It is possible that buyers' desire to hold larger inventories will result. Whatever the outcome, our consumption of ag economic analysis continues to rise!

IOWA LEASE TERMINATION DEADLINE IS PRIOR TO SEPTEMBER 1

The Iowa lease law requires notification from either party, which could be the landowner or farm tenant, in writing prior to September 1 if changes are to be made to your current lease for the upcoming 2021 lease year which is March 1, 2021 to February 28, 2022. **You do not have to have a new lease in place prior to September 1, just notification by either party if they want to change lease terms.**

It does not matter if your lease is verbal or written. Proper notification must be in writing from either party prior to September 1. Written termination as provided by Iowa Code must be served via certified mail or acknowledged by the tenant's signature prior to September 1.

If you need assistance terminating your lease, contact one of Stalcup's farm managers.



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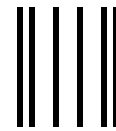


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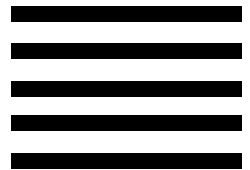


Luke Pearson

The Stalcup Ag Service Management Team



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We hope you enjoy our Today's Land Owner!

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Summer Newsletter 2020



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