

# TODAY'S LAND OWNER

## ETHANOL – CULPRIT OF HIGH FOOD COSTS?

By Nathan Deters



There is no doubt that the biggest news in agriculture over the last few years has been the rapid increase in ethanol production. Revolutionary might not be too strong of a word for the changes we have witnessed - a rapid run-up first in corn prices followed by wheat and soybeans, the largest acreage planted to corn since World War II, and an increase in land prices and rental rates fueled by improved earnings.

While these have been welcome changes to those involved in crop production, the news has not been all positive, as any recent perusal of the popular press will bear out. Corn-based ethanol has come under attack from consumer groups claiming food prices have shot up because of higher corn prices. This may be a good time to look at some of the facts that refute these arguments.

### How Is Our Corn Being Used?

The largest use of the United States corn crop is as the primary feedstuff for meat, milk, and egg production, with just over 50% of the crop consumed by these commodities. Ethanol is the next highest use, just over 20% (although about one-third of this is re-usable as high-quality livestock feed), followed by exports and food use. Ethanol is expected to use over 30% of the corn crop within the next few years before leveling off. This level of usage equates to roughly 14 billion gallons of ethanol, which is about 10% of current gasoline consumption in the United States. Plants currently in production, under construction, and in planning will be able to produce this amount of ethanol.

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## NORTHWEST IOWA REAL ESTATE UPDATE

By Dennis Reyman



The value of farmland in the region continues strongly upward. Demand is currently keeping pace with a greater supply of farms being offered for sale. The latest Realtor's Land Institute survey as of September 1<sup>st</sup> indicates roughly a 20% increase for Northwestern Iowa over the past year. Our database of sales results indicates a 20% increase since the first of the year, after eliminating several extremely high sales. Look for the highly-regarded Iowa State Land Value Survey in mid-December.

The market continues to respond to high grain prices, both now and in future years. As of this writing, some ethanol plants are posting cash corn bids of approximately \$3.80 per bushel for fall delivery in 2008, 2009, and 2010. Soybean bids are \$8.50 to \$9.00 for 2008 and 2009. One of the factors of real estate value is anticipation of future earnings, and this is one of the rare times that one can take advantage of such historic prices so far into the future.

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As a reference, cash bids at one Northwest Iowa elevator averaged \$1.88 corn and \$5.33 beans from October 1, 1998 to October 1, 2006. This does not include price support payments, which kick in when prices are low. Since October 1, 2006, this same elevator has averaged \$3.34 and \$6.88 per bushel cash bids. That average equates to another \$255 per acre gross income on 175 bushel corn and \$77 per acre on 50 bushel soybeans, or \$166 more gross dollars per acre on a farm with half corn and half beans. Production expenses are higher - significantly higher on fertilizer and seed corn, but part of this extra income is being capitalized into land prices and cash rents.

The areas of traditionally strong land values continue to lead. The important thing in evaluating your farm's value is to consider your local market and the physical features of your farm, not just the highest sales in Northwest Iowa. The majority of land buyers are farmers, and the majority of the farmer buyers will be less than ten miles from your farm. Investors are savvy and will not usually come in and overpay compared to the neighborhood. They may push if they see an undervalued area, but there are usually good reasons for land price variations from area to area.

We are often asked if the land market will break, or when the trend to higher values will stop. High earning potential from the land, relatively low interest rates, strong equity in agriculture, and strong investor interest point to land values sustaining these levels or making further advances. Since 1900 only twelve of 107 years have been "down hard". That's an 89% record of steady or higher values. A leveling off could develop if the number of buyers and sellers reach equilibrium. A strong drop in ethanol demand would have a major influence on Iowa land values. That does not seem to be in the political cards at this time. Political pressure for renewable fuels and a proposed farm bill that is similar to the 2002 bill seem to be positive political factors at this time.

Whether you are a seller, a buyer, or a holder, give our farm real estate professionals a call if you have questions about your interest in farmland.

Following are representative recent sales from our trade area. Stalcup-brokered sales are shown in bold\*.

**Selected Sales of Good Farmland**

<u>Date</u>	<u>County</u>	<u>Acres</u>	<u>CSR</u>	<u>%Tillable</u>	<u>Per Acre</u>
June	O'Brien	40	72.1	93%	\$5,220
June	Woodbury	275	47.0	95%	\$3,150
June	Cherokee	80	63.5	98%	\$5,200
June	Sac	109	76.2	98%	\$5,050
July	Carroll	65	66.0	98%	\$3,550
July	Clay	155	72.5	94%	\$4,330
July	Ida	152	51.6	96%	\$4,025
July	Osceola	80	73.4	94%	\$5,475
Aug	Harrison	97	85.6	99%	\$5,000
Aug	Ida	213	58.5	97%	\$4,320
Aug	Osceola	88	70.0	91%	\$4,450
Aug	Lyon	80	69.0	93%	\$5,900
Aug	Crawford	80	60.4	93%	\$4,640
Aug	Wright	160	75.7	97%	\$5,325
Sept	Buena Vista	150	77.0	90%	\$4,450
Sept	Greene	154	77.5	96%	\$4,650
Sept	Sioux	140	62.0	96%	\$6,175
Sept	Lyon	249	58.0	96%	\$7,000
Oct	Calhoun	60	76.3	95%	\$4,000
Oct	Pocahontas	160	80.0	92%	\$4,550
<b>Oct*</b>	<b>Sac</b>	<b>146</b>	<b>79.8</b>	<b>99%</b>	<b>\$5,500</b>
Oct	Sioux	59	69.0	95%	\$8,825
<b>Oct*</b>	<b>Palo Alto</b>	<b>80</b>	<b>67.1</b>	<b>99%</b>	<b>\$3,900</b>
<b>Oct*</b>	<b>Clay</b>	<b>80</b>	<b>75.3</b>	<b>98%</b>	<b>\$4,900</b>
<b>Oct*</b>	<b>Humboldt</b>	<b>120</b>	<b>79.6</b>	<b>98%</b>	<b>\$4,550</b>
<b>Oct*</b>	<b>Greene</b>	<b>80</b>	<b>81.0</b>	<b>95%</b>	<b>\$4,300</b>

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**Grain Marketing Meeting**

**Stalcup Ag Service will host John Roach of Roach Ag Marketing at King's Pointe Lodge in Storm Lake on December 11, 2007. The meeting will begin at 1:30 p.m. John provides us with daily marketing updates and has been successful with his grain marketing philosophy for many years. The event is free of charge and open to the public.**



**Fuel Versus Food?**

Iowa State University has done a study of how this level of ethanol production will affect food prices. Their conclusion is that a relatively minimal increase of about 1.1% will be attributed to the higher cost of corn. This will largely come from increased costs of meat, milk, and eggs as herds and flocks will be reduced due to higher costs of feed.

Why such a low impact on food prices? It is important to remember that only 19 cents of every food dollar spent by American consumers can be directly attributed to food input costs (farmer's share). This amount varies between products, with highly processed items such as cereal having a very low percentage of raw material cost, while meat and milk products have a higher percentage. Studies suggest that high corn prices have a bigger proportionate affect on these products, but even these gains will be relatively minor. As an example, the increase in the price per pound for pork chops attributable to higher corn prices is estimated at approximately 40 cents per pound, and milk would likely see about a 50 cent per gallon increase. Meat, milk, and eggs comprise only about 17% of the average consumer's spending on food items.

A few months ago ethanol was blamed for a spike in the price of movie popcorn. The farmer's share of a \$5.00 bucket of popcorn was a little over 1 cent. Even though popcorn production contracts increased 65% to maintain acres in 2007, the farmer's share of that movie-house popcorn is about 2 cents.

So why are food costs higher now? Look to energy prices. Processing, shipping, and storing are all directly affected by energy prices, which have rapidly increased recently. Increased energy prices have been shown to have **twice** the affect on food prices as an equivalent increase in corn prices.

**Summary**

Corn-based ethanol will not be a total solution to our energy future, but it will play an important part as we begin to transition away from fossil fuel use. Minor increases in food costs will be a small price to pay to reduce our dependence on unstable foreign sources of oil and keep more dollars and jobs in the United States.

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**ANNOUNCEMENT**

Stalcup Ag Service is pleased to announce that Brian Drzycimski has joined our staff as a Real Estate Broker Associate and Land Auctioneer. Brian has been in the auction business for twenty-three years and a licensed Real Estate Agent and Broker for sixteen years. He has conducted private land sales as well as various auctions and has assisted Stalcup Ag Service with many previous land auctions.

Brian and his wife Janice continue to operate and live on the family farm north of Alta, Iowa.



*Brian Drzycimski*

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*"I'm a great believer in luck, and I find the harder I work the more I have of it."*

*~ Thomas Jefferson*



# WEATHER, HARVEST RESULTS AND GRAIN MARKETING



## Weather

The summer of 2007 was a tale of two weather patterns in Northwest Iowa. June and July were nearly an exact duplicate of 2006, with minimal rains and hot temperatures. Good subsoil moisture levels in most areas carried the crops through, but the top end yield potential of the corn was trimmed by the dry conditions.

An abrupt change in weather patterns led to the wettest August in Iowa-recorded history, with most areas receiving ten to fifteen inches of rain (about four inches is normal), and some areas receiving over twenty inches. After a normal September the heavy rains returned again in October, leading to corn harvest delays and some field loss of soybeans that were not harvested by the 12<sup>th</sup> of the month.

The warm summer pushed ahead development of the crops and allowed for good, natural dry-down of corn in the field. Drying costs will be low this year.

## Yield Results

In general, soybean yields have been good, thanks to the generous August rains, with many farms yielding over 50 bushels per acre. Early corn harvest results have been more variable. Farms lucky enough to receive late June/early July rains have good but not record yields, while farms missing these rains are yielding below average. Advanced seed technology has helped corn cope with adverse conditions, but it still takes rain to make grain.

## Markets Continue to Show Strength

*By Kent K. Smith*

Soybeans gained about \$1.50 from mid August through October, as the market is already bidding to gain back soybean acres for 2008 that were lost to corn this year. Soybean supplies are adequate for this year but will fall to record low levels by late next year without an increase in planted acres in both the United States and South America.

Corn prices briefly rallied to the \$3.50 per bushel area in late September but have settled back into a trading range of \$3.00 to \$3.30 per bushel. Demand continues to be strong for corn. Recent poor margins in ethanol production have slowed construction of new plants, but exports have been good and feed usage continues to be strong. Hog and poultry finishing buildings continue to be built in the area, and there has been a resurgence of interest in finishing cattle in the area, thanks to ready availability of distiller's grains, a by-product of ethanol manufacturing which makes excellent cattle feed. Areas with the most livestock have seen significantly higher corn bids.

## 2008 Outlook

With new crop soybean prices near \$9.00 per bushel and new crop corn near \$3.70 per bushel, it is likely we will see a shift in acres back to soybeans for 2008, especially with high nitrogen fertilizer and seed costs narrowing the margins for corn production. It will be an interesting fall and winter as corn, soybeans, (and wheat in some areas) all vie for acres in 2008.

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