

2009 OUTLOOK

By Nathan Deters

The last six months have been a reminder that the agricultural economy is still tied to the health of the U.S. and global economy. After a very good run of grain prices stretching back to the fall of 2006 and peaking in July of 2008, we have seen significant drops as the worst recession since the 1930's has affected virtually all areas of the economy. Not all the news is bad, however. Oil prices have begun to stabilize, which bodes well for our bio-fuels industry. There are a few small signs of an economic recovery. As the federal stimulus money begins to flow, inflation may increase which will support commodity prices.

Weather Concerns

For good or ill Mother Nature still calls a lot of the shots in agriculture. 2008 featured good weather throughout most of the world's grain growing regions, a feat that will be hard to duplicate. This growing season has already seen dry conditions in Argentina and parts of Brazil, leading to lowered estimates of corn and soybean production from two of our biggest competitors. Major winter wheat producing areas of China and the southern plains of the United States are also very dry. La Nina, which is below normal ocean temperatures in the equatorial Pacific, is in place at this time and is blamed for the southern plains dryness. If this condition persists

into the summer, it has a tendency to impact the Corn Belt with hot, dry weather as well. Weather uncertainties will likely lead to good pricing opportunities during the growing season.



Planting Intentions Unclear

We enter the 2009 growing season with greater uncertainty than usual about cropping plans. Fertilizer prices at the retail level remain stubbornly high. Since the cost of corn production is most influenced by fertilizer prices, expectations are that corn will lose acres to soybeans this year, especially on fields that have been corn previously where fertilizer expense is even higher. Wheat and cotton acres are also expected to be lower this year. The USDA issues its closely watched planting intentions report on March 31st. It is likely that there will be more last minute changes than normal this year, with weather and input price fluctuations swaying producers' final decisions. Grain markets don't like uncertainty and pricing opportunities are usually present during these periods.

Hope for the Future

Agriculture has taken its lumps but is

In This Issue

- *2009 Outlook*
- *Today's Land Market*
- *Wind Powered Generators & Impact On Land Ownership*
- *Farm Program News*

still positioned well for the future. While profitability of bio-fuels has suffered, the Renewable Fuels Standard mandates continued increases in domestically produced bio-fuels to reduce our dependence on foreign oil, a policy that has widespread political support. World supplies of grain continue to drop, and the demand for feed grains and protein to supply a growing worldwide middle class with an improved diet will expand. While we don't expect a quick return to last year's record highs, these factors should keep

continued on page 3

Land sale results have been quite variable since last fall; however, land has dropped off its highs of last summer. Auction results began to vary, depending on location, by late October. At that time, some sales were holding up to earlier levels while others were showing declines. By November a higher number of sales were showing declines from previous expectations. Most of the price decline seems to have occurred from late October through mid-December. Our land value article in last fall's newsletter was dated October 13th and reported that land values were basically holding up at that point. It was only shortly thereafter that the market began to exhibit price variability. As expected, high quality farms in strong areas have generally shown less decline than lower-quality farms in less aggressive areas.

Since the turn of the calendar, there have been far fewer farms offered for sale than in the past several years. More potential sellers are taking a wait-and-see approach, and are also unsure of better investment alternatives. While public auctions have accounted for the vast majority of sales in the past, more farms recently are being listed for sale, which allows the seller to control the asking price. There have also been a higher percentage of auctions resulting in "no sales" where the seller's minimum was not met. Many times, however, those farms have been sold privately within days of the "no sale" auction.

Several recent highly respected land value surveys confirm the volatility of the recent land market. The annual Iowa State Land Value Survey is an opinion survey of brokers, bankers, farm managers, and appraisers with values as of each November 1st. That survey indicated Iowa farmland on average increased 14% over 2007. Counties in our trade territory showed increases of 14-19%. However, this survey was completed just as the market was beginning its downturn. Later surveys, such as the Federal Reserve Bank of Chicago's survey of bankers' opinions and the semi-annual Realtor's Land Institute survey do show that change in direction of land values. The Fed survey for the 4th quarter of 2008 showed a 6% decline for "good" farmland in western Iowa and 9% down for north-central Iowa. The RLI survey, as of March 1st, showed declines in our trade territory of 7.6% to 14% in the past six months and -1% for the past twelve months.

After five years of double-digit increases in land values, we are still near last year's price levels which were a record at that time. The RLI survey puts the average value of high-quality land in our area from about \$5,500



to \$6,100 per acre. Our experience with land appraisals and sales confirms these trends. Several farms we appraised last summer were sold this winter (by us and others) for 12-16% less than last summer's appraised values.

What will land do in 2009? It seems the decline has abated; however, it is difficult to measure with few recent sales. Grain prices seem to have found a trading range and have moved up from the February lows as expected. As expensive fertilizer is applied and replaced with cheaper inventory, operating margins will seek their normal range. If confidence returns to the general economy, land values should hold at least steady. Long-term, increasing yields and global demand for our products bodes well for owning farmland.

Below are one or two sales from most counties in our area. Stalcup-brokered sales are in **bold**.

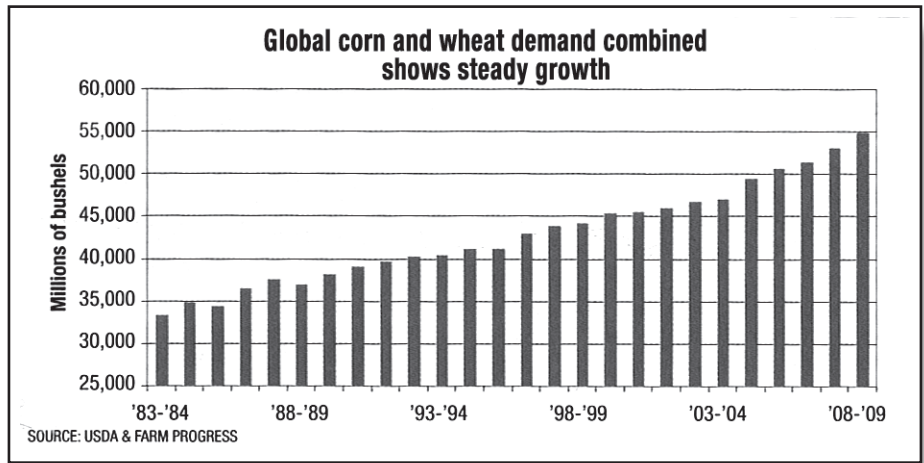
Selected Sales of Good Farmland

Date	County	Acres	CSR	\$/Acre	% Tillable
Oct	Calhoun	142.0	83.7	\$5,075	99%
Oct	Ida	80.0	65.7	\$6,025	85%
Nov	Calhoun	148.0	75.8	\$4,500	99%
Nov	Carroll	258.1	59.8	\$5,600	98%
Nov	Kossuth	152.0	71.2	\$5,200	98%
Nov	Osceola	153.0	69.1	\$6,650	98%
Nov	Sac	80.0	62.8	\$5,175	93%
Dec	Clay	160.0	78.2	\$6,100	97%
Dec	Sioux	158.5	63.0	\$8,300	97%
Dec	Woodbury	80.0	51.0	\$4,100	91%
Jan	Lyon	106.0	68.0	\$5,750	96%
Jan	Sac	122.2	71.6	\$4,800	93%
Jan	Sioux	80.0	70.5	\$5,350	93%
Jan	Woodbury	208.0	50.2	\$3,900	90%
Feb	Monona	218.0	63.5	\$4,500	93%
Feb	Plymouth	82.0	58.9	\$4,975	95%
Feb	Pocahontas	152.2	75.9	\$5,375	98%

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

us from returning to low prices seen earlier in the decade.

Finally, a philosophical thought. In this era of credit default swaps and multi-billion dollar government bailouts of the failing insurance companies and banks that have led us into our current economic difficulties, it is good to be involved in an industry that actually makes products that are needed by the rest of the world. Instead of being outsourced or downsized, our productive agriculture sector is poised to be a bright spot in the U.S. economy going forward. Predictions are that agricultural output will need to double by 2050 to meet



growing global demand. Renowned investor Jim Rogers puts it well, “If I’m right, agriculture is going to be one of the greatest industries in the next twenty to thirty years. We’re having a

shift to people who produce real goods. Those are the people who are going to be in charge.” Encouraging words during a difficult time.

WIND POWERED GENERATORS & IMPACT ON LAND OWNERSHIP

By Terry Argotsinger

For Northwest Iowa this new industry is now 10 years old. The first large scale wind park was built north of Alta and at that time was the most powerful field in the U.S.

Since then many fields across the landscape have been built. The state of Iowa is now the second largest producer of wind-generated electricity behind Texas. But if you look at per capita or per 10,000 square miles, Iowa is the leader.

Iowa is also the leader in other sources of renewable energy such as ethanol and biodiesel. The renewable fuels industry has made a significant impact on the economy. Many new industries in manufacturing, construction and service are in place.

After 10 years of experience with the wind turbines on our landscape we have learned several things. Here are some observations:

- Turbines are getting larger and farther apart so there are fewer per

farm (The most common size is 1.5 megawatts).

- Lease income is increasing - some are fixed rates and some are royalties.
- Besides the actual turbine site there are service roads, buried cable routes and crane paths (the equipment is very heavy resulting in compaction).
- Not all farms with a lease get a turbine.
- Activity during construction is intense.
- The developers in most cases deal fairly in crop and tile damages.
- Turbine income will impact your estate.
- Tax planning is needed.

Wind park easements are usually a blanket easement across your entire farm which allows the developer to travel and construct anywhere on your farm that is legally allowed by the county. Set backs from dwellings and roads are mandated by county zoning officials and are usually 1,000 to 1,500 feet. County and FAA regulations also control height restrictions. FAA becomes involved with anything over 200 feet high.

Iowa allows the air rights with the easement attached to be separated from the land. If you own your farm



outright and receive \$20,000 per year from a wind park easement, for example, your estate could be increased by IRS by as much as \$300,000. You should visit with your attorney about how a wind park easement will impact your estate before signing. One watch out - if you have a Life Use Estate, the remainderman interest will be required to sign on but the Life Use Tenant must receive the income.

We have consulted with many landowners in several states and reviewed many easements. If you are approached to sign an easement, feel free to contact us. We are willing to consult with you, analyze the terms, and share our experiences.

Some rules and regulations of the Food, Nutrition, and Energy Bill of 2008 (aka the "Farm" Bill) are written while others are still incomplete. The major changes from the previous program are:



1. Lowered payment limitations for eligibility in farm programs - \$500,000 adjusted gross income (AGI) average over the past three years from non-farming sources. \$1M AGI limitation for conservation programs.
2. Direct attribution of farm program payments to social security numbers. This replaces the "three-entity" rule that stated a person could receive farm program payments into three operating entities. This was known as a "Mississippi Christmas Tree" with the purpose of maximizing farm program payments to very large farming operations.
3. The opportunity to participate in the optional ACRE program. ACRE stands for Average Crop Revenue Election. A landowner or farmer may choose to participate at any time from 2009 through the end of this current farm bill in 2012. Once enrolled, you cannot withdraw until the next farm bill after 2012.

Basically, the ACRE payment would replace the current counter-cyclical payment (which only kicks in if prices are very low). If enrolled in ACRE, that farm would give up 20% of its annual direct payments (around \$4-5 per acre) and would have its marketing loan rates reduced by 30%. The marketing loan would only affect LDP's and sealing prices.

In exchange, the ACRE program would generate a payment if both the state and your farm incur a revenue loss. The revenue loss payment would be 83.3% of the farm's planted acres times the difference between the state ACRE guarantee and the state revenue times the ratio of the farm's yield divided by the state expected yield. Prices are based on the most recent two-year national prices which are the 2007 and 2008 crop years for the 2009 payment calculation. These were the years of the highest corn and soybean prices. 2008 prices won't be finalized until September 30, 2009. One big attraction of ACRE is that the price calculation cannot drop by more than 10% per year. If the grain market declines, ACRE payments would increase.

If ACRE sounds like a complicated

decision, it is. Basically you can think of it as a revenue insurance program that will cost \$4-5 per acre in lost direct payments. If the grain market crashes, the price calculation cannot drop by more than 10% per year. It will be an individual decision for each farm.

Other features of the farm program:

- Cash rent leases can include a calculation based on actual farm production and prices and still be considered a cash rent lease. Previously those leases were considered active participation, requiring enrollment in the farm program and a split of the direct payment.
- Landowners do not need to prove contribution of labor or management to maintain eligibility for farm programs. Contribution of land and participation in the crop qualifies landowners for the program. However, FSA paperwork requires landowners to identify their contribution of labor and management and whether management is hired.
- SURE is a permanent disaster program. Its calculations are very complicated, but it does require that a producer have insurance on all major crops to ensure eligibility.

Since 1942 Our Business Has Been To Improve The Business Of Farming

- Real Estate Brokers
 - IA, NE, SD
- All types of Sales
 - Public auction
 - Private treaty
 - Sealed bid
- Tax Free Exchanges



910 Flindt Drive • P.O. Box 67 • Storm Lake, IA 50588
(712) 732-4811 • Fax (712) 732-7371
stalcup@stalcupag.com
www.stalcupag.com

Stalcup's Team

Rex Wilcox, AFM
Lyn Berkland, AFM
Terry Argotsinger, AFM, ARA
Kent Smith, AFM
Dennis Reyman, AFM, ARA
Nathan Deters, AFM