

## 2015 AG YEAR IN REVIEW



by Allan Worrell

How does one begin to describe 2015? In a word...unstable! It had a little bit of everything ranging from record rainfall in June which severely hurt crops and created damaging flooding along the Illinois River, to unplanted fields for the first time in memory. The delicate makeup of the 2015 agricultural dynamics is impossible to summarize in a short article, so I will focus on three key areas:

### **Tightening Farm Program**

Who would have thought that we would be enrolling in the USDA 2014 farm program in 2015? The delayed approval of a new farm bill created some interesting situations. This USDA farm program is totally unlike any previous ones. Gone are any guaranteed direct program payments (DPP). We essentially had the opportunity to enroll in one of three programs – PLC, ARC County or ARC Individual. Payments will now be tied to yields and prices. That also creates potential deferred payments. As an example, it appears that it will be possible to receive 2015 County ARC payments. However, those will not be issued until the fall of 2016. With the constrained income parameters imposed by the new farm program, nothing is a guarantee.

### **Declining Farm Income**

While those of us in Central and West Central Illinois felt like 2015 was a horrible growing season, the USDA indicates that we had the second largest crop in history. When you see poor crops in your fields it is difficult to accept the reality of such a strong U.S. crop. That made marketing very difficult. We thought, and continue to think, that the commodity markets are undervalued. As of this writing, corn and soybeans are about 13% lower than they were as of January 1, 2015. Most economists and financial gurus have predicted a 20 to 30% decline in net farm income this year. If you were one of those with poor yields coupled with the lower prices that is a very likely scenario.

### **Leveling Land Values**

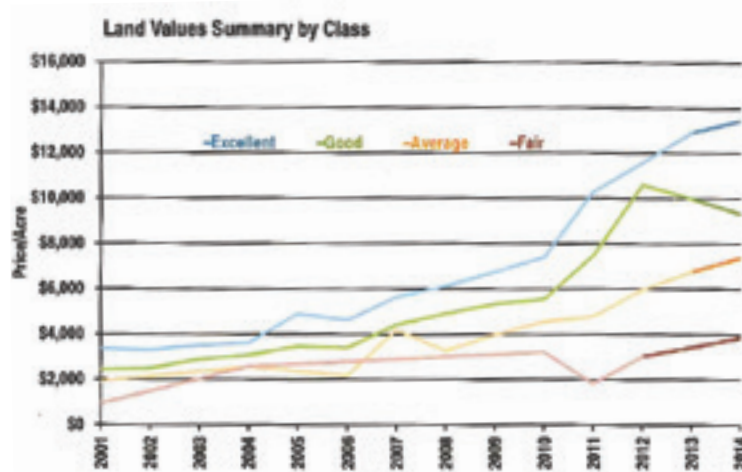
The combination of lower commodity prices and mostly lower yields is placing some pressure on land values. We are still seeing strength in the market, especially for high quality land but it is not as uniformly strong as it previously was. Now, more than ever, location seems to be a dominant deciding factor in value. Farms in competitive areas with significant neighboring

interest are still selling well, but conversely, equal quality properties in less competitive areas are suffering. Historically speaking, land prices are still high relative to past trends, but values are well off the highs of the 2013-2014 glory days.

### **Anticipating 2016**

So, what lies ahead in 2016? No one can be completely certain, not even someone like me who has decades of historical data from which to draw. Volatility and uncertainty are some words that come to mind. Commodity prices are not encouraging at present. Input costs are still relatively high and have not shown much decline. Interest rates have been stable, but some are predicting a slight increase next year. Short of a significant rally in the commodity market it appears there will be an earnings squeeze in 2016.

We do know that agriculture is a global economy and that weather in South America, political elections in Argentina, the strength of the dollar and the economy of foreign countries all play a role in the health of the U.S. ag economy. Paying attention to margins will be as important as ever. Hang on, it will be interesting. 🌱



This graph includes land values data from the Illinois Society of Professional Farm Managers & Rural Appraisers (ISPFMRA) 2015 Illinois Farmland Values & Lease Trends report for Cass, Menard, Scott, Morgan, Sangamon, Calhoun, Greene, Jersey, Macoupin and Montgomery Illinois counties. Although 2015 data for the same counties is not yet available, the 2015 ISPFMRA Midyear Report indicated the following statewide declines through June 2015: Excellent -2.5%, Good -3.7%, Average -5.6%, Fair -7.3%. Land types are classified within the following Productivity Index ranges: Excellent 133-147, Good 117-132, Average 100-116, Fair <100.



# 2016 LAND MARKET PREDICTIONS

Land market trends are one of the hottest topics in agriculture these days. We thought it would be interesting to ask a variety of folks, who have unique vantage points on the industry, what they predict for 2016. Here's what they had to say...

## *Worrell Land Services asked:*

**Where do you see the 2016 land market going? What do you consider to be the biggest catalyst(s) for the trends you predict?**



**Ray Brownfield • Managing Broker & President • Land Pro LLC**

I see really high quality Class A soils, well drained, almost all tillable, at auction, in a community of strong farmers, still maintaining a higher auction price level, at a market value reduction of 3-5% per year. That which is of lower quality, poor drainage and less tillable will continue a greater market value reduction at 5-10% per year. We had a good strong period of record appreciation at about 10 -15% per year. We are now in for a correction, but not back to the 1982 scenario. (Note: Mr. Brownfield's reply was more in depth than print space limitations allow. His full reply is available at [www.worrell-landservices.com/news/brownfield](http://www.worrell-landservices.com/news/brownfield)).



**Ryan Buckles • Vice President • Farm Credit Services, Sherman**

Land values will steadily decline another 10% from the values of late fall/early winter 2015. I'm seeing a decline of roughly 20% in our trade area of the farms that aren't "no sales" at auction. Demand for farmland remains strong in most soil class ranges. Tiled farms are now the baseline of value and farms without tile seem to be discounted from that value.

Predictors of a sustained slowing market: anemic cash flows of grain producers and relatively low return to farmland investors will pressure sale prices lower for the next 18-24 months, in my opinion. A sustained weather event (guessing weather is like guessing land values!) could reverse the trend in sagging land values, I'd give that about a 30% chance of occurring. *Disclaimer: I am a lifelong Cubs fan.*



**Mark Metz • Regional Manager • Farm Credit Services, Jacksonville**

With net farm incomes on the decline and farm liquidity deteriorating, we believe land values will follow suit. We may not see such large or quick declines here as compared to other areas due to the financial strength in our local Ag economy, multiple outlets for grain marketing and a tightly-held land base. Recently, it seems that we have had a smaller supply of acres for sale versus a high local demand. Also, with our local market having an abundance of high quality farmland, it keeps the outside investors and or landlords interested. This adds another potential buyer in the market versus others. Some predict a 20-30% decline in farm land values over the next 3-4 years. I personally feel our local market area will be in the lower end of this range.

The biggest catalyst for the declining trend will be the deteriorating net farm incomes for producers and landlords/investors. Without a reversal of grain prices, weakening of the U.S. dollar overseas or some other world event, I believe margins will remain tight. Also, the potential for land value appreciation in the near term will be minimal to non-existent.



**Curtis Moffit · Senior Certified Appraiser · 1st Farm Credit Services, Pittsfield**

Land values in Pike and Adams counties seem to be holding steady in 2014 and 2015 after several years of double digit gains. The increases were due primarily to record farm incomes and very low interest rates. Lower corn and soybean prices have returned net farm income to previous levels and the Federal Reserve has indicated a desire to begin raising interest rates soon as the overall economy continues to slowly improve. These factors could pressure land values lower in 2016 and possibly beyond. How much will depend on the length of agricultural down turn and the level of rate increases.



**Brock Thompson · Loan Officer, Ag Lending & Real Estate · Petefish Skiles & Co. Bank, Virginia**

Instead of a major drop in land values, I expect a slight “settling” of the market. I believe there are 3 major factors that drive land values: prices, costs and rates. Since 2010 there has been a 23% increase in direct input costs for corn producers, and a 17 % decrease in corn prices\*. This continuing trend shrinks the producer’s profit margin leaving less money available for debt service on a new land payment. Interest rates will also play a significant role. As interest rates rise in 2016, we could see a slight value decline in the land market. 🌱

*\*Source: Department of Agricultural and Consumer Economics at the University of Illinois, July 2015 report*

# IT’S A SMALL [TRADING] WORLD AFTER ALL



*by Luke Worrell*

While there is plenty to concern ourselves with locally and nationally, the grain market doesn’t allow us the

luxury of ignoring global issues. Modern technology allows the market to be up-to-the-minute on any news near or far that could swiftly affect the marketplace. The ever-growing web of international relationships between growers and consumers makes it imperative to have an eye on global events. As we finish out 2015, here are a couple of the most relevant issues abroad that could have an impact on any old unpriced inventory and the future crop.

**Argentinian Export Tax**

Recently elected Mauricio Macri has announced plans that should make Argentina a larger player in global exports. It has been announced that the administration will eliminate export taxes

on corn and wheat while reducing the soybean export tax by 5%. In theory, this will allow Argentina to become more of a viable competitor to America and other grain-producing countries. The scheduled change is set to begin the day after Macri takes office on December 10, 2015. Time and future export numbers will determine if this change makes a dent on American exports.

**Conflict Between Turkey & Russia**

Tensions are high between these neighboring countries after a Russian jet was shot down while in Turkish air space.

Turkey imports a good portion of Russian wheat. Economic sanctions have already been levied on Turkey excluding grain, but if relations further erode between the two countries, a new wheat buyer could enter the fray. An even bigger obstacle is the simple fact that two large countries at odds in a tense world could have a domino effect in many markets.

If there is any doubt that foreign news catches the eye of speculators and commodity managers, just take a look at some of the great material produced on a daily basis. Just this morning [December 1] I was reading my “First Thing Today” email from ProFarmer. There were twelve bullet points, seven of which dealt with foreign issues involving Japan, Pakistan, India, Ukraine, Australia, Russia, Argentina and China. This isn’t an anomaly, but a regular occurrence. With tensions building globally, 2016 will be a year in which we all must pay attention to understand the local and global dynamics impacting our farms. 🌱



**Congratulations!**  
to Allan Worrell for being named the 2015 Farm & Land Broker of the Year by the Illinois Farm & Land Chapter of the Realtor’s Land Institute



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# WINTER 2015 NEWSLETTER



*For All  
Seasons...*

*You're Invited!*

## **Farm Transitional Planning Info Session**



Do you have a transition plan in place for your farm business? When you decide that the time has come to pass your land asset down to the next generation, what steps do you need to take to reduce the financial

risk? What if your plan doesn't include keeping the land in the family – what if you choose to sell? What are the implications of these decisions on estate taxes, income taxes, etc?

Let us connect you with answers to those, and other transition planning, questions. Our guest speaker, Tom Bayer who heads the agricultural industry unit at Sikich accounting firm, will help you understand how to build a plan for the future of your farm asset.

**When: Thursday, February 4 · 10:00AM**

**Where: U of I Extension Office ·  
104 North Westgate Avenue, Jacksonville IL**

**Cost: FREE (and we'll even throw in coffee and donuts!)**

**Reserve your spot before February 1!**

Register online at [www.worrell-landservices.com/infosession](http://www.worrell-landservices.com/infosession)  
or call us at 217.245.1618.

## **Merry Christmas** *from Allan & Jan*

What a year of blessings it has been for our family! We leave tomorrow to spend a few days with our daughter's family in Texas. Our 8-year-old granddaughter has a lead role in a Christmas ballet recital, so we cannot miss that! Luke and Allison are in the final stages of adopting their oldest son; he has been their son (and our grandson!) in all ways but legal for 2.5 years, so we will all be glad to have that major hurdle behind us. They also welcomed a baby boy in March who looks just like Luke did as a baby – what a time warp for us!

We have enjoyed the autonomy of our first year under the new name and organizational structure of Worrell Land Services. Thank you to our clients and business partners for allowing us the privilege of working with you. May 2016 be full of health and happiness for you and yours!

