



# Ag Decision Maker

## A Business Newsletter for Agriculture

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### Farmland value reaches historic \$8,296 statewide average

by Mike Duffy, extension economist, 515-294-6160, [mduffy@iastate.edu](mailto:mduffy@iastate.edu)

**A**verage Iowa farmland value is estimated to be \$8,296 per acre, an increase of 23.7 percent from 2011, according to results of the Iowa Land Value Survey conducted in November. This is the third year in a row where values have increased more than 15 percent. The 2012 values are historical peaks.

The increase is somewhat higher than results of other recent surveys of Iowa farmland value: the Chicago Federal Reserve Bank estimated an 18 percent increase in Iowa land values from

October 2011 to October 2012 and the Iowa Chapter of the Realtors Land Institute estimated a 7.7 percent increase from March to September 2012.

The difference in survey estimates could be due to values increasing more rapidly in the past few months than earlier in the year. Better than expected crop yields and the level of land sale activity due to the proposed changes in land related taxes contributed to the increasing values. The Iowa State survey samples different populations, and uses different wording than the other surveys. This could also lead to different results especially in times of uncertainty. Even within the Iowa State survey there was considerable variation in the estimates.

O'Brien County had an estimated \$12,862 average value, the highest average county value. O'Brien County also had the highest percentage increase and highest dollar increase in

value, 35.2 percent and \$3,348, respectively. Osceola, Dickinson and Lyon counties also saw 35.2 percent increases. The Northwest Crop Reporting District, which includes all four counties, reported the highest land values at \$12,890, an increase of \$3,241 (33.6 percent) from 2011.

The 2012 land value survey covers one of the most remarkable years in Iowa land value history. This is the highest state value recorded by the survey, and the first time county averages have reached levels over \$10,000. While this is an interesting time, there is considerable uncertainty surrounding future land values.

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#### Handbook updates

For those of you subscribing to the handbook, the following new updates are included.

**2013 Estimated Costs of Crop Production** – A1-20 (13 pages)

**2012 Farmland Value Survey** – C2-70 (6 pages)

Please add these files to your handbook and remove the out-of-date material. *continued on page 6*

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**Why Iowa farmland values are increasing**

Understanding some of the causes for the current increase in farmland values is helpful in assessing the situation. Farmland values are highly correlated with farm income. As farm income increases, so will land values. In 2005, corn prices averaged \$1.94 per bushel in Iowa. The preliminary estimated price for November 2012 is \$6.80. Soybean prices changed from \$5.54 to \$13.70 over the same period. Coming into 2012 there was a general sentiment that prices would decline from their peaks. But, the drought changed this and the prices remained at high levels. How long the high prices will last is unknown.

There has been considerable variation in commodity prices over the past few years, but farm income has increased substantially. The increase in income has been the primary cause for the increase in farmland values, but not the only one.

There are other causes for the increase, including interest rates at the lowest level in recent memory. Farmland purchased by investors went from 18 percent in 1989 to 39 percent of purchases in 2005, but investor purchases are back to the 1989 level of 18 percent this year after decreasing for the third year in a row.

Another key component is the costs of production. In the past, costs have risen in response to higher commodity prices. This is especially true for rents. Iowa State University estimated costs of crop production have shown a 61 percent increase in the cost per bushel since 2005. Without land, the increase has been 87 percent.

There is still discipline in the land market, while land values have increased 64 percent in the past three years, in 2009 values did decrease by 2.2 percent. Therefore, it is prudent to be mindful of the factors that influence land values. There are several key components to watch including:

- Weather related problems – both here and around the world
- Government policies – especially policies related to estate and capital gains tax rates

- The amount of debt incurred with land acquisition
- What happens to input costs – land being the residual claimant to any excess profits in agriculture
- Government monetary policies as they relate to inflation and interest rates
- The performance of the U.S. economy and economies throughout the world – which impact commodity prices, which in turn impact land values.

**Overview of 2012 Iowa land values**

While the highest county land values were reported in O'Brien County, Decatur County remained the lowest reported land value, \$3,242 per acre, and the lowest dollar increase, \$521. Keokuk and Washington Counties had the lowest percentage increase, 14.8 percent, with reported average values of \$6,330 and \$8,226, respectively.

Low grade land in the state averaged \$5,119 per acre and showed a 20.2 percent increase or \$862 per acre, while medium grade land averaged \$7,773 per acre; high grade land averaged \$10,181 per acre. The lowest land value was estimated in the South Central Crop Reporting District, \$4,308, while the lowest percentage increase was in the Southeast Crop Reporting District with an 8.2 percent increase. The Northwest Crop Reporting District reported a 36.8 percent increase, the highest district average percentage reported.

**Iowa Land Values By Crop Reporting District:**

<u>District</u>	<u>2012</u> <u>\$/acre</u>	<u>2011</u> <u>\$/acre</u>	<u>2011-2012 Change</u>	
			<u>\$</u>	<u>%</u>
Northwest	\$11,404	\$8,338	\$3,066	36.8%
North Central	\$9,560	\$7,356	\$2,204	30.0%
Northeast	\$8,523	\$6,602	\$1,921	29.1%
West Central	\$9,216	\$7,419	\$1,797	24.2%
Central	\$9,365	\$7,781	\$1,583	20.4%
East Central	\$8,420	\$7,110	\$1,310	18.4%
Southwest	\$7,015	\$5,905	\$1,110	18.8%
South Central	\$4,308	\$3,407	\$901	26.4%
Southeast	\$6,172	\$5,705	\$467	8.2%
<b>State Average</b>	<b>\$8,296</b>	<b>\$6,708</b>	<b>\$1,588</b>	<b>23.7%</b>

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Additional information is available at [www.extension.iastate.edu/topic/landvalue](http://www.extension.iastate.edu/topic/landvalue).

The Iowa Land Value Survey was initiated in 1941 and is sponsored by the Iowa Agriculture and Home Economics Experiment Station, Iowa State University. Only the state average and the district averages are based directly on the Iowa State survey data. The county estimates are derived using a procedure that combines survey results with data from the U.S. Census of Agriculture.

The survey is based on reports by licensed real estate brokers and selected individuals considered knowledgeable of land market conditions. The 2012 survey is based on 486 usable responses providing 663 county land value estimates. The survey is intended to provide information on general land value trends, geographical land price relationships and factors influencing the Iowa land market. It is not intended to provide an estimate for any particular piece of property.



### Manage crop risk in 2013

by Steven D. Johnson, farm & ag business management field specialist, Iowa State University Extension, 515-957-5790, [sdjohns@iastate.edu](mailto:sdjohns@iastate.edu)

Despite the worst Corn Belt drought in a generation, net farm incomes reached near-record levels in 2012, thanks to crop insurance indemnity payments and high crop prices. You can expect tremendous crop revenue risk in 2013 because of crop yield uncertainty and apprehension concern about how long record crop high prices will last.

A lot of the groundwork for another year of high net farm incomes from crops will be tied to the crop insurance decisions farmers make before March 15, the deadline to sign up for make changes in crop insurance coverage for spring planted crops.

The 2012 drought caused grain prices to surge, boosting net farm incomes to high levels as over 90% of Iowa's tillable acres are covered by revenue protection (RP) crop insurance. That product guarantees a percentage of the farm's Actual Production History or APH times the higher of the spring projected price (average futures prices in the month of February for December 2013 corn futures and November 2013 soybean futures). If the harvest price (average futures prices in the month of October) is higher than the projected price, the insured gets to use the higher of the two prices to determine their revenue guarantee. This is what happened in 2012, as the final harvest price was \$7.50 per bushel for corn and \$15.39 for soybeans.

The revenue protection levels provided by crop insurance means farmers are protecting against either a decline in yield or a drop in futures price. There will be a lot of ups and downs in grain prices in 2013 but using revenue protection provides a predictable net return protection revenue guarantee per acre, notes Johnson. In addition, the pre-harvest sale of bushels for delivery covered by revenue protection provides a guaranteed price (the projected price) and thus, the ability to sell in advance of harvest to meet next fall and winter's cash flow needs.

Projected prices in February 2013 near \$6 per bushel for corn and \$12.50 per bushel for soybeans would result in guarantees at or above 2012 levels. Again providing many farms with the opportunity to insure positive revenue guarantees by taking high levels of crop insurance coverage. In addition, many farmers will may increase their level of coverage up to 85% of their APH yields, and also use the Trend-Adjusted APH Yield Endorsement or TA-Option again in 2013 to increase their revenue guarantee.

While non-land crop cost estimates forecast by ISU in 2013 aren't expected to increase significantly, perhaps farms at the most risk for low and negative net farm incomes are grain farms that don't use crop insurance or perhaps those that cash rent a large portion of their farmland at high cash rent

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levels. Many of these farms paying high cash rent can't assure themselves positive revenue guarantees in 2013 even if they take high levels of crop insurance and use the TA-Option. That's because the high cash rental rates are so large, the crop insurance revenue guarantee is still less than the overall farm's total costs.

**Expect few crop insurance changes for 2013**

Farmers have some good news for 2013. They can expect very few changes to the federal crop insurance program from 2012. There will be little impact on crop insurance that results from the fate of the 2012 Farm Bill still pending in congress. Crop insurance is still operating under the 2001 Federal Crop Insurance Act and the current program has permanent authorization under the original 1938 legislation.

Congress occasionally makes small reforms to the program. The 2012 Farm Bill proposes combining the traditional commodity program with a separate title to address the crop insurance program as the center-piece for crop risk management.

**2013 rate reductions**

USDA's Risk Management Agency (RMA) plans to fully implement the rate reductions for corn and soybeans that farmers began to see in 2012. For Iowa corn and soybean farmers, this means a rate reduction averaging 6% lower for corn and 9% lower for soybeans beginning in 2013.

Previously, a yield history dating back to 1975 was used to determine rates. Once the policy changes are in effect, a 20-year yield history will be used.

The new rates are designed to reflect advancements in technology, management and seed.

**Trent-adjusted APH yield endorsement**

Again for the 2013 crop year, farmers purchasing crop insurance for corn and soybeans in major Midwestern states will have the option to use the Trend-Adjusted Actual Production History (TA-APH) Yield Endorsement. This "TA-Yield Option" allows farmers to increase yields used in calculating crop insurance guarantees. Because APH yields lag expected yields, guarantees will also lag.

The TA-Yield Option corrects this issue by allowing a trend adjustment to be added to the APH yield. The resulting TA-APH yield then is used in calculating guarantees. Each county and crop has a TA-APH trend rate estimated using National Agricultural Statistical Service (NASS) county yields, with controls included for weather and spatial considerations. These rates are county specific and are published by the RMA for the 2013 crop year.

Any sign-up or changes in coverage for 2013 requires that farmers must sign up for coverage or notify their crop insurance agent by the sales closing date, which is March 15.

**RMA pilot programs**

RMA will continue to offer a pilot program that allows producers to participate based on whole farm and enterprise units. The program will give producers increased coverage at the same price.

RMA also indicated that farmers can expect to see two more changes for 2013, a high-risk land exclusion option and revenue protection for pulse crops.



**Ag Decision Maker website has a new look!**

*by Ann Johanns, extension program specialist, 641-732-5574, aholste@iastate.edu*

**A**g Decision Maker, one of the most visited Iowa State University Extension and Outreach websites, has a new look. The decision-oriented agricultural business website now showcases new and emerging issues within farm management. While the design of the Web page

has changed, the Web address and the Ag Decision Maker purpose, to provide up-to-date information from agricultural economists at Iowa State University and other Midwest universities and institutions, remain the same.

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The site is designed for farmers, lenders, farm managers, agriculture instructors and others involved in agriculture. The site offers a wide range of business information on marketing, leasing, land values, legal issues, costs and returns, new business development, and many other topics.

### Website features

The Ag Decision Maker website provides assistance in a variety of ways.

- A six-page business newsletter is provided monthly that contains information and analysis of current business and economic issues.
- More than 430 Information Files provide information and analysis for finding solutions to many of the decisions facing farmers and agribusinesses.
- Many of the Information Files have Decision Tools for on-line computation. Just enter figures into the spreadsheet to analyze individual situations and save the analysis as a file with personal records.
- Teaching Activities are provided for use in the classroom.

- Voiced Media presentations offer further details on some Information Files.

### Information regularly updated

Outlook and profitability files on the website are updated on a monthly basis to show profitability for various crop and livestock enterprises. These files as well as links to the Iowa Farm Outlook newsletter, USDA reports and weather information can be found on the Outlook and Profitability page.

AgDM posts timely tips throughout the month on a blog and through Twitter feed, @ISU\_AgDM.

The Ag Decision Maker website currently has over 3,200 visitors per day. These visitors spend a total of 500 hours on the site every day.

Visit the site at <http://www.extension.iastate.edu/agdm> and bookmark it for future reference. Monthly e-mail notification of new information posted to the website is available at no charge. Visit the “e-mail sign-up” link on the homepage for the online form, or e-mail [agdm@iastate.edu](mailto:agdm@iastate.edu).



## Conserve fuel and energy when moving snow

by Dana Petersen, ISU Farm Energy Conservation and Efficiency Initiative, 515-294-5233, [petersen@iastate.edu](mailto:petersen@iastate.edu), and Mark Hanna, extension ag engineer

**E**xpect the unexpected might be the theme for this year’s winter weather, especially if Iowa’s December snow storm is an indication of what lies ahead. Every farm has unique features—windbreaks, site-specific terrain, building placement—and blowing snow may present a challenge. This winter, consider these tips for minimizing farm energy costs and machinery wear and tear when moving snow on the farmstead.

“A common misconception about managing farm energy expenses is that farmers must be willing to spend money to capture savings,” says Mark Hanna, ISU extension ag engineer. “During the winter months, many energy-saving practices can be implemented with little or no out-of-pocket cost for farmers.”

Hanna emphasizes that engine care is critical, especially during the cold weather. “To avoid cold starts, the winter routine typically requires a block heater for your motor,” he says. “Assuming twelve cents per kilowatt hour for a 1000-watt block heater, you can save more than a dollar a day by simply installing a two-hour timer for that heater instead of leaving it plugged in all night.”

In addition to engine care and maintenance, Hanna notes that certain pieces of machinery are better suited to particular types of snow removal.

If your farmstead has space for piles of snow, you may be able to get by with a blade mounted to a ¾-ton truck. Sleet, ice, and slushy, heavy snow

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typically can be cleared with a 60- or 72-inch plow blade. However, there are drawbacks to using the farm truck. Pushing snow is hard on the engine and transmission, and the limited maneuverability results in overlapping and excess fuel consumption.

By comparison, a plow blade mounted to a four-wheel drive tractor allows you to make tighter turns, capture more horsepower and use less fuel. Visibility from the tractor seat is also typically better than a pick-up. For the safety of all farm employees, maintaining a steady speed when moving snow—whether on a tractor or in a truck—will minimize fuel consumption while maximizing farm safety.

Another advantage of moving snow with a tractor is versatility. A front-end loader can be used to dig through deep drifts. Other attachments, such as a blower or a blade, can also be rear-mounted to the same tractor. This allows the operator to move more snow with fewer passes, thereby saving fuel.

For heavy snow accumulation, a blower moves the snow quickly and easily. If your local snowfall is intermittent, a three-point, rear-mounting blower that attaches to a tractor's PTO is simple and straightforward. In comparison, a front-mounted snow blower typically has a more complicated mounting mechanism that incorporates hydraulics. Snow blowers are helpful for maintaining long driveways that are prone to drifting snow, but loose gravel may clog the blower with grit and gusting winds may compromise the blower's reach.

If you find yourself in over your head, ask a neighbor for help. Be sure to maintain clear communication regarding fueling and maintenance when sharing machinery among neighbors or family. This is especially important to minimize fuel costs and unnecessary wear and tear.

Keep your equipment running smoothly on the farmstead this winter to reduce energy consumption—and aggravation—no matter what the weather brings!

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**Internet Updates**

The following information files have been added or updated on [www.extension.iastate.edu/agdm](http://www.extension.iastate.edu/agdm).

**Vegetable Production Budgets for a High Tunnel** – A1-23 (8 pages)

**Current Profitability**

The following tools have been updated on [www.extension.iastate.edu/agdm/info/outlook.html](http://www.extension.iastate.edu/agdm/info/outlook.html).

**Corn Profitability** – A1-85

**Soybean Profitability** – A1-86

**Iowa Cash Corn and Soybean Prices** – A2-11

**Season Average Price Calculator** – A2-15

**Ethanol Profitability** – D1-10

**Biodiesel Profitability** – D1-15

**Returns for Farrow-to-Finish** – B1-30

**Returns for Weaned Pigs** – B1-33

**Returns for Steer Calves** – B1-35

**Returns for Yearling Steers** – B1-35

**... and justice for all**

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