

Farmland Barometer



The twelve year uptrend in Illinois farmland values (starting in 2001) came to a halt as we finished year 2013. December sales softened and year-end prime farmland values came in at \$12,000 per acre (down 5%) for the year. Yes - - our chart of Prime Farmland Values shows that we are taking a breather!



At **Heartland Ag Group Ltd.**, we feel like the luckiest people on the planet - - to be involved with Agriculture. Thanks to all of you - - we are very active in the management, appraisal, sale, and acquisition of farmland throughout Illinois, Indiana and Missouri. Here are our thoughts on the current land market:

- 2013 - \$12,000 per acre (-5%)
- 2012 - \$12,750 per acre (+21%)
- 2011 - \$10,500 per acre (+31%)
- 2010 - \$8,000 per acre (+14%)
- 2009 - \$7,000 per acre (unchanged)



In the last five years we have been up 66% - well above the 6.5% normal average annual increase over the last 40 years.

▼ **Who's Buying the Land?** – The farming community has had five prosperous years and actively reinvested their profits in neighboring farmland. Last year 75% of the land was purchased by farmers or their extended families (*up from a 50% normal volume*). Trust them - - they believe in our future.



Investors enjoy the returns to farmland (*one of the best investments on the planet*). Investors are seeing alternate places for their money as the stock and financial markets enjoyed an outstanding year. These folks believe farmland went up a little too quickly and are anticipating a small correction in values - - at which time they will resume their buying habits.

▼ **Are the Interest Rates a Factor?** – Yes - - interest rates are a very prominent force in the land value picture. Long term interest

rates have risen by 1% to 1½% this year - - the ultra low interest rate era is over. Farm mortgage lenders cap their loans at about 50% of current values - - making significant down payments necessary. The outlook for interest rate changes is cloudy. Most of us are doubtful that rates will go up sharply from here (*the economy isn't strong enough to handle it*). And - - the United States couldn't afford to pay the interest tab on our huge national debt! Deflation is still a possibility.



Dale E. Aupperle
President

▼ **The Farm Net Income Picture!** – Remember - - *farmland is what it earns* - - and profits in the last three years have not kept up with the rising land values. We do see net farm income shrinking somewhat as yields return to normal levels and the corn and soybean prices come back from their lofty heights. We see farm profits falling by 20% in the upcoming year and cash rents coming under pressure as we look at the 2014 growing season. It will take a return of corn prices to \$5.00 plus per bushel and soybeans above \$12.00 per bushel to generate the profit levels we have experienced in recent years.



**Heartland Ag
Group Ltd.**

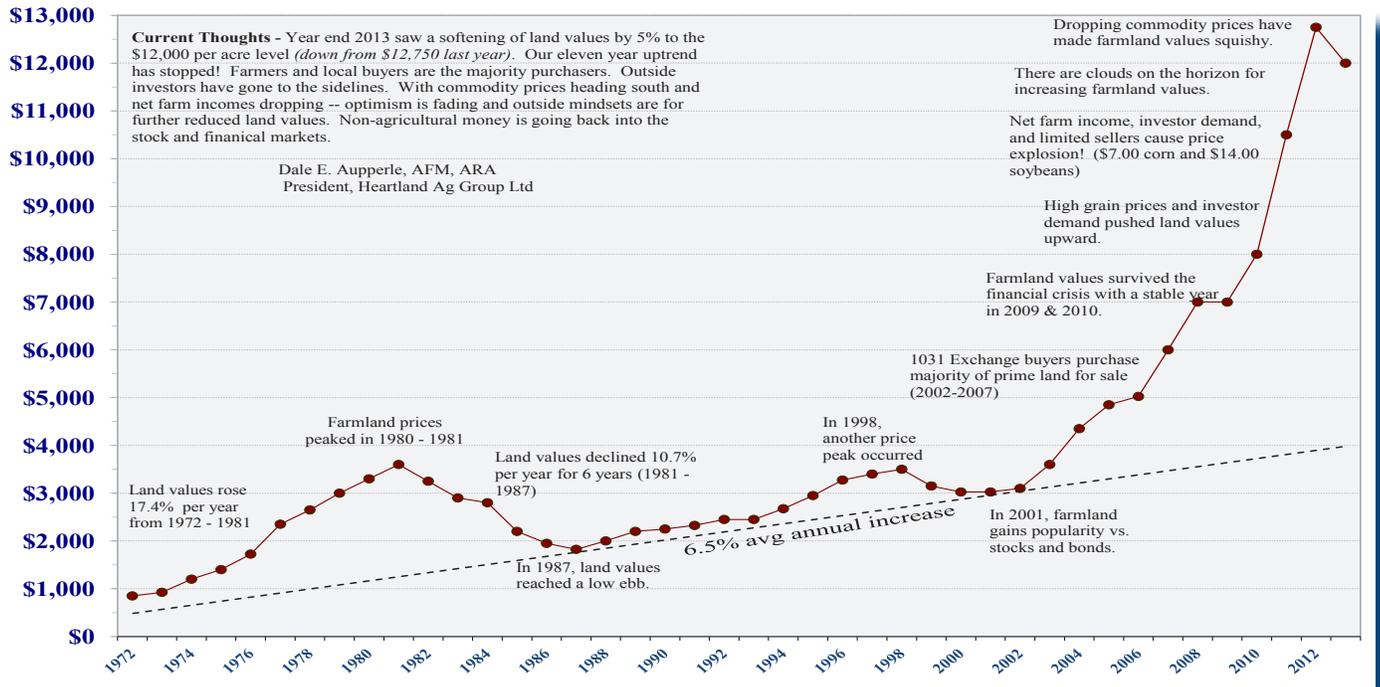
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PRIME FARMLAND VALUES

Central Illinois - December 2013

A picture is worth a thousand words! Our chart reflects Dale E. Aupperle's professional career -- the first dot begins the chart in 1972 as he graduated from the University of Illinois and put his education to work. Yes -- a lot of water has gone under the bridge -- what an incredible story. Looking back on that initial \$850 per acre value (and the current \$12,000 per acre value) no one could have predicted a 1400% rise in Illinois farmland prices. We have all been on the right bus. Let's take a quick look at some important intersections on that chart:



▼ **Year-end 2013** – There was a wide volume of sales to gather data from reflecting prime farmland transactions from \$11,500 to \$12,500 per acre. It was easy to put this year's dot at \$12,000 per acre (*a relative 5% decline*). Land values are patchy across our landscape -- with some areas being steady to strong and others weak. It wasn't uniform. For the first time in twelve years we have experienced a decline in value.

▼ **Previous Uptrend Interruptions** – Three distinct areas on our chart give us a historical view of interruptions to the uptrend. Let's take a look at them:

- **Years 2008-2009** – Farmland values had doubled since this part of the uptrend resumed in 2001. It appears that our land market takes a pause to digest big increases. We went sideways for a year.
- **Years 1998-2001** – The eleven year uptrend from 1987 through 1998 saw farmland values rise by 92%. Once again the market took a look over its shoulder. Farmland values declined from \$3,500 in 1998 to \$3,025 per acre in 2001. That was a 15% adjustment before the next uptrend resumed.
- **Years 1980-1987** – In the 1970's land values exploded (*rising 17.4% a year on average*). We were experiencing inflation, exploding farm incomes, land speculation and a lot of forces at work during that period. When the fever broke in 1980 -- farmland values were at \$3,600 per acre. We truly had a bubble on our hands. Farmland values declined for the next seven years -- by approximately 50% to the \$1,800 per acre level. That was the worst land value decline in many of our memories.

In summary – None of us know exactly what will happen in the upcoming years. History gives us some guidelines for our thought processes. At **Heartland Ag Group Ltd.** -- we do not see any of the same factors influencing the land values bubble that broke in the 1980's. We are staying away from the bubble talk and focusing on the things outlined on the front page of our newsletter. Yes -- we see land values softening because of the prospects for lower net farm income. Remember farmland is what it earns! With a two or three year adjustment period -- we believe the best cure for low prices is low prices. Our farmers are going to lead us out of this situation with bushels per acre. Net farm incomes will rise and land values will resume their uptrend.

GOLD SINKS TO THREE-YEAR LOW, END TO HISTORIC RUN IN SIGHT

Melting

Gold's price tumbled anew on Thursday following the Federal Reserve's decision to pare stimulus, adding to the worst annual decline in three decades.

AUG. 22, 2011
Gold futures settle at a record \$1,888.70 an ounce, short of 1980 inflation-adjusted peak of about \$2,200

JAN. 27, 2010
George Soros calls gold 'the ultimate asset bubble'

MARCH 18, 2008
Gold hits a high following federally assisted sale of Bear Stearns to J.P. Morgan Chase.

APRIL 15, 2013
Gold plunges by more than 9%, the biggest one-day drop in 30 years

THURSDAY
\$1,195

NOV. 1, 2004
SPDR Gold Shares exchange-traded fund starts trading

Gold futures
Daily settlement price on the continuous front-month contract

Source: WSJ Market Data Group

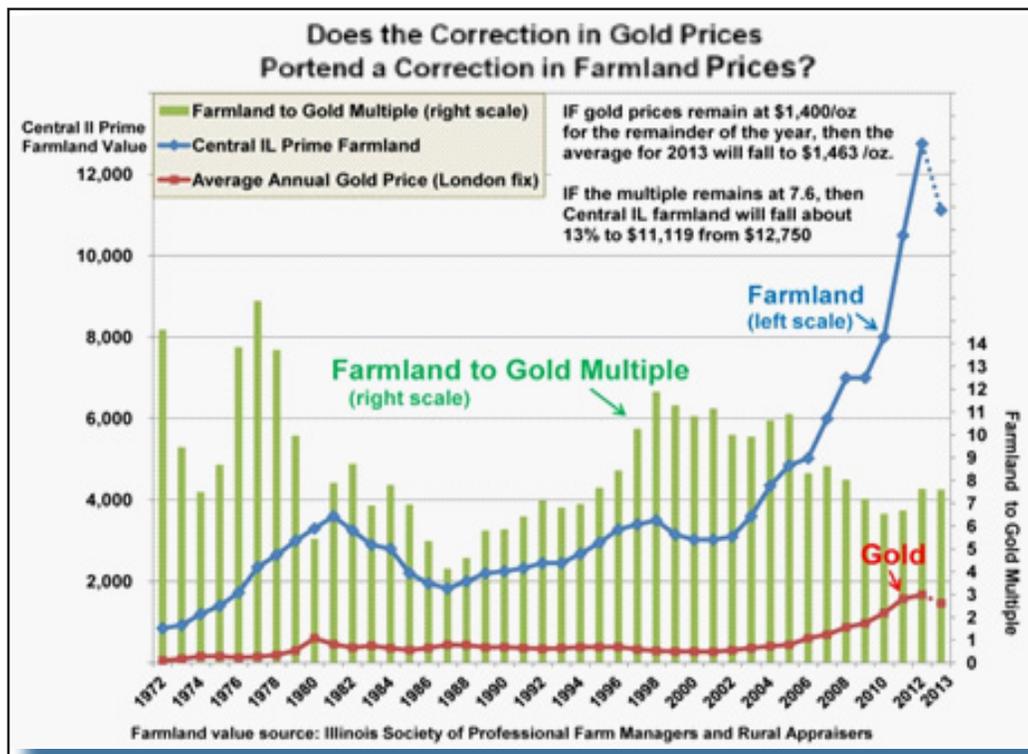
The Wall Street Journal

Both farmland and gold are held in the highest esteem by lots of investors. They have similar characteristics but - - farmland pays a dividend (*and that is a major difference*). Gold has no earnings. Over time, these two bellwether assets have enjoyed the same pathway to higher values. In 2012, the thirteen year explosive uptrend in gold prices ended! In our minds this signals a significant change underway in our financial system (*at Heartland Ag Group Ltd., we are not smart enough to understand it but, suggest a note of caution for everyone*). Something is underfoot.

Our good friend Richard A. Brock of **The Brock Report** - - called and wanted to do a correlation between farmland values and gold prices. We furnished him the underlying data from our 42 year Prime Farmland Values chart. He discovered a 90% correlation between gold and farmland values and suggests declining farmland prices (*note his chart below*). Also, the Wall Street Journal in late December published an extensive article on the gold prices (*our chart above*).

Heartland Thoughts

All markets correct themselves and farmland and gold are doing just that. Longer term that is a very healthy sign which gives us an opportunity at a continuing uptrend. The important question is - - how far will markets correct? Gold appears to have found some stability at the \$1,200 per ounce price level. If farmland values correct 10% to 15% as they did in 1998 to 2001 - - that would be healthy. We could see a very positive uptrend resume and everyone has inflation in the back of their mind for the long term. The only way our government can get out of the national debt they are creating is by inflating the economy. Some of us that have experienced inflation are fearful of a super inflation environment which is detrimental to so many. It's a good thing we can't see our future!





Farmland Barometer

2013 PRIME FARMLAND SALES

We have an extensive database showing all farmland transactions across Central Illinois. Here are some examples of those transactions during the past twelve months:

<u>County</u>	<u>Sale Date</u>	<u>Total Acres</u>	<u>% Tillable</u>	<u>Productivity Index</u>	<u>\$/Acre</u>
DeWitt	Mar. 2013	157.65	98.4%	138.8	\$12,400
DeWitt	Apr. 2013	66.50	99.5%	132.9	\$13,600
Shelby	May 2013	134.00	96.5%	142.5	\$13,150
Moultrie	Jun. 2013	160.35	99.7%	136.3	\$12,473
Christian	Jun. 2013	120.00	100.0%	138.1	\$15,300
Piatt	Jul. 2013	281.35	100.0%	138.9	\$13,050
Macon	Aug. 2013	160.17	99.9%	141.6	\$13,000
Logan	Nov. 2013	80.00	99.4%	135.7	\$12,200
Christian	Dec. 2013	120.00	98.0%	142.6	\$12,600
Piatt	Dec. 2013	115.06	99.9%	142.0	\$11,700
DeWitt	Dec. 2013	78.40	98.7%	139.9	\$12,050

Our Heartland Outlook

▼ **World Population** – All of us eat everyday and there are a lot of mouths to feed on the planet. The growth trend has been steady throughout history and will pass the nine billion people marked by 2050 (*up from six billion people today!*)

▼ **Net Farm Income** – Thankfully we had crop insurance last year. Even with rebounding yields in 2013 and normal prospects for this year - - net farm incomes will decline for the first time. That will be negative for farmland values.

▼ **Commodity Prices** – We are hopeful that \$4.50 corn and \$12.00 soybeans can be average prices for the upcoming year. We will have volatile trading ranges.

▼ **Bushels Per Acre** – The underlying dry subsoil conditions in Illinois and Iowa cause us concern. We are projecting positive yield results if weather conditions keep with a normal pattern.

Agriculture operates on the global stage - - we are complex and have a lot of moving parts. Yes - - it's hard to pull it all together and make a simple forecast for our future. At Heartland Ag Group Ltd., we are taking a look at both the short and long term prospects. In the short term - - we see lower commodity prices putting pressure on net farm income which will in turn put pressure on land values. Money is leaving agriculture for alternate investments and that adds to the pressure.

Look for a couple years of readjustment in here. Long term - - we would focus your attention on world population, inflation, and weather trends. In our minds, the short term situation we face is a correction not a bubble. Longer term - - some powerful forces will push land values to all time highs.

Save your Money - - Buy a Farm!