

# Farmland SEASONS

FALL 2012



*We plant profitable investment ideas  
in every season*

## SURVIVING THE DROUGHT OF 2012

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# SURVIVING THE DROUGHT OF 2012

The 2012 growing season started with great promise. After several wet springs, farmers were encouraged by the beautiful, warm spring with normal precipitation. Spring floods and delayed planting were a distant memory. This year, corn and soybeans were planted in a timely fashion. It was setting up to be a good production year to meet a growing world demand. Then, the rain spigot shut off.

Normal rainfall in northern Illinois for May, June and July is around 13 inches. In 2012, those three months saw only 7 inches—not enough to sustain vigorous, high-yielding corn plants. In east-central Illinois in the heart of the drought, it was like a desert. Normally, Decatur gets 13.28 inches of rain May through July. This year, it was a paltry 3.24 inches for the entire three-month period.

Across the Midwest, farmers watched helplessly as the drought spread far and wide. A portion of at least 33 states experienced a severe or worse drought this summer. The low rainfall and high temperatures affected 87% of the corn acres, 63% of the hay land and 72% of the land used for cattle.

However, in our conversations with farmers across the Corn Belt, there is optimism for the future. Our farm operators are reporting corn yields from zero to 240 bushels per acre. Fifteen miles one way or another made a big difference in production this summer. Yes, it was a tough growing season, but we're seeing a resiliency in the



*By early summer, the effects of the drought were already beginning to show up.*

farm community and the outlook for next year appears bright.

## **ETHANOL: POLITICALLY BRUISED**

Ethanol seems to be bearing the brunt of reaction to the drought. Some grain users and politicians are calling for a reduction in the Renewable Fuel Standard requirement which they hope will lower the demand for corn-based ethanol. While that's a popular sentiment in Washington, we think it could cause more problems than it would solve.

Three separate economic studies conclude that lowering the Renewable Fuel Standard requirement won't necessarily reduce the price of corn that much. However these facts are being relatively ignored by the popular press. Washington seems to be looking for an easy target to show it is doing "something" to help drought sufferers. But the unintended consequence will likely make the ethanol industry more unstable, and in the end that could hurt rural America.

The recent stability in the ethanol industry has enhanced American agriculture, and many livestock producers have adopted corn-based ethanol by-products into feed rations. Thirty-seven percent of the corn used to make ethanol is recycled as feed for livestock. Before the establishment of the ethanol industry, American farmers consistently went through boom and bust years as they frequently produced more than the U.S. or the world needed. The answer to a drought year is not to inject more uncertainty into the marketplace.

What is often ignored by opponents of the RFS is that maintaining the 13.8 billion gallon Renewable Fuel Standard for 2013 can be met by the industry with current expected supplies of corn. In fact, there already is a "cushion" built into the standard. Since gasoline producers have in the past blended more ethanol than was required by the Renewable Fuel Standard, they've built up credits for future years.





The oil/gasoline industry has enough “credits” built up from ethanol purchases in past years to offset 2.6 billion gallons of the required fuel standard. So, the industry would need to produce as little as 11.2 billion gallons of ethanol this year to meet the current Renewable Fuel Standard.

Also, the oil industry is geared toward using ethanol in 10% of its gasoline as an octane enhancer. This goes back to the 1990 Clean Air Act that requires the fuel industry to sell a cleaner blend of fuel in heavily populated areas. Consequently, a third of U.S. gasoline must contain ethanol to meet these requirements. Ethanol is cheaper and more available in larger quantities than other octane boosters.

Ethanol blenders do not have any price incentive to lower their blend rates because ethanol futures prices are still lower than gasoline futures. Recent economic studies have shown that corn futures would need to get as high as \$10 per bushel to make ethanol too expensive to blend.

It would be an over-reaction and could cause more market variability if the government makes changes to the Renewable Fuel Standard. It is most advantageous to keep all the pieces in the user “pie” of grain.

In this tight supply year, all grain users are cutting back (even without reducing the fuel standard) because profits are limited. The ethanol industry is adjusting to the marketplace on its own. We hope Congress gets the message that we need to maintain

market stability through policy. No one benefits from inconsistent rules.

#### **CROP INSURANCE KEEPS FARMERS AFLOAT**

The major safety net for farmers this year was crop insurance. That will keep most farm operators in business after a disastrous summer. USDA estimates more than 80 percent of the acres of major field crops are covered by federal crop insurance. Also, the move in recent years toward revenue (not just yield) protection for crop insurance has helped farmers maintain financial viability, especially in this year of record high corn

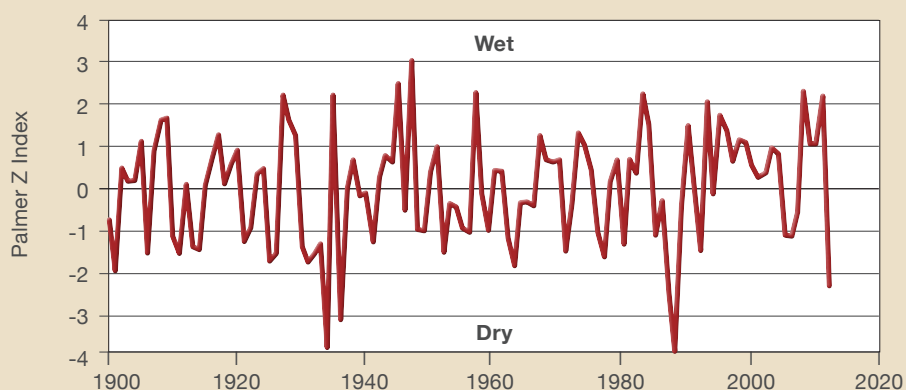
and soybean prices. Most farmers chose to insure both yield and price on their crops. In a year with high commodity prices such as this year, price protection, in addition to yield protection, will provide an extra economic cushion for farmers.

The tight global supplies of corn and soybeans, made scarcer by the U.S. drought, will underpin commodity prices for the next year. Overall, crop farmers are optimistic about 2013.

#### **GRAIN DEMAND WILL BE RATIONED**

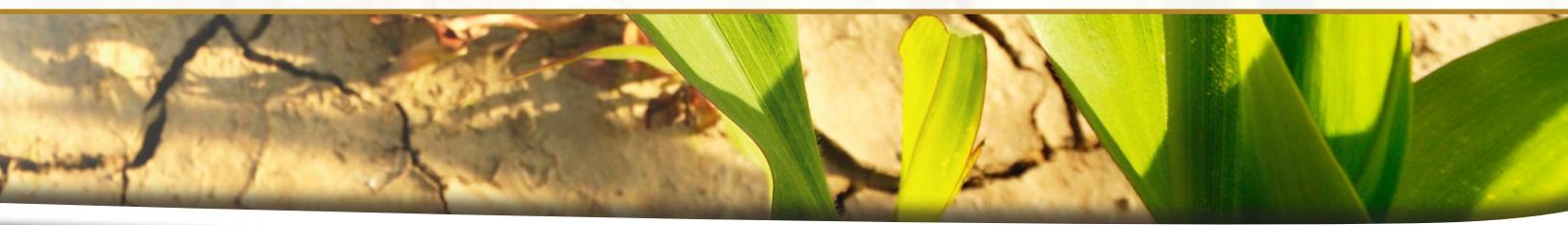
Those suffering most from this year’s

#### **PRIMARY CORN AND SOYBEAN BELT: PALMER Z INDEX (APRIL-JUNE, 1900-2012)**



*The Primary Corn and Soybean Belt was especially hard hit by drought during the four months ending in July. This region, collectively, experienced the second warmest and sixth driest April-July in 2012, resulting in the fourth most severe Palmer Z Index (behind 1934, 1936 and 1988).*

SOURCE: NOAA NATIONAL CLIMATIC DATA CENTER





drought are livestock producers. USDA has opened up areas for haying and grazing, such as land in the Conservation Reserve Program. Also, USDA and the Small Business Administration have low-interest loans for producers and small business owners hard-hit by the drought.

That will help some livestock producers

hold on to their core breeding stock, but there will be some lean years in livestock production moving forward. Projected feed use of corn is expected to drop back to levels not seen since 1995.

Other end users planning to buy less American corn and soybeans are overseas buyers. As you can see in the accompanying

chart, USDA slashed its corn export projection by 16% compared to last year's exports—dropping corn exports to the lowest level since 1993. However, China is still gobbling up our soybeans, and those exports have remained relatively strong.

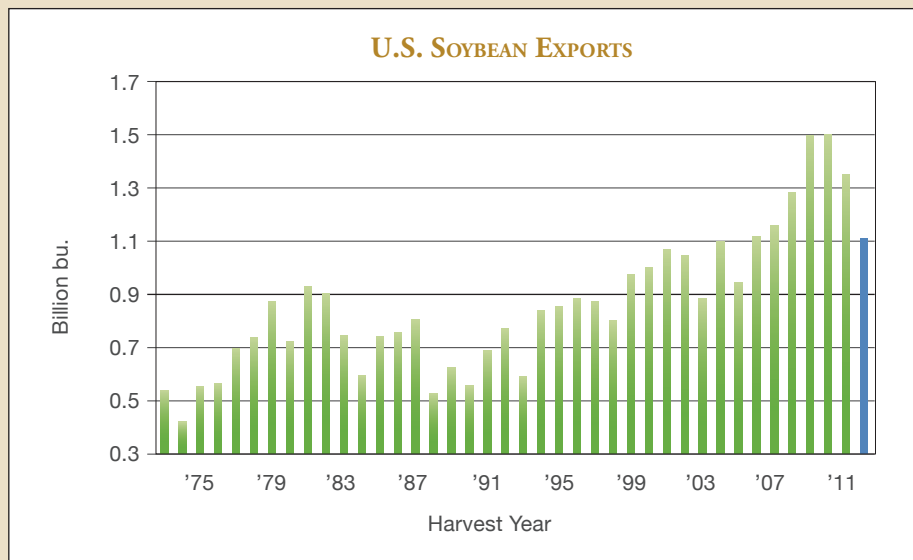
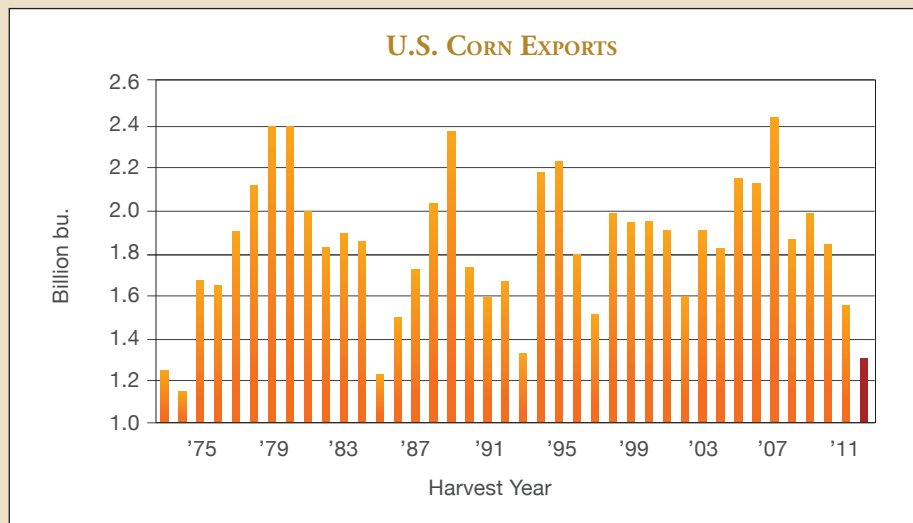
#### FOOD PRICE INFLATION DELAYED

Initially, the drought should mean lower meat, dairy and poultry prices this fall. As producers cull their herds, because feed costs are too high to be profitable, more animals are being sent to market. So, it will likely be 2013 when we will see higher meat, dairy and poultry prices. In 1989, following the 1988 drought, meat prices rose 8%. Economists are expecting a similar level of increase in meat prices next year.

The full effect of higher corn prices on packaged and processed foods will likely take 10-12 months to move through to retail food prices. And even then, the effect may be muted. Historically, if the price of corn increases 50%, retail food prices (as measured by the Consumer Price Index) increase about 0.5% to 1%.

The Federal Reserve Bank of Kansas City predicts a 4% increase in the CPI for food this year over last year. USDA predicts overall food price inflation to be between 3% and 4%, with increases centralized in animal products—eggs, meat and dairy. That level is below the inflation spikes in 2004, 2007, 2008 and 2011.

### CORN AND SOYBEAN EXPORTS LIMITED BY 2012 DROUGHT



SOURCE: USDA, WASDE REPORT



#### LONG-TERM INFLATION EFFECTS MUTED

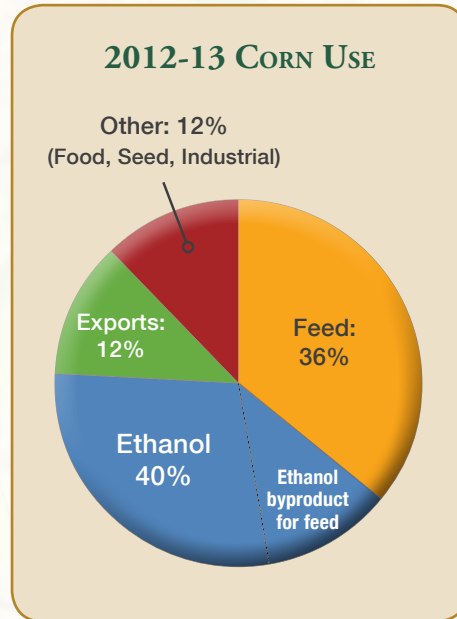
Will we see high food prices ignite the engine of inflation in the general economy? Is this the “Black Swan” event that will worry the Fed? *No. It’s not even close.* Even with a 4% increase in food costs, that will only moderately impact the overall inflation rate.

Food accounts for only 14% of the overall Consumer Price Index. Thus, a 4-percent rise in retail food price inflation would contribute 0.6 percent to overall inflation. Americans spend less than 10% of their household income on food. A small increase in food costs, while not desirable, is not going to inflict significant damage on the economy.

Even the inflation situation overseas is better than it was in 2008. One big difference between this year and the international food crisis in 2007-08 is the total food supply isn’t as tight as it was then. Consumers have other foods to choose from, other than corn.

Global rice supplies are plentiful to meet demand. Despite India’s delayed monsoons, the rice crop there is expected to produce a surplus for exports. Additionally, rice production increased in China, Indonesia, Thailand, Australia, and in Africa. Global rice production estimated at 483.1 million tons will be enough to meet the 474 million ton demand estimated for 2012-13.

Also, global inventories of wheat will buffer the lower production levels mainly



SOURCE: USDA

caused by drought in Russia and former Soviet countries. World inventory for wheat was 197 million metric tons (MMT) at the beginning of wheat’s marketing year. Production this year is estimated to be 5% lower than last year, but up 2% from 2010-11. USDA estimates there will be 177 MMT of wheat in excess of demand going into next year’s crop season. That should prevent a repeat of the 2007-08 international food crisis.

Going back to our ethanol argument: Ethanol is not starving humans, and the

2012 drought in the U.S. should not have a major inflationary impact on total food costs around the world.

#### POSITIVE OUTLOOK FOR NEXT YEAR

Despite the drought, the resiliency of American agriculture is strong. Our recent auctions and land sales have been at all-time highs. We’re seeing increased interest from both domestic and international investors looking for a stable investment. American investors are dealing with anemic interest rates and poor investment opportunities in our weak economy. They recognize the strength in commodity markets and view farmland as a safe investment with upside potential. Additionally, European investors are worried about the stability of the Euro currency and are looking to diversify into secure, dollar-denominated investments that hedge against inflation.

It was a tough summer in the Midwest as the drought slowed down a go-go land market. Even though there is less exuberance in the market because of the drought, land prices have remained stable. Overall, commodity markets indicate strength in grain prices moving forward, the supply of land available for sale continues to be limited, and buyer demand remains persistent as farmland is viewed as an investment of choice among farmers and investors worldwide.

*“The full effect of higher corn prices on packaged and processed foods will likely take 10-12 months to move through to retail food prices. And even then, the effect may be muted. Historically, if the price of corn increases 50%, retail food prices (as measured by the Consumer Price Index) increase about 0.5% to 1%.”*



## 2012 DROUGHT IMPACTS MUCH OF UNITED STATES

The historic drought of 2012 has left its mark on much of our country's farmland. Those of us in the Midwest have seen the impacts first hand. Drought-stricken corn and beans are the norm throughout the countryside. Let's take a closer look at some observations in our core service area:

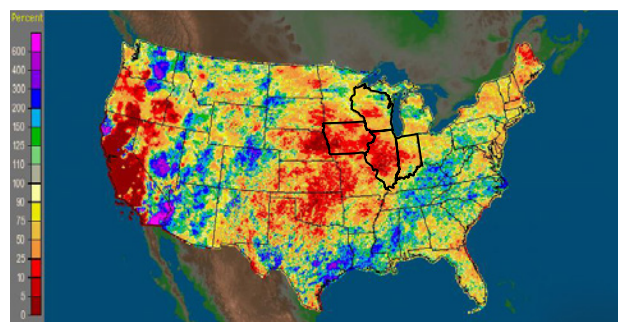
### IOWA

Based on the first nine months of the year, the Iowa Environmental Mesonet estimates that 2012 will come in as the third driest year on record since 1893, only being overshadowed by 1894 and 1988. We've observed very dry harvest conditions in Iowa and are hopeful for a wet fall and winter season to replenish soil moisture in time for 2013 planting.

### ILLINOIS

On August 1st, 66 Illinois counties were added to the USDA list of primary natural disaster areas, bringing the total number of counties with disaster status to 98 (of 102 Illinois counties). The four counties not included in the list are the Chicago collar counties—counties containing little ag land. Our summer tours through the Illinois countryside only confirmed the USDA assessment, with Central Illinois being the heart of the drought.

July 2012 Monthly Percent of Normal Precipitation



SOURCE: NATIONAL WEATHER SERVICE

### WISCONSIN

Many of the livestock producers we work with are reducing their herd size to survive the drought's impacts. In the hardest-hit areas, many producers fear not having enough feed available to keep their animals productive through spring 2013. Those farmers continue thinning herds by selling their lower producing stock.

### INDIANA

We've noted a wide range of conditions throughout the farms we manage and sell in Indiana. There are dry areas, and areas that received adequate rainfall. Cumulative rainfall in the state for 2012 has been 57% of normal.

## MARTIN, GOODRICH & WADDELL, INC. RANKED AS ONE OF AMERICA'S BEST BROKERAGE & LAND AUCTION FIRMS



We are pleased to report that our firm was recently named as one of "America's Best Brokerages" by *The Land Report*, "The Magazine of the American Landowner". Their second annual survey of the country's leading real estate firms specializing in land noted our depth of expertise, specifically our experience in farmland, transitional land, development land, and recreational land.

The editors of *The Land Report* also ranked Martin, Goodrich & Waddell Inc. as one of the "Top 30 Auction Houses" in the nation. Besides naming us as one of the top auction houses in

the country, the report goes on to say, "The firm was established in 1975. It offers auction and brokerage services in addition to appraisals and management of agricultural properties." *The Land Report* also stated, "The firm combines close to 40 years of experience with data-driven marketing in an ideal combination of instinct and technology."

We are pleased to be recognized as one of the best brokerage and land auction firms in America, and we look forward to continually improving our ability to deliver the best service and results in the industry.

# Martin, Goodrich & Waddell LAND LISTINGS

All acreage and mileage figures listed here are approximate

## ILLINOIS PROPERTY

### BOONE COUNTY

- 108.3 acres. **Belvidere Farm**, 1.25 mi. N of Belvidere. \$7,450/ac.
- 50 acres. **Nimtze Farm**, contiguous to the city of Belvidere. \$13,500/ac. *Sale pending*

### BUREAU COUNTY

- 81.9 acres. **Dalzell Farm**, 3 mi. W of LaSalle. \$6,900/ac. **SOLD**

### CHAMPAIGN COUNTY

- 182.8 acres. **Maria Krpan Farm**, 28 mi. NE of Champaign. \$10,400/ac.

### COLES COUNTY

- 130 acres. **Hasselmann Farm**, 7 mi. SE of Arcola. \$11,500/ac. **SOLD**

### DEKALB COUNTY

- 73 acres. **BJM Enterprises LLC Farm**, 2 mi. W of Hampshire. \$7,100/ac. **SOLD**
- 84.8 acres. **William Duriavich Estate Farm**, 6½ mi. W of Genoa. \$4,750/ac. *Sale pending*
- 45.8 acres. **Linden Estate Farm**, ½ mi. W of Sycamore. \$9,900/ac. **SOLD**
- 192.2 acres. **Boddy Farm**, contiguous to the City of Sycamore. \$10,900/ac.
- 160 acres. **Orchard Farm**, 5 mi. N of Somonauk. \$10,200/ac. **SOLD**

### JO DAVIESS COUNTY

- 163 acres. **Mary Zemon Farm**, 1¼ mi. NW of Blanding. \$3,700/ac. **SOLD**
- 160 acres. **Hepperly Farm**, 7 mi. SE of Scales Mound. \$6,900/ac.

### KANE COUNTY

- 94 acres. **Gurke Farm**, 3.6 mi. W of Elgin; abuts forest preserve. \$18,000/ac. **SOLD**
- 26.6 acres. **Ridgefield of Huntley Farm**, 1 mi. SE of Huntley. \$24,900/ac.

### LA SALLE COUNTY

- 38.5 acres. **Katz Farm**, contiguous to the City of Mendota. \$24,500/ac.
- 15.3 acres. **Little Indian Creek Farm & Home**, 4 mi. SE of Leland. \$319,000
- 79 acres. **Ottawa Property**, ½ mi. E of Ottawa. \$3,835,000
- 43.1 acres. **Corcoran Farm**, 8¾ mi. E of Mendota. \$11,900/ac.

### LEE COUNTY

- 36 acres. **Shaddick Farm**, 4 mi. S of Paw Paw. \$7,775/ac. **SOLD**
- 45 acres. **Nefstead Farm**, 3 mi. S of Rochelle. \$10,750/ac. *Sale pending*

### McHENRY COUNTY

- 41 acres. **Prairie Point Land Development Farm**, ¼ mi. N of Johnsburg. \$11,500/ac. **SOLD**
- 117.5 acres. **Fergen/Hart Farm**, 1½ mi. NE of Spring Grove. \$10,900/ac. *Sale Pending*



## OUR FEATURE FARM

**TARPEY TRUST FARM, \$6,200/ac.**  
**STEPHENSON COUNTY, IL.**

**211.8 acres. Contiguous to the city of Freeport. ¼ mile S of Illinois Route 75 and 1 mile W of U.S. Route 20. The property contains a house, garage, and three grain bins, and is 81% tillable.**

- 182.8 acres. **Elias Trust Farm**, 4 mi. W of Huntley. \$9,900/ac. **SOLD**
- 199.1 acres. **Sangiorgio Farm**, 2 mi. N of Union. \$14,900/ac.
- 58 acres. **Coon Creek Farm**, 5 mi. S of Marengo. \$7,750/ac.

### OGLE COUNTY

- 76.2 acres. **Kishwaukee Road Farm**, ¾ mi. E of Byron. \$7,350/ac.
- 274 acres. **Oak Grove Road Farm #1**, 8 mi. SW of Winnebago. \$8,250/ac. **SOLD**
- 52.7 acres. **Kishwaukee Road Farm #4**, 1 mi. E of Byron. \$7,200/ac.

### STEPHENSON COUNTY

- 149.3 acres. **Windmill Farm**, 1¼ mi. E of Freeport. \$10,900/ac.
- 211.8 acres. **Tarpey Trust Farm**, Contiguous to the city of Freeport. \$6,200/ac.

### WILL COUNTY

- 30 acres. **Green Garden Farm**, 4 mi. S of Frankfort. \$12,900/ac. **SOLD**
- 78.5 acres. **Smith Road Farm**, 2 mi. E of Manhattan. \$22,900/ac.
- 128.2 acres. **Watermark Farm**, 4 mi. S of Frankfort. \$11,500/ac. **SOLD**

### WINNEBAGO COUNTY

- 93.9 acres. **Castle North Farm**, contiguous to the City of Rockford. \$8,900/ac.
- 97.4 acres. **Castle South Farm**, contiguous to the City of Rockford. \$7,900/ac.
- 14.7 acres. **Tipple Road Farm**, ½ mi. W of Rockford. \$7,900/ac. *Sale Pending*

## INDIANA PROPERTY

### LAKE COUNTY

- 135.5 acres. **Crown Point Farm**, Crown Point. \$16,975/ac.
- 81 acres. **Minder Farm**, 2 mi. E of Merrillville. \$12,900/ac.

### NEWTON COUNTY

- 98 acres. **Roselawn Farm**, contiguous to the city of Roselawn. \$7,000/ac. **SOLD**
- 100 acres. **Hummingbird Farms on Hummingbird Field**, 1½ mi SE of Lake Village. \$8,500/ac.

## WISCONSIN PROPERTY

### IOWA COUNTY

- 180 acres. **Alton West Farm**, 7 mi. W of Mineral Point. \$3,150/ac. **SOLD**

### LA FAYETTE COUNTY

- 831 acres. **Elk Farm**, 6 mi. S of Mineral Point. \$3,350/ac. **SOLD**

### LINCOLN COUNTY

- 152.4 acres. **Behling Family LLC Property**, 7 mi. E of Tomahawk. \$281,000
- 40 acres. **Michalski Property**, 9 mi. NW of Tomahawk. \$149,900

## AUCTIONS

- 309 acres. **Vern A. Davis Trust Farm**, 5½ mi. SE of Durand, IL. **SOLD**
- 210.1 acres. **Kishwaukee Road Farm #2**, 5 mi. SW of Rockford, IL. **SOLD**
- 176 acres. **Silvanus-Peterson Farm**, 2 mi. S of Kirkland, IL. **SOLD**
- 74.5 acres. **Mt. Pulaski Farm**, 6 mi. W of Latham, IL. **SOLD**
- 68.8 acres. **Johnson Farm & Home**, ¼ mi. W of Shabonna Lake State Park. **SOLD**
- 190 acres. **Quenett Farm**, 4 mi. NE of Genoa, IL. **SOLD**
- 165 acres. **Highway 20 Farm**, Contiguous to the City of Rockford, IL. **SOLD**
- 82.6 acres. **Carley Farm & Home**, 1 mi. NE of Sycamore, IL. **SOLD**

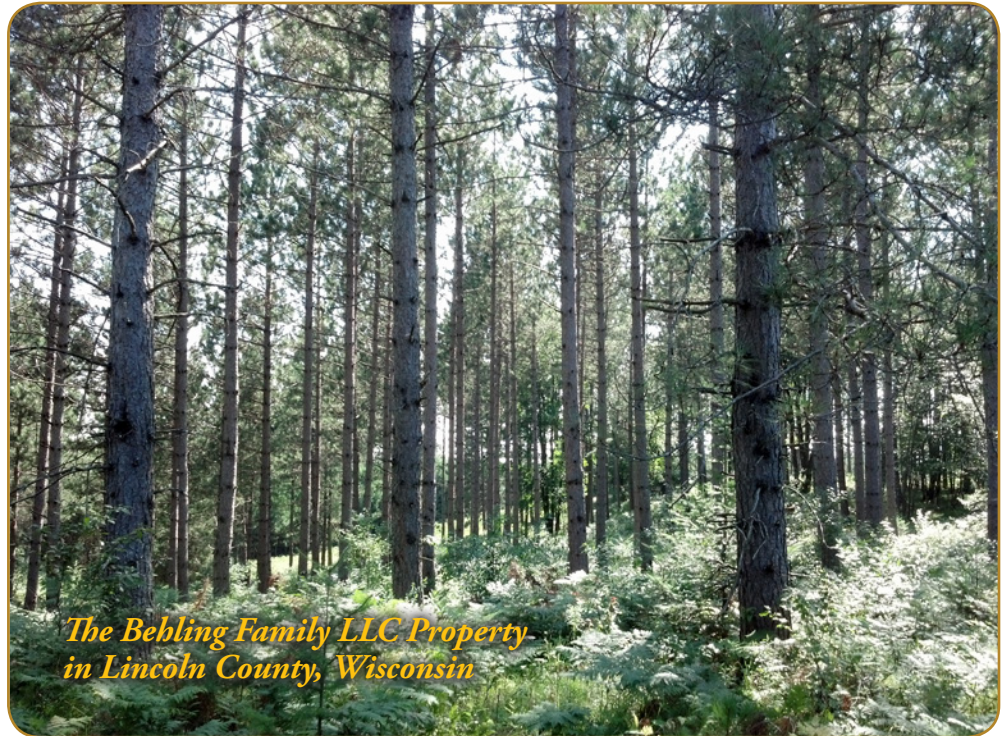
*For details on these properties, call Jeff Waddell, Josh Waddell or Mark Mommsen at 815-756-3606 or visit our website at [www.mgw.us.com](http://www.mgw.us.com).*



# MGW LAUNCHES TIMBER DIVISION: NEW OFFICE NOW OPEN IN TOMAHAWK, WISCONSIN

As I've mentioned many times in *Seasons*, our central goal at MGW, Inc. is to provide the marketplace with a full service agricultural real estate company that strives for excellence in all facets of land sales, appraisal, and management. As our clients' investment needs have broadened, we have expanded our services into new crops, regions, and most recently into timber. In the fall of 2011 we began working in several southern states including Kentucky, Tennessee and Alabama with diversified investments that included harvesting and marketing timber. We continue our work in Appalachia with excellent local professionals in the logging and timber mill business who have helped us establish a base for doing business in the region. In that spirit, we sought to explore the possibility of similar expansion into the vast forestlands of the Great Lakes states. After months of research and exploration, we made the decision to expand into Northern Wisconsin where we can service Minnesota, Wisconsin, and Michigan from a centrally located office. I am very pleased to announce that we now have a full service office in Tomahawk, Wisconsin, and our team has gained impressive momentum in a few short months. I'd like to provide our readers with a brief overview of the timber market in general and the services we offer through our Tomahawk office.

The key to success in any venture is the quality and shared vision of the individuals involved. When we made the decision to open an office specializing in timber, it was paramount we find a person of the utmost quality and experience who shared the fundamental goals and priorities we've implemented over the last 40 years. We are lucky to have found such a person in Jon Long. Jon is the managing broker of our Tomahawk office, and he brings extensive knowledge of wildlife, soil, and timber production to our team. Jon received degrees in Natural Resource Management and Natural Science at the University of Wisconsin, Stevens Point, and for the last seven years, Jon has put his training to work as both a land appraiser and most recently a land broker. Over the last 18 months alone, Jon has brokered thousands of acres of production timber and recreational land in the Lake States region. When asked



*The Behling Family LLC Property  
in Lincoln County, Wisconsin*

to comment on the market, Jon explained, "There is very steady activity in the timber market today. Investors have been drawn to the solid returns, built-in inflation hedge, and historical stability that is offered by timber production."

Not unlike agricultural land, timber acts as a safe and solid investment that has excellent upside potential. Timberland values have risen steadily since the 1990's, and many land owners may wish to consider diversifying their land portfolio by including some production timberland. We look forward to keeping our readers apprised of new developments in the timber market and of all new listings from our Tomahawk office.



Jeff Waddell  
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