

QUICK TAKES

DIRECT PAYMENT CUT PROPOSAL "DEAD" — House Agriculture Committee Chairman Collin Peterson told a farm conference last week that President Barack Obama's plan to save \$1.05 billion by ending direct payments to farmers with sales of more than \$500,000 is "more than dead on arrival." (See story from Leaders to Washington trip on page 3).

The Minnesota Democrat said the plan won't work for growers of corn, soybeans, and other crops and stands no chance of passing Congress. He said the proposal was a misguided idea from "some bean counter" at the Office of Management and Budget.

"This is a very stupid idea," Peterson said. "If you've got a 100-cow dairy, you're probably going to have over a \$500,000 gross (income). So you'll probably surprise the Minnesota 100-cow dairyman that he's a millionaire."

Peterson said he has personally expressed his views to Obama, Vice President Joseph Biden Jr., White House Chief of Staff Rahm Emanuel, and Agriculture Secretary Tom Vilsack.

CREDIT WORTHY — Normal-based First Farm Credit Services reported a net income from core operations of more than \$51 million in 2008 — the largest in the association's history. Also, for the first time, First Farm Credit Services' owned and managed loan and lease volume surpassed \$3 billion.

In light of the volatile national economy, First Farm Credit Services also reported a capital position that grew by \$48 million.

"First Farm Credit Services remained rooted in agriculture and achieved a number of milestones in 2008," said Gary J. Ash, president and CEO of the association. "Our success reflects our association's financial strength and continued dedication to rural America, as well as the strong agriculture economy."

The 2008 financial results were released last week in the association's annual report. More than 10,000 clients in the northern 42 counties of Illinois are served by the association through 18 branch locations.

ETHANOL SUPPORT — Last week, President Obama stopped short of saying whether his administration would bail out the struggling ethanol industry by increasing the amount of the additive that can be blended with gasoline.

"Corn-based ethanol over time is not going to provide us with the energy-efficient solutions that are needed," Obama said, however.

Obama said he wanted to maintain the "progress we've made in building up a biofuels infrastructure and the important income generation that has come from ethanol plants."

FARM ECONOMY

Land still 'rock-solid investment'

BY DANIEL GRANT
FarmWeek

Farmland values in recent months have exhibited downward pressure in some areas due to the spiraling economy.

But overall prices and returns for farmland still are strong, according to Murray Wise, CEO of the Westchester Group — a global agricultural management company that has an office in Champaign.



Murray Wise

"I see land as a rock-solid investment," Wise told FarmWeek last week at the WILL Ag Outlook meeting in Covington, Ind. "I think land will hold its own (value-wise) and parallel inflation" in the coming year.

The National Council of Real Estate Investment Fiduciaries recently announced its index of ag property investments in 2008 produced a 16.3 percent return, which was its fifth consecutive double-digit return.

Wise believes the value of farmland more recently has leveled off, by as much as 6 to 12 percent in some areas, but it likely will continue to produce a positive return.

"Right now people are looking for a safe haven for their money," he said. "A return from farmland of even 3.5 percent makes a pretty attractive investment today."

But investors aren't the only ones eyeing farmland.

Wise noted farmers' average debt-to-asset ratio currently is only 9 percent compared to 22 percent in the 1980s, and said he believes farmers will remain a force in the market.

However, some farmers who cash rent their ground may have to negotiate better rates or restructure their rental agreements.

"In 2008, a lot of leases were renewed at values higher than an economic rate would indicate," Wise said.

Westchester Group restructured the majority of its cash rent arrangements to a flexible lease that has a base rate with the possibility of higher payments depending on economic conditions.

"We think that will take the volatility out of it," Wise said.

Otherwise, farmers who signed high cash rent agreements and don't have any flexibility worked into the contract may want to renegotiate their rate for next year as the outlook for farm income has diminished since last year.

"Cash rents generally have always increased," said Bob Boesdorfer of First Midwest Bank in Danville. "But maybe after 2009 it may be a year to negotiate some rents back down."

Farmers should track the income and expenses for each of their farms to put themselves in position to negotiate cash rental rates in the coming year, Boesdorfer added.

Central Illinois farmland sale nets \$6,464 per acre

The farmland market in Illinois appears to be holding up for the time being, despite the economic recession.

More than 150 people last week attended an auction of 116 acres (107.7 tillable) of farmland in Piatt and Moultrie counties.

The top two bidders paid a combined \$750,000 for the ground, Westchester Auctions of Champaign reported.

The selling price averaged \$6,465 per acre (\$6,963 per tillable acre).

The bids were down from

prices last year that peaked at \$7,000 to \$8,000-plus per acre.

But the sale price still was well above the average value of farmland in the state, which last year increased 16 percent to \$5,000 per acre, according to the Illinois Agricultural Statistics Service.

A large sale of farmland (4,000 acres) in Macoupin and Montgomery counties used to gauge the market earlier this year brought an average of about \$6,000 per acre for a total of \$24 million.

Analysts: Economy will continue to shape ag markets

Commodity traders and analysts as always will keep a close eye on upcoming events such as the March 31 USDA planting intentions report and spring weather as indications of potential price swings.

But what is having and will continue to have the largest influence on the ag markets for the foreseeable future is the world economy, according to market analysts who spoke last week at the WILL Ag Outlook meeting in Covington, Ind., and at the Busey Bank farm outlook seminar in Bloomington.

"It's no longer about supply and demand," said Dan Basse, president of AgResource Co, who noted the current state of the U.S. economy has been labeled a "repression," which is something between a recession and a depression.

Two of the market bubbles that burst, which helped create the repression, are the U.S. markets for housing and credit, said Basse.

He estimated anywhere from \$44 trillion to \$47 trillion in world wealth was lost in the past year.

"All of this caused grain

markets to see tremendous liquidation," he said.

Glen Ring of Glen Ring Enterprises in Cedar Falls, Iowa, said the economy/ag markets are in a deflationary cycle that may last into 2010.

"In a normal economy, we'd be expecting a bounce right now" in commodity prices as uncertainty hovers over the upcoming planting season, Ring said.

Instead, commodity prices last week remained anywhere from 30 to 50 percent off highs reached last year.

Wayne Nelson of L and M Commodities in New Market, Ind., noted that factors such as tight supplies and reduced exports from South America

seemingly could set the soybean market up for a rally if U.S. planting weather is questionable.

"But then you look at the stock market, the dollar, and crude oil, and they're keeping everything in check," he said.

Each analyst predicted crop price rallies are possible in the current environment, although probably not to levels experienced last year. But each also recommended farmers pursue various risk management/marketing strategies to protect themselves from downside risk.

"There is a real return to management, particularly in this environment," Basse said. — Daniel Grant

Horse Fair draws record crowd

The Illinois Horse Fair held this month at the Illinois State Fairgrounds in Springfield attracted a record crowd, the Horsemen's Council of Illinois (HCI) reported last week.

The event, which was canceled last year due to electrical problems at the fairgrounds, drew more than 10,000 horsemen.

This year's horse fair in-

cluded an all-new Ranch Rodeo that was sold out.

The Ranch Rodeo, sponsored by Purina, featured teams that competed in cowboy skills events.

"A great turnout (for the horse fair) and our sold-out new Ranch Rodeo helped us recover some of our losses" from last year, said Frank Bowman, HCI president.



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