



## Spring 2016 Market Update

Farm Industry  
Market Trends  
Heavy Equipment,  
Land & Cash Rents



Selling Land & the Equipment to Farm It Since 1960



## Market Valuation and Trend Line Observations

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### About Steffes Group

Steffes Group is a nationally recognized leader in the auction industry. We perform On-Site & Online Auctions, Large Agtron Events, Real Estate Auctions, Farm Asset Management, and Equipment Appraisals.



## Overall Market Trend

Dear Reader,

Welcome to the Spring 2016 Market Update provided by the Steffes Group.

Knowledge is power and here at the Steffes Group we've always felt it important to share information, share trends, and share data so everyone in the industry can benefit. In these pages you will find some interesting facts, some observations, and some opinions based on what we see on the front lines of the farm equipment and farm real estate markets. Operating in the auction world gives us first hand, real time information as to market trends; what's hot and what's not. By the very nature of auctions operating in real time, cash today world, we always see trends as they happen first. Auctions are first up and first down and truly the ultimate expression of what remains of the American free enterprise system.

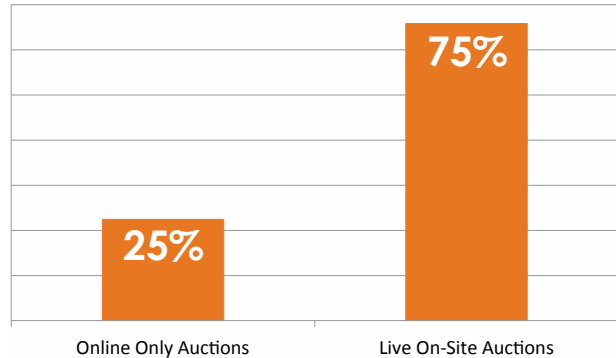
Unfortunately, what we've seen these last several months is a continued weakness in markets totally reflective of the significant changes in what farmers get for their crops. Six dollar corn is much different than \$3.50 corn and it seems the downward market adjustment is trying to find a balance to survive in the \$3.50 economy. It has been, and will continue to be, quite an adjustment.

The result of market changes, at least for fall of 2015, were a number of scheduled farm retirement auctions. These retirement auctions were typically of long-term farm operations with no successor in place, strong balance sheets, and the belief there was no incentive or profit potential that would outweigh the risk of continuing. Each operator we were involved with unanimously confessed surprise at the demand for their lands for rent and the price achieved as compared to their expectations and previous history.

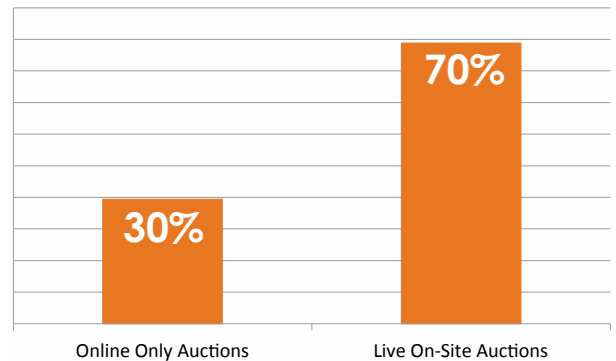
We also saw proactive selling from continuing operations who sold equipment for a variety of reasons. First, to potentially shore up losses and to free cash flow. Second, we saw aggressive selling, right at year end, for fear of Spring markets and what's ahead. Third and finally, was the fear of the inability to make impending payments or cash flow them. We saw our greatest activity in North Dakota and Minnesota. The smaller farms in the Corn Belt seemed to be less affected with very little selling pressure especially in Iowa.

Dealer inventory, although still abundant, has diminished and major manufacturers are all slashing production. Dealers are adjusting prices, offering leases, and being much more aggressive as compared to Spring 2015. Don't expect the current glut of used machinery to linger or a repeat of the 1980's when new inventory sat on lots for sometimes months and years. Going forward we feel the

### 2010 Sales: Online Only vs. Live On-Site Auctions



### 2015 Sales: Online Only vs. Live On-Site Auctions



current abundant supply will slowly diminish through 2017 and believe late model equipment sold in 2015 will be sold for higher prices in 2017.

On the equipment side, the last quarter of 2015 saw above average market activity and improvement to Summer sales. We attribute this to excellent production in most of our trade areas, (think bushels in the bin), and excellent quality of the equipment available. Those farm retirement auctions saw late model, quality, well-cared for equipment not typically available, especially these last several years when everyone was in the expansion mode and used equipment was scarce. Buyers are more comfortable purchasing used at the point of use, in the location of use, talking to the man/woman who ran it. We have coined a phrase taken from the livestock industry, "that equipment has a pedigree".

(continued on next page)



The margin is still wide between the farmer-owned piece and the unit available at a dealer reduction auction, even though the features and statistics show the items similar. Another noted observation is price point, where older 4th, 5th, and even 6th generation equipment with good utility and quality care saw marked improvement and demand as compared to 12-18 months ago. We see this especially on tractors where horsepower is the utility and not technology.

### Real Estate

On the real estate side there still seems to be no more valued asset than good quality farmland. We see a "fickle" market going forward and more of what has been experienced through 2015. Sellers are refusing to sell for the new discovered value and at the same time isolated sales showed prices at or near market highs! Going forward you will see land "for sale" dwindle as most sellers simply won't liquidate at current values unless there is a triggering event or a force. There is little doubt values will adjust as rents come down, but for right now rents are inverted and values are holding, in most cases, less than a 10% adjustment.

Iowa land values have been the least affected and show the greatest demand. Highly productive land is also the least affected and we expect pasture values to adjust abruptly or go off market rather than stay at current levels. Right now investors seem to be driving the markets as land is more attractive than a volatile stock market or unattractive bonds. We especially see this to be true with older people who have farming backgrounds and cash.

Land rents as stated are still very strong, although, trending downward from the highs of 2012. It's a battle between operators who see negative cash flows and land owners looking to hold their returns on investment. It's been surprising on how many renewals have occurred for three year terms. Our farm retirement clients, for Spring of 2016, have commented on how land they were renting was swooped up by operators at levels higher than what they were paying! It doesn't make sense in the short-term but the ability to control land and accumulate acres for farm base is highly attractive to farmers in it for the long run.

## What's In Store?

Right now there isn't anything in the marketplace to change the downward pressure in all phases of the ag markets. We are seeing many more farm retirements scheduled through the Spring season, however, most with strong balance sheets. We have not scheduled one farm retirement yet where selling land was considered.

We also believe we will sell equipment for farmers in 2016 who don't know it yet. There will be several hard decisions in the coming months as there can be no expectation of the prosperity previously experienced given the current commodity structure.

Those 30% of the farmers who are aged 65 and older will struggle for the incentive to continue if there is no successor. These farmers will create great opportunities for young farmers as they look for that successor or an exit strategy.

We believe it will take two years to allow markets in land values to fully adjust and we also believe machinery values have already been adjusted substantially with a potential for another 10-15% down. In the coming months "cash will be king" and those farmers who aggressively adjust their costs to reflect current markets the quickest will benefit the most. We also feel the operators with strong balance sheets will have excellent opportunities and little competition for attractive expansion the next few years.

Finally, the role of lenders in the ag economy will play a vital role in the severity of any future corrections. Shrinking money supplies or lack of participation will greatly affect what happens with many farm operations. A balance of short-term leverage with aggressive cost cutting should be the answer.

Another alternative, of course, is to consider a disruption in the current cycle by a weather incident or a political move here or someplace else in the world. Six dollar corn, ten dollar wheat, and twelve dollar beans will kill many ills.

Kind Regards,

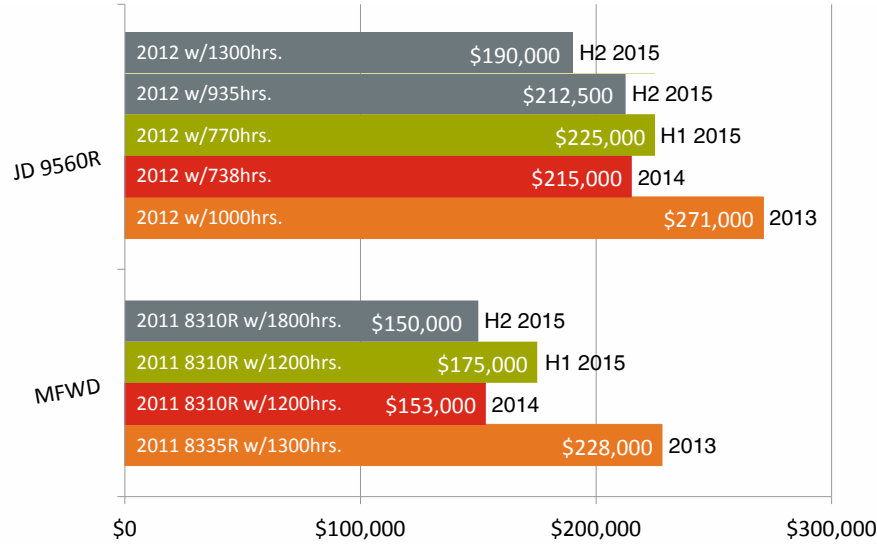
Scott Steffes  
President  
Steffes Group, Inc.

## Our 2015 Auction Footprint

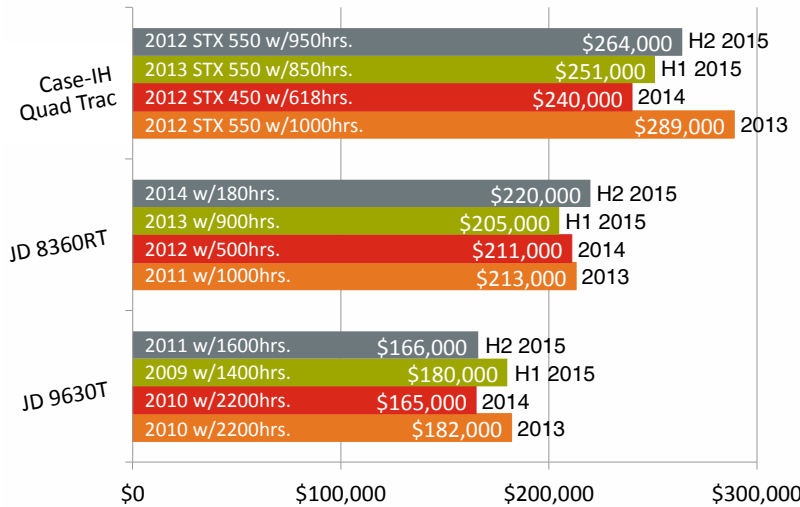




**4WD & MFWD: Selling Price**



**Track Tractors: Selling Price**



**Tractors: 2009 & Newer**

| Year         | 2013     |           | 2014     |           | 2015     |           |
|--------------|----------|-----------|----------|-----------|----------|-----------|
|              | # of pc. | ASP       | # of pc. | ASP       | # of pc. | ASP       |
| <b>4WD</b>   | 31       | \$208,100 | 37       | \$173,100 | 35       | \$170,871 |
| <b>Track</b> | 14       | \$198,500 | 23       | \$205,417 | 28       | \$193,428 |
| <b>MFWD</b>  | 30       | \$140,820 | 79       | \$115,220 | 70       | \$117,623 |

\*ASP = Average Selling Price # of pc. = Number of Pieces

**Tractors: 4WD/Track/MFWD**

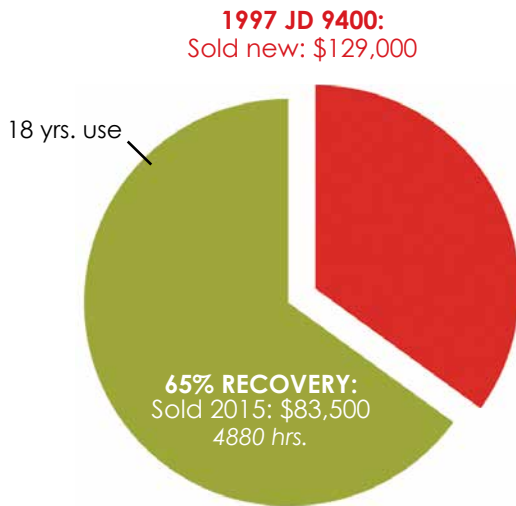
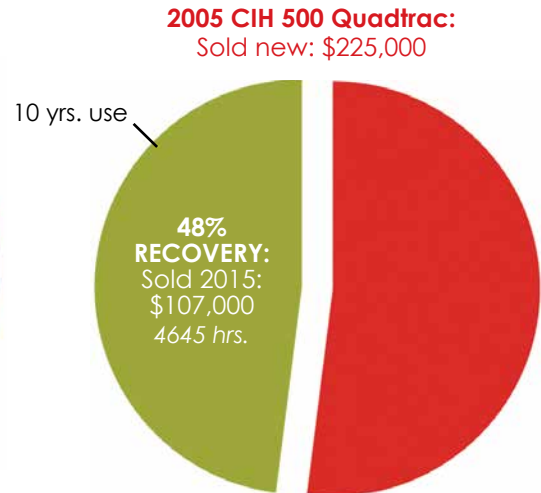
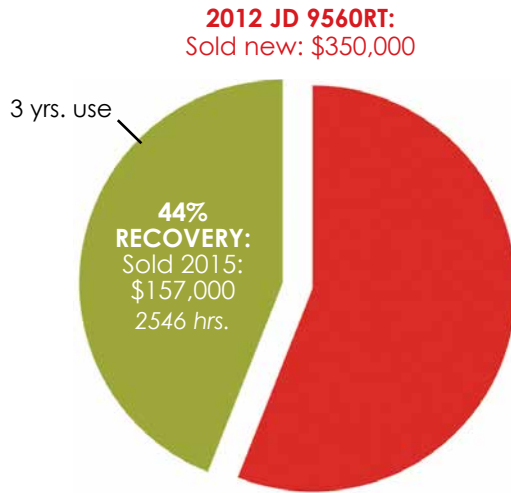
In 2015, market depreciation outpaced normal wear and tear. The Spring market usually strengthens demand for 4WD & MFWD tractors... they seem to always be in season. On the buying side, look for good choices not typically available at auctions and look for the Case-IH Quadtrac machines to lead the resale market as they have for some months.

There will be disproportionate discounts to machines not optioned up as buyers have the privilege of being picky. Farmers ordering new purchases should give more weight to resale value rather than cost savings as the current discounts are steep for poorly equipped machines. Large horsepower tractors without PTO's are the perfect example, as are JD MFWD's with light front axles.

Red MFWD tractors aren't keeping resale pace with their green competitors and the off colored brands truly struggle with finding any buyers besides the previously loyal. We attribute this to abundant supply of their competitors.



■ H2 2015 ■ H1 2015 ■ 2014 ■ 2013  
H2 = 2nd half of 2015 H1 = 1st half of 2015



**Tractors: Recovery Percentage**

Notice these charts, which indicate late model tractors currently being sold will remain a long-term value in future markets. We base this on the recovery of original purchase price when sold. These graphs show actual sales in 2015. The oldest tractor had the highest recovery and the new tractor had the least.



**Moving into 2016:  
A Company Update**



Selling Land and the Equipment to Farm It in 10 states; selling to 12,000 Registered Buyers in 46 states, 8 Canadian Provinces, as well as 2 Foreign Countries in 2015.







### Combines

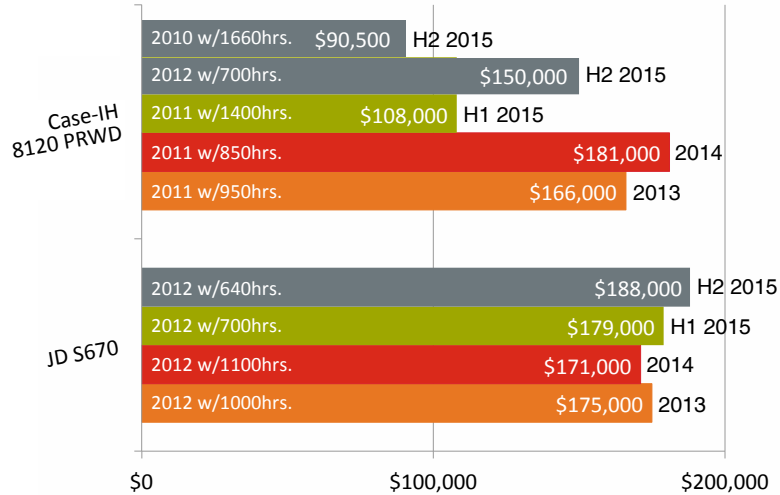
Spring is off-season for combines. There can be an argument, these last few years, the combine market immediately after harvest has been better than the following spring. Fall combine sales were fair and the farm retirement machines sold well. There were also some tremendous bargains out on the wholesale markets.

Inventory numbers seem to not be quite as high as last year at this time, but we don't see much motivation to purchase the costliest asset on the farm unless it's for a bargain or from your retiring neighbor. That sounds like an opportunity and we feel the aggressive, forward-thinking farmers will be paid well for Spring purchases, especially if a big crop comes in or a good commodity rally happens this summer. The huge discounts on late model combines might be short-lived.

### Heads

We've turned the corner on the header markets or hopefully found a bottom. More specifically, is the fact it's hard to imagine they can get much cheaper. This is the third year for dismal pricing, especially on corn heads. Keep in mind, the manufacturing numbers have significantly dwindled during this period so used inventories will continue to dwindle. A shorter supply will eventually drive the market.

### Combines: Selling Price

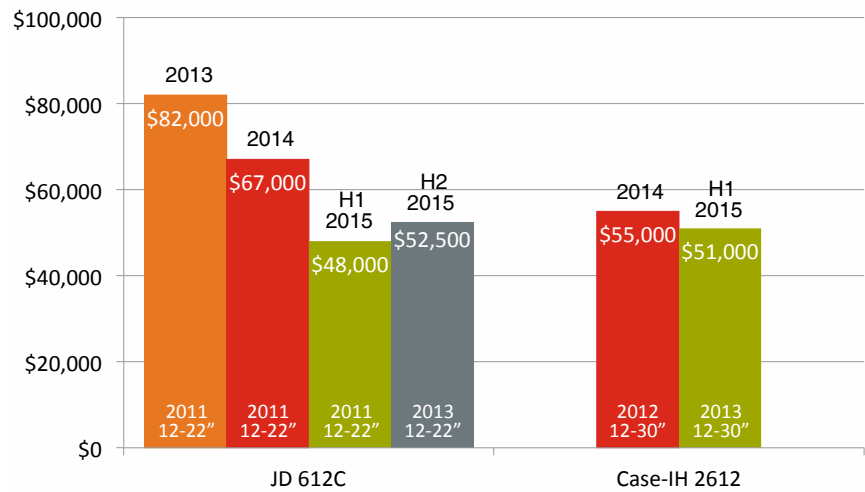


### Combines: 2009 & Newer

| Year            | 2013     |           | 2014     |           | 2015     |           |
|-----------------|----------|-----------|----------|-----------|----------|-----------|
|                 | # of pc. | ASP       | # of pc. | ASP       | # of pc. | ASP       |
| <b>Combines</b> | 92       | \$154,900 | 72       | \$167,238 | 65       | \$161,921 |

\*ASP = Average Selling Price # of pc. = Number of Pieces

### Chopping Corn Heads: Selling Price

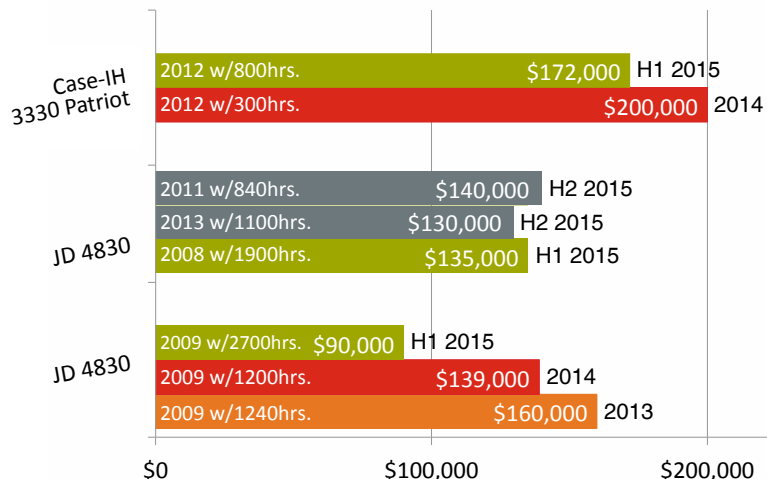


■ H2 2015 ■ H1 2015 ■ 2014 ■ 2013  
H2 = 2nd half of 2015 H1 = 1st half of 2015





**Self-Propelled Sprayers: Selling Price**

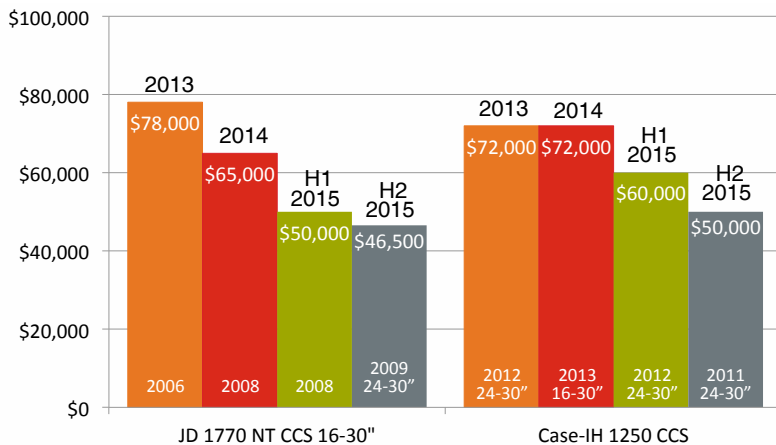


**Sprayers: 2009 & Newer**

| Year            | 2013     |           | 2014     |           | 2015     |           |
|-----------------|----------|-----------|----------|-----------|----------|-----------|
|                 | # of pc. | ASP       | # of pc. | ASP       | # of pc. | ASP       |
| <b>Sprayers</b> | 10       | \$177,850 | 15       | \$146,300 | 18       | \$157,888 |

\*ASP = Average Selling Price # of pc. = Number of Pieces

**Planters: Selling Price**



**Sprayers**

Sprayer prices continue to adjust, however, we also see inventories on dealer lots dwindling. The sprayers used for fertilizer application have taken the steepest discounts. Additionally, the largest sprayers have seen the fewest buyers. There have also been a number of large liquid units converted to spreader box units to move inventory.

**Planters**

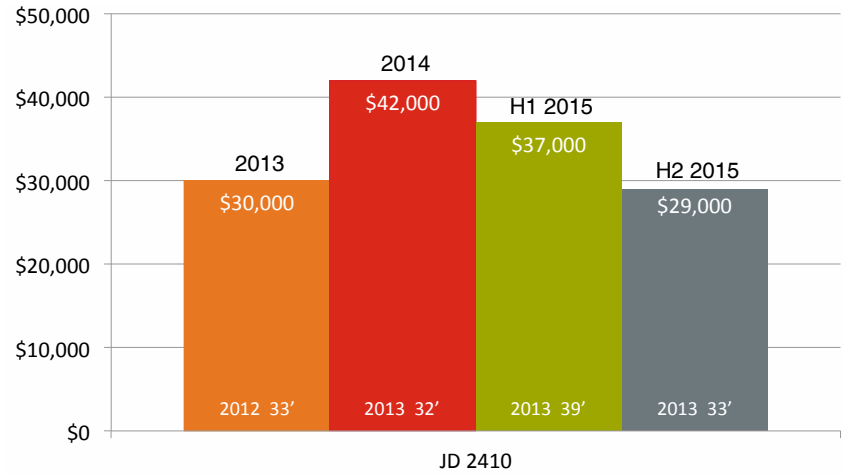
As we stated in our previous reports, no one market segment has been affected so severely by obsolescence as the planter market. The "dumb" planters have fallen 50% in value or greater, especially on the 24 row and larger units. We were seeing a bit of an export market, but that has dried up with the strong dollar and less demand. Even the most tech advanced units have been disproportionately discounted because of supply. These two and three year old units represent an attractive buy compared to new and will definitely show much less depreciation in the next few seasons.



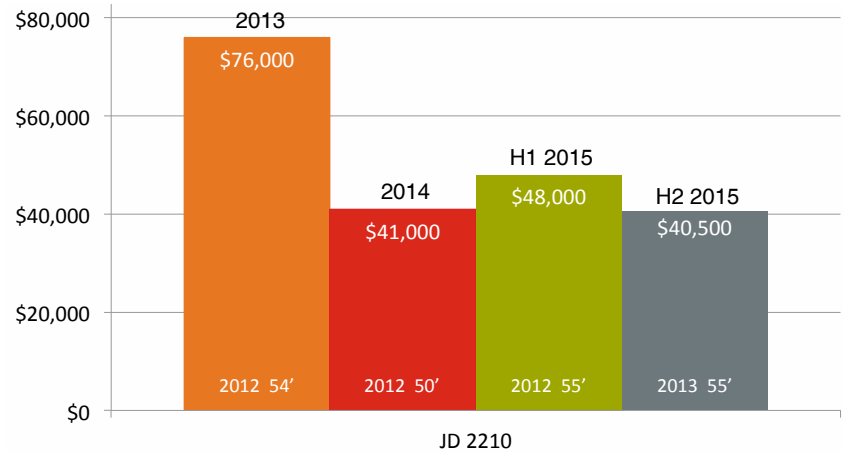
■ H2 2015 ■ H1 2015 ■ 2014 ■ 2013  
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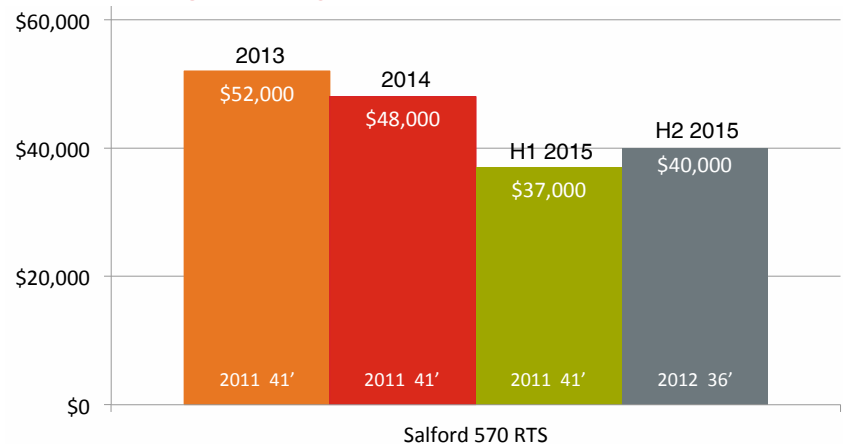
**Chisel Plow: Selling Price**



**Field Cultivator: Selling Price**



**Vertical Tillage: Selling Price**



**Tillage**

Tillage represents the least sensitive investment in farm equipment, provided normal wear and tear and good upkeep. Again, farmers will have unusual opportunities in the coming months to purchase items for half of new price that have 80%, or more, of their useful life remaining. Two to four years from now they will be very happy with their purchases at the current market levels.



■ H2 2015 ■ H1 2015 ■ 2014 ■ 2013  
 H2 = 2nd half of 2015 H1 = 1st half of 2015



### Land Values and Cash Rents

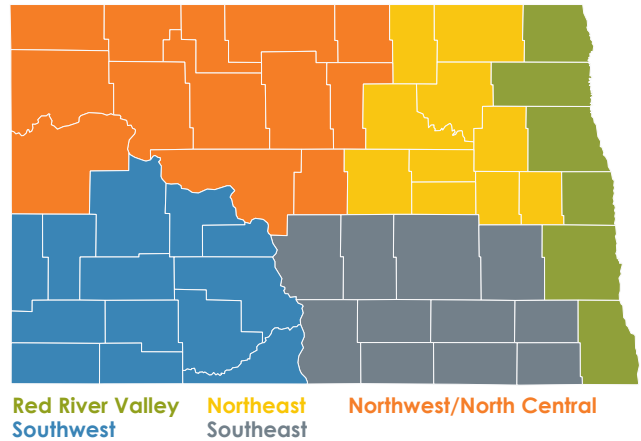
Land values and cash rents in the areas we operate are trending downward as stakeholders reevaluate and readjust for the third year of deflated commodity prices. With depressed commodity pricing, mostly favorable growing conditions in the Midwest facilitated above average yields, of which was the saving grace for many row crop producers in 2015. There are select neighborhoods in the Midwest where prices on quality cropland remained unchanged, but that is now more of the exception than the rule. Highly productive quality cropland will still attract buyers, but generally at lower price levels. Demand for poor quality cropland is low when compared to years past. As the year progressed, buyers at land sales were increasingly cautious not to overpay for land. Additionally, lenders are growing increasingly cautious over cash flow concerns, which has significantly reduced the number of market participants (demand) for land acquisitions.

Ranchers enjoyed good pasture conditions spurred by ample moisture, however, historically high livestock prices fell 25-30% through the second half of 2015. Pastureland prices during 2015 were at or near historical highs. However, during the latter half of the year, the adverse livestock prices seemed to affect the pastureland market and a downward trend appears to be imminent for 2016. Nonetheless, demand still seems to outpace supply on quality pasture as ranchers continue to grow their herds.

#### Rents:

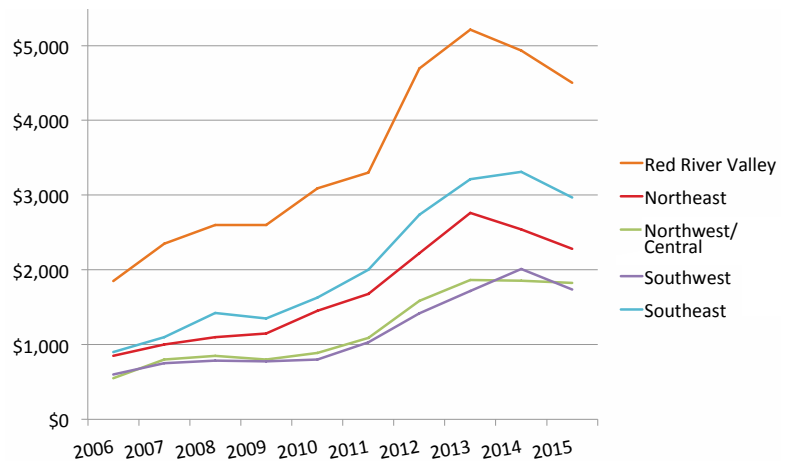
Land rents have historically lagged the markets and this was true during 2014. In 2015 the land rental market finally showed some signs of a downward correction. Many fixed cash rent contracts renewed in 2015 reflected this downward trend. However, the overall demand for rented acres is still very high.

### NORTH DAKOTA: Regions Broken Down



Source: ND Chapter of the American Society of Farm Managers and Rural Appraisers (ASFMRA)

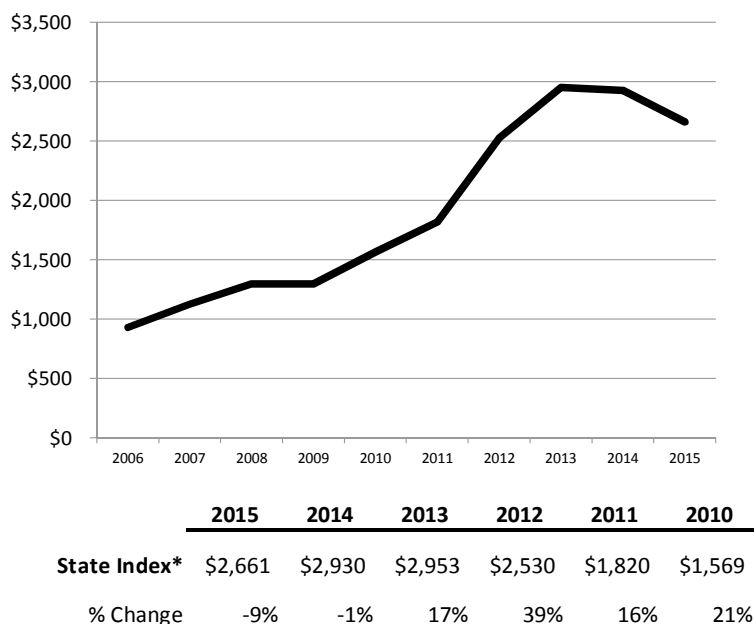
### Regional Cropland Trends: Regional Price Index per Acre



| Regional Index*          | 2015    | 2014    | 2013    | 2012    | 2011    | 2010    |
|--------------------------|---------|---------|---------|---------|---------|---------|
| <b>Red River Valley</b>  | \$4,500 | \$4,935 | \$5,211 | \$4,694 | \$3,301 | \$3,090 |
| % Change                 | -9%     | -5%     | 11%     | 42%     | 7%      | 19%     |
| <b>Northeast</b>         | \$2,279 | \$2,539 | \$2,763 | \$2,221 | \$1,680 | \$1,451 |
| % Change                 | -10%    | -8%     | 24%     | 32%     | 16%     | 27%     |
| <b>Northwest/Central</b> | \$1,823 | \$1,854 | \$1,865 | \$1,583 | \$1,089 | \$886   |
| % Change                 | -2%     | -1%     | 18%     | 45%     | 23%     | 23%     |
| <b>Southwest</b>         | \$1,739 | \$2,009 | \$1,715 | \$1,416 | \$1,032 | \$788   |
| % Change                 | -13%    | 17%     | 21%     | 37%     | 31%     | 12%     |
| <b>Southeast</b>         | \$2,967 | \$3,313 | \$3,211 | \$2,737 | \$1,999 | \$1,631 |
| % Change                 | -10%    | 3%      | 17%     | 37%     | 23%     | 23%     |

\*The Regional Index gives equal weight to each reporting market area within the designated region

### North Dakota Cropland Trend: State Price Index per Acre



\*The State Index gives equal weight to all 55 reporting market areas in ND

The cash rent market is at or above break-even price levels for nearly all crops according to most financial projections given the current commodity prices and input costs.

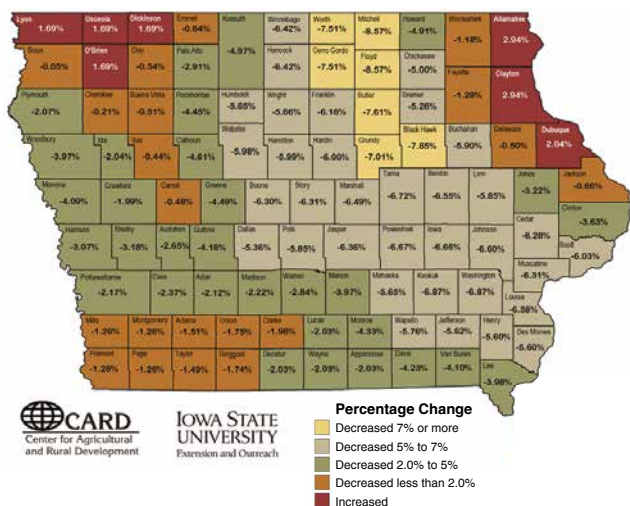
#### Future Outlook:

If commodity prices remain flat, anticipate the downward trend in land values to continue. All indications are now that the commodity market will indeed remain flat. This downward trend will be amplified if we see significant increases in interest rates. Additionally, localized declines will be more severe in areas that experience any sort of crop failure.

**Minnesota & South Dakota:** Land values in Minnesota and South Dakota appear to be mirroring the results of the data provided for Iowa and North Dakota. We anticipate similar result postings for South Dakota and Minnesota from surveys released by the U of M & SDSU in the late Spring.

Please consult a Representative at any of our locations for more specific information regarding land values.

### IOWA: Land Value % Change by County 2014-2015



**IOWA STATE WIDE AVERAGE: \$7,633**



Source: Iowa State University Extension and Outreach & Center for Agricultural and Rural Development (CARD)



### Wheat Straw

In 2014 wheat straw was in short supply. A wet Spring and an abundance of preventive planting in predominant wheat acres combined with poor harvest conditions made wheat straw hard to acquire. This lack of supply and strong dairy market made for a perfect storm, with wheat straw prices soaring upward of \$45/bale or \$150/ton. 2015 brought us large wheat crops from good growing conditions and lots of acres. By the fall of 2015 wheat straw supplies were as abundant as they have been for many years. Fall prices have hovered around \$17/bale. Spring of 2016 has shown a small price rebound and expect to see prices steady around the \$20/bale mark. At the current prices, expect to see a rebound in next year's wheat straw sales as acres planted are likely to be less, and less acres baled because straw removal can't be justified vs. added fertilizer cost.

### Grass Hay

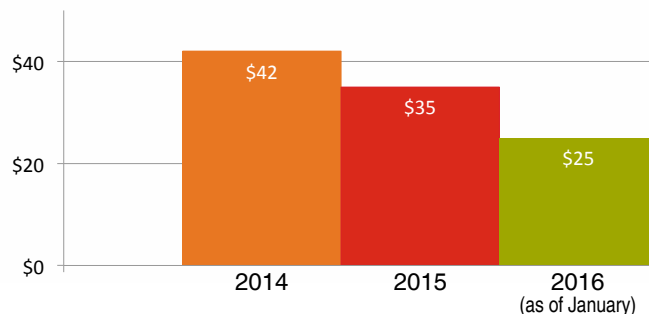
2014 showed strong prices on grass hay because of the lack of supply. The late season drought made cow/calf operators pull cows off pasture early which added to the price increase. Grass hay topped out at \$150/ton. The Summer of 2015 was a turnaround as growing conditions allowed for optimum volume harvested in many areas. This brought Fall of 2015 prices as low as \$40/ton. Expect to see an increase in grass prices through the Spring of 2016 as volume is consumed and cattle numbers increase.

### Hay

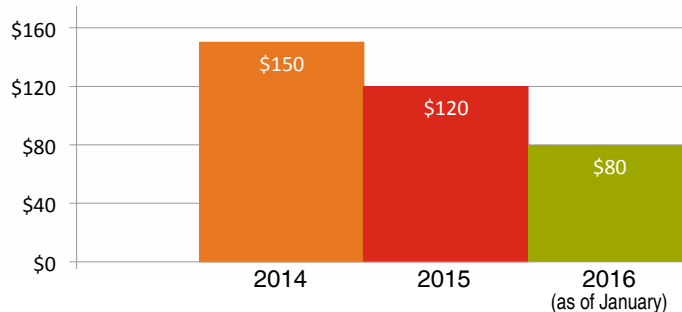
Good quality hay can be a very profitable cash crop. As corn and bean prices have declined, many producers have added alfalfa to their rotation to diversify and supplement income. As dairy markets were profitable in 2014, alfalfa hay provided a nice return as good quality dairy alfalfa sold for upward of \$250/ton. Dairy markets into 2015 have subsided as milk prices have fallen and dairy quality hay has followed. Spring 2015 alfalfa prices topped out around \$215/ton and \$190/ton in the Fall of 2015.

Spring 2016 prices will be soft as supply is abundant and milk prices continue to decline. Expect to see a top price of \$150/ton.

Wheat Straw in Medium Square Bales: Price per bale

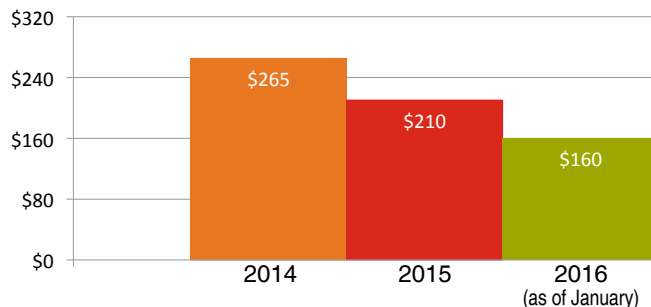


Grass Hay in Large Round Bales: Price per ton



### Dairy Quality

Alfalfa in Medium Square Bale: Price per ton



■ H1 2015 ■ 2014 ■ 2013  
H1 = 1st half of 2015



**2015 Completed Auctions** - In just 12 months, our team was involved in 220 Auction Events.



JAN



FEB



MAR



APR



MAY



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NOV



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For more information or questions about this report please contact the Steffes Group at any of our locations in the Midwest or refer to our staff directory at [SteffesGroup.com](http://SteffesGroup.com).

Look for the release of our next Market Update in October 2016!



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