



Spring 2017 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

Overall Market Trend 1

Our 2016 Auction Footprint 3

Tractors (4WD & Track) 4

MFWD Tractors..... 4

MFWD Tractors with Loaders..... 4

Combines & Heads..... 5

Sprayers, Planters, & Tillage..... 6

Hay & Forage 7

2016 Land Auction Results..... 8

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About Steffes Group

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



Overall Market Trend

Dear Reader,

Welcome to the Spring 2017 Market Update provided by the Steffes Group.

In the following pages the Steffes Group will share our updates, facts, and experiences about what's been happening in the markets related to agriculture. We'll also attempt to provide valuable information based on our experience, knowledge, and belief of what to expect in the coming months and what changes to look for with regard to markets and pricing.

Operating in the auction world gives us first hand, real-time information as to market trends; what's hot and what's not, and changes as they occur. By the very nature of auctions operating in real-time, cash-today world, we always see trends as they happen first. It's the ultimate expression of the American free enterprise system and the purest "Price Discovery" method available in any market.

The Fall and Winter auction season finally showed us upside movement in nearly all segments!

As predicted, pricing for everything has come off the lows of Summer. Looking back, the operators who participated in buying at auction sale prices for all of 2016 will be satisfied and rewarded for their value purchases.

Here at Steffes, we always measure and discuss the 3 most important trend predictors in market movement.

1. Commodity prices
2. Crop production
3. Interest rates

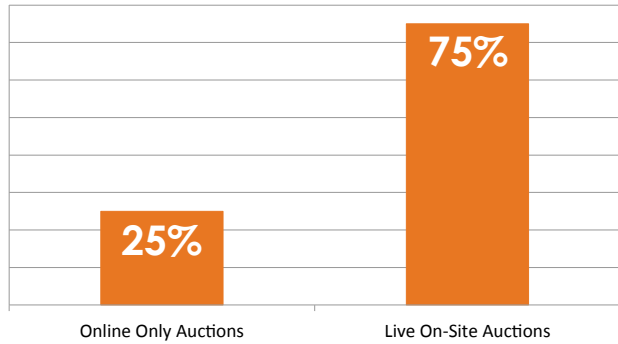
Crop production was "bumper" in probably the largest geographic area in recent memory. Other than isolated areas of "too much" or "too little" rain and the catastrophic hail or storm events, crops from Texas to North Dakota and Indiana to Colorado were as best as could be expected. The bins are full!

We are 2 for 3 in the indicator column we use and "bushels in the bin" always give us optimism and a brighter outlook for the future.

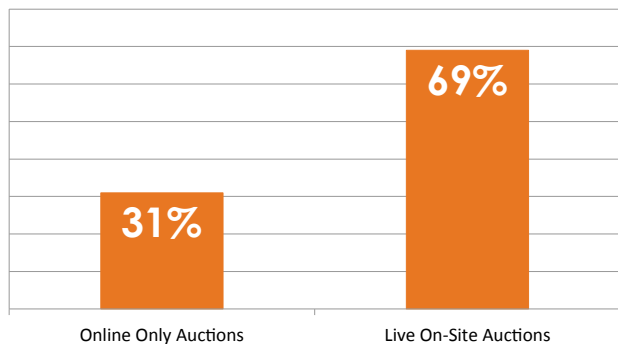
Extra bushels make up for poor prices. \$9.50 beans work with added bushels and thrifty spending. Add in the farmers who took advantage of small windows of opportunities to lock in better pricing on corn and you have exactly what we are currently experiencing... cautious optimism.

We have been saying poor equipment markets won't last forever. We believe Summer of 2016 will mark bottoms with a cautious rise or steadiness from there. We already experienced a marked rebound in auction pricing from the first of November through the end of the year. There have been some specific sale events that demonstrated a remarkable rebound! We'll show you some of those in the following pages.

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



2016 Sales: Online Only vs. Live On-Site Auctions



The reality of where we're at right now is the simple fact that the large inventories everyone assumes are simply not there! Make no mistake, there are "some" inventories out there, especially from a dealer perspective, but you will not see any further discounting to move inventories in the coming months like we previously saw. Speaking in general terms, dealers have taken their lumps and done their discounting. The gap between current used pricing and new machinery pricing is at a very attractive margin. Dealers see this and have put themselves in good positions to hold on prices. You haven't, nor will you see, the majors do anything with new price lists, but stay the same or rise as they use supply to support their numbers.

Observations from recent auction events saw farmers at our auctions participating and buying like we have never seen before. The clear majority of farm operators don't attend or participate in auctions. They choose their local dealers and buy new with the expectation to take each

(continued on next page)



purchase all the way to the end of its useful life or trade locally for a newer piece. Headlines and stark pricing contrasts plus excellent selection, brought them to auctions.

Another emerging trend is efficient operators doing their own trading. With the internet and communication the way it is, attaining market knowledge has become much easier, less time consuming, and less fearful of getting a bad deal. Everyone knows everything in today's world and if they don't, it's easy to pick up a smart phone or "Google search" your way to news and information. In some cases, you might have to own two pieces at once but several buyers confessed purchasing auction items for not much over the "boot" prices quoted from dealers! That is a smart move.

History has always favored the "trade" for most operators. The perception of risk is eliminated and of course the dreaded tax consequences have always been avoided at all costs for most farmers. Analytically, there can be great advantages in managed transactions and several, mostly younger farmers, have discovered this advantage. They have become great auction goers and cash buyers and sellers. Sure, you must recapture depreciation on sale as compared to rolling it over on trade, but at what price or how much extra are you willing to pay for the trade? The forgotten side is you also get "new life" for the item you purchased for cash to offset the recapture. This creates a much cleaner balance sheet, and at the end of the day a more efficient and less costly operation, plus a lot more liquidity.

We predict the Spring 2017 market to be much more bullish than bearish. The inventories on dealer lots aren't there. The quality of the equipment available at auction from planned farm retirements is excellent. Last, overall the equipment available at auction will be down with fewer auctions and less availability.

Farm Real Estate

On the real estate side, all agricultural markets we operate in are healthy and strong. Iowa continues to be the most stable, the most active with the highest prices, and the largest demand. Red River Valley farmland is consistent and strong, and wherever we go, productive farmland had many more buyers than sellers. There has been little if any downside movement, and in some cases, rising prices could be defended. If there was any weakness it is in the marginal land or land with variability, which has shown up in all areas of the Midwest.

Another surprising observation has been very little movement in current rental rates. The bumper crop has brought optimism and courage to many who place their bets on what's to come.

Of course, the \$400 cash rents throughout corn country and the \$250-300 rents in the Valley or the \$175 rents in the West aren't going to be attainable, but there are many who will participate at levels not much off from there. Certainly, the current cash flow outlook doesn't support these numbers, but the demand makes up for it.

What's In Store?

The politics of the election and the change in direction may have a significant effect on our agricultural markets. The single greatest risk factor ahead is rising interest rates. Farmers are masters at surviving production risks and commodity pricing, but they become helpless with no control over interest rates as capital is so vitally important to farming.

Right now there doesn't seem to be any options or government support for renewal of CRP contracts this Fall. Will the market support rents on this land if it comes into production or will owners put land up for sale to exit if they don't get CRP contracts renewed? This last year we saw some extremely strong numbers on land for enrollment in the CRP, especially in Iowa and Minnesota. Those land owners might be very happy, especially in 2-5 years and a stark contrast from this Fall.

Investors, especially older folks, have supported land markets because they like the stability and security of owning land and are satisfied with minimal yields on their money. If interest rates rise so will money rates. You will see investors exiting land markets in favor of money markets and CD's if rates rise. That will have a negative effect. Will the conservative, mostly Republican, culture allow inflation which would favor the landowner? Uncertain times for certain.

Kind Regards,
Scott Steffes
President
Steffes Group, Inc.

Our 2016 Auction Footprint



● Over 250 Completed Auctions



comparison

\$203,500

DEALER AUCTION



August 2016

2012 Case-IH Steiger 550 Quad, PTO, 945 hrs.

\$210,000

FARM RETIREMENT



November 2016

2011 Case-IH 535 Quad, No PTO, 1,040 hrs.



Tractors: 4WD & Track

Summer proved to be the buying window to purchase low-hour, high-quality units for large discounts. Shortly after harvest we saw a notable bump in values on late model high horsepower units, even above and beyond of what we would typically expect with seasonality. While higher horsepower tractors always create more demand in the Fall and Winter months, the difference between Summer and Fall prices outpaced seasonality.

We can see this illustrated in this comparison with the two Quads to the left. We have a clean, locally-traded, low-hour 2012 Case-IH 550 Quad outfitted with PTO, which sold on a dealer auction in August of 2016. The unit brought \$203,500. Two short months later, we sold a similarly outfitted 2011 535 Quad that did not have PTO, and it brought \$210,000.

MFWD Tractors

This is the most active segment of all markets and one that has fluctuated the least. We saw strong demand from the 60 HP all the way to 350 HP units. Dealers have leased or placed a good amount of their excess inventories in use and you will see every unit with lower hours, excellent maintenance, and usable tires bring strong prices through the Spring and Summer markets. We advise anyone in this market to identify and find units that fit your needs and don't be hesitant or you will be disappointed in the remaining options. The Green and Red units lead the market and in that order.

MFWD Tractors with Loaders

The lack of available used supply has supported prices through our Fall markets and offset the obvious downward pressure from dismal livestock prices. We did not see much market weakness that we expected this Fall and do not anticipate weakness this Spring. We support this claim by pointing out low supply and unaffordable new prices to many, considering current livestock markets. This has brought what demand there is to auctions. We also saw buyers unafraid to travel great distances to purchase what they need, no matter where the auction was located.

Noteworthy | In 2016 we held 254 Auctions

- Online Only Auctions: 78
- Live On-Site Auctions: 81
- Agtron Events: 13
- Real Estate Auctions: 61
- Hay Auctions: 21

comparison

Combines

Again in this segment, Summer proved to be the time of year to purchase. Historically, combines sell well during the Summer months. During Summer of 2016, this was not true on late model machines.

In July of 2016 we sold a 2009 JD 9870 combine on a farm retirement sale which brought \$102,500. On our consignment auction in December of 2016 (off season), we sold a 2008 JD 9870 with similar hours and options with the exception of PRWD for \$122,500. While the earlier unit did not have PRWD, it was a year newer, sold ahead of harvest, and was sold on a farm retirement, which are typically stronger sales when compared to consignment auctions.

Heads

The header market in all categories has FINALLY showed us improvement! Corn heads, which have been nearly impossible to sell for reasonable prices, have finally rebounded. Three to four years of shortened new inventories have brought supplies in line with demand. The technology hasn't changed and condition is what brings premium prices, as many of these 3-5 year old heads have simply sat.

The smaller-sized Flex and Flex Draper heads have sold proportionately better than larger, more expensive units. You will see this continue as well because the larger heads are unusable to smaller operators and large operators choose not to buy them, favoring new. Variability in condition and usage creates a similar variable market for price. Don't be deceived about "cheap" pricing by not inspecting and comparing condition. A two-year-old head can be worth much less than a 5-year-old head based on condition and care.

\$102,500 **FARM RETIREMENT**



July 2016

2009 JD 9870, 2WD, 1,419 sep./1920 eng. hrs.

\$122,500 **AGIRON EVENT**



December 2016

2008 JD 9870, PRWD, 1,362 sep./1,837 eng. hrs.



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 2016.



comparison

\$85,000 **FARM RETIREMENT**



July 2016

2012 JD 1770NT, 24X30", vari-rate, RowCommand, liquid fertilizer

\$115,000 **FARM RETIREMENT**



November 2016

2011 JD 1770NT, 24x30", vari-rate, RowCommand, liquid fertilizer

Sprayers

As with all segments, we saw recovery and better demand in this market as well. It's the same story. We saw 3 or 4 of the larger units, where it's been tough to find buyers, get swept up for conversion to dry spreaders. Spring will see excellent demand in this category as they come into season. We look for stronger pricing. Buyers in the market will be disappointed once they start shopping if they rely on old information about abundant choices and a favorable buyer's market. Pull-type sprayers in the \$20,000 and less price range also rose a good deal as well. This trend will continue through Spring and into June.

Planters

Precision technology rules this segment. Pure obsolescence has hurt the market severely on box planters and those planters which are not outfitted with the latest and greatest planting technology. However, highly technically advanced units showed good market recovery as predicted.

In this comparison we take a look at two nearly identically outfitted JD 1770NT 24x30" planters which were both sold on farm retirements. The newer model with less acres was sold on a retirement sale in July 2016 and fetched \$85,000. Three months later, we sold the 2011 unit for \$115,000.

Tillage

This market segment was the most disappointing from a demand and price recovery perspective. However, we predict Spring will firm up this segment as most pieces come into the season of use. There are still tremendous buys especially in the heavy Fall tillage group. Astute buyers should be disciplined and have the vision to purchase these units as they come available this Spring as we feel this market will recover further through the Summer months and into Fall. Tandem discs have also been slow to recover and another market segment to scout good buys.

2016 Completed Auctions | We surpassed last year's number of auctions at 254! The biggest increase was in live auctions, up 29 from 53, at 82 live events.



Wheat Straw

After a season of oversupply and poor prices in 2015, the wheat straw market will have a significant rebound in price from Fall 2016 to Summer of 2017. Weather conditions in the major wheat producing regions have challenged producers' ability to bale clean, dry wheat straw. Extensive rainfall, high humidity, and lack of sunshine throughout harvest has made for less bales and poorer quality. Prices will rebound to 2013 pricing resulting in \$100/ton by end of 2016 and up to \$130/ton by late Spring of 2017. Availability will become a major issue by May of 2017.

Grass Hay

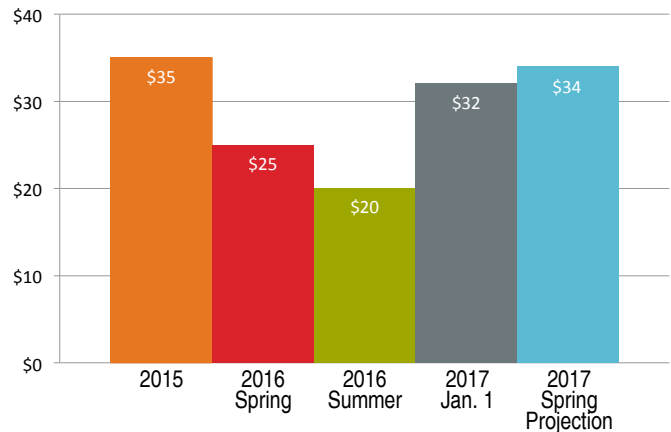
Strong supplies and poor pricing were the norm for 2016. Expect prices to strengthen slightly as the demand for low-quality grass will ease the lack of availability of straw.

Alfalfa Hay

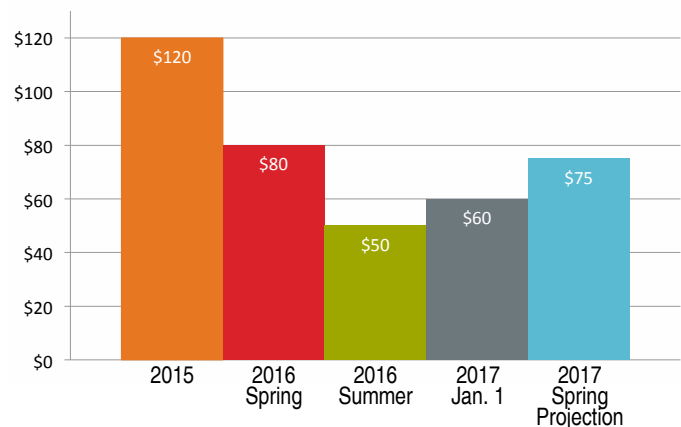
Dairy quality alfalfa has been in moderate demand with poor prices. As dairy markets show slight improvement, alfalfa prices will follow. Although production was high in 2016, prime dairy hay (200+ RFV) is in short supply. Expect 150 RFV hay to be priced at \$135/ton by late Spring 2017. Prices should increase on 200 RFV alfalfa from \$150-\$200 by Spring 2017.



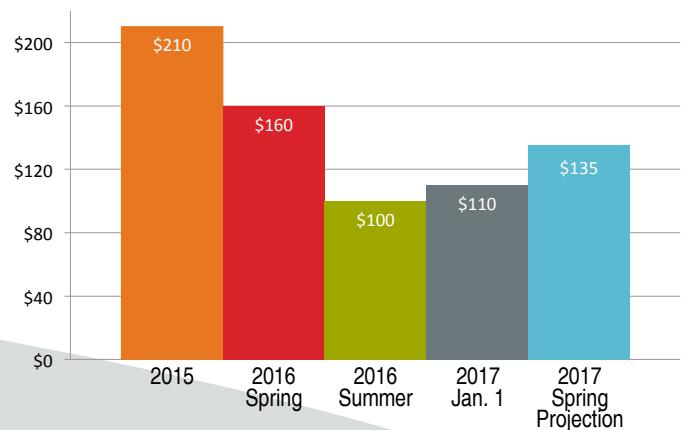
Wheat Straw in Medium Square Bales: Price per bale



Grass Hay in Large Round Bales: Price per ton



Dairy Quality Alfalfa in Medium Square Bale: Price per ton



Legend: 2015 (Orange), 2016 (Red), Summer 2016 (Green), January 1, 2017 (Grey), Spring 2017 Projection (Blue)



2016 LAND AUCTIONS

1. Louisa County, IA	01/29/16	\$3,300/AC	19. Louisa County, IA	11/09/16	\$2,200/AC
2. Meeker County, MN	03/10/16	\$5,900/AC	20. Cavalier County, ND	11/10/16	\$1,050-\$2,300/AC
3. Louisa County, IA	04/14/16	\$4,400/AC	21. Cass County, ND	11/11/16	\$4,725/AC
4. Washington County, IA	05/19/16	\$6,875/AC	22. Henry County, IA	11/15/16	\$4,200/AC
5. Jefferson County, IA	05/26/16	\$2,450/AC	23. Louisa County, IA	11/15/16	\$12,800/AC
6. Des Moines County, IA	06/02/16	\$12,300/AC	24. Washington County, IA	11/17/16	\$7,800/AC
7. Meeker County, MN	06/18/16	\$3,750/AC	25. Des Moines County, IA	11/17/16	\$10,000/AC
8. Pembina County, ND	06/23/16	\$3,100/AC	26. Pierce County, ND	11/18/16	\$2,000-\$3,150/AC
9. Henry County, IA	07/26/16	\$5,700/AC	27. Henry County, IA	11/22/16	\$6,600/AC
10. Clay County, MN	08/09/16	\$4,200/AC	28. Lee County, IA	11/22/16	\$7,250/AC
11. Louisa County, IA	08/25/16	\$10,600/AC	29. McLeod County, MN	12/02/16	\$5,425/AC
12. Renville County, MN	09/16/16	\$6,900/AC	30. Meeker County, MN	12/08/16	\$4,000/AC
13. Lee County, IA	09/22/16	\$4,300/AC	31. Henry County, IA	12/13/16	\$10,600/AC
14. Johnson County, IA	09/29/16	\$700,000	32. Washington County, IA	12/19/16	\$4,100/AC
15. Muscatine County, IA	10/27/16	\$5,700/AC	33. Henry County, IA	12/20/16	\$9,050/AC
16. Washington County, IA	11/01/16	\$6,400/AC	34. Henry County, IA	12/20/16	\$14,100/AC T1
17. Grundy County, IA	11/04/16	\$5,000/AC	35. Henry County, IA	12/20/16	\$11,100/AC T2
18. Cass County, ND	11/04/16	\$5,000/AC			



2016 Completed Auctions - In just 12 months, our team was involved in 263 Auction Events.



Price Discovery | Get the true fair market price for your farm equipment by selling at auction.

Convenience | Register now at SteffesGroup.com to bid online for the item you want to purchase, even on a live auction.



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Look for the release of our next Market Update in October 2017!



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