



Winter 2017 Market Update

Farm Industry
Market Trends
Heavy Equipment,
Land & Cash Rents



Selling Land & the Equipment to Farm It Since 1960



Overall Market Trend

Welcome to the Fall 2017 Market Trends Update from the Steffes Group!

As always, in the following pages we'll review and share our market experience as it relates to land and machinery in the world of agriculture. We will point out trends and observations plus suggest some guidance as to what lies ahead and perhaps a few predictions and analysis of what to expect in the upcoming markets through the end of the year and into the Spring of 2018.

Operating in the auction world gives us first hand, real time information on market trends, what's hot and what's not, and discover market movements as they happen first.

Going through the late Spring and Summer we saw some defining differences in various markets and overall a flat at best equipment market with a consistent and tight real estate market. This may change as we go forward. It appears we are experiencing some "give backs" of our gains from last Fall and this Spring. We see little optimism in commodity markets and the chance to sell bushels for a profit. We're calling the equipment market steady to weak. We're calling the land market consistent with some surprises on the upside. That's what happened through the Spring and Summer of 2017.

Here is a review of our 3 indicators that make markets react.

- 1 Commodity Prices
- 2 Crop Production
- 3 Interest Rates

The bumper crop of 2016 is old news and many disappointed farmers grudgingly have been selling and hauling those bushels to town at unfavorable prices to make room for the Fall harvest. Many have no choice, as their market plans were to hold for better pricing, which hasn't happened. Meanwhile, expenses accrue and bills must be paid plus there must be room made for the Fall harvest. The basis spread on current crops make the prospect of cash delivery or anything other than on-farm storage a terrible option to every producer looking at their local commodity pricing boards. It's not good. The "we'll make it work on volume" strategy will be very stretched. The producers in poor production areas have a bleak uphill battle.

Most all reports say we'll see little, if any, rally in commodity markets. Any rally will firm all markets. Of our 3 indicators, commodity prices trump the other two combined. The good news is we still have historically low interest rates, and overall, reports are all showing strong crop production. That's two out of three. We feel going forward that will make the used machinery market continue its current path. Frankly, the used machinery market is at a level where there just isn't much room for downside movement.

What's the word for this Winter and the Spring of 2018?

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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 Agron Events, Farm Real Estate Auctions, Land Brokerage & Auctions, Farm Asset Management, and Equipment Appraisals.

Farmers... Control What You Can!

If in fact we're in for "farming like it used to be", and soft prices and narrow margins are the norm, then the only thing to do is figure out a way to make it work, right? That's what successful farm families have been doing for several generations and most likely the key to moving forward.

What can be controlled? It's different for everyone but basically it comes down to inputs. Land costs come first to most. It appears by the Spring of 2018 there will be a different normal for current land rental rates. It will be gradual as it has already occurred coming off the highs of 2012 and 2013 and most likely continue. This is definitely not a drastic change but the profit picture has changed and so must rents. This will have a ripple effect on land prices, again not drastic but gradual and will have as much to do about buyer "sentiment".

\$185,000

FARM RETIREMENT



April 2017

2011 Case-IH Quadtrac 600, No PTO, 2040 hrs.

\$210,000

FARM RETIREMENT



November 2016

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



Used machinery can become more valuable when corn prices are down.

Because of the price point compared to new, we are seeing it in prices for 3rd, 4th, or 5th generation equipment sales as long as the utility is there. In the same respect, look at the prices of a John Deere 9400 4WD tractor. We sold one for \$84,000 recently. Fifteen years ago we were selling them for the same price. The same thing for most all row crop tractors and certainly for pretty much any used livestock equipment. There are some positives.

Buying used for the utility it provides and the price point makes more sense especially if the units are available in the market, which they are. Right now, you could make the observation, you can purchase good used late model 2nd and sometimes 1st generation equipment for basically half of current new prices. It's a rare opportunity and the main reason we believe

the equipment market has little downside risk if you're a buyer. It's also the reason there is great disappointment from the operators who made significant equipment investments the last few years. Their balance sheets are taking huge hits. They must figure out a way to weather the short-term and hold while the market recovers or sacrifice under-utilized units to hold the main items.



\$160,000 **AGIRON EVENT**

A green John Deere S670 combine harvester is shown from a front-three-quarter view. It has large, treaded tires and a yellow wheel hub. The combine is parked on a paved surface under a clear blue sky. The number '6670' is visible on the side of the combine.

July 2017

2014 John Deere S670, 2WD, 780 sep. hrs.

\$230,000 **FARM RETIREMENT**

A green John Deere S670 combine harvester is shown from a front-three-quarter view, similar to the one in the previous block. It is parked on a paved surface under a clear blue sky. The number '6670' is visible on the side of the combine.

August 2017

2013 John Deere S670, 4WD, 580 sep. hrs.

Noteworthy: So far in 2017 we have held 158 auctions.

Online Only: 46 / **Live On-Site:** 44 / **Real Estate:** 43 / **Agiron Events:** 10 / **Hay:** 15

Get on the right side of the fence.

\$92,000

FARM RETIREMENT



December 2016

2013 John Deere 1770NT, 16x30",
RowCommand, liquid fertilizer

\$70,000

SECURED LENDER



September 2017

2014 John Deere 1770NT, 16x30",
RowCommand, liquid fertilizer

Another positive on the equipment markets going forward is the availability of quality low-houred equipment on upcoming planned retirements and partial liquidations. Farmers won't have to spend as much time on dealer lots because there will be good supplies of equipment with a "pedigree" available at auctions. When a piece of iron is represented by the user on the farm it was worked on with a verifiable history it creates comfort and confidence in a buyer's mind. The market suggests this can mean as much as a 15% increase in recovered dollars. We see this in our on-site live farm retirement auctions compared to a dealer auction or perhaps one of our Agtron events.



*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 2017.*

There is a definable disparity in pricing between units at dealer auctions and consignments compared to on-site farm retirements and estates.

The best buys on used equipment have been at dealer auctions and consignment events. In the same respect, the most disappointing buys from farmers have been at dealer auctions and consignment events. Why? Expectations don't align with reality because of lack of due diligence and inspections. Farmers who do their homework, take time for inspections and research the market do very well. Farmers who don't, have a bad experience and typically communicate that to peers and the public. This further exacerbates the difference. Little effort is needed when attending farm retirements as the previous environment is evident. Confidence is assured, however, there is a price.

If you're a land investor get ready to buy.

As prices adjust, there will be certain opportunities and less competition as some look to shed obligations. Land has been and will always be an amazing and profitable long-term investment. Buying on trend lines that have flattened or halted in the short-term makes perfect sense to any analytical investor. It's a good time to accumulate as farmer sentiment and cash flows will take many of the producers out of the market. There is less risk in renting.

Land available in the marketplace has been greatly reduced. Our land auction activity is fractional compared to the brisk selling of 2010-2013. This is one market where supplies dry up when prices go down. It's very unique.

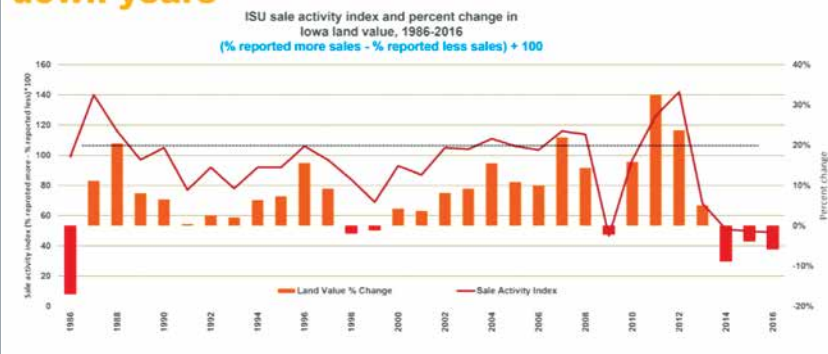
The real estate activity this Fall is expected to be stable. We justify this because of pent-up demand where land becomes available for sale. In the more active markets we operate in, we've seen diminished demand just in the last 60 days. The CSR2 (corn suitability rating) scores on land are nearly biblical when buyers evaluate land and determining bidding strategy and value.

Overall in a broad stroke, markets were consistent in the 105-115 CSR2 ratio. We have had recent sales in the 90-100 ratio. This correction has become evident. There are outliers. For example, a farm sold recently for a 165

ratio! It also seems where livestock and diversified farms are common, land trades higher. We feel it relates to the availability of manure as fertilizer. Remember what was said about controlling what you can?

Overall, we think markets through year end will be steady. There will be downside pressure going forward unless markets rally. Four-dollar corn will solve many potential upcoming issues. Look for more auction activity this Fall. If markets don't improve, it makes sense the Spring of 2018 will expose a new paradigm for farming going forward.

Farmland supply tends to be tighter in down years





Forage Report

Wheat Straw

Lack of inventory will dominate the landscape throughout the Midwest. After three years of strong supply and low-to-moderate prices, 2017-2018 will be an eye opener to straw buyers and sellers. Current prices at harvest are ranging from \$75-95/ton on feed grade wheat straw and will climb to \$100/ton before the end of the year. Expect \$115-125/ton by Spring and potentially higher as straw will need to be brought in from the Southwest to meet demand by late Spring/Summer of 2018. The Dakota drought is the major reason for the lack of supply with many Western producers baling the wheat for wheat hay. Also, much of the wheat stands were short, resulting in fewer tons per acre of straw and many acres blown back on the field with simply not enough straw to bother baling.

Grass Hay

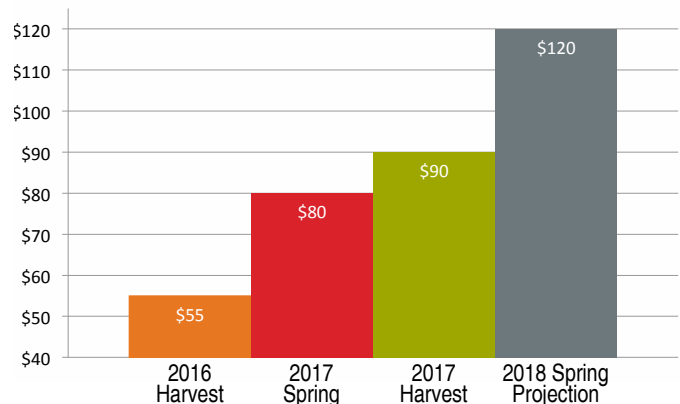
Strong supplies and poor prices have been the norm the last two years. The Dakota drought has inflated the grass hay price in the Midwest throughout the Summer of 2017. Harvest season grass prices have hovered around \$50/ton the past two years. This Summer's prices have steadied around \$75/ton. Expect good grass hay to approach \$100/ton by year end and reach \$115-125 by Spring 2018. Also, poor grass will be inflated with the lack of straw availability or price.

Alfalfa Hay

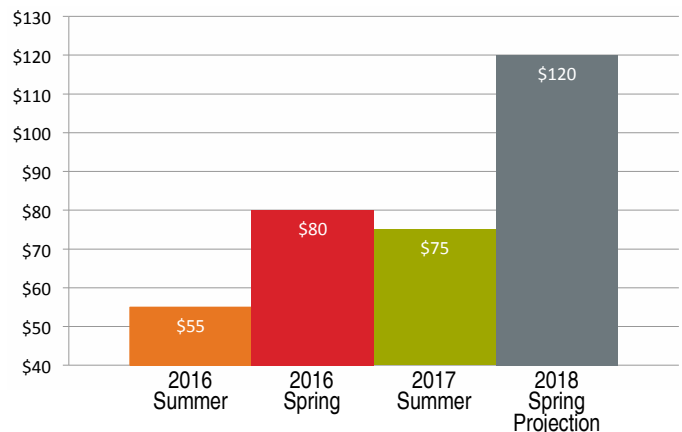
Dairy quality alfalfa (150+RFV) prices generally follow dairy milk markets. Milk prices have been fairly steady in 2017 as have dairy hay prices. 150 RFV hay has been \$125-140/ton throughout 2017. Supplies going into Fall of 2017 are, and should remain, available in the Spring of 2018 with prices climbing seasonally as expected, nearing \$160-175/ton.

Prime dairy hay (175+RFV) will be in short supply. Much of this hay comes from Western states affected by drought. Summer and early Fall 2017 have already shown strong demand and lack of supply, edging prices over \$1/RFV point, or \$175-200/ton. Expect prime hay to reach \$225 by Spring if it's available.

Wheat Straw in Medium Square Bales: Price per ton

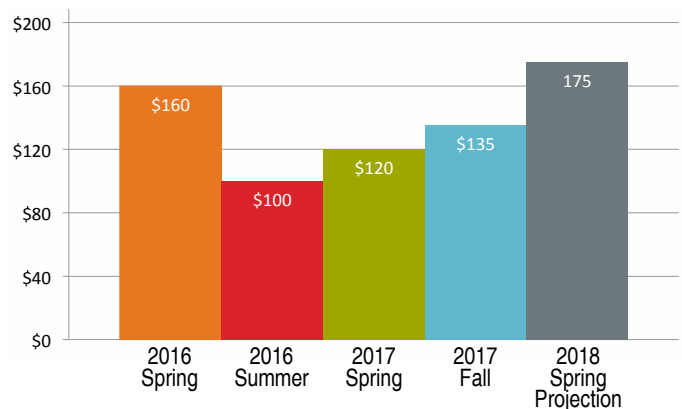


Grass Hay in Large Round Bales: Price per ton



Dairy Quality

Alfalfa in Medium Square Bale: Price per ton





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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.

Look for the release of our next Market Update in February 2018!



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