



Late Summer 2019

from F&M Bank

## Message from Mike Holloway

In last Summer's edition of *Ag News* I wrote about the uncertainty in agriculture due to trade issues between the U.S. and many of its trading partners. That situation hasn't changed much, and when combined with an unusually wet and cold spring, there haven't been many bright spots in agriculture of late.



Mike Holloway

Nevertheless, F&M Bank has long been committed to the agricultural industry. Farmers founded our communities with their dedicated work ethic and commitment to strong values.

F&M's ag banking team has a wealth of experience. We are here to help with advice, capital, and support for the needs of your operation.

Please call or stop by if we can be of assistance. Thank you for your business!

Sincerely,

**J. Michael Holloway**  
Senior Vice President and  
Senior Loan Officer

## Agricultural professionals expect lower land values and stable crop prices

Over 270 agricultural professionals attended the 2019 ISU Soil Management Land Valuation Conference this past May. Over 150 participants provided their estimates of future land values as well as future cash corn and soybean prices in their primary county in Iowa. Overall, the agricultural professionals forecasted a continued modest decline in land values in Iowa as well as stable cash crop prices. This article provides an overview discussion of these forecasts, and shares perspectives on future land and crop markets as well as risk management strategies.

### Land value forecasts

Agricultural lenders accounted for one-third of all respondents, followed by farm managers, real estate brokers/realtors, appraisers, and auctioneers. These results are presented in Table 1.

The agricultural professionals expect an immediate, modest decline in land values, followed by stable to slightly rising land markets. It is important to note that the annual inflation rate over the next few years will likely be close to 2%, so even the 1% bump in

nominal land values from 2020 to 2021 would be modest declines in inflation-adjusted terms.

Table 1 also presents the respondents' medium- and long-term land value forecasts for November 2025 and 2040. Granted, we should interpret these results with a grain of salt given their longer horizon. In general, the respondents expect the land

Table 1. Estimated Land and Commodity Price Forecasts at the May 2019 SMLV Conference					
Land	Average estimate of percent change since May 2019				
	NW	NE	SW	SE	STATE
Nov 2019	-2.3%	-2.6%	-1.5%	-1.1%	-2.1%
Nov 2020	-2.1%	-3.1%	-1.7%	-1.4%	-2.2%
Nov 2021	-0.7%	-2.1%	-0.6%	0.1%	-1.0%
Nov 2025	11.5%	7.8%	9.7%	8.4%	9.5%
Nov 2040	46.8%	43.6%	49.5%	40.1%	45.0%
Commodity Cash Prices (\$/bushel)					
	CORN		SOYBEAN		
May 2019	\$	3.41	\$	8.08	
Nov 2019	\$	3.45	\$	8.15	
Nov 2020	\$	3.65	\$	8.58	
Nov 2021	\$	3.85	\$	9.67	

continued on next page

market to bounce back in five years and continue to rise in the long run. It is informative to compare their current forecasts with their forecasts last year: in May 2018, the respondents had a rosier outlook about the long run land values. They expected a 16% increase in land values from May 2018 to November 2025, and 57% increase in land values from May 2018 to November 2040. The reduction in the optimism among the respondents likely reflects growing concerns about U.S.-China trade disruptions and financial stress.

### Commodity price forecasts

Table 1 also presents the respondents' average statewide forecasts of cash corn and soybean prices. On average, the respondents expect the November 2019 cash corn and soybean prices are \$3.45/bushel and \$8.15/bushel, respectively. And they expect the cash prices to increase slightly to \$3.85/bushel and \$9.67/bushel for corn and soybean two years from now. It is worth noting that the respondents expect a much higher jump for cash soybean prices from

November 2020 to November 2021. This may implicitly reflect how respondents anticipate improvements in soybean trade.

In summary, when forecasting corn and soybean cash prices, one must consider several factors that affect global supply and demand that impact these commodities. Note, respondents were forecasting only cash commodity prices for four different periods, which reflected an assumed basis. Missing in these forecasts was the underlying seasonality of new crop futures prices, which had yet to occur in 2019. Expect futures price rises occur most years during the spring months and can impact commodity cash price forecasts collected during the late April and early May timeframe.

### Cash Rents

Respondents expect cash rent to rise or decrease at the same pace with the land values.

*Source: Zhang, Wendong and Johnson, Steve. "Agricultural professionals expect lower land values and stable crop prices." Accessed July 29, 2019. <https://www.extension.iastate.edu/agdm/articles/zhang/ZhaJun19.html>*

---

## African Swine Fever Continues to Disrupt Markets

Recent news articles and government reports show that African Swine Fever (ASF) continues to have a disrupting impact on soybean and pork markets.

A news release from USDA, which outlined additional ASF related actions by the Department, stated that: "USDA is furthering its overall [ASF] preparedness efforts with the implementation of a surveillance plan.

Financial Times writer Gregory Meyer reported in May that, "The head of meatpacking company Tyson Foods has warned the 'threat is real' that African swine fever could enter the U.S. for the first time, a nightmare scenario for pork exporters."

### Soybean Markets

The decline in sow and hog inventories has resulted in reduced demand for soybean meal for feed. In its biannual report on global food markets, the Food and Agriculture Organization of the United Nations noted that, "With the sharp decline in pig inventories, the exponentially rising import trend, especially of soybeans, over the past two decades could come to an abrupt halt. Indeed, the first signs of a slowdown in soybean imports were already evident in 2018."

### Pork Markets

With respect to ASF impacts on pork, USDA's Economic Research Service (ERS) stated in May's *Livestock, Dairy, and Poultry Outlook* that, "Going forward, the ASF-related impacts on the Chinese hog inventory are



expected to lead to significant increases in demand for imported pork. A probable scenario is for Chinese excess demand for imported pork to progressively drive world pork trade dynamics. High Chinese pork prices can be expected to draw large volumes of imports from pork-exporting countries. For the United States, this could mean that significant shares of increased U.S. pork exports may back-fill pork diverted to China by other pork-exporting countries.

*Source: Good, Keith. "African Swine Fever Continues to Disrupt Markets." Accessed July 29, 2019. <https://farmpolicynews.illinois.edu/2019/05/african-swine-fever-continues-to-disrupt-markets/#>*

## Manage stress to increase farm safety

Farming often is listed as one of the most stressful occupations, yet most farmers say they wouldn't trade it for any other job. The love of farming, in spite of all the hassles, indicates farmers must be doing something right to manage their stress.

This publication will help you recognize things many farmers consider stressful, common symptoms of stress, and effective ways to manage stress. "Stressor" refers to the things that may cause stress; "stress" is the reaction you may have to that stressor.

### Common stressors

Farming has many ongoing situations that can cause stress, such as large debt loads, the presence of government regulations, high interest rates, and lack of control over the weather. Farmers also face daily hassles including machinery breakdowns, long work hours, weather delays, livestock problems, unexpected interruptions, crop yield uncertainty, and disagreements with other family members in the operation.

No event or situation by itself is stressful. However, some kinds of events are likely to add more stress than other kinds of events.

Negative events are most likely to produce stress. Although all change can bring stress, situations considered undesirable, such as bad weather or trouble with livestock, are more likely to cause stress than situations viewed as less negative.

Uncontrollable or unpredictable events are stressful. Many situations in farming are beyond human control, such as the weather, prices, government policies, and operating costs.

Ambiguous events are often stressful. Stress is more likely to occur when it isn't clear what the problem is or how you can cope with it. (For example, how global events will change farm profits.)

Long lasting problems are more dangerous than short-term ones. Most families can get by for a while with a difficult situation. When the stress continues to build over months and years, it's harder to handle.

### Symptoms of stress

People experience stress in different ways. Some people react to stressful situations physically, others have emotional responses, and some respond with changes in behavior or relationships. Most people react to stress in more than one way at the same time. High levels of stress can affect several areas of people's lives.



Stress can show itself in physical symptoms, such as headaches or stomach problems, or emotional symptoms, such as angry outbursts or depression. Behavior changes, like increased smoking or drinking, also can be a reaction to stress. In most people, stress affects their relationships with others, such as having difficulty getting along because of irritability or feelings of sadness.

### Differences among farmers

Even under similar circumstances, farm operators vary in the amount of stress they experience. Some people may have many negative stressors, but experience low levels of stress because they have developed effective ways to cope. For other farm men and women, however, pressures may exceed their coping resources, and they may show signs of chronic stress.

How farmers and their spouses experience stress is influenced by factors like these:

- Age and past experience with stressful times
- Type of farming operation
- Time and energy demands from off-farm jobs
- Availability of opportunities for supplementary income
- Emotional support from family members
- Shared goals of spouses
- Flexibility and adaptability

### Ways to manage stress

- First, recognize your symptoms of stress and decide to do something about them.
- Brainstorm with your family members about

*continued on next page*





alternatives and options that might reduce stressors in your life.

- Watch what you eat. Just as machinery needs top-quality fuel, your body needs nutritious food. Breakfast is an important meal for farm operators. Breaks for mid-morning and mid-afternoon snacks are helpful, especially during field work.
- Take time to talk, especially to your family. Let them know if you are feeling pressured or stressed. Find a friend who can listen to your problems.
- Do something relaxing every day. During busy times you may be able to relax for only a few minutes. During less hurried times, take at least a half-hour every day to do something for yourself.
- Do some form of aerobic exercise at least three times a week. Even though farmers get a lot of exercise, vigorous exercise is needed to get the heart pumping. It also will help lower your stress level.

Making these changes may seem difficult at first, but the investment of time and energy can pay off in feeling better and having a more productive farming operation.

## Farm safety and stress

Stress that goes unrecognized and is not managed well can play havoc with the farm family and the farm operation. When stress levels get too high, farmers are more likely to make poor farming decisions and be involved in farm injuries. Relationships between spouses and between parents and children also suffer during stressful times, as can health.

## Check your stress level

Take this quiz to find out how stress may affect your life. For each statement, consider whether you feel that way:

a) rarely    b) sometimes    c) often

- \_\_\_ 1. I feel tense or anxious.
- \_\_\_ 2. People or animals make me feel irritable.
- \_\_\_ 3. I drink, smoke, or take drugs to relax.
- \_\_\_ 4. I have tension headaches or pain in the neck or shoulders.
- \_\_\_ 5. I have trouble going to sleep or staying asleep.
- \_\_\_ 6. I find it difficult to concentrate on what I'm doing.
- \_\_\_ 7. I have a difficult time finding time or being able to relax.
- \_\_\_ 8. I feel sad or depressed for no good reason.
- \_\_\_ 9. I feel tired even after I rest or sleep.
- \_\_\_ 10. I argue with family or co-workers.
- \_\_\_ 11. I give others the "silent treatment" when I'm upset.

Stress test scoring: Give yourself  
 0 points for every "a" answer  
 1 point for every "b" answer  
 2 points for every "c" answer

Scoring:

0 - 5 points: You probably are handling stress well.

6 - 11 points: You could benefit from some stress reduction techniques.

12 points or more: Your stress is causing significant difficulties. It may be time to develop new strategies to cope with job and family pressures.

## What can you do?

- ✓ Recognize your symptoms of stress.
- ✓ Eat nutritious foods daily.
- ✓ Talk with family and friends.
- ✓ Take time to relax every day.
- ✓ Do aerobic exercise three times a week.

Source: Jolly, Colleen and Schwab, Charles. "Manage stress to increase farm safety." Accessed July 29, 2019.  
<https://store.extension.iastate.edu/Product/Manage-stress-to-increase-farm-safety-Safe-Farm>

## Which Entity is Best for my Estate Plan?

Every farmer needs to do estate planning. A decision that you will have to make with the help of an attorney is what entity, if any, you should use to hold the investments to protect it and allow you to transfer it to the next generation. While this discussion is centered around a farmer, it has an application to anyone doing estate planning.

Farmers like to maintain control of their assets, even from the grave. Thus we bring in a trust. The trust follows the instructions in the trust document, or if not covered, it follows state law. If still not covered, it will follow federal law. This allows control of assets after death.

**Corporations** can be either a “C” or an “S”. They do a good job of splitting the management and labor returns from the investment side of the business. The farmer only owes FICA and Medicare taxes on the wages he pays himself, which reduces self-employment taxes. Shares can be gifted to the next generation for transitional planning. They create a suitable shell for liability protection. A disadvantage is that the money in a C corporation will get double taxed if you want to pull it out. A C corporation does not get preferable capital gain tax rates.

An “S” **corporation** offers a liability shell, but the advantage of preferable individual tax and capital gain tax rates. The individual shareholders pay the taxes for the S corporation so the corporation should distribute at least the cost of taxes out to the shareholders.

**LLC’s (limited liability companies)** are like a modern version of the partnership. They can be one individual or a combination of several persons to

carry on a business or hold assets. It has a shell to protect it; thus protecting the individual members. It can be used to gift an interest to the next generation. For example, this is a popular entity to for a trucking business to protect the farm and other personal assets in the event of an accident.

The **LLLP (limited liability limited partnership)** is a newer version of the **FLP (family limited partnership)** and is superior in the area of cross liability between the members. Either entity is a good choice if the children have moved off the farm and the parents want to start gifting shares of the farm to them now. They may not be ready to retire and still want to manage the farm. The parents would have a small percentage of ownership as general partners (active management), and most of their percentage ownership is in limit shares which they gift annually over to the children.

The key issues of estate planning are critical for farmers. The lack of proper planning can be costly if it results in additional taxes, investment losses, or expenses you or your heirs could have avoided. We strongly encourage you to visit with our senior trust officer, Jon Holthe, because there are many factors to consider in creating your estate plan.

*Goodwin, G. “Which Entity is Best for My Estate Plan?.” Accessed July 29, 2019. <https://farmdocdaily.illinois.edu/2011/09/which-entity-is-best-for-my-es-1.html>*



*Jonathan D. Holthe  
CFP® Senior Vice  
President & Senior  
Trust Officer*

Nondeposit investment products available through our Trust Department: • Are Not FDIC Insured • Not Bank Guaranteed • May Lose Value • Not a Deposit • Not Insured by Any Federal Government Agency

## Farm Projection Tool

This program calculates per-acre budgets for different crops and a whole farm budget and includes breakevens. Projected financial statements and return sensitivities are available. The effects of farm level crop insurance and hedging can be analyzed.

The University of Illinois provides a valuable tool to assist in this process:

<https://farmdoc.illinois.edu/fast-tools/farm-projection-tool>







21 E. Main St., Galesburg • 343.7141  
 1230 N. Henderson St., Galesburg • 344.3700  
 2616 Veterans Drive, Galesburg • 344.3232  
 123 E. Knoxville St., Brimfield • 446.3344  
 4900 N. Glen Park Place, Peoria • 683.2881  
**www.thefmbank.com** Member FDIC

Connect with us



## Our Ag Lending Team

### **Mike Shane**

*Vice President,  
Agricultural Banking*  
NMLS# 1552937

(309) 343-0002,  
ext. 20654

Email: Michael.Shane  
@thefmbank.com



### **J. Michael Holloway**

*Senior Vice President  
and Senior Loan Officer*  
NMLS# 742271

(309) 343-0002,  
ext. 20608

Email: Mike.Holloway  
@thefmbank.com



### **Trent Cox**

*Vice President,  
Commercial Banking  
Manager*  
NMLS# 571424

(309) 343-0002,  
ext. 20637

Email: Trent.Cox  
@thefmbank.com



### **Annette Pickrel, CTP**

*Cash Management  
Officer*

(309) 343-0002,  
ext. 20623

Email: Annette.Pickrel  
@thefmbank.com



Contact Annette Pickrel for your ag cash management needs.  
 She is a Certified Treasury Professional® and provides the highest level of expertise  
 in treasury and cash management to our ag and business customers.