Ag News

Spring 2018 *from F&M Bank*

Message from Mike Holloway

As we prepare for the new crop year, F&M Bank is working hard to embrace the financial needs of our ag customers. Our team of advisors extends beyond lenders to cash managers, and financial and estate planners.

Whether you're looking for a checking or savings account, investment or trust advice, or growing your farm operation, we're confident that our associates will be able to help you.

Your feedback is always important to us, so please call or stop in if we can be of assistance. Also, be sure to tell your friends and colleagues about F&M Bank. Thank you for your business!

Sincerely,

J. Michael Holloway

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Crop and Livestock Price Prospects for 2018

CROPS

Crop prices will remain below the high levels seen in the early part of this decade due to large global inventories. Global economic growth continues to build on the momentum seen over the last year. Growth in China and emerging market in Asia is projected to remain strong throughout 2018. The prospects of improved growth support commodity demand, but the significant changes to trade policy could mitigate some of this demand growth in export markets. Lower prices are expected to continue in 2018 barring a shortfall in one of the major production regions. The following price outlook analysis assumes a good 2018 growing season.

Corn prices continue to struggle with large crops and five consecutive years of growth in ending stocks. Domestic corn demand continues to see moderate growth in corn used for ethanol which has been supported by record levels of ethanol exports. Growth in livestock production and low corn prices provide support for increased feed usage during the 2017-18 marketing year. The potential for greater than 5.5 billion bushels in feed and residual use would be the largest amount since 2007-08. Prices are expected to average near $3.30 during the current year and near $3.40 during the 2018-19 marketing year if production develops as expected.

Soybean prices remain strong relative to corn and wheat prices. U.S. soybean ending stocks continue a five-year pattern of growth with 2016-17 ending stocks ending at 301 million bushels. The lower than initially projected ending stocks benefited from very strong export numbers driven by continued growth in exports to China. Soybean exports are projected to exceed 2.2 billion bushels during this marketing year, up from last marketing year's 2.174 billion bushels. With total use projected at 4.32 billion bushels, a further increase in U.S. stocks is expected by the end of the 2017-18 marketing year. Prices are expected to average near $9.20 during the current year and near $8.80 during the 2018-19 marketing year if world production develops as expected.

LIVESTOCK

Livestock markets continue to respond to the growing demand for meat globally and lower feed costs. Prices in the livestock sector look to level

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out after declining from the highs seen in 2014 and the subsequent supply response. Production levels are expected to increase in 2018.

U.S. **beef** production is expected to increase 4.6 percent in 2018 on higher levels of feedlot placements in last half of 2017 and the beginning of 2018. Beef production is forecast at 27.6 billion pounds in 2018, up 1.2 billion pounds over 2017. Beef export markets continue to exemplify U.S. competitiveness in foreign markets. Exports are projected at 2.97 billion pounds, up from 2.85 billion in 2017. Recent strength in export markets has been driven by strong demand from Japan. Fed cattle prices average near $122 in 2017 but look to average near $117 in 2018. Feeder steer prices averaged $145 in 2017 and are projected to be around $142 in 2018.

U.S. **pork** production is projected to increase in 2018 to 26.9 billion pounds, up 1.2 billion pounds from 2017. Delays in hog slaughter levels in the fourth quarter of 2017 are projected to push first quarter pork production in 2018 up 4.7 percent of 2017 levels. Pork exports in 2018 are expected to increase from the 5.6 billion pounds exported in 2017 to 5.9 billion pounds. While increased exports to Mexico helped to support the export pace thus far in 2017, lower export levels to Japan and China is currently a drag on pork exports. The average hog price is expected to decrease to $45.00 in 2018, down from $49.01 in 2017

Source: Hubbs, T. "Illinois Farm Economics Summit 2017: Crop and Livestock Price Prospects for 2018." farmdoc daily, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, December 28, 2017. http://farmdocdaily.illinois.edu/2017/12/ifes-2017-crop-and-livestock-prospects-for-2018.html

Evaluating Your Capital Debt Repayment Capacity

Many financial measures and ratios assist in evaluating the financial health of a business. Not one of those measures itself can assess the overall financial condition of a farm business. This article considers only one of those measures, Capital Debt Repayment Capacity (CDRC), as a means to assess the financial health of a farm business.

Capital Debt Repayment Capacity is calculated using select financial information found on the cash flow statement and the accrual income statement. The term CDRC refers to the borrowers' ability to repay term debt in a timely manner. Typically, CDRC is not considered a measurement of a farm or business' performance since CDRC includes non-farm/off-farm sources of income in calculating the repayment ability. The CDRC formula calculates the dollars generated from farm and non-farm sources available to pay debt on time and to pay for capital purchases. CDRC is measured as an absolute dollar value and is difficult to compare among farm operations.

You can calculate your CDRC using the following:

+ net farm accrual income

+ net non-farm accrual income

+ depreciation

- federal/state income and self-employment taxes paid

- family living expense (owner withdrawals)

= Capital Debt Repayment Capacity

Summary

From 1995 to 2005 the CDRC moved in a relatively narrow range between $0 and $100,000 without much of a trend evident. The ethanol mandate becomes apparent in the period from 2006 to 2016 with a generally higher level of CDRC but one that is much more volatile. The volatility of the 2006-2016 period is approximately four times the volatility of the 1995-2005 period. This volatility coincides with a period of commodity price change, a general increase in the number of cash rented acres and a general increase in cash rent paid per acre. The volatility is also visible in the low level of CDRC for 2009 (late and wet harvest with lower yields) to the much higher level of CDRC of 2012 brought on by the dry year, low yields and significant crop insurance indemnity payments. Monitor your CDRC closely to maintain a good handle on your farms ability to meet debt payments on intermediate and long term loans. To the extent that your CDRC is in excess of those debt payments, you have the ability to acquire added capital assets.

The authors would like to acknowledge that data used in this study comes from the local Farm Business Farm Management (FBFM) Associations across the State of Illinois. Without their cooperation, information as comprehensive and accurate as this would not be available for educational purposes. FBFM, which consists of 5,700 plus farmers and 60 professional field staff, is a not-for-profit organization available to all farm operators in Illinois. FBFM staff provide counsel along with recordkeeping, farm financial management, business entity planning and income tax management. For more information, please contact the State FBFM Office located at the University of Illinois Department of Agricultural and Consumer Economics at 217.333.5511 or visit the FBFM website at www.fbfm.org.

Source: Krapf, B., D. Raab, and B. Zwilling. "Evaluating Your Capital Debt Repayment Capacity." farmdoc daily (7):213, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, November 17, 2017. http://farmdocdaily.illinois.edu/2017/11/evaluating-your-capital-debt-repayment-capacity.html

Developing Good Family Business Relations

The underlying success of a business agreement depends on healthy family relationships. Probably more two-generation business arrangements fail because of poor family relations than any other reason.

Good two-generation farming relationships do not just happen. They come about because family members take the time and effort to make relationships work. Both the older parties and the younger parties must understand and tolerate each other's faults. Often the parents tend to be conservative as they get older, while the younger party may be venturesome and willing to try new ideas. Also, disagreements over little things may cause a substantial strain on the relationship.

Work to avoid the pitfalls of trivia—don't focus on those things that generate a lot of emotion in the short-term but don't affect business success in the long-term.

One way to maintain good family relationships is to diversify your interests and give each other space. Each party may need an outside enterprise or leisure activity that allows for getting away from the family operation. The outside activity may be an organization such as a service club, producer organization, or other outlet.

Family Discussions

Do not allow ridicule, punishment, or lecturing in family discussions. Encourage listening, understanding, finding alternatives, commitment to action, and support for one another. Listen not only to what the other person is saying, but also to what he/she is feeling. Being respectful to all family members is important at all times.

Problem Areas

The younger generation often views family relationships from a different perspective than the older generation. These differing perspectives may lead to relationship conflicts. Below is what a survey of farm families considered to be good advice for both the older generation and the younger generation.

Older Party's Perspective

Parents may try to transfer their dreams to their son's and daughter's family and expect the family's home, routines, and child rearing to coincide with the parents' ideas. Parents need to accept that their son/daughter has his/her own life and has married someone of his/her choice, and that their life together is that person's number one concern.

A daughter-in-law or son-in-law is often made to feel like an outsider and left out of farm decisions. A daughter-in-law is often relegated to being a short-order cook for hired help, a message carrier, or an errand runner. She often lives in an old house, a rented place, or a mobile home. Perhaps it was intended to be temporary, but she often ends up living there for years.

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A son-in-law is often treated as a hired man with little say in decision-making. This is more common in situations where a son also is involved in the business.

Younger Party's Perspective

The son or daughter (and spouse) should accept without resentment the fact that the parents have spent a lifetime developing the business and raising a family. They are now entitled to rest, travel, good furniture, etc.

If you are going into business with your parents, your spouse (rather than your parents) should be your confidant when working out troubles. Otherwise your spouse will begin to feel like an outsider.

Giving Advice

Sometimes it is best not to communicate. Parental advice is motivated by excellent intentions. Parents do not want to see their children repeat parental mistakes. But that does not make advice any more palatable to the younger generation. If responsibility has been delegated to the younger party, he/she will look after it the best way possible or suffer the consequences.

Family Stressors

"In more than 20 years of consulting with farm families, I have learned that their most difficult stressors are other people, not the weather or markets," said Jerry Robinson, former Extension rural sociologist, University of Illinois.

Below are 10 areas, in order of importance, that Iowa farm families identified as causing stress in two-generation farm families.

1. Living with tight money
2. Farm taking priority over family
3. Poor teamwork
4. Differing time commitments
5. Not being involved in family decisions
6. Not being on our own
7. Taking more risks than others
8. Disagreements over spending
9. Receiving criticism from family
10. Feeling like hired labor

The same farm families were asked to identify coping strategies. Below are 10 strategies in order of importance that were identified by family members living in two-generation farm families.

1. Spiritual belief
2. Encouraging each other
3. Flexibility
4. Problem analysis
5. Relaxation
6. Diversionary activities
7. Acceptance
8. Physical activity
9. Talk to other families
10. Talk with relatives

For questions about estate planning, or any other trust-related matter, call Jon Holthe at (309) 343-0002, ext. 20605 and he will be happy to visit with you.

Source: Hofstrand, Don. "Developing Good Family Business Relations." Iowa State University Extension and Outreach. https://www.extension.iastate.edu/agdm/wholefarm/html/c4-70.html

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

Habits of Financially Resilient Farms

A study funded by the Illinois Soybean Association titled “Identifying Management Strategies of Highly-Profitable Soybean Farmers” utilized data from the Illinois Farm Business Farm Management Association to identify farms ranked in the top one-third in terms of profitability over an extended period. As a follow-up to this study, a small group of producers that were in the top one-third was surveyed to try to identify common production and management strategies utilized by this group.

Nine producers in central Illinois were surveyed. Five farms were in the 1,000 to 2,499 acre size, three farms in the 2,500 to 5,000 acres and one farm was over 5,000 acres in size.

Regarding tillage, no one type was predominant. For land going in to soybeans, conventional tillage in the fall was the most common. Conventional tillage is defined as tillage that leaves less than 30% residue cover. Conventional tillage was also the most common spring tillage practice. For land going into corn, no tillage in the fall was the most common practice. The most common practice in the spring was conventional tillage.

All farms were planting soybeans after corn in a typical corn/soybean rotation. The main reasons given for this type of rotation included better disease and insect control, risk reduction and producers felt this was the most economical rotation. Producers had a goal of starting soybean planting by mid to late April with four of the nine respondents wanting to start planting soybeans before corn planting was finished.

Six of the nine producers planted their soybeans in less than 30-inch rows with five of the nine planting in 15 to 18 inch rows. All but one producer had decreased their seeding rate in the last five years. The most common seeding rate was in the 130K to 140K seeds per acre range. All used seed treatments. The two main reasons given for using seed treatments include earlier planting dates and better emergence. Yield potential, herbicide resistance traits and disease resistance were the most common reasons given for seed variety selection. Price of seed was ranked last. Four of the producers planted at least some of their acres to seed production with two other producers planting Non-GMO soybeans. Planting seed beans and Non-GMO soybeans provided premiums above commercial soybean market prices.

Fungicide was partially or completed used by six producers with insecticide included by five producers. Producers felt this practice provided better yields, helped with disease and insect control and provided better quality soybeans for those raising seed.

No common harvesting strategy surfaced. It was depended on weather and crop conditions. Three producers did indicate they would stop harvesting soybeans when the moisture level got below 9% to 10%. Eight of the nine producers used a draper bean head.

Producers were asked to rank 10 factors as to how they felt the factors were important to the profitability of their business. The top four were:

1) attention to detail

2) operating cost management

3) maximize yields

4) discipline spending

Surprisingly implementing new technologies was ranked last.

Some of the production and management practices that surfaced in the survey results that could have led to these producers being in the top one-third in terms of profit are as follows. Increasing revenue by growing seed beans or Non-GMO soybeans, utilizing narrower rows for soybeans compared to corn, earlier planting of soybeans and utilizing seed treatments, which then allowed lower seeding rates. Other practices include selecting seed based on the best traits and not just cost, implementing proven newer technologies and keeping close attention to all aspects of the business with a high focus on cost control.

Source: Lattz, D. "Illinois Farm Economics Summit 2017: Habits of Financially Resilient Farms - Continued." farmdoc daily, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, January 24, 2018. http://farmdocdaily.illinois.edu/2018/01/ifes-2017-habits-of-financially-resilient-farms-cont.html

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