

Midwest Farmowner

News & Information from First Mid Ag Services

Summer 2020 – Vol. 28, No. 2

Corn Prices Continue to Look for Direction Amid Uncertainty

By Cory Kauffman

As 2020 got underway, there was a positive outlook on agriculture. Recent passage of a trade deal with China was a plus, and the overall economy was continuing to expand.

It is amazing how quickly that all changed as the coronavirus, a proverbial black swan, disrupted daily lives like nothing before. It seems that no aspect of business has been untouched by the virus. Stock markets, oil prices and much more have all suffered immensely and become extremely volatile because of the pandemic. The corn market is no exception.

While it was the global pandemic and its effects on demand that initially drove corn prices lower, it has been the overwhelming corn supply that has kept prices suppressed. USDA's annual prospective plantings report released at the end of March was the first indication supplies were going to be burdensome. The report shocked the market with its estimate that U.S. farmers would plant 97 million acres of corn. That projection, coupled with an estimated national yield of 178.5 bushels per acre, led USDA to predict record total production for 2020.


Although USDA also projected record use, the supply estimates outpaced demand and left a forecast carryover of 3.3 billion bushels for the end of the 2020 marketing year. If realized, a stocks-to-use ratio of 22.4% would be the highest since the end of the 1992 marketing year.

As the spring progressed, though, it seemed that the U.S. would not plant as many corn acres as initially projected. Adverse planting conditions and reduced profitability prospects cut back acreage expectations. Ahead of USDA's June 30 acreage report, many analysts predicted planted corn acres near 95.2 million. However, the report estimated corn plantings at 92.006 million acres, which was bullish news the market did not anticipate.

The reduction of acres very quickly trimmed a billion bushels of corn off the balance sheet and prices improved over the days that followed.

The July 10 supply and demand estimate subsequently lowered carryover for corn to 2.65 billion bushels at the end of the 2020 marketing year. The 18.1% stocks-to-use ratio still reflects more than adequate supplies.

Looking forward from here, there is significant uncertainty surrounding the direction corn prices may head into fall. While there is uncertainty every year, 2020 seems especially unpredictable and difficult to determine where corn prices may be headed.

Landowners interested in more of First Mid's thoughts on price direction can read more on page 3, as well as contact any farm manager to discuss prices in this ever-changing market. 

Crop	Corn	
	2019/20	2020/21
Year		
Planted Acres (Million Acres)	89.7	92.0
Harvested Acres	81.3	84.0
Yield (Bu./Ac.)	167.4	178.5
Beg Stocks (Thousand Bu.)	2,221	2,248
Imports	45	25
Total Production	13,617	15,000
Total Supply	15,883	17,273
Domestic Usage	11,860	12,475
Exports	1,775	2,150
Total Usage	13,635	14,625
Ending Stocks	2,248	2,648
Stock-to-Use	16.5%	18.1%

Source: USDA Economic Research Service World Ag Supply & Demand, July 10, 2020

Inside: Explore Timber Acreage for Additional Revenue

Timber Acreage Provides Additional Revenue Source

By Eric Schumacher

As landowners and farmers deal with a reduction in farm revenue and lower commodity prices, some may want to look into additional revenue sources. A mature stand of trees, while viewed by some as non-income producing, can provide a boost to an operation's cash flow.

When beginning the process of exploring a timber harvest on your property, it is important to work with an experienced and trusted consulting forester. Like a farm manager, a consulting forester is an impartial third party who will work in the landowner's best interest.

A forester does not cut or buy the timber themselves. He or she will mark trees to be harvested and provide expert advice and options while securing the best price for the trees.

In addition to timber sale administration, a forester will work to maximize a property's timber value by optimizing timber growth through "sustainable harvests." A sustainable harvest involves harvesting mature trees but also harvesting damaged or poorly formed trees. Removing less-desirable trees provides more valuable trees the room and resources to grow and mature.

A sustainable harvest is just one aspect of a long-term plan that a forester can develop. Another aspect is a timber stand improvement (TSI). The first step in any TSI plan is to remove all invasive species through the cut stump method, basal bark spraying, girdling or prescribed burning. As with farming, no one method is the best choice. It is important to work with a forester to develop a plan catered to a landowner's specific property and goals.

First Mid Ag Services is working with Ken Hoene of Timber Services Inc. on a large timber harvest in south-central Illinois. He is an Illinois licensed forester with more than 40 years of experience. Hoene stresses that timber acreage provides a return just like any other asset. To maximize the return, landowners must properly manage the acres. Hoene assists with



Photo by Chris Evans

A mature stand of trees may offer the opportunity for a revenue-producing timber harvest. First Mid Ag Services farm managers can assist landowners with the process.

timber sale administration, forest management/stewardship plans, stand improvement and tree planting.

Any landowners who choose to look at this option, should consider determining the viability of a tree harvest, including number of acres and the type, age and quality of trees to be harvested. Finding a reputable contractor to buy, cut and haul the trees is critical to successful completion. First Mid Ag Services assists landowners in all aspects of property management including timber sales. Contact Eric Schumacher at 217-258-0457 or eschumacher@firstmid.com. MF

Farmland Owners Mark More Than 30 Years of Success

Barb and Lee Johnson are the third generation of their family to work with First Mid Ag Services for management of their farm near Morrisonville, Illinois. The land was purchased in the 1960s, because it had great potential for crop yield improvement and for farm value.

"Working with Keith Waterman and staff made those objectives come true," they say.

Originally the 640-acre property had two ponds that were drained, increasing the amount of tillable land. In addition, several waterways were able to take advantage of government programs and increase income of the property. The nature of much of the soil indicated that adding a great deal of tiling would substantially increase yields on a major section of the land.

"These were programs developed jointly over a period of 30 years," the couple says. "During that time, we dealt with a number of people

with First Mid Ag Services. Generally, each objective originated with Waterman and Springfield office staff and was implemented by the farm tenant."

The Johnsons believe that perhaps the most important element of the success achieved in improving the value of their farm was the ability of three business entities to work together in a manner that was successful to each one individually.

"Keith and the company were the difference in making the tenant and us as owners realize these objectives could be accomplished only with all of us working together," the Johnsons say. "Our previous success tells us that indeed the future looks very bright." MF

Where Might Corn Prices Be Headed Next?

Several market drivers should be monitored throughout the remainder of the growing season for indications of the corn market's direction.

"Clearly, there are many variables that will play into the direction of corn prices over the next few months. That said, the lower number of acres has tightened the corn balance sheet and tied most of the market's direction to crop conditions and weather, especially as corn pollinates," says Cory Kauffman, First Mid Ag Services farm manager. "USDA's current national yield estimate of 178.5 bushels per acre will likely be lowered in the coming months, but we don't know how far and whether it will drive prices considerably higher. Reaching the benchmark \$4 per bushel price will require a significant production issue, which seems unlikely at this point."

Here are some of the factors to watch for price direction in the next few months:

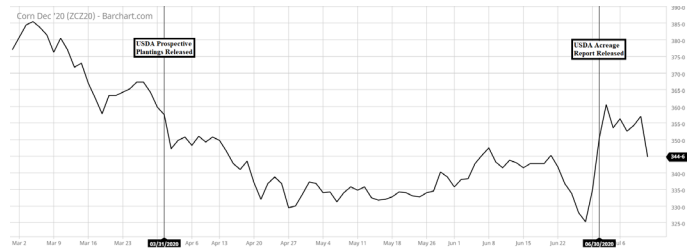
Drivers for Higher Prices

- Lower corn acres from earlier estimates in key corn growing states Illinois, Indiana, Iowa
- Poor yields due to hot/dry conditions during corn pollination
- National yield below trend yield
- Developing drought/dry conditions in the South, High Plains and southwest Iowa
- Crop condition rating in Illinois below average
- Return of strong feed demand as livestock are transitioned back to growth diets

- Ethanol use recovery to levels seen prior to Covid-19
- Increased China purchases to replenish national stockpile and meet Phase 1 trade agreement commitments
- Solid overall economic recovery

Drivers for Lower Prices

- Forecasts for rain and cooler temperatures across portions of the Midwest
- Crop conditions for Iowa considerably higher than average
- National yield per acre above current projections
- Actual feed use not keeping pace with current projections
- Lower ethanol use due to Covid-19 and reinstated lockdowns during peak driving months
- Deteriorating U.S./China relations
- No economic recovery **MF**



Farm Managers Introduce First Mid Ag Minute



First Mid Ag Services is proud to present a new, informative online series that began airing August 1. The Farm Manager Minute, as it is known, is a short video segment created to detail what is going on in the field during the growing season.

As the name suggests, these videos will be roughly one minute long, highlighting the important details of that episode's discussion. Landowners and farmers are invited to tune in each week as different farm managers from First Mid Ag Services' six regional offices discuss overall growing conditions in their respective areas. Other topics will include farmland value updates, First Mid Ag Services' seed testing program, McLean County yield survey and more.

Videos will be uploaded to First Mid's YouTube channel with links available in the weekly real estate email (sign up available at www.firstmidag.com) and Latest News section. Please subscribe to the channel so that you don't miss an episode. Watch as First Mid Ag Services continues to set the bar for being the premiere Illinois farm management business. **MF**

First Mid to Offer Online Farmland Auctions This Fall

Adapting to a pandemic can provide many challenges. Seller clients and auction bidders can rest assured that once an auction is set with First Mid Ag Services it can be conducted this fall or winter, regardless of the situation. Farmland auctioneers are prepared to perform a live, "socially distanced" open outcry auction, with an online bidding option. We can also conduct a timed, online-only multi-tract farmland auction format to accommodate bidders.

In these days of Covid-19 uncertainty, these online options will offer choices to reduce potential exposure. An "app" will be provided for bidders to download on mobile devices to bid from the office, the tractor, kitchen table or wherever there's a connection to the internet. Staff are prepared to conduct business and get the farm sold! Call David Klein to learn more about First Mid Ag Services' online auction services at 800-532-LAND. **MF**



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Photo by USDA

Inside This Issue...

- Long-Time Landowners Share Farm Management Success
- A Look at Corn Price Direction for 2020 Marketing Year
- Timber Market as Potential Additional Revenue Stream



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