



Spring 2018

from CBI Bank & Trust

Message from our Bank President

As we prepare for the new crop year, CBI Bank & Trust 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.



Bob Howard

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 CBI Bank & Trust. Thank you for your business!

Sincerely,

Robert J. Howard
President
CBI Bank & Trust

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 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>

ISU Land Value Survey shows 2.0% increase statewide since 2016

After having fallen in each of the three previous years, the average value of an acre of farmland in Iowa saw an increase in 2017. The average statewide value of an acre of farmland is now estimated to be \$7,326. This represents an increase of 2.0 percent, or \$143 per acre, from the 2016 estimate.

Land values were determined by the 2017 Iowa State University Land Value Survey, which was conducted in

November by the Center for Agricultural and Rural Development (CARD) at Iowa State University and Iowa State University Extension and Outreach. Results from the survey are consistent with results by the Federal Reserve Bank of Chicago, the Realtors Land Institute, and the US Department of Agriculture.

The \$7,326 per acre estimate, and 2.0 percent increase in value, represents a statewide average of low-, medium-, and high-quality farmland. The survey also reports values for each land quality type, crop reporting district (district hereafter), and all 99 counties individually.

Starting in 2004, several factors, including the ethanol boom and historically low interest rates, drove five consecutive years of double-digit growth in average farmland values, culminating in an historic peak of \$8,716 per acre by 2013. Average farmland values then began an immediate decline, dropping 8.9 percent, 3.9 percent, and 5.9 percent, in the following three years. Those declines were the first time since the 1980s farm crisis that farmland values had declined three consecutive years.

Dr. Zhang said that limited land supply is the main factor driving this year's increase in farmland values. "Commodity prices and farm income are still stagnant," Dr. Zhang said. "I would not consider this a turn of the land market. Given the rising interest rates and stagnant farm income, I would not be surprised to see a continued decline in values in the future. This, to me, is a temporary break in a downward adjustment trajectory."

Land Values by County

Only four of Iowa's 99 counties—Fremont, Mills, Montgomery, and Page—reported lower land values this year. Each of those counties reported a decline in value of 0.3 percent. For the fifth year in a row, Scott and Decatur counties reported the highest and lowest farmland values, respectively. Decatur County reported a value per acre of \$3,480, a gain of \$37, or about 1.1 percent, from last year's report. Scott County reported a value of \$10,497, an increase of \$162 per acre, or about 1.6 percent.

Factors Influencing Land Values

The most common positive factors influencing land prices noted by survey respondents were favorable interest rates, strong crop yields, limited land supply, strong demand, and the availability of cash and credit. The most commonly cited negative influences were lower commodity prices, cash or credit availability, high input prices, weak cash rental rates, an uncertain agricultural future, and strong alternative (stock market, economy).

Source: Zhang, Wendong. "ISU Land Value Survey shows 2.0% increase statewide since 2016." Accessed February 21, 2018. <https://www.card.iastate.edu/news/release/?n=82>



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.

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 (563) 262-3124 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>

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 completely 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 and 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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