

# Current Agricultural Economy and Farm Bank Conditions



**Division of Insurance and Research**  
Kansas City Regional Operations  
Branch

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- *However, the use of this information does not constitute an endorsement of its accuracy by the Federal Deposit Insurance Corporation.*

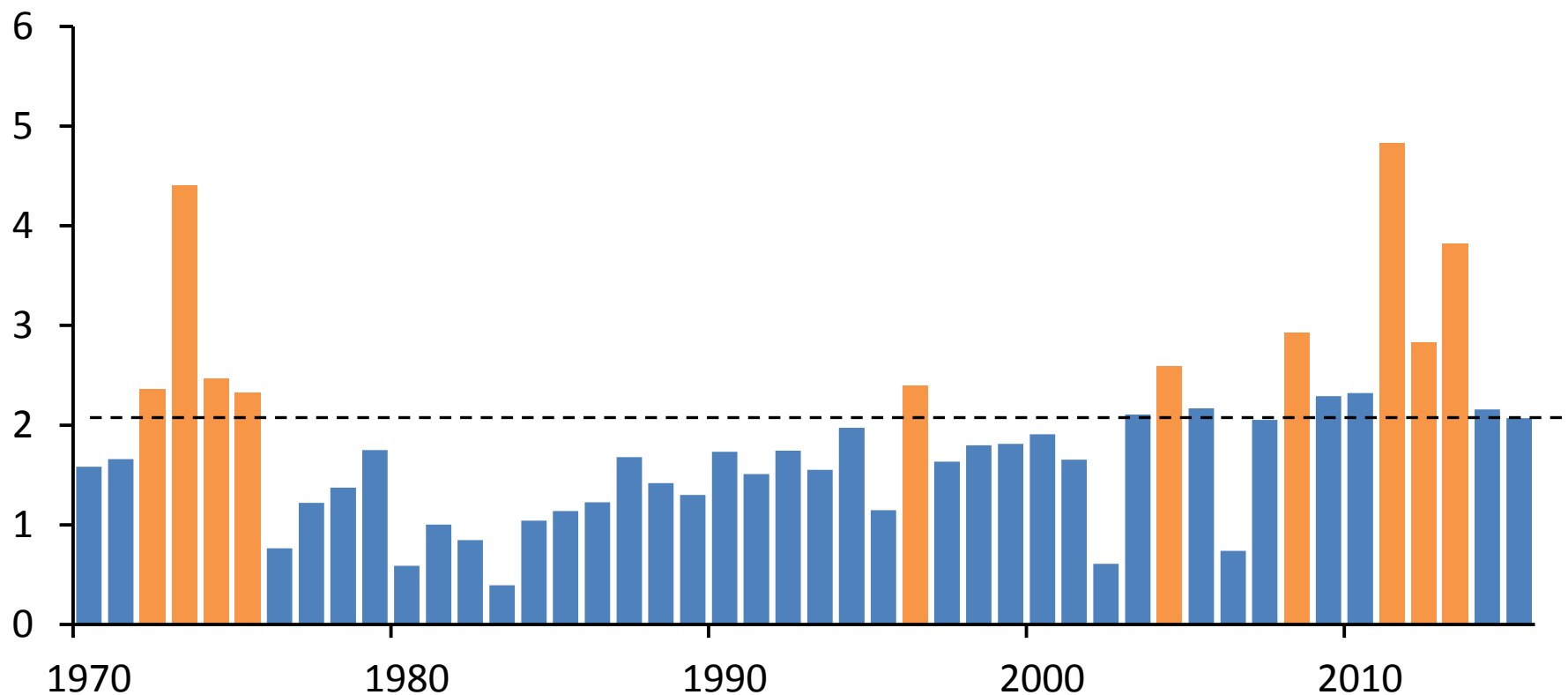
# Primary Takeaways

- Coming off a decade of high returns, the U.S. agricultural sector has been weak since 2014, and conditions are expected to remain that way for the next few years.
- Farm bank asset quality is starting to weaken from historically strong levels, but the transmission mechanism can be slow.
- Persistently weak agricultural conditions may result in problems for some farm banks, but a repeat of the agricultural crisis of the 1980s is unlikely.

# FARM INCOME

# Steep Decline in Farm Income Follows Most Prosperous Period Since 1970s

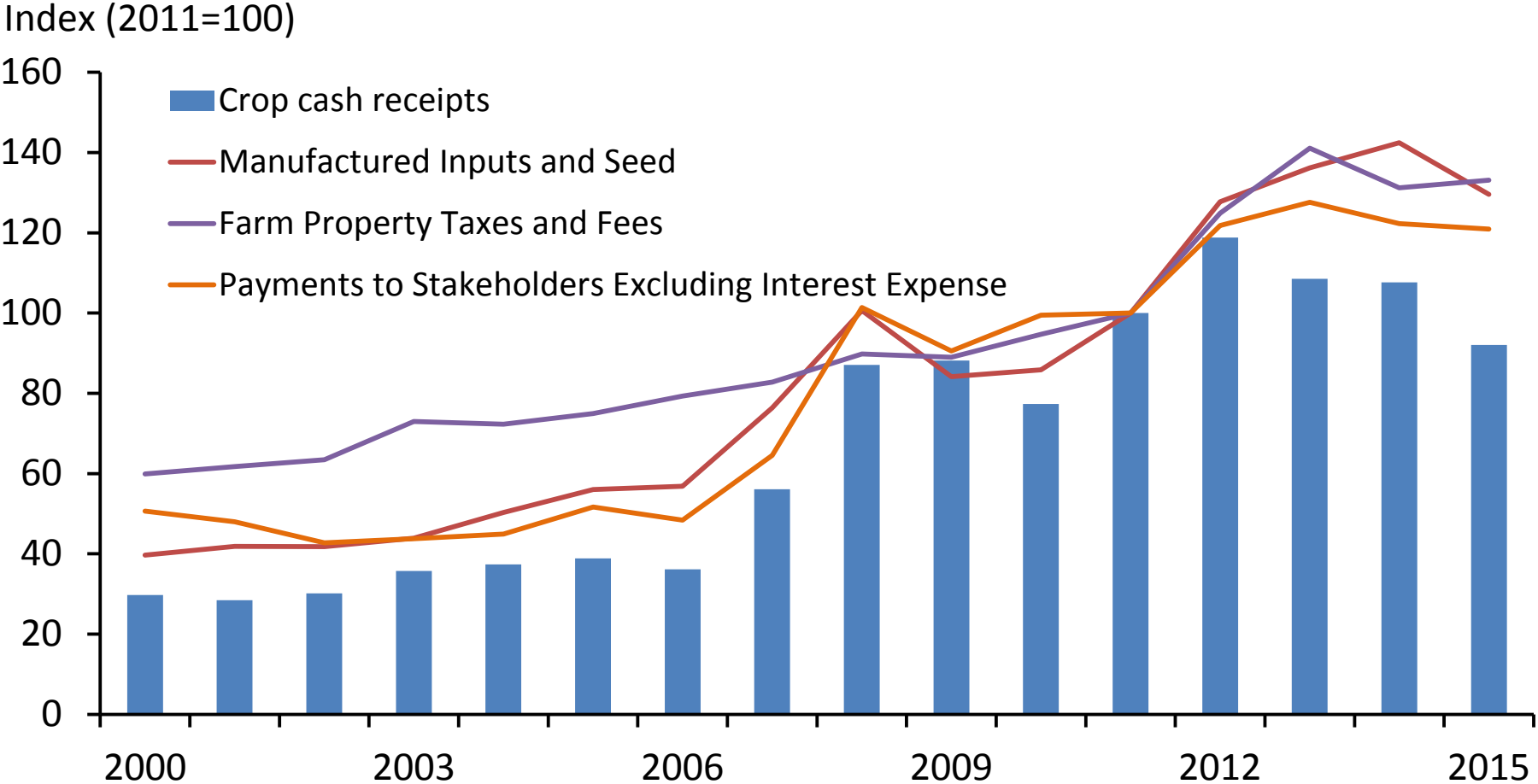
Dollars (Billions)



Source: USDA (Haver Analytics).

Note: South Dakota net farm income, inflation-adjusted values.

# Commodity Prices Tumble But Expenses Remain Stubbornly High



Source: USDA (Haver Analytics), South Dakota data.

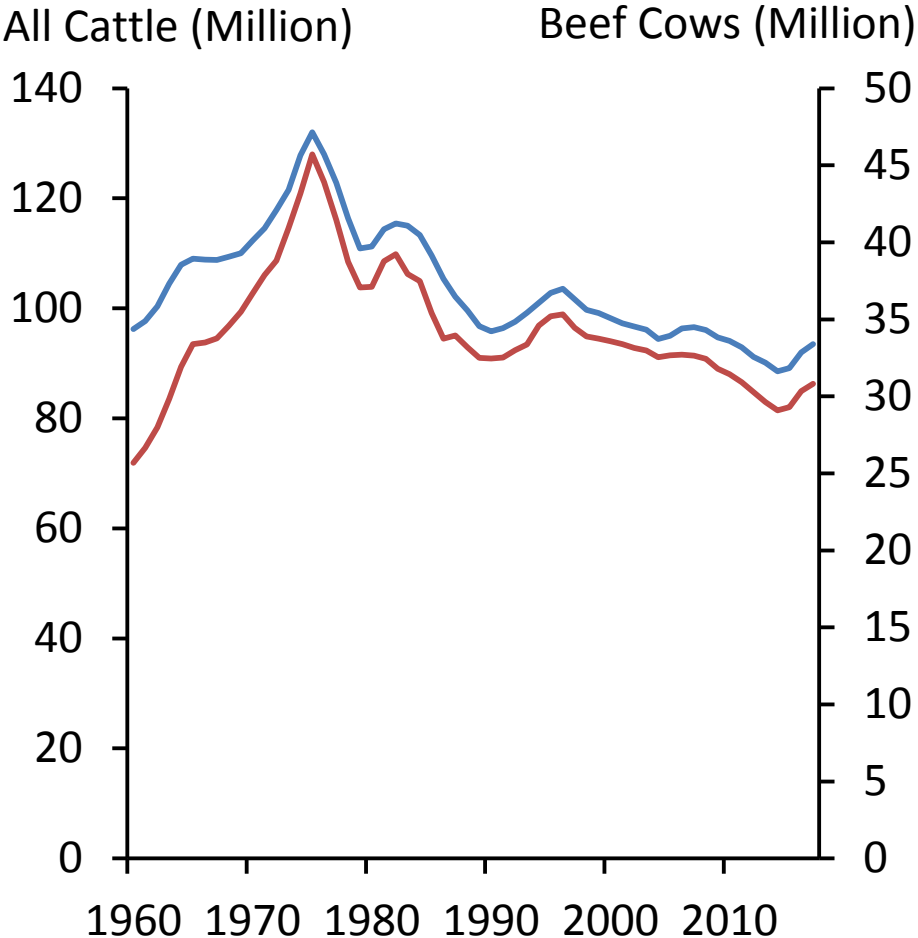
# COMMODITY FUNDAMENTALS

# Crop Fundamentals Snapshot

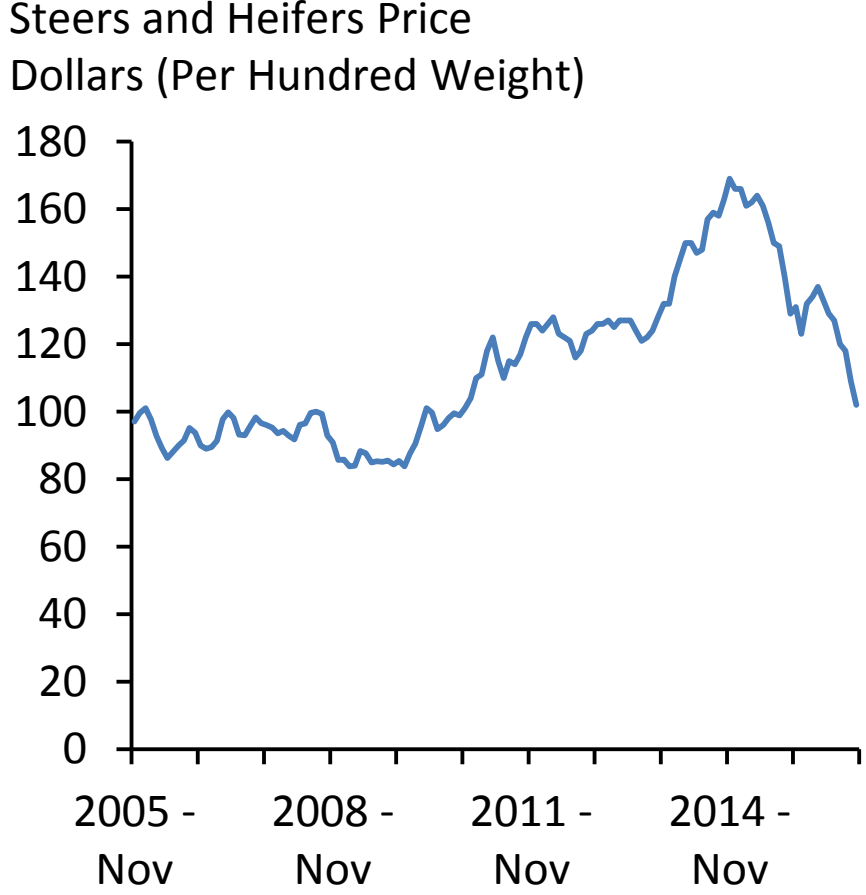
	<u>Corn</u>	<u>Soybeans</u>	<u>Wheat</u>
Supply-Demand	S > D	Generally	Long-term
<u>Equilibrium</u>	3 of 4 Ys	Equal	Glut
Stocks-to-Use	Decade	U.S.	Decades
	High	High	High
<u>Growth</u>	30%	Trend	High-side
Other	China	South Am.	
	Policy	Growth	



# Potential Shift in Supply-Demand Dynamic Sends Feeder Cattle Prices Tumbling



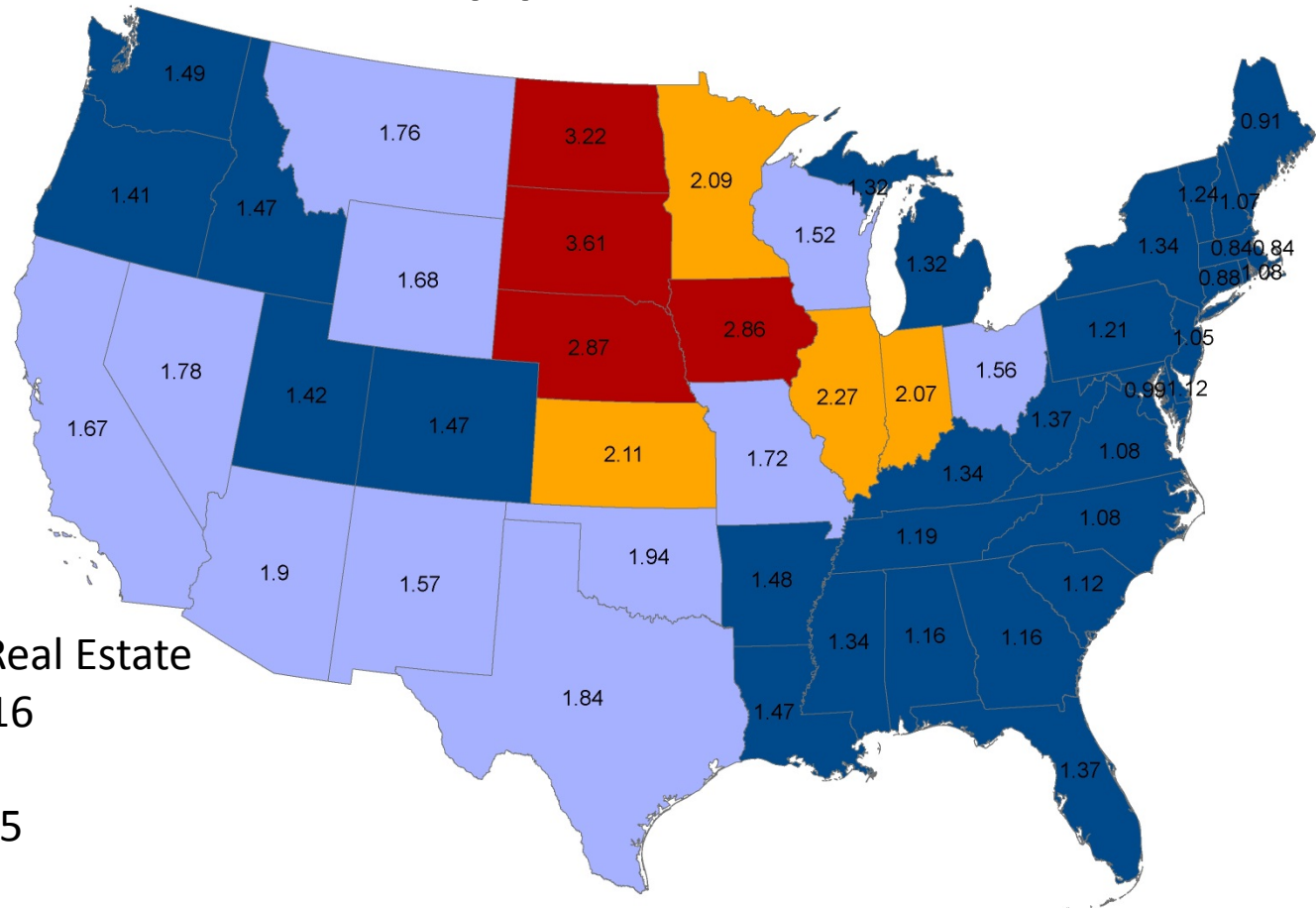
Source: USDA (Haver Analytics).



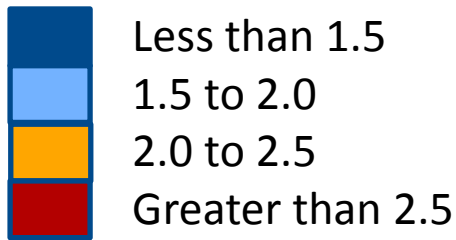
Source: USDA (Haver Analytics).  
Note: Monthly prices received by farmers.

# **FARM REAL ESTATE**

# South Dakota Led All States in Farm Real Estate Appreciation



Multiples of Farm Real Estate Values: 2004 to 2016



Source: USDA (Haver Analytics).  
 Note: Inflation adjusted values, 2016 dollars.

# South Dakota Cropland Values Have Declined Nearly 10 Percent

Dollars Per Acre	Nonirrigated Cropland	Rangeland (native)	Pasture (tame, improved)	Hayland
Annual % change 16/15	-4.00%	2.90%	-6.40%	-2.60%
Average value, 2016	4,094	1,222	1,704	2,469
Average value, 2015	4,265	1,187	1,820	2,535
Average value, 2014	4,478	987	1,603	2,458
Average value, 2013	4,249	909	1,542	2,285
Average value, 2012	3,084	737	1,218	1,758
Average value, 2011	2,389	611	1,011	1,377
Average value, 2010	2,030	540	854	1,195
Average value, 2009	1,900	530	857	1,142
Average value, 2008	1,733	508	809	1,079
Average value, 2007	1,375	448	684	875
Average value, 2006	1,211	386	596	758

Source: 2016 South Dakota Farm Real Estate Market Survey, SDSU.

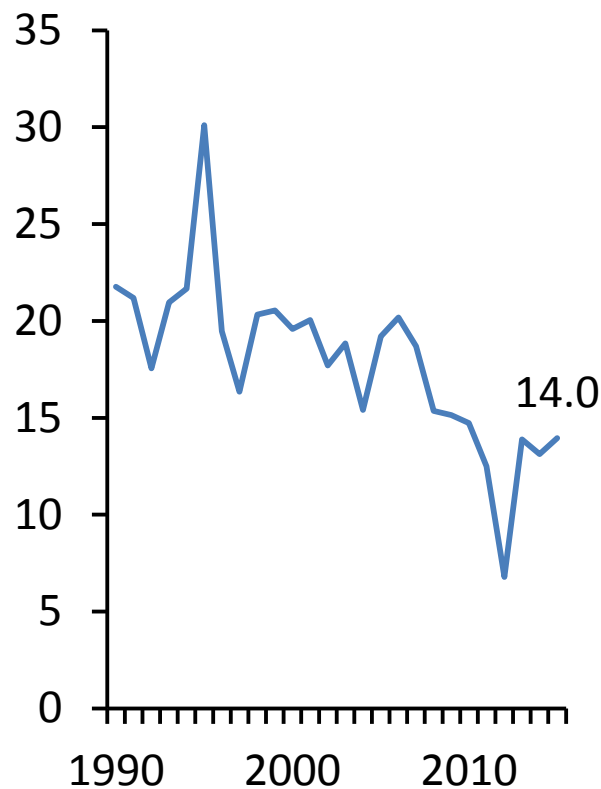
# Cash Rents on Cropland Declined Again in 2016

<b>Dollars Per Acre</b>	<b>Nonirrigated Cropland</b>	<b>Pasture/ Rangeland</b>	<b>Hayland</b>
Average 2016 rate	141.00	31.13	84.00
Average 2015 rate	145.10	31.40	82.15
Average 2014 rate	150.10	28.40	84.40
Average 2013 rate	144.30	26.65	79.30
Average 2012 rate	121.50	22.60	65.85
Average 2011 rate	98.90	20.70	57.10
Average 2010 rate	86.65	18.60	51.50
Average 2009 rate	83.90	19.80	50.15
Average 2008 rate	74.70	18.50	47.40
Average 2007 rate	64.80	17.10	41.60
Average 2006 rate	60.95	16.50	39.80

# EXPORTS

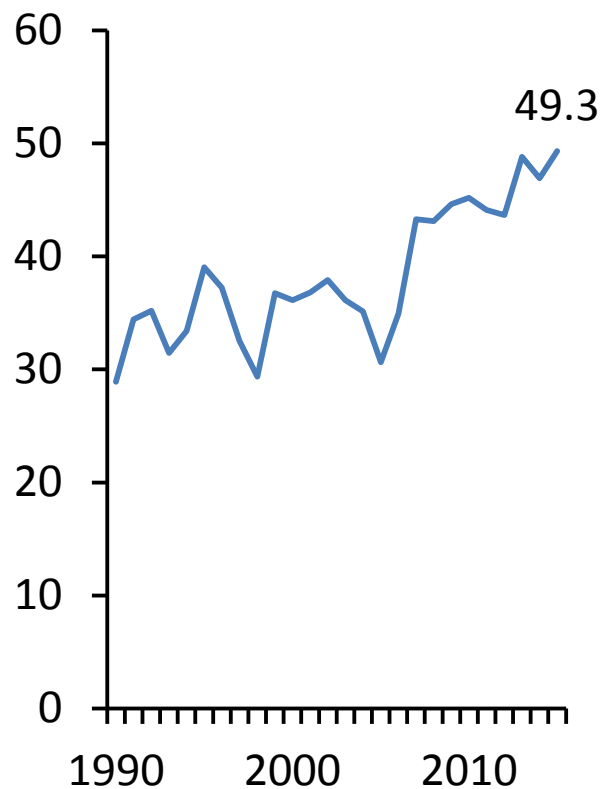
# Exports Are an Important Piece of Demand for U.S. Crops

Corn Exports  
Percent of Production



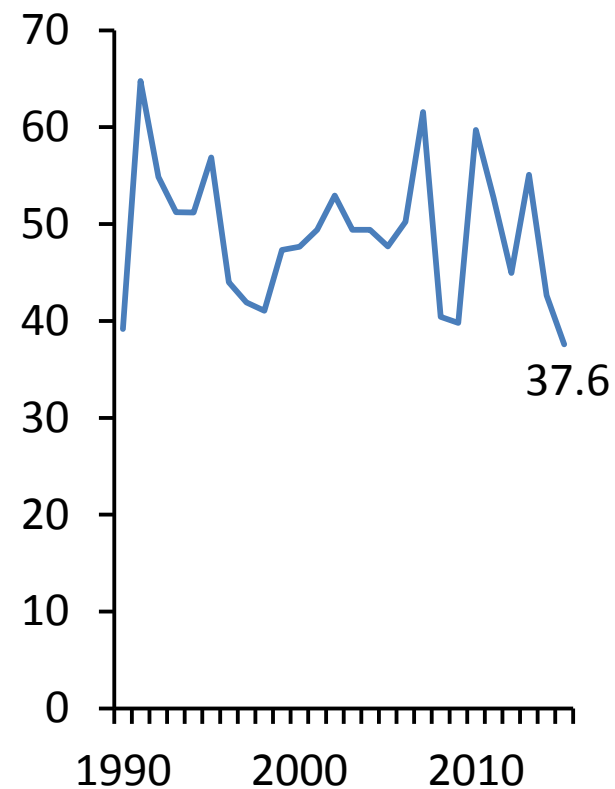
Source: USDA (Haver Analytics).  
Note: U.S. corn.

Soybean Exports  
Percent of Production



Source: USDA (Haver Analytics).  
Note: U.S. soybeans.

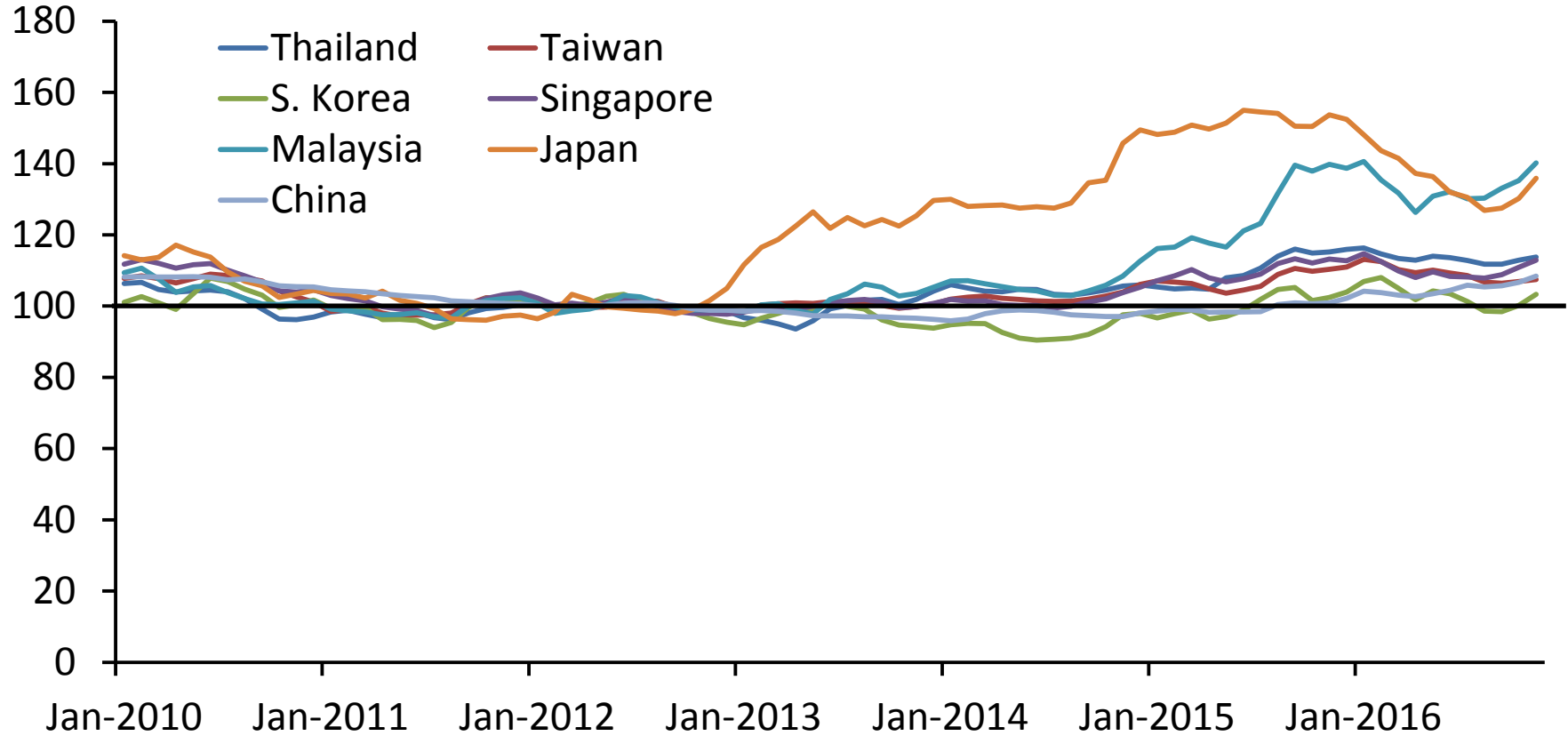
Wheat Exports  
Percent of Production



Source: USDA (Haver Analytics).  
Note: U.S. wheat.

# Exchange Rates: Asian Trade Markets

Foreign Currency to U.S. Dollar Exchange Rates Index (2012=100)

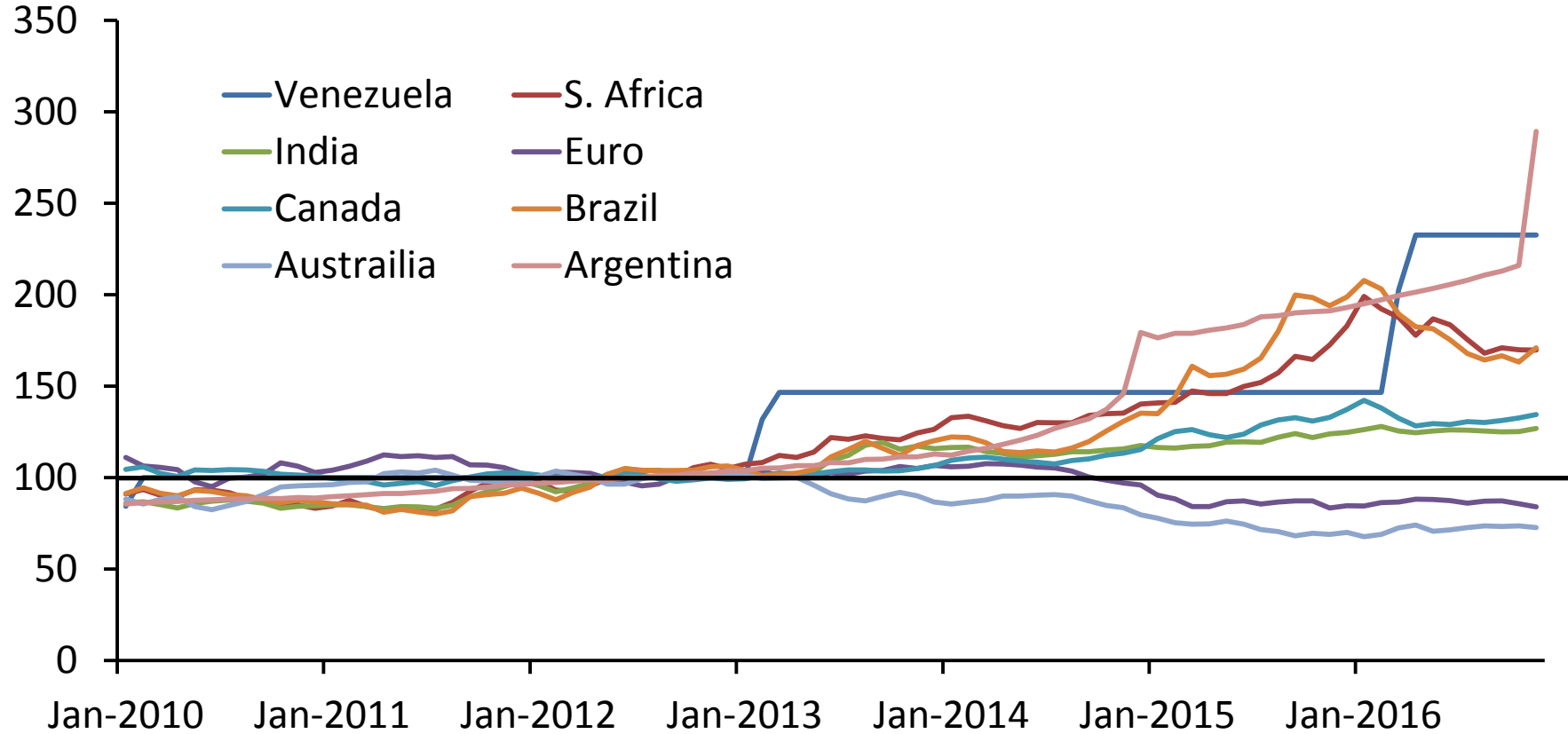


Source: Federal Reserve Board (Haver Analytics).



# Exchange Rates: U.S. Ag Trade Competitors

Foreign Currency to U.S. Dollar Exchange Rates Index (2012=100)



Source: Federal Reserve Board (Haver Analytics).

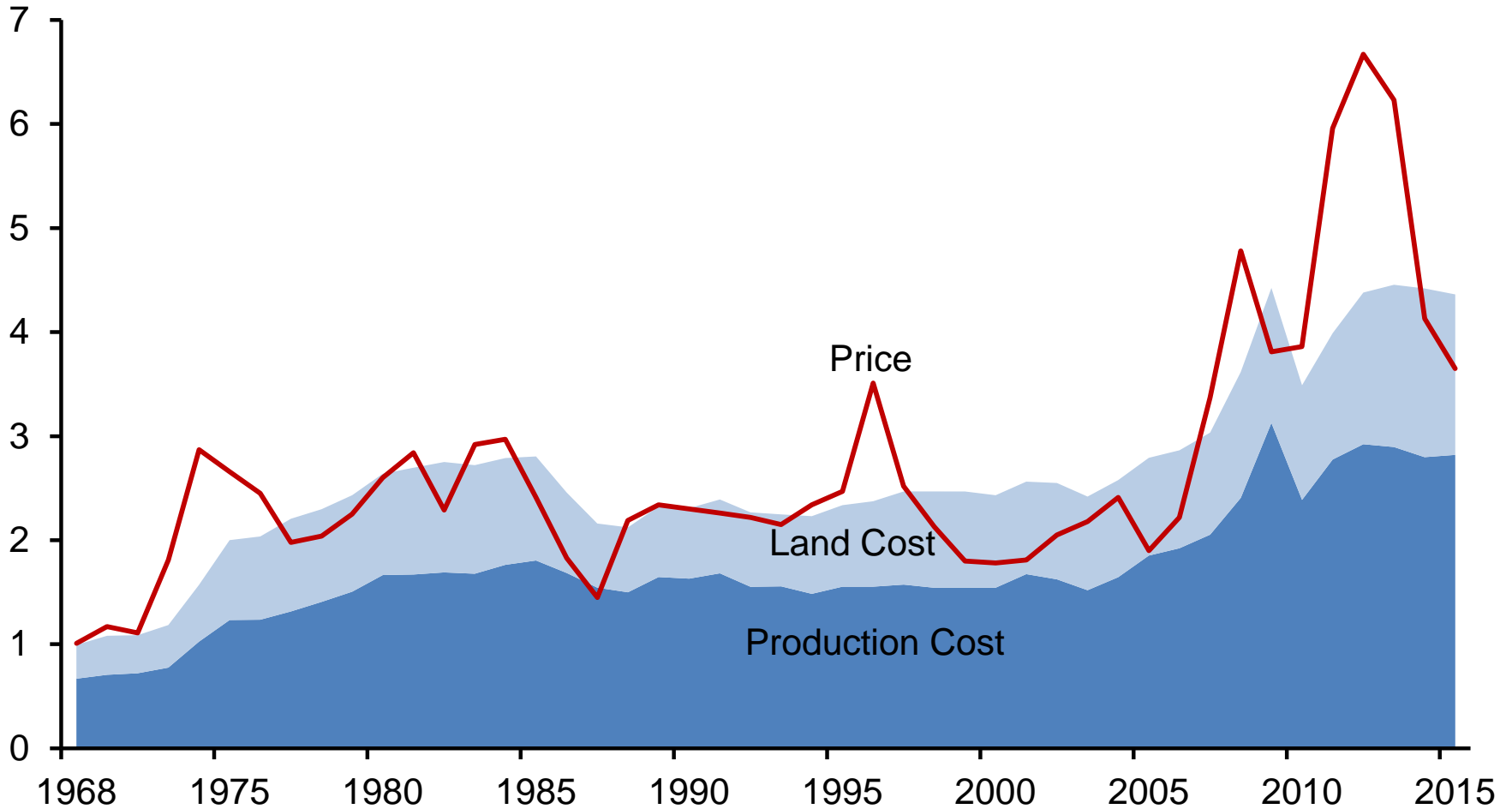
# **AGRICULTURAL BORROWER AND FARM BANK CONDITIONS**

**Risk appears manageable at this point – several mitigating factors temper the immediate threat of losses in the sector.**

- **Agricultural borrower strength and support**
- **Farm bank conditions**
- **Conservative underwriting**

# Unlike recent years, profitability will depend on farmers' ability to operate efficiently, market strategically, and manage their debt.

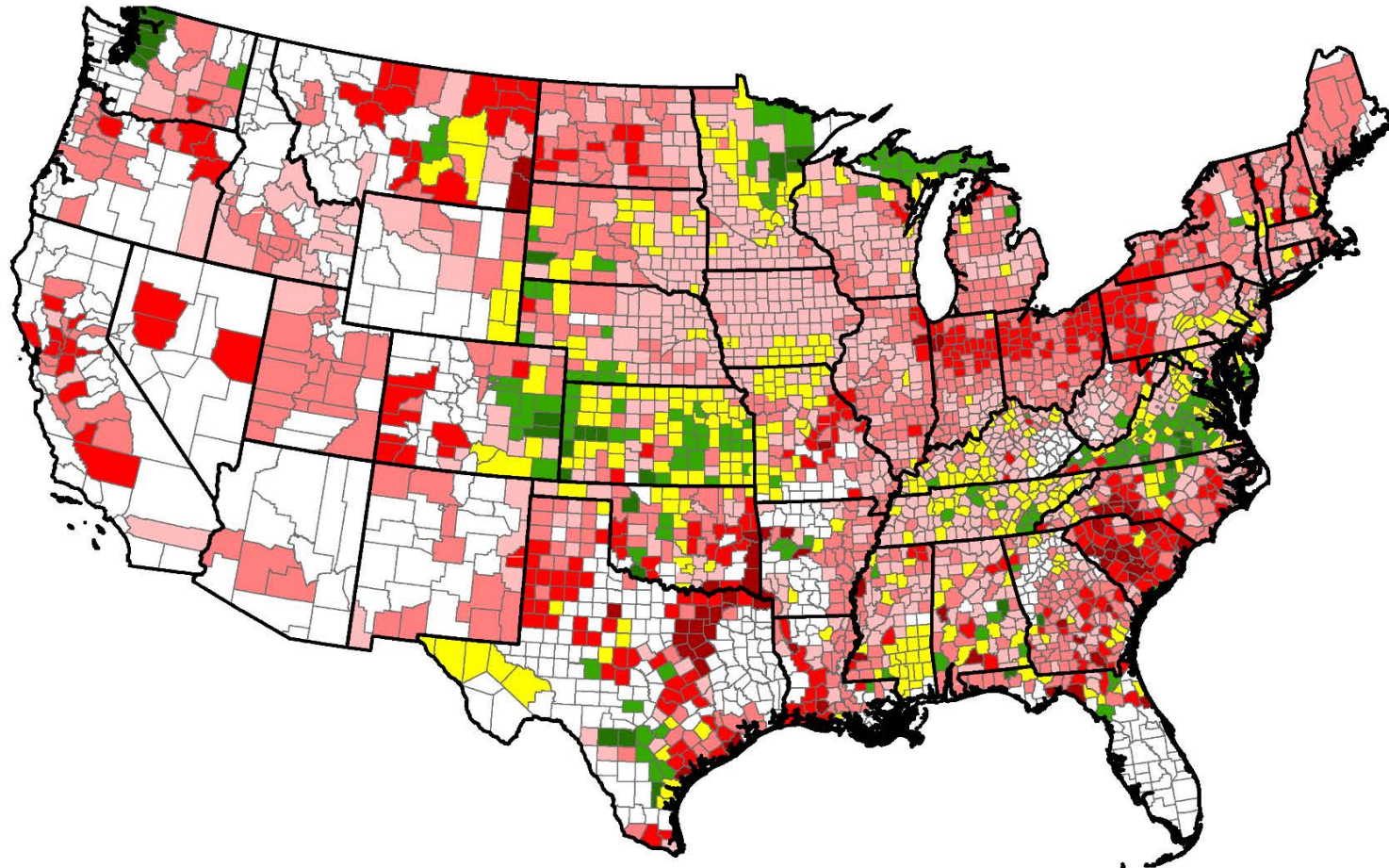
Iowa Corn: Average Price and Production Costs  
Dollars per bushel



Sources: Iowa State University, USDA.

# 2015 -Crop Corn Revenue without ARC-CO Safety Net

*(Actual Revenue as Percent of ARC-CO Revenue Guarantee)*



Farm Service Agency  
Production, Emergency, Compliance Division  
Washington, DC  
October 3, 2016



- Less than 70%
- 70% - 80%
- 80% - 90%
- 90% - 100%

Revenue  
Below Historic  
Average

- 100%
- 100% - 125%
- Over 125%
- No Data

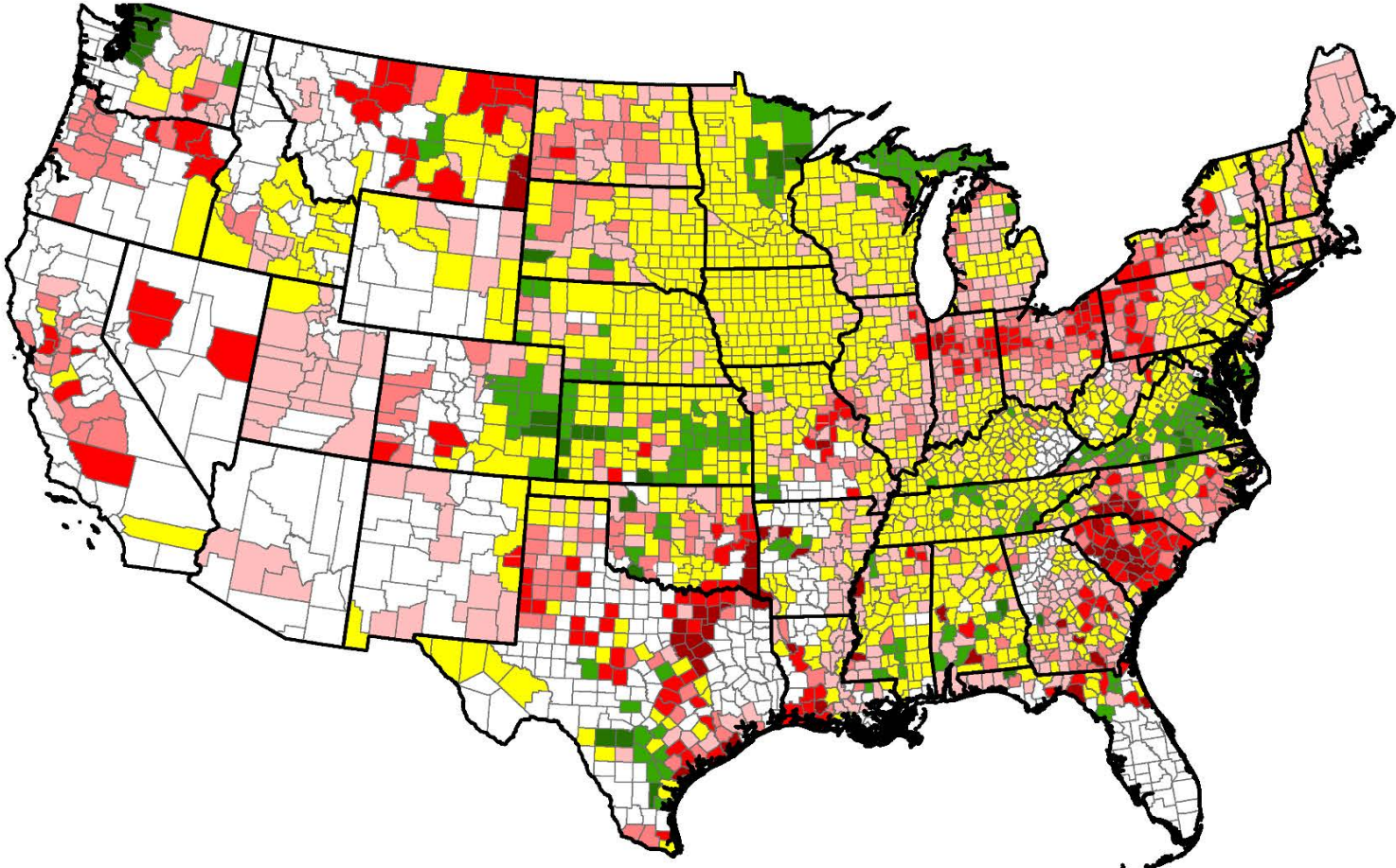
Revenue at or  
Above Historic  
Average

Map includes all and non-irrigated yields. Map is intended for Farm Service Agency (FSA) business purposes only. Map depicted serves only as a general reference map.



# 2015 -Crop Corn Revenue with ARC-CO Safety Net

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**Revenue  
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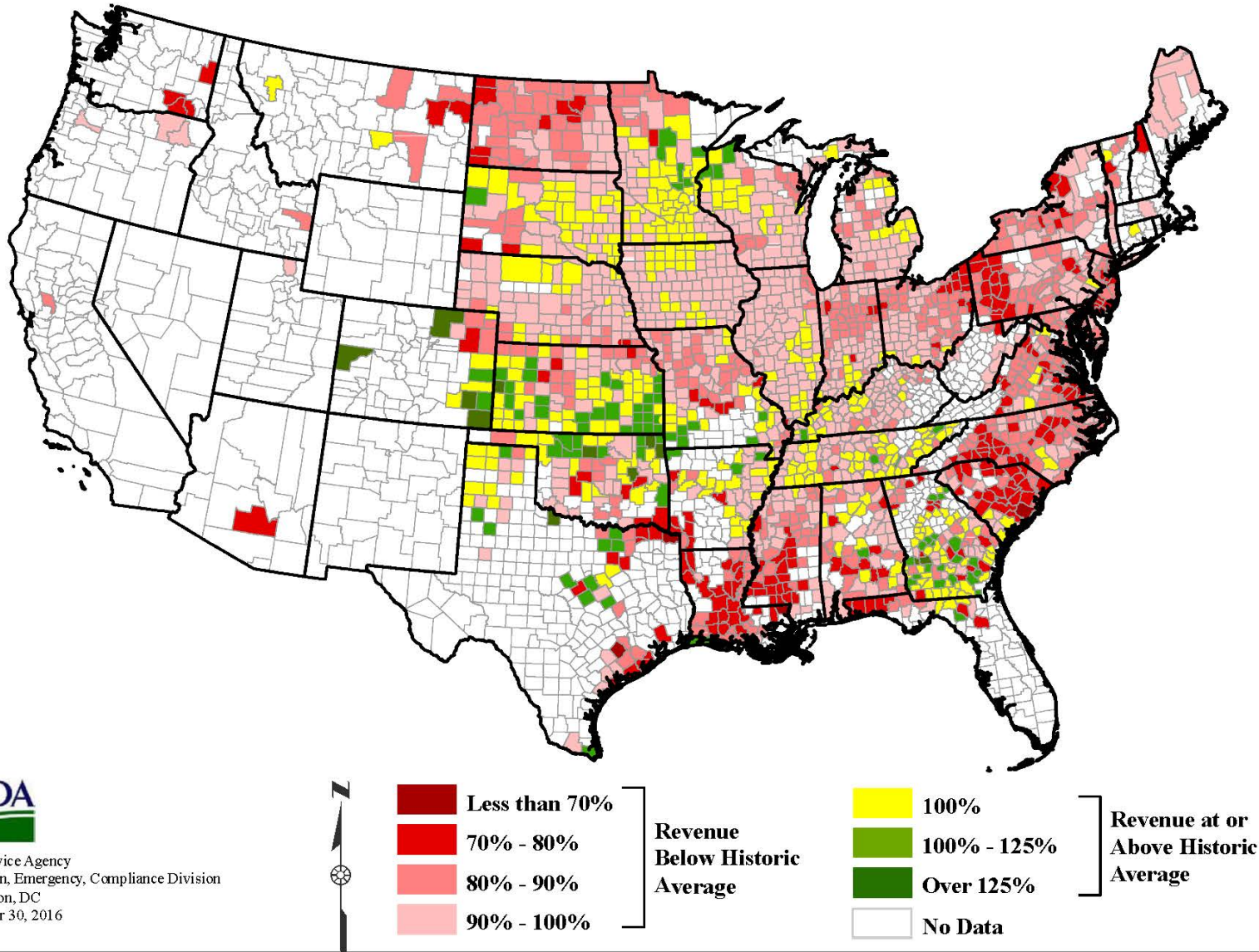
**100%**  
**100% - 125%**  
**Over 125%**  
**No Data**

**Revenue at or  
Above Historic  
Average**

Map includes all and non-irrigated yields. Map is intended for Farm Service Agency (FSA) business purposes only. Map depicted serves only as a general reference map.

# 2015 -Crop Soybeans Revenue without ARC-CO Safety Net

*(Actual Revenue as Percent of ARC-CO Revenue Guarantee)*



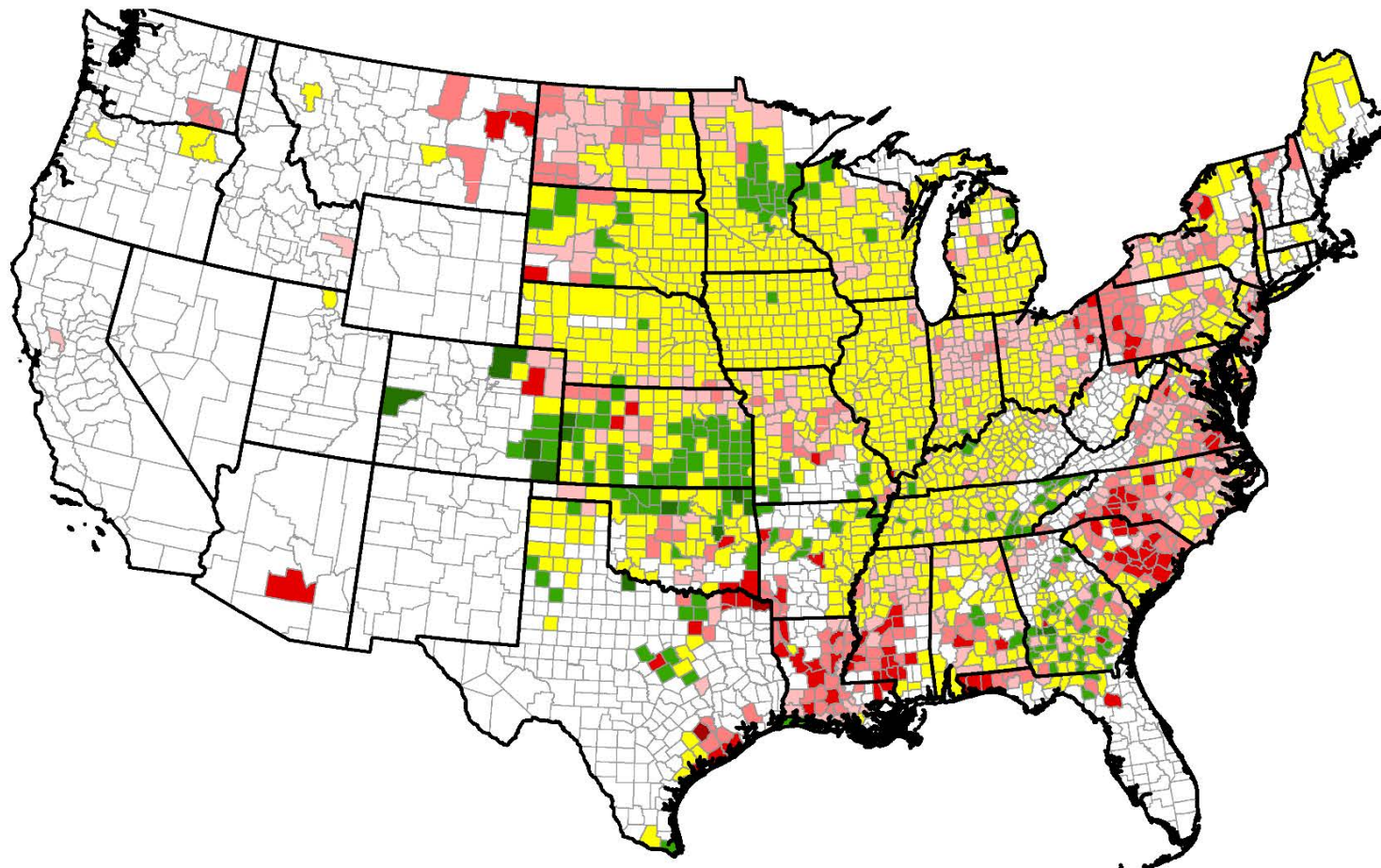
Farm Service Agency  
Production, Emergency, Compliance Division  
Washington, DC  
September 30, 2016

Map includes all and non-irrigated yields. Map is intended for Farm Service Agency (FSA) business purposes only. Map depicted serves only as a general reference map.



# 2015 -Crop Soybeans Revenue with ARC-CO Safety Net

*(Actual Revenue as Percent of ARC-CO Revenue Guarantee)*



Farm Service Agency  
Production, Emergency, Compliance Division  
Washington, DC  
September 30, 2016



Less than 70%  
70% - 80%  
80% - 90%  
90% - 100%

Revenue  
Below Historic  
Average

100%  
100% - 125%  
Over 125%  
No Data

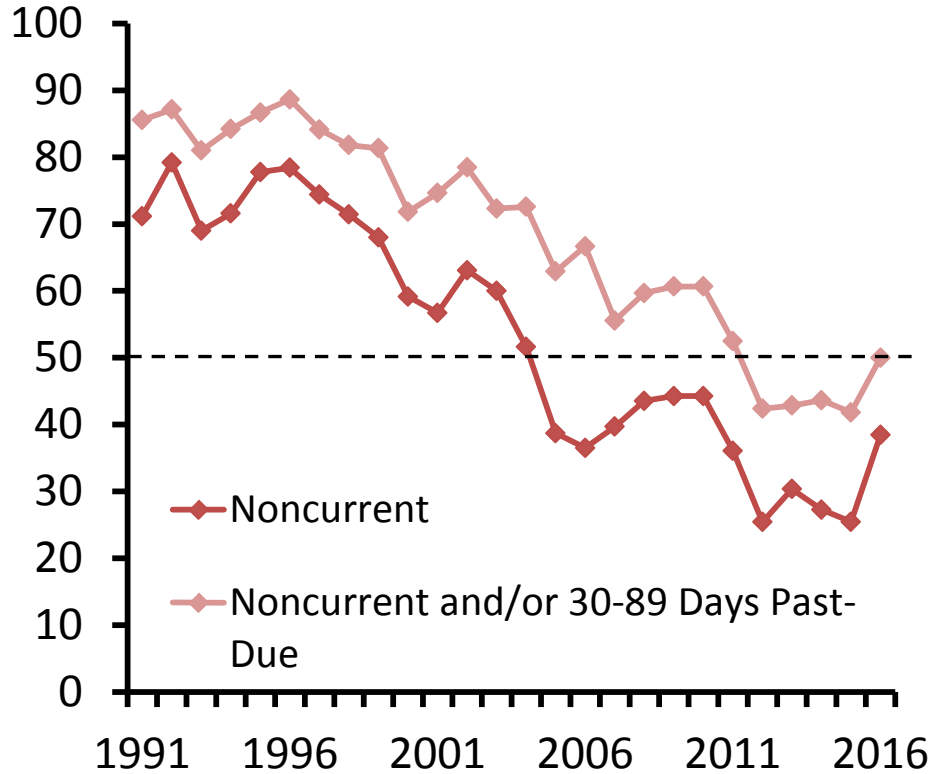
Revenue at or  
Above Historic  
Average

Map includes all and non-irrigated yields. Map is intended for Farm Service Agency (FSA) business purposes only. Map depicted serves only as a general reference map.



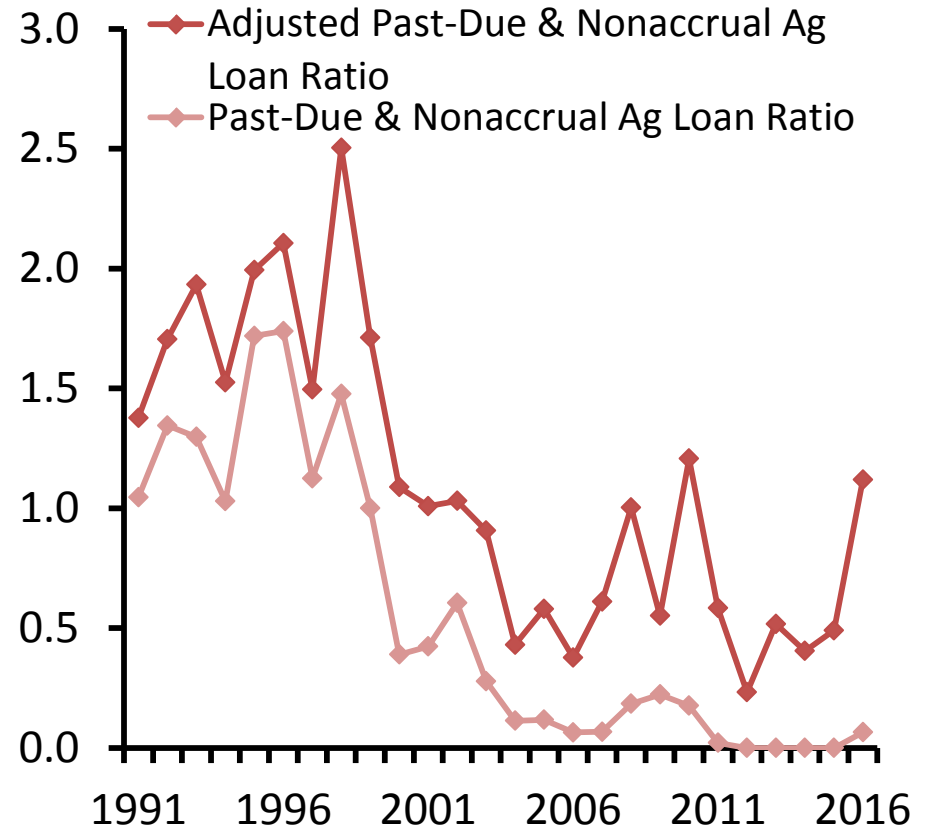
# Farm Credit Delinquencies Have Inched Up From Historically Low Levels

Share of South Dakota Farm Banks Reporting Past-Due and Nonaccrual Agricultural Loans Percent



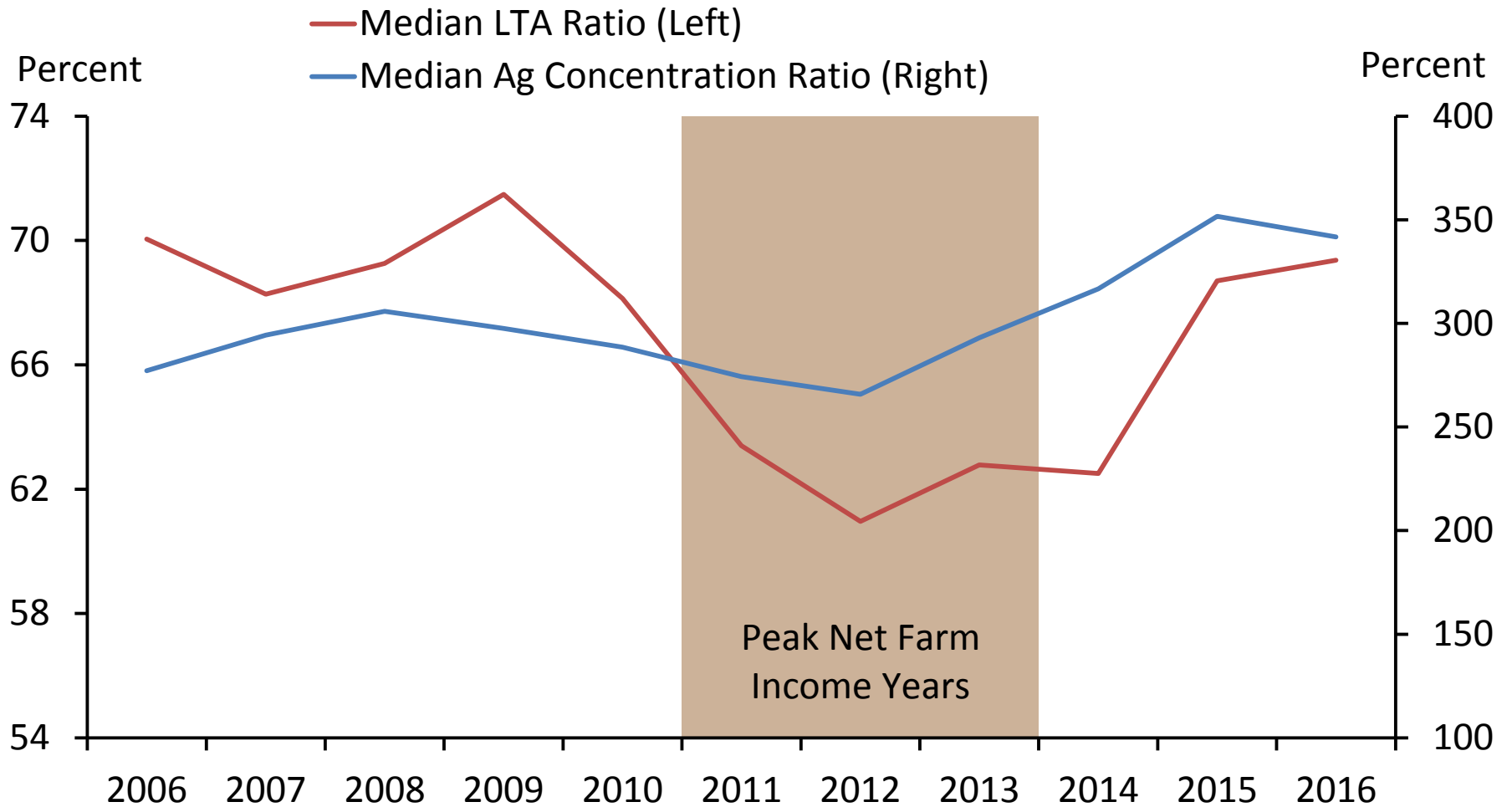
Source: FDIC, 3Q data.

Past-Due and Nonaccrual Agricultural Loans Percent (Median)



Source: FDIC, 3Q data.

# Poorer Profit Margins Have Brought Farmers Back to Borrowing

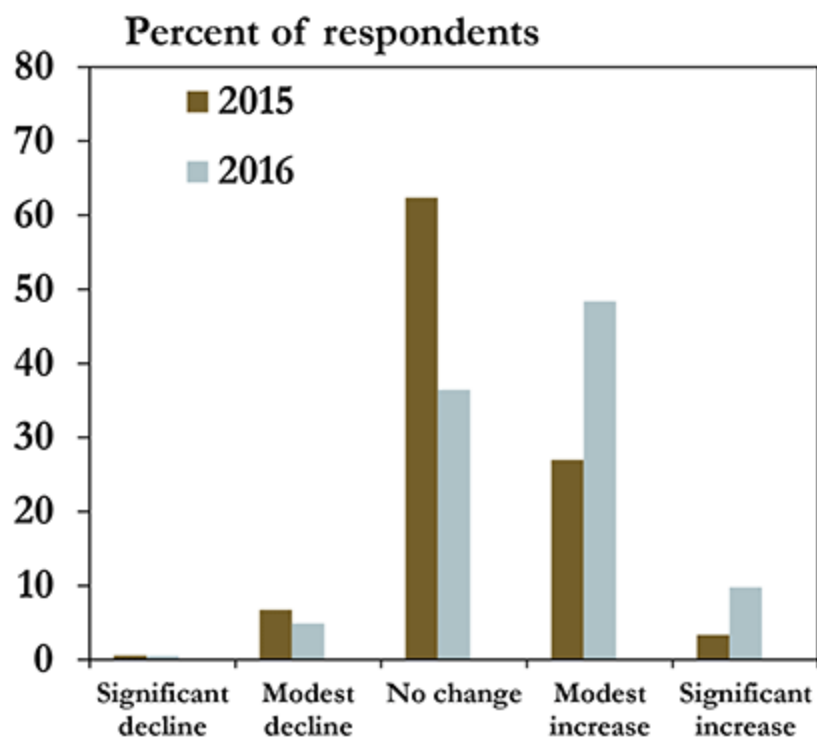


Source: FDIC, South Dakota farm banks, 3Q data.

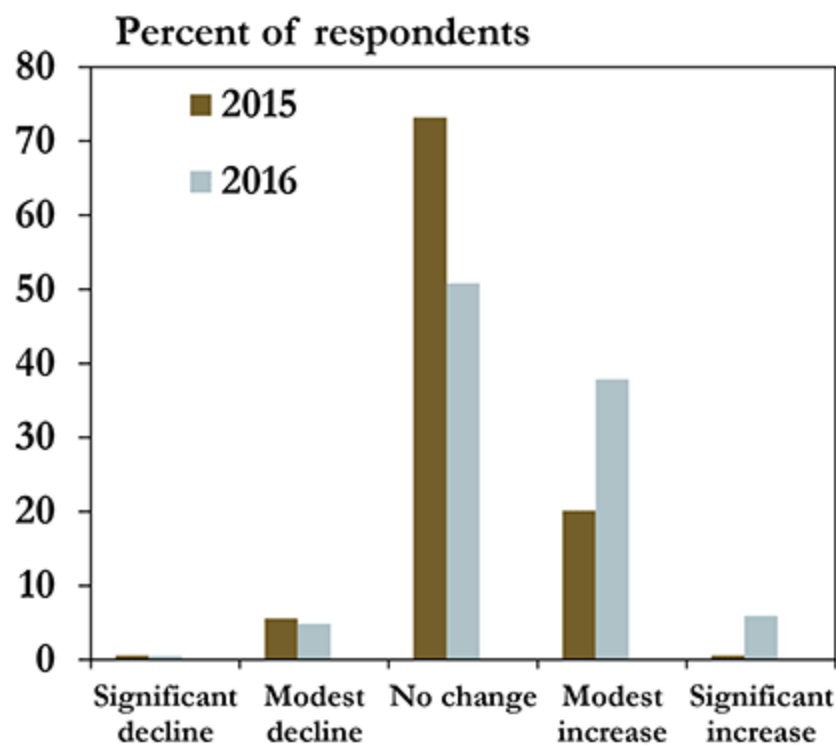
# Chart 9: Agricultural Banks' "Watch" and "Classified" Lists

Change from a Year Ago

## Watch List



## Classified List



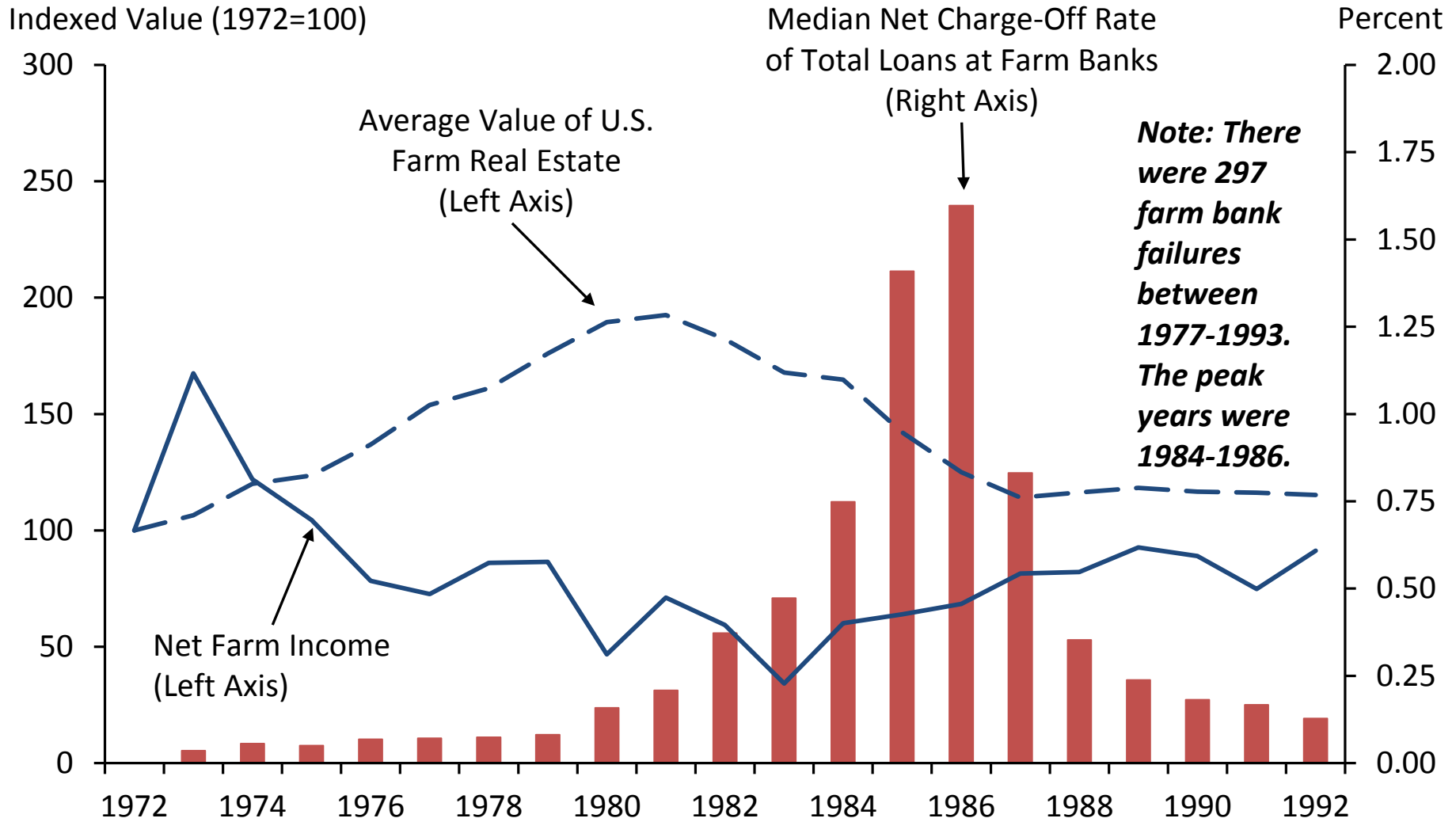
\* For purposes of this article, a "Watch List" loan is interpreted as a qualifying credit but is being closely monitored for potential problems (deterioration in borrower financial conditions, management changes, etc.). A "Classified List" loan is a loan with a defined weakness (inadequate debt service, insolvent collateral position, etc.) that requires specific documentation and potential bank reserve adjustments.

# **TODAY VERSUS 1980'S**

**When the agricultural economy inevitably turns downward, there are two things we keep in mind.**

- The lag between economic effects and banking impacts can be long.
- If a farmland bubble were to exist, it would magnify the adverse banking results.

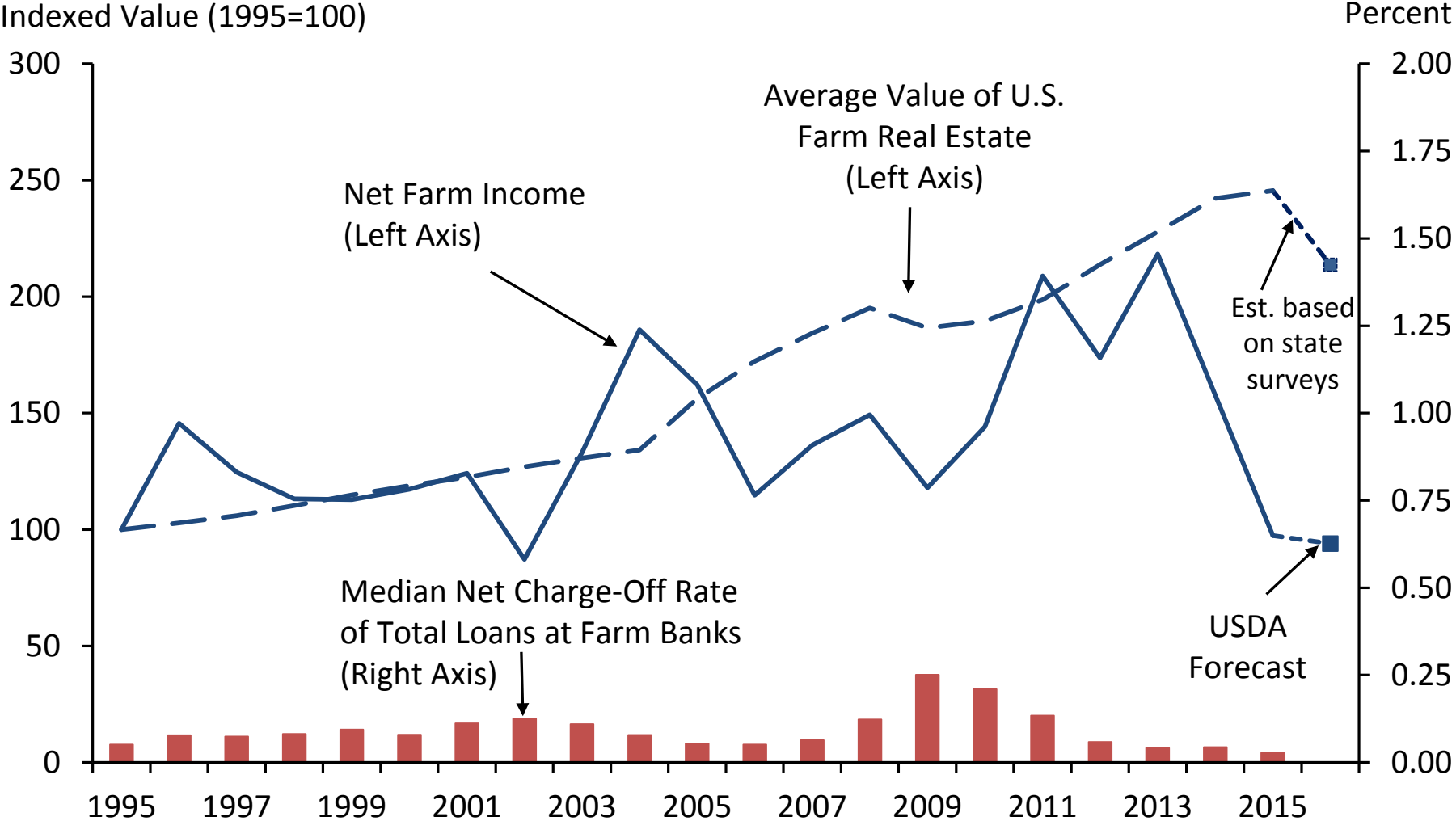
# Bubble conditions were evident leading up to the 1980s' agricultural crisis, and led to large losses at farm banks.



Source: FDIC, 4Q farm banks; USDA (Haver Analytics).

Note: Farm real estate values and net farm incomes are inflation-adjusted.

# Today, farmland values appear to be more closely aligned with agricultural fundamentals.



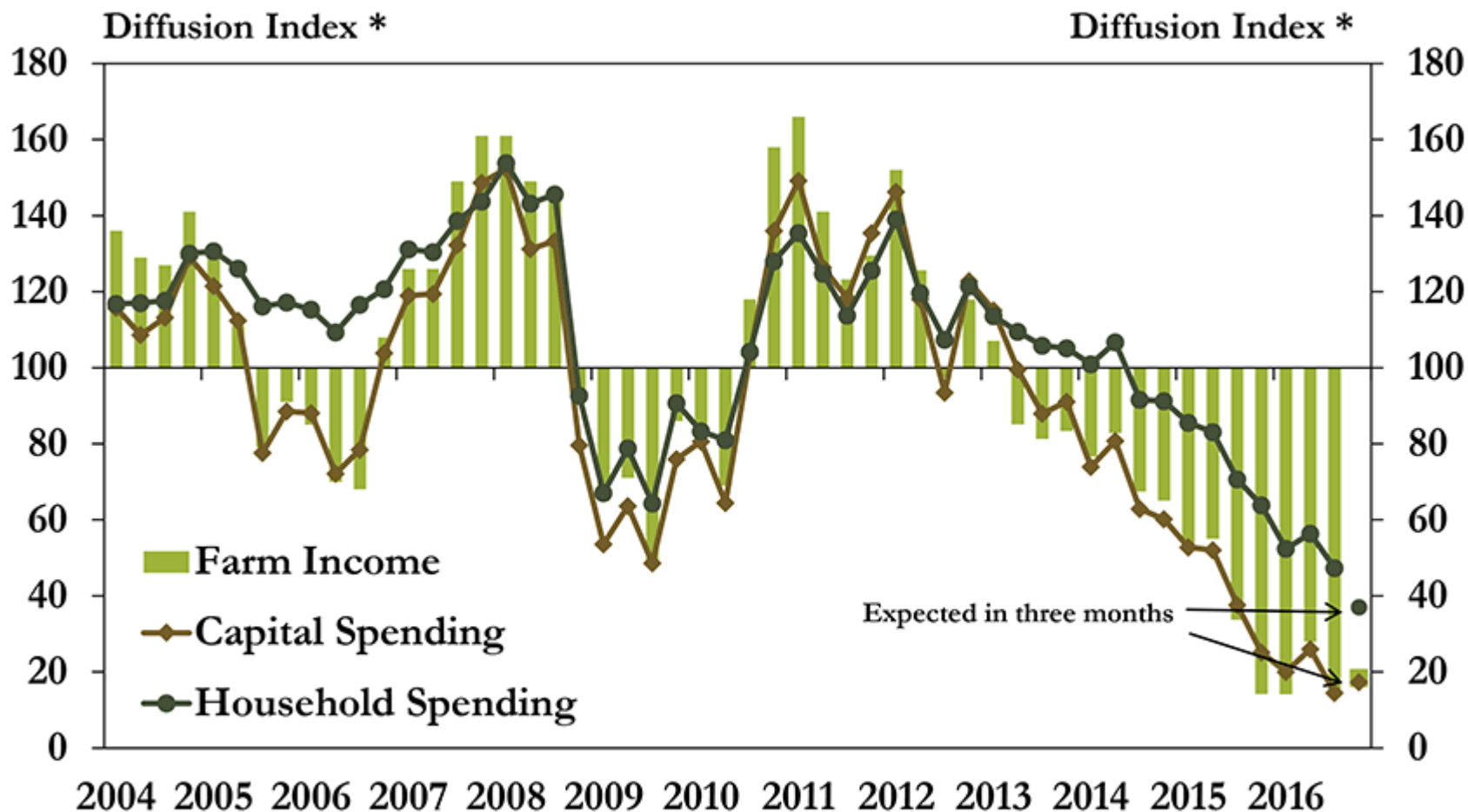
Source: FDIC, 4Q farm banks; USDA (Haver Analytics).

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# **RURAL NONFARM ECONOMY**

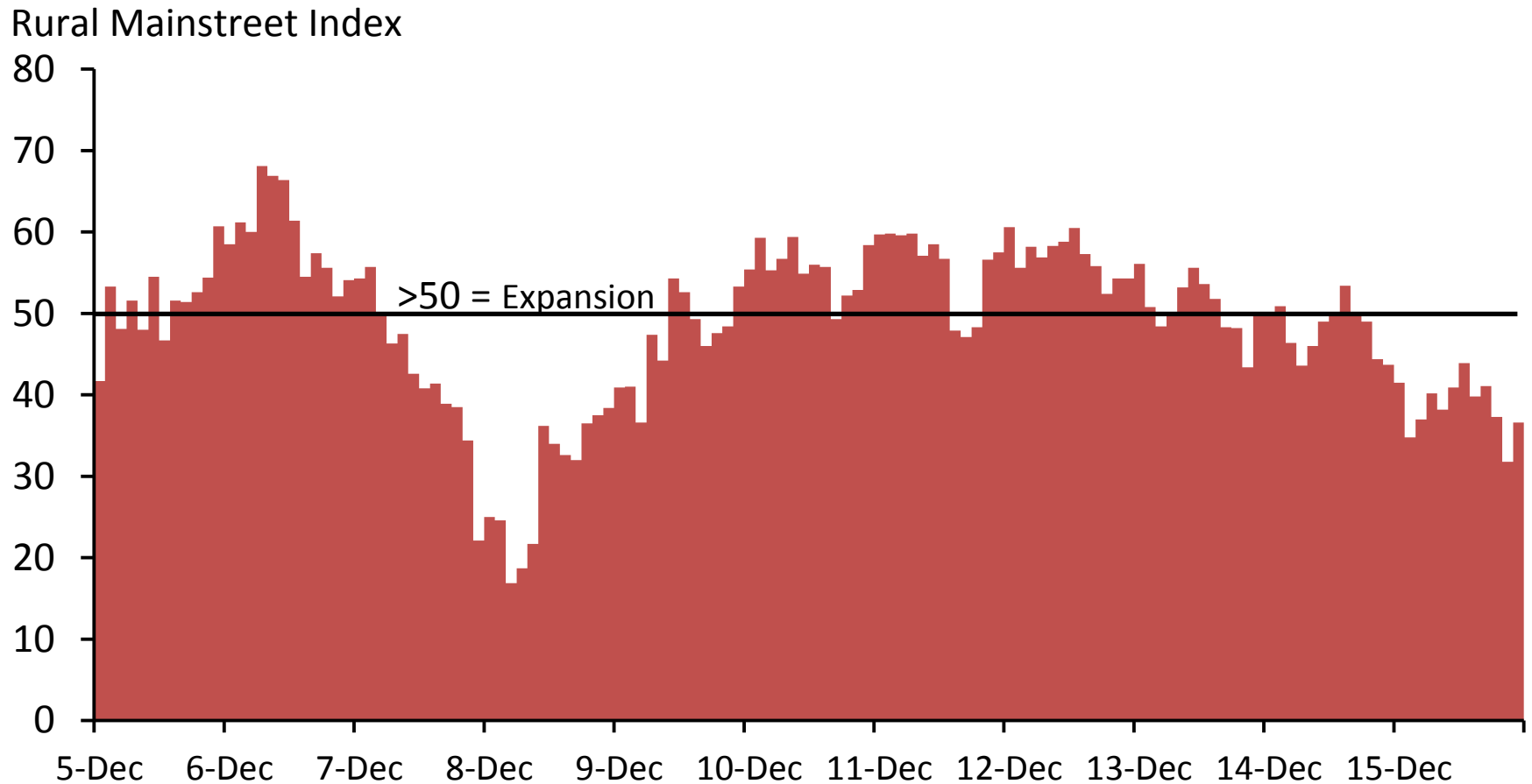


# Chart 2: Tenth District Farm Income and Spending



\*Bankers responded to each item by indicating whether conditions during the current quarter were higher than, lower than, or the same as in the year-earlier period. The index numbers are computed by subtracting the percentage of bankers who responded "lower" from the percentage who responded "higher" and adding 100.

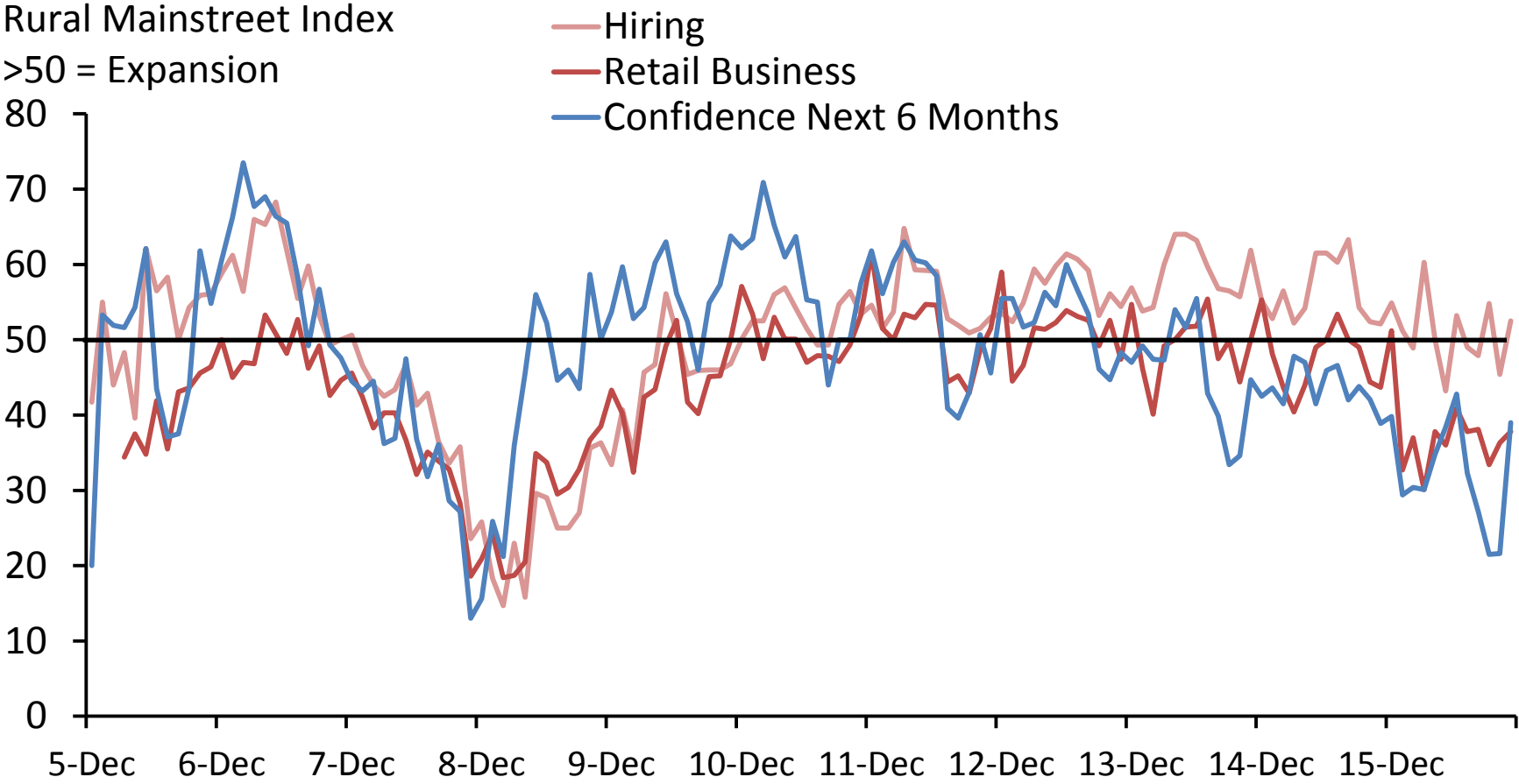
# Rural Mainstreet Index – Contraction 15 Consecutive Months



Source: Creighton University College of Business (Haver Analytics).

Note: Monthly survey data.

# The Agricultural Slowdown Has Begun to Affect Nonfarm Employment



Source: Creighton University College of Business (Haver Analytics).

Note: Monthly survey data.

# Several potential destabilizers could quickly inflate agricultural risk.

- Rapid appreciation in the dollar
- Sharp increase in interest rates
- Chinese or Asian economic slump
- Repeal of renewable fuels standards

# **PRESENTER CONTACT INFORMATION**

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