

THE GOOD, BAD AND UGLY OF AGRICULTURE AND AGRI LENDING

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Macro Clinic Video Blog: <http://agstar.com/edge/>

Road Warrior of Agriculture: www.cornandsoybeandigest.com

Ag Globe Trotter: www.northwestfcs.com

Dave's GPS & Dashboard Indicators: www.farmermac.com

Global Snapshot

- BRICS & KIMT'S under 4% growth rate
- one half nations in a recession
- oil in the \$50-\$70/barrel range
- post Brexit vote
- Brazil impeachment
- China's economic slowdown



Central Bank's Snapshot

- U.S. stimulus moderating
- Europe's stimulus
- Bank of Japan's stimulus
- China's devaluation of currency
- strong dollar headwinds
- duration of headwinds
- winners and losers currency war



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Issues of Agricultural Lending Sector

- supervision lite
- shell game
- peer to peer lending
- strong equity disguises margin/liquidity issues
- producer/lender complacency
- debt concentration
- fraudulent activities
- poultry bubble?

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Federal Reserve's Interest Rate Barometer

| Indicator | Possible Change | Definite Change | Current Status |
|--------------------|-----------------|-----------------|----------------|
| Unemployment | 7.0% | 6.5% | 4.7% |
| GDP Growth | 2.0% | 2.5% | 1.1% |
| Core Inflation | 2.0% | 2.5% | 2.2% |
| Headline Inflation | 4.0% | 5.0% | 1.0% |

Watch List:

- Dr. Yellen
- FOMC voting
- FOMC minutes
- Rail traffic
- Shoe shiners
- Copper prices
- Overland trucking
- Baltic Sea index

Updated 7/5/16

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Lending Economic Dashboard

- LEI/Diffusion Index
 - positive
 - ↓ three months rule
 - diffusion index
- PMI
 - > 50 expansion
 - <50 contraction
 - <41 recession
- Housing Starts
 - >1.5 million green light
 - 800,000 to 1.5 million yellow light
 - <800,000 red light
- Consumer Confidence
 - >90 green light
 - 80-90 yellow light
 - <80 red light
- GDP
 - 3-4% green light
 - 1-2% yellow light
 - negative = real recession

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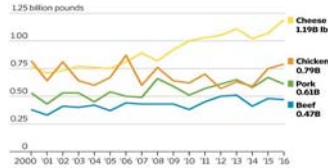
Eat Up

Eat Up

U.S. stockpiles of cheese and meats are mounting as new production comes onto the market while at the same time, a strong dollar has curbed exports.

Commercial cold storage

Through March of each year



U.S. exports

Beef

4 mil. metric tons

Jan-March

Dairy

4 mil. metric tons

Pork

4 mil. metric tons

Poultry

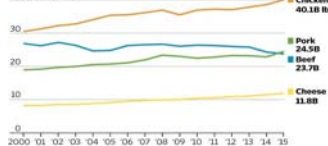
4 mil. metric tons

2010 11 12 13 14 15 16

THE WALL STREET JOURNAL

Total U.S. production

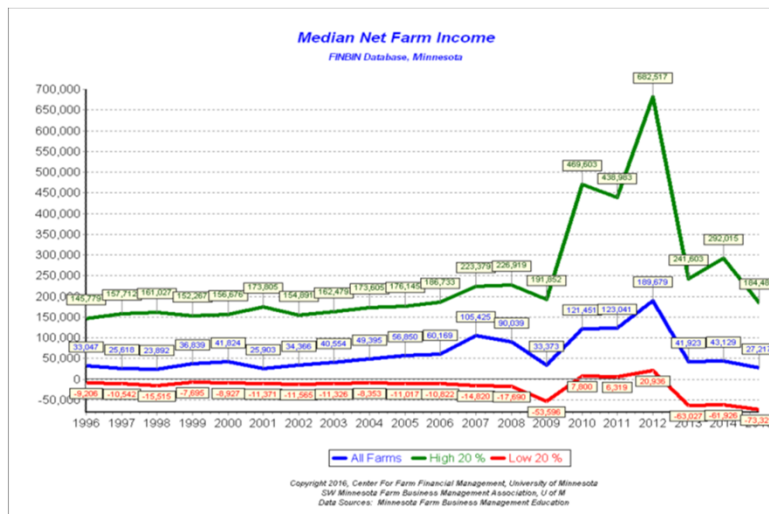
40 billion pounds



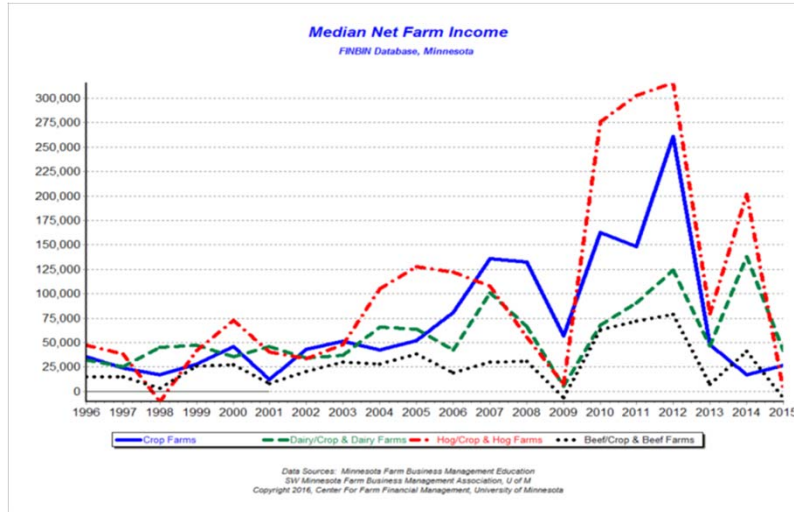
Note: All commodities for U.S. export data include both fresh and processed products.
Sources: USDA (Production and Cold Storage); U.S. Census Bureau (Exports)

Source: Wall Street Journal - <http://on.wsj.com/1OKQGaz>

Median Net Farm Income: All Farms vs. High 20% vs. Low 20%



Median Net Farm Income: By Enterprise



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High vs. Low Profit Crop Farms 2015 Minnesota – Gross Income >\$1M

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| | Low | High |
|------------------------------|-------------|-------------|
| Gross Sales | \$1,662,000 | \$2,312,000 |
| Median Net Farm Income | \$-150,000 | \$468,000 |
| Term Debt Coverage (Accrual) | -0.38 | 1.73 |
| Age | 53 | 49 |
| Years Farming | 31 | 28 |
| Debt to Asset % | 44 | 27 |
| Current Ratio | 1.01 | 2.37 |
| Working Capital to Gross | 1% | 55% |
| Working Capital | \$18,000 | \$1,362,000 |
| Change in Working Capital | -267,000 | -160,000 |

Source: Bob Craven  Center for Farm
Financial Management

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High vs. Low Profit Crop Farms 2015 Minnesota – Gross Income >\$1M

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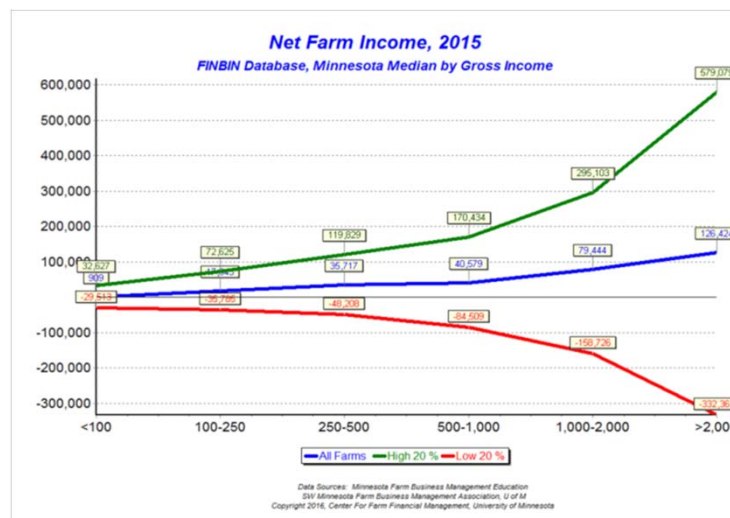
| | Low | High |
|-----------------------------|--------|--------|
| Asset Turnover | 27% | 24% |
| Operating Profit Margin | -12% | 18% |
| Total Crop Acres | 2,369 | 3,361 |
| Percent of Crop Acres Owned | 20% | 31% |
| Corn Yield | 199 | 195 |
| Soybean Yield | 56 | 49 |
| Wheat Yield | 74 | 75 |
| Corn Price | \$3.84 | \$3.82 |
| Soybean Price | \$8.93 | \$9.75 |
| Wheat Price | \$5.00 | \$5.41 |
| Rent Paid per Acre | \$236 | \$173 |

Source: Bob Craven



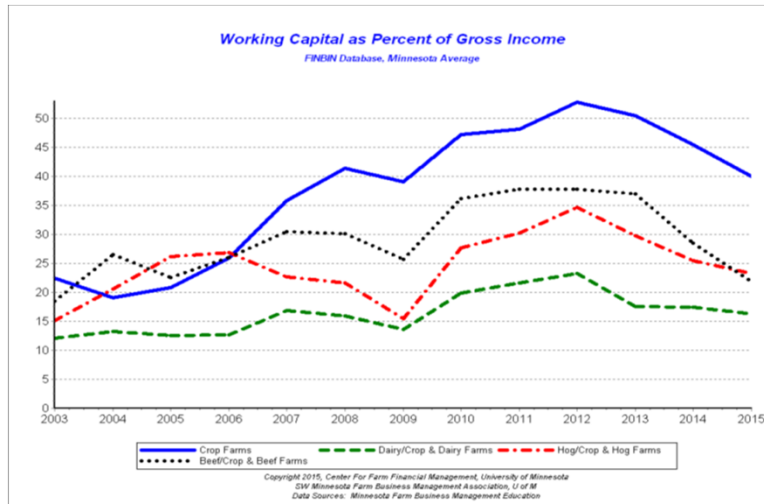
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Net Farm Income, 2015



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Working Capital as Percent of Gross Income



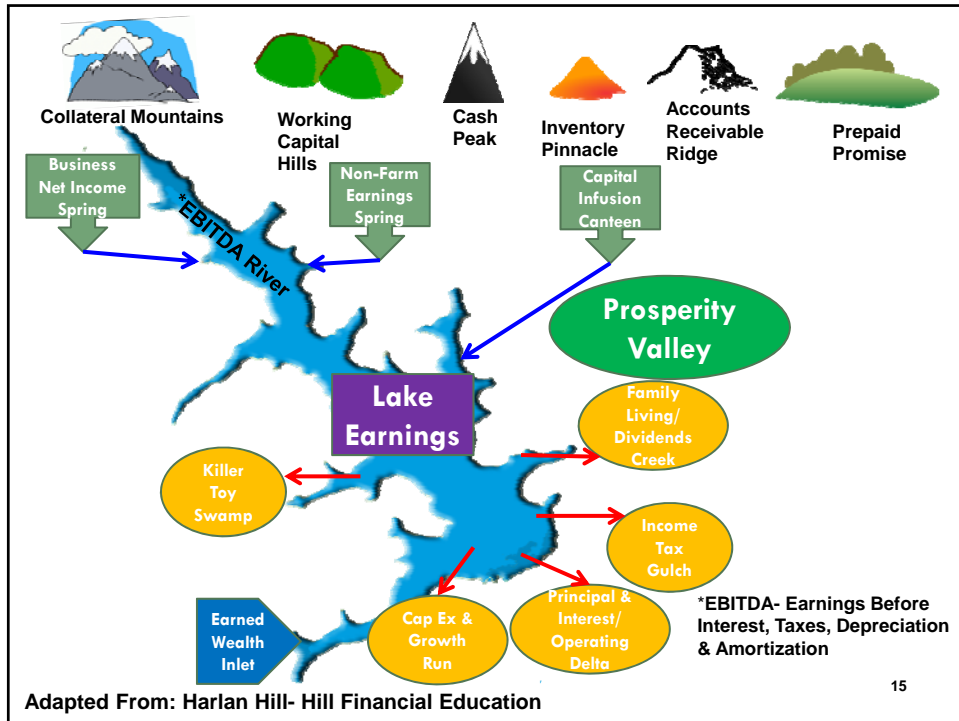
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Why Land Values Have Not Declined

- asset bubble vs. credit bubble
- profits, cash, equity
- outside investors
- crop insurance
- energy, water, & minerals
- liquidity burn vs. equity burn in 2017!!
- refinances spigot turnoff



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Tips & Philosophies to Endure the Cycle

- good times don't last forever nor do bad times
- open lines of communication with spouse, partners, lenders & agribusinesses
- no silver bullet- "sweat the small stuff"
- team of advisors & education
- variance analysis- projected vs. actual

Question Watch List

- Where and what are our next set of lender/court issues?
- Are your government guarantees in jeopardy?
- What are five practices proactive producers are executing?
- What size and/or type of businesses are experiencing financial difficulties?
- What are the hot topics at lending schools this summer?