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

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?
Federal Reserve’s Interest Rate Barometer

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Possible Change</th>
<th>Definite Change</th>
<th>Current Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment</td>
<td>7.0%</td>
<td>6.5%</td>
<td>4.7%</td>
</tr>
<tr>
<td>GDP Growth</td>
<td>2.0%</td>
<td>2.5%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Core Inflation</td>
<td>2.0%</td>
<td>2.5%</td>
<td>2.2%</td>
</tr>
<tr>
<td>Headline Inflation</td>
<td>4.0%</td>
<td>5.0%</td>
<td>1.0%</td>
</tr>
</tbody>
</table>

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

Updated 7/5/16

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
**Eat Up**

U.S. hectares of corn and wheat are yielding on a new production record sets the market with tens of billions of dollars, a strong dollar has curbed exports.

### Commercial Commodities

- **Through March of each year:**
  - 132 billion bushels
  - Source: USDA, Production and Trade Division, U.S. Census Bureau, USDA

### U.S. Exports

- **2022:**
  - Eggs
  - Dairy
  - Grain
  - Fruits

- **2021:**
  - Meat
  - Fishery

### Total U.S. Production

- **2022:**
  - 40 billion bushels

- **2021:**
  - 38 billion bushels
  - Source: USDA, Production and Trade Division, U.S. Census Bureau, USDA

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**Source:** Wall Street Journal - [http://on.wsj.com/1OKQGas](http://on.wsj.com/1OKQGas)

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**Median Net Farm Income:**

**All Farms vs. High 20% vs. Low 20%**

- **FAS Data:**
  - All Farms
  - High 20%
  - Low 20%

- **Source:** Center for Farm Financial Management, University of Minnesota; *Unbiased Market Analysis, Revised 10/94; All data available from University Farm Business Management Service*
Median Net Farm Income: By Enterprise

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

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

Source: Bob Craven

Center for Farm Financial Management
High vs. Low Profit Crop Farms 2015
Minnesota – Gross Income >$1M

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

Source: Bob Craven

Net Farm Income, 2015

Source: Center for Farm Financial Management
Working Capital as Percent of Gross Income

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
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?