The Feed – Winter 2015/16

Curt Covington, SVP Agricultural Finance
Jackson Takach, Economist

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Your Presenters Today

Curt Covington – SVP of Agricultural Finance
- Leads marketing and credit departments at Farmer Mac
- Chairman of RMA Ag Bankers Committee
- Co-chair at the Agricultural Lending Institute
- Three decades in ag lending
- Grew up on the family farm in Selma, California

Jackson Takach - Economist
- Lead author of The Feed
- Analyzes credit, interest rate, and other market-based risks at Farmer Mac
- MS in Agricultural Economics from Purdue
- MBA from Indiana University
- CFA Charterholder
- Grew up in rural Kentucky
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Agenda

- Highlights from the analysis
- Updates with latest projections and predictions
- Why they are important for producers and lenders alike
- What to expect in the next edition
- How you can access this and future editions
- Q&A

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The Feed
Farmer Mac’s Quarterly Perspective on Agriculture

Winter 2015 | 2016

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Highlight 1: Farm Income and Wealth Stress

- No real surprises – lower commodity prices and global supplies major driver
- Income levels nearly 2002/2003 levels
- Recent USDA projections have 2016 only slightly off from 2015
- Assets falling slightly in response to lower financial assets and slightly lower real estate values
- Debt climbing but interest expense moderate

Source: USDA ERS 2016 Farm Income Forecast

Net farm income and net cash farm income, 2000-2016F

$ billions, nominal

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Source: USDA ERS 2016 Farm Income Forecast

Highlight 2: Lender Sentiments Mixed

- Largely agree on lower land values and rising delinquencies in 2016
- Firmly believe in rising interest rate environment
- Loan demand seen stable to increasing
- Crop producers helped by big yields

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Expectations of Cropland Values in 2016

- Increase more than 20%
- Increase between 10 and 20%
- Increase between 0 and 10%
- No Change
- Decline between 0 and 10%
- Decline between 10 and 20%
- Decline more than 20%

Source: Farmer Mac Internal

Highlight 3: Drought Relief, Not Removal

- El Nino definitely in play this winter
- Good snow pack in Sierras, rebuilding of reservoirs in CA
- Drought conditions persist in California
- Other major producing regions in US largely have good soil moisture levels heading into planting
- Globally, US has some of the best weather conditions to start the year

Source: Drought Monitor, University of Nebraska-Lincoln
Highlight 3: Drought Relief, Not Removal

- Largely above average
- Some stations reporting 200+% of normal
- California at 103%

- Largely below average
- Lots of rain
- Higher temperatures mean less snow

Highlight 4: Crop Yields Pop in 2015

- Big gains in production in Minnesota, South Dakota, Nebraska, and Iowa
- Illinois and Indiana similar to slightly lower
- More grain to sell but the higher production lowered market price
- Meaningful increase for many borrowers and lenders

Source: USDA National Agricultural Statistics Service State Data
Highlight 5: Livestock Sector Stress

• Retail beef prices squeezing margins all the way down the value chain
• Overseas dairy markets awash in a sea of milk products
• Strong dollar affecting all export markets and protein prices
• Bird flu not a big problem this winter

Source: USDA ERS 2016 Farm Income Forecast

Details on The Feed

• Quarterly publication
• Focus on sectors and stories relevant to the season
• Available on the Farmer Mac website to download or subscribe (https://www.farmermac.com/news-events/the-feed/)
• Subscribers automatically receive it via email
• Send comments and requests to thefeed@farmermac.com