

# FARMER MAC

Accelerating Rural Opportunities

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The Pulse of Agriculture and Agricultural Lending  
by Dr. David M. Kohl & Jackson Takach

**January 21, 2025**

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# KEY WORDS FOR GAME PLANNING IN 2025

▶ Bifurcated

▶ Regenerative

▶ Transformative

▶ R.E.M.

- Respond
- Execute
- Monitor



# SUPER GLOBAL TREND DISRUPTORS: EVOLUTION ACCELERATORS

## ▶ Geopolitical Environment

- Global elections results
- Trade sanctions & tariffs
- Counter tariffs
- Globalization, deglobalization

## ▶ Stages of diffusion of innovation for fossil fuels, green energy & AI

- Infatuation: 2022-2024
- Disillusionment: 2024-2027
- Reorientation: 2027 & Beyond

## ▶ \$84 trillion of wealth will transfer from 2025 to 2040

## ▶ Black Swans vs. Grey Rhinos

## ▶ Dollar Dominance

## ▶ BRICS, New Currency



# ECONOMIC REALITIES IN AGRICULTURAL INDUSTRY: THE PULSE

## ▶ Negative Triple Play

- Margin compression acceleration
- Price/cost, interest rate lag
- Shrinkage of working capital

## ▶ Beef/livestock Bright Spots

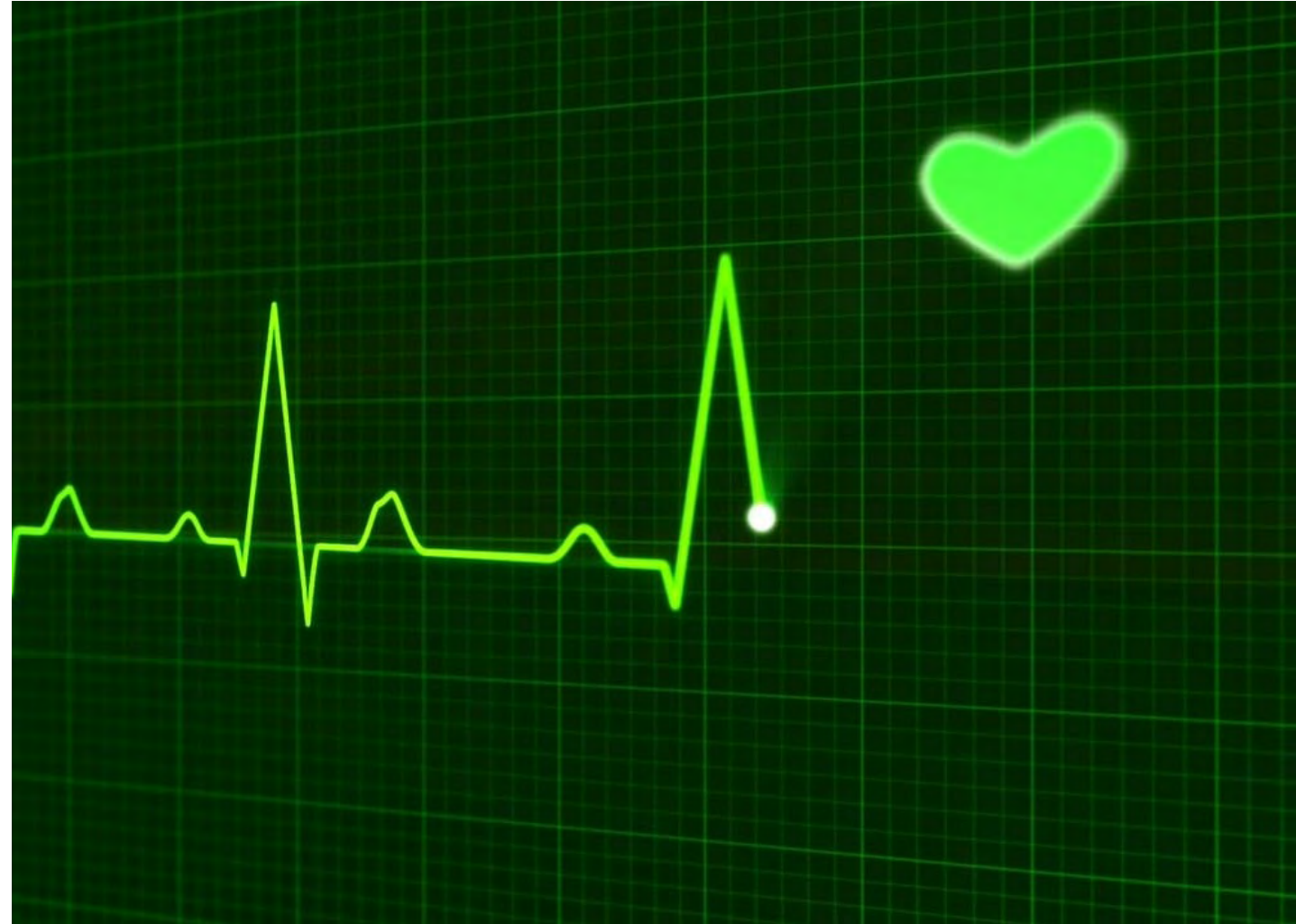
## ▶ Asset Value Decline?

- Machinery & Equipment
- Commodities in Storage
- Farm & Ranch Land

## ▶ Concentration of Ag Industry

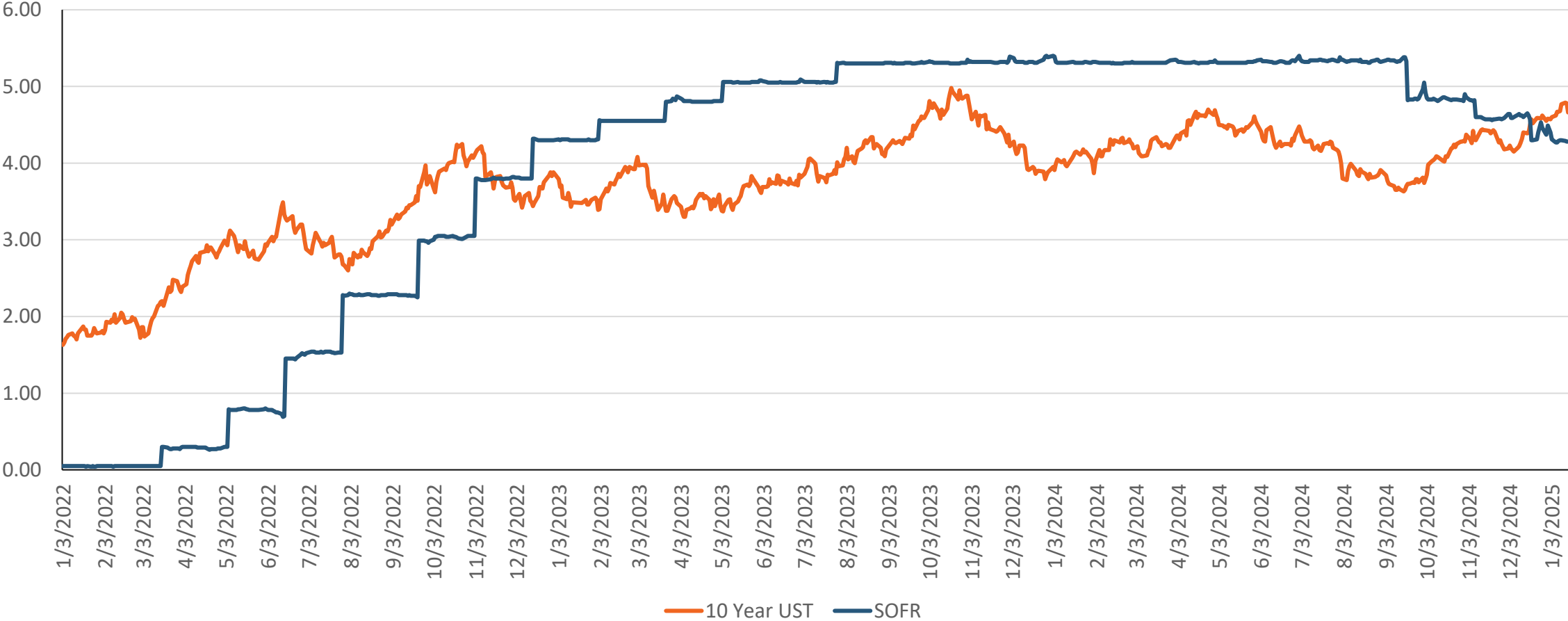
- 000's, commas, multipliers

## ▶ Lenders tightening credit



# INTEREST RATE ROLLERCOASTER

Market Interest Rates

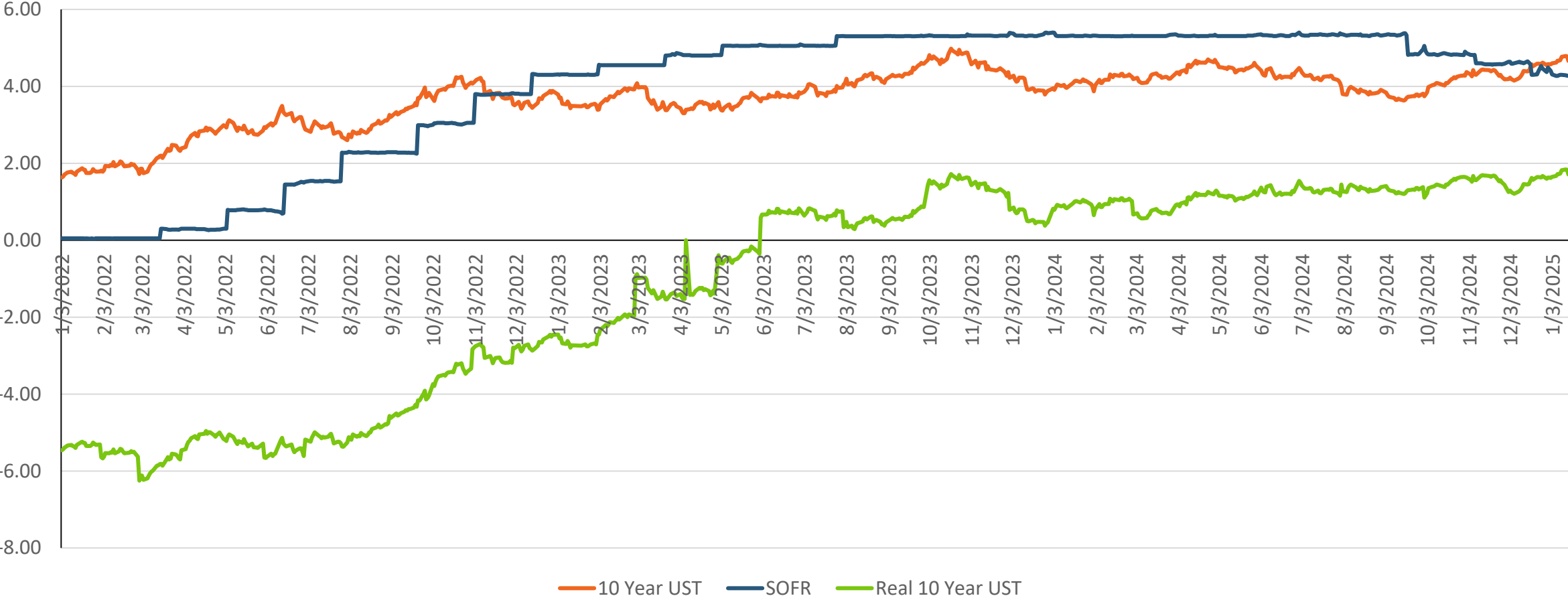


Source: Federal Reserve Bank of St. Louis FRED Database; Author Calculations



# INTEREST RATE ROLLERCOASTER

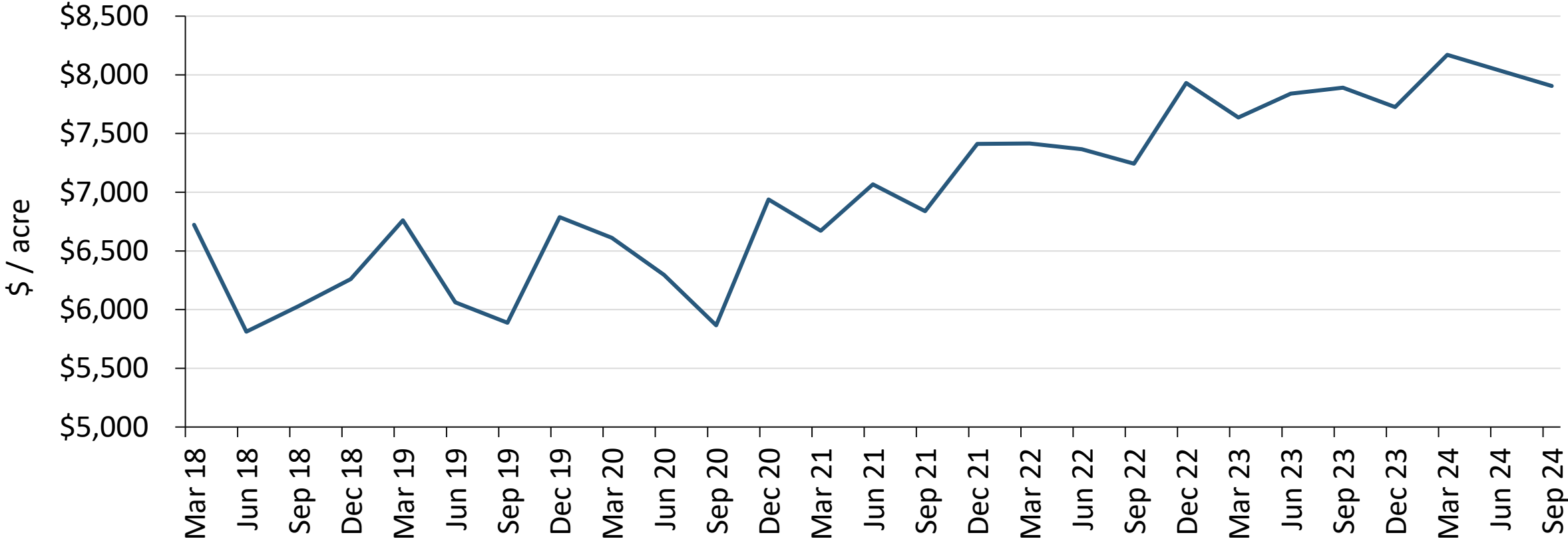
Market Interest Rates



Source: Federal Reserve Bank of St. Louis FRED Database; Author Calculations

# LAND VALUE RESPONSE

## U.S. Farmland Values: Blended Sale Price Average



Source: AcreValue Sales Data; Farmer Mac Appraisal Data; Author Calculations

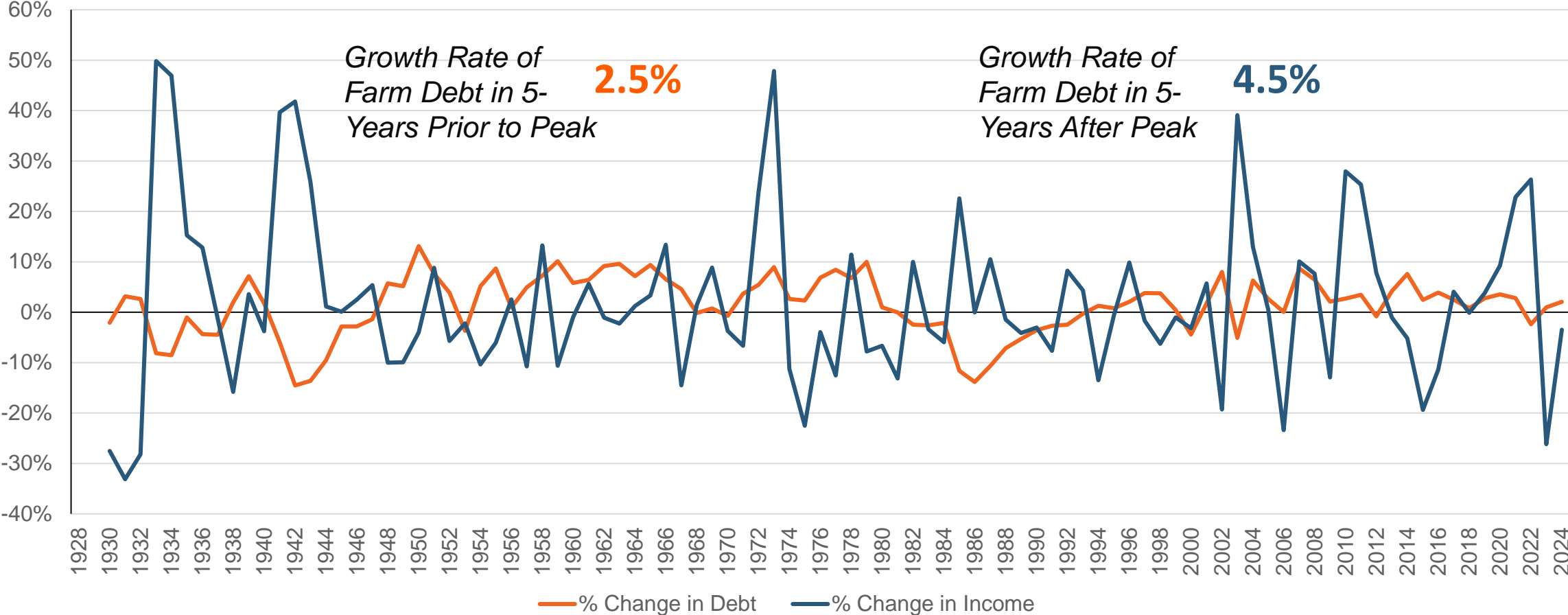
# DURATION OF THE ECONOMIC DOWN CYCLE IN AGRICULTURE

- ▶ Export markets – trade bill sanctions, tariffs & “counter tariffs”
- ▶ Economic health of the Big Three Trading Partners
- ▶ Economic health of U.S. economy
- ▶ Weather globally
- ▶ Strength of U.S. dollar
- ▶ Monetary/fiscal policy
- ▶ Competition from Global South



# DEBT DEMAND PRE/POST PEAK

Annual Change in Inflation-Adjusted Farm Debt and Farm Income



# QUARTER CENTURY POSITIVES

- ▶ Young, beginning farmers/ranchers
- ▶ Widened gap of profitability
- ▶ Agri entrepreneurs – not one size fits all
- ▶ Accelerating ag transition
  - Management
  - Assets
- ▶ Agriculture life skills- laboratory for youth



# RISKS IN THE AGRICULTURAL PORTFOLIO: CIRCA 2025

- ▶ Large agricultural credits, annual payments, low business acumen
- ▶ Operating lines of credit, non-traditional lenders, split lines of credit, 5 - 7 Rule
- ▶ Third party counter party risk “loss of marketplace”
- ▶ Agricultural loan “balloon reset notes”
- ▶ Non-financial factors: As a class, name the top five
- ▶ Lender exiting the agricultural lending marketplace
- ▶ Credit scoring, risk rating systems tied to default
- ▶ Waiting for a government bailout



# QUICK GLOBAL ECONOMIC ASSESSMENT

## ▶ China

- Demographic
  - 1980 19% of population urban
  - 2024 65% of population urban
- Housing value decline
- Stock market value decline
- Sanction/tariffs/trade

## ▶ India

- Farm policy protectionism

## ▶ Europe

- Tourism
- Greenwave/backlash



## ▶ Mexico/Canada

- New leader, same policy
- Downgraded economy to negative
- Canada: slow economy

## ▶ Southern Hemisphere

- Belt & Road Initiative
- Currency challenges

# LARGEST EXTRAREGIONAL TRADING PARTNERS BY TOTAL VALUE OF GOODS TRADED





# U.S.A. ECONOMIC SNAPSHOT

## ▶ ALICE

- (Asset-limited, Income-constrained, Employed)

- ▶ Government debt \$1 Trillion increase every 100 days
- ▶ Credit card debt = \$1.3 Trillion
- ▶ LEI, PMI, Consumer Sentiment, Inverted Yield Curve
- ▶ Delinquency on credit card debt & auto loans highest level since 2012
- ▶ Government money driving A.I. (artificial intelligence) & green energy
- ▶ In 2000: 73% of population urban
- ▶ In 2024: 84% of population urban



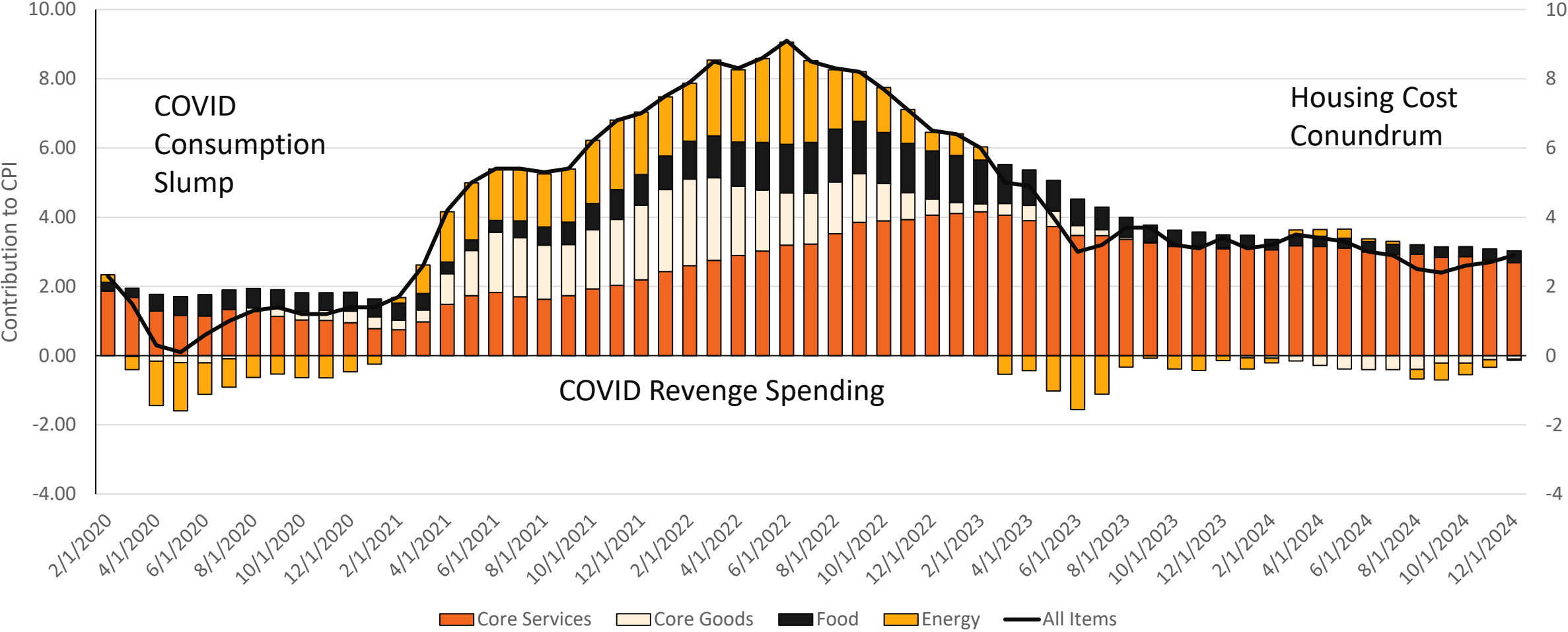
# WATCHLIST FOR POTENTIAL RECESSION

- ▶ High income earners
- ▶ Paper wealth devalues:
  - Stocks, investments
  - Homes, real estate
  - Other
- ▶ A.I. (Artificial Intelligence) vulnerability, geographic, mobility constrained
- ▶ Corporate restructuring
- ▶ Curtailed discretionary spending
- ▶ Noise in government & Federal Reserve data
- ▶ HENRY
  - (High Earnings, Not Rich Yet)
- ▶ HERMAN
  - (High Earnings, Rich, Mobile, Appreciated Net Worth)



# INFLATION NATION

Contribution to Consumer Price Inflation



Source: Bureau of Labor Statistics; Bloomberg Terminal

# THOUGHTS ON CREDIT RISK

- ▶ **Non-financial factors move the credit quality needle quickly**
- ▶ **Non-financial factors behind the numbers**
- ▶ **Set proper customer expectations at closing**
- ▶ **Develop a plan & hold accountable**
- ▶ **Structure loans properly i.e. advances, rates, covenants & follow the process**
- ▶ **No surprise borrowing & lending**
- ▶ **Lender who thinks like business people but are lenders**

# THE GOOD, BAD & UGLY BALANCE SHEET

## GOOD

- Generates earned net worth
- Assets that appreciate
- Investments for improvement, human skillsets
- Debt levels leaves liquidity reserves
- Boundaries of EBITDA debt loads

## BAD

- Financing others through receivables/delinquent payments
- CapEx out of operating monies
- Not requiring accounts payables, accrued expenses
- Co-signing debt for friends, relatives
- Financing negative years of business or personal financial losses

## UGLY

- Credit cards for business & lifestyle excess
- Multiple refinances of losses
- Multiple refinances for lifestyle issues & excesses
- Fraudulent activities

# AGRICULTURAL LENDING FINANCIAL SPECTRUM

Collateral Lender

Profit, Cash flow, Sixth C Lender

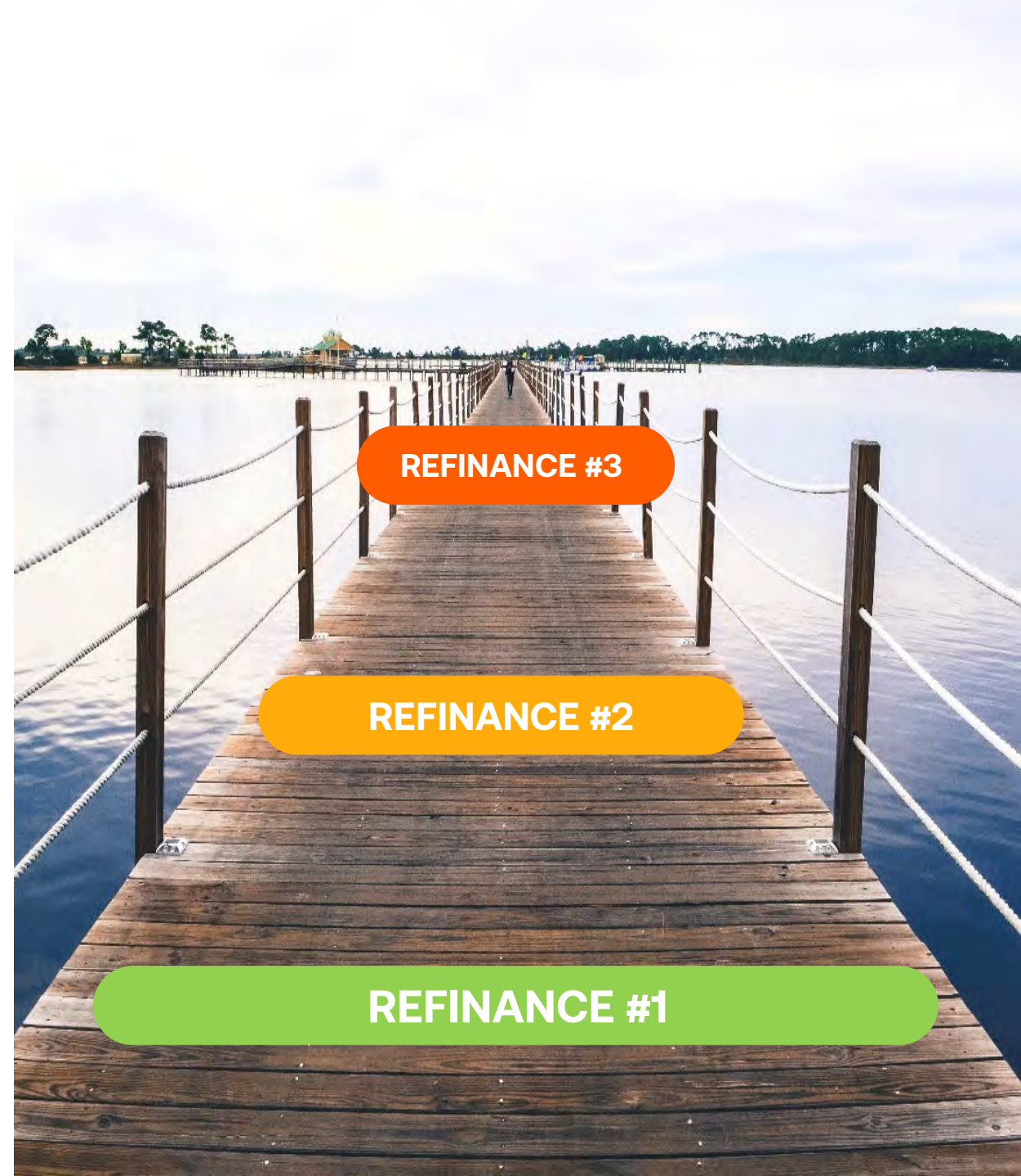
- Don't know cost of production
- Monitor financials once a year for tax reasons, no ownership of the numbers
- Shoot from the hip, marketing & risk management
- Family living cost issues
- Lender develops the statements
- <25% debt to asset ratio with land collateral

- Knows cost of production & break evens via enterprise
- Develops & monitors financials & cash flows frequently
- Marketing & risk management plan executed and monitored
- Family living budget separate from the business budget
- Team of advisors
- Aforementioned is critical for producer renting & leasing and > 50% debt to asset ratio

# BRIDGE & PIER CONCEPT

## Are you building a bridge or a pier?

- The more you go down the pier, the deeper the water. This increases the need for a higher level of expertise, and there are fewer options.



# CONDITIONS THAT DRIVE THE CUSTOMER TO END OF PIER

- ▶ **Non-responsive customer/lender**
- ▶ **Lack of execution**
- ▶ **Got the equity, give me the refinance without a written plan that's monitored**
- ▶ **Unreasonable expectations to breakeven**
- ▶ **Focus on swamp issues**
- ▶ **Surprises, hidden debt, timing of processes**





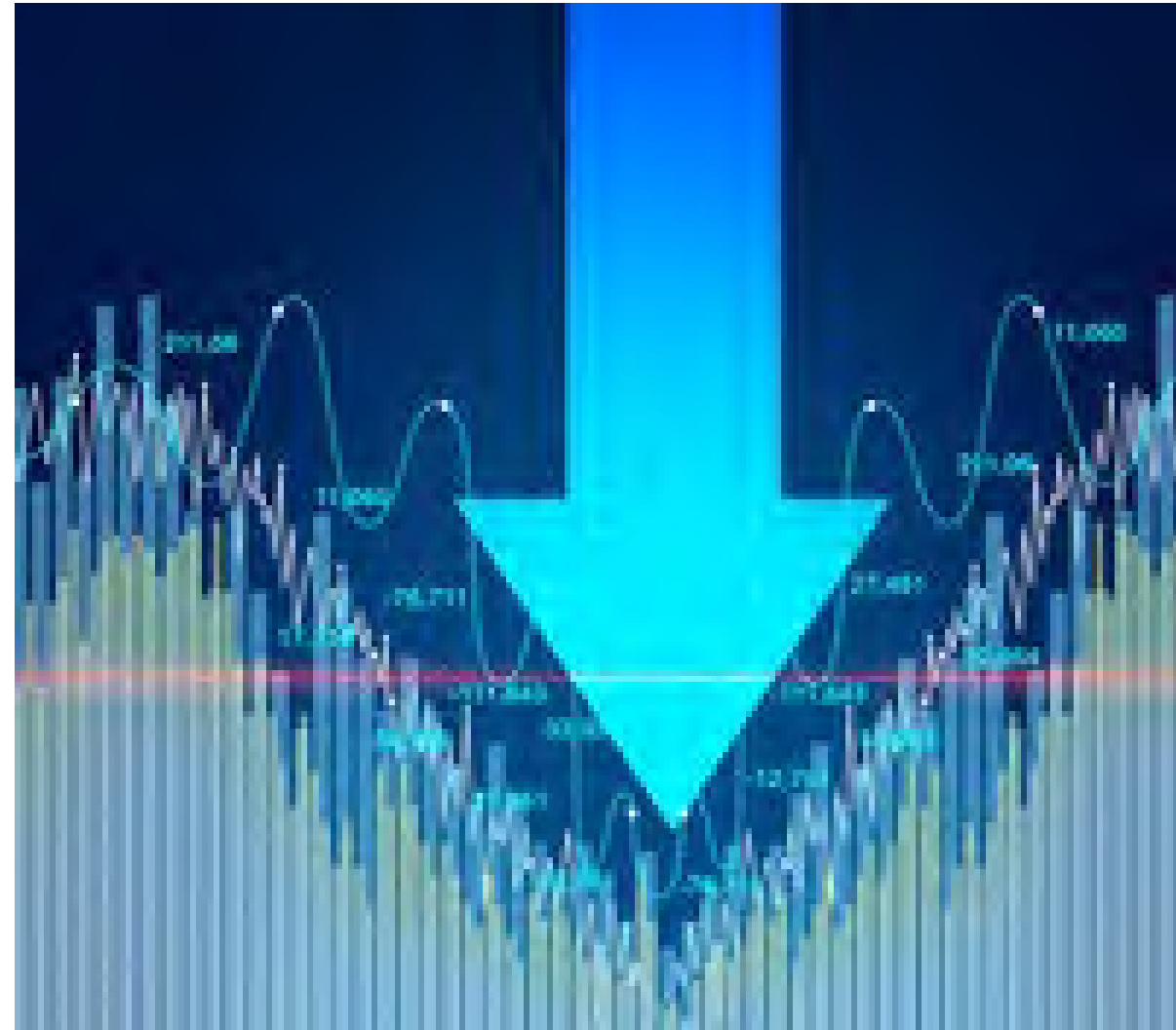
# CONDITIONS THAT BUILD THE BRIDGE TO SUCCESS

- ▶ **Plan in writing by the customer/consultant not the lender**
- ▶ **Mini victories by monitoring, monitoring & monitoring**
- ▶ **Frequent communications: relationship officer/credit analyst & loan committee/customer**
- ▶ **Willingness to develop cash flow, balance sheet & Business IQ**
- ▶ **Transparent no surprises by borrower & lender**



# PHRASES THAT ARE APPLICABLE FOR THE ECONOMIC DOWNTURN

- ▶ **Let the numbers talk for themselves**
- ▶ **Let's make cash flow relevant again**
- ▶ **Non-financial factors move the negative credit quality twice as fast as financial factors**
- ▶ **R.E.M. Strategy:**
  - Responsive
  - Execute
  - Monitor
- ▶ **Quick money builds ego- steady & discipline builds character & resiliency**



# PEAK PERFORMING AGRICULTURAL LENDERS

- ▶ Senior management & board needs to champion the agricultural industry
- ▶ Competent individuals at all levels
- ▶ Educational & advocate mindset for agriculture
- ▶ Stay in your lane on competitiveness
- ▶ Passionate support staff are very important

# QUESTIONS

- ▶ **Is the agricultural and agricultural industry headed for a 1980s crisis? If so, what are the variables to observe?**
- ▶ **What are major trends you both are observing in the agricultural lending industry?**
- ▶ **What are the major trends you are observing in the agricultural industry that could impact agricultural lenders?**
- ▶ **If you were the Secretary of Agriculture, what would be your top items on the agenda?**

# LET'S CONTINUE THE CONVERSATION

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## Online Articles

- Farm Progress Weekly Article:  
<https://www.farmprogress.com/author/david-kohl>
- Ag Trends & Insights Videos  
<https://agwestfc.com/education-and-resources/industry-and-economic-insights/economic-updates/agricultural-trends>
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