



May 2026

READING THE FIELD: AN AGRICULTURAL LENDING ASSESSMENT FOR 2026

Agricultural lenders and producers are operating in an increasingly complex economic environment, and the stakes continue to rise for understanding the indicators that shape lending decisions and farm profitability. My conversations during recent travels and at state agricultural banker and producer conferences provide a real-time snapshot of mounting pressure in the farm economy. Now, escalating tensions in the Middle East are adding another layer of uncertainty, with potential consequences for agriculture, consumers and businesses at home and around the world.

Numbers on the Radar Screen

Agricultural inflation has moved to a new level because of oil and fertilizer shocks stemming from the conflict in the Middle East. Historically, oil prices have been a critical driver of both farm and broader economic expenses. Directly or indirectly, oil prices influence roughly 80% of farm expenses and investments, as well as about 60% of the broader economy.

Since 1969, sharp increases in oil prices have preceded most recessions. Two major exceptions were the dot-com bust and the housing-driven Great Recession of 2008-09, which stemmed primarily from financial market excesses rather than energy shocks.

Typically, consumer spending begins to slow when national average gasoline prices exceed \$4 per gallon and diesel prices rise above \$5 per gallon. Another metric to monitor is West Texas Intermediate crude oil, which becomes concerning when prices approach \$100 per barrel. If all of these thresholds remain elevated for more than 15 weeks—approximately four months—the likelihood of a recession increases significantly.

Fertilizer prices have risen more than 30%, rapidly squeezing cash flow and working capital. That may affect both crop planting decisions and producers' enterprise mix. The destruction of key fuel and fertilizer infrastructure also could create significant intermediate- and long-term tail risk.

Risks for Agriculture

Inflated cost structures remain one of the highest risks facing agriculture in 2026, whether in financially stressed grain, row crops, specialty crops or livestock, or in the red-hot beef market. As agricultural businesses grow larger, producers require larger operating lines of credit that must be monitored closely throughout the year. Using these lines for their intended purpose—and maintaining strong communication between producers and lenders—is critical.

One of the most common mistakes producers make is using operating lines of credit for capital expenditures, primarily purchasing machinery, equipment, facilities or, in some cases, land. The problem often surfaces during the renewal process, when the operating line cannot be sufficiently paid down and must instead be converted to term loans. Lenders typically see this as a weakness in financial discipline and a negative indicator of both business and financial IQ—key components in the credit analysis process.

Another major risk for both individual borrowers and agricultural lending portfolios is adverse weather, whether local, regional, national or global. Supply-and-demand dynamics can shift rapidly, affecting not only commodity prices but input costs as well. With extreme weather becoming more common, risk management and marketing plans are no longer optional; they are essential.

For lenders, the key question is not simply whether a producer has a plan, but whether that producer can execute it, monitor results, and communicate effectively with the lender throughout the process. Poor transparency and weak communication introduce additional business, financial and character risk into the credit relationship.

Growth-Oriented Customers in Control of Assets

One significant trend in agriculture is the shift toward controlling assets through rental and lease arrangements, often accompanied by aggressive growth strategies. The primary risk in these cases is the limited amount of land ownership or hard-asset equity supporting the business. In these cases, sustainability depends on a high level of business and financial acumen, along with the ability to assess risk, adapt quickly and be held accountable.

A producer's ability to collaborate, coordinate and generate profit through relationships, communication and effective management also becomes increasingly important. These interpersonal or "soft" skills are difficult to measure in traditional credit risk-rating systems, yet they often play a major role in long-term success.

Another key financial criterion in these situations is the ability to generate and preserve working capital as a financial cushion when little land or hard-asset collateral exists.

Concentration of Debt

As agriculture continues to consolidate, lenders must carefully evaluate the concentration of debt within their portfolios. Larger customers often carry additional third-party or counterparty exposure involving integrators, processors and, in some cases, other producers. The stability of private capital and credit becomes an important consideration as larger operations increasingly rely on those financing channels.

In these situations, lenders must closely monitor business plans, legal agreements and consolidated financial statements. The customer's management capabilities must evolve in step with the growth rate of the business.

Quick Hitter Risks

- Watch for customers who consistently pursue home runs rather than base hits in their marketing strategies.
- The belief that "this time is different" in the economic cycle can become a dangerous trap during strong economic periods. The beef industry may be especially vulnerable because of its prolonged positive cycle. In marketing, remember the phrase, "stairs up, elevator down," which reflects how quickly conditions can change.
- Be cautious of customers who pursue top yields and production while ignoring economic margins.
- Watch for the accumulation of nonproductive assets near the top of the cycle, historically referred to as "killer toys."
- Gambling, including sports betting, and fraud are accelerating alongside advances in technology.

Bright Side: The Cup Half Full

Despite the risks facing agriculture, significant business development opportunities remain.

One of the most immediate involves refinancing requests for operating funds and loans originated during the low-interest COVID-19 era. Customers with land collateral have generally been able to refinance successfully and, in some cases, have used government guarantees to secure another year of operating credit. The resilience of land values has been especially important for operations navigating down cycles.

For lenders, the key question is not simply whether a producer has a plan, but whether that producer can execute it, monitor results, and communicate effectively with the lender throughout the process. Poor transparency and weak communication introduce additional business, financial and character risk into the credit relationship.

Loans to young and beginning farmers and ranchers are seeds being sown for future growth opportunities. Community banks, in particular, are often the avenue for these loans because these borrowers may not fit traditional risk-rating criteria, and smaller loan sizes are sometimes viewed as less profitable by larger institutions.

At the same time, more lenders are positioning themselves to have a seat at the table in the accelerating generational transition underway across agriculture. Whether financing the needs of senior producers exiting the industry or providing capital, guidance and financial education to the next generation, lenders taking a long-term approach are best positioned for success.

Periods of economic disruption bring varying degrees of risk and complexity. But they also create opportunities for business development and portfolio growth. Even in an increasingly high-tech financial environment, agriculture remains an industry where a high-touch, relationship-driven approach continues to matter. For lenders and producers alike, the human element remains essential in an industry that underpins the strength and stability of every nation.



LENDER AND BUSINESS DASHBOARD ECONOMIC INDICATOR ASSESSMENT

April 2026

Global Economy

As I discussed earlier in this column, rising fuel and fertilizer prices tied to the conflict in the Middle East conflict are already rippling through the global economy. China and India, which are heavily dependent on oil from Iran and the broader Middle East, could face rising costs and potential supply limitations that may intensify through the summer and fall.

However, China currently maintains approximately a 120-day fuel reserve, while India's reserve is about half that amount, at roughly 60 days. Agricultural production in both countries could be affected through changes in planted acreage and potential yields, particularly due to shipment bottlenecks involving phosphate from Morocco and nitrogen and urea from the Middle East.

Meanwhile, China and India are exploring alternative energy sources from Russia, which is eager to expand those relationships in order to help finance its war in Ukraine.

The destruction of infrastructure linked to the conflict also could create longer-term supply challenges, particularly in regions where over 20% of global fuel supplies and one-third of fertilizer production, processing or distribution are concentrated.

Another growing concern for the global economy is jet fuel availability. Major airlines are already reducing domestic and international schedules in anticipation of shortages. European economies, which rely on approximately \$1 trillion annually in tourism revenue, are already seeing declines in travel bookings. At the same time, Europe faces mounting economic pressures from increased military spending, uncertainty surrounding long-term U.S. support for NATO and intensifying export competition from China and other Asian countries.

The length and severity of the conflict are accelerating a new world order in the global economy and will be a critical factor in future trade negotiations, particularly with China.

Domestic Economy

Consumer sentiment remains one of the most important leading economic indicators. The University of Michigan's consumer sentiment index recently fell to a historic low of 47. Fuel and energy inflation continue to weigh heavily on low- and middle-income households, many of which already have been economically strained in recent years.

Other important metrics to watch are headline and core inflation. Headline inflation, which includes food and energy costs, has increased alongside fuel prices. Food inflation also could accelerate later in the year because of higher production, processing and, particularly, distribution costs. Continued inflationary pressure will likely limit the Federal Reserve's ability to reduce interest rates, regardless of changes in leadership and appointments.

Over the next few months, employment data will also be critical in assessing economic health. Most recent job growth has been in the healthcare sector. At the same time, layoffs continue in white-collar industries, particularly technology, as companies anticipate additional productivity gains from AI.

Housing-start data has been difficult to interpret in recent months because reporting delays tied to the government shutdown have limited visibility into the sector. However, year-over-year home sales are down 3.6%, most notably in the Sun Belt and West regions. By contrast, demand remains relatively strong in the Midwest and Northeast, where housing supply continues to lag demand.

Readings from the Leading Economic Index have been difficult to obtain because of the government shutdown. Meanwhile, the Purchasing Managers' Index has been in the low 50s, indicating a modestly expanding economy.

The Disconnect

Discussions with lenders, producers and other industry leaders point to a growing disconnect in the economy. Many households continue to face financial strain and uncertainty about employment and future job prospects. Yet equity markets remain resilient and, in some cases, are reaching record highs. Airlines are expanding first-class offerings while consumers continue to spend on discretionary items and experiences.









At the same time, concerns about trust in financial markets, institutional data and perceived insider advantages are rising. That combination could shift public sentiment quickly, potentially reshaping political behavior, consumer confidence, investment decisions and broader societal attitudes.

The View From Here

My vantage point, what I call a "three-piece suit, cowboy economics" perspective, often provides a glimpse of what might be around the corner.

LENDER AND BUSINESS DASHBOARD ECONOMIC INDICATORS

For the **month of March** (Latest data is delayed for some indicators due to the government shutdown)

Indicator	Current	Green	Yellow	Red
Leading Economic Index – LEI	975 (Jan)			
LEI Diffusion Index	60% (Jan)			
Purchasing Manager Index – PMI	52.7			
Housing Starts (millions)	1.487 (Jan)			
Factory Capacity Utilization	75.7%			
Unemployment Rate	4.3%			
Core Inflation	2.6%			
Headline Inflation	3.3%			
Oil Price (\$/barrel)	\$116.96			
Yield Curve	0.64			

LENDER AND BUSINESS DASHBOARD ECONOMIC INDICATOR BENCHMARKS

Indicator	Green	Yellow	Red
The Conference Board Leading Economic Index® – LEI	Increasing	Flat Decline	Decline 0.3% for 3 consecutive months AND >1% over the period
LEI Diffusion ¹	>60%	40%-60%	<40%
Purchasing Manager Index – PMI	>50	41.7-50	<41.7
Housing Starts (millions)	>1.5	1.0-1.5	<1.0
Factory Capacity Utilization	>80%	70%-80%	<70%
Unemployment Rate	<6%	6%-8%	>8%
Core Inflation	0%-2%	2%-4%	>4% or <0%
Headline Inflation ²	0%-4%	4%-5%	>5% or <0%
Oil Price ³ (\$/barrel)	<\$50	\$50-\$100	>\$100
Yield Curve ⁴	Steep	Flattening	Inverted

¹Ten indicators make up the LEI - measures % that are increasing; ² Includes food & energy; ³ Consumer's perspective;

⁴ 3-Month Treasury Bill rate to 10-Year Bond rate