



# Quarterly Report on Economic Conditions and Farm Credit System Condition and Performance

June 13, 2024

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# Topics for Open Session

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## Economic Conditions Affecting the Farm Credit System

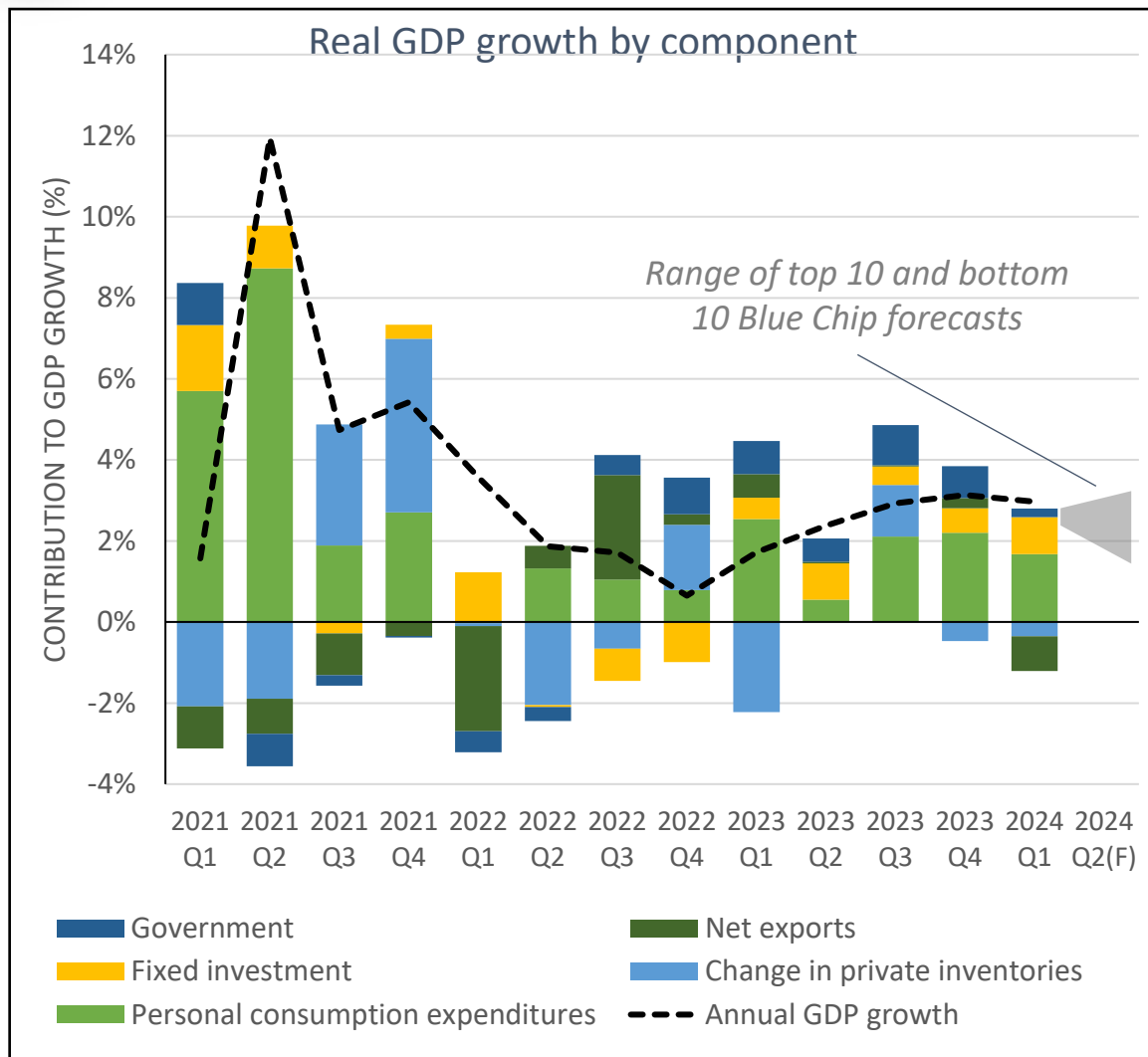
- ▶ Macroeconomic conditions
- ▶ Agricultural incomes
- ▶ Farmland markets

## Farm Credit System Condition and Performance

- ▶ System growth and loan portfolio
- ▶ Earnings and capital
- ▶ Financial Institution Rating System (FIRS)



# Slow growth forecast for 2024, with downside risk



Source: Bureau of Economic Analysis, Gross Domestic Product (Second Estimate).  
Blue Chip forecast range from Federal Reserve Bank of Atlanta GDPNow.

## GDP forecasts slip, but remain positive

- Growth expectations below 2023 levels
- 12-month ahead recession probabilities fall

## Personal spending capacity falls

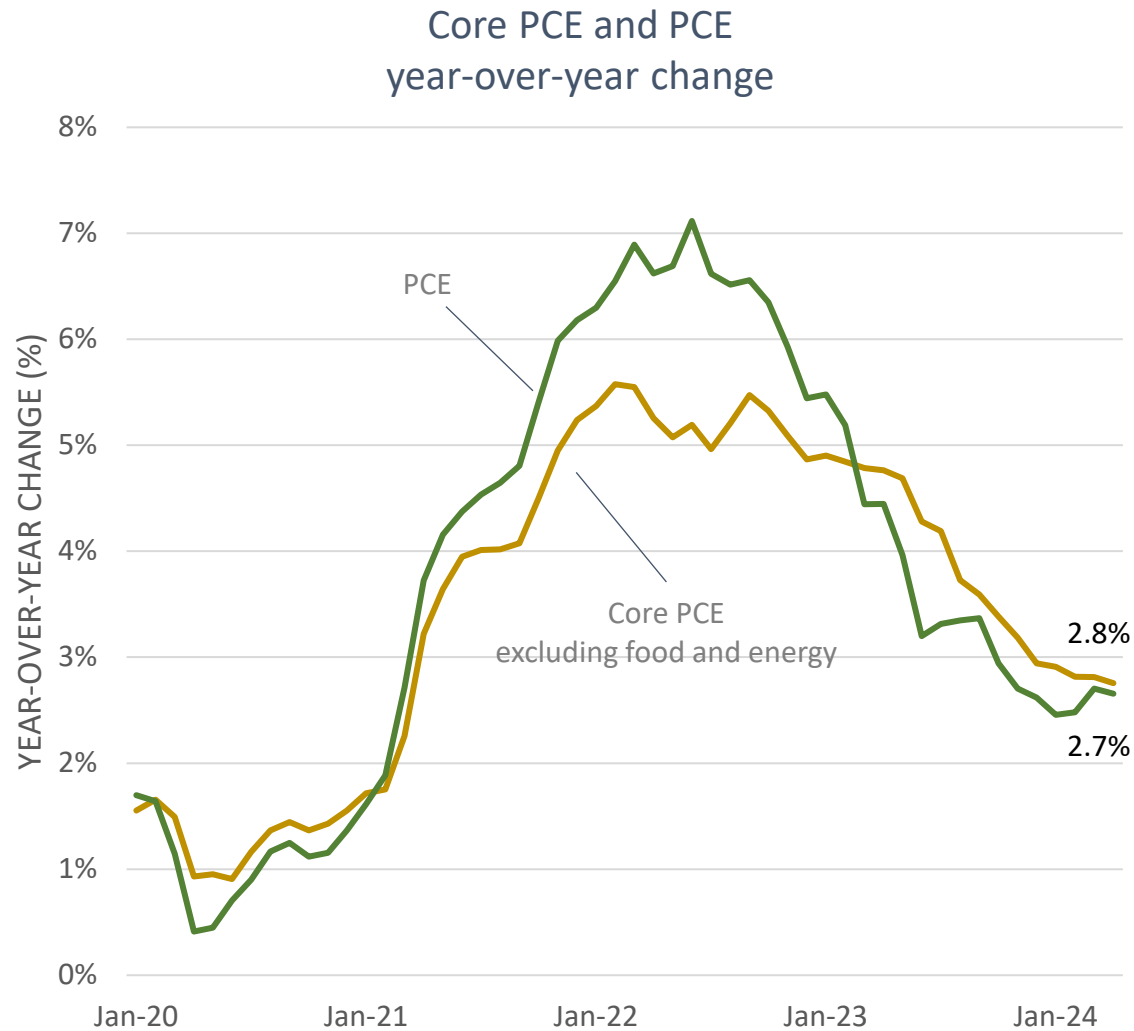
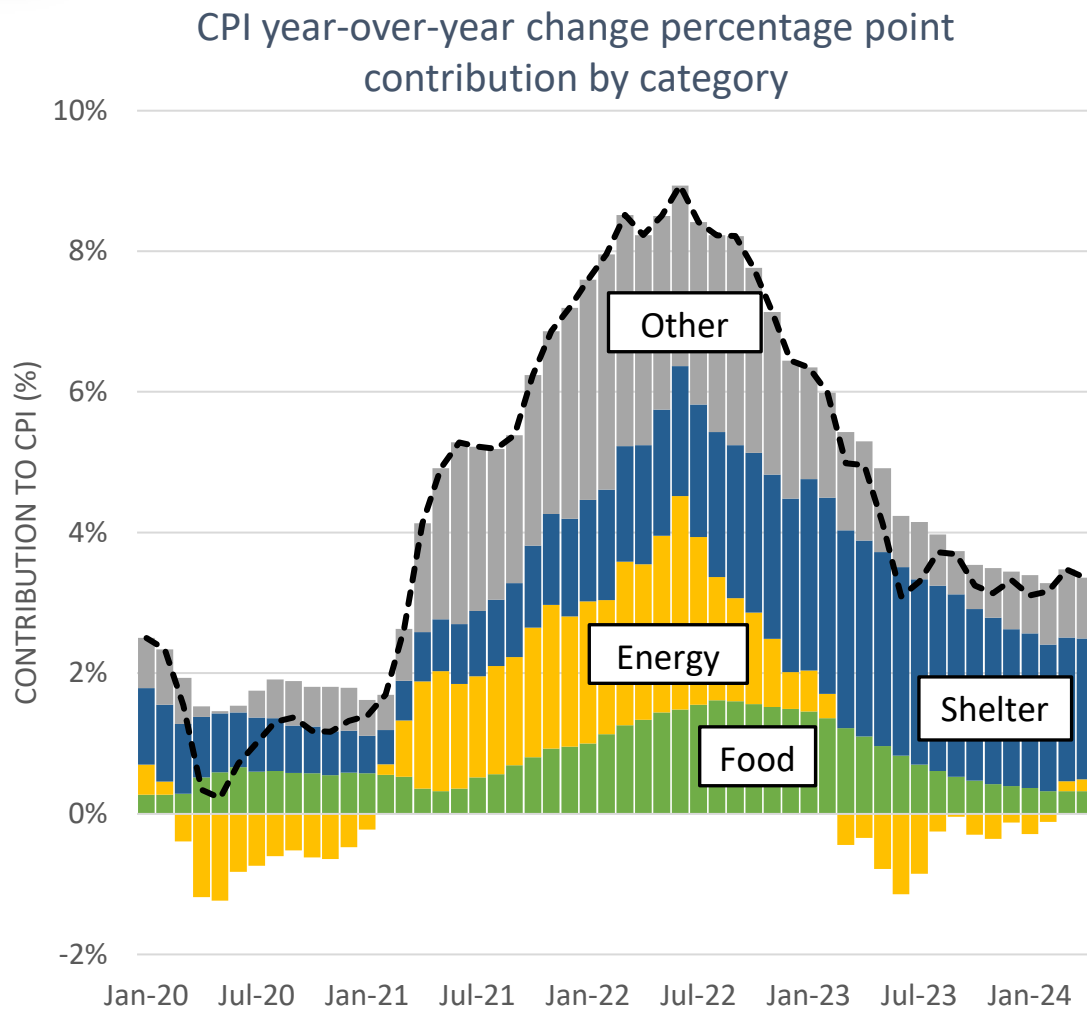
- Personal saving rates decline
- Credit card delinquencies rise
- Consumer loan demand weakens

## Consumers are more selective

- Falling good purchases
- A plateau in food services



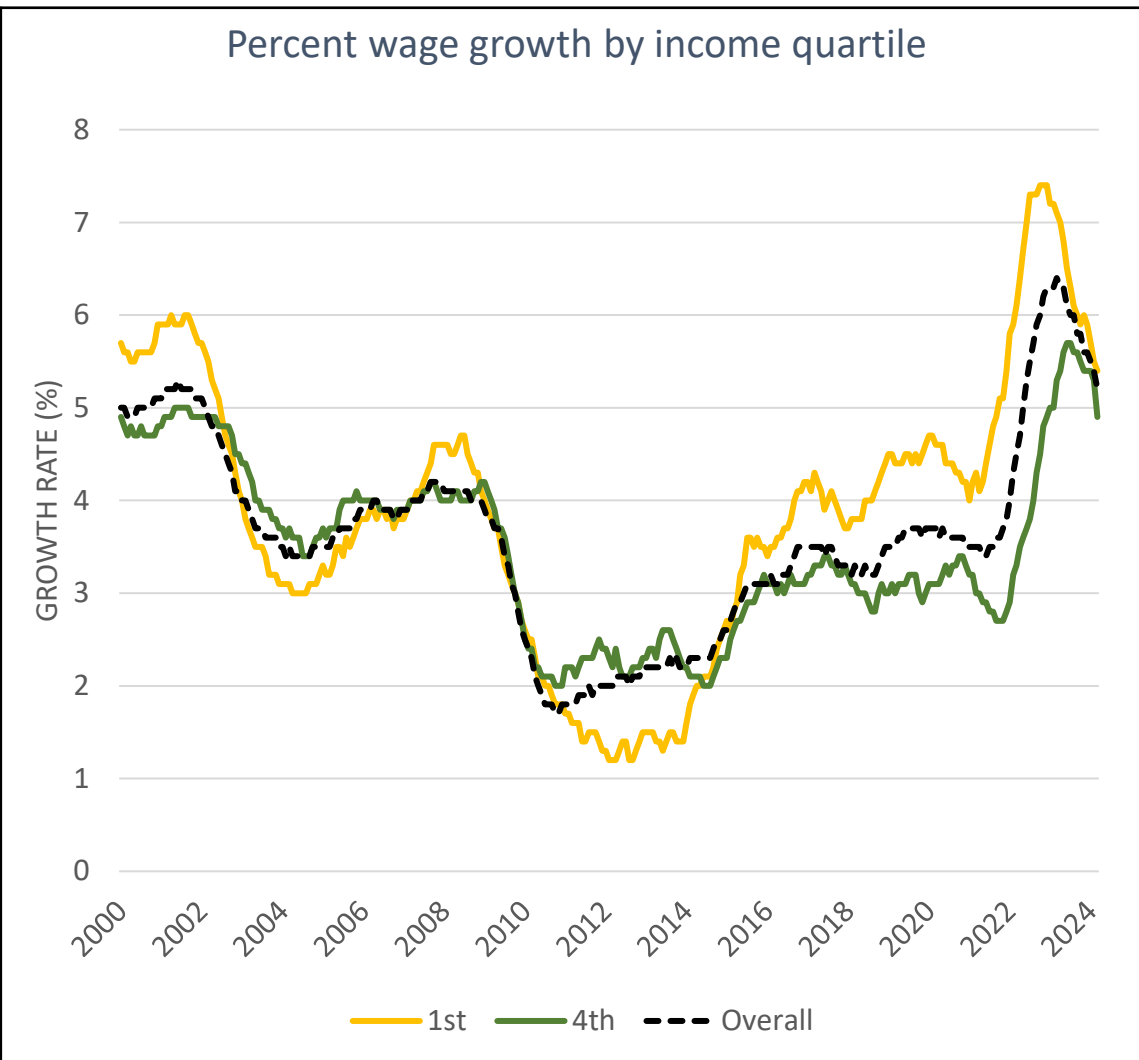
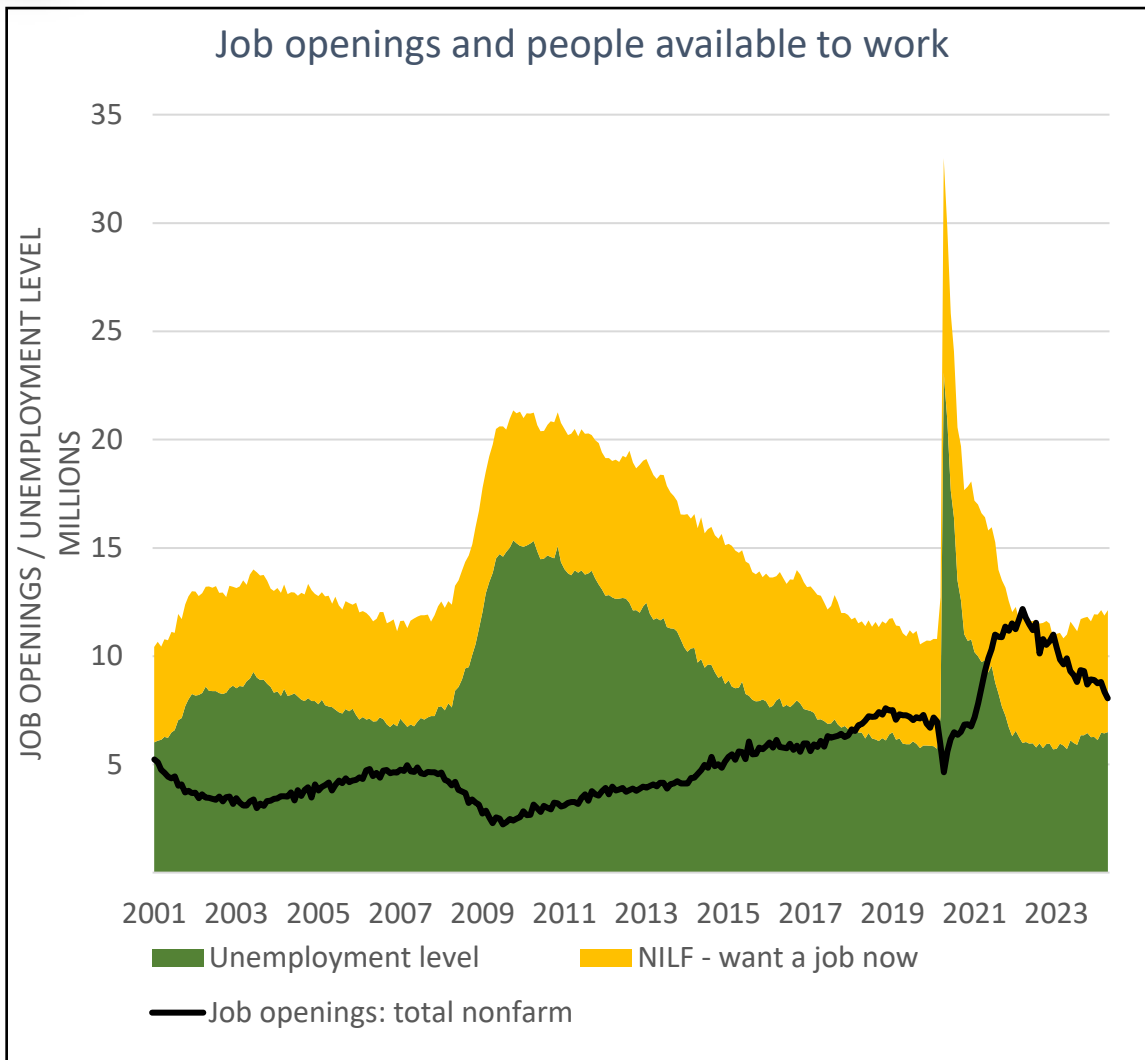
# Inflation continues to moderate, but progress has slowed



Source: U.S. Bureau of Labor Statistics Consumer Price Index, author's calculations and U.S. Bureau of Economic Analysis Personal Income and Outlays.



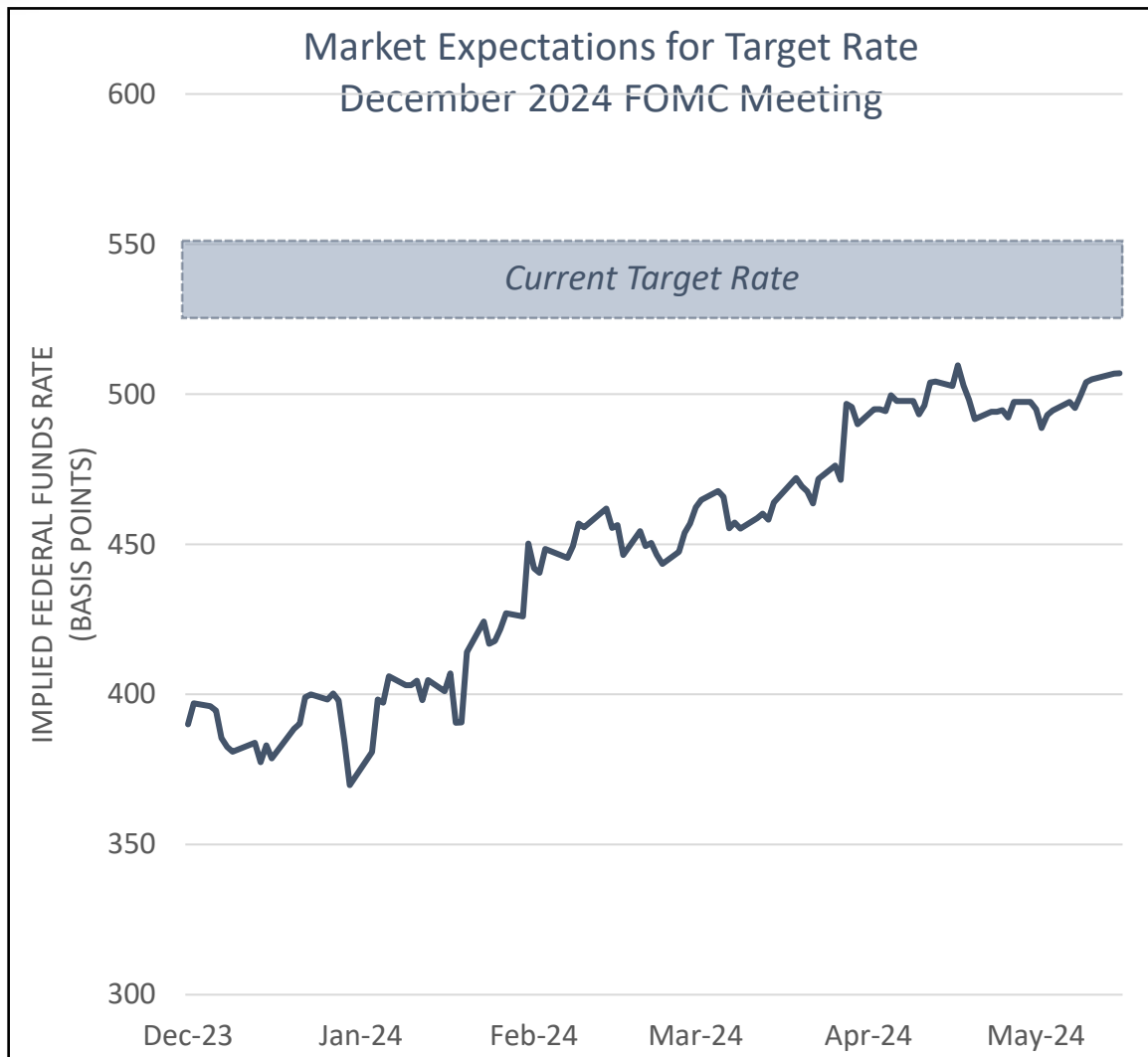
# Labor markets cool, but job openings and wage growth point towards residual tight conditions



Source: BLS Employment Situation Report; BLS Job Openings and Labor Turnover Survey and Federal Reserve Bank of Atlanta Wage Growth Tracker.  
NILF = not in the labor force; individuals who are not working, and who have not actively looked for work in the last 4 weeks. Wage growth is 12-month moving average.



# Current economic conditions give Federal Reserve room to watch and wait



## Less economic pressure for rate reductions

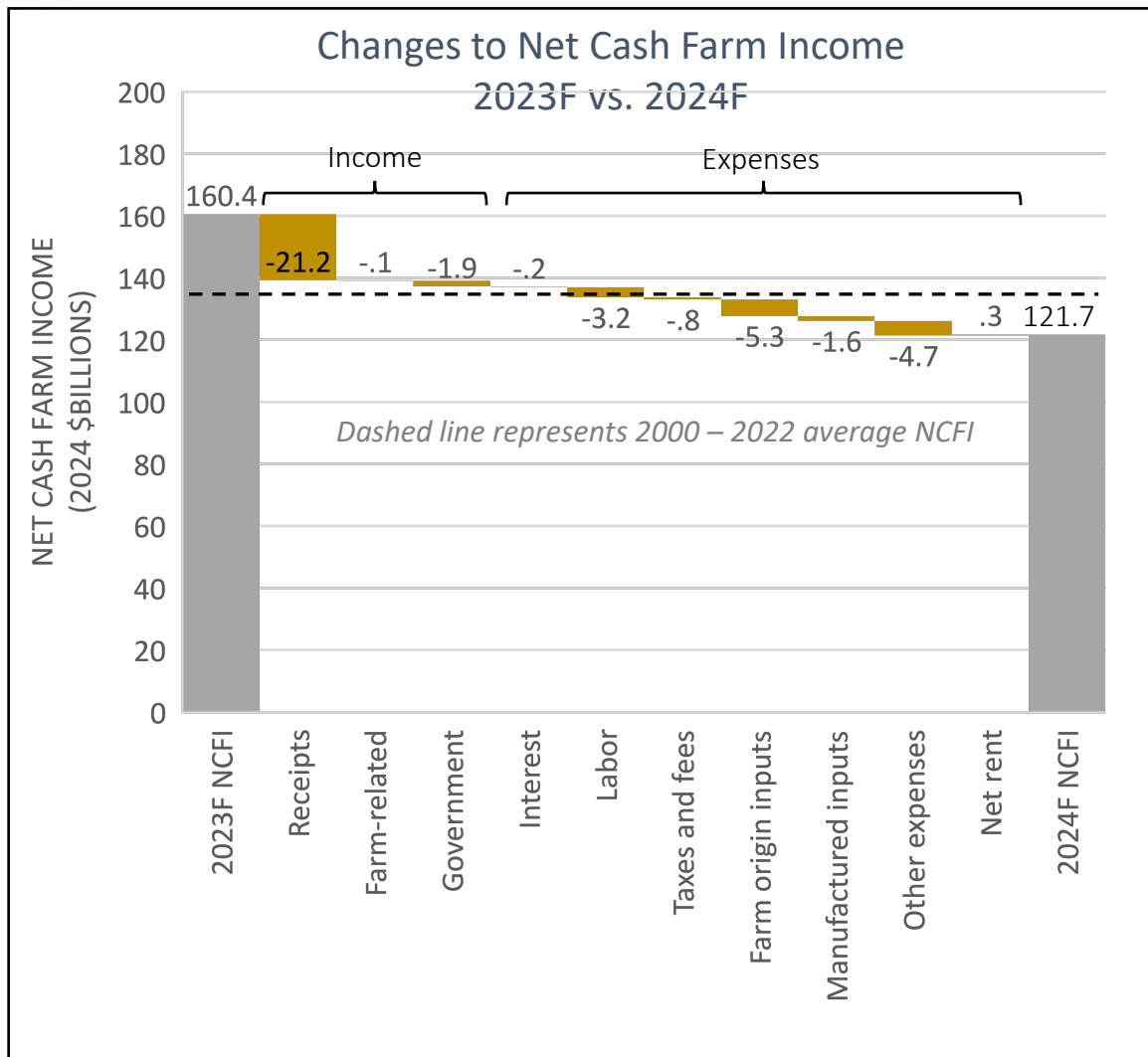
- Lower recession probabilities
- Sticky inflation measures
- Supportive labor market

*“The [Federal Open Market] Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent.”*

- FOMC Apr/May Statement



# USDA projects second year of sharp income declines as receipts fall and expenses continue to climb



## Income continues marked decline

- Price declines offset higher quantities
- Corn, soybean receipts drive fall
- Lower supplemental, ad-hoc payments

## Expenses continue to rise

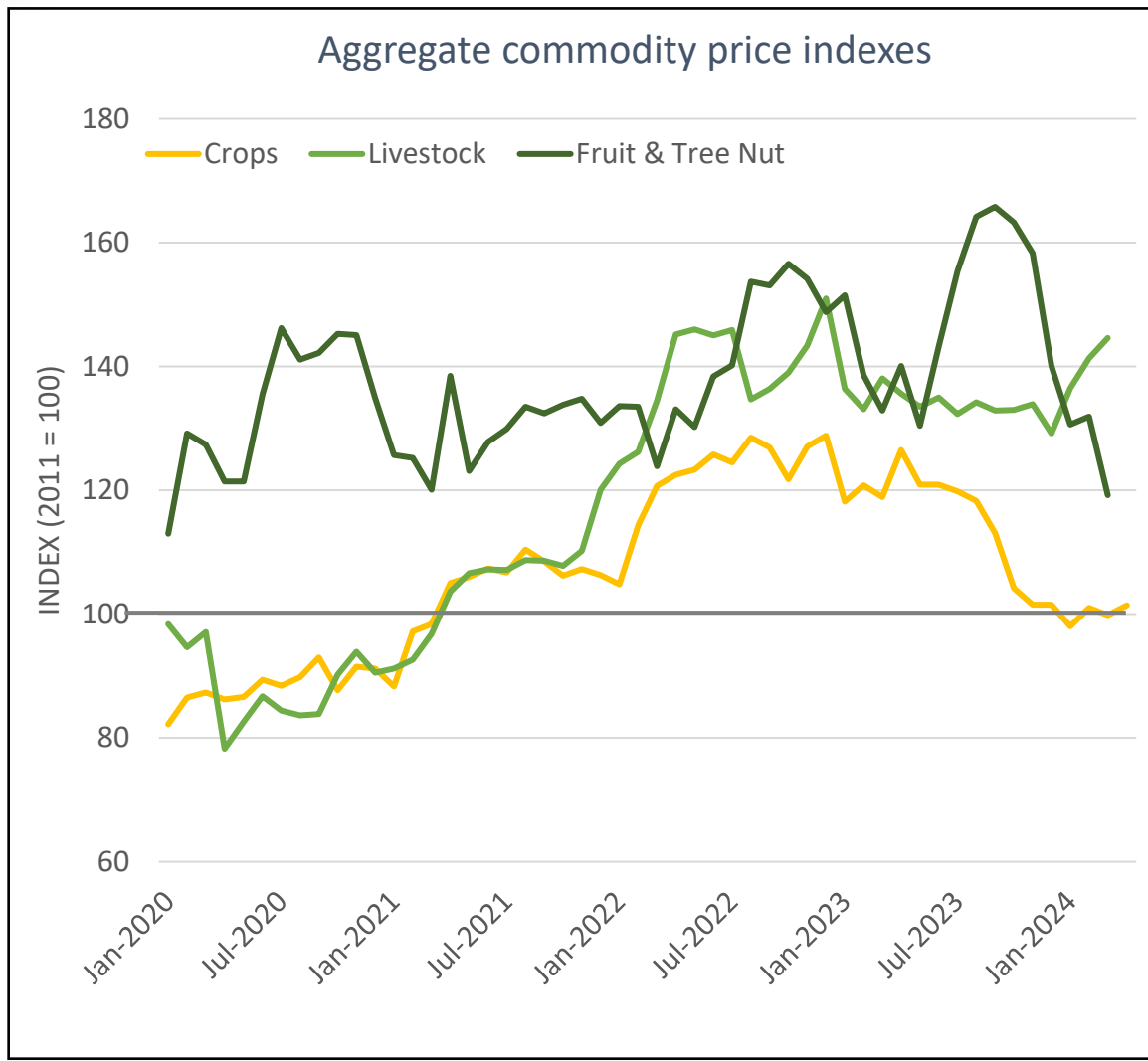
- Highest real expenses since 2014
- Interest, labor, livestock lead increases

## Financial ratios fall from recent highs

- Liquidity, profitability ratios fall
- Solvency ratios show continued strength



# Livestock sector sees stronger prices while other sectors search for footing



Source: USDA NASS Agricultural Prices. Indexes represent prices received by growers.

## Crops

- Marketing opportunities follow brief run
- Cash grains look for next price support
- Breakeven prices

## Livestock

- Cattle shine, but profits mixed across sector
- Feed costs vs. nonfeed costs
- Consumer demand strong – for now

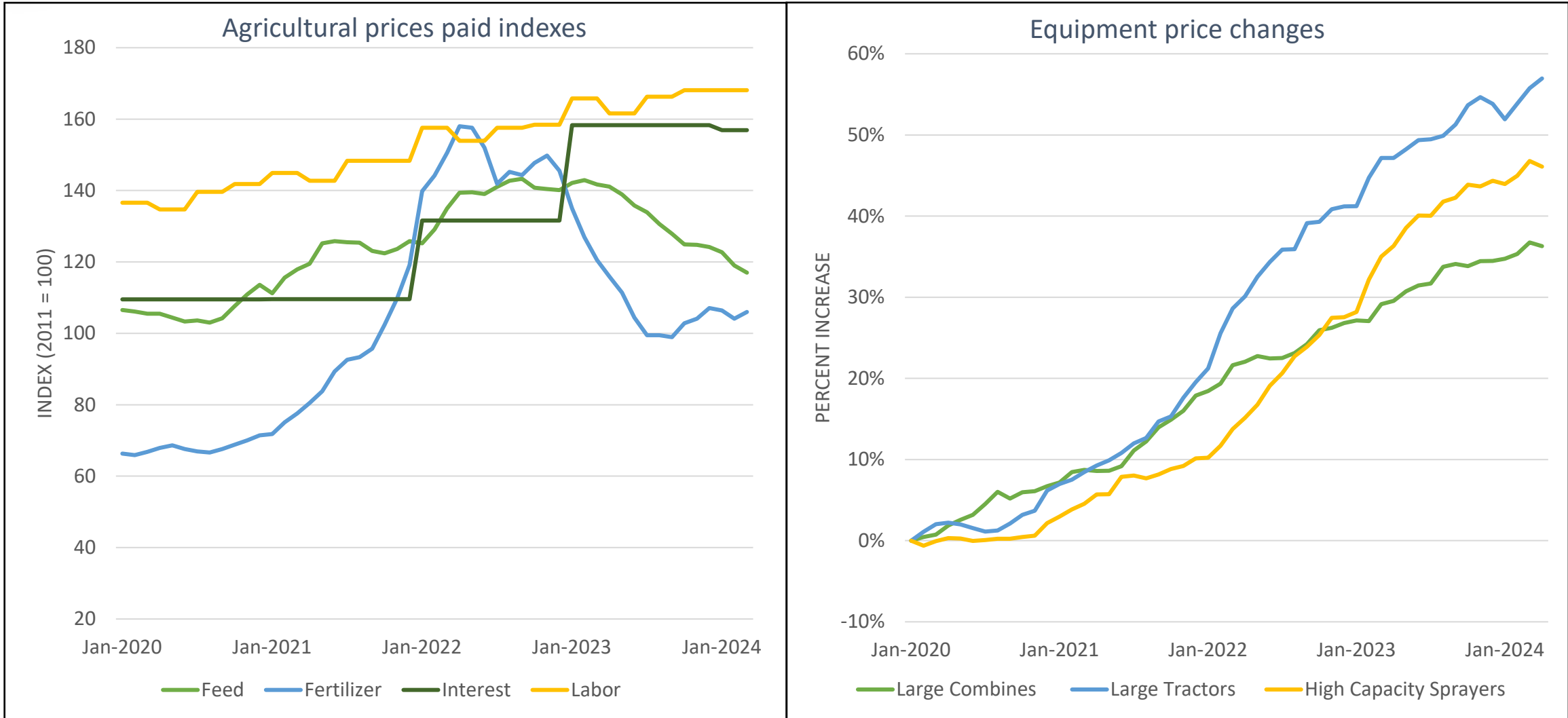
## Fruit / Nut

- Near-record production weighs on tree nuts
- Aggregate fruit, nut prices fall





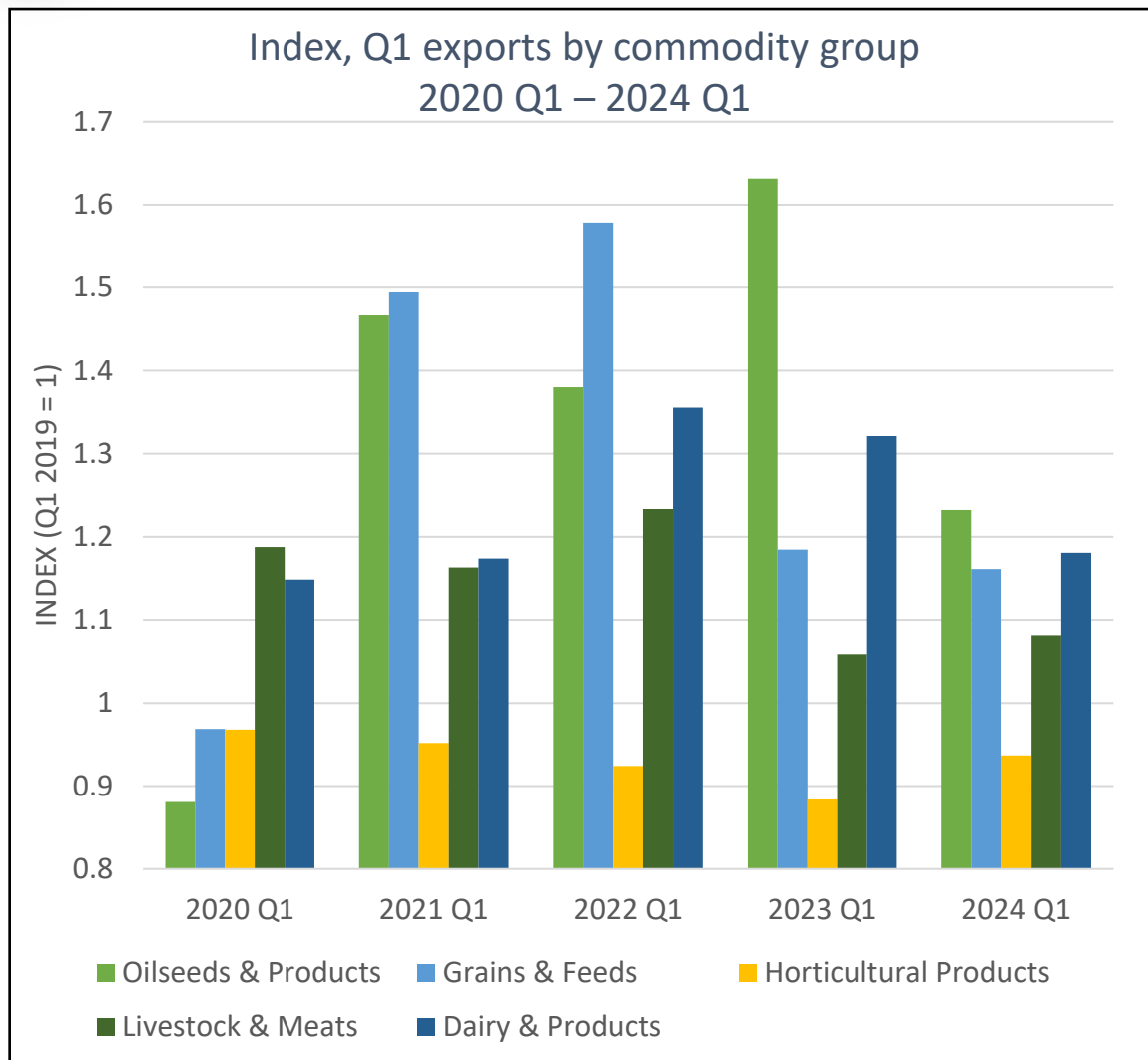
# Select input prices moderate, but higher cost environment likely to persist



Sources: USDA NASS Agricultural Prices and Iron Solutions



# Exports remain strong to start 2024, but downside risk remains



## Economic headwinds to exports

- Strong dollar hinders ag exports
- Forecast slower growth in emerging markets

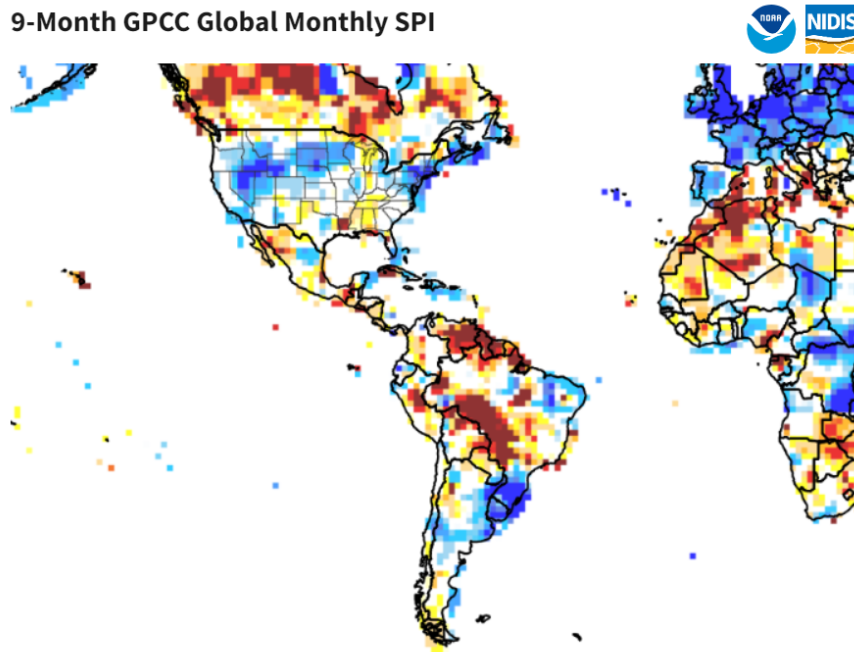
## Divergent stories

- Soybean exports decline globally
- Continued strength from Mexico, Canada
- Consumer-oriented goods persist
- Geopolitical pressures



# Favorable weather conditions to start 2024 growing season

9-Month GPC Global Monthly SPI



Dry Conditions



Neutral Conditions

Wet Conditions



Source(s): GPC  
Data Valid: 05/10/24

[Drought.gov](https://drought.gov)

## Current U.S. conditions supportive for growth

- Crop plantings planted / emerging on time
- Drought in parts of the Plains

## Domestic 3-month forecast show few risks

- Warmer weather across the country
- Less precipitation in Mountain, northwest
- Wetter conditions in Southeast

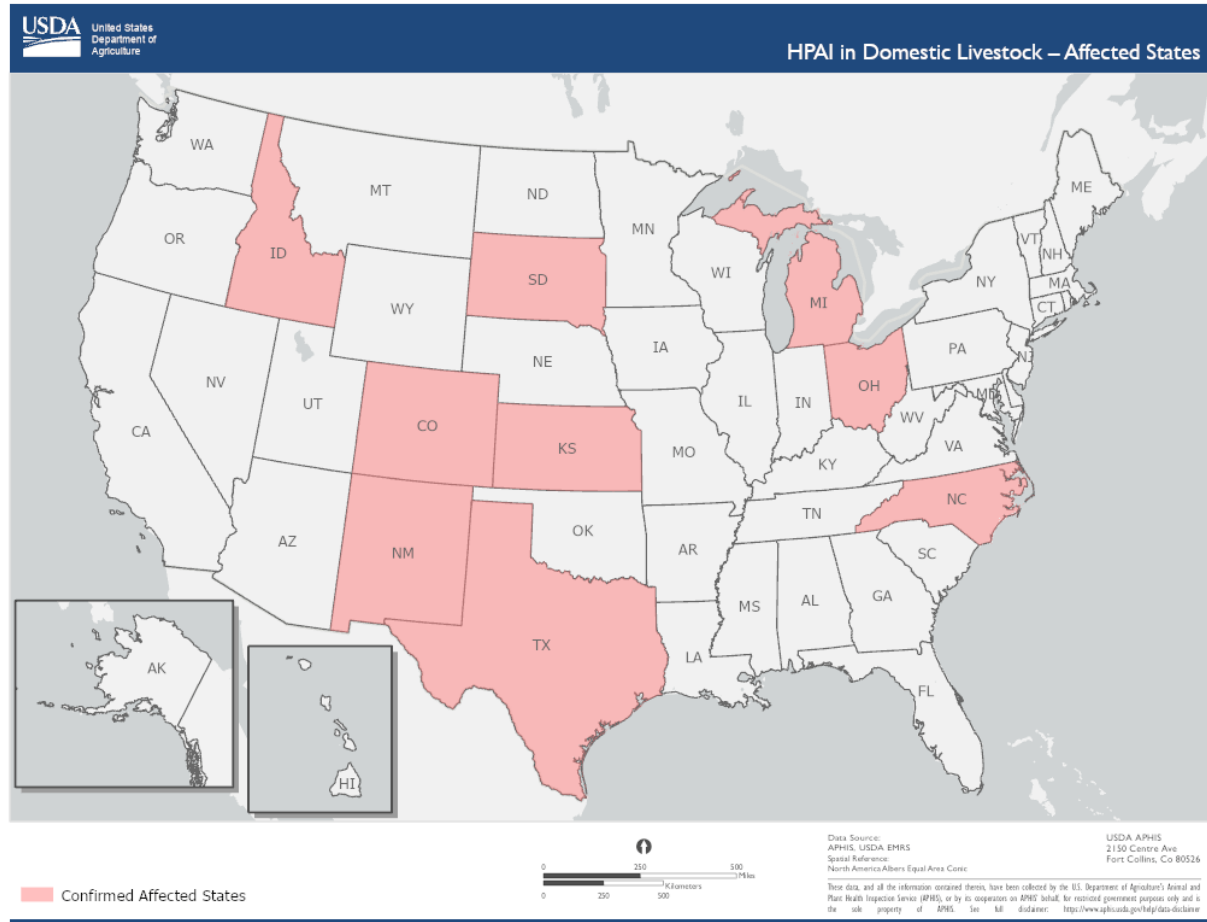
## Some price upside from global conditions

- Poor conditions in parts of Brazil, Argentina
- Dryness, frost hit Russian wheat
- Keeping an eye on China



# Highly pathogenic avian influenza detections in livestock add some uncertainty to outlook

## Confirmed cases of HPAI in Domestic Livestock



### Minor impacts to production to date

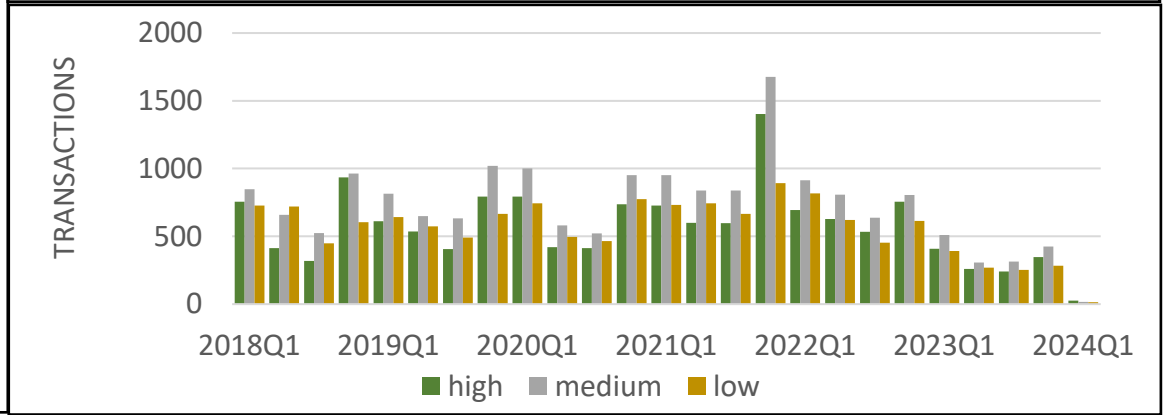
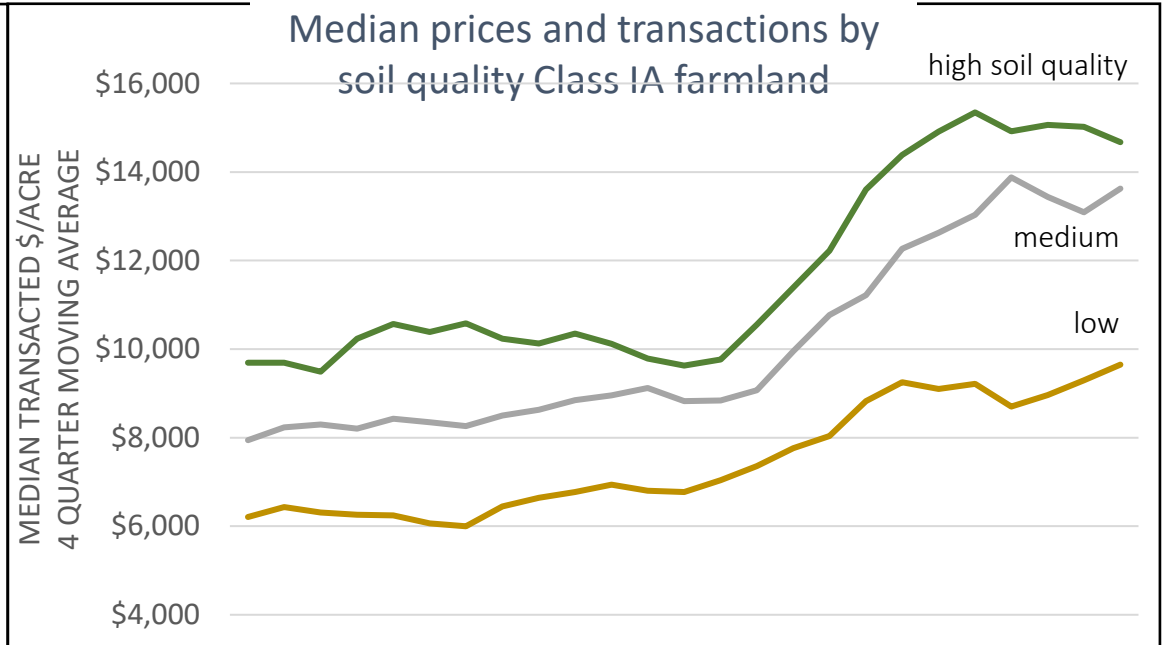
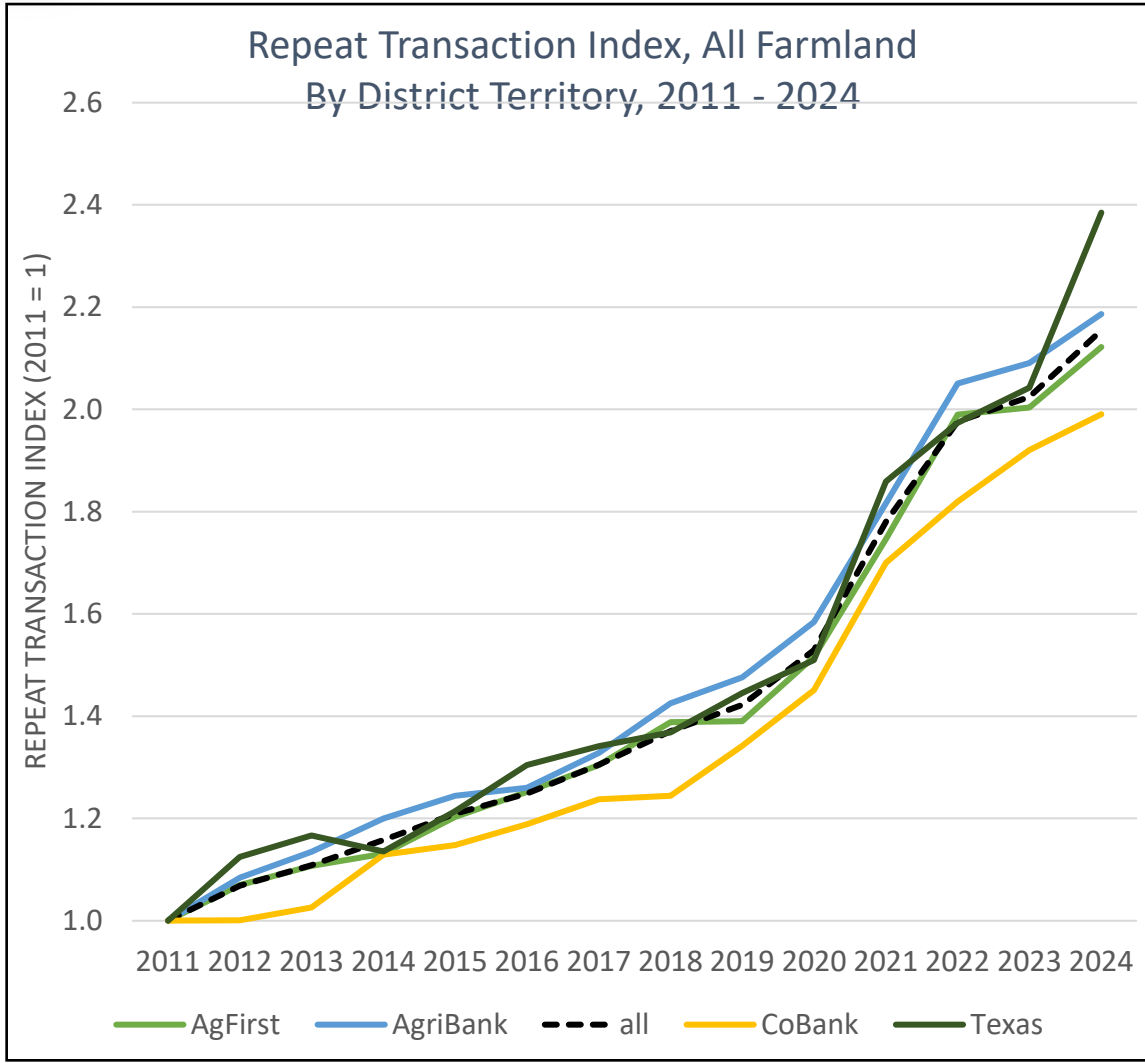
- 1% decline in milk herd during Q1
- 80 unique confirmed outbreaks

### Risks remain

- Confirmed cases in other livestock
- Containment introduces new expenses



# Select farmland markets show second year of little or no growth to start 2024



Source: CoreLogic Transaction Database, ODAE calculations



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# Questions?



# Farm Credit System Condition and Performance as of March 31, 2024

Lun Nguyen  
Supervisory Senior Examiner  
Office of Examination

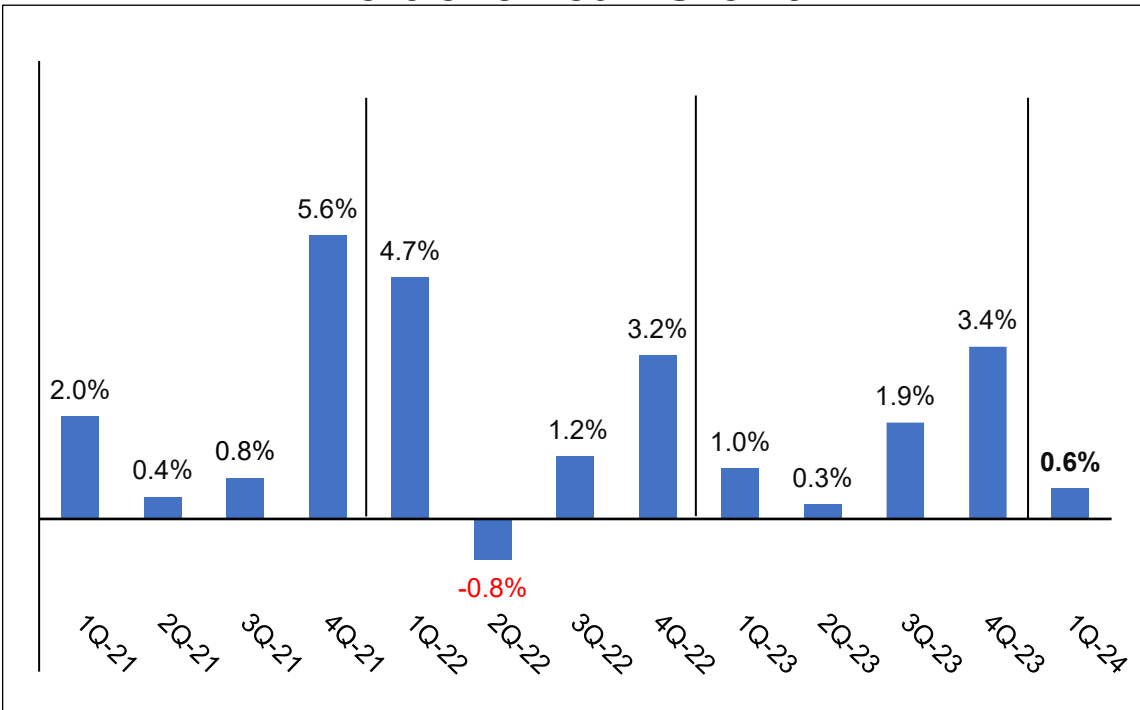




# System reports modest growth in the 1<sup>st</sup> quarter, seasonal factors drive financing needs

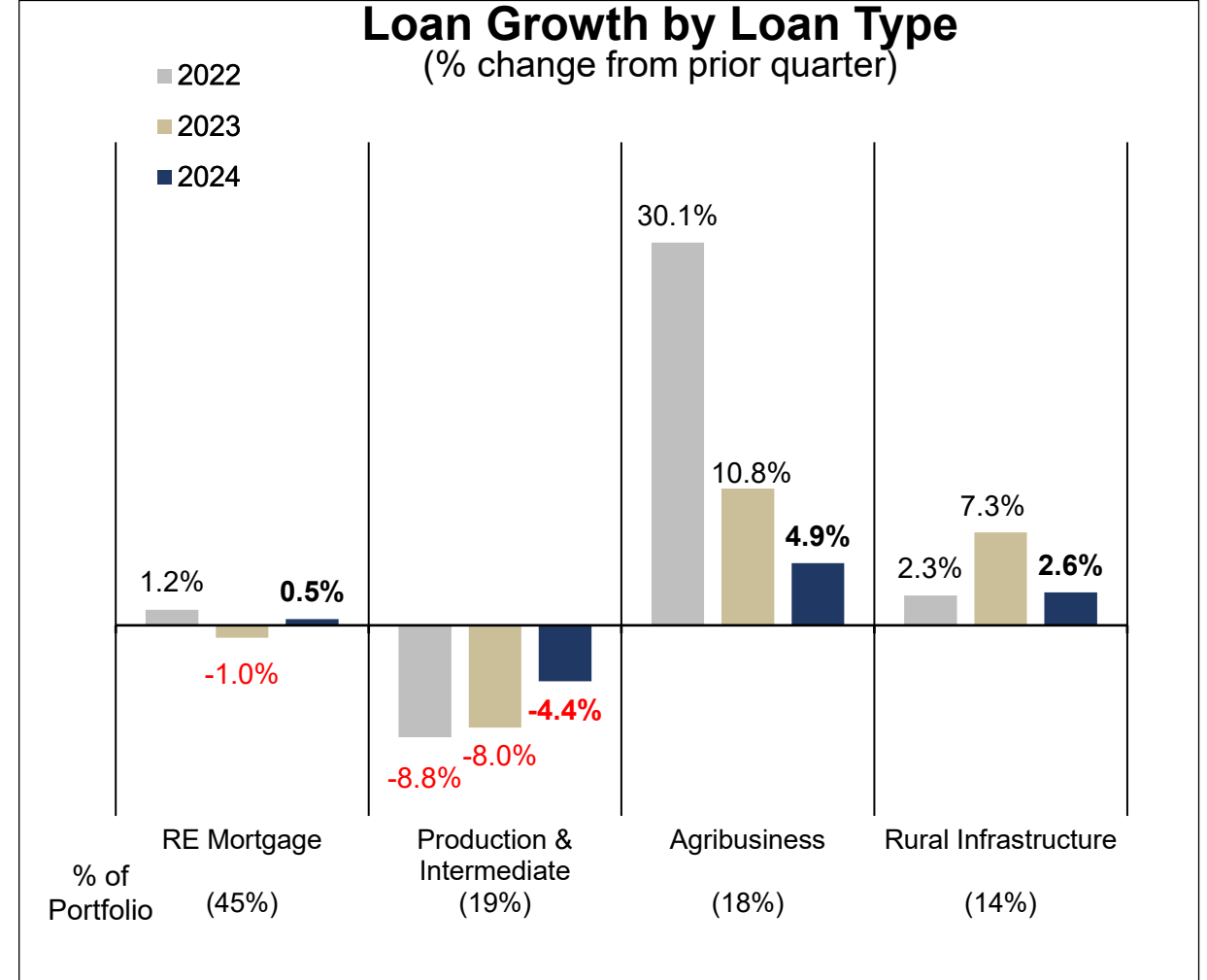
<b>Total Assets</b> 03/31/24	<b>\$504.5</b>	<b>-0.7% Qtr</b>	<b>Gross Loans</b> 03/31/24	<b>\$400.5</b>	<b>+0.6% Qtr</b>
	billion	<b>+4.1% 12M</b>		billion	<b>+6.2% 12M</b>

## Portfolio Loan Growth



## Loan Growth by Loan Type

(% change from prior quarter)



Source: Federal Farm Credit Banks Funding Corporation Information Statements

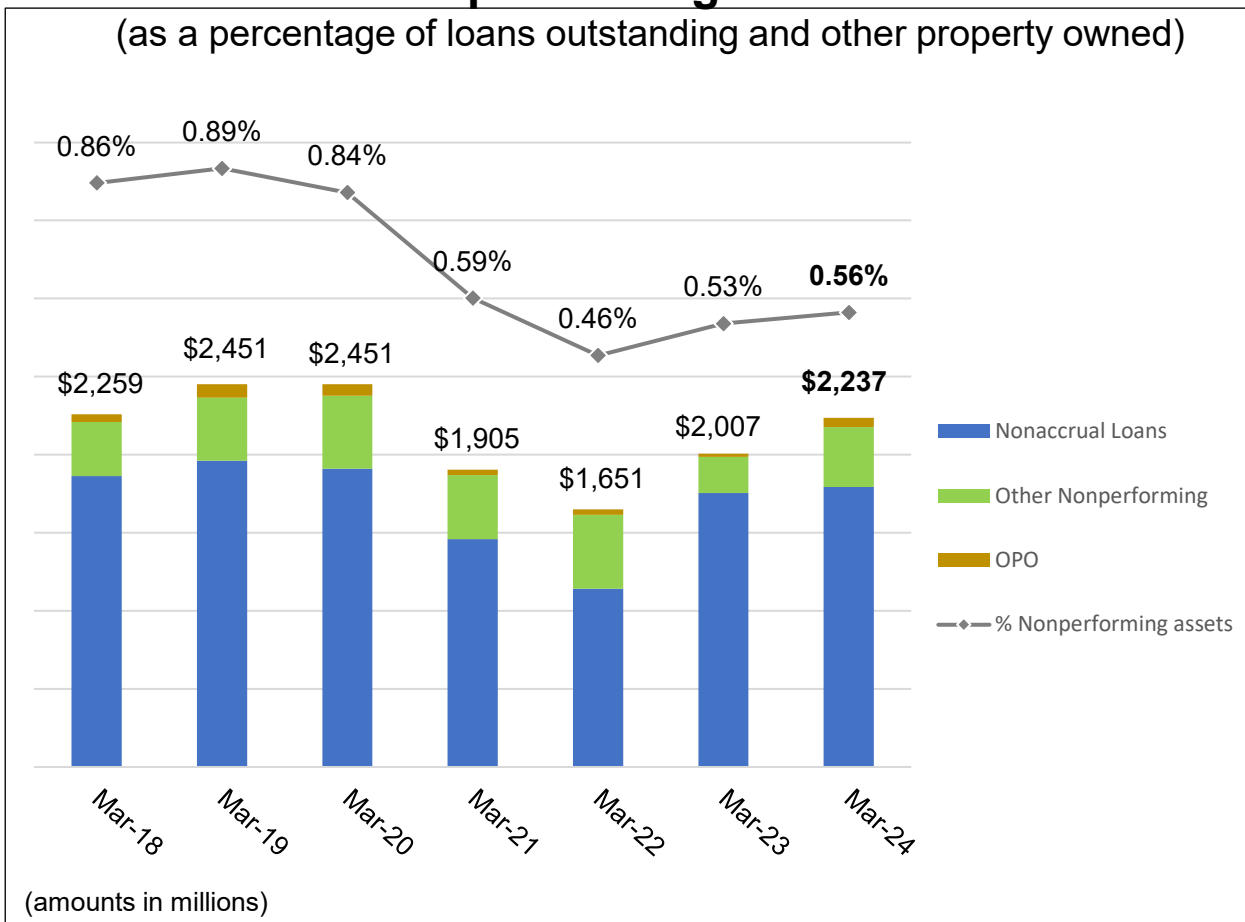




# Credit risk measures trend higher, but portfolio risk remains low

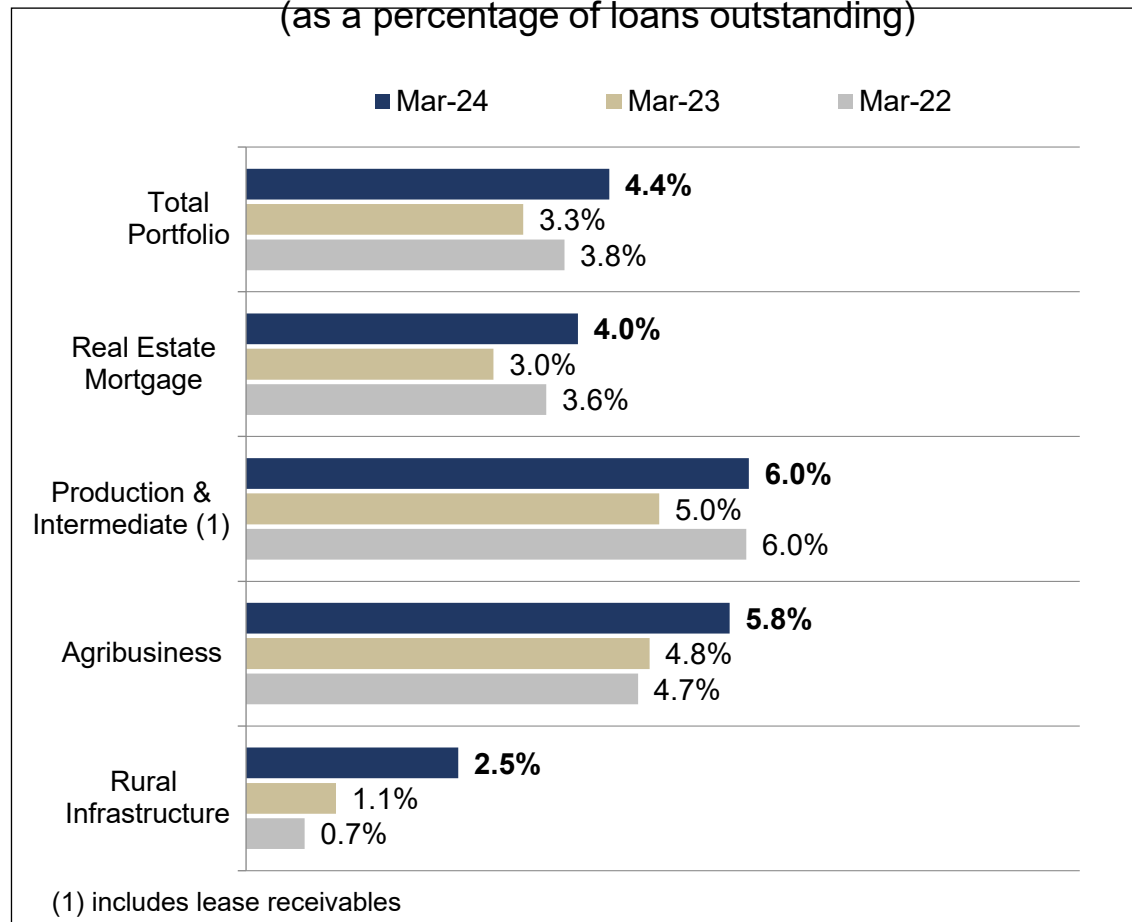
## Nonperforming Assets<sup>(1)</sup>

(as a percentage of loans outstanding and other property owned)



## Loans Classified Less than Acceptable

(as a percentage of loans outstanding)

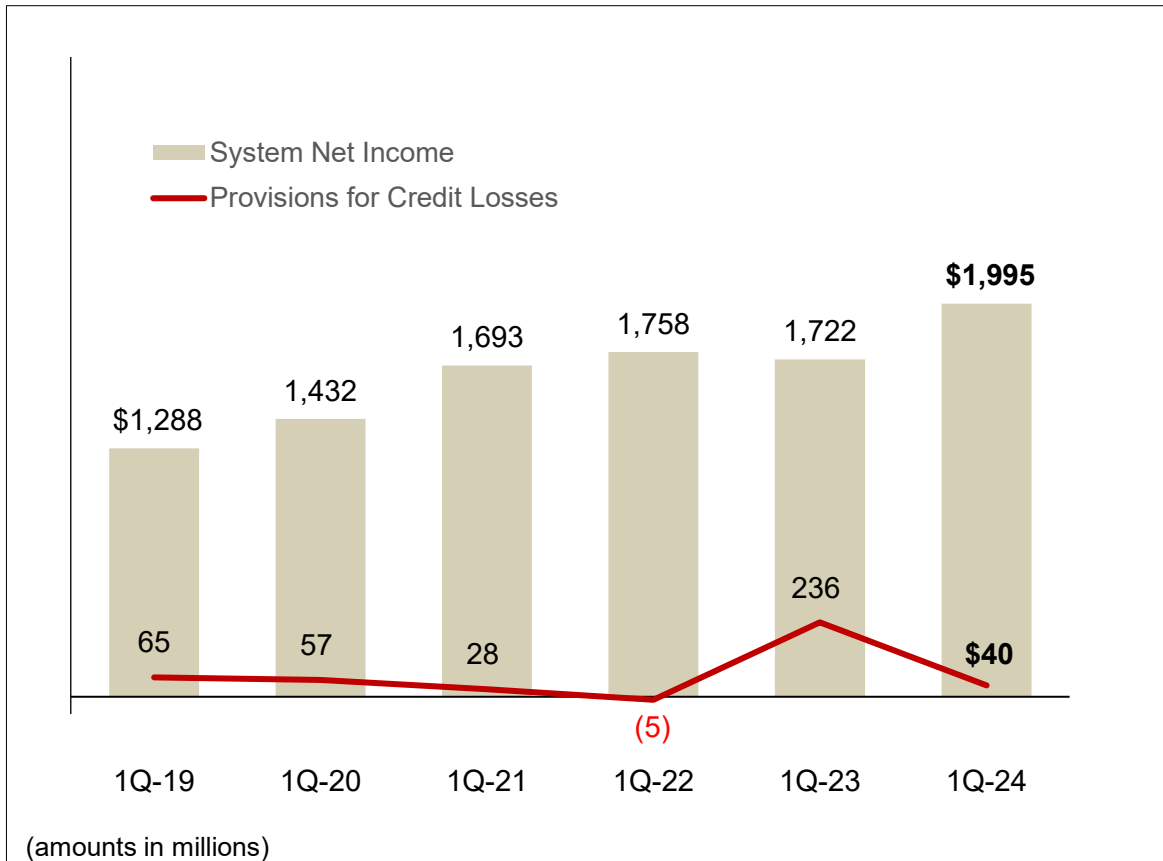


(1) Prior to the adoption of CECL on 1/1/23, nonperforming assets included accruing restructured loans

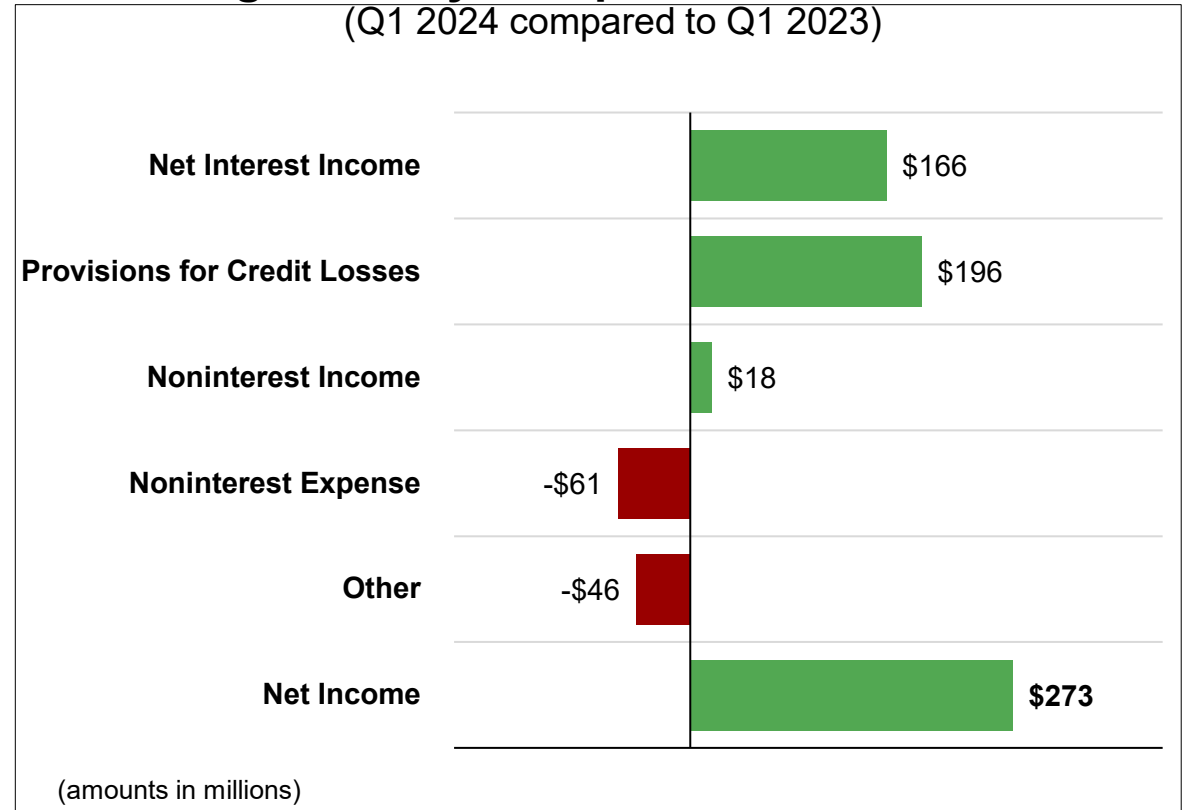


# Higher net interest income and lower allowance provisions drive 1<sup>st</sup> quarter earnings growth

**System Earnings**  
(for the quarter ended March 31)



**Changes in Key Components of Net Income**  
(Q1 2024 compared to Q1 2023)



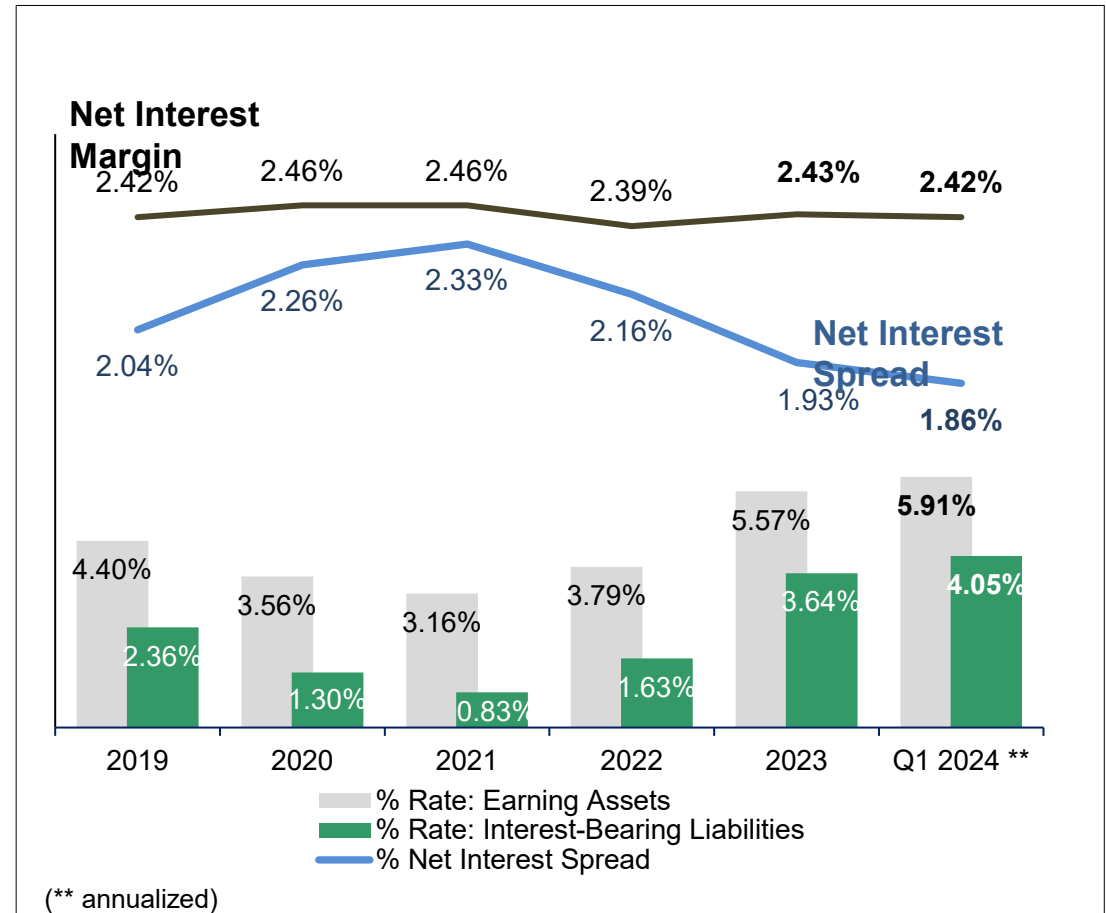
Source: Federal Farm Credit Banks Funding Corporation Information Statements



# Net interest spread declines on higher funding costs; net interest margin steady

- ▶ Net interest spread continued to compress, dropping 7 basis points primarily related to higher funding costs.
- ▶ Net interest margin remained stable, dropping 1 basis point from year-end 2023 as income earned on noninterest-bearing sources largely offset the decline in net interest spread.

## Earnings Measures



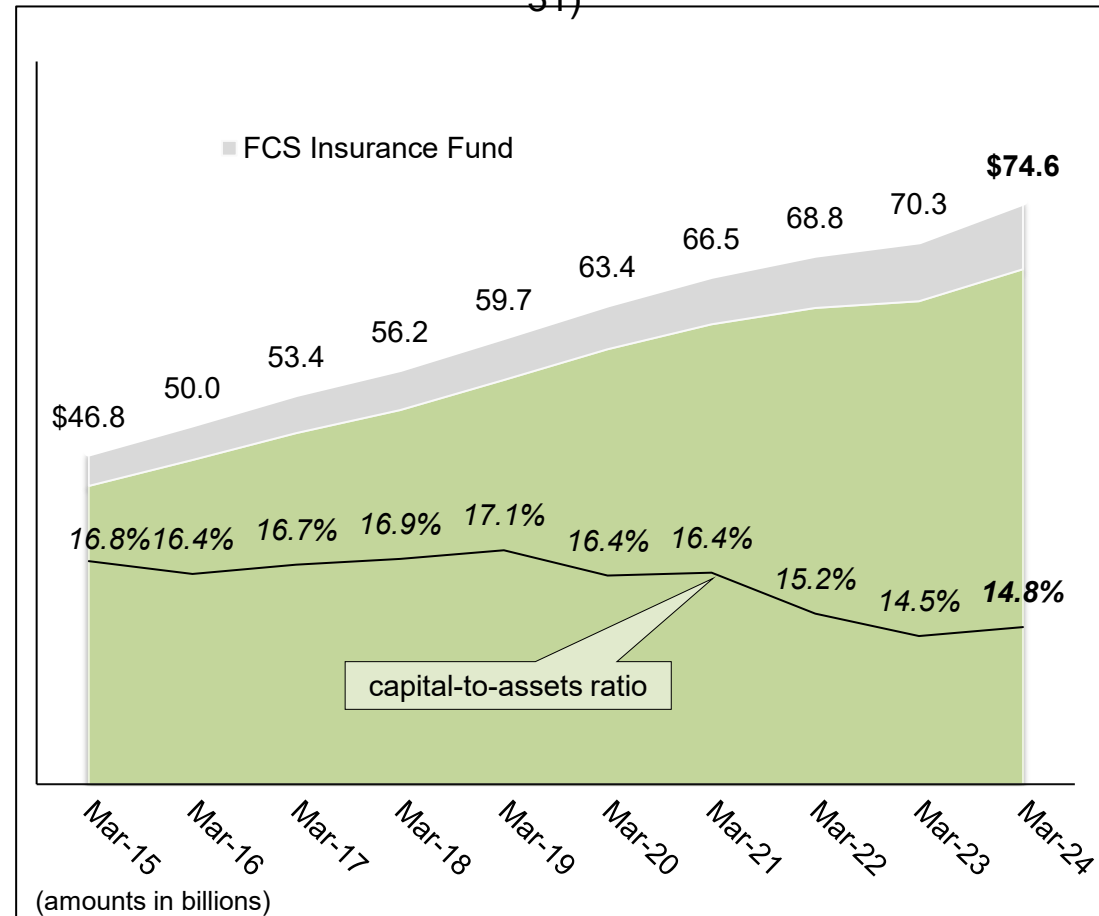


# Strong earnings support capital growth

## Capital<sup>(1)</sup> (as of March 31, 2024)

- ▶ Total capital increased \$4.3 billion or 6.1% year-over-year.
- ▶ The System's capital-to-assets ratio increased to 14.8% compared with 14.5% a year ago.
- ▶ Total regulatory capital ratios:
  - - Banks: 13.2% to 15.8%
  - - Associations: 11.9% to 35.3%
- ▶ Days of liquidity for the 4 funding banks ranged from 165 to 198 days.

## System Capital<sup>(1)</sup> (for the quarter ended March 31)



(1) Includes the Farm Credit System Insurance Fund.



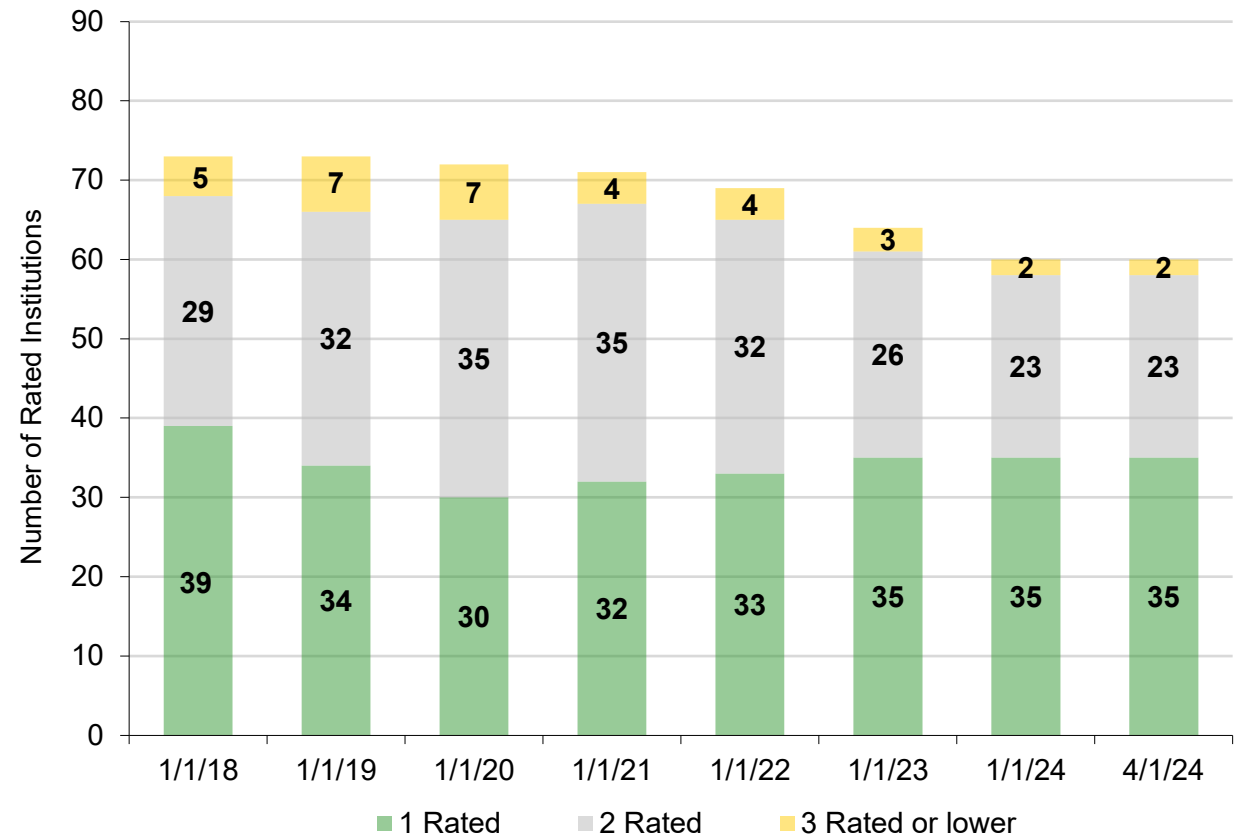
# Composite FIRS ratings remain steady

## Current FIRS Ratings

(based on 1<sup>st</sup> quarter 2024 financial reporting)

- ▶ Composite FIRS ratings reflect the System's sound financial condition.
- ▶ Over 96% of System banks and associations have a Composite FIRS rating of 1 or 2.
- ▶ Institutions rated 3 or lower hold less than 1% of System assets.

### Composite FIRS Ratings Farm Credit System Banks and Associations



Source: FCA's FIRS ratings database



# Risks we are monitoring

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Borrowers and System institutions are facing a more uncertain operating environment:

- ▶ Tighter margins and lower profitability for grain producers
- ▶ Declining liquidity and increased reliance on operating lines
- ▶ Potential impact of higher interest rates and lower profits on real property values
- ▶ Increased stress in certain agricultural segments (tree nuts, swine, poultry)
- ▶ Uncertain outlook for economic growth in the U.S. and abroad
- ▶ Increased global tensions, avian influenza, and weather