



# Quarterly Report on FCS Conditions

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# Topics for Open Session

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## Economic Conditions Affecting the Farm Credit System

- ▶ Macroeconomic conditions
- ▶ Crop and livestock prices
- ▶ Farm sector income

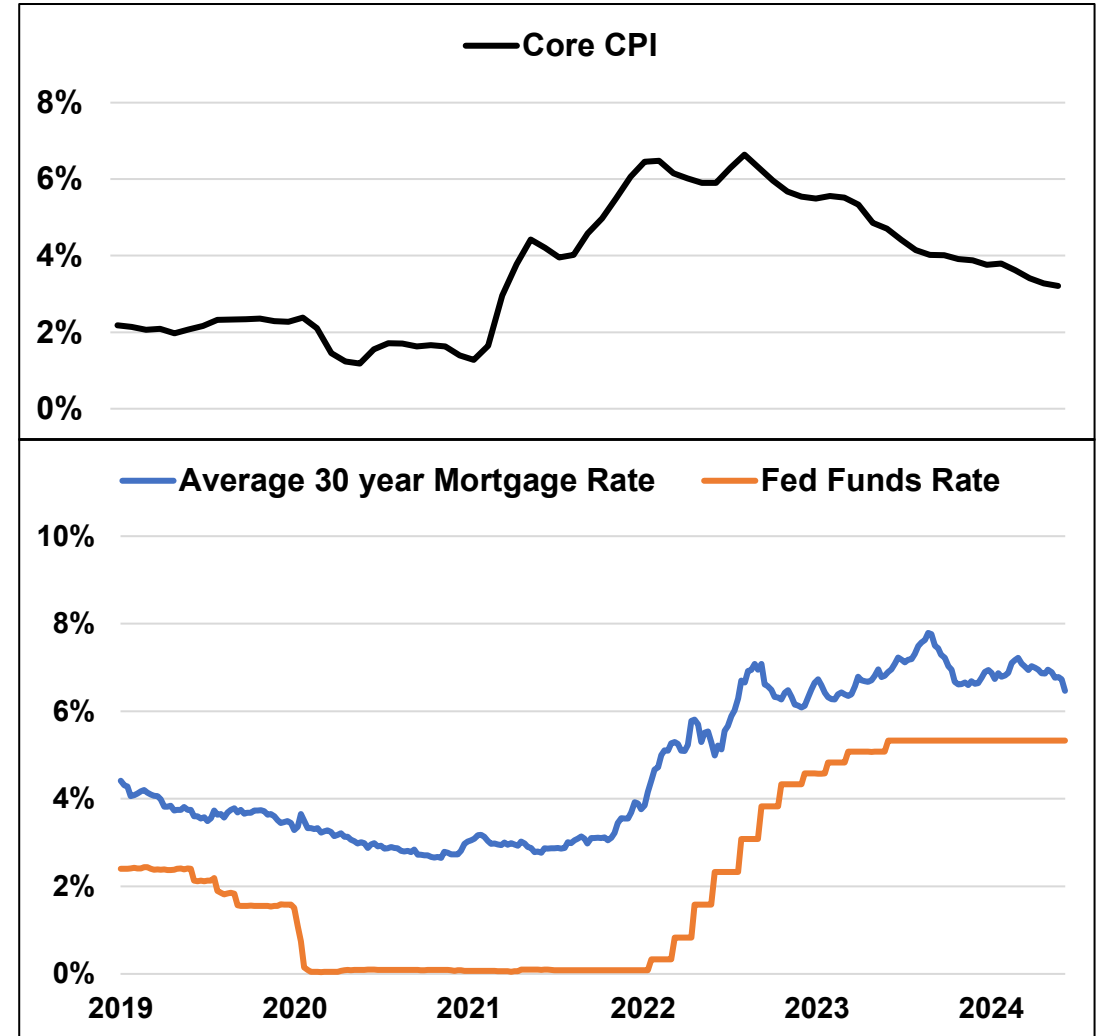
## Farm Credit System Condition and Performance

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



# Economic conditions favor interest rate cuts

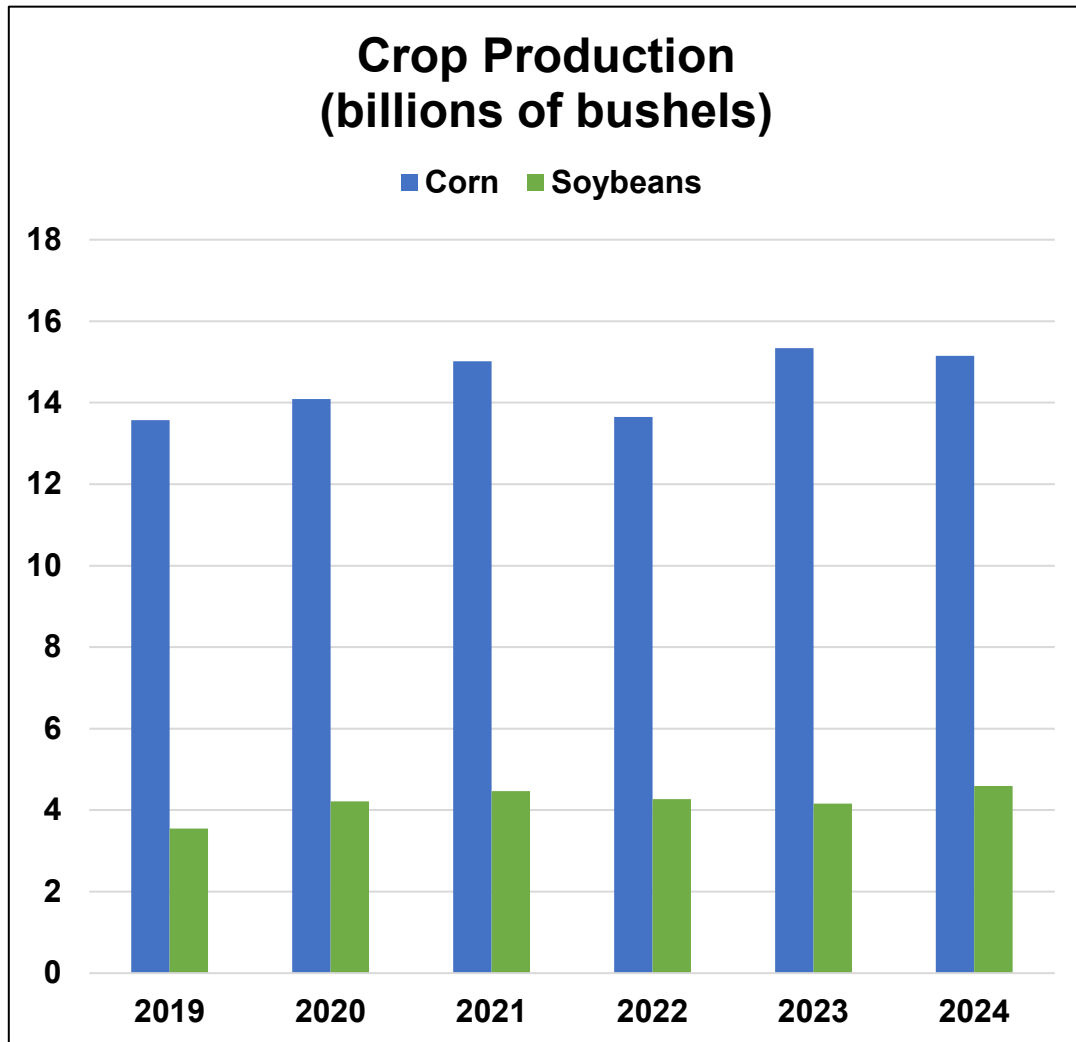
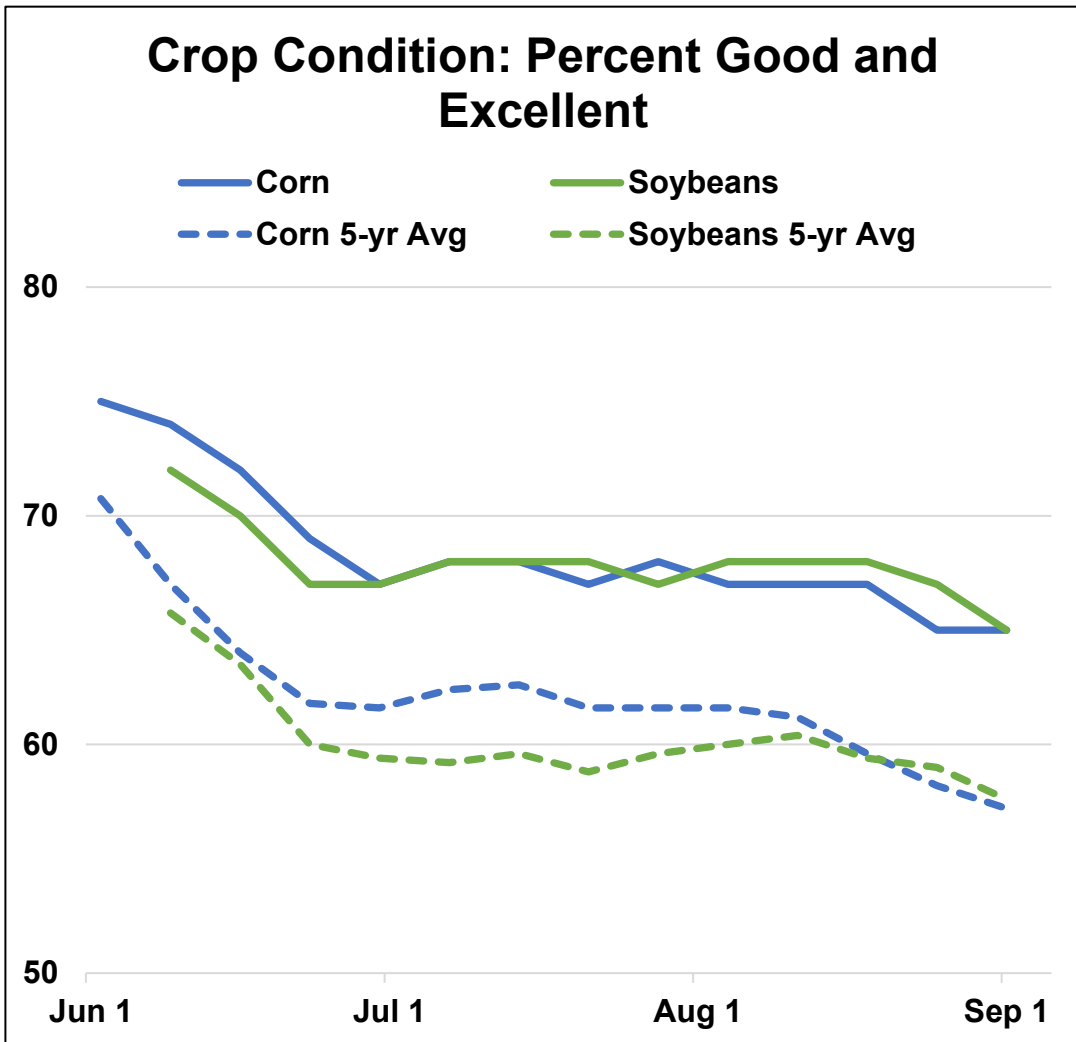
- ▶ CPI dropped under 3% in July for the first time since 2021.
- ▶ Interest rate cuts are expected to start in September.
- ▶ Long-term rates are moving lower.
- ▶ Job market remains relatively strong but shows signs of softening.



Sources: Bureau of Labor Statistics; Board of Governors of the Federal Reserve System; Freddie Mac



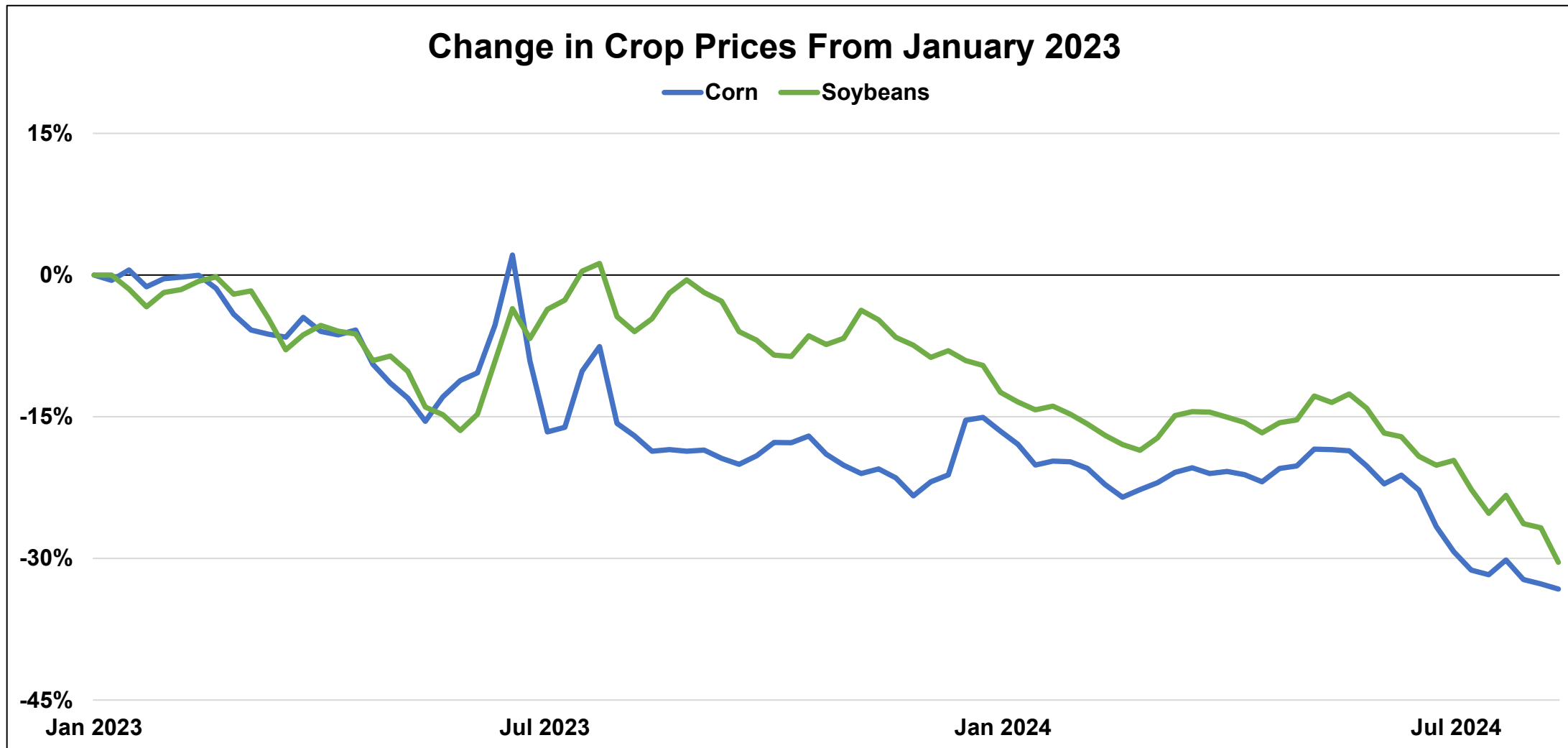
# Corn and soybeans conditions looking good



Source: USDA NASS



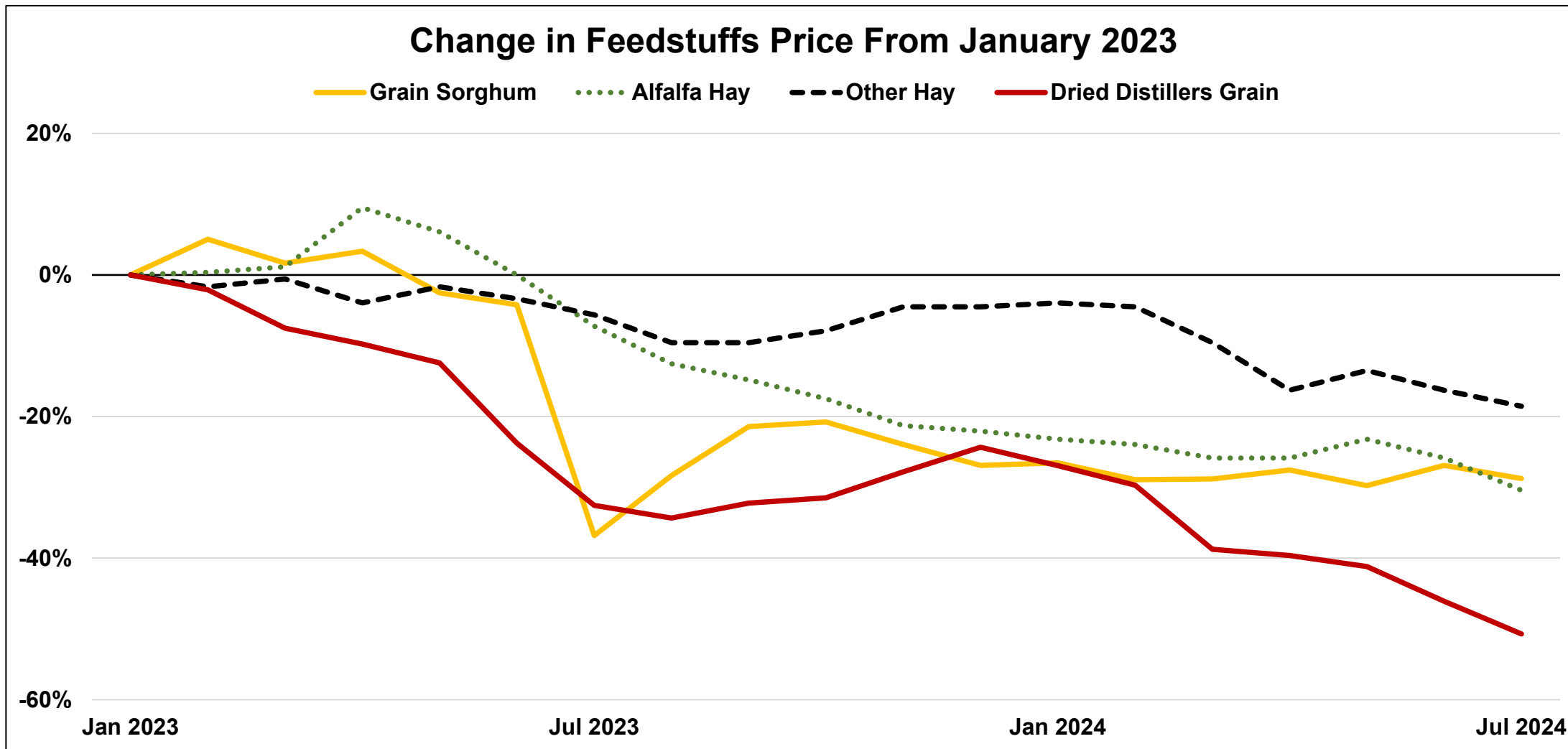
# Crop prices have declined sharply



Source: CME, nearby futures



# Feedstuff prices track lower

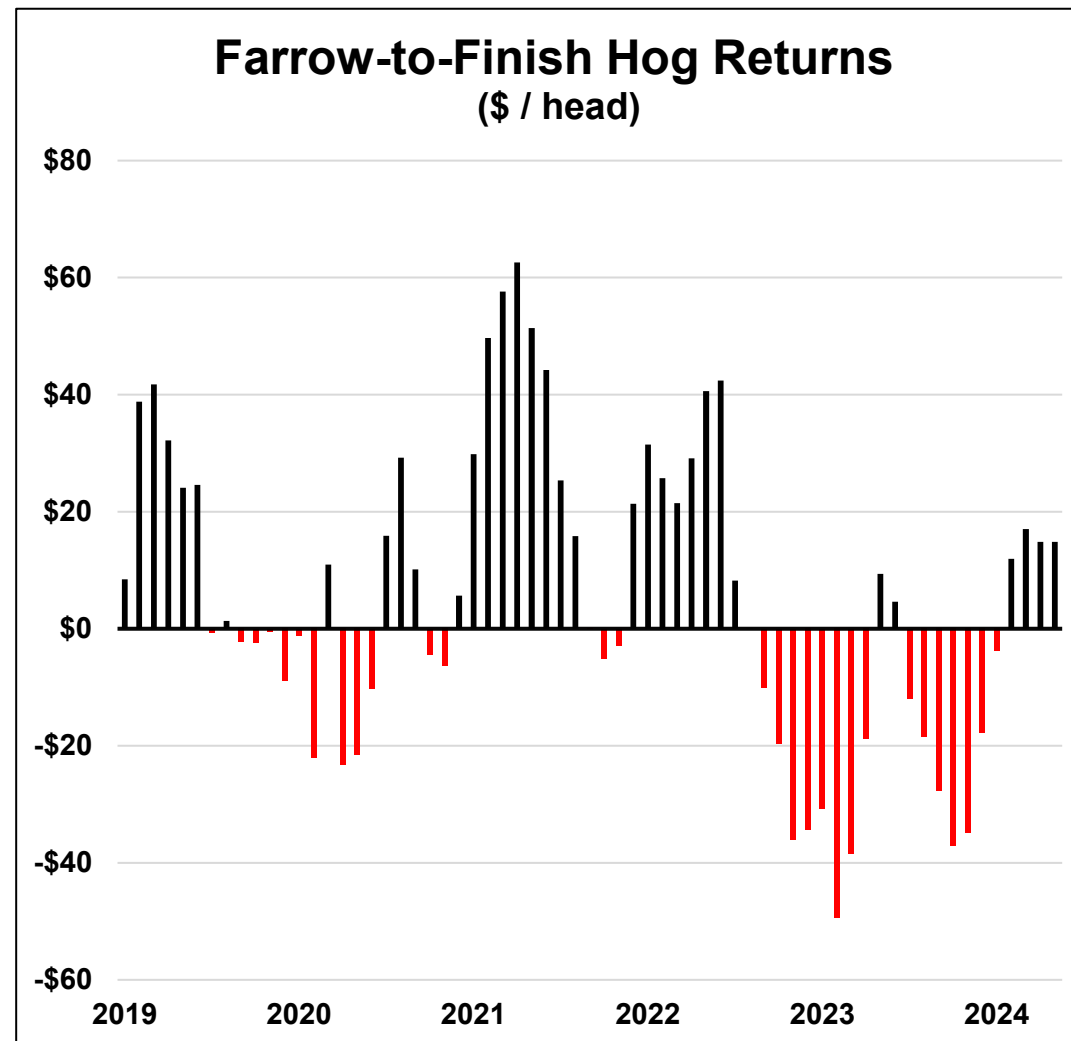


Source: USDA NASS



# Hog profits are back in black

- ▶ Hog margins were negative in late 2022 and 2023; producers reduced the breeding herd.
- ▶ Feeder pig prices are now above 5-year averages.
- ▶ Farrow-to-finish returns are back to positive, driven primarily by lower feed costs.



Source: Iowa State University



# Chicken and turkey markets diverge

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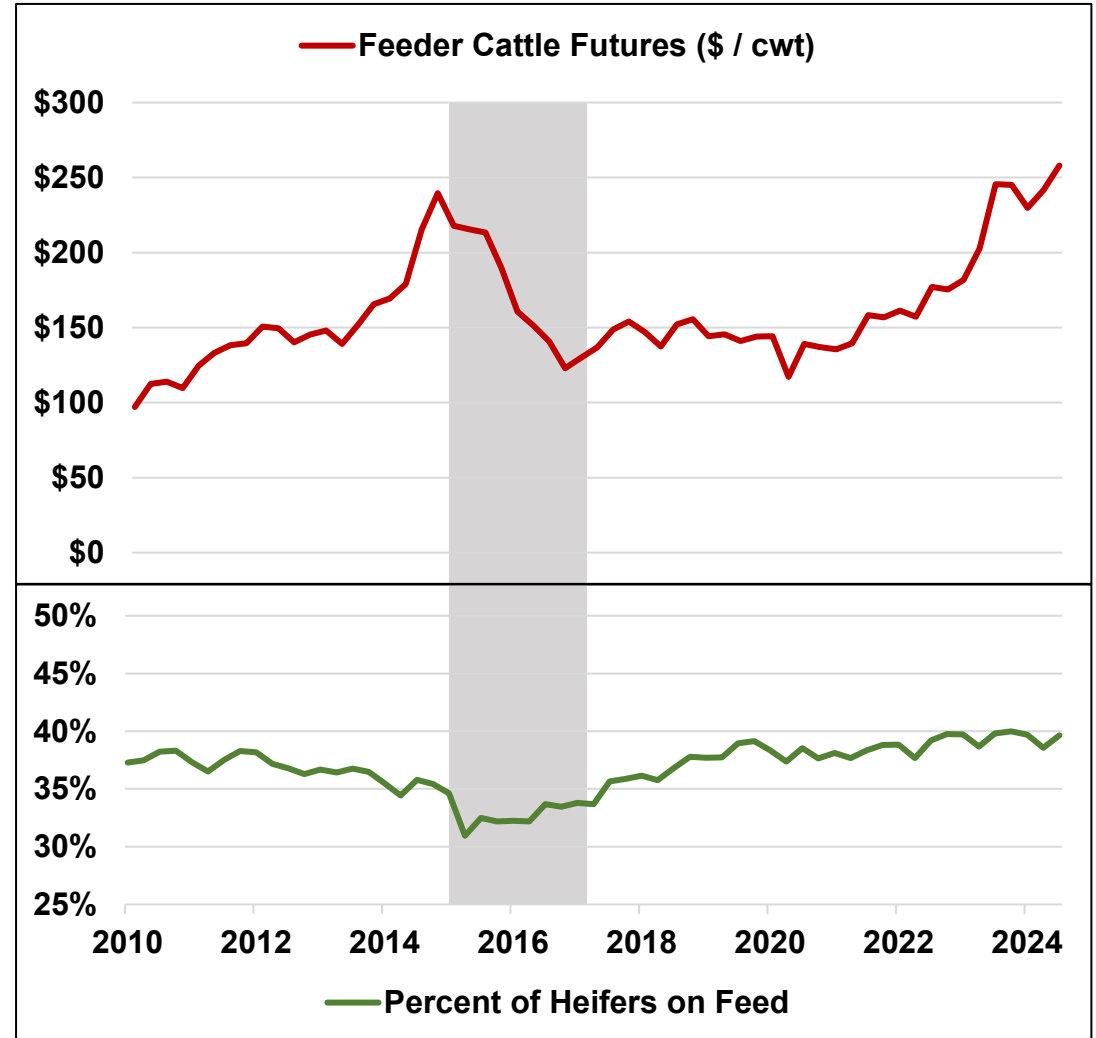
- ▶ Lower feed costs help poultry producers' profitability after flocks hampered by Highly Pathogenic Avian Influenza (HPAI).
- ▶ Chicken prices remain high while turkey is well below the 5-year average and below highs of 2023.
- ▶ Turkey poult placements are down from a year ago, driven by lower demand and higher-than-average frozen whole birds in storage.
- ▶ Chicken and turkey margins are expected to continue moving in opposite directions.





# Cow-calf producer margins remain high

- ▶ Record high prices continued through the summer.
- ▶ The high level of heifers on feed indicate herd rebuilding is not happening despite improvements in range conditions.
- ▶ In 2015, a declining share of heifers on feed led to rapid herd rebuilding and a subsequent decline in prices.
- ▶ Producers may be hesitant to rebuild their herds until interest costs decline or concerns of a recession dissipate.



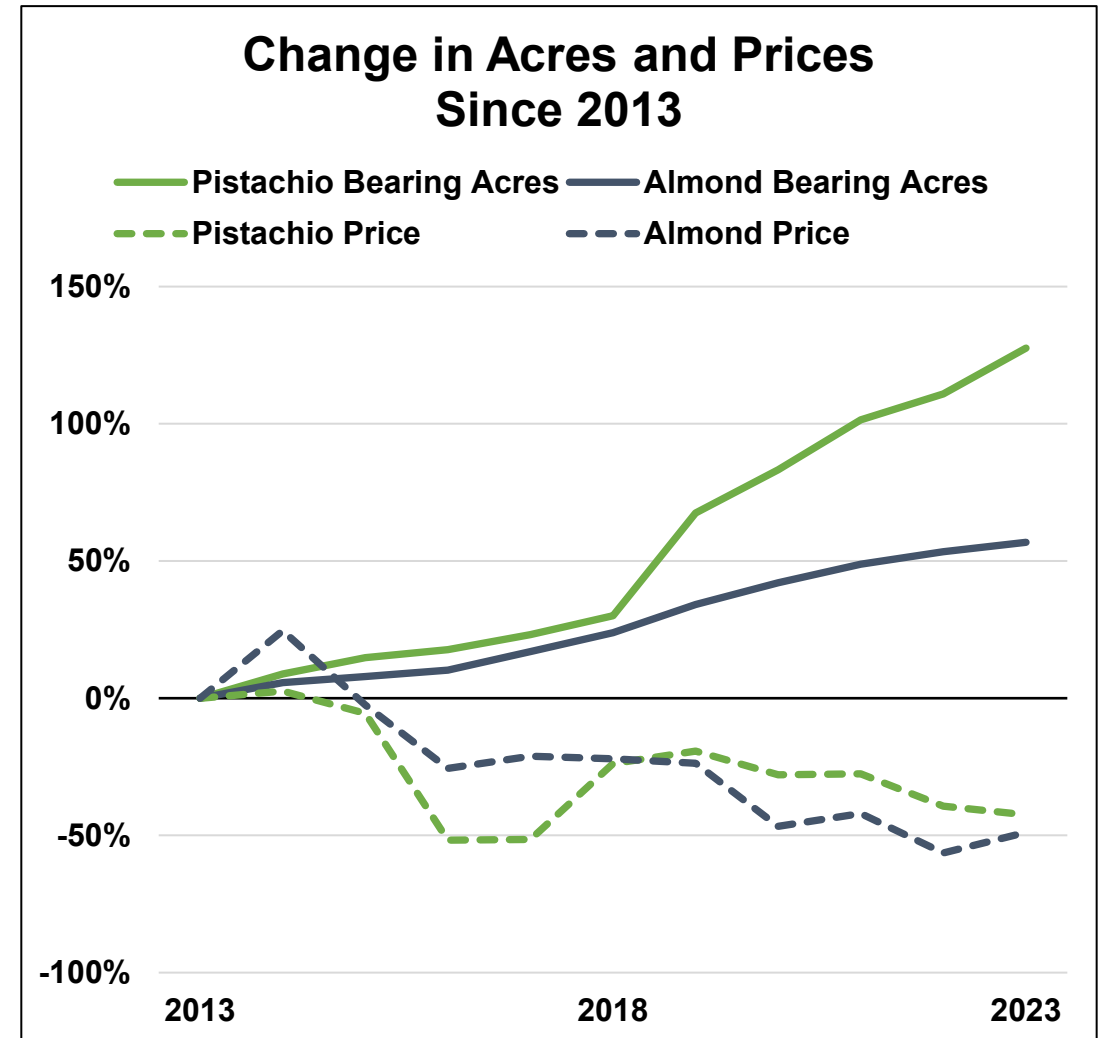
Sources: USDA NASS; Livestock Marketing Information Center

\*Shaded gray area represents last cattle cycle expansion



# Tree nut prices remain under pressure

- ▶ Plantings of tree nuts increased considerably following high prices in 2013 and 2014.
- ▶ Since then, bearing acreage has increased and prices have declined sharply.
- ▶ For almonds, weather and tough growing conditions have limited production in recent years despite higher bearing acres.



Sources: USDA NASS; The Almond Board of California



# Questions

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# Farm Credit System Condition and Performance as of June 30, 2024

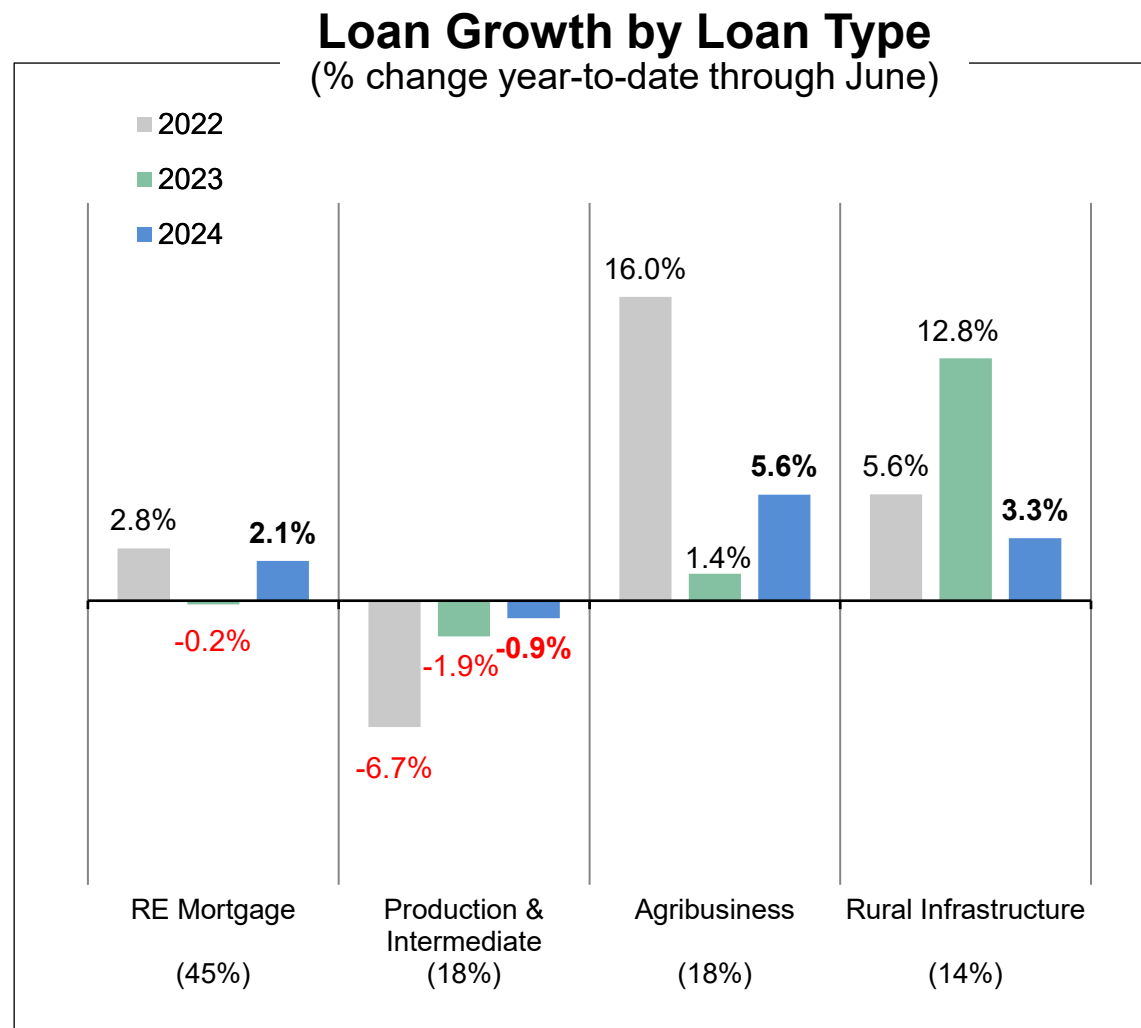
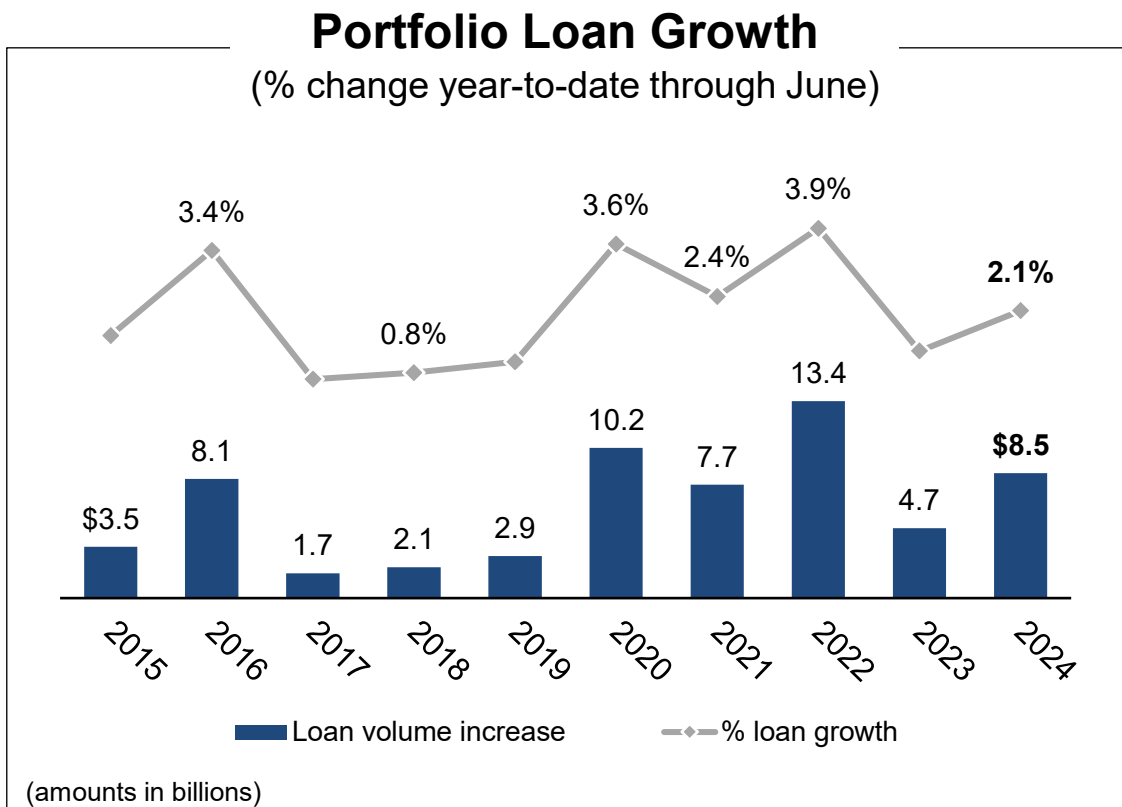
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Office of Examination





# System reports modest portfolio growth in the first half of 2024

<b>Total Assets</b> 06/30/24	<b>\$514.1</b> billion	+1.9%	Qtr	<b>Gross Loans</b> 6/30/24	<b>\$406.7</b> billion	1.5%	Qtr
		+1.2%	YTD			+2.1%	YTD
		+6.1%	12M			+7.6%	12M

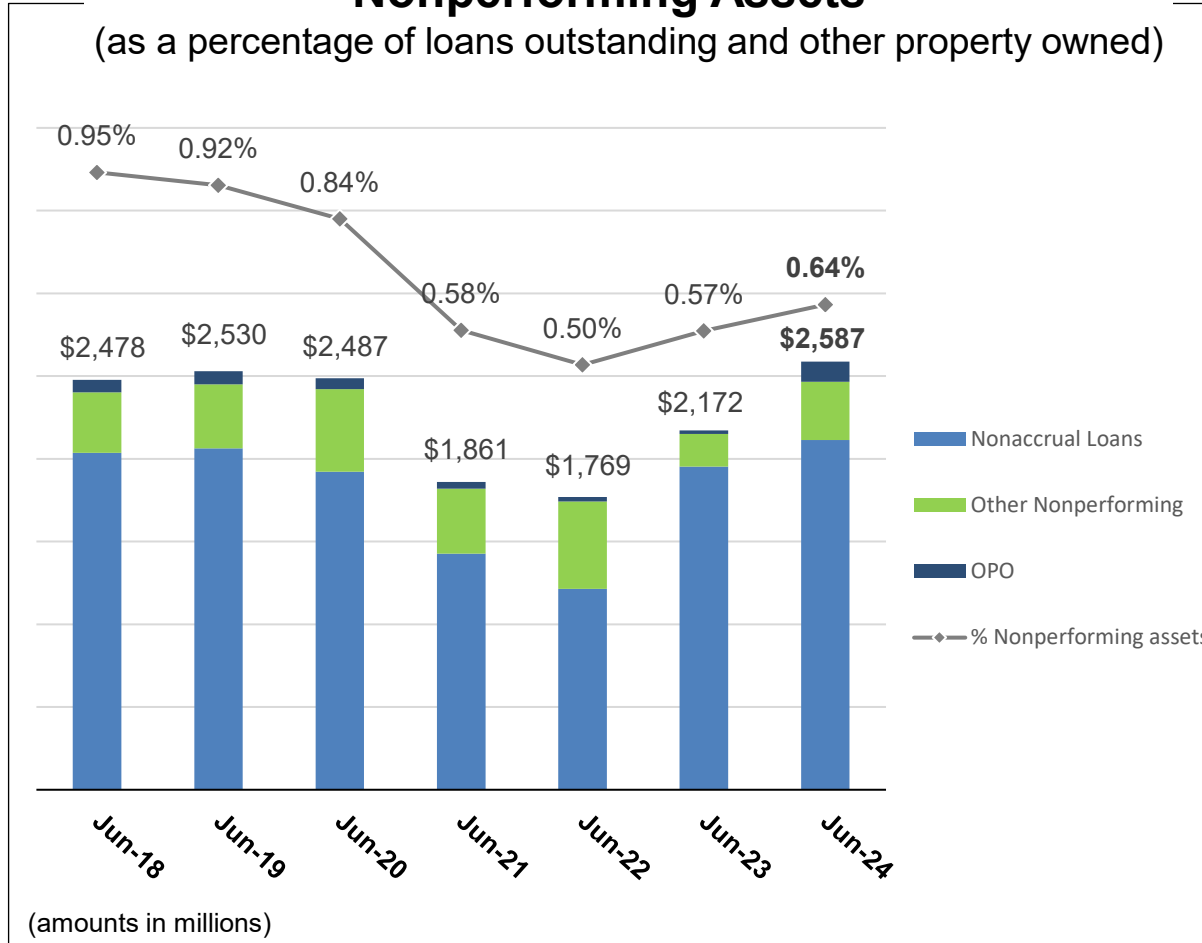




# Credit risk measures trend higher; overall portfolio loan quality remains favorable

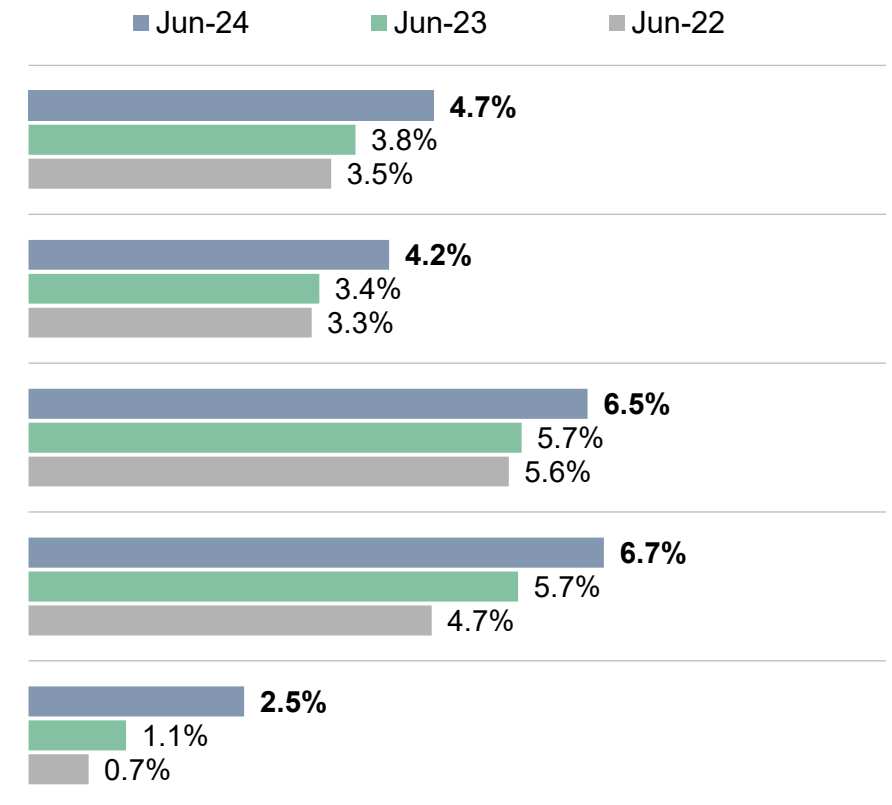
## Nonperforming Assets<sup>(1)</sup>

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



## Loans Classified Less than Acceptable

(as a percentage of loans outstanding)



(1) includes lease receivables

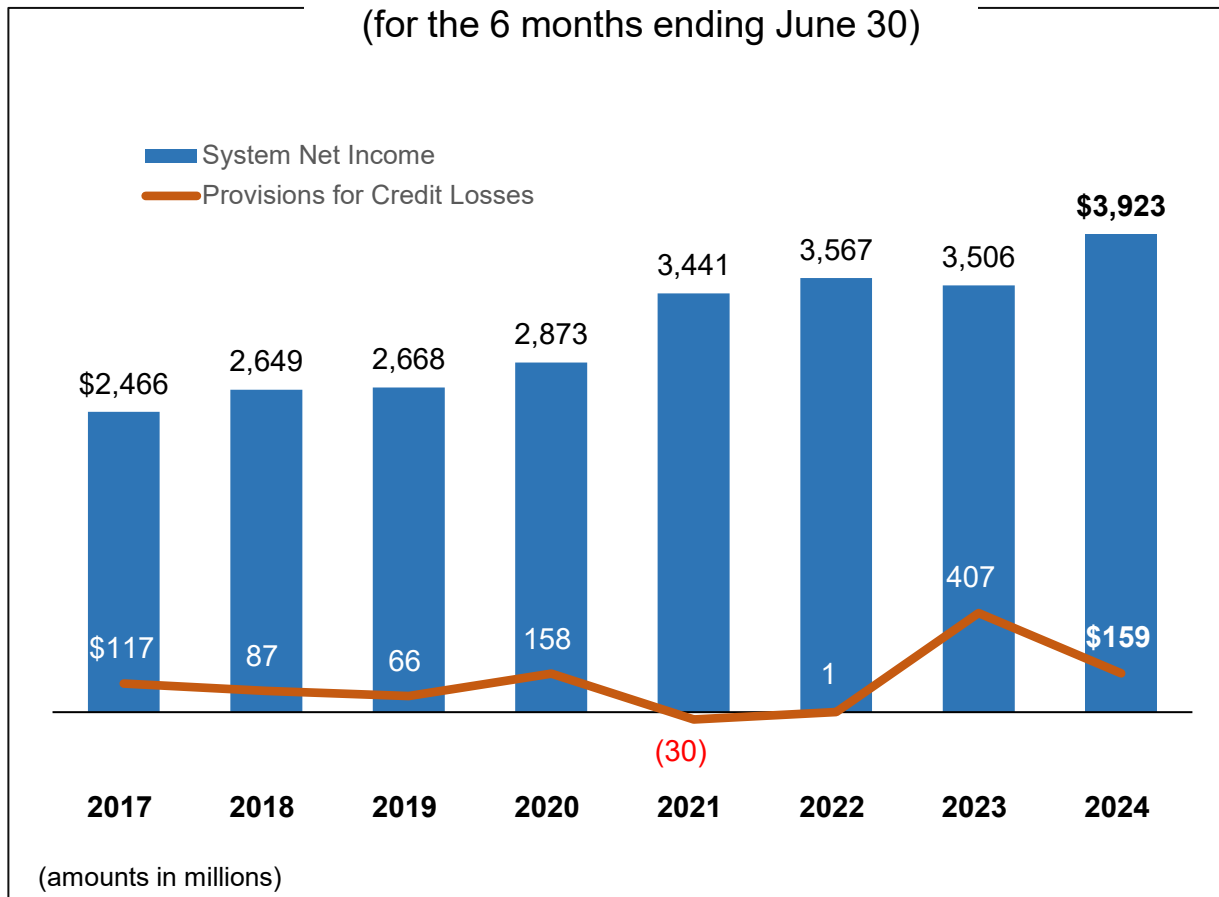
(1) Prior to the adoption of CECL on 1/1/23, nonperforming assets included accruing restructured loans

Source: Federal Farm Credit Banks Funding Corporation Information Statements

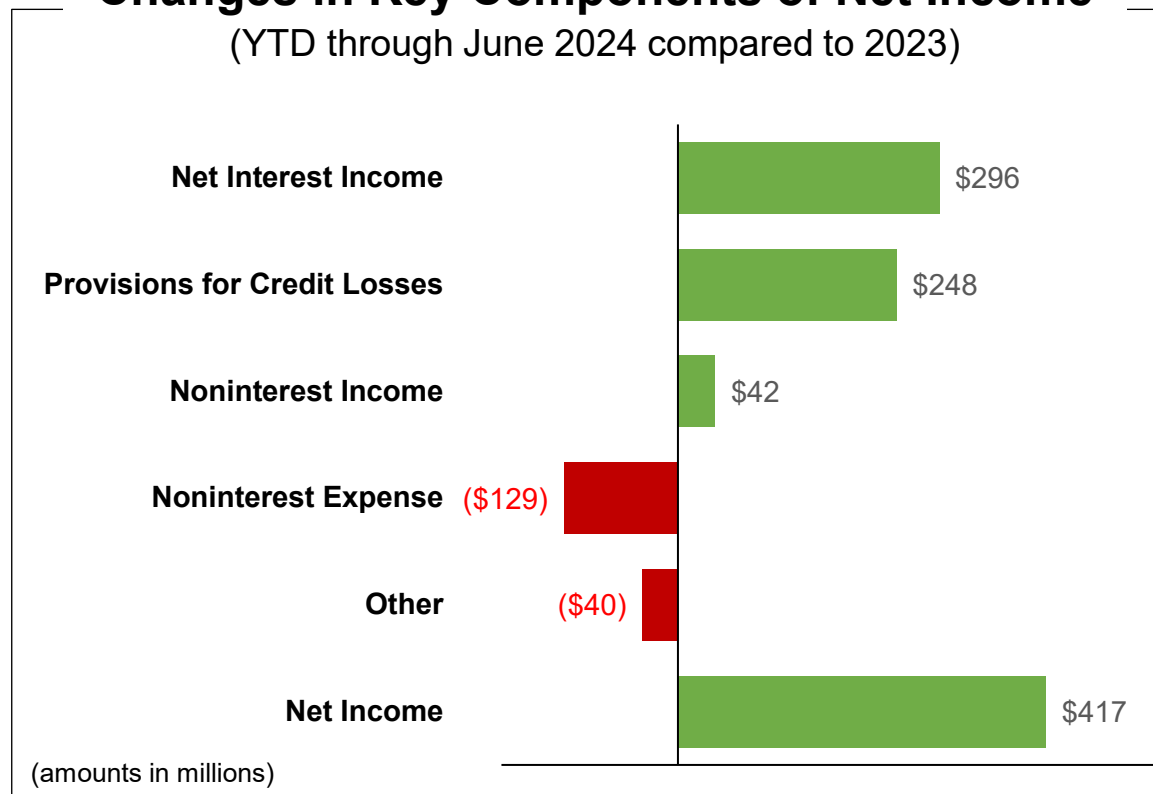


# Higher net interest income and lower allowance provisions drive year-to-date earnings growth

**System Earnings**  
(for the 6 months ending June 30)



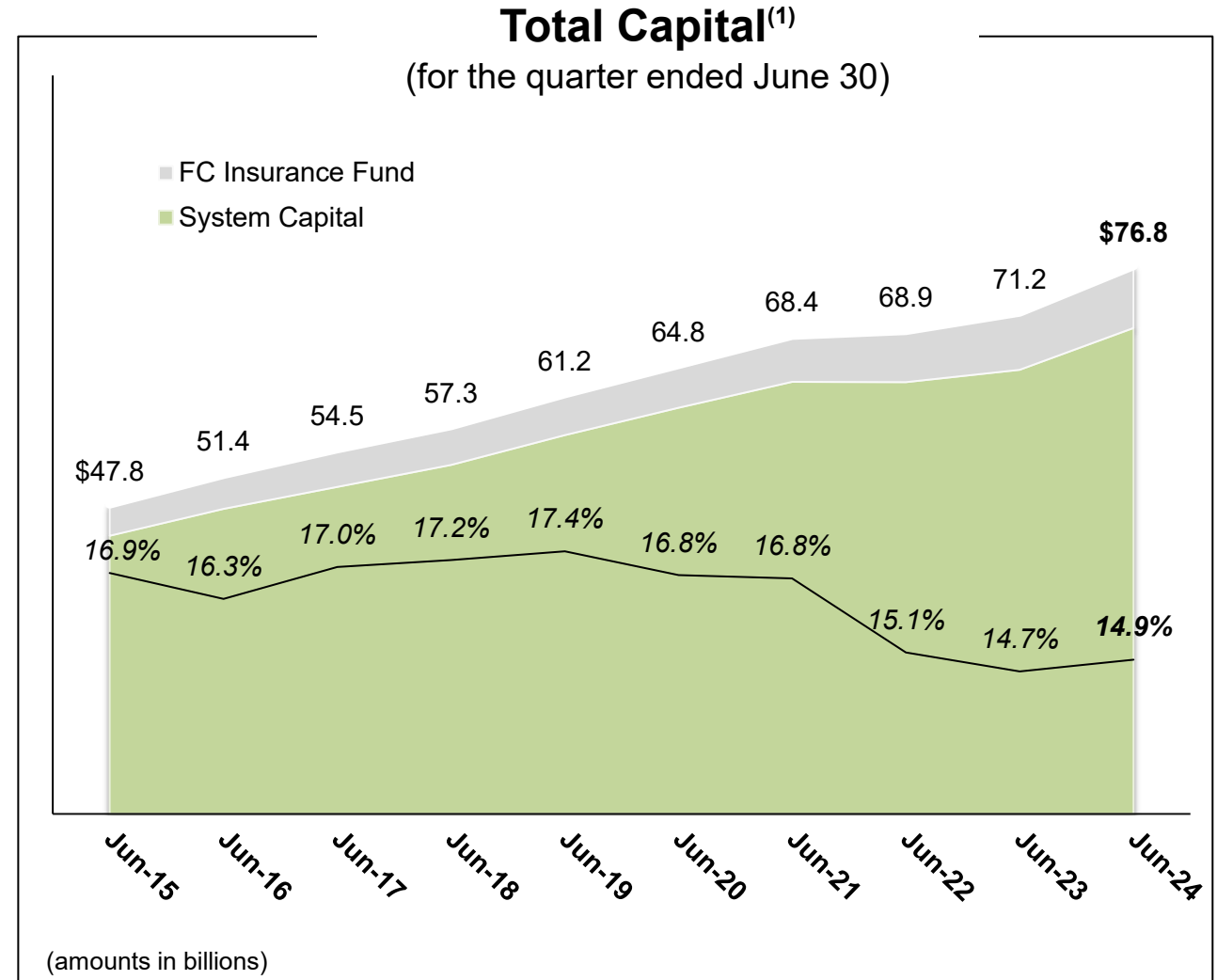
**Changes in Key Components of Net Income**  
(YTD through June 2024 compared to 2023)





# Strong earnings support continued capital growth; banks maintain robust liquidity positions

- ▶ Total capital increased \$5.7 billion or 8.0% year-over-year.
- ▶ The System's capital-to-assets ratio increased to 14.9% compared with 14.7% a year ago.
- ▶ Total regulatory capital ratios:
  - Banks: 14.2% to 16.0%
  - Associations: 12.1% to 35.7%
- ▶ Days of liquidity for the 4 funding banks ranged from 157 to 213 days.
- ▶ Capital and the allowance for loan credit losses equaled 19.3% of loans outstanding as of June 30, unchanged from a year ago.



(1) Includes the Farm Credit Insurance Fund.





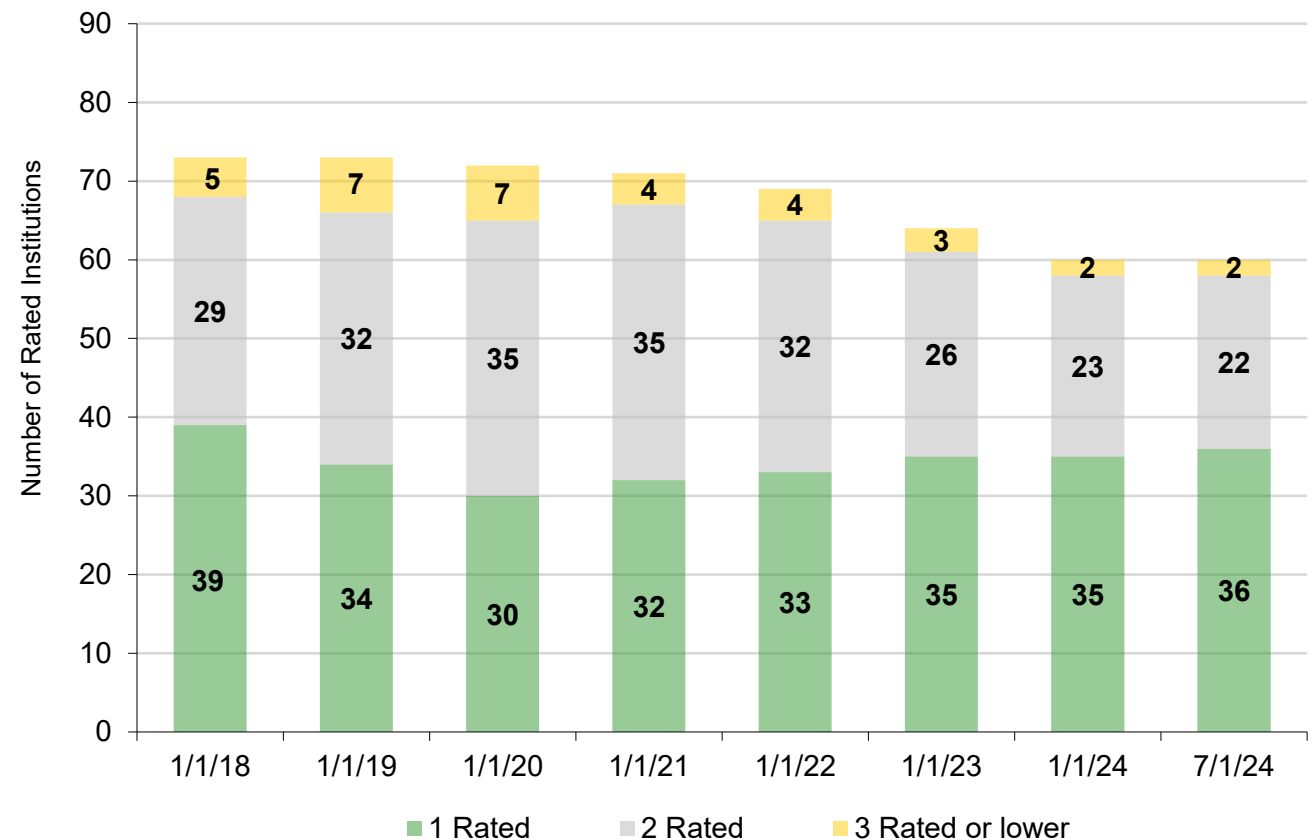
# Composite FIRS ratings remain steady

## Current FIRS Ratings

(based financial reporting through 6/30/24)

- ▶ 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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- ▶ Anticipate a more difficult operating environment for both borrowers and System institutions
- ▶ Effects of a sharp decline in 2024 net farm income combined with existing stress in certain agricultural segments (tree nuts, dairy, swine)
- ▶ Stress on grain producers with sharply lower prices and elevated production costs pushing margins to breakeven or below
- ▶ Declining liquidity resulting in greater reliance on operating lines
- ▶ Impact of elevated interest rates and lower farm income on farmland values
- ▶ Uncertain outlook for economic growth in 2025 along with global tensions, avian influenza, and potential farm program changes