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CHARTING THE COURSE: AGRICULTURAL LENDING IN 2026

In charting the course for 2026, recent conversations with agricultural lenders, risk management professionals, and, of course, agricultural producers frame the discussion. This article examines the most pressing concerns, challenges, and opportunities across agriculture.

FARM EQUITY

The current downturn in the agriculture industry is uneven. Grain, row crops, and some specialty crops face pressures on profits, cash flow and liquidity. Producers and lenders report declines in the value of grain inventories, machinery, and equipment, with little erosion in farmland or core infrastructure values. However, in some regions, tight land supply relative to demand has produced paper gains in asset values.

When comparing large operations with small and midsize ones, liquidity differences become clear. Larger row crop and specialty crop producers operating on rented or leased ground, particularly those with average or below-average business and financial acumen, are struggling. I estimate approximately 40% of row-crop producers in the Upper Midwest and 70% in the southern states are requesting loan restructurings. Many of these loans were made by non-traditional lenders, which now supply nearly one-third of operating capital. Lenders that refinance this group through 15- to 20-year restructures should require a written plan to help return the business to breakeven. Without such a plan, refinancing runs the risk of compounding mismanagement, creating losses for both borrower and lender over time.

Across all size segments, well-managed operations with diversified sources of revenue, both farm and nonfarm, demonstrate the greatest resilience and agility. When evaluating farm operations, it's important to weigh operational scale alongside revenue diversification and proactive management practices. In many cases, diversification and strong management matter more than size.

RISK MANAGEMENT

A major trend among proactive, progressive producers is that they are participating in risk management programs. Recently, an assessment conducted by the Executive Program for Agricultural Producers (TEPAP) found that more than 90% of participating producers use crop or livestock risk management programs at some level. Approximately two-thirds of those who completed the management assessment use hedging, options, or other tools to mitigate risk and respond to market volatility. For lenders, the first step is confirming that a risk management plan exists; the next is determining whether your borrowers consistently execute and monitor it throughout the year.

Are rising interest rates impacting borrower behavior? Yes and no. In some instances, there is borrower rate shock when resets are at double the interest rate that was negotiated during the COVID low-interest rate period.

In other cases, higher interest rates on operating lines of credit are influencing production costs, tightening break evens, and compressing margins in the row-crop and specialty-crop segments. Livestock operations, particularly beef producers enjoying record profits, remain cautious about purchasing capital assets at higher interest rates. While some continue to rapidly expand, others are pausing to see whether interest rates decline in 2026.

CREDITWORTHINESS

“Trust but verify” applies to both determining creditworthiness and monitoring individual credits. The practice of relying on quick credit risk scores, minimal supervision, and transactional deals with annual payments is becoming riskier. First, credit quality can quickly deteriorate over the course of a year. Second, non-financial factors such as fraud, divorce, or dysfunctional management often compound credit quality deterioration. Combined with inexperienced lending staff, management teams, and in some cases regulators, this is a disaster waiting to happen.

Careful attention to inspection schedules that validate the financials, while time-consuming, often prevents loan losses and reduces the time and expense of account recovery. Monitoring credit card balances, accounts payable, and loans from friends, relatives, and investors requires active due diligence. The status of line-of-credit balances and uses should be monitored closely.

Observing worrisome personal attributes like a lack of communication or withdrawing from public or family interaction could be warning signs of a mental health issue or signal financial distress. Monitoring the payments of insurance, real estate taxes, or wages to employees requires deeper forensic action than just checking a credit score.

Conversely, in the profitable segments, specifically beef, be careful of rapid growth and complacency in financial reporting and business management practices. Often, the worst financial mistakes are made in the profitable part of the economic cycle. Lenders must ensure that balanced growth, working capital management, and tax management programs are being executed. Tax management and an aggressive growth plan can crowd out efforts to build working capital reserves for the next downturn.

LENDERS THAT ARE AHEAD OF THE CURVE

An assessment of the characteristics of lenders that lead in agricultural finance reveals several common traits.

First is a commitment to education for both the organization and the customer. Both employees and borrowers must be informed and engaged through direct interaction, particularly as artificial intelligence (AI) tools expand. Low attendance or frequent no-shows often signal purely transactional relationships. Lending institutions should reinforce expectations with all internal team members around proactive relationship-based client engagement. The COVID-era of disconnection created lingering pressure and resistance to interaction, particularly among younger demographics. That challenge also creates opportunity. As the political saying goes, do not let a crisis go to waste. Now is the perfect time to “edu-market,” integrating education with marketing and building a stronger portfolio by developing informed, resilient customers.

Economic volatility is creating emotional volatility when objectivity is needed. This dynamic can distort both lending and borrowing decisions. A renewed focus on the basics and the fundamentals of credit and engagement at all levels can better position both lenders and borrowers for long-term stability in business and life.



LENDER AND BUSINESS DASHBOARD ECONOMIC INDICATOR ASSESSMENT

GLOBAL ECONOMY

The global economy will, to some extent, hold the fate of the U.S. agriculture industry in 2026. Tariffs affecting imports, specifically from Canada and Morocco, will directly influence fertilizer costs for those reliant on commercial inputs. Canada is a major supplier of potash. Morocco is one of the world's largest exporters of phosphate, shipping significant volumes to Brazil and India, with the United States representing an important secondary destination.

If trade flows shift, more supply could be redirected to other nations, potentially increasing fertilizer costs for major U.S. crops.

It will also be important to monitor the major economic and political changes occurring in Japan. The new prime minister, who gained a supermajority in parliament and enjoys strong public approval, will need to be closely observed as she pursues a pro-growth economic agenda.

These pro-growth policies, combined with expanded investment, present geopolitical challenges across Asia. The Japanese long bond has exceeded the 4% benchmark. This creates greater competition for global capital flows, which could result in higher long-term borrowing costs for U.S. bonds and Treasuries.

China and the BRICS nations (Brazil, Russia, India, China, and South Africa) are closing trade agreements with Canada, Europe, and Southeast Asia. China, which produces over 30% of the world's manufactured goods, much of which is exported, continues to exert competitive pressure on European and U.S. markets. Low-cost, user-friendly Chinese-built electric vehicles are becoming increasingly popular outside the United States.

Recent verbal agreements with India and China are positive for growth in grain and row crops. However, these agricultural arrangements are not true agreements but "subscriptions" that could disappear very quickly.

On a side note, China is investing over \$1 trillion in manufacturing technology and agriculture internally to increase self-sufficiency and reduce dependence on Western nations.

The bottom line is that global disruptors, extreme economic volatility, and intense competition are likely to persist. Some in the agriculture industry compare this environment to the Rust Belt

deindustrialization of the 1970s and 1980s, when manufacturing and the auto industry were upended. Others say that we will need to be adaptive and operate closer to the customer, both domestically and globally. Those with this mindset and business approach are more likely to achieve long-term renewal and sustained success.

DOMESTIC ECONOMY

The K-shaped U.S. economy is alive and evolving. At the lower end, ALICE households (Asset Limited, Income Constrained but fully Employed) are experiencing the inflationary pinch. The cost of food as a percentage of household income is often above 30% for these households. Other rising costs, such as insurance, rent and utilities, are leading to higher credit card balances and rising delinquencies. However, while this group represents 40% to 50% of the consumer marketplace, it accounts for only about 4% of total spending.

The top end of the K-shaped marketplace continues to spend aggressively, driven by inflated stocks and other investments. Consumption is influenced by the wealth effect: as stocks and real estate rise in value, discretionary spending increases. In 2025, AI was not the only driver of the U.S. economy. Consumption by top-end consumers was a primary driver of GDP. Thus, risk managers across lending and banking sectors should closely monitor spending patterns.

U.S. ECONOMIC INDICATORS

The Leading Economic Index (LEI) and its diffusion index remain above traditional recessionary thresholds. Lower oil prices have had a positive influence on headline inflation, which includes energy and food.

Gold and silver have experienced tremendous increases, resembling patterns seen in the late 1970s. As the dollar weakens, global investors have moved toward these investments, resulting in price spikes. As these markets enter correction mode, remember the old wisdom: if it grows too fast, then it's a weed. Rapid price acceleration often precedes sharp pullbacks. From tulip mania to the dot-com bubble at the turn of the century, investors should be aware that quick gains can fuel egos which often end with major corrections.

The PMI, or Purchasing Manager Index, remains sluggish in the U.S. and is very similar to conditions in other major manufacturing nations globally, including Europe and China.

Housing starts are still in the yellow-light or cautionary range. The issue is not confined to mortgage rates, but also to other housing costs such as insurance, homeowner fees, and real estate taxes.

Some 16% of housing contracts have been canceled in recent months, placing the sector on a watchlist. Home prices are beginning to correct in areas such as Southwest Florida, and Arizona, and the trend is spreading. It is now a buyer's rather than a seller's market, with concessions on closing costs and upgrades becoming more common.

EMPLOYMENT

The lagging indicators, including the unemployment rate and the pace of layoffs relative to job creation, are worsening. AI-induced corporate cost-cutting of white-collar jobs is accelerating. Some observers now describe conditions as an AI-driven white-collar recession. This was discussed as

early as nine months ago in this column. However, government shutdowns and a lack of reliable data and reports have masked this trend. Expect this to accelerate over the next few months, with spillover effects across multiple sectors of the economy.

INFLATION

Close monitoring of inflation as well as job numbers will provide a leading indicator of Federal Reserve strategy over the next few months. The new Federal Reserve chairman and others on the interest rate policy-setting Federal Open Market Committee will be pressured to reduce rates two to four times this year, depending on the severity of job cuts and inflation reports.

Stay tuned!

LENDER AND BUSINESS DASHBOARD ECONOMIC INDICATORS

For the month of January

*Latest data is from December for some indicators due to the government shutdown

Indicator	Current	Green	Yellow	Red
Leading Economic Index – LEI	97.6*		●	
LEI Diffusion Index	60%*		●	
Purchasing Manager Index – PMI	52.6	●		
Housing Starts (millions)	1.404*		●	
Factory Capacity Utilization	76.2%		●	
Unemployment Rate	4.3%	●		
Core Inflation	2.5%		●	
Headline Inflation	2.4%	●		
Oil Price (\$/barrel)	\$66.91		●	
Yield Curve	0.59		●	

LENDER AND BUSINESS DASHBOARD ECONOMIC INDICATOR BENCHMARKS

Indicator	Green	Yellow	Red
The Conference Board Leading Economic Index® – LEI	Increasing	Flat to 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

¹ Ten 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