AGRICULTURAL LENDING CIRCA 2025

The start of the second quarter of the 21st century has been full of speaking engagements with producers, agricultural lenders, and agribusiness leaders. These interactions provide valuable insight into the current state of agriculture and agricultural lending, revealing several emerging trends.

Many agricultural lenders have completed the renewal season, with some noting that their customers are not "going broke," or in other words, facing insolvency or negative equity. However, issues related to profit and liquidity are becoming more pronounced.

Financial liquidity challenges, measured by working capital, are beginning to appear among customers who lack a marketing and risk management plan. This is particularly noticeable in the row crop and grain sectors, and will likely lead to difficulties in meeting operating needs or everyday expenses, and to some extent, debt service.

The higher interest rates are "coming home to roost" in increased operating costs per acre or per unit. However, many lenders are indicating that producers are experiencing interest rate shocks on intermediate and long-term debt that have interest rate resets coming off the all-time low interest rates.

Lenders also reported a twofold increase in customers experiencing negative working capital on the balance sheet. Due to the ongoing consolidation in the agriculture industry, these working capital losses are three to six times larger compared to the "grinder" or "lost in the desert" years from 2013 to 2019.

GOVERNMENT PAYMENT MIRAGE

Government payments announced in late 2024 for 2025 are looking like a mirage. Many lenders have observed these funds being absorbed by higher rent and increased input costs. **Unlike the 2013 to 2019 period, stubbornly high expenses—such as rent and input costs—are driving greater losses in profitability and working capital.** While stable land prices help prevent insolvency, many customers are struggling to stay operational, relying on debt refinancing or a capital infusion to continue day-to-day operations.

SPOUSES

Some lenders report that spouses are now attending the meetings, either on their own or because they're sent by depressed producers. This trend, reminiscent of the 1980s, could indicate rising tension and mental health issues in business, family, and personal lives. **Requests for additional security in farmland, cosignatories from parents and grandparents, or equity in homes**

are tough decisions being considered to maintain business operations for another year. Lenders are recommending spouses attend meetings to hear the same story and ensure the accountability that will be required in a workout plan.

PROACTIVELY DE-MARKET

A few lenders have indicated they have demarketed a certain part of the portfolio at the peak of the economic cycle in recent years. Further discussion with them found the **reason for the demarketing strategy was not solely based on financials or net worth**, but often because "something just wasn't right," referring to issues such as character flaws or ego-driven decision-making in production, growth, marketing, and risk management. Others stated they demarketed due to management flaws that they perceived were being masked by the high prices of recent years, government payments, and (of course) inflated land values.

Lenders reported increases in their efficiency, profitability, and the amount of time and attention they could offer to their performing customers; managing struggling accounts can require significantly more time, money, and energy. The question becomes, "Did these customers that were shown the door go broke?" Interestingly, no—most customers who were de-marketed are still in business.

LIVESTOCK SECTOR

The livestock sector, especially beef, is performing quite well. However, **the danger lies in the price volatility of cattle and the potential losses if the market and risk management plans are not developed and executed.** The potential losses can magnify as livestock operations continue to grow in size. One lender observed a sense of complacency in this sector, driven by headlines highlighting projected positive prices.

THE DELEGATOR

As operations expand, more producers are **delegating or outsourcing finance, marketing, and risk management to advisory teams and accountants while they focus on production. This is an emerging trend and can be effective if the owner remains involved and retains ownership and accountability of financial, marketing, and risk management decisions.** However, I have also witnessed the opposite occur. For example, several years ago I was conducting an executive seminar on financial ratios when a producer on the aisle started snoring. If you know me, you know I gave him a wake-up call by yelling out his first name. After getting his attention and settling the laughter in the crowd, I asked, "You're not interested in finances?" His blunt response was "My accountant handles all of this!" Two years later, this producer was in financial difficulty because his accountant was focused, as instructed by the producer, on reducing taxes. They were spending one dollar to save $0.20 but creating additional debt service obligations, which were detrimental in an economic downturn. Yes, advisory teams are great, and I am an advocate of cultivating a strong advisory team. However, it's the responsibility of owners and management to consider the broader impact of their financial and management decisions, especially in volatile economic times.

FORK IN THE ROAD

Agricultural economics circa 2025 presents a fork in the road for farming, ranching, and agricultural lending. To be blunt, some lenders shared with me that certain bad actors in the industry focus solely on asset or collateral-based lending, relying on rising land prices and government payments to justify their decisions. These lenders are transaction-based and often rely on quick credit scores or risk rating systems for efficiency.

Other lenders adopt a more balanced approach, focusing on cash flow and repayment ability, liquidity, profitability, solvency, management ability, and character. This strategy requires a more relationship-based lending approach. Of course, both transactional and relationship-based lending can occur in many portfolios.

As 2025 progresses, I expect to see more vintage producers cash in on high land values. Weather may be the variable that quickly changes many of the economic factors. Of course, geopolitical and trade risks will continue to create economic volatility in prices and input costs. Regardless, **a strong, proactive management mindset with the engagement of borrowers and lenders is an attribute that can provide the necessary balance for business, family, and personal decisions.**

LENDER AND BUSINESS DASHBOARD ECONOMIC INDICATOR ASSESSMENT

1Q2025

GLOBAL ECONOMY

The United States stands out as the best economic house in a challenging global neighborhood. But is the U.S. economy one that will be sustainable over the longer term?

The European economy can be described by two stories. Historically, the core or the larger countries—France, Germany, and the United Kingdom—have driven the region's economic strength, representing approximately 20% of the global economy. Meanwhile, the periphery, which includes Greece, Italy, Spain, and others, has faced economic challenges. Currently, this dynamic is reversed. The core economies are experiencing recession or slight growth, at best. This is likely due to slow export growth related to issues with China, Western nations, the Russo-Ukrainian War, and a lack of political continuity with France. The outcomes of the German and Polish elections in late February are also worth monitoring. Heavy regulation has stymied growth and aging demographics are becoming more of an issue.

Conversely, the outer regions of Europe are seeing growth, fueled in part by tourism and entrepreneurship linked to the export market. However, the fragmentation of the Eurozone will require close monitoring in 2025 due to pressures from multiple fronts, including the ongoing Russo-Ukrainian War, as well as tariffs and sanctions from the U.S. and other nations.

Despite government stimulus and looser bank credit, China's economy has reported 5% gross domestic product (GDP) growth. However, an aging population, overdevelopment, Western sanctions, and weak consumer spending are slowing growth in the U.S.'s third-largest agricultural trading partner. China will continue to compete with the United States, particularly in agriculture, due to its alignment with the resource-rich Southern Hemisphere and infrastructure investments through the Belt and Road Initiative.

The economies of Mexico and Canada continue to face challenges from tariff threats, immigration issues, and the slow global economy, all of which could hinder positive economic growth.

DOMESTIC ECONOMY

The United States economy is bifurcated and can be described as a K-shaped economy. The downward sloping line of the "K" represents the **ALICEs**—**A**sset-**L**imited, **I**ncome-**C**onstrained, **E**mployed individuals. The ALICEs are experiencing increased economic issues, inflation, and higher delinquency rates on credit card and consumer debts, all signaling potential future challenges.

The upward sloping part of the "K" represents the higher-income individuals. These **HENRYs**—**H**igh **E**arners, **N**ot **R**ich **Y**et—have not seen gains in paper wealth in homes and stocks. Mortgage rates above 7% have limited their ability to purchase homes, especially for those with significant student loan debt. This, in turn, allows the segment to spend their high wages on consumer goods and travel instead.

The final segment, the HERMANs—High Earners, Rich, Mobile, with Appreciated Net worth—have stocks and homes valued between $1 million and $10 million. These individuals are big spenders. They rely on their real estate, stocks, and other investments to appreciate. Any disruptions in employment or devaluation of paper wealth could result in a recessionary cycle.

LEADING AND LAGGING INDICATORS

The Leading Economic Index (LEI) decreased 0.3% in January, dropping back down past the gains of the previous two months. The LEI diffusion index remains in neutral territory at 60%, which may indicate either a recession or economic growth. Keep an eye on these indicators over the next several months to see if a trend emerges.

Oil prices remain high due to tail risk—low probability, high-impact events such as war, production, or distribution issues that could rapidly increase prices. Copper and gold prices have been appreciating due to uncertainty in tariffs and sanctions that may affect trade flows and the global economy.

The Purchasing Manager Index (PMI) recently moved to positive territory above 50, indicating a growing economy, but its sustainability remains uncertain.

The unemployment rate (U-3) is 4%, with job growth just above six figures according to recent reports, primarily in government and the medical industry. However, on my travels I've noticed a shortage of good, productive workers, and fewer job openings available.

Consumer sentiment is the dark cloud on the horizon, registering below 70 for February. With core inflation at 3.3% and the threat of tariffs and sanctions, expectations for interest rate cuts in the near

future remain low. A real red flag is long-term interest rates, which remain high and are somewhat impacted by government deficits and the federal debt exceeding $36 trillion.

LENDER AND BUSINESS DASHBOARD ECONOMIC INDICATORS

For the month of January

Indicator	Current	Green	Yellow	Red
Leading Economic Index – LEI	101.5		●	
LEI Diffusion Index	60%		●	
Purchasing Manager Index – PMI	50.9	●		
Housing Starts (millions)	1.366		●	
Factory Capacity Utilization	77.8%		●	
Unemployment Rate	4.0%	●		
Core Inflation	3.3%		●	
Headline Inflation	3.0%	●		
Oil Price ($/barrel)	$79.38		●	
Yield Curve	0.28		●	

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