

FARMER MAC

Accelerating Rural Opportunities

Thriving in Economic Chaos

By Dr. David M. Kohl & Jackson Takach

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OBSERVATIONS FROM THE ROAD

- ▶ **Marketing & risk management programs that are executed & closely monitored**
- ▶ **Farms not going broke but having profit, cash flow & liquidity issues**
- ▶ **Non-traditional lenders are tightening credit**
- ▶ **Banks & Farm Credit are refinancing LOC's of non-traditional lenders**
- ▶ **Character, ego & management are emerging & eroding credit quality rather than financials**
- ▶ **“Magic wand” issues**
 - **Producer/lender combination**

OBSERVATIONS FROM THE ROAD: SCHOOL & CONFERENCE PERSPECTIVES (1)

- ▶ **More hiring of lenders with local family ties**
- ▶ **75% of lenders hired indicated that the bank found them**
- ▶ **None of the credit analysts had been on a farm visit**
- ▶ **New regulators- more scrutinization of all credits including risk rating & credit scoring systems**
- ▶ **50% of new lenders worked in other businesses ranging from farming, IT, sales & irrigation**
- ▶ **Many were hired on work ethic & trained on aptitude**

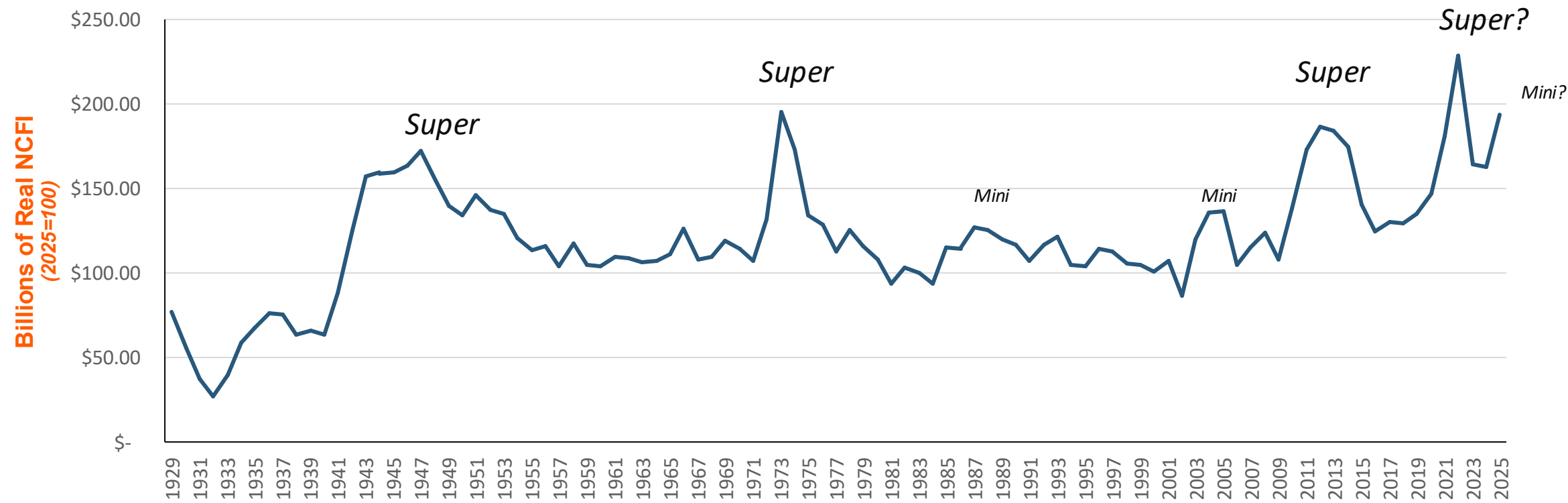
OBSERVATIONS FROM THE ROAD: SCHOOL & CONFERENCE PERSPECTIVES (2)

- ▶ **25-50% of class did not have farm or ranch background**
- ▶ **33% of lenders did have farm/ranch or other business on the side**
- ▶ **The classes in general were punctual, engaged & off their technology**
- ▶ **A critical mistake is that school administration is making is not having paper handouts**
- ▶ **AI (Artificial Intelligence) applications was used in class for the first time for case study applications**

INCOME

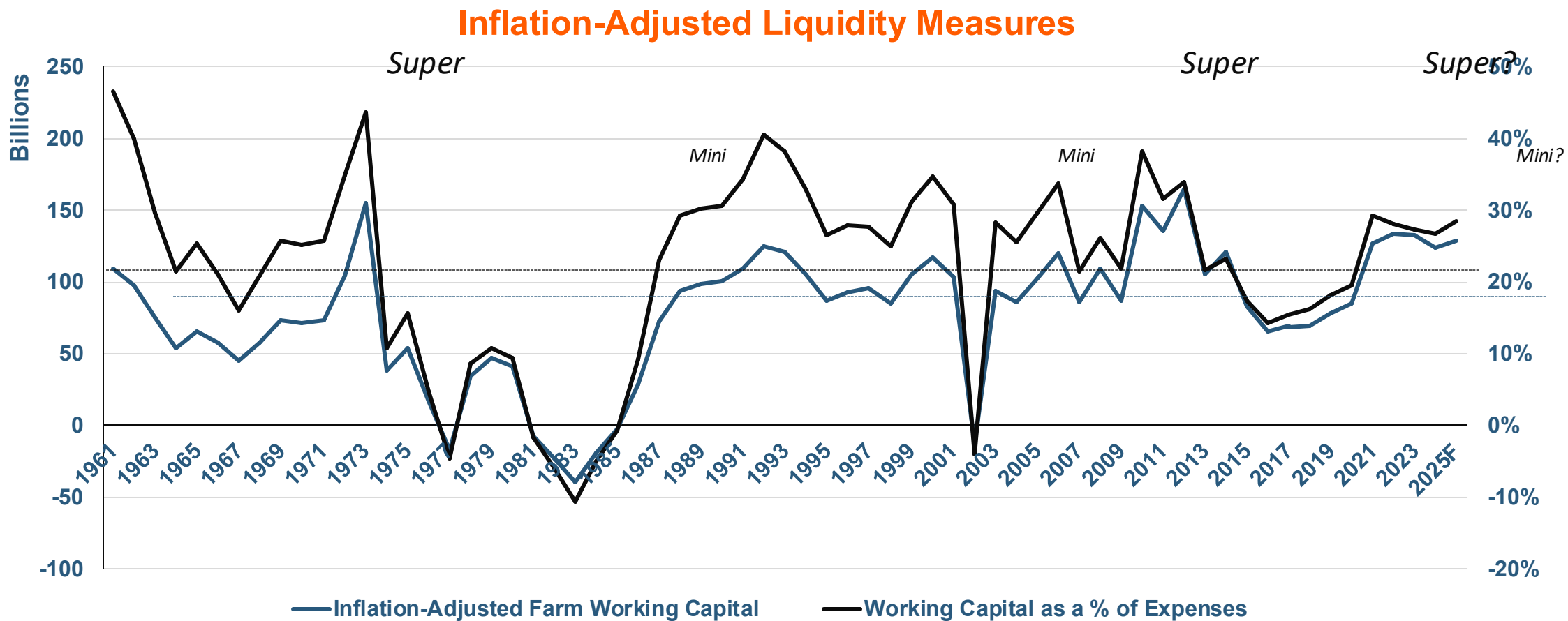
LONG-TERM AG ECONOMIC CYCLE

Inflation-Adjusted Net Cash Farm Income



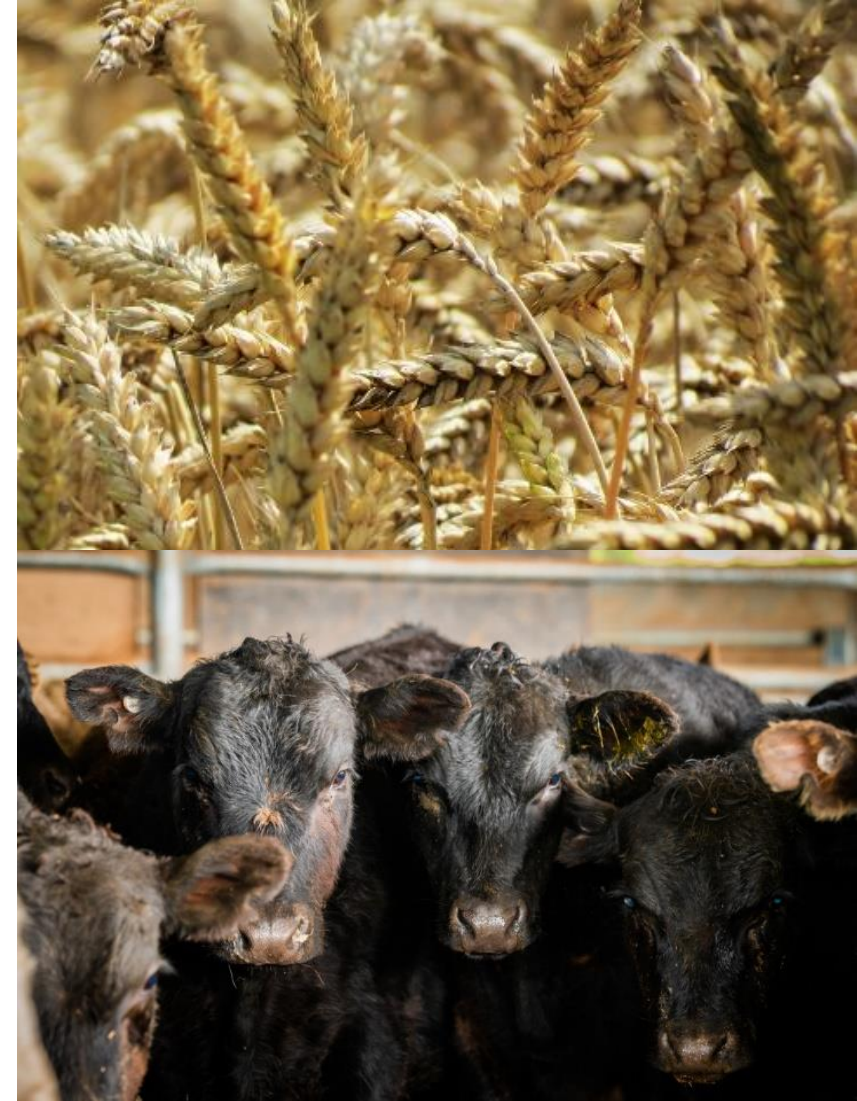
LIQUIDITY

LONG TERM AG ECONOMIC CYCLE



QUICK AGRICULTURAL ECONOMIC UPDATE

- ▶ Grain and row crops – “bearish”
- ▶ Livestock, diversified, value added – “bullish”
- ▶ Export market watchlist
- ▶ Tariffs, sanctions & currency valuation
- ▶ Profit, liquidity, cash flow vs. going broke



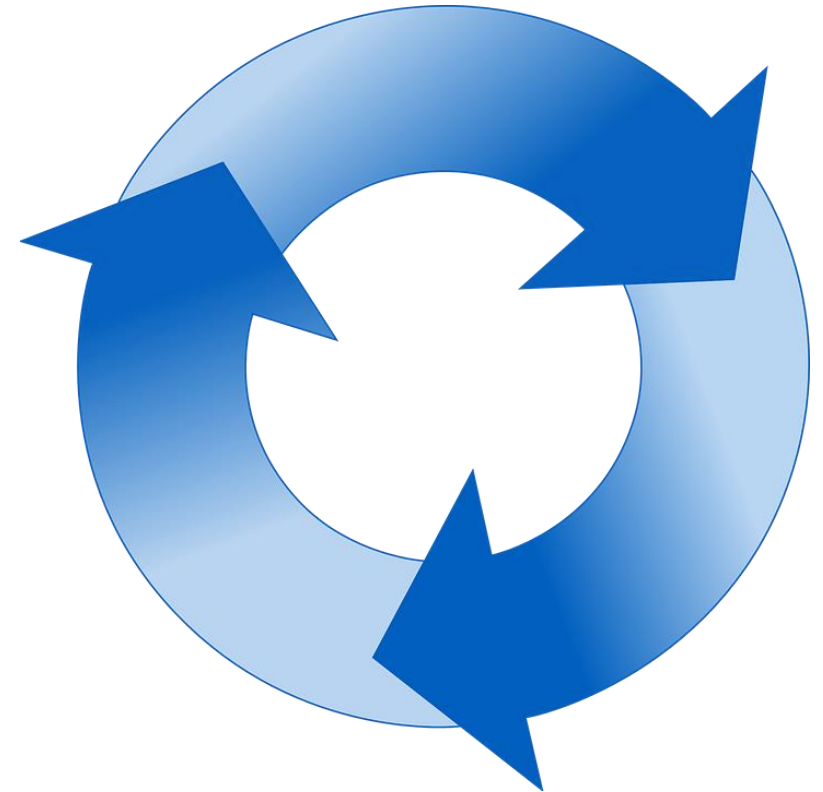
IMPLICATIONS OF TARIFFS & SANCTIONS

- ▶ Long-term relationship with major trading partners/allies
- ▶ Loss of public support for agriculture
- ▶ Negotiations, end-of-year tax law
- ▶ Government support to agriculture-
i.e. Farm Bill
- ▶ Increased competition from Global South
- ▶ Smoot Hawley – (June 1930) 2.0?



DURATION OF THE CYCLE

- ▶ **Export markets – trade sanctions, tariffs, “counter tariffs”**
- ▶ **Weather globally**
- ▶ **Fiscal policy**
 - \$1 trillion deficit
 - Cost of long term money
 - \$37 trillion federal debt
 - June is the “critical month”
- ▶ **Competition from Global South**



ESTIMATED FOREIGN OWNERSHIP OF U.S. TREASURY SECURITIES AS A SHARE OF PUBLICLY HELD DEBT

Estimated foreign ownership of U.S. Treasury securities as a share of publicly held debt

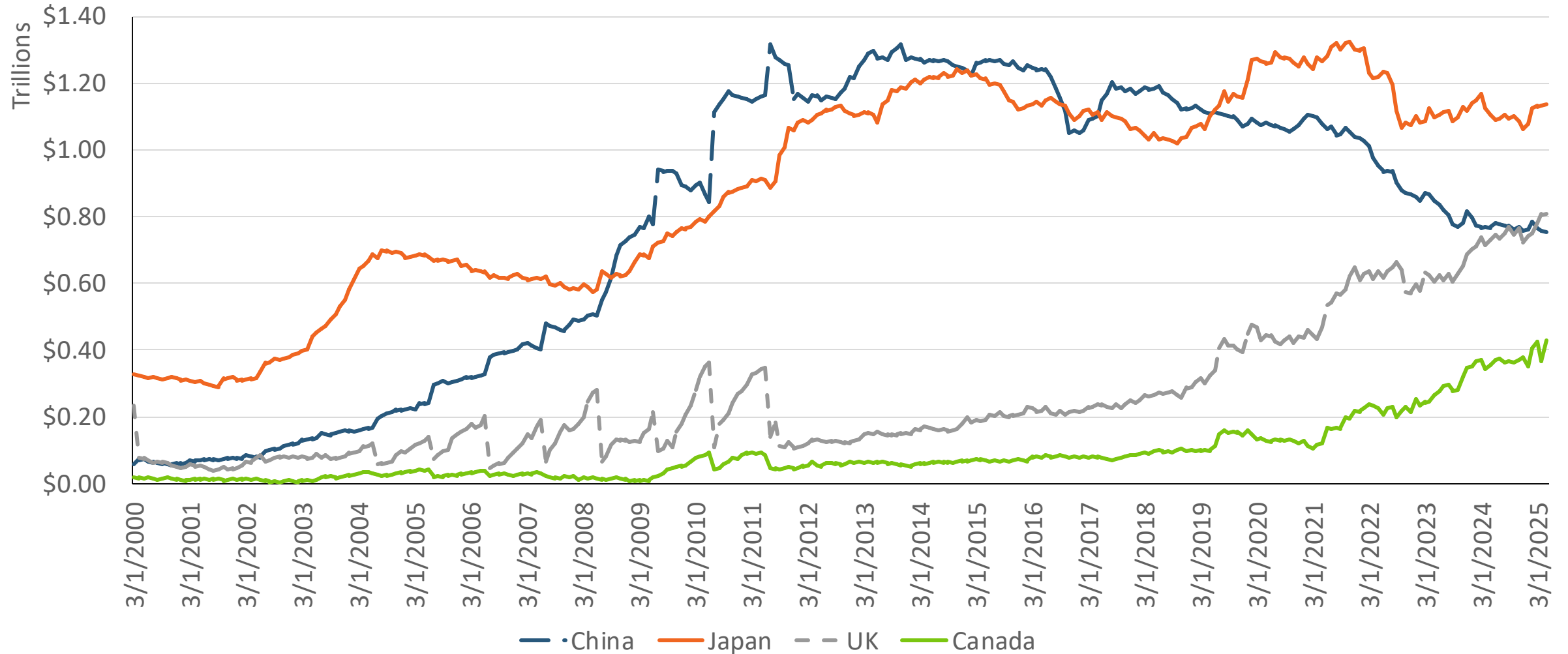


Sources: Treasury Department, Macrobond

Source: Wall Street Journal, April 20, 2025

TRADE + DEFICITS = LEVERAGE

Foreign Ownership of US Treasury Debt Instruments



QUICK GLOBAL ECONOMIC ASSESSMENT

▶ China

- Demographic
 - 1980 19% of population urban
 - 2024 65% of population urban
- Housing value decline
- Stock market value decline
- Sanction/tariffs/trade

▶ India

- Farm policy protectionism



▶ Europe

- Tourism
- Greenwave/backlash

▶ Mexico/Canada

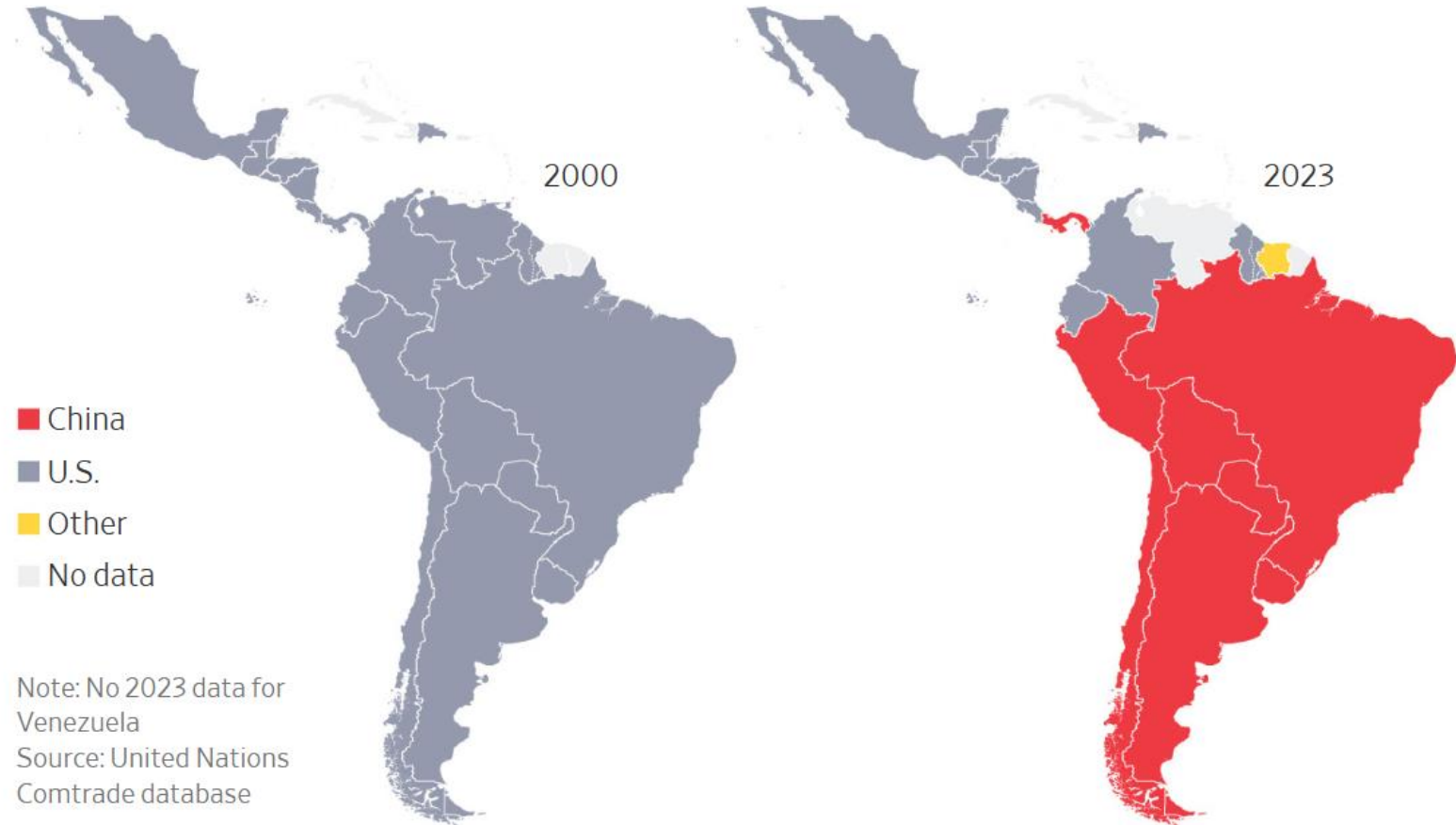
- New leader, same policy
- Downgraded economy to negative

▶ Canada: slow economy

▶ Southern Hemisphere

- Belt & Road Initiative
- Currency challenges

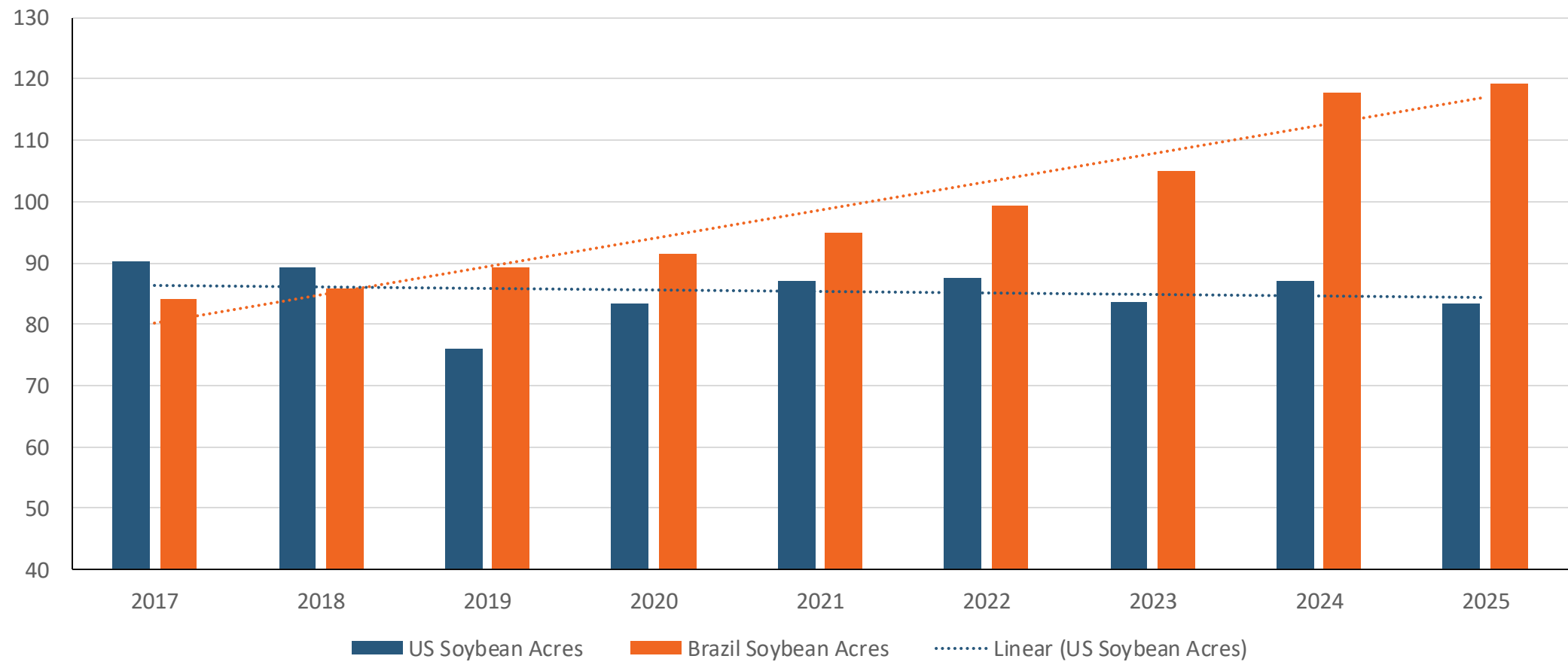
LARGEST EXTRAREGIONAL TRADING PARTNERS, BY TOTAL VALUE OF GOODS TRADED



Source: <https://www.wsj.com/world/china-xi-jinping-latin-america-acf6dbc1?page=1>

LAND – THEY AIN'T NOT MAKING MORE OF IT IN BRAZIL

Million Acres Planted to Soybeans by Year



U.S.A. ECONOMY

SNAPSHOT: ALICE

- ▶ **ALICE- Asset Limited, Income Constrained, fully Employed**
- ▶ **Less than 5% spending**
- ▶ **Stimulus checks during & post pandemic**
- ▶ **Consumer credit card debt buildup**
- ▶ **Credit card debt \$1.3 trillion**
- ▶ **Delinquency rate on credit cards & auto loans is highest since 2012**

U.S.A. ECONOMY

SNAPSHOT: HENRY

- ▶ HENRY- High Earners, Not Rich Yet
- ▶ \$100,000 - \$500,000 household earnings
- ▶ High level of graduate school debt
- ▶ Priced out of housing market
- ▶ Lack of stock & real estate appreciation
- ▶ High levels of consumer spending & buying experiences
- ▶ Very vulnerable for job layoff and AI replacement

U.S.A. ECONOMY

SNAPSHOT: HERMAN

- ▶ **HERMAN: High Earners, Rich, Mobile, Appreciated Net Worth**
- ▶ **10% of population, 49% of consumer spending from 36%**
- ▶ **Household or business wealth, paper wealth accumulation \$1 million to \$10 to 25 million**
- ▶ **Older demographic, frequently above 60 years of age**
- ▶ **Spent 58% more in the last 4 years vs. 21% inflation increase**
- ▶ **HERMANs account for one third of gross national product**
- ▶ **Top 20% of earners, net worth has increased \$35 trillion or 45% since 2019**
- ▶ **Increased \$14 trillion for the bottom 80%**

WEALTH EFFECT

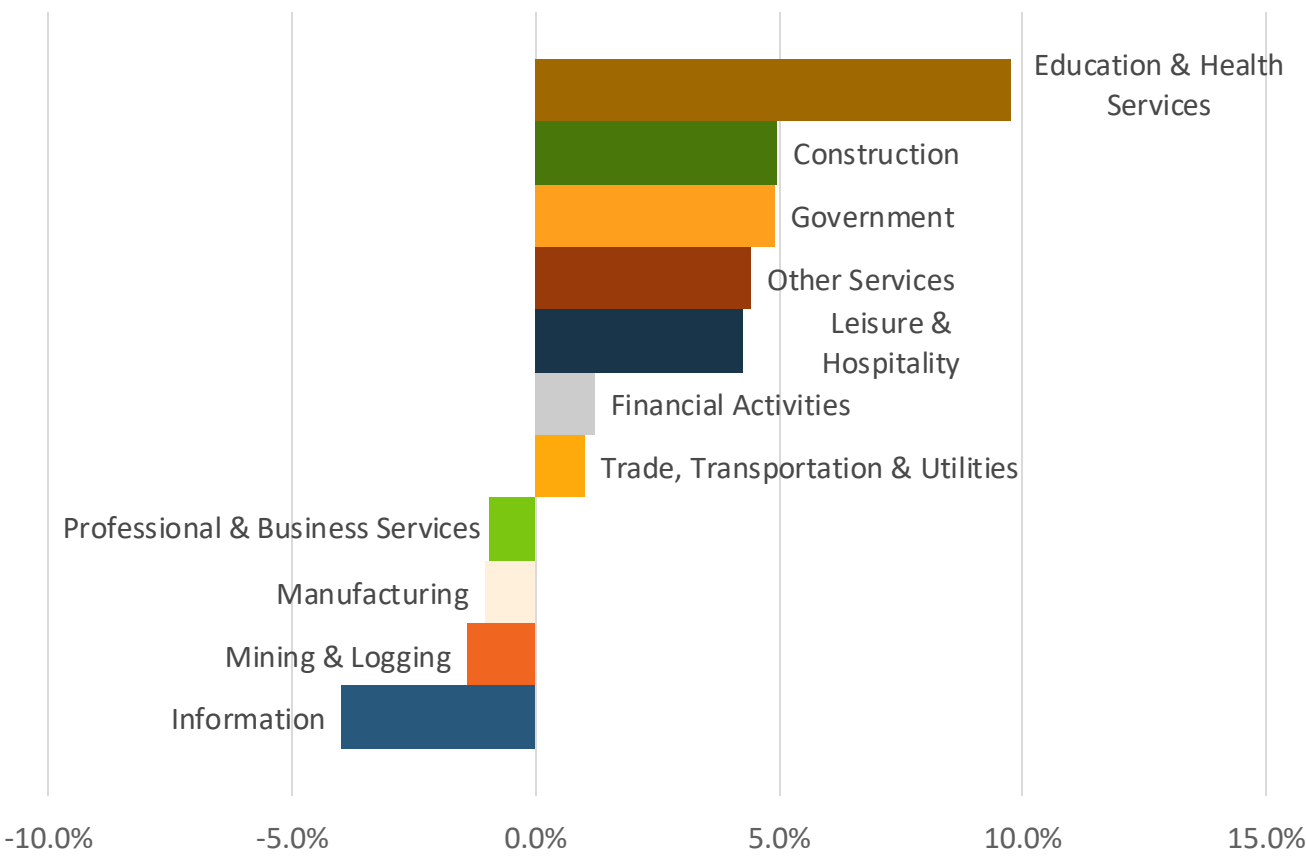
- ▶ When stock and real estate values increase a dollar in value, consumers spend 4 cents more.
- ▶ When stock and real estate values decrease a dollar in value, consumers spend 8 cents less.
- ▶ Those over 60 years of age spend 20 cents less
- ▶ Short investment horizon



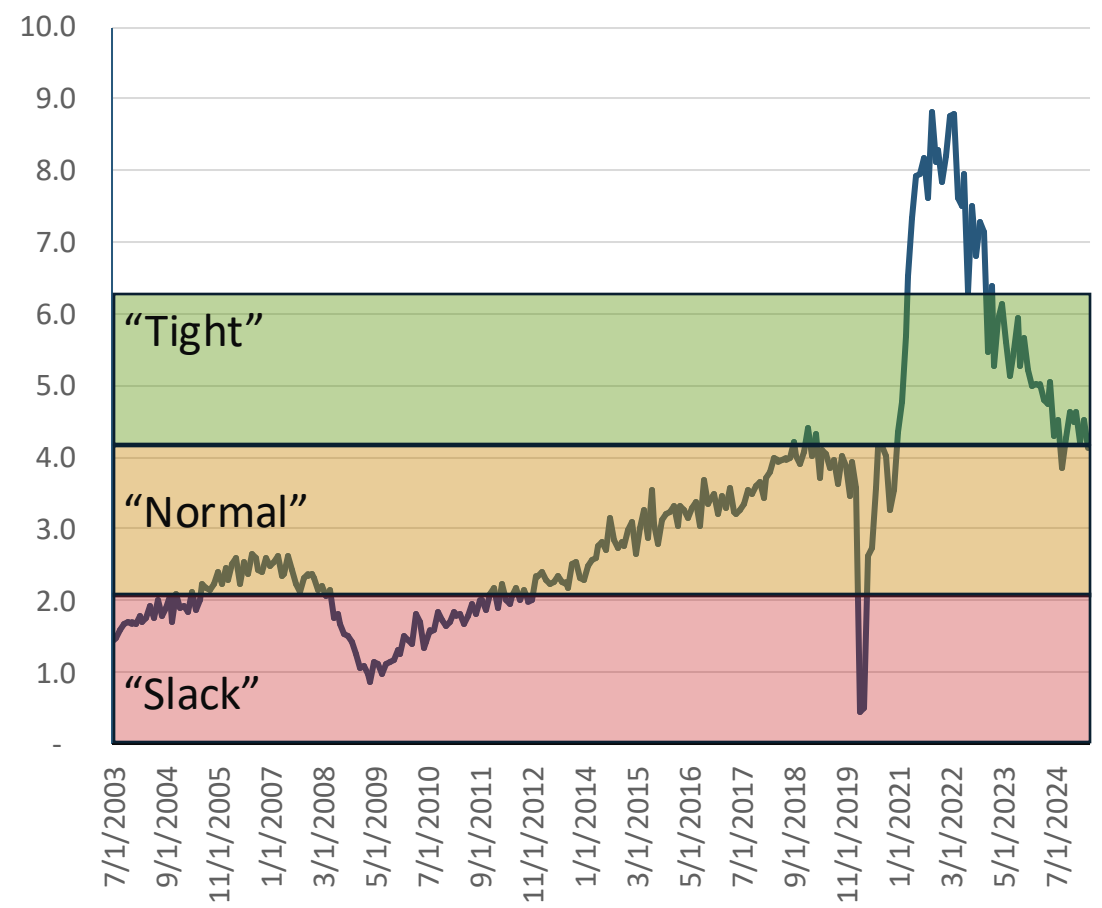
RESILIENT LABOR MARKET

LABORS ON

% Change in Employment – Jan 2023 to May 2025



Job Openings per Job Layoff



FISCAL AND MONETARY TRAINWRECK?

■ Government revenues	\$4.4 Trillion
■ Government outlays	\$6.3 Trillion
■ Net Interest on public debt	\$870 Billion
■ Military spending	\$753 Billion
■ Deficit in 2023	\$1.7 Trillion
■ Deficit in 2024	\$1.8 Trillion
■ Deficit through July 2025 YTD	\$1.3 Trillion

Sources: Congressional Budget Office, see link below.

https://www.wsj.com/opinion/u-s-budget-deficit-government-spending-congressional-budget-office-report-d2c07021?mod=Searchresults_pos1&page=1

EXCESSIVE PUBLIC DEBT – FERGUSON'S LAW

- ▶ **Great powers of the globe that spend more on debt service than defense risk ceasing to be a great power.**
- ▶ **How much debt is too much debt?**
 - Debt service (interest and principal) > defense spending
 - In 2024:
 - Defense spending \$1.107 trillion
 - Interest on payments \$1.12 trillion
 - Compounded by a welfare system
 - Lower birth rates
 - High social welfare system

THE RISE & FALL OF FARM LAND VALUES 1

1970s RISE

- ▶ **Global export markets**
- ▶ **Farm debt tripled**
- ▶ **Land: the inflation hedge**
- ▶ **Transition acceleration**
 - Great Depression to WWII
Generation to Baby Boomers
- ▶ **Farm loans:
character/collateral**
- ▶ **Weak dollar**

1980s DECLINE

- ▶ **Loss of export markets**
- ▶ **Tightening of credit**
 - Regulators
 - Lenders
- ▶ **Rapid rise of interest rates**
- ▶ **Higher rates of return on
CDs and money market
accounts**
- ▶ **Financial liquidity crunch**

THE RISE & FALL OF FARM LAND VALUES 2

21ST CENTURY RISE

- ▶ **China & Great Commodity Supercycle**
- ▶ **Zero bound interest rates**
- ▶ **Ethanol**
- ▶ **Value of outside agricultural returns**
 - Water & minerals
 - Green energy
 - 1031 exchanges
 - Development
- ▶ **Baby boomer producers – in the power age zone of investment**

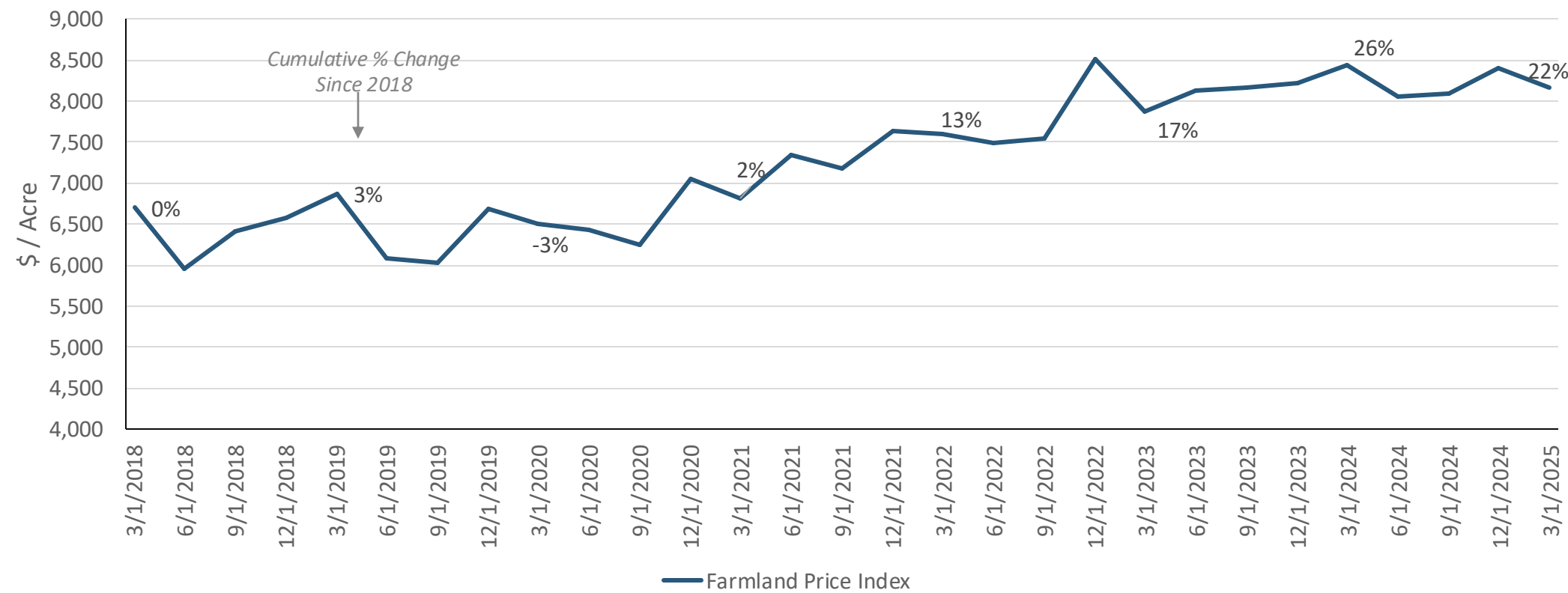
2025 & BEYOND- MARKERS FOR DECLINE

- ▶ **Doubling interest rates**
- ▶ **Bearish commodity markets**
- ▶ **Tightening of credit**
 - Regulators
 - Lenders
- ▶ **Resistant plane markers**
 - Crop/livestock insurance
 - TINA/Baby Boomers
- ▶ **Water & minerals**
- ▶ **Development**

A NEW WAY TO MEASURE LAND VALUE CHANGE

Farmer Mac Farmland Price Index (Powered by AcreValue)

Farmland Price Index



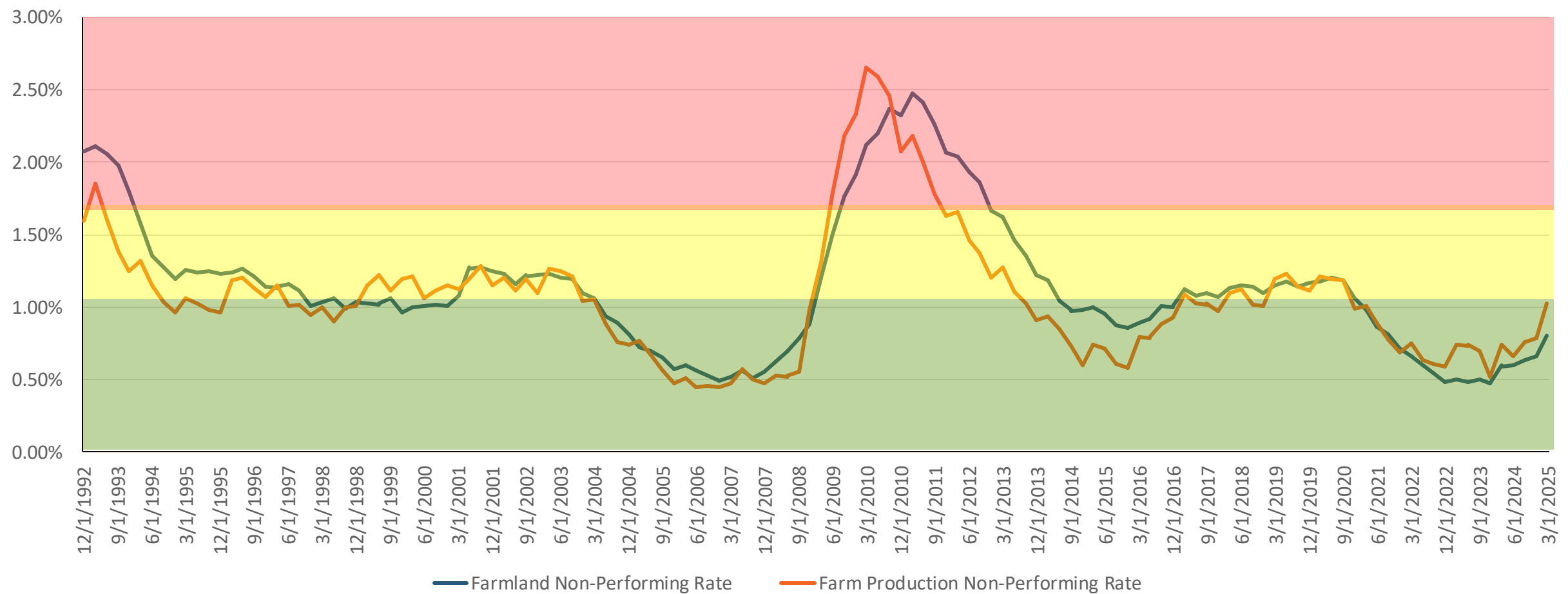
WHERE CREDIT LOSSES OCCUR

- ▶ **Fraudulent activities**
- ▶ **Non-transparent financial systems**
- ▶ **No ownership of financials**
- ▶ **Liquidity versus equity crunch**
- ▶ **Non-financial factors- “Deadly D’s”**
- ▶ **Lifestyle creep**
- ▶ **Lenders’ cultures**



DELINQUENCIES NORMALIZING FROM HISTORIC LOWS

Bank and Farm Credit System Combined Call Report Non-Performing Loan Rates



Source: FDIC Call Reports; FCA Call Reports; Author Calculations

SIGN POST OF OPPORTUNITIES

- ▶ Young, beginning farmers & ranchers, high business financial IQ - “alignment”
- ▶ Profitable farms, ranches & businesses in “growth mode”
- ▶ Accelerated transition in agriculture - “be at the table”
- ▶ Selected refinancing – “planning, execution, & monitoring”
- ▶ Value added – “agri-entrepreneurship mentality”
- ▶ Risk management programs – “mitigation”
 - Crop/livestock insurances
 - FSA, SBA guarantees



Q&A WITH DR. KOHL & JACKSON TAKACH



LET'S CONTINUE THE CONVERSATION

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Online Articles

- **Dave's GPS & Dashboard Indicators**
<https://www.farmermac.com/news-events/daves-gps/>
- **Farm Progress Weekly Article:**
<https://www.farmprogress.com/author/david-kohl>
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THANK YOU!



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