



FCA Board Meeting September 2018

Quarterly Report on FCS Condition September 13, 2018

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Economic Conditions Affecting the Farm Credit System

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Office of Regulatory Policy



Overview

- ▶ Economic growth continues to underpin agricultural demand
- ▶ Land values remain stable
- ▶ Farm cash receipts trend sideways; farm liquidity falls
- ▶ Soybean and hog prices weaken
- ▶ Trade situation still developing
- ▶ Additional farm assistance (and the Farm Bill) to arrive

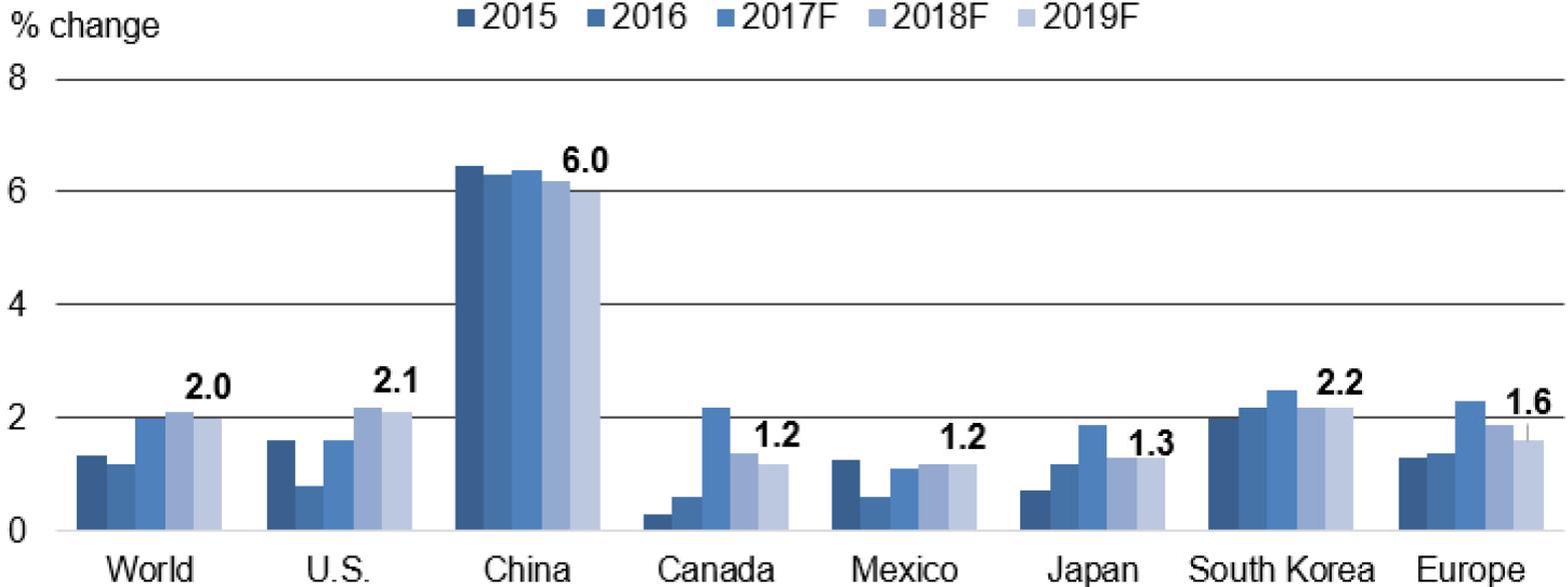




Global economic growth continues in major U.S. agricultural markets



Real gross domestic product per capita



Source: USDA/ERS using data and forecasts from Global Insight, International Monetary Fund, and Oxford Economics.



Favorable trends for U.S. income, unemployment, and housing



	U.S. real disposable personal income	Unemployment rate	Housing starts
	% change	%	mil. units
2016	1.7	4.9	1.18
2017	2.6	4.4	1.21
2018F	2.8	3.9	1.29
2019F	2.2	3.6	1.34

Source: Consensus Economics, Inc.



Long-term interest rates moving up

Percent, 10-year Treasury rate



Source: Federal Reserve Bank of St. Louis.

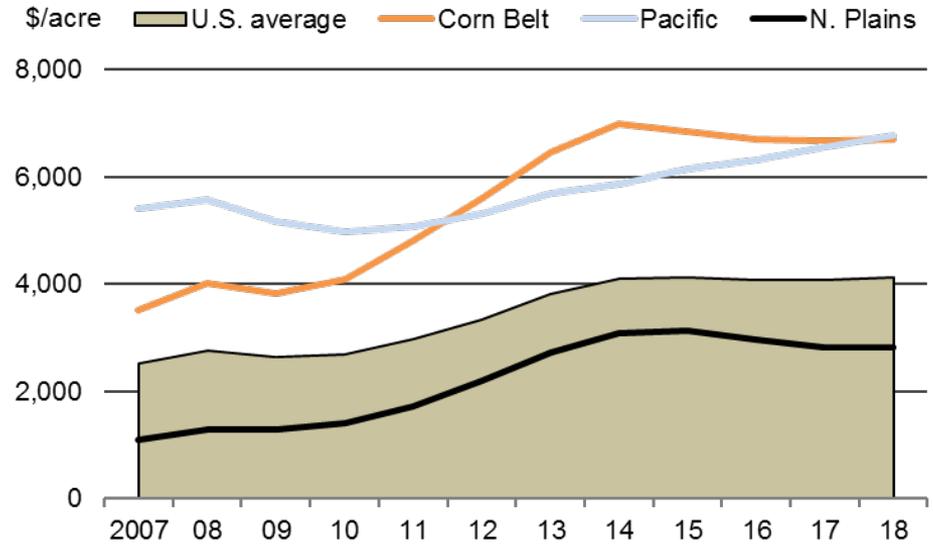


Cropland values are flat to slightly higher in 2018

- ▶ U.S. average cropland value up 1.0% in 2018
- ▶ Small increase in Corn Belt (+0.6%) and no change in Northern Plains
- ▶ Increases in most other regions



Cropland values

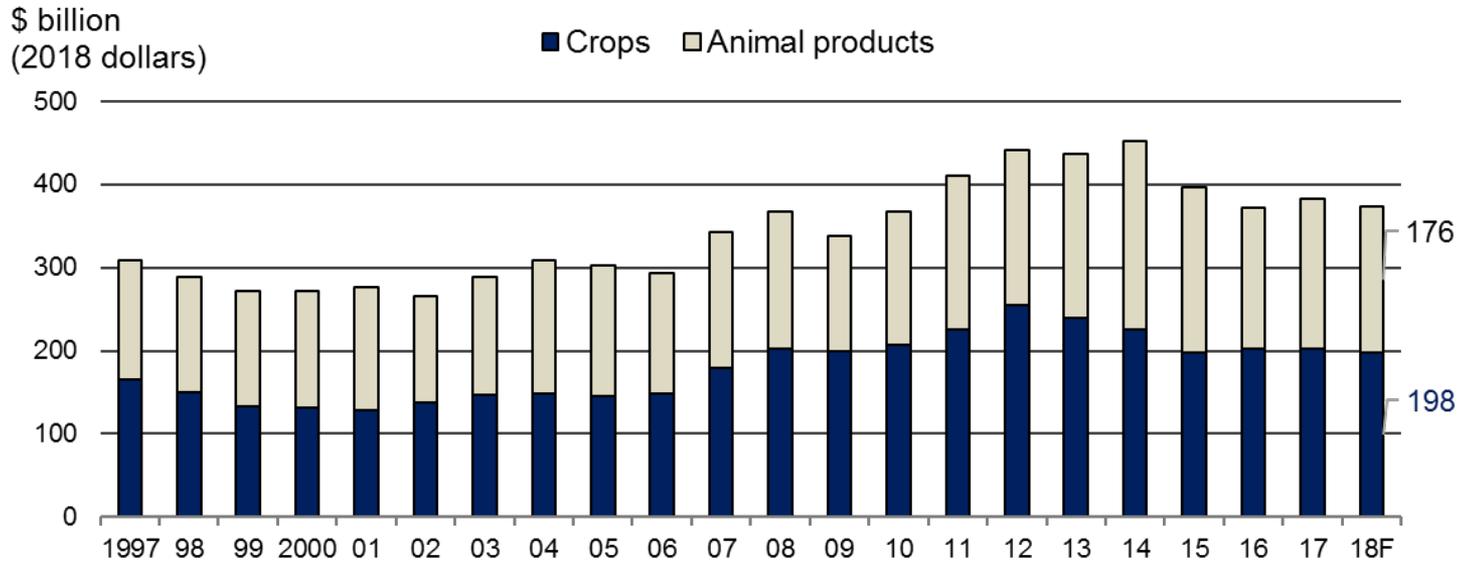


Source: USDA/NASS.



U.S. farm cash receipts decline to pre-boom levels

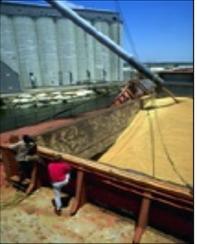
Cash receipts adjusted for inflation



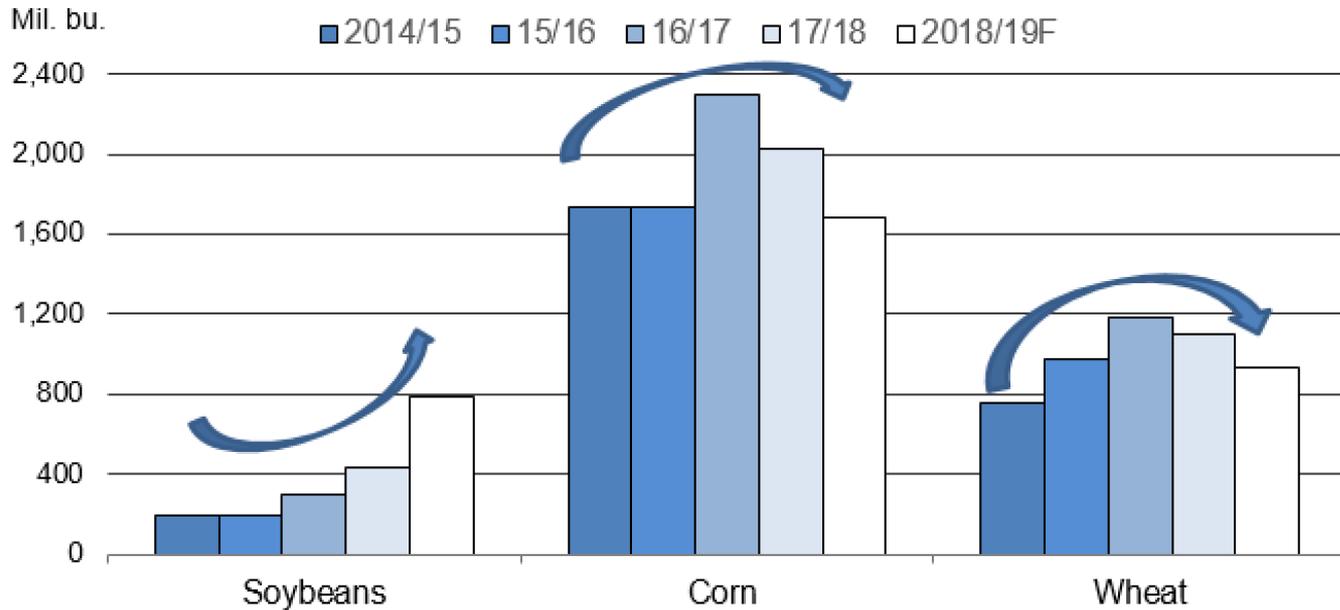
Source: USDA/ERS.



U.S. soybean stocks to rise, corn and wheat stocks to fall



U.S. ending stocks



Source: USDA.



U.S. soybean prices to fall in 2018/19

U.S. season-average farm prices and returns

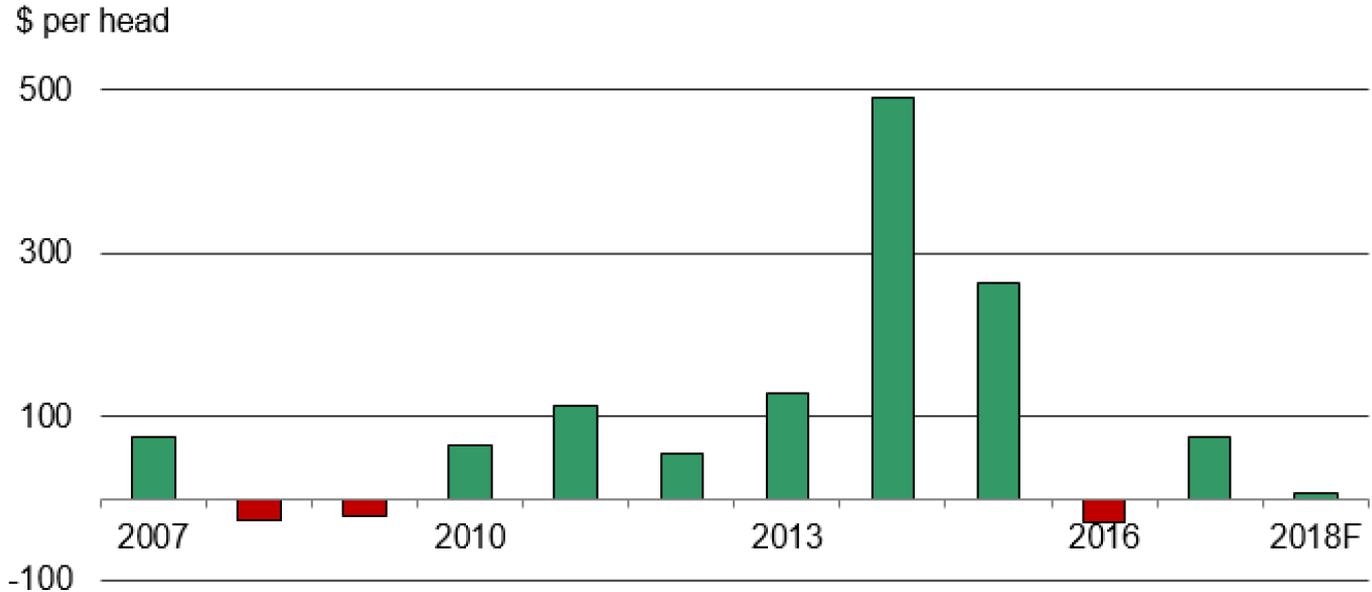
	2016/17	2017/18	2018/19F
Soybean price (\$/bu.)	9.47	9.35	8.73
Returns after variable costs (\$/acre)	328	296	288
Corn price (\$/bu.)	3.36	3.4	3.62
Returns after variable costs (\$/acre)	237	259	306
Wheat price (\$/bu.)	3.89	4.73	5.12
Returns after variable costs (\$/acre)	95	110	131



Source: Food & Agricultural Policy Research Institute, University of Missouri.



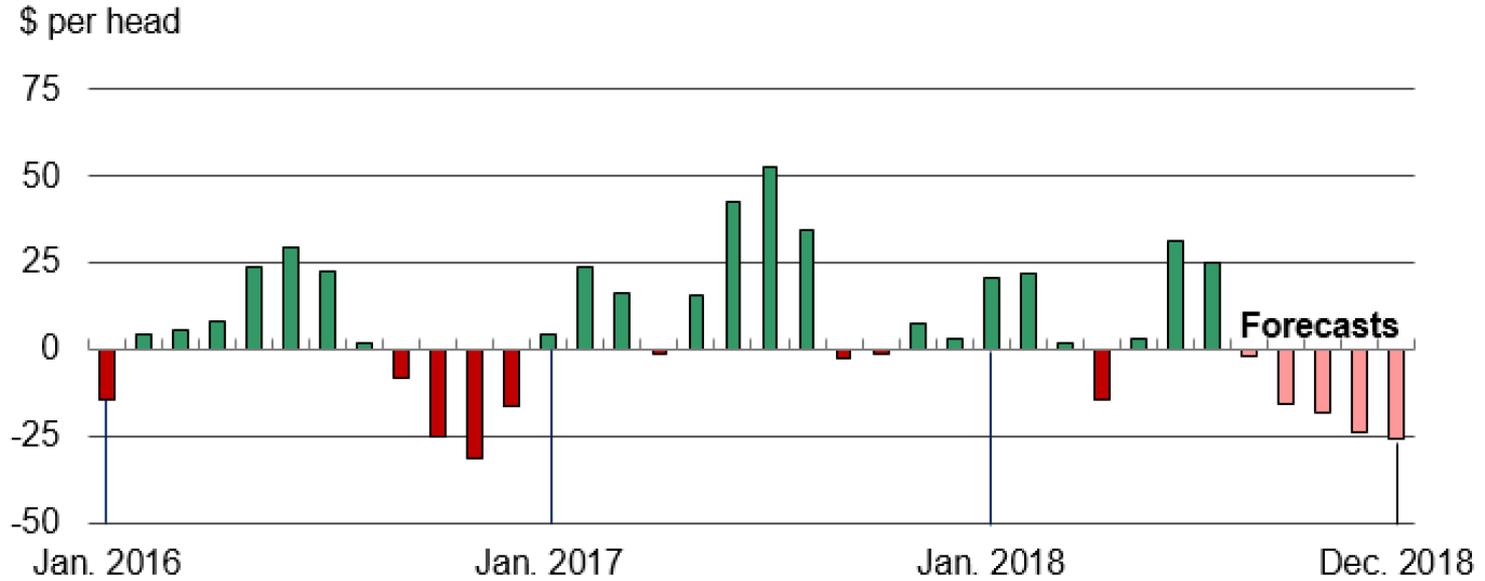
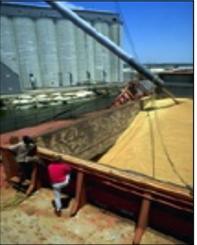
Cow/calf returns are near breakeven



Source: Informa Economics.



Hog returns head south



Source: Informa Economics.

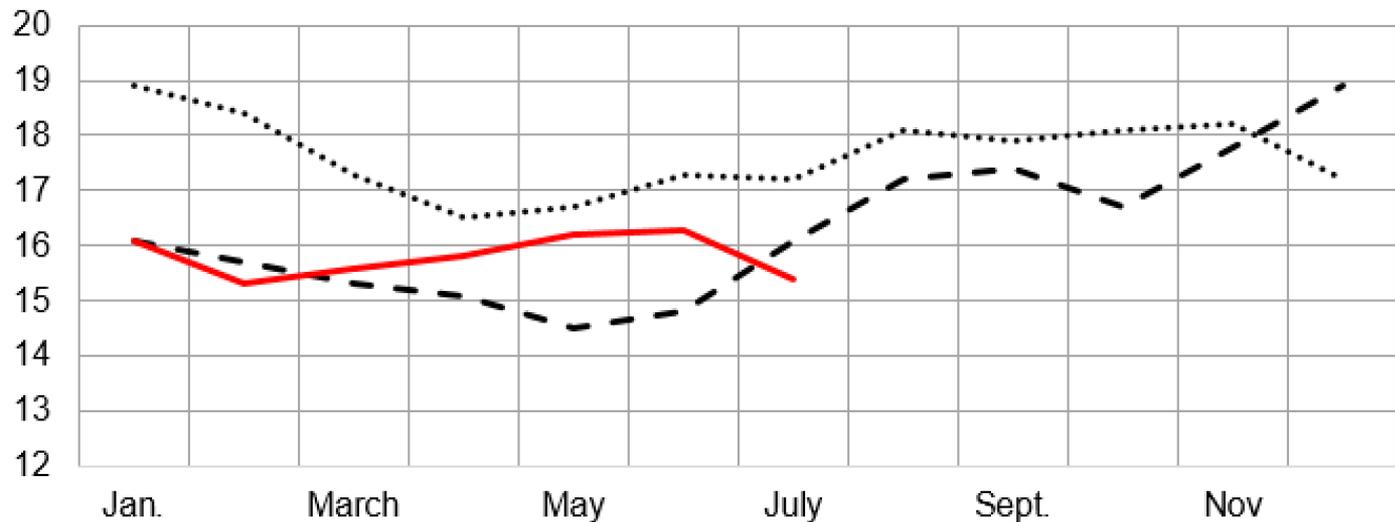


Milk prices run below last year

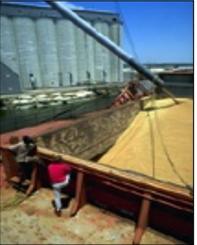
U.S. milk price received by farmers

— 2016 2017 — 2018

\$ per hundredweight



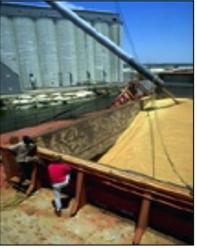
Source: USDA/NASS.





Trade situation creates uncertainty

- ▶ China's retaliatory tariffs
- ▶ Negotiations with Mexico and Canada
- ▶ Trade diversion and alternative suppliers

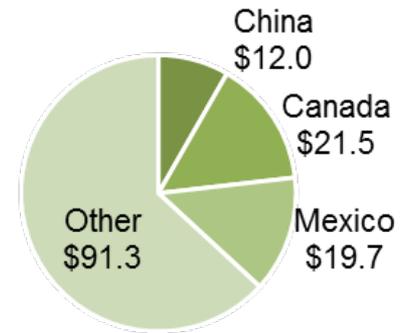


U.S. agricultural export forecasts

FY 2018 = \$144.0 billion



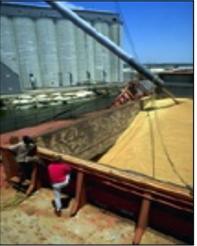
FY 2019 = \$144.5 billion



Source: USDA, August 30, 2018.



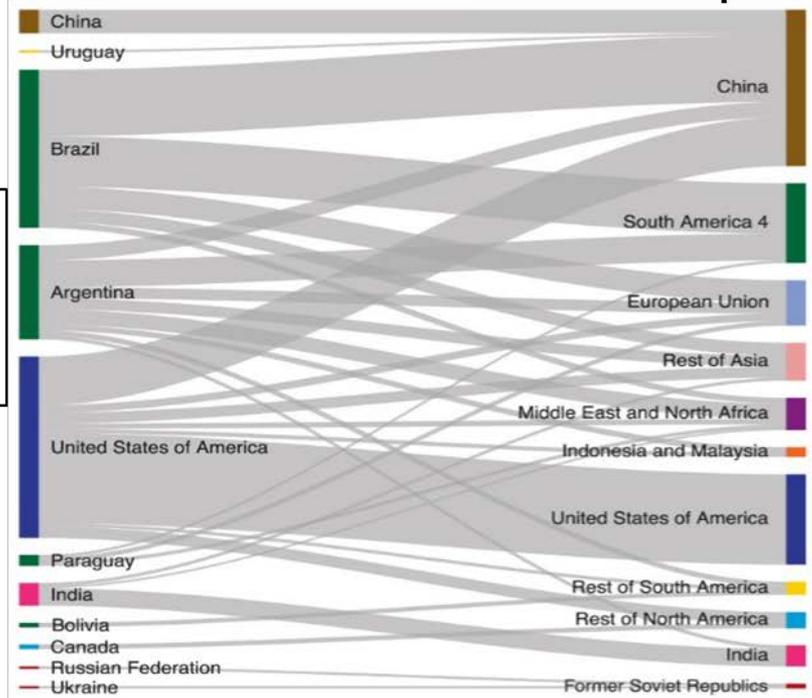
Global soybean flows could shift



1. **China** produces few soybeans.

3. **Brazil, Argentina, and United States** are **China's** major suppliers.

Production



Consumption

2. **China** is the world's largest soybean consuming nation.

4. Other countries also purchase soybeans from South America; where would these importers find soybeans?

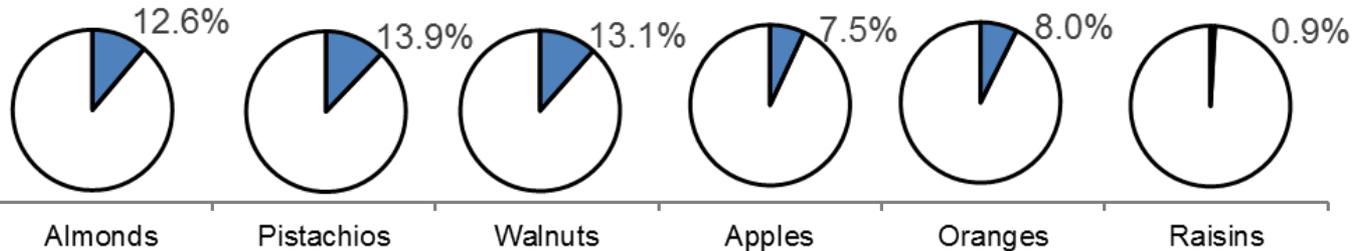
Source: USDA/ERS.

Typical trade flows using 2013 data for soybeans and products.

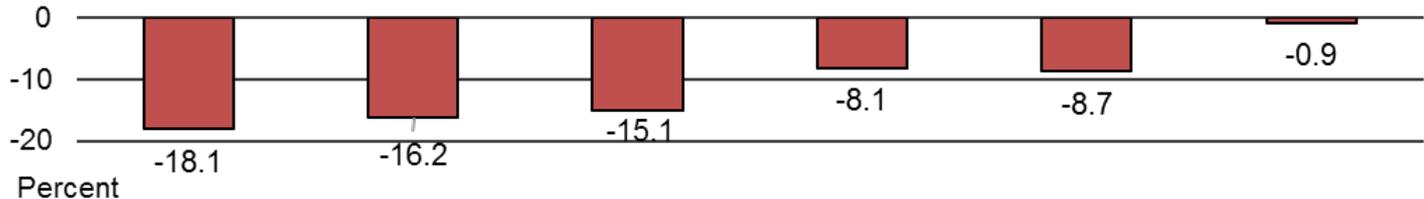


Possible impacts on California fruit and tree nuts from additional tariffs

Share of U.S. production exported to affected markets*



Estimated price decline**



*Affected markets include China & Hong Kong, India, Mexico, and Turkey.

**Assumes all production exported to affected markets is absorbed by domestic or other foreign markets.

Source: University of California Agricultural Issues Center. August 1, 2018.



Emergency assistance for farmers affected by tariffs

USDA authorizes up to \$12 billion in programs

1. Initial farm payments to arrive this fall (\$4.7 billion)

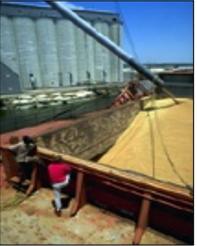
Payment rate times 50% of producer's 2018 production, hog inventory, or historical milk production

Soybeans	Hogs	Cotton	Sorghum	Milk	Wheat	Corn
\$1.65 / bu.	\$8 / head	\$0.06 / lb.	\$0.86 / bu.	\$0.12 / cwt.	\$0.14 / bu.	\$0.01 / bu.
\$3,630 mil.	\$290 mil.	\$277 mil.	\$157 mil.	\$127 mil.	\$119 mil.	\$96 mil.

2. Commodities for nutrition programs (\$1.2 billion)

Purchases scheduled for 31 products (e.g., fruits, tree nuts, beans, meat)

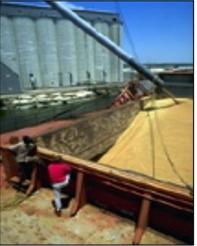
3. Trade promotion (\$0.2 billion)





Farm Bill heads to the finish line

- ▶ Farm safety net expected to remain intact
- ▶ Modest changes/upgrades expected for farm programs
- ▶ Modifications in early 2018
 - Improvements to margin protection program for dairy
 - Cotton returns as a “covered” commodity
 - Eliminated payment limits on certain disaster programs





Risks ahead

- ▶ Upward pressure on interest expenses
- ▶ Supply gains and demand changes
- ▶ Trade policy that would shift U.S. export potential to competitors
- ▶ Liquidity at the borrower level





Questions



THANK YOU



Farm Credit System Condition and Performance

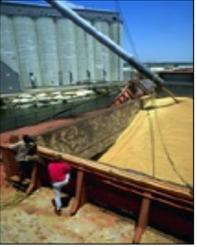
as of
June 30, 2018

Hal Johnson
Sr. Financial Analyst
Office of Examination



Topics

- ▶ System Growth
- ▶ Portfolio Credit Quality
- ▶ Earnings
- ▶ Capital
- ▶ FIRS

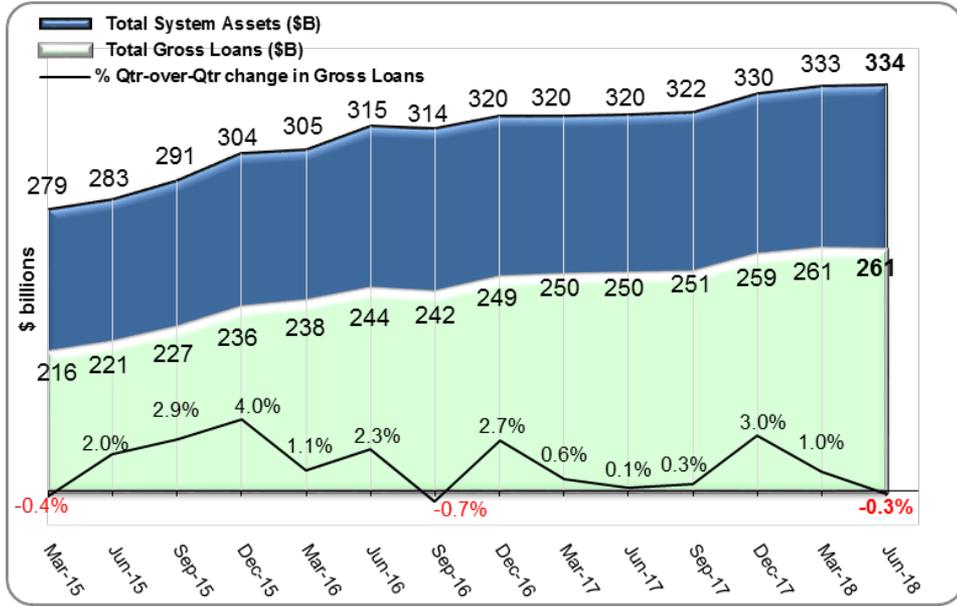




System grows at a measured pace for the 1st 6 months of 2018

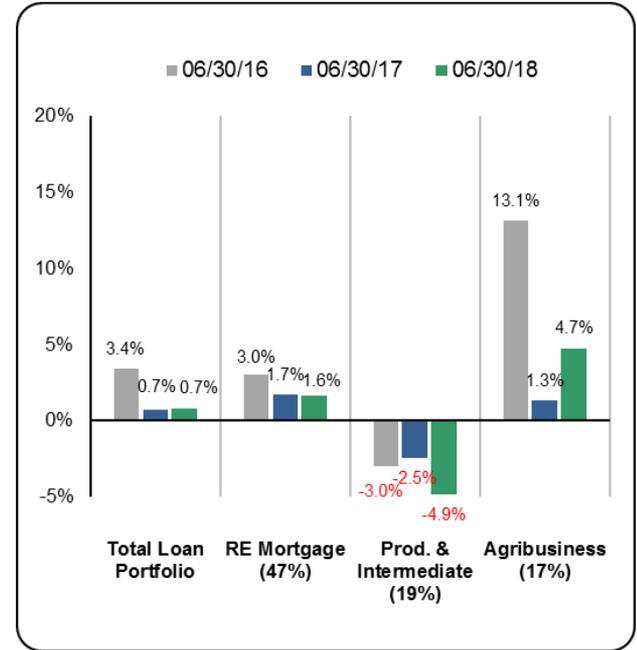


Total Assets 6/30/18	\$333.8 billion	+0.2% Qtr +1.3% YTD	Gross Loans 6/30/18	\$260.7 billion	-0.3% Qtr +0.7% YTD
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Source: FCS Information Statements

Loan Growth by Loan Type (% change year-to-date through June)

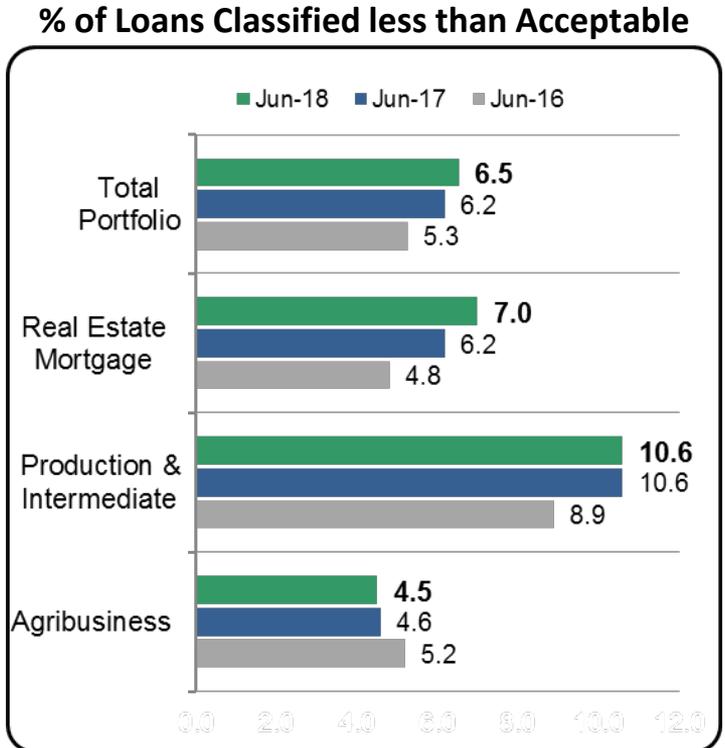
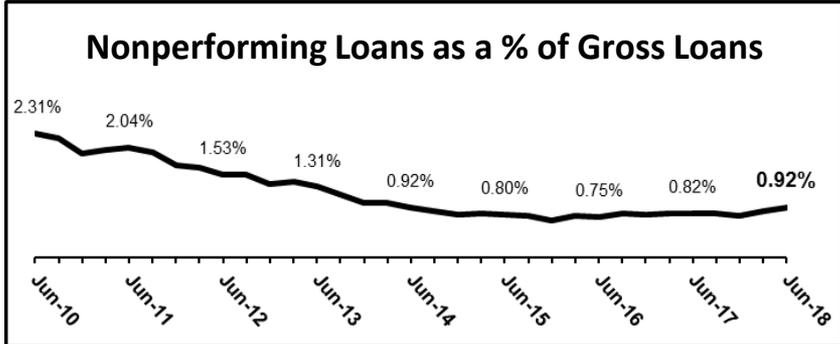




Loan portfolio risk edges up; level remains manageable



Nonperforming Loans	\$2.401 billion	Qtr chg: +192M up 8.7%	YTD chg: +434M up 22.1%
Delinquencies accruing loans ≥ 30 days past due	2Q '18 0.26%	2Q '17 0.23%	% of total accruing loans
Allowance for Loan Losses	\$1.666 billion	69% of nonperforming loans	82% of nonaccrual loans



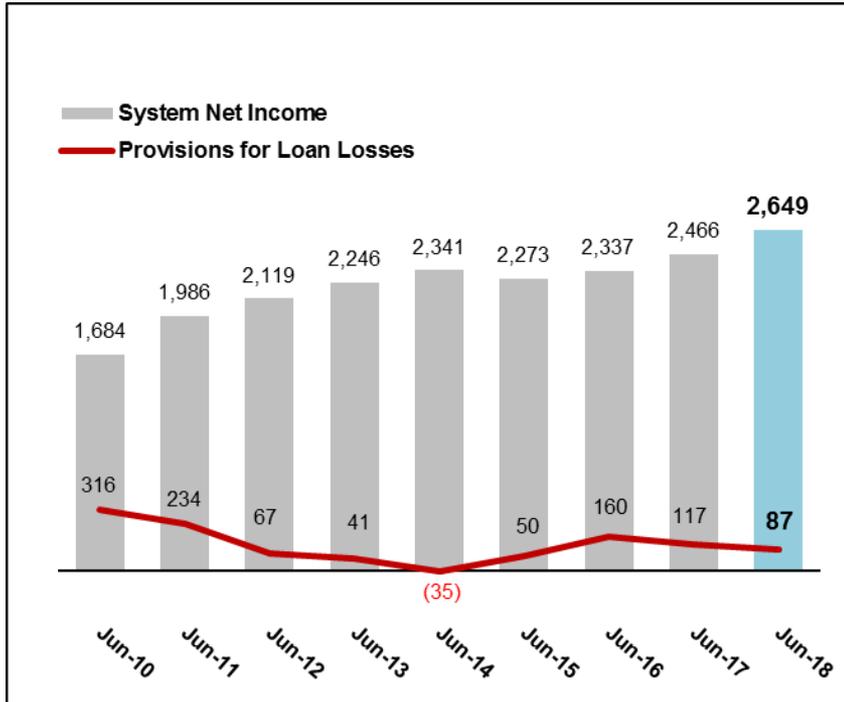
Source: FCS Information Statements



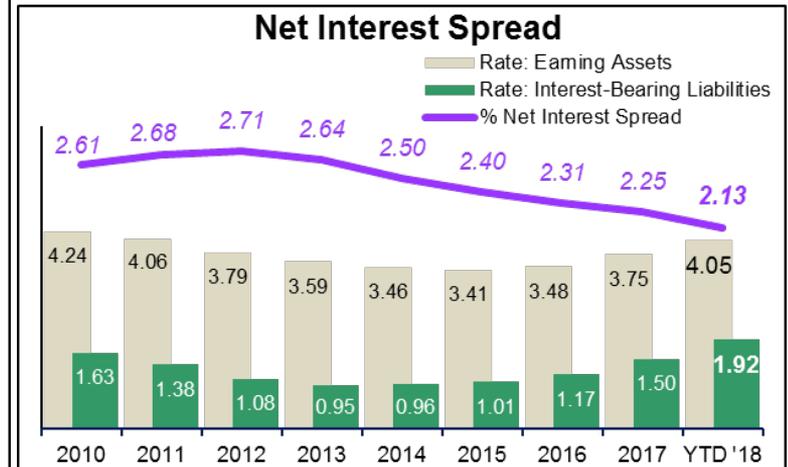
System is financially sound



System Earnings



Net Interest Spread (YTD annualized)	June '18 2.13%	June '17 2.23%
Net Interest Margin (YTD annualized)	June '18 2.44%	June '17 2.45%



Source: FCS Information Statements



Strong earnings support continued capital growth

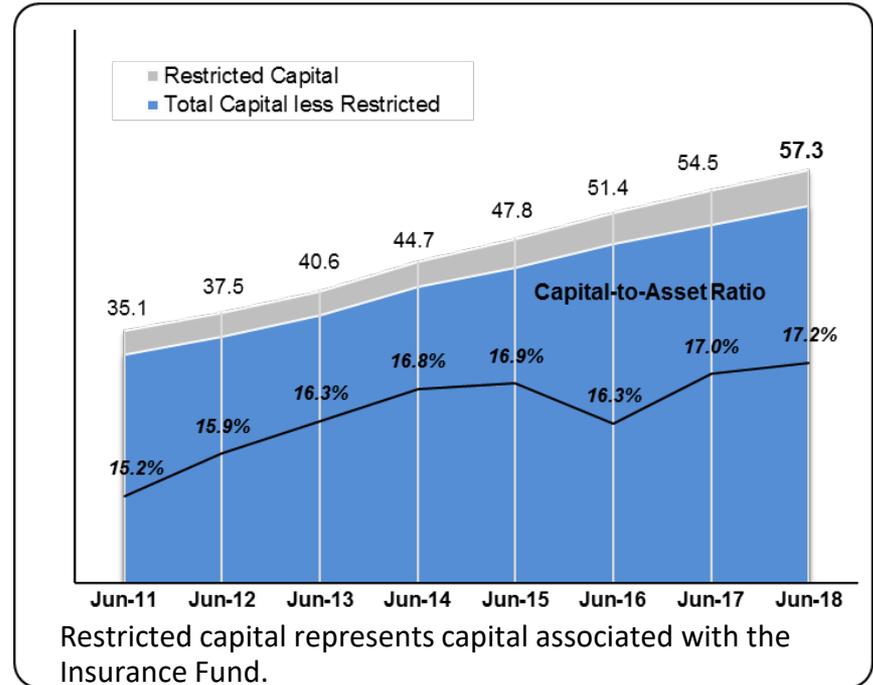


Capital and Liquidity as of June 2018

- System capital as a percentage of total assets was 17.2% compared to 16.8% at yearend 2017 and 17.0% as of June 2017
- Retained earnings as a percentage of total capital equaled 79.8%
- System liquidity equaled 180 days of coverage. As of June 30, days of available liquidity for the four funding banks ranged from 145 to 234 days.

Source: FCS Quarterly Information Statements

Total System Capital (\$B)



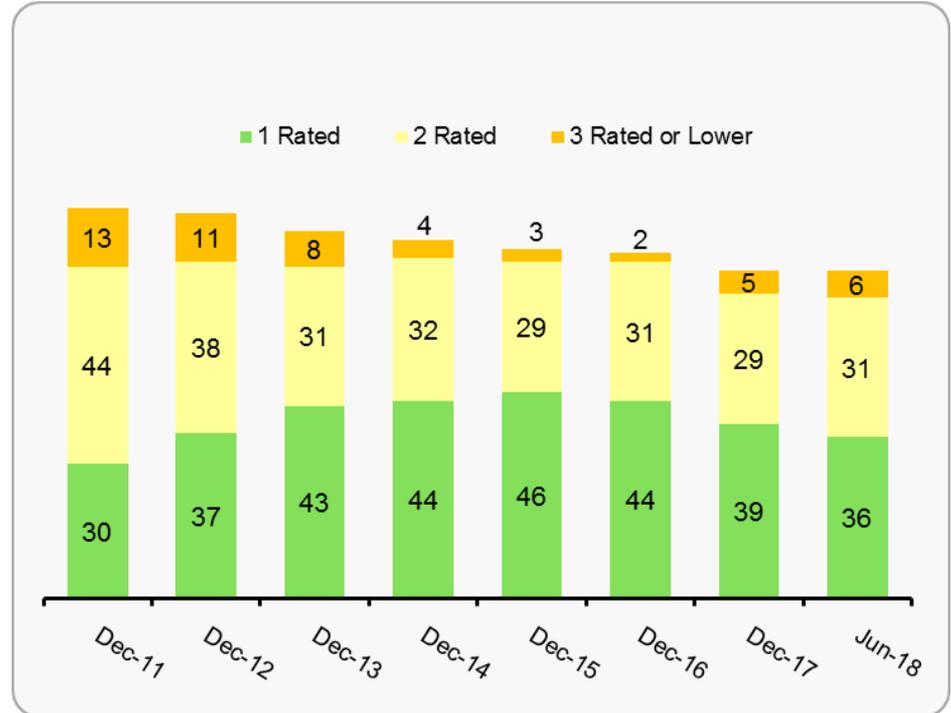


System FIRS ratings



FIRS Ratings

- Composite FIRS ratings reflect the System's solid financial performance and favorable portfolio credit quality
- Almost 92% of System Banks and Associations have a Composite FIRS rating of 1 or 2
- Institutions rated 3 or lower account for 2.0% of total System assets

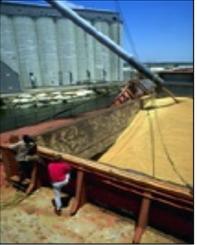


Source: FCA's FIRS ratings database



Summary and final points

- ▶ Risks for agriculture:
 - trade uncertainties, rising interest rates, aligning production with demand, declining farm liquidity, drought in the Southwest
- ▶ The System is financially safe and sound
- ▶ Loan portfolio risk is rising as financial challenges continue for certain ag sectors, but the level remains manageable.
- ▶ System institutions are well-capitalized and have substantial risk-bearing capacity





Questions



THANK YOU