



FCA Board Meeting April 2019

Quarterly Report on FCS Condition April 9, 2019

**Dennis A. Shields
Hal Johnson**





Topics for Open Session

- ▶ Economic Conditions Affecting the Farm Credit System
 - Macroeconomic factors
 - Commodity indicators and farm income prospects
 - Diversification of farm sector and risks ahead
- ▶ FCS Condition and Performance
 - System growth
 - Loan portfolio
 - Earnings and capital
 - Financial Institution Rating System (FIRS)





Economic Conditions Affecting the Farm Credit System

Dennis A. Shields
Chief Economist
Office of Regulatory Policy



Economic factors remain favorable



	2017	2018	2019F
U.S. real gross dom. product (change)	+2.2%	+2.9%	+2.4%
Unemployment rate	4.4%	3.9%	3.7%
10-year Treasury yield (end of year)	2.8%	2.7%	3.1%
U.S. dollar (change)	1.7% stronger	1.1% weaker	0.1% stronger
Crude oil price	\$51/barrel	\$65/barrel	\$56/barrel
Diesel fuel	\$2.65 per gal.	\$3.18 per gal.	\$3.01 per gal.

Sources: Consensus Economics, USDA/Economic Research Service, U.S. Energy Information Administration.



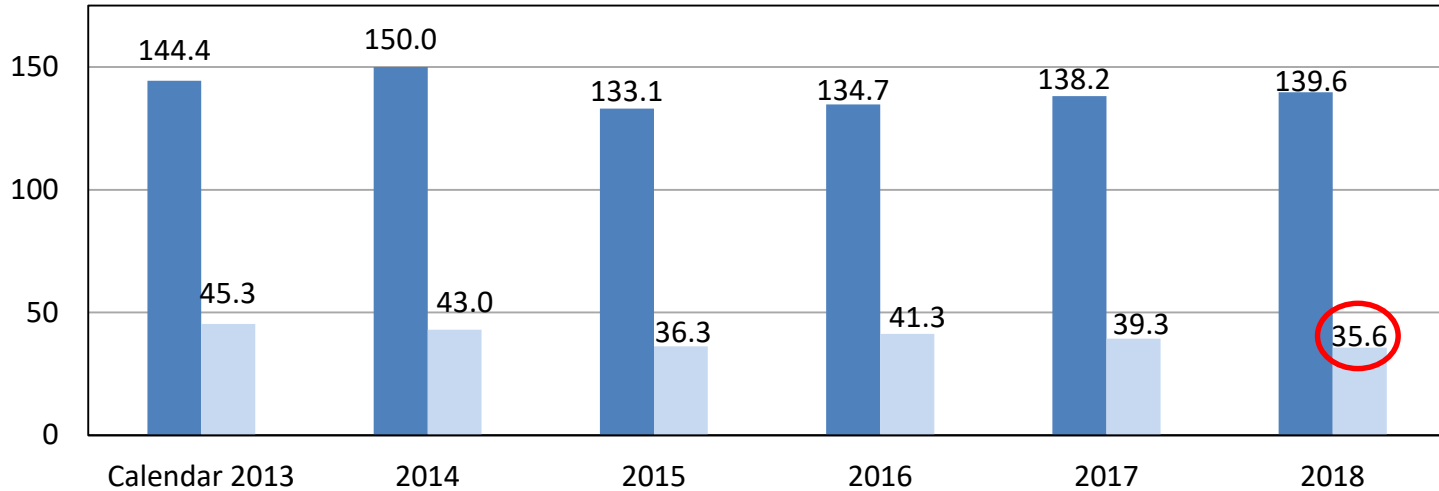
U.S. agricultural exports increased in 2018, but final quarter was weak



U.S. agricultural exports

\$ billion

■ Jan.-Dec. ■ Oct.-Dec.

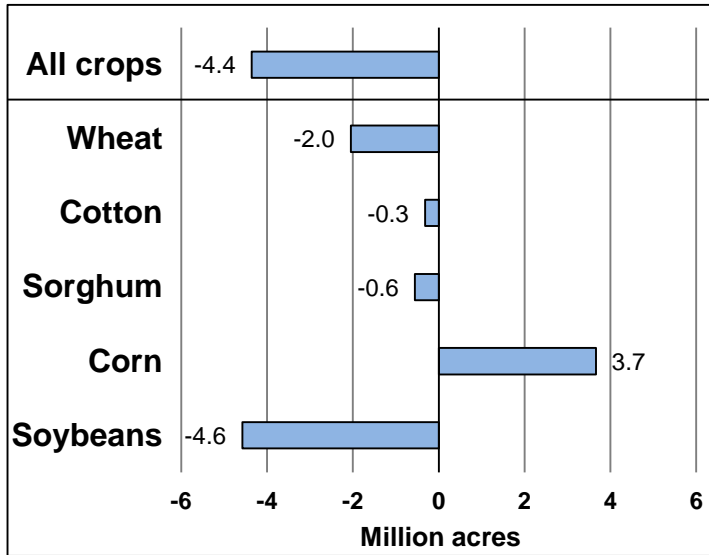


Source: USDA/FAS Global Agricultural Trade System.

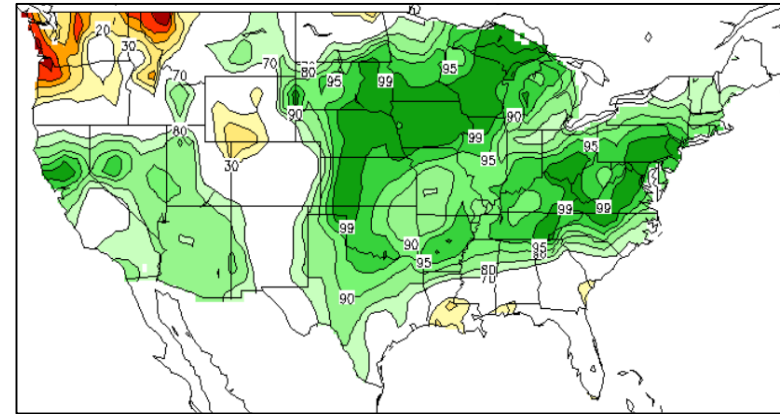


Trade impact: the market is telling farmers to plant fewer soybeans (but weather matters)

Prospective plantings:
2019 change from 2018



Soil is saturated in major producing areas



Calculated soil moisture historical ranking in percentile



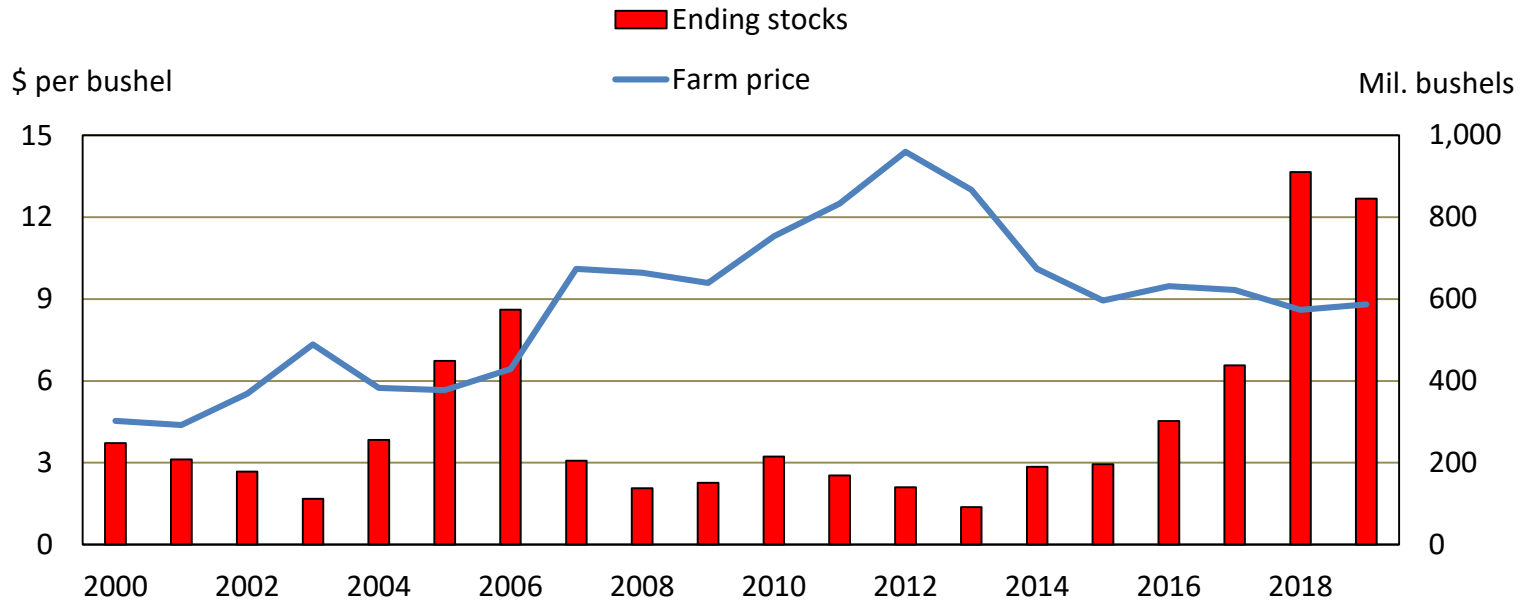
Source: *Prospective Plantings*, 3/29/19, USDA/NASS.

Source: NOAA/National Weather Service.



Soybean stocks to remain high for 2019 crop year even if planted area declines

U.S. soybean prices and ending stocks



Source: USDA.

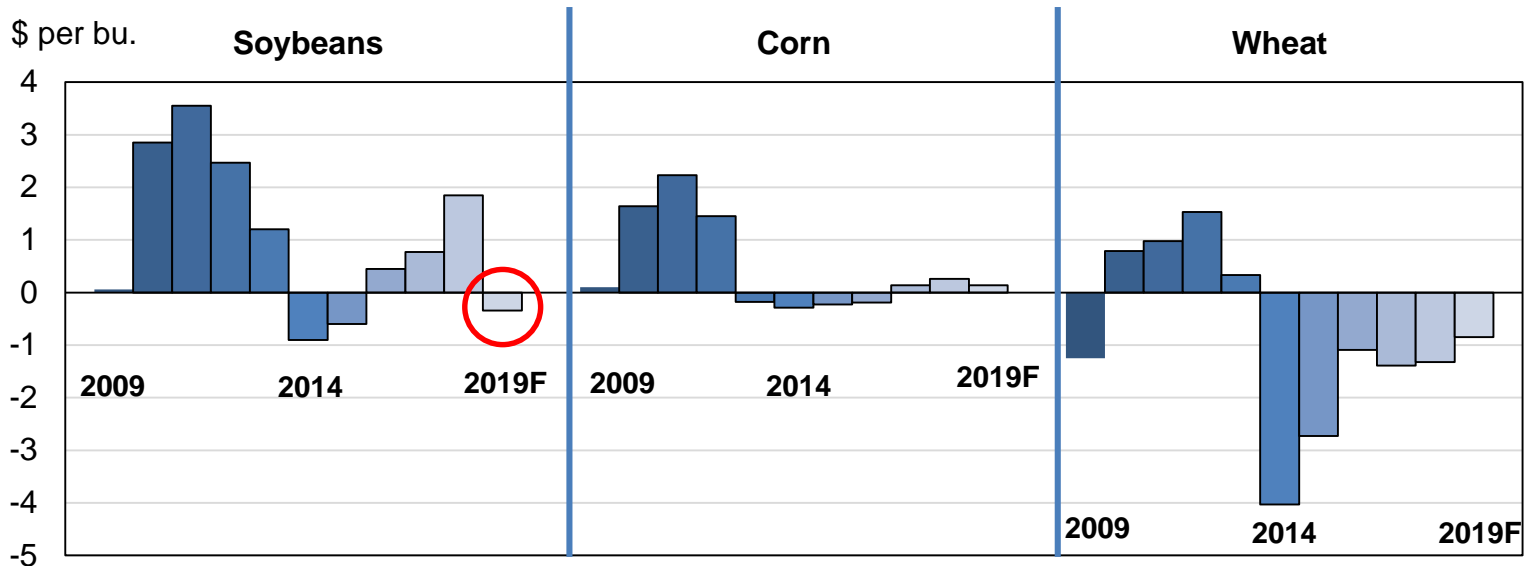




Weak or negative crop margins put pressure on farm returns



Crop margin including government payments



Sources: FCA-ORP using data from Iowa State Univ. (soybeans and corn), Kansas State Univ. (wheat) and USDA.



Farm prices depend on location

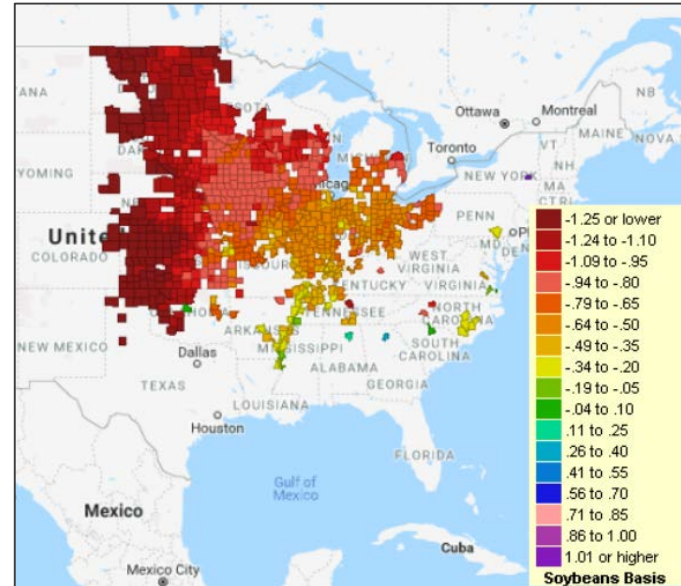


Soybean prices in February (\$/bu.)

U.S. farm price	\$8.52
North Dakota	\$7.82
Iowa	\$8.38
Illinois	\$8.71
Ohio	\$8.86

Source: USDA/NASS (monthly farm price).

Soybean basis (cash minus futures)



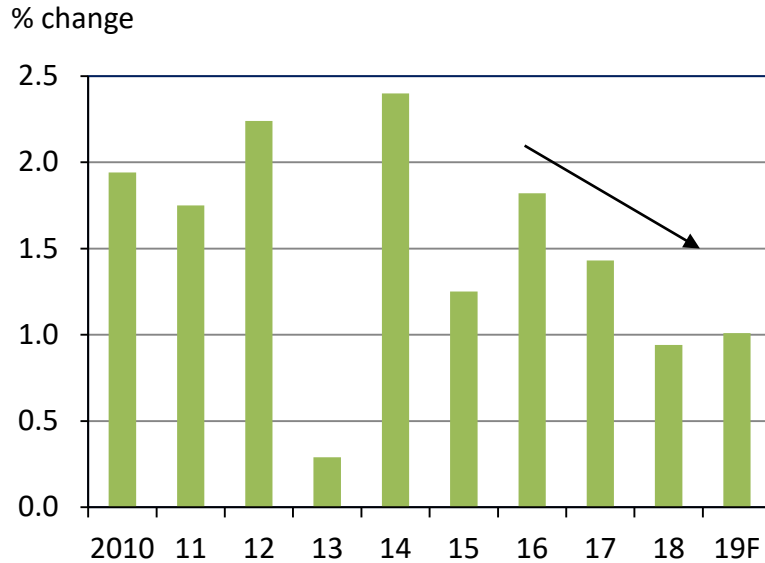
Source: <https://www.dtnpf.com/agriculture/web/agmarkets/local-grain-bids> on April 1, 2019.



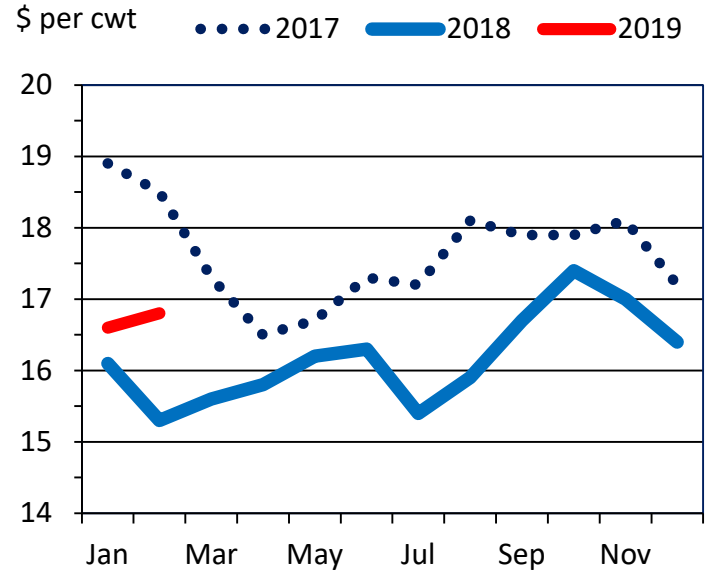
Milk production growth slows; farm prices begin to recover



U.S. milk production growth



U.S. farm milk price



Source: USDA.

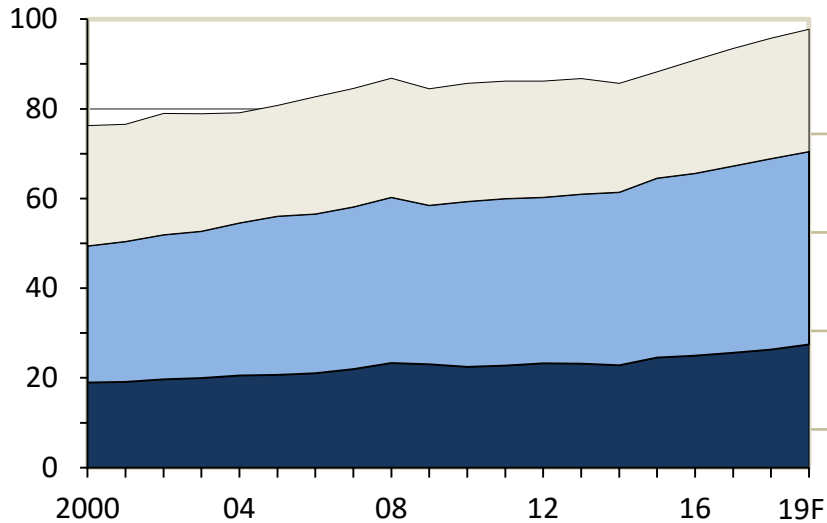


Production growth in 2019 to slow for beef and broiler meat



U.S. production

Billion lbs.



% change in production

	2017	2018	2019F
Beef	+3.8	+2.6	+1.5
Broiler	+2.4	+2.2	+1.1
Pork	+2.6	+2.9	+4.2

Sources: USDA and Livestock Marketing Information Center.

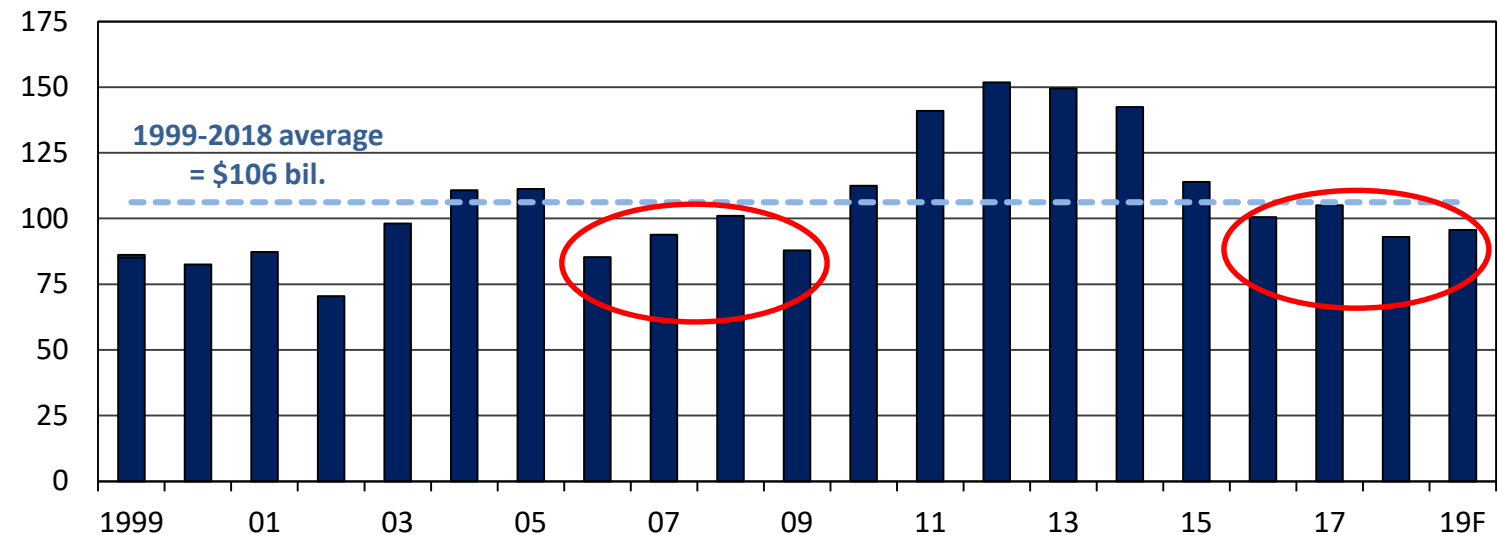


Net cash farm income in 2019 looks like the four-year period before the boom



U.S. net cash farm income

\$ billion
(2018 \$)



Source: USDA/ERS.



Farmland values are mixed in early 2019

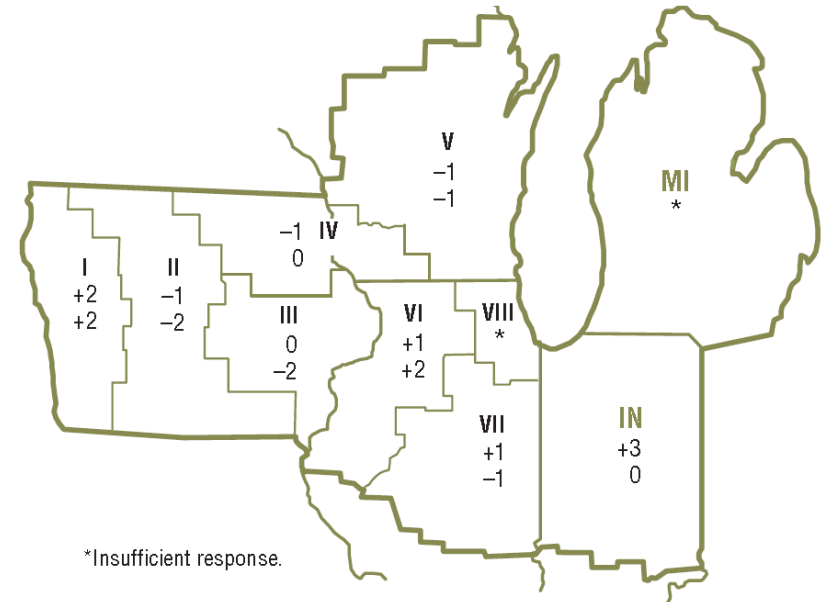
- ▶ Some markets show continued strength; modest declines in others
- ▶ Land for sale continues to be relatively modest and balanced with demand
- ▶ Surveys of lenders and real estate professionals indicate stable to somewhat lower cropland prices in 2019



% change in \$ value of “good” farmland

Top: Oct. 2018 to Jan. 2019

Bottom: Jan. 2018 to Jan. 2019



*Insufficient response.

Source: Federal Reserve Bank of Chicago.



Trade and farm policy update

- ▶ U.S.-Mexico-Canada Agreement contains small improvements over NAFTA for agriculture
- ▶ A potential agreement with China
- ▶ Farm programs for crops, dairy program upgrade, and assistance for disasters (e.g., Midwest flooding)



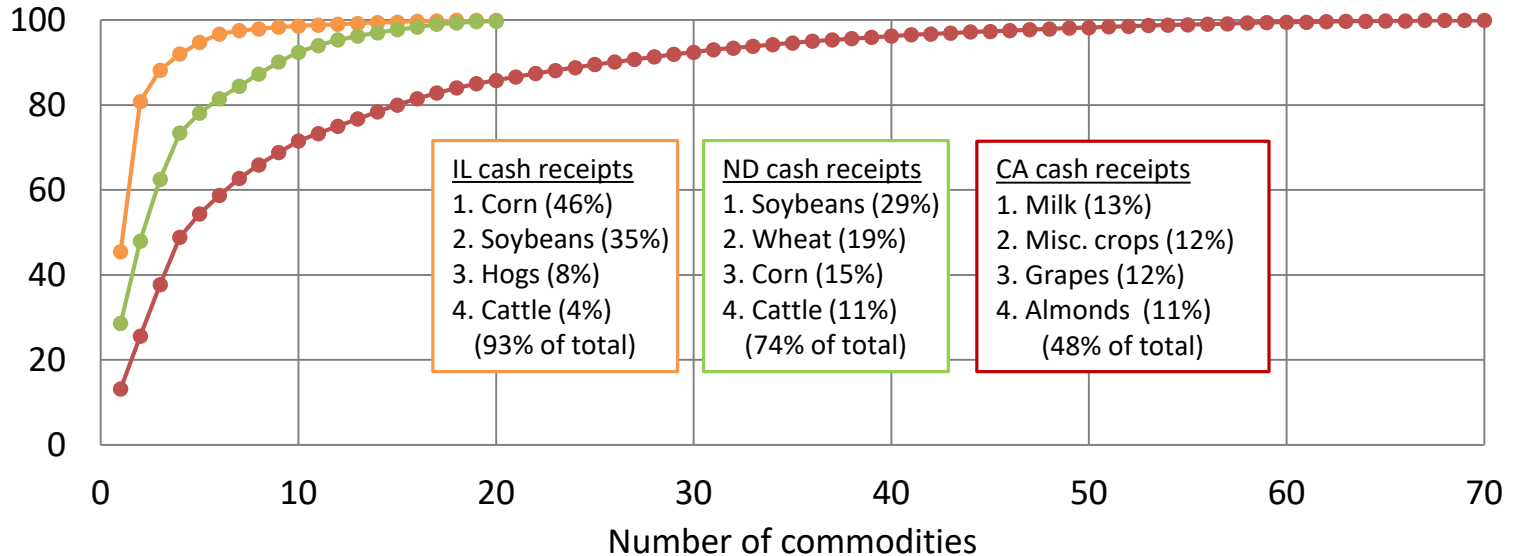


Commodity diversification in agricultural production varies by state

The farm sector is more diversified in California than in other states

Percent of state total cash receipts

— Illinois — North Dakota — California



Source: FCA-ORP using USDA/ERS cash receipts data for 2016.



Concluding comments

- ▶ U.S. farmers adjust to tariffs and weak/uncertain returns
 - Plantings to shift away from soybeans, but stocks remain high
 - Expansion slowdown for meat, poultry, and milk supports prices
 - Continued (and potentially severe) farm financial stress results in voluntary exits; others adapt to economic conditions; enhancing marketing and risk management skills are key
 - Farm safety net might not help much if tariff issues are not resolved

Risks ahead

- ▶ Permanence of lifting tariffs on U.S. farm exports
- ▶ A decline in commodity prices from current levels could impact land values





Questions



THANK YOU



Farm Credit System Condition and Performance

as of
December 31, 2018

Hal Johnson
Sr. Financial Analyst
Office of Examination



Topics

- ▶ System Growth
- ▶ Loan Portfolio
- ▶ Earnings
- ▶ Capital
- ▶ FIRS Ratings

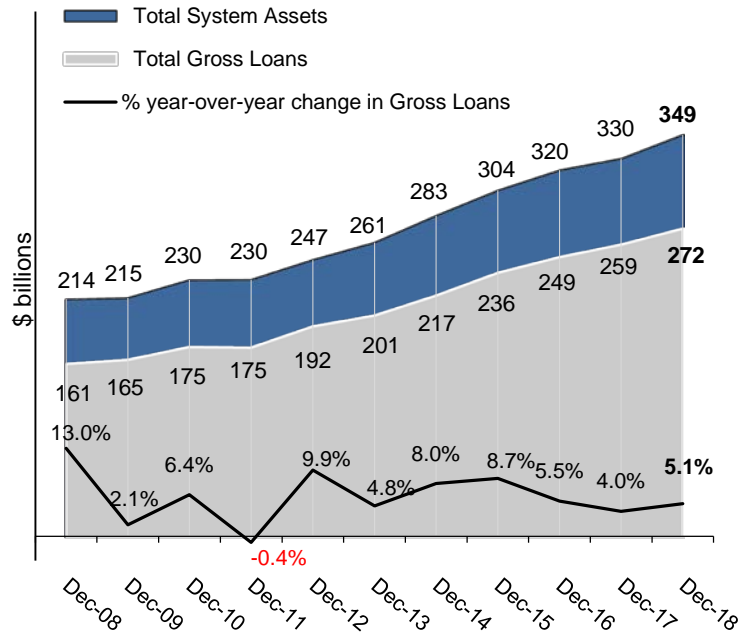




The System continues to grow at a measured pace; growth concentrated in the 4th quarter



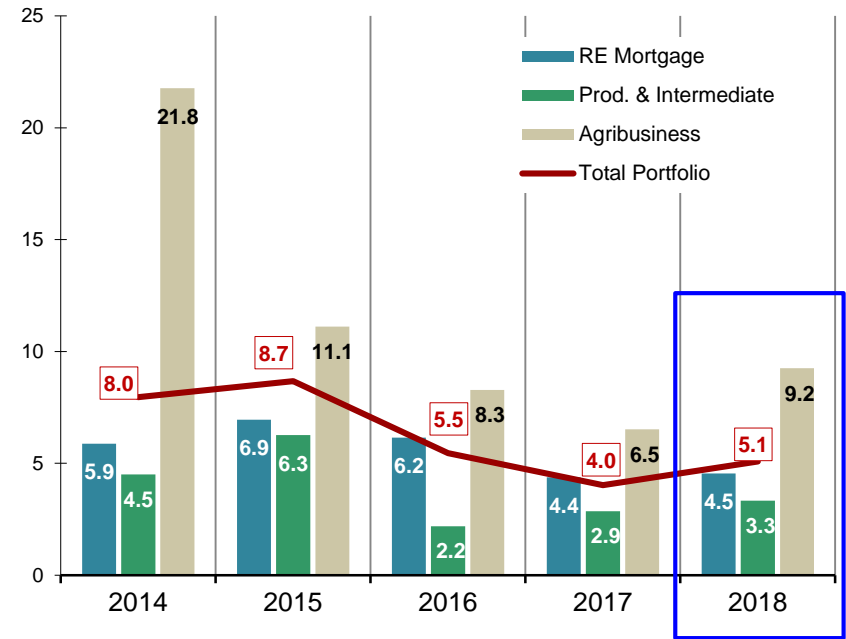
System Growth



Source: FCS Information Statement

Loan Growth by Loan Type

(% change year-over-year)



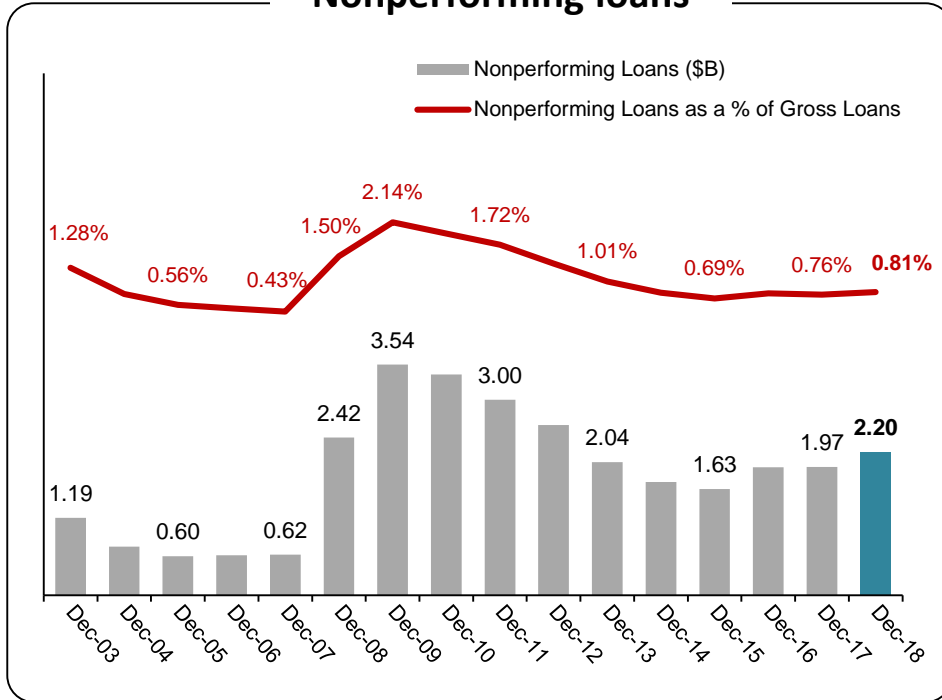
Loan type as a % of portfolio: RE Mortgage 46%;
Prod. & Intermediate 20%; Agribusiness 17%.



Portfolio credit risk edged higher in 2018

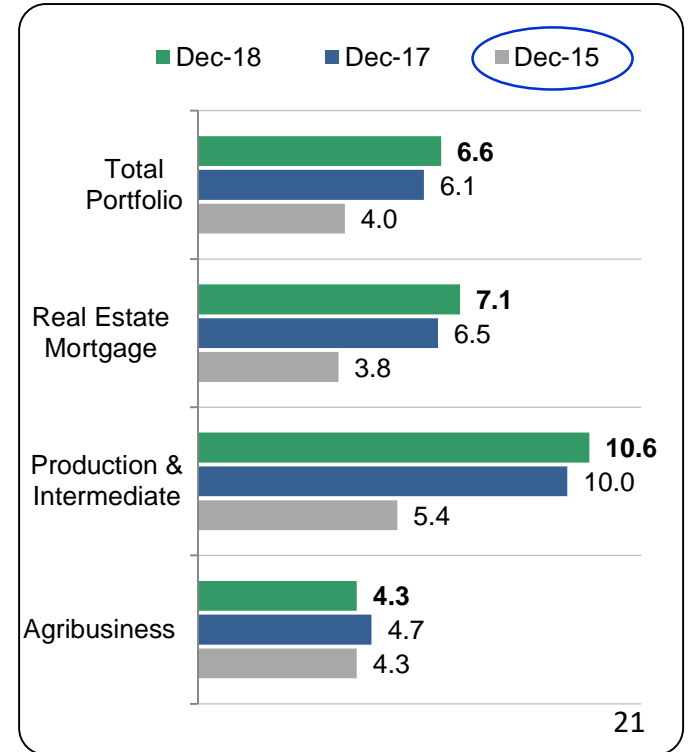


Nonperforming loans



Source: FCS Information Statement

% of Loans Classified less than Acceptable

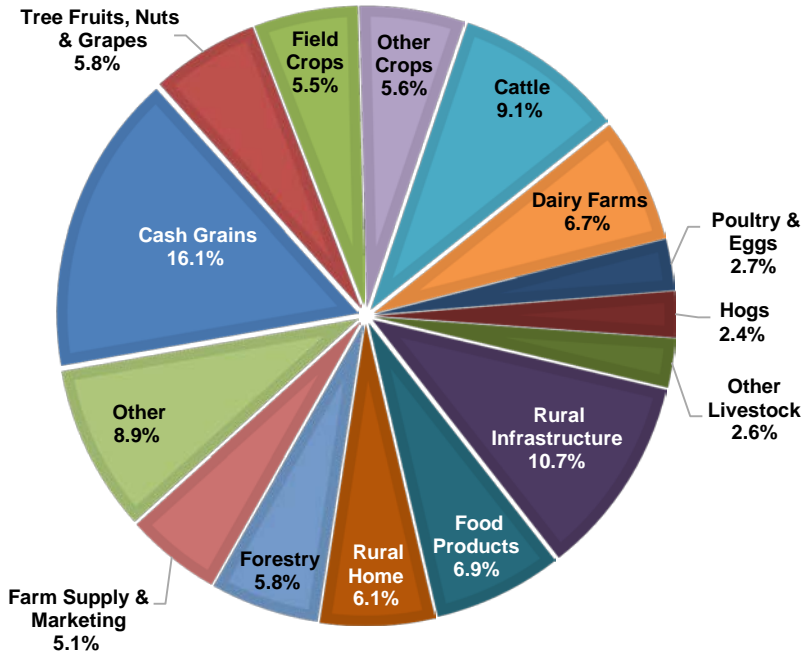




System portfolio is diversified by commodity



System Loan Portfolio by Commodity Concentration



Source: FCS Information Statement

System Loan Portfolio (\$ in millions)	Dec-18	% chg. yr. over yr.
Cash Grains	43,673	1.2%
Tree Fruits, Nuts & Grapes	15,655	9.6%
Field Crops	14,936	2.9%
Other Crop Production	15,290	5.8%
Cattle	24,738	4.0%
Dairy Farms	18,139	5.5%
Poultry & Eggs	7,377	4.2%
Hogs	6,586	9.6%
Other Livestock	7,107	2.3%
Rural Infrastructure	29,160	4.3%
Food Products	18,857	4.9%
Rural Home	16,563	3.0%
Forestry	15,768	1.9%
Farm Supply & Marketing	13,773	12.4%
Other	24,322	12.4%
Total Loans Outstanding	271,944	5.1%



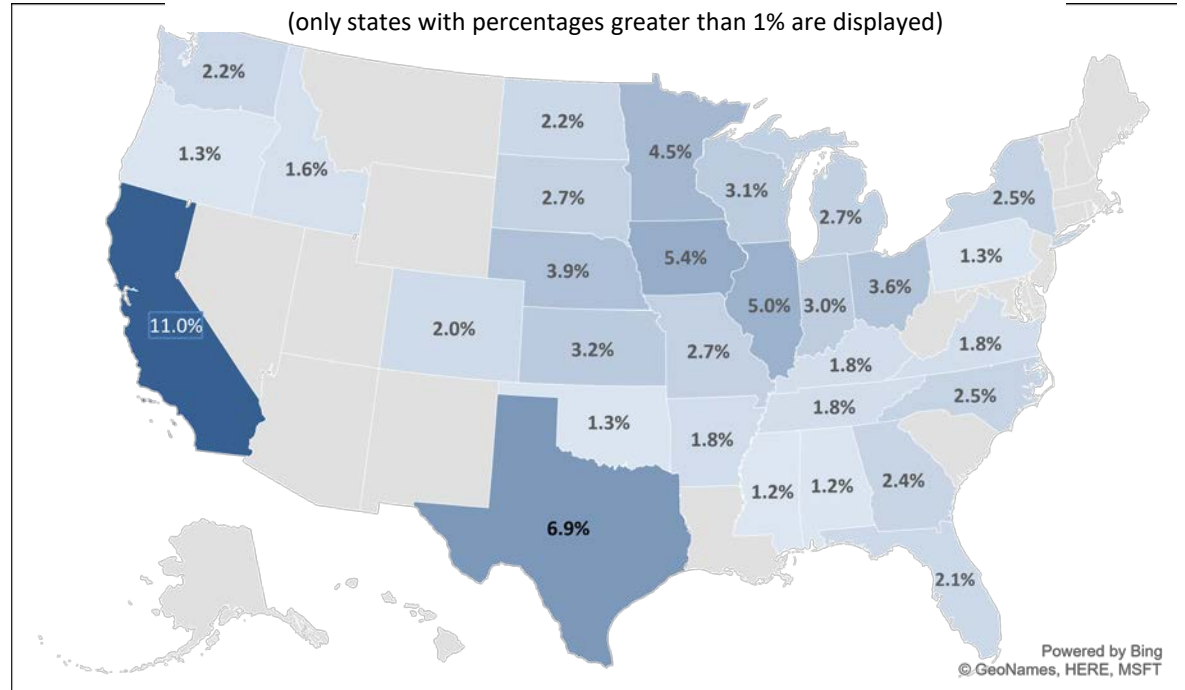
Portfolio volume is also geographically distributed



Top 5 States	% of Portfolio
California	11.0%
Texas	6.9
Iowa	5.4
Illinois	5.0
Minnesota	4.5

System Loan Portfolio by State as of yearend 2018

(only states with percentages greater than 1% are displayed)



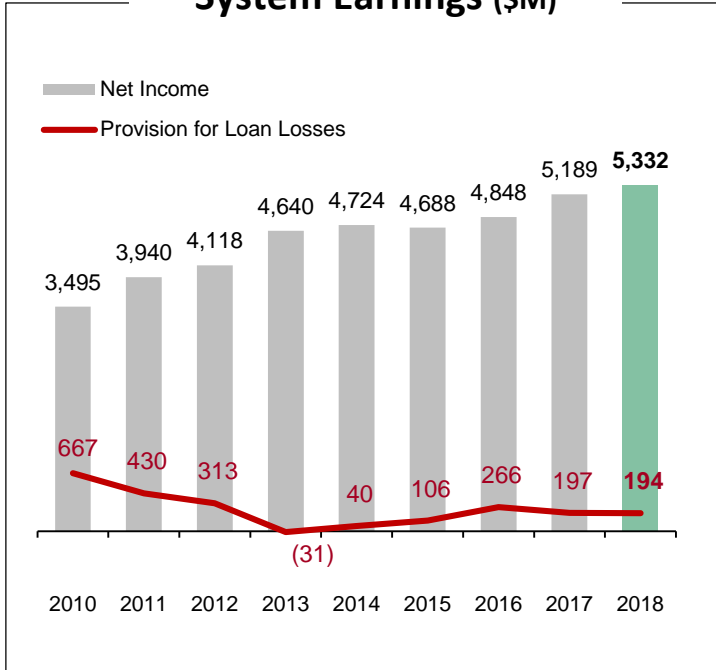
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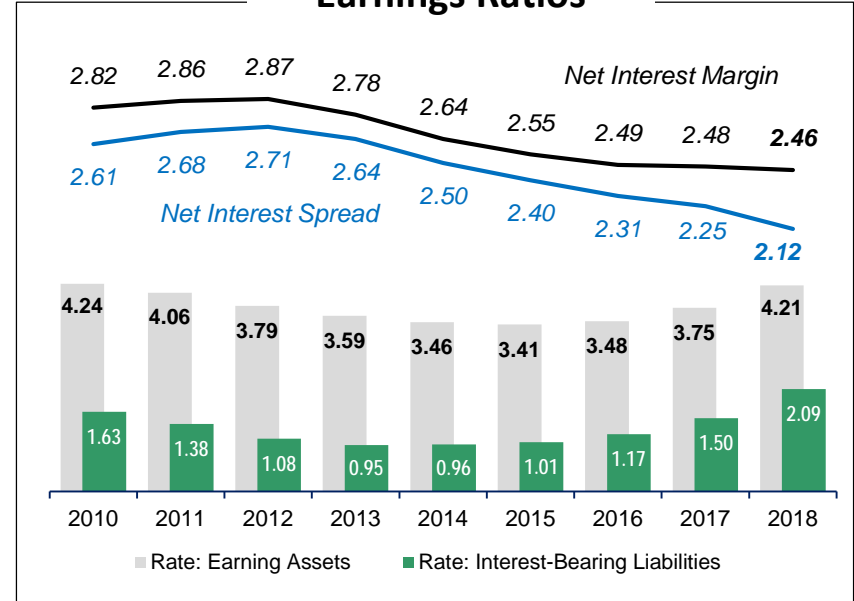
The System is financially sound; earnings remained strong in 2018



System Earnings (\$M)



Earnings Ratios



Source: FCS Information Statement



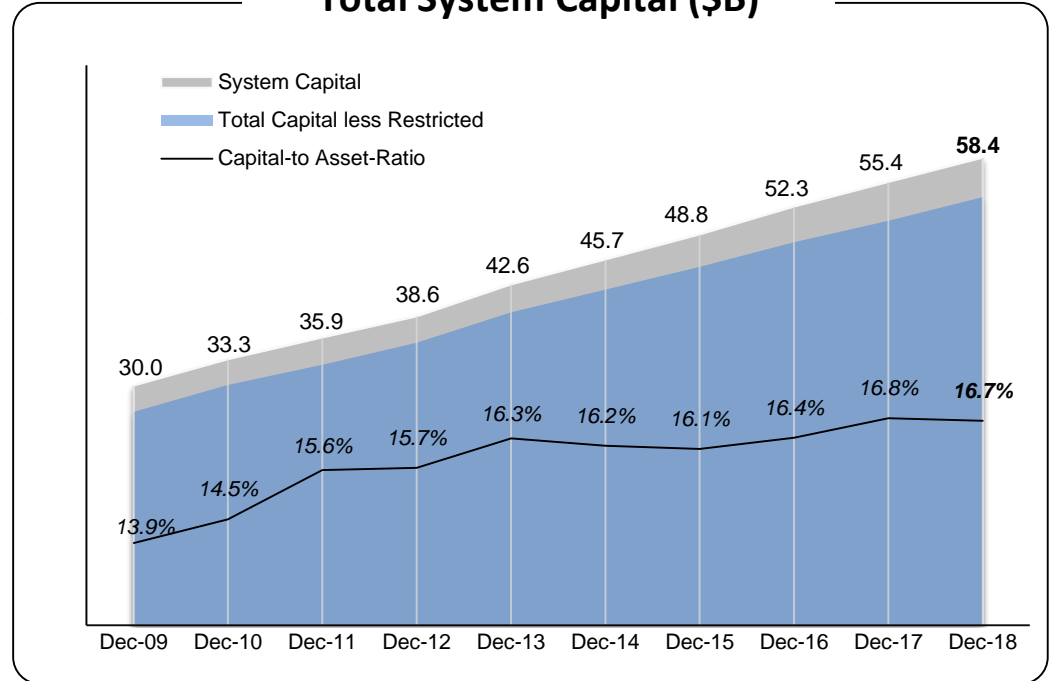
System is well-capitalized

Capital and Liquidity

as of December 31, 2018

- ▶ Retained earnings as a percentage of total capital equaled 79.5% of total capital
- ▶ The System's liquidity position equaled 182 days of coverage
- ▶ Days of available liquidity for the 4 funding banks ranged from 160 to 241 days

Total System Capital (\$B)



Source: FCS Information Statement

Restricted capital represents capital associated with the Insurance Fund.



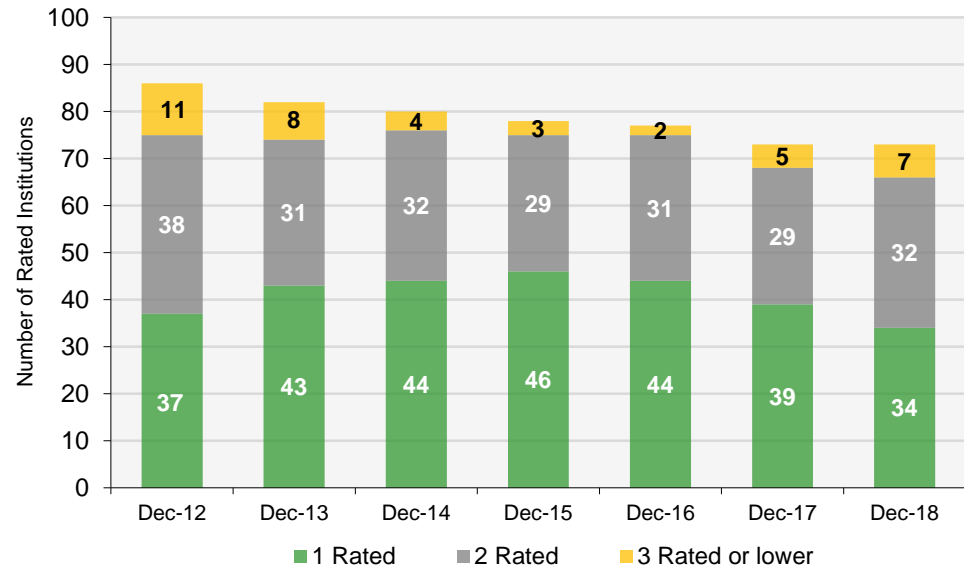
System FIRS ratings



FIRS Ratings

- Composite FIRS ratings reflect the System's solid financial performance and acceptable portfolio credit quality
- Over 90% of System Banks and Associations have a Composite FIRS rating of 1 or 2
- 3 rated or lower institutions account for less than 2.5% of total System assets

Composite FIRS Ratings Farm Credit System Banks and Associations



Source: FCA's FIRS ratings database



Summary and final points



- ▶ Challenges facing agriculture:
 - U.S. economic factors are generally favorable, but tariffs, trade uncertainties and labor costs bear watching
 - Farm sector concerns include crop prices and ending stock levels, export demand, rising input costs, and deteriorating liquidity levels
- ▶ The System is financially sound and strongly capitalized
- ▶ While portfolio loan quality is acceptable, stress remains elevated for agriculture
- ▶ System institutions have significant risk-bearing capacity and are well-positioned to support agricultural producers



Questions



THANK YOU