Quarterly Report on FCS Condition
September 9, 2021

Steve Koenig
Hal Johnson
Topics for Open Session

- Economic Conditions Affecting the Farm Credit System
  - Macro economy
  - Commodity markets
  - Farm economy

- FCS Condition and Performance
  - System growth and loan portfolio
  - Earnings and capital
  - Financial Institution Rating System (FIRS)
Economic Conditions Affecting the Farm Credit System

Steve Koenig
Senior Agricultural Economist
Office of Data Analytics and Economics
Strong economic growth anticipated

- Historically high 6.4% GDP growth rate in the 1st half of 2021
- U.S. and rural labor markets healing
- Robust business investment and balance sheets
- High levels of government support
- July consumer confidence falls to a 10-year low and consumer spending slows

GDP Growth to Remain High?

Data source: Federal Reserve Bank of St. Louis.
Inflation worries continue

Inflation accelerates in 1\textsuperscript{st} half

- GDP Implicit Price Deflator exceeds 6% in the 2\textsuperscript{nd} Quarter
- June and July CPI at 5.4%
- Debate on the “transitory” nature of inflation rages on
- 10-Year Treasury breakeven yield suggests the market anticipates more modest inflation ahead

Data source: Federal Reserve Bank of St. Louis.
Central Bank response

- $5 trillion in money supply growth
- Signals it will “soon” be “tapering” its $120 billion in monthly purchases
- Has been extensively using Overnight Reverse Repurchase Agreements since March

Data source: Federal Reserve Bank of St. Louis.
Negative real returns after 40-year absence

Corporate Yields and the Inflation Rate

Moody's Seasoned Aaa Corp Bond Yield

CPI-All Urban Consumers

Data source: Federal Reserve Bank of St. Louis.
Value of agricultural exports rise in first half

- $ volume up 24% in the first half of 2021
- Relatively stable dollar
- Exports to China are key

Data source: Bureau of Census.

U.S. Export Values to China (millions)

<table>
<thead>
<tr>
<th>Product</th>
<th>Jan - Jun 2021</th>
<th>Jan - Jun 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soybeans</td>
<td>$3,566</td>
<td>$1,339</td>
</tr>
<tr>
<td>Corn</td>
<td>$3,320</td>
<td>$61</td>
</tr>
<tr>
<td>Course Grains</td>
<td>$1,160</td>
<td>$471</td>
</tr>
<tr>
<td>Pork &amp; Pork Products</td>
<td>$1,086</td>
<td>$1,362</td>
</tr>
<tr>
<td>Forest Products</td>
<td>1,012</td>
<td>815</td>
</tr>
<tr>
<td>Cotton</td>
<td>$854</td>
<td>$643</td>
</tr>
<tr>
<td>Beef &amp; Beef Products</td>
<td>$623</td>
<td>$54</td>
</tr>
<tr>
<td>Wheat</td>
<td>$458</td>
<td>$136</td>
</tr>
<tr>
<td>Poultry Meat &amp; Prods (exclude eggs)</td>
<td>$396</td>
<td>$306</td>
</tr>
<tr>
<td>Dairy Products</td>
<td>$353</td>
<td>$242</td>
</tr>
</tbody>
</table>

# Includes, seafood, forestry, and biofuels. * First 6 months.

Share of Total Ag and Related Ag Exports

U.S. Ag/Food Exports 1st Half of the Year

- Nonagricultural foods, etc.
- Alcoholic beverages, excluding wine
- Rice
- Wine, beer, and related products
- Sorghum, barley, oats
- Oils, fats, and oils
- Fish and shellfish
- Bakery products
- Dairy products and eggs
- Wheat
- Vegetables
- Fruits, frozen juices
- Nuts
- Animal feeds, n.e.c.
- Other foods
- Corn
- Soybeans
- Meat, poultry, etc.

Billions of dollars
Key grain and oilseed revenues soar

- Projected 2021/22 corn and soybean revenues to rise $55 billion over 2019/20
- Strong export and domestic demand and limited supplies should keep prices elevated
- Tight supplies forecasted

### U.S. 2021/2022 Ending Stocks-to-Total Use

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soybeans</td>
<td>3.5%</td>
</tr>
<tr>
<td>Feed grains</td>
<td>8.6%</td>
</tr>
<tr>
<td>Rice</td>
<td>15.4%</td>
</tr>
<tr>
<td>Cotton</td>
<td>17.1%</td>
</tr>
<tr>
<td>Wheat</td>
<td>30.5%</td>
</tr>
</tbody>
</table>

### World Stocks-to-Use Ratio

<table>
<thead>
<tr>
<th>Commodity</th>
<th>2019/20</th>
<th>2020/21 (Est.)</th>
<th>2021/22 (Proj.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cotton</td>
<td>95.5%</td>
<td>77.1%</td>
<td>70.7%</td>
</tr>
<tr>
<td>Wheat</td>
<td>39.8%</td>
<td>36.8%</td>
<td>35.5%</td>
</tr>
<tr>
<td>Rice, Milled</td>
<td>35.8%</td>
<td>34.9%</td>
<td>33.1%</td>
</tr>
<tr>
<td>Coarse Grains</td>
<td>23.3%</td>
<td>21.5%</td>
<td>20.9%</td>
</tr>
<tr>
<td>Oilseeds</td>
<td>22.1%</td>
<td>20.8%</td>
<td>20.6%</td>
</tr>
</tbody>
</table>
Higher costs to erode crop revenue gains

- Illinois input costs forecasted to rise sharply in 2022
- Higher fertilizer expenses to be the biggest cost driver
- Land costs (rental costs) should also rise significantly
- Any lowering of revenues would translate into thinner margins for next year’s crop

Source: University of Illinois.
Stronger crop revenues fires up land markets

- Cropland: $4,420 per acre up 7.8%
- Pastureland: $1,480 per acre up 5.7%
- Rental rate increases lag land value increases
- Midwest banker surveys and others suggest stronger price increases

### Year-over-year changes in the second quarter of 2021

<table>
<thead>
<tr>
<th>Federal Reserve District Survey</th>
<th>Cropland Value*</th>
<th>Cropland Rental Rates*</th>
<th>Ranch Pastureland Value</th>
<th>Pasture Rental Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chicago</td>
<td>14</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Kansas City</td>
<td>11</td>
<td>7</td>
<td>11</td>
<td>1</td>
</tr>
<tr>
<td>Minneapolis</td>
<td>16</td>
<td>9</td>
<td>13</td>
<td>6</td>
</tr>
</tbody>
</table>

*Nonirrigated

Data sources: District Federal Reserve Banks and USDA.
Land markets reflect financial conditions

- Land market drivers
  - Higher crop revenues
  - Large government payments
  - Negative real borrowing rates
  - Inflation fears and nonfarmer interest
  - Limited supply of land on the market
  - Stronger farm financial footing

- Farm Financial Indicators
  - Land prices push farm assets higher
  - Strong farm income
  - Improving credit quality
  - Rising farm debt
Drought damage piles up

Estimated Production cuts vs. 2020

- **Northern Plains**
  - Spring wheat – 41%
  - Durum wheat – 50%
  - Montana barley – 54%
  - North Dakota dry edible beans – 46%
  - South Dakota alfalfa hay – 50%

- **Western States**
  - Washington winter wheat – 44%
  - Washington pears – 20%
  - California almonds – 10%

- **Pasture rated “Poor to Very Poor”**
  - 10 states > than 60% on 8/23/21
  - WY, UT, SD, ND, NV, MN, MT, WA, OR, ID

Source: USDA.
Outlook for proteins

- USDA’s 2022 forecast calls for modest increases in cattle prices but lower hog prices
- With exception of milk, prices are forecast to be above 2019 or 2020 levels
- Except for dairy, near-term producer margins are generally favorable
- Higher production costs are likely to erode 2022 gains

Data source: USDA/WASDE August 2021.
Improving cattle outlook

- Cattle numbers are declining, aided by herd liquidations from drought
- Tighter cattle supplies and robust consumer demand lift packer bids
- Retail beef prices are approaching new highs, making pork and chicken more attractively priced
- Feedlot profitability is being hampered by higher feeder cattle costs and higher feed costs

Source: USDA.
Source: USDA & Livestock Marketing Information Center.
Higher returns predicated for cow-calf producers

- 1/3 of total cattle inventory is in drought areas – West and Northern Plains
- Poor pastures and high hay costs in those regions to accelerate cow slaughter rates
- Higher cow-calf returns are predicated on higher calf prices due to the constraints on supply resulting from herd liquidations
- This cattle cycle could generate calf prices that outpace those in 2015 if the liquidation continues at the current pace

Source: USDA & Livestock Marketing Information Center.
Dairy production pressures margins

- Production increased 2% in July relative to last year with a 1.3% herd expansion
- Dairies face limited margins due to flat pricing and higher feed costs
- While exports have been healthy, domestic demand remains unsettled
- USDA announced $350M in new pandemic assistance payments to dairy farmers

Source: USDA-AMS & USDA-NASS. Livestock Marketing Information Center.
Historic lumber price run-up ends

- Lumber and wood product prices set records this spring, but have since fallen back
- Softwood timber did not experience the large price rise
- Housing starts stall on affordability problems and building material shortages
- Supply catching up as exceptional demand wanes

Source: Federal Reserve Bank of St. Louis.
Concluding comments

- Robust near-term U.S. economy
- Future inflation rates and central bank responses remain critical
- Strong U.S. farm economy with certain commodities and regions (drought) facing challenges
- Exports, particularly to China are key
- Fall harvests are underway
Questions

Thank You!
Farm Credit System
Condition and Performance

as of
June 30, 2021

Hal Johnson
Sr. Financial Analyst
Office of Examination
Topics

- System growth
- Portfolio credit quality
- Earnings
- Capital | Liquidity
- FIRS
Real estate mortgage lending drives System growth in the first half of the year

Total Assets 6/30/21
$407.8 billion  +0.9% Qtr  +1.8% YTD  +6.0% 12M

Gross Loans 6/30/21
$323.2 billion  +0.4% Qtr  +2.4% YTD  +8.8% 12M

Quarterly Loan Growth

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

Source: FCS Information Statements
Portfolio loan quality is very good; credit risk elevated for certain agricultural sectors

Nonperforming Assets (6/30/21) $1.861 billion

Delinquencies (1) (6/30/21) 0.24%

Qtr chg. -$44M or -2.3%
12 month chg. -$626M or -33.6%

Q4 '20 0.28%
Q2 '20 0.37%

(1) accruing loans 30 days or more past due as a % of accruing loans

% of Loans Classified less than Acceptable

Source: FCS Information Statements

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System is financially sound; reports strong year-over-year earnings growth

Source: FCS Information Statements

**System Earnings ($M)**

- Year-to-date System Net Income
- Year-to-date Provisions for Loan Losses

<table>
<thead>
<tr>
<th>2Q-14</th>
<th>2Q-15</th>
<th>2Q-16</th>
<th>2Q-17</th>
<th>2Q-18</th>
<th>2Q-19</th>
<th>2Q-20</th>
<th>2Q-21</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,341</td>
<td>2,273</td>
<td>2,337</td>
<td>2,466</td>
<td>2,649</td>
<td>2,668</td>
<td>2,873</td>
<td>3,441</td>
</tr>
</tbody>
</table>

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<th>2Q-14</th>
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<th>2Q-19</th>
<th>2Q-20</th>
<th>2Q-21</th>
</tr>
</thead>
<tbody>
<tr>
<td>(35)</td>
<td>50</td>
<td>160</td>
<td>117</td>
<td>87</td>
<td>66</td>
<td>158</td>
<td>(30)</td>
</tr>
</tbody>
</table>

**Net Interest Spread**
- (YTD annualized)
- Jun '19: 2.00%
- Jun '20: 2.21%
- Jun '21: 2.33%

**Net Interest Margin**
- (YTD annualized)
- Jun '19: 2.40%
- Jun '20: 2.44%
- Jun '21: 2.46%

**% increase in Average Earning Assets**
- (1) year-to-date annualized

- Jun '19: 6.8%
- Jun '20: 6.2%
- Jun '21: 9.8%

(1) Source: FCS Information Statements
System is strongly capitalized; well-positioned for the current risk environment

**Capital and Liquidity**
(as of June 30, 2021)

- **Total Regulatory Capital:**
  - Banks | 14.7% to 18.5%
  - Associations | 11.5% to 35.2%

- Days of liquidity for the four funding banks ranged from 165 to 223 days

- Capital and the allowance for loan losses as a % of loans outstanding ranged from 18.2% to 23.2% at a combined district level

Source: FCS Information Statements

**Total System Capital ($B)**

- System Capital
- Total Capital less Restricted

Note: Restricted capital represents capital associated with the Insurance Fund.

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System FIRS ratings

**FIRS Ratings**
( based on 6/30/21 financial reporting )

- Composite FIRS ratings were largely unchanged in the 2nd quarter
- Over 95% of System banks and associations have a Composite FIRS rating of 1 or 2
- Institutions rated 3 or lower hold less than 1.0% of System assets

**Composite FIRS Ratings**
Farm Credit System Banks and Associations

Source: FCA’s FIRS ratings database
Summary and final points

- U.S. economic activity ramps-up, inflation worries remain
- Soaring grain and oilseed revenues push farmland prices higher
- Revenues for much of the livestock sector are expected to improve next year, but higher production costs could erode gains
- All eyes focused on continuing drought and weather in the West
- The Farm Credit System continues to be safe and financially sound. Portfolio loan quality is strong, but credit risk is elevated for certain sectors and geographic regions
- System institutions are strongly capitalized and well-positioned to meet borrower funding and liquidity needs
Questions

THANK YOU