

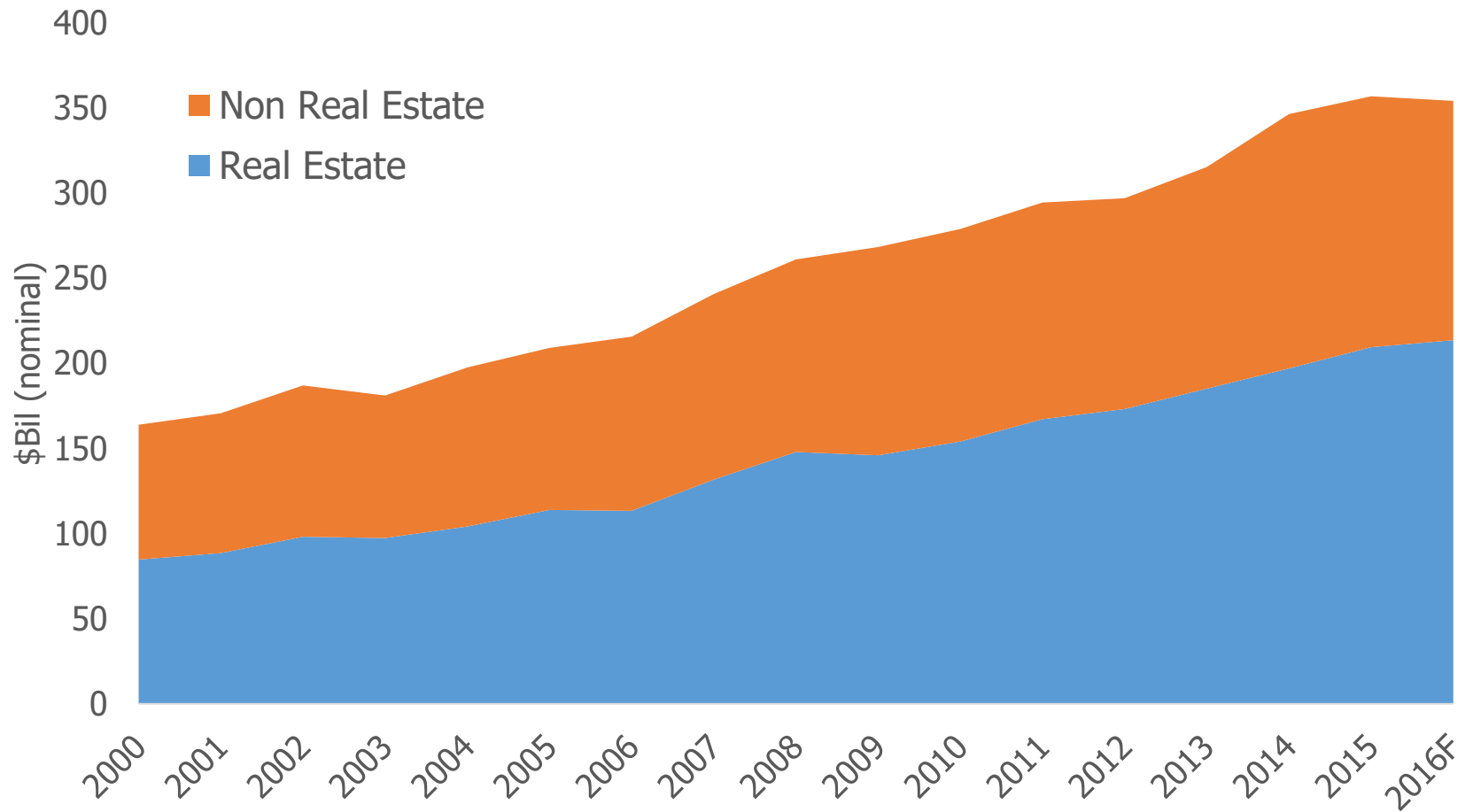
Agricultural Credit Market Update

Todd H. Kuethe

Agricultural Credit Market Update

- **Tight margins and exhausted working capital reserves**
- **Farms may wish to use debt capital to meet short-term liquidity needs**
- **Farmers likely to face increased scrutiny**

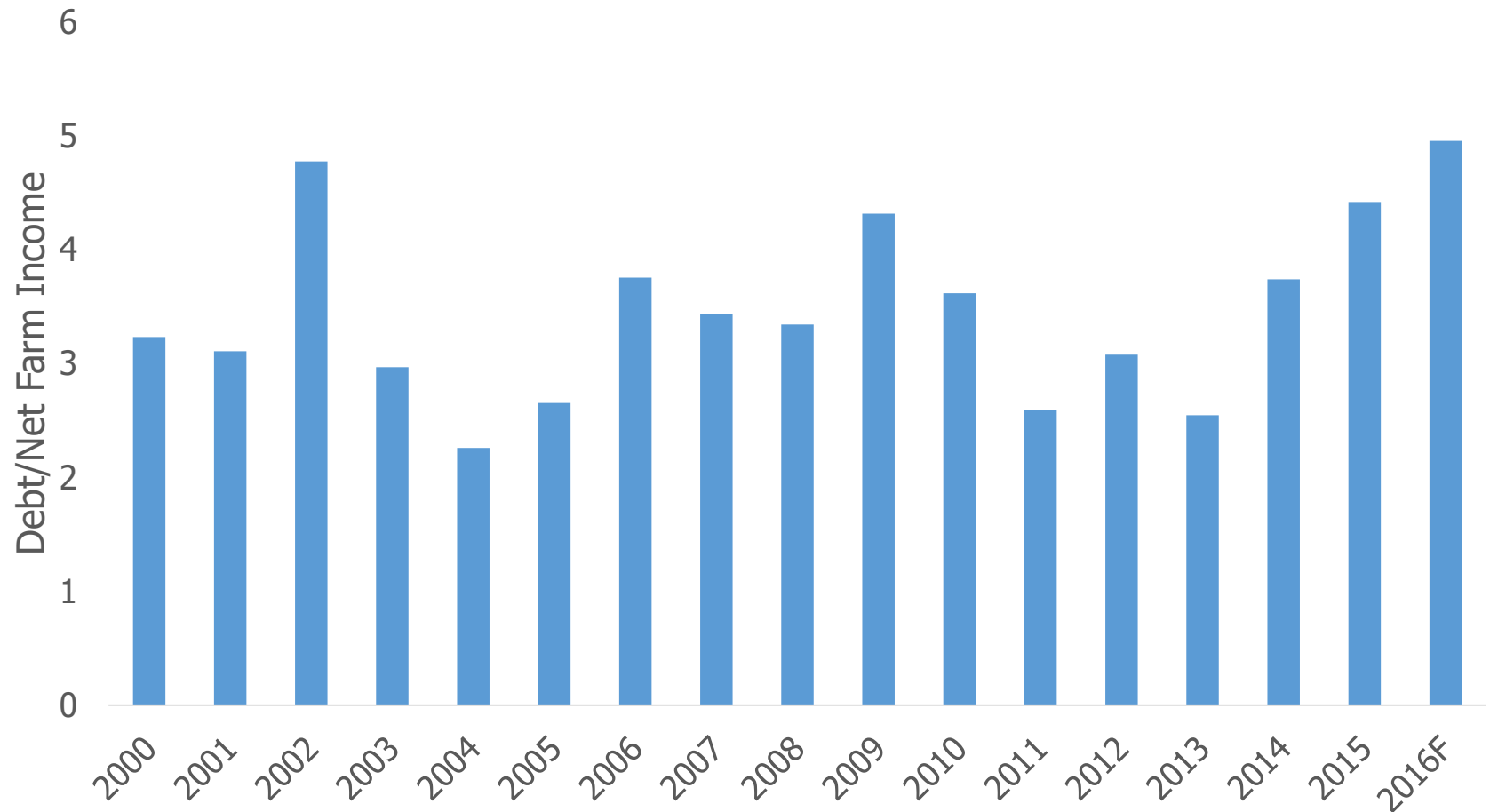
Total farm debt has been increasing, slowly



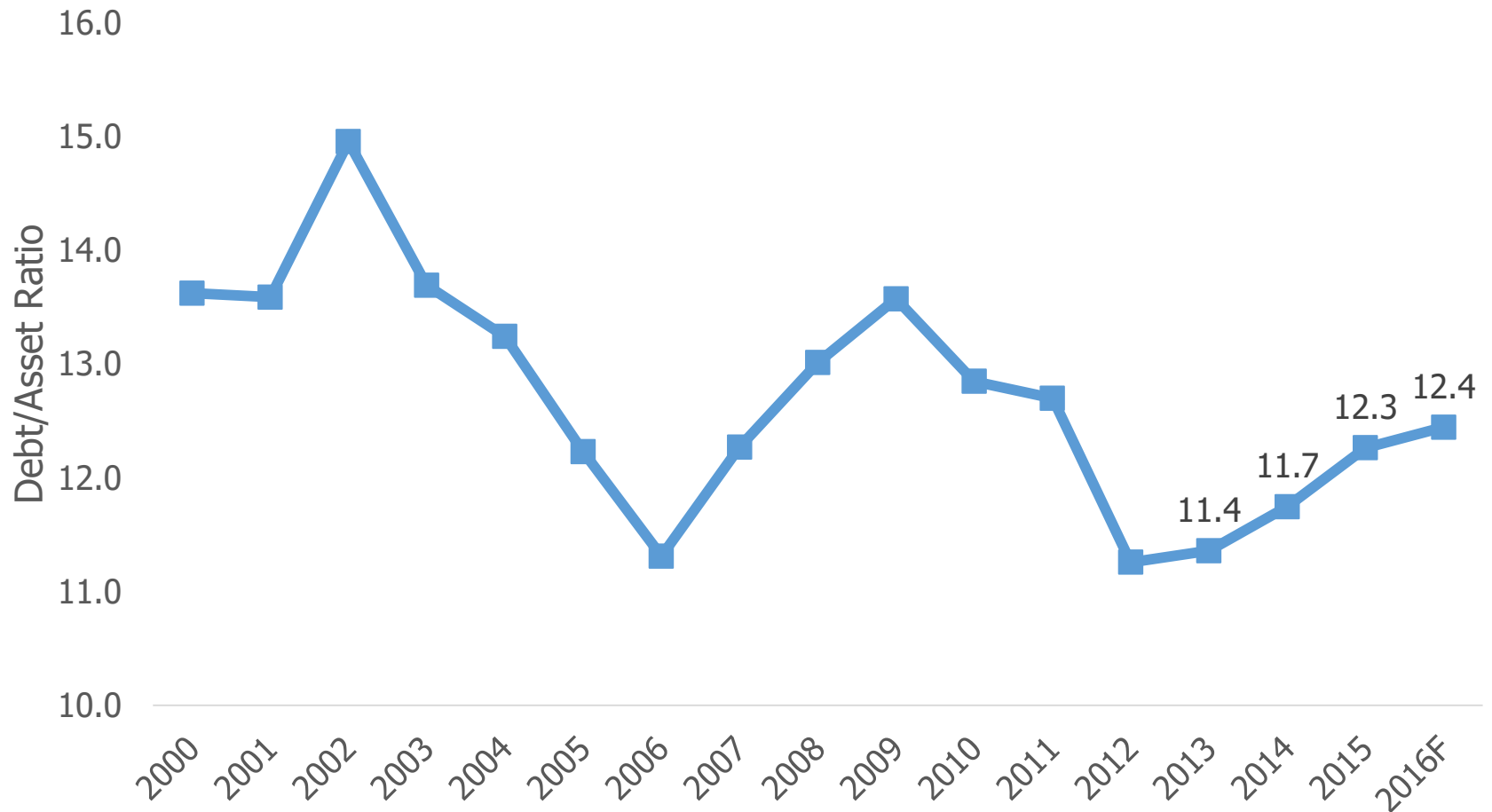
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Source: USDA-ERS

Debt relative to income has been increasing, quickly (liquidity risk)

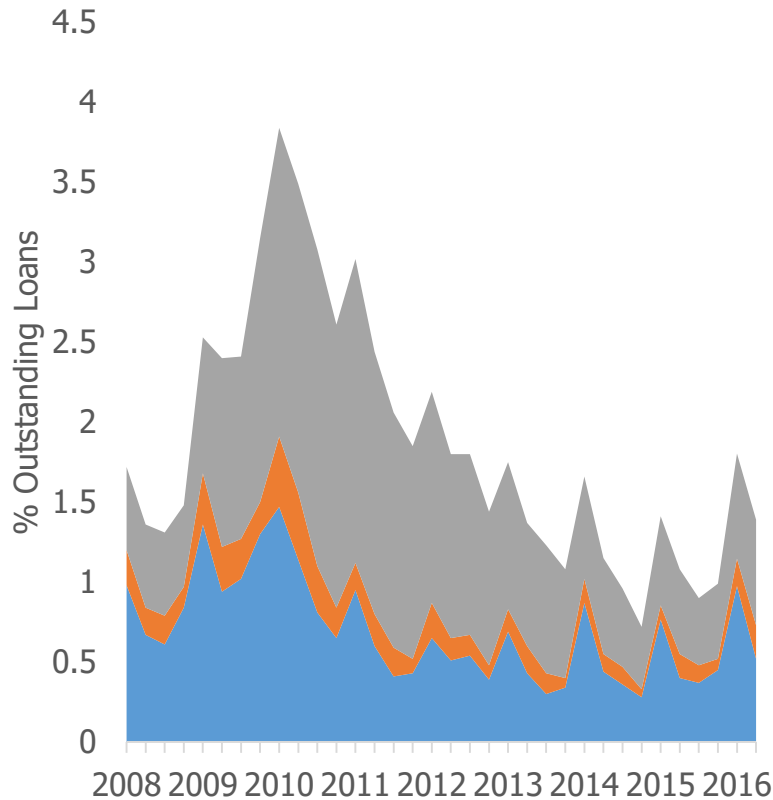


Solvency position still strong, but signs of increasing risk

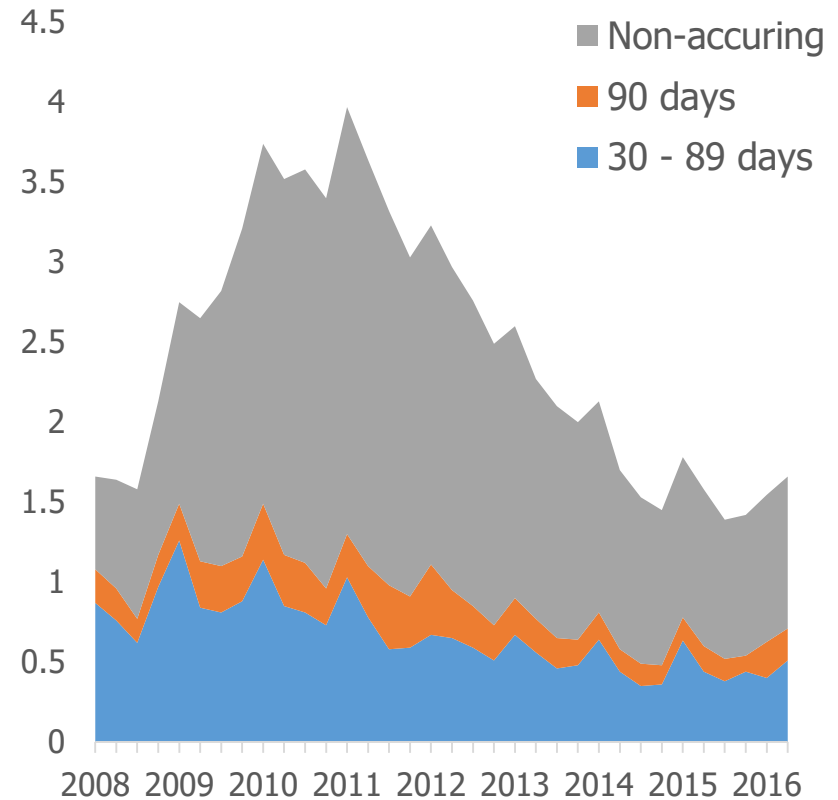


After long period of decline, delinquencies are rising (slightly)

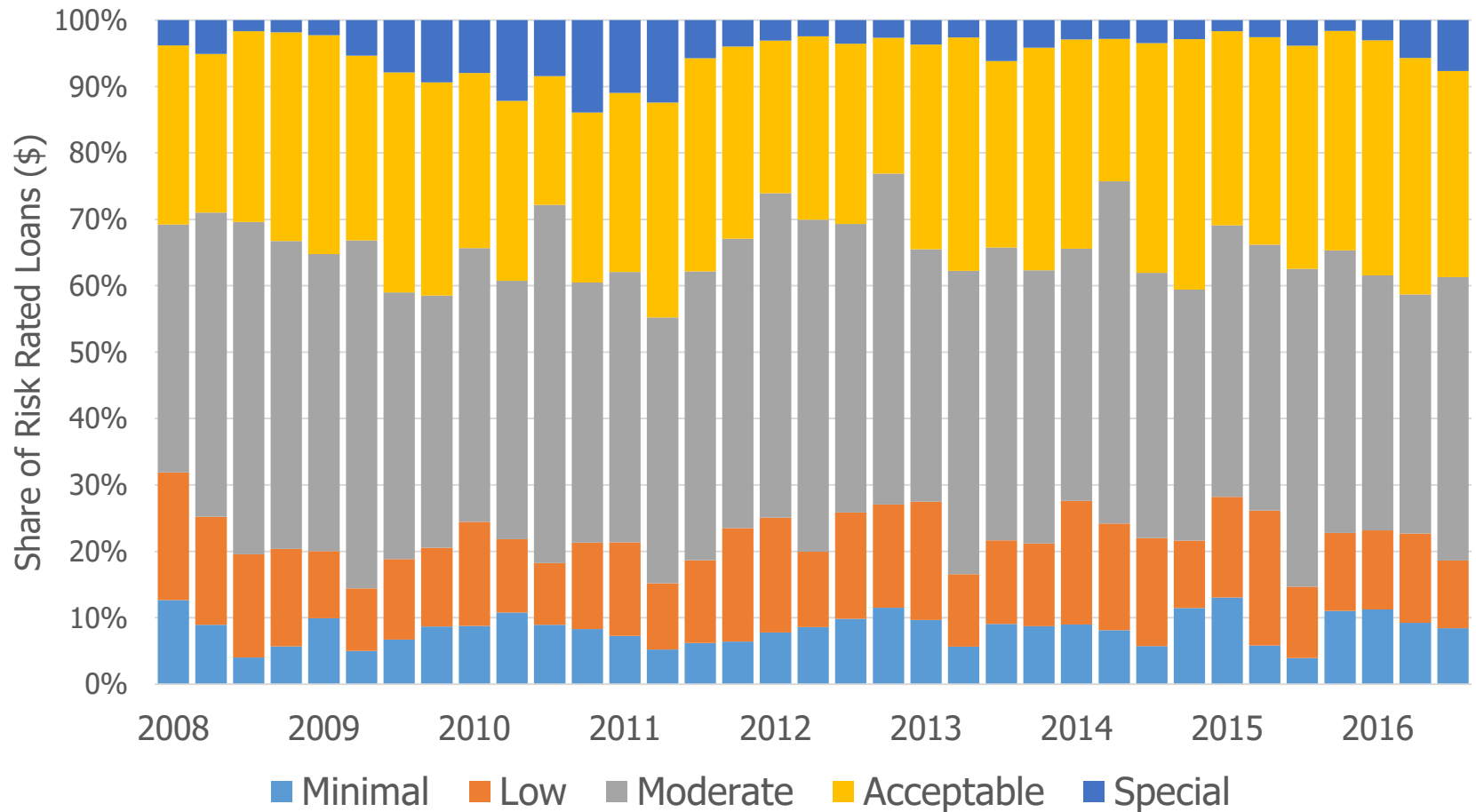
Non-Real Estate



Real Estate



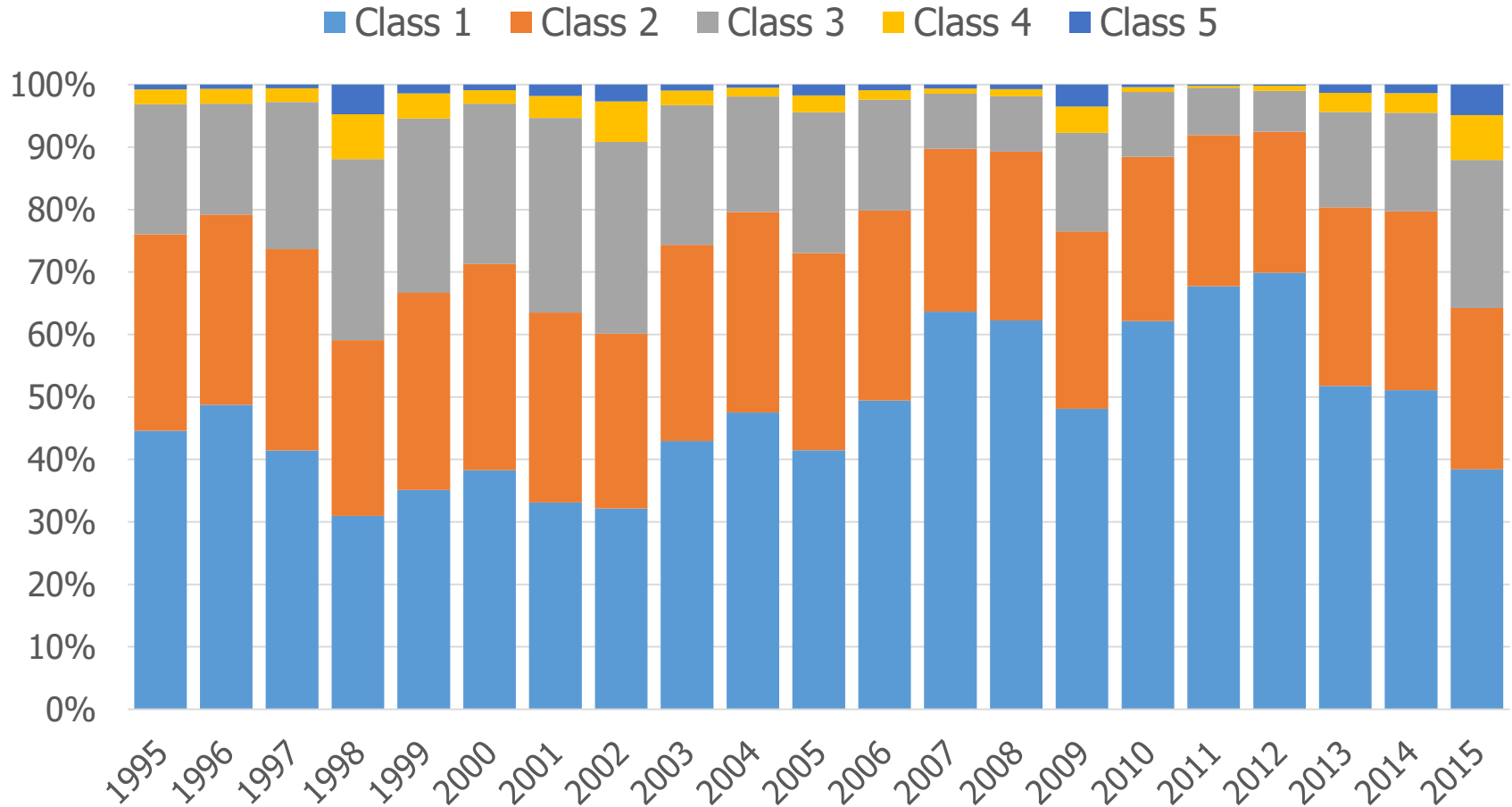
Farm loan risk ratings are increasing (slightly)



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Source: Ag Finance Databook

Credit risk migration for Illinois grain farms



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Source: FBFM

Credit risk migration for Illinois grain farms

		Probability of Next Credit Class				
Credit Class	Mean Sojourn Times	1	2	3	4	5
1	7.66	---	78.4	18.3	2.9	0.4
2	2.86	53.3	---	37.0	7.0	2.6
3	3.08	13.1	63.2	---	14.4	9.2
4	1.53	6.3	34.5	51.1	---	8.0
5	1.64	2.1	21.3	63.0	13.5	---

Federal Reserve Districts



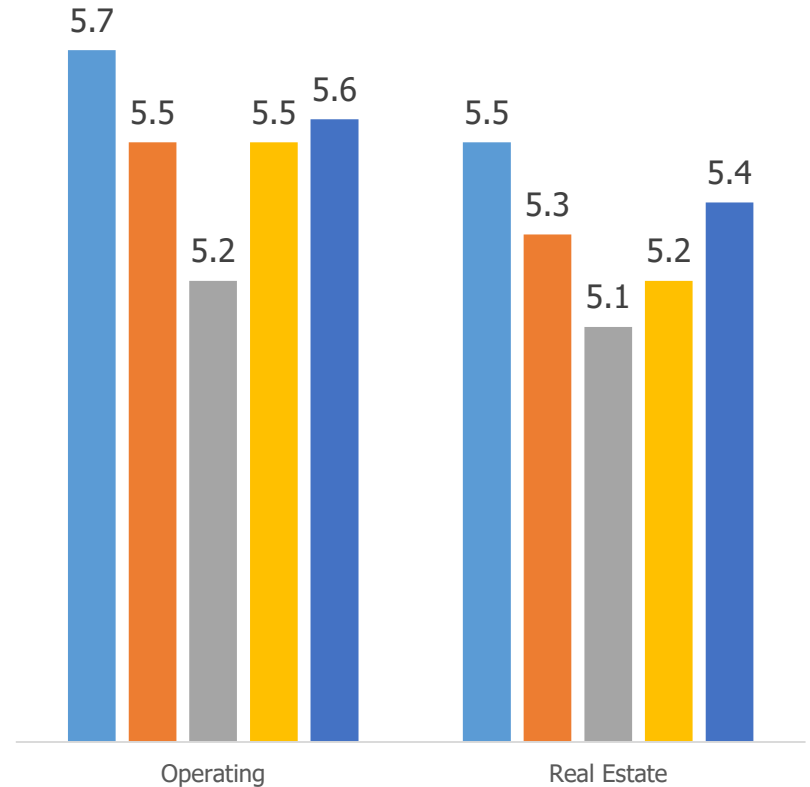
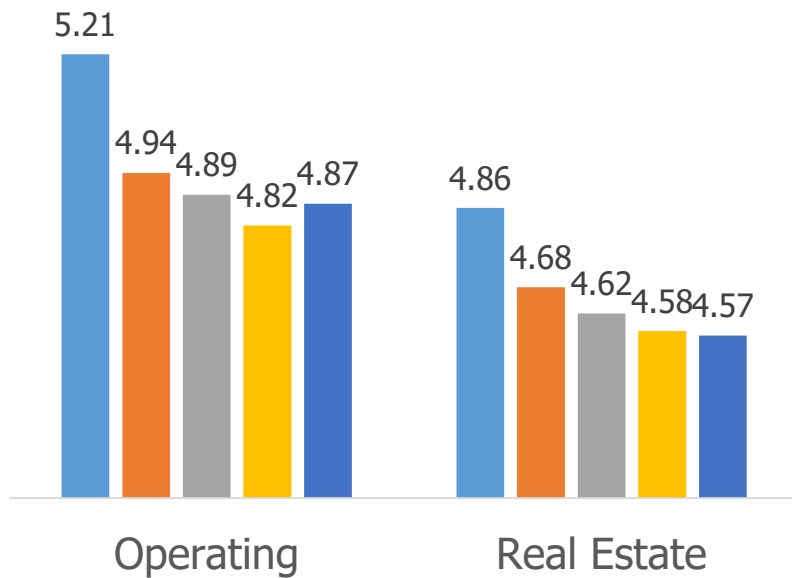
- **Quarterly surveys of agricultural bankers**
 - **Interest rates**
 - **Credit market conditions (subjective)**

Quarter 3 Interest Rates

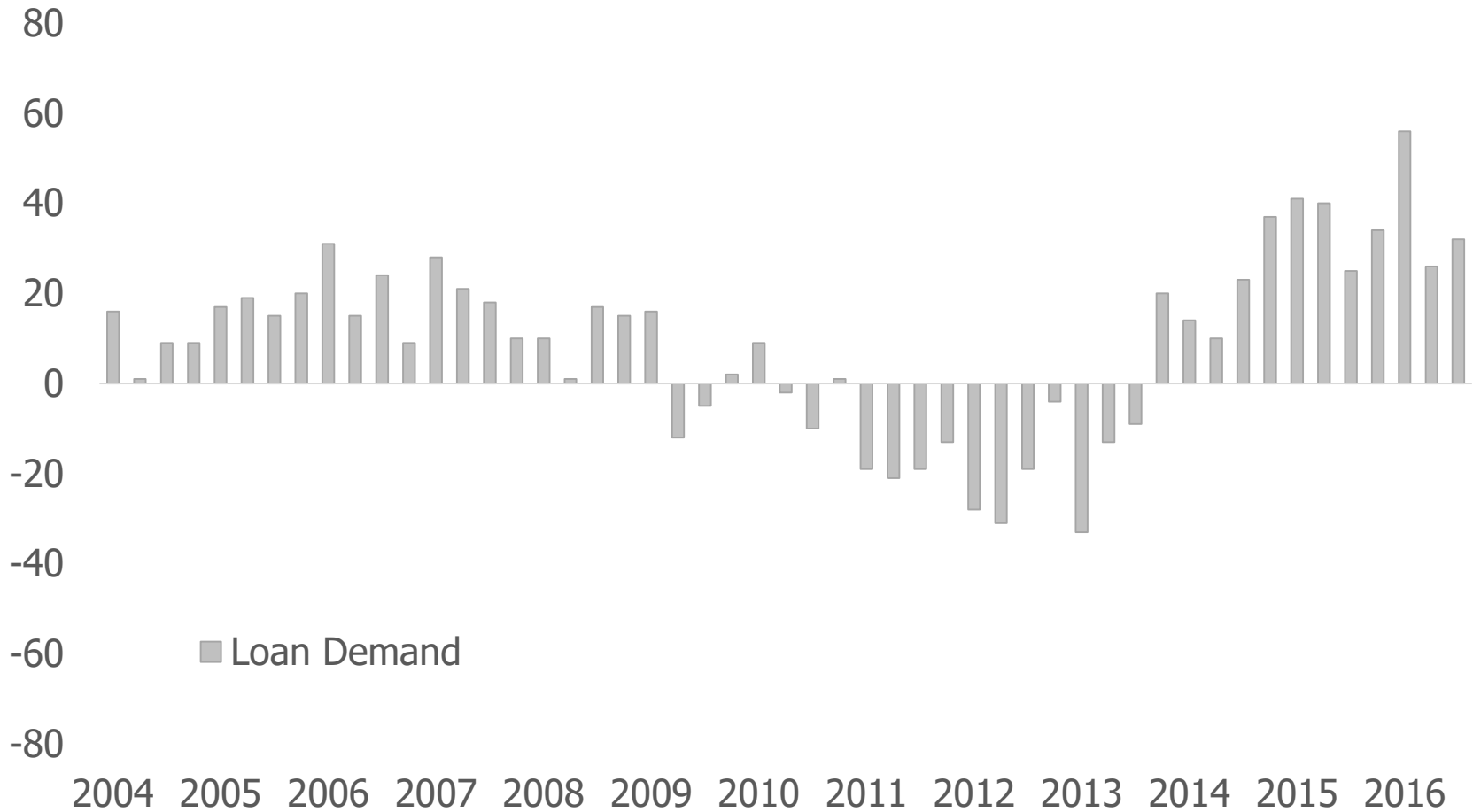
Chicago

St. Louis

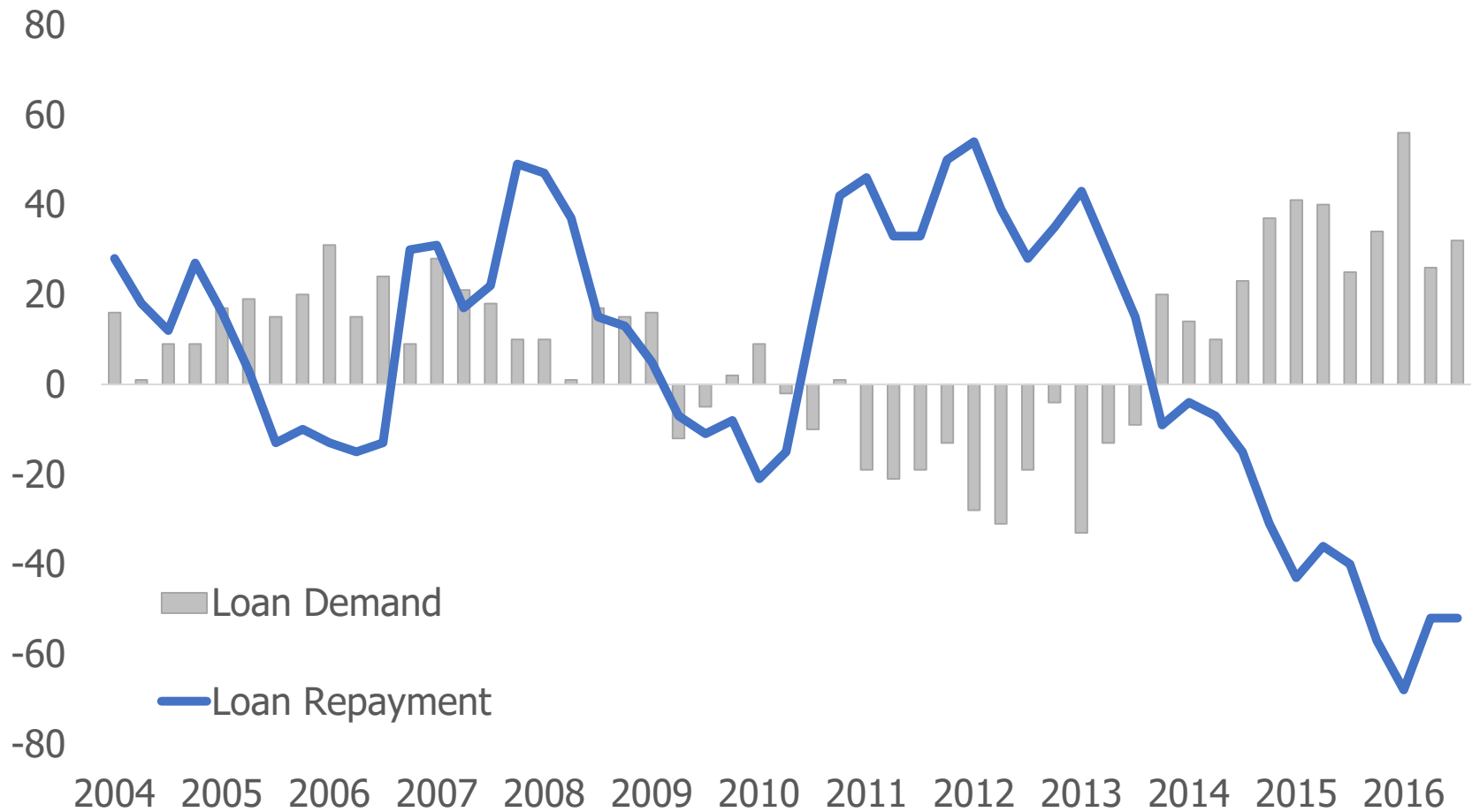
■ 2012 ■ 2013 ■ 2014 ■ 2015 ■ 2016



Credit conditions deteriorating



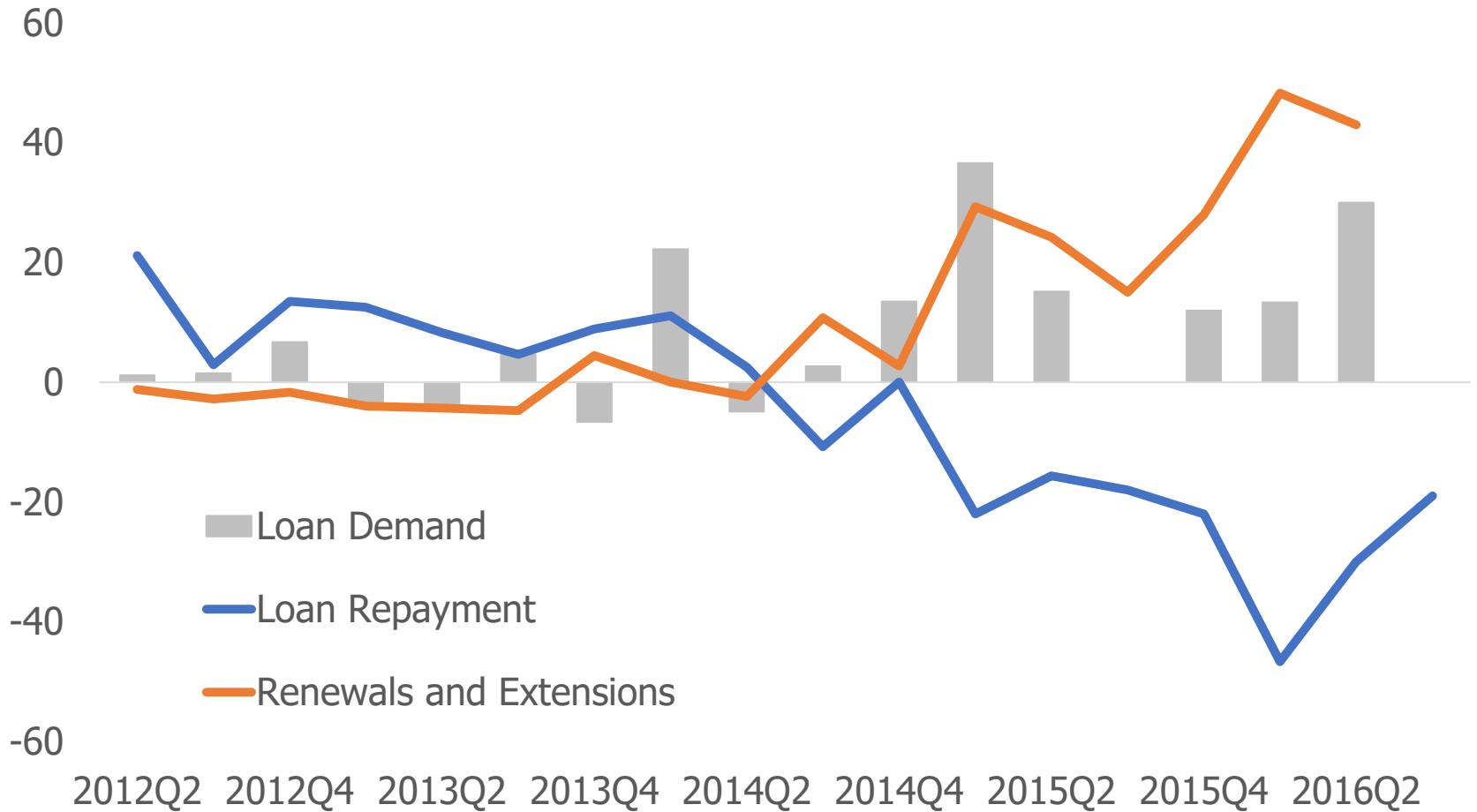
Credit conditions deteriorating



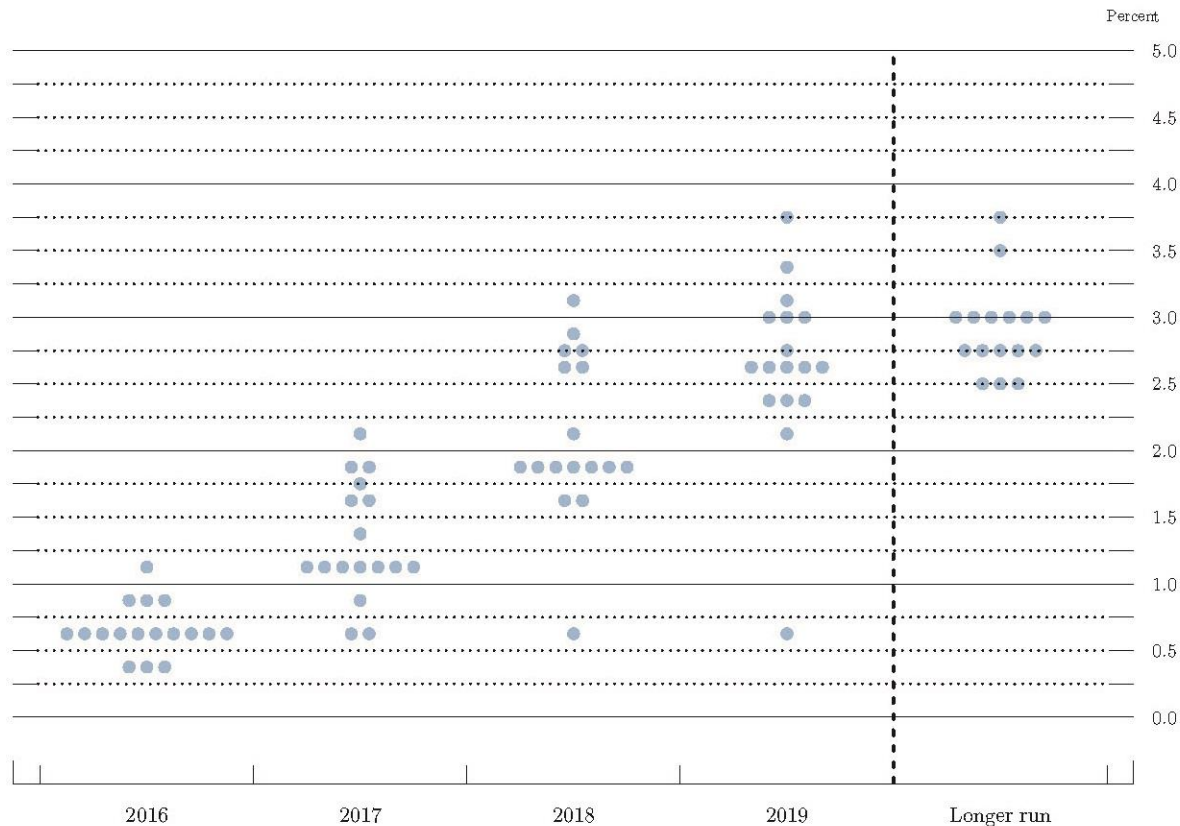
Credit conditions deteriorating



Credit conditions deteriorating



FOMC's Target Rate



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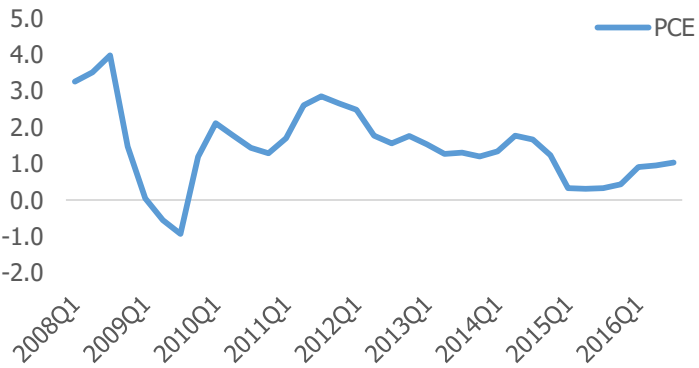
Source: FOMC

The Fed's Dual Mandate

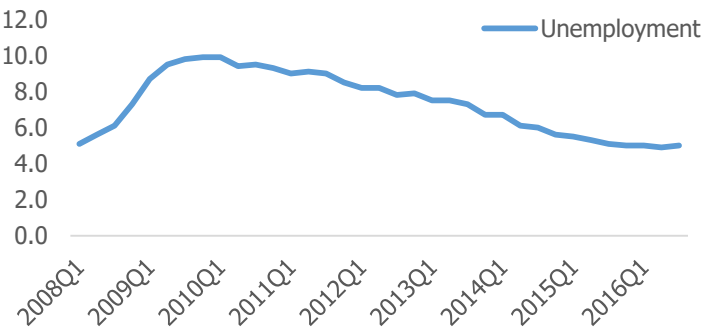
- "The Board of Governors of the Federal Reserve System and the Federal Open Market Committee shall maintain long run growth of the monetary and credit aggregates commensurate with the economy's long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices and moderate long-term interest rates." – Federal Reserve Act, 1977
- In English:
 - Keep inflation low (about 2%)
 - Keep employment near full potential (unemployment 4.5 – 5%).

The Fed's Dual Mandate

Inflation

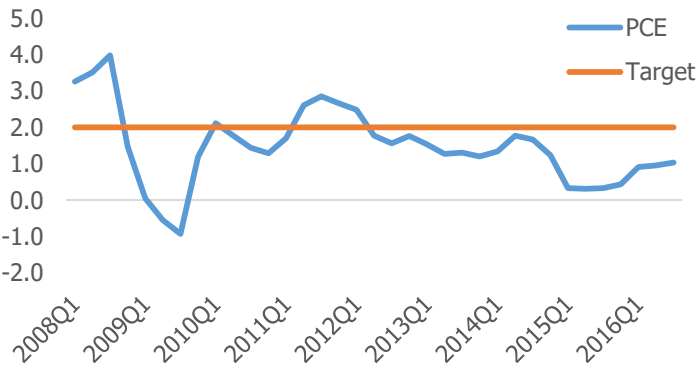


Unemployment

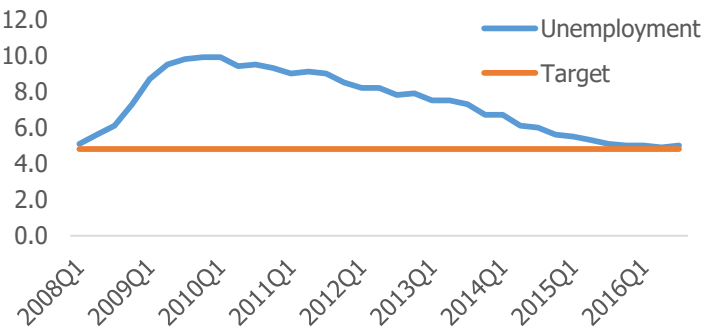


The Fed's Dual Mandate

Inflation

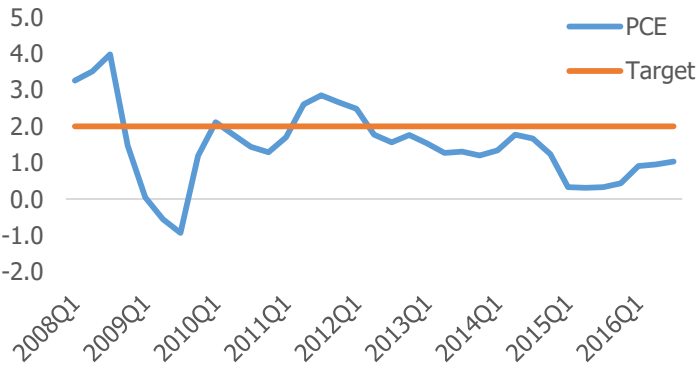


Unemployment

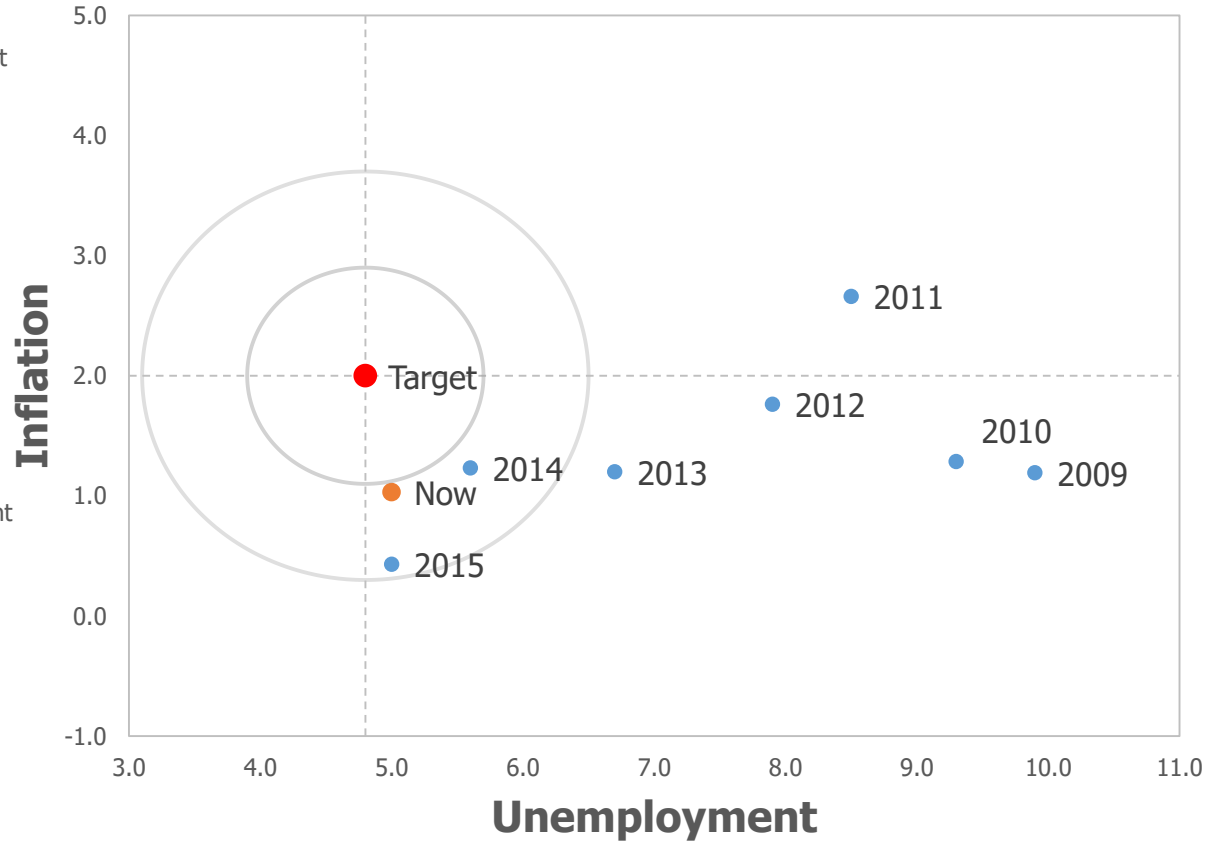
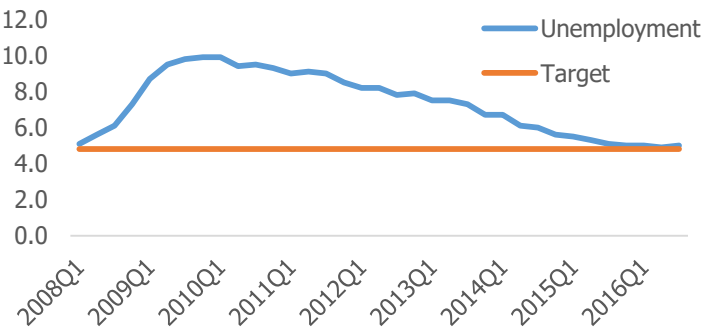


The Fed's Dual Mandate

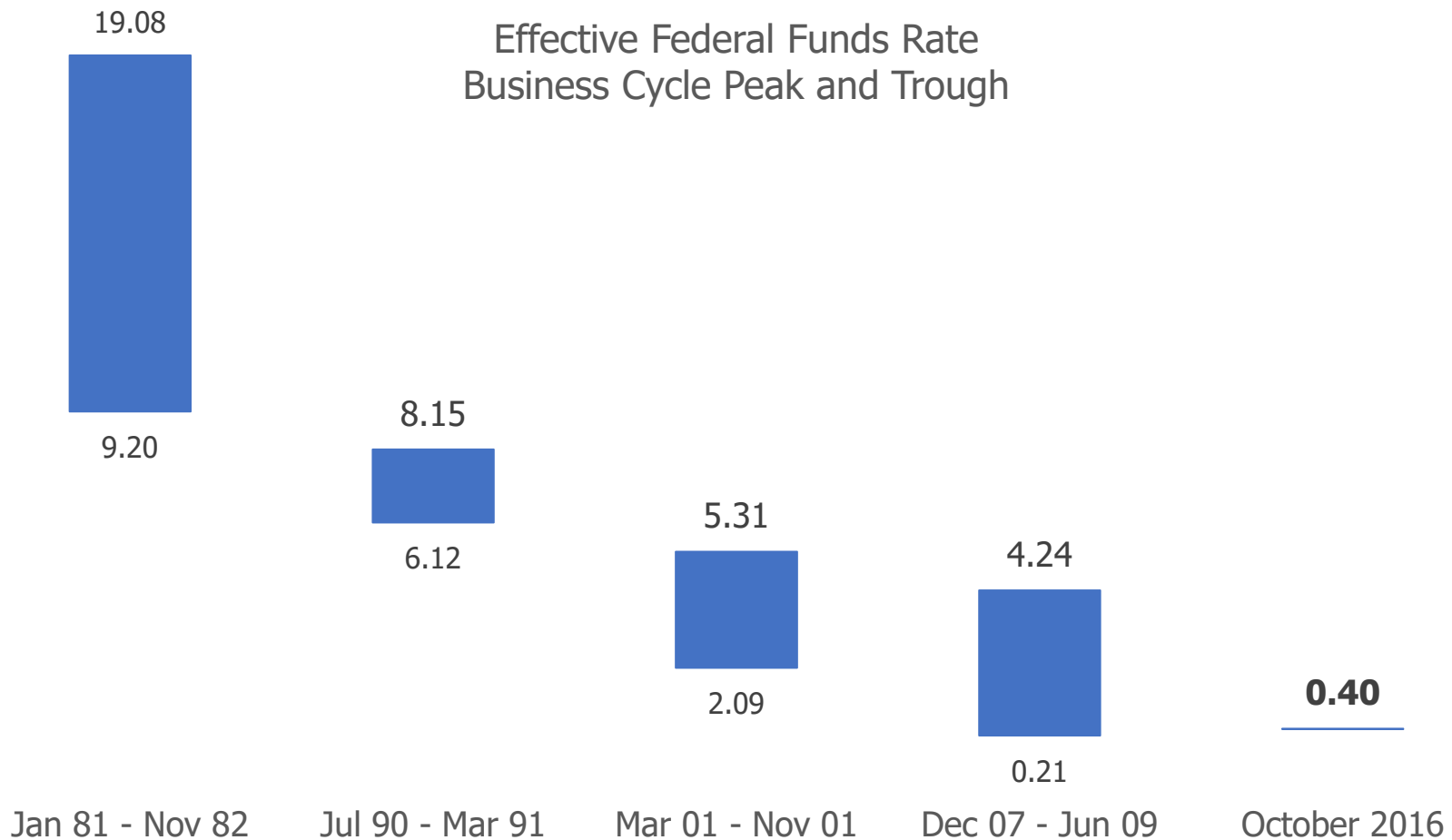
Inflation



Unemployment

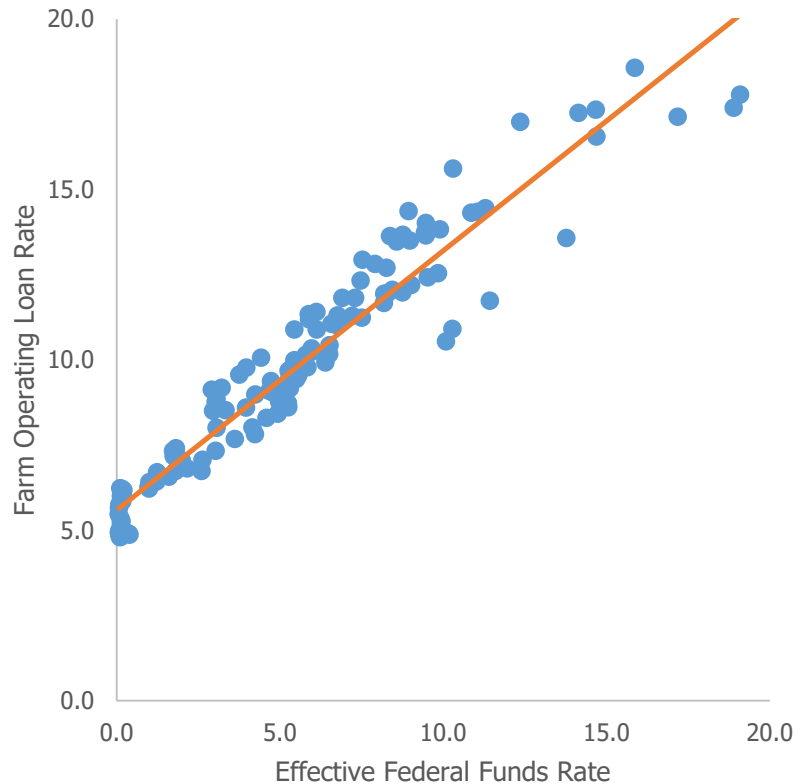


Why many are arguing for an immediate rate increase

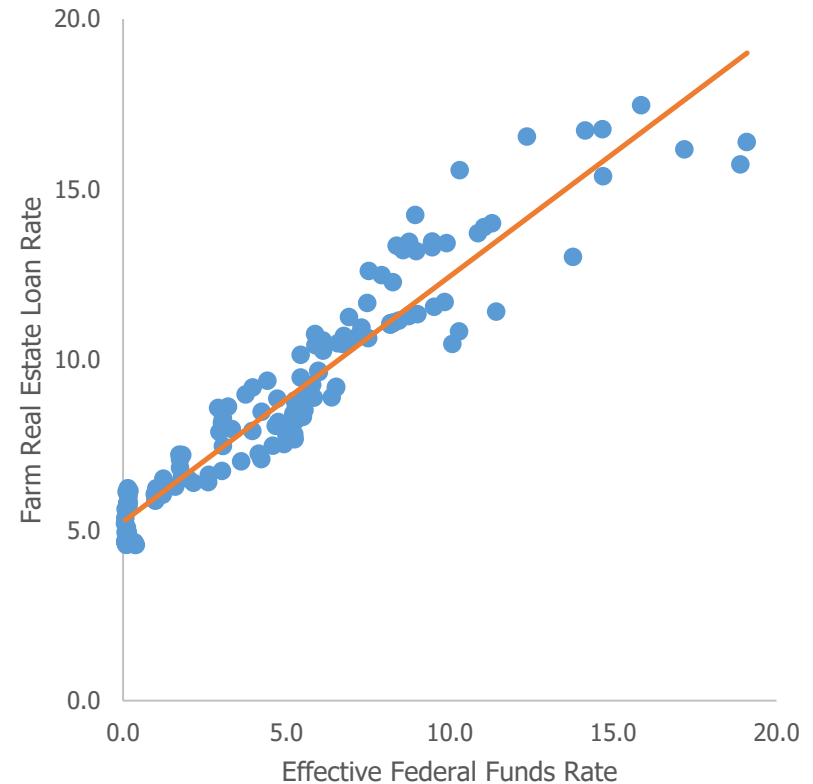


Federal Funds Rate and the Cost of Agricultural Borrowing

Operating Loans



Farm Real Estate



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Source: FRED, Chicago Fed

Summary

- **Farmers should practice caution in acquiring new lines of credit**
- **Borrowers likely to face increase scrutiny**
- **Interest rate increases are likely**