FCA Board Receives Reports on Farmland Values and Economic Conditions in the Almond Industry

McLEAN, Va., May 12, 2016 — At its monthly meeting today, the Farm Credit Administration Board received an update on farmland values.

According to the report, a third consecutive year of declining crop prices and reduced farm income is causing cropland values to soften across the country, particularly in the nation’s midsection. This follows five years of double-digit price increases since the one-year correction in 2009 for most Midwestern states, with cropland values reaching record levels in 2014.

The Federal Reserve Banks’ quarterly surveys of agricultural bankers found that for the fourth quarter of 2015, cropland values declined between 2 percent and 6 percent on average over the past year in the Midwest as well as in some of the Mountain states. Depending on land quality and region of the state, some cropland is down as much as 10 percent over the past year.

The majority of the bankers surveyed expect farmland values to decline between 5 percent and 10 percent for 2016. The expected decline is attributed to several factors: large global supplies of agricultural commodities, slowing economic growth in major importing countries like China, and a decline in U.S. exports as a result of the strong dollar and trade restrictions. A rise in long-term interest rates in the future would put additional downward pressure on cropland values.

In other business, the FCA Board received a report on the economic conditions in the almond industry.

According to the report, challenging times are ahead for U.S. almond producers. Beginning around 2010, demand for the product increased sharply, leading to record prices for producers and several years of profitability. However, as additional supplies come to market and a stronger dollar makes almonds more expensive to foreign buyers, the market has turned lower.
In the next few years, producers will likely experience margin stress. Farm prices between $2 and $2.50 per pound could result in either small profits or significant losses, depending on producer cost structure, individual farm yields, and where market prices eventually settle.

Because almond loans make up a relatively small share of total Farm Credit System loans, the stress in the industry will have limited effect on the System as a whole or on the Federal Agricultural Mortgage Corporation (Farmer Mac). And even for System associations in California with higher tree nut loan volume, there appear to be no immediate concerns regarding credit quality.

Report

During the closed session of the meeting, the board received a quarterly report from the Office of Secondary Market Oversight.

Notational Votes

Since the March FCA Board meeting, the following notational votes have occurred. Notational votes are actions taken by the FCA Board between board meetings.

- On April 27, the FCA Board approved a reorganization that created the Office of the Chief Financial Officer.
- On May 10, the FCA Board approved a final rule adjusting the agency’s civil money penalties for inflation as required by the Federal Civil Penalties Inflation Adjustment Act Improvement Act of 2015. This action increases the maximum civil money penalties that may be imposed under Sections 5.32(a) of the Farm Credit Act of 1971, as amended, and the Flood Disaster Protection Act of 1973, as amended.

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The Farm Credit Administration is the safety and soundness regulator of the Farm Credit System. The System consists of two government-sponsored enterprises—a nationwide network of cooperative banks and associations established in 1916, and a secondary market entity known as the Federal Agricultural Mortgage Corporation (Farmer Mac) that was established in 1988. The System’s borrower-owned banks and associations provide credit to farmers, ranchers, residents of rural communities, agricultural and rural utility cooperatives, and other eligible and creditworthy borrowers. Farmer Mac provides a secondary market for agricultural real estate loans, rural housing mortgage loans, and certain rural utility loans. Members of the FCA Board are Kenneth A. Spearman, Board Chairman and CEO; Dallas P. Tonsager; and Jeffery S. Hall.

Note: FCA news releases are available on the web at www.fca.gov.