

Quarterly Report on Economic Conditions and Farm Credit System Condition and Performance



September 11, 2025

Greg Lyons— Senior Economist
Office of Data Analytics and Economics

Deanna Block – Supervisory Examiner
Office of Examination





Topics for Open Session

Economic Conditions Affecting the Farm Credit System

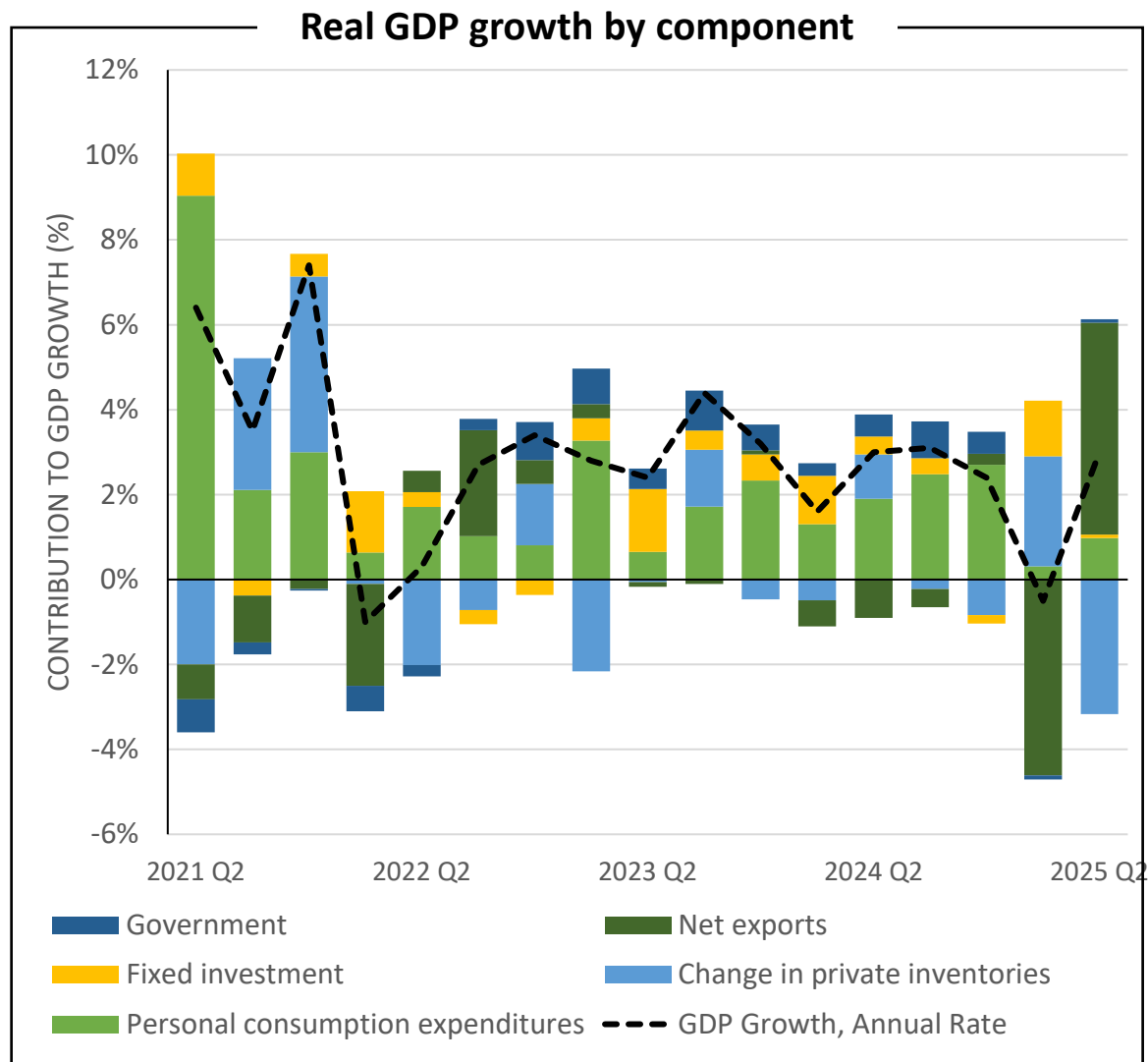
- ▶ Macroeconomic update
- ▶ Agricultural economic update
- ▶ Trends in Farmland prices

Farm Credit System Condition and Performance

- ▶ System growth and loan portfolio
- ▶ Earnings and capital
- ▶ Financial Institution Rating System (FIRS)



GDP growth positive but moderating through Q2 2025



Source: Bureau of Economic Analysis, Gross Domestic Product (Q2 2025 Advance Estimate).

Less volatile measures indicate moderation

- Personal consumption and fixed investment
- Potential GDP: labor force size vs. productivity

Variation in consumption growth

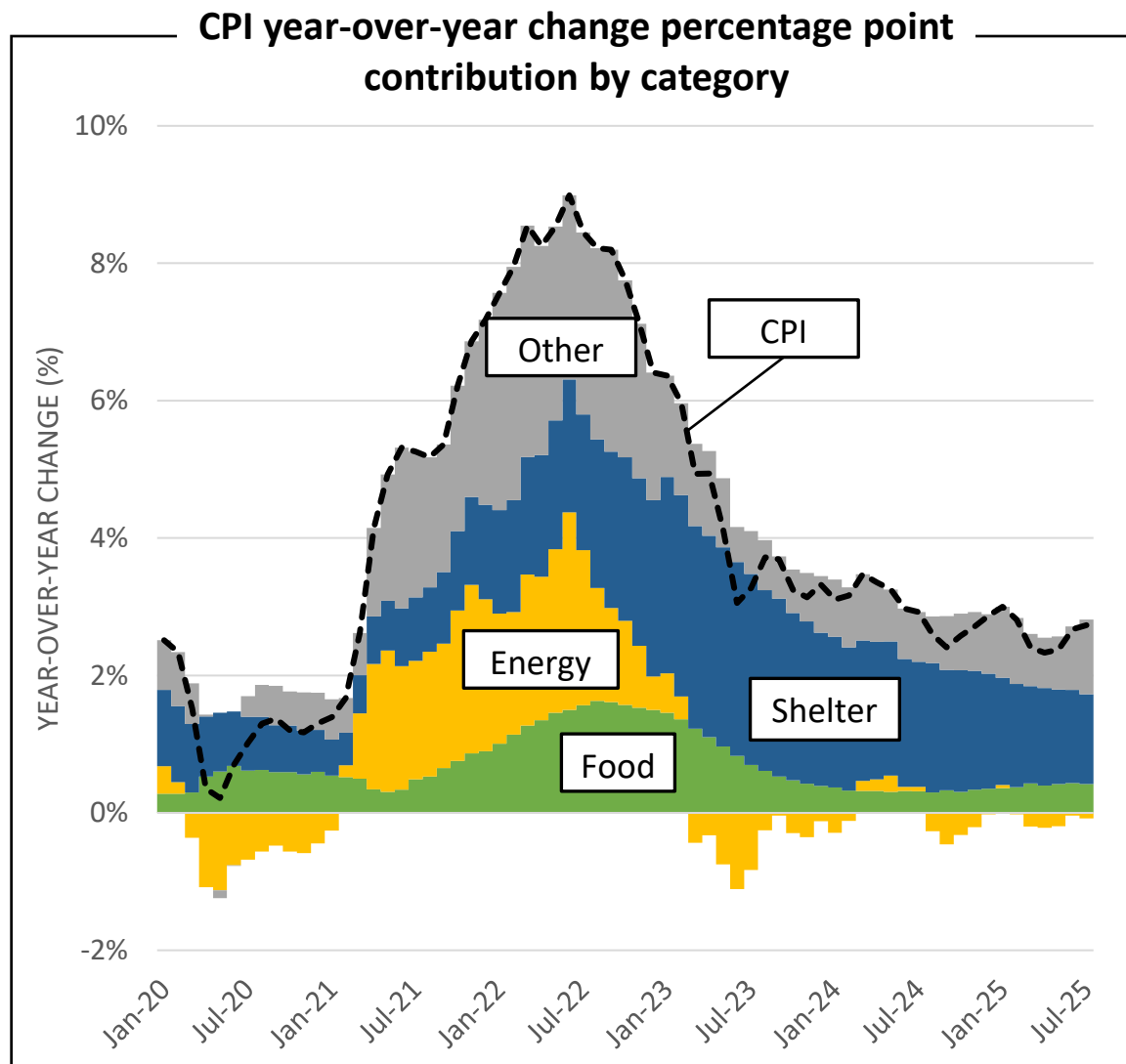
- Spending spree wanes for most households
- Spending growth driven by high earners
- Ebbing signs of consumer strain

Competing forces for domestic fixed investment

- Short-term boost from P.L. 119-21
- Trade policy uncertainty
- Fixed investment and AI



Declines in shelter inflation offset by increases in select services



Source: U.S. Bureau of Labor Statistics Consumer Price Index, author's calculations.

Shelter inflation continues to moderate

- Inventories continue to rise off lows
- New rental cost growth is lower

Rising cost growth in other segments

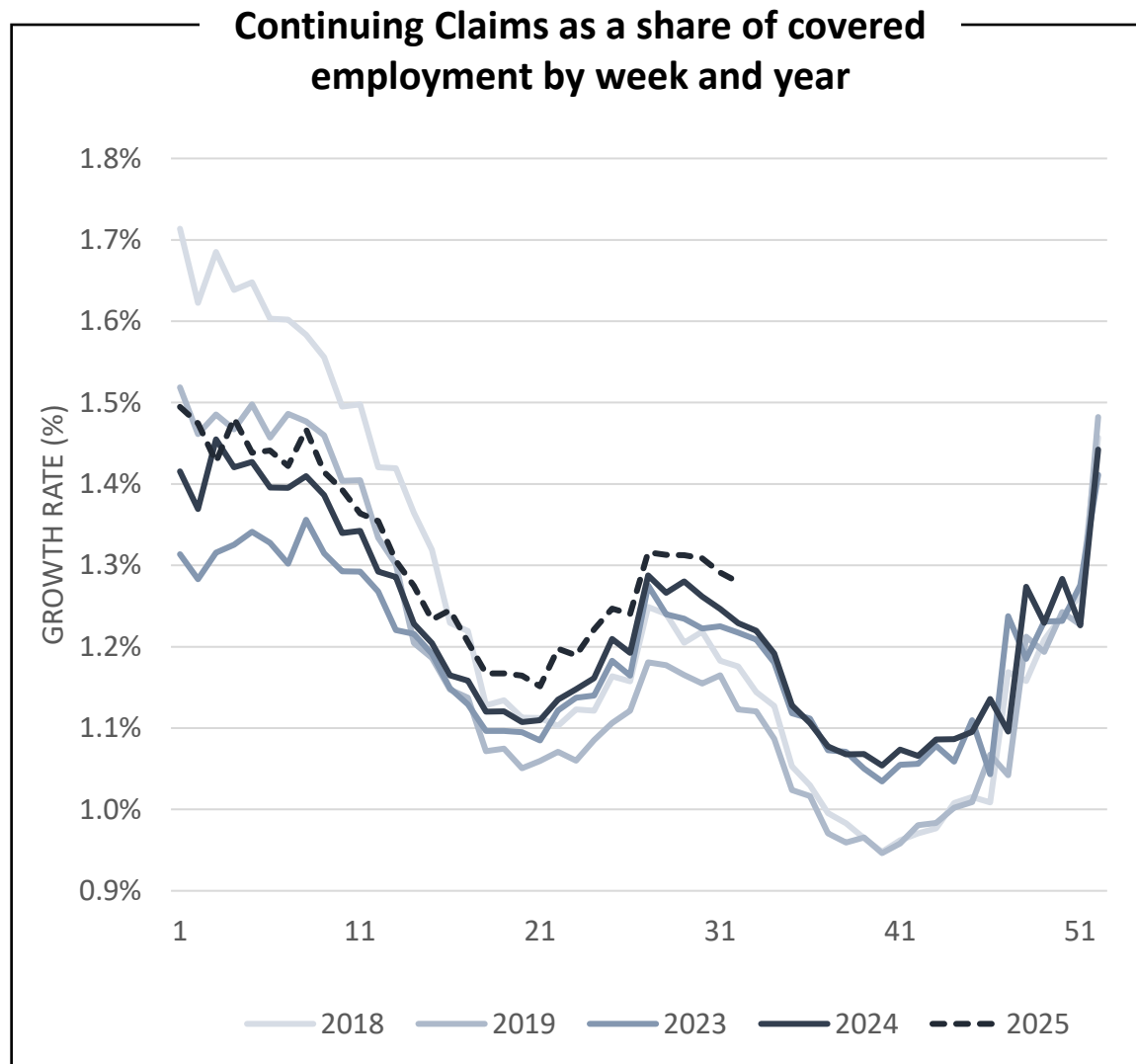
- Medical care, transportation, airline fees
- Significant variation in food categories

Observing trade impacts will take time

- Early indicators are noisy
- Inventory buildup helped delay cost increases
- Producers have begun passing along costs



Labor market holds steady with signs of softness



Source: U.S. Employment and Training Administration Unemployment Insurance Weekly Claims Report, author's calculations.

Topline levels are holding steady

- Unemployment rates near full employment
- Labor demand and supply falling at same rates
- Wage growth slower but positive

Is there stress below the surface?

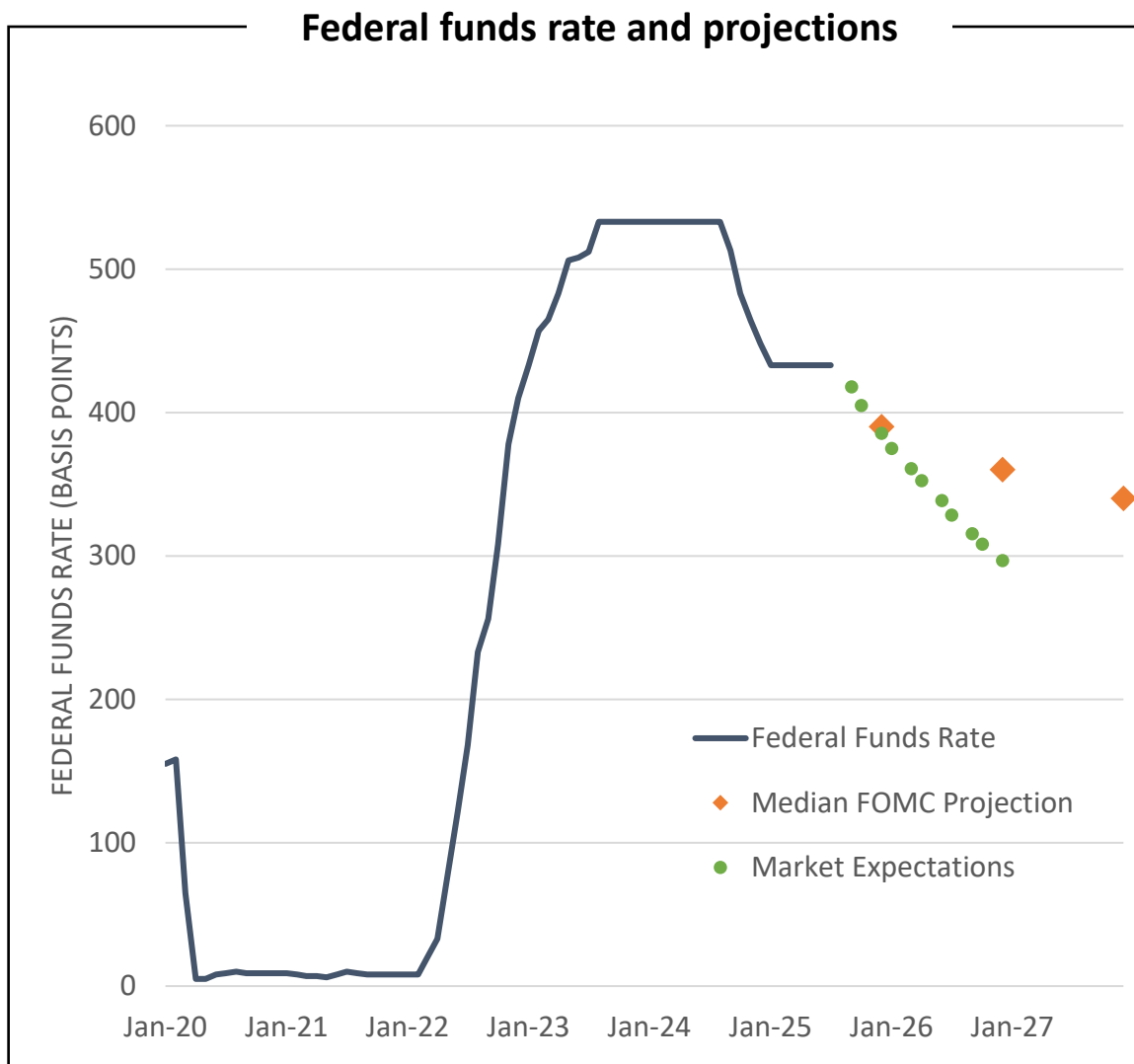
- Continued increases in multiple jobholders
- Job growth driven mostly by healthcare, education

Job holders vs. job seekers

- Average weeks unemployed is rising
- Declines in job-switching premiums
- Steep declines in young worker wage growth



Interest rate expectations reflect a shift towards the Federal Reserve's full employment mandate



Balancing the dual mandate

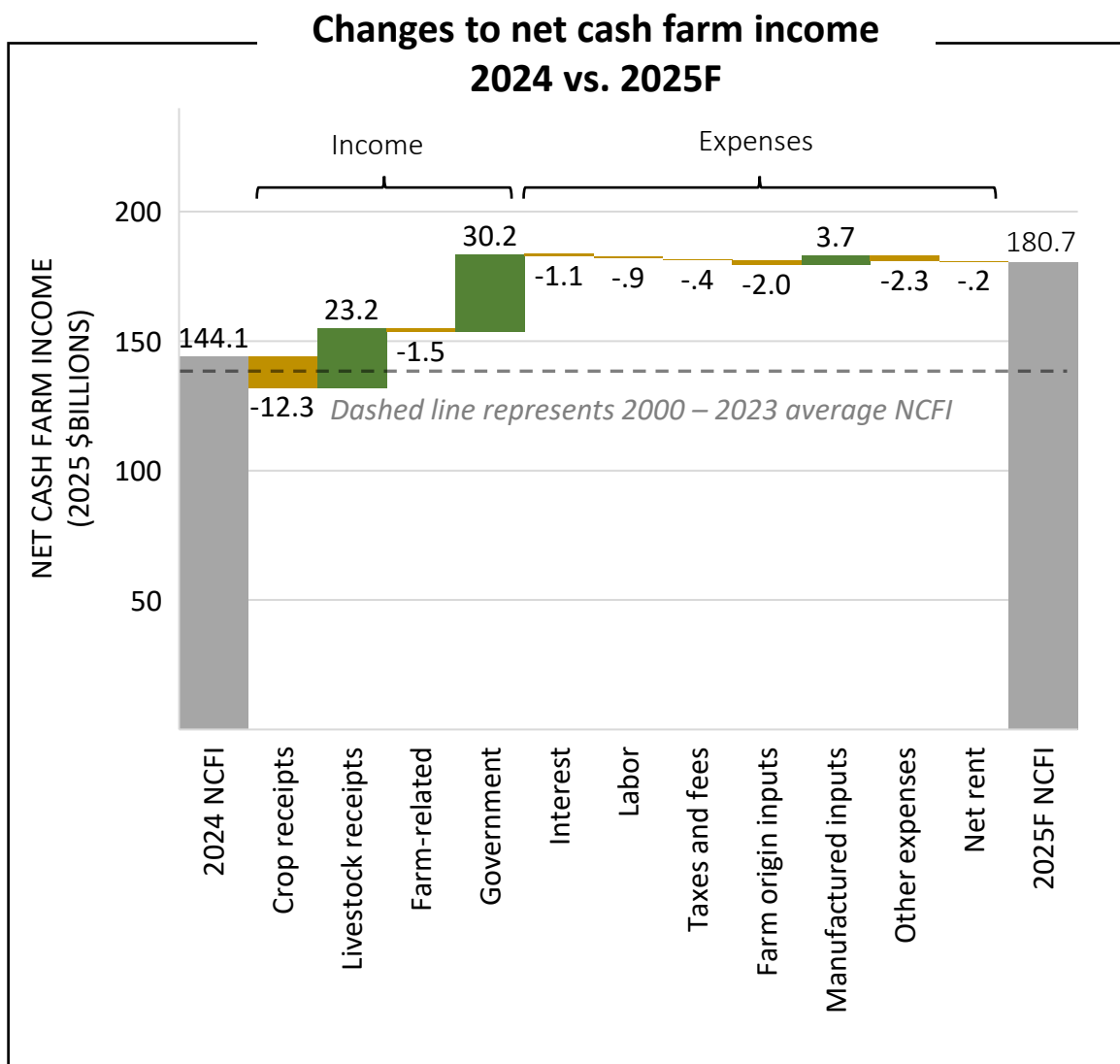
- Modest residual inflation
- Trade policy and inflation expectations
- Potential labor market weakness

“...the labor market remains near maximum employment, and inflation, though still somewhat elevated, has come down a great deal from its post-pandemic highs. **At the same time, the balance of risks appears to be shifting.**”

- Jerome Powell, August 22, 2025



Crop receipts continue to fall with some offset from increased government support



Grain strain persists

- Income remains near 15-year lows
- Potential for very strong yields
- Storage shortages and widening basis

Livestock supercycle continues

- Incomes high but vary across the sector
- Keeping a close eye on consumer demand

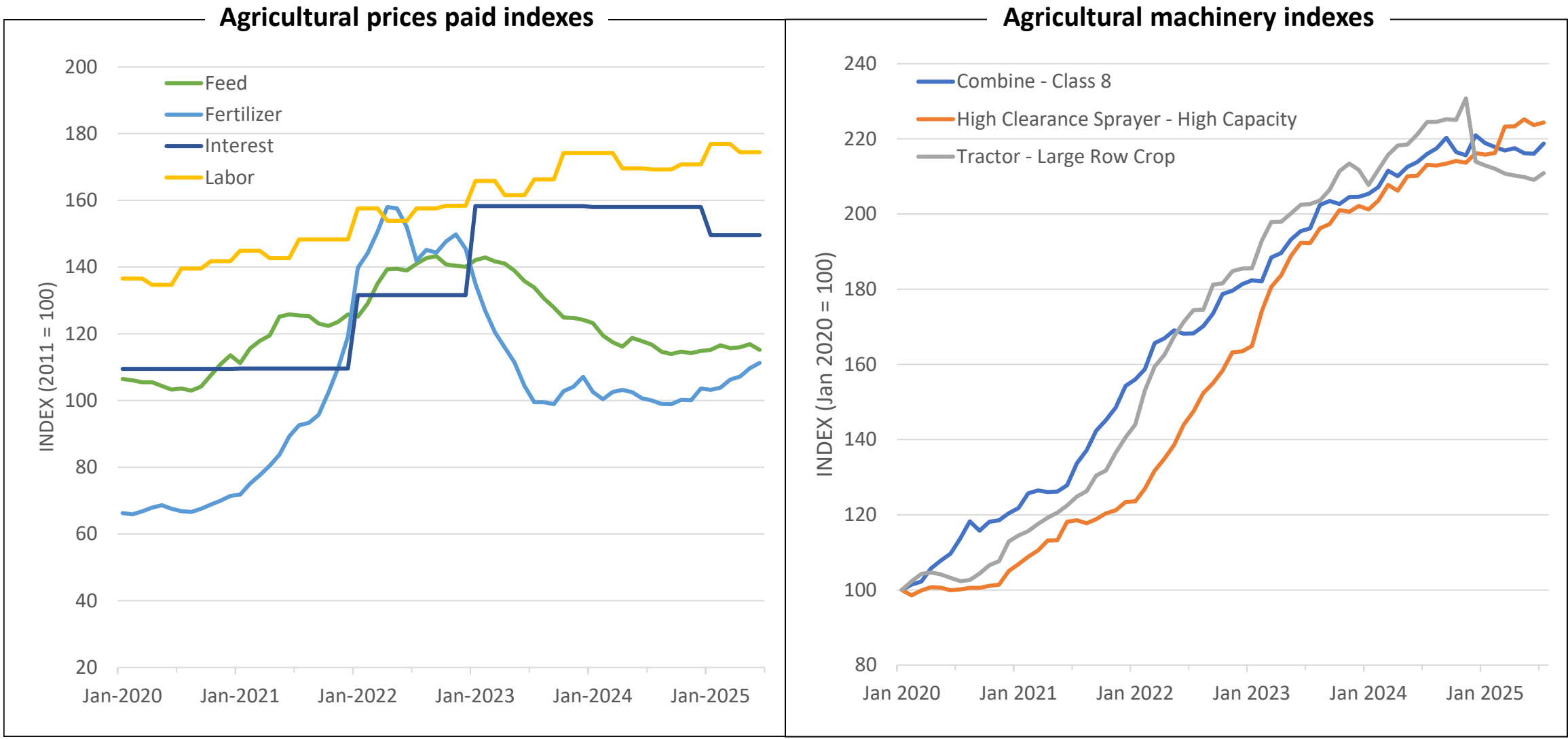
Sources of support

- Ad hoc program payments
- Improving sector solvency ratios
- Farmland values

Source: USDA Economic Research Service Farm Income and Wealth Statistics, September 2025 Release.



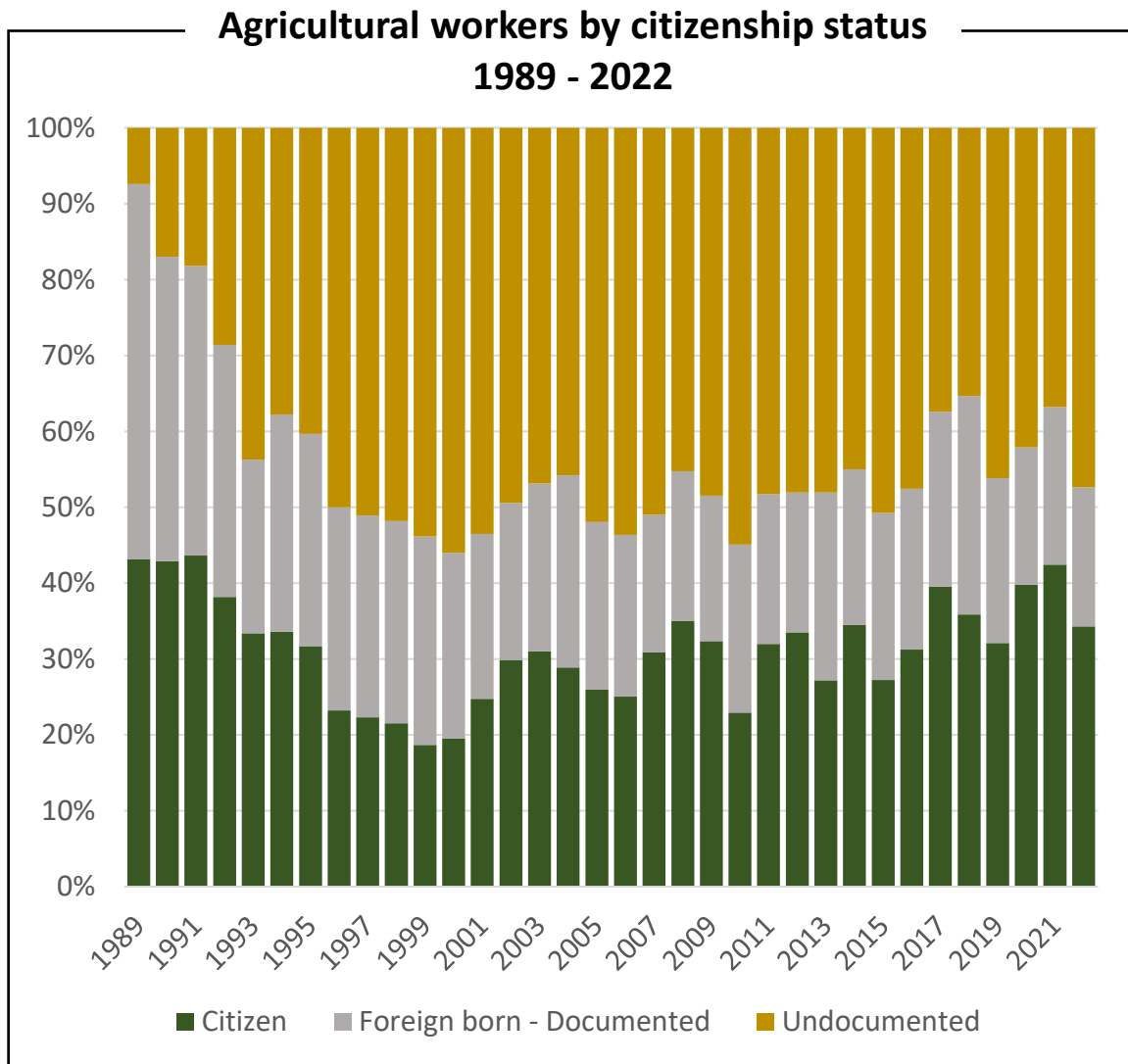
Many input costs have plateaued despite softer crop price environment



Source: USDA National Agricultural Statistics Service and Iron Solutions.



Risks to labor access vary across regions and commodities



Not all regions face access risk

- Majority of Pacific agricultural workforce
- Less reliance in Plains, Midwest

High non-citizen reliance in select roles

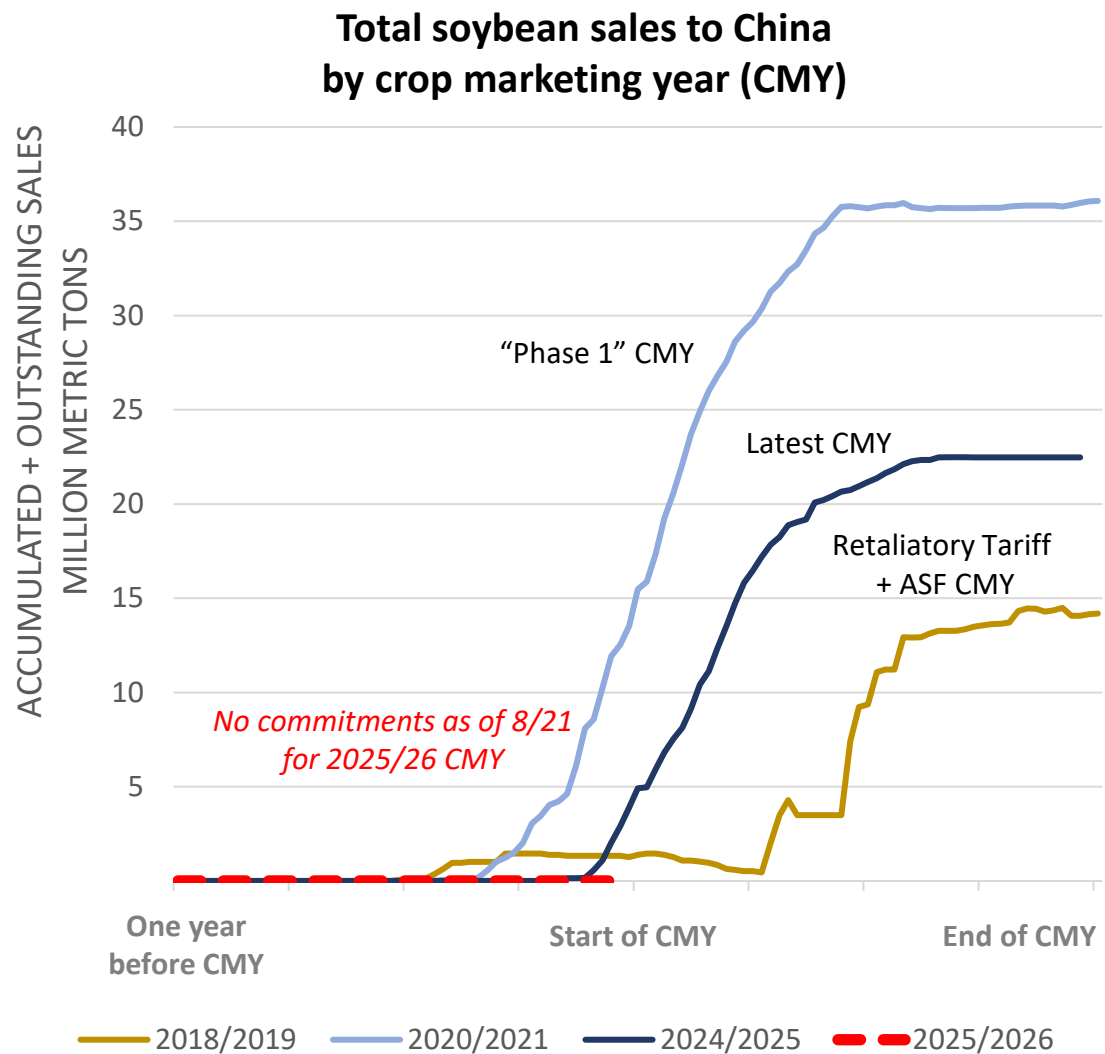
- 60% of graders and sorters
- 30% of animal processing facilities

Signs of tightness in ag labor markets

- Increases in 2025 H2A wages
- Mechanization decisions



Export volume continues to support income with possible bilateral risk ahead



Variation across commodities

- Dairy, corn, tree nuts see continued growth
- Soybeans, meats pull back

Shifts in trading partner importance

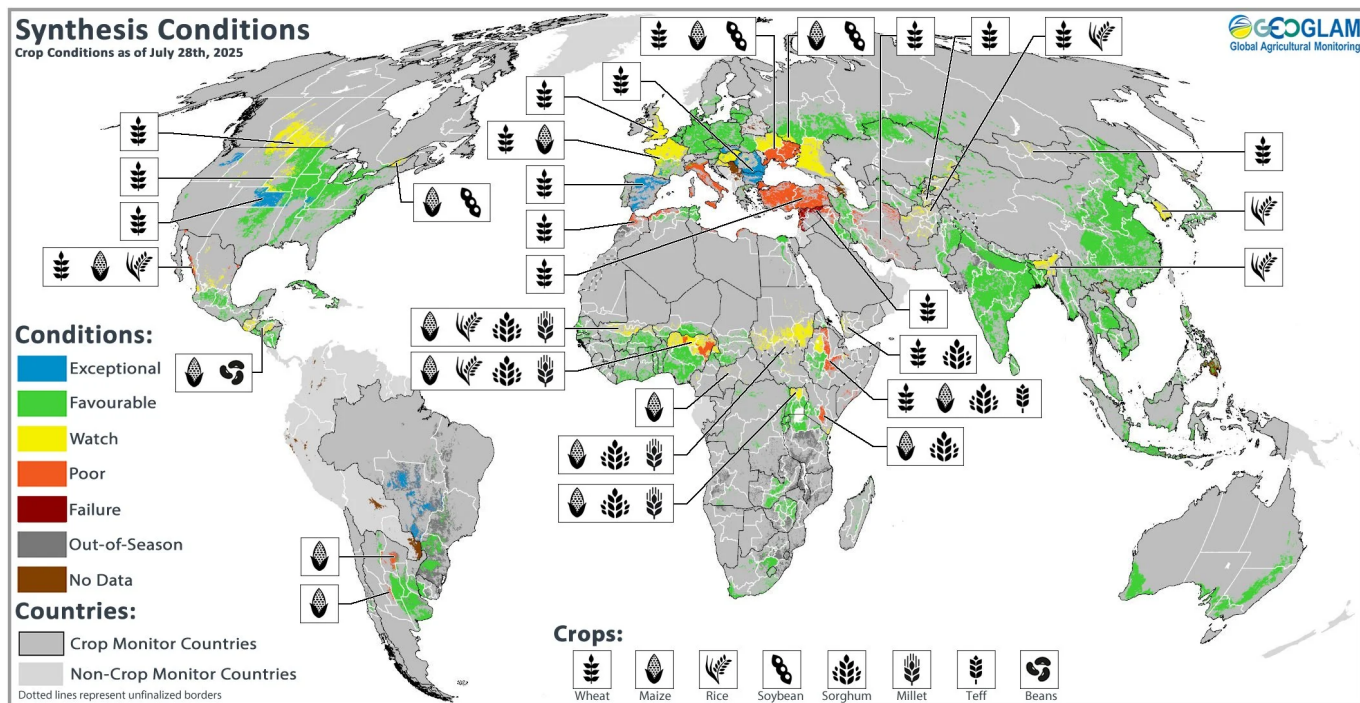
- Will China fall out of the top 3?
- Growth across other Asian countries

Bilateral relationships may drive shifts

- Chinese new soybean crop commitments
- A change in global demand vs. reallocation



Global weather influences on commodity markets



U.S. Conditions

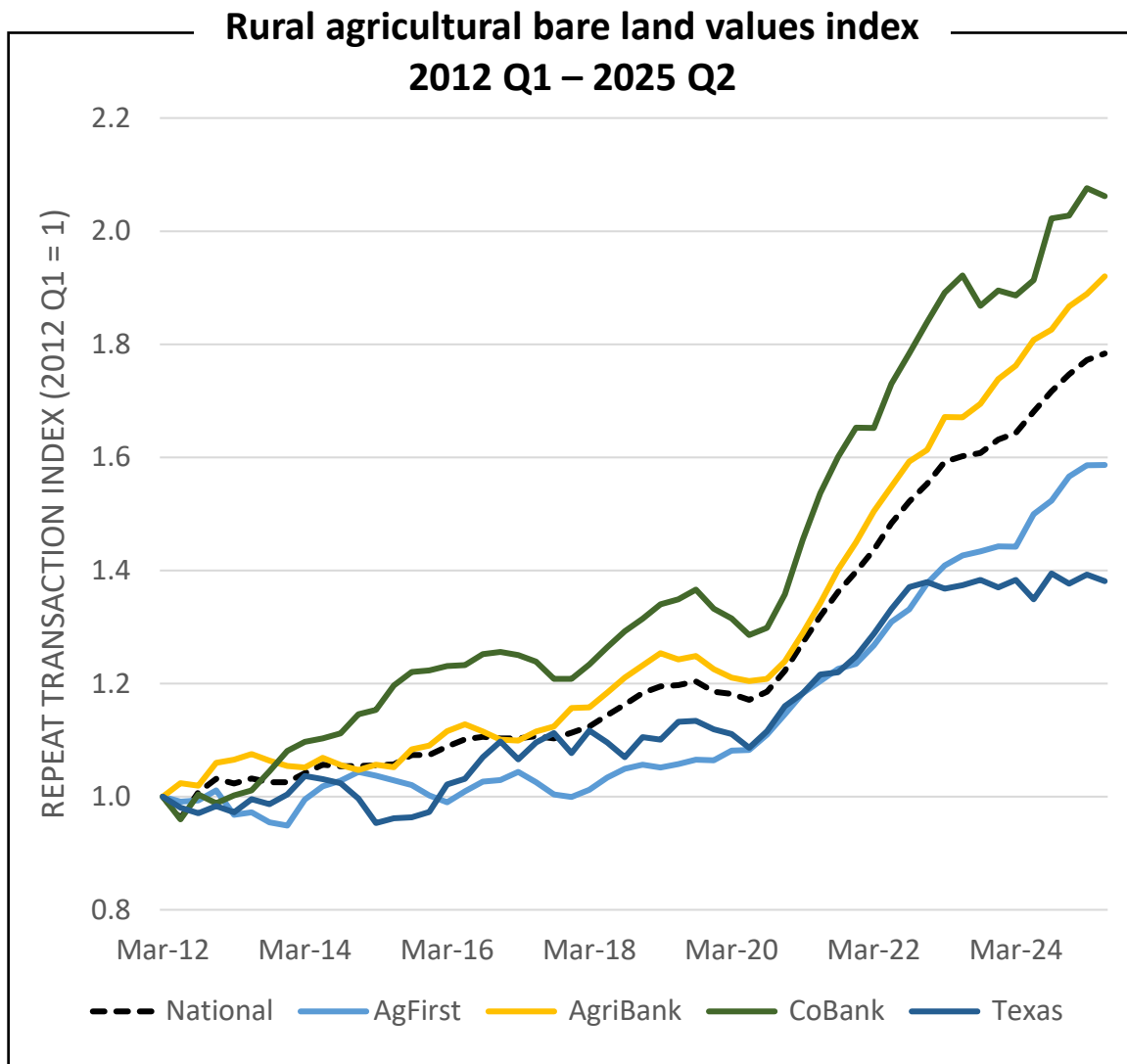
- Generally favorable conditions and strong crop quality across most of the U.S.
- Rocky Mountain region experiencing drought and poor pasture/crop conditions
- Drought conditions could persist through next quarter

Global conditions

- Favorable South American conditions leading to near-record production and exports
- Poor conditions across Eastern Europe



Growth in farmland values is positive but slowing



National figures suggest continued growth

- Positive growth for most aggregates
- Some series show softness in Midwest, West

Potential warning signs?

- Cash rents flat, falling in some regions
- Rent-to-value ratios far below historic norms
- A shift from auctions to private sales

Other factors

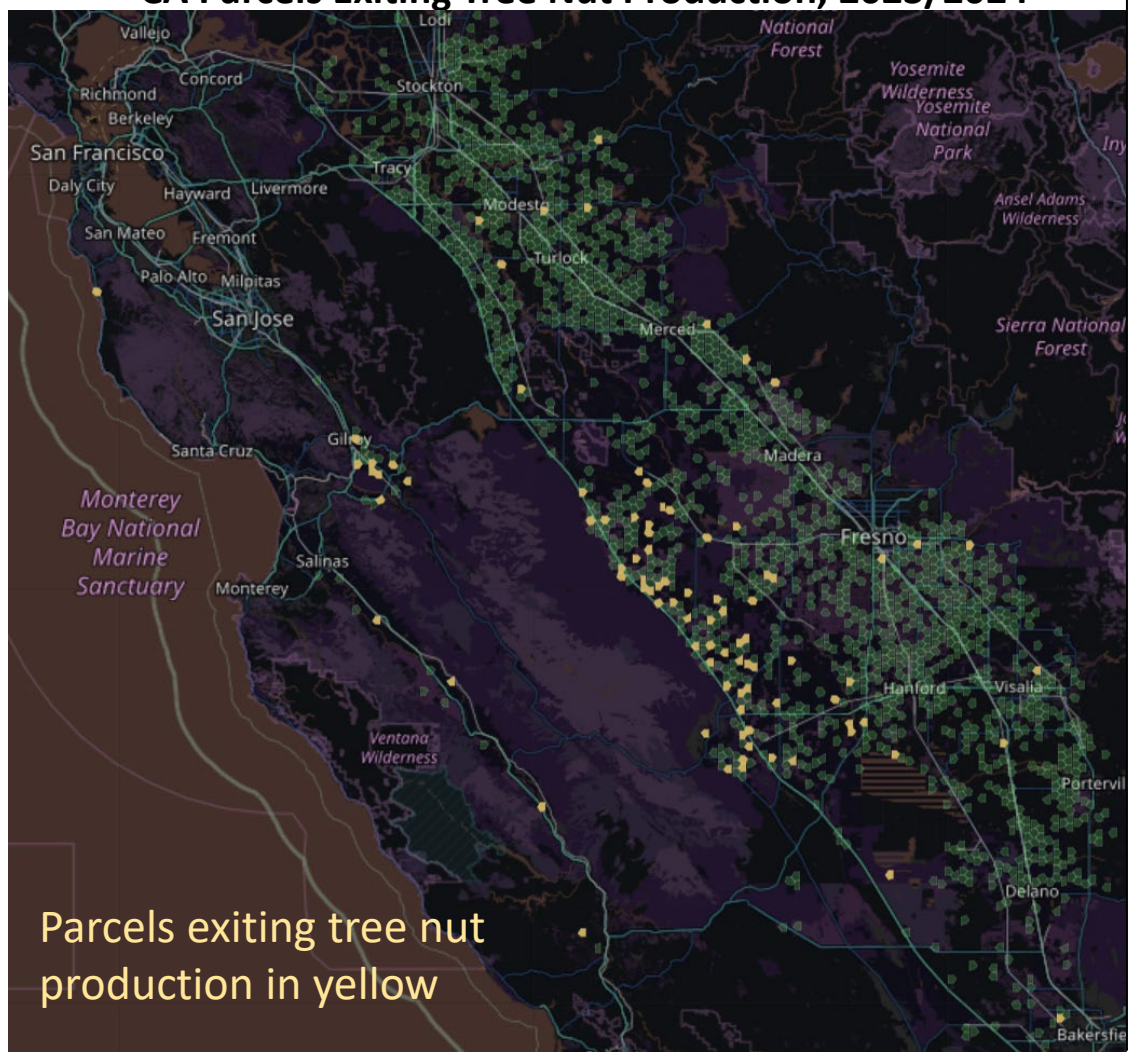
- Conversion remains an important driver
- Relative attractiveness of land as an asset
- Continued thin markets

Source: ODAE calculations using data from Cotality (formerly CoreLogic). Excludes sales within 30 miles of a metropolitan statistical area.

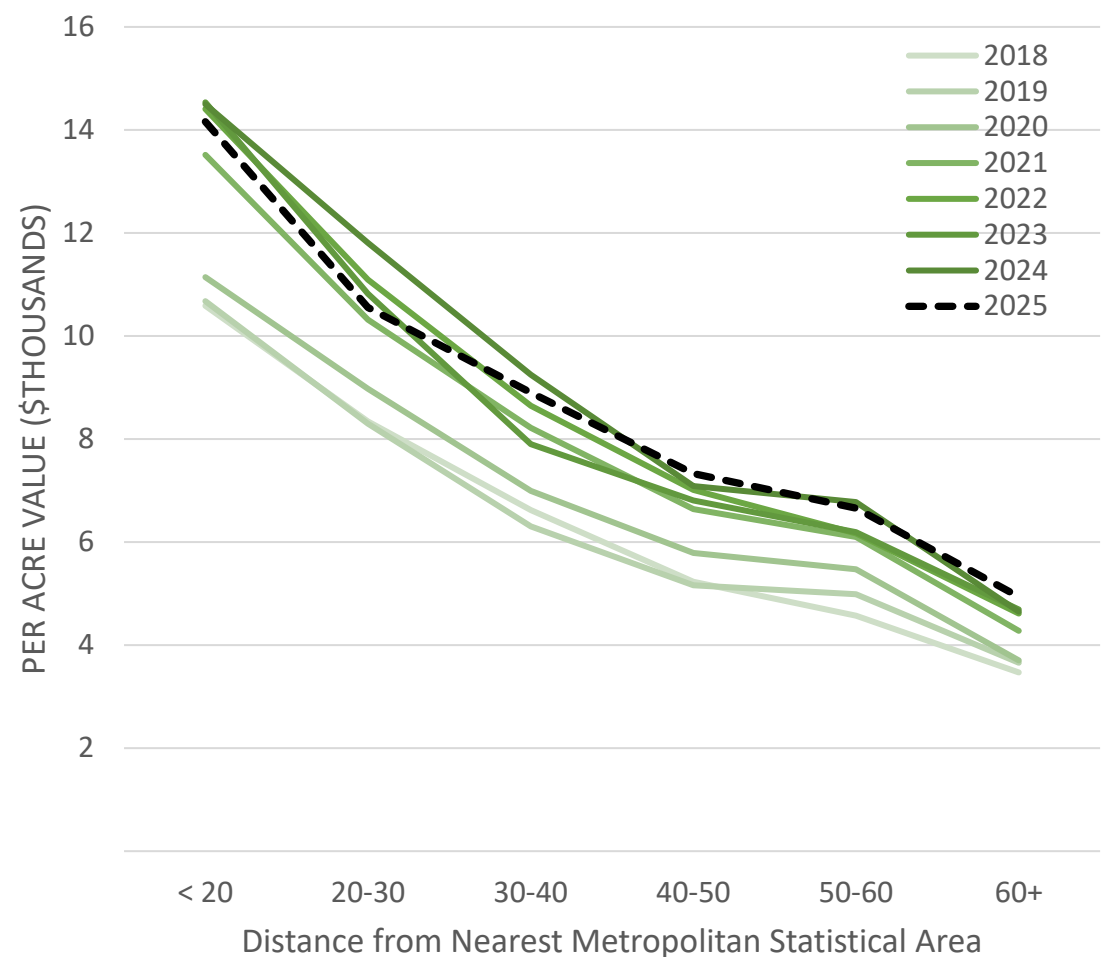


Land conversion driven by local opportunities or policies

CA Parcels Exiting Tree Nut Production, 2023/2024



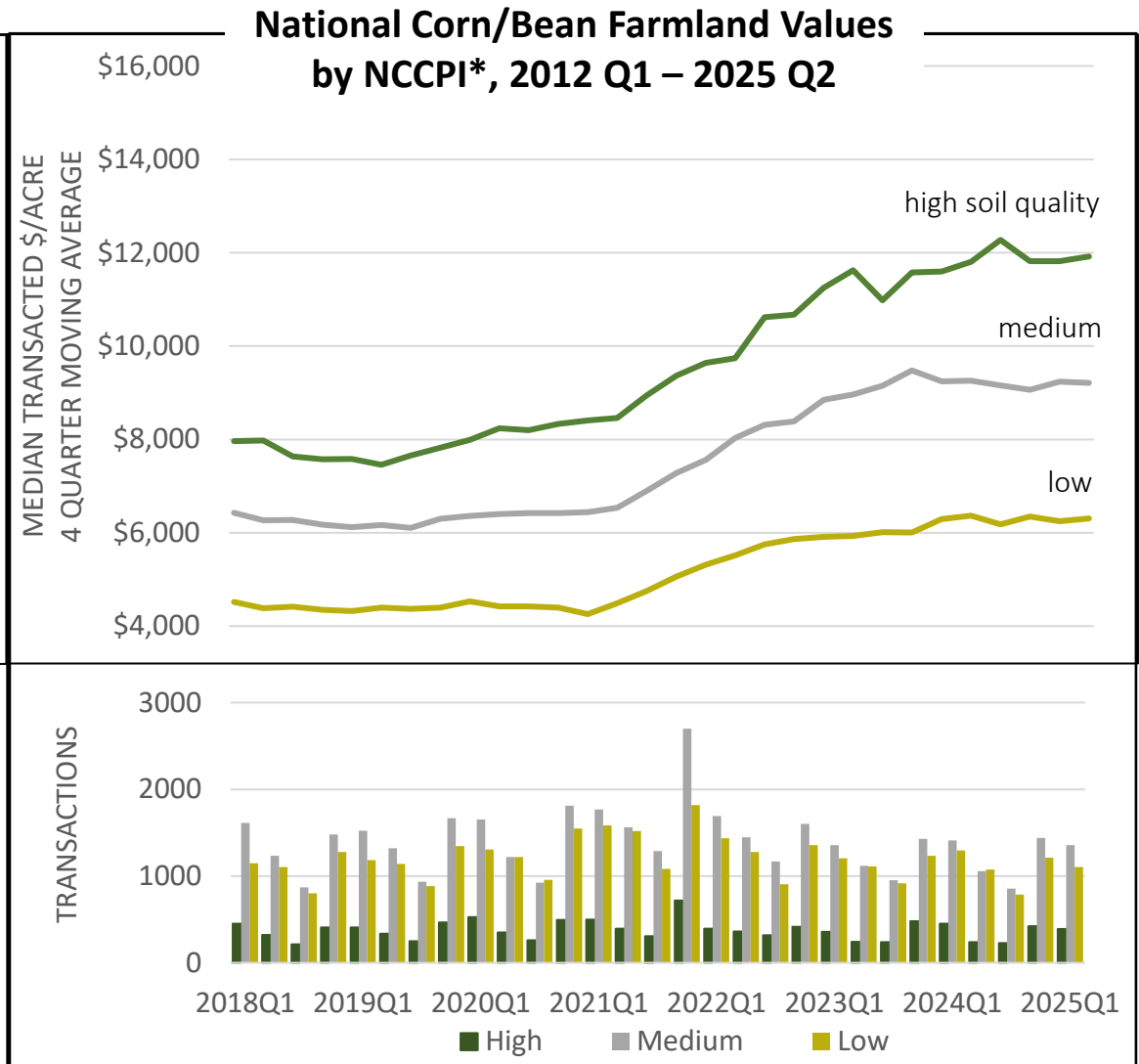
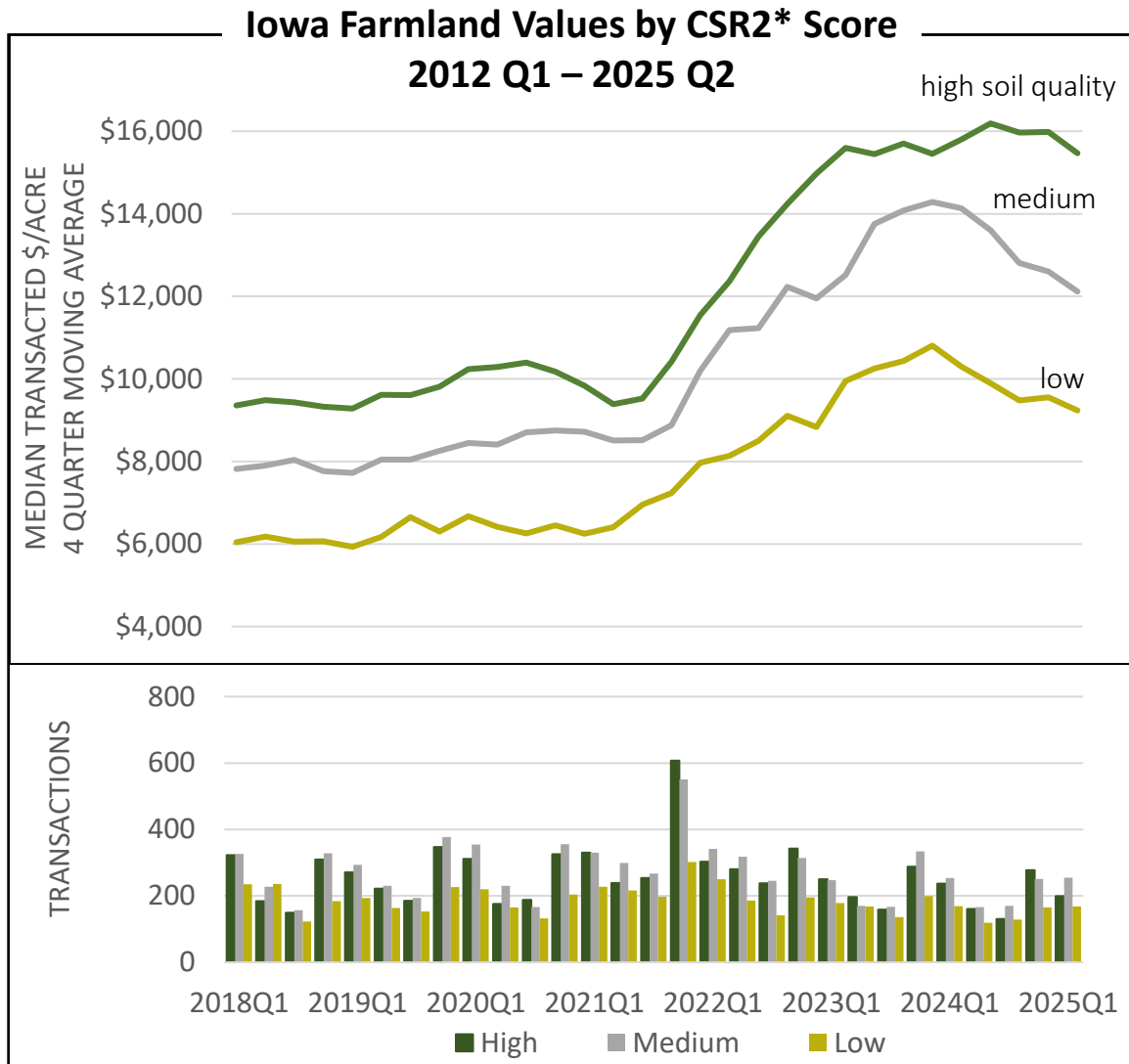
U.S. Agricultural Transaction Values by Distance to Nearest MSA



Source: USDA Cropscape cover layers; ODAE calculations using data from Cotality (formerly CoreLogic).



Lower quality land under pressure in states with fewer conversion opportunities



Source: ODAE calculations using data from Cotality (formerly CoreLogic) and USDA gNATSGO.

*CSR2 = Corn Suitability Rating 2, NCCPI = National Commodity Crop Productivity Index.



Questions?



Farm Credit System Condition and Performance as of June 30, 2025

Deanna Block
Supervisory FCA Examiner
Office of Examination

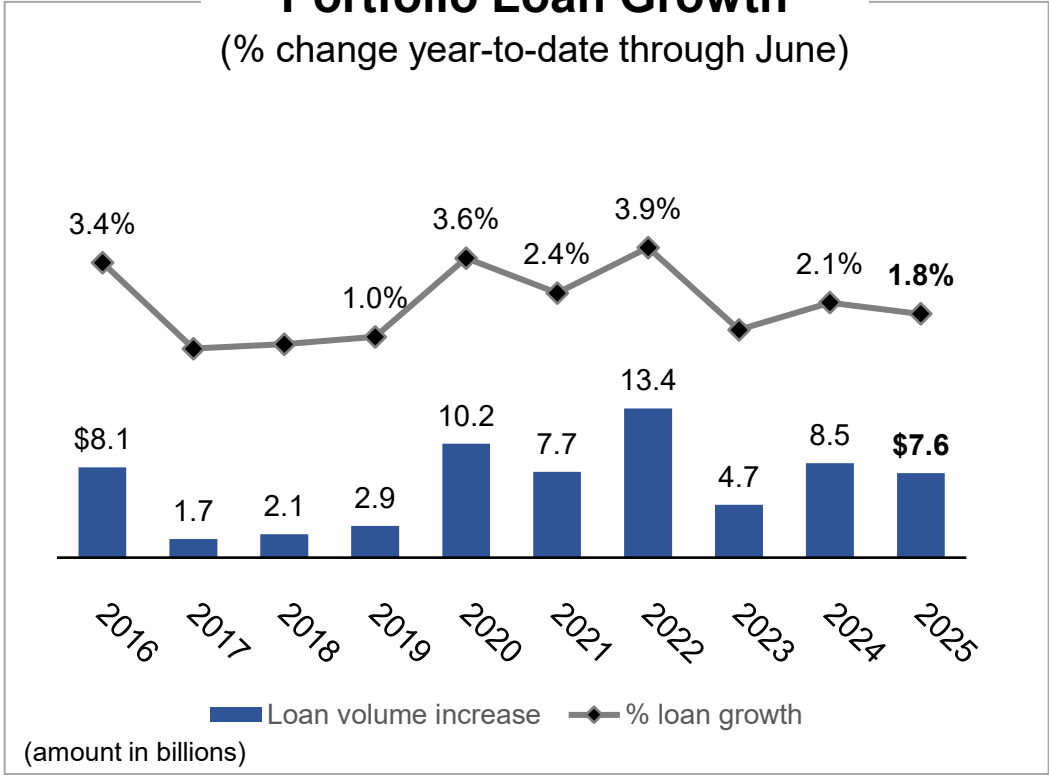




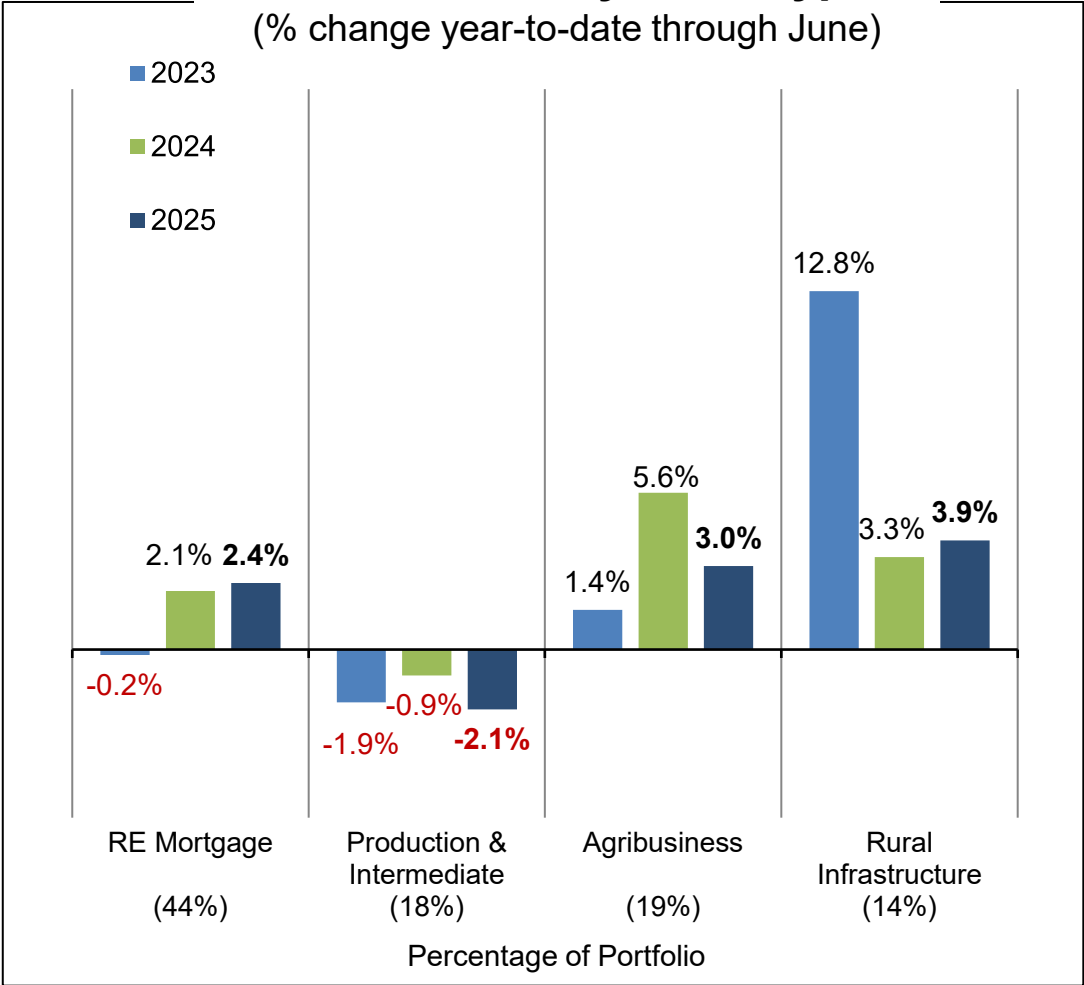
Loan growth slows slightly in the first half of 2025

Total Assets 06/30/25	\$557.0 billion	+1.5%	Qtr	Gross Loans 06/30/25	\$436.5 billion	+0.9%	Qtr
		+2.3%	YTD			+1.8%	YTD
		+8.3%	12M			+7.3%	12M

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

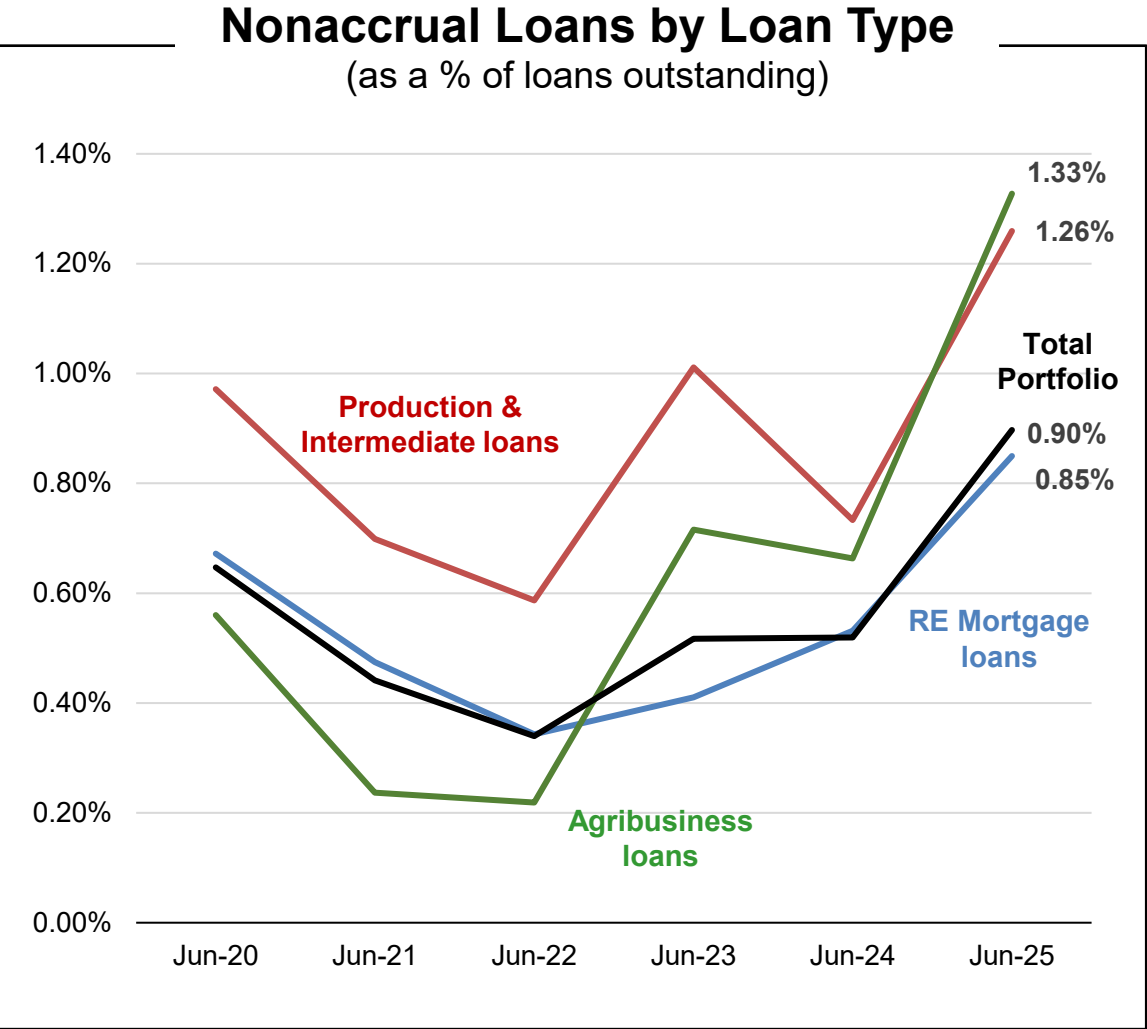
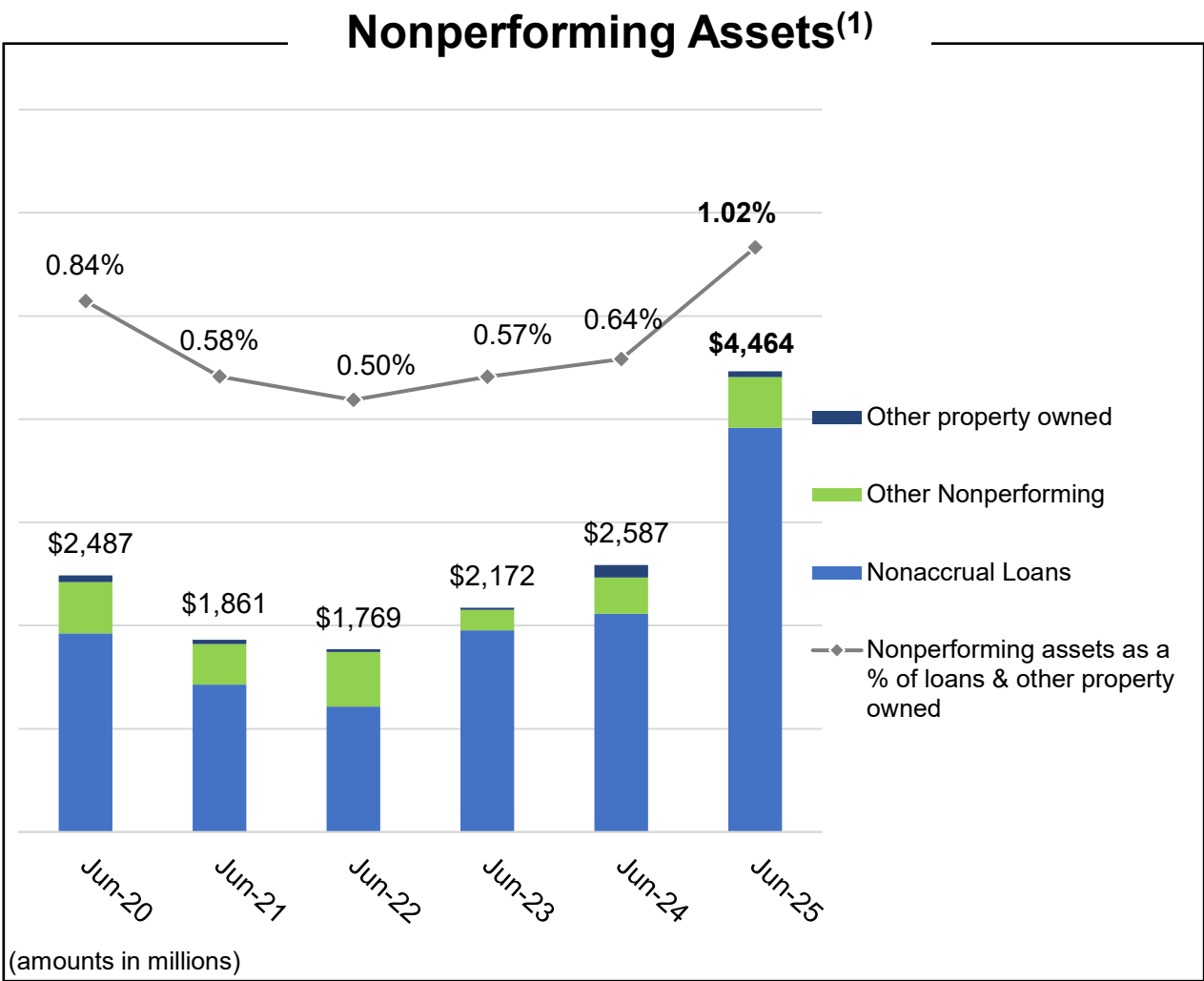


Loan Growth by Loan Type
(% change year-to-date through June)





Nonperforming assets have increased, but overall portfolio quality remains sound



(1) Prior to the adoption of CECL on 1/1/23, nonperforming assets included accruing restructured loans
Source: Federal Farm Credit Banks Funding Corporation Information Statements



Less than Acceptable loans increase

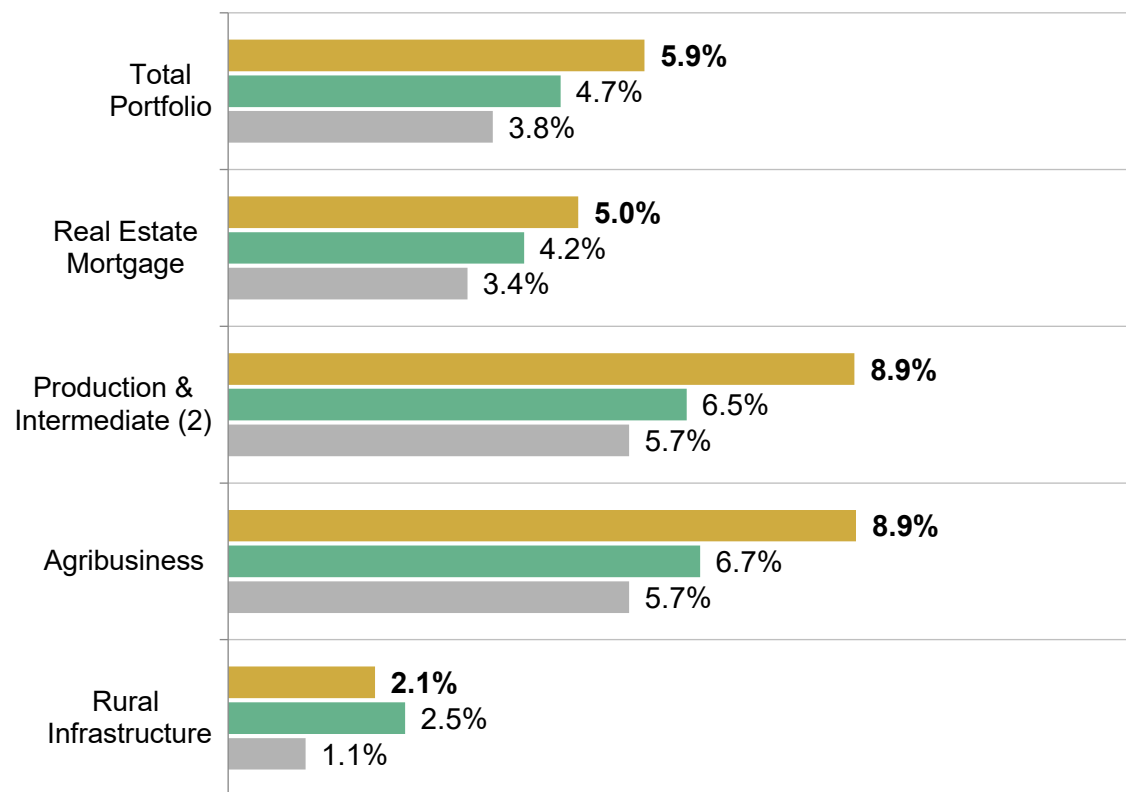
- ▶ The percentage of loans classified less than Acceptable increased in all loan categories apart from rural infrastructure.
- ▶ Production & intermediate and agribusiness loan categories continue to have the highest percentage of less than Acceptable loans at almost 9%.
- ▶ Loan delinquencies⁽¹⁾ as a percentage of total accruing loans equaled 0.47% at June 30, 2025, as compared with 0.36% at year-end and 0.44% at June 30, 2024.

(1) Defined as accruing loans 30 days or more past due.

Source: Federal Farm Credit Banks Funding Corporation Information Statements

Loans Classified Less than Acceptable

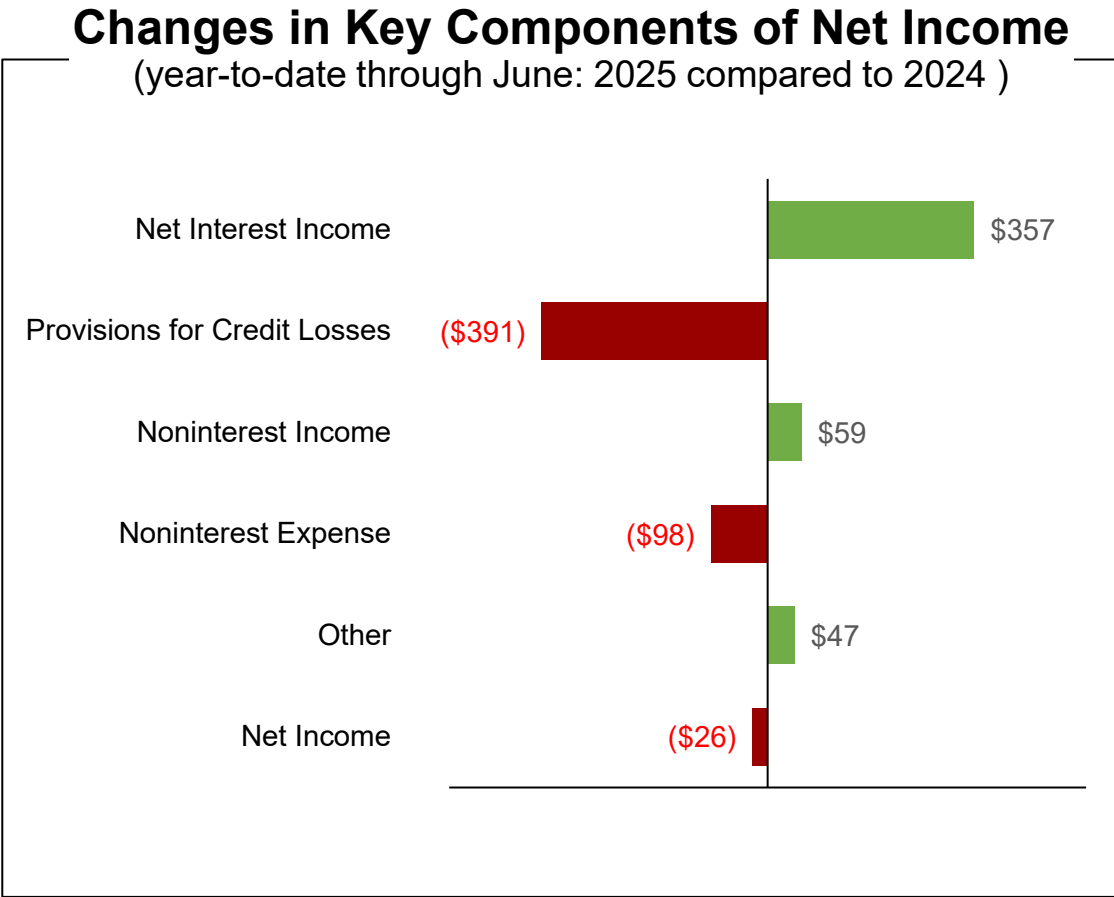
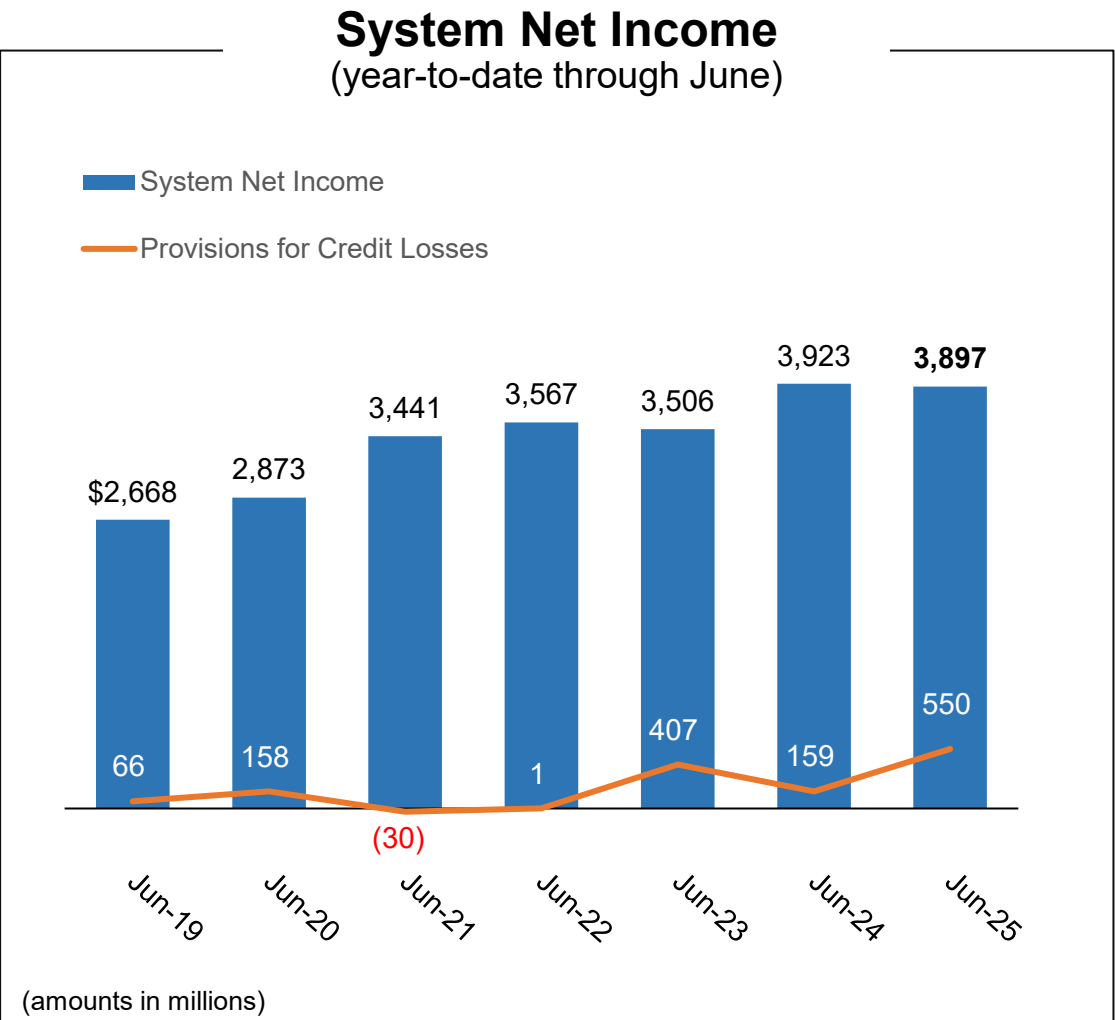
(as a % of loans outstanding)



(2) includes lease receivables



System earnings remain stable, but provisions for credit losses have increased



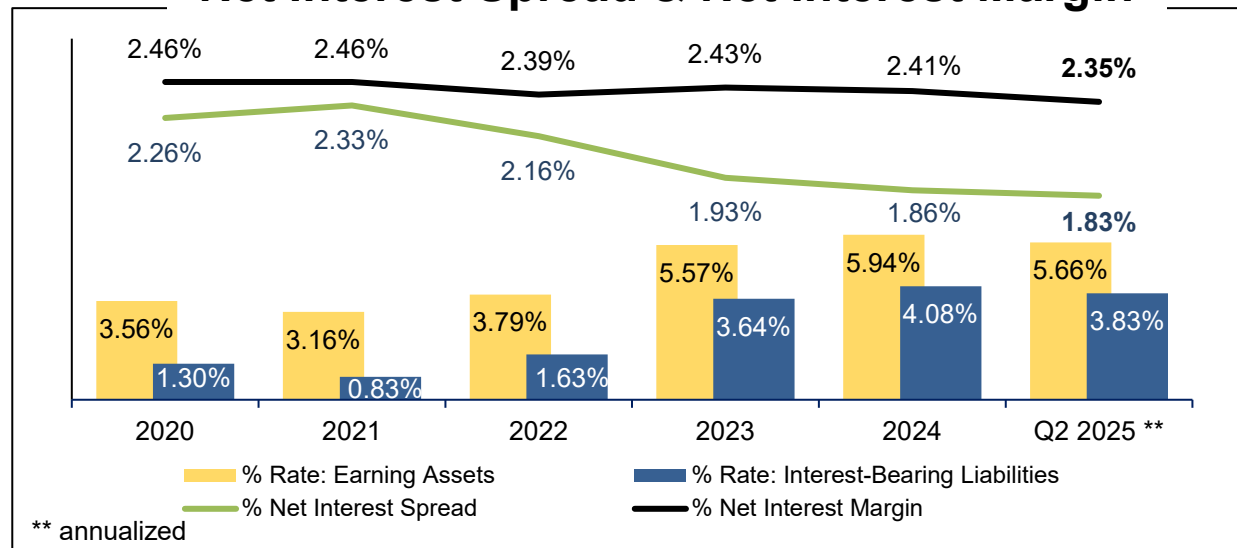
Source: Federal Farm Credit Banks Funding Corporation Information Statements



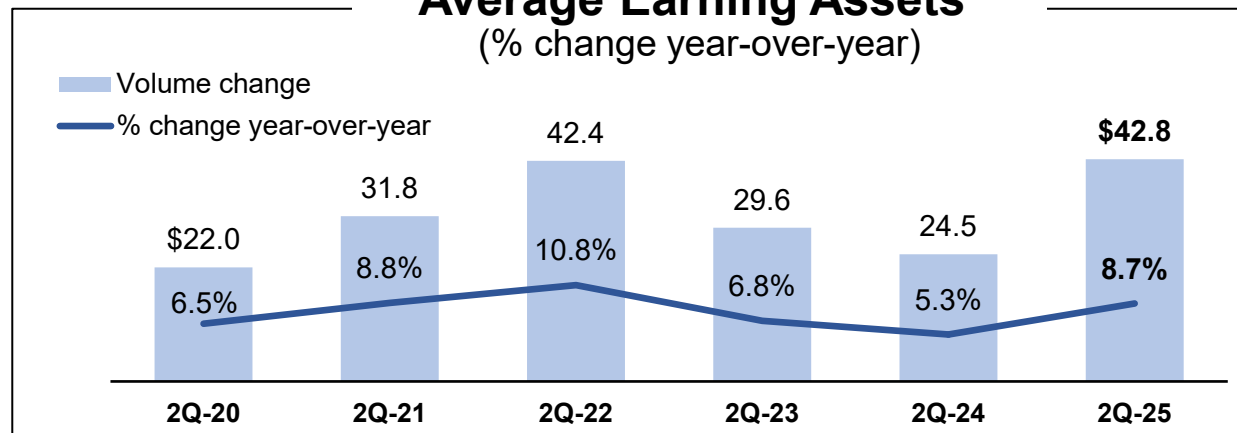
Net interest spread and net interest margin shrink while average earning assets grow

- ▶ Net interest spread continued to compress, dropping 3 basis points primarily related to higher funding costs.
- ▶ Net interest margin declined, dropping 6 basis points from year-end 2024.
- ▶ Average earning assets grew 8.7% year over year in second quarter 2025.

Net Interest Spread & Net Interest Margin



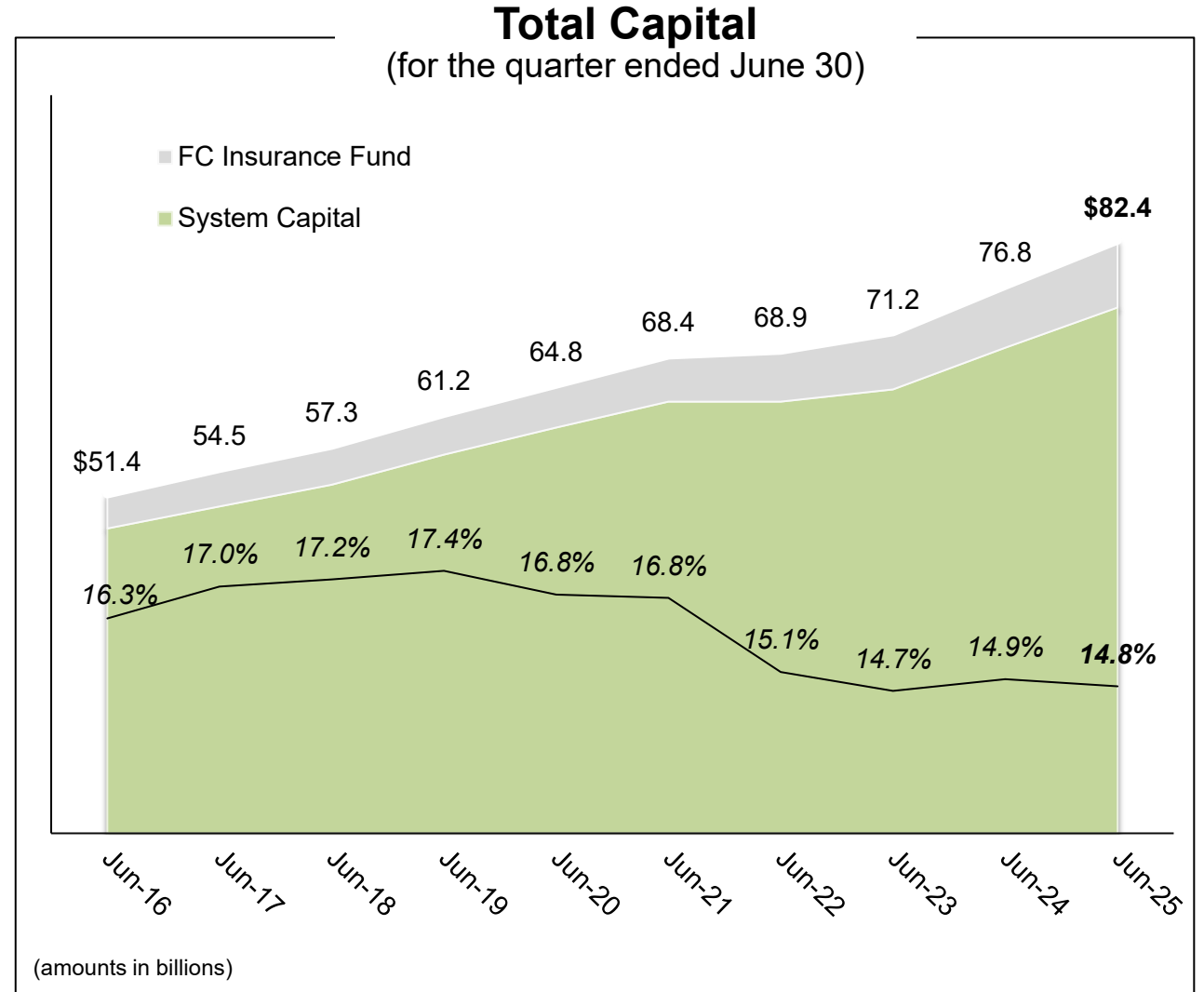
Average Earning Assets (% change year-over-year)





The System is well capitalized with robust risk-bearing capacity

- ▶ Earnings continued to support capital growth.
- ▶ The System's capital-to-assets ratio was 14.8% at quarter-end compared with 14.9% a year ago.
- ▶ Total regulatory capital ratios:
 - Banks: 13.5% to 16.4%
 - Associations: 11.8% to 33.7%
- ▶ Capital and the allowance for loan credit losses equaled 19.3% of loans outstanding.
- ▶ 73% of System institutions had a 1 rating for Capital and all institutions were in the 1 or 2 range.



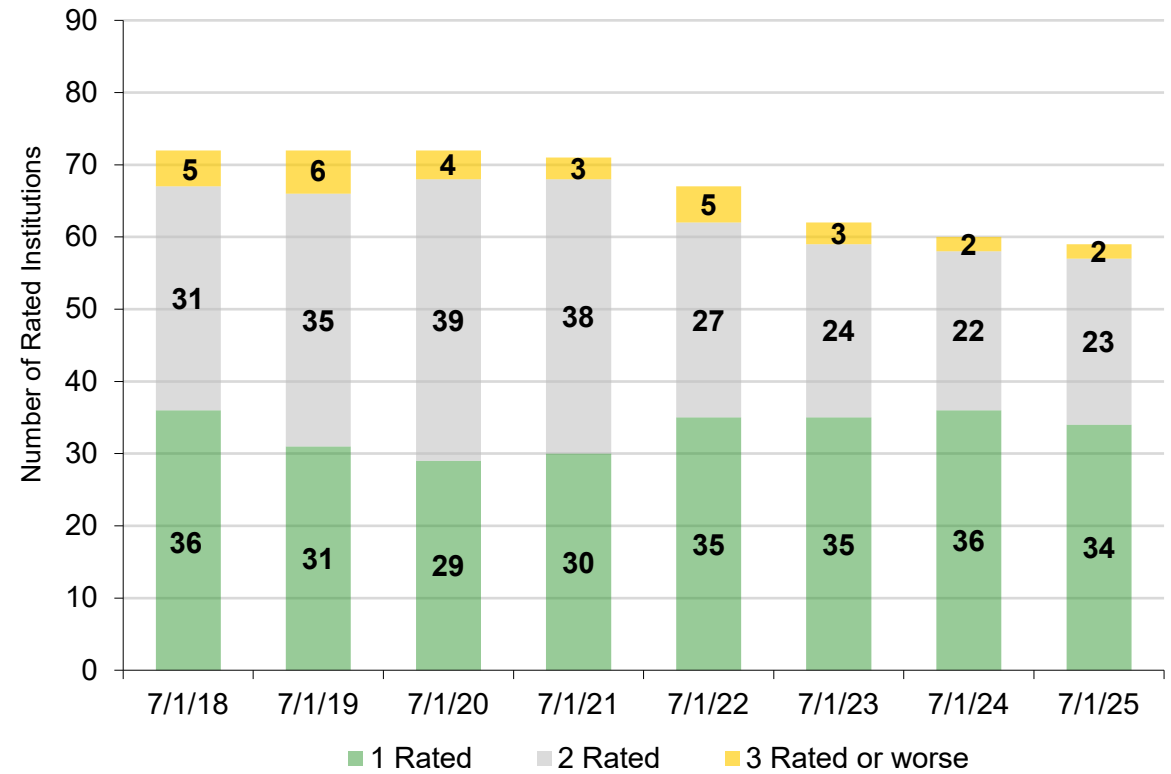


Composite FIRS ratings remain strong

Composite FIRS Ratings (based on 6/30/25 financial reporting)

- ▶ Composite FIRS ratings reflect the System's sound financial condition.
- ▶ Over 96% of System banks and associations have a Composite FIRS rating of 1 or 2.
- ▶ Institutions rated 3 or worse hold about 4% of consolidated System assets.

Composite FIRS Ratings Farm Credit System Banks and Associations



Source: FCA's FIRS ratings database



Risks we are monitoring

- ▶ Continuing stress on the cash grain sector resulting from lower prices, elevated production costs, and export uncertainties
- ▶ Rising credit risk for agribusinesses as profit margins remain under pressure from high costs and uncertain demand
- ▶ The effect of weaker profit margins and elevated interest rates on farmland and other collateral values
- ▶ The impact of increased nonaccrual levels and allowance provisions on System earnings
- ▶ Potential impact of changing global economic conditions, foreign trade policies, changes in government programs supporting agriculture, and disease outbreaks in crop or livestock sectors