FCA Board Meeting
June 2021




Quarterly Report on FCS Condition
June 10, 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

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Office of Data Analytics and Economics

Rapid economic growth

- U.S. Q1 growth at historically high pace - 6.4%
- U.S. imports set monthly record of $275B in March
- April retail sales up 18% over February 2020
- Equity markets roll on to records with cryptocurrencies
- Demand drivers:
  - Consumers unleashed
  - $5 trillion in stimulus and related policies
  - Improving labor market and consumer confidence
  - Historically low interest rates

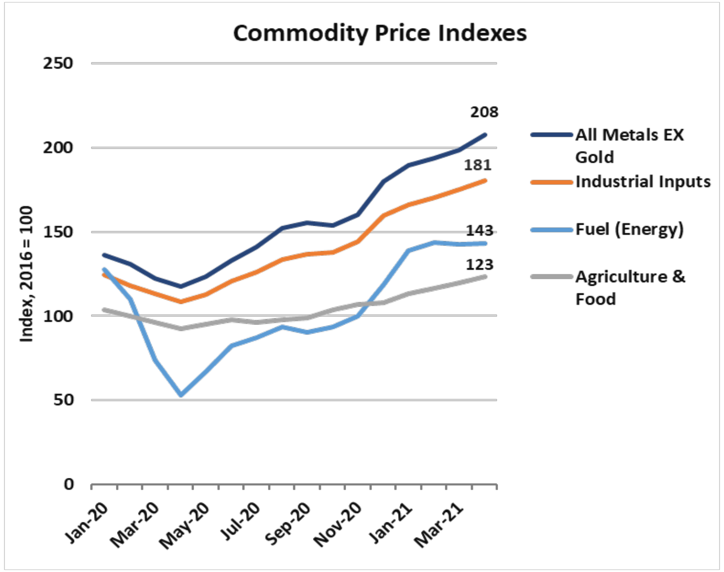
Supply chains and labor markets tighten

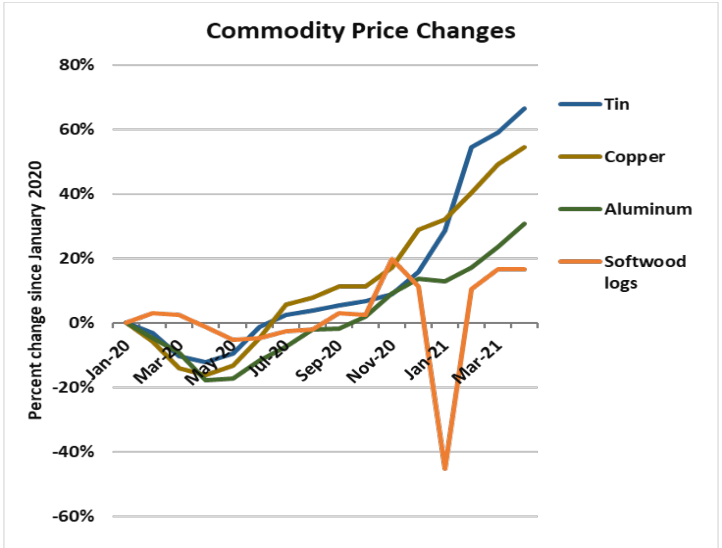



- Worldwide supply chains stretched thin
  - Production bottlenecks and low inventory hangovers from 2020
  - Key component shortages from micro chips to plastic resins
  - Distribution and shipping constraints:
    - Baltic Dry Index (cost of moving by sea) reached 10-year high in April
    - U.S. domestic freight expenditures index rose 6.5% in March
- U.S. labor markets tighten
  - More job openings but smaller workforce than before pandemic
  - Workforce participation restrained by government policies and other factors
  - Labor shortages emerge – manufacturing, construction, trucking, and food services
  - Wages and compensation rising – April wages up 5.8% from February 2020

Raw material prices rise

- Widespread commodity price increases – some to records
- Supply and demand imbalances and future expectations
- China is leading commodity importer – 45% of maritime dry-bulk market





Source: International Monetary Fund database.

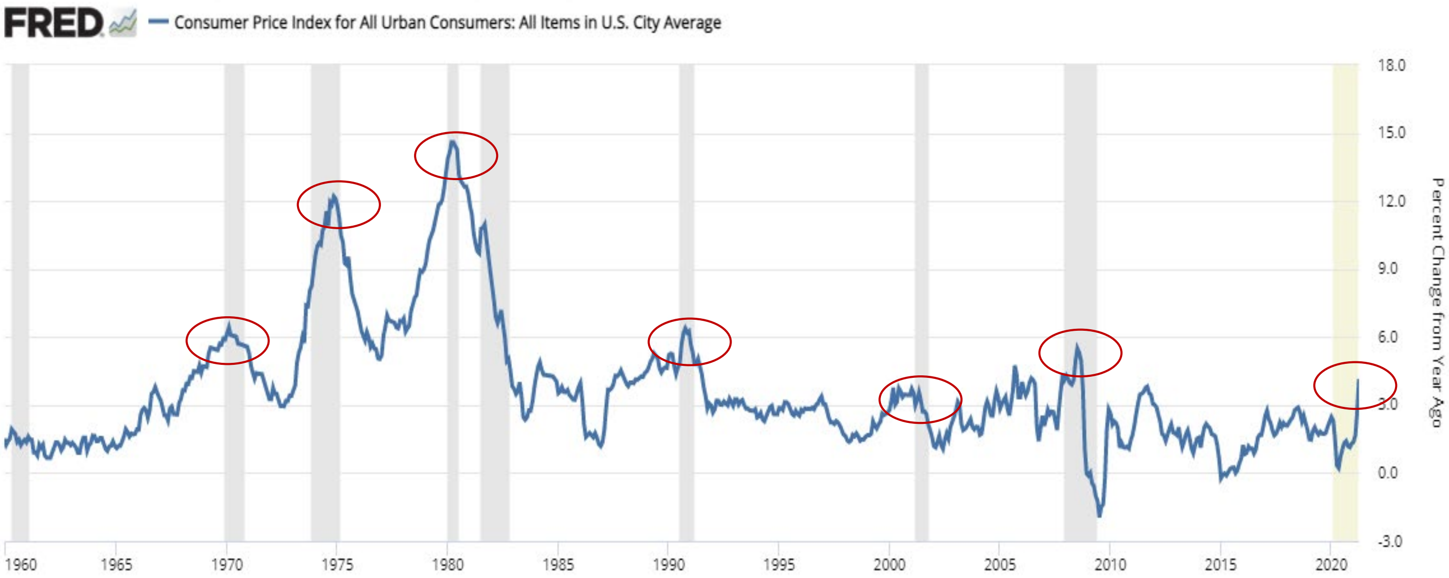
Inflation rekindled?




- April CPI rose at 4.2% annual rate -- a 13 year high (6.2% for first 4 months)
- Too much money chasing too few goods
  - The median sales price of existing-homes rose 19.1% year-over-year in April to $341,600, both record highs (National Association of Relators)
  - Rising building materials costs and low inventory caused new home sales prices to jump 20% year-over-year in April (National Association of Home Builders)
  - Year-over-year April used car and truck prices up 21% in BLS data while Manheim Used Vehicle Value Index increased 52.2%
- As economy fully opens, more consumer spending will shift to services which should moderate goods price increases

Will this latest inflation be “transitory”?

- Younger generations (borrowers) have never experienced sustained rates above 4%
- Once rooted, curtailing inflation can require substantial monetary policy adjustments
- Monetary policy includes soaking up some $120 billion per month of federal stimulus



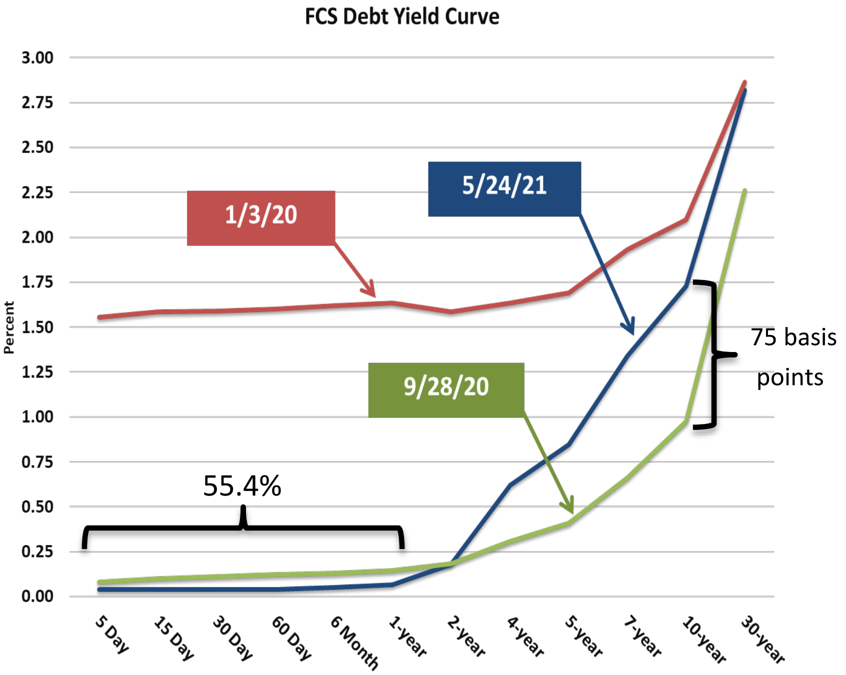
Source: St. Louis Federal Reserve Bank. Shaded areas are economic recessions.

Higher inflation leads to higher interest rates

Impact on System borrowers

- Yield curve has become steeper
- Changes in interest rates quickly impact borrowing costs on majority of System loans
- Share of loans repricing in:
  - Less than 1 year: 55.4%
  - 1 to 5 years: 24.9%
  - Over 5 years: 19.6%

Source: First Quarter 2021 Information Statement of the FCS.

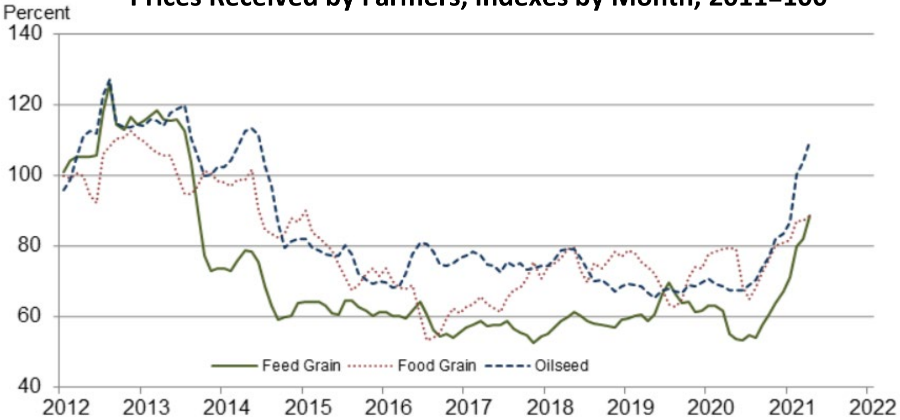


Source: FCA.

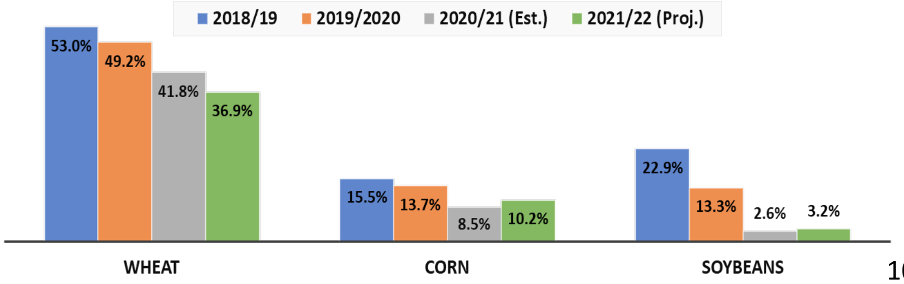
Grain and oilseed prices soar on shortages

- Profitable pricing opportunities for the next two crops
- China feed grain and oilseed needs push exports to the country to records
- South American production (safrinha corn) shortfalls
- U.S. and global stocks forecast to remain tight for 2021/22
- Looking ahead on renewal fuel standards

Prices Received by Farmers, Indexes by Month, 2011=100



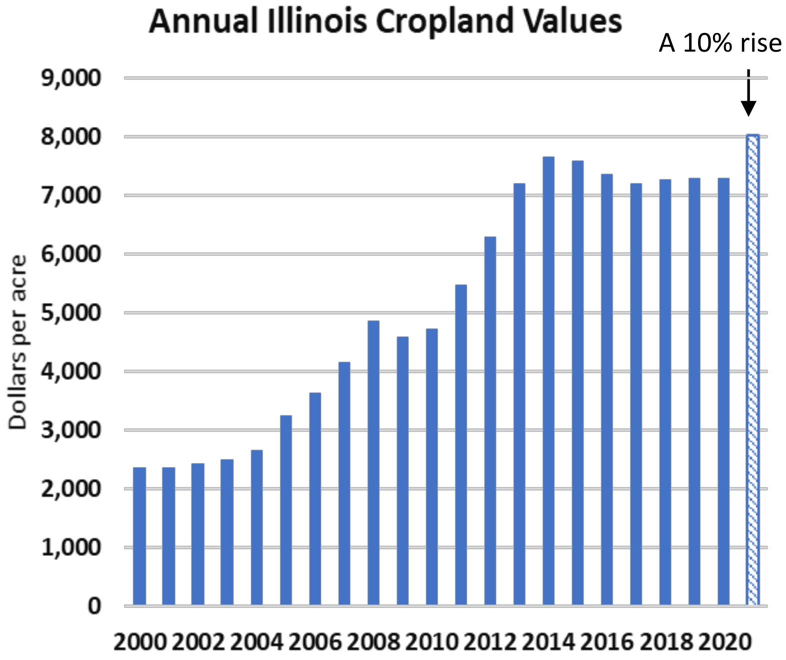
U.S. Stocks-to-Use Ratio



Source: UDSA-NASS and USDA-WOAB.

Farmland prices jump with crop prices

- How much have values risen?
  - Chicago Fed - 7% in 12 month
  - Iowa survey - 8% in 6 months
  - Prime land prices – 10% - 15% spikes
- Pricing factors
  - Higher grain prices
  - Government payments/stimulus
  - Limited supply on market
  - Greater investor interest
  - Low interest rates
- Outlook
  - Monetary and tax policy changes
  - 2022 rental costs expected to rise

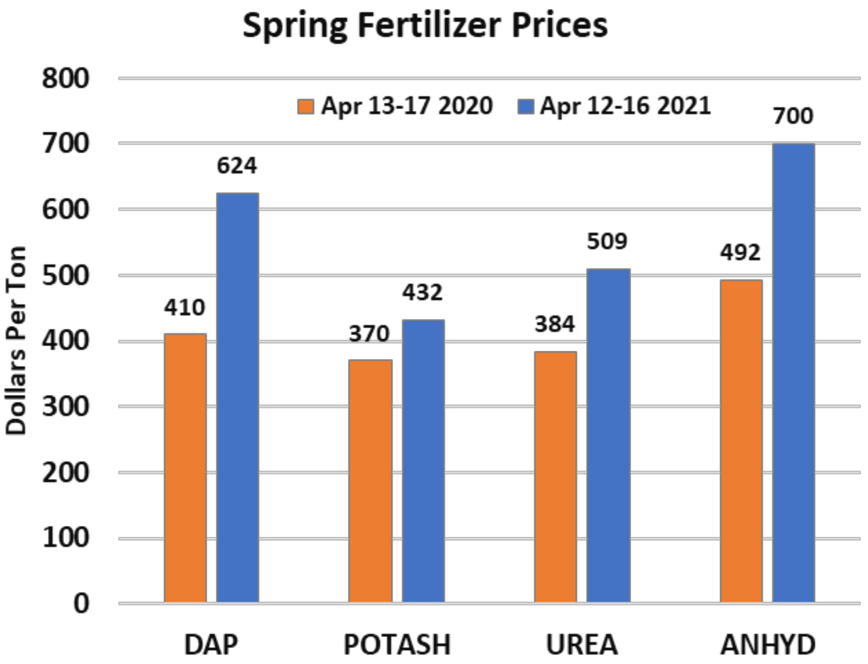


Data source: USDA.

Higher crop input costs this spring



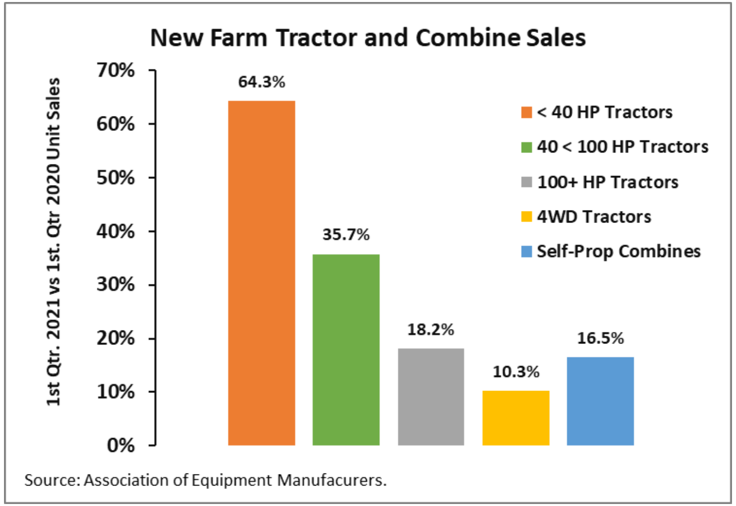

- Ag chemicals with large supply chain exposures to China saw reduced availability, higher shipping costs, freight delays
- Major fertilizer prices moved higher throughout this spring
- Anhydrous ammonia retail price hits $700 per ton in April for first time Since 2015
- Diesel fuel costs 25% higher in April 2021 vs. April 2020
- Modest seed price increases

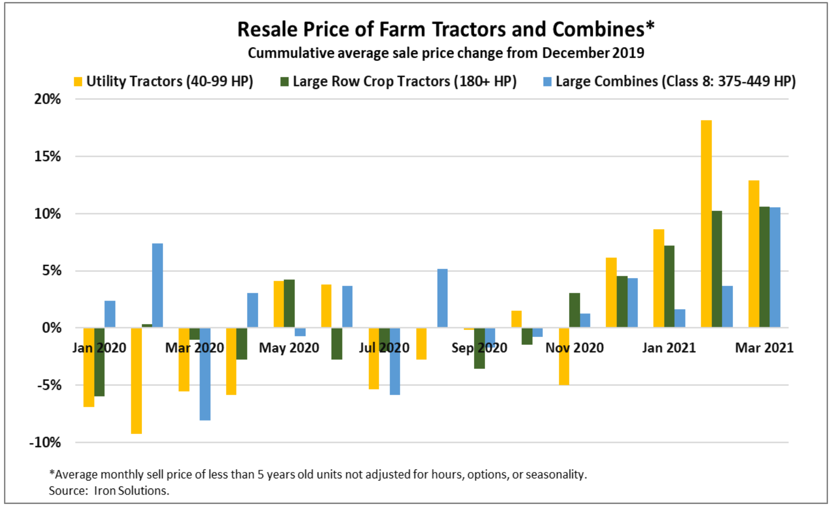


Source: DTN.

Higher machinery sales and prices

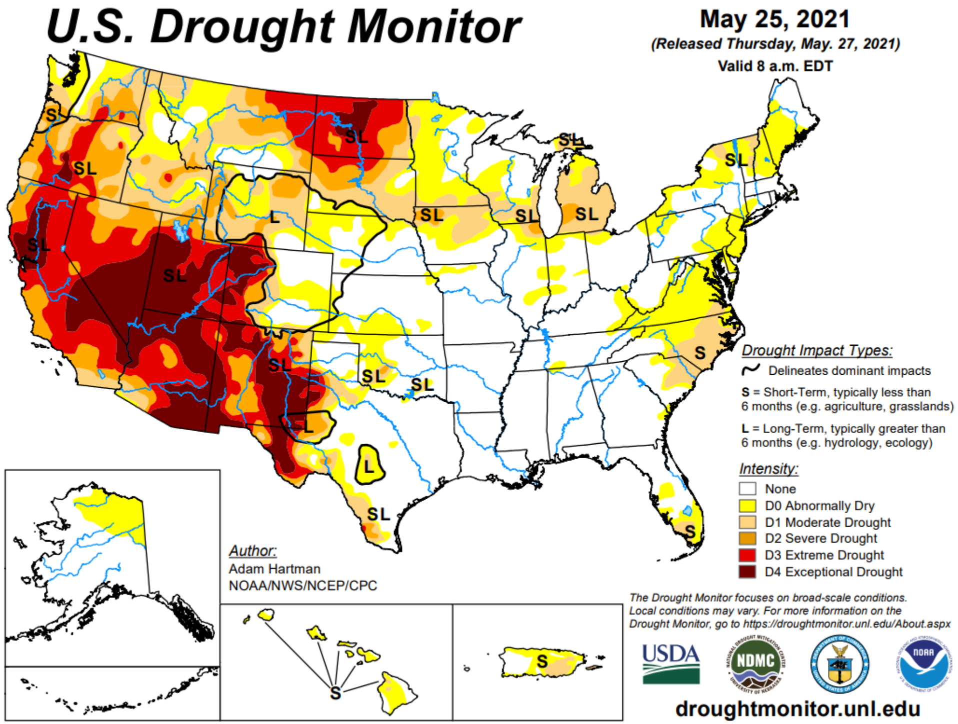
- Large farm tractor and combine sales rise on stronger farm incomes and government payments
- Small tractor sales rise on strong rural lifestyle demand aided by stimulus payments
- Low financing rates aids sales across all segments
- Resale prices (used) on farm equipment rose last fall into this spring



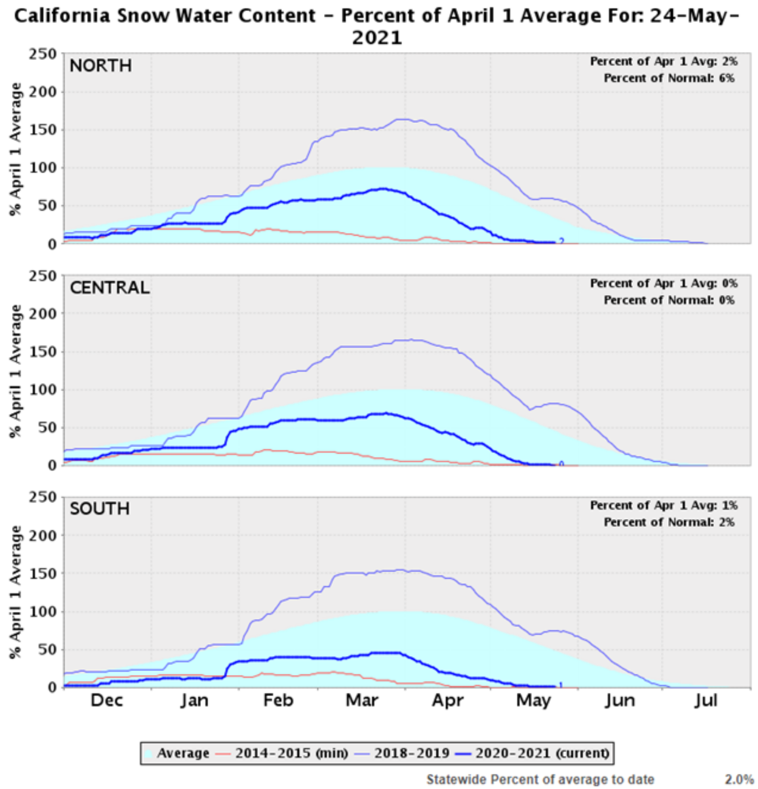


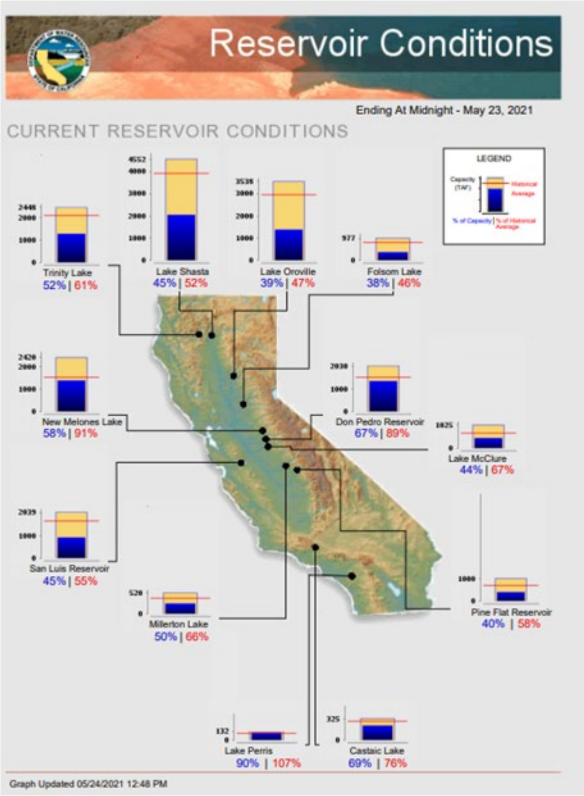
All eyes on weather

- Stressed pastures and reduced hay production in cattle country
- With tight supplies, crop conditions here and abroad are being closely scrutinized
- Corn and bean crops off to a very good start
- Kansas wheat tour reports a record yield is coming (58 bu.)
- Western / California drought is a growing concern



California drought rerun?





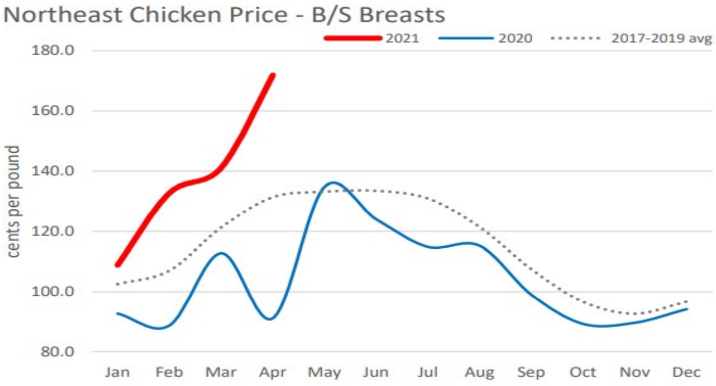
Source: http://cdec.water.ca.gov/

Rising costs cloud protein outlook

- Producers and processors face higher costs:
  - Higher feed bills
  - Rising labor costs/shortages and Covid mitigation expenses
  - Processing capacities
  - Transportation costs/bottlenecks/cyberattack disruptions
  - Rising cost of capital goods
- Demand turns up – but for how long?
  - Export market growth
  - Reopening of restaurants reshapes distribution once again
  - Return of social and family gatherings and grill season
  - Stimulus payments find their way into food budgets
  - Domestic food purchases and return of school lunches

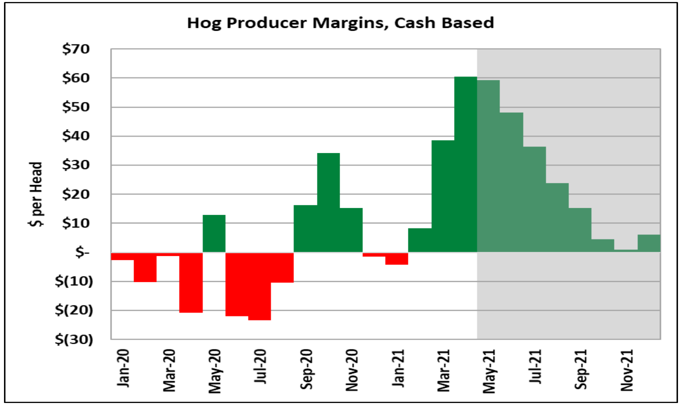
Hog and broilers prices soar with low supplies

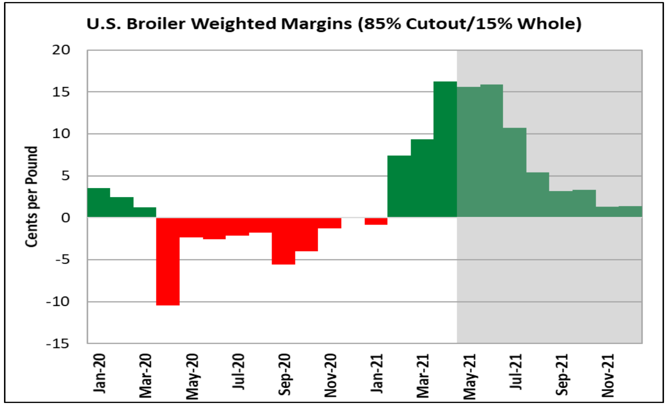
- Exports draw down stocks
- Low cold storage stocks of pork and chicken
- Chicken sandwich wars
- Supply/production constraints

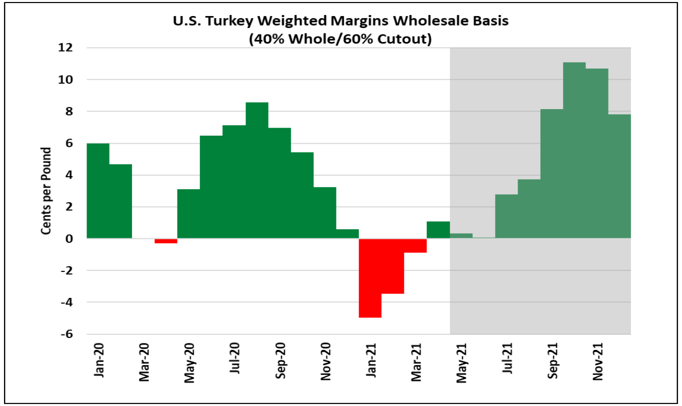


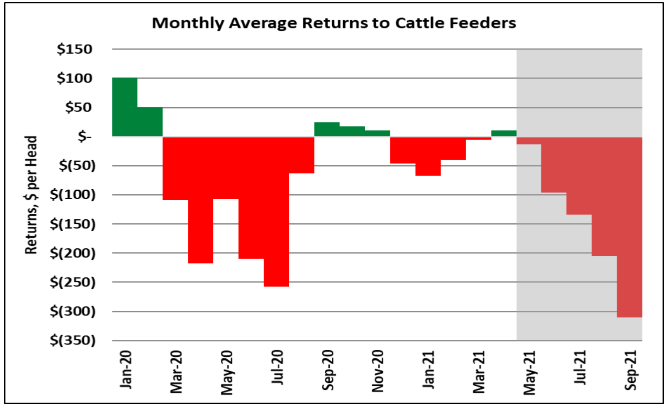
Source: USDA/AMS.

How long will protein margins hold?





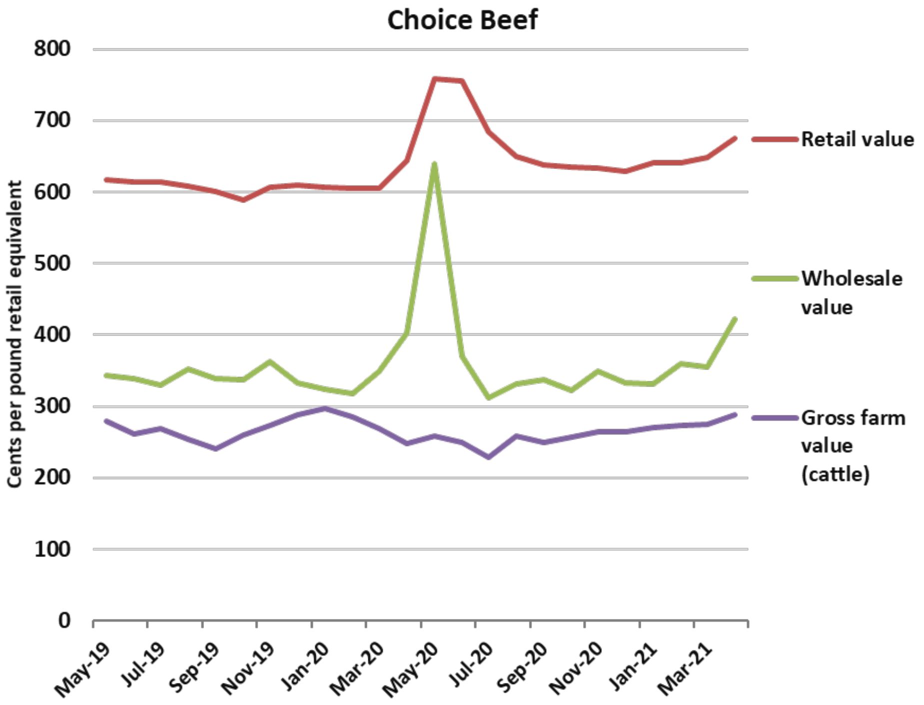




Shaded areas are forecasts. Source: IHS Markit May 2021.

Cattle prices languish

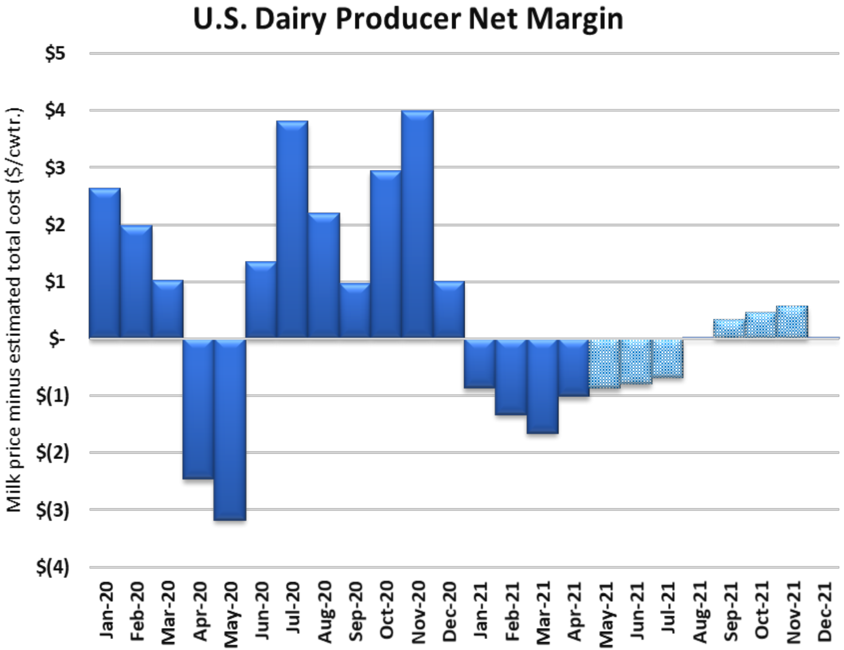
- Cattle producers are not enjoying as much of a price increase relative to wholesale or retail levels
- Packer margins moved to historically high levels in April
- Feeder prices and feed costs present challenges under current pricing outlook



Source: USDA/ERS

Dairy demand is soaking up higher production

- Cheese and powder milk production is up
- Strong dairy exports
- Food service and domestic demand is ramping up
- Margins expected to improve
- Headwinds for fluid milk



Shaded areas are a forecast.
Source: IHS Markit.

Concluding comments




- U.S. economic rebound continues with stressed supply chains, tightening labor markets and upward pressure on prices.
- U.S. food system continues to adjust to demand shifts and supply disruptions in the post-pandemic environment.
  - Higher prices for many ag commodities
  - Higher costs for ag inputs
  - Not all outcomes are positive

- Price volatility and policy adjustments going forward.
- As always, weather here and abroad is critical.

Questions




Farm Credit System Condition and Performance

as of March 31, 2021

Hal Johnson
Sr. Financial Analyst
Office of Examination

Topics

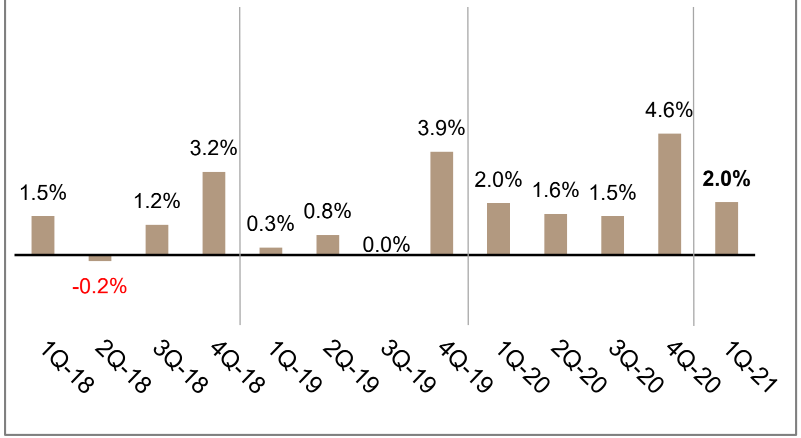



- System growth
- Portfolio credit quality
- Earnings
- Capital | Liquidity
- FIRS

Real estate mortgage and agribusiness lending drive 1st quarter loan growth

Total Assets 3/31/21	$404.4 billion	+0.9% Qtr +4.4% 12M	Gross Loans 3/31/21	$321.8 billion	+2.0% Qtr +10.0% 12M

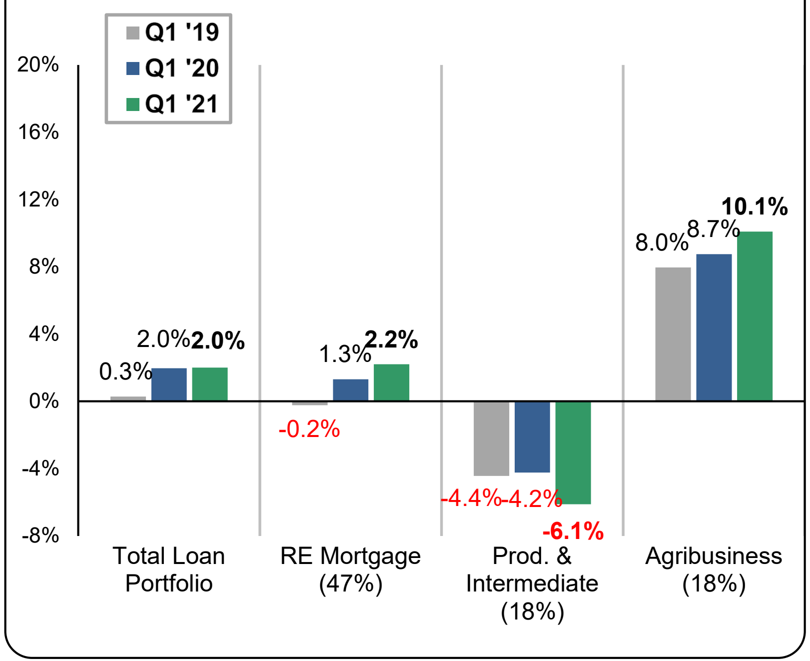
Quarterly Loan Growth



Source: FCS Information Statements

Loan Growth by Loan Type

% change from prior quarter

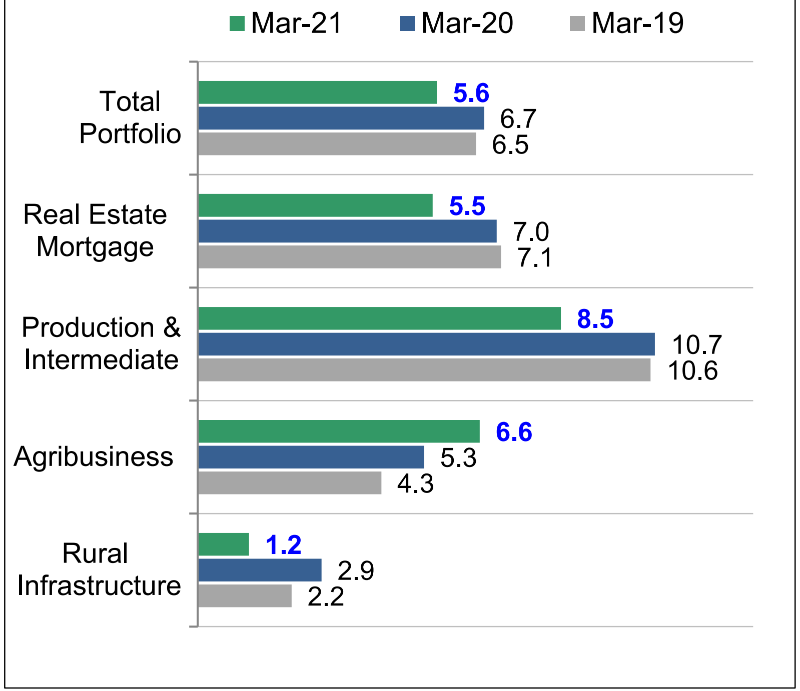


Portfolio loan quality is strong; little change in 1st quarter credit measures

Nonperforming Assets (3/31/21)	**$1.905** billion	Qtr chg.	+$8M or +0.4%
		12 month chg.	-$546M or -22.3%
Delinquencies [(1)] (3/31/21)	**0.31%**	Q4 '20	0.28%
		Q1 '20	0.46%

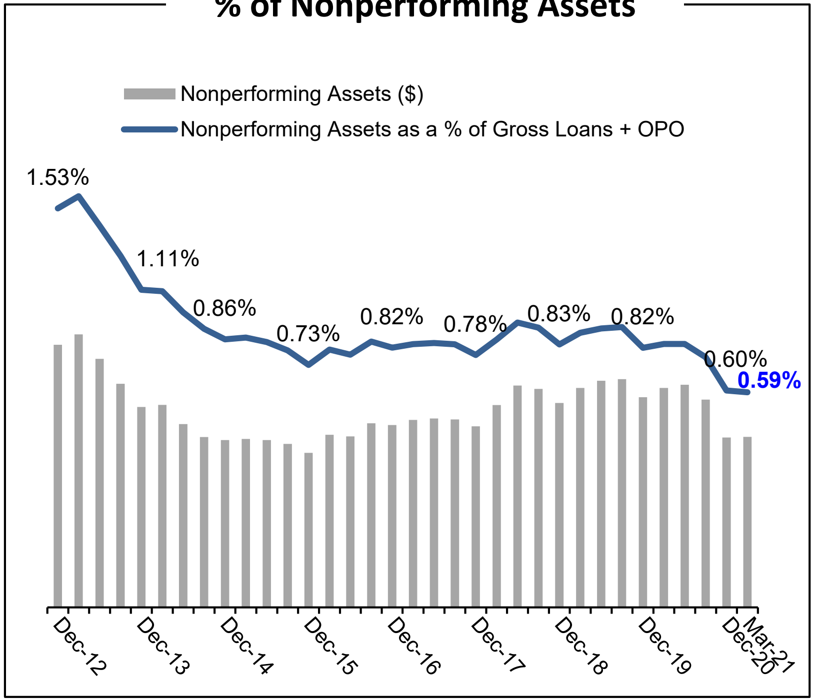
(1) accruing loans 30 days or more past due as a % of accruing loans

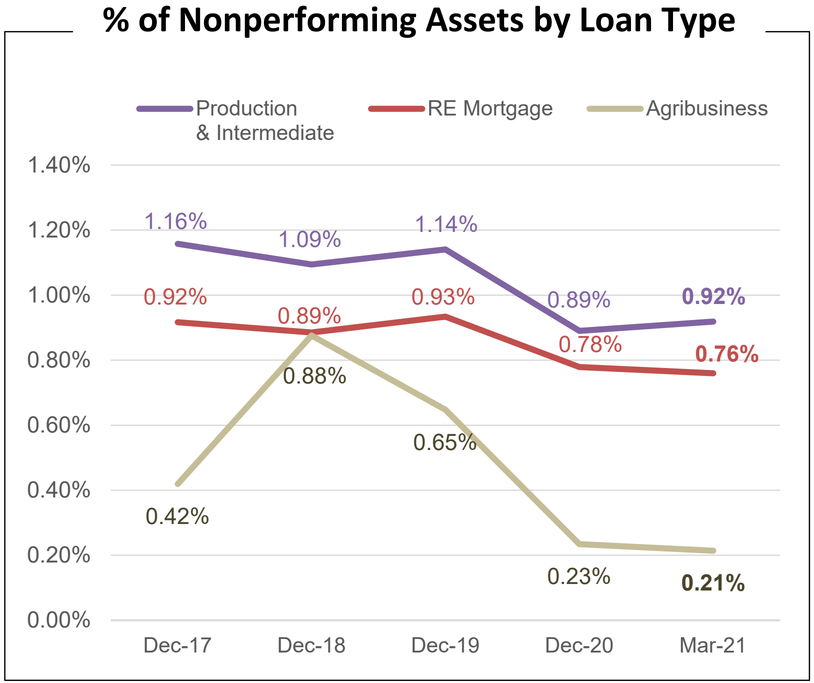
% of Loans Classified less than Acceptable



Source: FCS Information Statements

The percentage of nonperforming assets decreases to the lowest level in 15 years





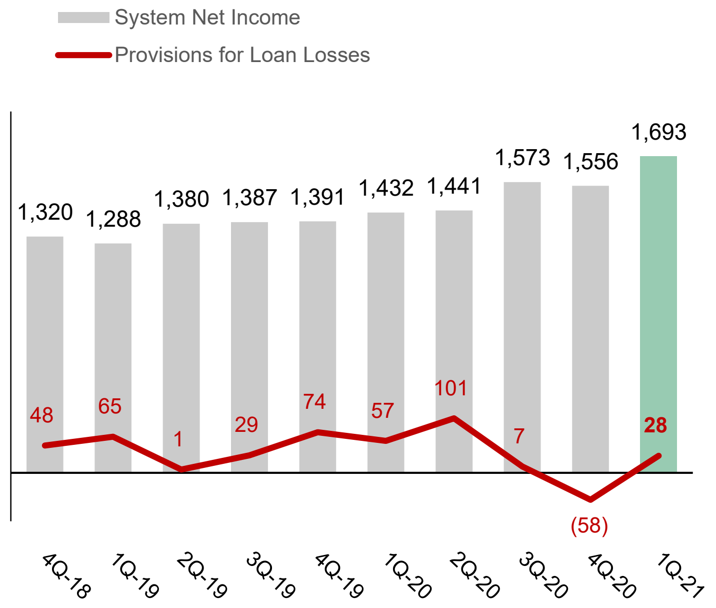
OPO - Other Property Owned

Source: FCS Information Statements

Strong 1st quarter financial results

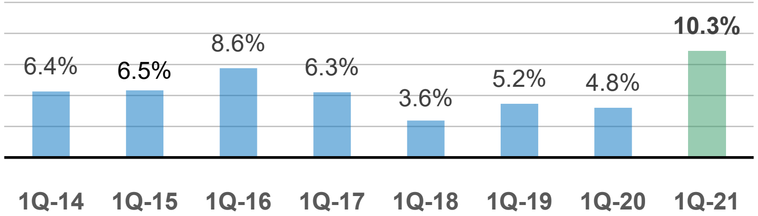



Quarterly System Earnings ($M)



	Mar. '19	Mar. '20	Mar '21
Net Interest Spread (YTD annualized)	**2.00%**	**2.16%**	**2.32%**
Net Interest Margin (YTD annualized)	**2.40%**	**2.47%**	**2.45%**

% increase in Average Earning Assets
(compared to the same period a year ago)



Source: FCS Information Statements

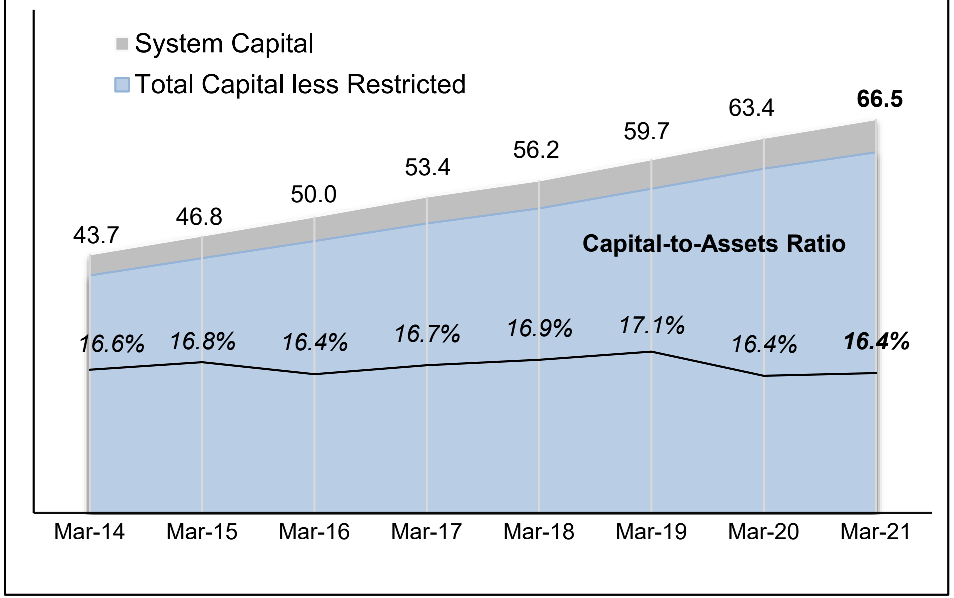
Continued capital growth; strong liquidity

Capital and Liquidity
(as of March 31, 2021)

- Total Regulatory Capital:
  - Banks| 14.1% to 17.5%
  - Associations| 10.9% to 36.3%
- Days of liquidity for the four funding banks ranged from 169 to 211 days
- Capital and the allowance for loan losses as a % of loans outstanding ranged from 17.3% to 22.9% at a combined district level

Source: FCS Information Statements

Total System Capital ($B)



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



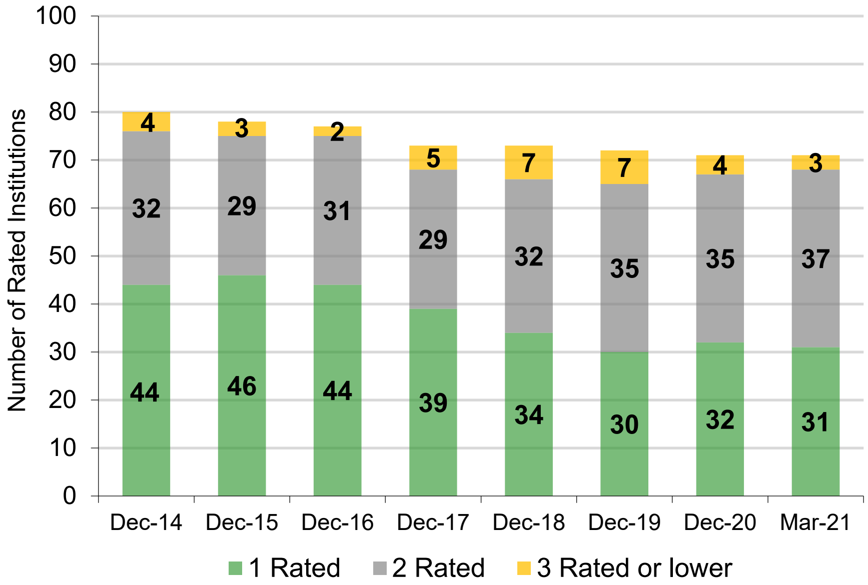

System FIRS ratings

FIRS Ratings

(based on 3/31/21 financial reporting)

- Composite FIRS ratings were largely unchanged in the 1st 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 rebounds strongly, but supply chain issues and inflationary pressures bear watching.
- Grain and oilseed prices soar but rising feed costs have hurt livestock producers.
- Continuing drought in the West is a major concern.
- System loan quality is very good, but certain sectors and geographic regions face significant challenges.
- The Farm Credit System is safe and financially sound. System institutions are well-positioned to support the credit needs of agricultural producers and rural America.

Questions

THANK YOU