

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

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Topics for Open Session

Economic Conditions Affecting the Farm Credit System

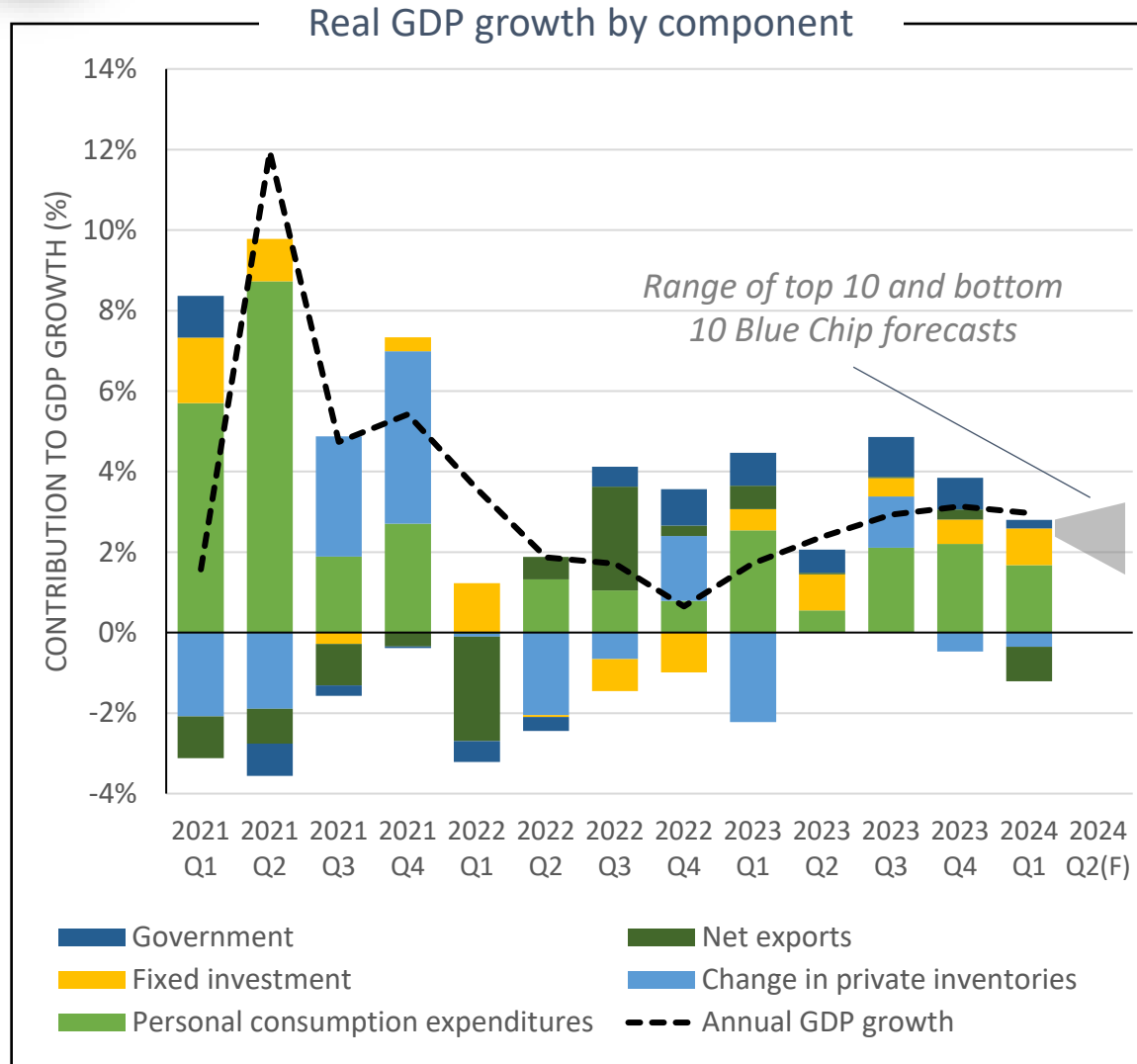
- ▶ Macroeconomic conditions
- ▶ Agricultural incomes
- ▶ Farmland markets

Farm Credit System Condition and Performance

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



Slow growth forecast for 2024, with downside risk



GDP forecasts slip, but remain positive

- Growth expectations below 2023 levels
- 12-month ahead recession probabilities fall

Personal spending capacity falls

- Personal saving rates decline
- Credit card delinquencies rise
- Consumer loan demand weakens

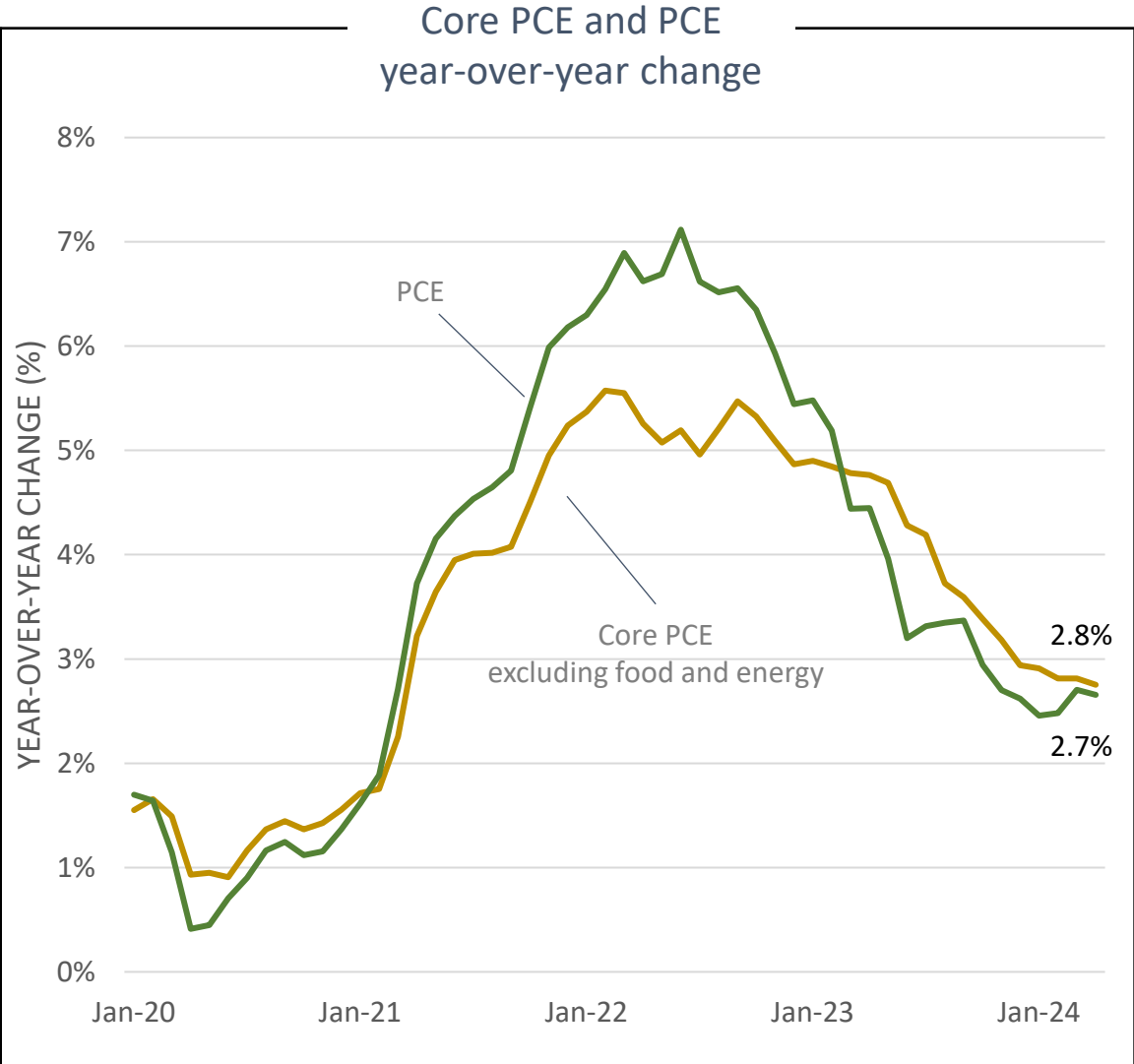
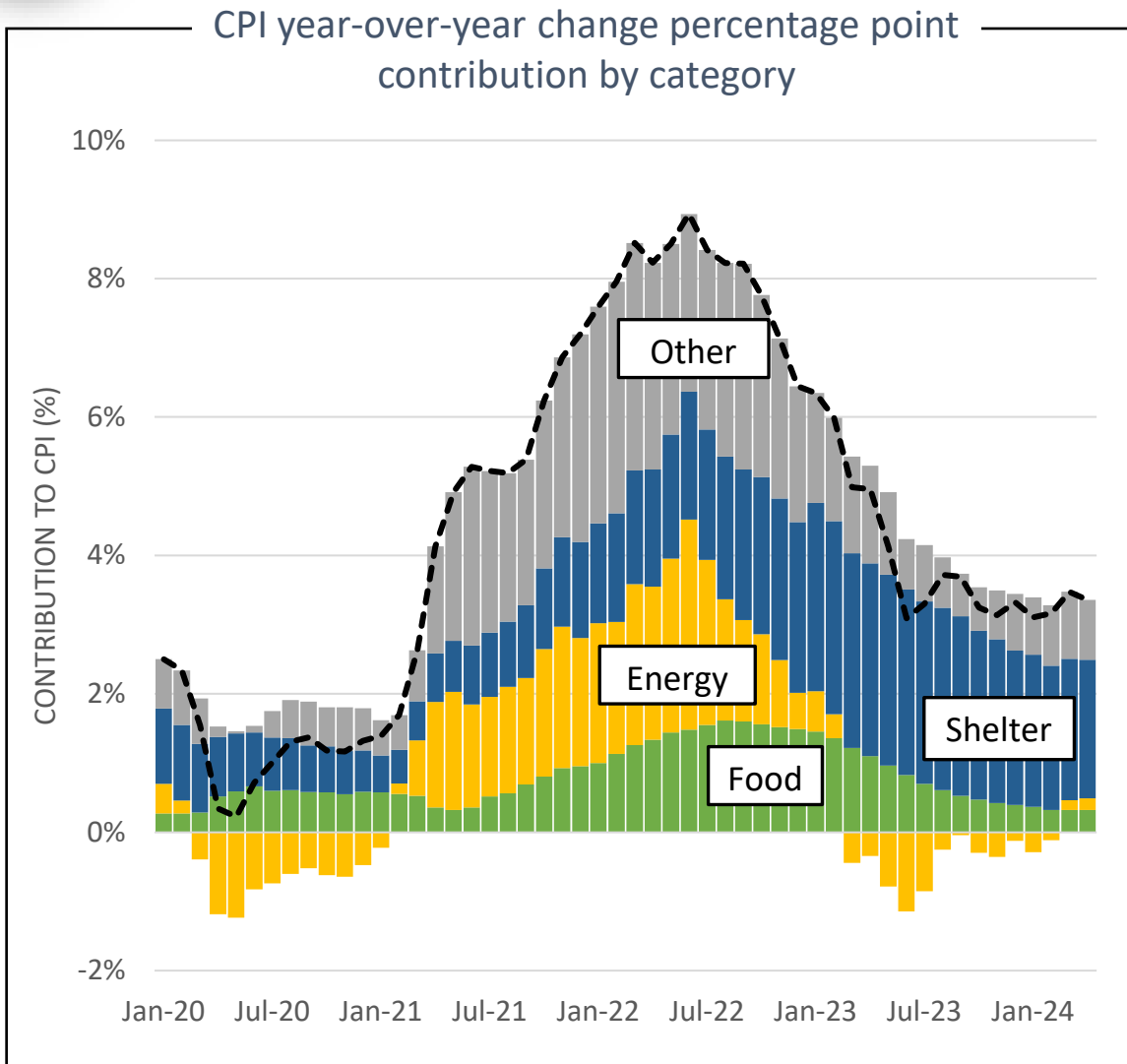
Consumers are more selective

- Falling good purchases
- A plateau in food services

Source: Bureau of Economic Analysis, Gross Domestic Product (Second Estimate).
Blue Chip forecast range from Federal Reserve Bank of Atlanta GDPNow.



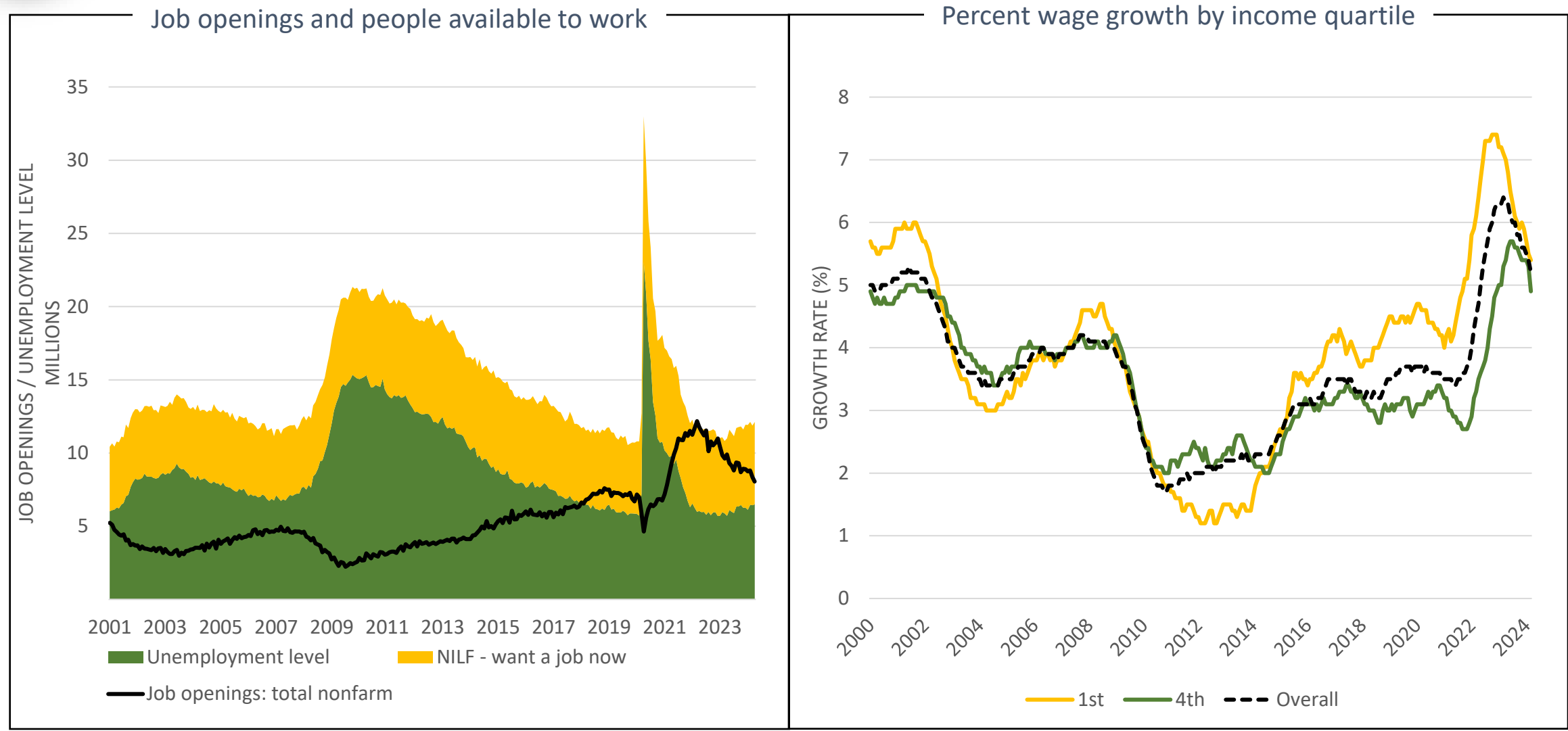
Inflation continues to moderate, but progress has slowed



Source: U.S. Bureau of Labor Statistics Consumer Price Index, author's calculations and U.S. Bureau of Economic Analysis Personal Income and Outlays.



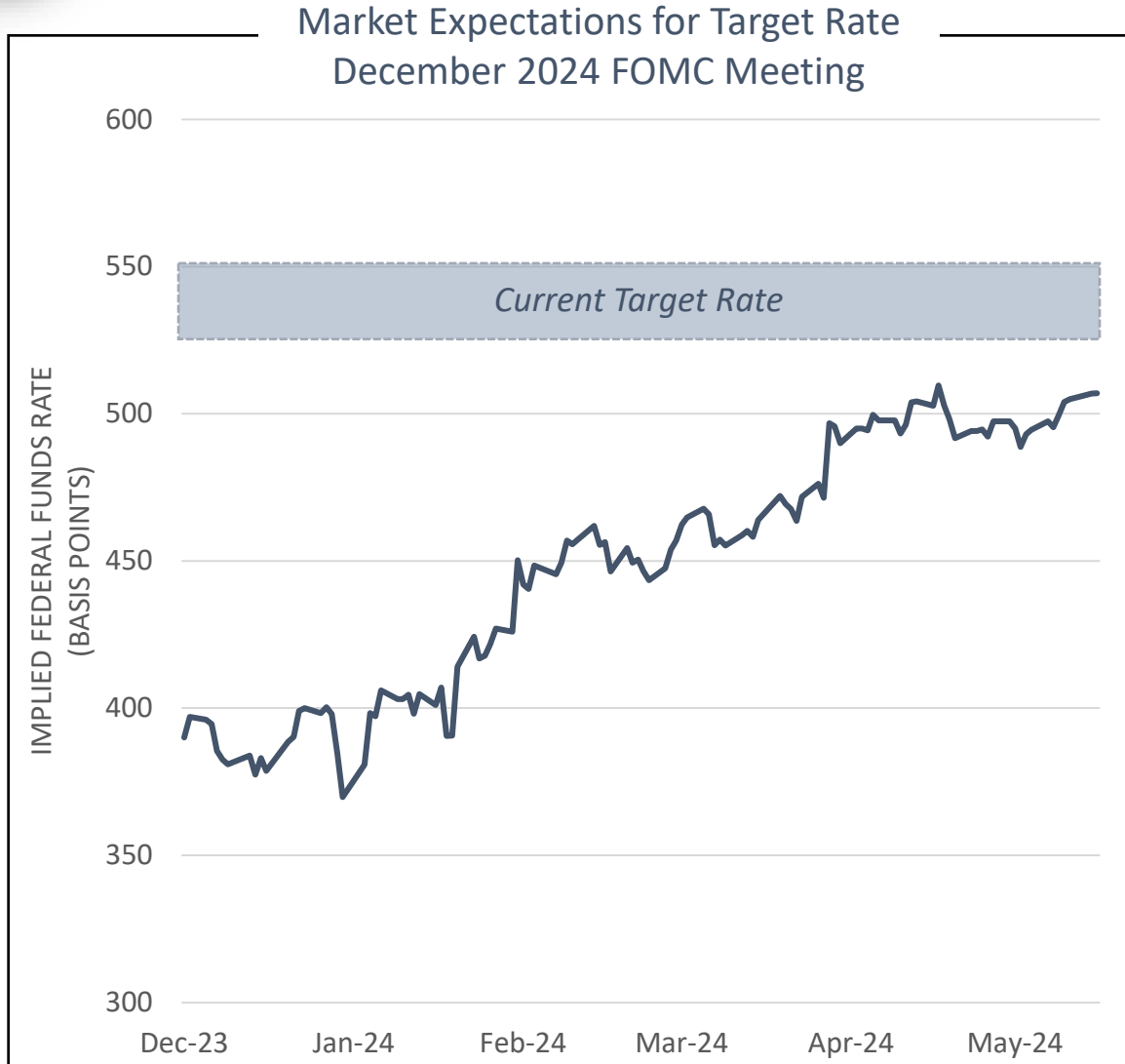
Labor markets cool, but job openings and wage growth point towards residual tight conditions



Source: BLS Employment Situation Report; BLS Job Openings and Labor Turnover Survey and Federal Reserve Bank of Atlanta Wage Growth Tracker.
NILF = not in the labor force; individuals who are not working, and who have not actively looked for work in the last 4 weeks. Wage growth is 12-month moving average.



Current economic conditions give Federal Reserve room to watch and wait



Less economic pressure for rate reductions

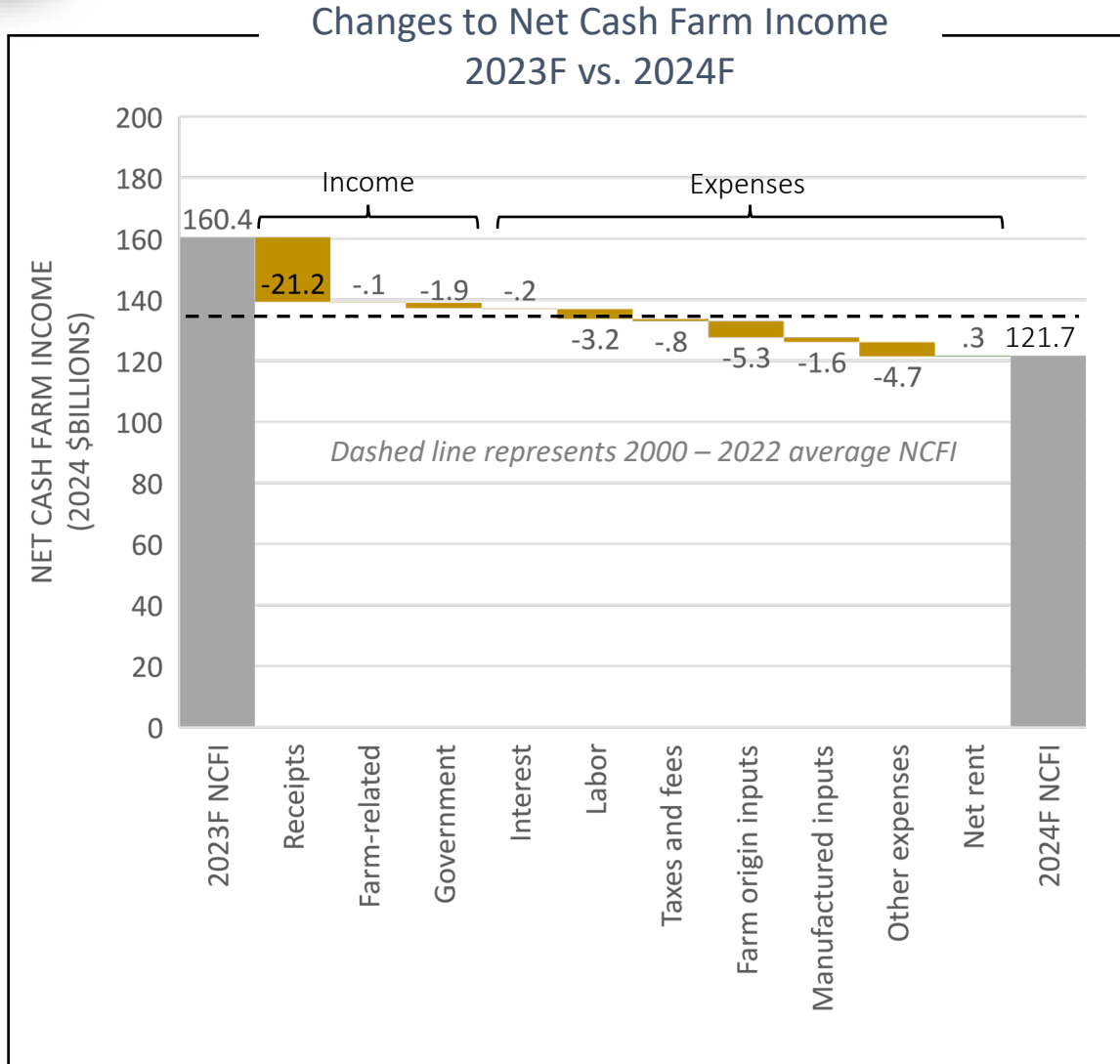
- Lower recession probabilities
- Sticky inflation measures
- Supportive labor market

“The [Federal Open Market] Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent.”

- FOMC Apr/May Statement



USDA projects second year of sharp income declines as receipts fall and expenses continue to climb



Income continues marked decline

- Price declines offset higher quantities
- Corn, soybean receipts drive fall
- Lower supplemental, ad-hoc payments

Expenses continue to rise

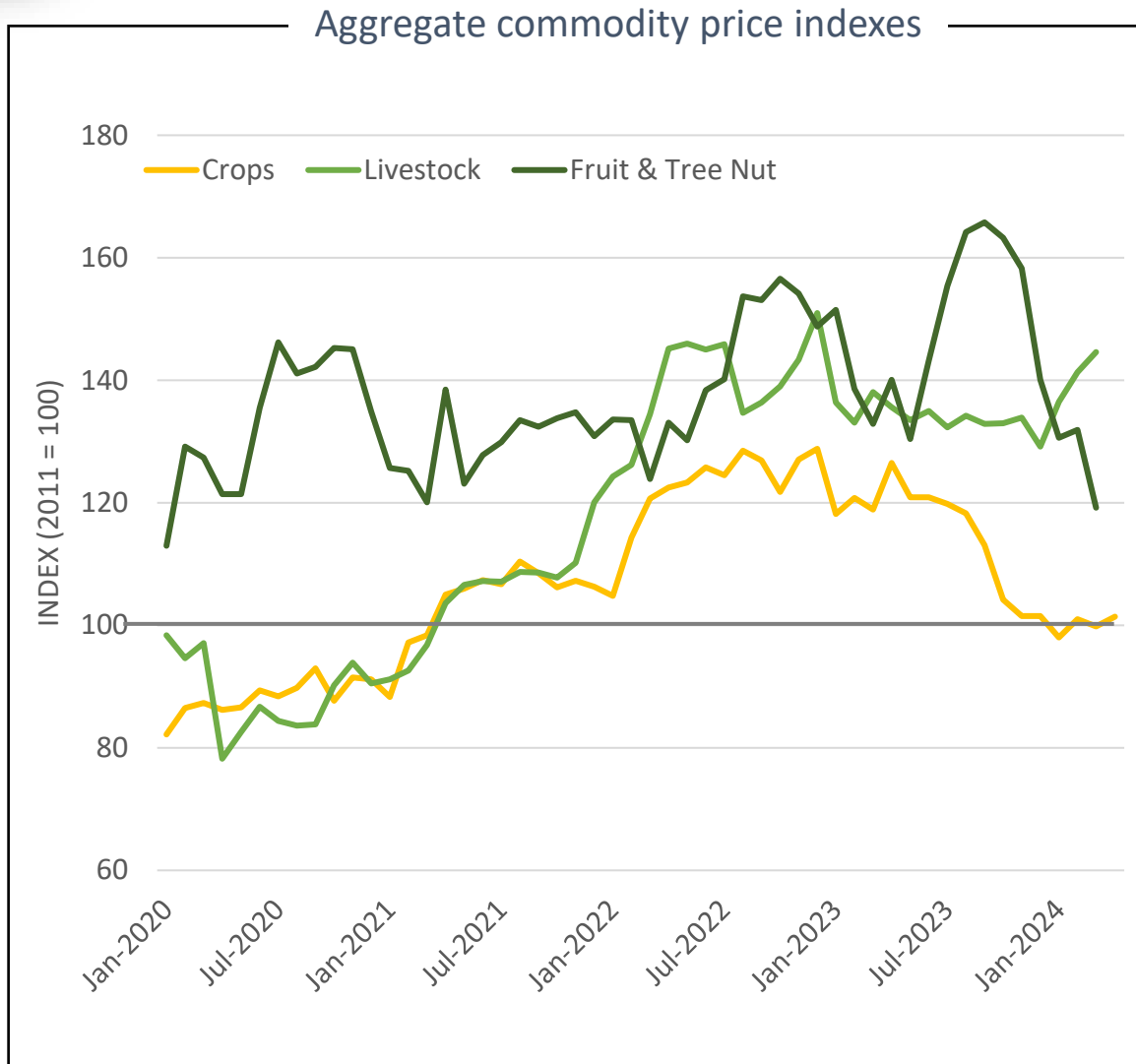
- Highest real expenses since 2014
- Interest, labor, livestock lead increases

Financial ratios fall from recent highs

- Liquidity, profitability ratios fall
- Solvency ratios show continued strength



Livestock sector sees stronger prices while other sectors search for footing



Source: USDA NASS Agricultural Prices. Indexes represent prices received by growers.

Crops

- Marketing opportunities follow brief run
- Cash grains look for next price support
- Breakeven prices

Livestock

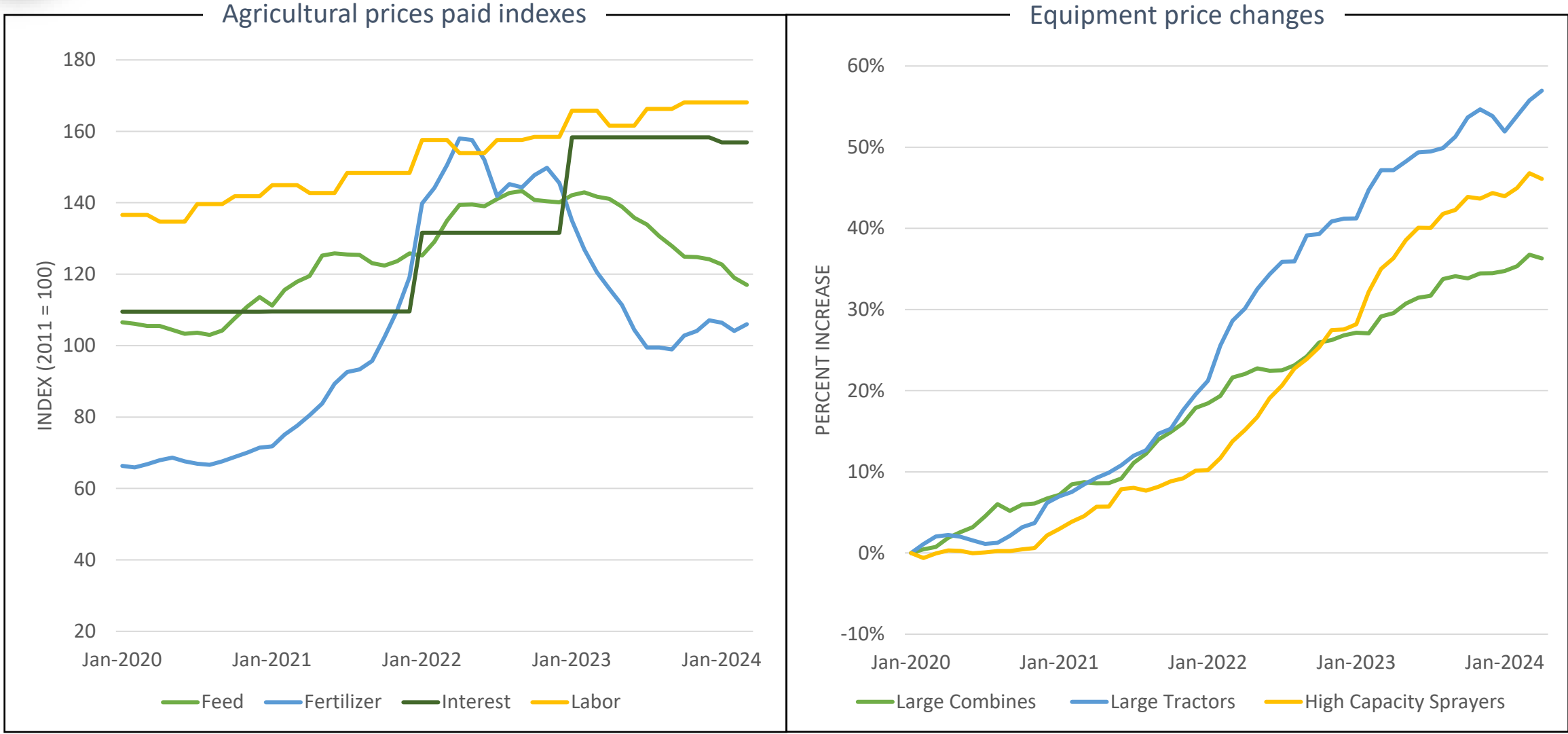
- Cattle shine, but profits mixed across sector
- Feed costs vs. nonfeed costs
- Consumer demand strong – for now

Fruit / Nut

- Near-record production weighs on tree nuts
- Aggregate fruit, nut prices fall



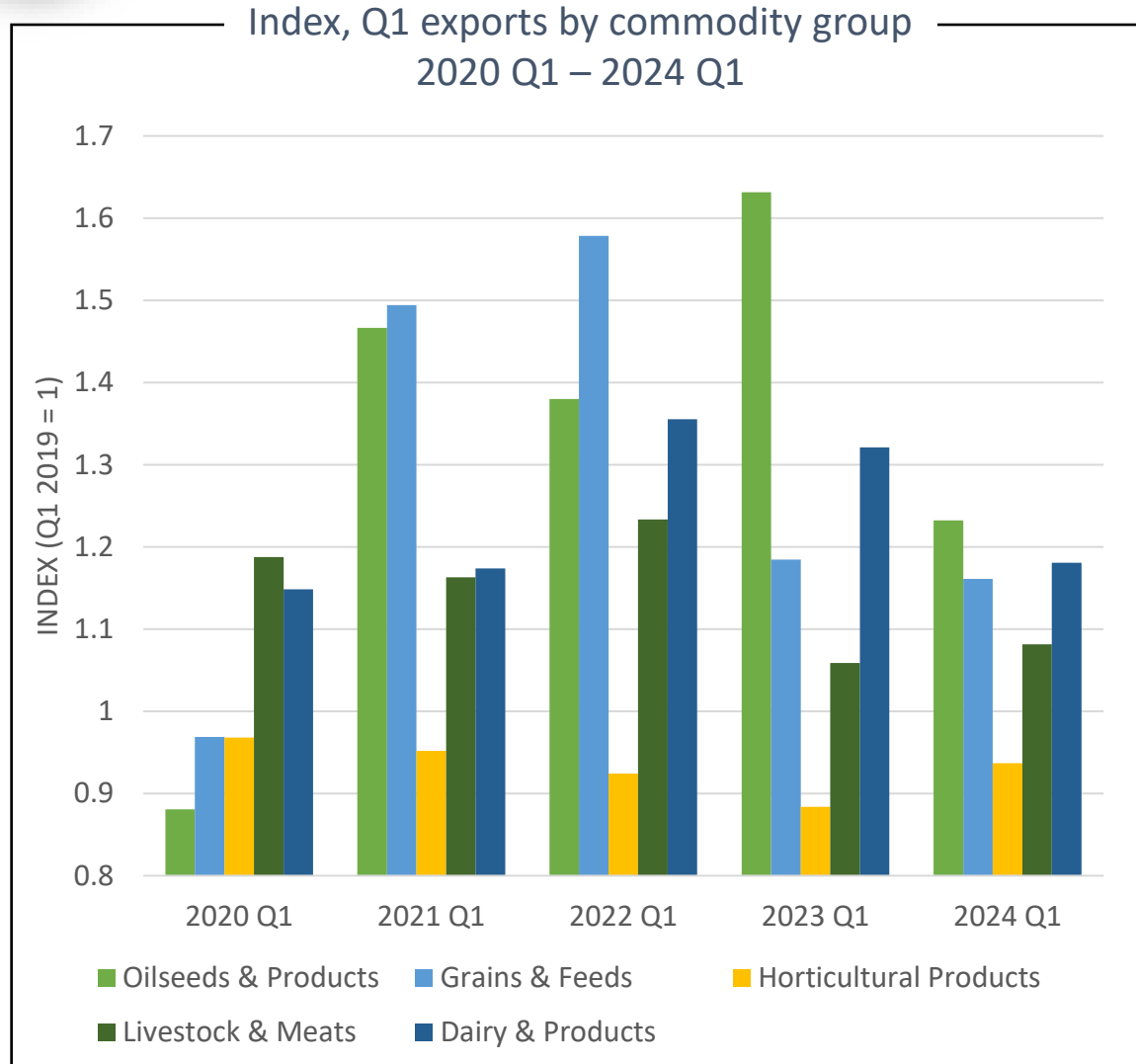
Select input prices moderate, but higher cost environment likely to persist



Sources: USDA NASS Agricultural Prices and Iron Solutions



Exports remain strong to start 2024, but downside risk remains



Economic headwinds to exports

- Strong dollar hinders ag exports
- Forecast slower growth in emerging markets

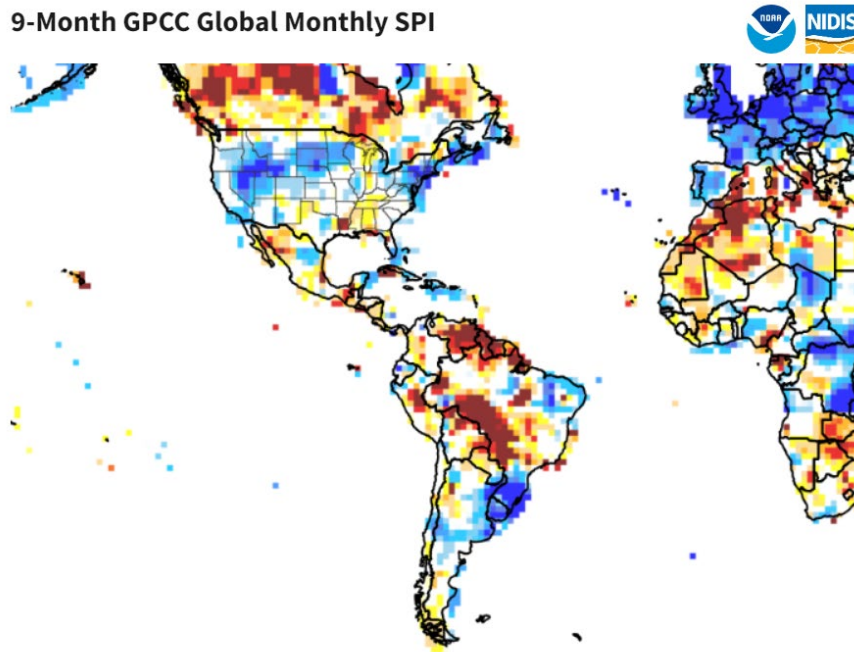
Divergent stories

- Soybean exports decline globally
- Continued strength from Mexico, Canada
- Consumer-oriented goods persist
- Geopolitical pressures



Favorable weather conditions to start 2024 growing season

9-Month GPC Global Monthly SPI



Dry Conditions



Neutral Conditions

Wet Conditions



Source(s): GPC
Data Valid: 05/10/24

Drought.gov

Current U.S. conditions supportive for growth

- Crop plantings planted / emerging on time
- Drought in parts of the Plains

Domestic 3-month forecast show few risks

- Warmer weather across the country
- Less precipitation in Mountain, northwest
- Wetter conditions in Southeast

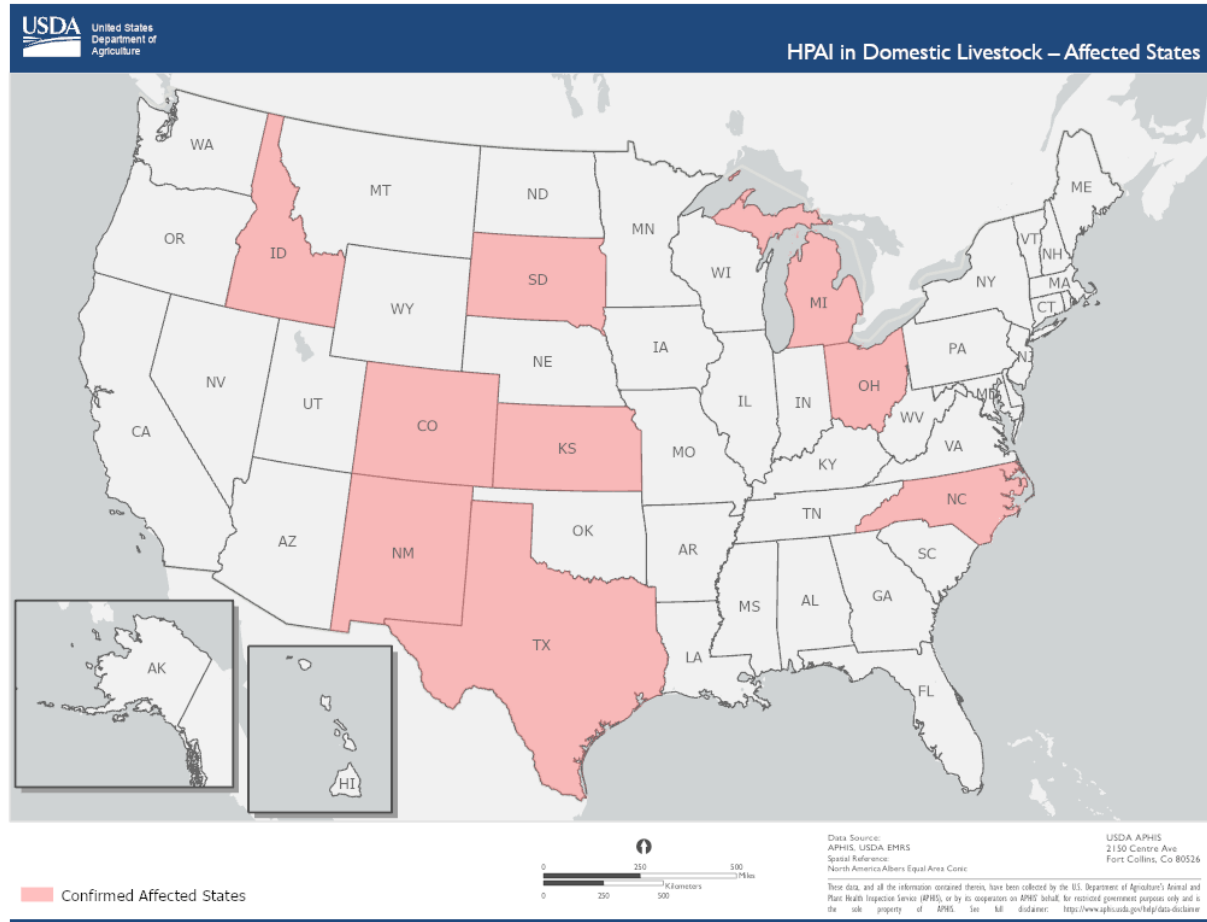
Some price upside from global conditions

- Poor conditions in parts of Brazil, Argentina
- Dryness, frost hit Russian wheat
- Keeping an eye on China



Highly pathogenic avian influenza detections in livestock add some uncertainty to outlook

Confirmed cases of HPAI in Domestic Livestock



Minor impacts to production to date

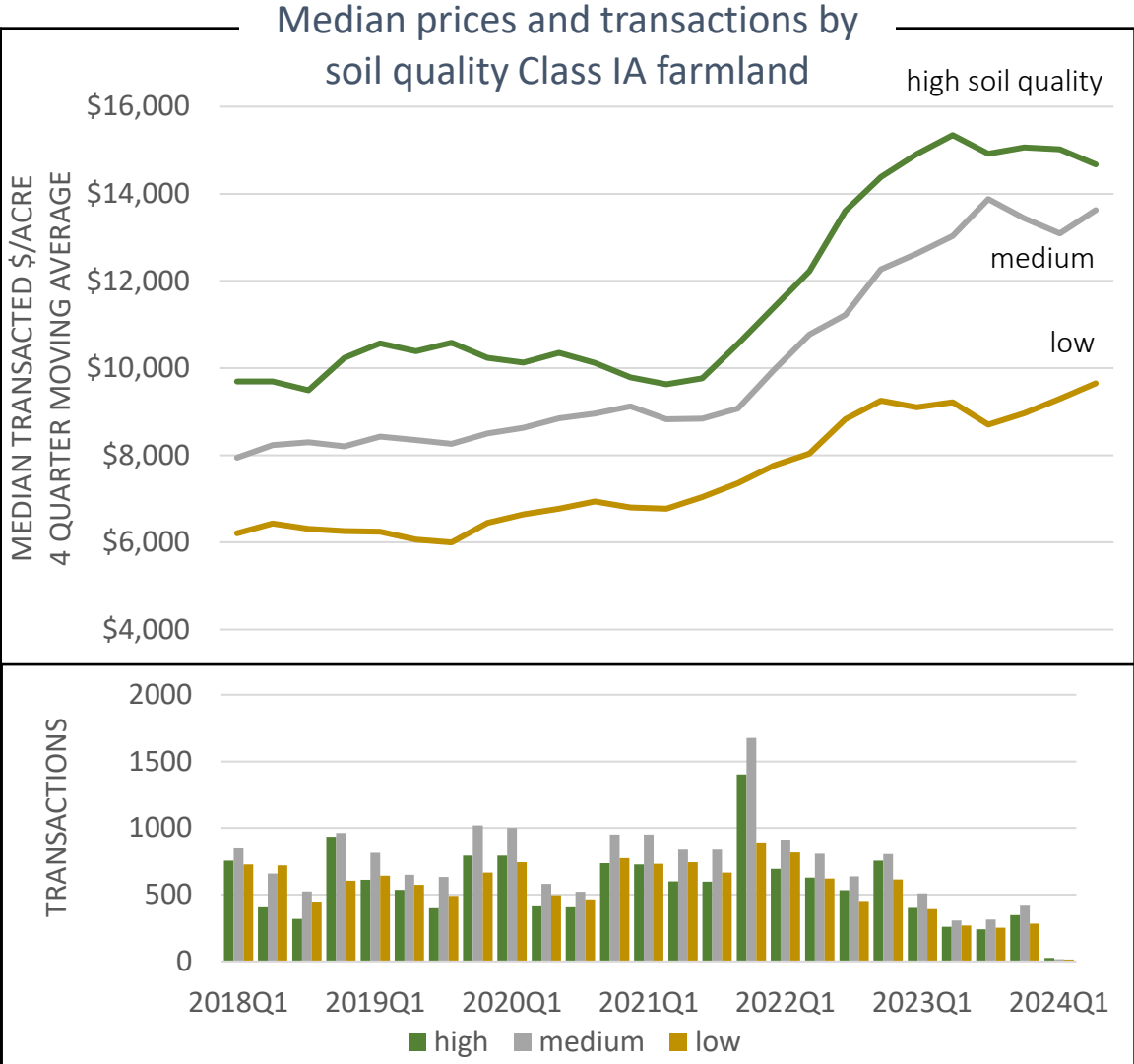
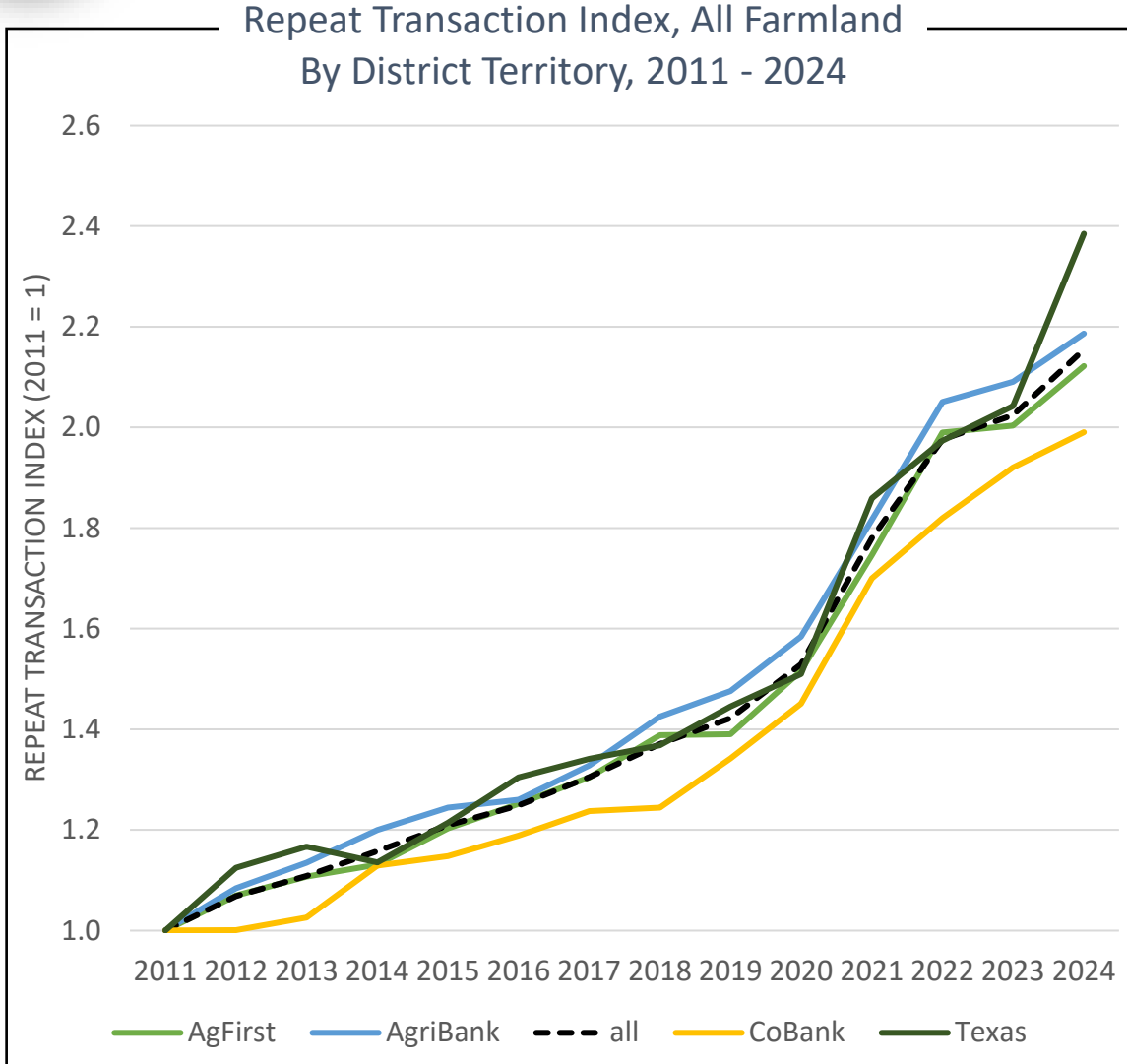
- 1% decline in milk herd during Q1
- 80 unique confirmed outbreaks

Risks remain

- Confirmed cases in other livestock
- Containment introduces new expenses



Select farmland markets show second year of little or no growth to start 2024



Source: CoreLogic Transaction Database, ODAE calculations



Questions?



Farm Credit System Condition and Performance as of March 31, 2024

Lun Nguyen
Supervisory Senior Examiner
Office of Examination

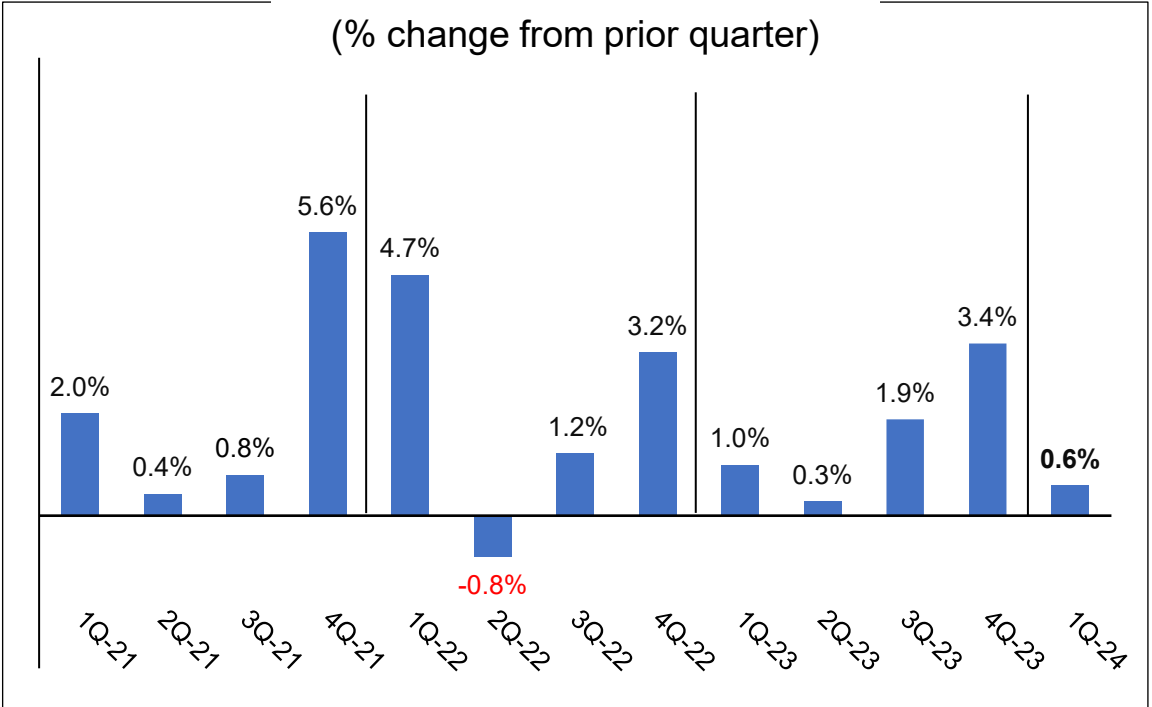




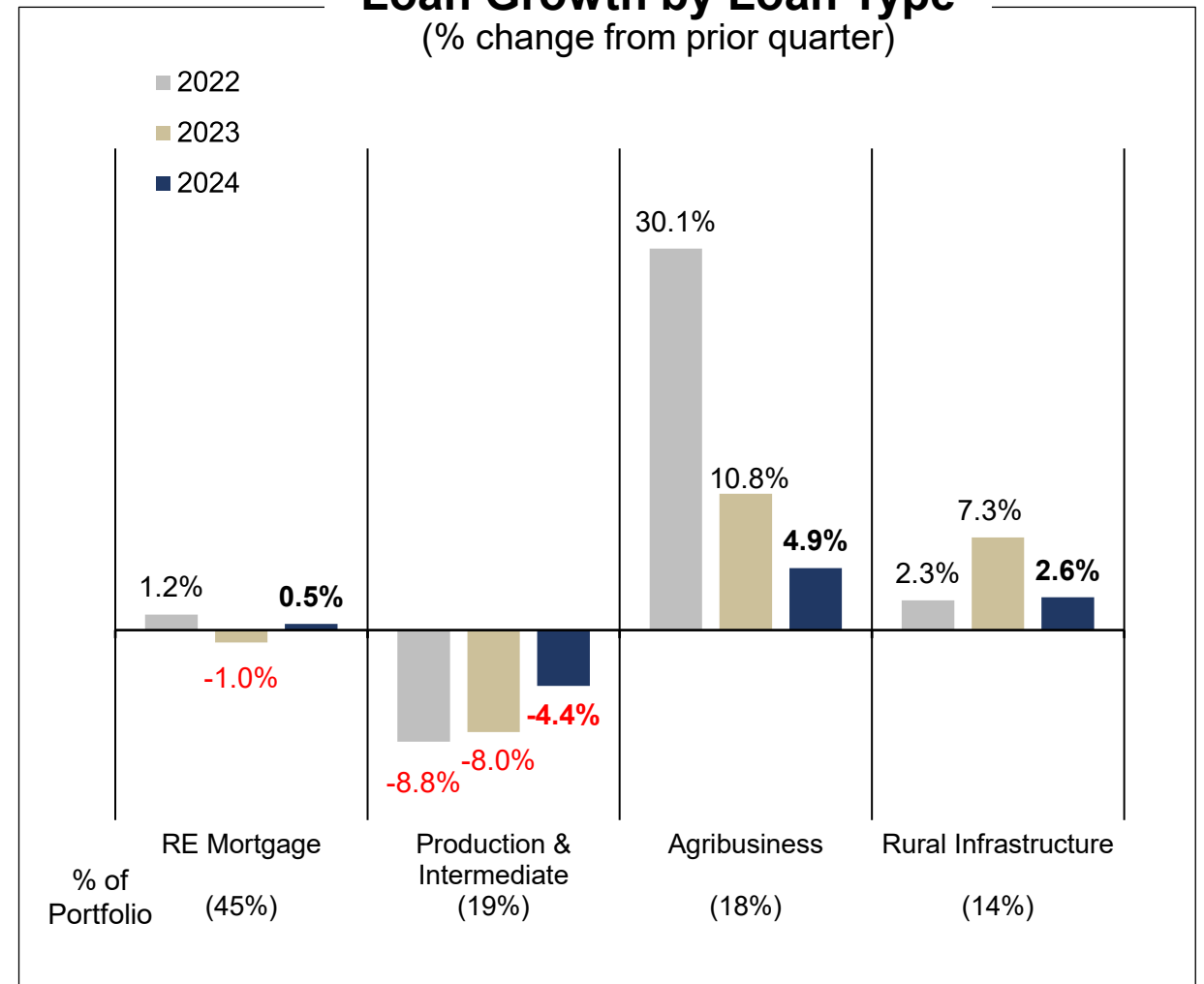
System reports modest growth in the 1st quarter, seasonal factors drive financing needs

Total Assets 03/31/24	\$504.5	-0.7% Qtr	Gross Loans 03/31/24	\$400.5	+0.6% Qtr
	billion	+4.1% 12M		billion	+6.2% 12M

Portfolio Loan Growth
(% change from prior quarter)



Loan Growth by Loan Type
(% change from prior quarter)



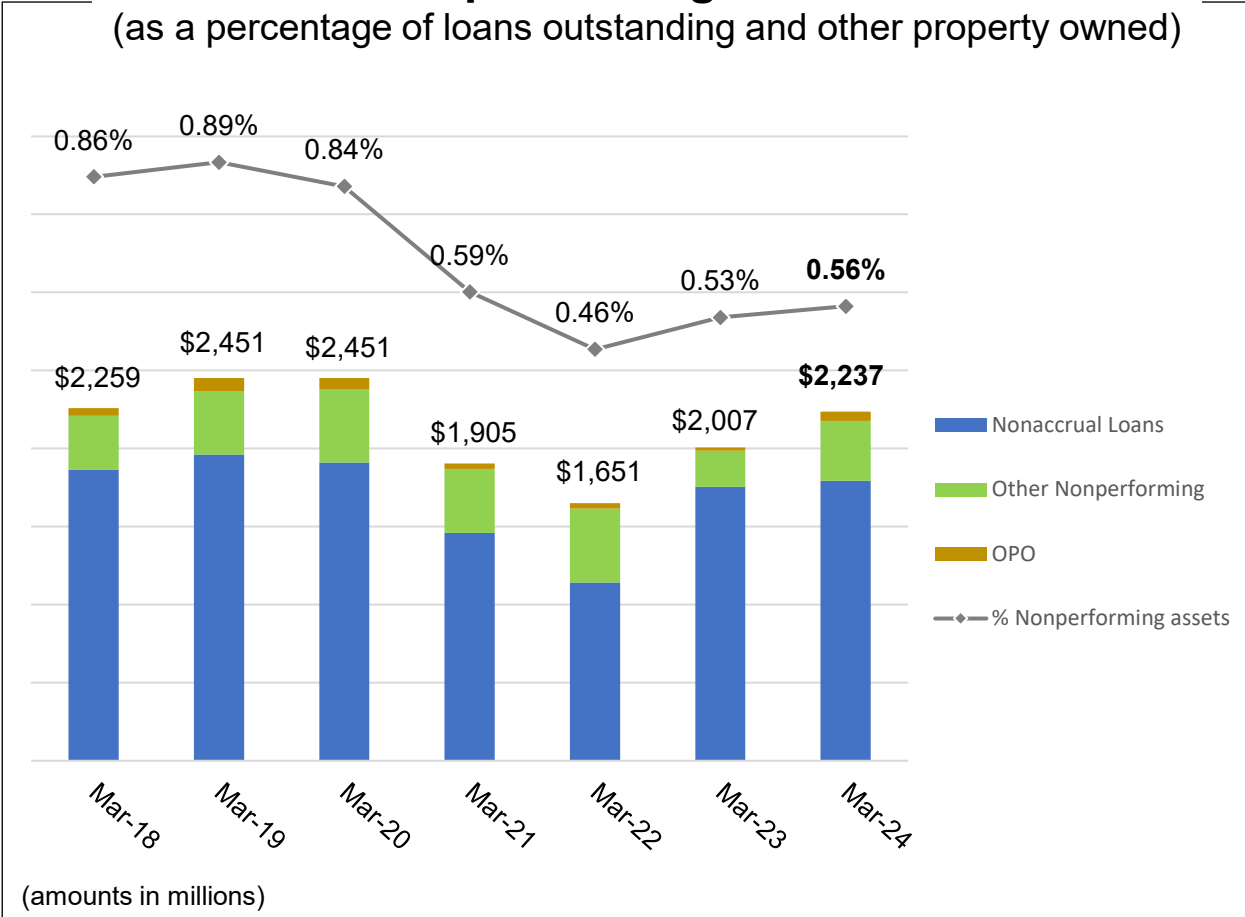
Source: Federal Farm Credit Banks Funding Corporation Information Statements



Credit risk measures trend higher, but portfolio risk remains low

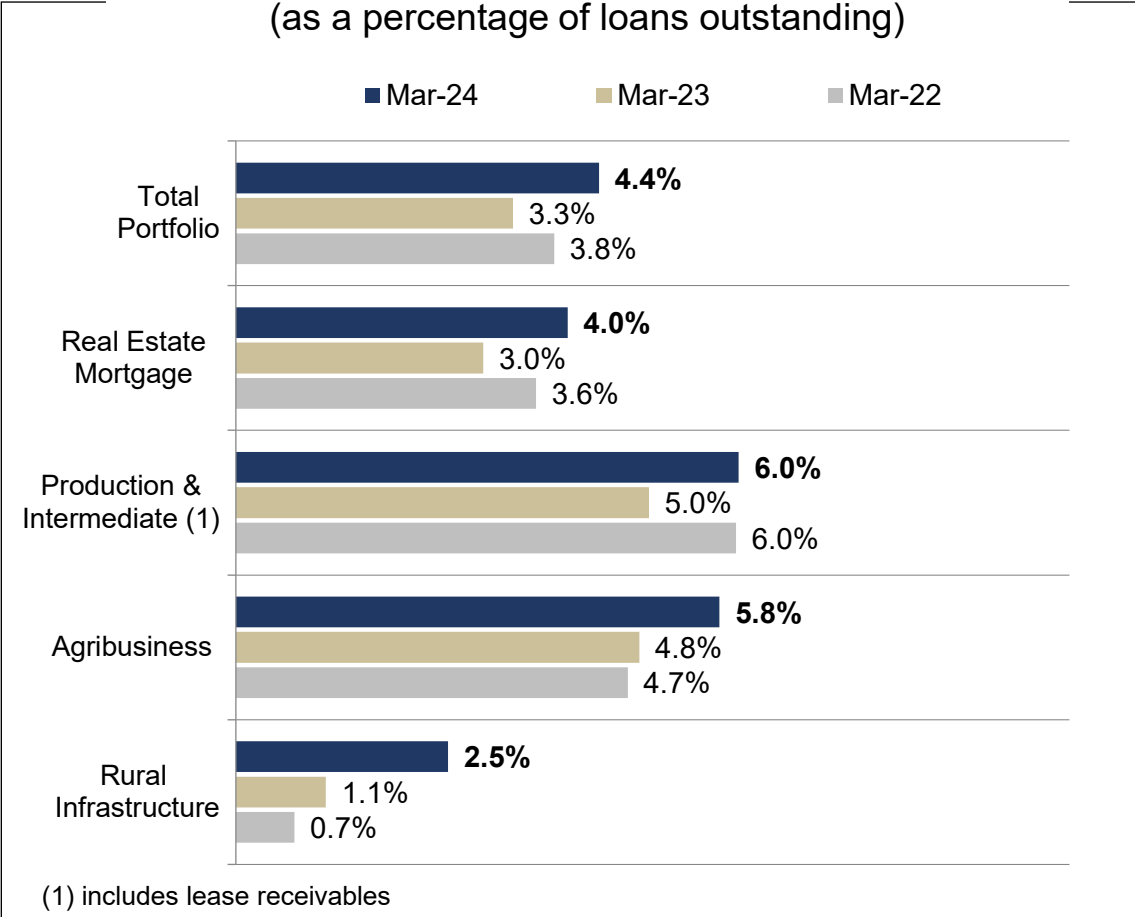
Nonperforming Assets⁽¹⁾

(as a percentage of loans outstanding and other property owned)



Loans Classified Less than Acceptable

(as a percentage of loans outstanding)

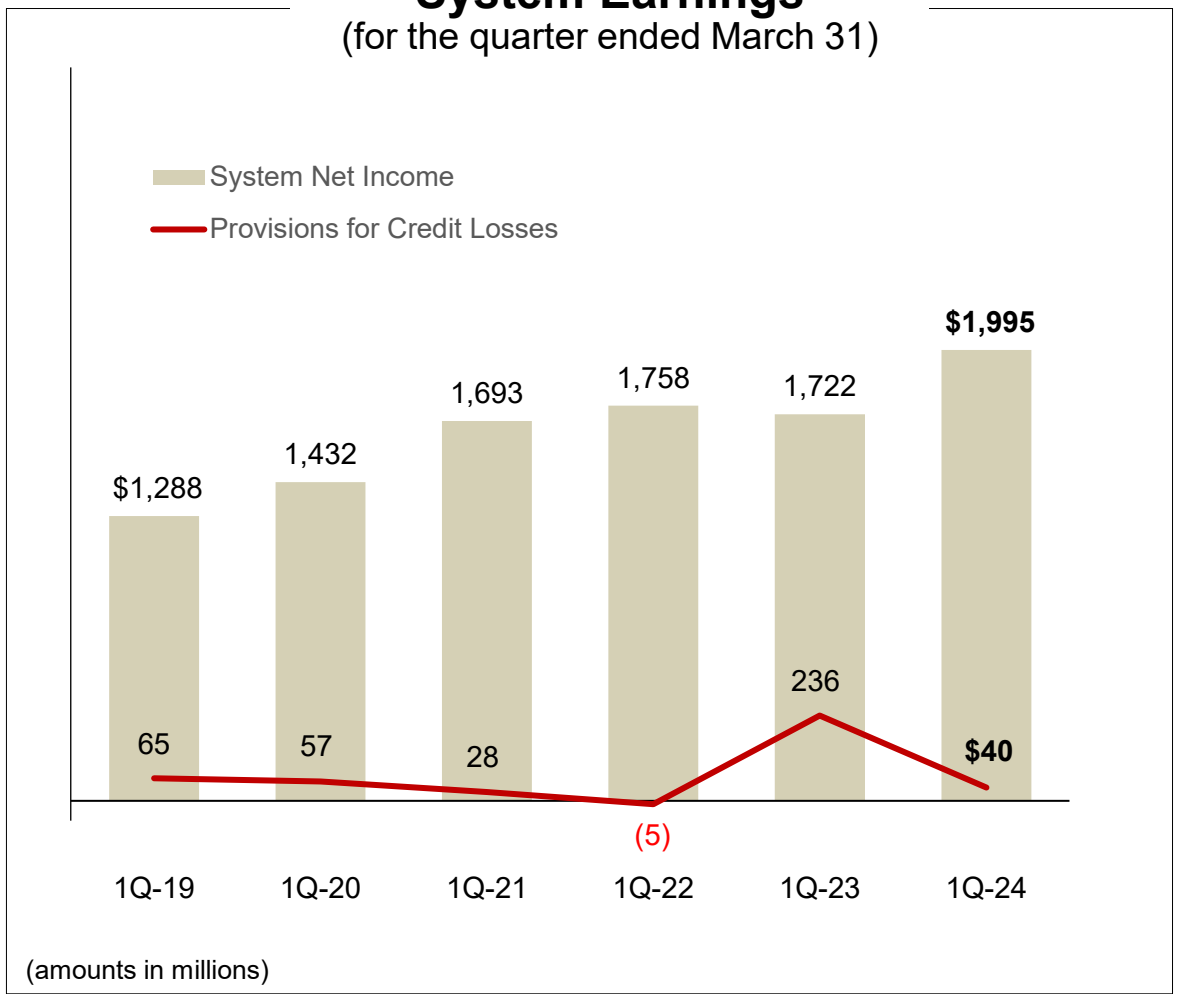


(1) Prior to the adoption of CECL on 1/1/23, nonperforming assets included accruing restructured loans

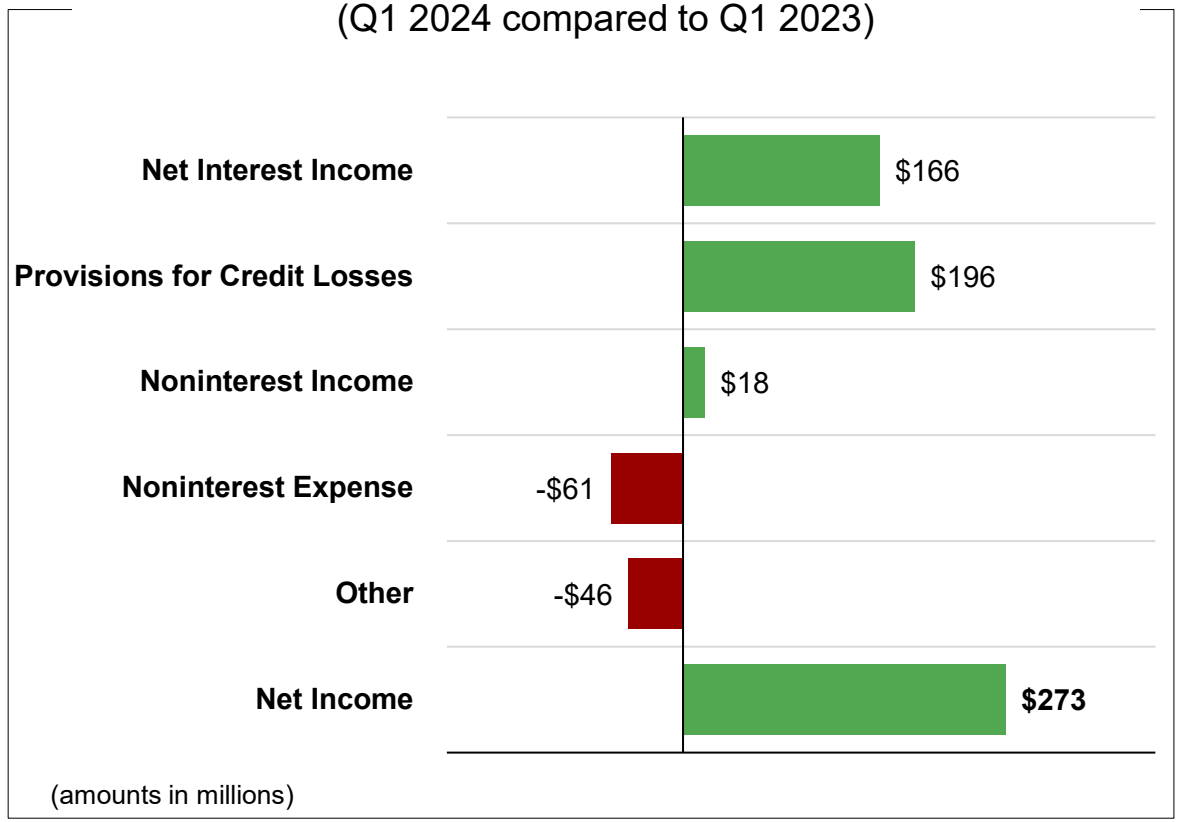


Higher net interest income and lower allowance provisions drive 1st quarter earnings growth

System Earnings
(for the quarter ended March 31)



Changes in Key Components of Net Income
(Q1 2024 compared to Q1 2023)

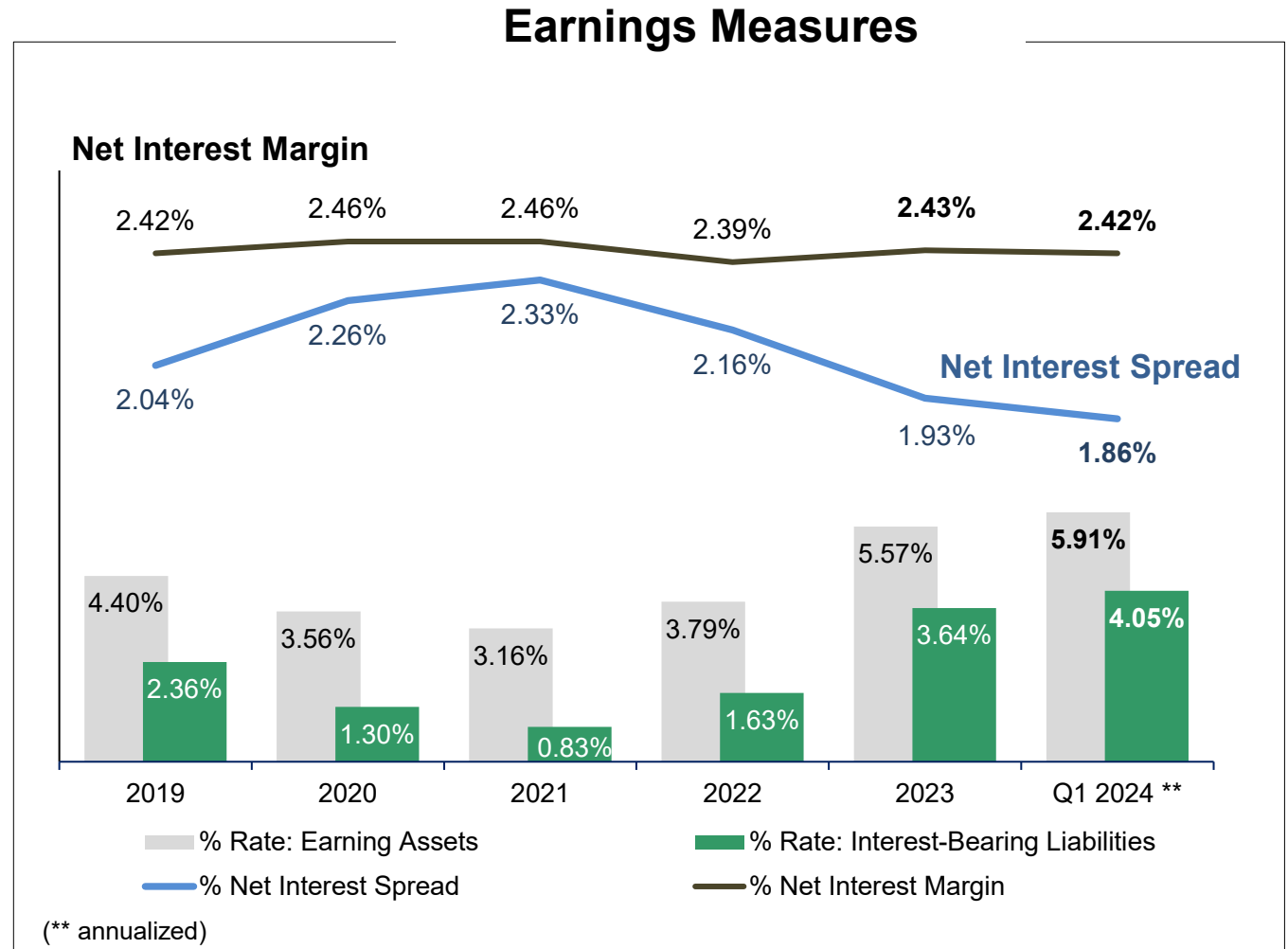


Source: Federal Farm Credit Banks Funding Corporation Information Statements



Net interest spread declines on higher funding costs; net interest margin steady

- ▶ Net interest spread continued to compress, dropping 7 basis points primarily related to higher funding costs.
- ▶ Net interest margin remained stable, dropping 1 basis point from year-end 2023 as income earned on noninterest-bearing sources largely offset the decline in net interest spread.



Source: Federal Farm Credit Banks Funding Corporation Information Statements



Strong earnings support capital growth

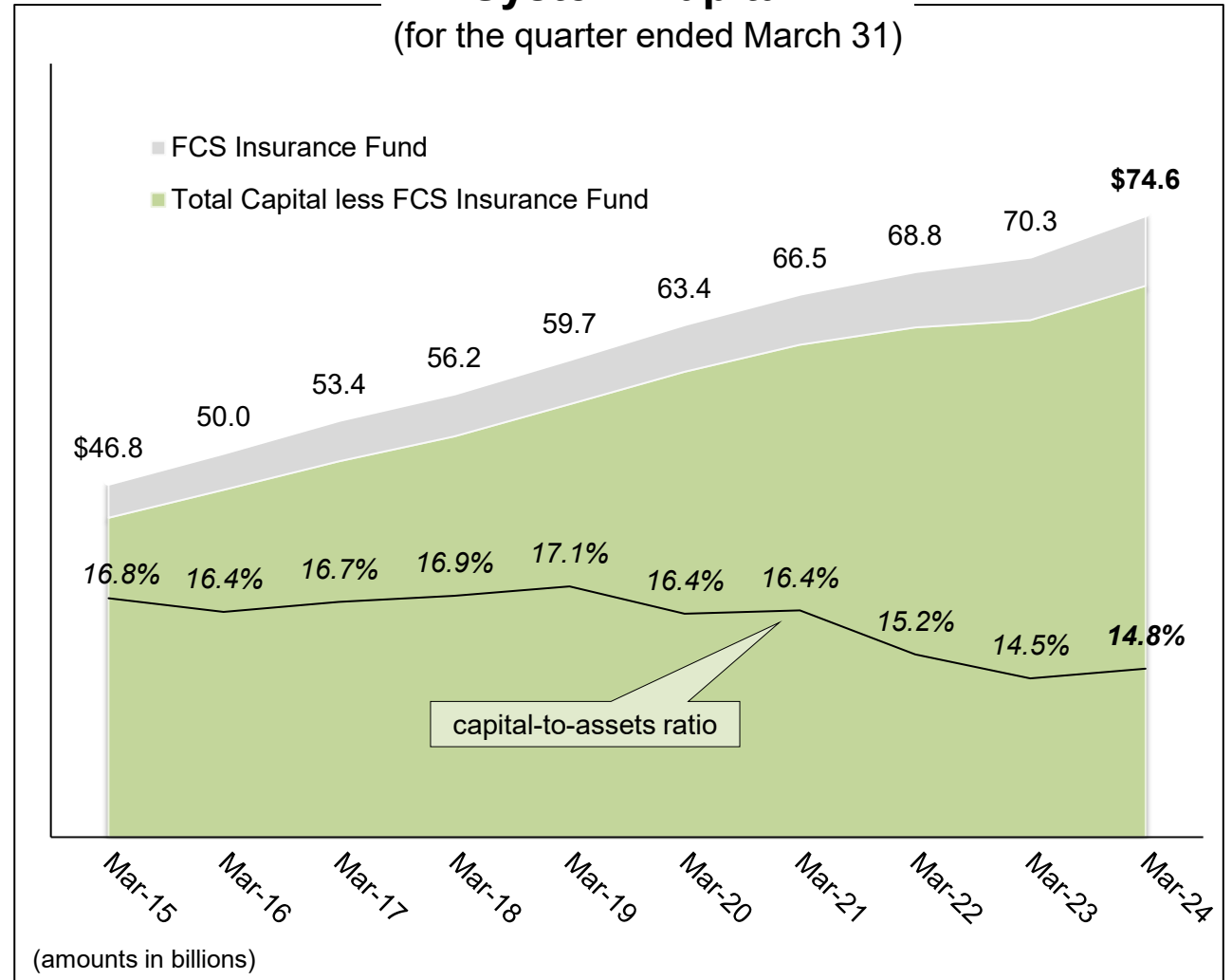
Capital⁽¹⁾

(as of March 31, 2024)

- ▶ Total capital increased \$4.3 billion or 6.1% year-over-year.
- ▶ The System's capital-to-assets ratio increased to 14.8% compared with 14.5% a year ago.
- ▶ Total regulatory capital ratios:
 - Banks: 13.2% to 15.8%
 - Associations: 11.9% to 35.3%
- ▶ Days of liquidity for the 4 funding banks ranged from 165 to 198 days.

System Capital⁽¹⁾

(for the quarter ended March 31)





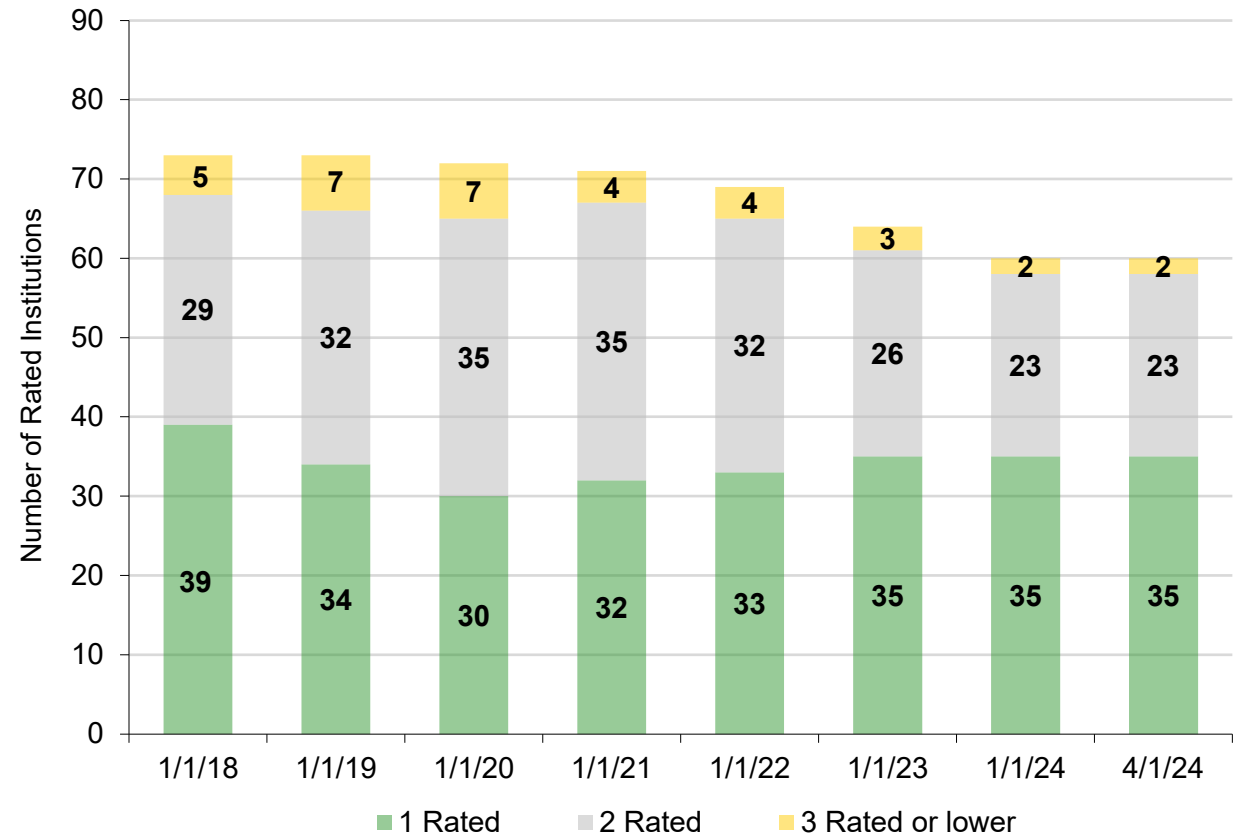
Composite FIRS ratings remain steady

Current FIRS Ratings

(based on 1st quarter 2024 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 lower hold less than 1% of System assets.

Composite FIRS Ratings Farm Credit System Banks and Associations



Source: FCA’s FIRS ratings database



Risks we are monitoring

Borrowers and System institutions are facing a more uncertain operating environment:

- ▶ Tighter margins and lower profitability for grain producers
- ▶ Declining liquidity and increased reliance on operating lines
- ▶ Potential impact of higher interest rates and lower profits on real property values
- ▶ Increased stress in certain agricultural segments (tree nuts, swine, poultry)
- ▶ Uncertain outlook for economic growth in the U.S. and abroad
- ▶ Increased global tensions, avian influenza, and weather