Will The Agricultural Recovery Last?

lending business customers agriculture

Summary: The agriculture industry appears to have experienced a turnaround during 2021. The USDA expects 2021 net farm income to increase by 23% YoY. We take a look at what has driven the recovery this past year, review the outlook for 2022, and suggest three ways in which community financial institutions could reap the most from this boom.

Cranberries are one of the few fruits native to North America. Although now grown in many parts of the world, the US is still responsible for 75% of global cranberry production. With approximately 4,400 cranberries needed to produce one gallon of juice, Americans consume 400MM pounds of cranberries every year — 80MM pounds in Thanksgiving week alone!

While Thanksgiving is in the rearview mirror, many farmers are still feeling thankful. We look at why farmers — and the bankers that serve them — are thankful for so much in 2021 and how they are cautiously optimistic about 2022.

A good year for agriculture in 2021

US farmers have been negotiating difficult market and production conditions for a number of years, even prior to the onset of the pandemic. In spite of this, 2021 has seen strong US economic growth, as well as global economic recovery, better weather, and improved trade relationships. All of these factors have fueled production and demand for agriculture exports. Government stimulus packages and payouts to farmers have further supported farm income.

With economies reopening after periods of lockdown, demand for agricultural goods has outstripped supply. This has resulted in an overall increase in prices, with some farm prices (such as for corn and soybeans) forecasted to be the third-highest on record. Furthermore, agriculture real estate values (consisting of all land and buildings) have seen an estimated 7% increase during 2021 — the highest percentage change since 2014. Ag lenders anticipate another 3% increase this year.

The US Department of Agriculture (USDA) forecasts net farm income will increase by almost a quarter (23%) in 2021 compared to 2020. If this forecast is correct, the YoY increase will be the highest since 2013.

Cautiously optimistic for 2022

With 2021 proving to be a turnaround year for US agriculture, many in the industry are optimistic about 2022. The USDA predicts economic growth to remain strong this year and agricultural production levels to be high. Agricultural exports are forecast to reach an all-time record of $175.5B — with cotton, dairy, poultry, soybeans, and horticultural products seeing the biggest increases.

However, the notorious volatility within the agriculture sector, compounded by the unpredictability of the pandemic, suggests some challenges ahead. Indeed, concern remains about ongoing supply chain issues, the high cost of inputs, and soaring fuel prices. All of these have the potential to negatively impact production costs. Furthermore, there is an expectation that farmers will see a decrease in commodity prices as supply and demand even out. Needless to say, some caution is still advised.

How can community financial institutions (CFIs) capitalize on the agriculture boom?

CFIs hold approximately 70% of the market share for agricultural loans and have long, established relationships with their agricultural customers. They have sound knowledge and a strong understanding of the challenges these customers face. With the current trend towards higher inflation and input prices, CFIs are in a strong position to provide their agriculture customers with solutions for their unique needs.

1. **Keep supporting their successes.** According to the Fall 2021 Agricultural Lender Survey, the majority (70%) of agriculture lenders project an increase in farm profitability this year. Many agriculture customers are in a stronger financial position than they have been in recent years and should be more likely to pay off their loans. With this level of confidence, lenders had an average new ag loan approval rate of almost 77% in 2021. They anticipate a 90% renewal approval rate in 2022. Providing continued support will help your ag customers to manage through the challenges.

2. **Expand agricultural portfolios.** With the USDA recently announcing an increase in the limit for guaranteed farm loans, as well as a $90.2MM investment in grant funding, now may be a good time for CFIs to expand their loan portfolios with existing and new, profitable agricultural customers. These institutions can help customers leverage their current profitability by using low rates for equipment, improvements, etc.

"*Ag lenders believe that the strong incomes of 2021 will help put their borrowers on a sounder financial footing than they have been in a half decade,*" Greg Lyons, an economist with Farmer Mac.

3. **Provide support for future plans.** Given the positive prospects for the industry, it's likely that many farmers — and other agriculture businesses — are thinking about expanding. CFIs should talk to their customers about potential expansion plans and establish any needed support. However, given the industry's unpredictability, nothing is ever certain. As such, make sure your agriculture customers are prepared for all eventualities.

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ECONOMY & RATES

Rates As Of: 01/06/2022 09:17AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	0.09	0.03	0.03
6M	0.22	0.03	0.03
1Y	0.43	0.05	0.05
2Y	0.88	0.14	0.14
5Y	1.47	0.21	0.21
10Y	1.74	0.23	0.23
30Y	2.11	0.21	0.21

FF Market	FF Disc	IORB
0.08	0.25	0.15
SOFR	**Prime**	**OBFR**
0.05	3.25	0.07