2025 Q2

AGVIEWS

— BY LYNN PAULSON

Bell Bank Director of Agribusiness Development

Navigating Uncertainty: The Challenges Facing Ag Producers and Agribusinesses

In an era of fluctuating markets, shifting policies and persistent economic pressures, agricultural producers and agribusinesses are once again navigating a difficult economic environment. In this issue of AgViews, we look at how tariffs, deficit spending and inflation are forcing farmers, ranchers and producers to adapt to maintain stability and growth. Plus, we preview this summer's AgViews Live event. > > >

Bell Bank Agriculture

Agriculture, perhaps more than any other industry, is deeply intertwined with global trade. The imposition of tariffs on key exports has reshaped market dynamics, forcing producers to rethink traditional strategies. Tariffs on agricultural commodities have led to retaliatory measures from trading partners, affecting the profitability of U.S. farm products abroad. Agricultural producers are seemingly always on the front lines of these economic disruptions.

While government ad hoc disaster programs have offered temporary financial relief, the long-term sustainability of such interventions remains uncertain. Moreover, it's unclear if the political will – or money – will be there year after year should the negative effects of tariffs continue to impact producers.

The lack of predictable trade agreements can make long-term planning difficult, requiring producers to adopt more agile financial strategies to withstand market disruptions. As much as possible, producers reliant on export markets may need to explore value-added products and seek out new trading partnerships to mitigate associated risks. This theme – of being able to call an audible for your operation when faced with uncertain conditions – is one that I'll discuss in detail at our AgViews Live seminar later this July. Look for more details about AgViews Live throughout this newsletter.

Let's dive deeper into the key challenges facing farmers, ranchers and producers today.

DEFICIT SPENDING AND POLICY UNCERTAINTY

The U.S. deficit is now approaching $37 trillion. In May, Moody's downgraded the U.S. credit rating for the first time in history. Interest on the national debt is projected to be an astronomical 30% of revenue by 2035. The U.S. debt to gross domestic product (GDP) is about 122% — up from 62% in 2007. As federal spending and the debt increase, questions about long-term consequences — such as inflationary pressure, interest rate hikes and reduced government support programs — loom large for agricultural businesses.

Increased deficit spending can drive up borrowing costs, making it harder for farmers to access affordable credit for operational expenses, equipment purchases and expansion plans. Additionally, a ballooning federal deficit with large required mandatory spending leaves little money for discretionary farm programs like crop insurance and disaster relief.

INFLATION AND RISING COSTS

Rising costs have created a significant financial strain across the country, leaving businesses with shrinking profit margins. The agricultural sector, already vulnerable to tight margins, is seeing substantial price hikes across essential inputs. The costs of fertilizer, chemicals, seed, fuel, repairs and labor are all higher. Input costs for producers have increased by about $90 billion since 2021.

Another point to consider: At the retail level, inflation impacts consumer purchasing habits, affecting demand for certain agricultural products. Higher grocery prices may shift consumer preferences toward cheaper alternatives, creating volatility for producers reliant on price-sensitive markets. For example, is it reasonable to think most consumers can continue to pay $6 per pound for ground beef?

Moreover, these macroeconomic factors will undoubtedly continue to drive consolidation at all levels, from individual farm operations to large businesses that support agriculture. For example, in banking, consolidation has led

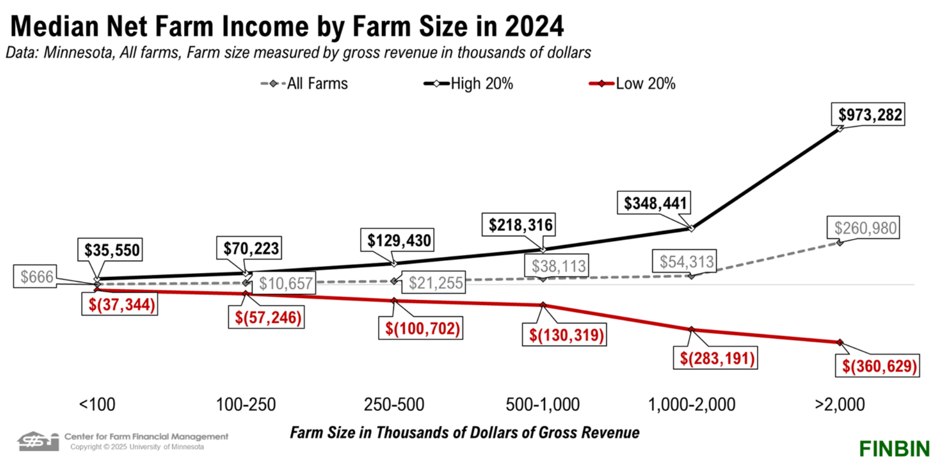
to the four largest banks in the U.S. having a whopping $11.9 trillion in assets. To put that in perspective, the 4,300 banks under $10 billion have a combined $3.4 trillion in assets. Are large banks too big to fail?

FARM PERFORMANCE

In the face of all these challenges, how did farm and ranch operations do in 2024? The Center for Farm Financial Management chart below, which shows median net farm income by farm size, gives us an idea. This data set includes producers from all ag sectors, and shows how, as operations grow larger by gross revenue, there is a wider profitability spread between the top 20% and the bottom 20%. Bigger isn't always better. From a historical perspective, the 2024 chart is an accurate reflection of the variability in farm sector economics.

There is currently a bifurcated farm economy. Grain or row crop producers are generally feeling stressed with commodity prices down 30%-40% over the past 2-3 years, while input costs, as noted earlier, have continued to increase. On the other hand, livestock producers – especially established cow and calf producers – are mostly faring well. I noted in a previous newsletter that the steer I bought last year cost me about $4,000 (including processing). I'm guessing it will be up another $1,000 – to about $5,000 – this year.

When taking a forward-looking view, it's hard to plan. Is it reasonable to assume we'll have a status quo with farm policy, no ad hoc government payments, no supply shock and no change in consumer behavior? Unfortunately not. Instead, remember the "CTC" principle – control the controllables.



From an ag lender's perspective, here are a few thoughts and observations on the state of the ag economy:

- Breaking even financially in 2025 and maybe in 2026, especially for grain crop operators, could be considered a win.
- Producers need to be cautious about the mindset that "the government will take care of me." One needs to assess how an operation will do without these ad hoc payments.
- A number of producers replenished their working capital levels around 2014-2020 by refinancing real estate. Most of these loans and payments are still on financial statements.
- Look for lenders to have more loan covenants or agreements with the expectation that the borrower will be held accountable for understanding and complying with the additional agreements.
- Following profitable years, some lenders may have loosened their credit standards and underwriting requirements. Watch for those to be tightened back up.
- Lenders often use risk ratings in their portfolios to assess overall credit risks. Look for risk ratings to slightly deteriorate in ag portfolios. However, the overall credit risk in most lenders' ag portfolios continues to be very manageable. Past due loans are at reasonable levels.
- Farmland values remain firm and leverage is steady, despite recent pressures on the ag sector coupled with increased debt.
- While overall profitability and liquidity may be stressed in some cases, farm operations are generally not going bankrupt. Many are asset rich and cash poor.
- What is the quickest way to fail at farming? Ignore your finances. To quote finance expert Dave Ramsey: "If you don't stay on top of numbers associated with your business, you will fail. You can't outearn disorganization or the need to handle your finances wisely."
- Agriculture has always been a cyclical business. Often, risk perception becomes the cloudiest at both the high and low points of the cycle.
- Don't sleep on the benefits of off-farm income. A 2023 study from the American Farm Bureau Federation found that only 23% of farm household income came from the farm/ranch. A whopping 77% came from off-farm sources. Moreover, 72% of off-farm income was earned income (income earned from work or time), while 28% was passive income (Social Security, pensions, interest income, etc.). The fringe benefits of off-farm income – health insurance and pensions being the largest – are substantial.

As we move forward, it will be crucial to stay informed on economic trends, embrace adaptive strategies, and foster collaboration within the industry. The future of agriculture will be shaped by those who recognize both the risks and the opportunities inherent in today's economic landscape.

Breaking even financially in 2025 and maybe in 2026, especially for grain crop operators, could be considered a win.

The Growing Agricultural Trade Deficit: Implications for U.S. Farmers and Consumers

In recent years, the U.S. agricultural trade balance has shifted in ways that raise concerns across the farming sector. Historically, the U.S. has been a dominant force in global agricultural trade, exporting more food and agricultural products than it imports. However, a growing agricultural trade deficit—where imports exceed exports—is posing challenges for farmers, agribusinesses, and consumers alike.

The U.S. global ag trade dominance has certainly declined. We've gone from being the world's breadbasket to being a net importer. As recently as 2014, the U.S. had a $43 billion ag trade surplus. In 2025, we're projected to have a $45 billion deficit, according to the USDA. Several factors are contributing to this shift, including:

- **Increased imports of specialty crops and consumer goods:** The U.S. imports large quantities of fresh fruits, vegetables and processed foods, particularly from regions with year-round growing conditions.
- **Decreasing exports:** The U.S. only has an ag trade surplus in grains and oilseeds.
- **Trade policy shifts and retaliatory tariffs:** Trade disputes with key partners, including China and the European Union, have led to reduced demand for certain U.S. exports.
- **Strong dollar value:** A higher U.S. dollar makes American products more expensive for foreign buyers while making imports cheaper for American consumers and businesses.
- **Shifting global demand:** Countries that once depended heavily on U.S. agricultural products are sourcing alternatives elsewhere – mainly the Global South, which comprises countries in Central and South America, Africa and more – leading to declining export revenues.

The widening trade deficit coincides with rising input costs for U.S. farmers. While producers seek ways to reduce expenses and improve efficiency, the loss of international markets only exacerbates financial difficulties. Without stable export channels, many producers must either rely more on domestic markets — where competition is intense — or explore alternative revenue streams.

Our three largest ag trading partners are China, Canada and Mexico. Interestingly, the latter two also represent our largest agricultural trade deficits. It would seem that we should be able to make something work for those two. Who benefits from all this uncertainty? The clear winner is the Global South, particularly Brazil and Argentina.

The agricultural trade deficit doesn't just impact farmers; it also influences consumers in various ways. As imports rise, U.S. consumers increasingly rely on foreign agricultural products. While this expands food choices and ensures year-round availability of certain crops, it also raises concerns about food security and supply chain stability. A greater reliance on imports means food costs are increasingly subject to international economic conditions.

The historical resilience of U.S. agriculture may be tested over the next few years. But it would be a mistake to bet against U.S. farmers and ranchers successfully adapting to changing economic conditions.

-Lynn Paulson

AgViews Live 2025

WHAT TO EXPECT

Bell Bank is excited to once again present AgViews Live, our free annual ag seminar. This is the 11th year of the engaging, insightful event featuring Lynn Paulson and ag finance author and speaker Dr. David Kohl.

This year's AgViews Live will focus on what farmers, ranchers and producers can do about the current levels of risk and uncertainty. As in football, do you stick with the original play that you called in the huddle even when faced with unexpected challenges? Or, do you call an audible at the line of scrimmage when you see conditions have changed?

Register online at **www.bell.bank/agviewslive**, or by calling **701.451.7536**. We hope to see you there!

MONDAY, JULY 21: FARGO
Hilton Garden Inn Fargo
4351 17th Ave. S., Fargo, ND

TUESDAY, JULY 22: MANKATO
Courtyard by Marriott
901 Raintree Road, Mankato, MN

WEDNESDAY, JULY 23: WISCONSIN DELLS
Wilderness Glacier Canyon Lodge
45 Hillman Road, Wisconsin Dells, WI

All sessions 8 a.m. to noon. Breakfast and lunch included.


Dr. David Kohl

Adapting to Chaos: Q&A with Dr. David Kohl

For the 11th time, Dr. David Kohl, professor emeritus of agricultural finance and small business management and entrepreneurship at Virginia Tech University, will join Lynn Paulson at this summer's AgViews Live. Ahead of the event, we caught up with Dr. Kohl to discuss some of the biggest issues affecting farmers and ranchers today.

WHAT CAN ATTENDEES LOOK FORWARD TO AT THIS YEAR'S AGVIEWS LIVE?

One of the things Lynn and I hope to do with this summer's event is give attendees a global and domestic view, from our thoughts on tariffs to the shape of the future of the economy. We want to go up 30,000 feet to show them the big picture, then go back down to provide practical takeaways on adapting to chaos and uncertainty.

Because in this type of environment, you need the ability to call an audible. You have to be adaptable, nimble and resilient to be able to manage through unpredictability. Chaos creates opportunities if you have a management mindset. If you don't, it can take you out quickly.

We'll also touch on issues related to your lifestyle and your health. We hope to involve everyone, from the older generation starting to think about retirement to the younger generation just starting out. Regardless of your age, there will be something for everybody.

WHAT ARE THE MOST SIGNIFICANT PRESSURES FACING PRODUCERS TODAY?

What's most significant to me is the magnitude of the changes that are occurring, whether it's weather, tariffs, export markets, you name it. The prices, the uncertainty, it puts everyone in a vortex of chaos.

Having uncertainty in those export markets – particularly if you're involved with soybeans or some of the major commodities that are export oriented – affects your planning, your investments, everything. It not only places a financial stress on you, but an emotional and mental stress as well. The amount of change, and the extreme pace of change, creates a much more chaotic environment than we've had the past few cycles.

HOW CAN PRODUCERS ADJUST TO CURRENT TRADE POLICIES AND TARIFFS?

Right now, we don't know how tariff and trade developments are going to play out over the next year. If you're in the commodity business, this uncertainty can influence your prices. One of the things it really requires, as Warren Buffett says, is a behavioral advantage. How are you going to be able to have a behavioral mindset to not be paralyzed in the face of uncertainty, and keep managing forward?

That means it's important to carefully manage your budget and your cashflows. You have to know what your costs, prices and break-evens are, and what you can do as far as a marketing and risk management program. Crop insurance, livestock insurance – at what levels do you need to apply? How can you minimize losses?

Being able to take advantage of a profit window or minimize your losses through marketing, cost management and price management is all extremely critical. One thing that can help is having a sounding board or advisory team. Whether that includes your lender, farm management instructor or your crop or livestock consultant, find another set of eyes to get the lay of the land and bounce ideas off of.

CAN U.S. AGRICULTURE RECOVER FROM SOME OF THE DAMAGE BEING DONE TO OUR TRADING PARTNERS?

One of the things I'm very concerned about is the possibility that we've destroyed a lot of trust with our trading partners, especially our big three of Mexico, Canada and China. There's an old saying – with trust, it's the stairs up and the elevator down. It takes stairsteps to build relationships, but when you destroy it, it's down and it's down fast. It takes a long time to reestablish those relationships.

Politics is like a pendulum. We go one way, then we go back the other way a couple years later. Things might be very different when we gather for AgViews Live in two or four years, and we have to be very careful not to let short-term elements influence our long-term decision making. But for now, we've hindered a lot of our negotiations and trust with some very valued customers around the world. I'm not saying these relationships didn't need to be reset in some way, but the magnitude and the way we did it could have long-lasting consequences. The elevator went down fast.

Can we recover? Yes, but that leads us to another challenge, which is that we now have more competition than ever, especially coming from the Global South. Other countries now have other sources of food, fiber and fuel, and that is the element that really concerns me. The competitive landscape has changed significantly in the last 10 years.

SPEAKING OF THE GLOBAL SOUTH: CAN THAT COMMODITY GROWTH JUGGERNAUT BE SLOWED?

I don't know if it can be slowed. The Global South has resources and land that can be put into production along with the technology needed to expand. It's a force that has been growing and accelerating over the last 15 years. So that juggernaut, it's going to be tough to beat. If anything can slow it down, it will be weather and geopolitics – so keep an eye on that.

Call us to start the conversation!

If you're ready to talk about your farm financing, call an experienced Bell Bank ag lender in your area. We're proud to serve American farmers and agribusinesses!

Our roots run deep. Bell has the area's longest-serving group of lenders, with more than a century of experience among them. We understand that as the business of farming becomes ever more complex each year, you need a lender who understands that challenges are opportunities for success.

We have money to lend. Find greater stability from season to season with a long-term loan, or use shorter-term loans to increase cash flow to your farming operation.

We offer:

- Operating loans
- Machinery and equipment loans
- Agricultural real estate loans
- Ag co-op loans

Bell Bank Agriculture
PO Box 10877 | Fargo, ND 58106-0877

Lynn Paulson

You can reach Lynn at 701.298.7138 or lpaulson@bell.bank

Lynn is Bell's director of agribusiness development. He writes and speaks about agricultural lending and finance, the global economy and the ag economy.

He has expert knowledge of the ag industry, having worked in ag lending for more than 30 years and as a retired owner and operator of a Benson County, N.D., family farm. His banking experience includes merging several banks and holding companies and growing the new company to $600 million. He has also served on various financial boards.

Joe Watzke
218.291.3310
Moorhead, Minn.

Jeff Stanislawski
218.205.0201
Wahpeton, N.D.

Katie Grant
701.298.7031
Fargo, N.D.

Jerry Polejewski
218.998.5603
Fergus Falls, Minn.

Jason Bauer
218.291.3309
Moorhead, Minn.

Matt Schenck
218.486.8811
Hawley, Minn.

Jerry Arneson
218.291.3307
Moorhead, Minn.

Kelly Hubrig
701.672.8617
Wahpeton, N.D.

Don Lacey
218.998.5602
Fergus Falls, Minn.

Brett Starr
218.592.4008
Pelican Rapids, Minn.

Nathan Berseth
701.298.1586
Fargo, N.D.

Jake Rossbach
218.291.3311
Moorhead, Minn.

Jason Bolluyt
218.291.3308
Moorhead, Minn.

Emily Odland
218.486.8810
Hawley, Minn.

Josh Cann
701.672.8612
Wahpeton, N.D.

Karna Loyland
701.765.6106
Grand Forks, N.D.