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AGVIEWS

— BY LYNN PAULSON

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Oh, The Cyclical Nature of Agriculture!

Profitability in production agriculture often has more steep slopes and tight turns than a roller coaster at Six Flags. In this issue of AgViews, we take a closer look at the current ag cycle, including why this one feels different and the challenges it's posing to farmers and producers.

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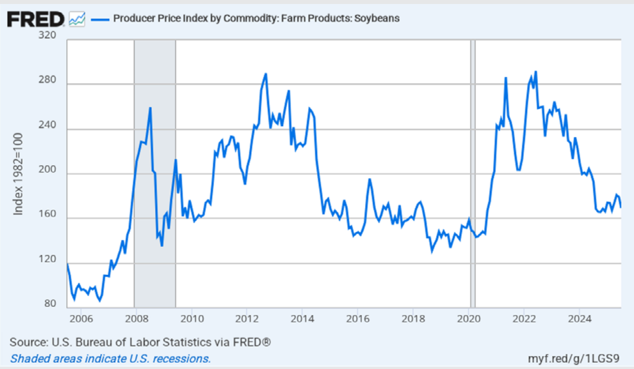
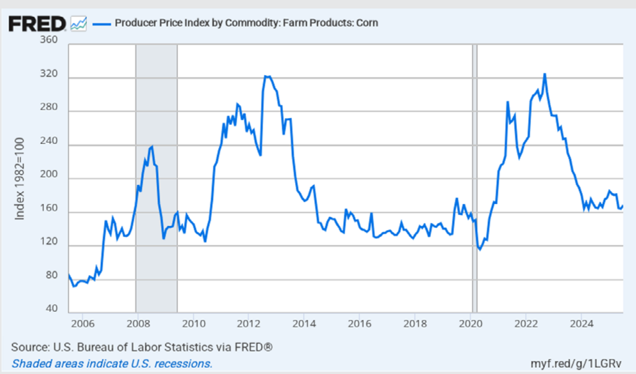
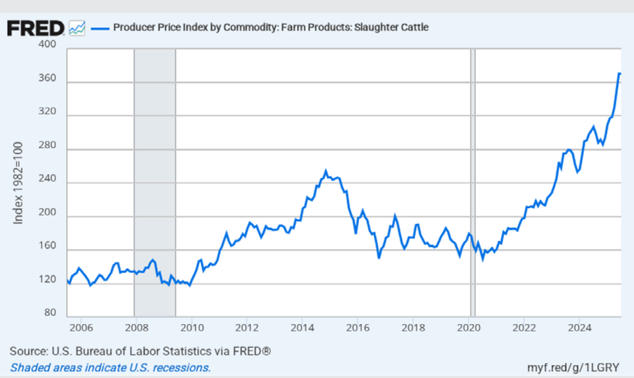
Bell Bank Agriculture

Profitability in agriculture is largely sector specific. We're possibly in the most bifurcated ag economy I've ever seen, as evidenced by the three charts showing beef, corn and soy prices over the past 20 years.







If you're a livestock producer, chances are your economic outlook is rather positive and favorable. Record high beef prices, along with respectable dairy and hog prices, are fueled by lower feed prices and strong consumer demand. For this crowd, life is probably pretty good right now. It seems like the things we eat (such as beef and pork) are doing quite well, while the commodities that we feed livestock (such as corn and soybeans) are struggling.

If you're a grain producer, or have a business primarily associated with grain producers, you know the harsh economic reality and outlook. To be perfectly blunt, we're in some pretty rough seas. For many in the ag world, storm clouds are brewing in the west with no place for safe refuge or shelter. Although it's a lagging indicator and still a small number overall, Chapter 12 farm bankruptcies are on the rise. It's not a huge concern at this time, but it's something we'll be keeping an eye on.

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WHAT'S DIFFERENT ABOUT THIS CYCLE

Agriculture has been and always will be an uncertain and cyclical business. But over the past few decades, I've found the cycles have become a bit more compressed, with the peaks getting higher and the valleys getting lower. It seems that for grain producers, we're potentially going into a pretty deep gorge with this cycle.

I'm well into my fourth decade on the financing side of agriculture, and this downturn may have me more worried than past slumps. Here's why:

- Interest rates have doubled
- Commodity prices have eroded, reaching the lowest July levels since 2006
- Much of the working capital or liquidity that had been built up in previous profitable years has been exhausted
- There's a lack of certainty with a farm bill combined with uncertainty in critical government policy affecting agriculture, such as trade and tariffs
- The potential pluses and minuses of MAHA (Make America Healthy Again) are also causing anxiety for some producers

Coupled with likely the most expensive crop ever raised (primarily due to sticky input prices), it's hard to find upside in the near term.

Largely because of strong land values, there's still a lot of net worth (wealth) in agriculture. And while a sizable net worth or equity can help bridge downturns, it doesn't necessarily pay the bills or guarantee profitability in the short term.

In the absence of unexpected revenue – like government payments, for example – most grain producers may not be profitable in 2025. Even the best operations may be challenged to break even. Look for another round of refinances to build back working capital and cover operating losses.

CURRENT CROP OUTLOOK

On the plus side, the current outlook for most crop-producing areas is for a big harvest, barring an early frost or other curveball from Mother Nature. So far at least, Mother Nature has been smiling on many Midwest grain operations, and the extra bushels or hundredweight will be very welcome. But with depressed commodity prices – such as corn with a $3 in front or beans with a $9 in front – it remains to be seen if producers can raise enough bushels to offset those decreased prices.

The USDA is estimating a massive, record corn crop – 16.7 **billion** bushels. Having the extra bushels helps, but the reality is we need to find a home (here or abroad) for all these crops. Given the uncertainty in our trade and tariff policies, finding a market for those bushels could prove to be problematic. It's not surprising, then – given the reduced prices and volume, exports for our bulk, raw commodities, and high imports of fruits and vegetables – that the U.S. agricultural trade deficit is setting all-time records.

Soybean bushels are predicted to be down slightly compared to 2024 due to fewer acres planted. However, given that about two-thirds of all U.S. soybeans raised are exported, the current trade and tariff policies – coupled with competition from the Global South (namely Brazil and Argentina) – make for some stiff headwinds to price recovery. Pre-2018, North Dakota exported over 70% of its soybeans to China. No more. The U.S. is the last place China wants to buy their commodities from right now. (In fact, as of September 1, China had not bought a single cargo of soybeans for the coming year.)

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It's interesting to note that China recently announced a major investment in the African nation of Angola to develop 100,000 hectares (about 250,000 acres) of farmland. Most of these acres will go toward corn and soybean production, with about 60% expected to be exported back to China. Could Africa become the next "Global South" powerhouse?

LOOKING AHEAD

Is it all doom and gloom in the grain sector? No, of course not. Your current situation doesn't have to be your last. U.S. producers are the most efficient and adaptable producers in the world. Future events – although of course unknown at this time – will bring brighter days back to this sector. But it could take peak management skills and the ability to look at new ways of doing things. Old keys don't always open new doors.

People – and livestock – around the world still need to eat. Focusing on things one can control and managing around the uncontrollable will be key. If possible, avoid making knee-jerk decisions on important issues. Having a clear head can help take emotion out of your critical decision-making areas. Often, patience can be the pathway to success.

Do scenario planning, stress-test budgets, monitor cash flows, maintain discipline, and make sure you've fully vetted and scrutinized new opportunities. Look for operational efficiencies and ways to find new and different revenue streams. Be disciplined in good times and committed during bad times. It may also be worth considering forming strategic partnerships when they make economic and operational sense for you.

The U.S. only has about 25% of the farms we had a century ago, and many of those farms and farmers are aging quickly. There are more farmers over 75 years old today than under 35.

Surround yourself with a solid mentor or a team of advisors who can give impartial and honest feedback. Also, have goals for your operation – and put them down on paper. A recent study by the Purdue Center for Commercial Agriculture found that the top goal for farm operations is farm transfer, with profits number two and reducing debt number three.

It's not hard to see why that's the case. The U.S. only has about 25% of the farms we had a century ago, and many of those farms and farmers are aging quickly. There are more farmers over 75 years old today than under 35. Consolidation in virtually every agricultural area – from individual farms to seed/chemical companies to equipment manufacturers and dealers – doesn't seem to be slowing down. In fact, in some sectors, it may be accelerating due to all the uncertainty.

Given all of this, be sure to take care of your physical and mental health. You need to be at your best not only to make important management decisions, but also to take care of your family. Don't measure your self-worth by your net worth.

Will taking all these steps guarantee success? Of course not. But they will help put the odds in your favor.

And a major hiccup or disruption in South American corn and soybean production wouldn't hurt, either!

Farm Machinery

One of the first indications of a downturn in the agricultural producer space is a correction in machinery and equipment values. Equipment can take up to 30% of all budgeted farm expenses. Based on farm management data, machinery and equipment costs for high-profit farms are around $157 per acre for corn. For low-profit farms, it's around $226 per acre. On average, that's a difference of about 37 cents per bushel. Between 2013 and 2023, the investment in farm equipment for a 1,000-acre corn and soybean farm went up over $250,000.

On the heels of a significant buying spree of new farm equipment over the past few years due to profits as well as the desire to minimize income taxes, the purchasing appetite for new equipment has changed. If producers are making machinery and equipment purchases these days, it's more likely based on a need, not a want.

and Equipment Market Update

The availability of new equipment, which was hampered by the COVID-era supply chain disruptions, is no longer an issue. In fact, the supply of new equipment is now outpacing demand in most equipment categories. Just look at the significant declines in purchases of new large tractors and combines: U.S. sales of combines in July 2025 were down 43.7% year-over-year.

New equipment has taken the biggest hit with respect to producer purchases. As I noted, many producers recently updated their equipment lines and from a production and efficiency standpoint, don't need to make new purchases again soon.

In addition to lower commodity prices, tariffs – especially on steel and aluminum – have put farm equipment makers in a vise. John Deere recently estimated its tariff-related expenses to be $600 million. Machinery manufacturers as well as dealers are working to right-size their current business models and, as a result, are starting to announce layoffs or reductions in their workforce.

With new equipment prices still increasing, low commodity prices, increased interest rates and an uncertain outlook, producers in need of equipment are turning to used options. On average, it's a buyer's market for most types of used equipment. If you can, it may pay to hold off and wait on the sidelines for a while. Renting rather than owning equipment may also be an option.

Conversely, if you have equipment just sitting around not being used, it may be time to consider selling it to generate cash and working capital and turn non-earning assets into earning assets.

HIGHLIGHTS FROM

AgViews Live 2025

As unpredictable economic conditions persist, farmers, ranchers, producers and agribusiness leaders gathered for Bell Bank's 11th annual AgViews Live seminar in Fargo, Mankato and Wisconsin Dells this summer. Lynn Paulson and Dr. David Kohl discussed takeaways for adapting to uncertainty, and touched on the biggest issues in the world of agriculture today.

Rick Brandenburger, president of Richland IFC in Breckenridge, Minn., appreciated the event's comprehensive nature.

"AgViews Live provided an instructive, informational platform for the overall state of the ag economy, from where we have been recently to where we are now, and what the future looks like," Rick said.

"Lynn and Dr. Kohl were very engaging," added James Loe, president and CEO of Community Resource Bank in Northfield, Minn. "It was like we were just having a conversation."

Thanks to everyone who attended this year's AgViews Live!

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— Rick Brandenburger, president of Richland IFC

NAVIGATING THROUGH CHAOS

At this year's event, Dr. Kohl's presentation focused on how producers could take advantage of difficult circumstances, even though nobody knows what tomorrow will bring.

"It's easy to say I don't know what's going to happen with tariffs, or I don't know what China is going to do," he said. "You can let chaos lock you up, or you can get your gameplan together and make opportunities of the chaos."

Dr. Kohl's tips for navigating through chaos included:

- **Cultivate a behavioral and management mindset**. More than just checking off boxes, a behavioral mindset involves the ability to watch, respond to and implement your plan. "A lot of people can check boxes, but can you monitor, and can you execute?" he asked. Focus on building resiliency in your operation, and set goals for areas where you can improve.
- **Build working capital.** Financial liquidity can build a buffer for your operation during downturns, while also allowing you to be proactive when opportunities come along.
- **Take care of yourself:** While taking care of your financials is critical during uncertainty, Dr. Kohl also stressed the importance of taking care of yourself at the same time. Chaotic conditions can lead to anxiety and stress, which can take its toll over time. "Invest in yourself – pay attention to your physical, mental and spiritual health," he advised.

Other topics covered at this year's AgViews Live included:

Growing Global Competition: Both Lynn and Dr. Kohl discussed how intense competition from countries in the Global South presents a serious challenge to U.S. agriculture.

"It's not just what those countries currently produce, but the potential of land they still have left to add to production is astonishing," Lynn said.

"The world is catching up to us," Dr. Kohl added.

Artificial Intelligence and Agriculture: From pest and disease detection to water management and livestock monitoring, the role of artificial intelligence (AI) in ag was a popular topic at AgViews Live. AI represents significant opportunities for an operation, and we'll continue to see it becoming more involved with day-to-day farm and ranch operations.

Optimism About the Future: Despite the current challenges facing farmers and producers, both Lynn and Dr. Kohl expressed optimism about the future of U.S. agriculture. Toward the end of Fargo's session, Dr. Kohl invited 23-year-old Jaden Hamilton from Rugby, N.D., and 16-year-old Riley Rickford from Barnesville, Minn., to participate in the question-and-answer portion of the event.

"We've talked about the challenges and all the uncertainty right now, but I'm optimistic about agriculture," Lynn said, with the future of agriculture sitting next to him. "It's people showing up for events like this – getting all the stakeholders of ag together. It's really powerful."

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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.

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