

2024 North Dakota Agricultural Lenders Ag. Finance Outlook

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Financial ratio analysis is a quantitative method of evaluating a farm or company's financial health and performance. It is a major component of fundamental equity analysis.

In agriculture there are 17 (formerly 21) widely accepted and utilized financial ratios falling into 1 of 5 different categories recommended by the **Farm Financial Standards Council** (FFSC).

Categories Include:

- 1: Liquidity – Balance Sheet
- 2: Solvency - Balance Sheet
- 3: Profitability – Income Statement
- 4: Repayment Capacity – Cash Flow Statement
- 5: Financial Efficiency – Financial Statements

Farm Name

ND non-RRV

Year

2023

Liquidity

			Farm Rating	Vulnerable	Stable	Strong
				1.3	2.0	
Current Ratio	2.07		2.07			
				10%	30%	
Working Capital to Gross Revenue	49.2	%	49.2			
				20%	40%	
Working Capital to Operating Expense	64.3	%	64.3			

Solvency

			Farm Rating	Vulnerable	Stable	Strong
				60%	30%	
Debt-to-Asset Ratio	37	%	31			
				40%	70%	
Equity-to-Asset Ratio	69	%	69			
				1.5	0.43	
Debt-to-Equity Ratio	45	%	0.45			

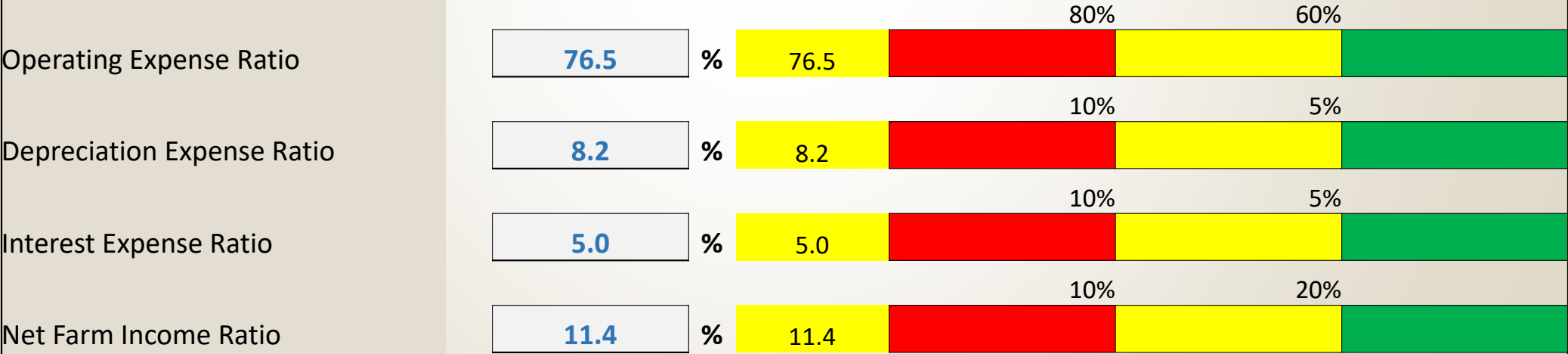
Profitability

			Farm Rating	Vulnerable	Stable	Strong
				4%	8%	
Rate of Return on Farm Assets	2.9	%	2.9			
				3%	10%	
Rate of Return on Farm Equity	1.7	%	1.7			
				15%	25%	
Operating Profit Margin	8.5	%	8.5			
				30%	45%	
Asset-Turnover Rate	27.8	%	27.8			

Repayment Capacity



Financial Efficiency



Repayment Capacity

(Total) Debt Coverage Ratio

2.16

Farm Rating

Vulnerable

Stable

Strong

1.10

1.50

2.16

1.10

1.50

Replacement Margin Coverage Ratio

1.57

1.57

1.25

1.75

Term Debt & Finance Lease Coverage Ratio

2.34

2.34

Financial Efficiency

Operating Expense Ratio

73.8

%

Farm Rating

Vulnerable

Stable

Strong

80%

60%

73.8

10%

5%

Depreciation Expense Ratio

5.2

%

5.2

10%

5%

Interest Expense Ratio

3.8

%

3.8

10%

20%

Net Farm Income Ratio

17.2

%

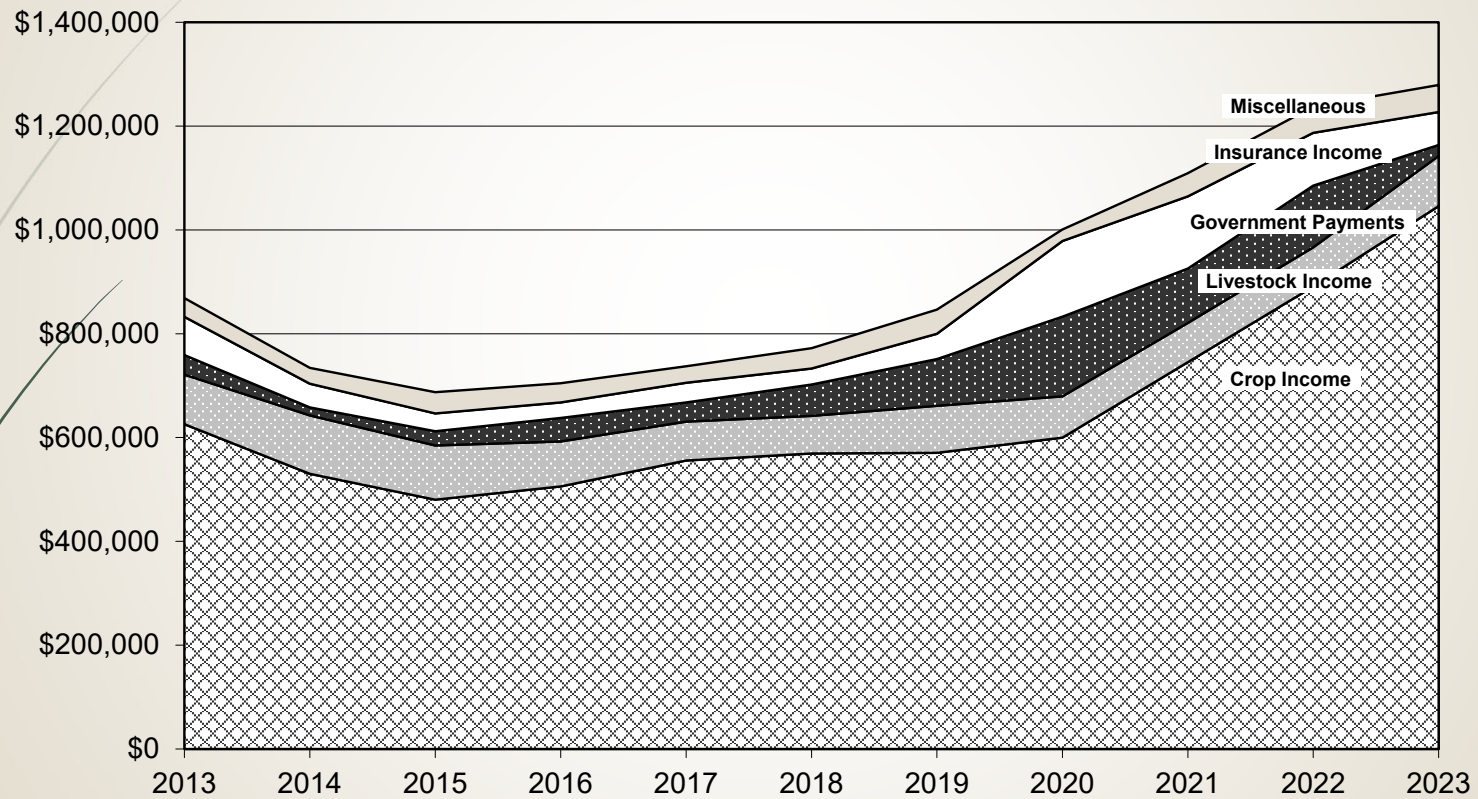
17.2

Valley vs. Non-Valley Financial Scorecard 2023

	RR Valley	Non Valley
Current Ratio	2.23	2.07
Working Capital to Gross Revenue	43.4%	49.2%
Working Capital to Operating Expense	58.7%	64.3%
Debt-to-Asset Ratio	39%	31%
Equity-to-Asset Ratio	60%	69%
Debt-to-Equity Ratio	0.68	0.45
Rate of Return on Farm Assets	6.1%	2.9%
Rate of Return on Farm Equity	7.4%	1.7%
Operating Profit Margin	15%	8.5%
Asset-Turnover Rate	40.8%	27.8%
(Total) Debt Coverage Ratio	2.16	1.5
Replacement Margin Coverage Ratio	1.57	1.04
Term Debt	2.34	1.66
Operating Expense Ratio	73.8%	76.5%
Depreciation Expense Ratio	5.2%	8.2%
Interest Expense Ratio	3.8%	5.0%
Net Farm Income Ratio	17.2%	11.4%

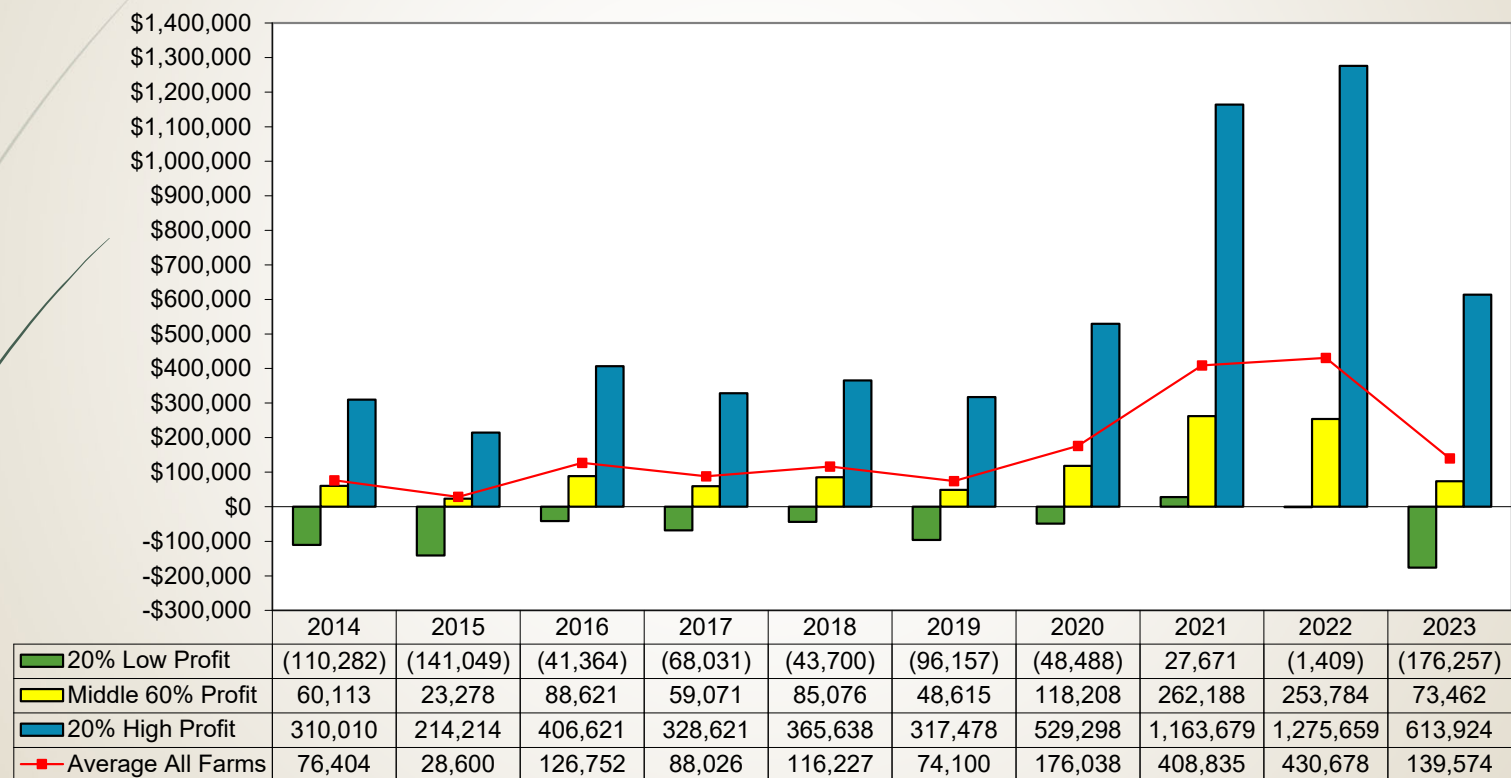
Gross Cash Income Per Farm

N.D. Farm Business Management Education Program



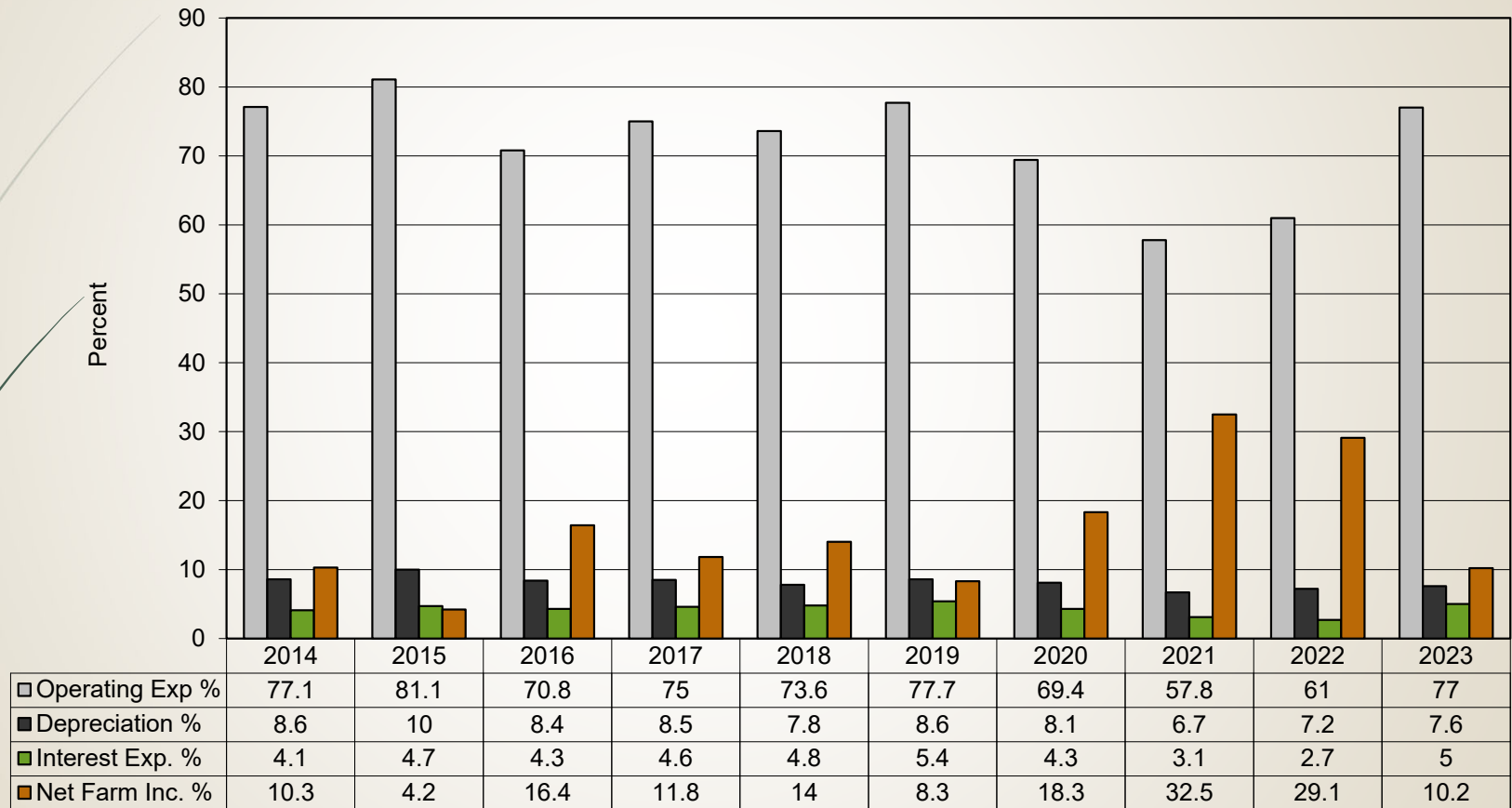
Net Farm Income (Accrual) Per Farm

N.D. Farm Business Management Education Program, State Average



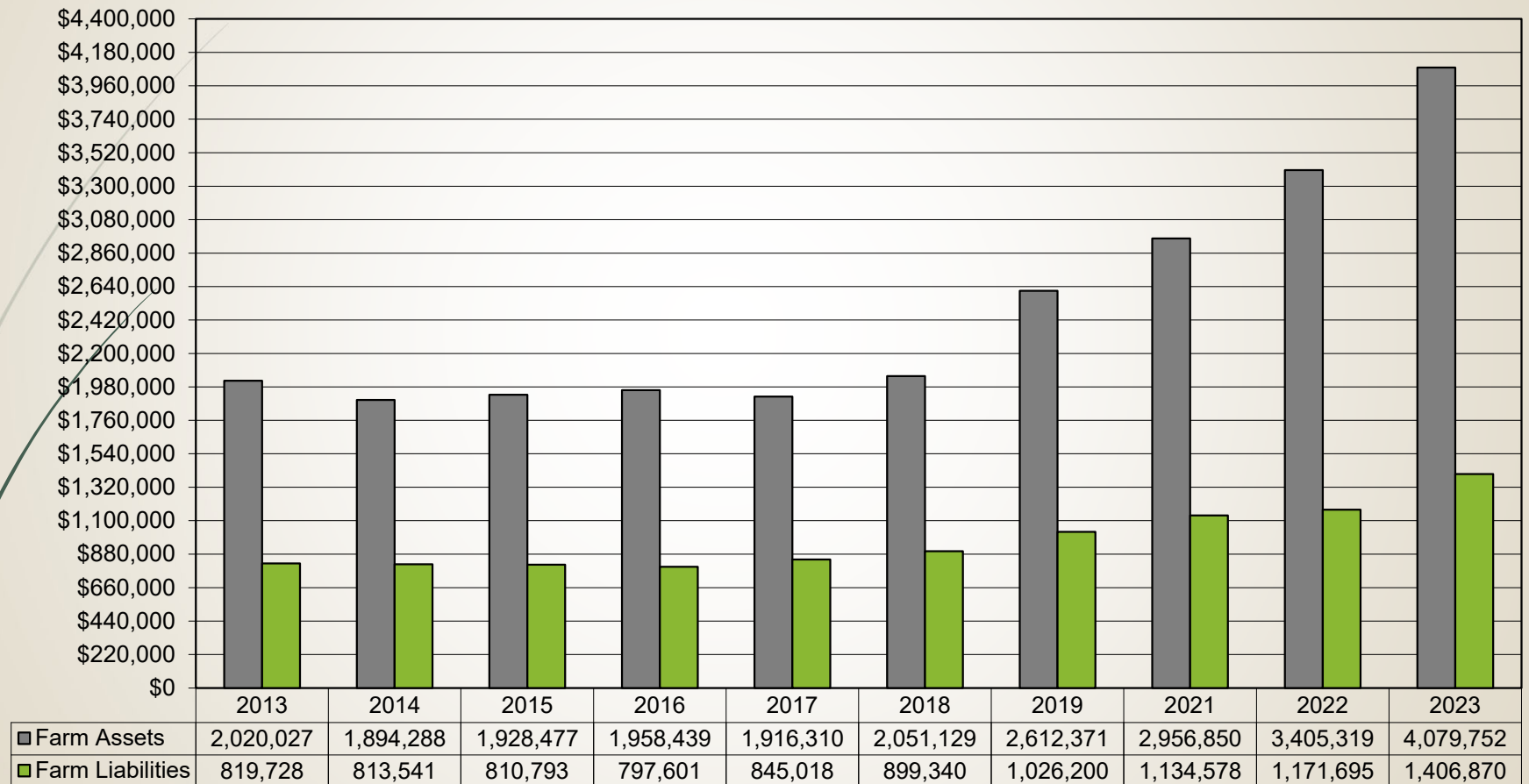
Financial Efficiency Measures (As Percent of Gross Revenue)

N.D. Farm Business Management Education Program



Total Farm Assets and Liabilities

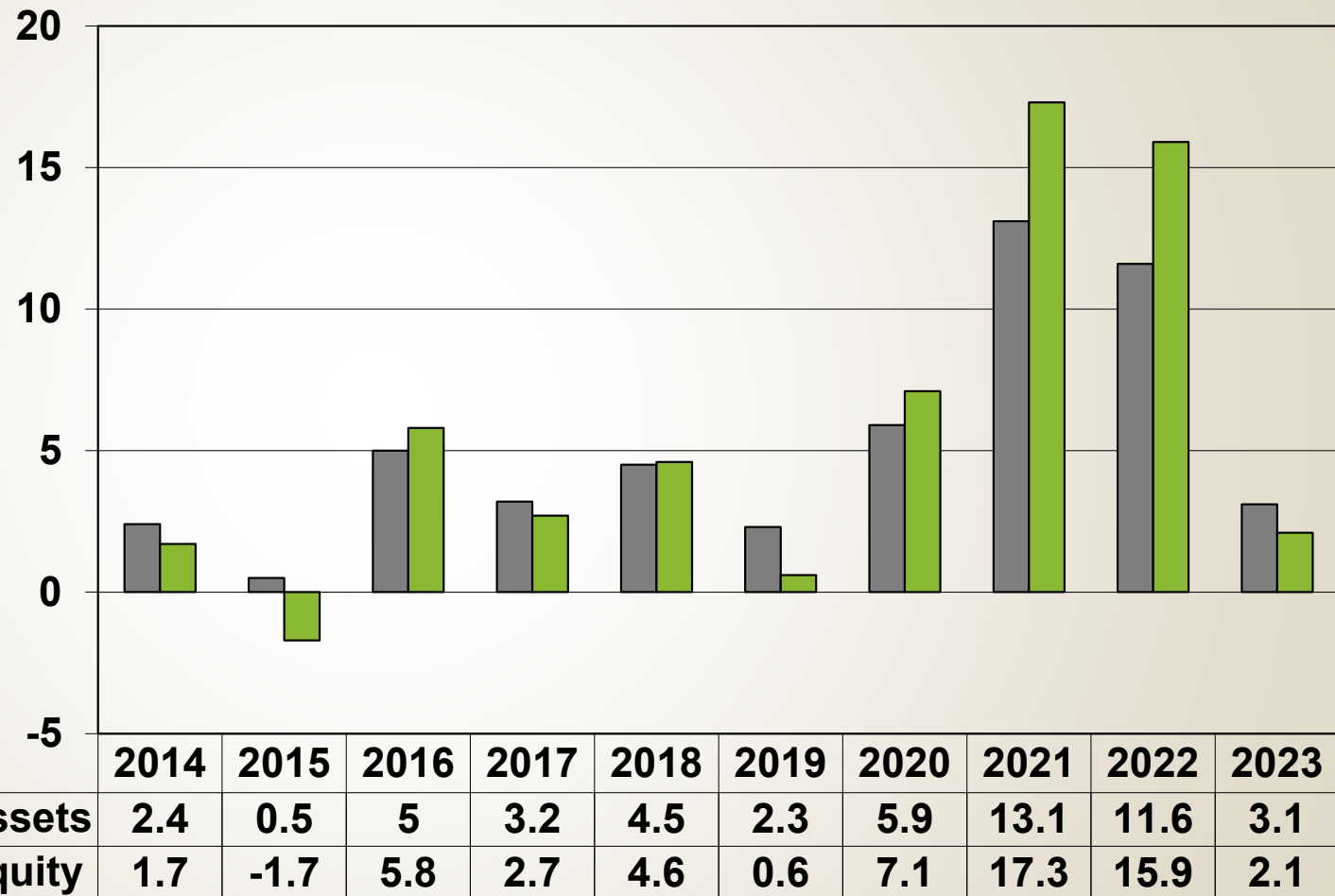
N.D. Farm Business Management Education Program



Profitability Measures Per Farm

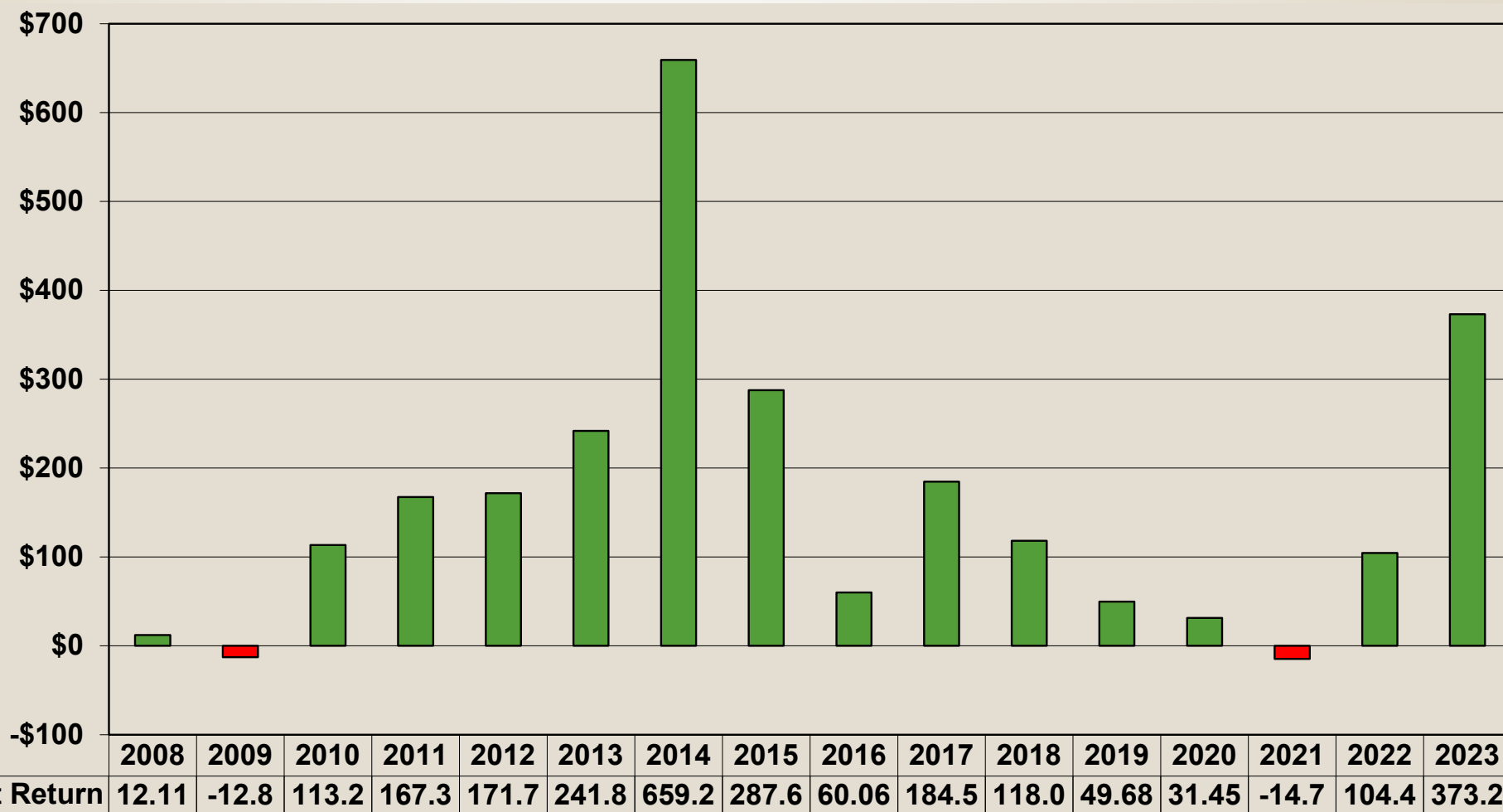
N.D. Farm Business Management Education Program

Percent




■ Rate of Return on Assets
■ Rate of Return on Equity

Statewide Net Return per Beef Cow



Top Family Living Expense Items 2023



- Medical Care, Health Insurance,

- \$17,543 – 19.2 %

- Miscellaneous

- \$10,414 – 11.4%

- Food and Meals

- \$11,310 – 12.4%

- Household Supplies

- \$13,048 – 14.3%

- Personal Care

- \$4,580 – 5.0%

- Utilities

- \$4,240 – 4.65%

- Recreation

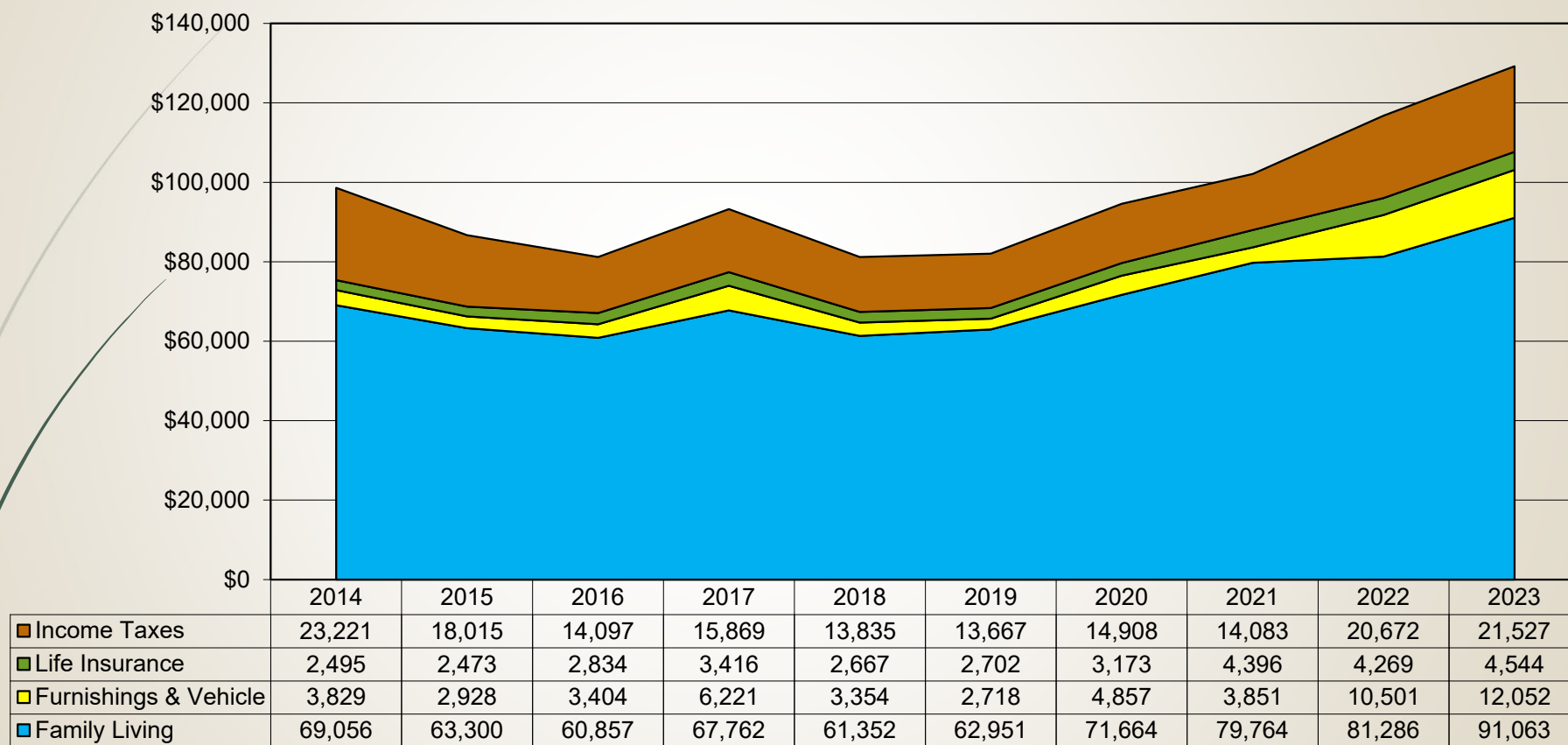
- 7,060 – 7.8 %

- Total Family Living

- \$91,063

Household and Personal Expenses

N.D. Farm Business Management Education Program



USDA, FAPRI-UM, Minneapolis Fed Outlook



Agricultural interest rates from the Federal Reserve Bank of Minneapolis' quarterly survey of agricultural credit conditions

		Operating		Machinery		Real estate	
		Fixed	Var.	Fixed	Var.	Fixed	Var.
Q3-22	October	6.5	6.3	6.2	6.1	5.9	5.8
Q4-22	January	7.7	7.6	7.3	7.3	7.0	7.0
Q1-23	April	8.1	8.0	7.6	7.6	7.3	7.4
Q2-23	July	8.5	8.5	7.9	8.0	7.5	7.5
Q3-23	October	8.8	8.7	8.3	8.2	7.9	7.9
Q4-23	January	8.8	8.7	8.3	8.3	8.0	8.0
Q1-24	April	8.6	8.6	8.2	8.4	7.9	8.0
Q2-24	July	8.8	8.7	8.4	8.5	8.0	8.1

Source: Minneapolis Federal Reserve, "Farm Finances Weakened During Growing Season, Second-quarter 2024 ag. credit conditions survey. Joe Mahon, Sept 30th 2024

State Fact SheetAgricultural credit conditions surveySecond-quarter 2024Note: The Upper Peninsula of Michigan is not part of the survey.

	MN	MT	ND	SD	WI	Ninth District
Percent of respondents who reported decreased levels for the past three months compared with the same period last year:						
Rate of loan repayments	33	–	15	20	–	22
Net farm income	100	17	77	60	50	76
Farm household spending	17	–	15	10	50	15
Farm capital spending	58	17	46	40	100	49
Loan demand	29	–	15	10	50	20

Percent of respondents who reported increased levels for the past three months compared with the same period last year:

Loan renewals or extensions	42	17	31	10	50	31
Referrals to other lenders	13	–	–	–	–	6
Amount of collateral required	13	–	17	20	–	13
Loan demand	46	50	54	20	50	44

Source: Minneapolis Federal Reserve, “Farm Finances Weakened During Growing Season, Second -quarter 2024 ag. credit conditions survey. Joe Mahon, Sept 30th 2024

State Fact Sheet - OutlookAgricultural credit conditions surveySecond-quarter 2024Note: The Upper Peninsula of Michigan is not part of the survey.

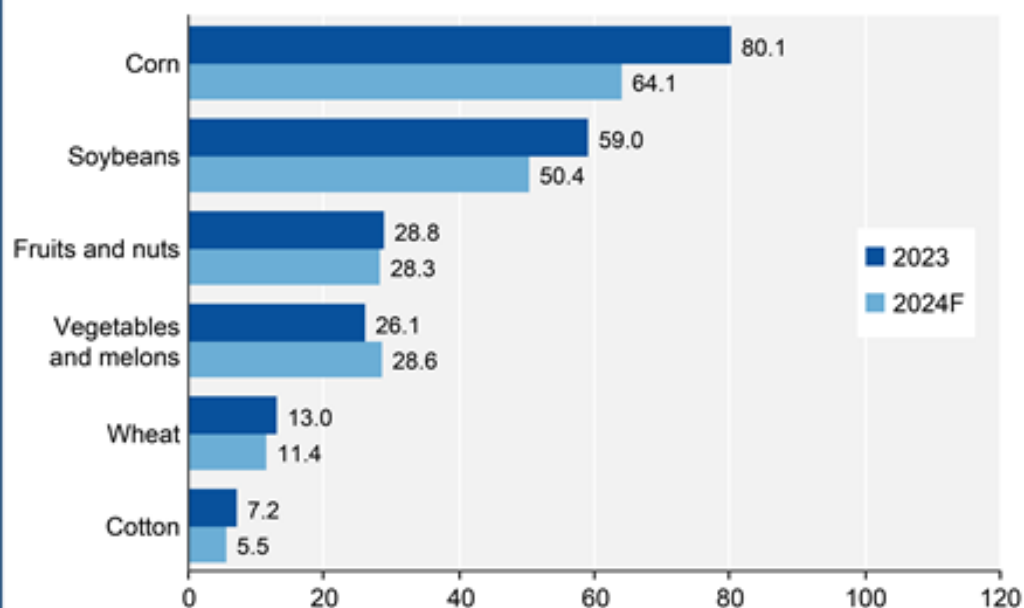
	MN	MT	ND	SD	WI	Ninth District
Percent of respondents who expect decreased levels for the next three months:						
Rate of loan repayments	38	–	8	20	–	22
Net farm income	96	17	69	90	50	78
Farm household spending	29	–	23	50	50	29
Farm capital spending	75	–	38	70	50	13
Loan demand	21	–	–	10	50	13
Percent of respondents who expect increased levels for the next three months:						
Loan renewals or extensions	50	–	23	20	–	31
Referrals to other lenders	8	–	–	–	–	6
Amount of collateral required	13	–	–	20	–	11
Loan demand	50	33	62	40	50	49

Source: Minneapolis Federal Reserve, “Farm Finances Weakened During Growing Season, Second-quarter 2024 ag. credit conditions survey. Joe Mahon, Sept 30th 2024

2023 and 2024(projected) Cash Receipts for Crops and Livestock

U.S. cash receipts for selected crops, 2023–24F

Billion dollars (nominal)

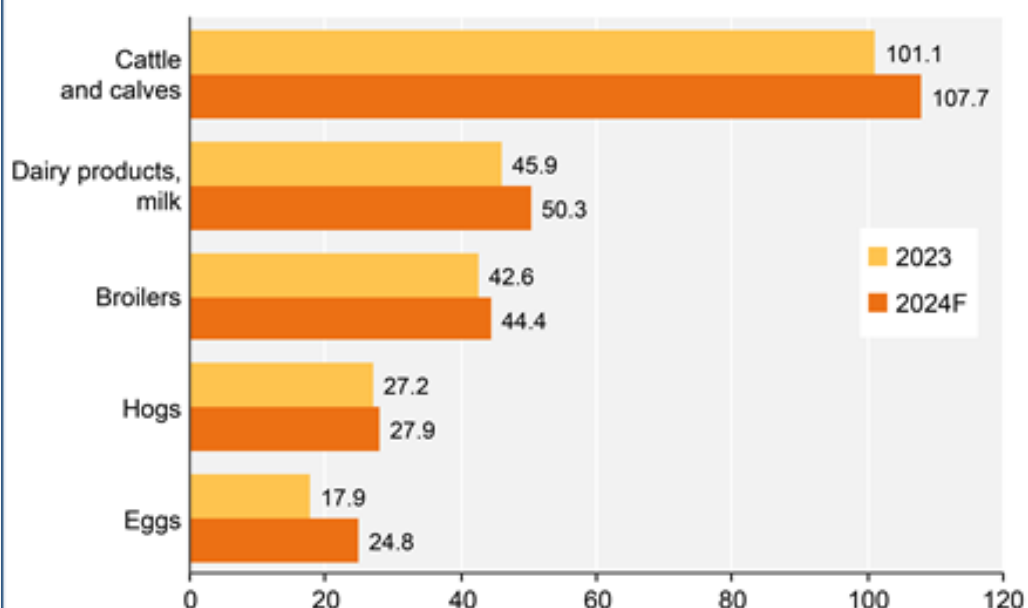


Note: F = forecast.

Source: USDA, Economic Research Service, Farm Income and Wealth Statistics.
Data as of September 5, 2024.

U.S. cash receipts for selected animals/products, 2023–24F

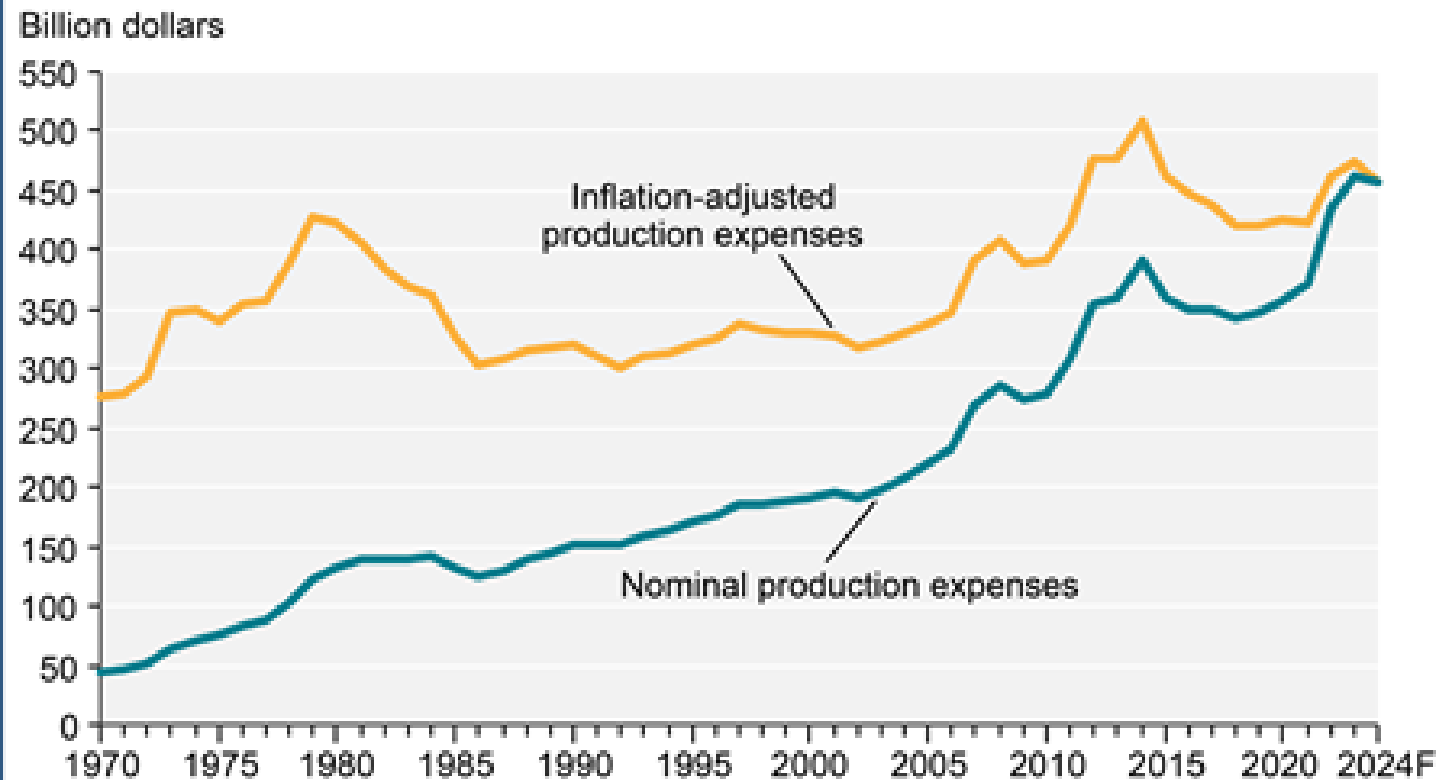
Billion dollars (nominal)



Note: F = forecast.

Source: USDA, Economic Research Service, Farm Income and Wealth Statistics.
Data as of September 5, 2024.

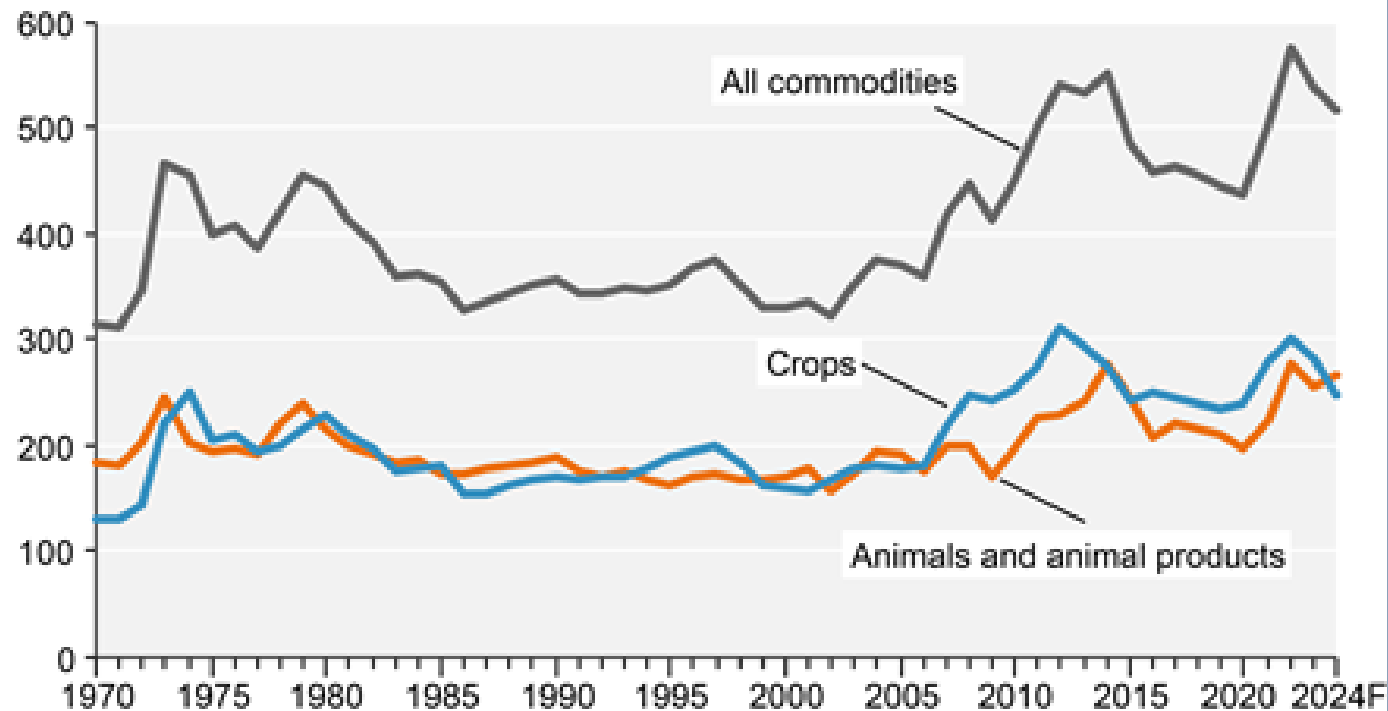
Nominal and inflation-adjusted U.S. farm production expenses, 1970–2024F



Note: F = forecast. Values are adjusted for inflation using the U.S. Department of Commerce, Bureau of Economic Analysis, Gross Domestic Product Price Index (BEA API series code: A191RG) rebased to 2024 by USDA, Economic Research Service. Source: USDA, Economic Research Service, Farm Income and Wealth Statistics. Data as of September 5, 2024.

U.S. farm sector cash receipts, inflation adjusted, 1970–2024F

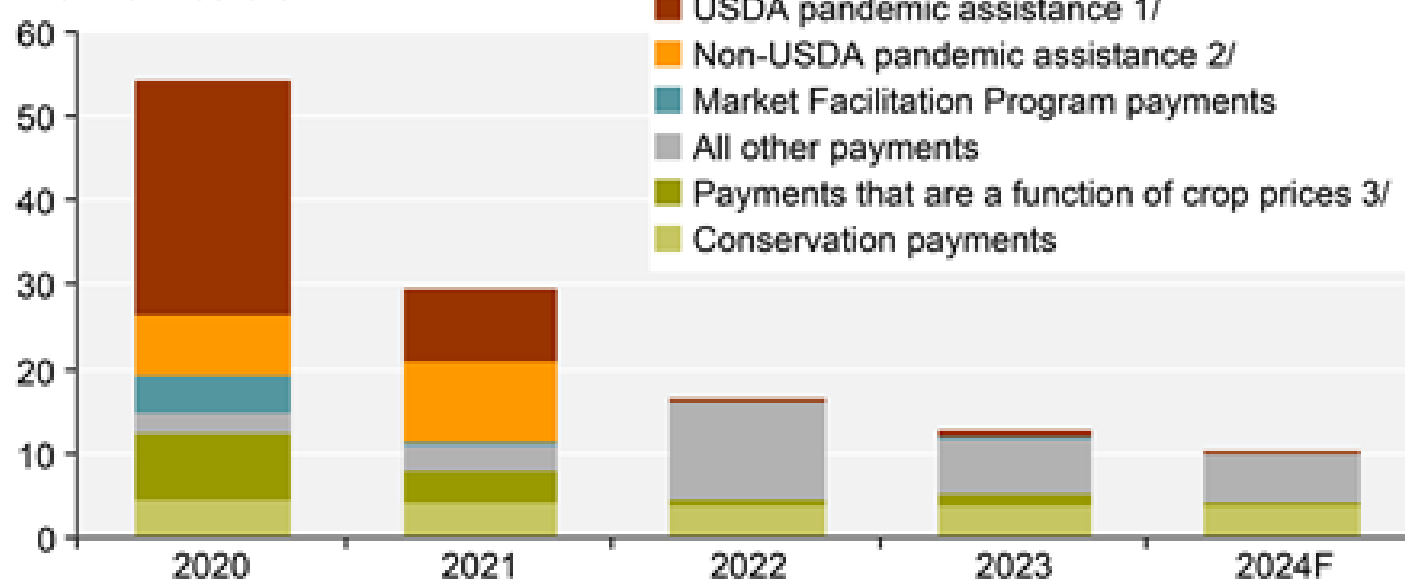
Billion 2024 dollars



Note: F = forecast. Values are adjusted for inflation using the U.S. Department of Commerce, Bureau of Economic Analysis, Gross Domestic Product Price Index (BEA API series code: A191RG) rebased to 2024 by USDA, Economic Research Service.
Source: USDA, Economic Research Service, Farm Income and Wealth Statistics.
Data as of September 5, 2024.

Direct Government payments to U.S. farm producers, 2020–24F

Billion 2024 dollars



F = forecast. Values are adjusted for inflation using the U.S. Department of Commerce, Bureau of Economic Analysis, Gross Domestic Product Price Index (BEA API series code: A191RG) rebased to 2024 by USDA, Economic Research Service.

1/ Includes payments from the Coronavirus Food Assistance Program and other USDA pandemic assistance for producers.

2/ Includes forgiven loans from the Paycheck Protection Program.

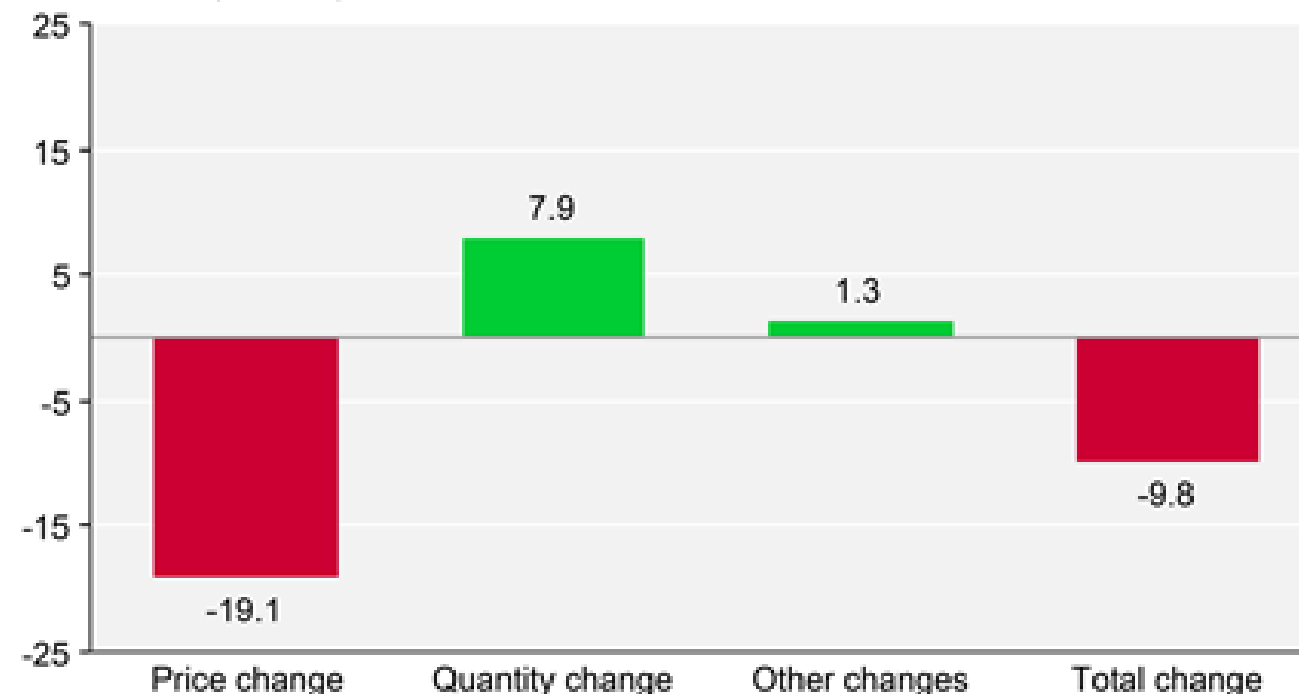
3/ Includes Price Loss Coverage, Agriculture Risk Coverage, loan deficiency payments (excluding grazeout payments), marketing loan gains, and dairy payments.

Source: USDA, Economic Research Service, Farm Income and Wealth Statistics.

Data as of September 5, 2024.

Change in U.S. farm cash receipts, 2023–24F, by component of change

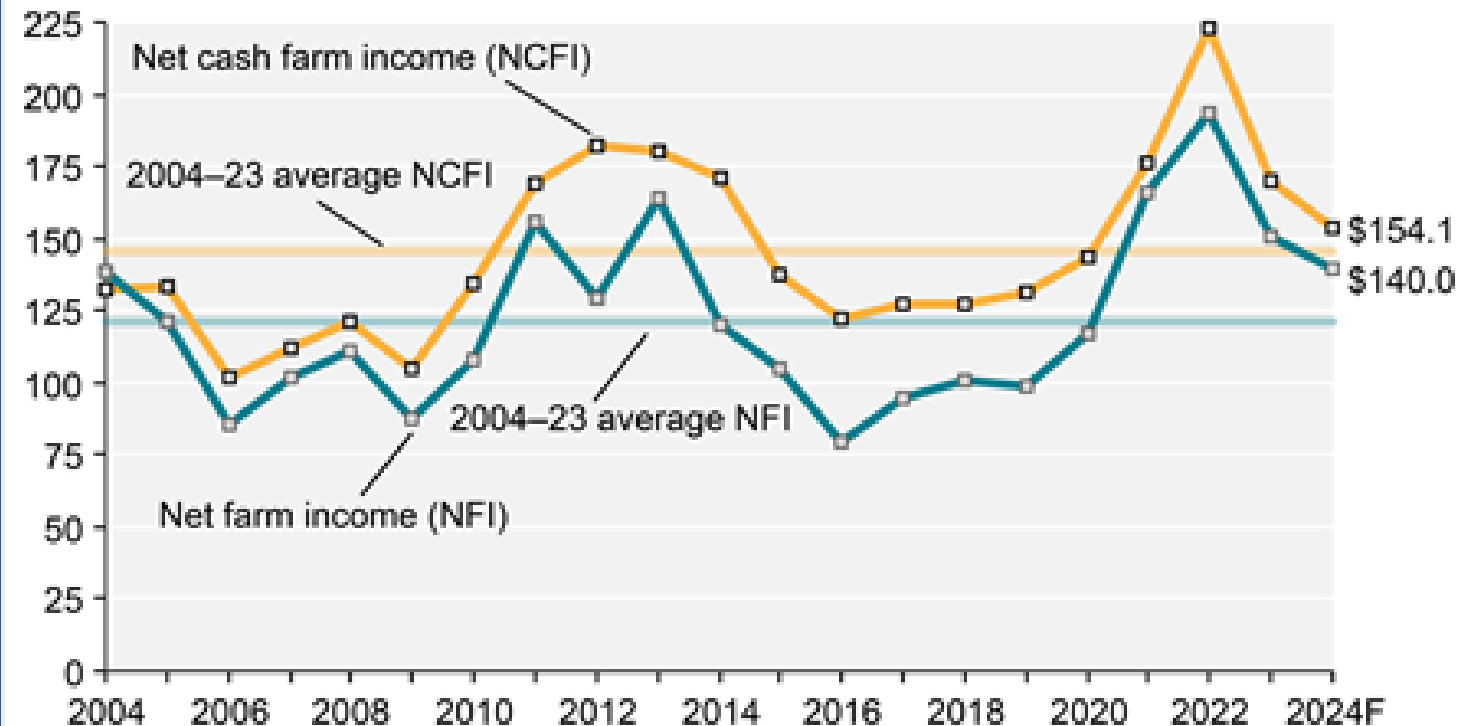
Billion dollars (nominal)



Note: F = forecast. Other changes include price/quantity changes in "all other crops" (excluding sugarcane and sugarbeets), proso millet, and miscellaneous animals/products for which data are not available. Price, quantity, and other changes may not sum to total because of rounding. Methods for this analysis have been modified with this release. Source: USDA, Economic Research Service, Farm Income and Wealth Statistics. Data as of September 5, 2024.

U.S. net farm income and net cash farm income, inflation adjusted, 2004–24F

Billion 2024 dollars

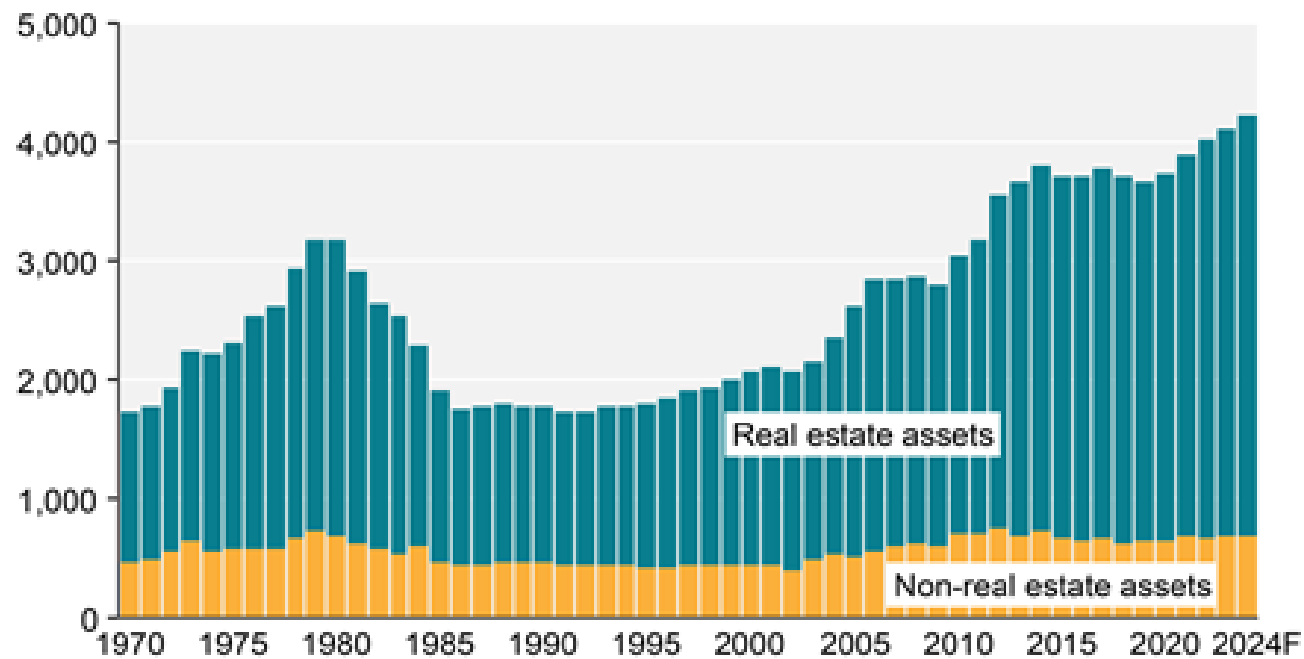


Note: F = forecast. Values are adjusted for inflation using the U.S. Department of Commerce, Bureau of Economic Analysis, Gross Domestic Product Price Index (BEA API series code: A191RG) rebased to 2024 by USDA, Economic Research Service.
Source: USDA, Economic Research Service, Farm Income and Wealth Statistics.
Data as of September 5, 2024.

Average net cash farm income for farm businesses specializing in crop production, 2024F compared with 2023		
Farm specialization	Average NCFI, 2024F	Change in average NCFI, 2023–2024F
	<i>Dollars (per farm)</i>	<i>Percent</i>
Cotton	286,900	–26
Corn	142,400	–36
Wheat	55,600	–48
Soybeans	60,000	–38
Specialty crops 1/	259,400	–9
Other crops	65,000	–21
Average net cash farm income for farm businesses specializing in animals/animal products production, 2024F compared with 2023		
Farm specialization	Average NCFI, 2024F	Change in average NCFI, 2023–2024F
	<i>Dollars (per farm)</i>	<i>Percent</i>
Dairy	552,000	51
Hogs	218,300	14
Poultry	147,100	15
Cattle/calves	56,600	13
F = forecast. NCFI = net cash farm income. Source: USDA, Economic Research Service, Farm Income and Wealth Statistics data product, Farm business average net cash income by commodity specialization and region . Data as of September 5, 2024.		

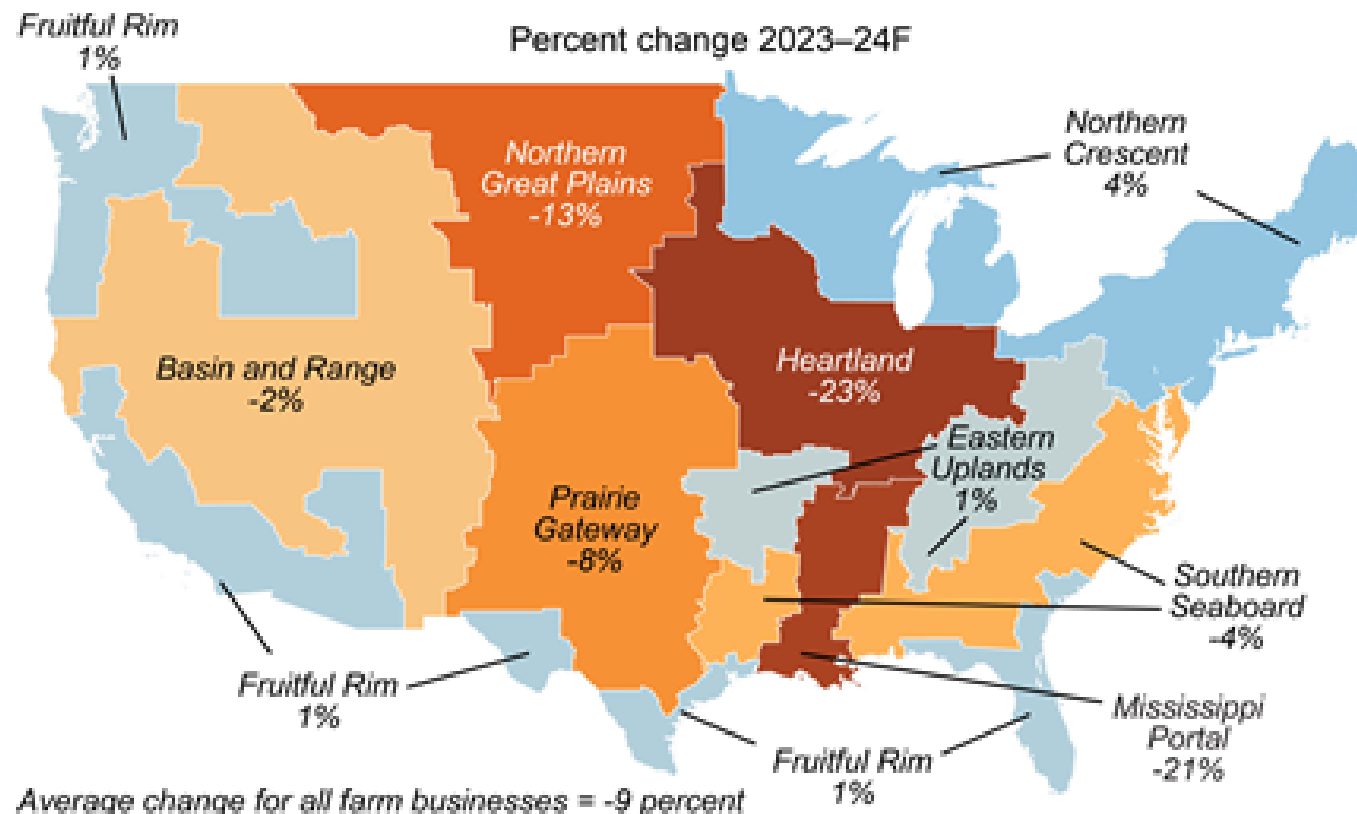
U.S. farm sector assets, inflation adjusted, 1970–2024F

Billion 2024 dollars



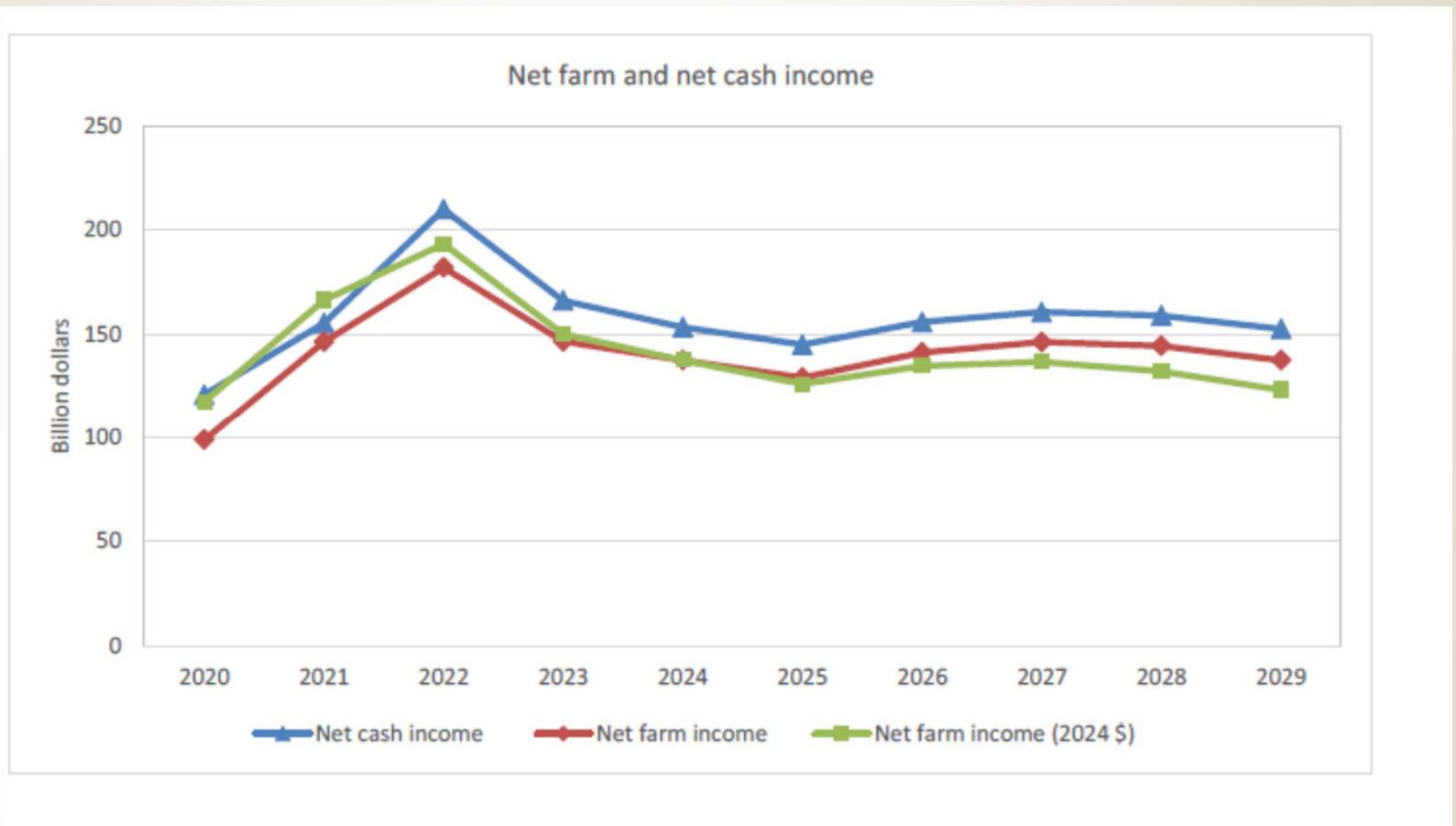
Note: F = forecast. Values are adjusted for inflation using the U.S. Department of Commerce, Bureau of Economic Analysis, Gross Domestic Product Price Index (BEA API series code: A191RG) rebased to 2024 by USDA, Economic Research Service.
Source: USDA, Economic Research Service, Farm Income and Wealth Statistics.
Data as of September 5, 2024.

U.S. farm business average net cash farm income by resource region, 2023–24F



Note: F = forecast. The partial budget forecast model is based on the Agricultural Resource Management Survey (ARMS) using parameters from the sector forecasts. The model is static and does not account for changes in crop rotation, weather, and other location-based production impacts that occurred after the base year. Alaska and Hawaii are not included in the survey data. Source: USDA, Economic Research Service, Farm Income and Wealth Statistics, September 5, 2024.

University of Missouri FAPRI Net Farm Income Forecast



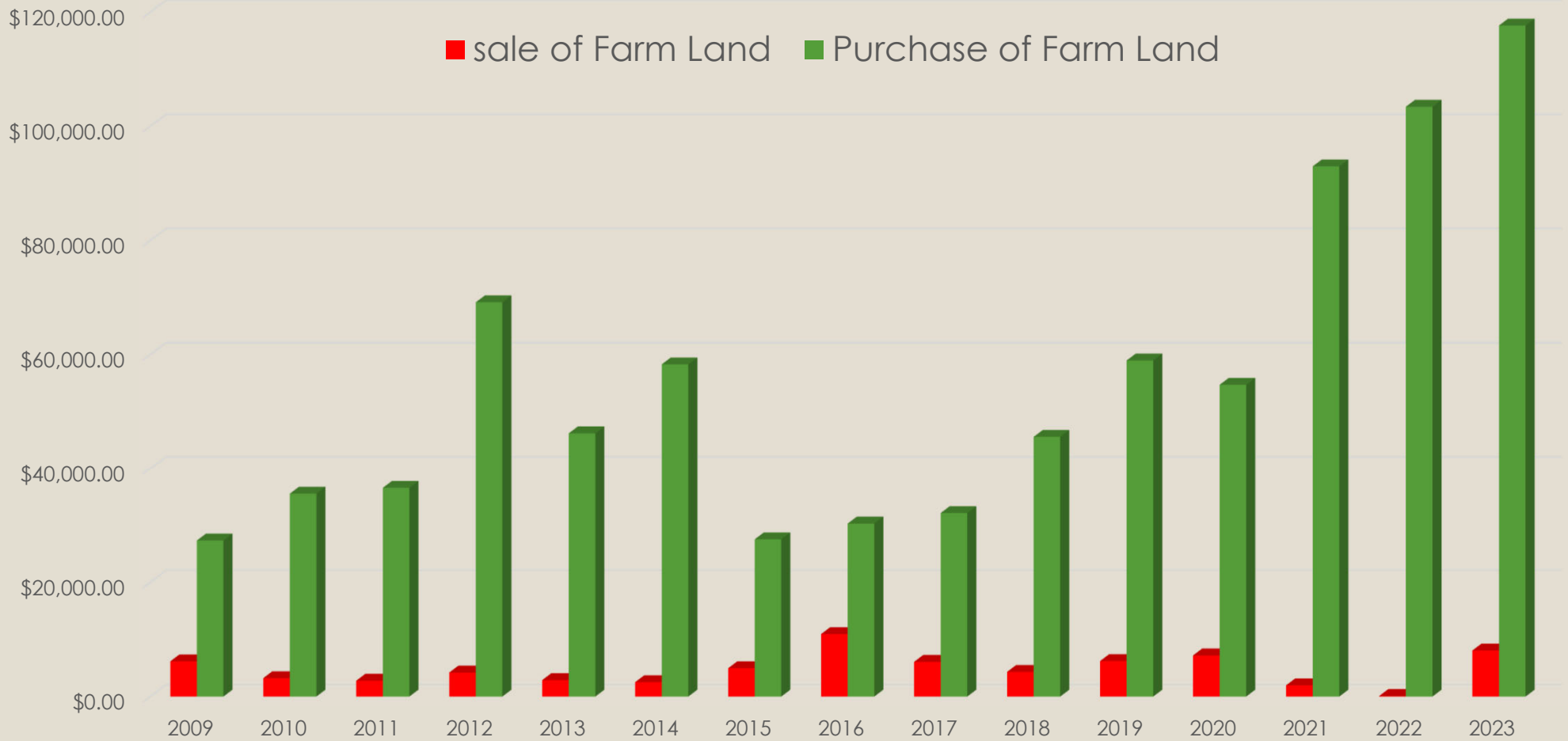
North Dakota Land Values Discussion

Cropland Prices up 11.59% moving above \$3,000 per acre for the first time to \$3,174

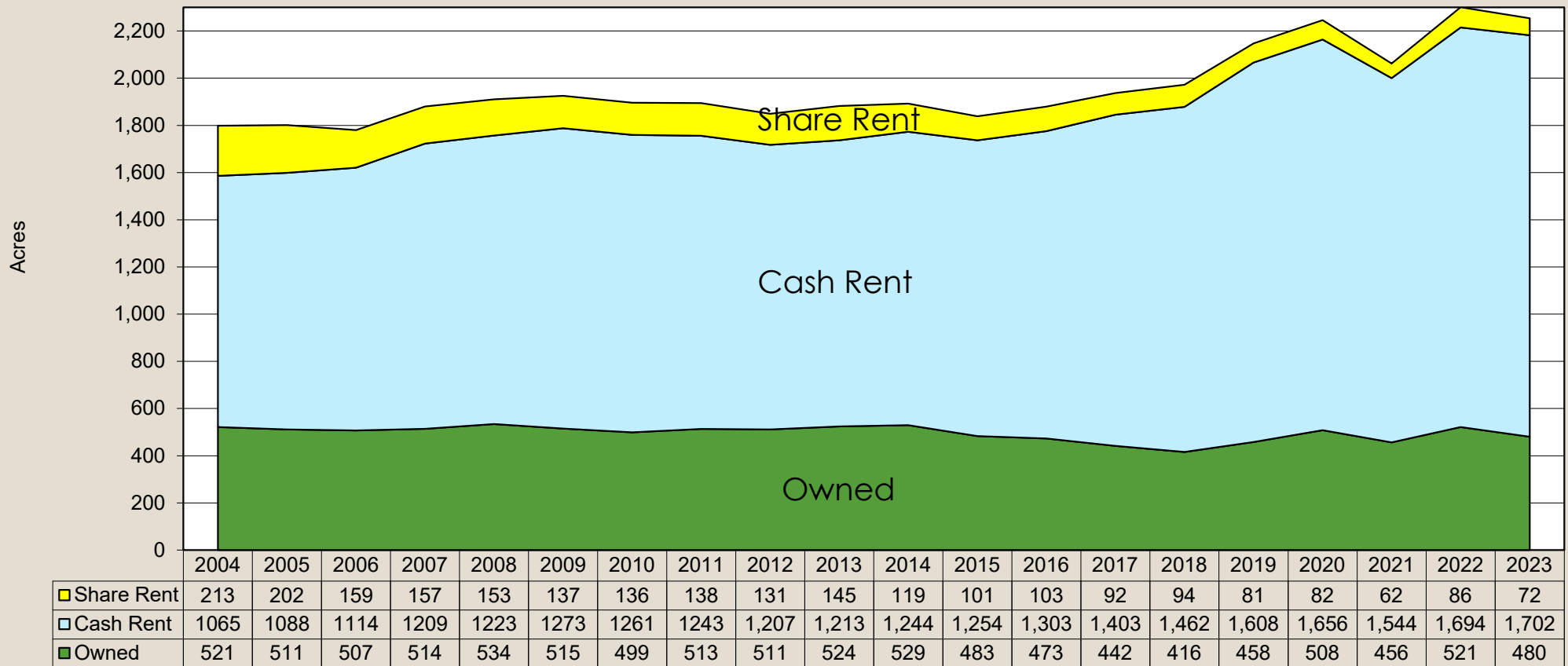
Cropland Prices in ND up over 39% since 2021

Rents up 3.7% in 2024 to \$78.70 per acre

ND Farm Business Management, Excluding RRV

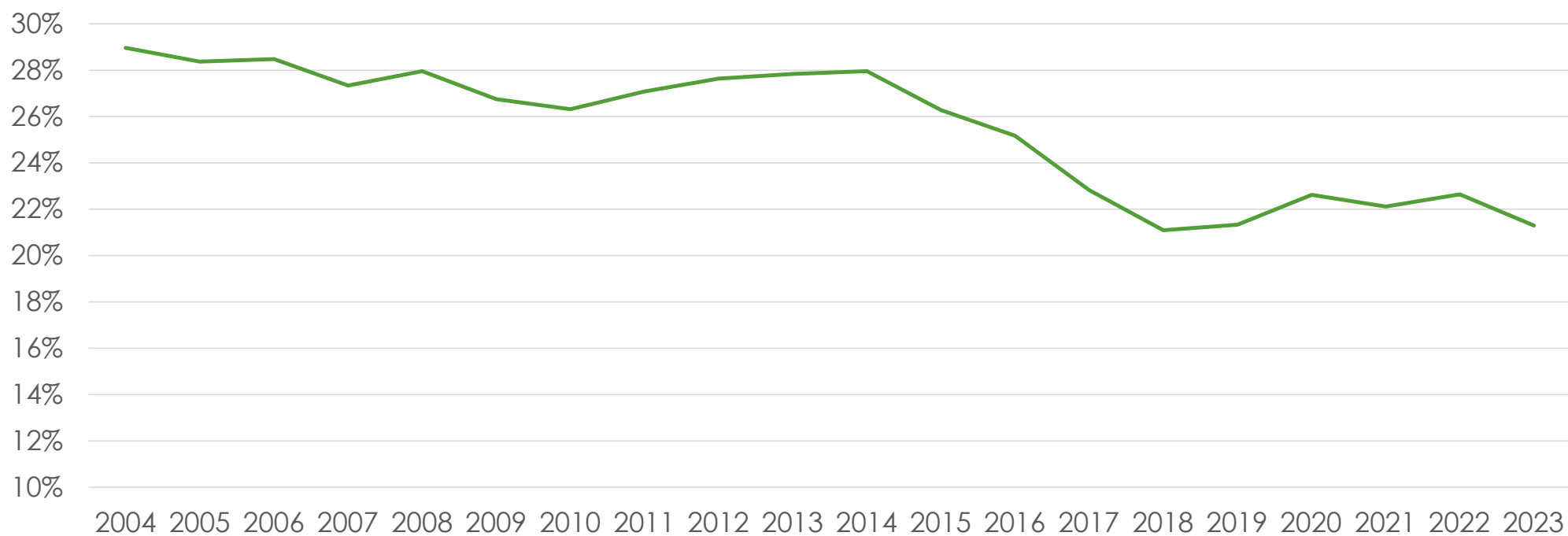


Crop Land in Farms Across ND 2023

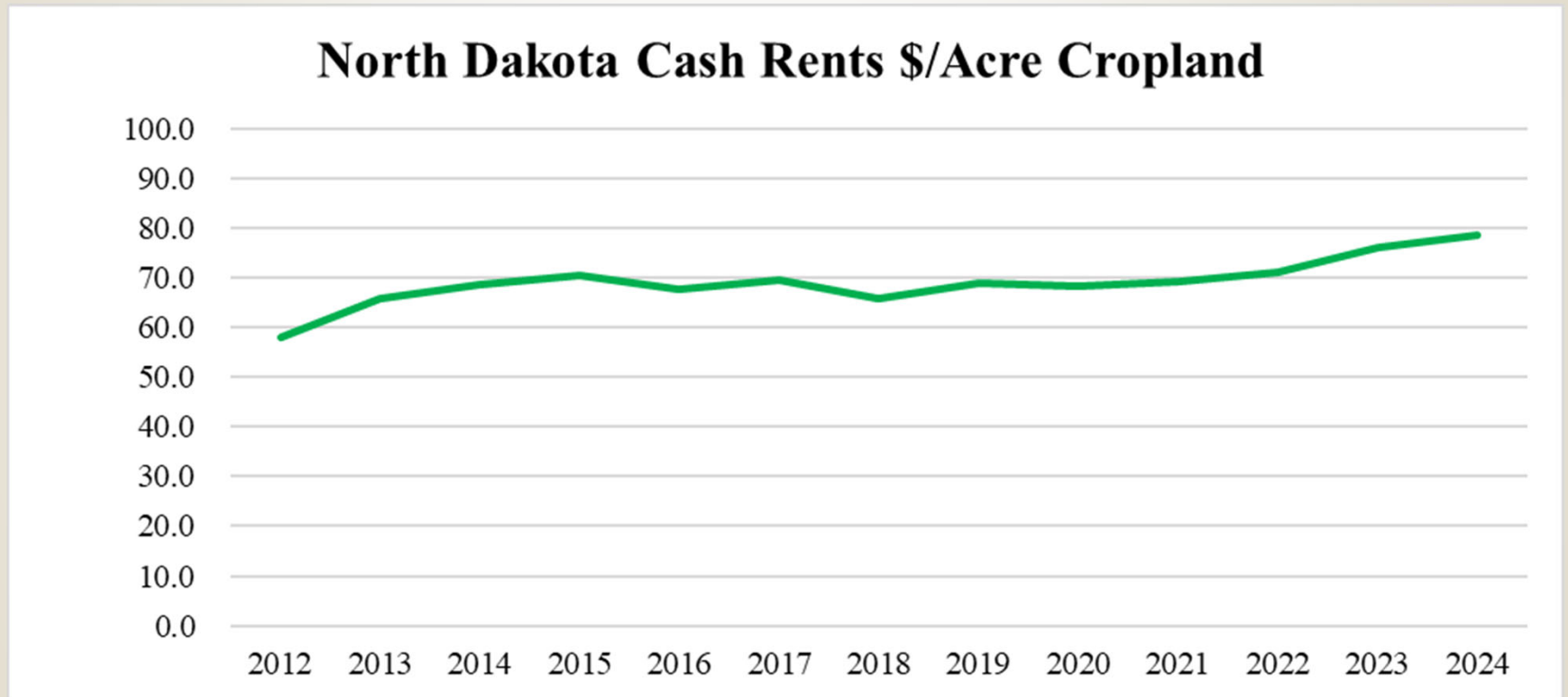


Acres owned as a percentage of total acres farmed

Owned Vs Total

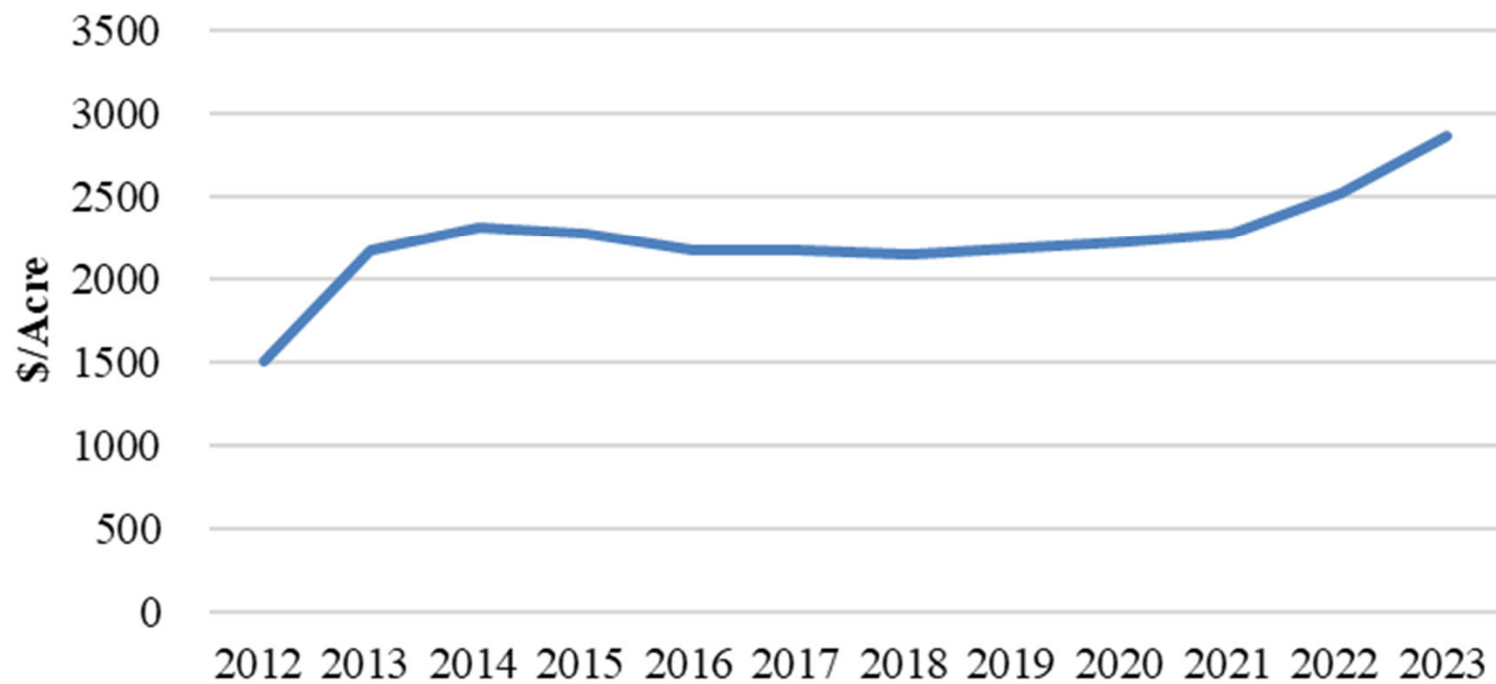


North Dakota Cropland Rents up 13.9% Since 2021, Up 3.71% in 2024

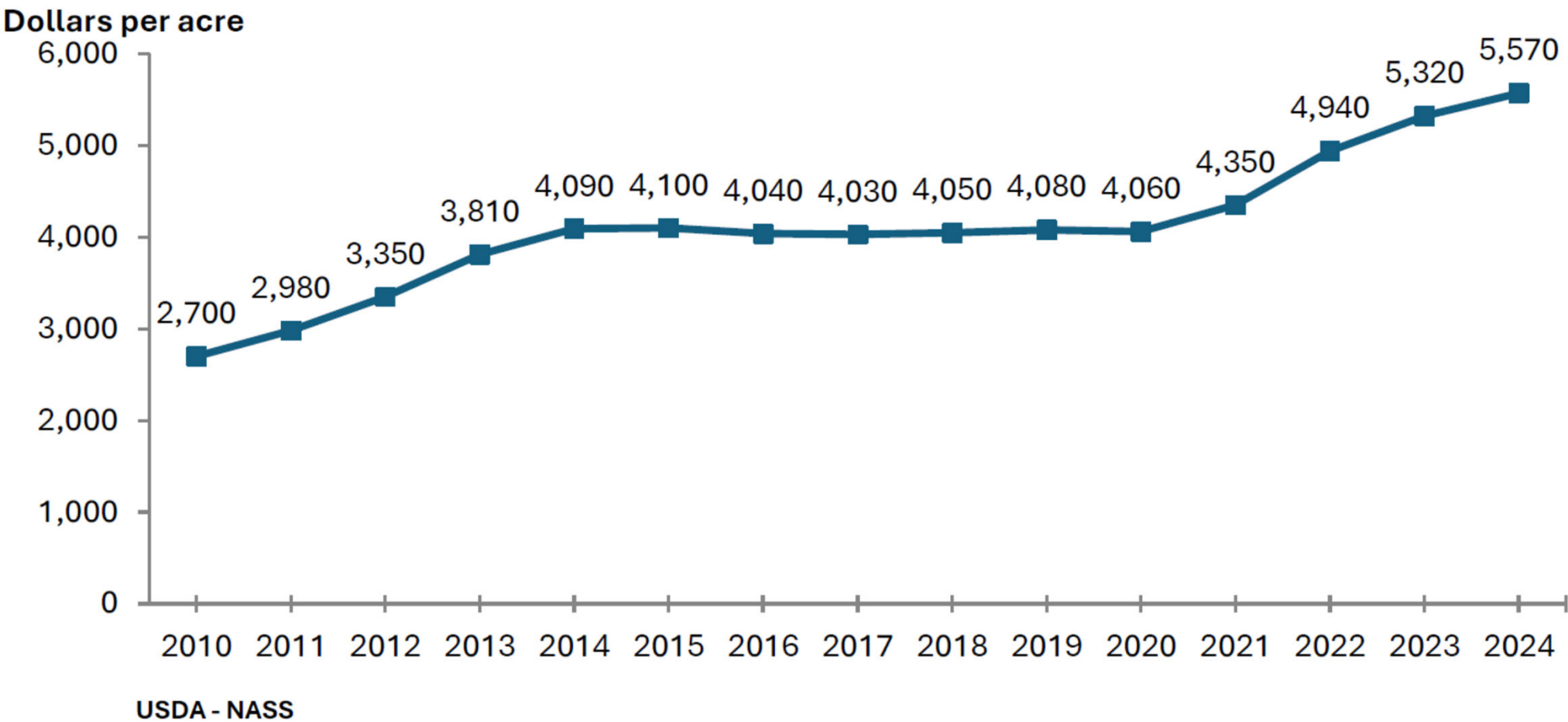


ND Cropland Prices Up 39.6% Since 2021, up 11.59% in 2024

North Dakota Land Values - State Average

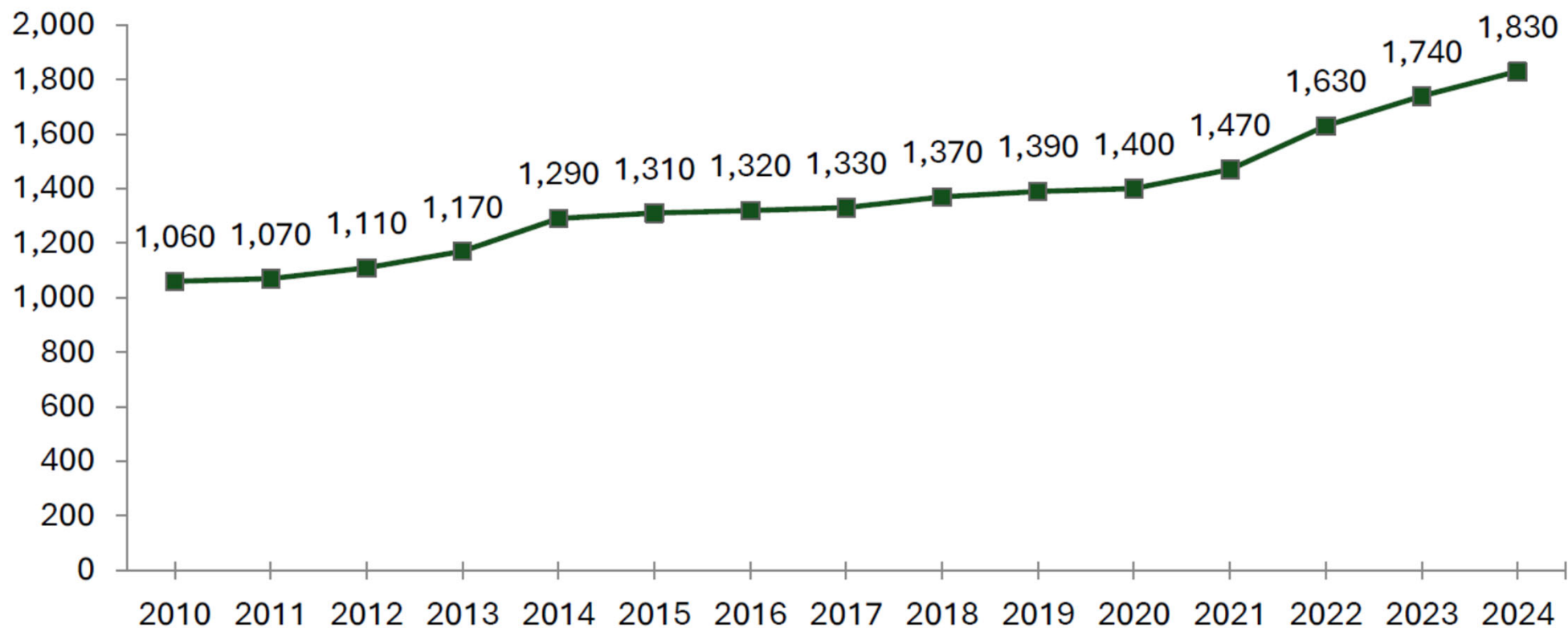


Average Cropland Value – United States: 2010-2024



Average Pasture Value – United States: 2010-2024

Dollars per acre

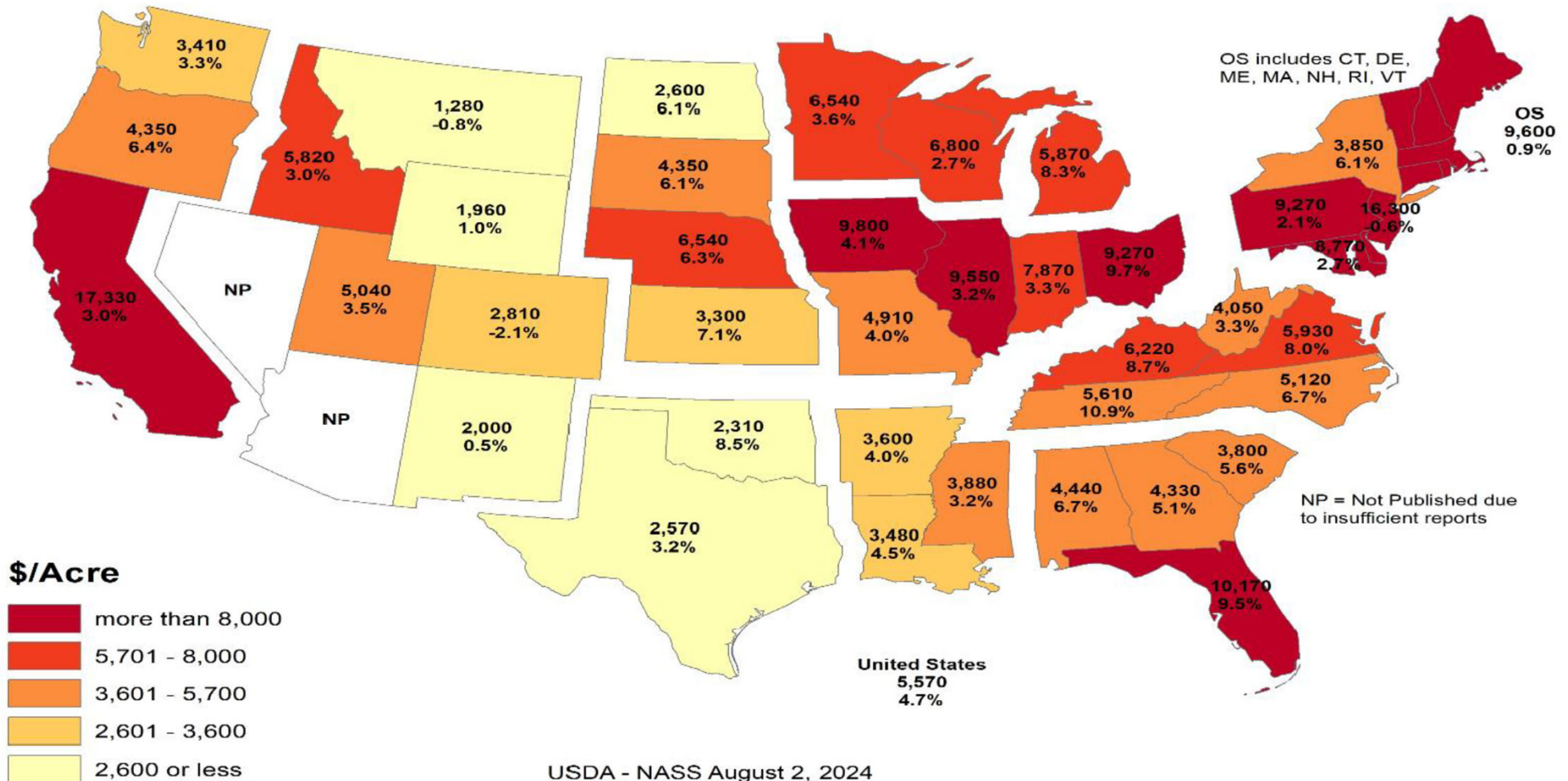


USDA - NASS

August 2, 2024

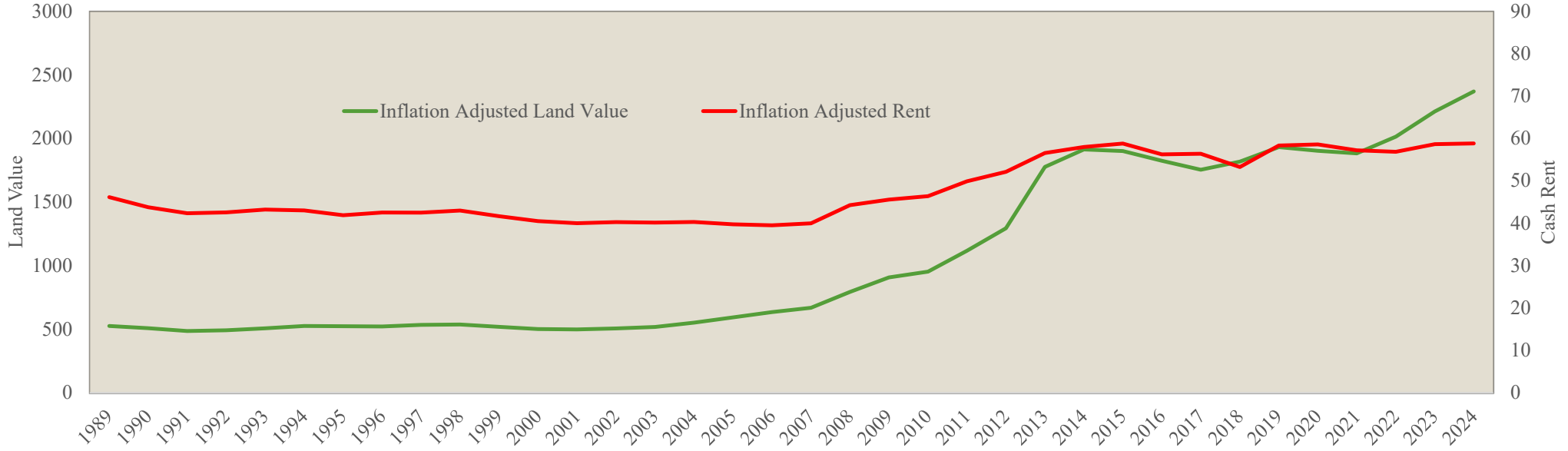
2024 Cropland Value by State

Dollars per Acre and Percent Change from 2023

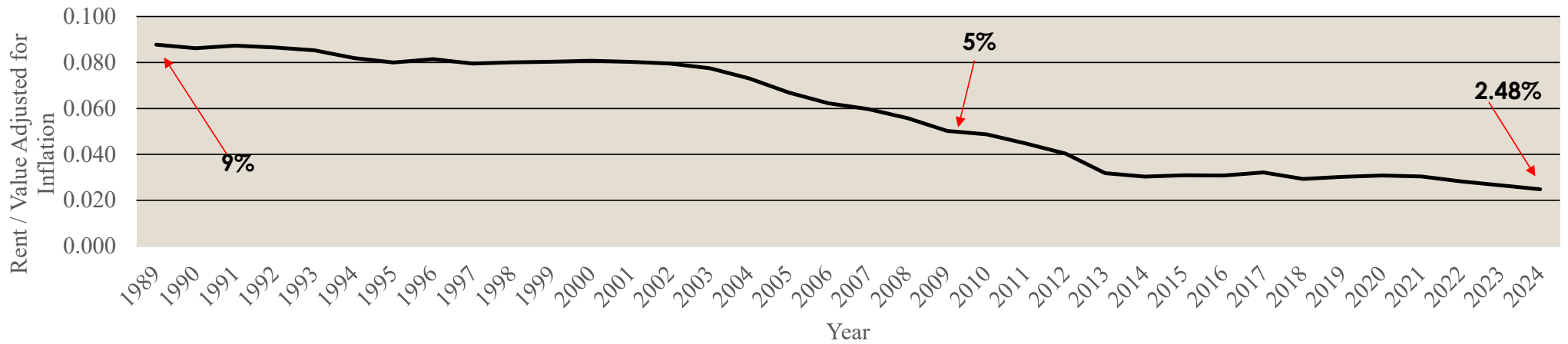


USDA - NASS August 2, 2024

ND Cropland Values and Cash Rents 1989 - 2024 in 2012 Dollars



North Dakota Cropland Rent To Value Ratio in 2012 Dollars



As of Oct 14th CD Rates Offered by Edward Jones, 10 yr Treasury

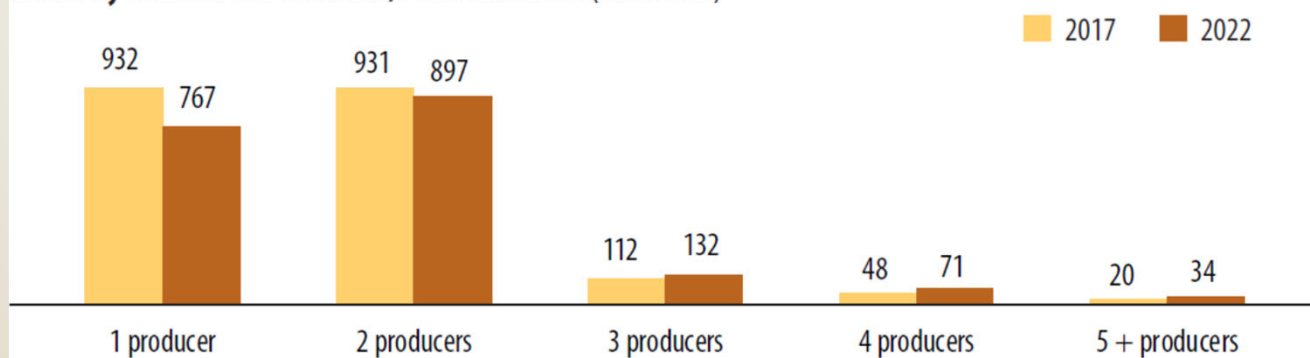
Term	Annual Percentage Yield* (%)
3-month	4.55%
6-month	4.20%
9-month	4.20%
1-year	4.00%
18-month	3.90%
2-year	3.90%
30-month	N/A
3-year	3.85%
4-year	3.75%
5-year	3.75%
7-year	3.85% (Navy Federal Credit Union)
10-year Treasury Yield	4.118%

Conversation on Succession Planning

- As of 2022, the average age of a U.S. Farmer is 58.1 Years old

	2017	2022	% change
	(millions)		
Total Number of Producers	3.40	3.37	-0.8
Age <35	0.29	0.30	3.9
Age 35-64	1.96	1.78	-9.0
Age 65+	1.15	1.29	12.1

Farms by Number of Producers, 2017 and 2022 (thousands)





Succession Planning vs. Estate Planning

- Estate planning pertains mostly to ownership of assets
 - Deals more with personal will, trusts, and advance directives.
- Succession Planning, focuses on how a business moves on as the current manager phases out
 - Who will make marketing decisions?
 - Who/how are production decisions made?
 - Will there be differing production task responsibilities?
 - How will the current manager be phased out and over how long?
 - How might heirs handle other heirs who want to sell their share of ownership?

NDSU Succession Planning Program



Design Your Succession Plan is a multi-session workshop to help you:

Get started on a succession plan using a workbook during and after the workshop

Open lines of communication with family to create a shared vision for the family business

Work with professionals to construct a plan and documents to put the family's vision into action

NDSU Succession Planning Program Overview

<https://www.ndsu.edu/agriculture/extension/programs/design-your-succession-plan>

➤ **Module 1: Starting Your Succession Plan**

This module defines succession planning and highlights the importance of developing a plan and starting early. It includes tools for getting started and defines the language of succession planning.

➤ **Module 2: Determining What You Want**

Participants are encouraged to identify what is important to them and what they want to accomplish with their succession plan. They also are encouraged to determine what is realistic or possible. Will they be passing along assets or a business?

➤ **Module 3: The Next Generation and Your Legacy**

Participants look to the next generation who will follow them on the farm or ranch. Will the successors take over a business? Will they be leasing the land? Will they be buying the land? This module helps participants learn how to identify, select and mentor a successor who will acquire the skills needed to continue the farm/ranch business successfully.

➤ **Module 4: Family Meetings and Conversations**

Good communication is key to a successful succession plan. Participants explore guidelines for planning and holding family meetings. They also will learn how to gather information to ensure they make the best decisions and how to discuss even the toughest issues in succession planning.

➤ **Module 5: Choosing and Working With Professionals**

Participants explore how to identify, choose and work with needed professionals to develop and implement a farm/ranch succession plan.



Concluding Remarks

- The ag economy continues to trend downwards with the fall in most major crop commodities
 - Production costs have come down some, but remain elevated relative to a few years ago
 - Livestock income has helped support the decline overall, but that comes as little help for crop farmers
 - While assets have increased, that is almost entirely due to land price appreciation
- Land prices have move upwards sharply but have shown some signs of weakness recently
 - Rents continue to climb but at a much slower pace over the years
- Farm transition planning is very important
 - No one likes to think about the future and mortality, but putting off having a solid succession plan invites many of the transition problems we are all too familiar with
 - NDSU offers succession planning workshops and training for farm families across the state



Thank You!

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