

Ag Outlook...

from a banker's perspective

WA Mint Growers Annual Meeting

Dec 3rd, 2024

Scott Galbreath, Sr Relationship Manager / Ag Lender

OUTLINE

- Personal intro & Umpqua Bank
- Ag Industry Outlook
 - What are we seeing?
 - What do we look for?
- Current Interest Rate Environment
- Questions?

Personal Background

Family Farm & Ranch – Ritzville, WA

- Dryland and irrigated (wheat, bluegrass, corn, beans, alfalfa, cattle, etc.)

Whitworth University – Spokane, WA

- Economics and Business Management

Ag Lending Experience

- Northwest Farm Credit Services (5 yrs)
- Rabo AgriFinance (7 yrs)
- Columbia Bank / Umpqua Bank (11 yrs)

WA Potato Commissioner (July 2020 – present)



Umpqua Bank / Columbia Banking System, Inc. (Nasdaq: COLB)

Columbia Banking System, Inc. is headquartered in Tacoma, Washington and is the parent company of **Umpqua Bank**, an award-winning western U.S. regional bank based in Lake Oswego, Oregon. Umpqua Bank started in 1953, in Canyonville, Oregon, along the Umpqua River (South of Roseburg). It was started by a group of people working in the timber industry.

In March of 2023, Columbia and Umpqua combined two of the Pacific Northwest's premier financial institutions under the Umpqua Bank brand to create one of the largest banks headquartered in the West. With over \$50 billion of assets, Umpqua Bank combines the resources, sophistication and expertise of a national bank with a commitment to deliver superior, personalized service.

The bank now operates in Washington, Oregon, Idaho, California, Nevada, Colorado, Arizona, and Utah supporting consumers and businesses with a full suite of financial services, including retail and commercial banking; Small Business Administration lending; institutional and corporate banking; and equipment leasing.

Financial Pacific Leasing, Inc. ("FinPac") is a subsidiary of Umpqua Bank and a direct provider of small-ticket commercial equipment leases.

Together for Better

Umpqua Bank and Columbia Bank combined in 2023 to create a premier bank.

The combination brought together two strong regional banks with shared cultures of relationship-based banking and building regional economic prosperity. Together we are building strong businesses and communities.



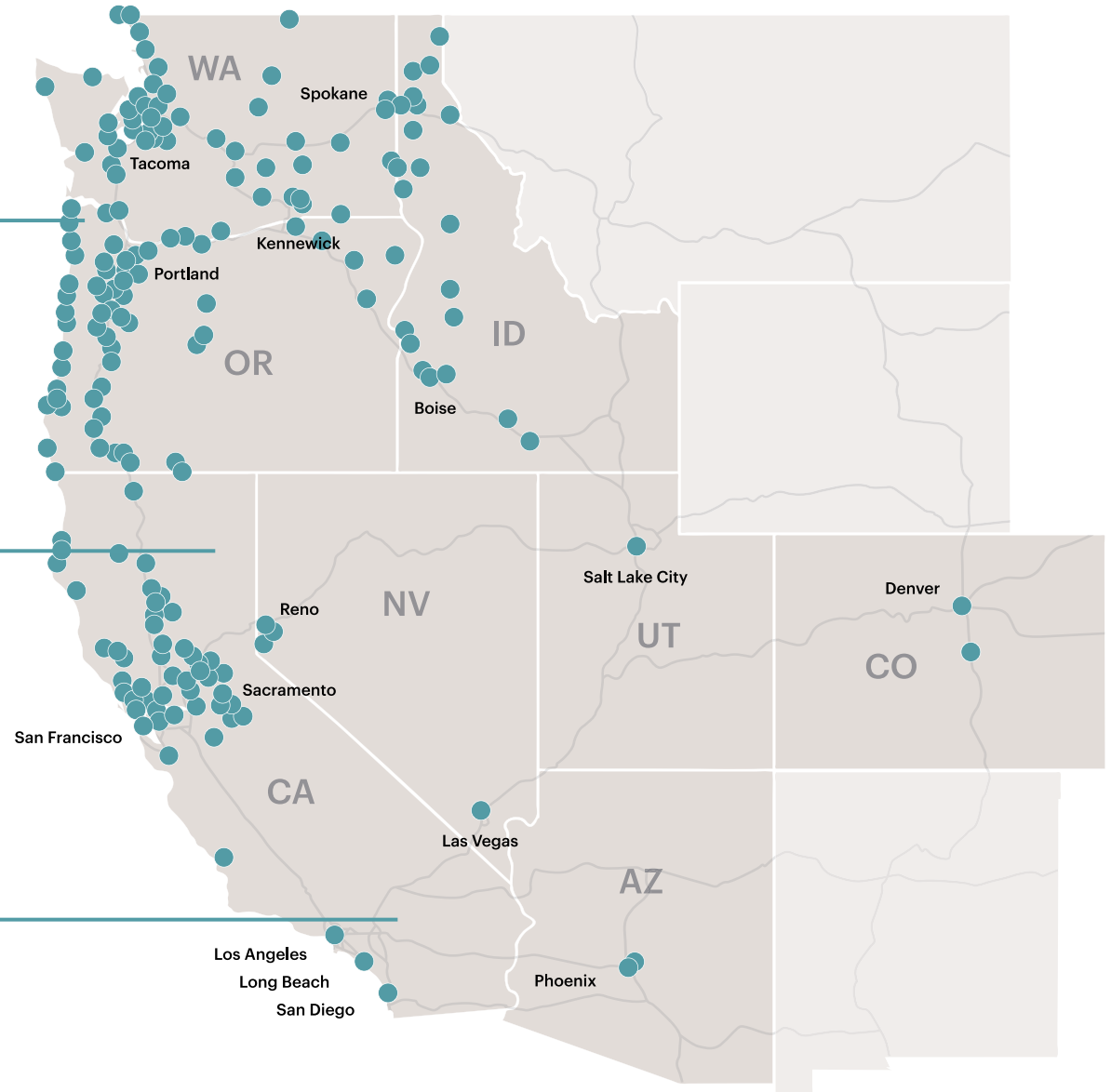
Nearly 300 locations



Operating in 8 states



Serving +800,000 retail, businesses and private wealth customers



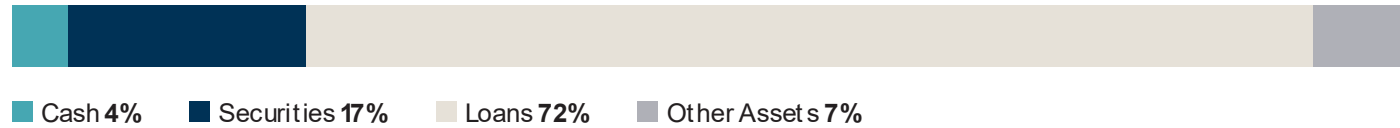
Our Financial Strength

Umpqua Bank offers financial strength, industry expertise and agility to get deals done. Our responsive teams are committed to your success.

Strength in Numbers¹



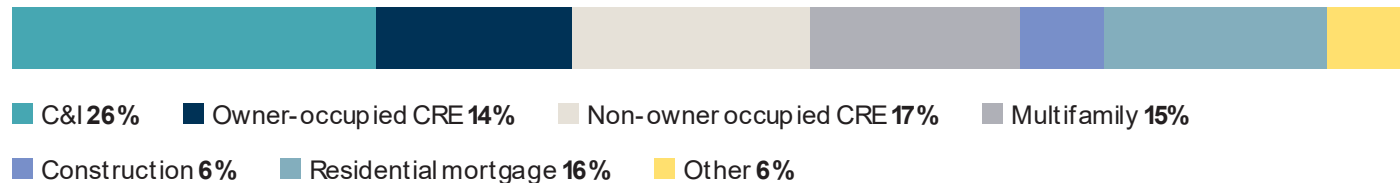
Assets **\$52B**



Deposits **\$42B**



Loans **\$38B**



¹All financial metrics contained in this document are as of September 30, 2024. Totals may not sum to 100% due to rounding.



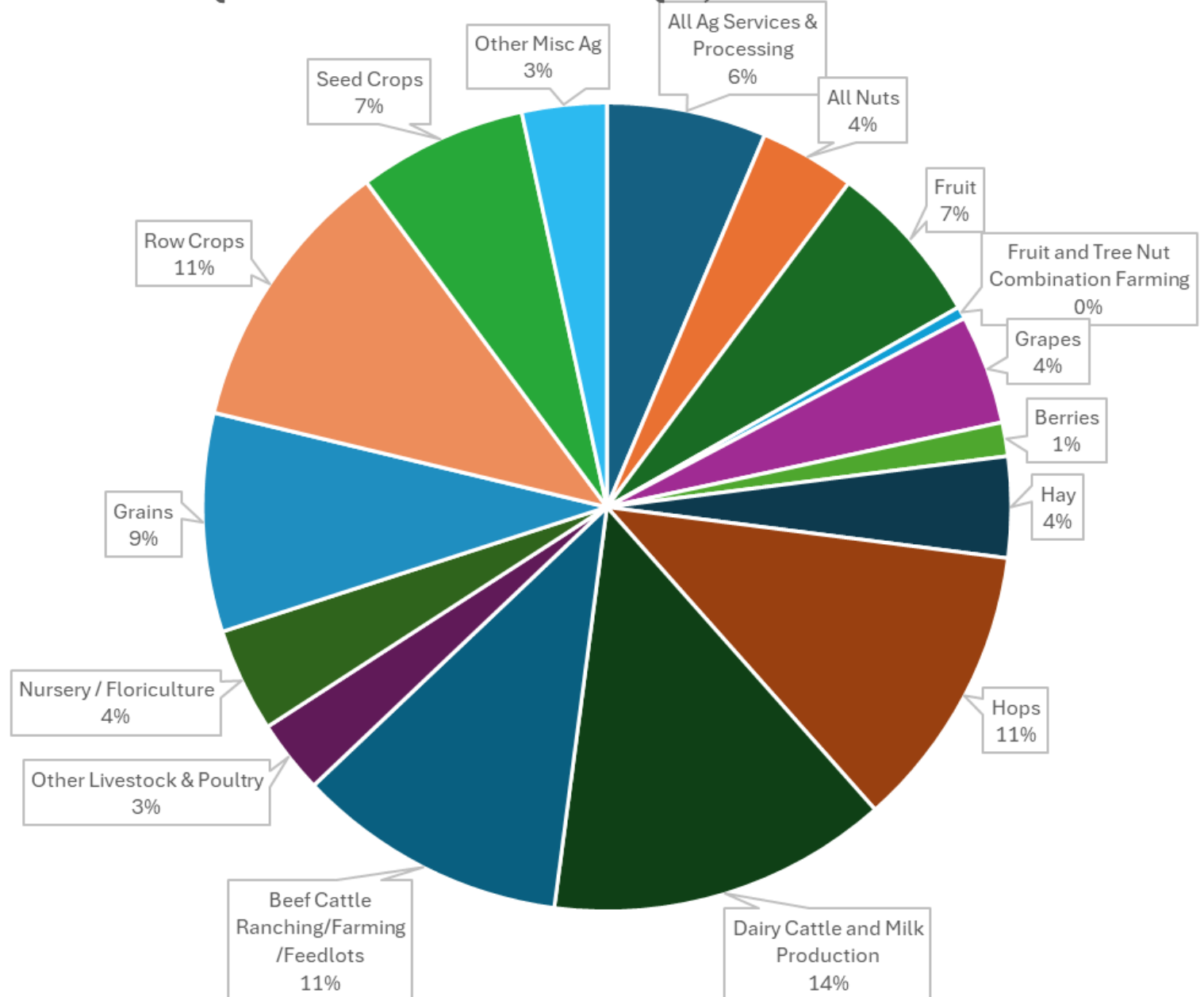


Note: Aggregated Ag categories as of 9/30/24

+/- \$2 Billion Ag Loan Portfolio

- 14% - Dairy
- 11% - Row Crops
- 11% - Hops
- 11% - Cattle Ranching, Feedlots
- 9% - Grains (Corn, Wheat, Rice)
- 7% - Tree Fruits

UMPQUA BANK AG PORTFOLIO 3rd QTR, 2024 - % of Commitment



What are Banks/Lenders seeing?

- Rising input costs
- Rapid increases in the cost of labor
- Inflation squeezing profit margins
- Changes in consumer preferences
- Significant reduction in exports, strong dollar, tariffs causing a trade deficit
- Congress lacking ability to pass a farm bill



Net Farm Income by Commodity (Losers)

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

F = forecast. NCFI = net cash farm income.

1/ Specialty crops include fruit and tree nuts, vegetables, and nursery/greenhouse.

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.

Net Farm Income by Commodity (Winners)

Dairy / Cattle Sector:

- Higher cash receipts
- Lower feed costs

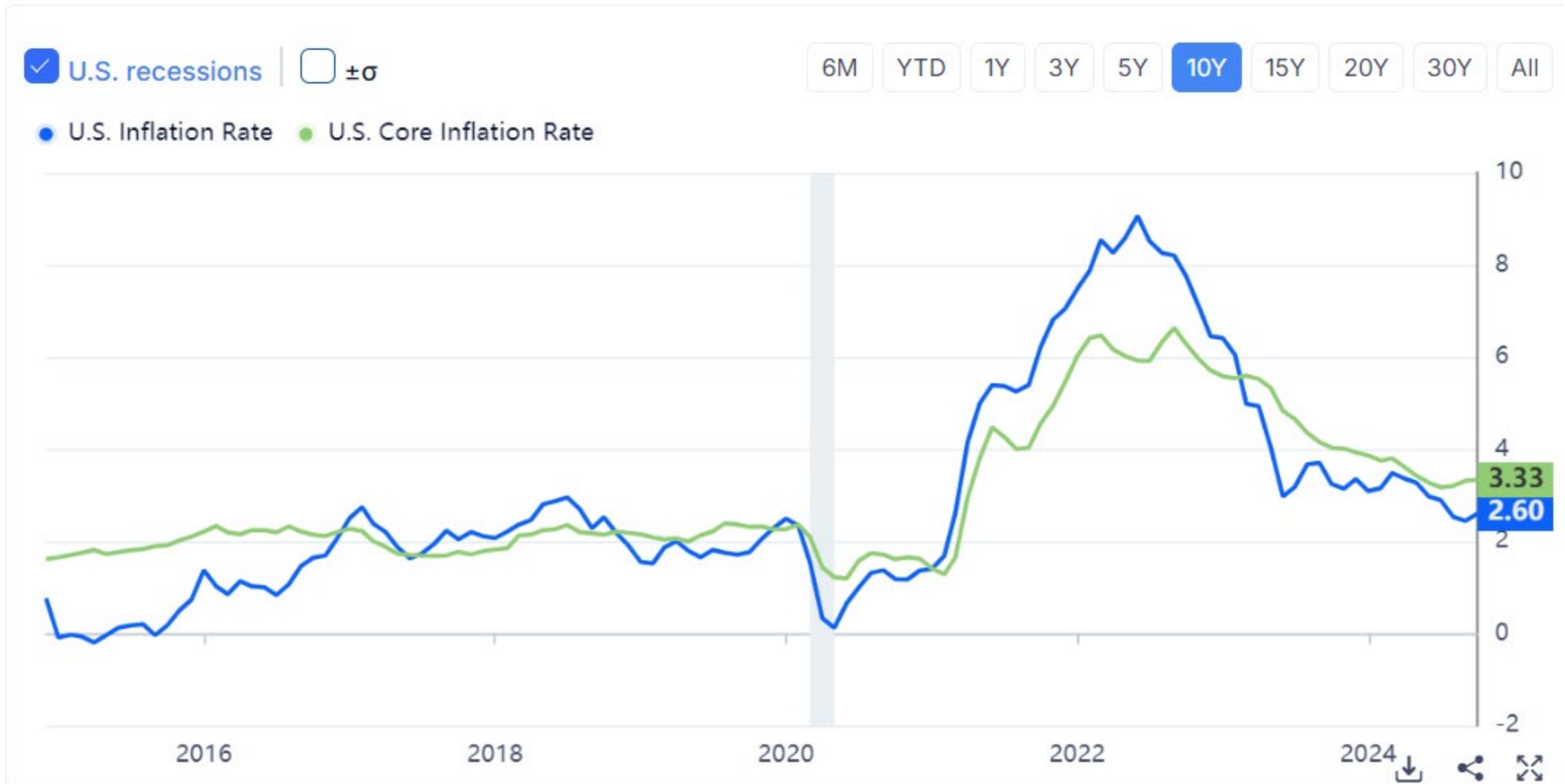
Average net cash farm income for farm businesses specializing in animals/animal products production, 2024F compared with 2023

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. Inflation Rate



LABOR

Rising labor costs and changing overtime regulations are putting significant pressure on producers, who will have to adapt by finding new ways to attract and retain workers, managing increased labor costs, and possibly investing in automation and changes to how they manage labor intensive crops.

The end of agriculture's exemption from overtime regulations in Washington, Oregon and California has had significant impacts on producers from 15% – 20% increase in the budgeted line item for labor.

LABOR

2021/2025 H-2A Wages by State			
State	2021	% Increase	2024
California (#1)	\$16.05	23.05%	\$19.75
Washington (#2)	\$16.34	17.81%	\$19.25
Oregon (#2)	\$16.34	17.81%	\$19.25
Idaho (#34)	\$14.55	13.68%	\$16.54

2021/2025 Minimum Wage by State			
State	2021	% Increase	2025
California (#2)	\$14.00	17.86%	\$16.50
Washington (#1)	\$13.69	21.69%	\$16.66
Oregon (#8)	\$12.75	11.37%	\$14.20*
Idaho (Lowest)	\$7.25	0.00%	\$7.25

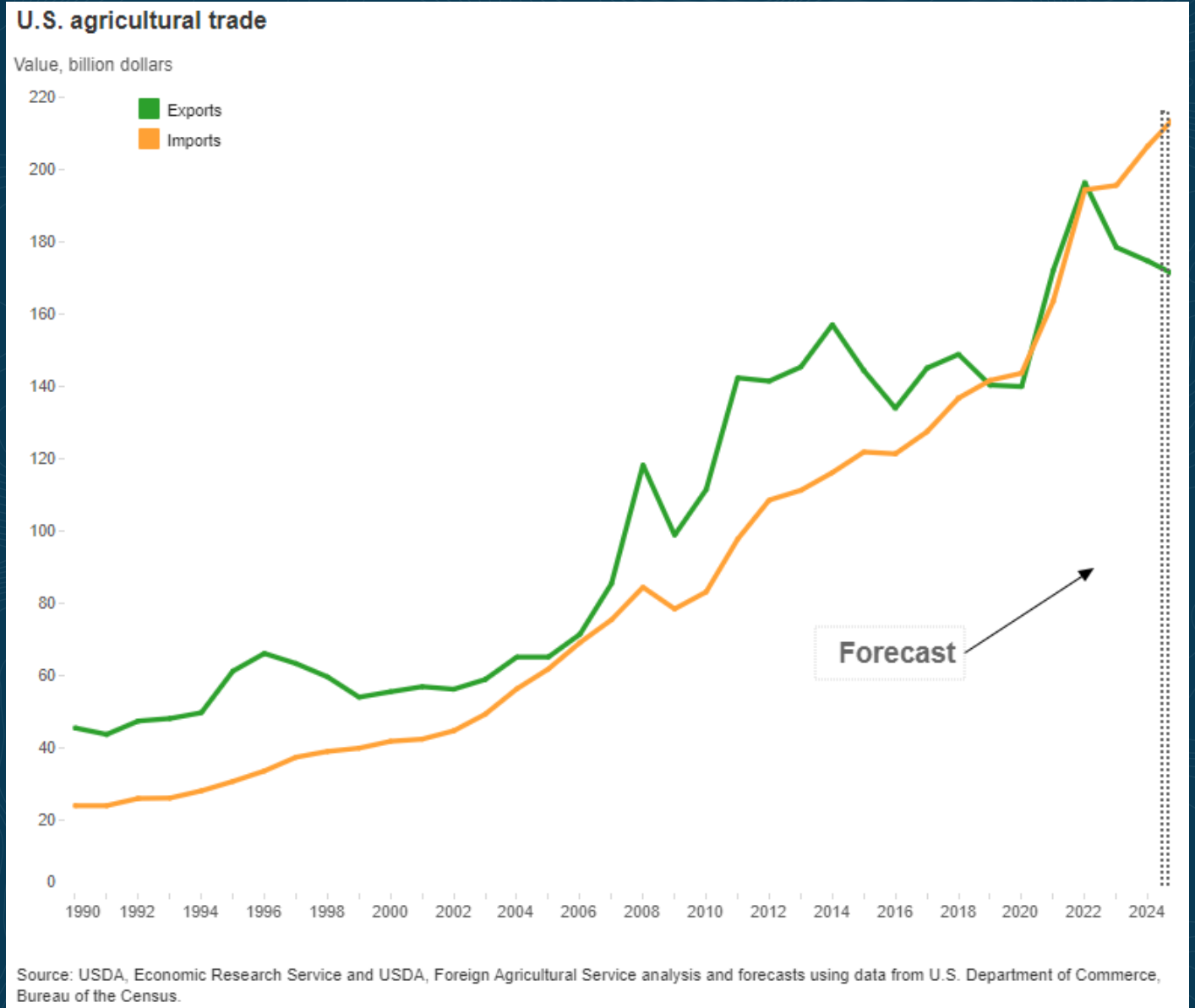
New Ag Overtime Rules	
California:	<i>(based on # of employees)</i>
25 or less:	As of Jan 1, 2025: 40 hrs/week
26 or more:	As of Jan 1, 2022: 40 hrs/week
Washington:	As of Jan 1, 2022: 55 hrs/week
	As of Jan 1, 2023: 48 hrs/week
	As of Jan 1, 2024: 40 hrs/week
Oregon:	As of Jan 1, 2023: 55 hrs/week
	As of Jan 1, 2025: 48 hrs/week
	As of Jan 1, 2027: 40 hrs/week



TRADE DEFICIT

				Forecast	Forecast
U.S. Ag Trade	2021	2022	2023	2024	2025
Exports	171.8	196.1	178.2	173.5	169.5
Imports	163.3	194.1	195.3	204.0	212.0
Trade Surplus/Deficit	8.5	2.0	-17.1	-30.5	-42.5
<i>*Valued in Billions</i>					

In 2022, the U.S. had a trade deficit of \$382.3 billion with China, and a trade deficit of \$131.1 billion with Mexico.



What are Banks/Lenders looking for?

- “Cash is King” – maintain a solid cash position or Beginning Equity equivalent to about 25% of your projected annual expenses (including debt service).
- Use risk management tools such as crop insurance and commodity hedging when possible.
- Know your cost of production and when possible utilize enterprise budgeting to determine what crops are keeping you in the black and which ones might be putting you in the red.



What's a farmer supposed to do?

So you found yourself in a bit of a pickle...burned through your safety net of working capital, maybe you even have a carryover on your line that you won't be able to payoff. What now?

- Is your lack of working capital due to losses or did you spend cash on a recent expansion, capital expenditure or piece of equipment instead of financing it? Do you have equity in your real estate that you could refinance and replenish your working capital?
- Have you met with your crop insurance agent recently? Make sure you are taking advantage of all your options to reduce your risk.



What's a farmer supposed to do?

- Can you downsize acres? Maybe lease out some ground that you know is likely marginal, or could be rented out to another grower on a different rotation?
- Do you have equity in your real estate that you could refinance and replenish your working capital?
- Have you considered selling any excess equipment or real estate that is not a critical piece to your operation?
- Maybe partnering with FSA should be considered?
- Is bringing in another capital partner an option?



Interest Rates

There are two main interest rate indexes to follow:

1) **Discount Rate** (which directly correlates with the **National Prime Rate**)

- The minimum interest rate set by the Federal Reserve for lending to other banks. Think short term (variable) rates
- The federal reserve sets the discount rate

2) **10-year Treasury (^TNX)**

- Think long term rates
- Most all of your longer term rates (home mortgages, RE loans, etc) are indexed in some way to the 10-yr Treasury

National Prime

Federal Open Market Committee (FOMC) of the Federal Reserve has 2 main goals:

- 1) Achieve maximum employment
 - currently forecasting 2024 unemployment at 4.4%
- 2) Strive to achieve inflation over the long run at 2.0%
 - currently forecasting 2024 inflation at 2.6% – 2.7%
 - Q3 2024 GDP growth rate tracking at 2.8%

The next FOMC meeting is scheduled for Dec 17th & 18th.

- Not expected to adjust rates at the next meeting due to revised results from September and October reporting higher retail sales than initially thought.
- The U.S. consumer is alive and kicking, and this strength is reducing the likelihood of a December Fed rate cut.

National Prime

8.50: 7/27/23-9/19/24

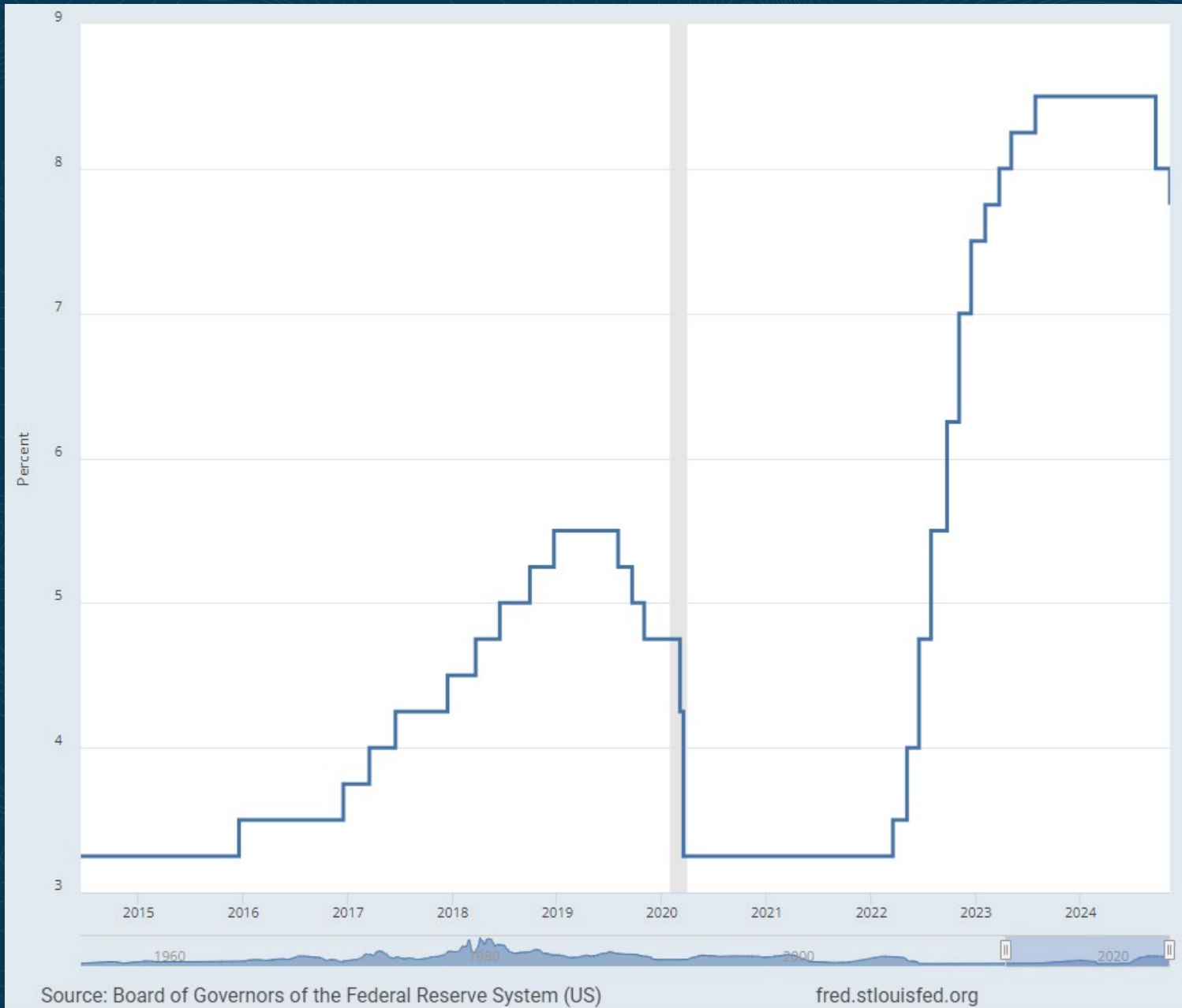
7.75: 11/8/24

5.50: 12/20/18-8/1/19

3.25: 3/16/20-3/17/22

12/16/08-12/17/15

Nov 2014-2024 (10)



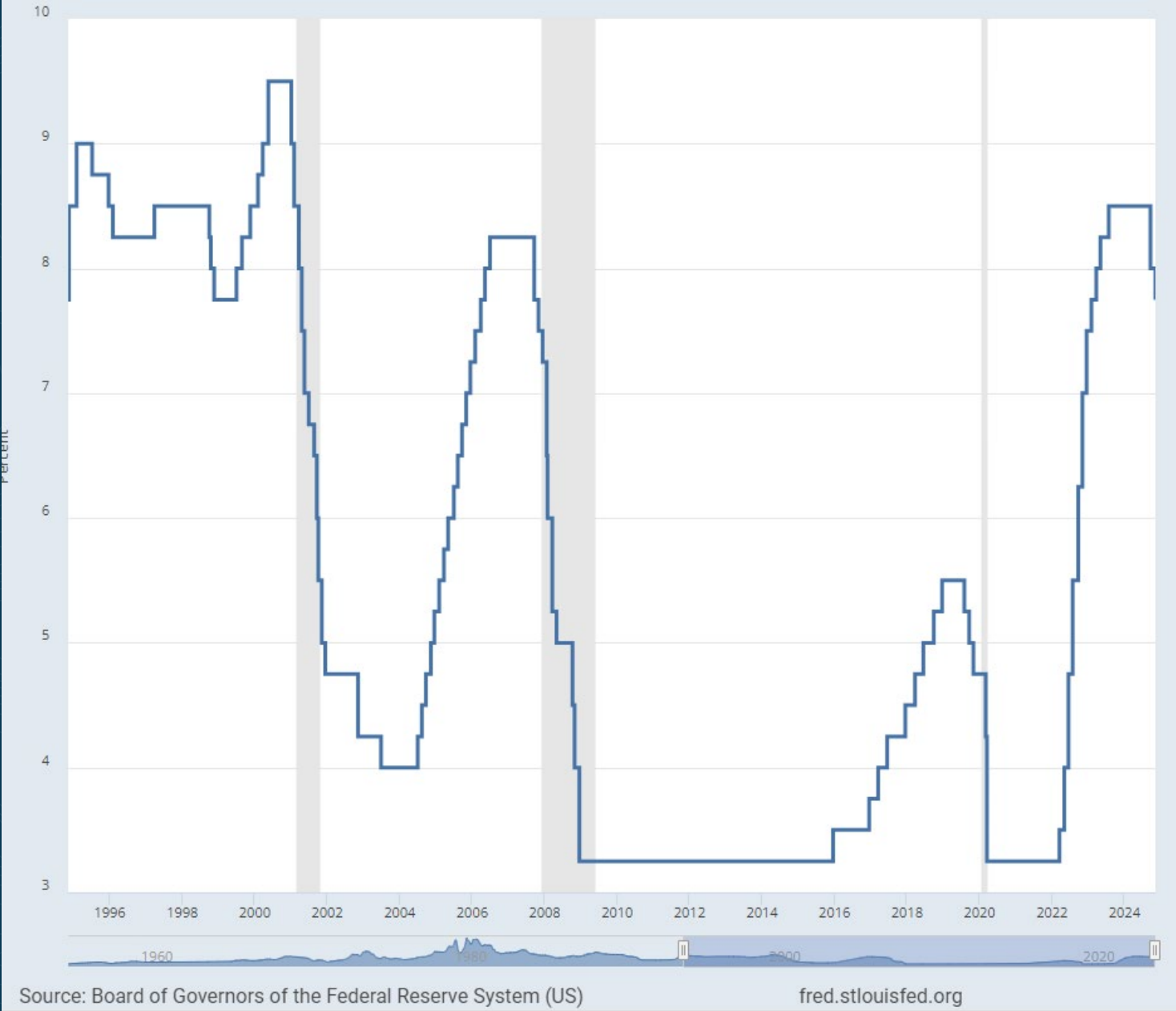
National Prime

9.50 – Dec 1994
8.50: 7/27/23-9/19/24
7.75: 11/8/24

5.50: 12/20/18-8/1/19

3.25: 3/16/20-3/17/22
12/16/08-12/17/15

Nov 1994-2024 (30)



10yr Treasury

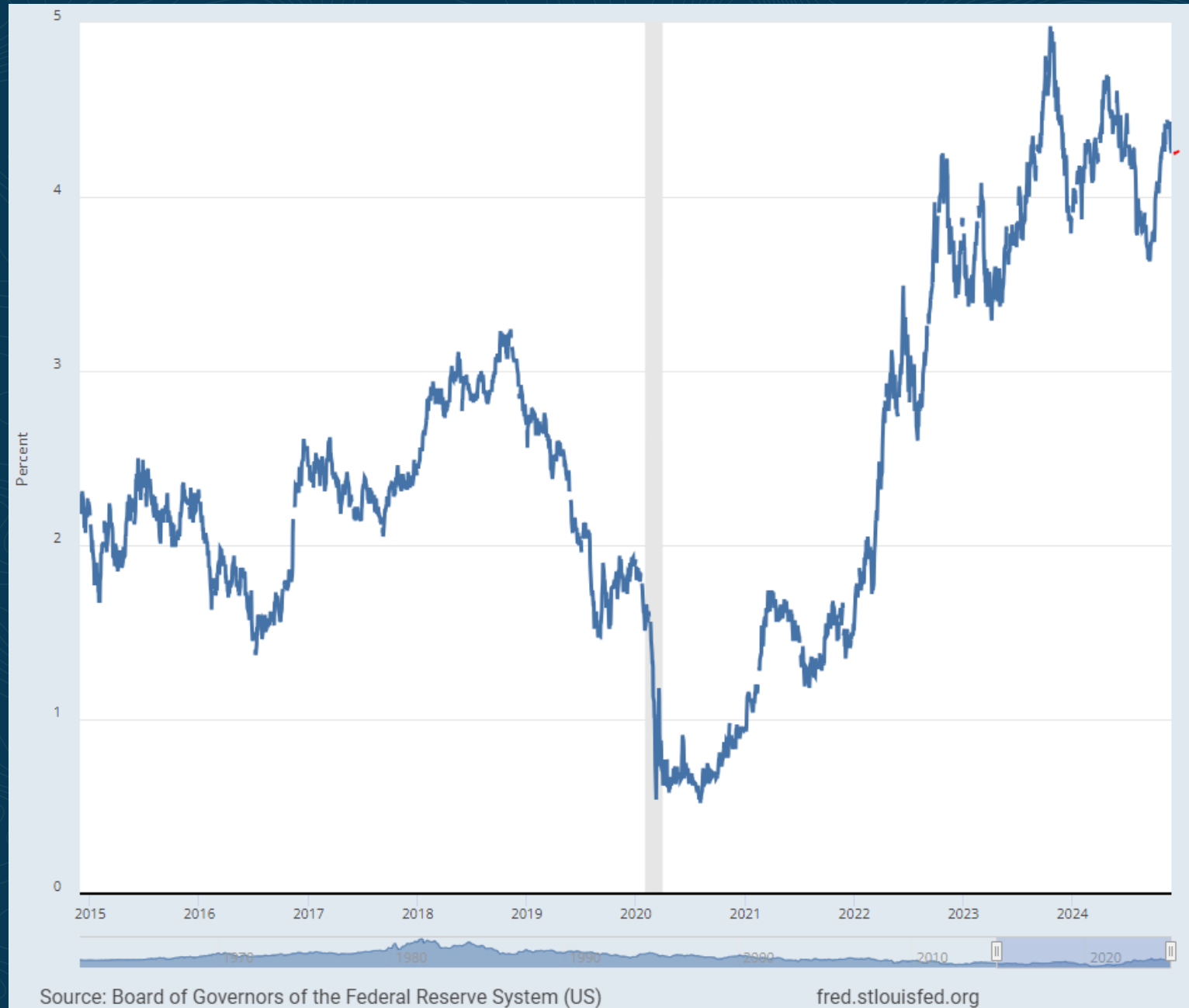
4.95 – Oct 25th, 2023

4.25 – Nov 27th, 2024

3.63 – Sept 16th, 2024

0.52 – Aug 4th, 2020

Nov 2014-2024 (10)



4.95%

4.25%

3.63%

0.52%

10yr Treasury

7.84 – Dec 1994

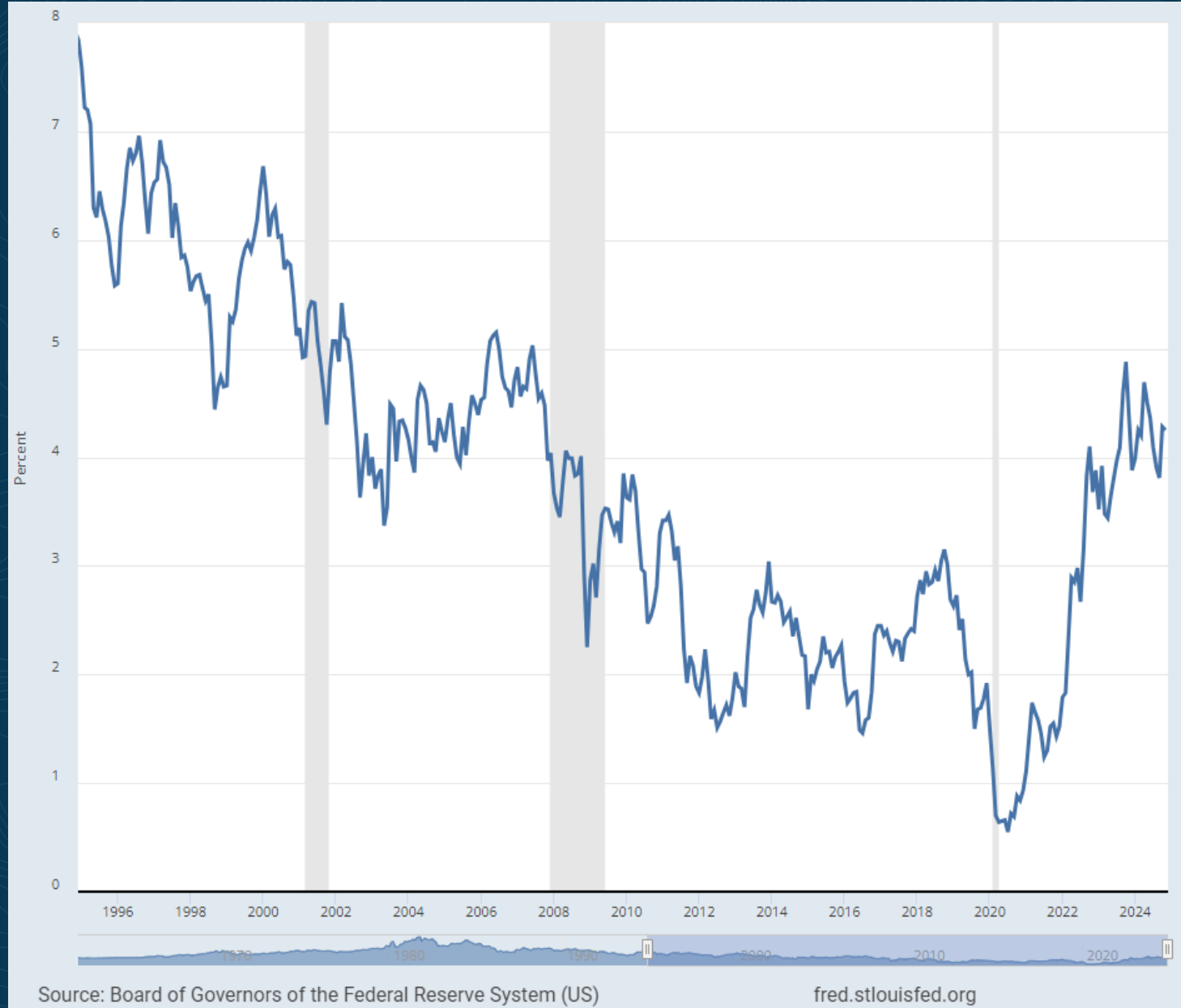
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0.52 – Aug 4th, 2020

Nov 1994-2024 (30)



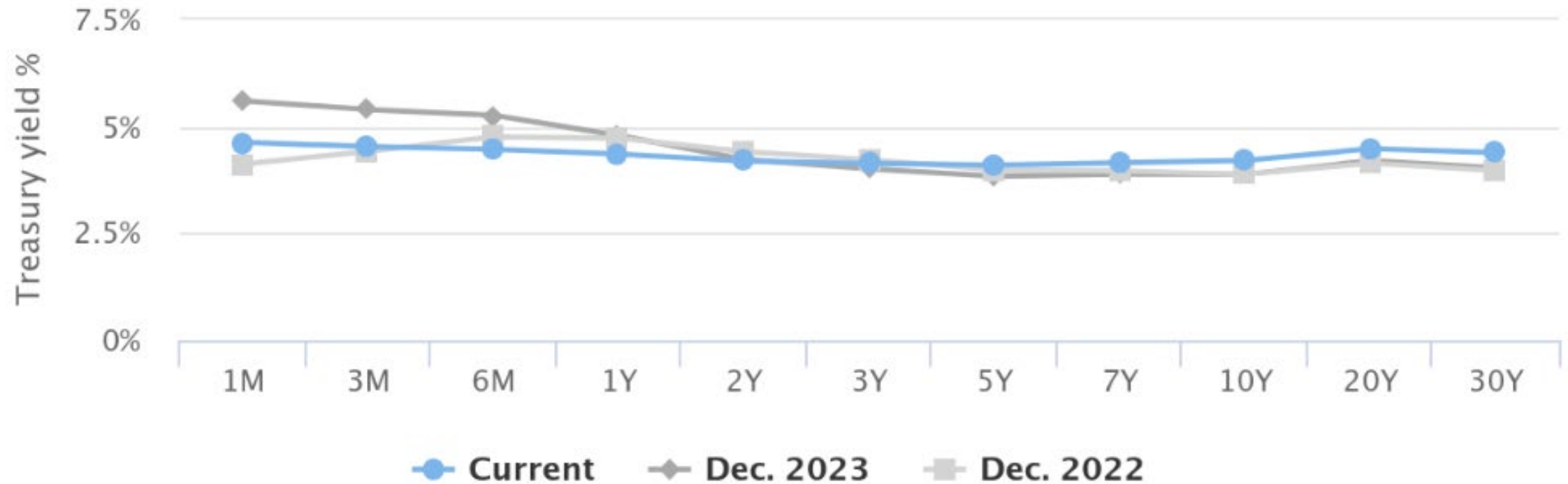
Interest Rates

- Treasury yield curve has been flat or inverted for the better part of the last 3 years.
- An inverted yield curve has been a good indicator of predicting U.S. recessions historically
 - The yield spread between 3-month and 10 year notes have fallen below zero before each of the past seven economic slowdowns.
- Is a recession in our near future?
 - Leading economists predict above trend economic growth in 2025 and only a 27% probability of a recession in the next 12 months.
 - Commodity prices generally rise during economic downturns



Interest Rates

Current Treasury Yield Curve



US Treasury Yield Curve

Updated: November 29th, 2024

Source: treasury.gov



According to the current yield spread, the yield curve is **inverted**. This may indicate economic recession ahead.



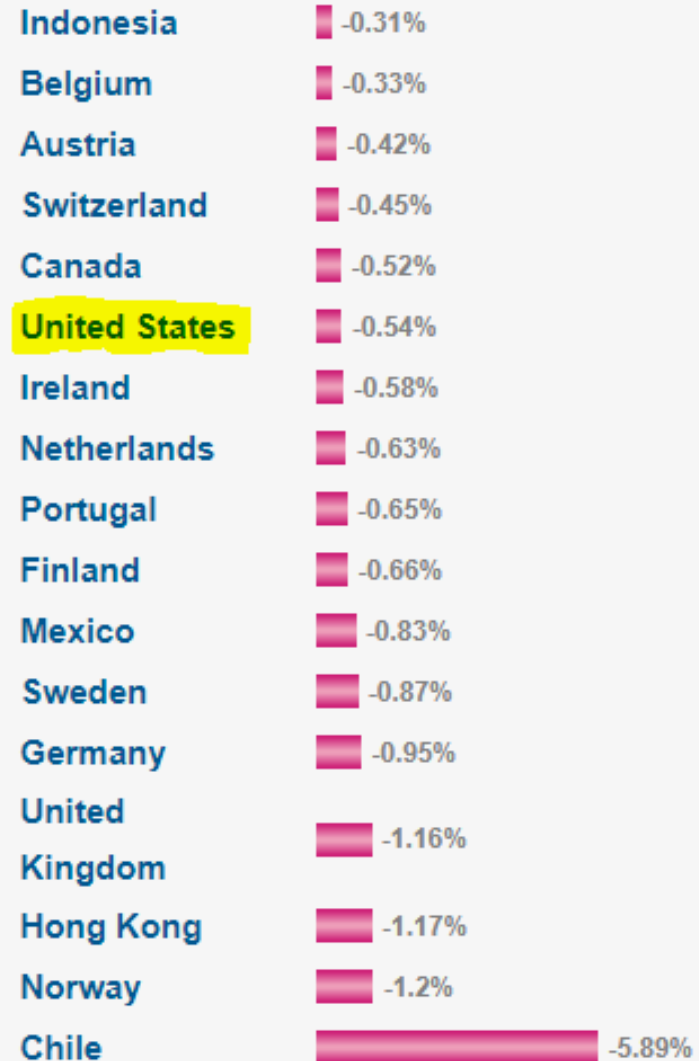
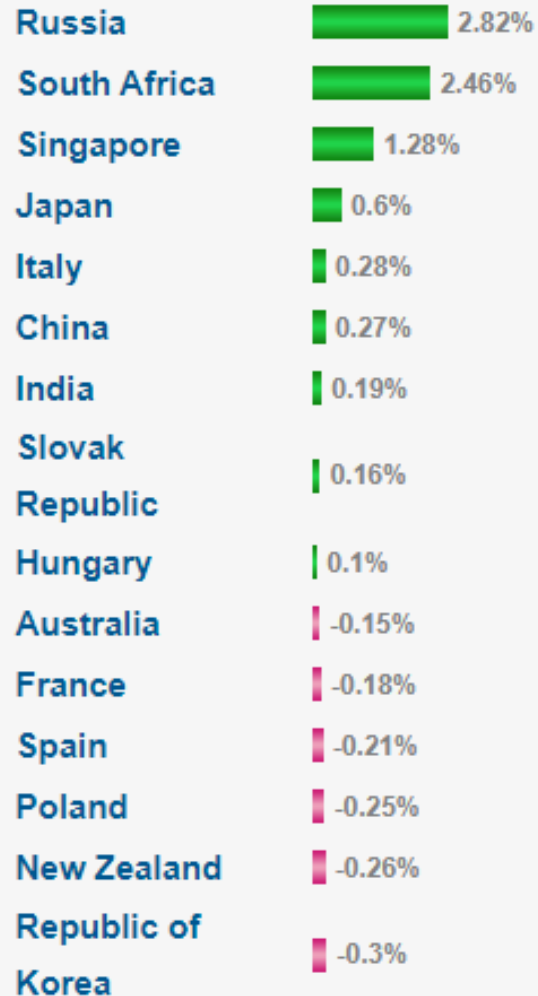
Interest Rates

Historical Treasury Yield Spread (10Y-2Y)



Global Treasury Comparison

Treasury Yield Spread (10Y - 3M)



Do recessions follow a peak theory in the Fed Funds rate?





Scott Galbreath

SVP, Relationship Manager / Ag Lender

139 Gage Blvd

Richland, WA 99352

Office: 509.543.1242

Mobile: 509.220.8710

Email: ScottGalbreath@UmpquaBank.com

Thank You!