

R I G H T R I S K N E W S

Surviving the Squeeze: Navigating Agricultural Finances in Late 2025 and Early 2026

How Much Risk is Right for You?

The U.S. farm economy presents a mixed outlook. On one hand, farm sector equity is forecast to grow to \$3.83 trillion, supported by asset appreciation and stable solvency ratios. On the other hand, net farm income is projected to rebound in 2025 after two years of decline but remains well below the 2022 peak in inflation-adjusted terms, and much of that improvement is uneven across regions and commodities.

Production expenses are projected to reach a record \$467 billion in 2025 – up 2.6 percent from 2024 and 21 percent above the ten-year average. Seed, fertilizer, fuel, and labor costs continue to erode margins in the cropping sector, leaving many crop producers with few options beyond drawing down equity by utilizing reserves or taking on additional debt to meet cash flow needs.

Farm debt is also rising, with real estate and non-real estate debt expected to reach \$591.8 billion. Interest rates remain elevated, posing risks for producers with variable-rate loans, although gradual rate cuts may offer relief over the next several months.

Crop Operators

Crop producers are particularly vulnerable, facing one of the largest three-year declines in crop revenue on record. Corn and soybean prices have dropped over 50 percent from their pandemic-era highs, while input costs remain stubbornly high. According to the American Farm Bureau Federation, corn cash prices have dropped 54 percent from their 2022 highs, soybeans 58 percent, wheat 51 percent, and cotton 42 percent. These declines are largely attributed to increased global supply from South America and reduced export demand, especially from China for soybeans, which has shifted toward South American suppliers.



Livestock Operators

Livestock producers, especially in the cattle sector, are faring better due to strong consumer demand for beef, a record low supply of cattle, and lower feed costs. After several years of drought leading to herd liquidation, the cattle industry is facing a historic low in herd numbers, with more than 17 percent of family farms, including many ranches, lost since 2017.

Herd rebuilding remains constrained by cash flow and grazing conditions. However, consumer demand for beef has grown by 9 percent over the past decade. USDA's recent Beef Industry Plan aimed at supporting herd rebuilding through expanded grazing access, disaster

relief, and improved market transparency. However, rebuilding will take several years. The largest factors moving forward will focus on changes in consumer demand and the trade balance.

Key Financial Challenges for 2026

- *Tight Margins:* Fertilizer, fuel, seed, labor expenses, and livestock purchases continue to pressure margins. Input costs – especially labor, property taxes, and livestock purchases – remain high. While feed and fertilizer prices have eased, overall production expenses continue to strain profitability. Farmers and ranchers will need dynamic budgeting strategies.
- *Loan Accessibility:* Farmers are finding it harder to qualify for operating loans due to stricter underwriting regulations, tighter margins, and economic volatility. Nearly 40 percent of ag bankers report weaker loan repayment rates compared to last year. The Farm Credit Administration's 2026 National Oversight Plan emphasizes the need for timely risk identification and proactive loan servicing, especially as borrower liquidity and profitability decline.
- *Policy Uncertainty:* The pending farm bill, potential tariffs, and regulatory shifts add complexity to financial planning. Emergency assistance and disaster relief have helped stabilize cash flows, but long-term clarity is still needed.

The 2018 Farm Bill expired in September 2025, and Congress is under pressure to pass a new version. Advocacy groups like Farm Aid are calling for a bill that supports small and mid-sized producers, addresses climate change, and ensures equitable access to credit and land.

The FY2026 federal budget proposes appropriations for USDA programs including crop insurance, conservation, and rural development. These programs will be critical for producers seeking financial stability and growth in 2026.

Planning Considerations for 2026

Farmers and ranchers face a wide range of risks—production, marketing, financial, legal, and human. Drought concerns have eased in many regions, but marketing and financial risks remain high. Sound risk management decisions, including crop insurance and diversified marketing plans, are essential.

To weather the current economic storm and position for future success, farmers and ranchers should consider the following financial strategies:

- *Strengthen Financial Records* – Clean, organized financial documentation is essential for loan applications and strategic planning. Maintain updated balance sheets, income statements, and cash flow forecasts to demonstrate financial health and repayment capacity. Carefully analyze prior-year finances before developing projections for the next year. How did net worth change? What adjustments should be made to cash flow plans? Which enterprises were profitable?
A wide range of risk management tools and resources are available from land-grant universities and lenders to help farmers and ranchers develop financial statements, including enterprise budgets, and analyze financial changes. These tools help producers evaluate profitability under different price and cost scenarios. Also, producers should develop a flexible, real-time budget that reflects current market conditions and allows for mid-season adjustments.
- *Optimize Tax and Debt Strategies* – Work with tax advisors to take advantage of agricultural tax credits, depreciation schedules, and income averaging. Review debt structures and consider refinancing options to reduce interest costs and improve cash flow.
- *Strengthen Risk Management* – With input costs and market volatility expected to persist, review crop insurance coverage, marketing plans, and disaster preparedness. USDA's expanded grazing access and relief programs offer new tools for risk mitigation.
- *Diversify Income Streams* – Consider alternative revenue sources such as agritourism, direct-to-consumer sales, or conservation programs. Diversification can buffer against commodity price swings and improve long-term financial stability.
- *Engage Early with Lenders* – Start conversations with lenders well before capital is needed. Early engagement allows time to gather documentation, compare loan options, and secure favorable terms. Demonstrating cost control and efficiency can improve loan eligibility.



- *Monitor Credit Conditions* – Stay engaged with lenders and monitor changes in loan servicing expectations. The Farm Credit Administration advises institutions to maintain sufficient reserves and expertise to manage distressed loans.
- *Prepare for Policy Shifts* – Track developments in the farm bill and federal budget. Changes in subsidy structures, conservation incentives, and rural development funding could significantly impact farm finances in 2026.
- *Plan for Sustainability* – Financial viability and sustainability go hand in hand. Invest in soil health, water conservation, and regenerative practices that offer long-term ROI. Align financial decisions with environmental stewardship to ensure generational success.

Conclusion

The financial environment for farmers and ranchers in 2025 has been challenging, but strategic planning and policy engagement can help producers prepare for a more stable and profitable 2026. By leveraging available tools, monitoring policy developments, and diversifying operations, agricultural businesses can build resilience and thrive in the face of uncertainty.

Farmers and ranchers must remain proactive, informed, and strategic. The road ahead may be bumpy, but those who adapt and plan wisely will be better equipped to weather the storm and seize opportunities as they arise. As always, resilience, innovation, and sound financial management remain the cornerstones of a thriving agricultural operation.

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Ag Finance Update

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Federal Reserve Beige Book Summary on the Ag Sector

ECONOMIC ACTIVITY changed little on balance since the previous report, with three Districts reporting slight to modest growth in activity, five reporting no change, and four noting a slight softening. Overall consumer spending, particularly on retail goods, inched down in recent weeks, although auto sales were boosted in some Districts by strong demand for electric vehicles ahead of the expiration of a federal tax credit at the end of September. Demand for leisure and hospitality services by international travelers fell further over the reporting period, while demand by domestic consumers was largely unchanged. Activity in agriculture, energy, and transportation was generally down among reporting Districts ...

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