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Farming in Today's Macro Economy



The views expressed are those of the author and do not necessarily reflect the opinions of the Federal Reserve Bank of Kansas City or the Federal Reserve System.

Today's Roadmap

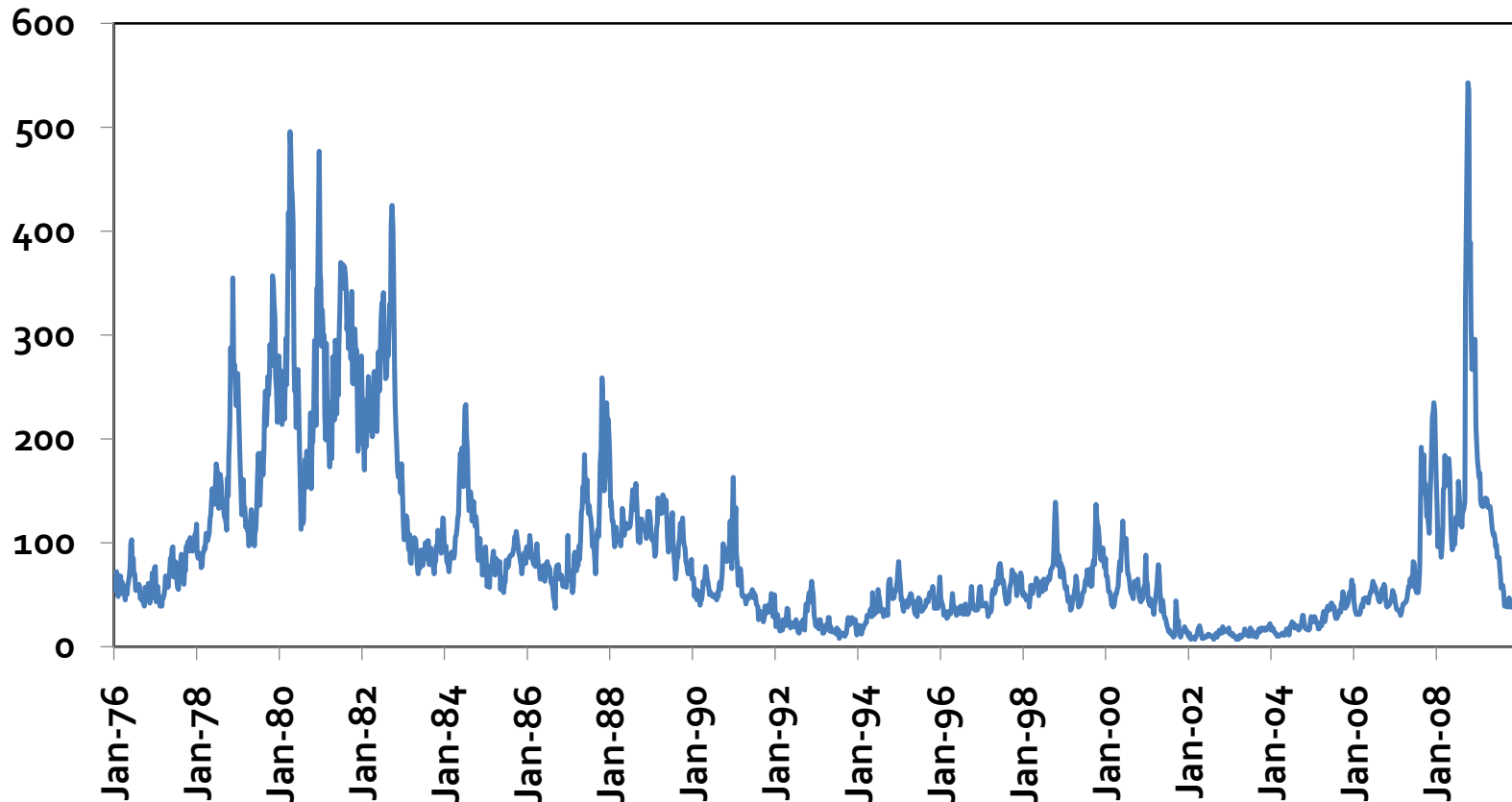
- **Financial Crisis**
- **The Macro Economy and Agriculture**
- **Inflation Concerns and Fed Exit Strategy**
- **Financial Health of Farmers**



The financial crisis has eased.

TED Spread

Basis Points

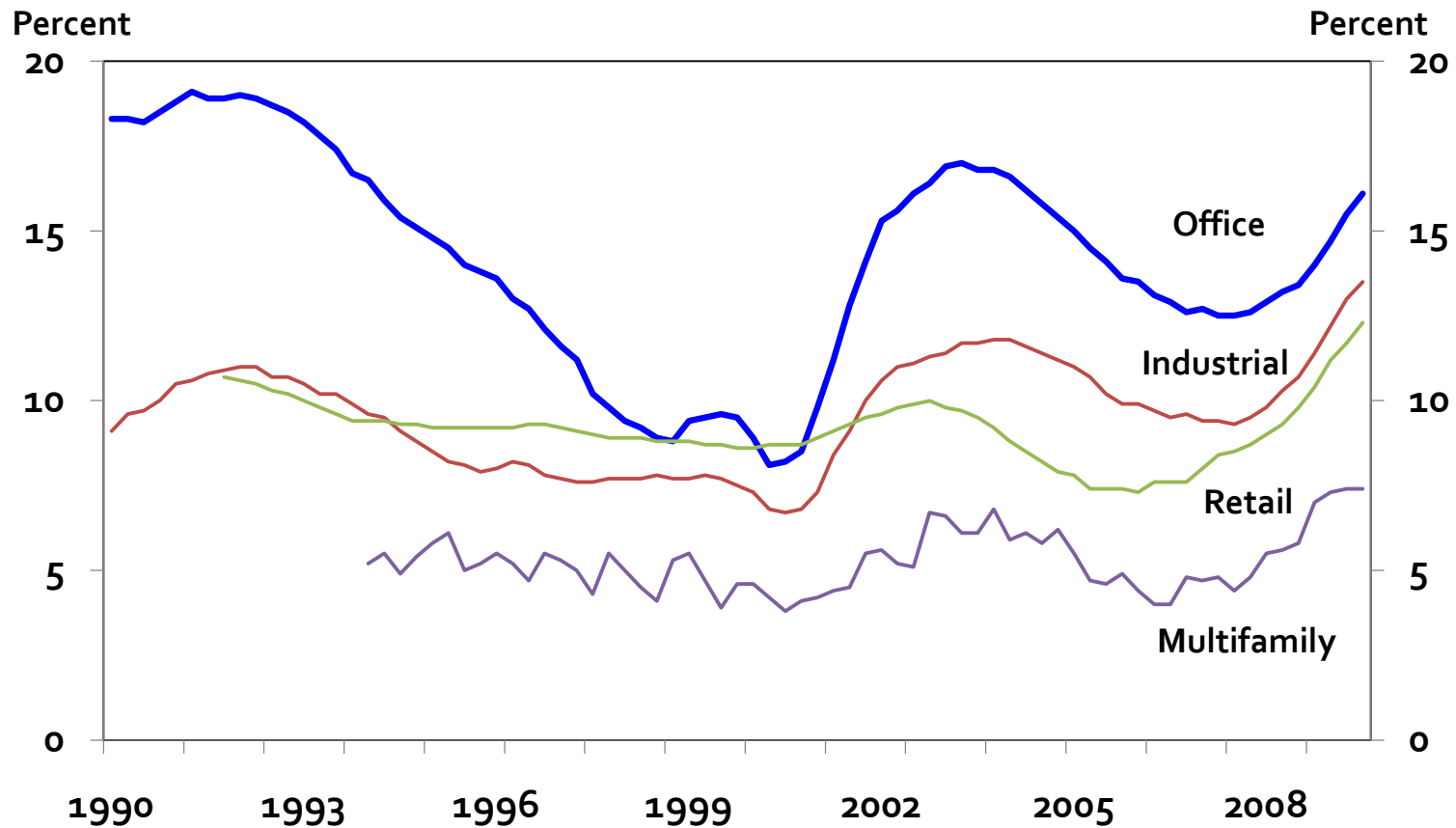


Source: Federal Reserve Board of Governors



Financial markets may not be in the clear partly because of commercial real estate.

U.S. Commercial Real Estate Vacancy Rates



Source: Torto-Wheaton Research



Today's Roadmap

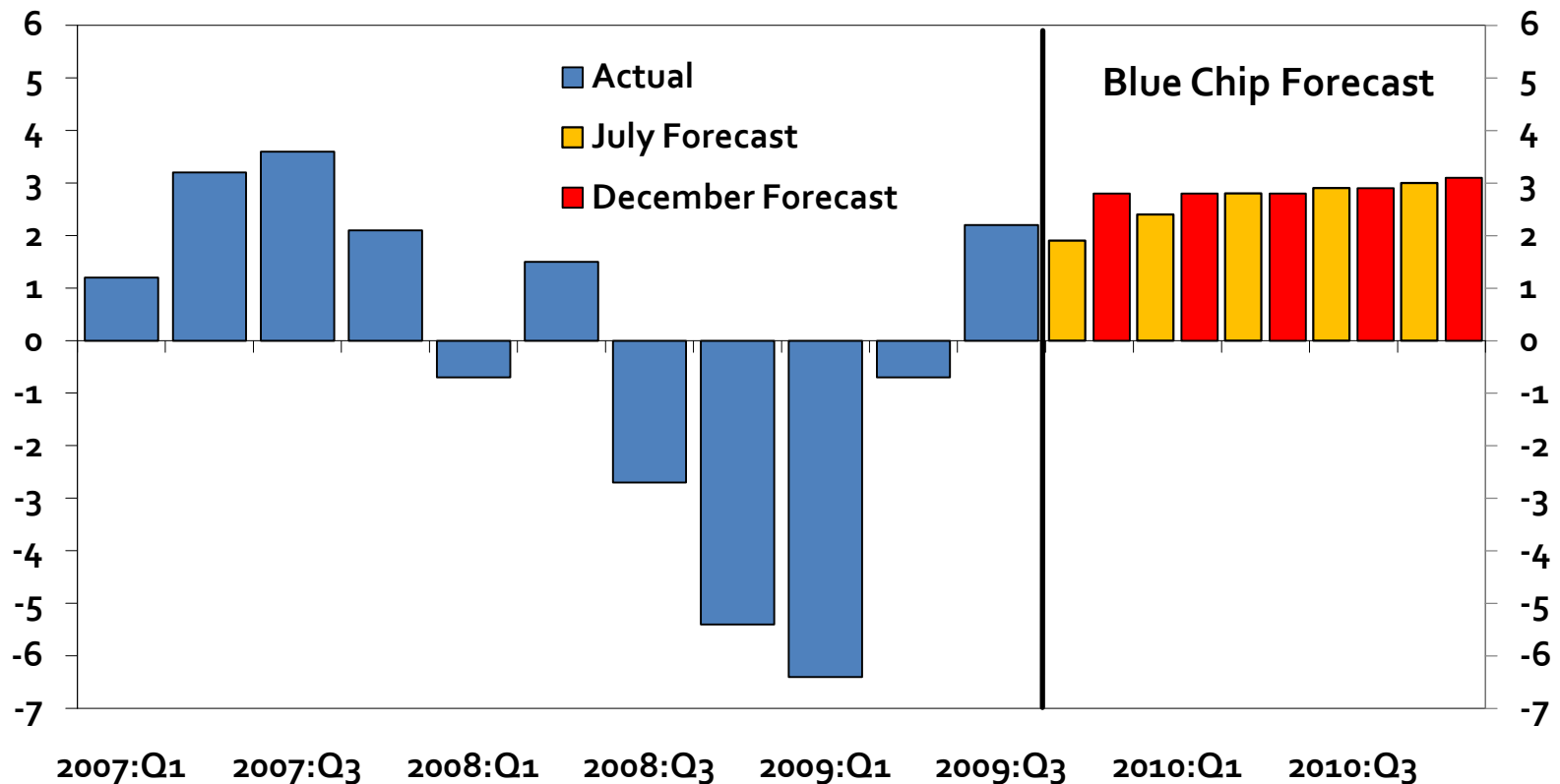
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Forecasters expect a slow U.S. recovery.

Real GDP Growth

Annualized percent change from previous quarter

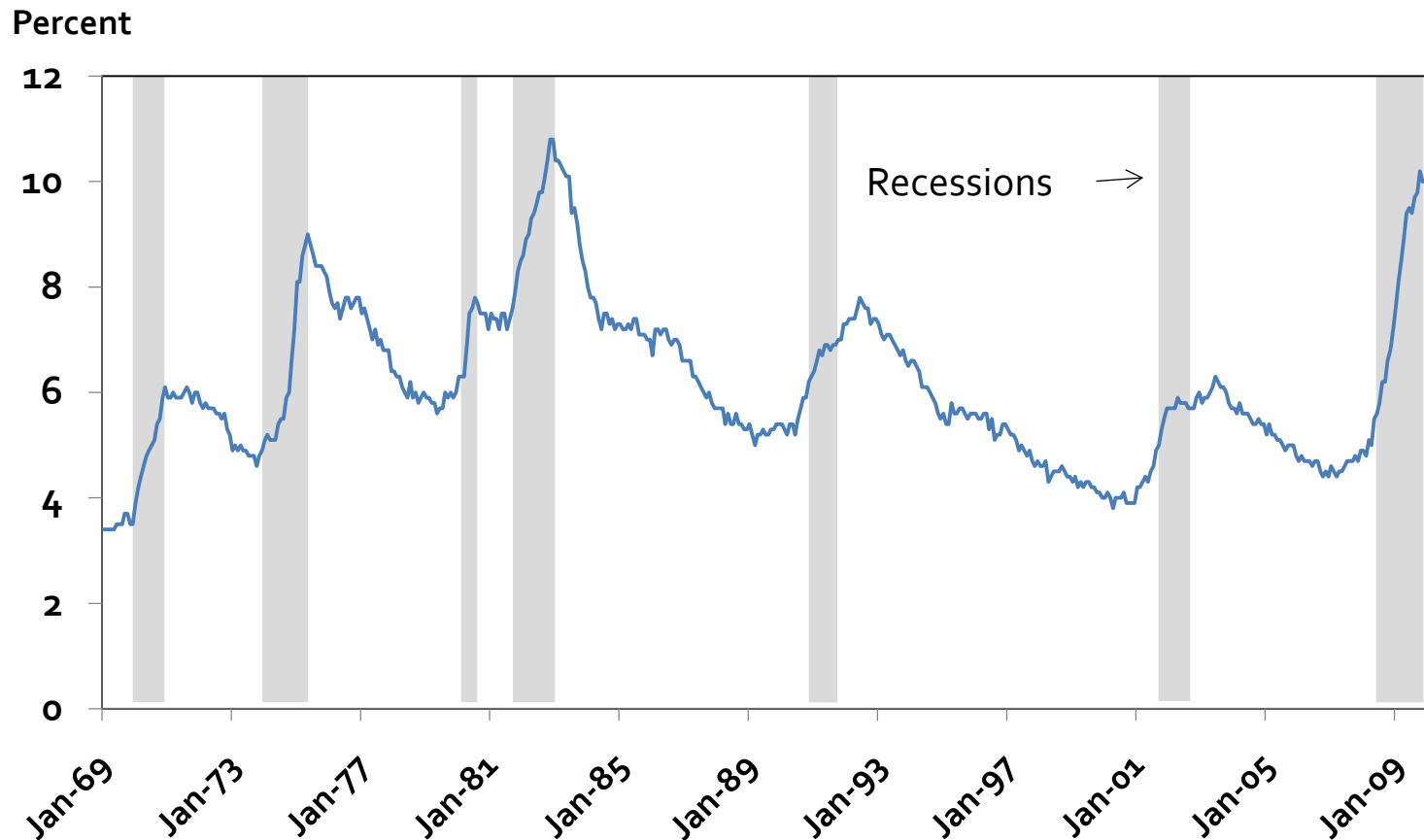


Source: Bureau of Economic Analysis and Blue Chip Economic Indicators



An elevated unemployment rate is one reason for the slow recovery.

U.S. Unemployment Rate



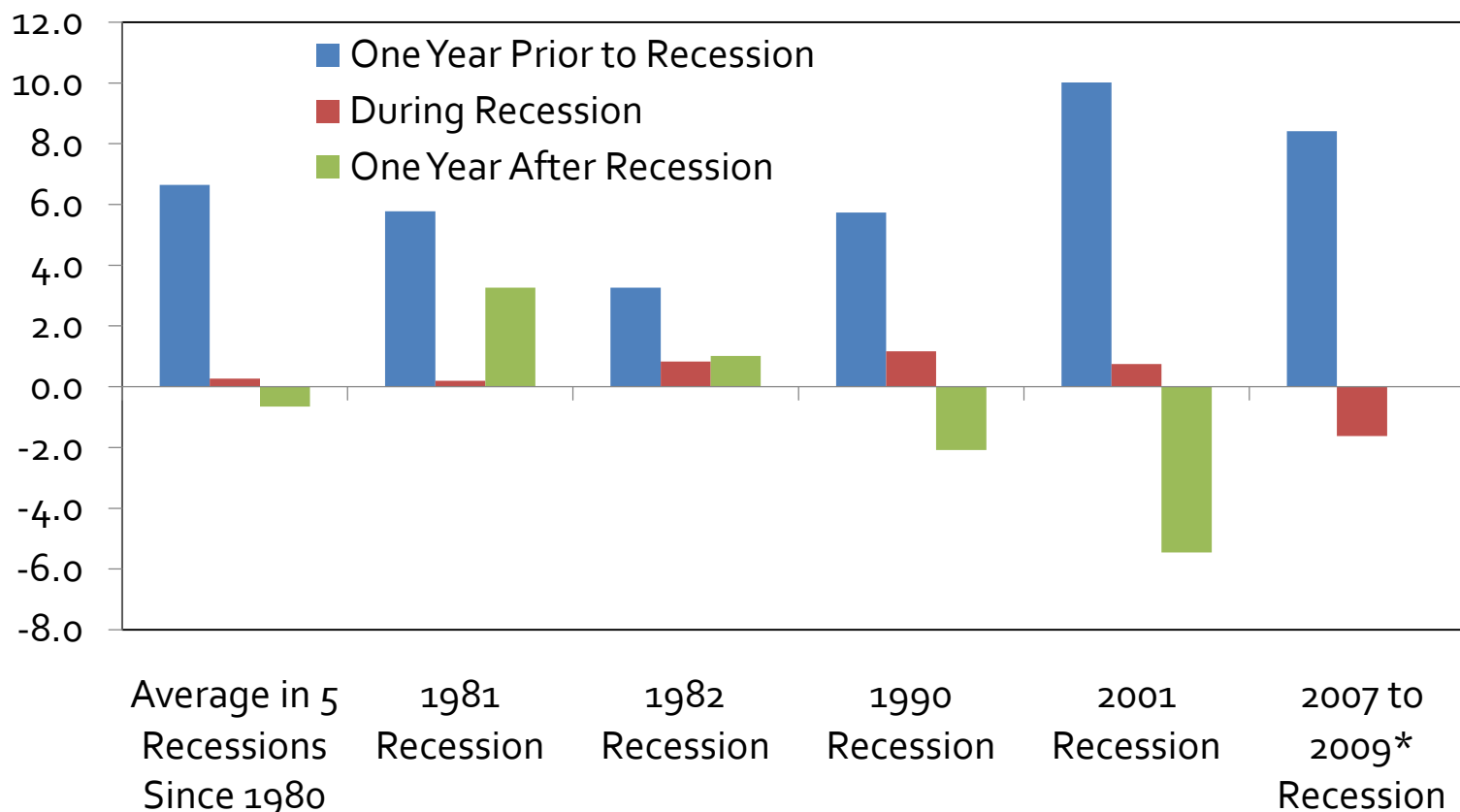
Source: Bureau of Economic Analysis



Meat and milk spending tends to decline in jobless recoveries.

U.S. Per Capita Expenditures on Beef, Pork, Poultry, and Milk Products

Percent change

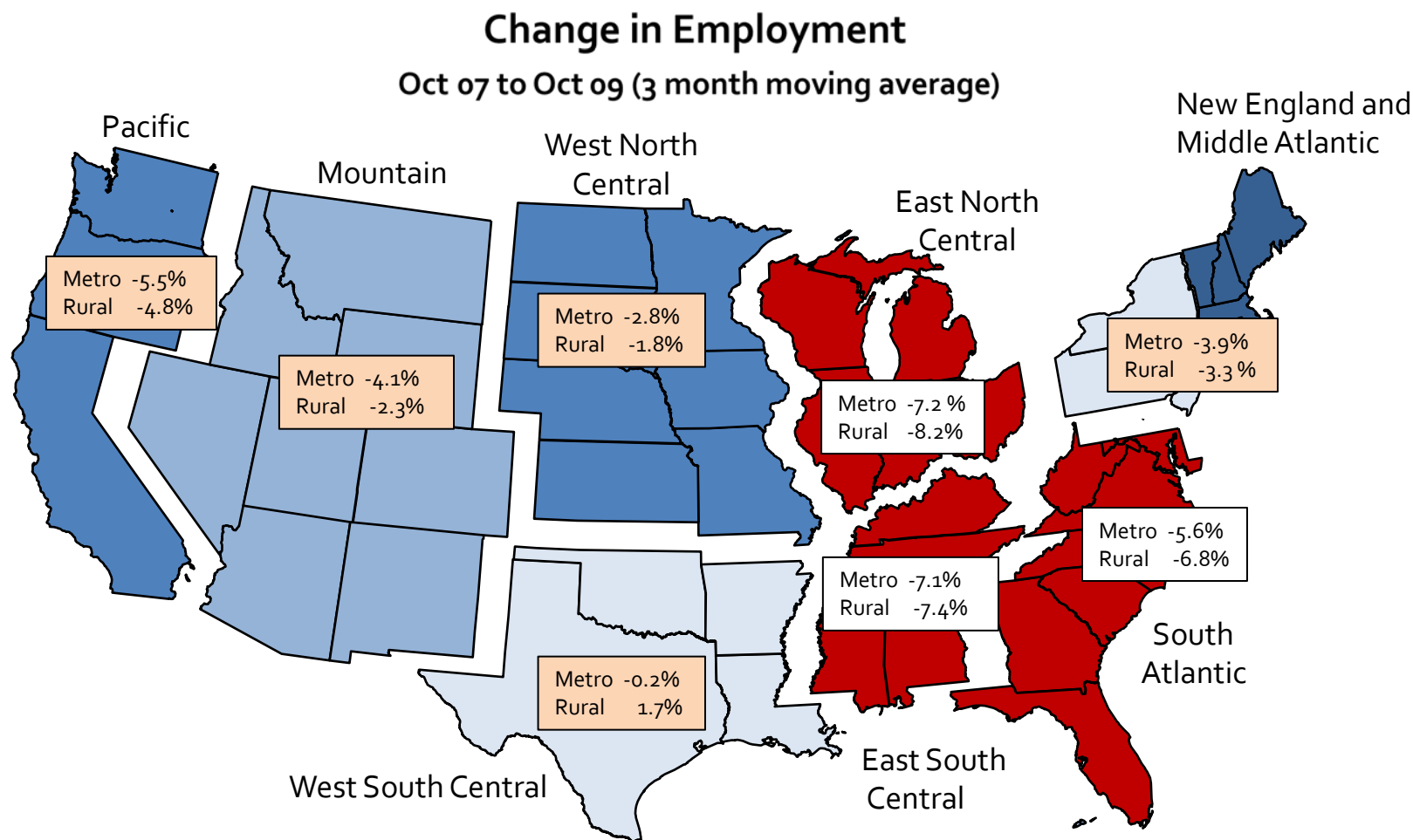


Calculations based on Bureau of Economic Analysis data

* The National Bureau of Economic Research indicates the recession started in Dec. 2007. At the time of publication, the end of the recession has yet to be specified.



Employment in rural areas has fared better than in metro areas.



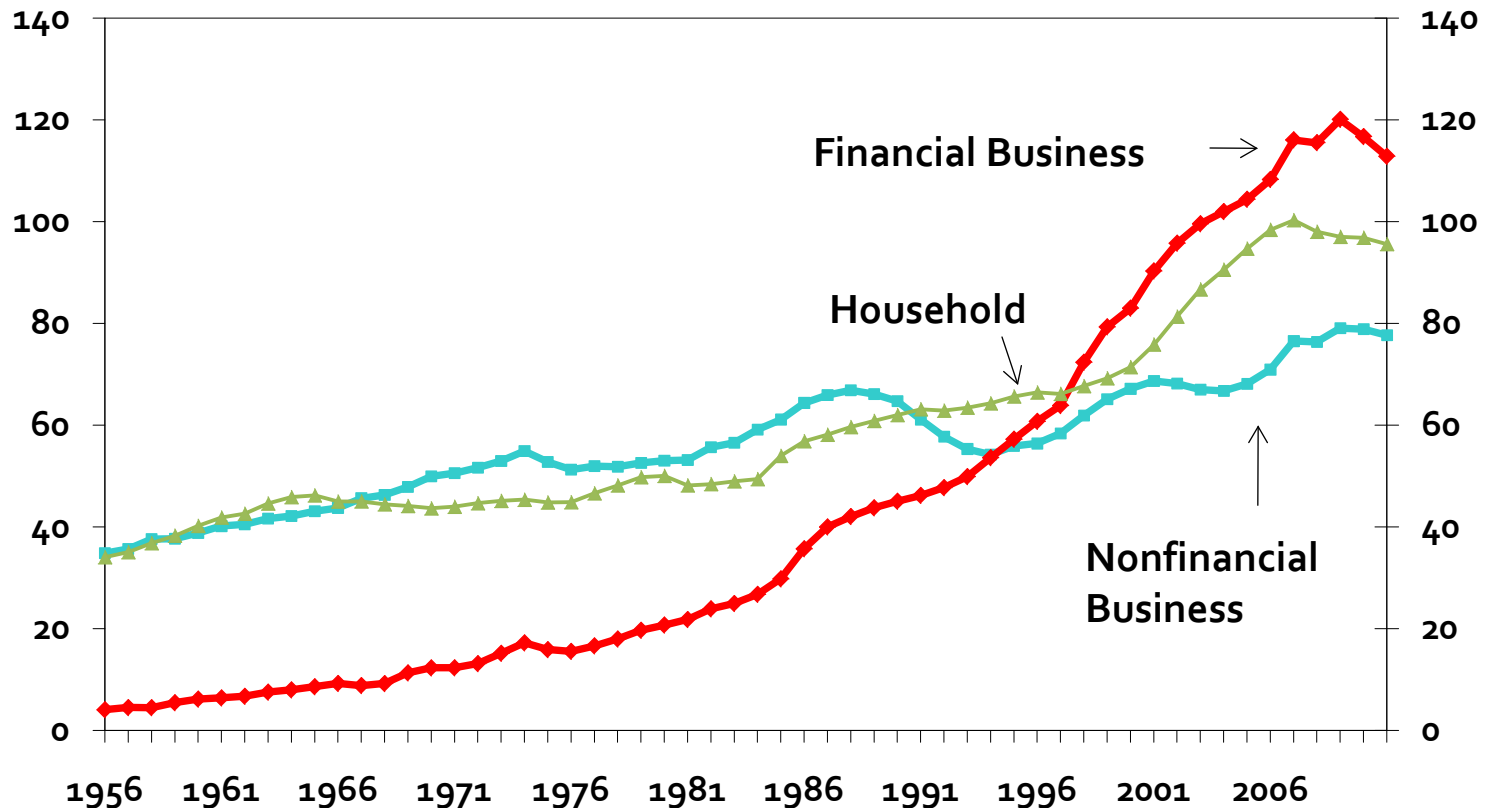
Calculations based on Bureau of Labor Statistics, LAUS data



Deleveraging should contribute to a slow recovery...returning to saving habits.

Domestic Debt Outstanding

Percent of GDP

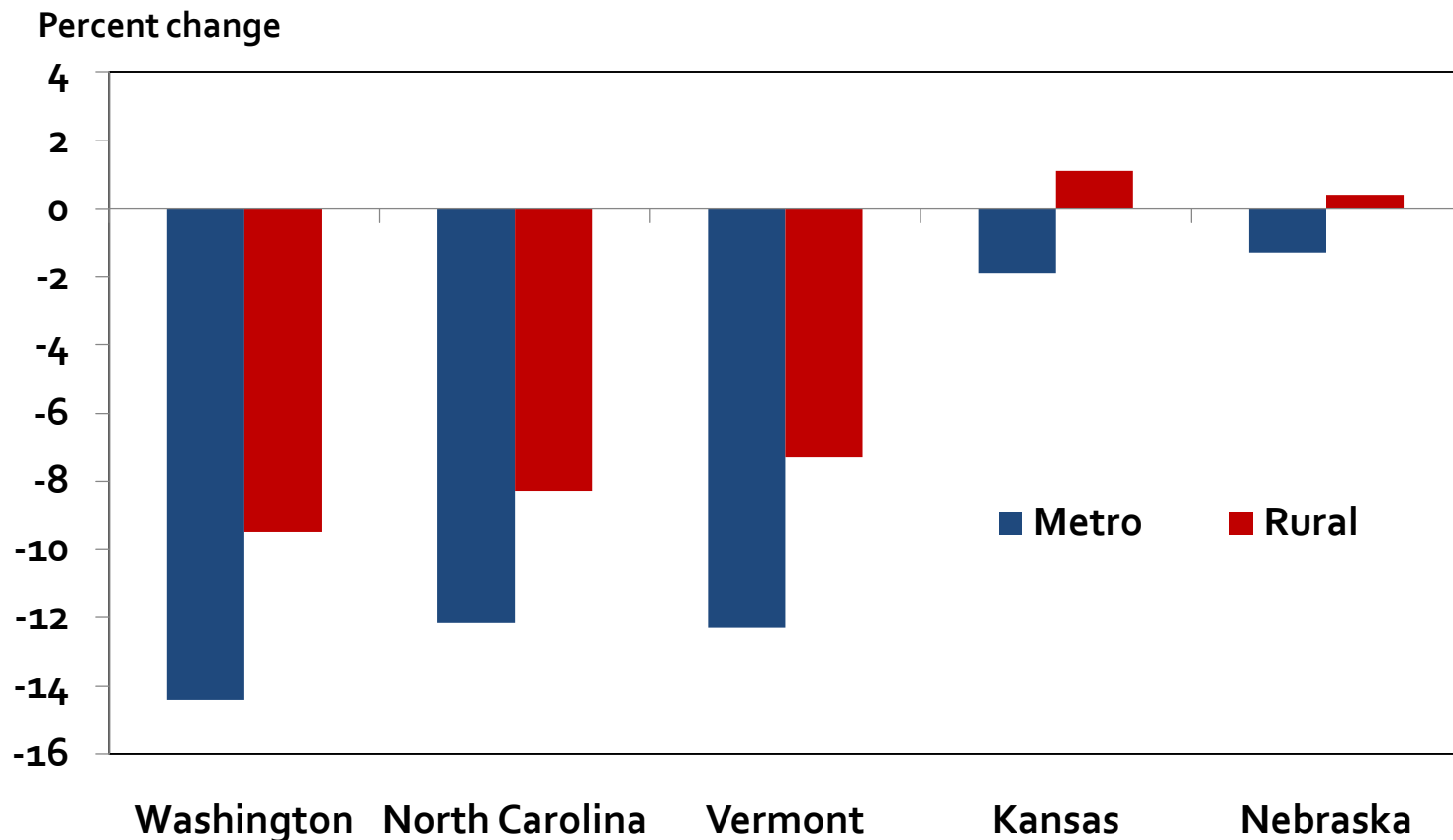


Source: Federal Reserve Board of Governors



Consumer spending in rural places has not fallen as dramatically as in metro areas.

Retail Sales Growth 2007 to 2009

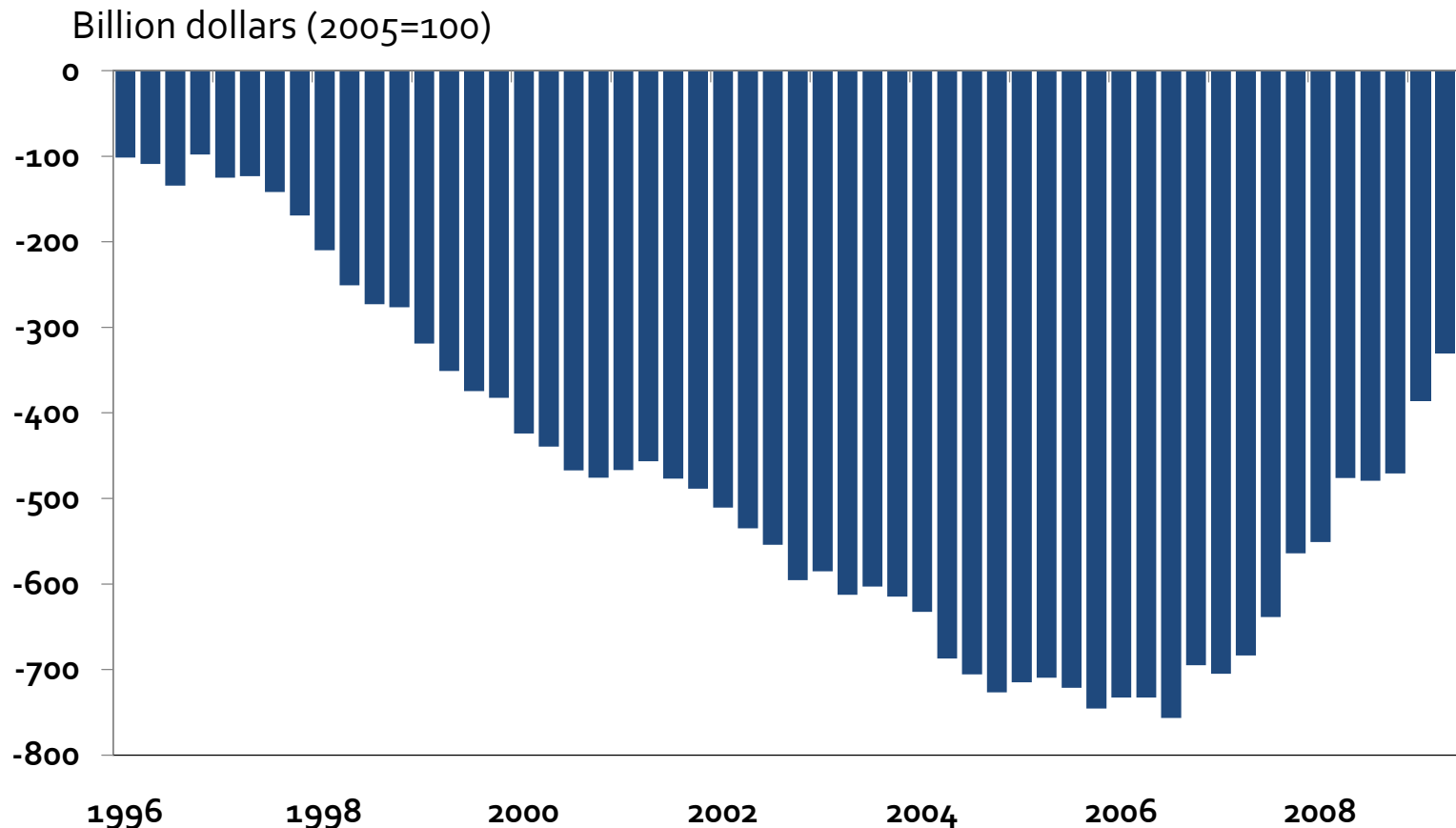


Year-to-date through second quarter retail sales obtained from various department of revenues



The trade balance has improved.

Real Net Exports of Goods and Services



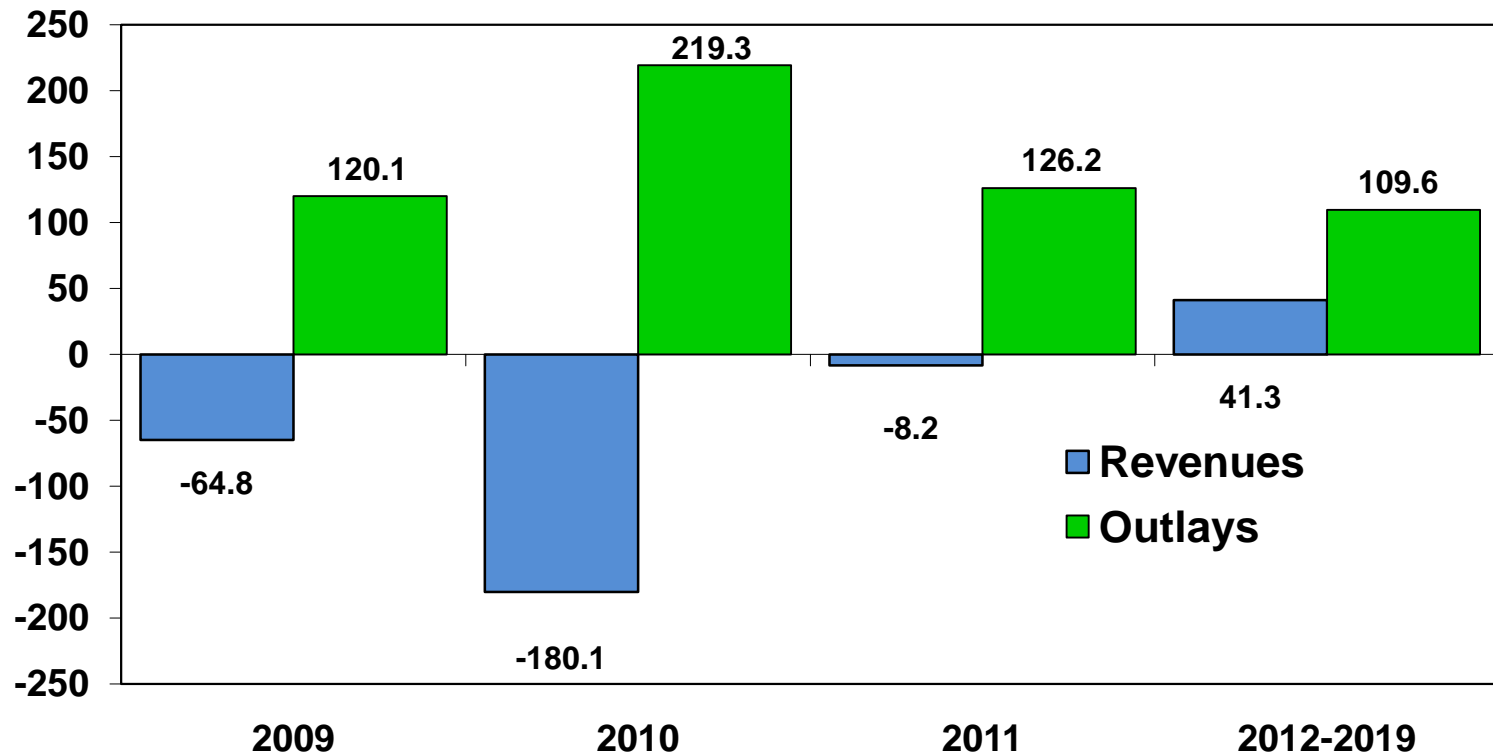
Source: Bureau of Economic Analysis



Will the stimulus package spur growth in 2010?

Estimated Budget Impact of American Recovery and Reinvestment Act (ARRA) of 2009

Billion Dollars

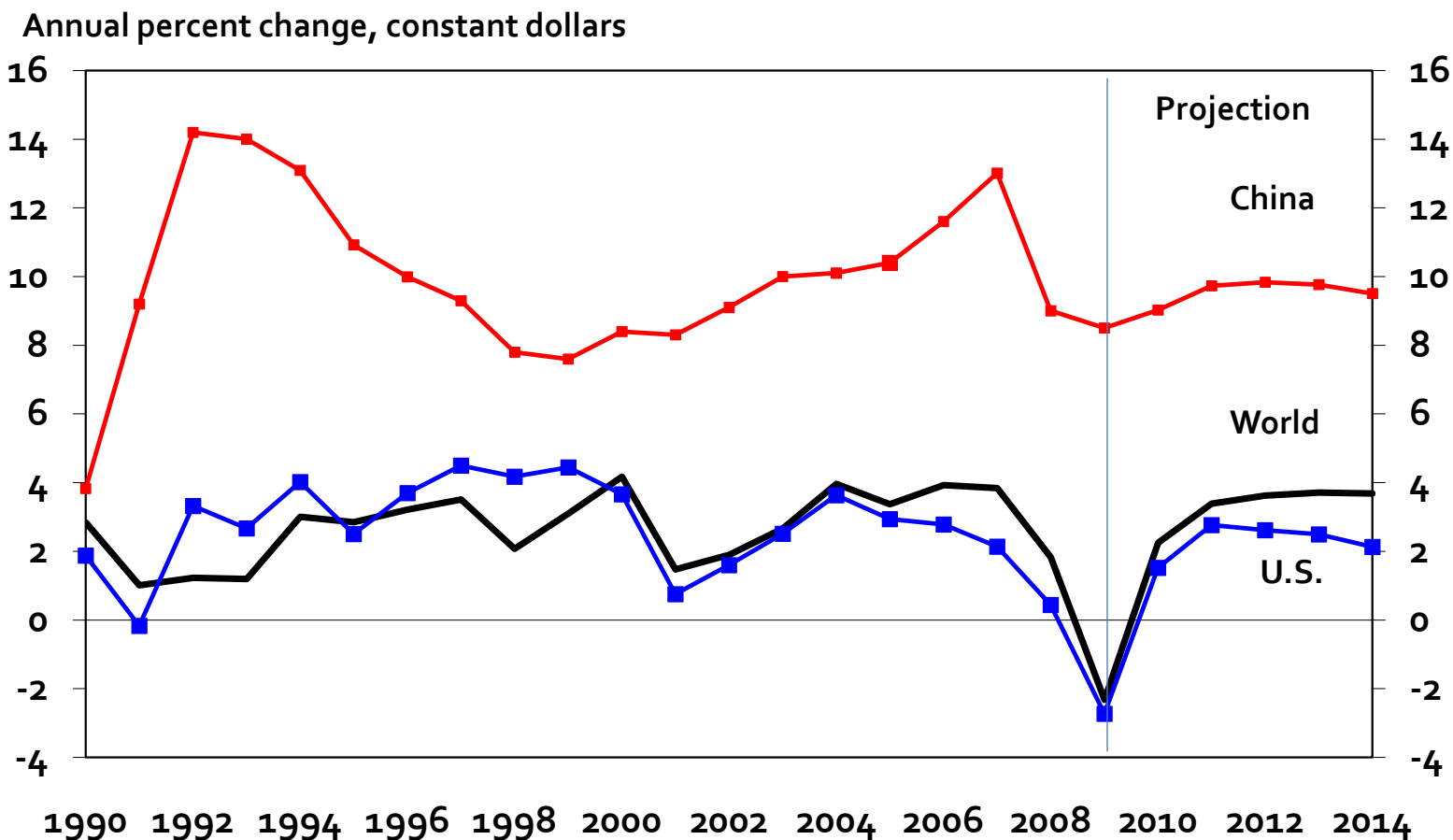


Source: Congressional Budget Office, February 13, 2009



Will emerging and developing countries lead the global recovery?

GDP Growth

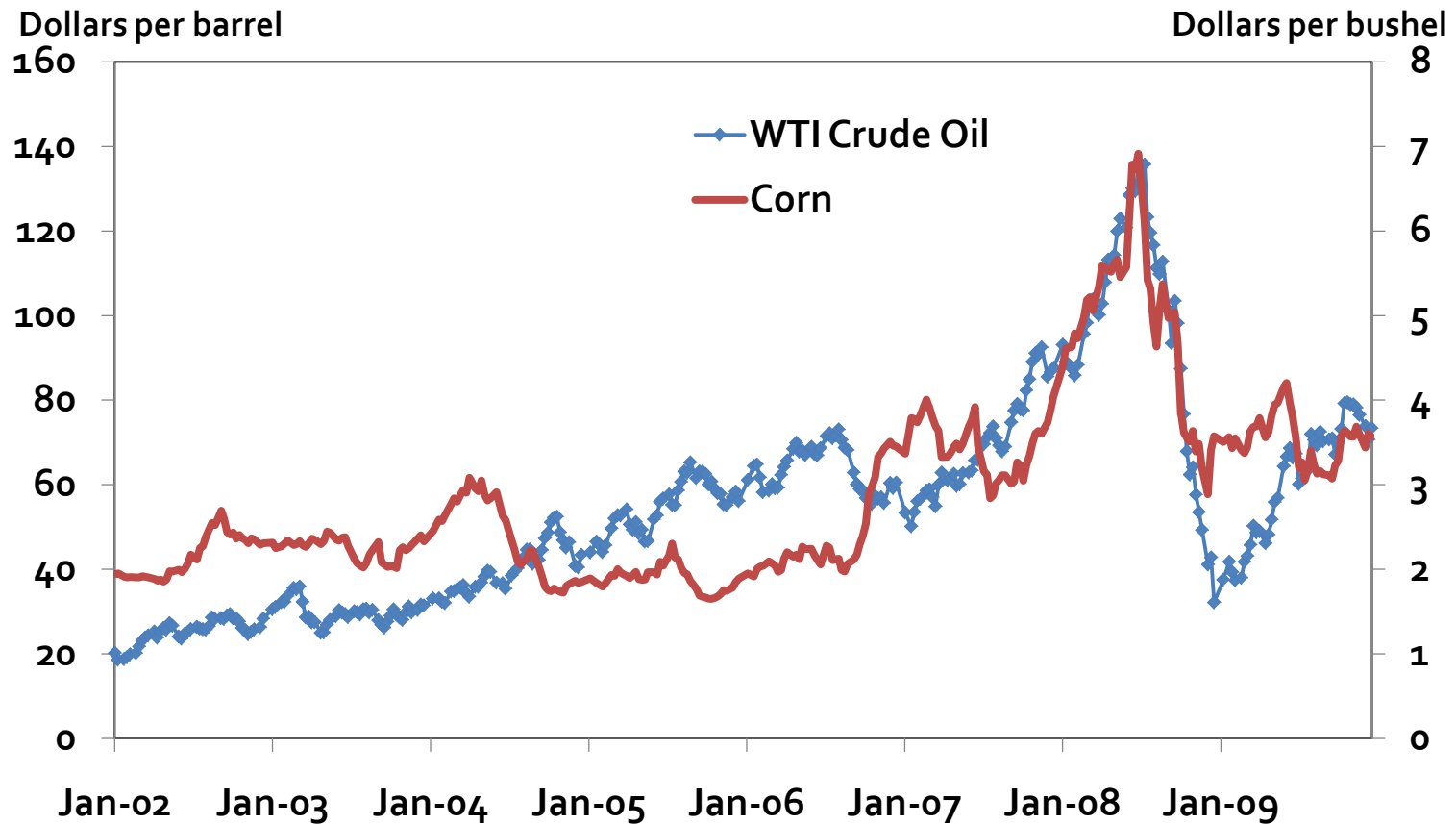


Source: International Monetary Fund, October 2009



Will foreign growth drive commodity markets?

Crude Oil and Corn Prices



Source: Commodity Research Bureau



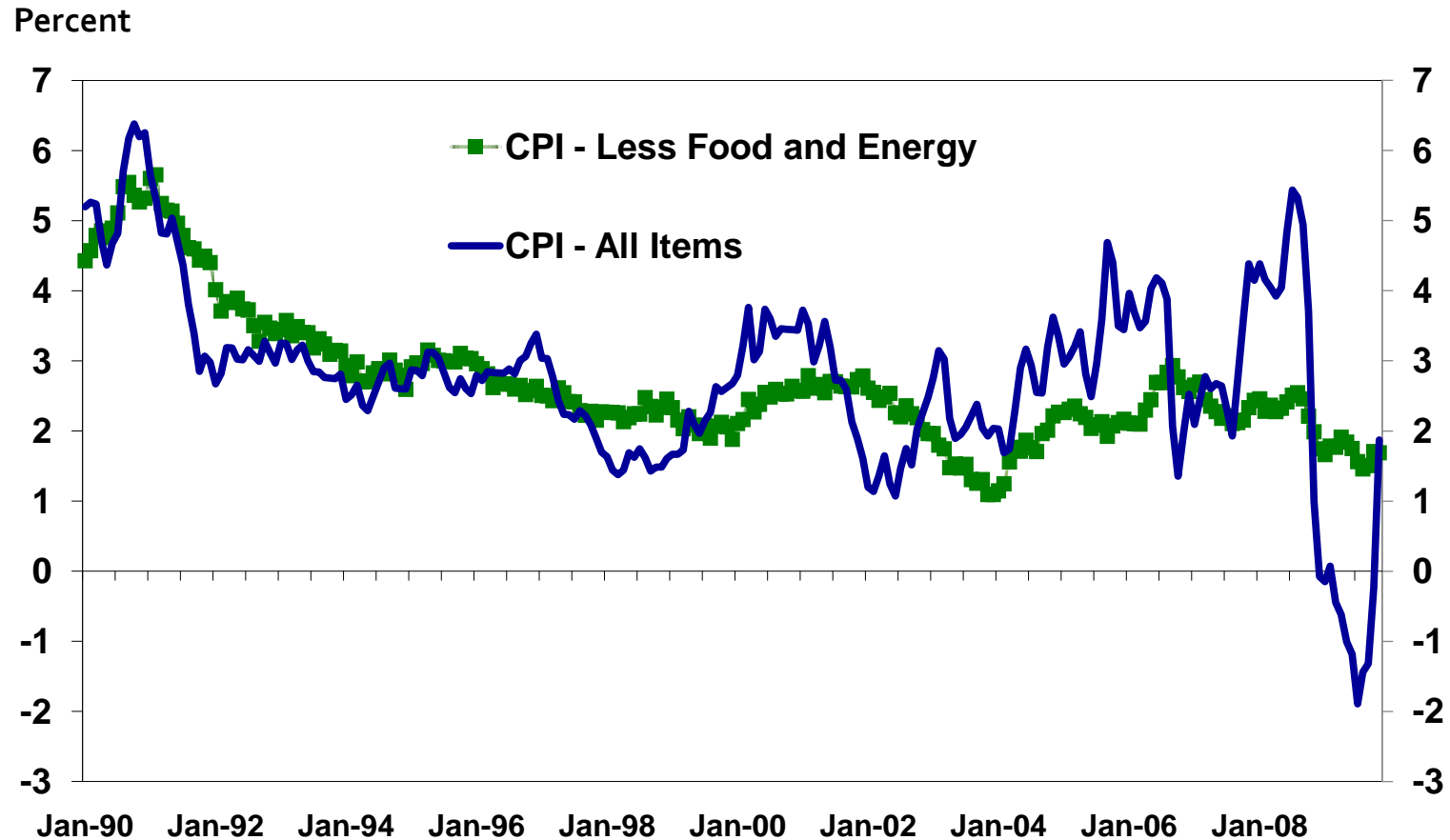
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The U.S. is experiencing disinflation.

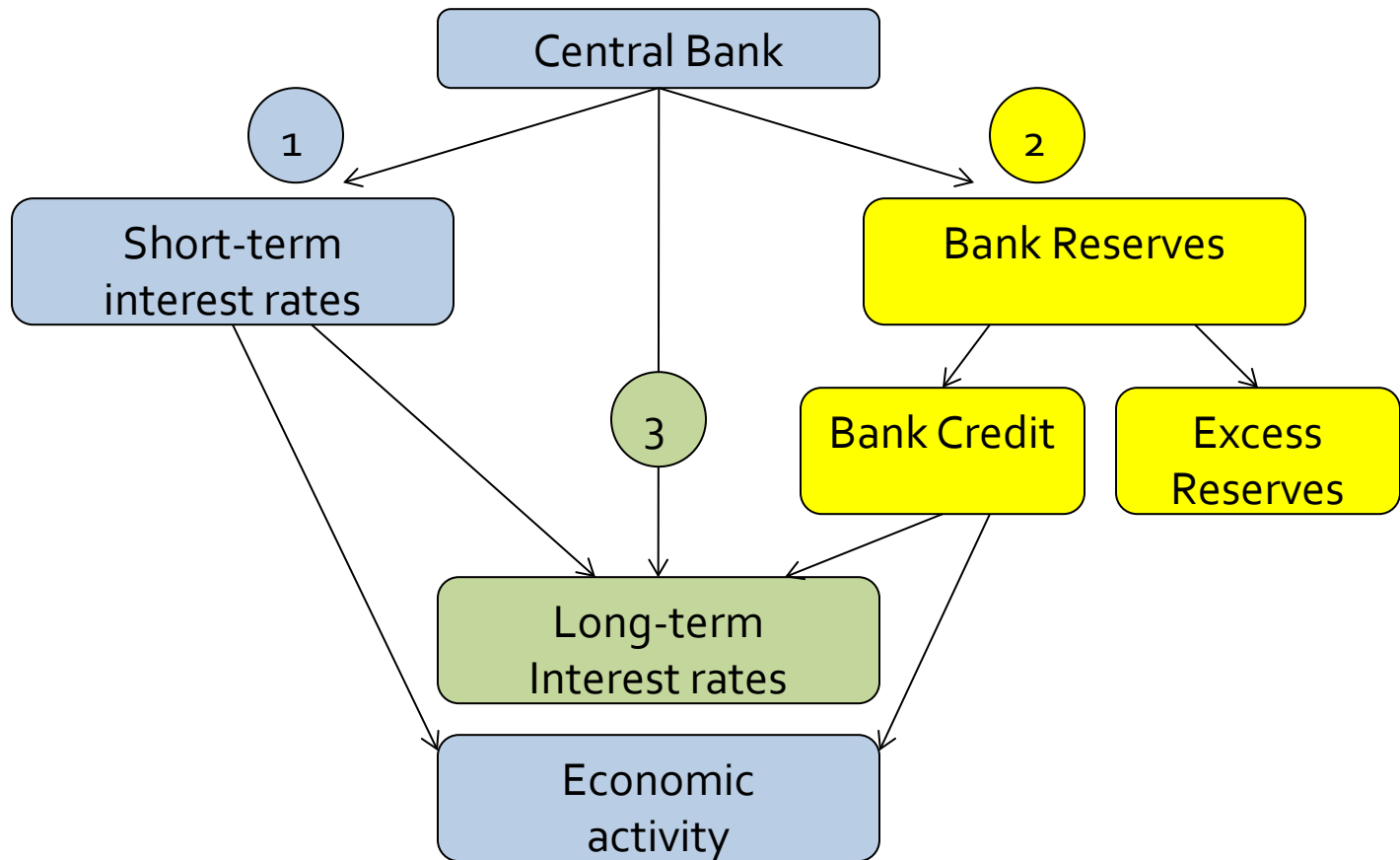
Consumer Price Inflation



Source: Bureau of Labor Statistics



Monetary Policy Transmission Mechanisms



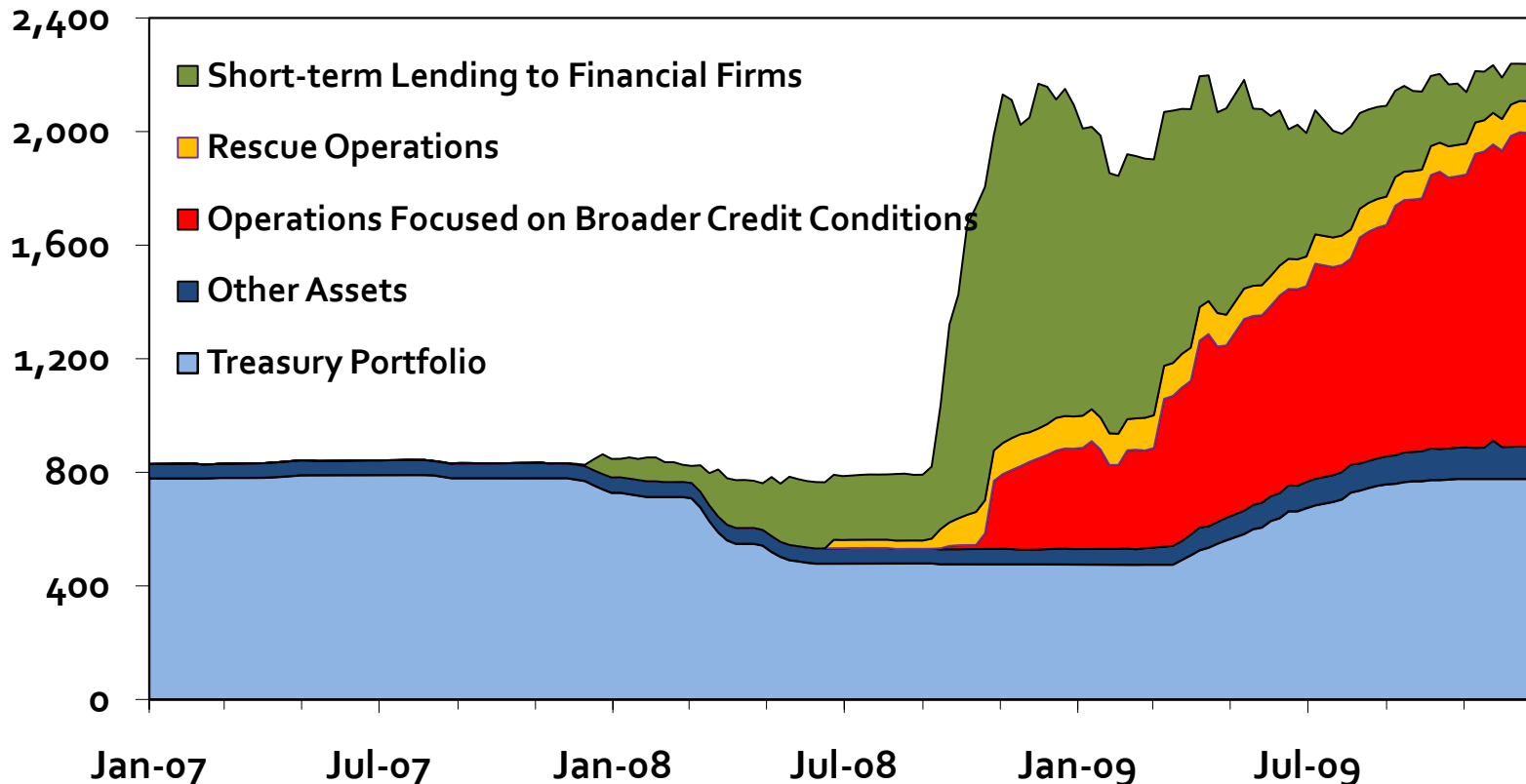
Source: Gordon Sellon (2003) "Monetary Policy and the Zero Bound: Policy Options When Short-Term Rates Reach Zero"
Economic Review <http://www.kansascityfed.org/Publicat/ECONREV/PDF/4q03sell.pdf>



To combat the financial crisis and recession, the Federal Reserve has expanded its balance sheet

Federal Reserve Balance Sheet: Assets

Billion Dollars

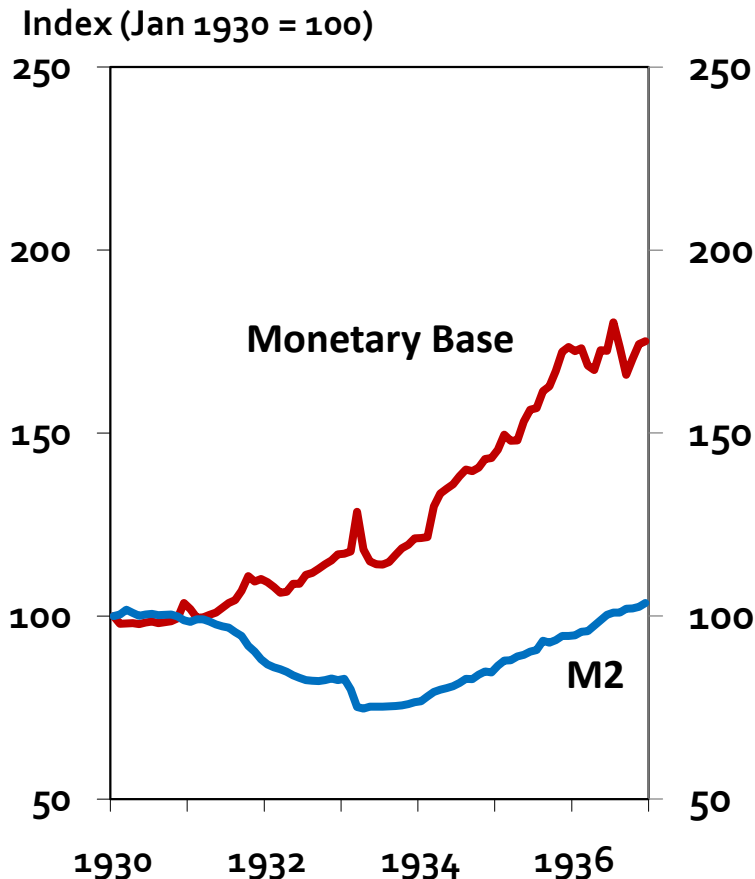


Source: Federal Reserve Board of Governors

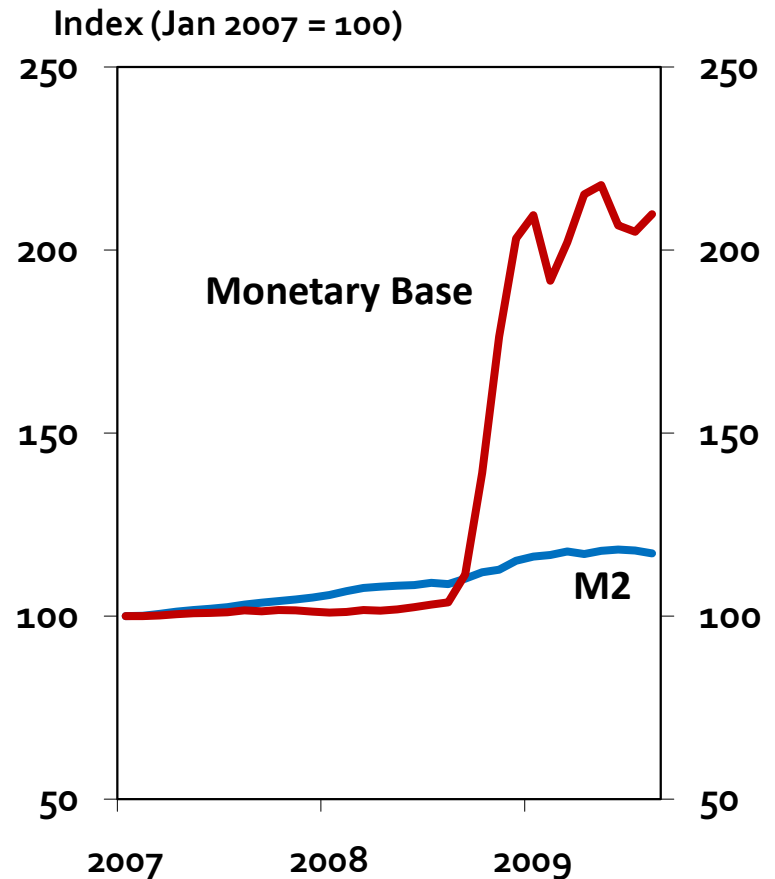


Despite a surging monetary base, inflation has been subdued.

Growth in Monetary Aggregates



Source: Federal Reserve Bank of St. Louis, Friedman and Schwartz

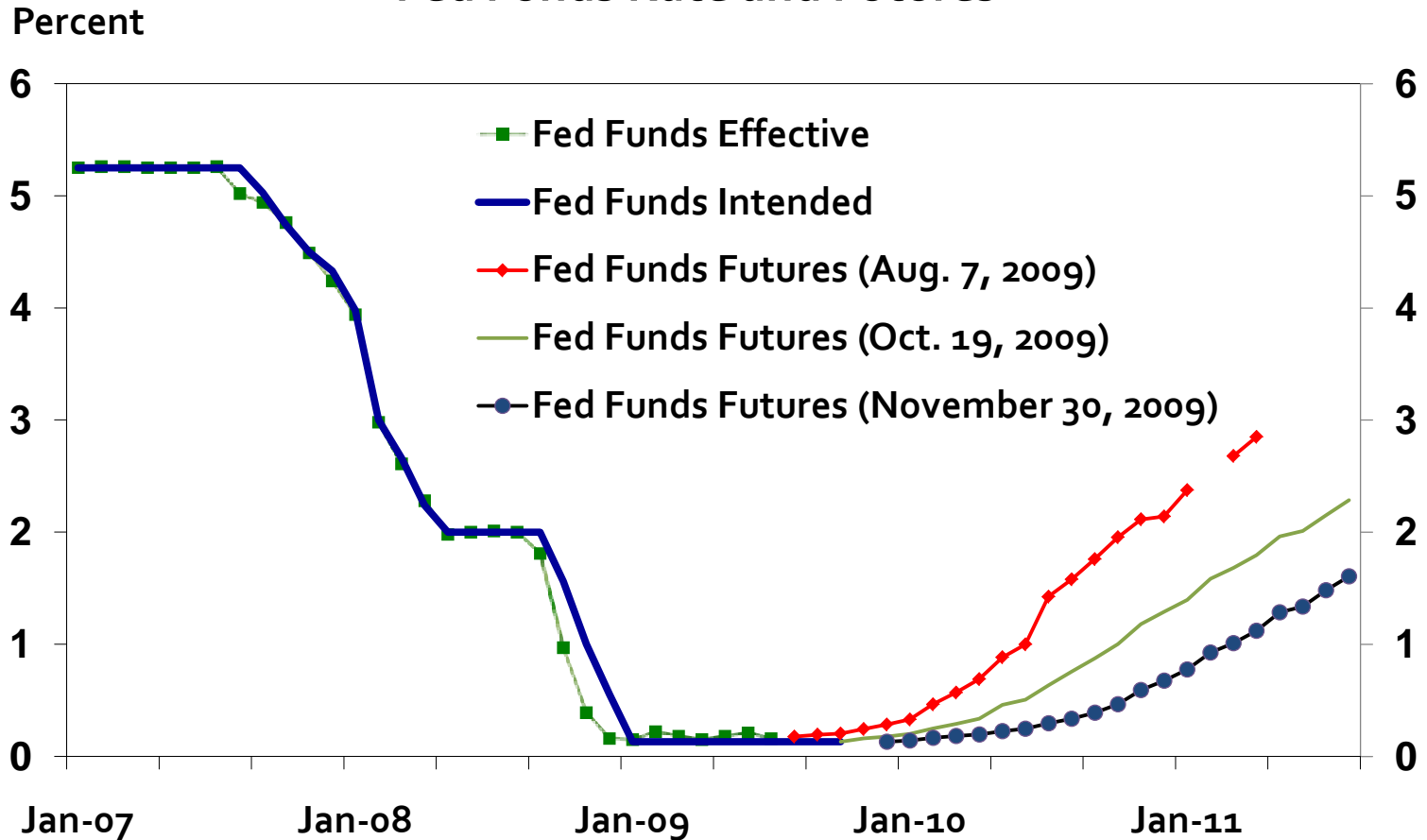


Source: Federal Reserve Board of Governors



When will interest rates rise?

Fed Funds Rate and Futures



Source: Federal Reserve Board of Governors and CME Group



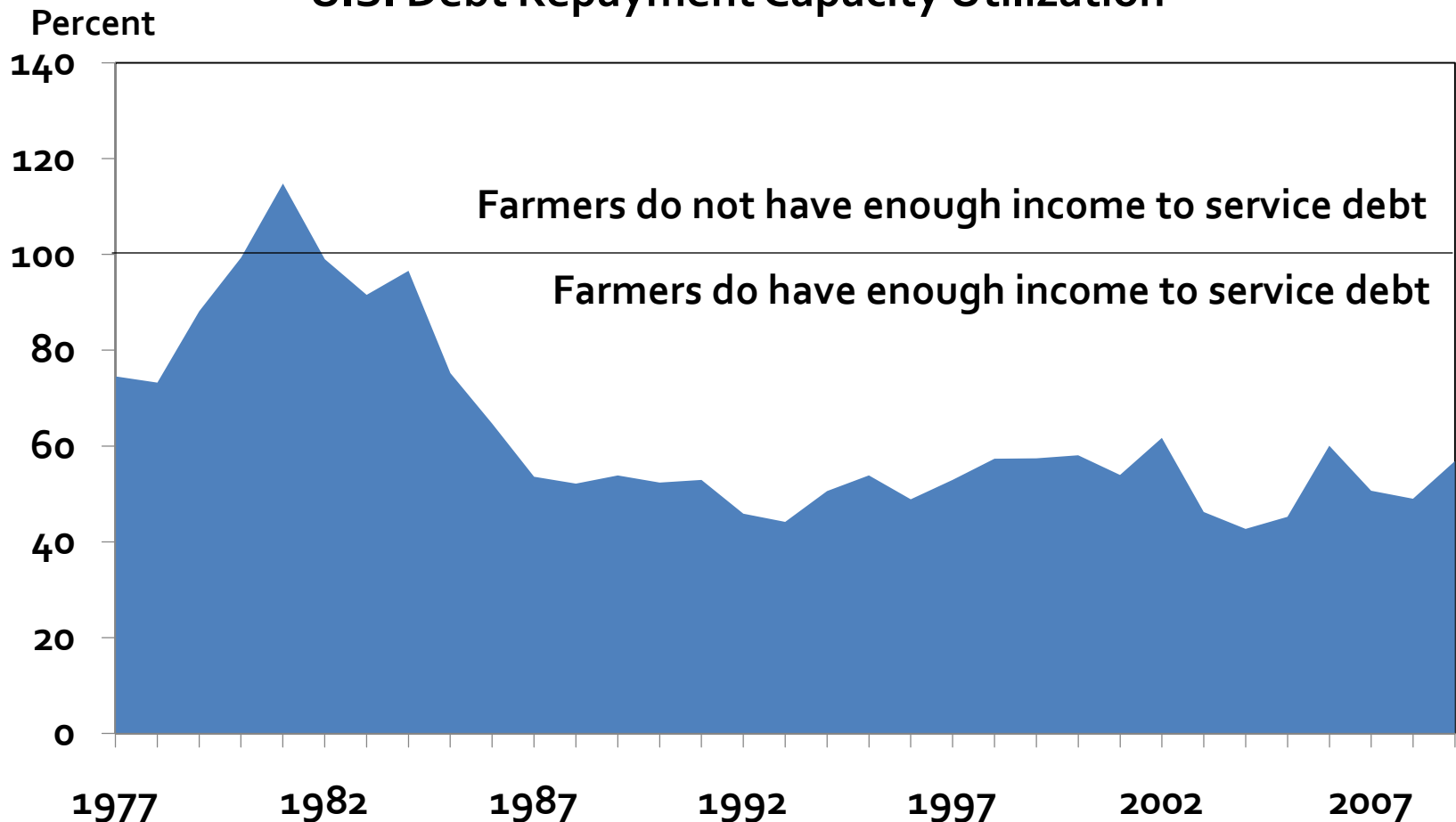
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In general, farmers are financially sound.

U.S. Debt Repayment Capacity Utilization

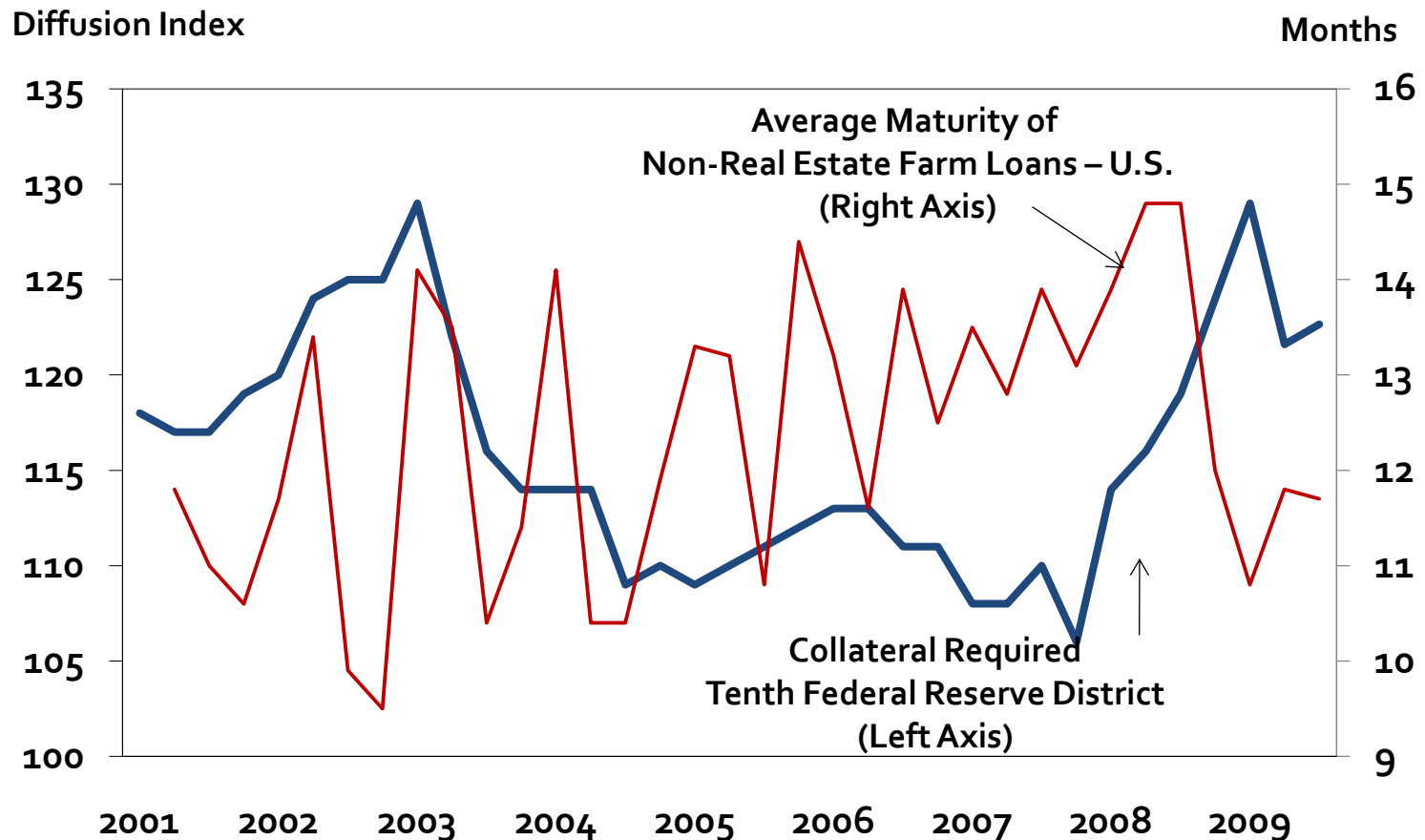


Source: USDA



Collateral requirements have tightened and loan maturities have fallen.

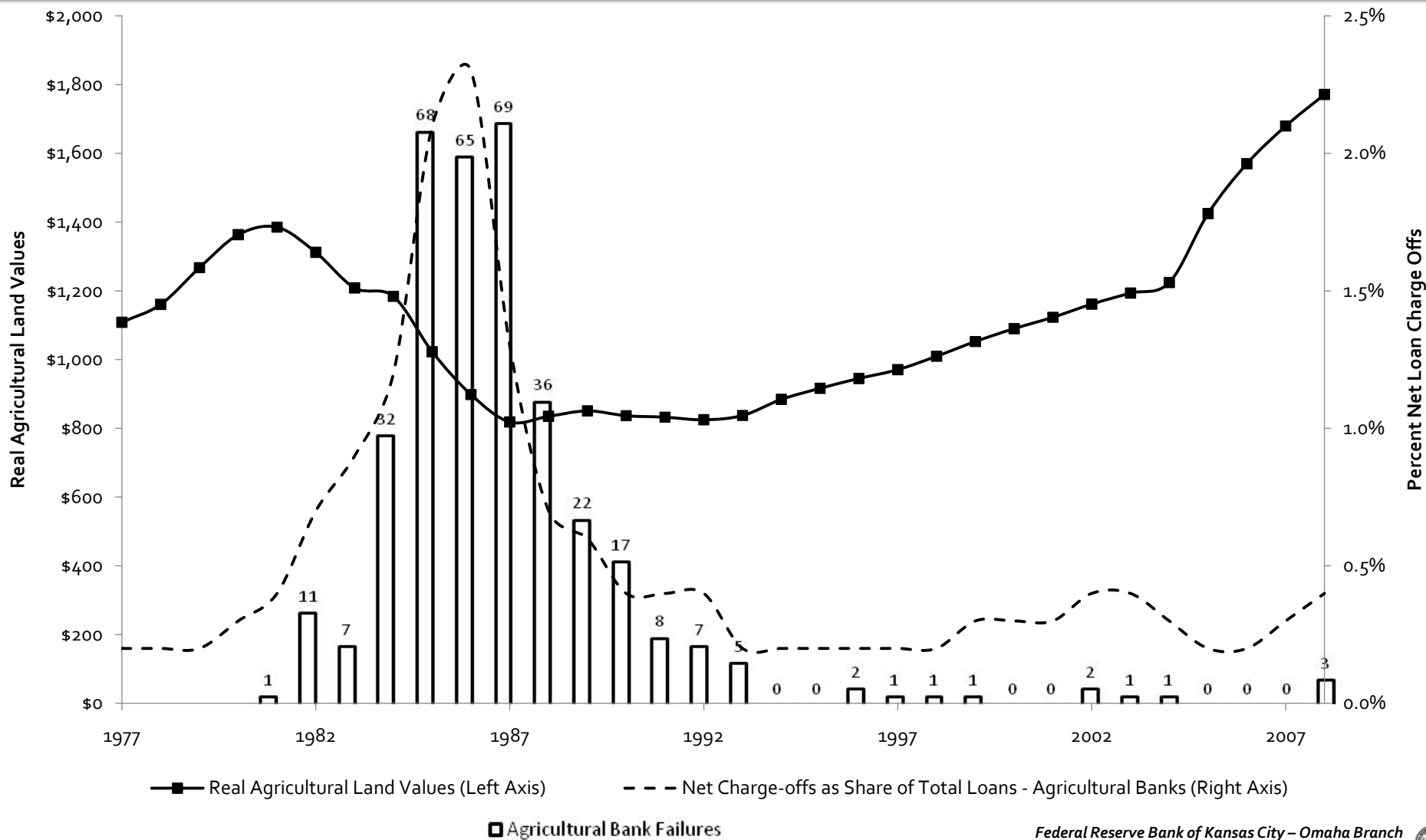
Collateral Requirements and Loan Maturity on Non-Real Estate Farm Loans



Source: Federal Reserve Bank of Kansas City and Agricultural Finance Databook



Historically, agricultural land values were related to much stress for agricultural lenders.



Conclusions

- **The financial crisis and recession appear to be ending, but risks surround the recovery.**
- **The outlook hinges on consumer spending, both in the U.S. and globally.**
- **As the recovery strengthens, questions will switch from growth to inflation.**
- **When will consumers and investors start “chasing”?**



For More Information

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