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The Outlook for Agribusiness and Its Impact on the Global 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.

Opportunities and Challenges for Agribusinesses

Opportunities

- 1) Food demand has rebounded
- 2) U.S. agricultural exports are rising
- 3) U.S. producers are enjoying banner profits
- 4) Farm capital expenditures are up
- 5) Financing costs are low

Challenges

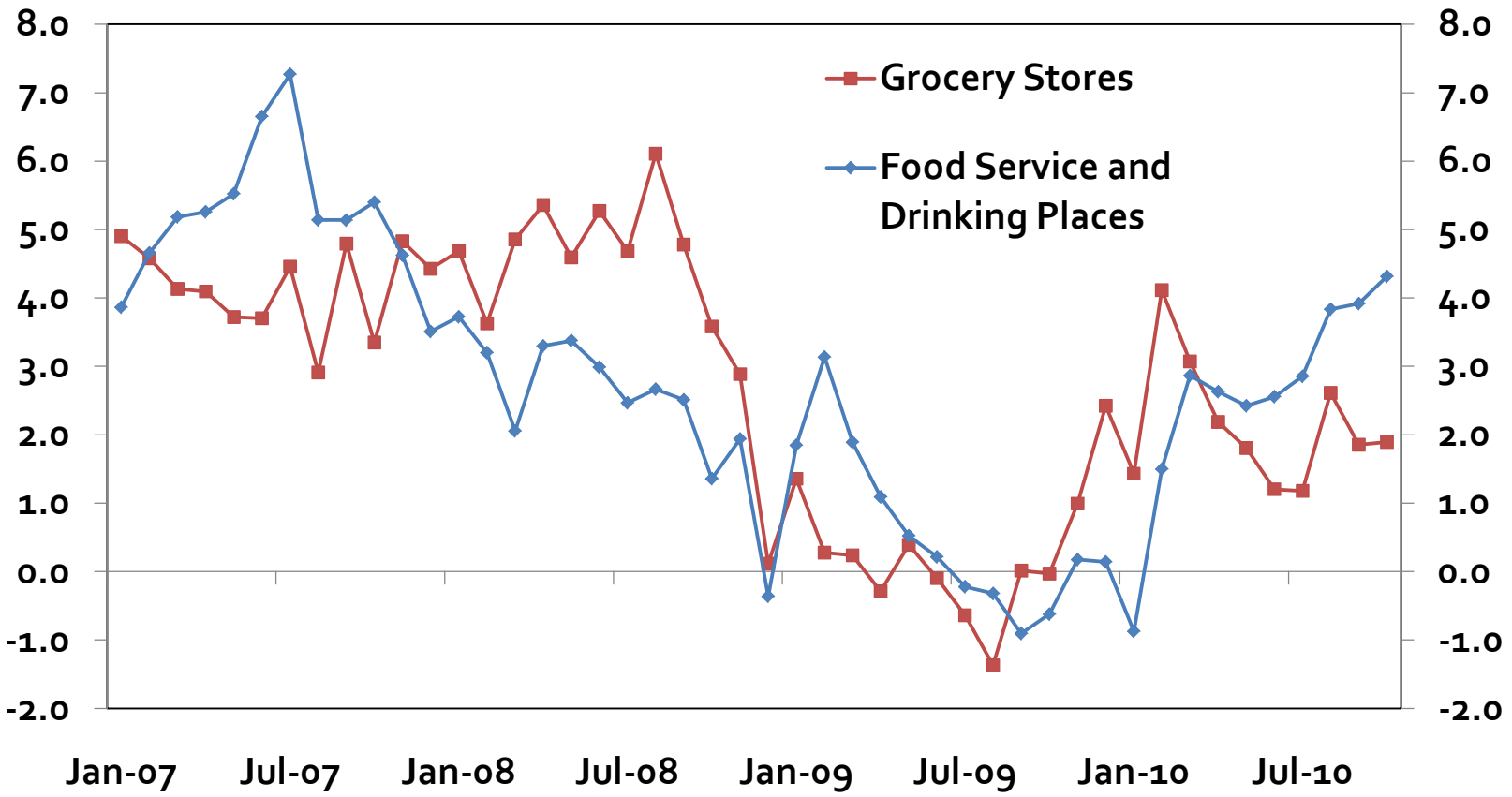
- 1) Elevated unemployment rate
- 2) Risks to the global recovery
- 3) Volatility has risen in commodity markets
- 4) Will high ag commodity prices last?
- 5) Removing monetary stimulus



U.S. food expenditures have rebounded.

U.S. Retail Sales at Grocery Stores and Restaurants

Percent change from year ago

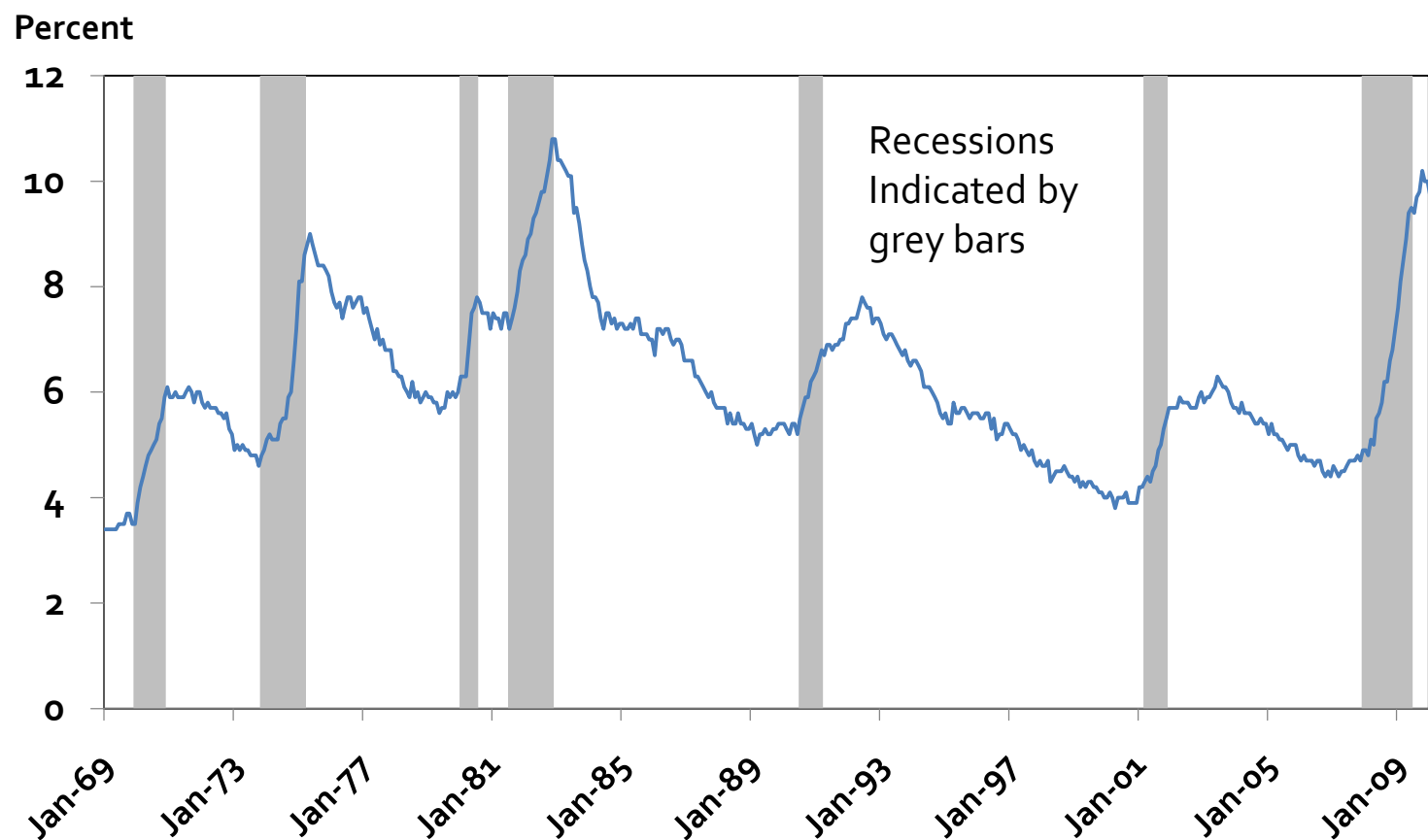


Source: Census Bureau



An elevated unemployment rate weighs on consumer demand.

U.S. Unemployment Rate



Source: Bureau of Economic Analysis and Bureau of Labor Statistics

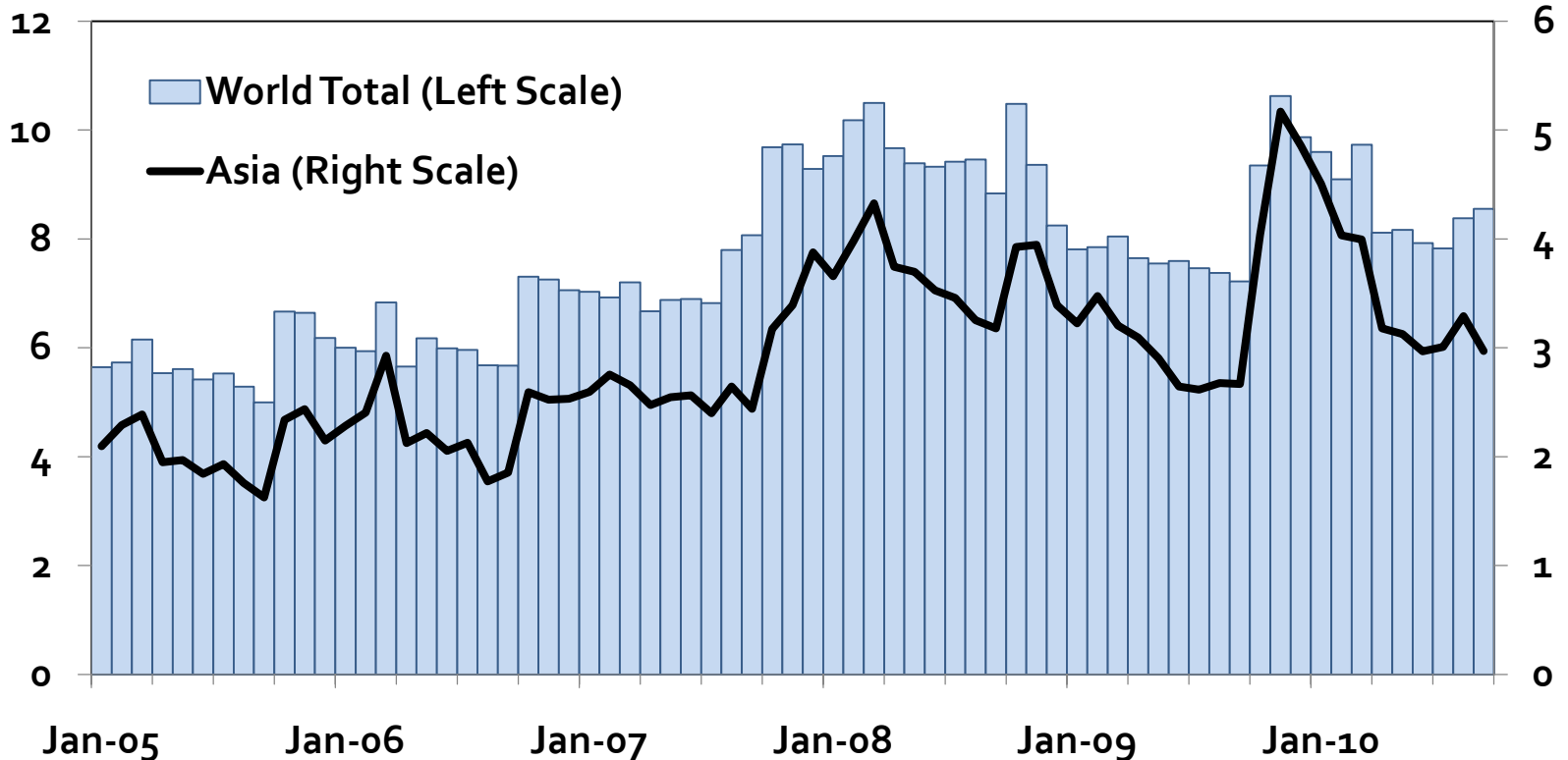


U.S. agricultural exports have rebounded.

Real U.S. Agricultural Exports

Billions of dollars (constant 2010 dollars)

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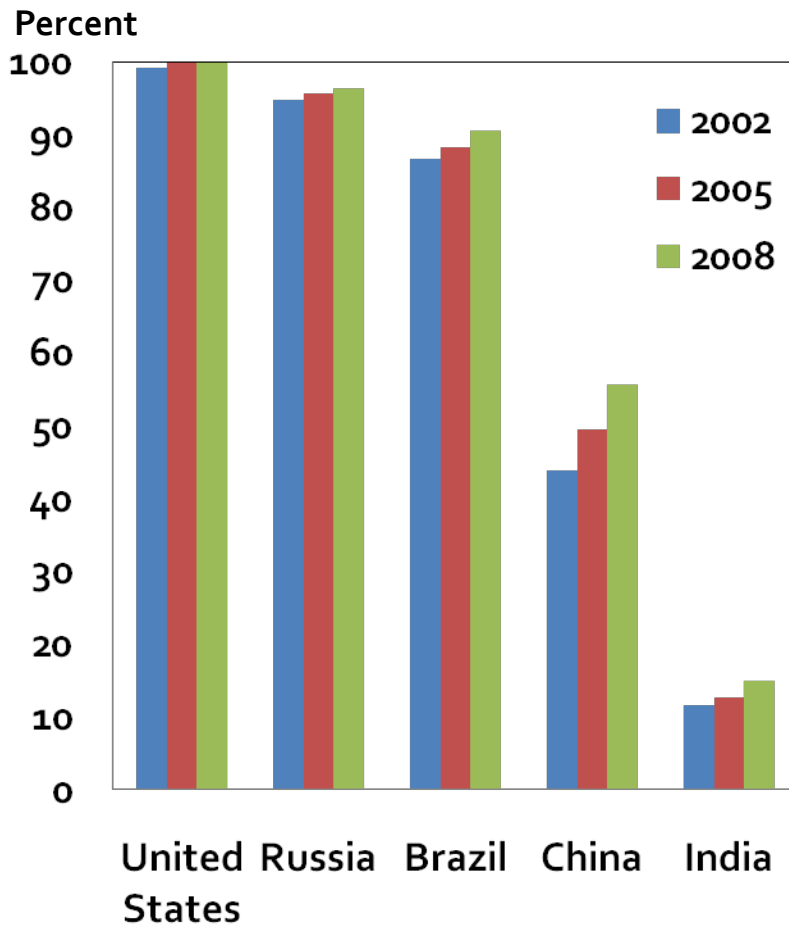


Source: USDA

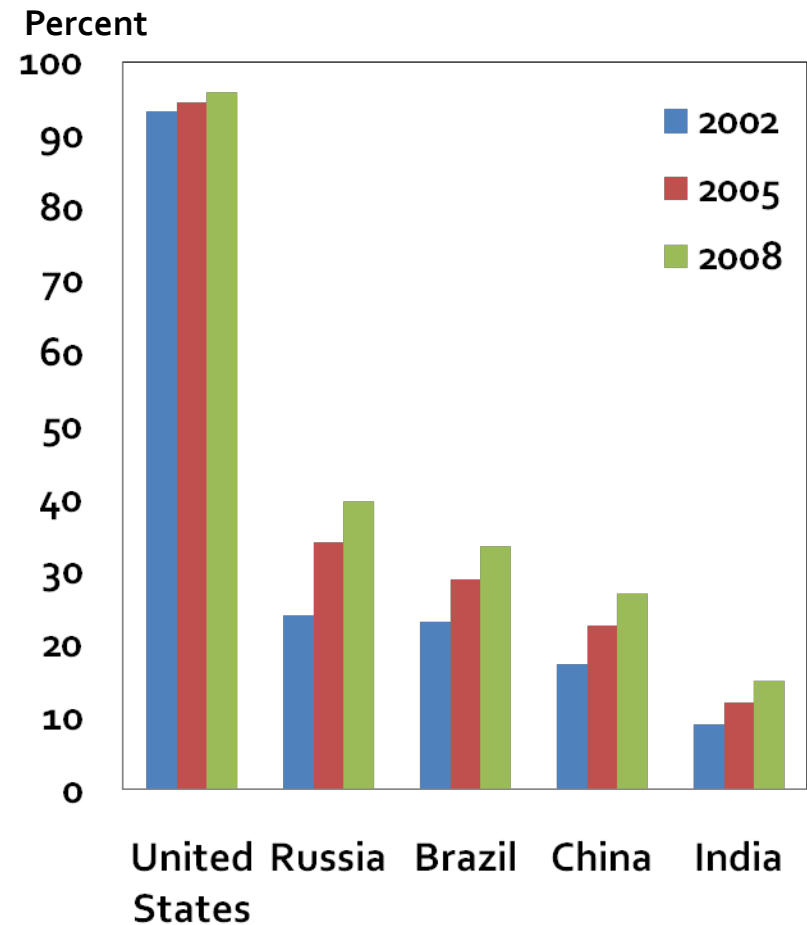


A growing world population boosts international food demand, but what will they eat?

Households Owning a Refrigerator



Households Owning a Microwave Oven

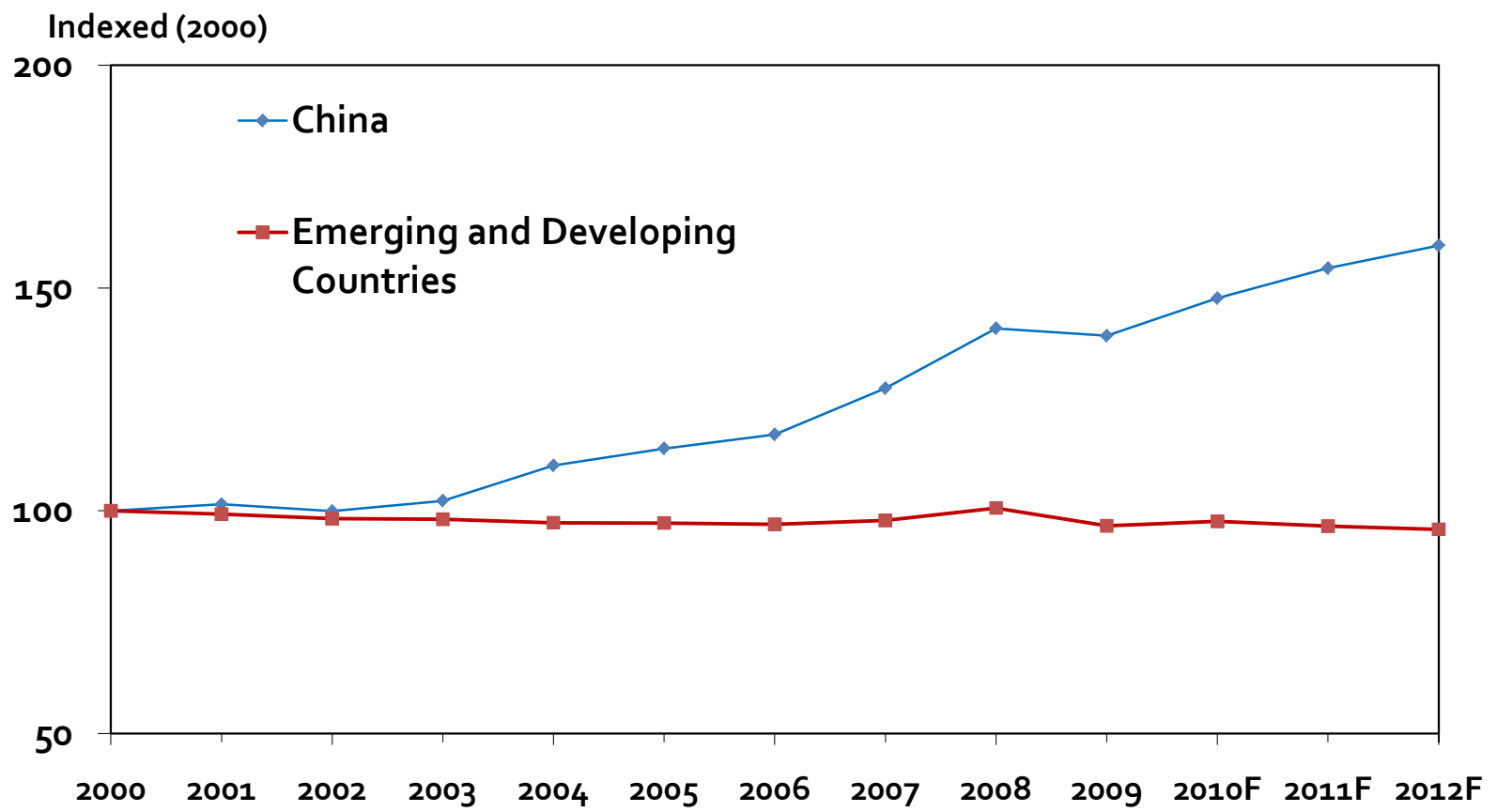


Source: USDA, Euromonitor



Inflation is expected to be flat in most emerging and developing countries. One notable exception is China.

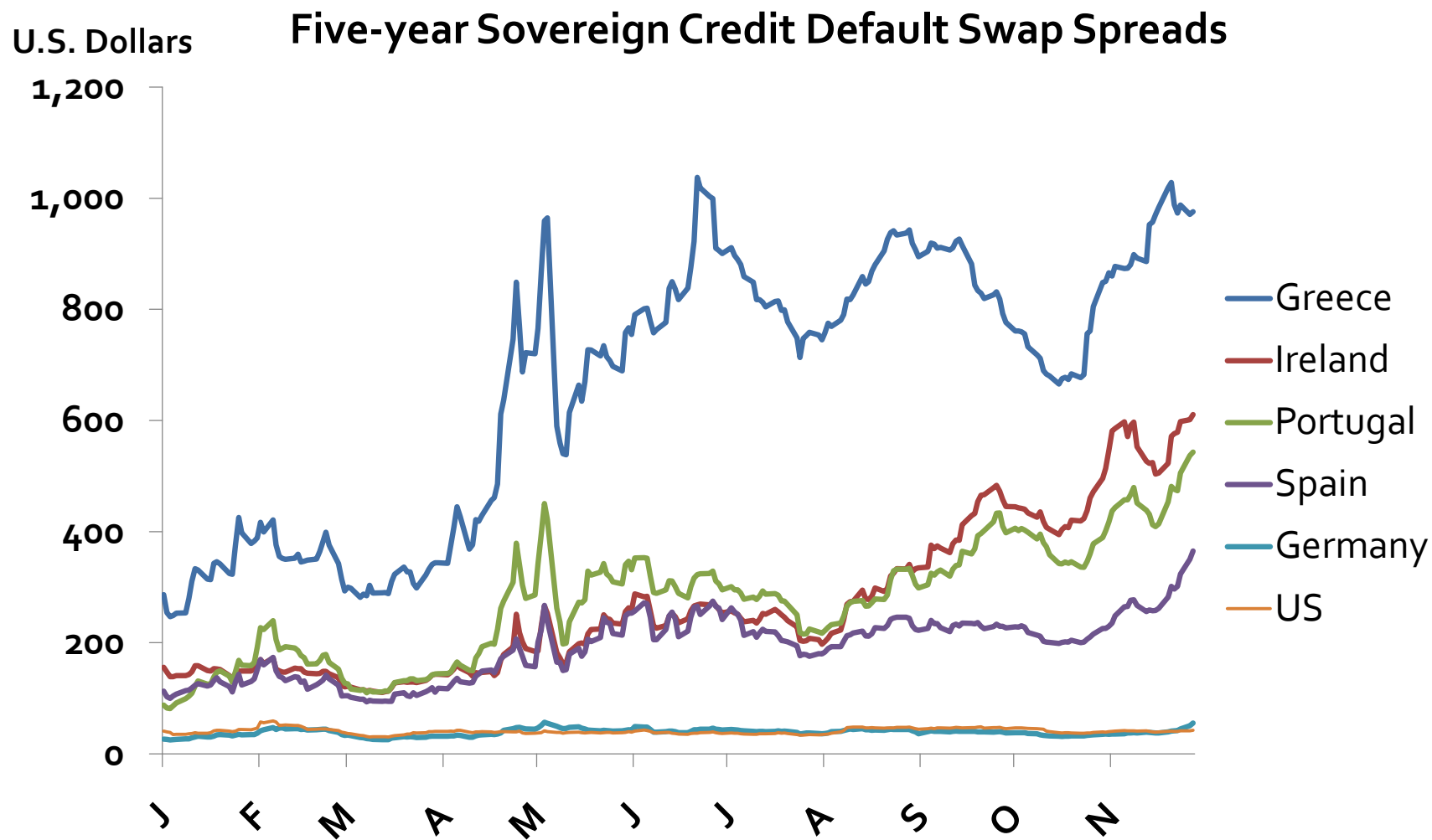
Inflation Rates



Source: International Monetary Fund



What does the Eurozone Sovereign Debt Crisis mean for the U.S. economy and agriculture?



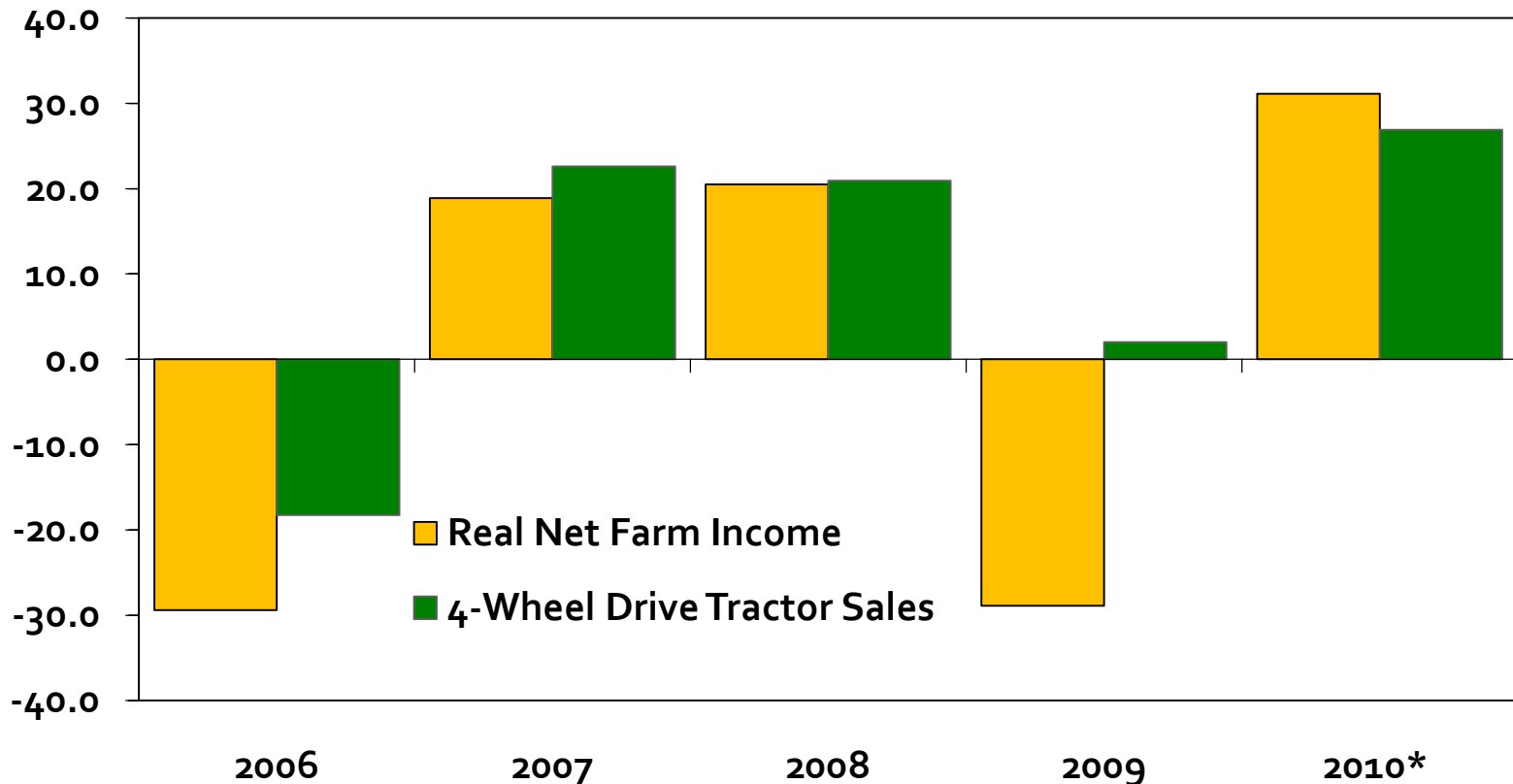
Source: Bloomberg data starting 1/4/10 and ending 11/30/10. U.S. is priced to Euros.



Stronger farm incomes boost agricultural equipment sales.

U.S. Real Net Farm Income and Agricultural Equipment Sales

Percent change from previous year

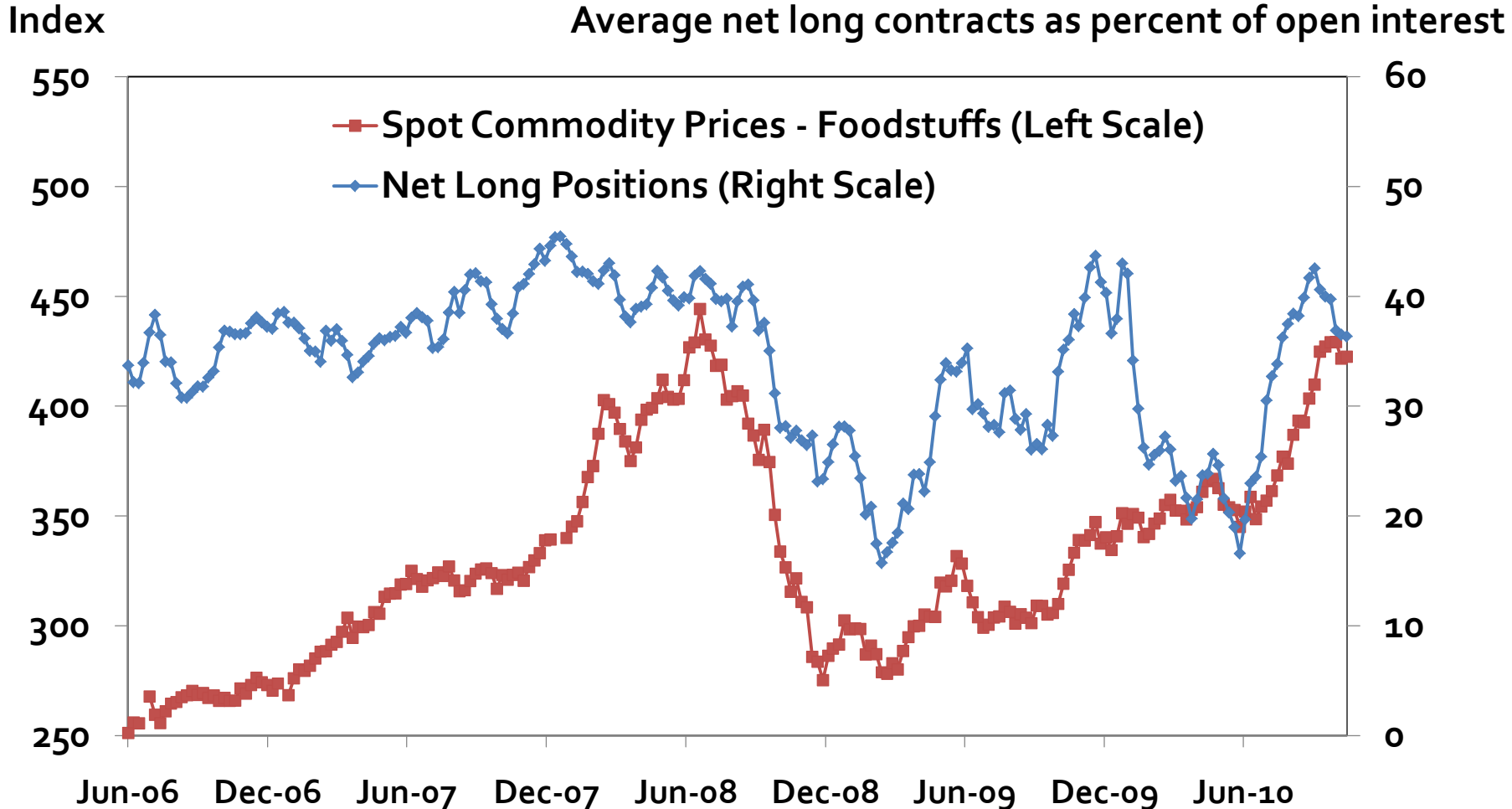


Source: Association of Equipment Manufacturers and USDA

* Tractor Sales data are year-to-date through October and Net Farm Income forecast for 2010 dated November 30, 2010.



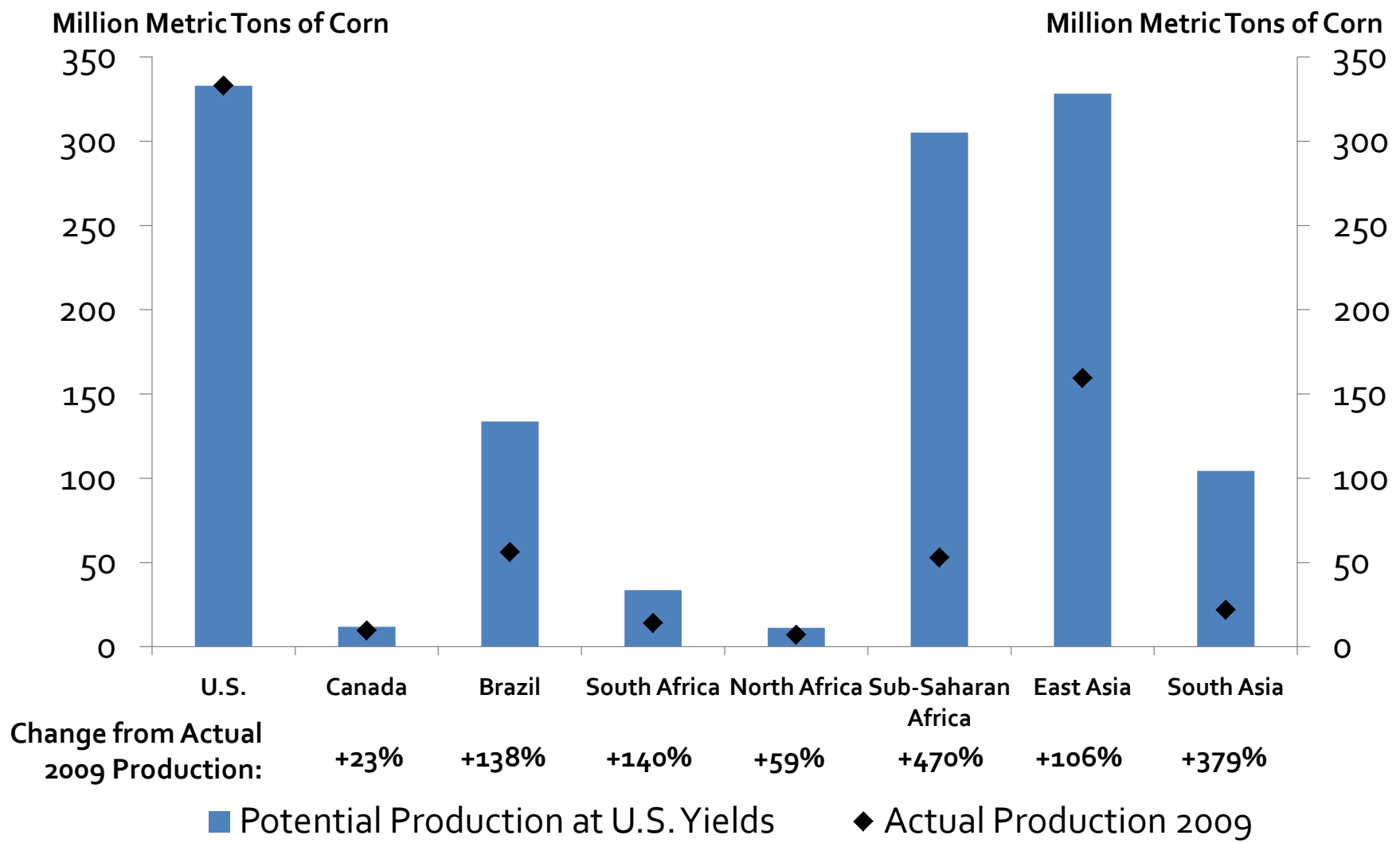
Managed money and swap dealers are back in the market.



Source: CFTC and Commodity Research Bureau

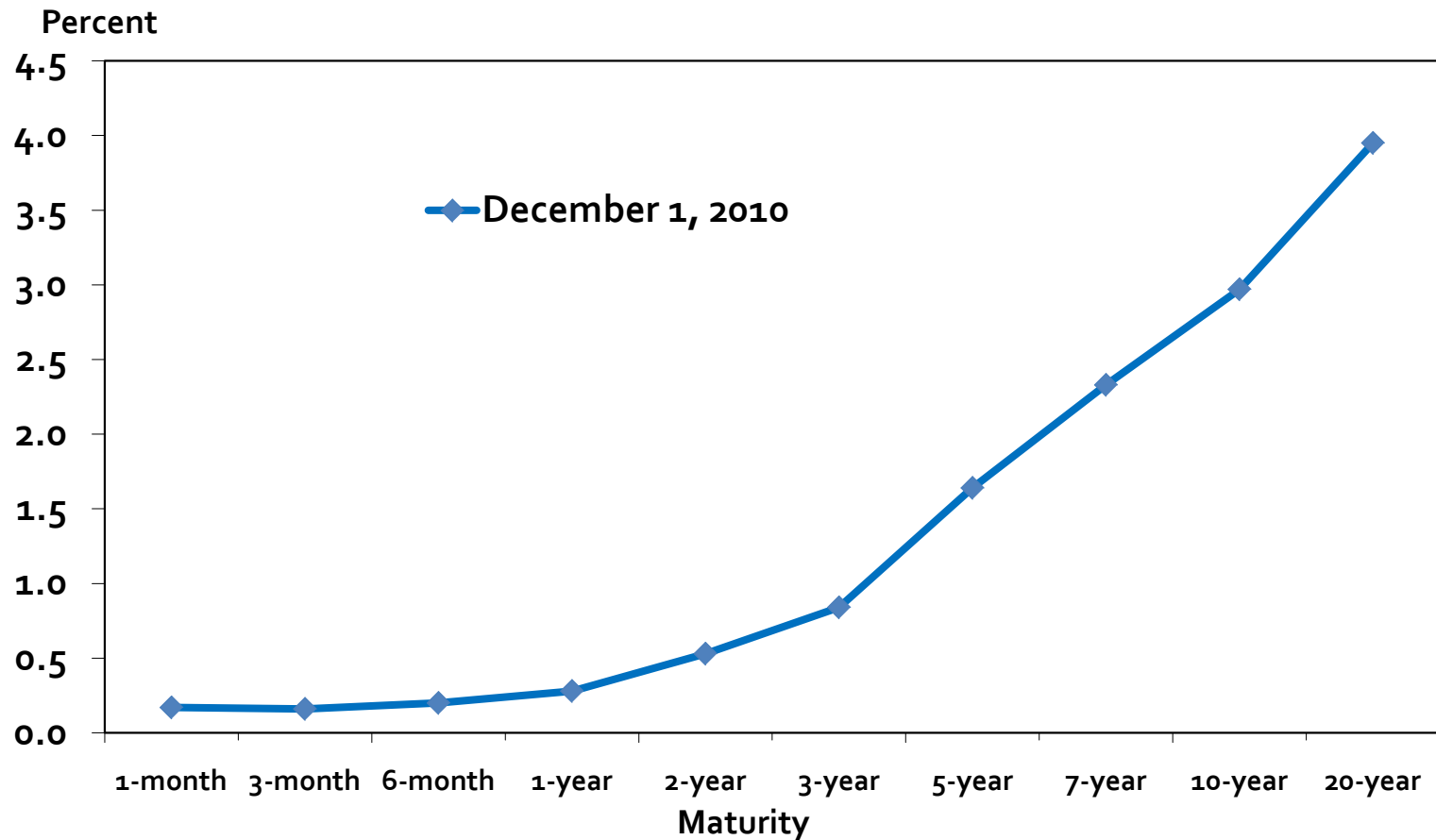


If other countries adopt U.S. technology, global agricultural production could surge.



A steep yield curve provides opportunities for low cost financing.

U.S. Treasury Yield Curve Rates

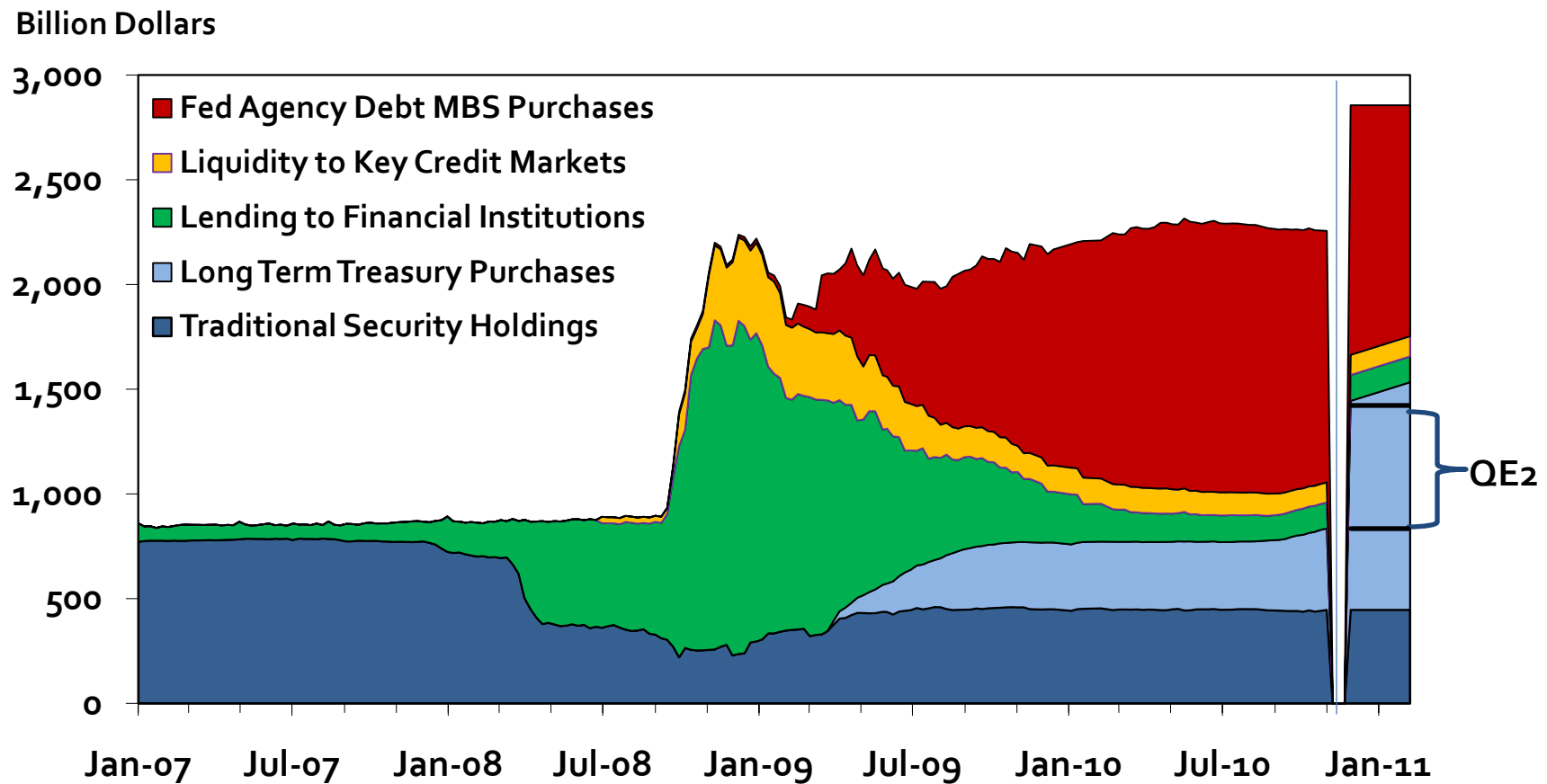


Source: Federal Reserve Board of Governors



When the Federal Reserve decides to exit from quantitative easing (QE) policy, agribusinesses may face challenges.

Federal Reserve Balance Sheet: Assets



Source: Federal Reserve Bank of Cleveland



Questions?

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