

Jason Henderson  
Omaha Branch Executive  
Federal Reserve Bank of Kansas City – Omaha Branch  
[www.kansascityfed.org/omaha](http://www.kansascityfed.org/omaha)  
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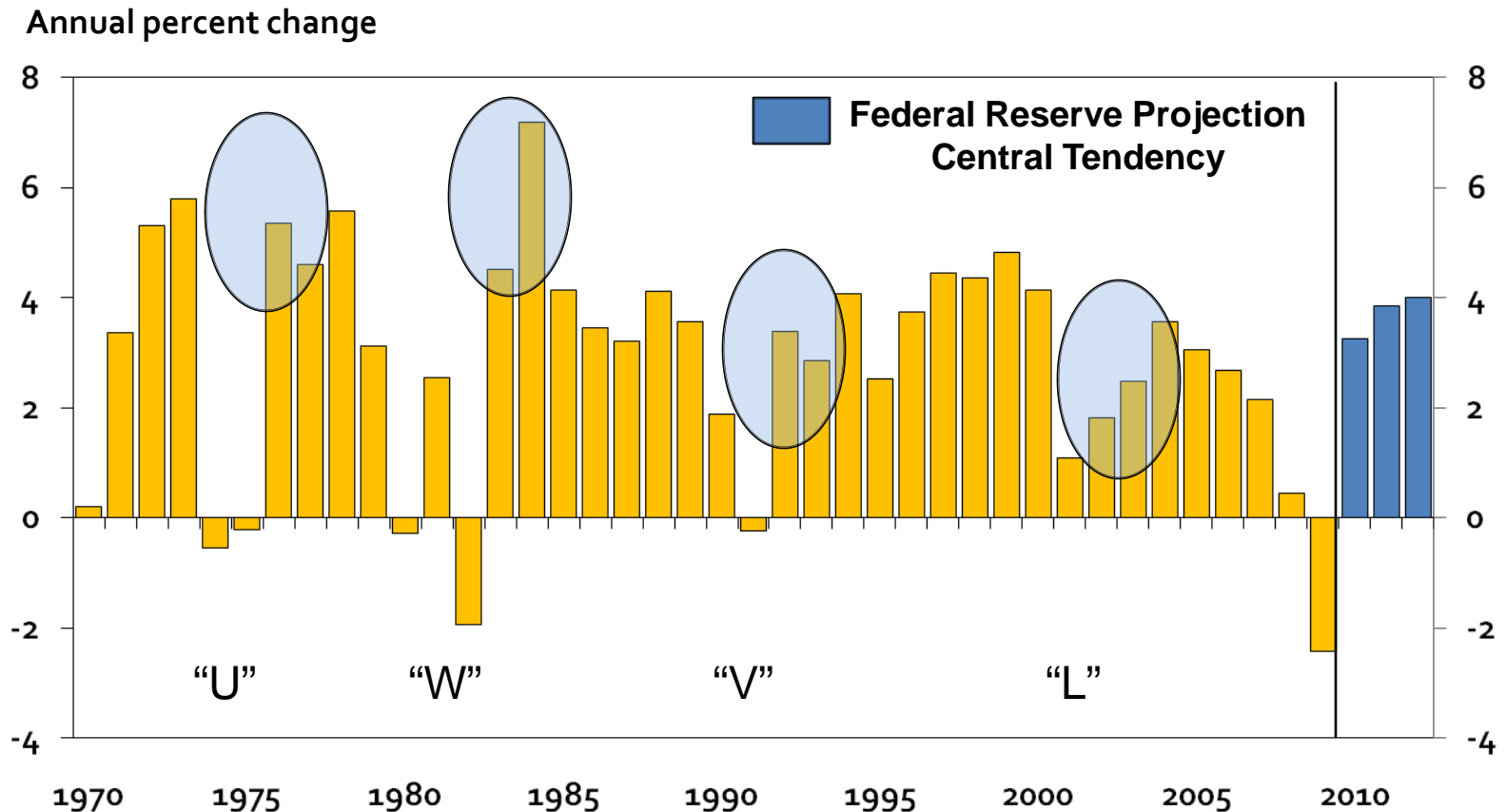
# Agriculture in the Recovery



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.

# The U.S. economy is projected to rebound in 2010.

## Real GDP Growth

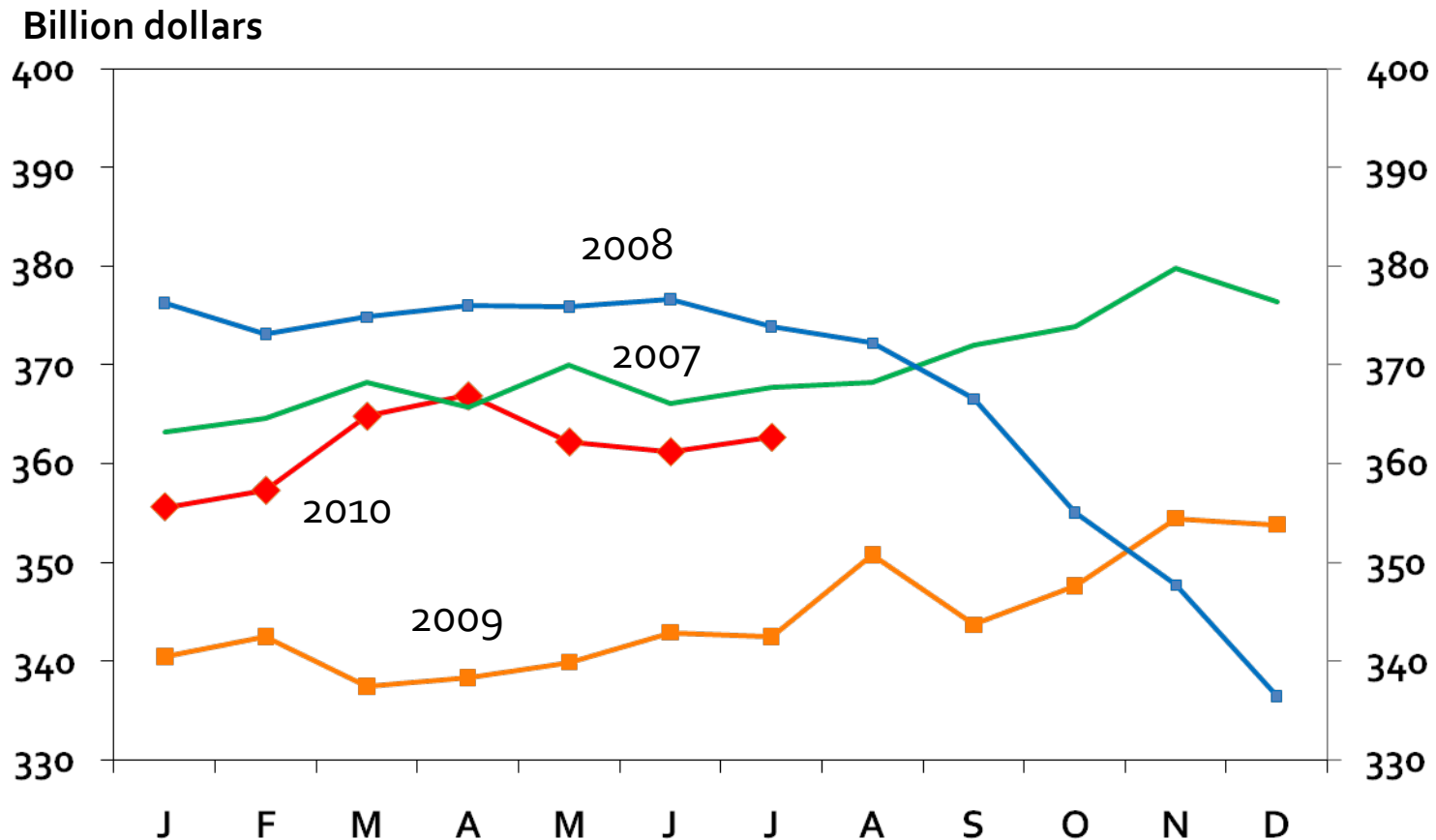


Source: Bureau of Economic Analysis Federal Reserve Board of Governors



# U.S. consumers are spending money.

## U.S. Monthly Retail and Food Sales

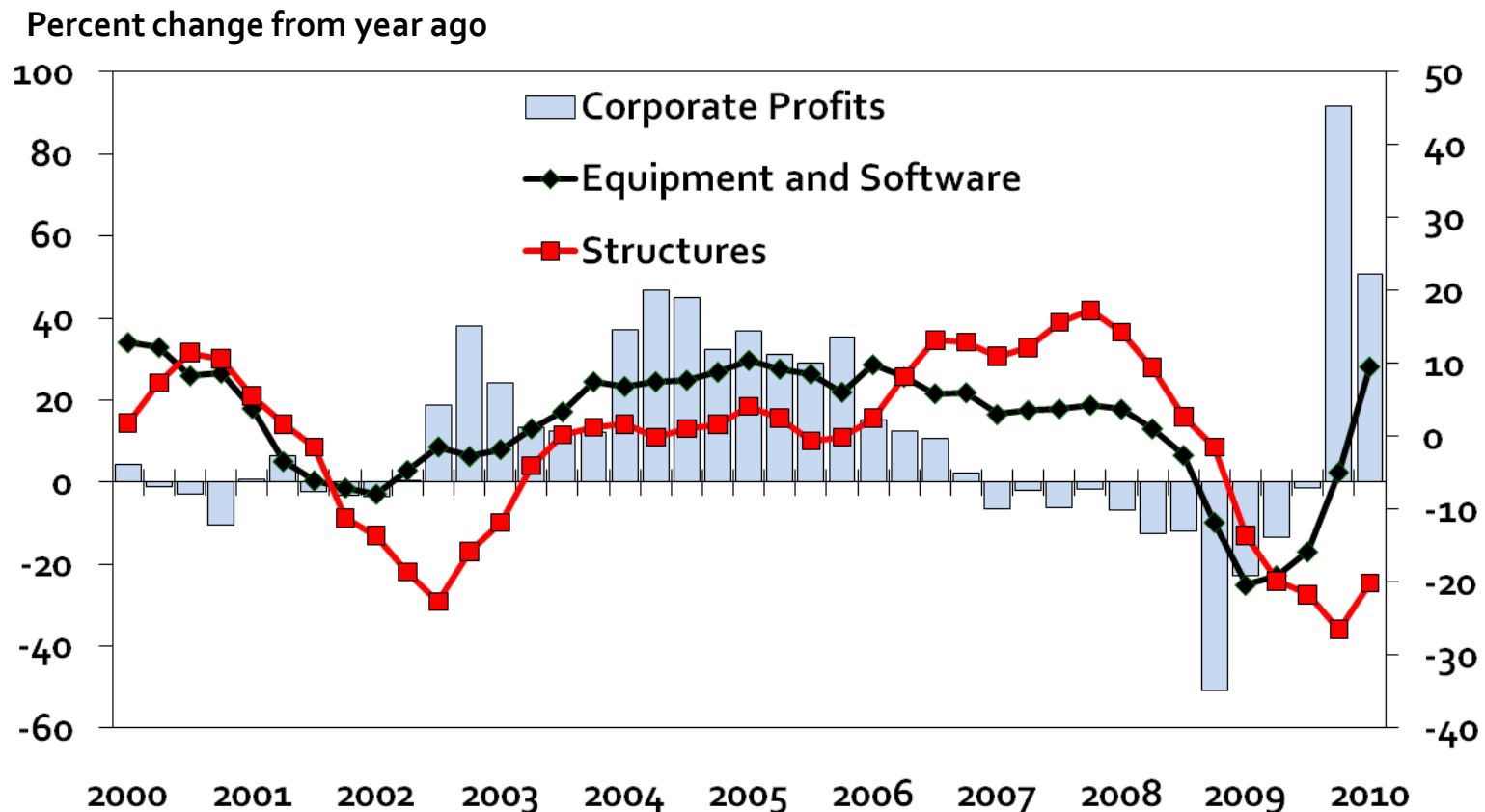


Source: U.S. Census Bureau



# Corporate profits and business investment are beginning to rebound.

## Corporate Profits and Nonresidential Fixed Investment

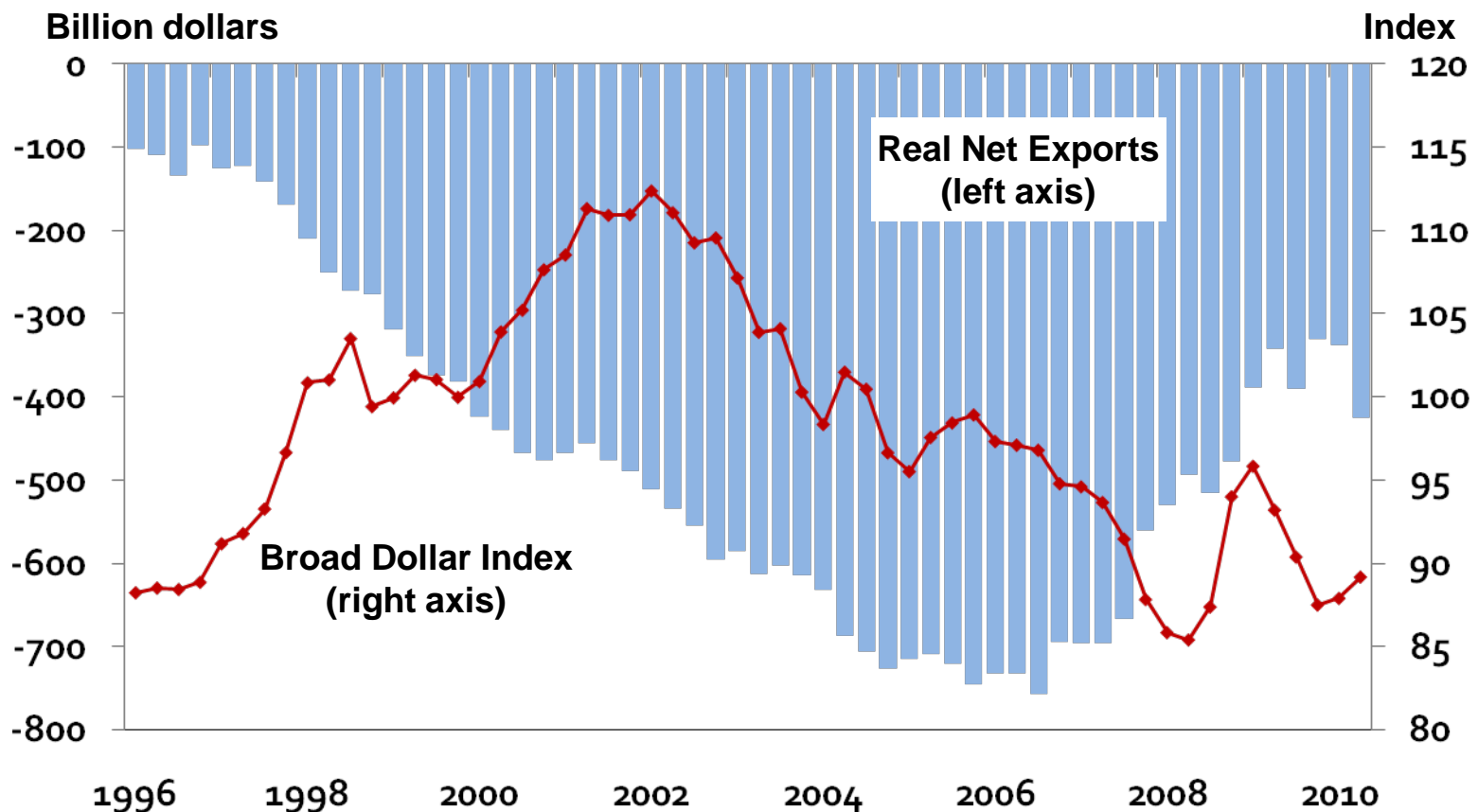


Source: Bureau of Economic Analysis



# After dramatic improvements since 2007, U.S. net exports have stabilized.

## U.S. Real Net Exports of Goods and Services and Value of the Dollar

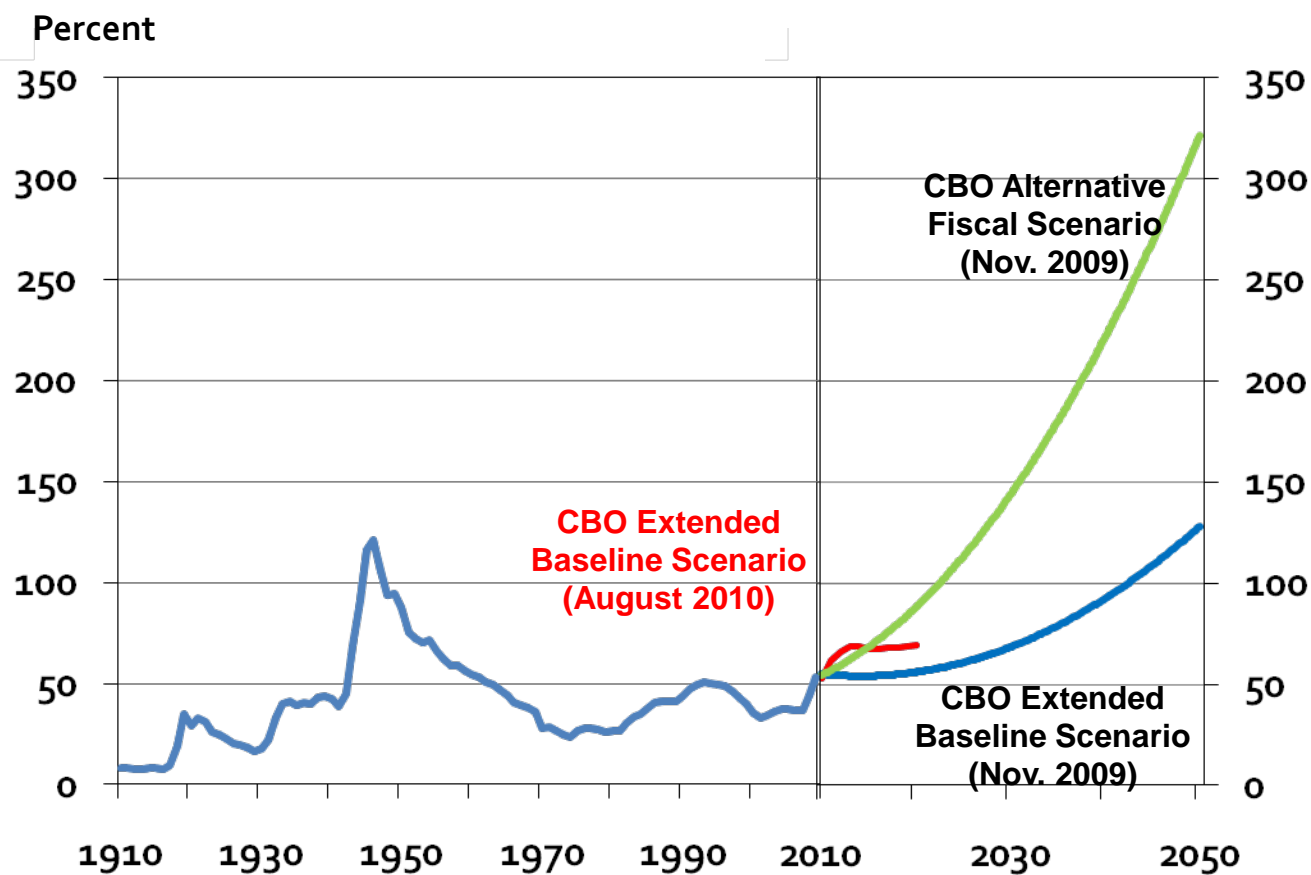


Source: Bureau of Economic Analysis and Federal Reserve Board of Governors



# How will surging federal debt levels affect economic conditions long-term?

## U.S. Debt as a Percent of GDP



Source: Congressional Budget Office



# Agriculture in the Recovery

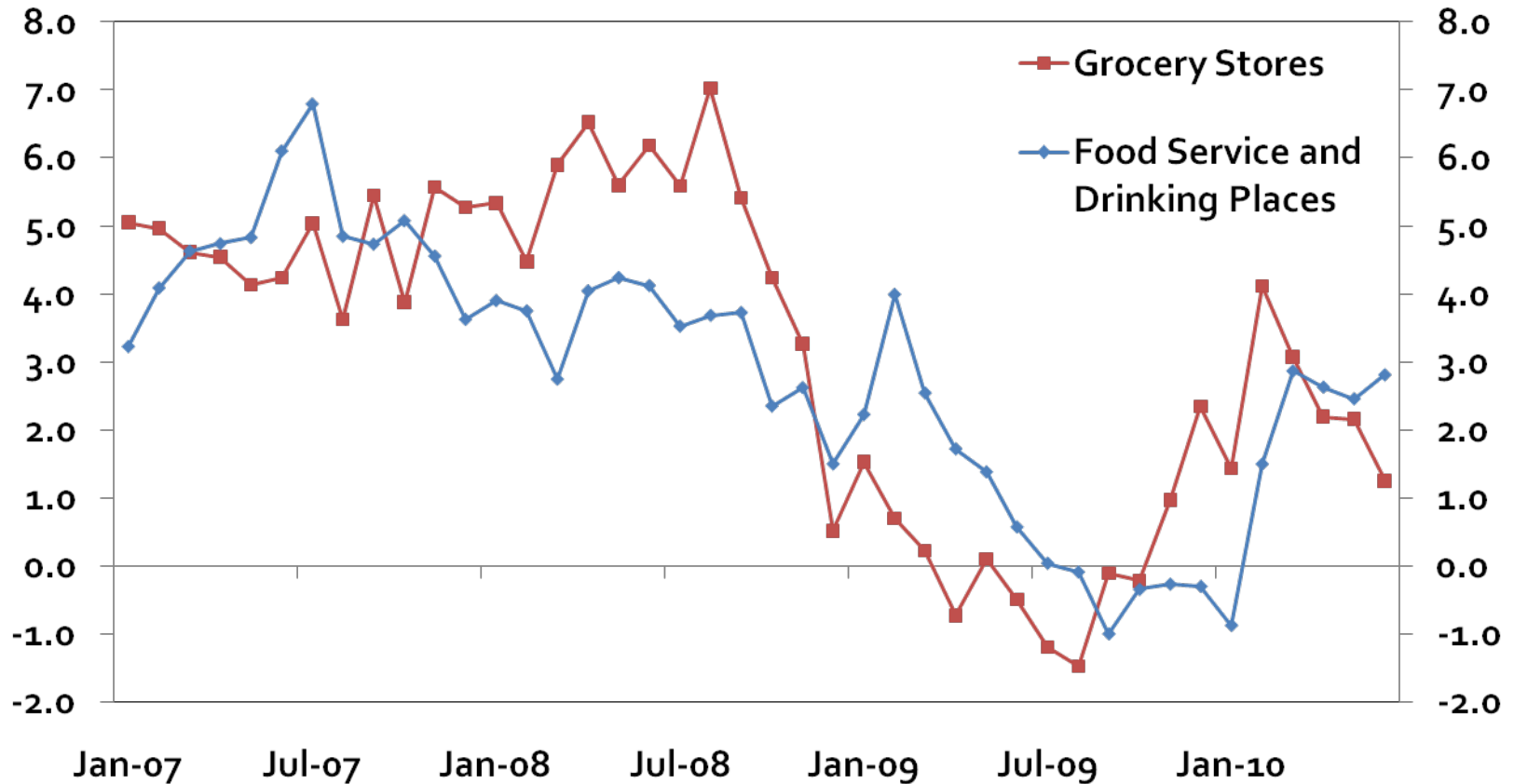
- The economic recovery is underway.
- What does it mean for agriculture?



# U.S. food expenditures have rebounded.

## U.S. Retail Sales at Grocery Stores and Restaurants

Percent change from year ago



Source: USDA

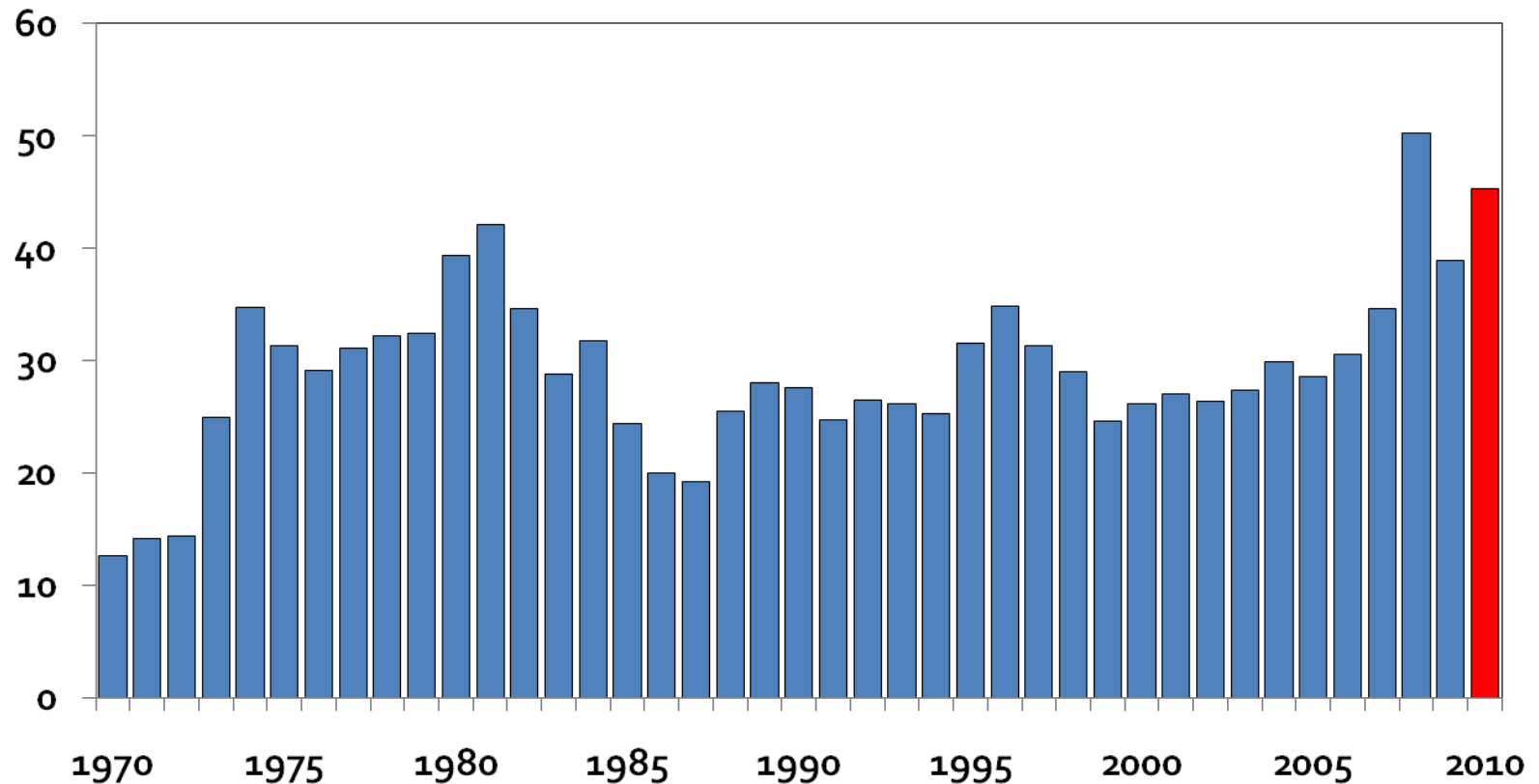




# U.S. agricultural exports have rebounded.

## Real U.S. Agricultural Exports (January to May data)

Billion dollars (constant 2009=100 dollars)



Source: USDA

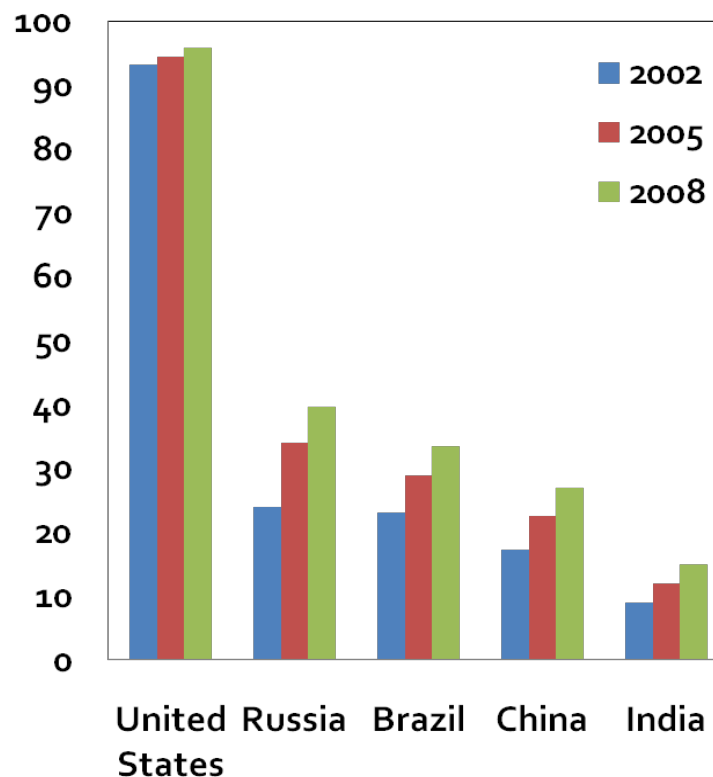


# Long-term demand fundamentals are strong.

## Robust population and income gains underpin demand.

- World GDP growth strongest in developing countries.
- In 2008, almost half of the world's population earns less than \$2.50 per day.
- At \$2.50 per day, most hunger problems are solved and people start eating processed foods.
- Household amenities, such as microwave ovens, also shift food demand.

Households Owning a Microwave Oven  
Percent

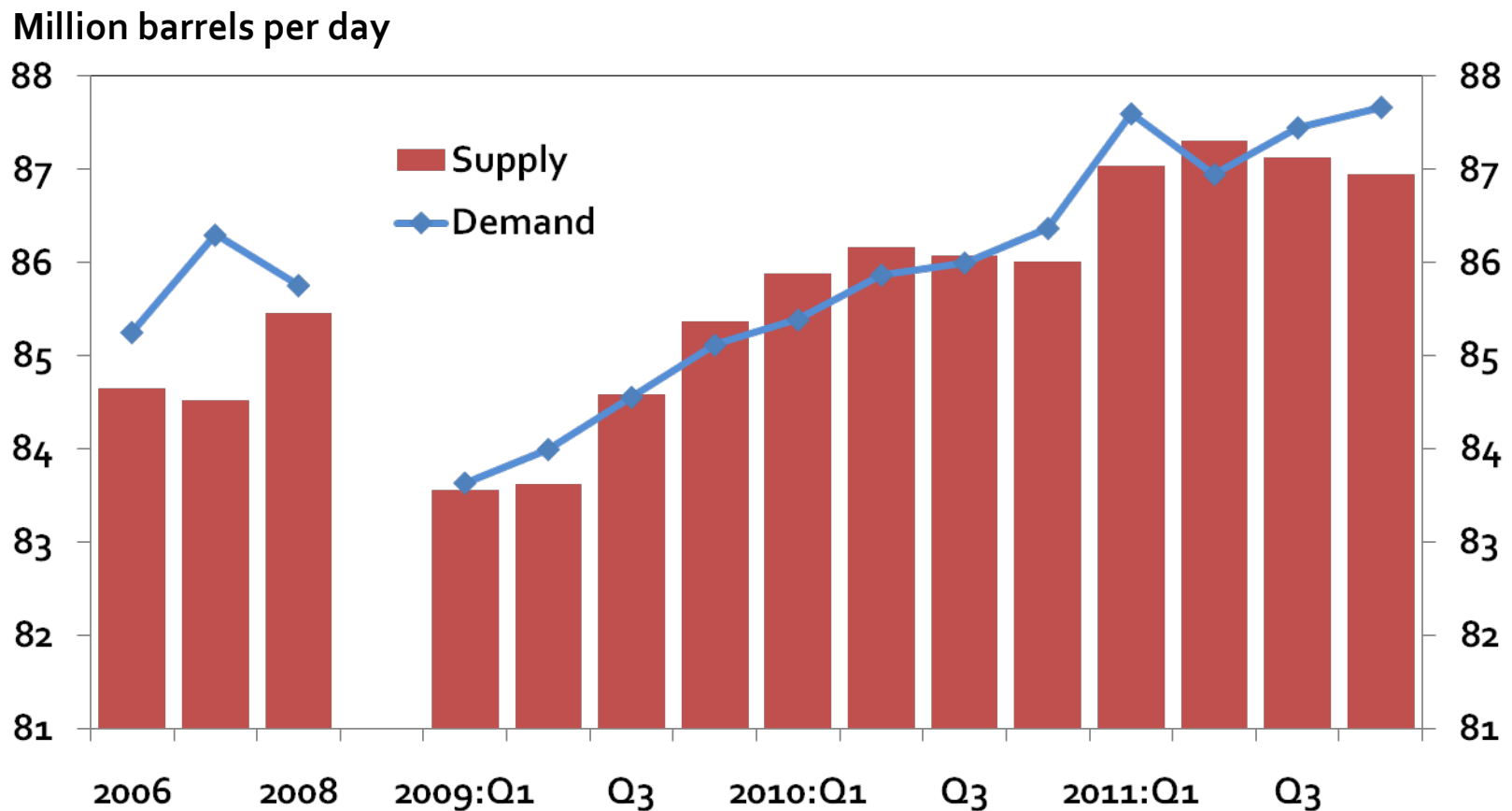


Source: USDA



# What happens to prices if crude oil demand outpaces supply?

## World Crude Oil and Liquid Fuels Balance



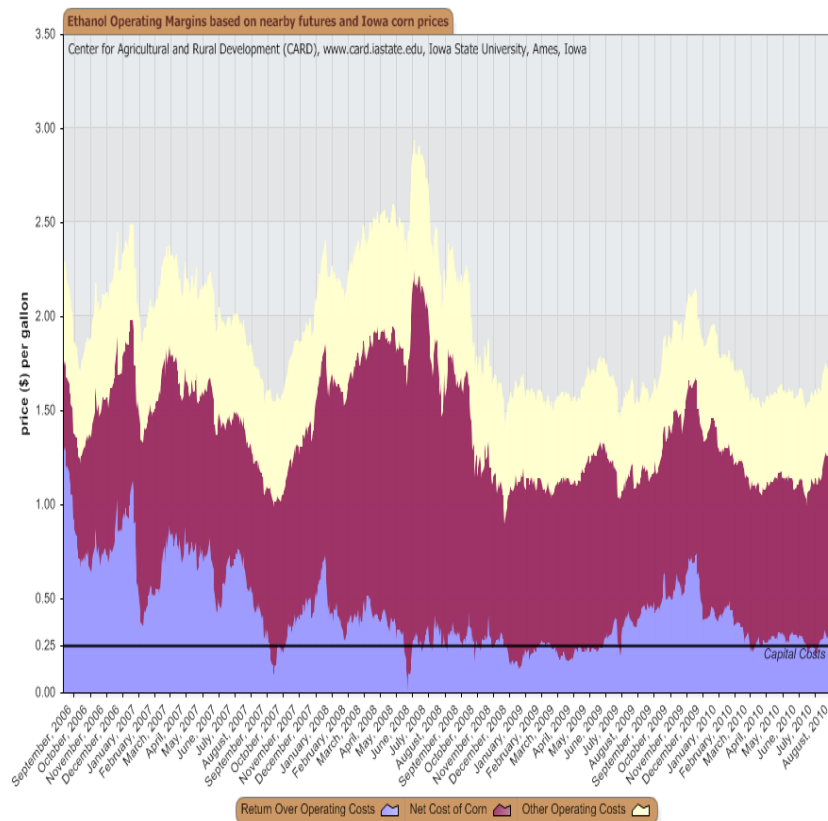
Source: Energy Information Administration



# What is the future of bio-fuels?

- Ethanol profits are expected to remain at the cost of capital.
  - No new plants
- Economic profits go to scarce resources.
  - Are ethanol plants a scarce resource?
  - Who keeps the blenders credit?
- Can ethanol survive without government subsidies?
  - Ethanol depends on government mandates and tariffs.
- Public benefits of ethanol:  
Do consumers believe it or care?

## Ethanol Profit Margins



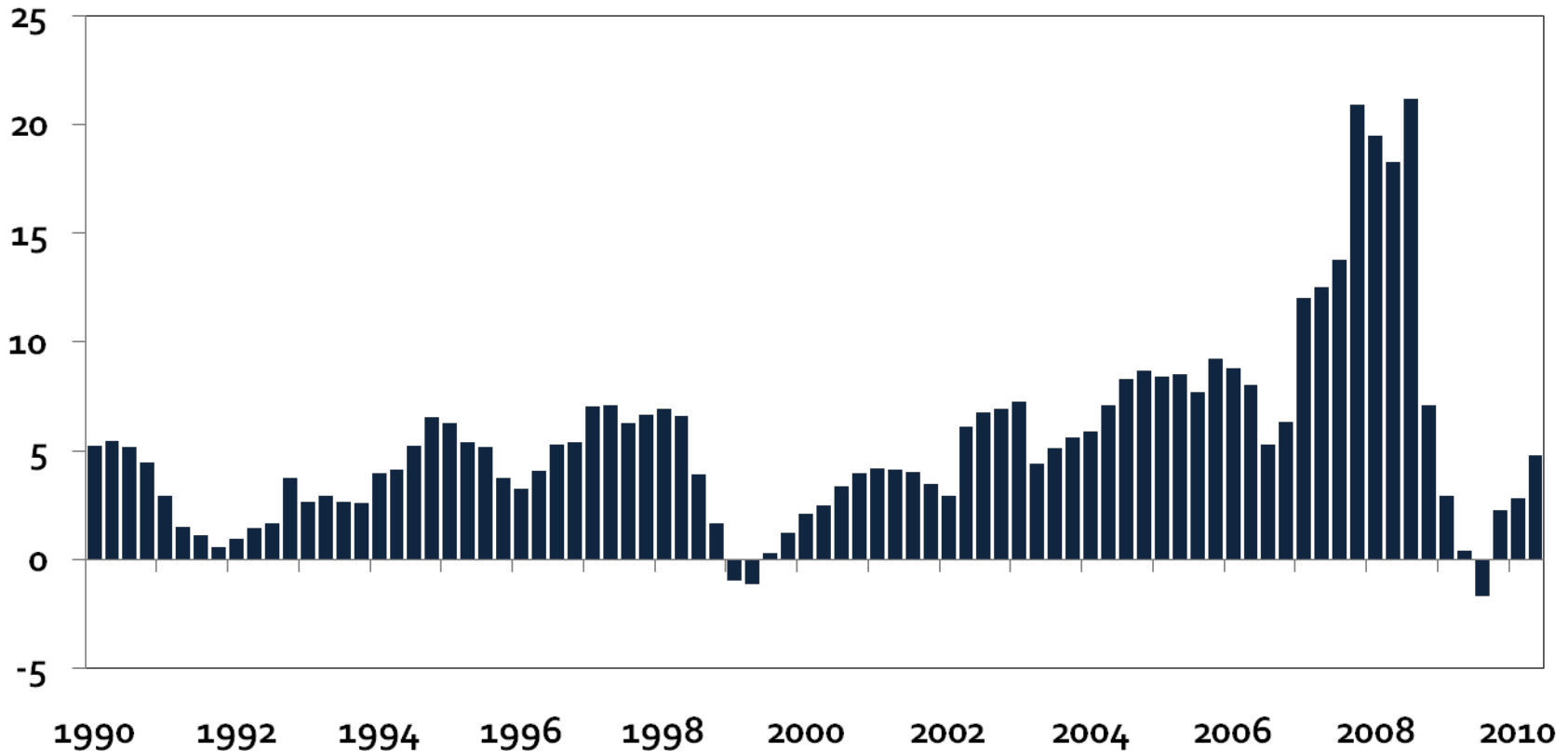
Source: Iowa State University



# Farmland values are rising again.

## Nonirrigated Cropland Values (Tenth Federal Reserve District)

Percent change from year ago

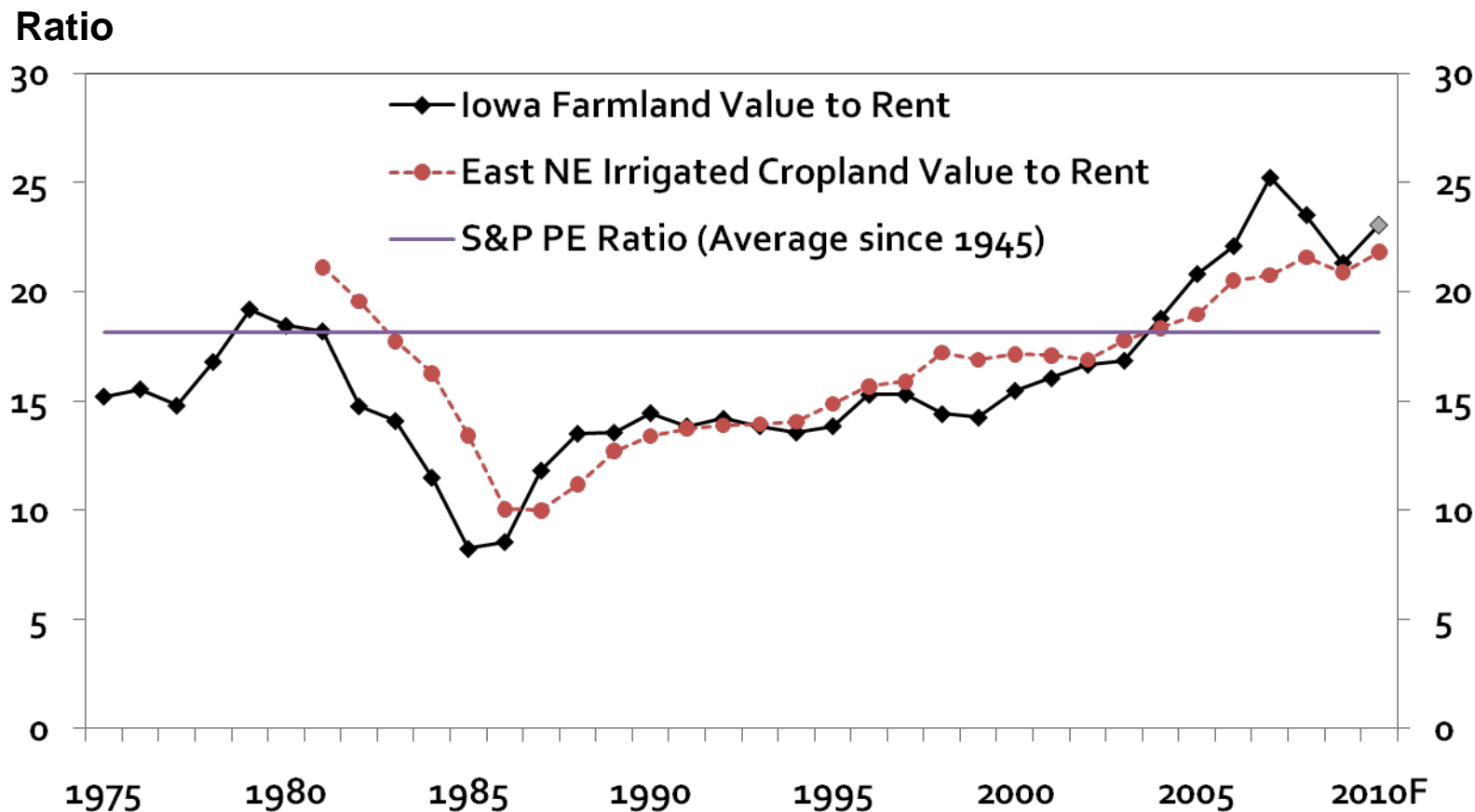


Source: Federal Reserve Bank of Kansas City



# Is a farmland bubble brewing? Are values too high or rents too low?

## Farmland Values to Rent Ratio



Calculations based on Iowa State University and University of Nebraska data



# Conclusions

- A modest economic recovery is underway.
- Agriculture is enjoying a rebound.
- Will rising populations and income in developing countries spur further gains?
- But risks remain in ...
  - Energy and ethanol
  - Farmland values and capitalization rates
- The global economy is dynamic, will U.S. agriculture change with it?



# Federal Reserve Bank of Kansas City Omaha Branch

**The Main Street Economist:**  
a bi-monthly publication discussing agriculture and rural America

**Agricultural Credit Survey:**  
a quarterly survey of agricultural credit conditions in the Tenth Federal Reserve District

*Coming this fall* - **Agricultural Finance Databook:**  
a quarterly summary of national agricultural finance conditions

**For Additional Information on  
Agricultural and Rural Issues**

**[www.kansascityfed.org/omaha](http://www.kansascityfed.org/omaha)**

