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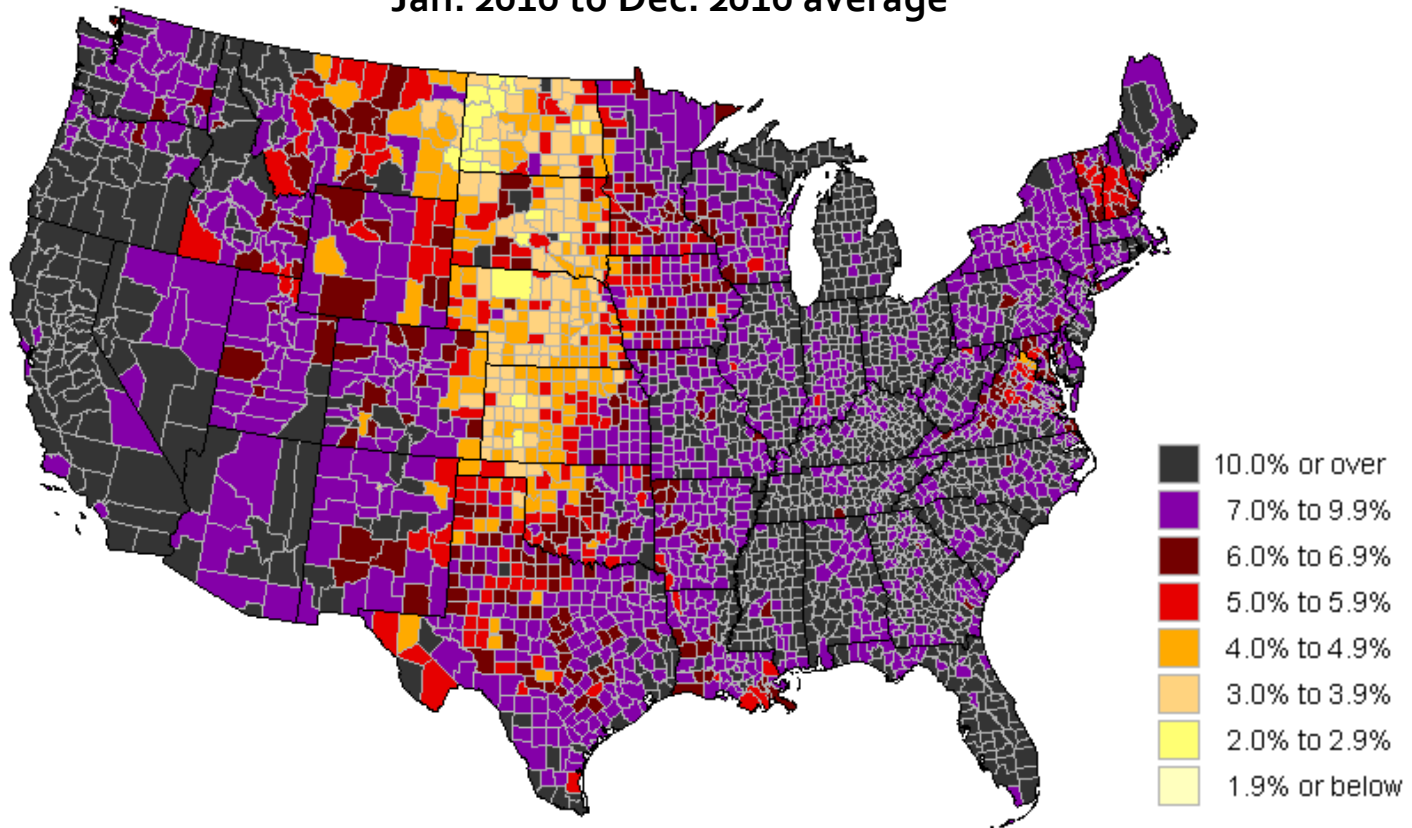
Economic Update



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.

A better economic mood in Nebraska.

Unemployment Rates by County
Jan. 2010 to Dec. 2010 average



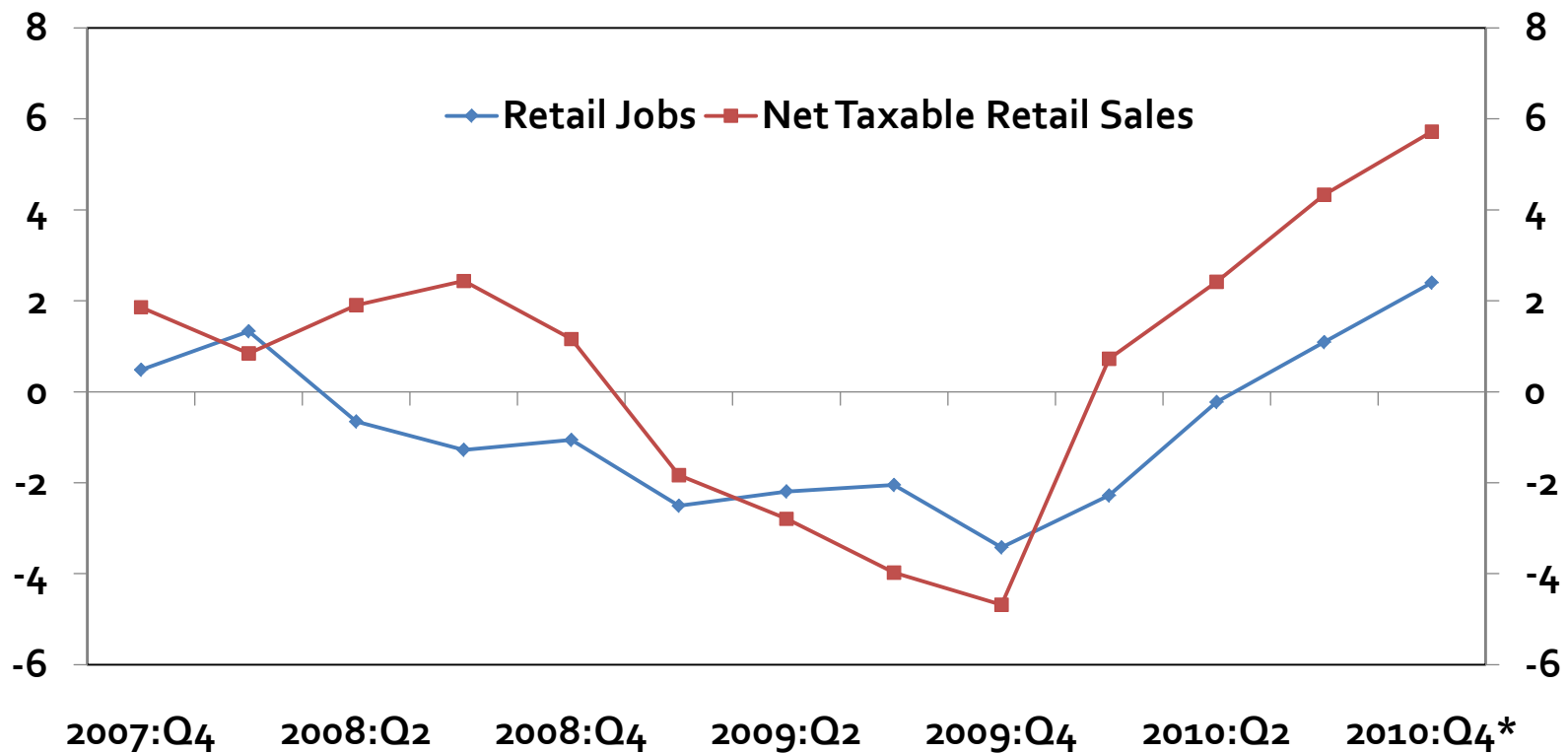
Source: Bureau of Labor Statistics



Nebraska's retail activity has rebounded, especially in rural areas.

Nebraska's Retail Jobs and Sales Growth

Percent change from year ago



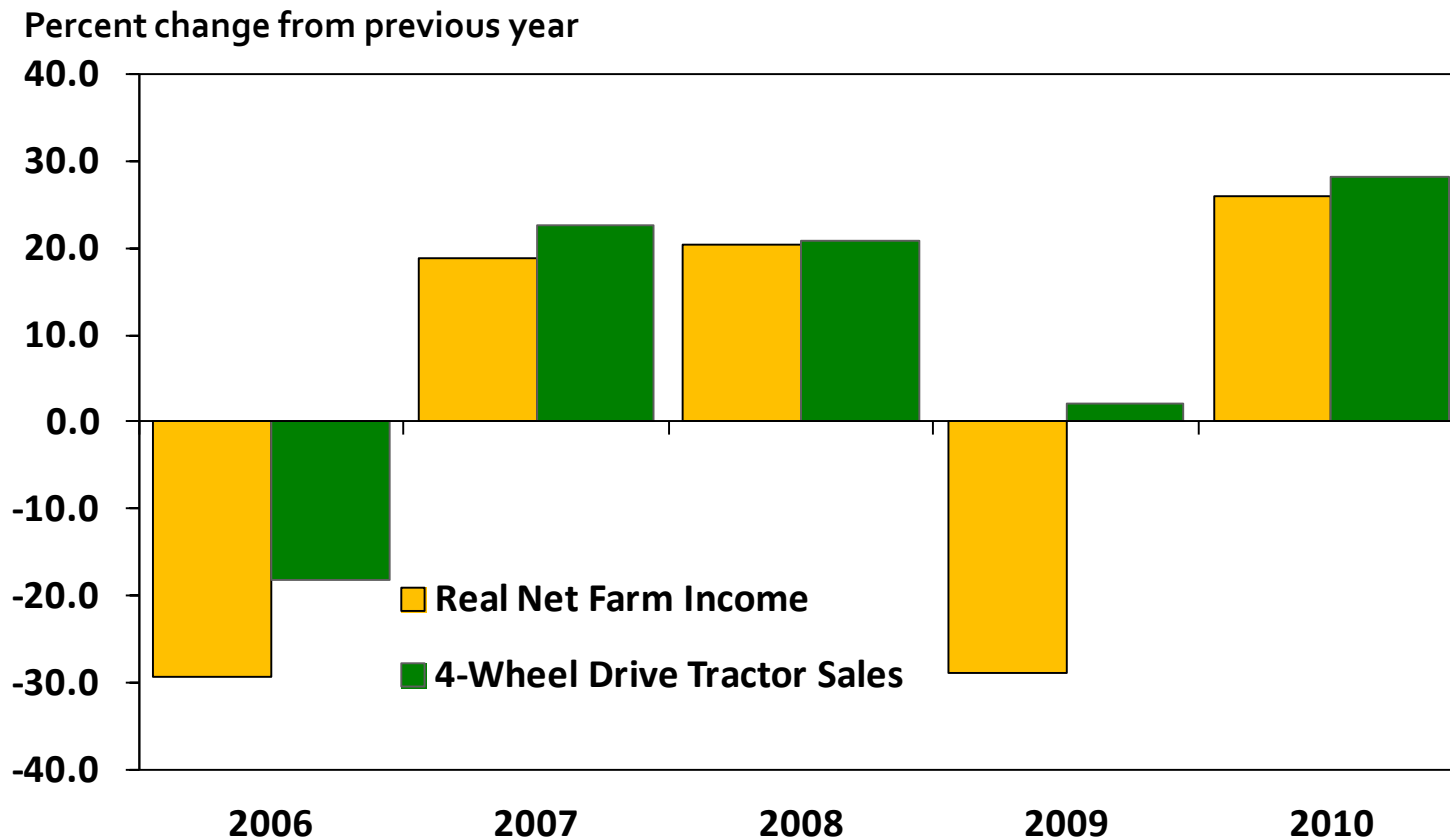
Source: BLS and Nebraska Dept. of Revenue

* Fourth quarter retail sales data is through November 2010



Stronger farm incomes boost agricultural equipment sales.

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

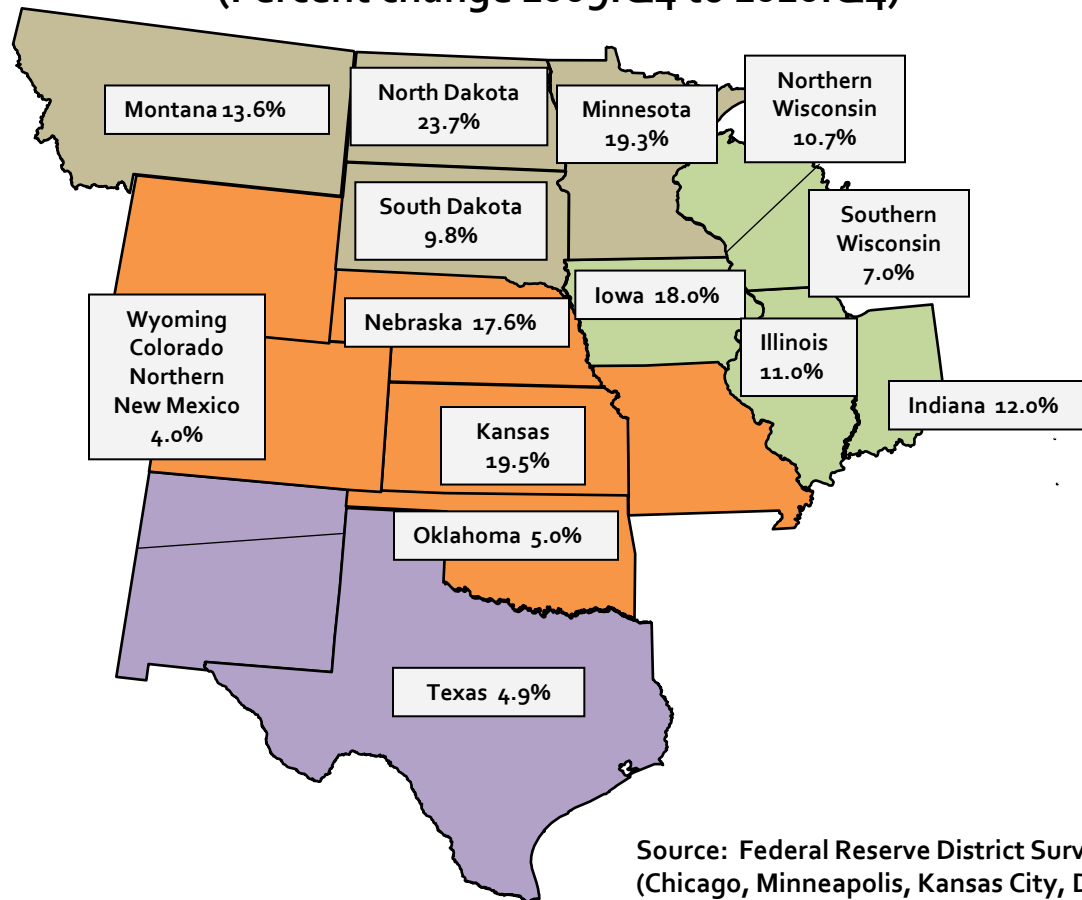


Source: Association of Equipment Manufacturers and USDA



Cropland values surge across the Corn Belt.

Non-irrigated Cropland Values
(Percent change 2009:Q4 to 2010:Q4)



Source: Federal Reserve District Surveys
(Chicago, Minneapolis, Kansas City, Dallas)



Surging Land Values

Low Interest Rates

Tight Global Supplies

Record-High Chinese Exports

15 billion gallons of ethanol

Booming Farm Incomes

Record low debt-to-asset ratios



Risk #1: High Interest Rates

The Net Present Value of Farmland

$$\text{Land Values} = \frac{\text{Expected Revenues}}{\text{Capitalization Rate}}$$

High Interest Rates
Lead to
Lower Farm Revenues

High Interest Rates
Lead to
Higher Capitalization Rates

What happens to farmland values under high interest rates?



Risk #2: The Best Cure for High Prices is High Prices

Farmers Always Produce Themselves Out of Prosperity

- 2011: U.S. Acres Planted to Corn Up 4.3%
- 2020: U.S. Corn Yields Up 17 Percent

How Quickly Could Farm Incomes Fall?

- 2013: Average Annual Corn Price is \$4.10
- 2013: Net returns above variable costs for corn fall 40% below today's levels.

Source: USDA



Risk #3: Food vs Fuel

What We Know: Ethanol is based on Mandates, Tariffs, and Subsidies.

**The Questions Being Asked Again:
Will the Answers Be Different?**

- What are the public benefits?
- Does it reduce our dependence on foreign oil?
- Is ethanol environmentally sustainable?
- Can we afford it?
- What is the impact on food prices?
- How long before advanced ethanol is viable?



Risk #4: China and U.S. Agricultural Trade

What happens to U.S. exports if China slows their economy?

- China's Inflation and Interest Rate

	CPI (12-month)	Interest Rates
Jan. 2010	1.93%	2.25%
Jan. 2011	5.66%	3.00%

How many of you believe the U.S. is a world power because we can feed ourselves?

Why is China any different?



Risk #5: Farm Debt

**The Lesson of the 1980s:
Falling Asset Values and High Debt are a
Recipe for Bankruptcy**

Will Farmer's Resist the Temptations?

It's a huge opportunity. When am I going to get this chance again?

They never make any more land.

I've waited 30 years for that land to sell.

With rates this low, what's a little bit more?

I'm not going to make any money in the bank or stock market.



**For More Information
on
The Nebraska Economy and Rural America**

www.kansascityfed.org/omaha

