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Capital Markets and Their Impact on You and Your Customers



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.

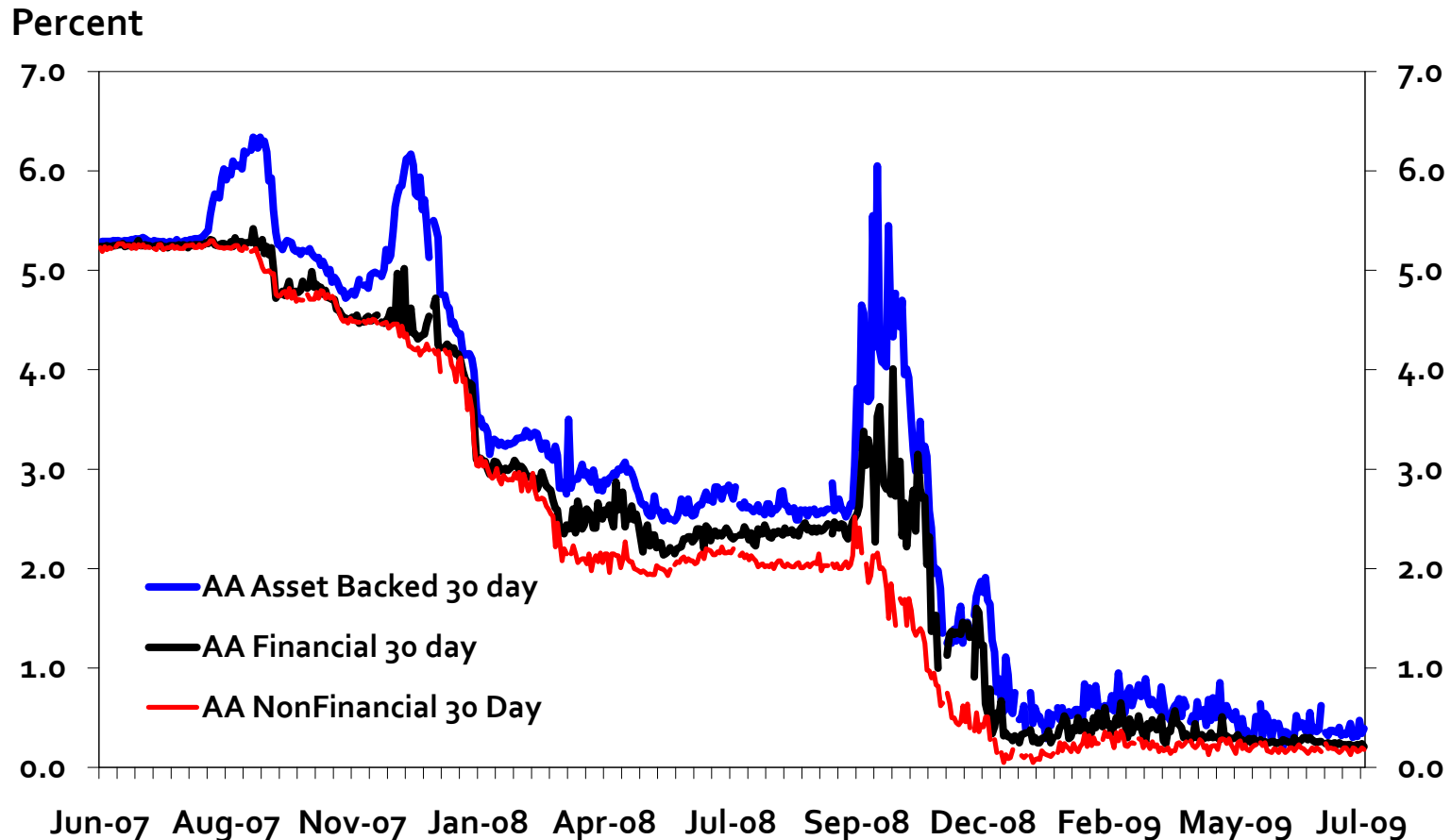
Today's Roadmap

- **Financial Crisis**
- **Economic Recession**
- **Inflation and Federal Reserve exit strategy**
- **Risks to the Livestock Sector**



The financial market crisis has eased.

Commercial Paper Rates

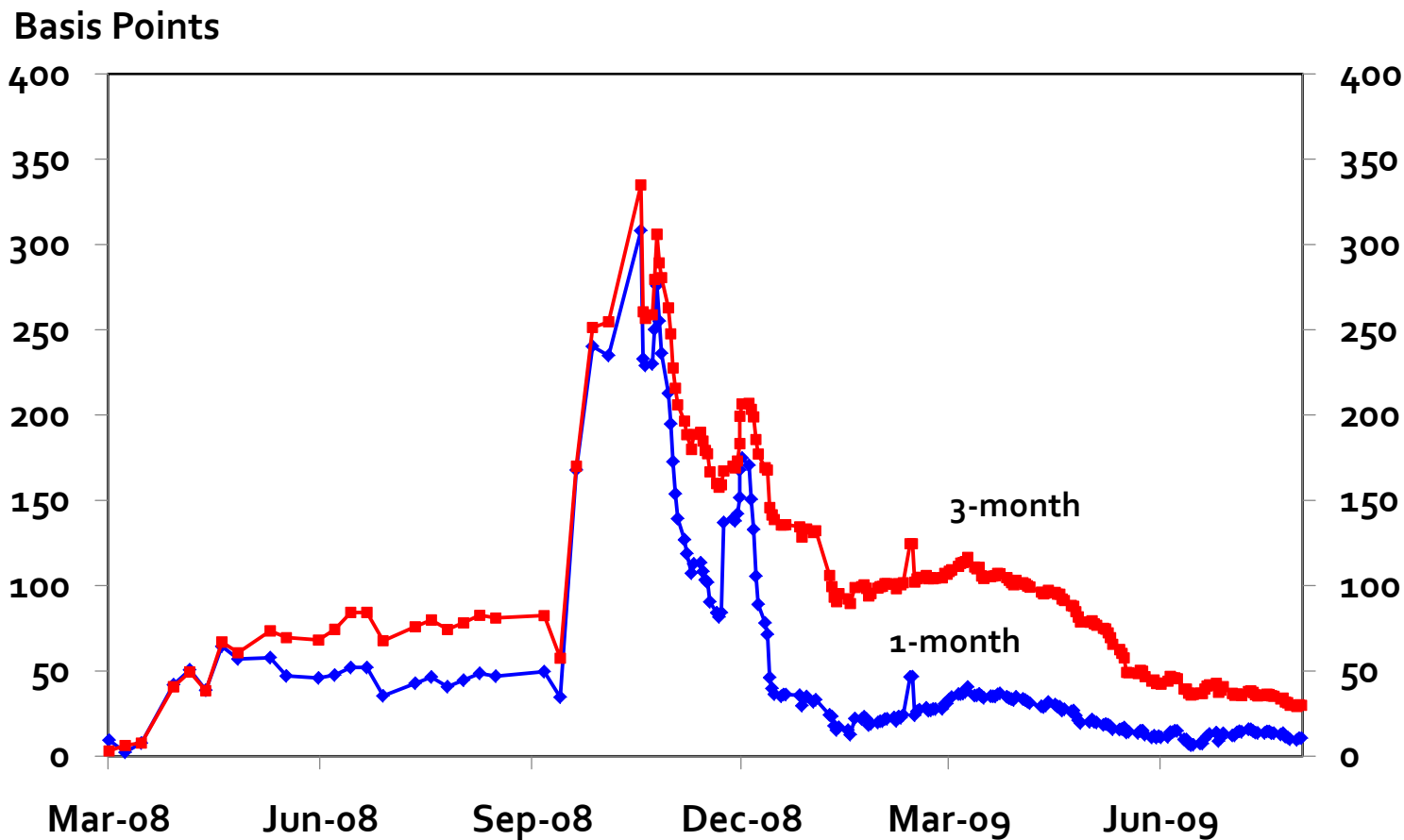


Source: Federal Reserve Board of Governors



The financial markets still remain fragile.

LIBOR-OIS Spread

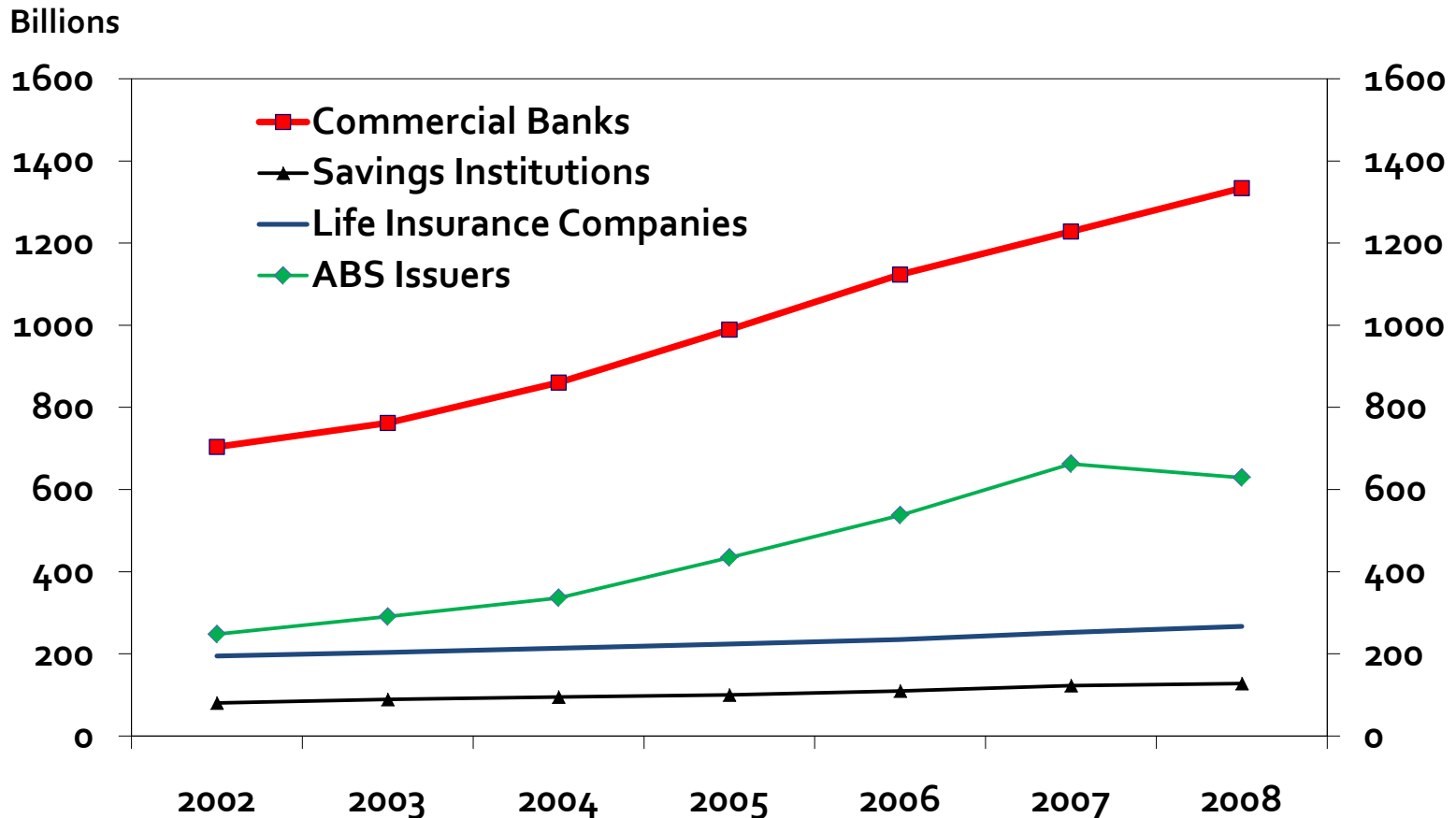


Source: Federal Reserve Board of Governors



Is commercial real estate a risk?

Commercial Mortgage Debt Outstanding by Type of Institution

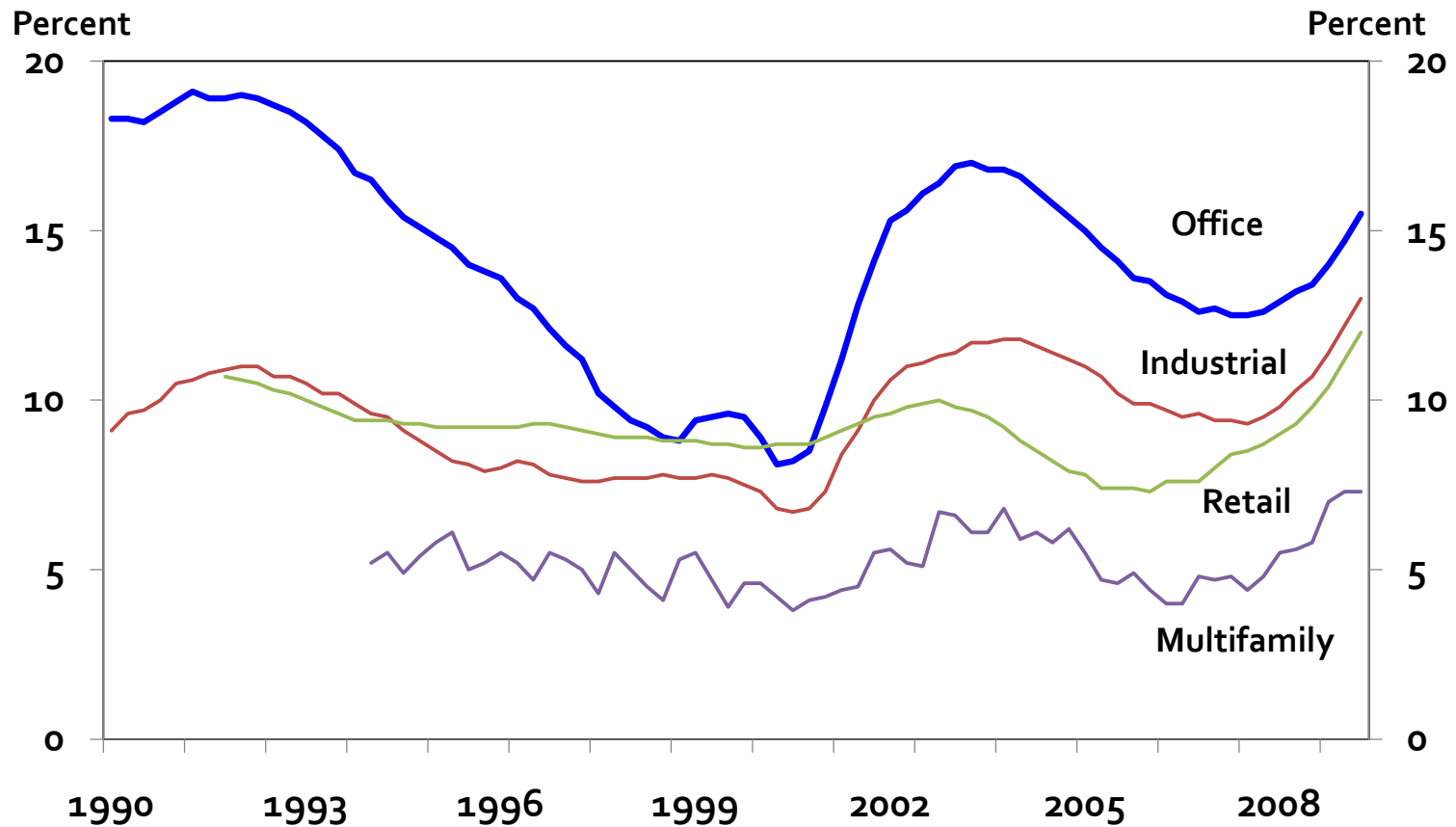


Source: Federal Reserve Board of Governors



Commercial vacancy rates are on the rise.

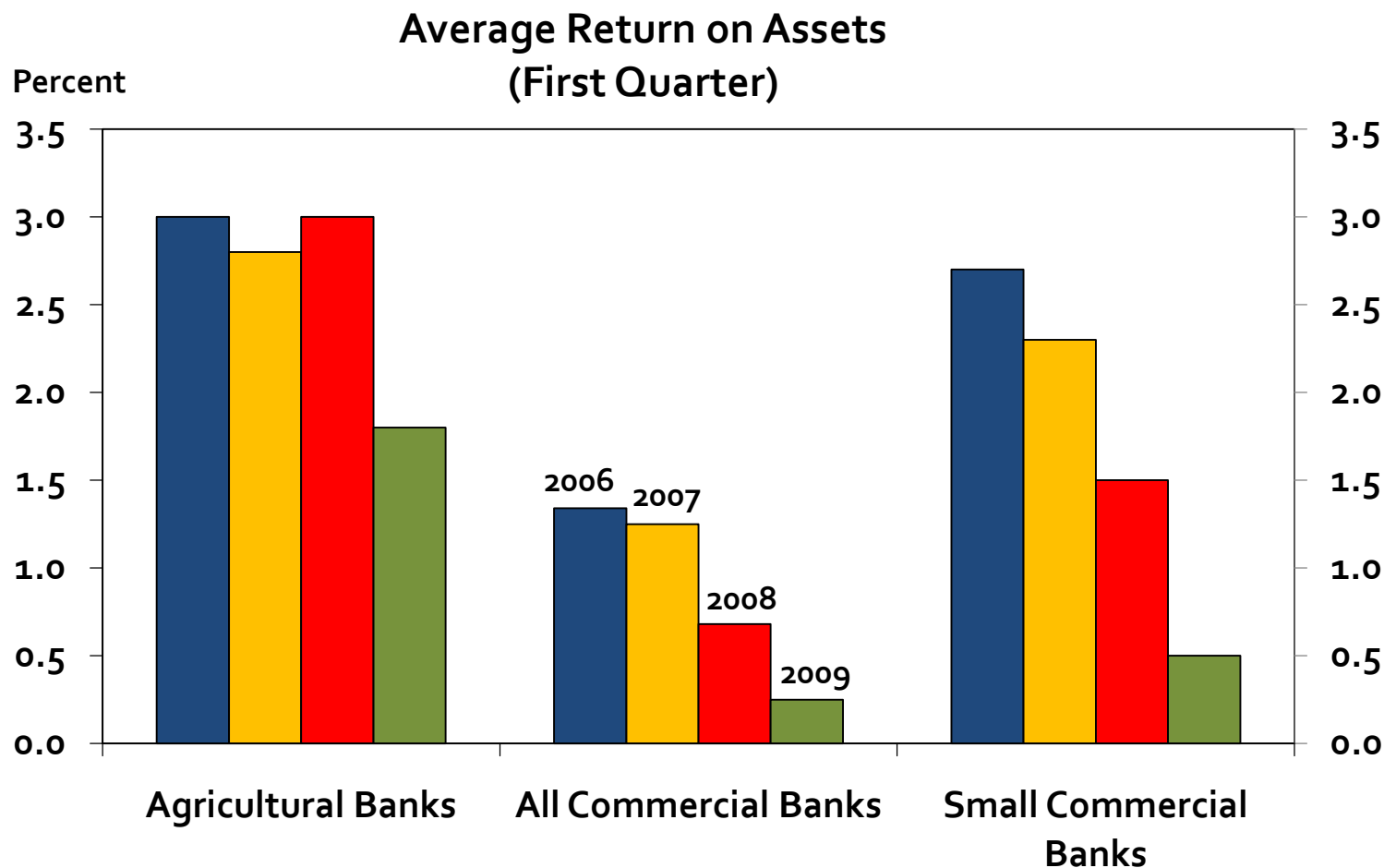
U.S. Commercial Real Estate Vacancy Rates



Source: Torto-Wheaton Research



Agricultural bank returns are still strong.



Source: Board of Governors of the Federal Reserve and FDIC

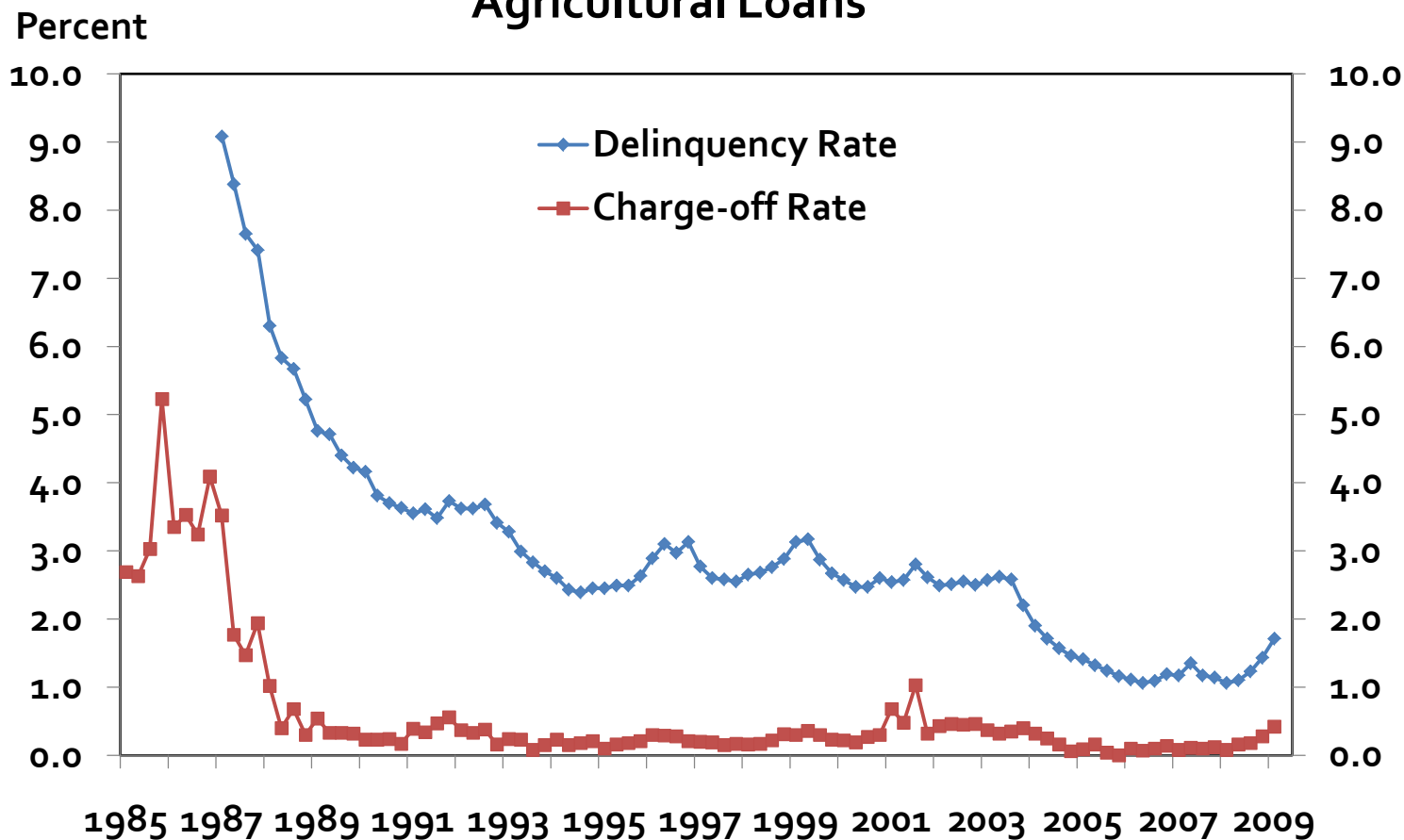
Agricultural banks are banks with agricultural loans accounting for 14% or more of their loan portfolio.

Small commercial banks are banks with less than \$500 million in assets



Loan delinquency rates and charge-offs edge up.

Charge-off and Delinquency Rates on Agricultural Loans

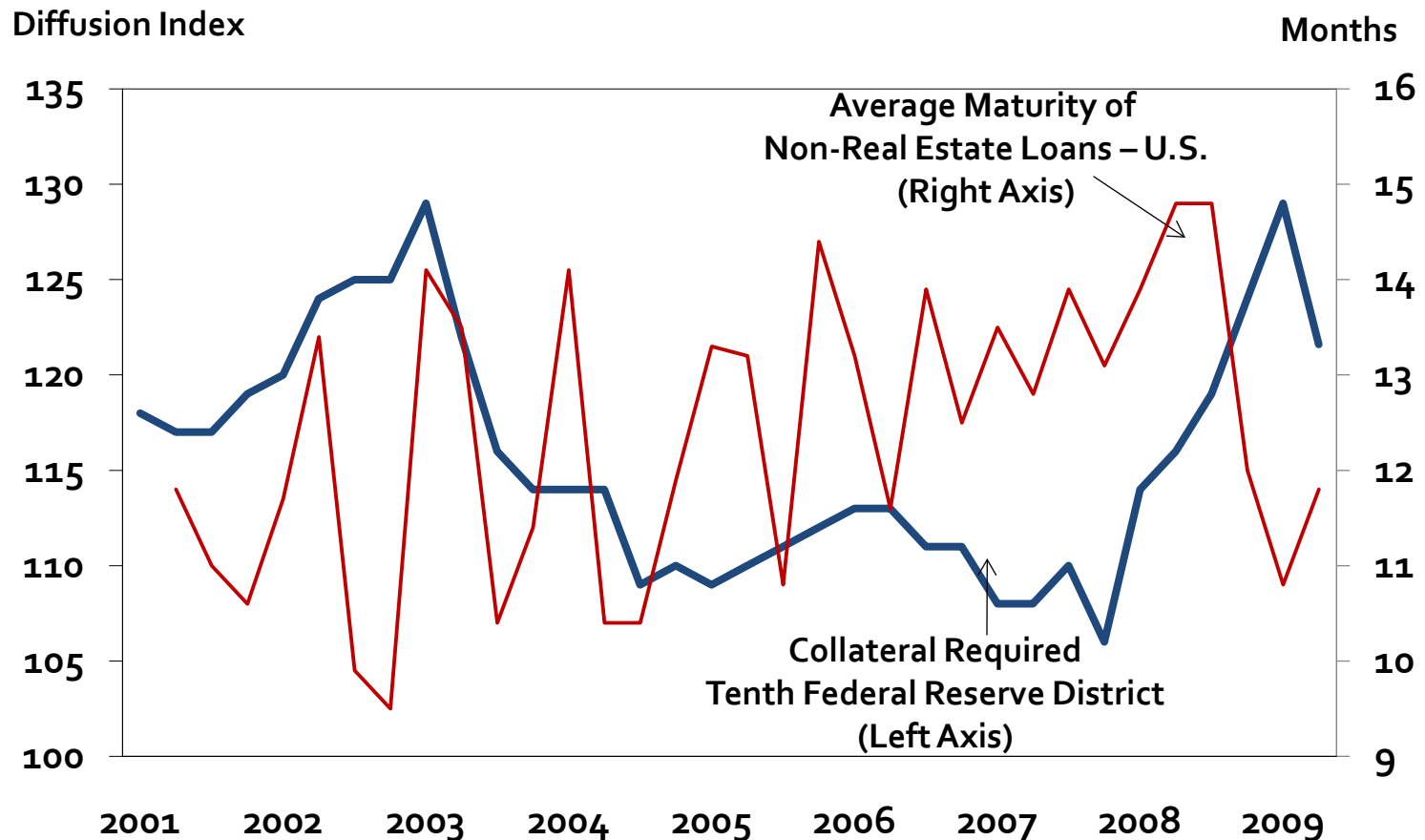


Source: Federal Reserve Board of Governors



Collateral requirements have tightened and loan maturities have fallen.

Collateral Requirements and Loan Maturity on Non-Real Estate Loans



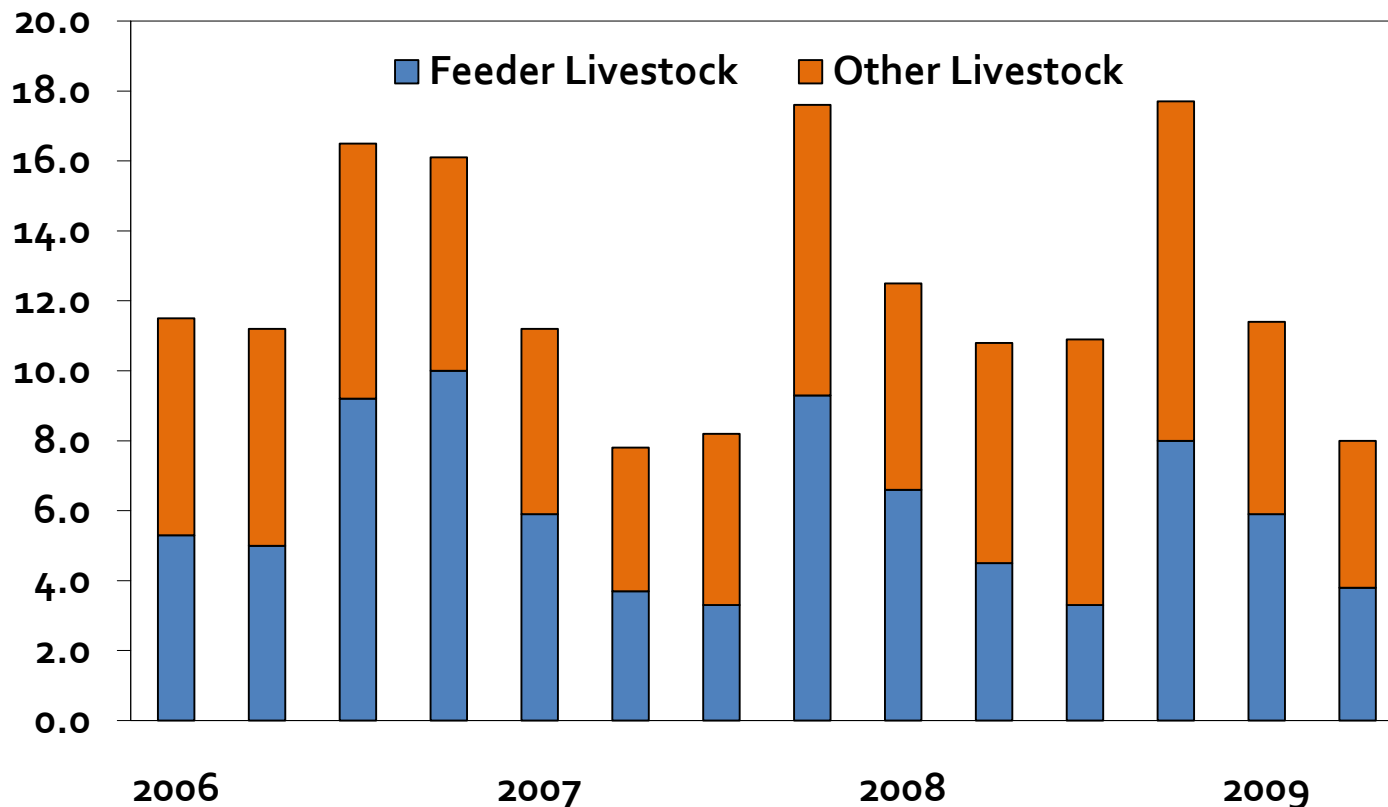
Source: Federal Reserve Bank of Kansas City and Agricultural Finance Databook



Low profits have trimmed livestock lending.

Volume of Livestock Loans made to Farmers

Billion dollars



Source: Agricultural Finance Databook



Today's Roadmap

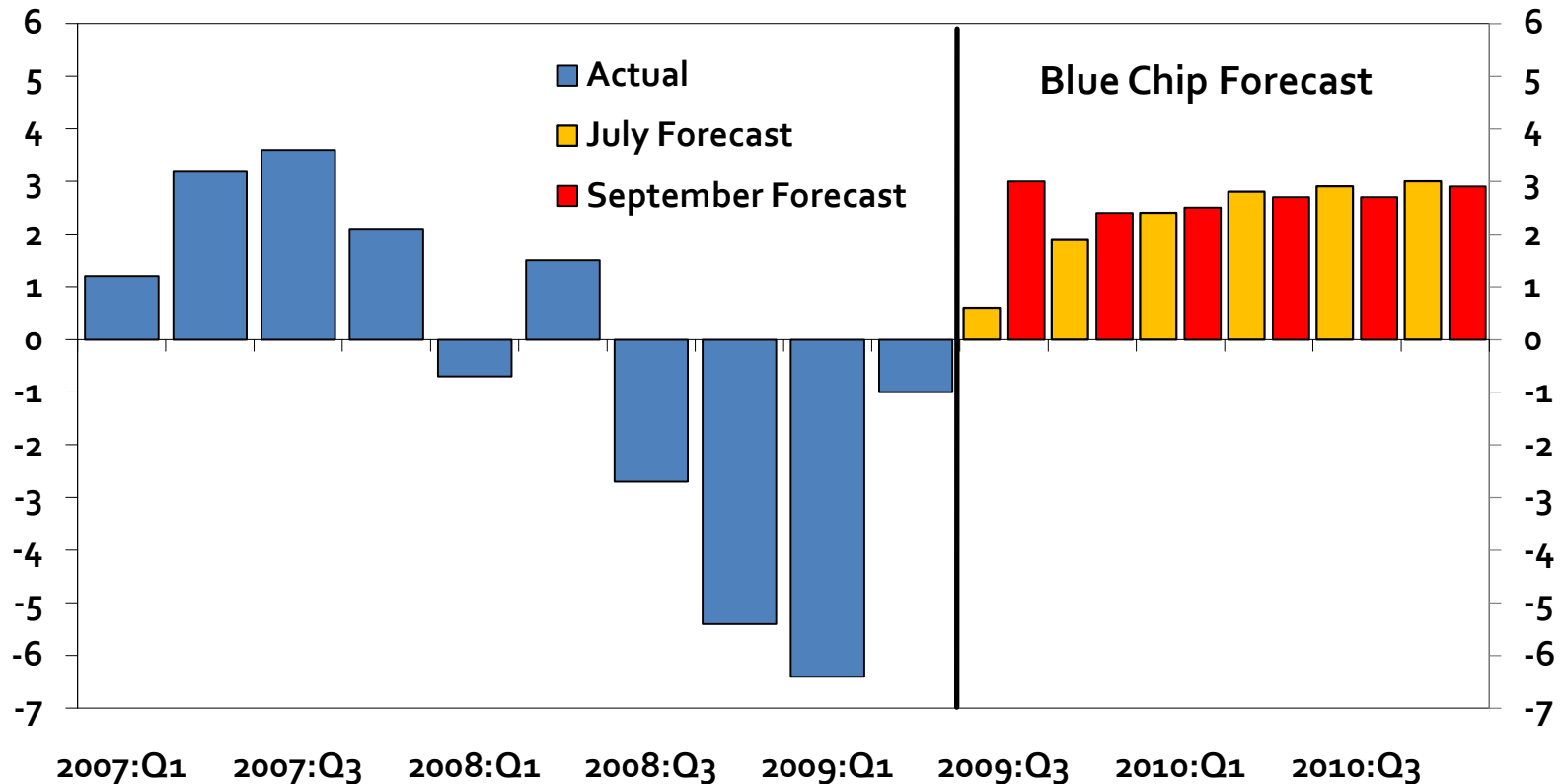
- **Financial Crisis**
- **Economic Recession**



If forecasts hold, we have hit bottom.

Real GDP Growth

Annualized percent change from previous quarter

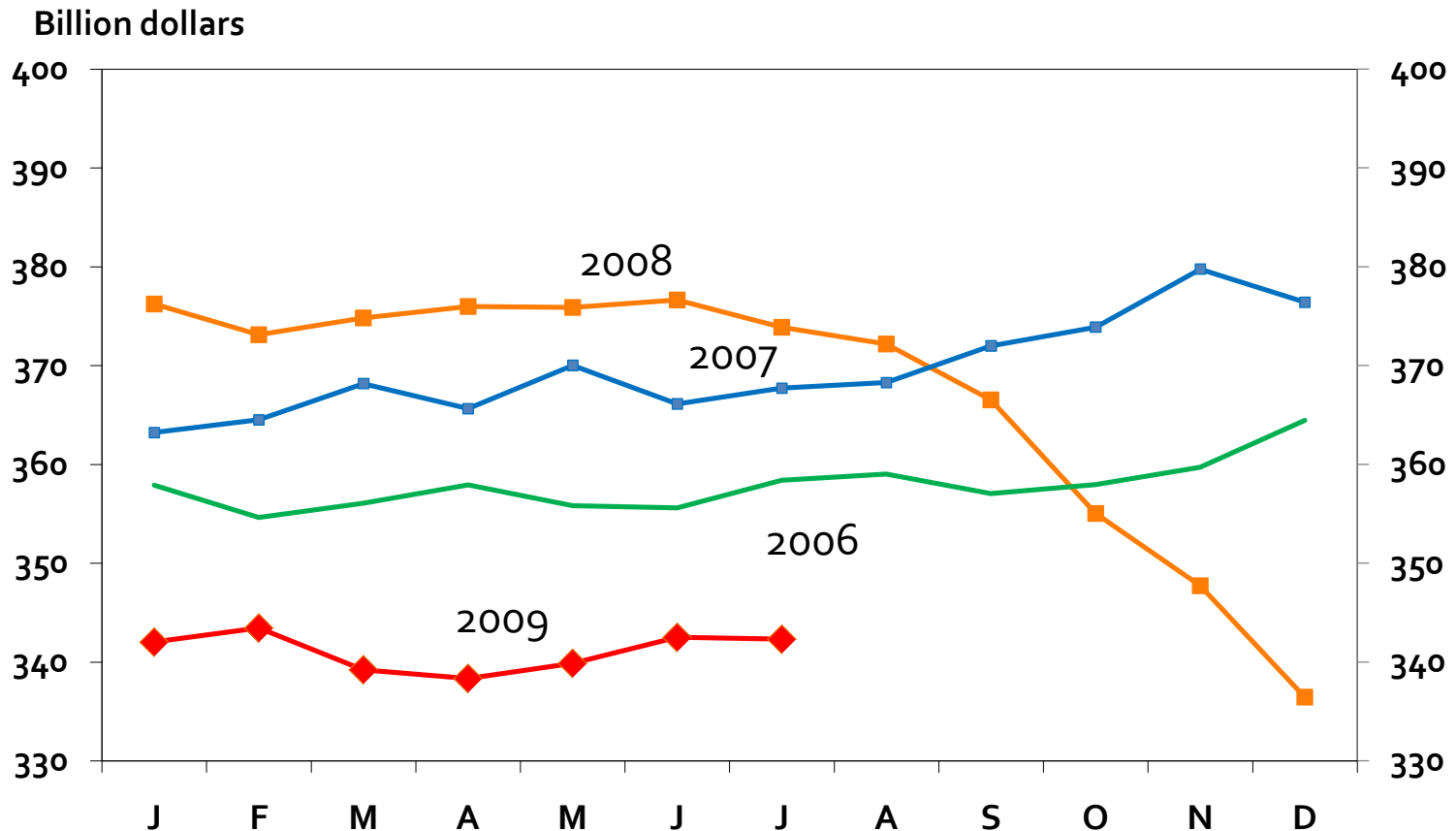


Source: Bureau of Economic Analysis and Blue Chip Economic Indicators



Consumer spending is beginning to stabilize.

U.S. Monthly Retail and Food Sales

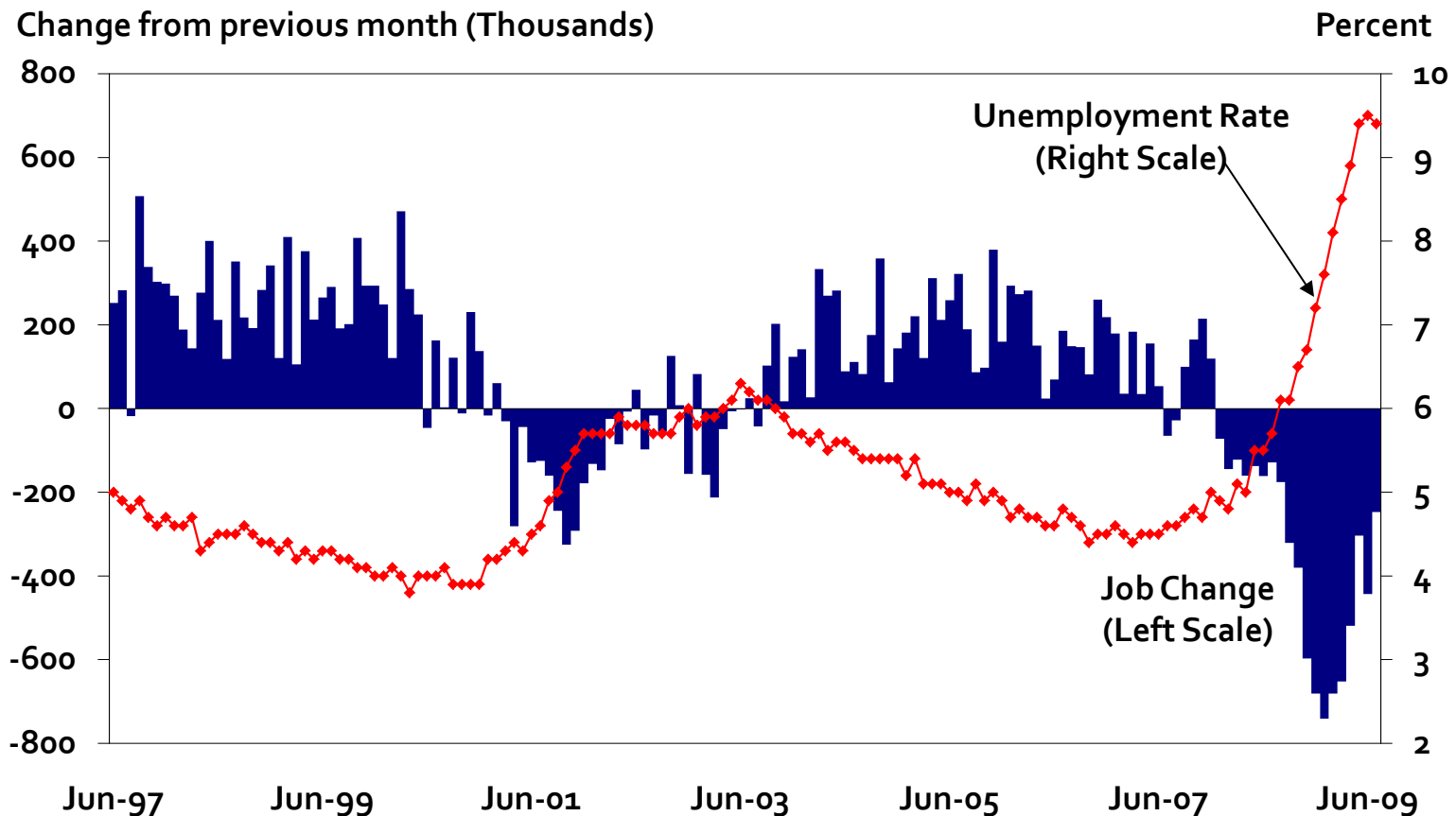


Source: U.S. Census Bureau



Job losses will limit domestic spending.

U.S. Non-farm Job Growth and Unemployment Rate

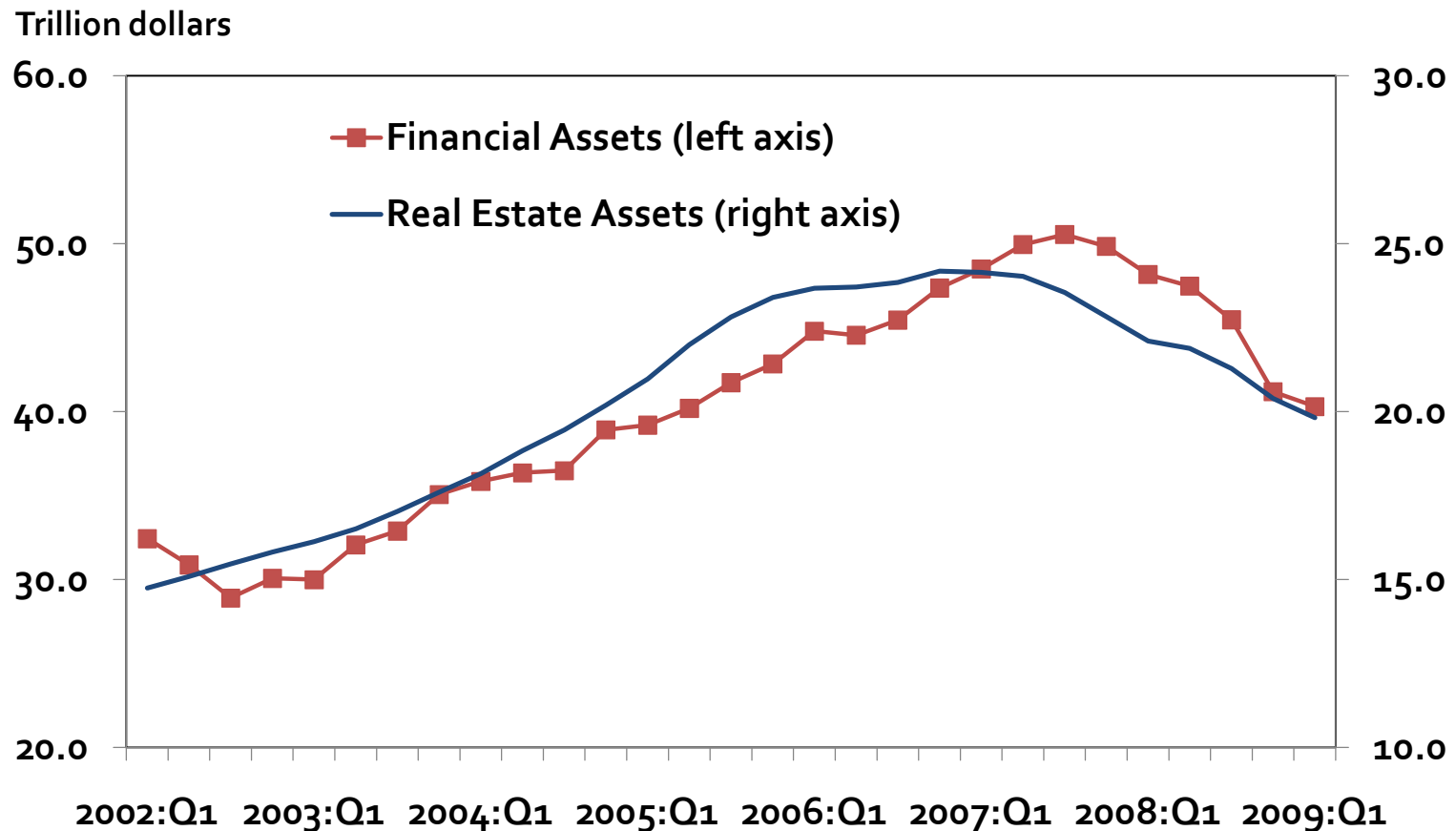


Source: Bureau of Labor Statistics



Lower wealth levels will limit spending.

Assets Held by Households and Nonprofit Organization

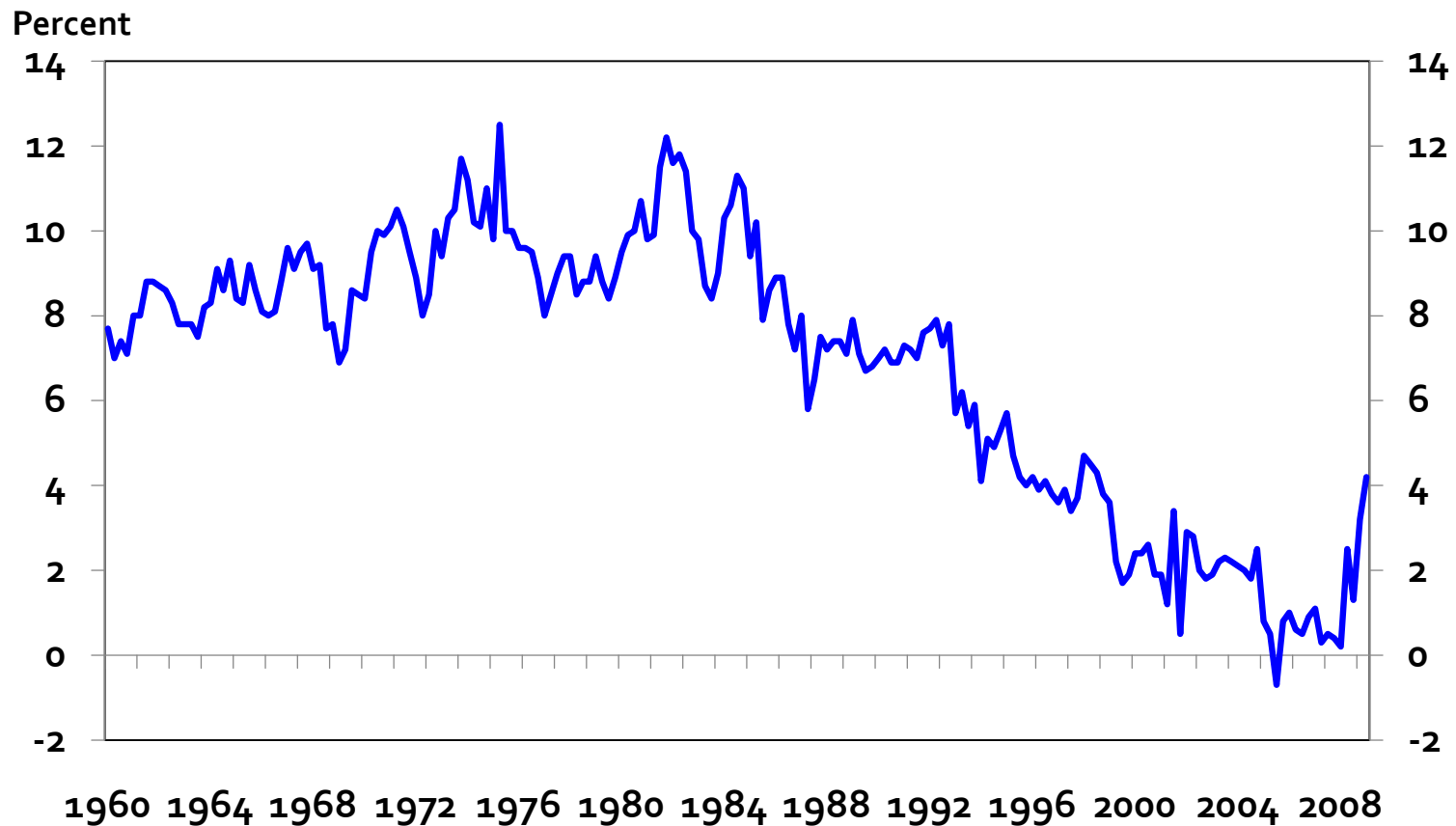


Source: Federal Reserve Board of Governors



*In the short-run, increased savings limits spending.
In the long-run, best prescription to reduce debt.*

Personal Savings as a Percent of Disposable Income



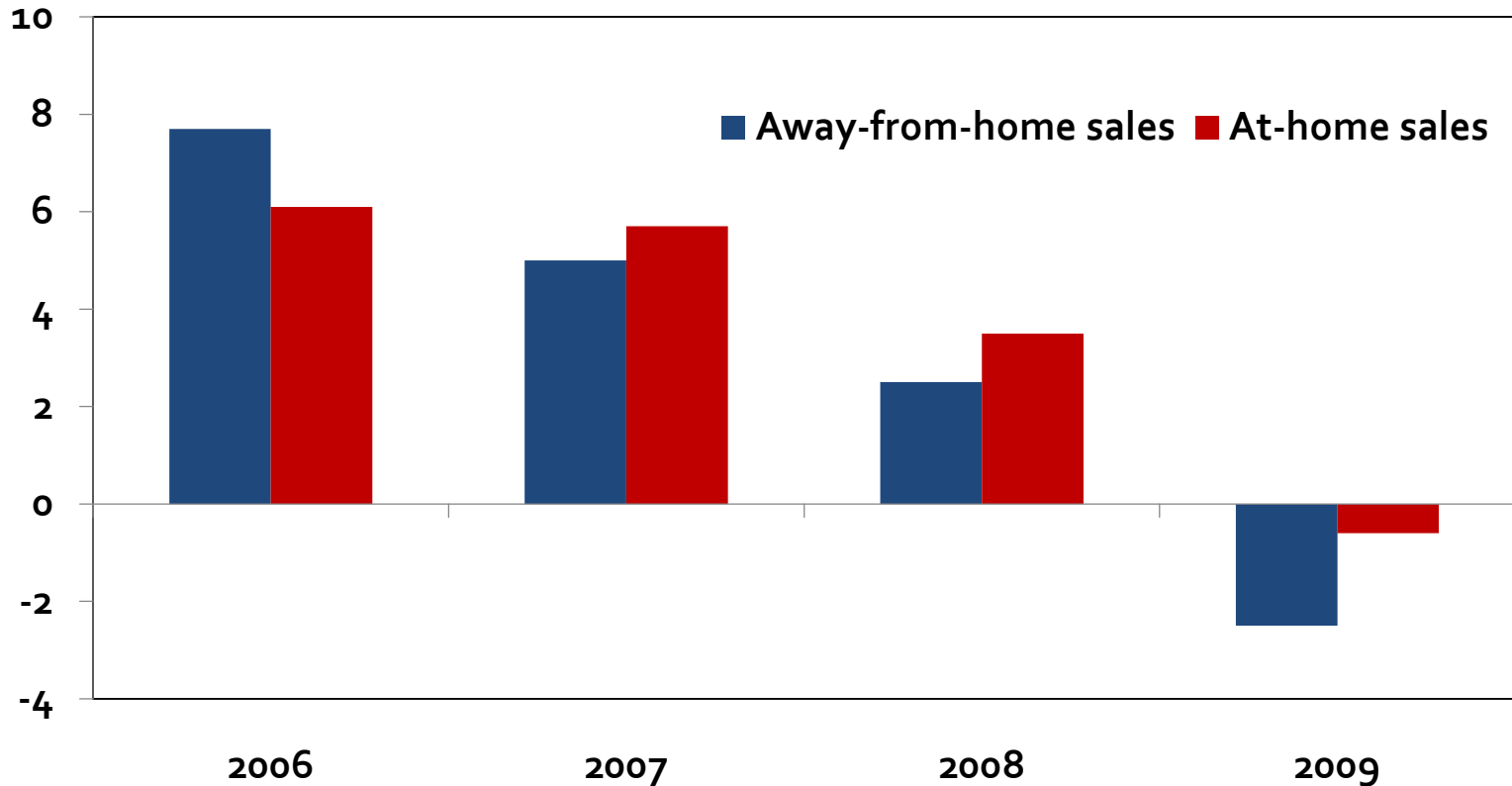
Source: Bureau of Economic Analysis



Food sales decline, especially at restaurants.

U.S. Food Sales

Percent change from previous year



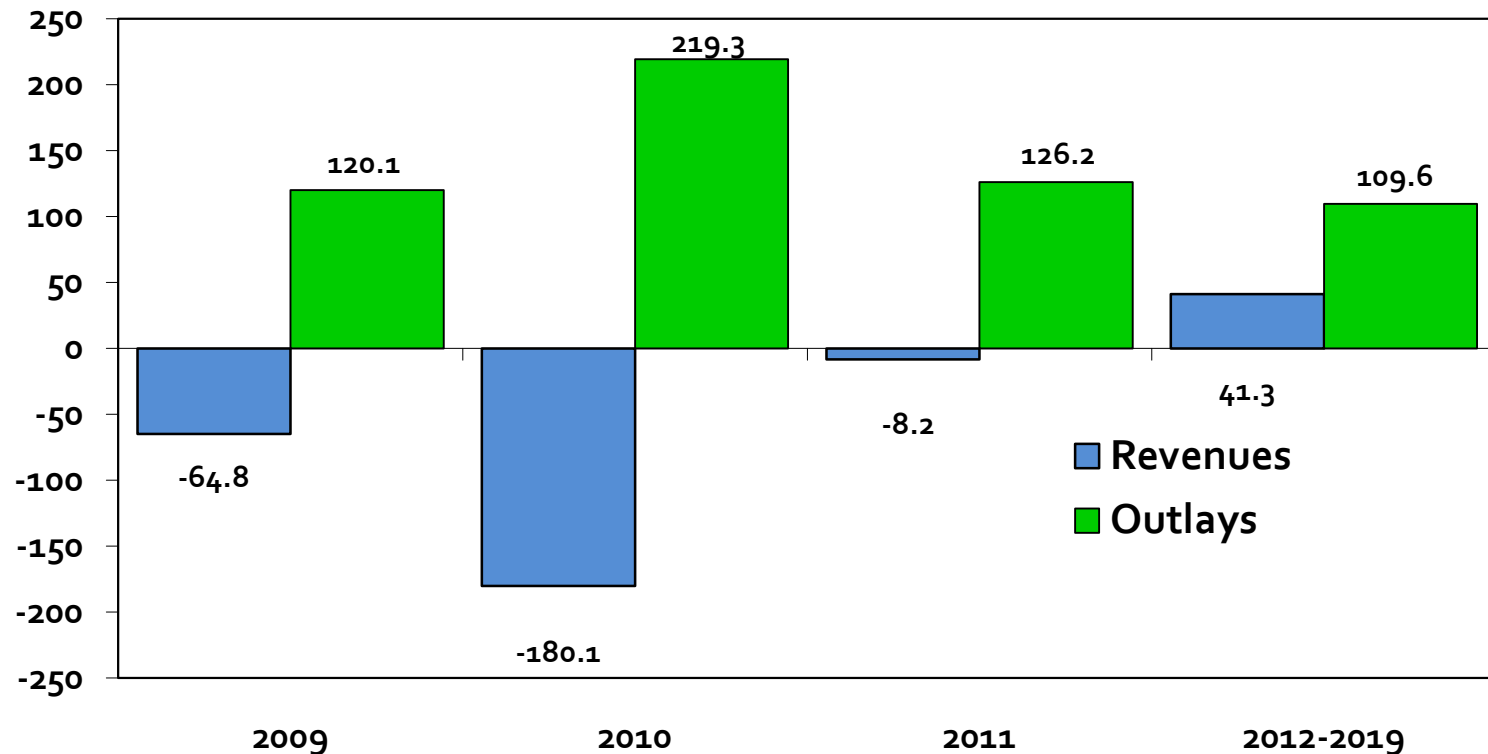
Source: USDA
2009 data are year-to-date through June



The bulk of the stimulus package comes in 2010.

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

Billion Dollars

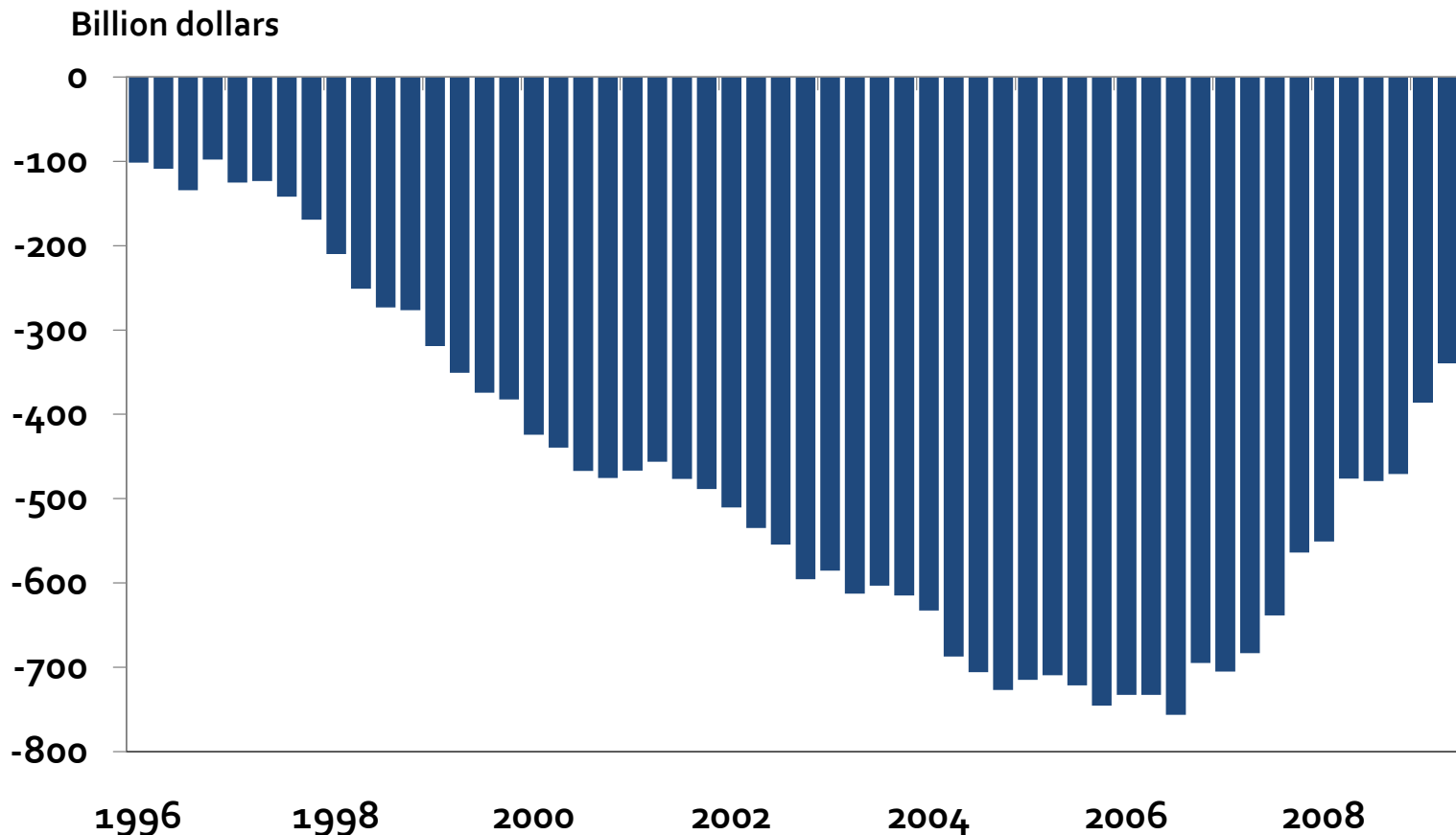


Source: Congressional Budget Office, February 13, 2009



Improvements in the U.S. trade balance continue.

Real Net Exports of Goods and Services

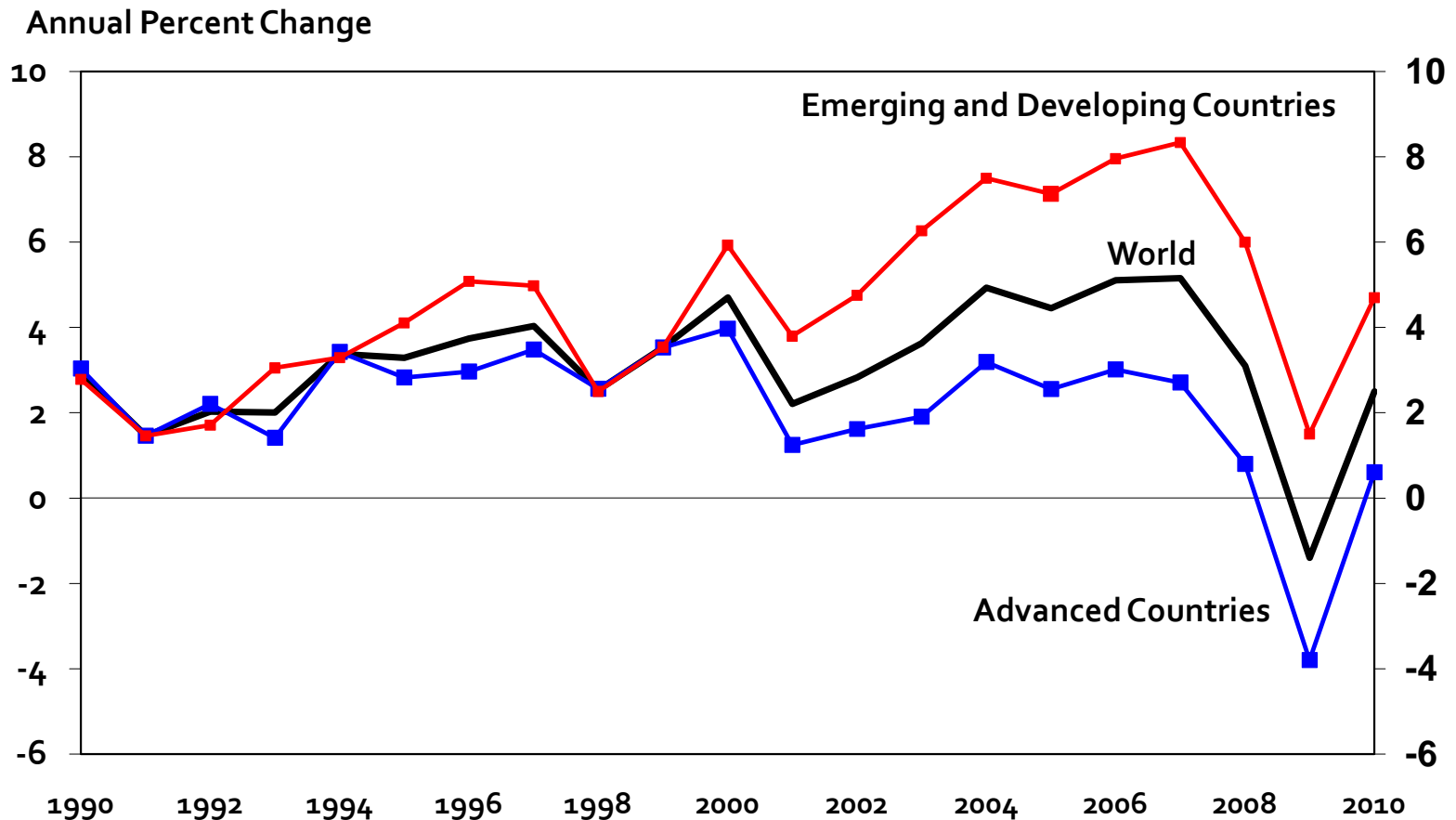


Source: Bureau of Economic Analysis



Will Developing Countries Lead the Recovery?

World GDP Growth

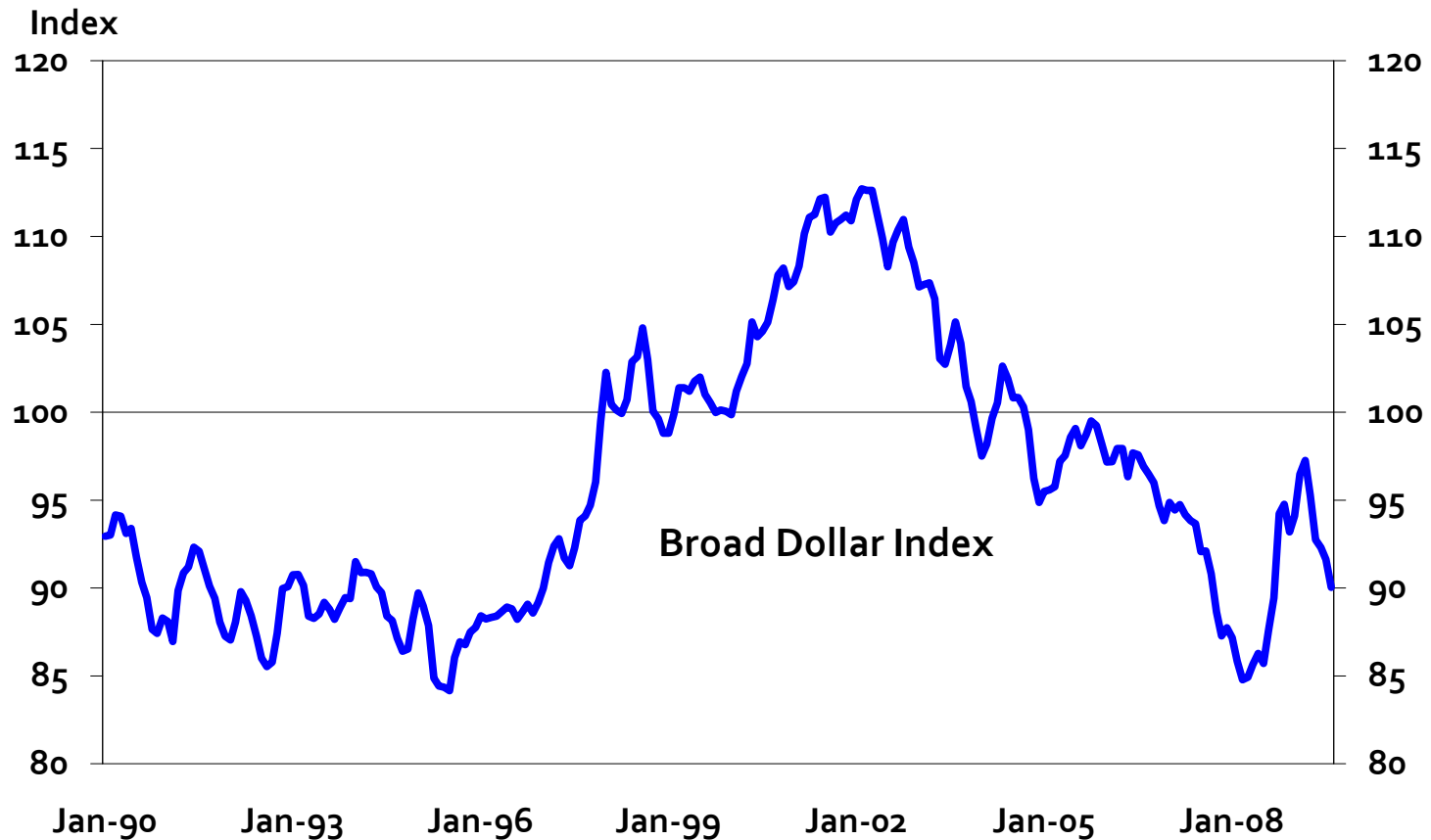


Source: International Monetary Fund, July 2009



What is the future path of the dollar?

Value of the Dollar

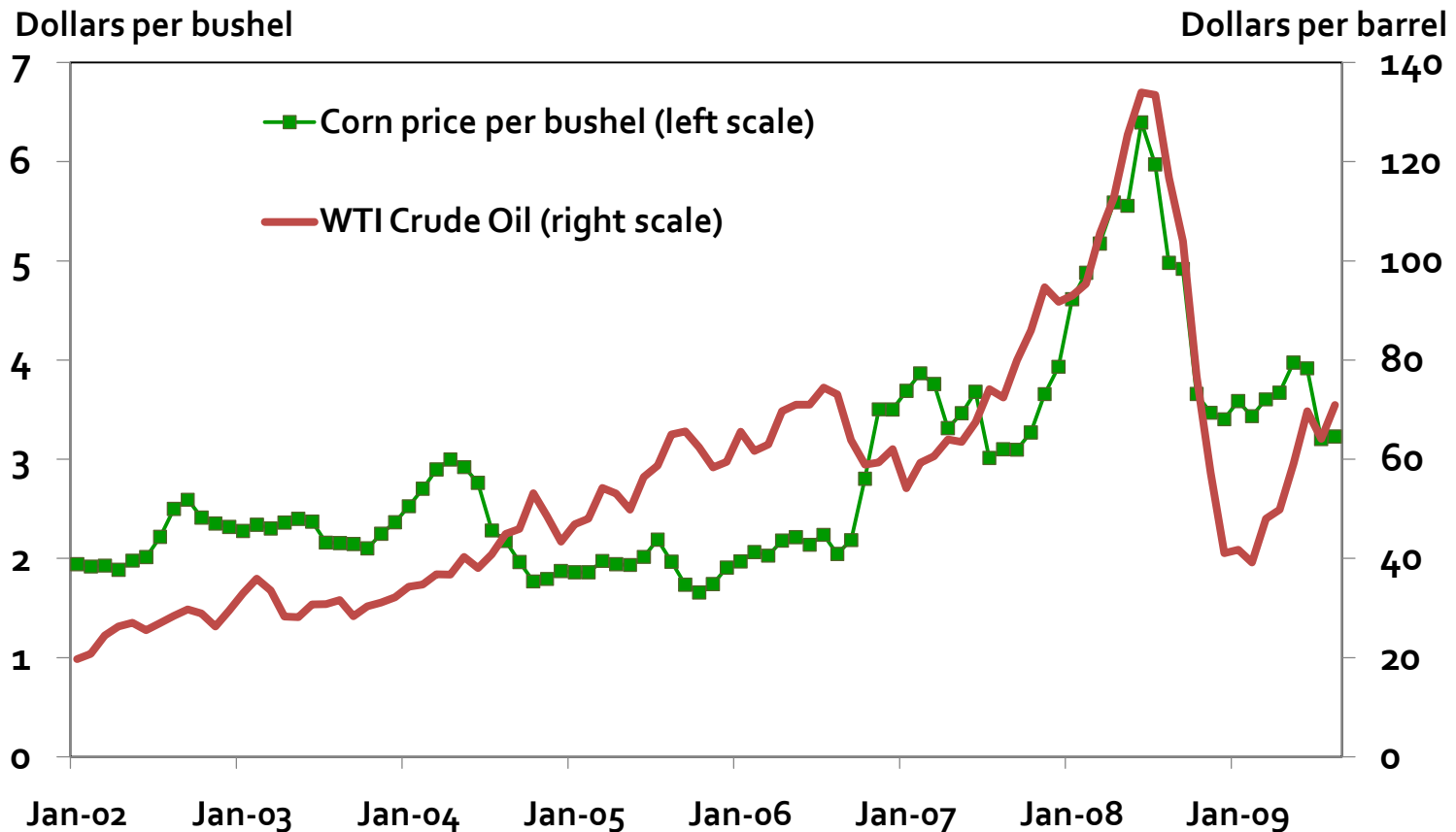


Source: Federal Reserve Board of Governors



What direction will commodity prices go?

Crude Oil and Corn Prices



Source: Commodity Research Bureau



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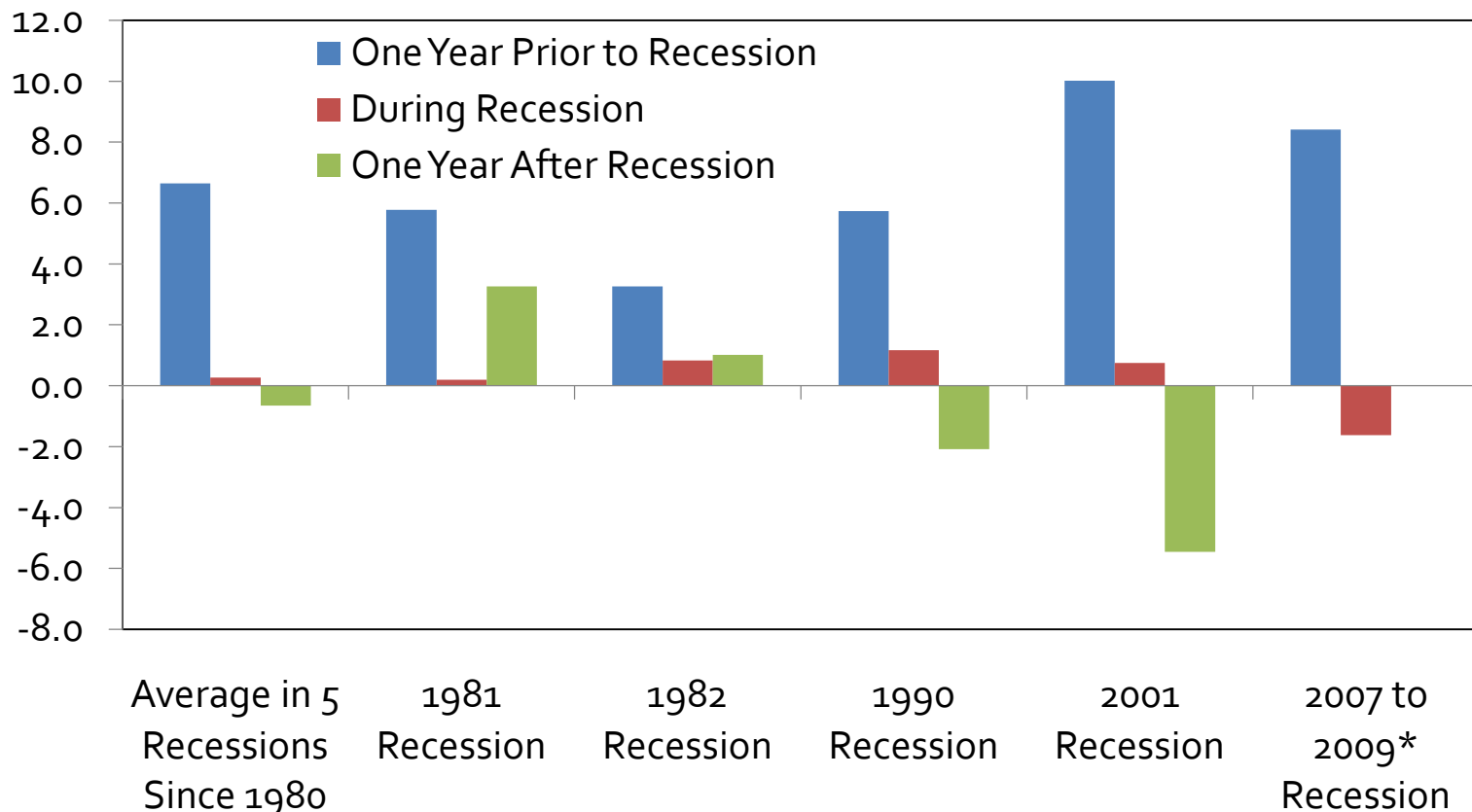
Credit Risks for Agriculture

- Profit risk – while a supply adjustment stops huge losses, will demand rebound to spur profits?



Meat and Milk Spending Declines 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.



Risks In Agriculture

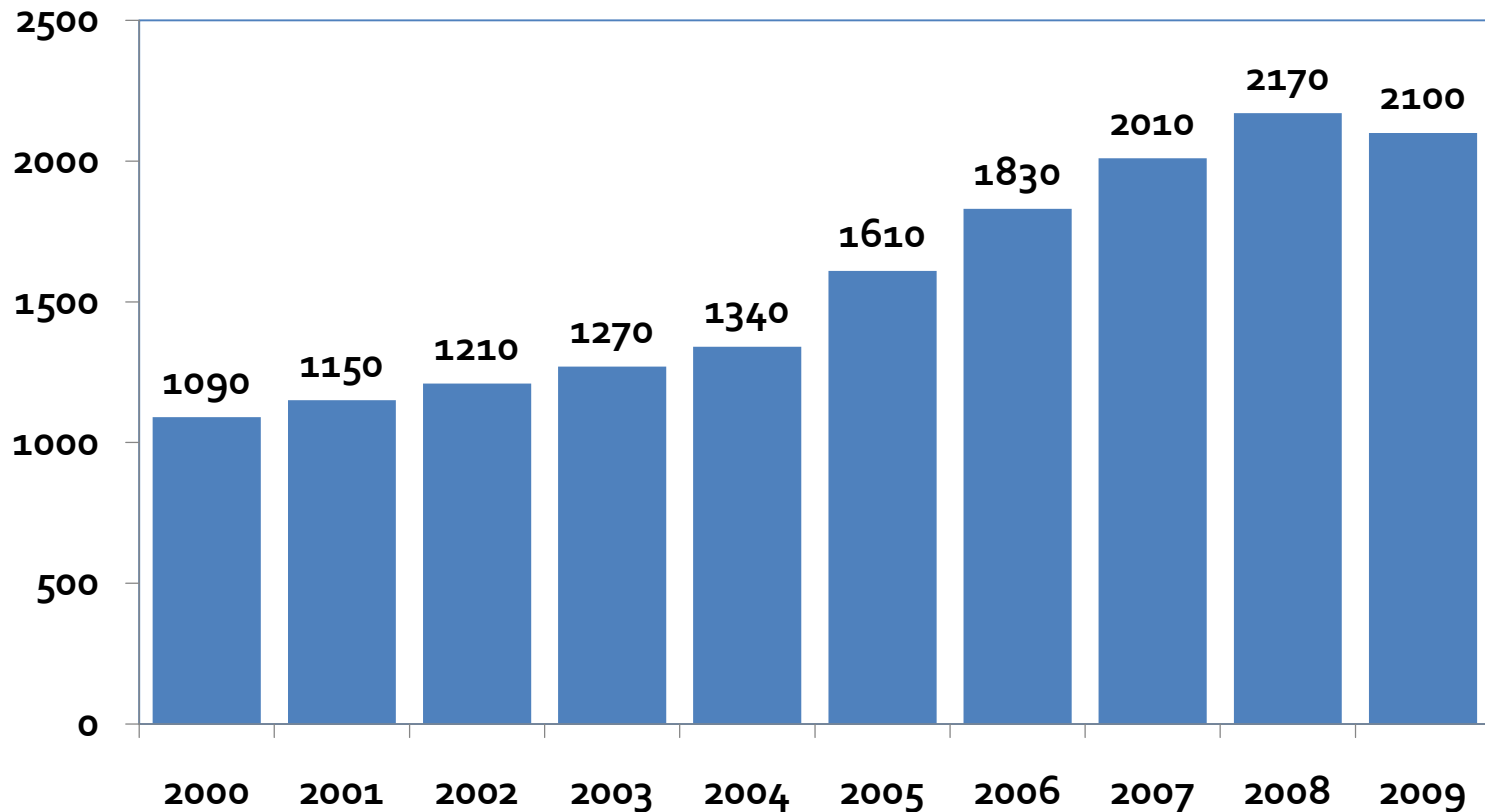
- Profit risk – with high and volatile prices and input costs, will producers face shrinking margins?
- Collateral risk – what is the future path of farmland values?



If margins narrow, what is the future path of farmland values?

U.S. Farm Real Estate Values

Dollars per acre



Source: USDA



Risks In Agriculture

- **Profit risk – with high and volatile prices and input costs, will producers face shrinking margins?**
- **Collateral risk – what is the future path of farmland values?**
- **Counterparty Risk – how do producers identify, document, and manage counterparty risk?**

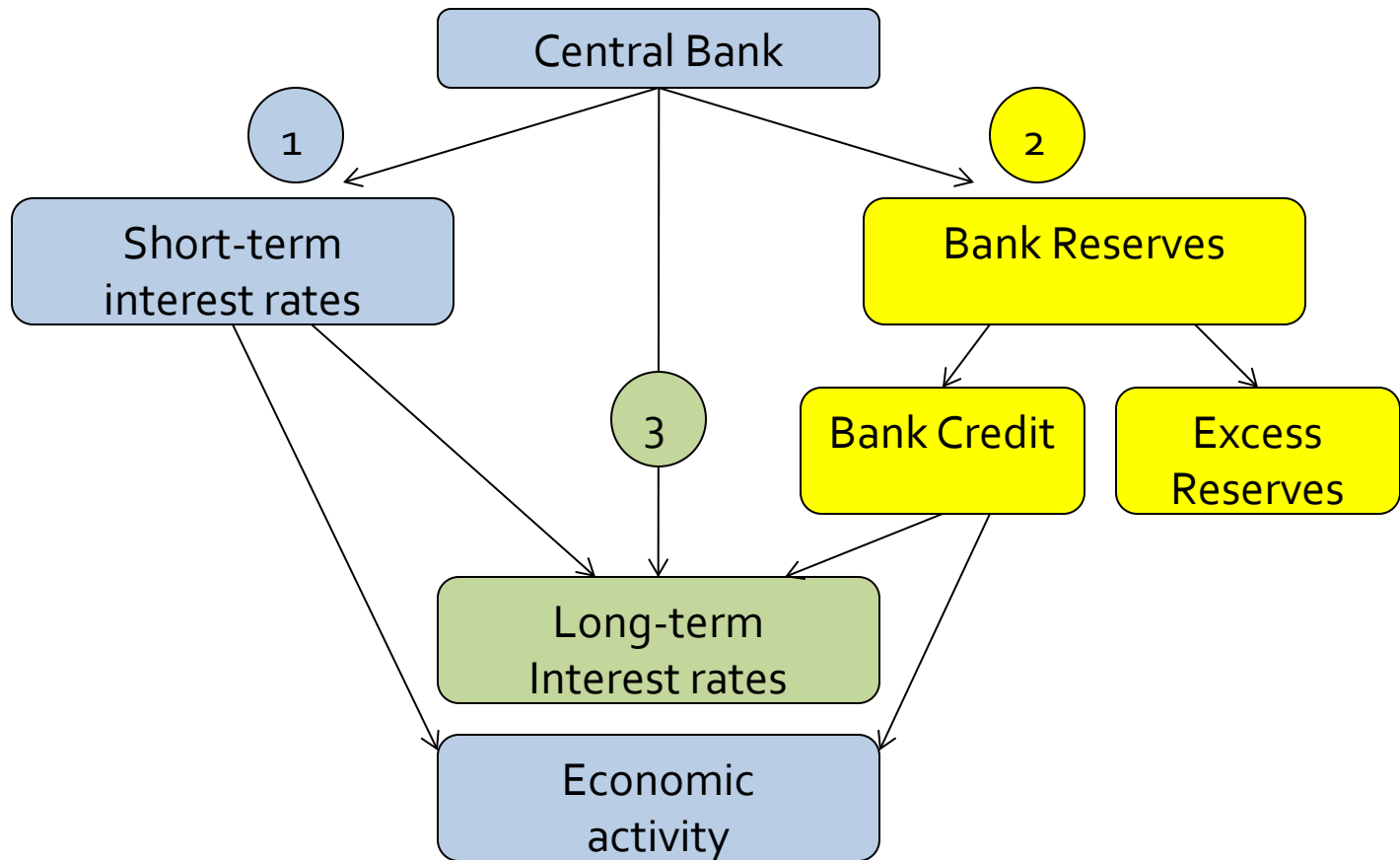


Risks In Agriculture

- Profit risk – with high and volatile prices and input costs, will producers face shrinking margins?
- Collateral risk – what is the future path of farmland values?
- Counterparty risk – how do producers identify, document, and manage counterparty risk?
- Interest rate risk – when and how high will interest rates rise after the recession?



Monetary Policy Transmission Mechanisms



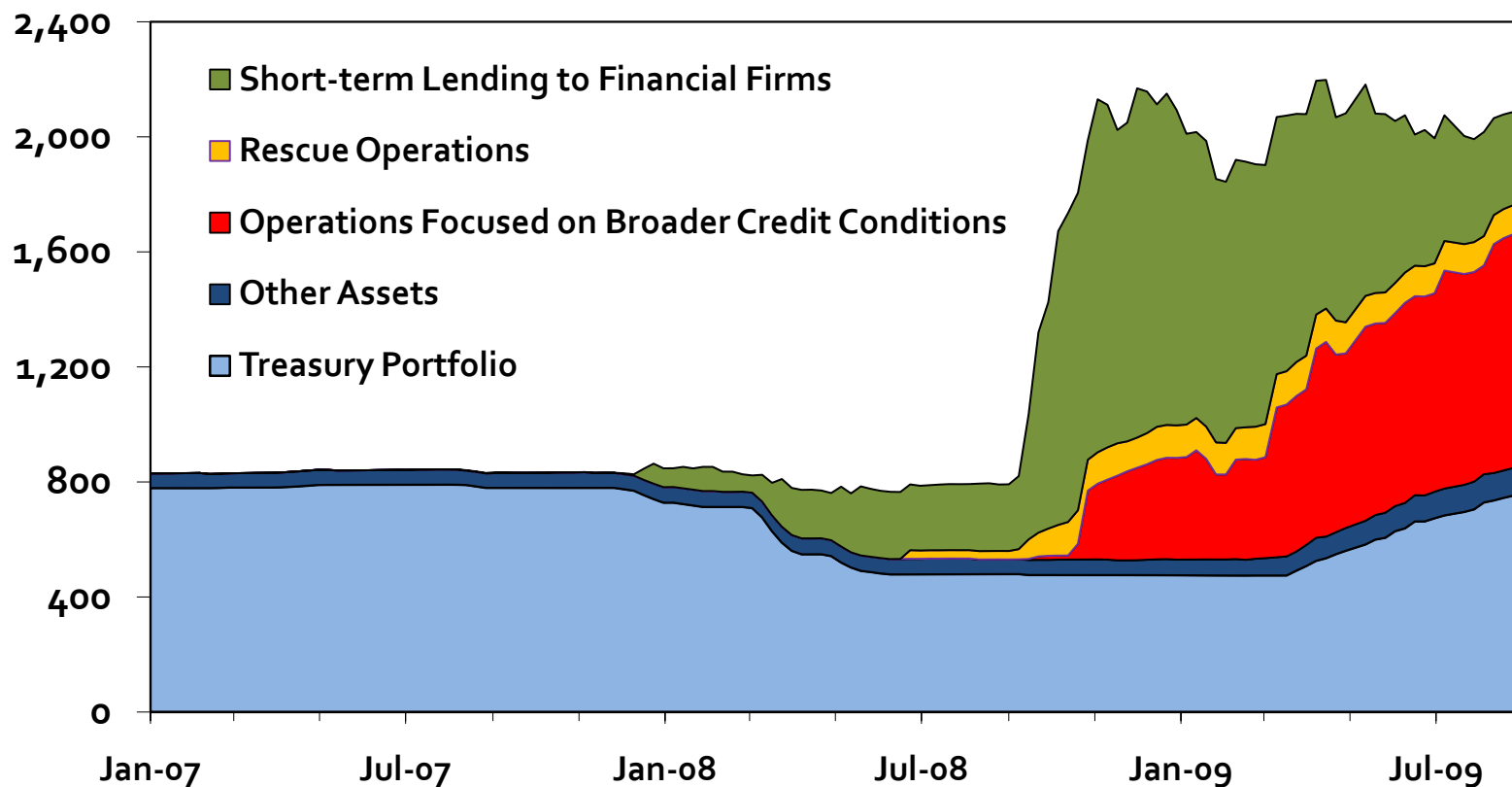
Source: Gordon Sellon (2003) "Monetary Policy and the Zero Bound: Policy Options When Short-Term Rates Reach Zero"
Economic Review <http://www.kansascityfed.org/Publicat/ECONREV/PDF/4q03sell.pdf>



The Fed has expanded its balance sheet.

Federal Reserve Balance Sheet: Assets

Billion Dollars



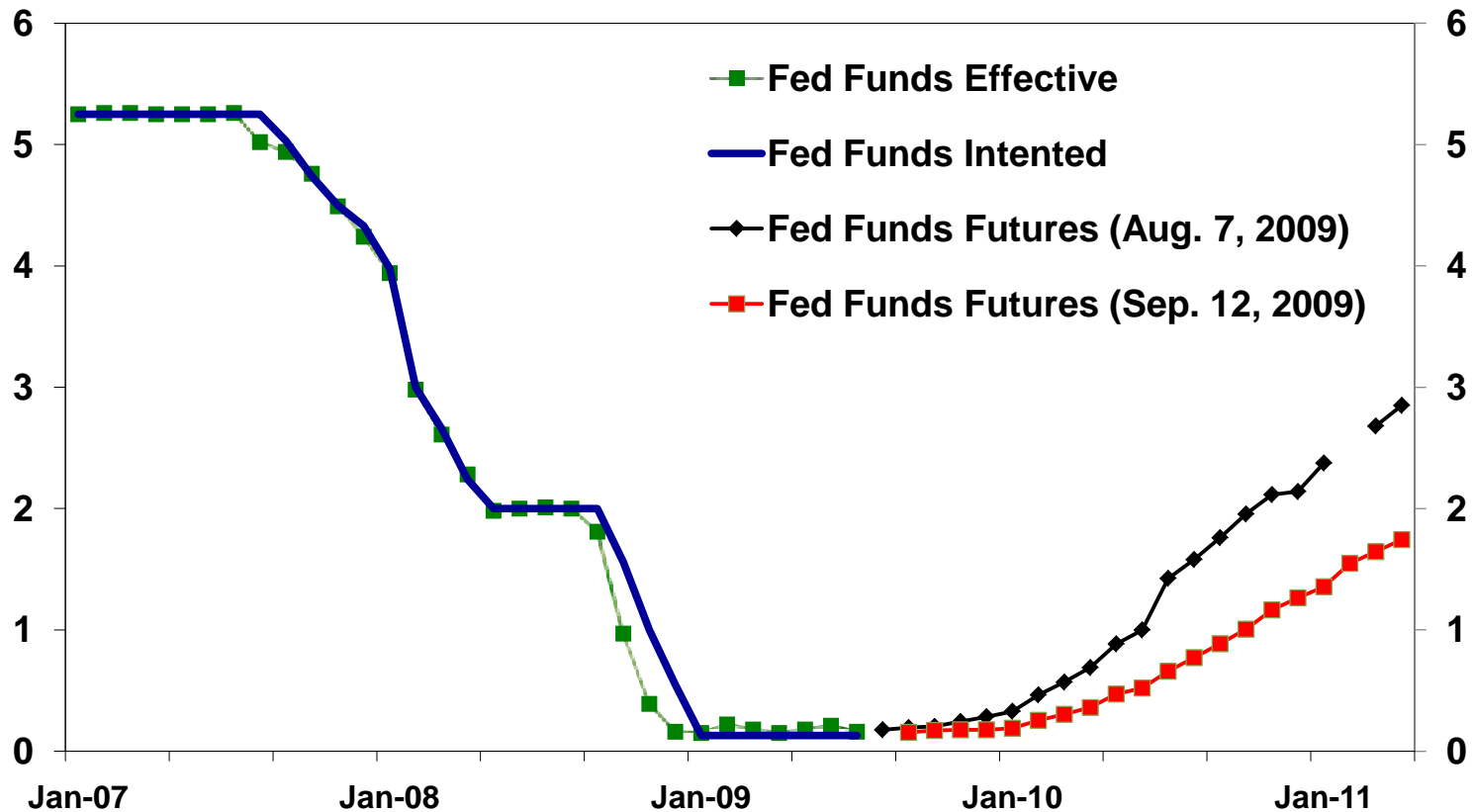
Source: Federal Reserve Board of Governors



What is the future path of interest rates?

Fed Funds Rate

Percent

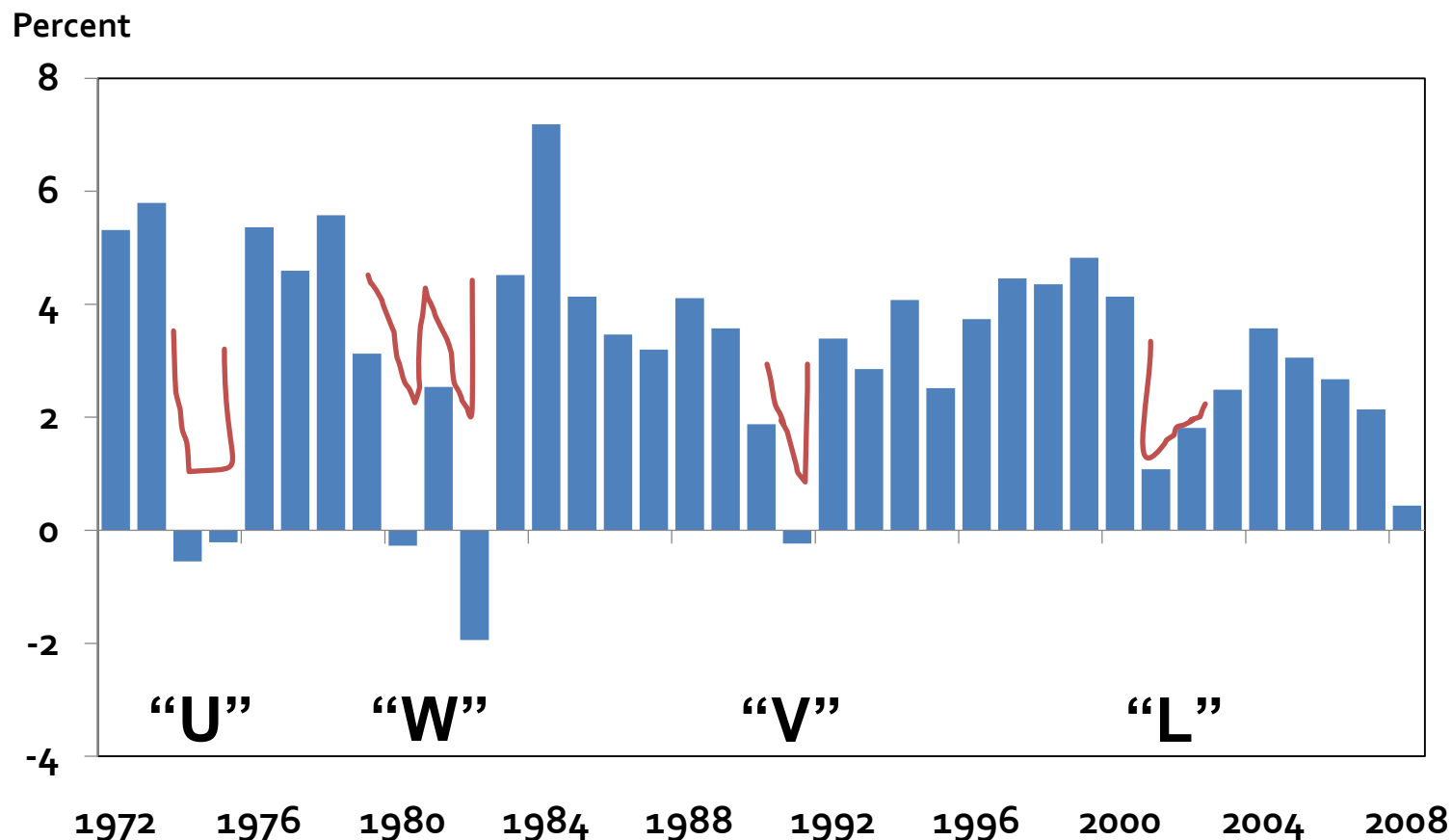


Source: Federal Reserve Board of Governors and CME Group



The Exit Strategy Depends on the "Letter" of Recovery?

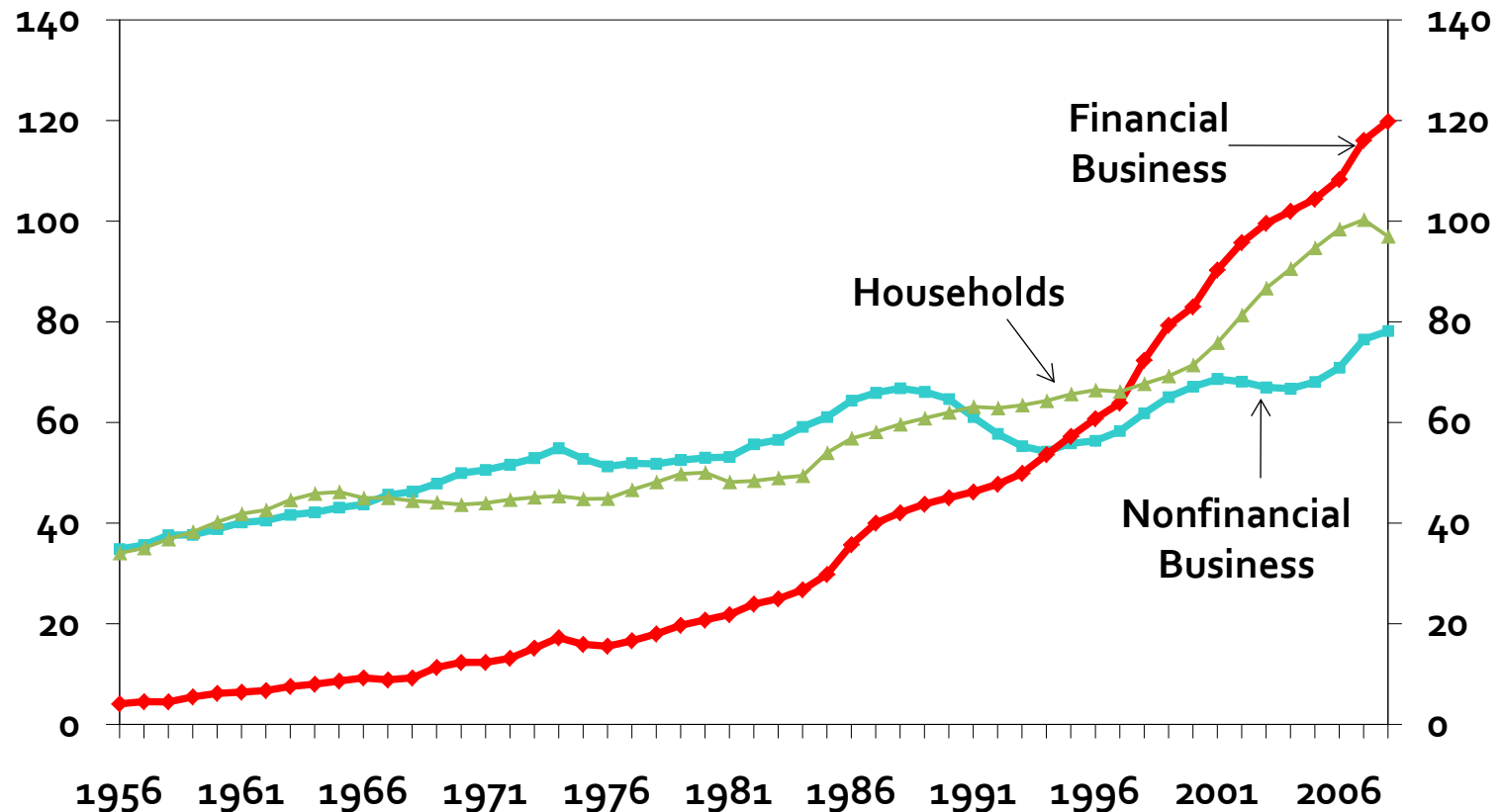
U.S. Real GDP Growth



The rest of America is learning the lessons of the 1980s farm crisis.

Domestic Debt Outstanding

Percent of GDP



Source: Federal Reserve Board of Governors



For More Information

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Omaha Branch

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