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November 4, 2009

# An Update on the Agricultural 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

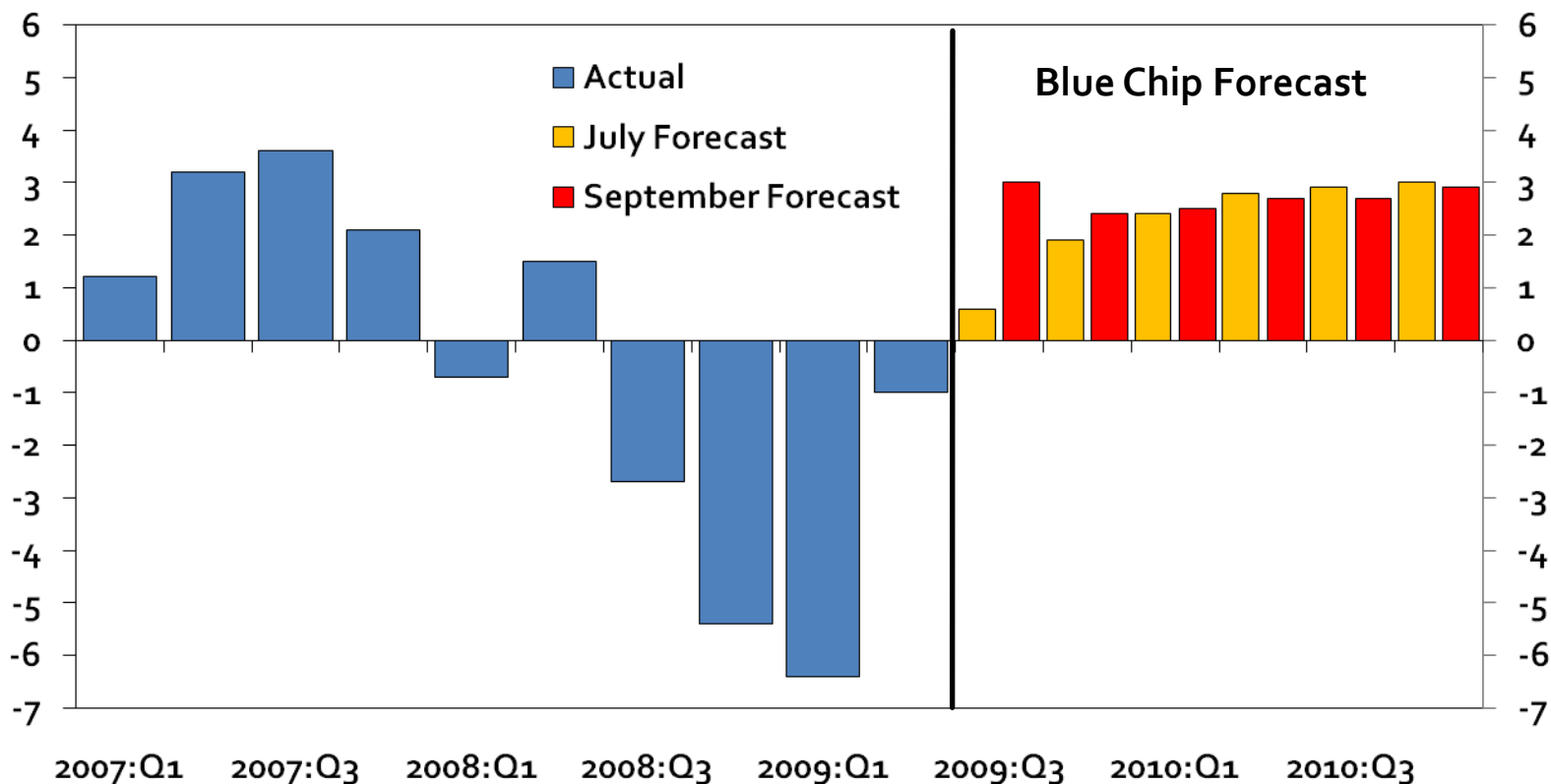
- **Economic Recovery: how strong will it be?**
- **Monetary Policy: unwinding Fed balance sheets.**
- **The Farm Economy: can it rebound in 2010?**



# The recovery is underway.

## Real GDP Growth

Annualized percent change from previous quarter

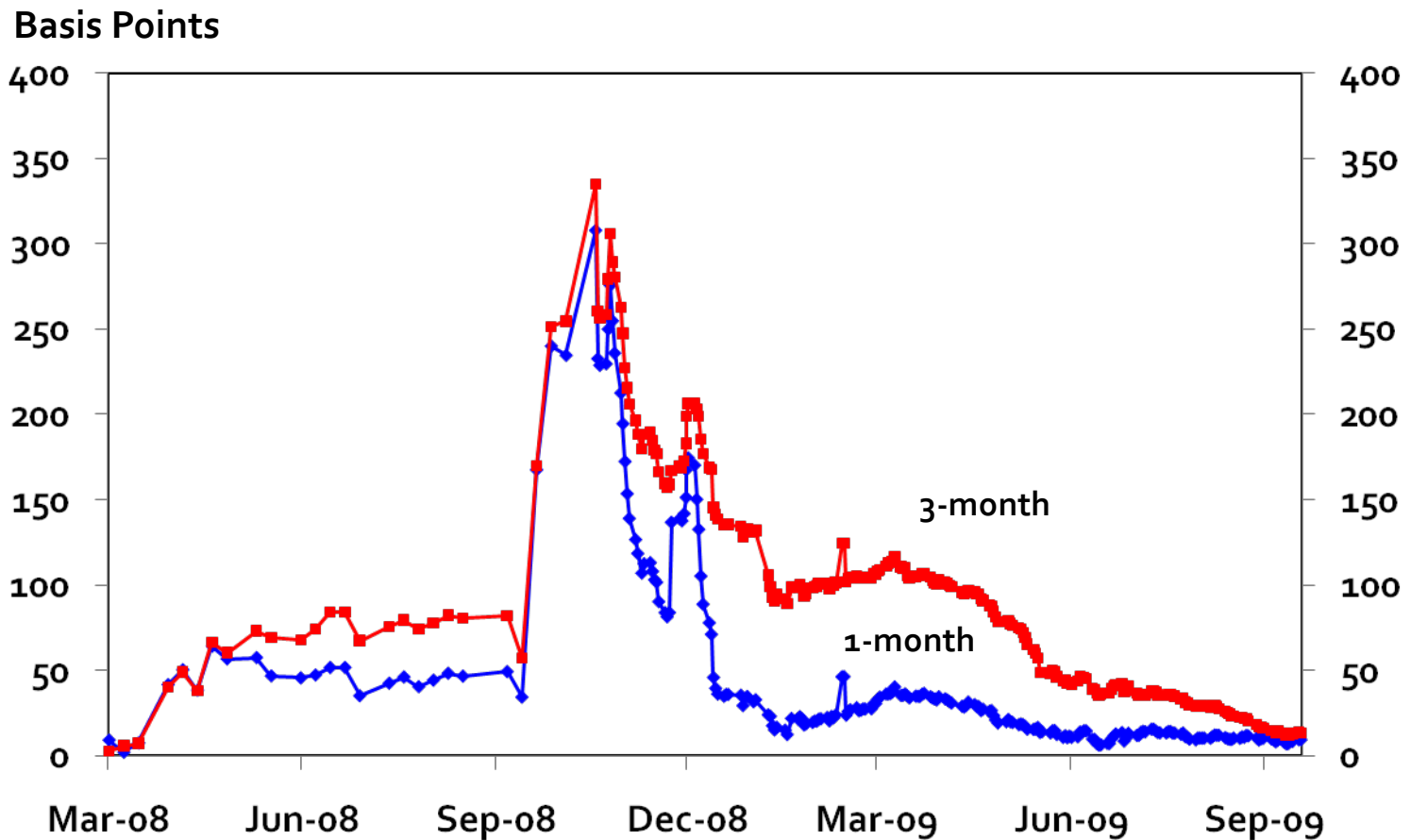


Source: Bureau of Economic Analysis and Blue Chip Economic Indicators



# The financial market crisis has eased.

## LIBOR-OIS Spread

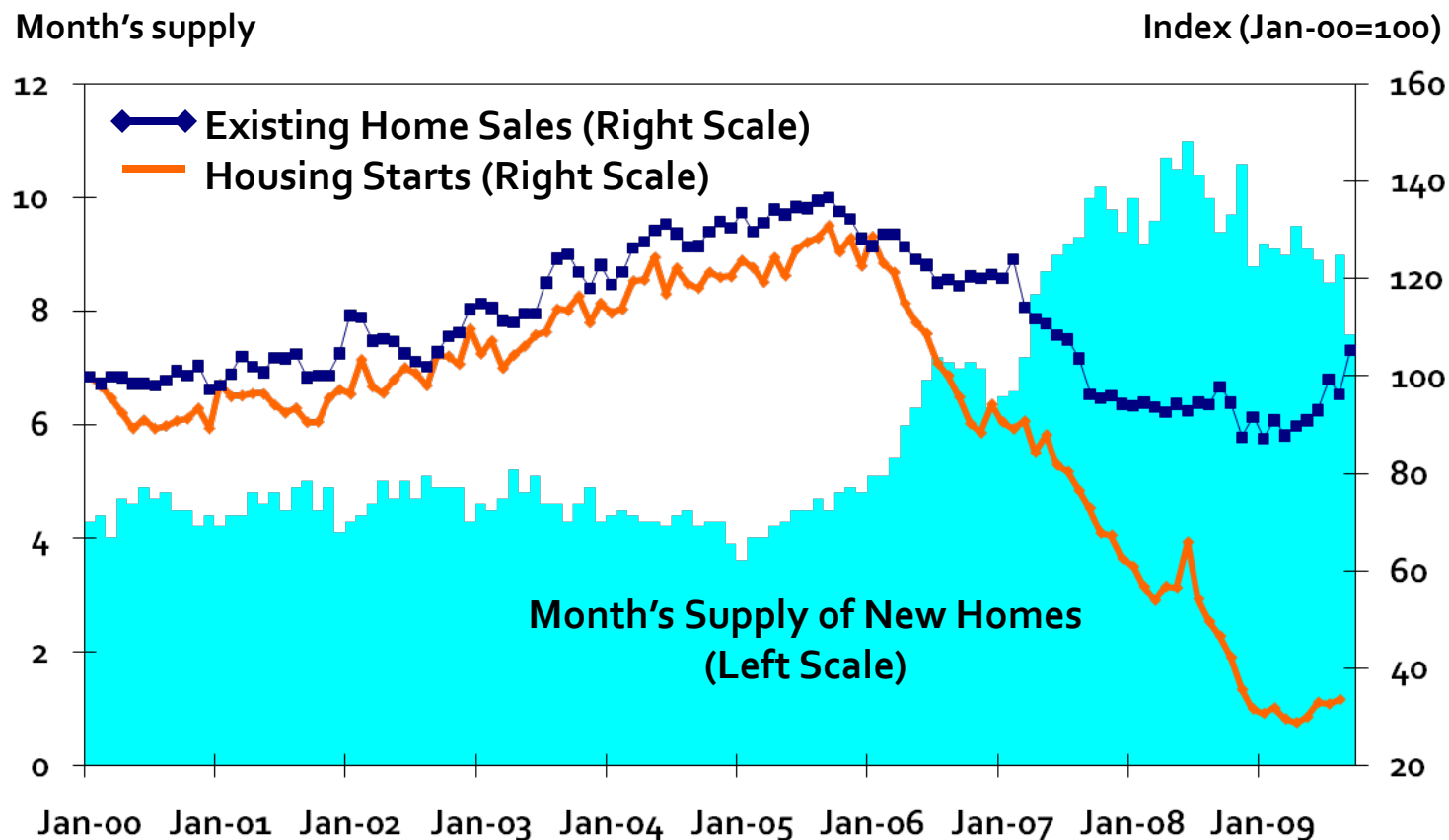


Source: Federal Reserve Board of Governors



# The housing sector appears to have bottomed.

## Home Starts, Sales and Inventories

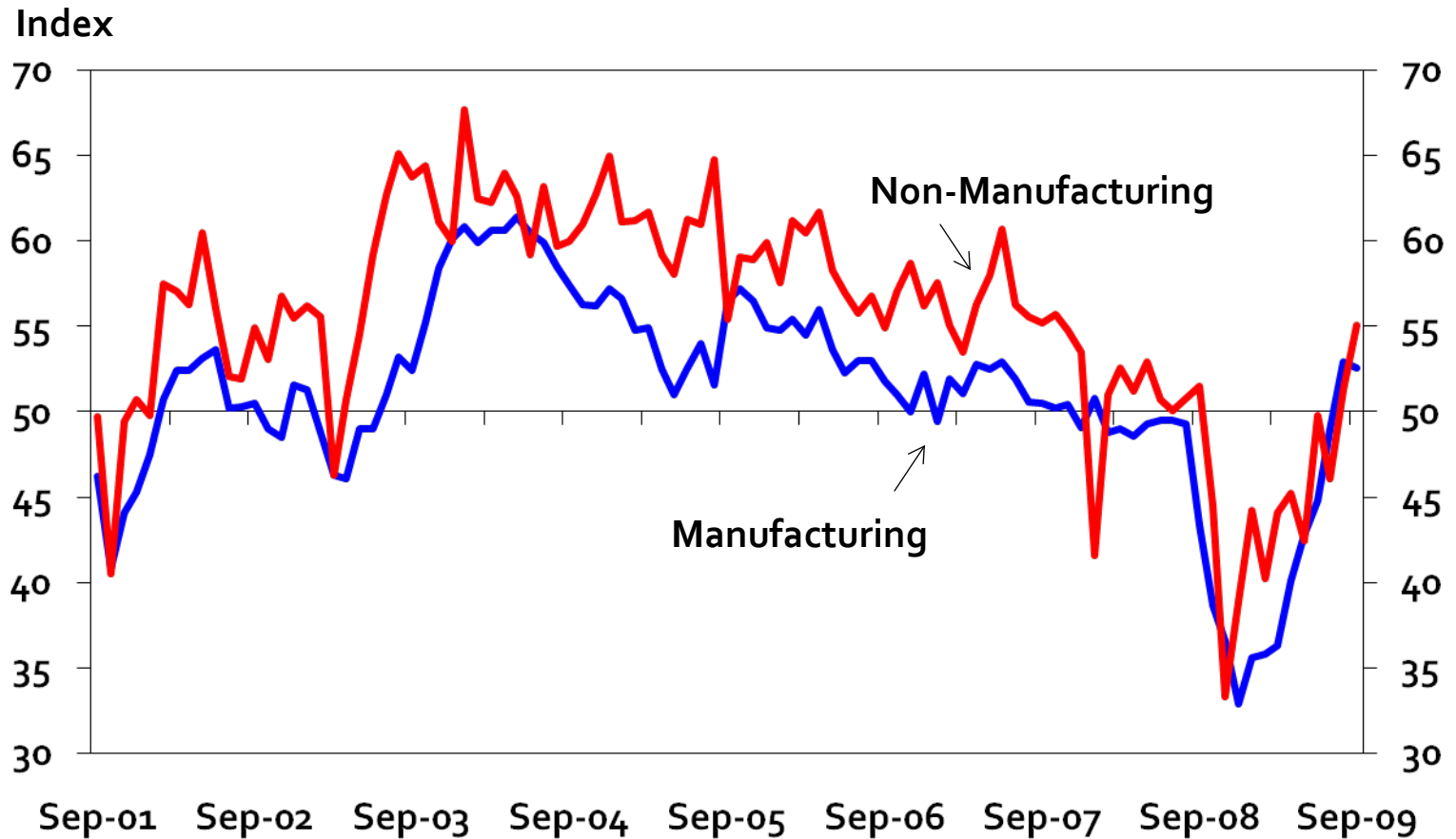


Source: Dept. of Commerce, National Association of Realtors



# *Business activity has rebounded.*

## U.S. Manufacturing Activity Indices

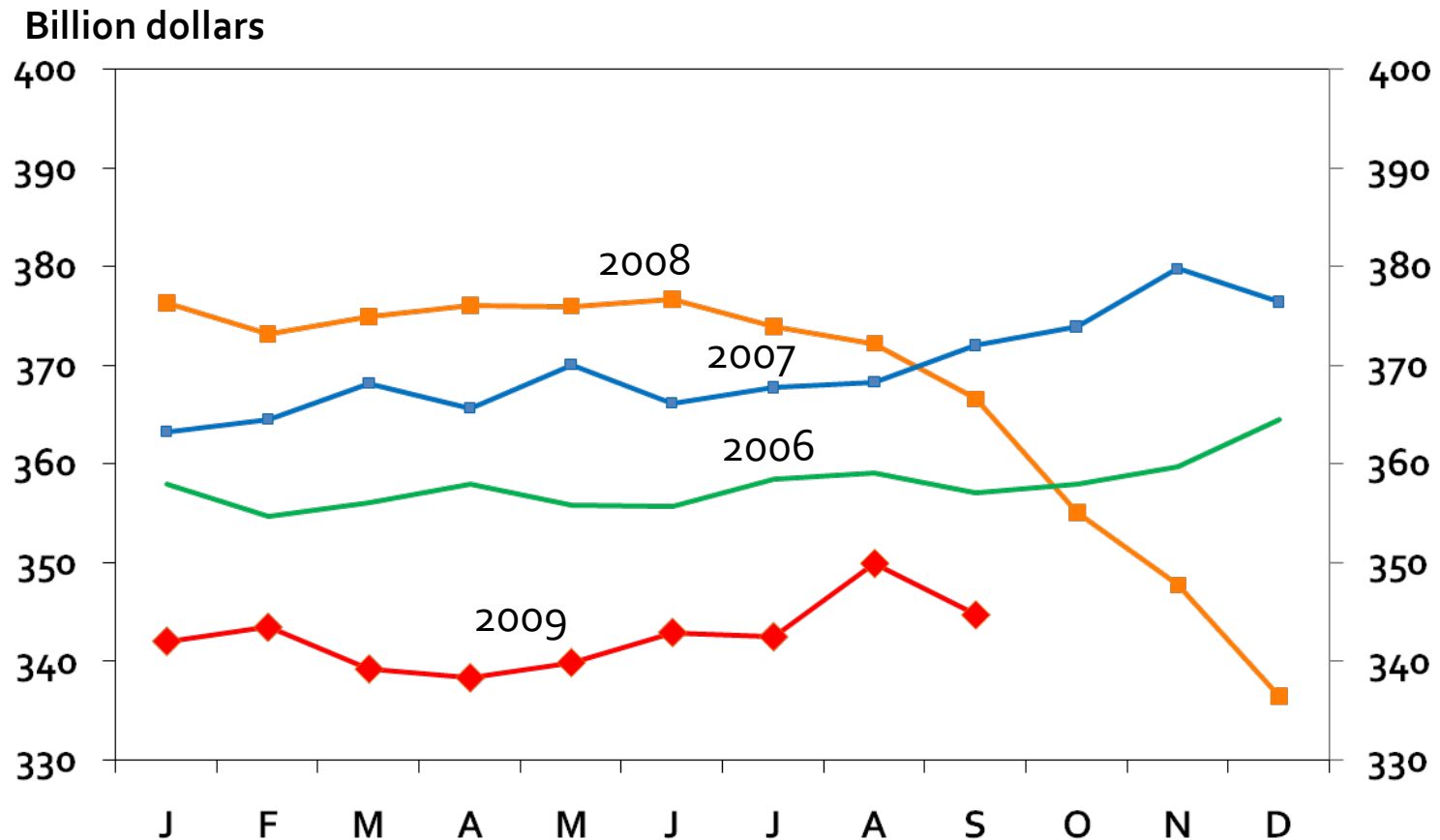


Source: Institute of Supply Management



# Will consumers spend this holiday season?

## U.S. Monthly Retail and Food Sales

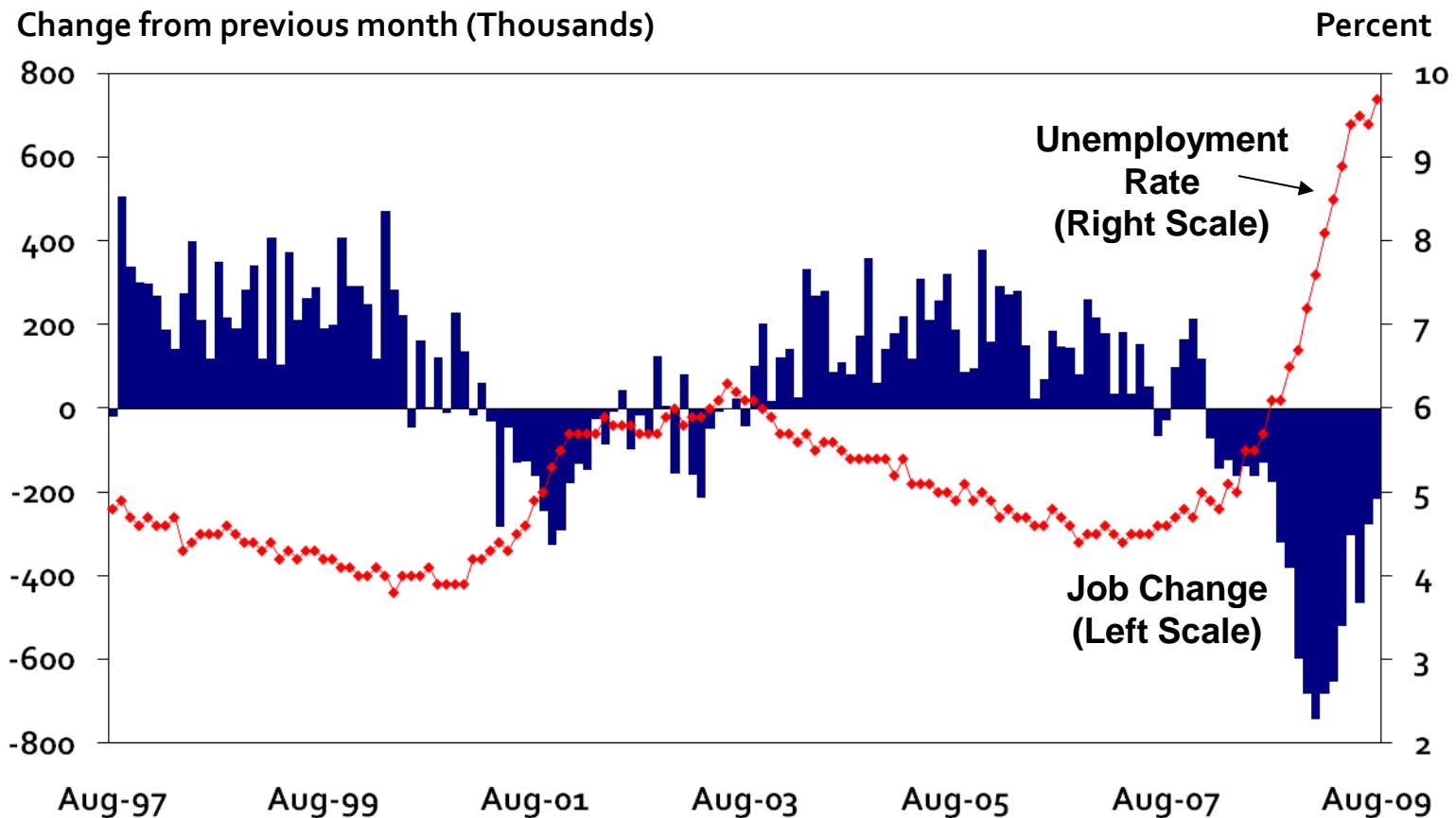


Source: U.S. Census Bureau



# Job losses will limit domestic spending.

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



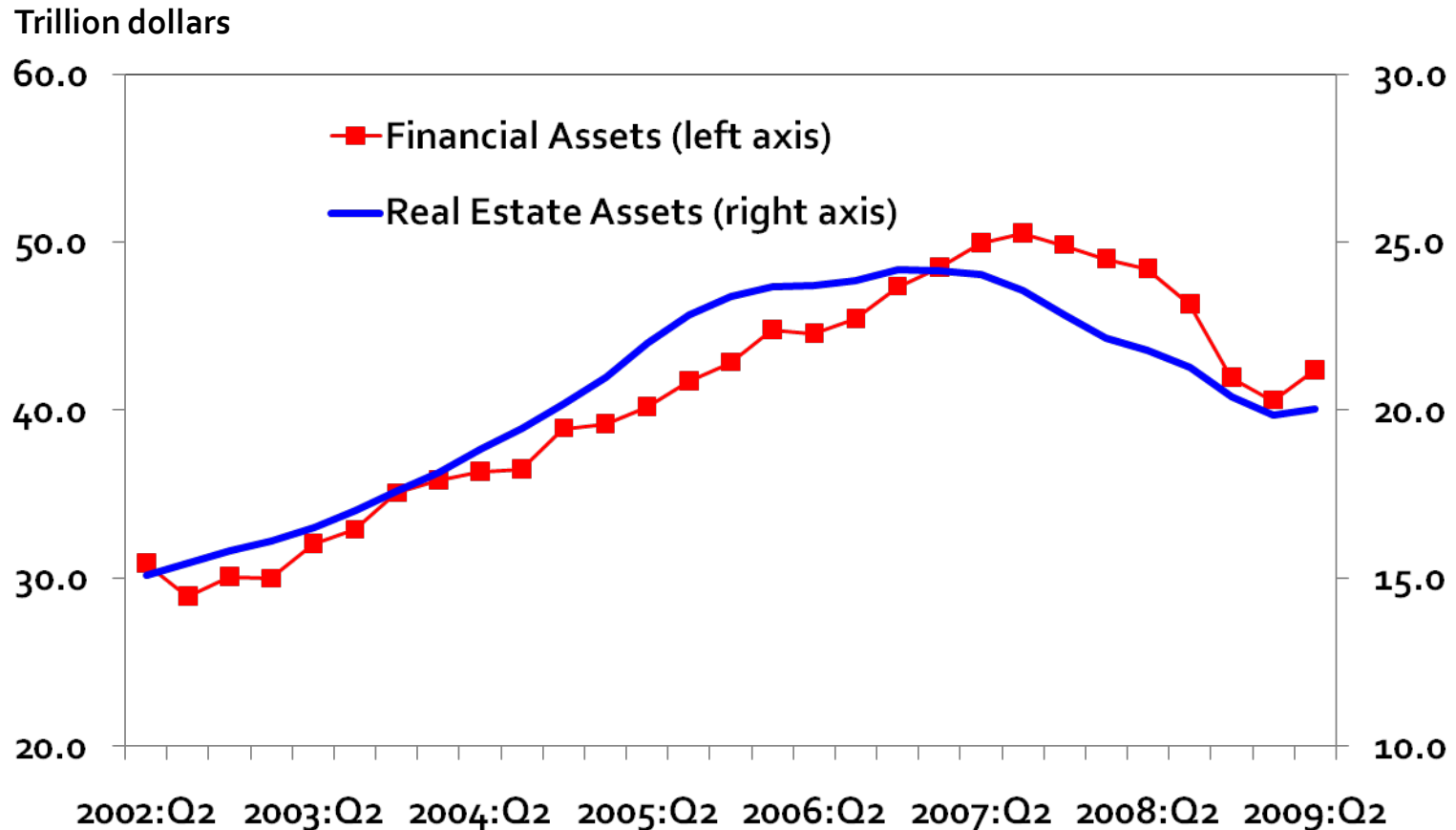
Source: Bureau of Labor Statistics





# Will spending rebound with improved wealth?

## Assets Held by Households and Nonprofit Organization

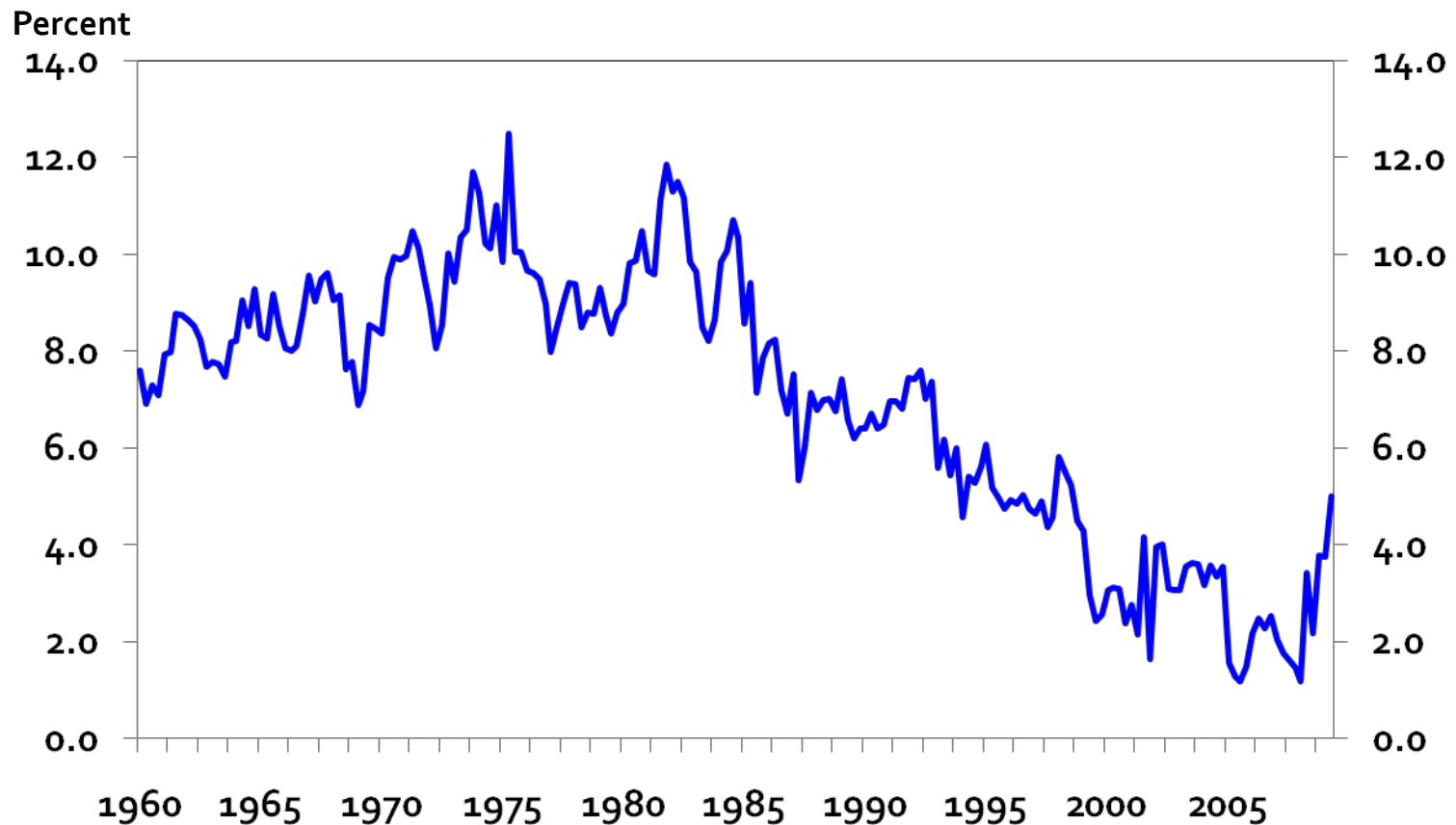


Source: Federal Reserve Board of Governors



*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



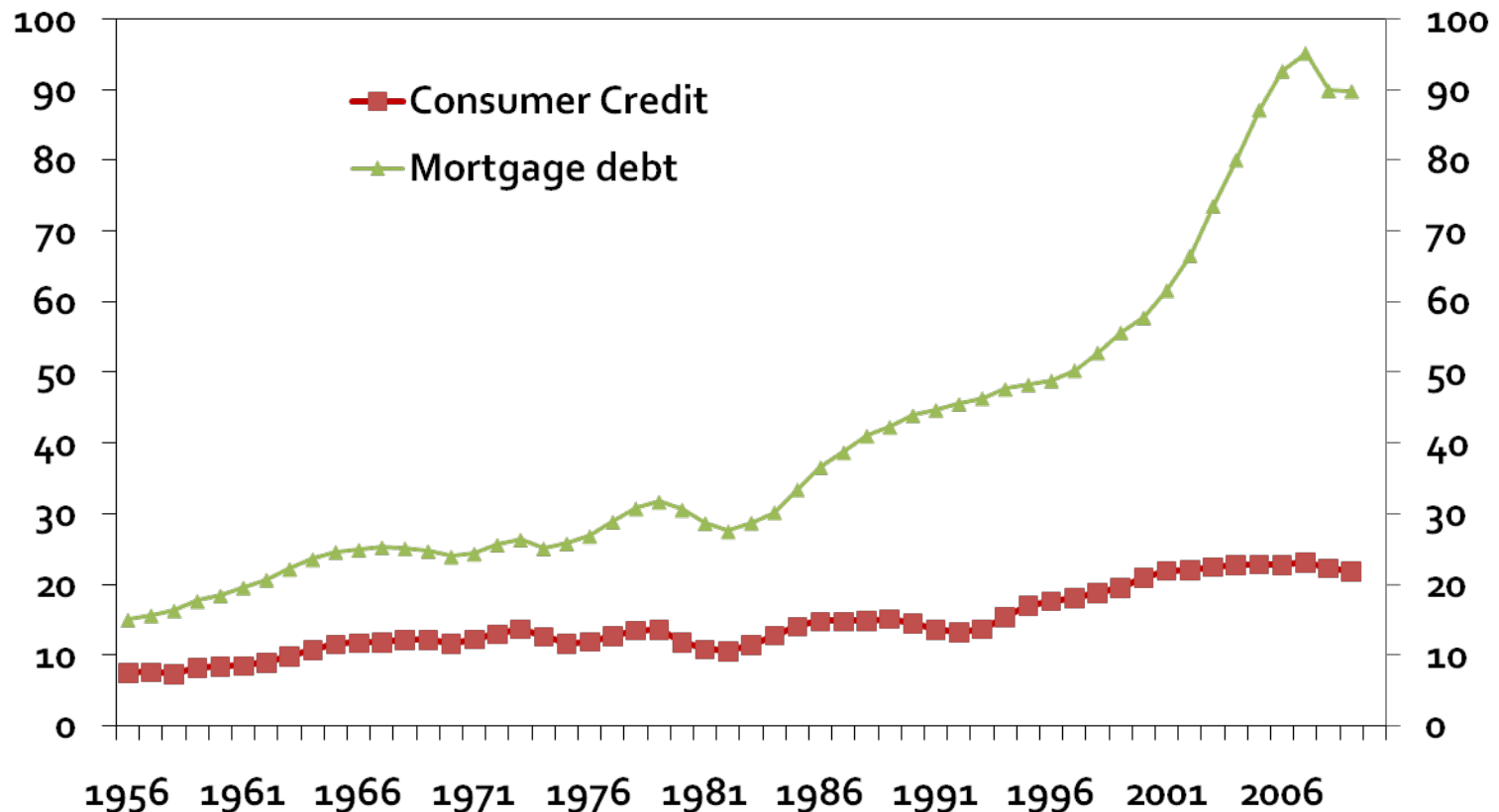
Source: Bureau of Economic Analysis



# The U.S. has a debt problem.

## Real Household Debt Outstanding per Household

Thousand Dollars (2008 dollars)

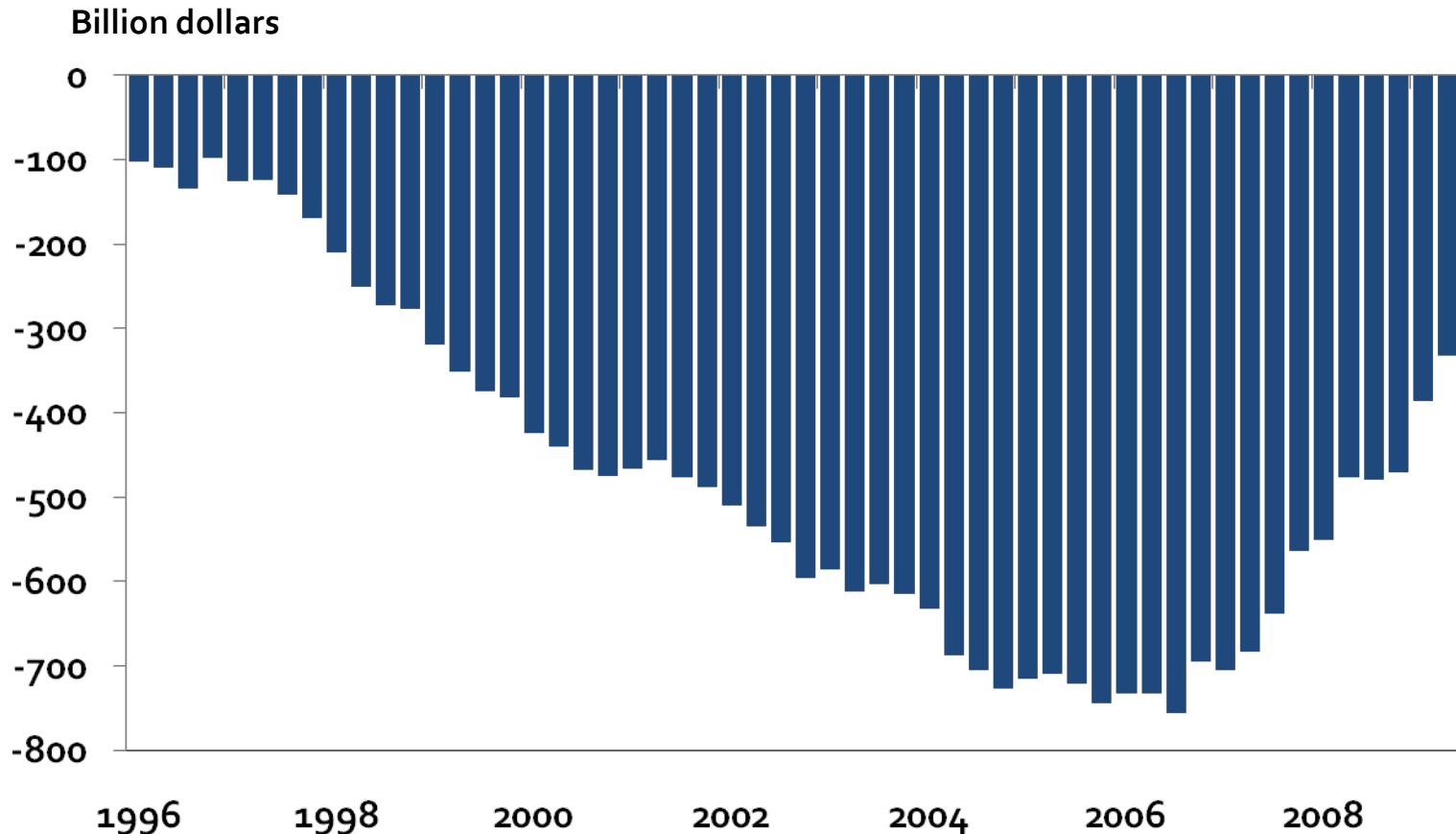


Calculations based on Federal Reserve and Census data



# Improvements in the U.S. trade balance continue.

## Real Net Exports of Goods and Services



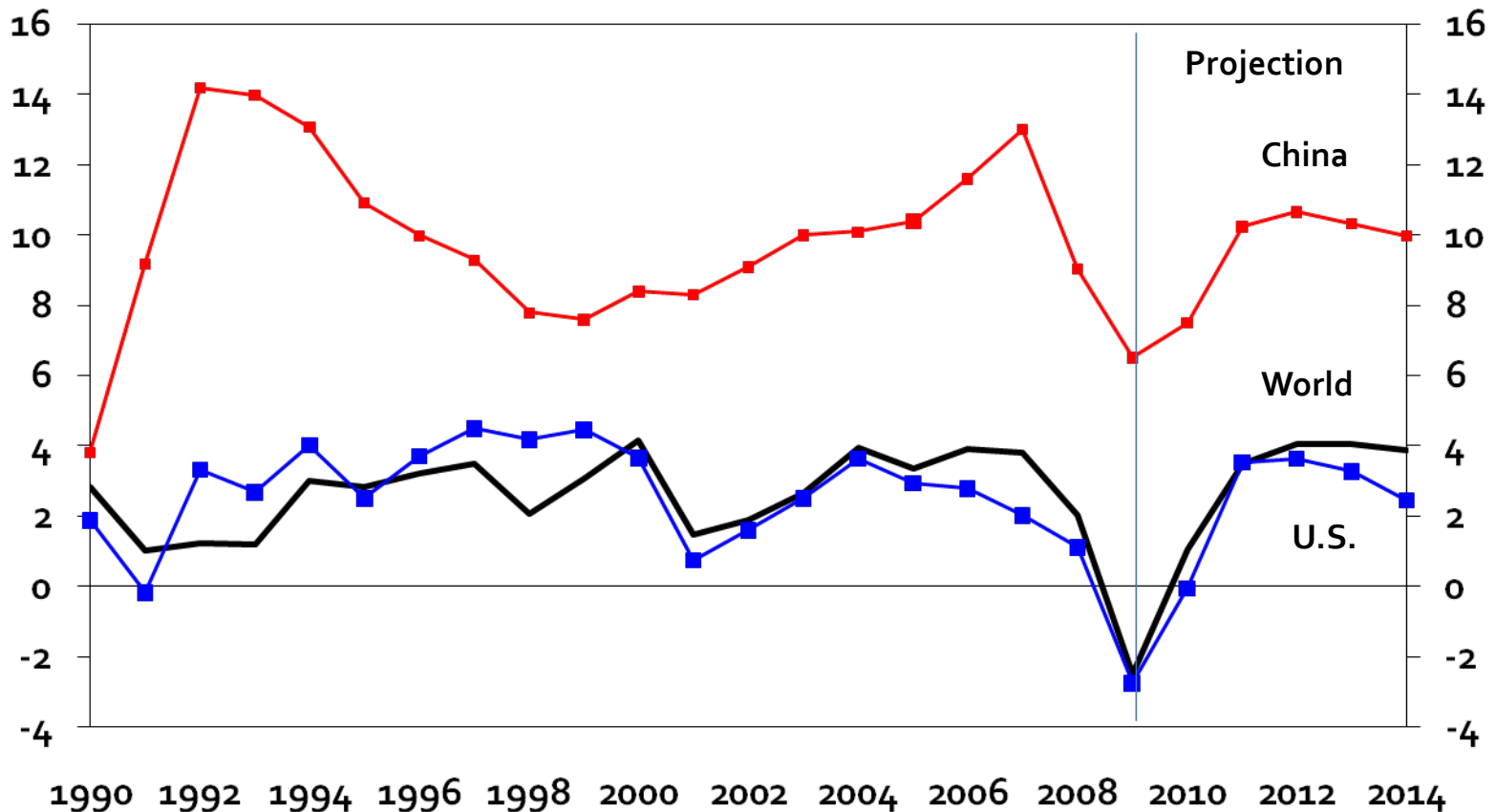
Source: Bureau of Economic Analysis



# Will emerging countries lead the recovery?

## GDP Growth

Annual percent change, constant dollars



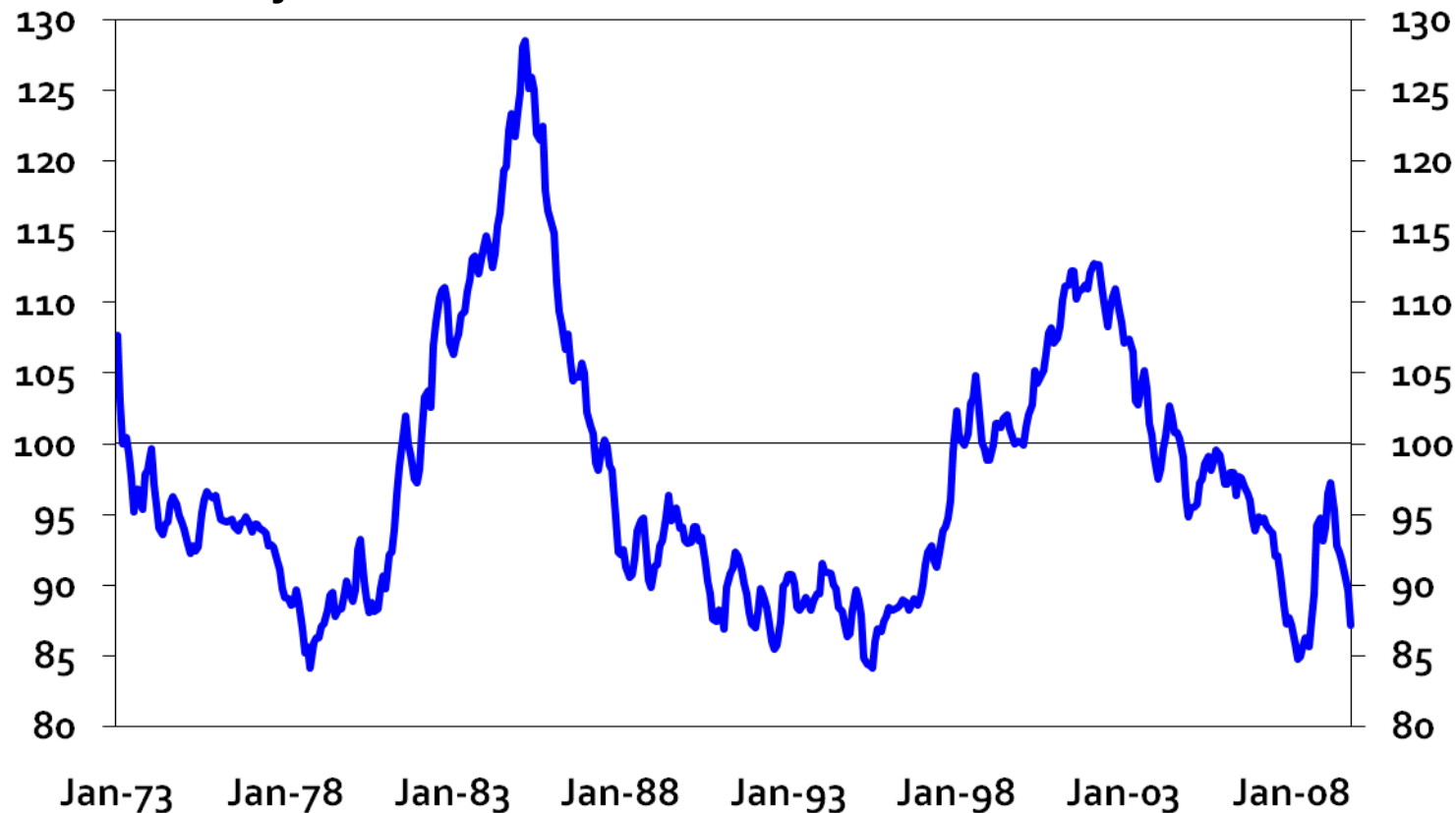
Source: International Monetary Fund, April 2009



# *A low value of the dollar makes U.S. goods cheaper in foreign markets.*

## Value of the Dollar

Index: Price adjusted broad index



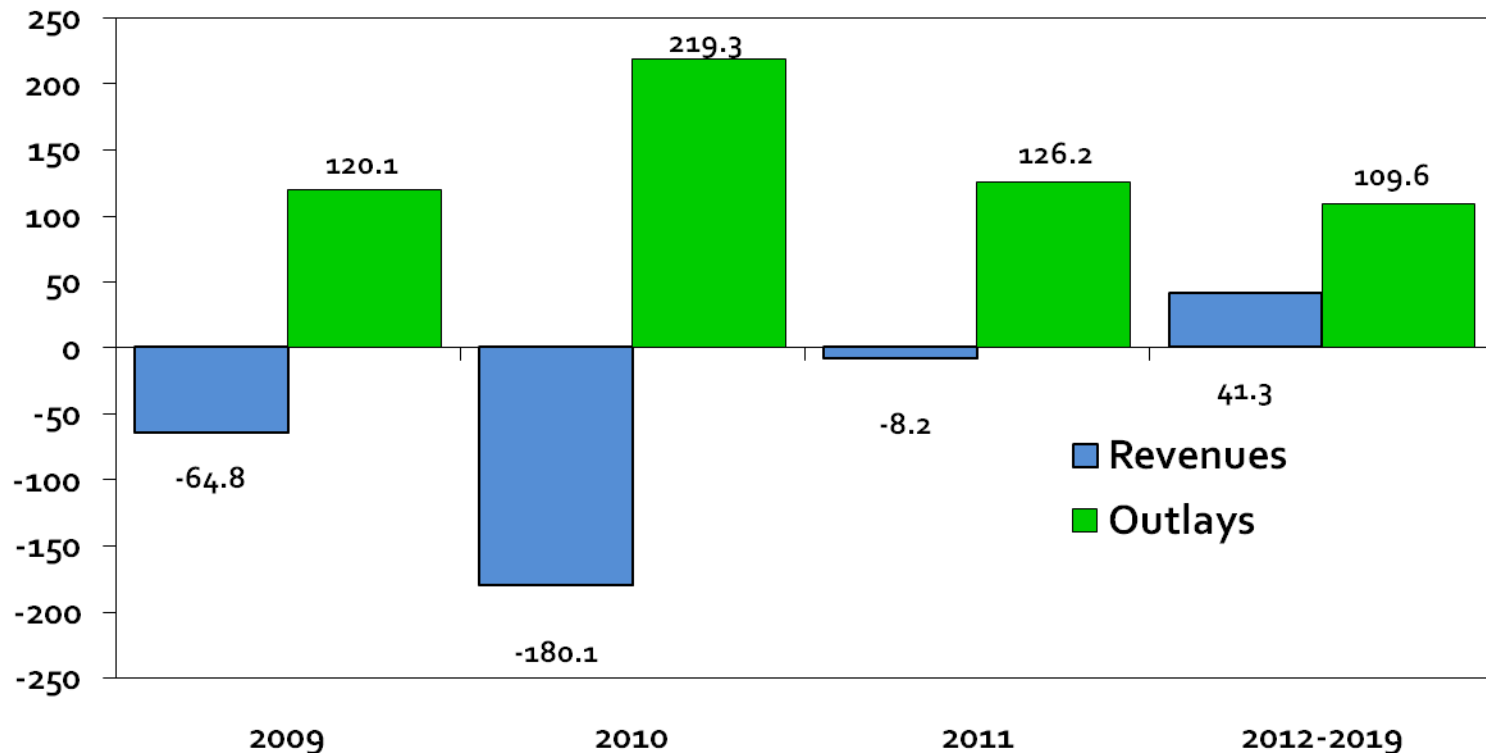
Source: Federal Reserve Board of Governors



# 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



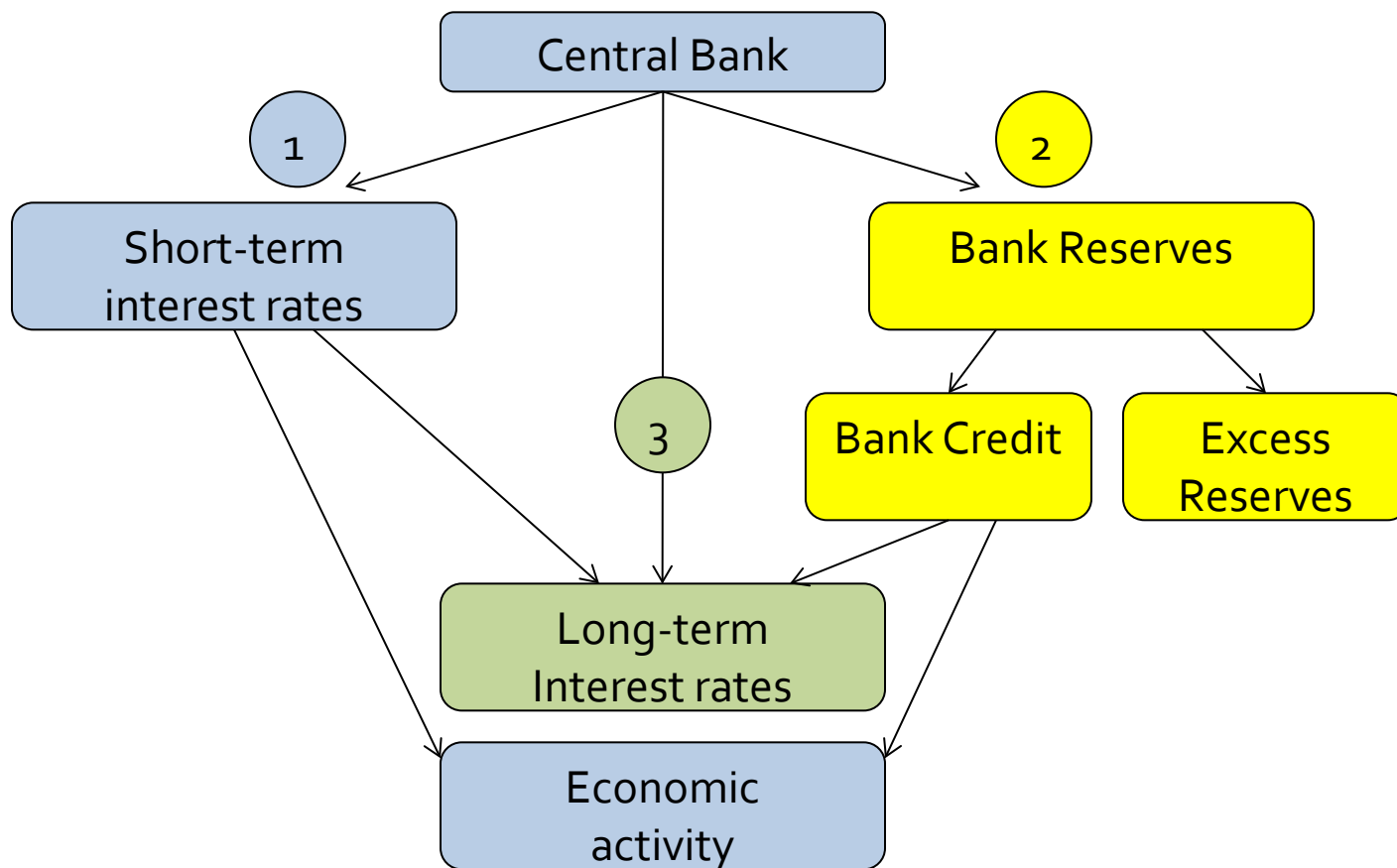
# Today's Roadmap

- **Economic Recovery: how strong will it be?**
- **Monetary Policy: unwinding Fed balance sheets.**





# Monetary Policy Transmission Mechanisms



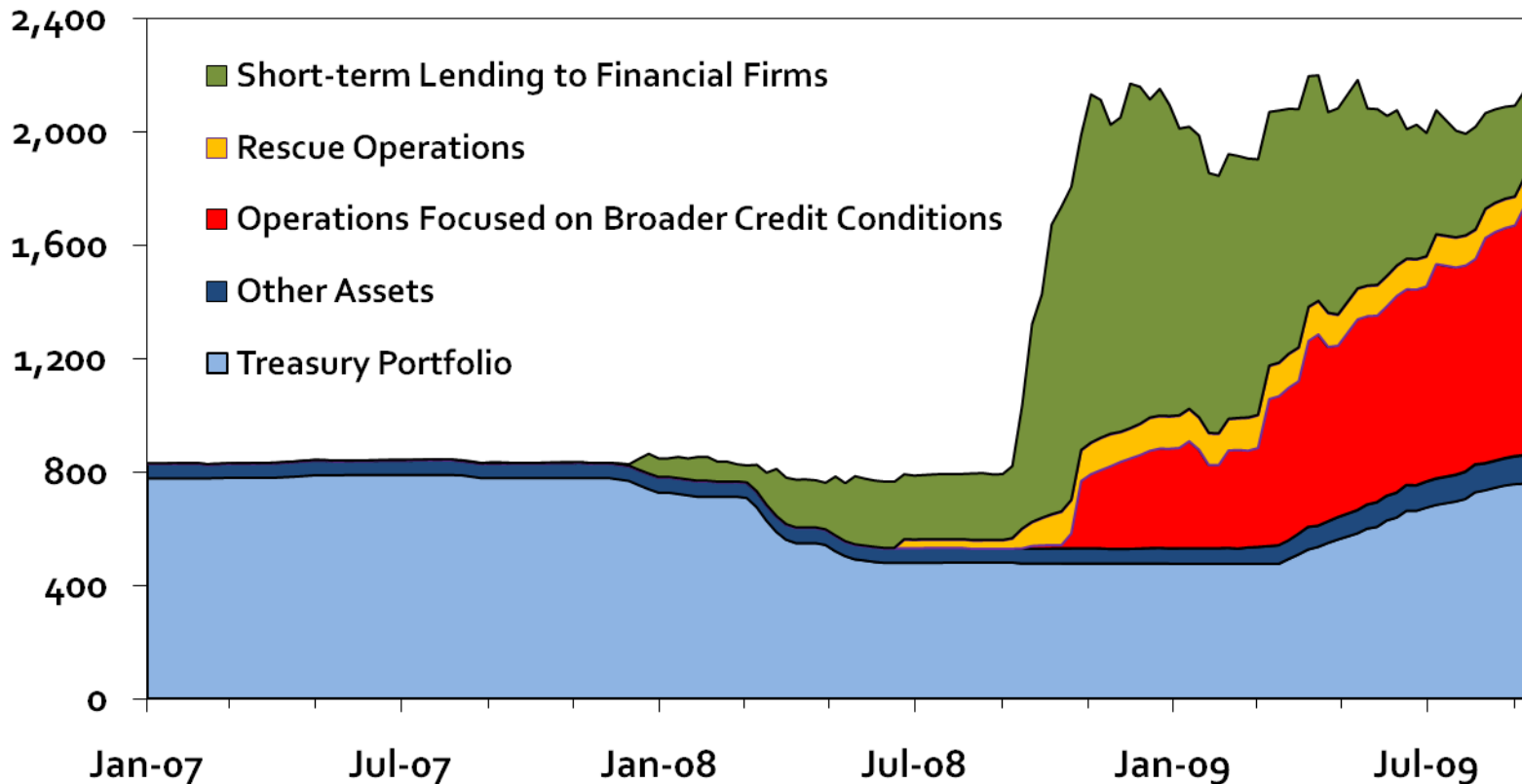
Source: Gordon Sellon (2003) "Monetary Policy and the Zero Bound: Policy Options When Short-Term Rates Reach Zero"  
Economic Review <http://www.kansascityfed.org/Publicat/ECONREV/PDF/4q03sell.pdf>



# The Fed Has Expanded its Balance Sheet.

## Federal Reserve Balance Sheet: Assets

Billion Dollars



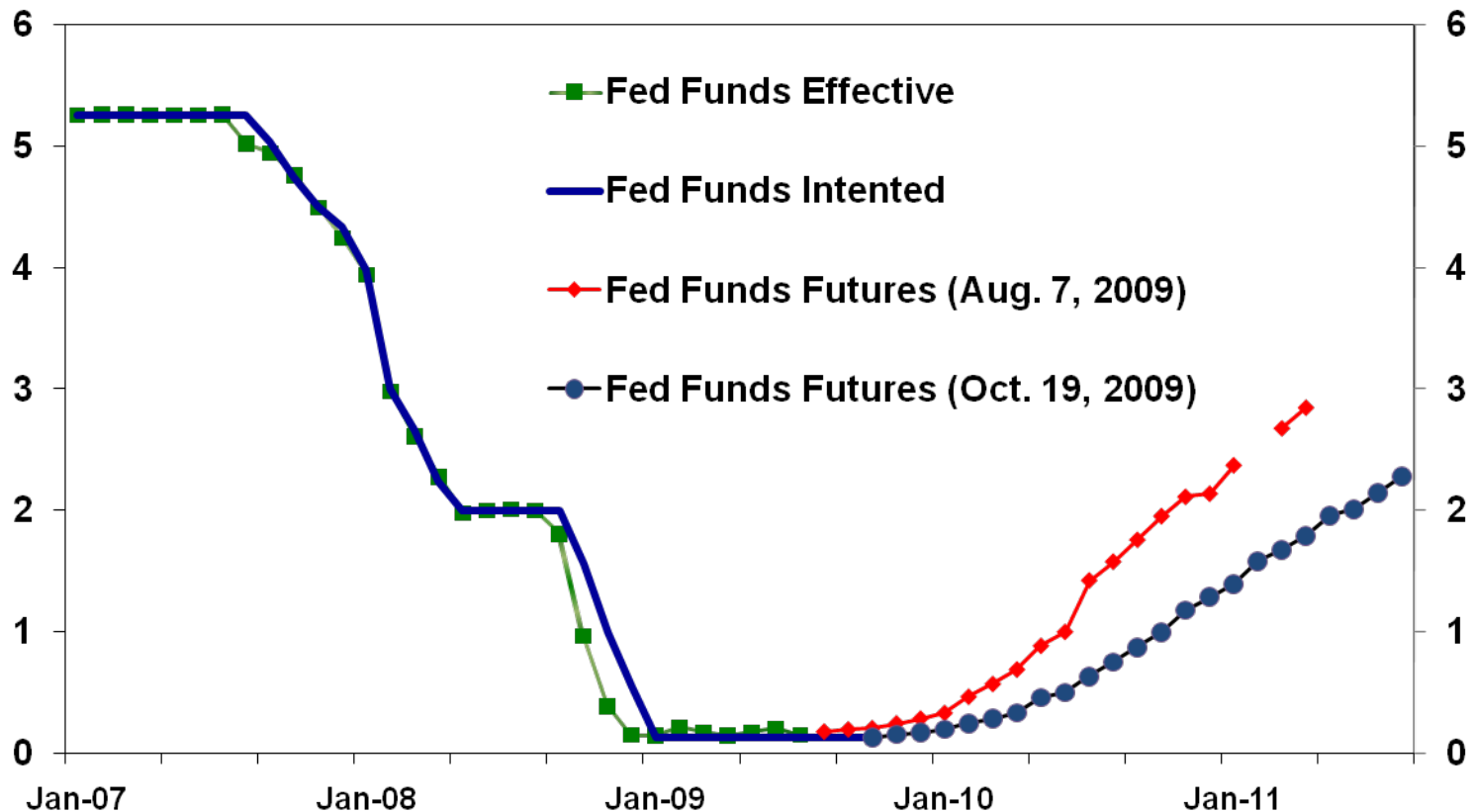
Source: Federal Reserve Board of Governors



# What is the future path of interest rates?

## Fed Funds Rate

Percent



Source: Federal Reserve Board of Governors and CME Group



# Today's Roadmap

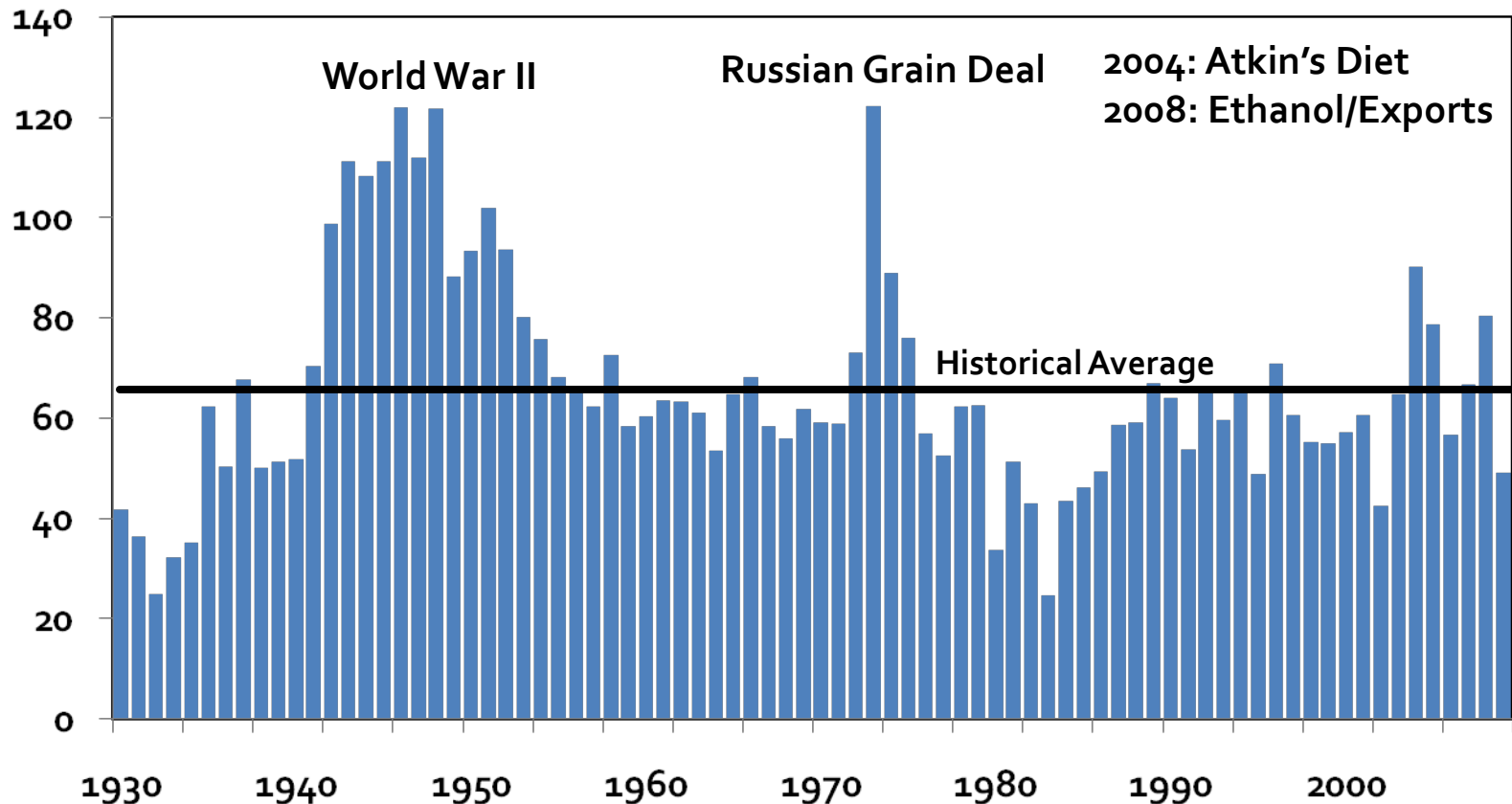
- **Economic Recovery: how strong will it be?**
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- **The Farm Economy: can it rebound in 2010?**



# Will agricultural export activity remain historically high?

## U.S. Net Farm Income

Billion dollars (Real)



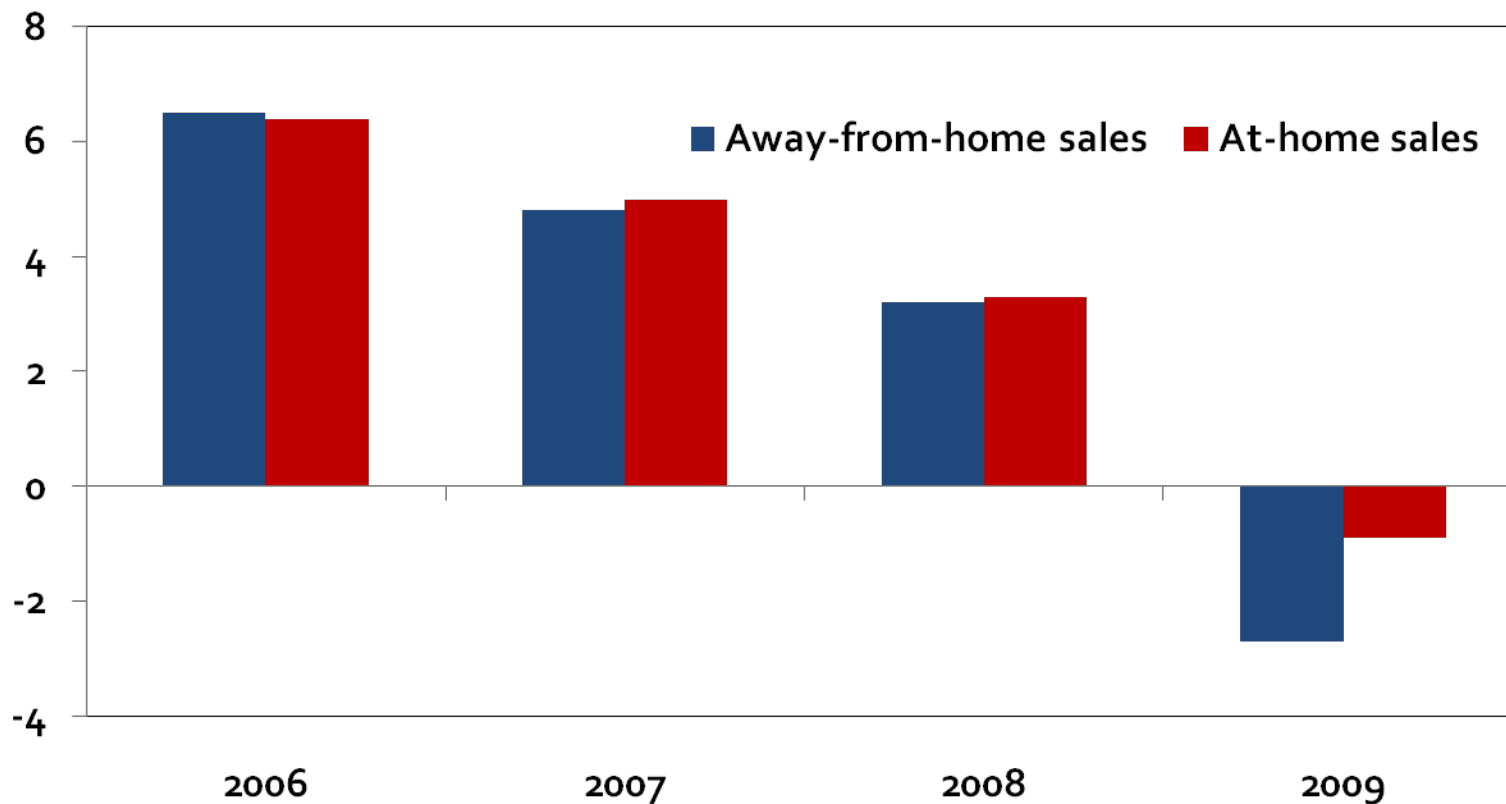
Source: USDA, fiscal years



# Food sales decline, especially at restaurants.

## U.S. Food Sales

Percent change from previous year



Source: USDA

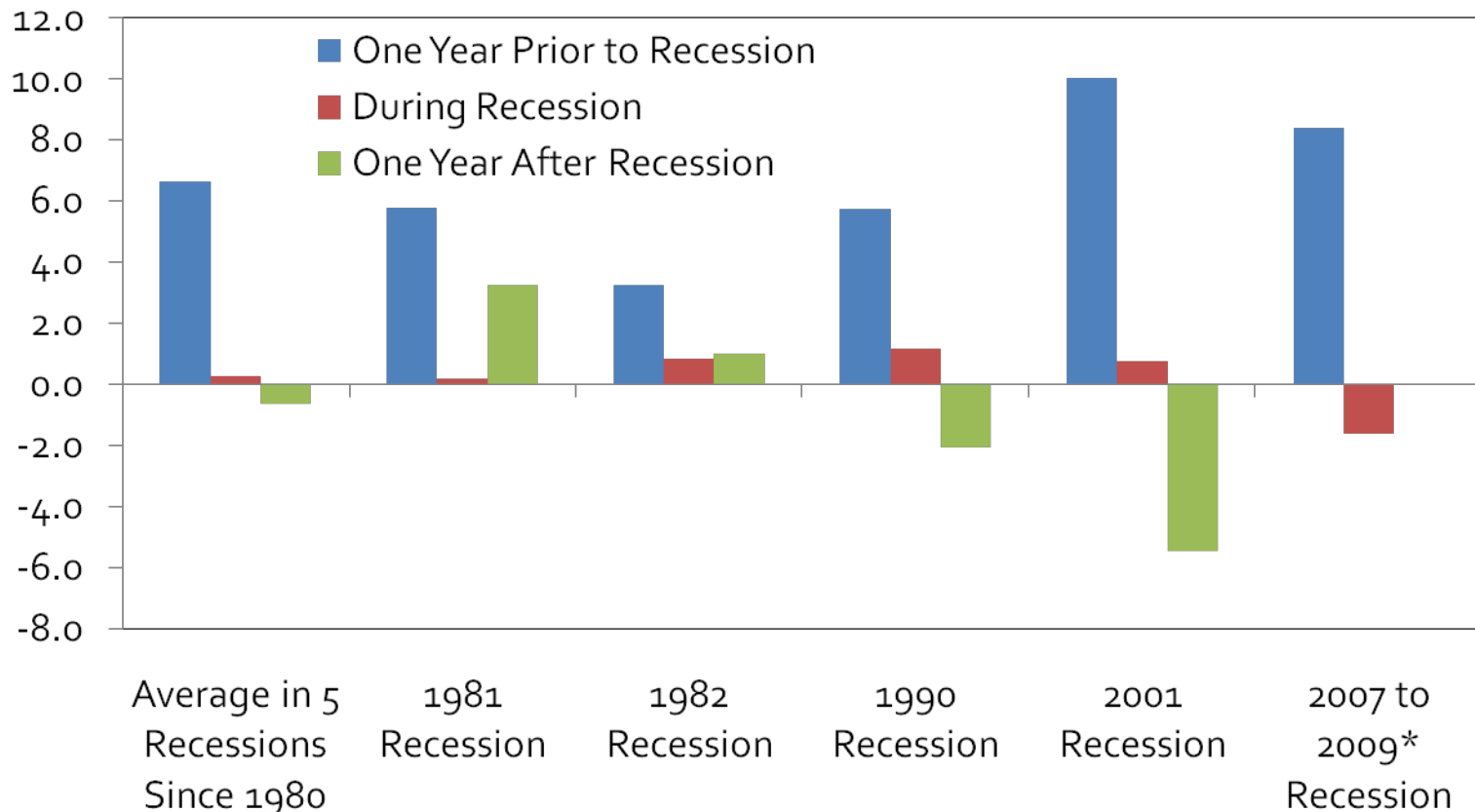
2009 data are year-to-date through August



# Meat and milk spending declines in jobless recoveries

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

Percent change



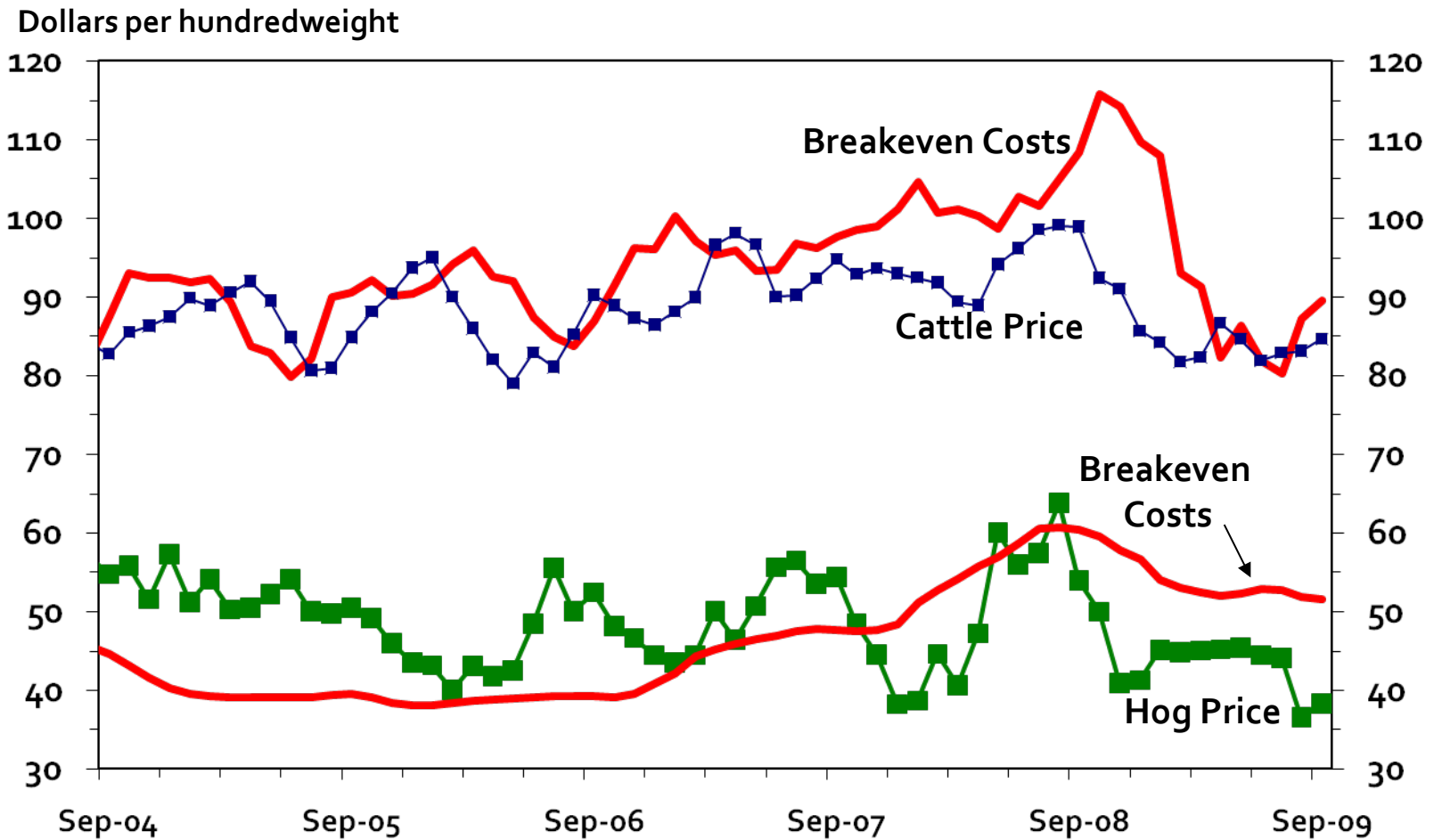
Calculations based on Bureau of Economic Analysis data

\* 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.



# Livestock margins could improve in 2010.

## U.S. Livestock Prices and Breakeven Costs



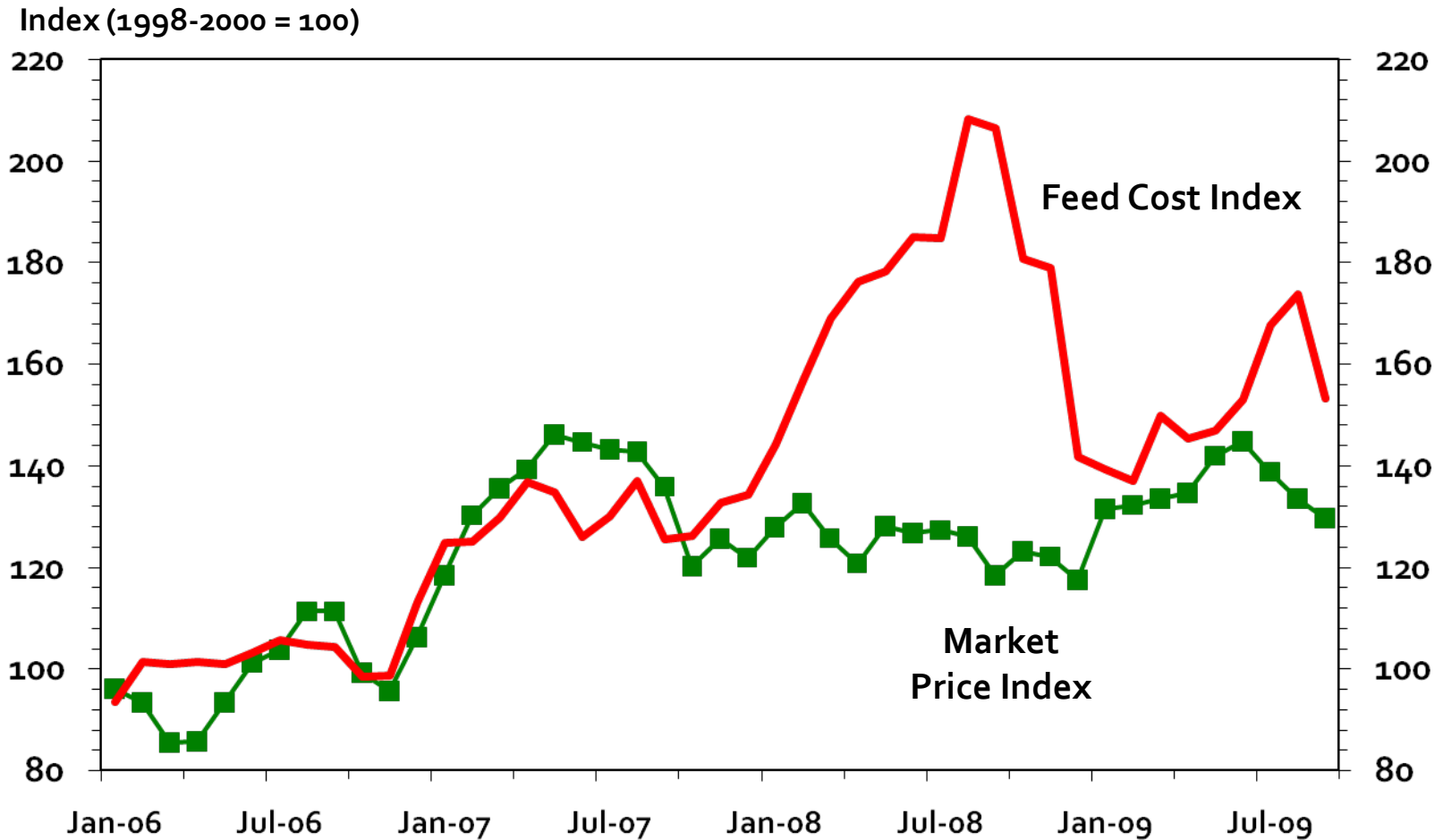
Source: USDA and Iowa State University





*But, reduced supplies are needed.*

## U.S. Poultry Prices and Feed Costs

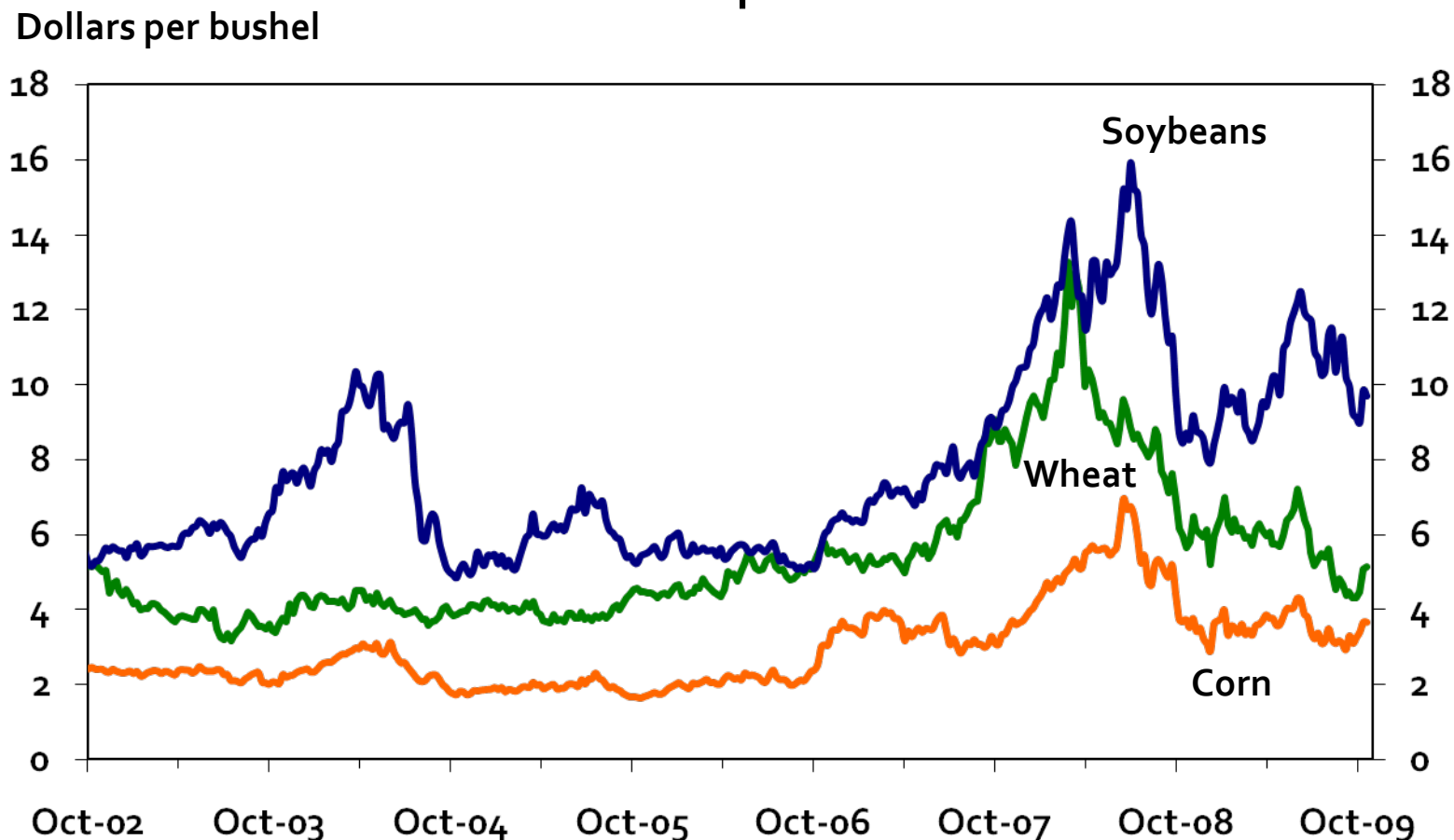


Source: USDA



# Have seasonal lows been set in the crop sector?

## U.S. Crop Prices



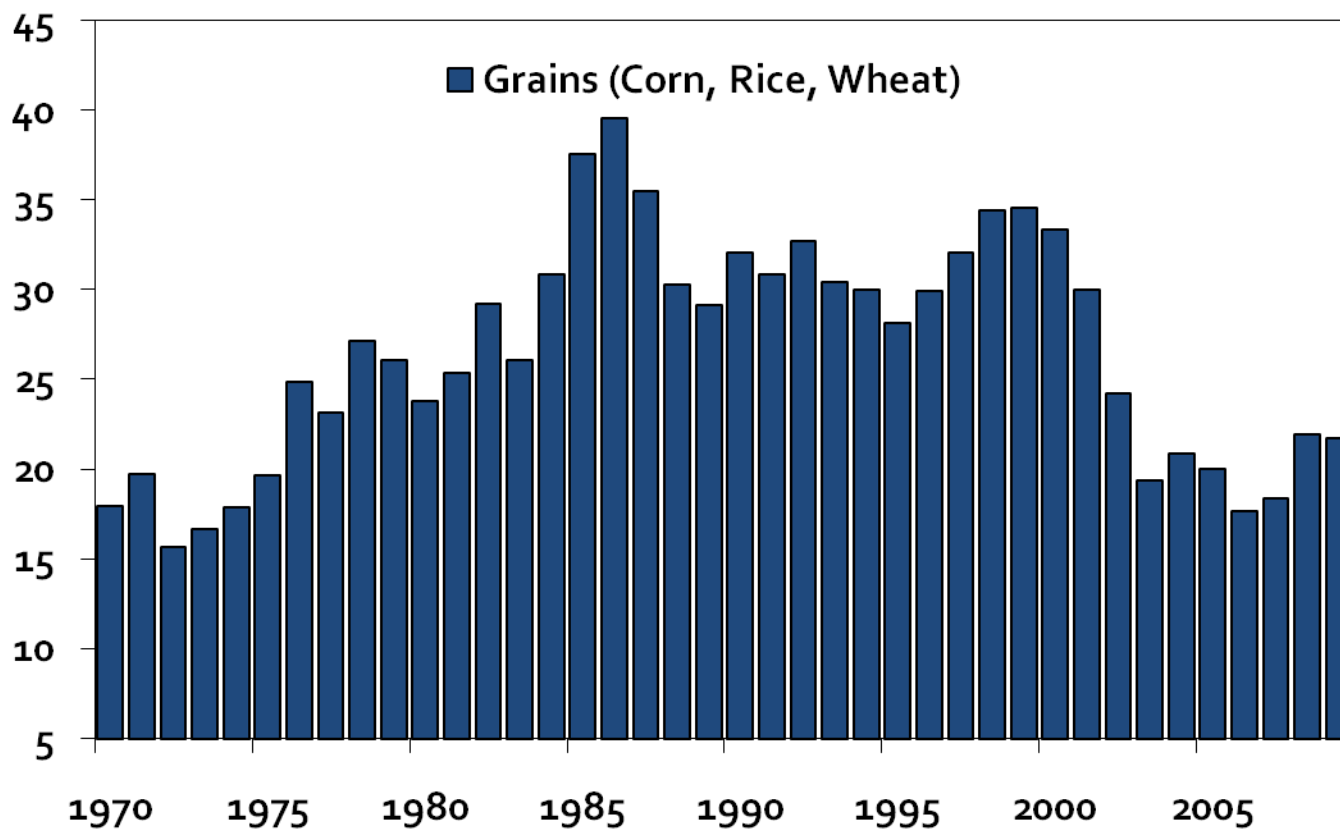
Source: Commodity Research Bureau



# *Crop inventories remain historically low.*

## World Grain Inventories

Stocks as percent of annual use

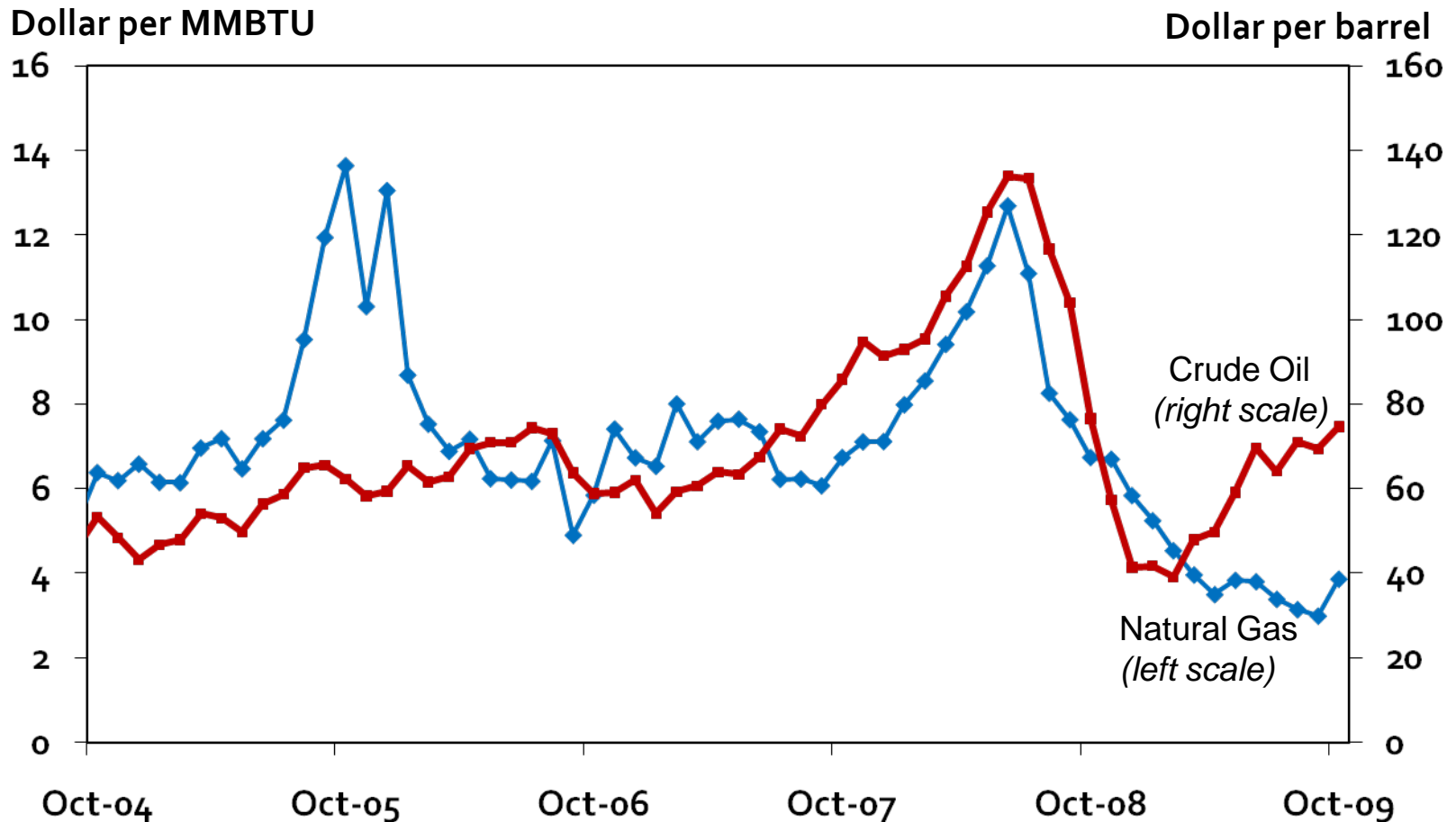


Source: USDA



# How will energy prices shape farm profits in 2010?

## Energy Prices



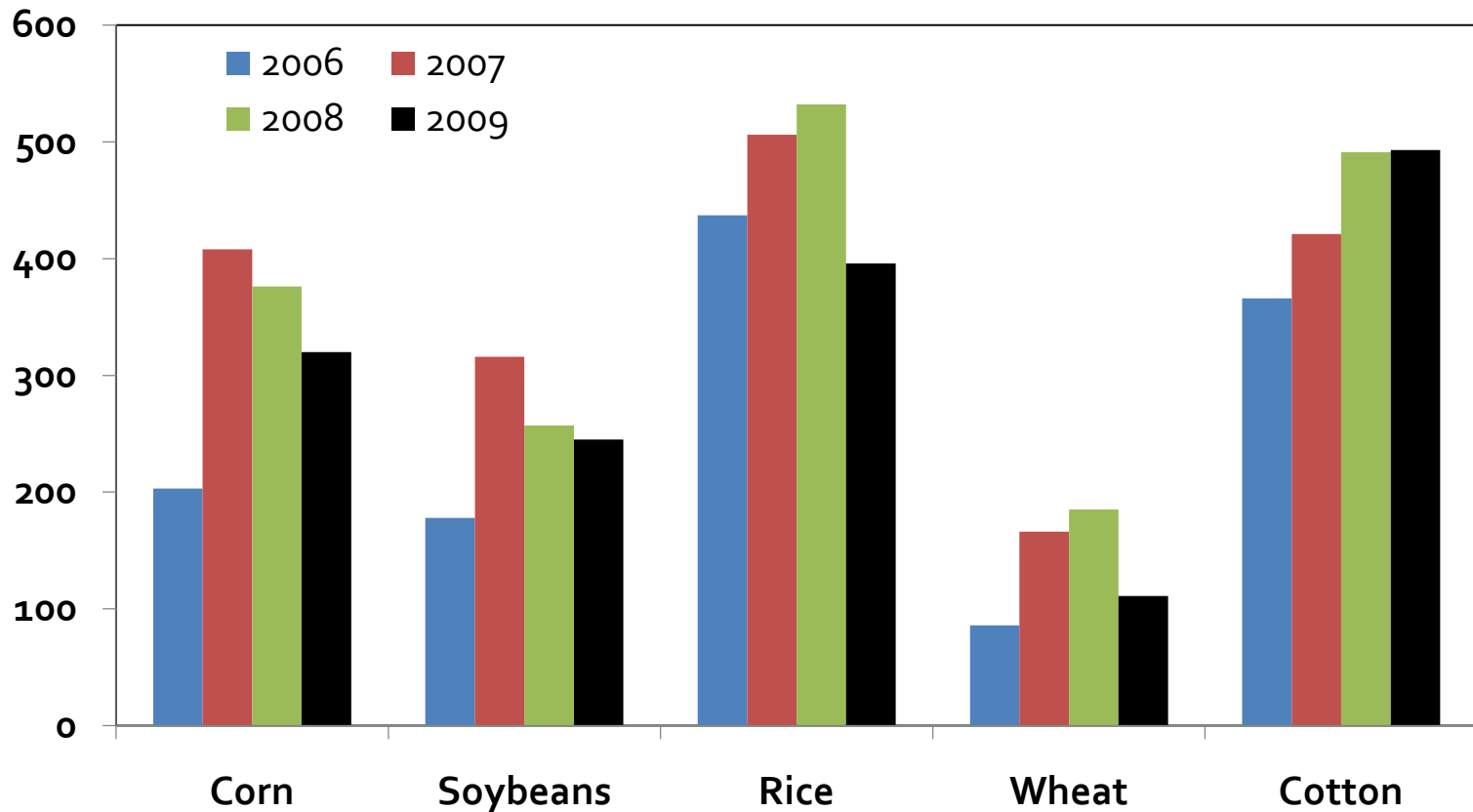
Source: Bloomberg



# *Crop margins have declined, but remain above 2006 levels.*

## Crop Net Returns Above Variable Costs

Dollars per acre



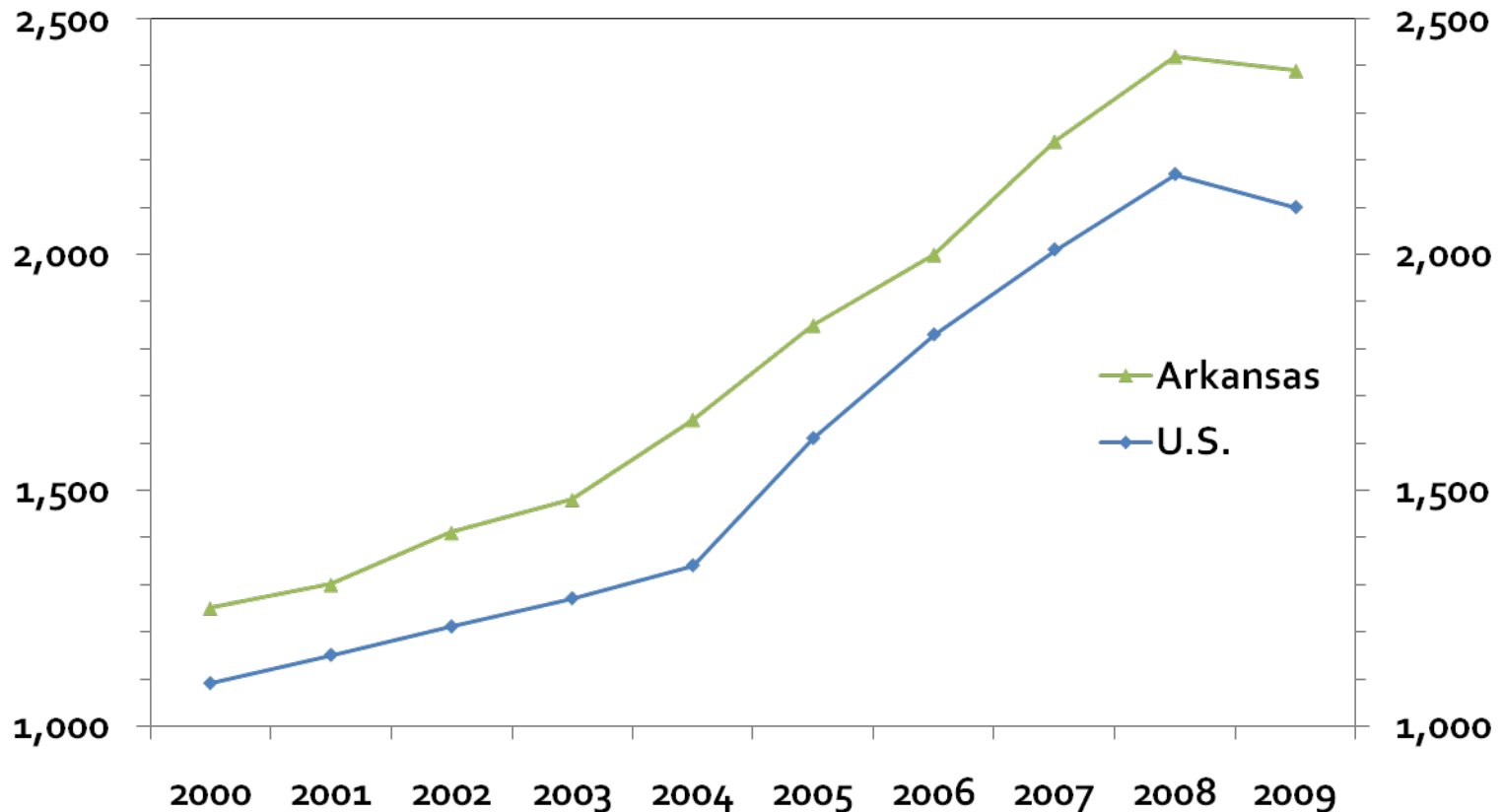
Source: USDA



# Farmland values have eased recently.

## Average Farmland Values

Dollars per acre

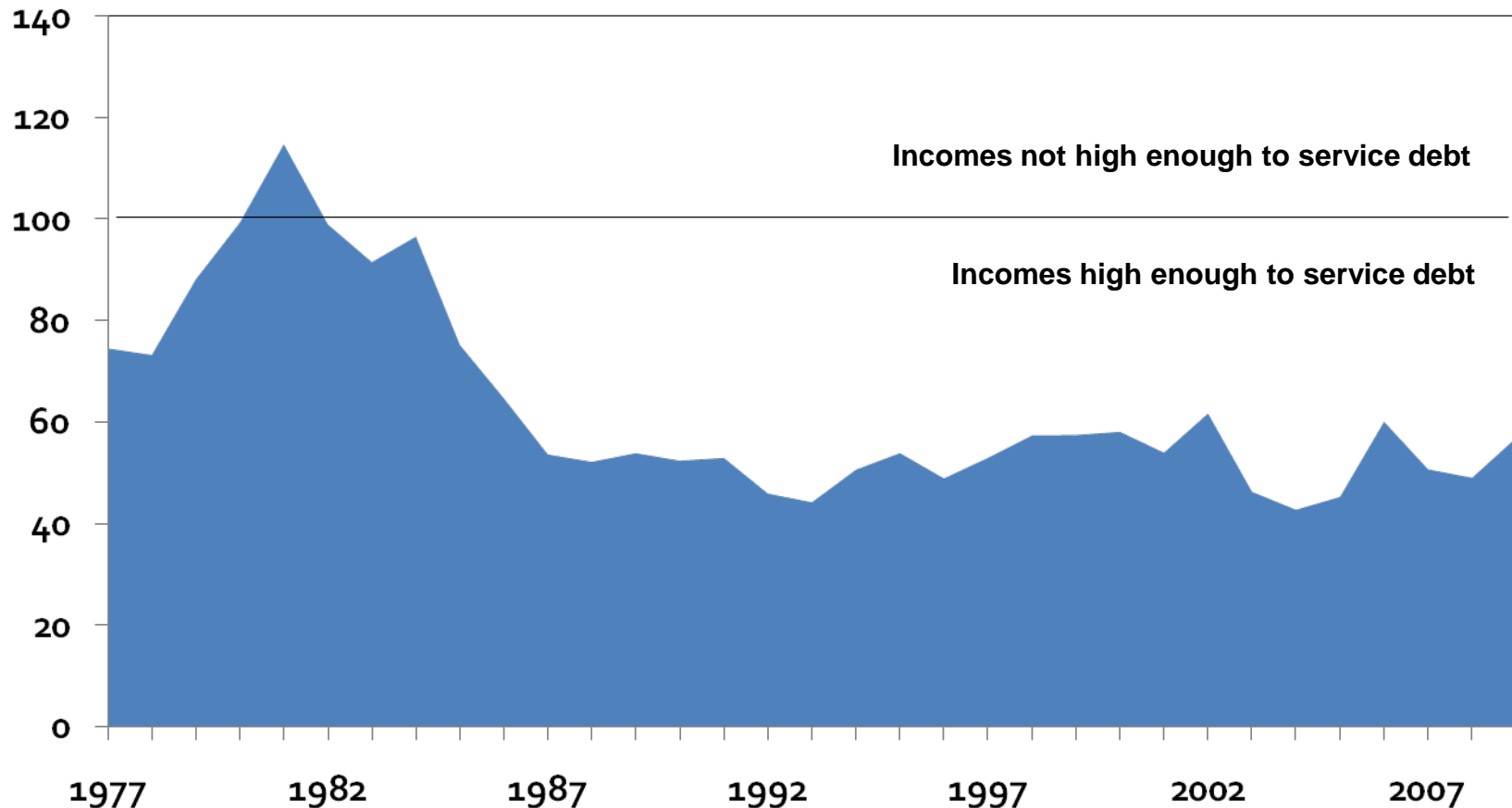


Source: USDA



# *Farmers' appear to have learned the debt lessons of the 1980s.*

## U.S. Debt Repayment Capacity Utilization

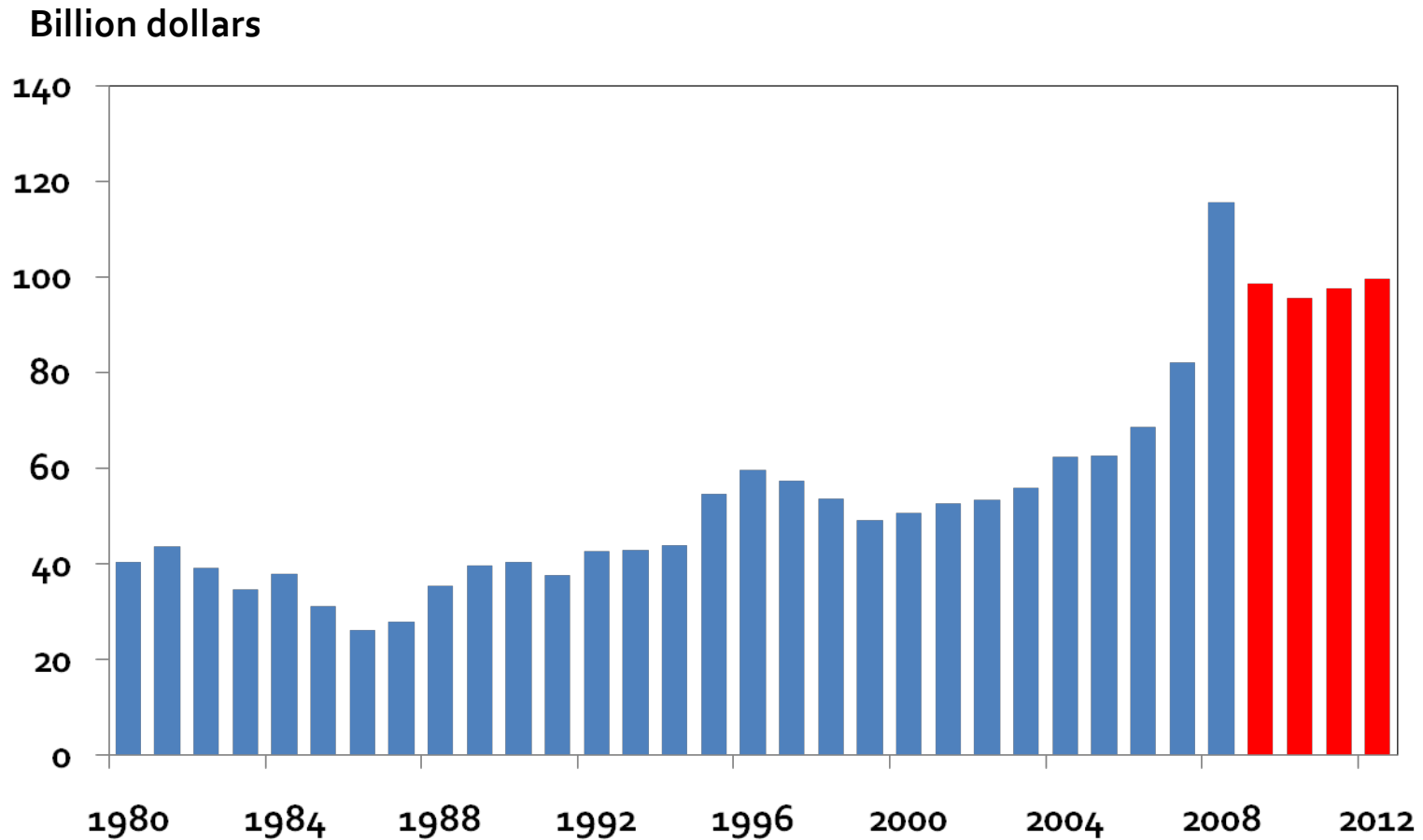


Source: USDA



# Will agricultural exports remain historically high?

## U.S. Agricultural Exports



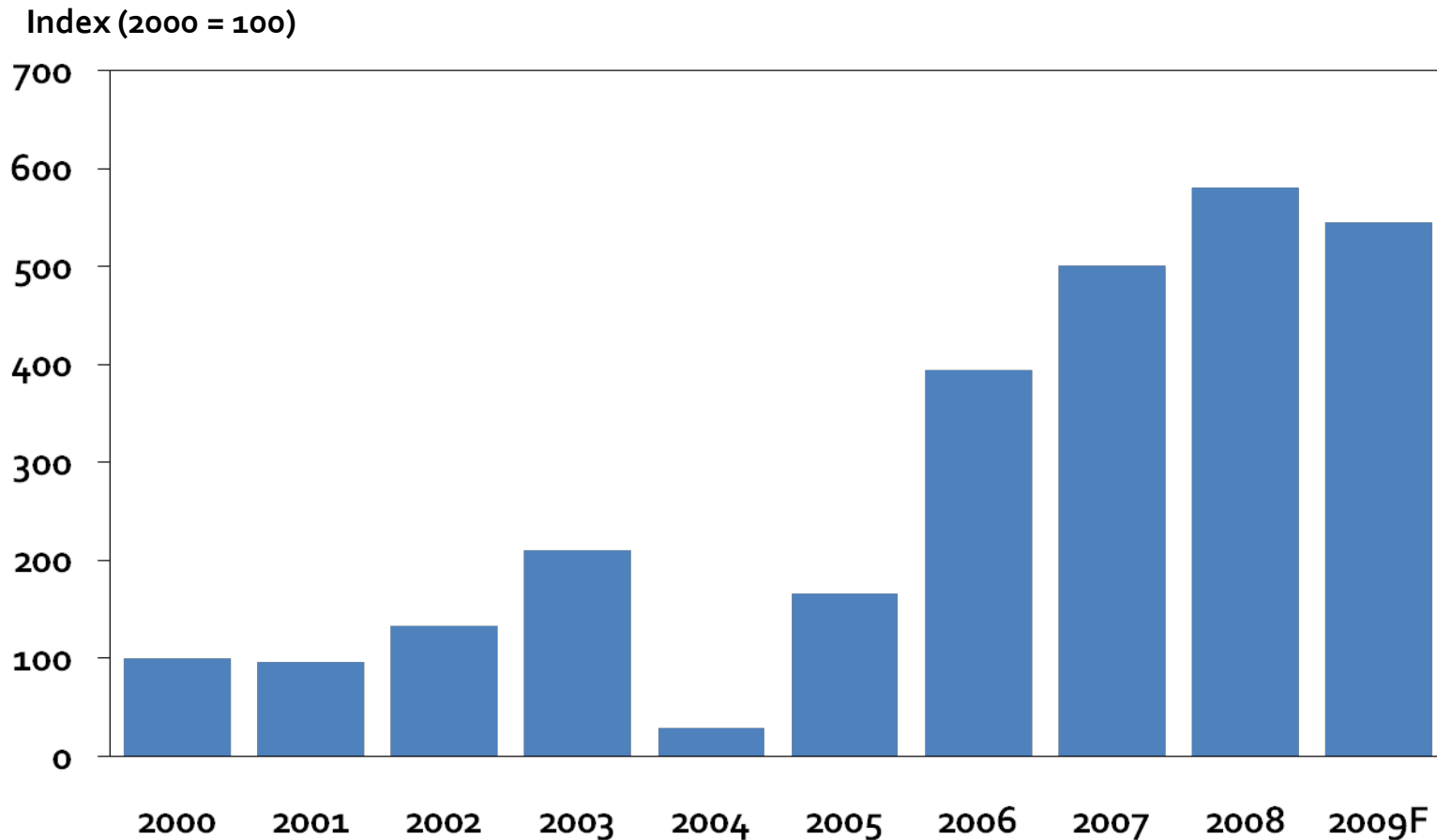
Source: USDA, fiscal years





# *Will stronger incomes in China spur further gains in U.S. exports?*

## U.S. Poultry Exports to China



Source: Foreign Agricultural Service  
2009 forecast based on poultry exports through August.



# Conclusion

- **The financial crisis and recession appear to be ending .**
- **Risks surround the recovery.**
- **The outlook hinges on consumer spending.**
- **As the recovery strengthens, questions will switch from growth to inflation.**
- **Will the recovery lift agricultural demand in 2010?**



# For More Information

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Omaha Branch

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