

Jason Henderson
Vice President and Branch Executive
Federal Reserve Bank of Kansas City – Omaha Branch
www.kansascityfed.org/omaha
February 5, 2009

Regional Economic Conditions, Financial Outlook, and the Credit Crisis



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.

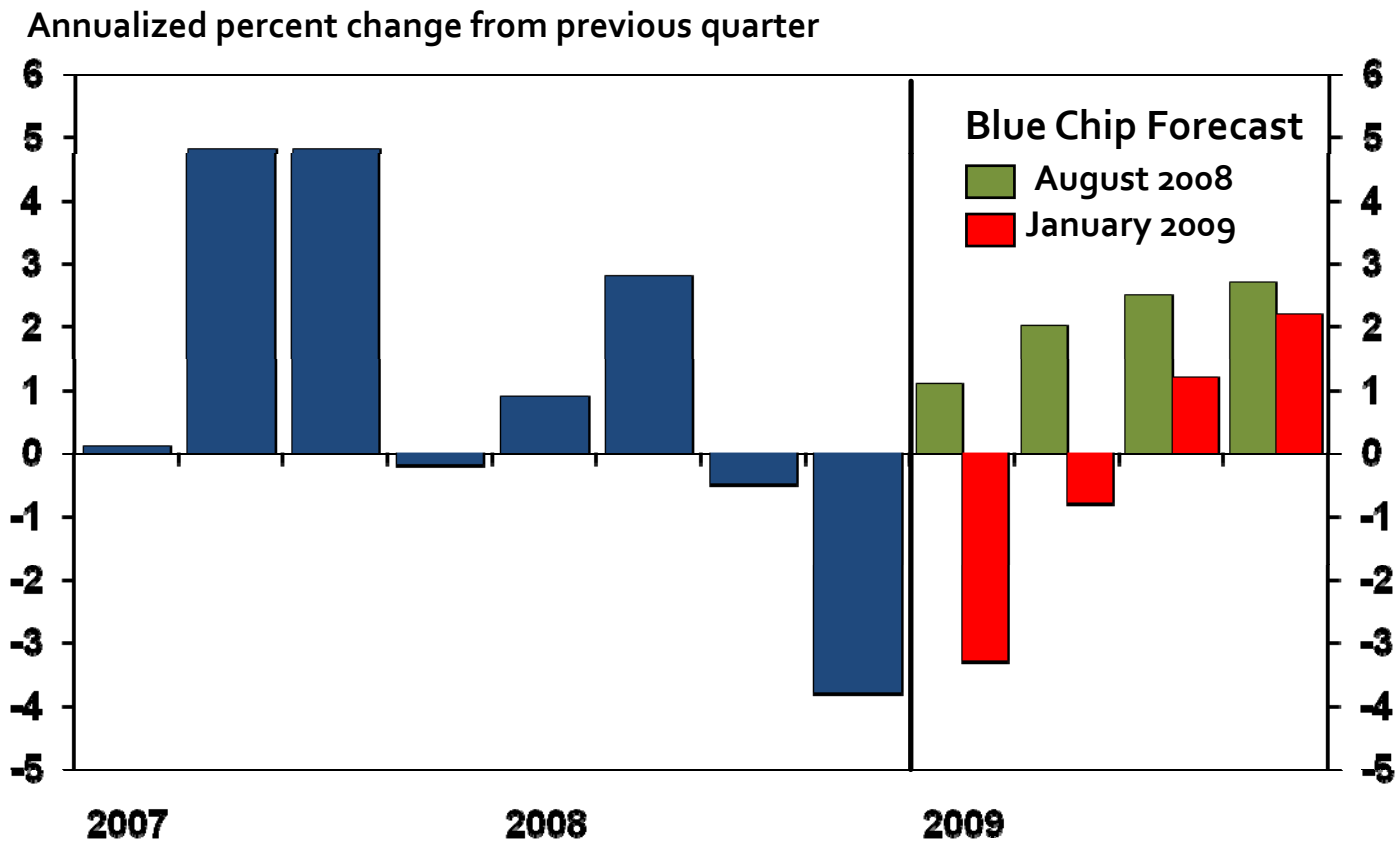
Today's Roadmap

- **The Recession Intensifies**
 - A housing market correction spread to financial markets.
 - A financial crisis fuels the recession.
- **Will Recent Financial Market Improvements Persist?**
- **What is the Impact on Agricultural Credit?**



The U.S. economy is in recession.

Real GDP Growth

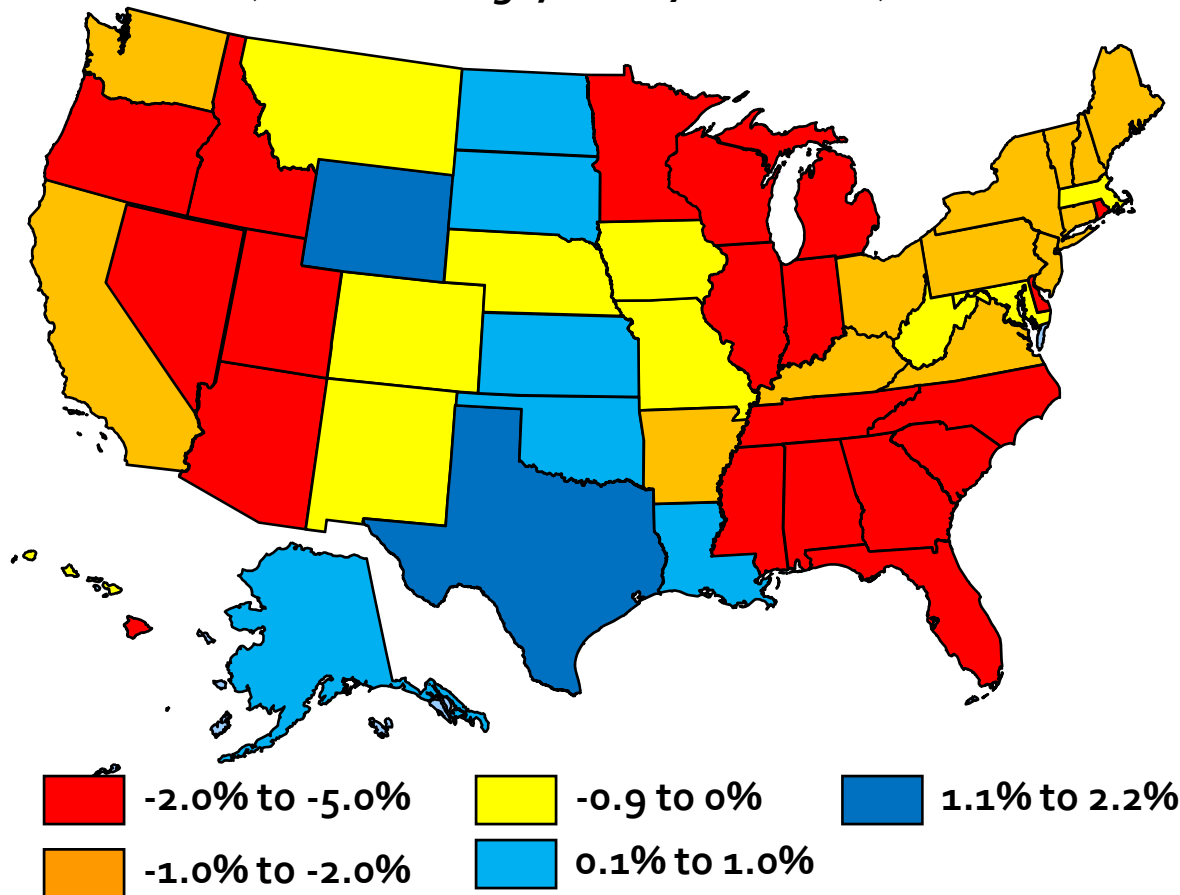


Source: Bureau of Economic Analysis and Blue Chip Economic Indicators



Stronger growth in the Plains.

Total Non-farm Employment Growth (Percent change, Dec. 07 to Dec. 08)

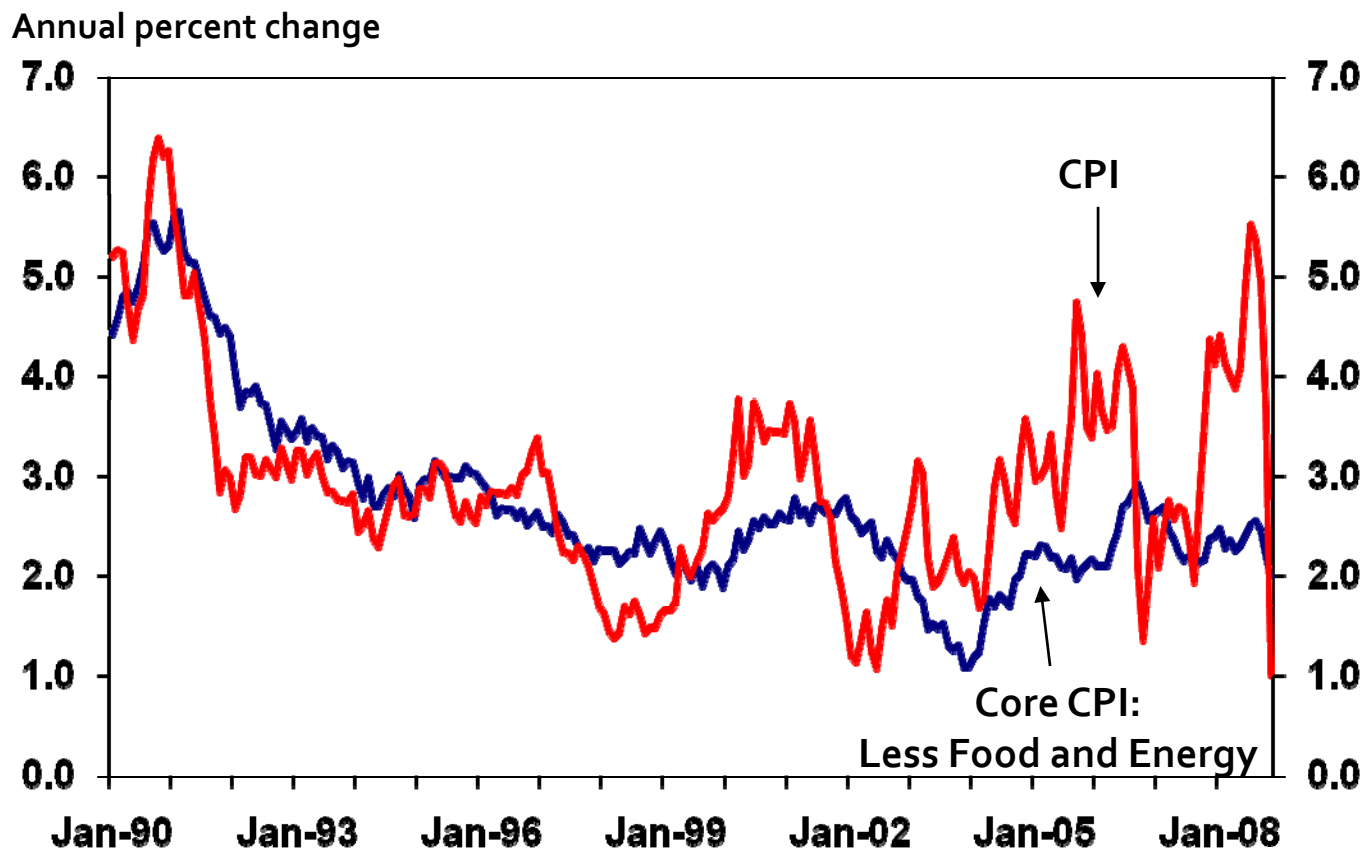


Source: Bureau of Labor Statistics



Inflationary pressures have eased.

Consumer Price Inflation



Source: Department of Commerce



Changes are concentrated in energy goods.

Category	Relative Importance (Percent)	Monthly Annualized Percent Change Jan. to Sep. 2008	Monthly Annualized Percent Change Sep. to Nov. 2008
Housing	42.4	0.3%	-0.4%
Shelter	32.5	0.2%	-0.06%
Heating Oil	4.7	1.6%	-19.9%
Gas and Electric	5.1	1.5%	-3.3%
Transportation	17.7	0.8%	-12.7%
Motor Vehicles	7.2	-0.3%	-0.5%
Motor Fuel	5.5	2.4%	-108.0%

Source: Bureau of Labor Statistics



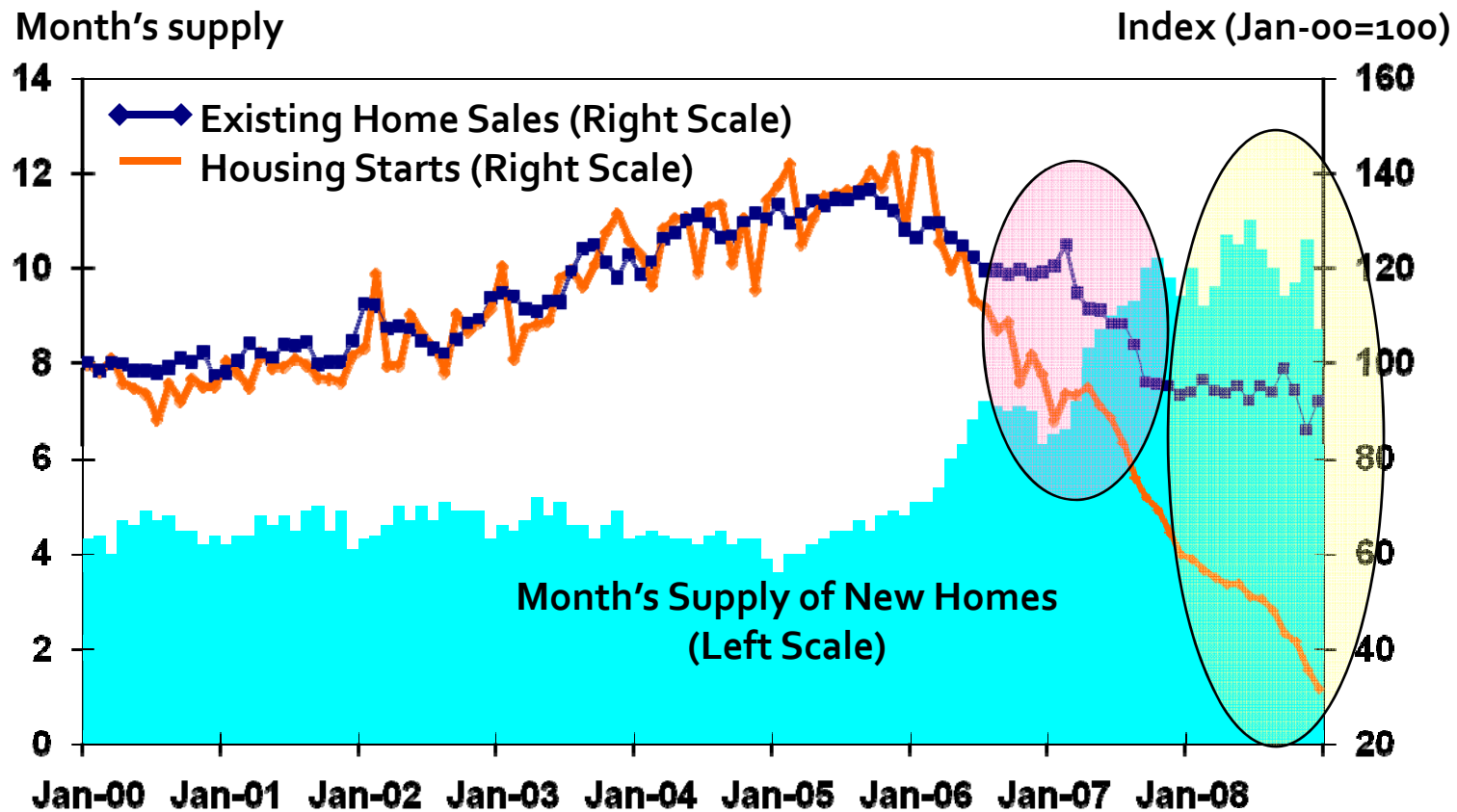
The Recession Intensifies

- The housing correction leads to a financial crisis.



It started in the housing sector.

Home Starts, Sales and Inventories

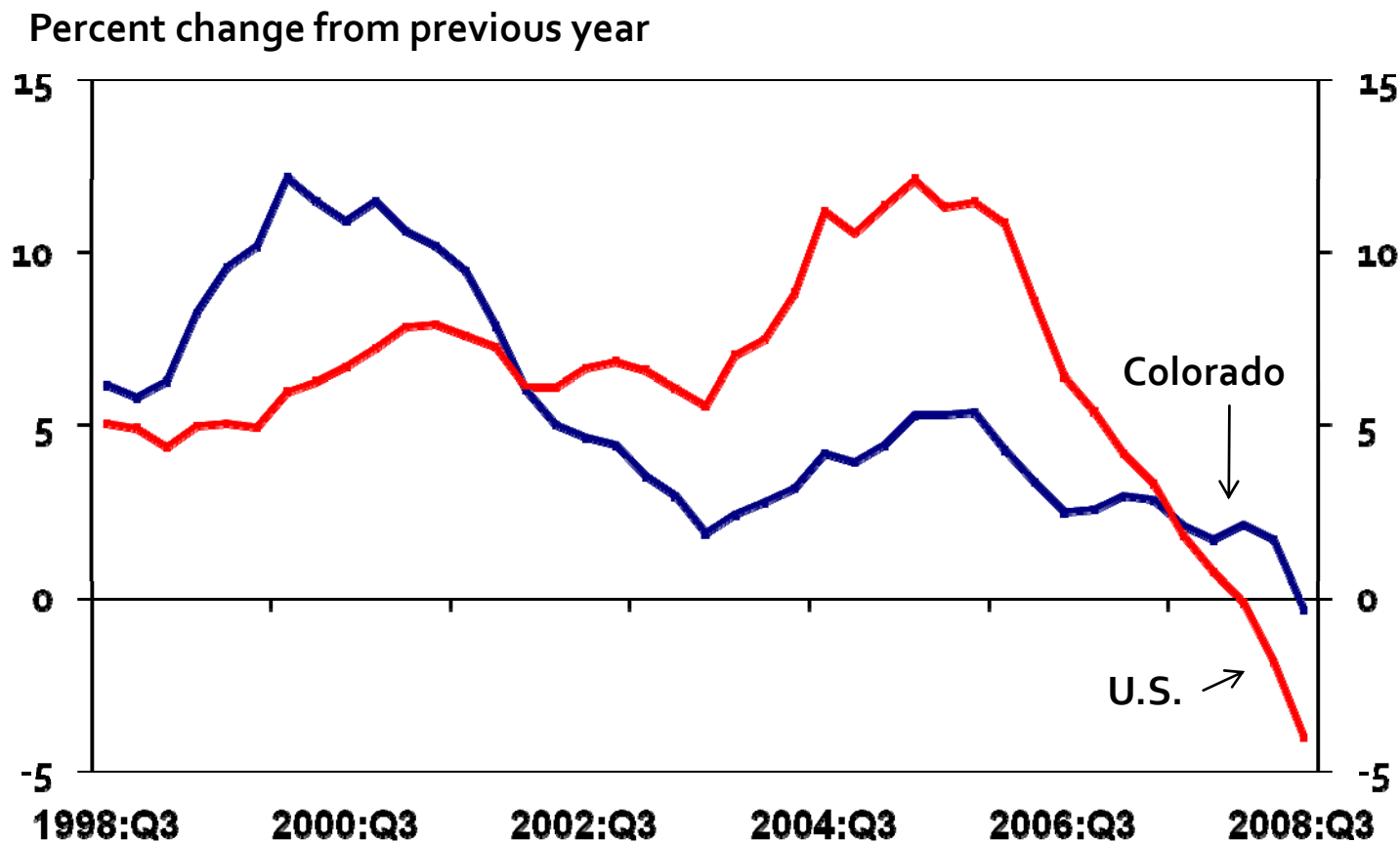


Source: Dept. of Commerce, National Association of Realtors



Nationally, home prices are falling.

Repeat-Sales Home Price Index

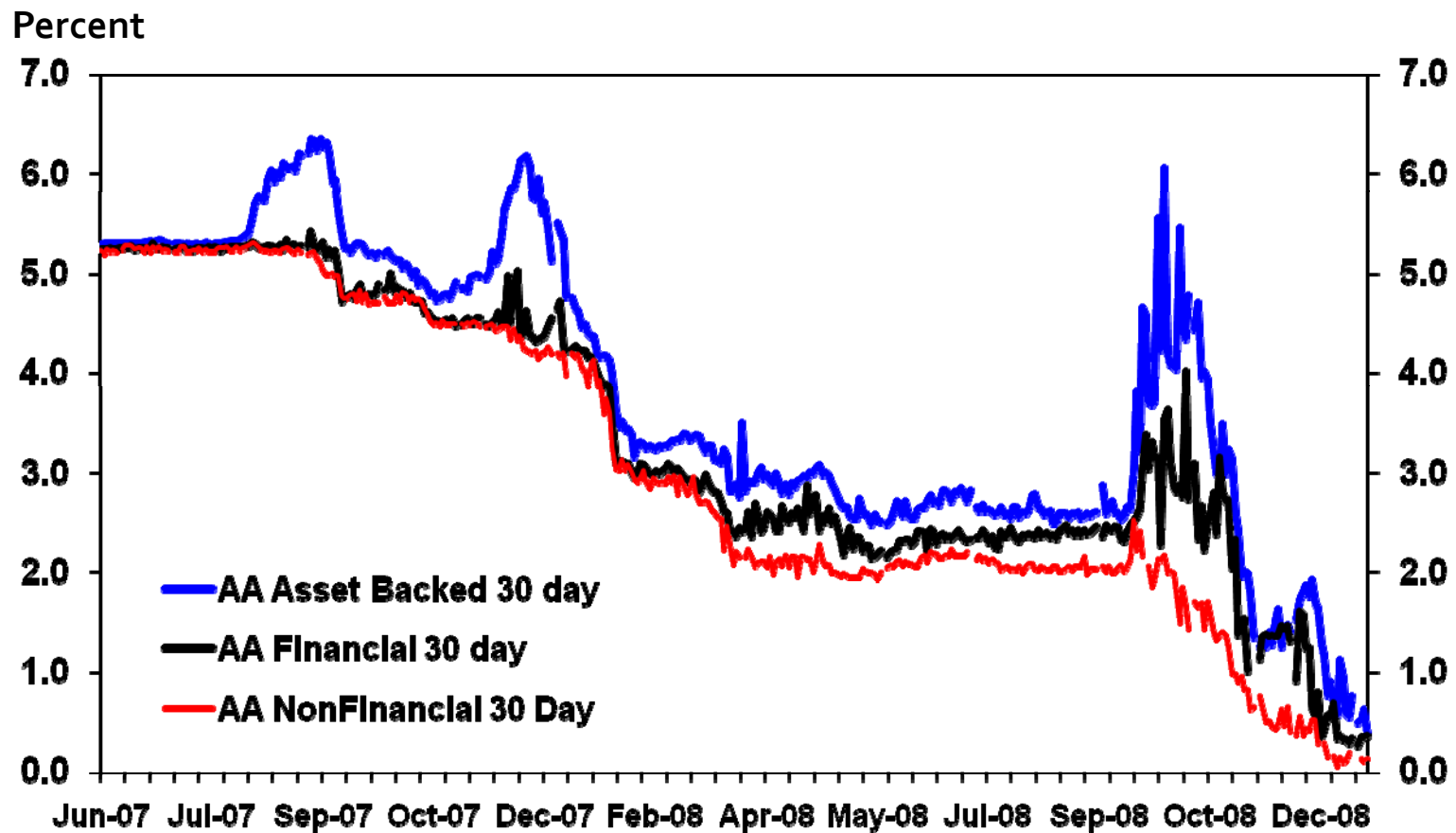


Source: OFHEO



Financial markets seize.

Commercial Paper Rates

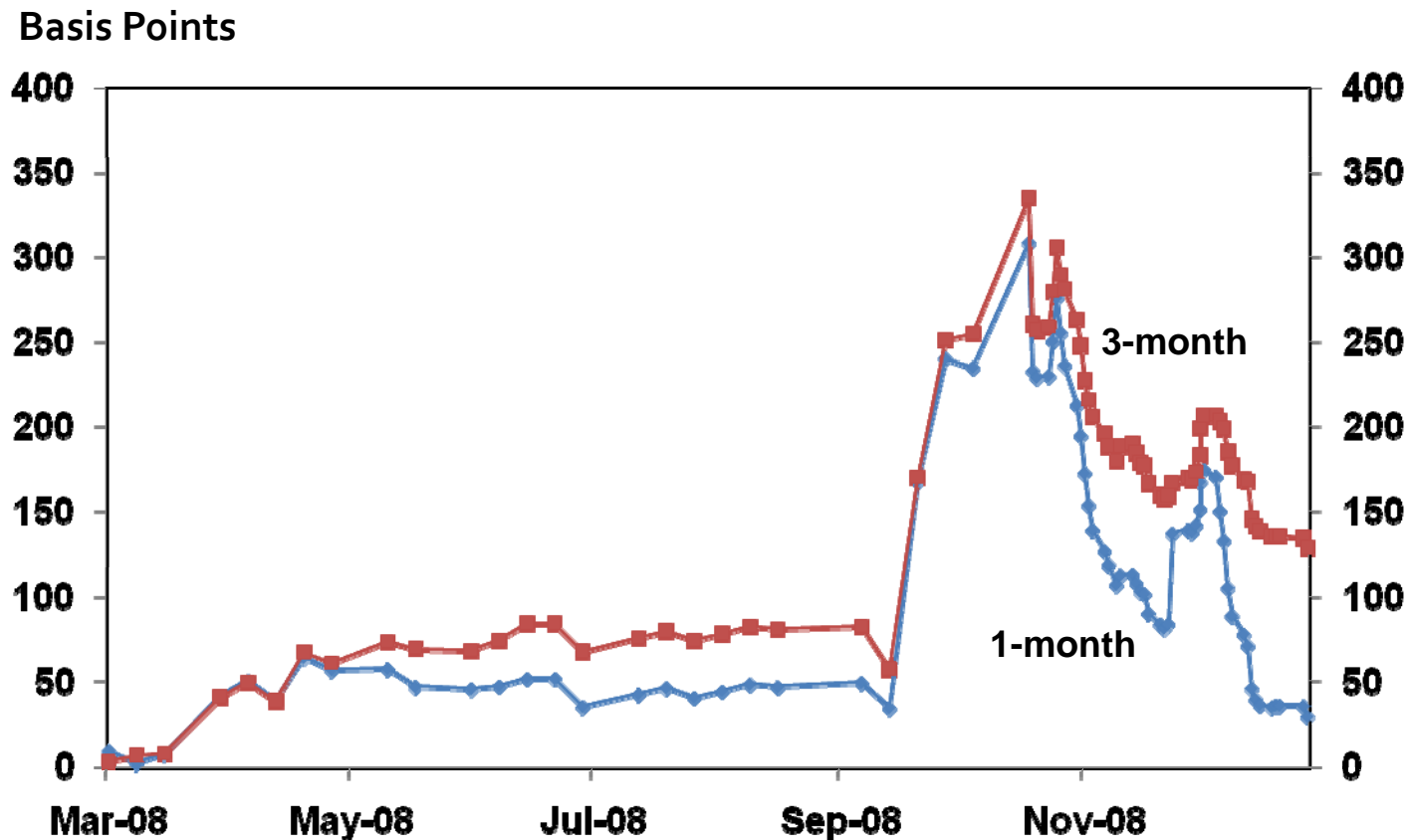


Source: Federal Reserve Board of Governors



Financial market stress remains elevated at longer maturities.

LIBOR-OIS Spread

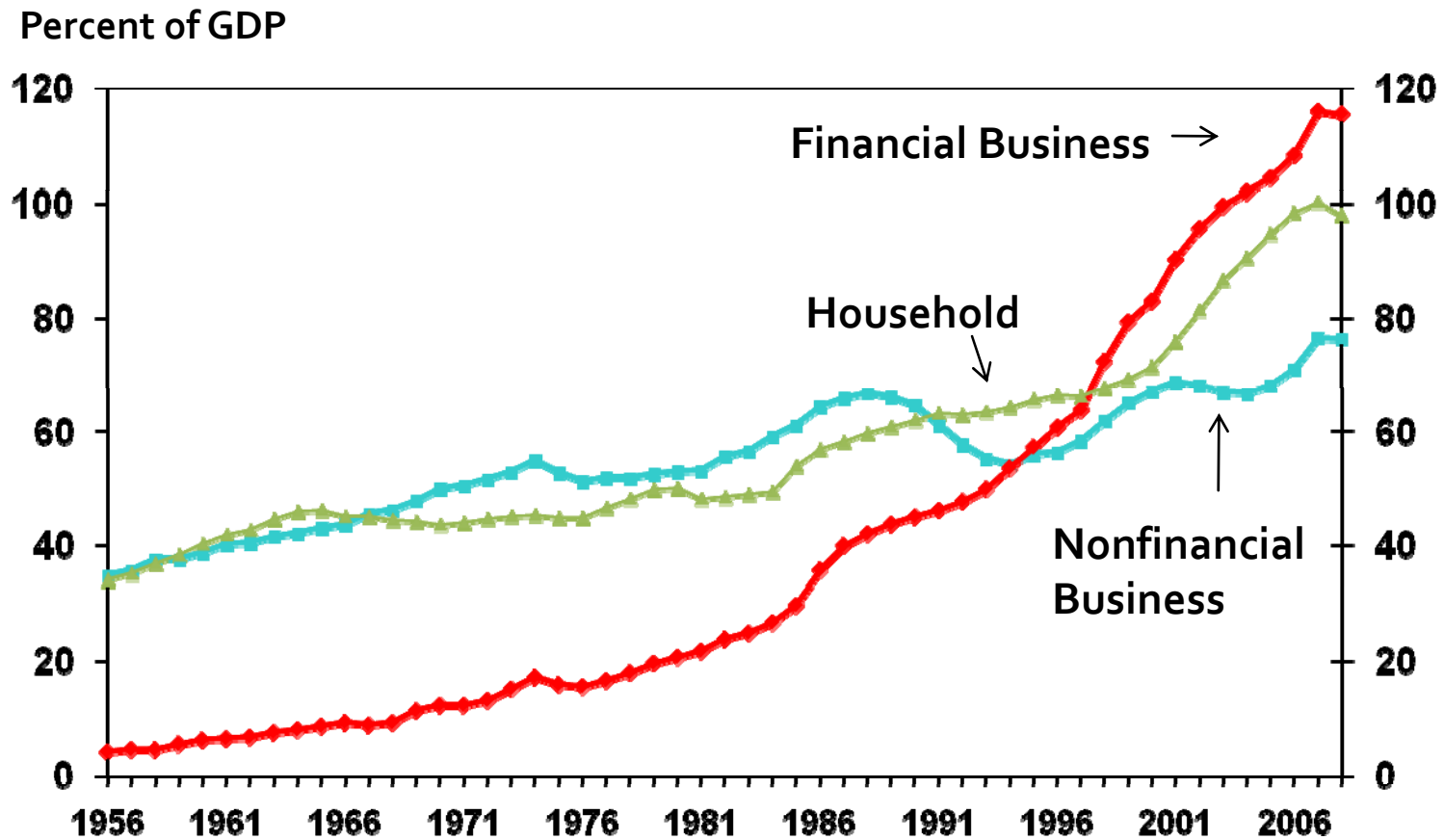


Source: Federal Reserve Board of Governors



Falling asset values with high leverage is a recipe for bankruptcy.

Domestic Debt Outstanding



Source: Federal Reserve Board of Governors



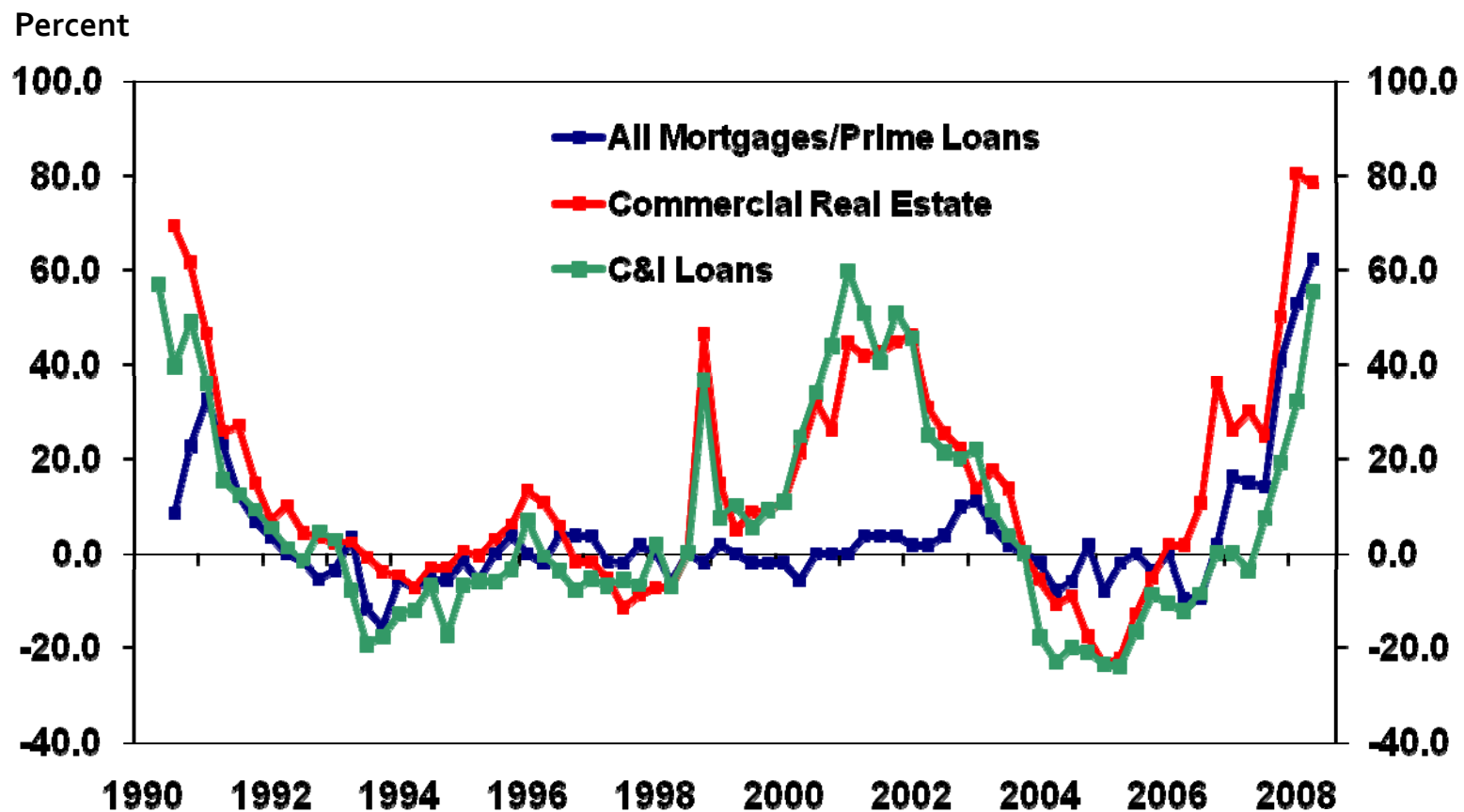
The Recession Intensifies

- The housing correction leads to a financial crisis.
- Business activity plummets.



Banks have tightened credit standards.

Net Percent of Domestic Banks Tightening Credit Standards

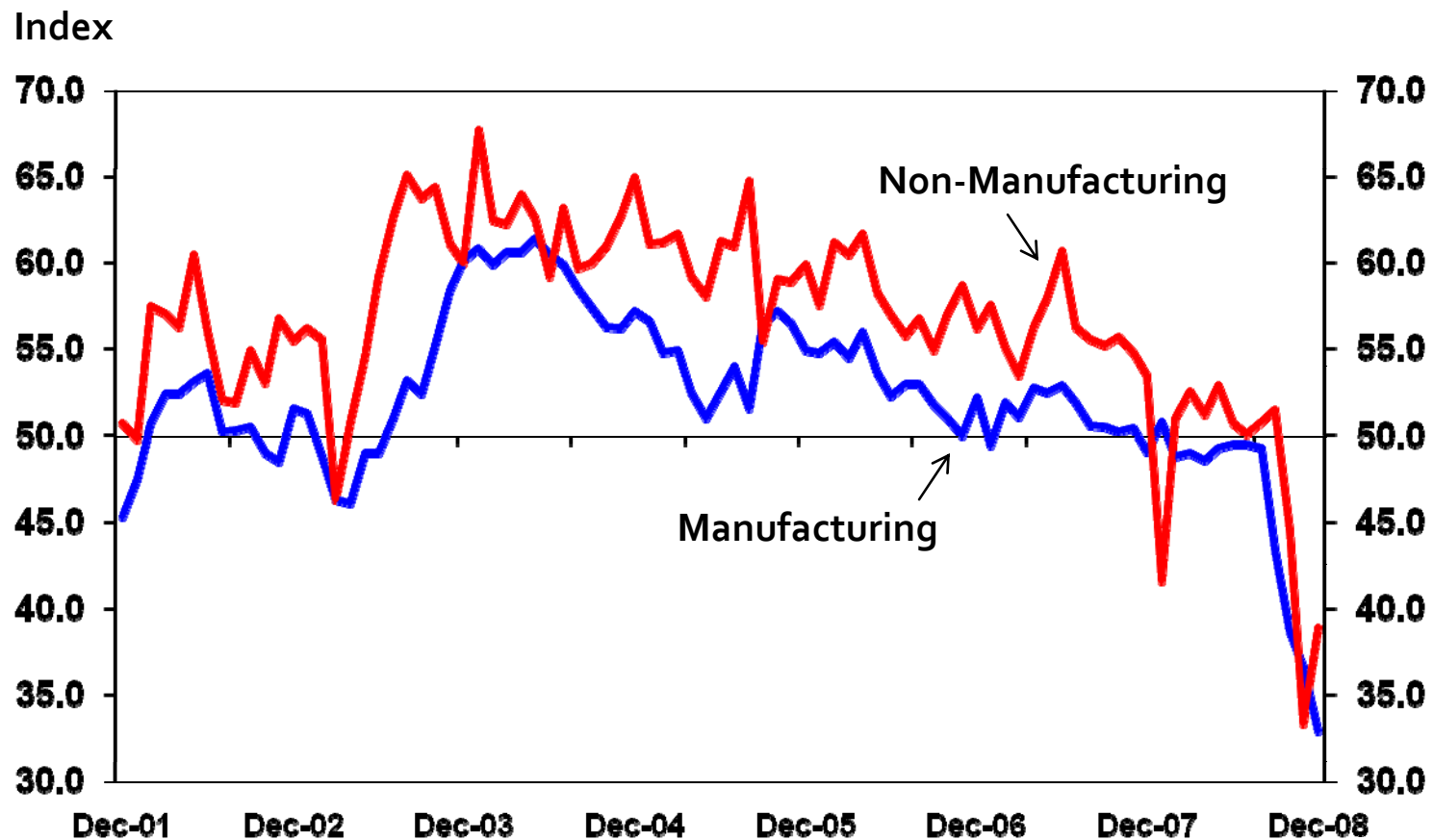


Source: Federal Reserve Board of Governors



Business activity has plummeted.

U.S. Manufacturing and Non-Manufacturing Activity Indices

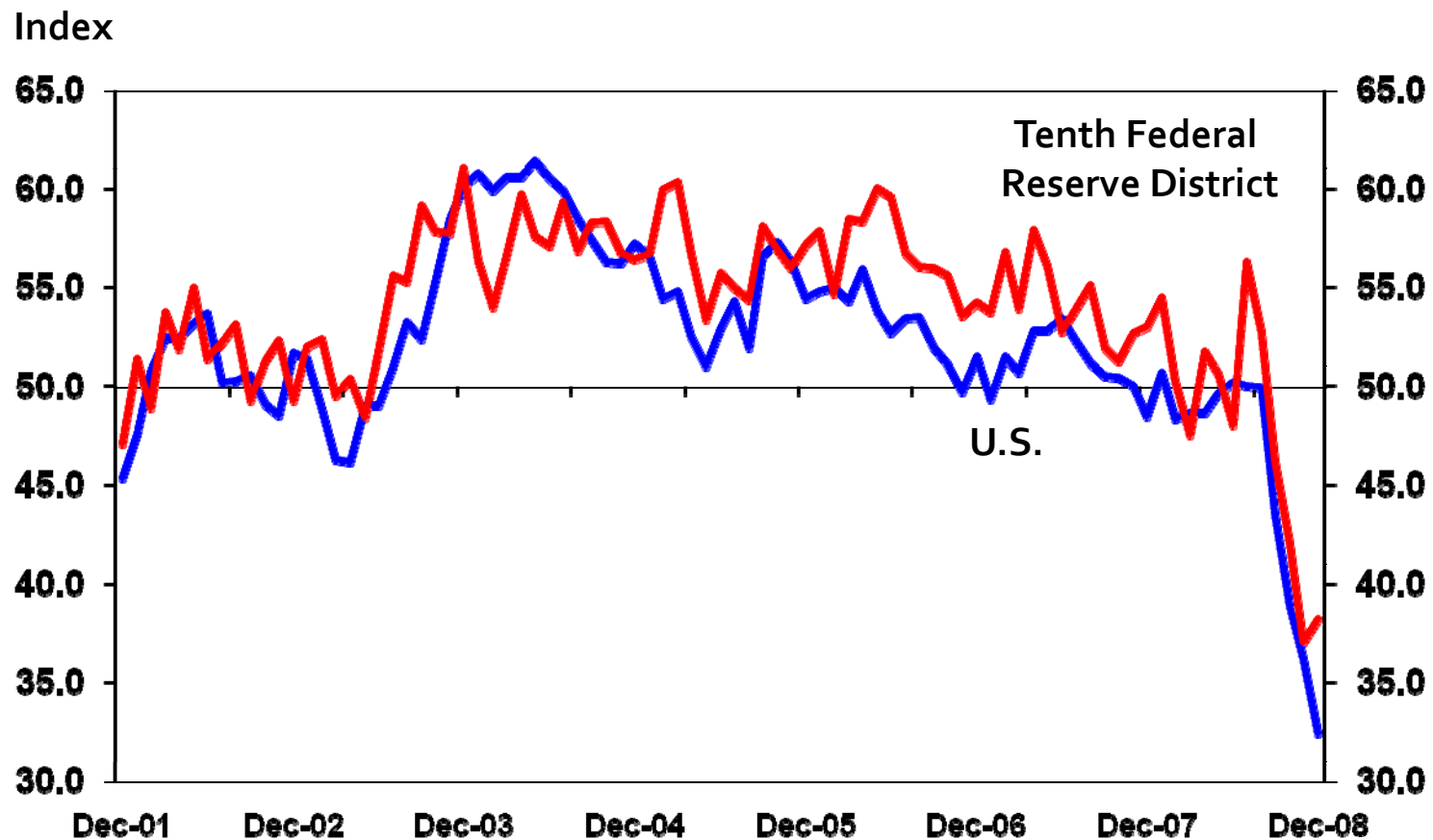


Source: Institute of Supply Management



Manufacturing activity dropped sharply.

U.S. and Tenth District Manufacturing Production Indices



Source: Institute of Supply Management and Federal Reserve Bank of Kansas City



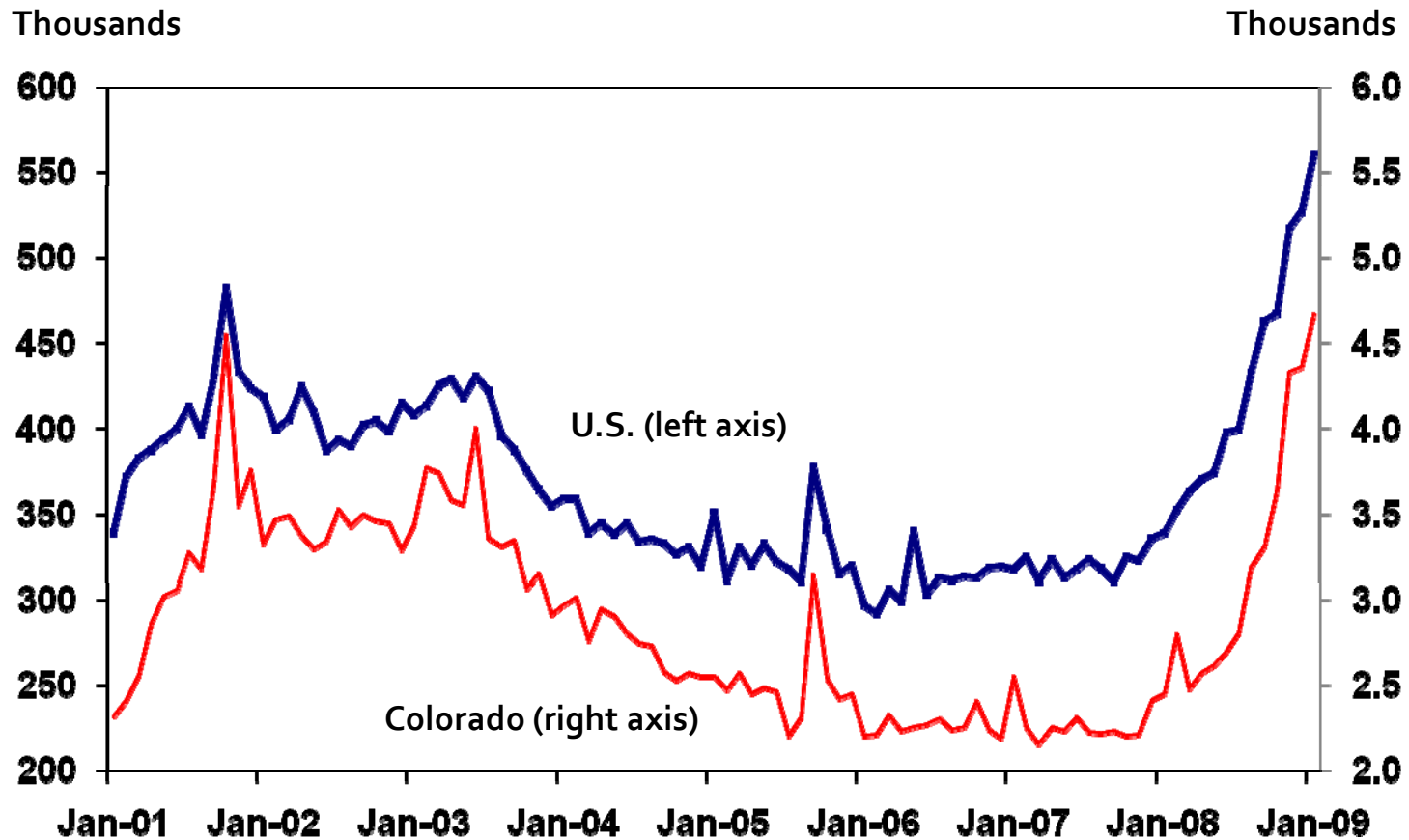
The Recession Intensifies

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Job Losses Mount.

Monthly Unemployment Claims

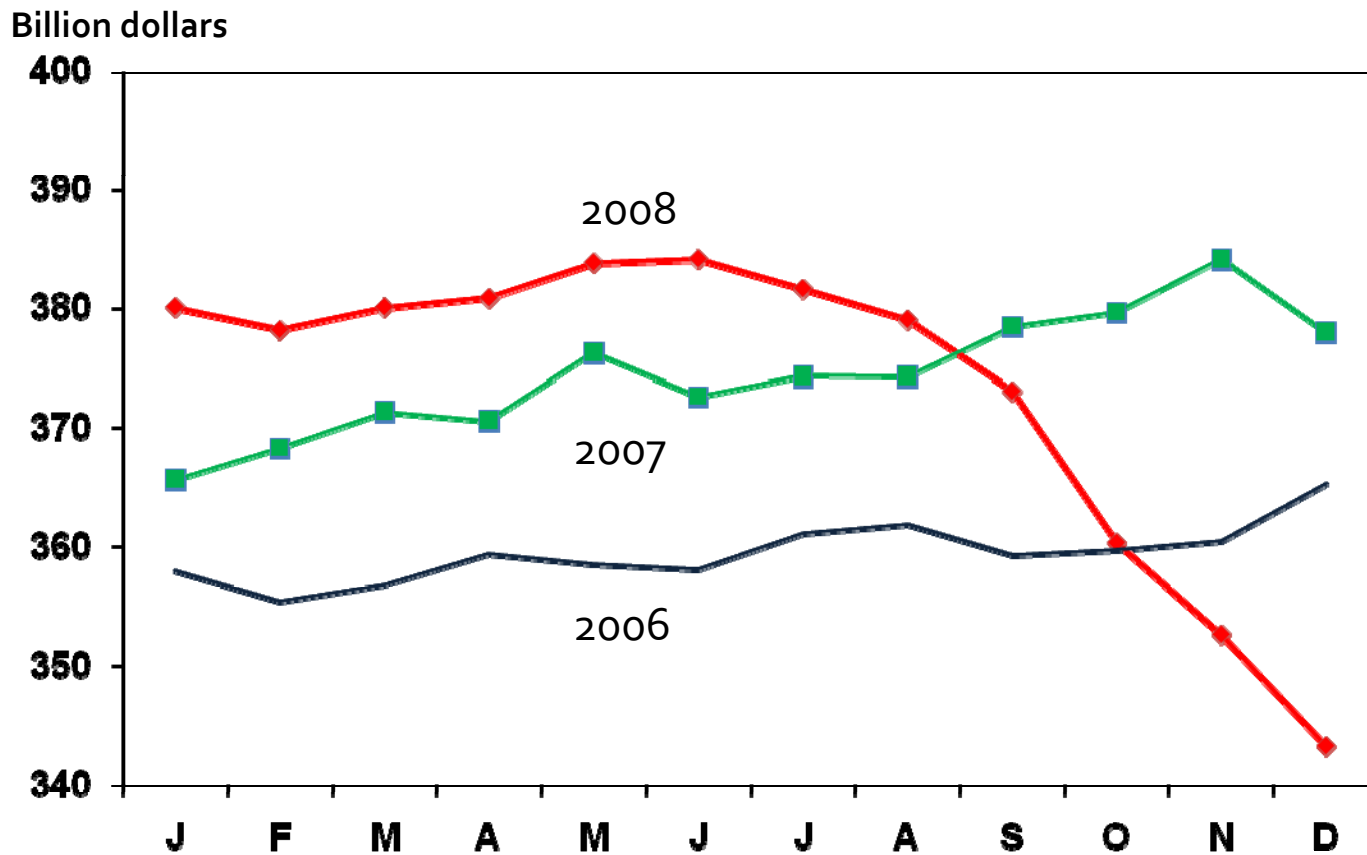


Source: Bureau of Labor Statistics



Consumer spending drops sharply.

U.S. Monthly Retail and Food Sales



Source: U.S. Census Bureau



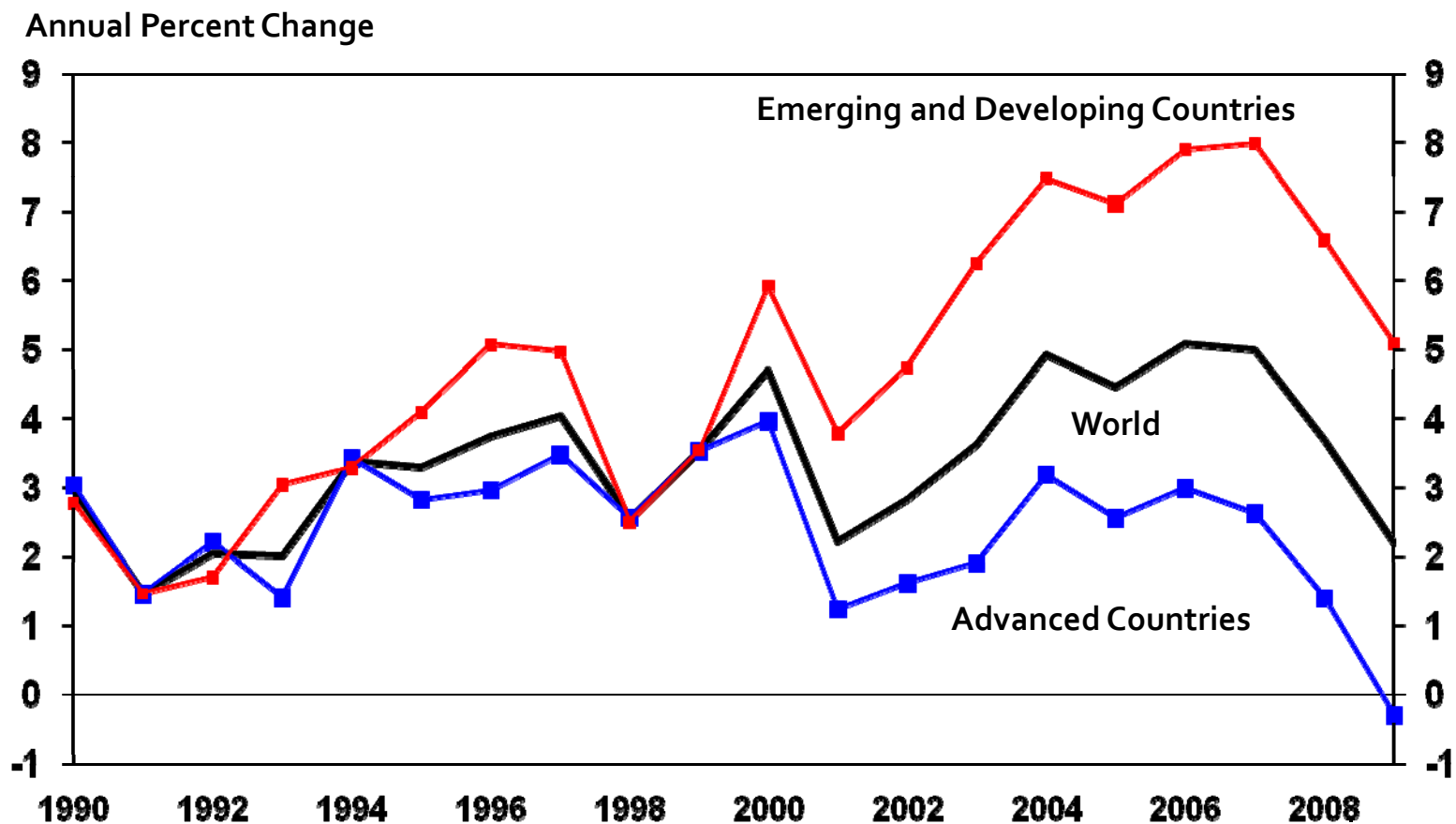
The Recession Intensifies

- The housing correction leads to a financial crisis.
- Business activity plummets.
- Consumer spending drops sharply.
- Export activity wanes with a global recession and a stronger dollar.



World economic growth has slowed dramatically.

World GDP Growth

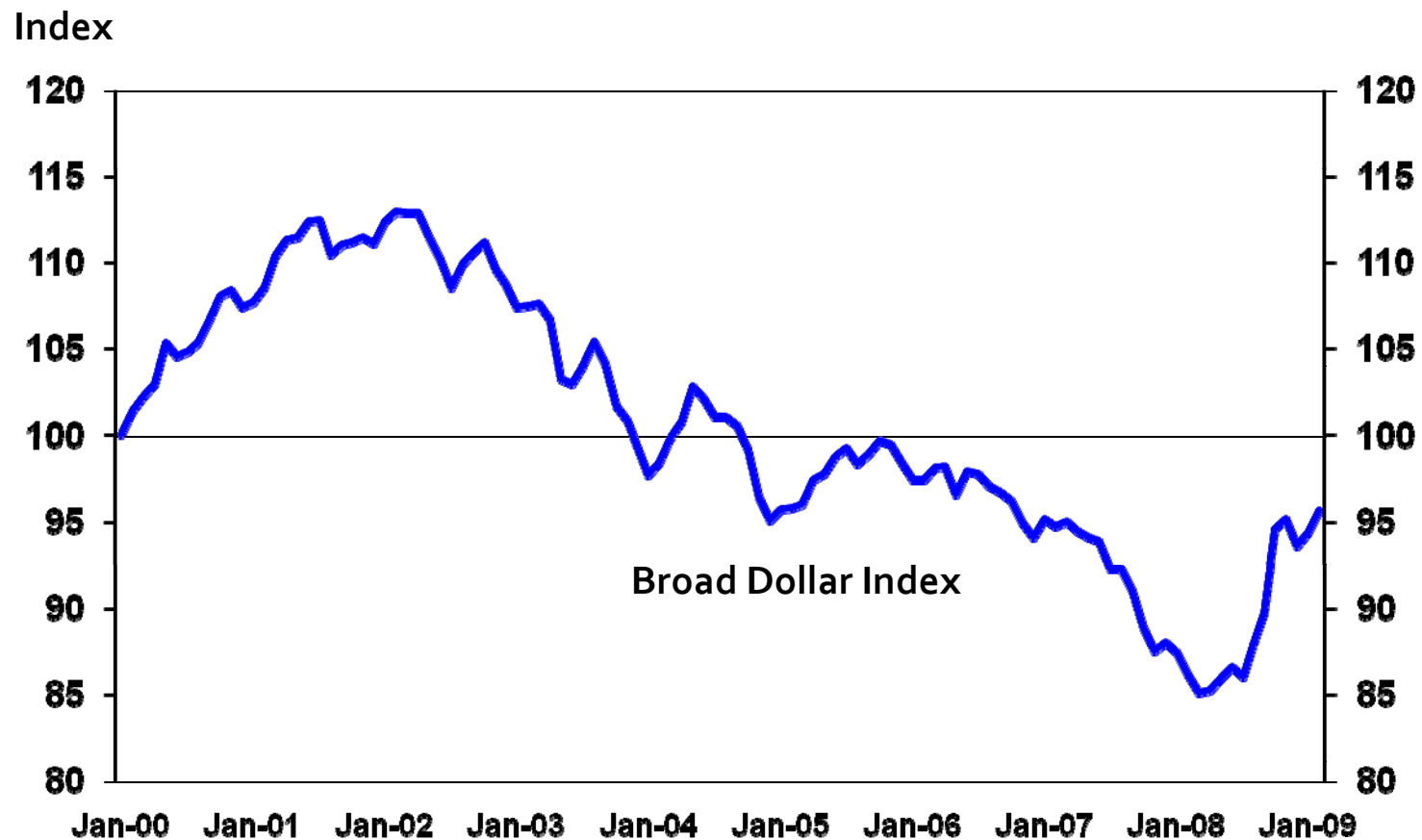


Source: International Monetary Fund, November 2008



The value of the dollar has rebounded.

Value of the Dollar

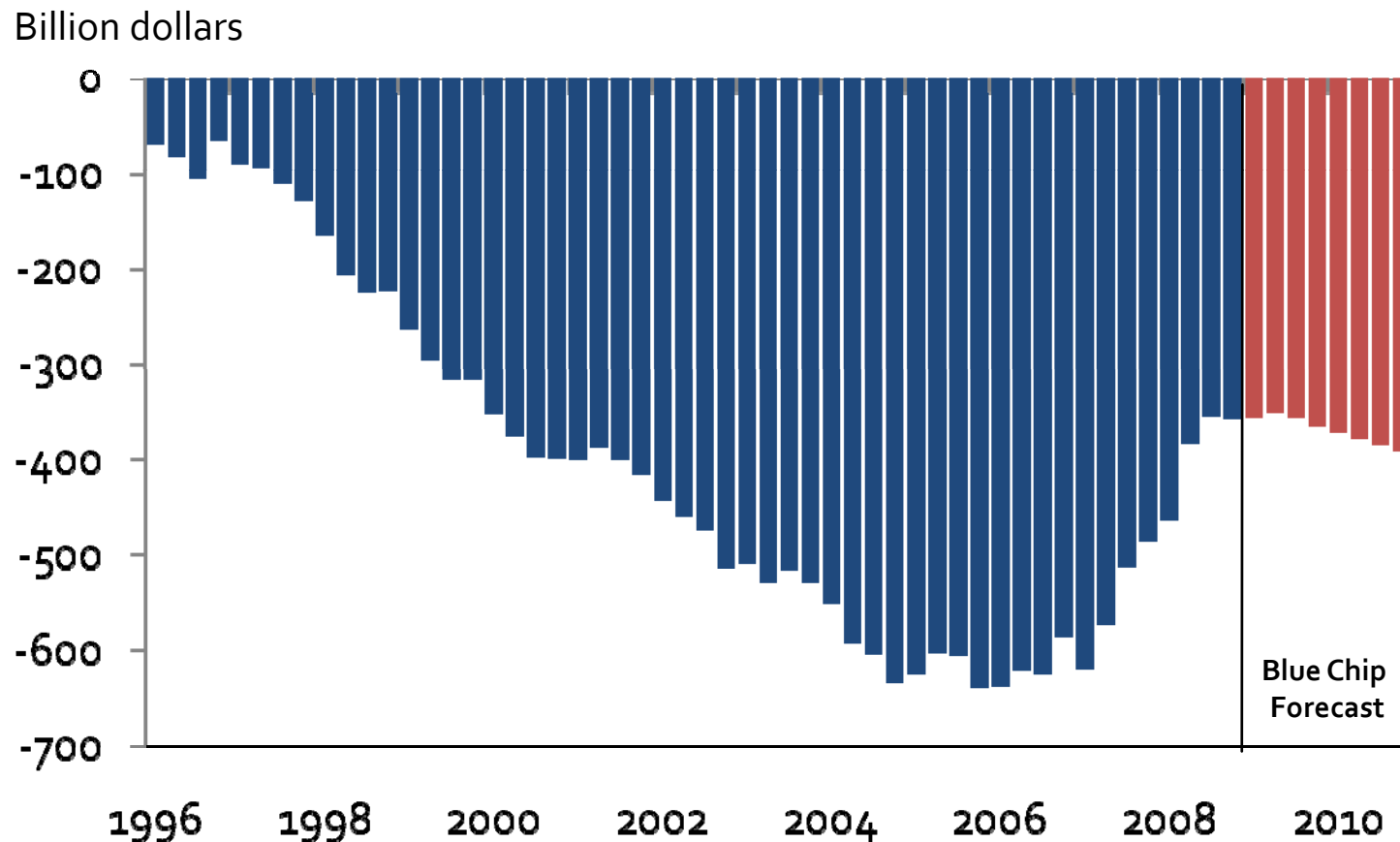


Source: Federal Reserve Board of Governors



Improvements in the U.S. trade balance stop.

Real Net Exports of Goods and Services

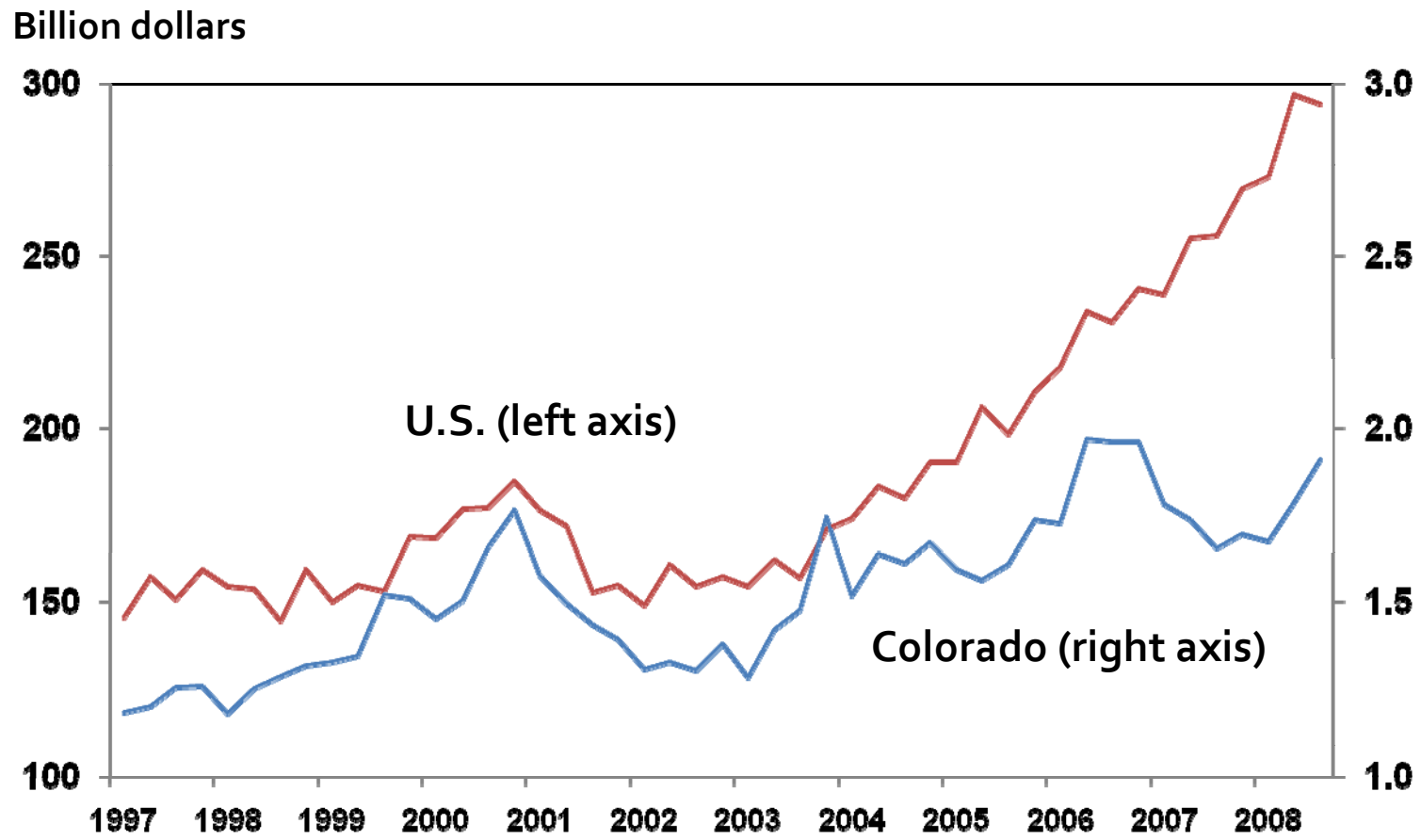


Source: Bureau of Economic Analysis and Blue Chip Forecast, January 2009



Export growth was limited in Colorado.

U.S. and Colorado Manufactured Exports



Source: WISERTrade



The Recession Intensifies

- The housing correction leads to a financial crisis.
- Business activity plummets.
- Consumer spending drops sharply.
- Export activity wanes with a global recession and a stronger dollar.
- Will fiscal and monetary stimulus jump start the economy?



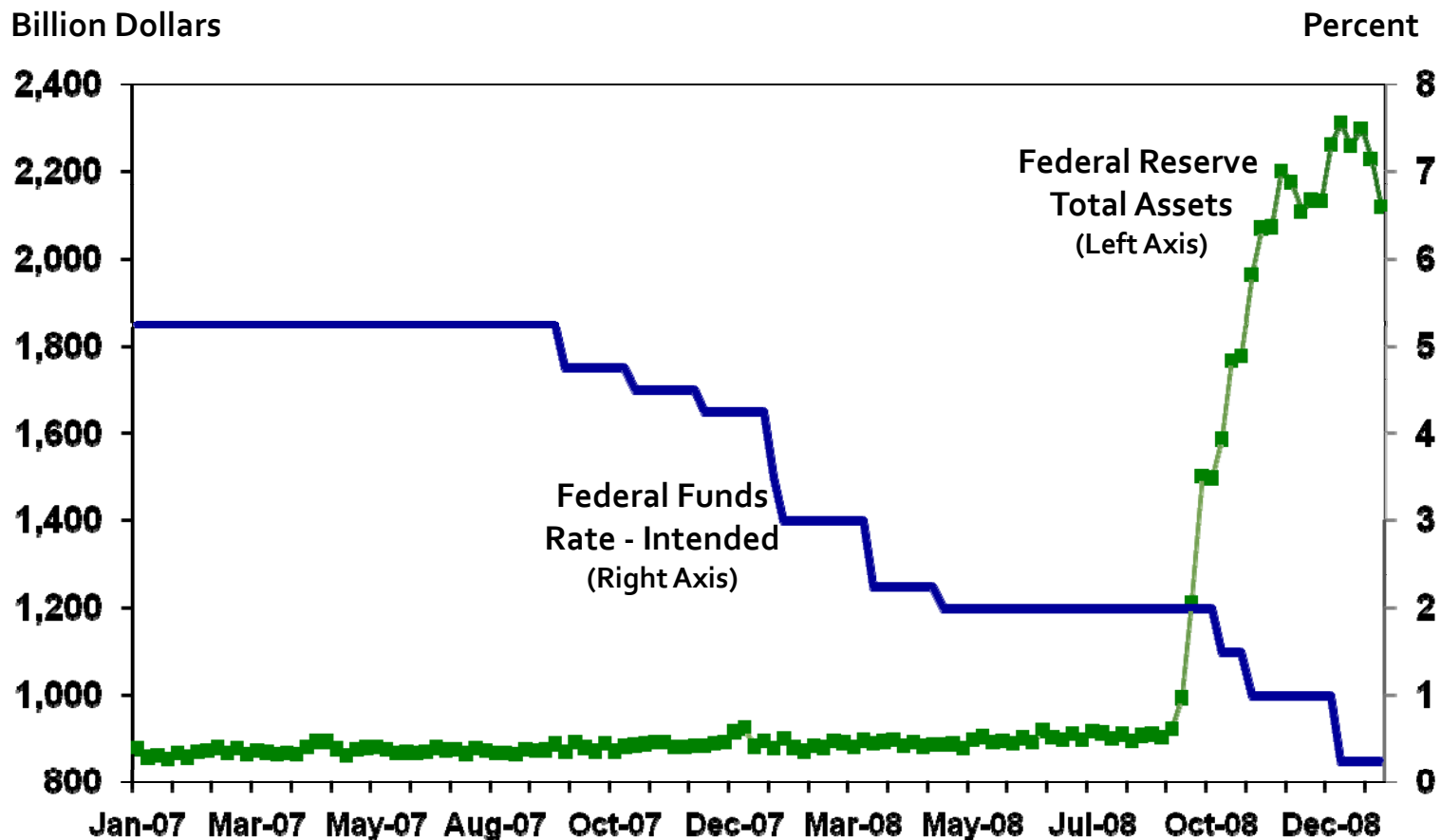
The Fed is pumping liquidity into financial markets.

Primary, Secondary, and Seasonal Credit
Primary Dealer and other
Broker-Dealer Credit
Bear-Stearns/Maiden Lane LLC
AIG Credit
Money Market Investor Funding Facility
Central Bank Liquidity Swaps
COMMERCIAL PAPER FUNDING FACILITY
Term Auction Credit
Asset-Backed Commercial Paper Money Market
Mutual Fund Liquidity Facility

Source: Federal Reserve Board of Governors

The Fed has acted aggressively.

Fed Funds Rate and Federal Reserve Assets

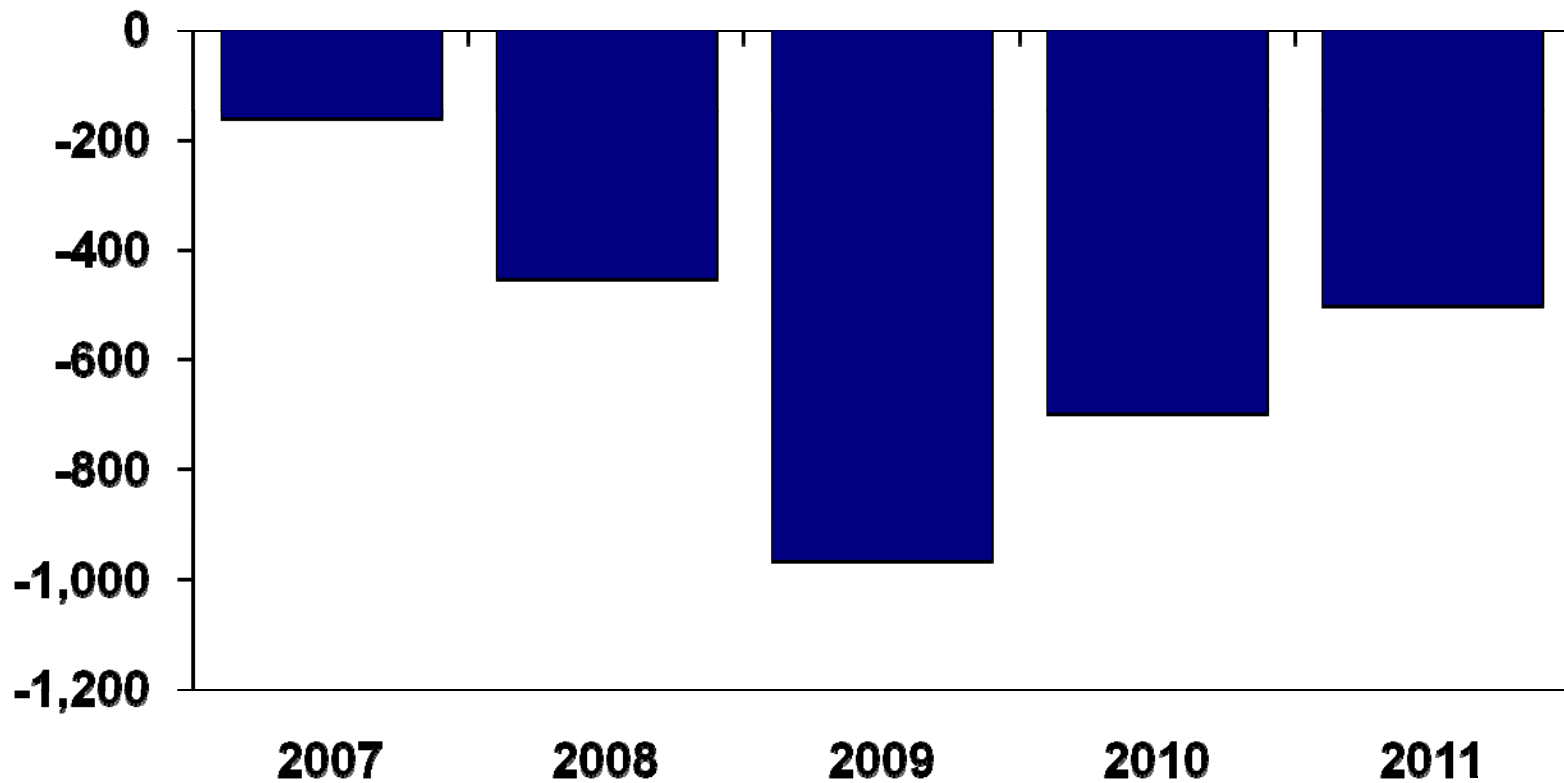


Source: Federal Reserve Board of Governors



Federal government deficits rise sharply.

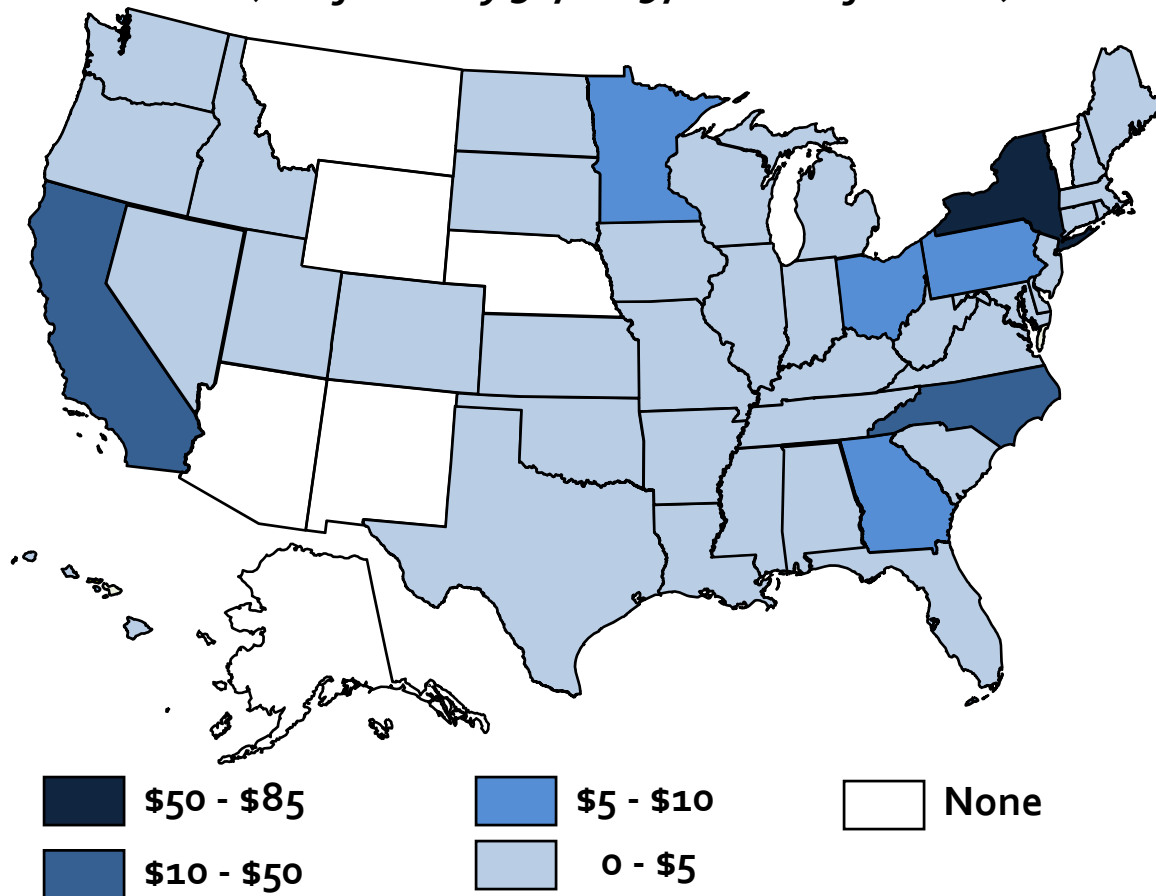
Federal Budget Deficit Projections



Source: Congressional Budget Office, January 2009

TARP funds are concentrated on Wall Street.

Breakdown of TARP Funds
(As of January 30, 2009, Billions of Dollars)



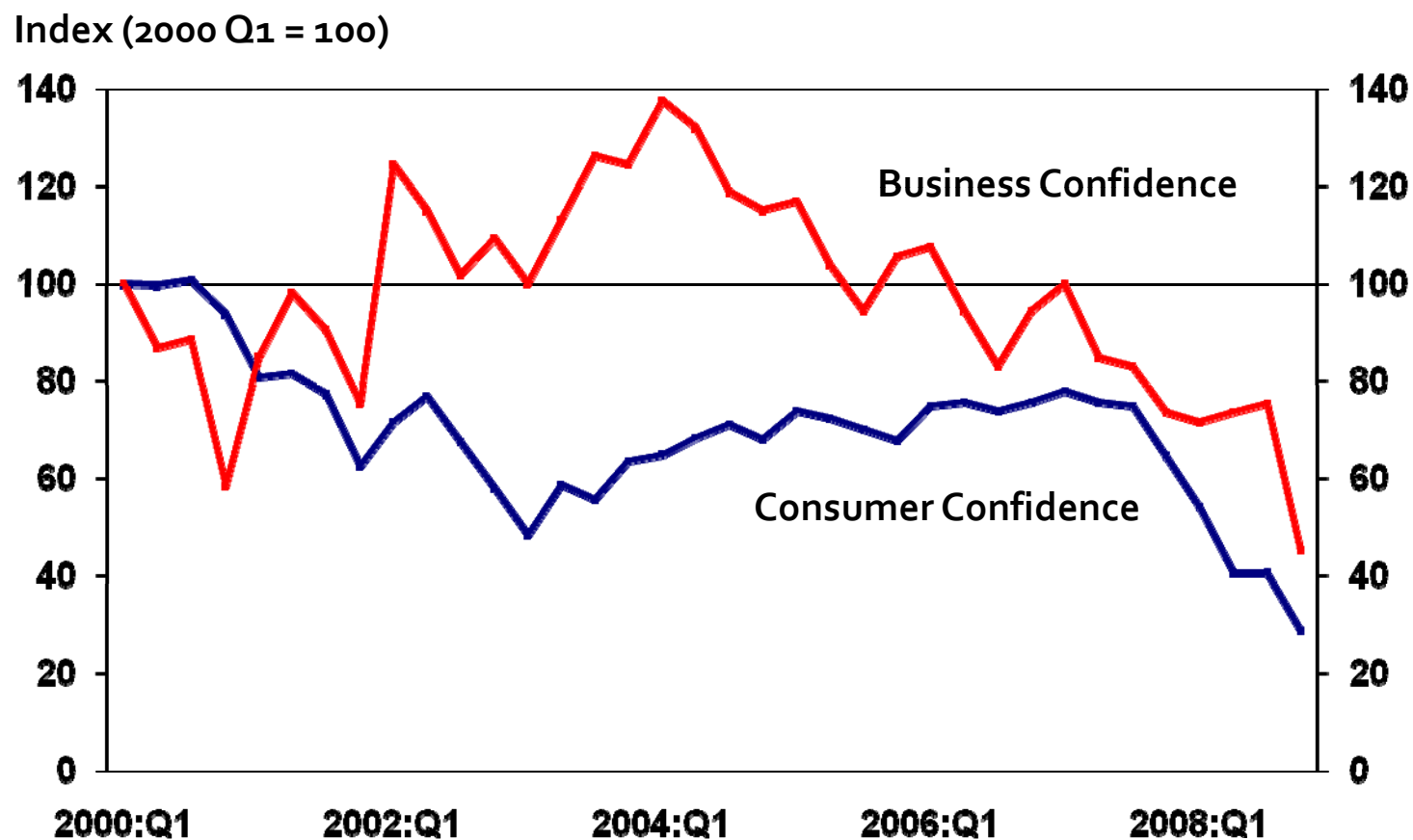
Source: Department of the Treasury

Federal Reserve Bank of Kansas City – Omaha Branch
Regional, Public and Community Affairs Division



Confidence is at a historical low.

Business and Consumer Confidence



Source: The Conference Board



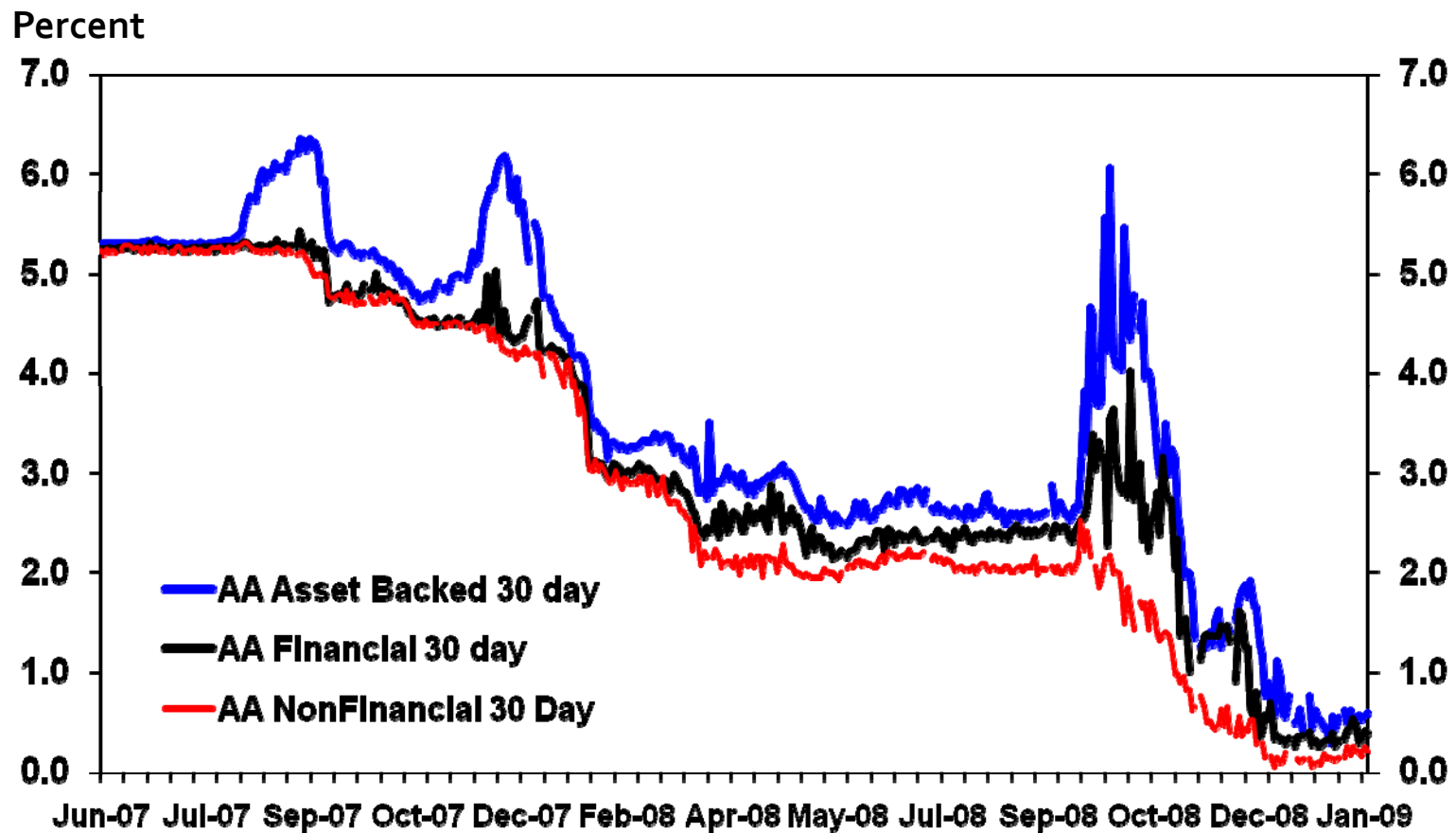
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Commercial paper spreads have narrowed.

Commercial Paper Rates

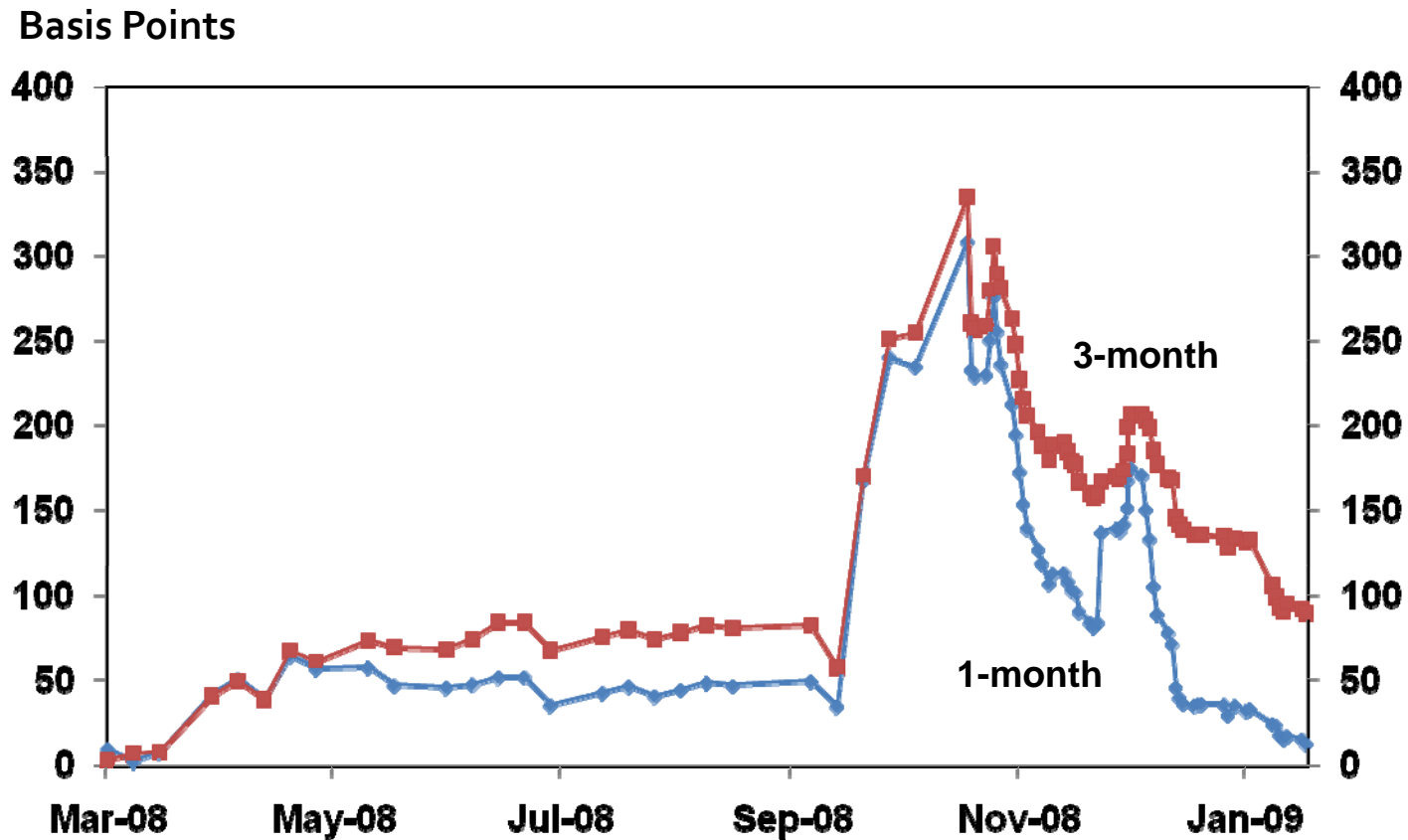


Source: Federal Reserve Board of Governors



Short-term spread rates have declined.

LIBOR-OIS Spread

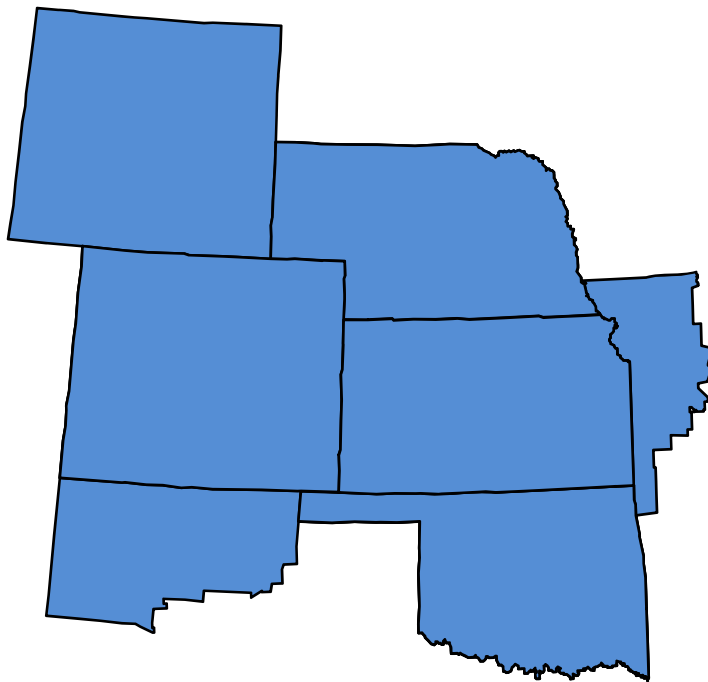


Source: Federal Reserve Board of Governors



Today's Roadmap

- What is the Impact on Agricultural Credit?



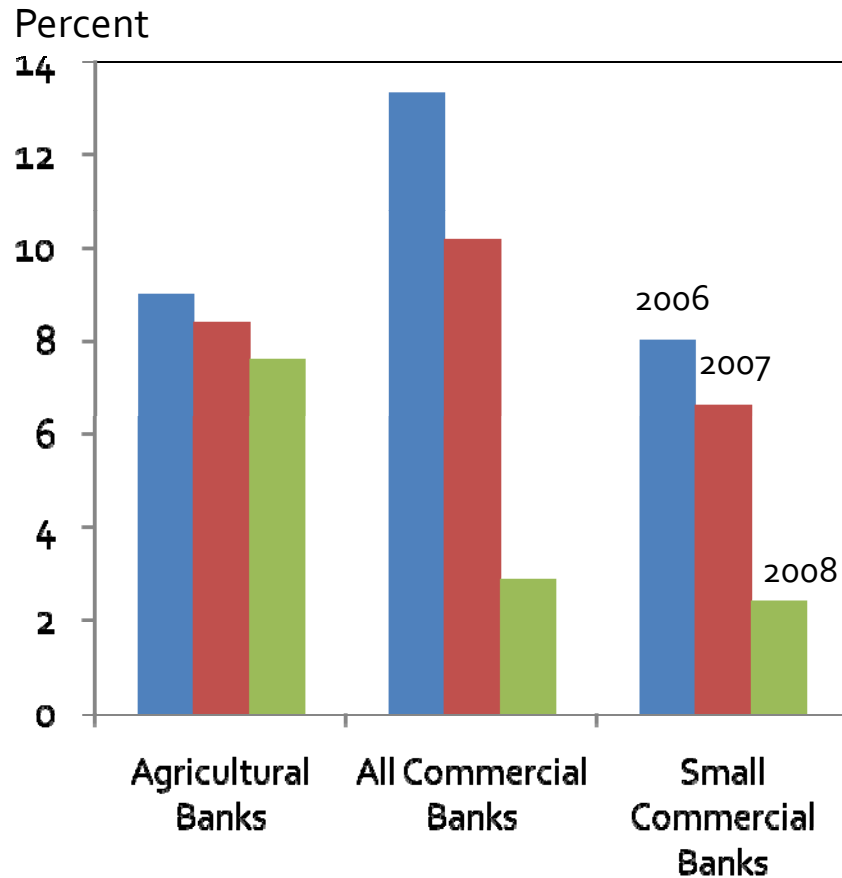
Tenth Federal Reserve District
Colorado, Kansas,
Nebraska, Oklahoma, Wyoming,
western Missouri, northern New Mexico

Agricultural Credit Survey
www.kansascityfed.org

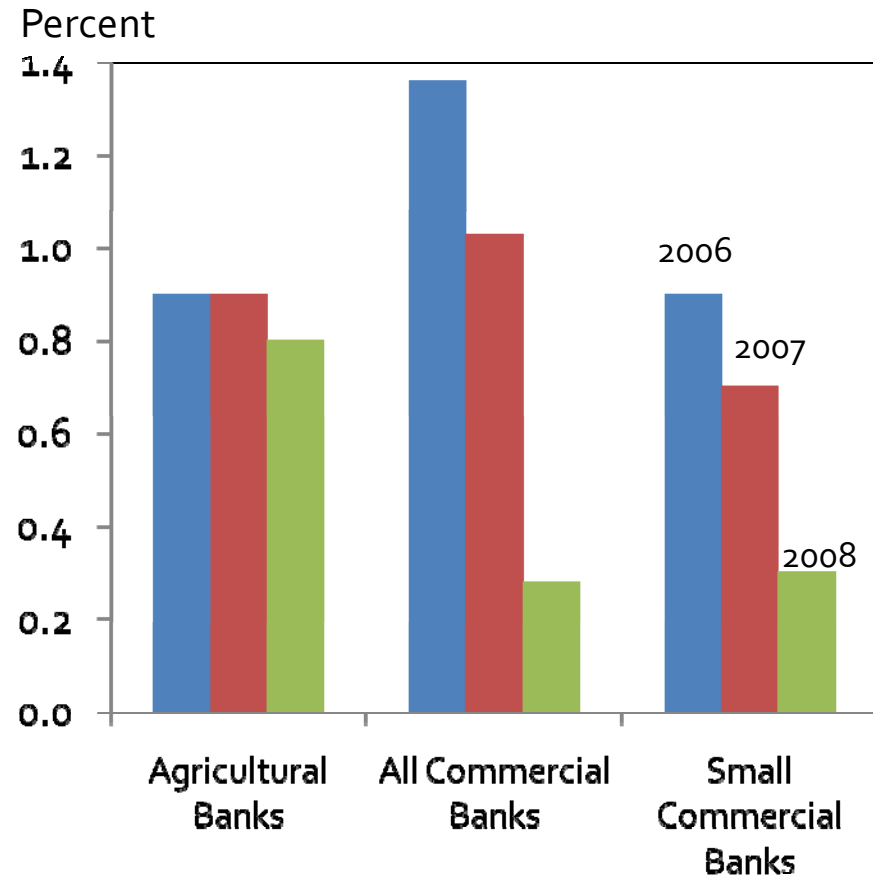


Agricultural bank returns are still strong.

Return on Equity



Return on Assets

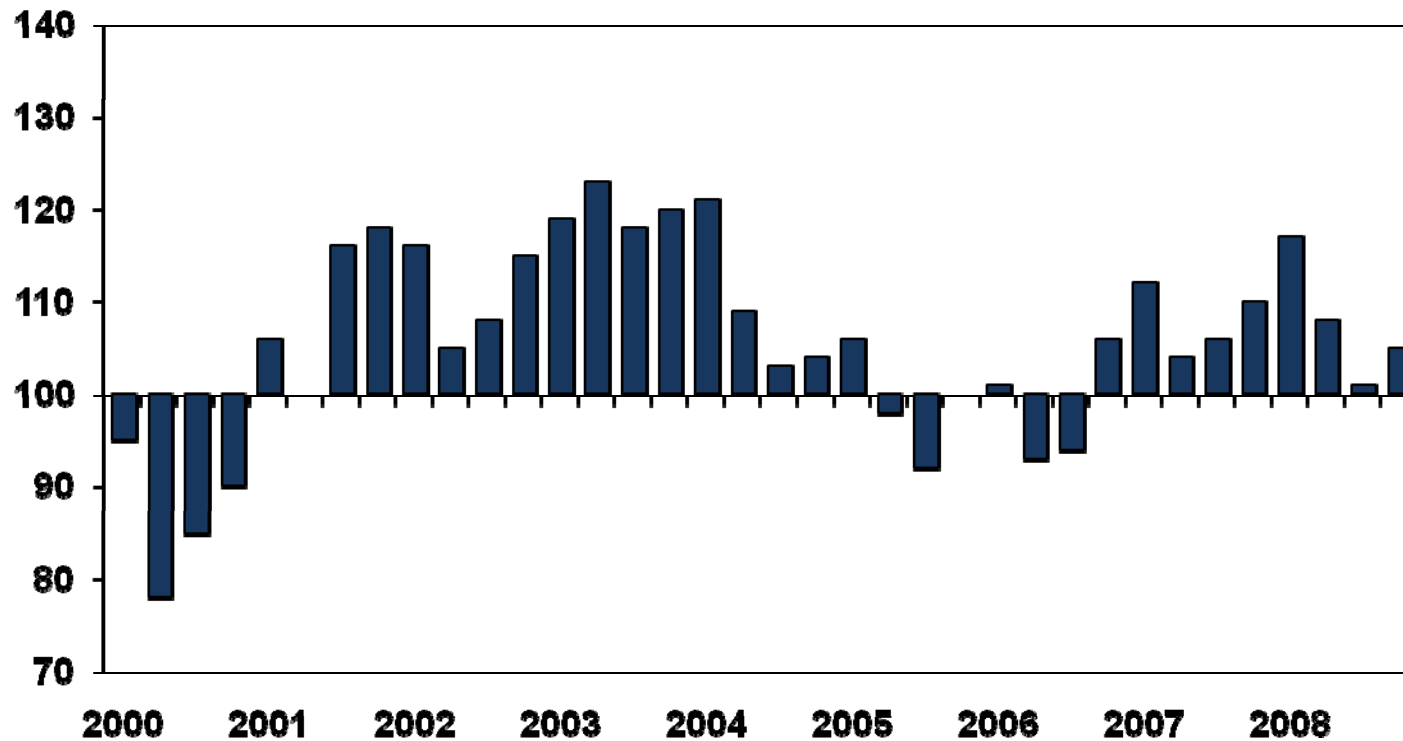


Source: Board of Governors of the Federal Reserve and FDIC
 Agricultural banks are banks with agricultural loans accounting for 14% or more of their loan portfolio.
 Small commercial banks are banks with less than \$500 million in assets

Commercial banks have funds available for farm loans.

Funds Availability for Farm Loans at Agricultural Banks (Tenth Federal Reserve District)

Diffusion Index

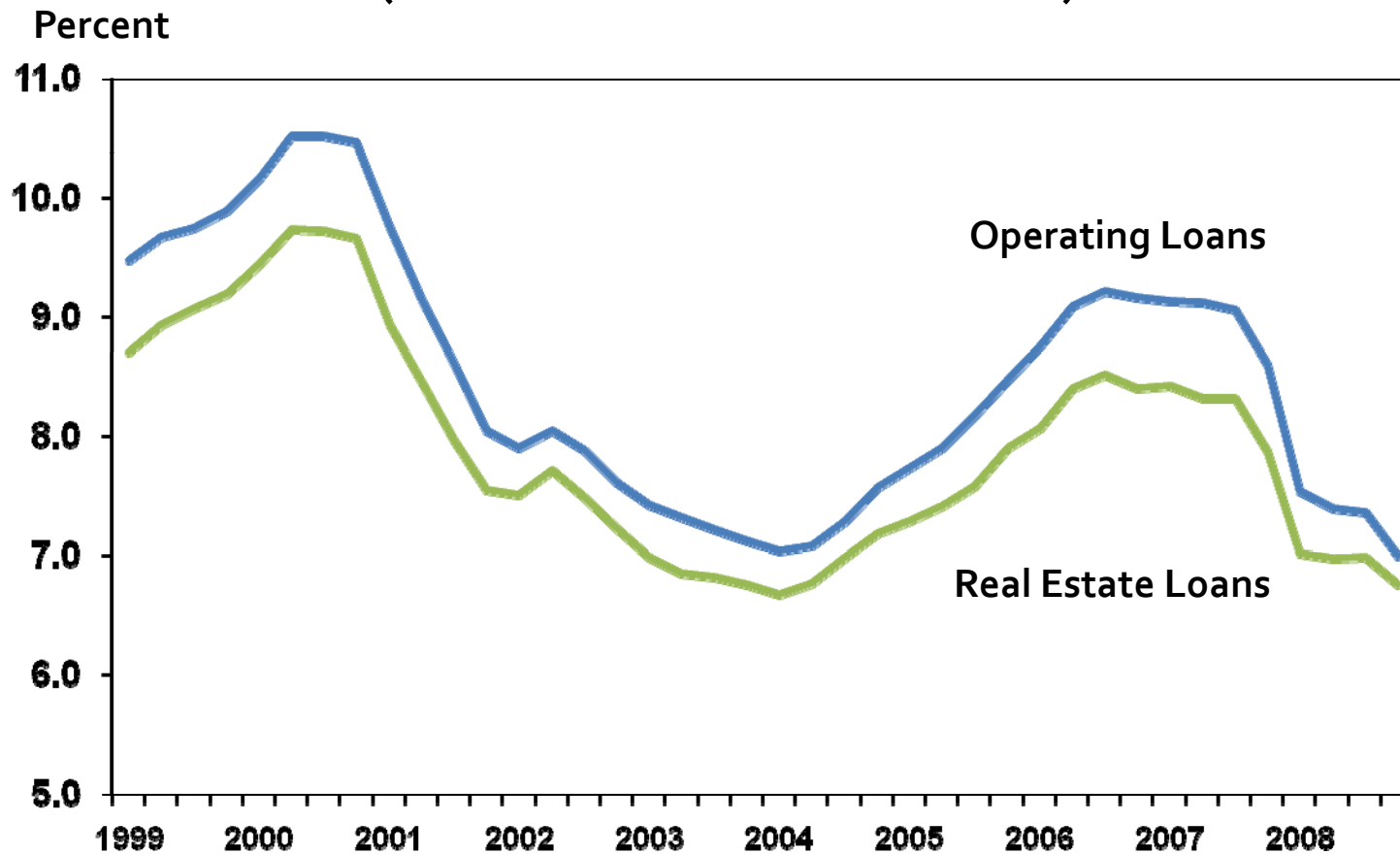


Source: Federal Reserve Bank of Kansas City



Interest rates ease further.

Interest Rates for Farm Loans at Agricultural Banks (Tenth Federal Reserve District)



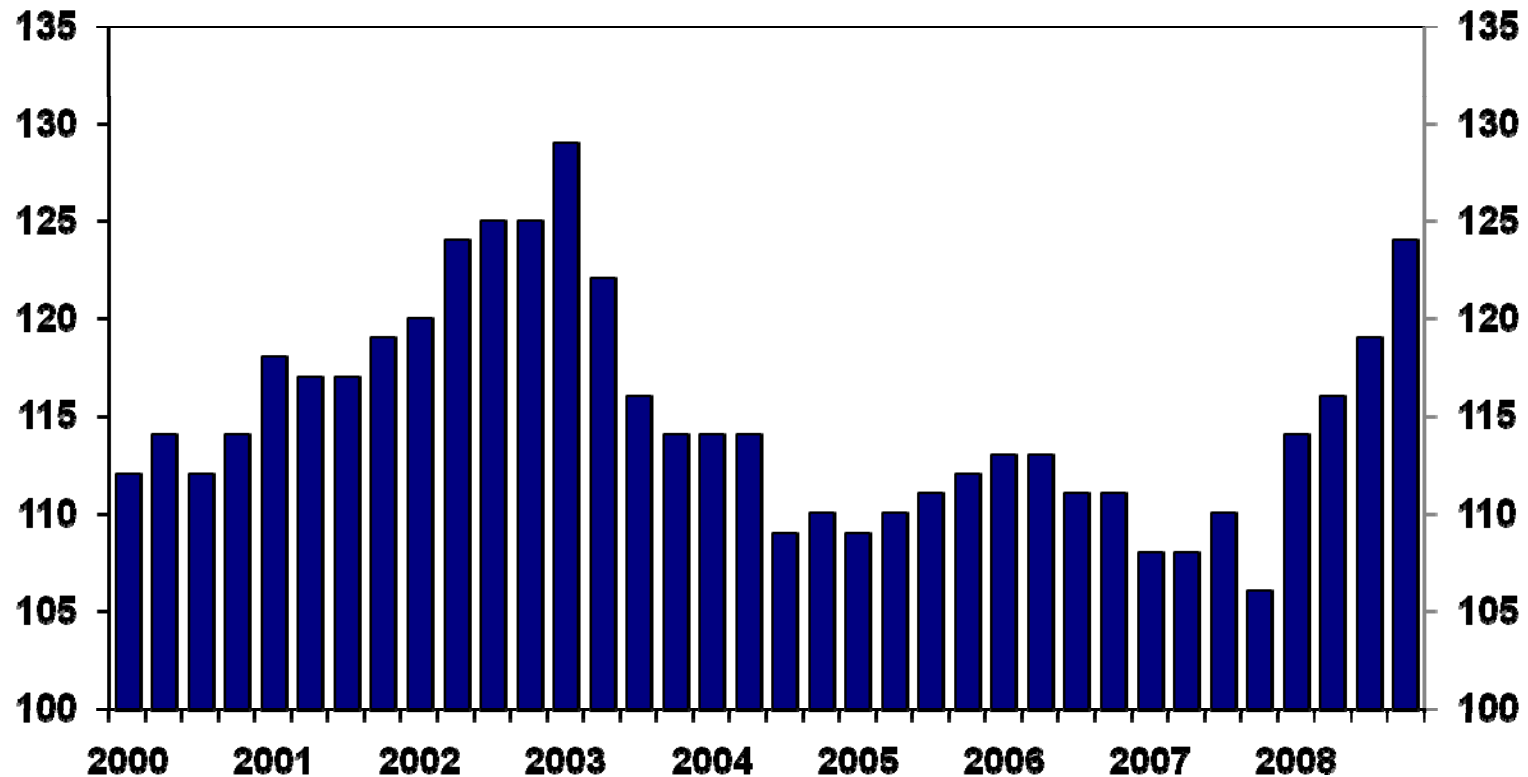
Source: Federal Reserve Bank of Kansas City



Agricultural credit conditions have tightened.

Collateral Required for Farm Loans at Agricultural Banks (Tenth Federal Reserve District)

Diffusion Index

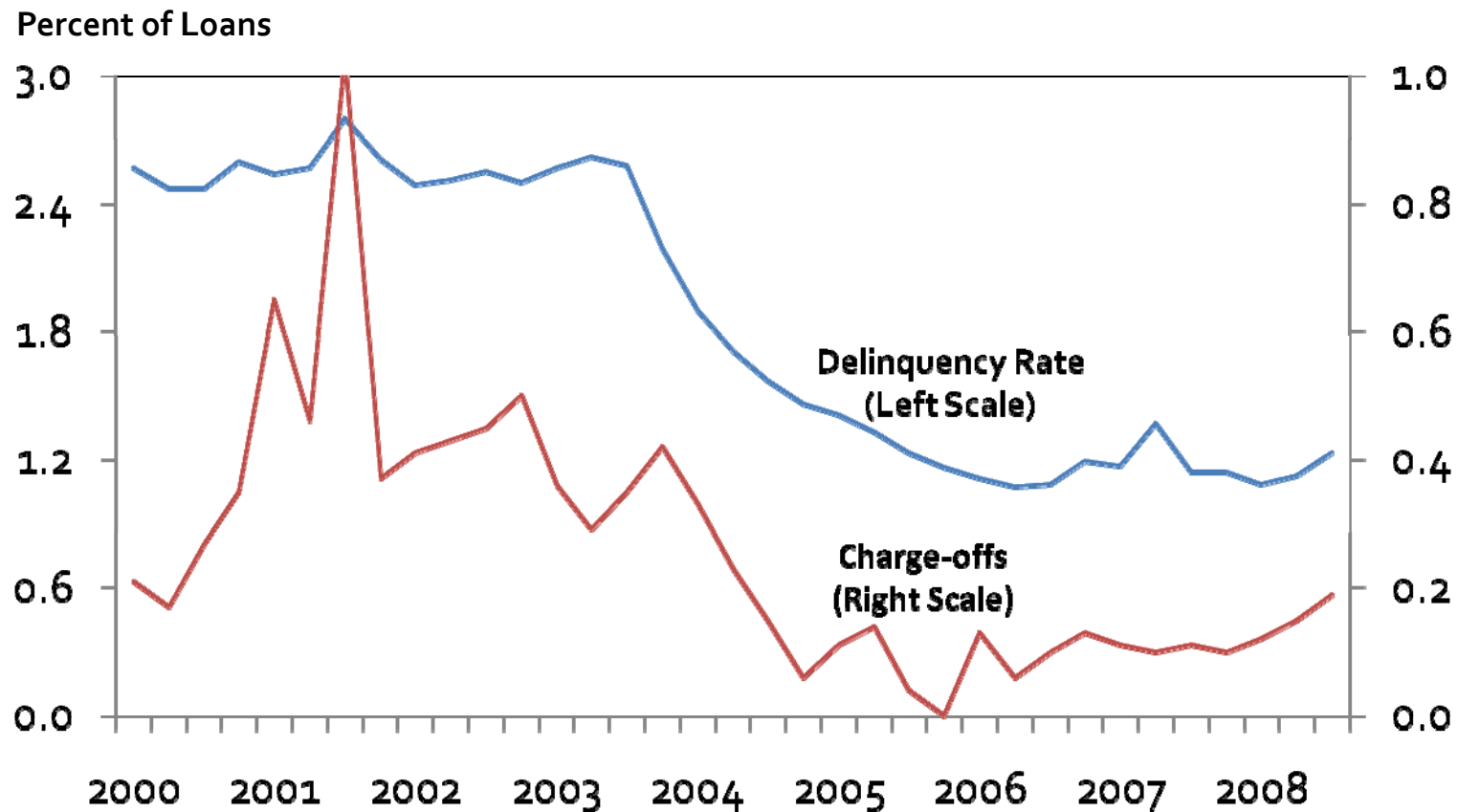


Source: Federal Reserve Bank of Kansas City



Risks on agricultural loans edge up in 2008.

Charge-offs and Delinquency Rates on Agricultural Loans

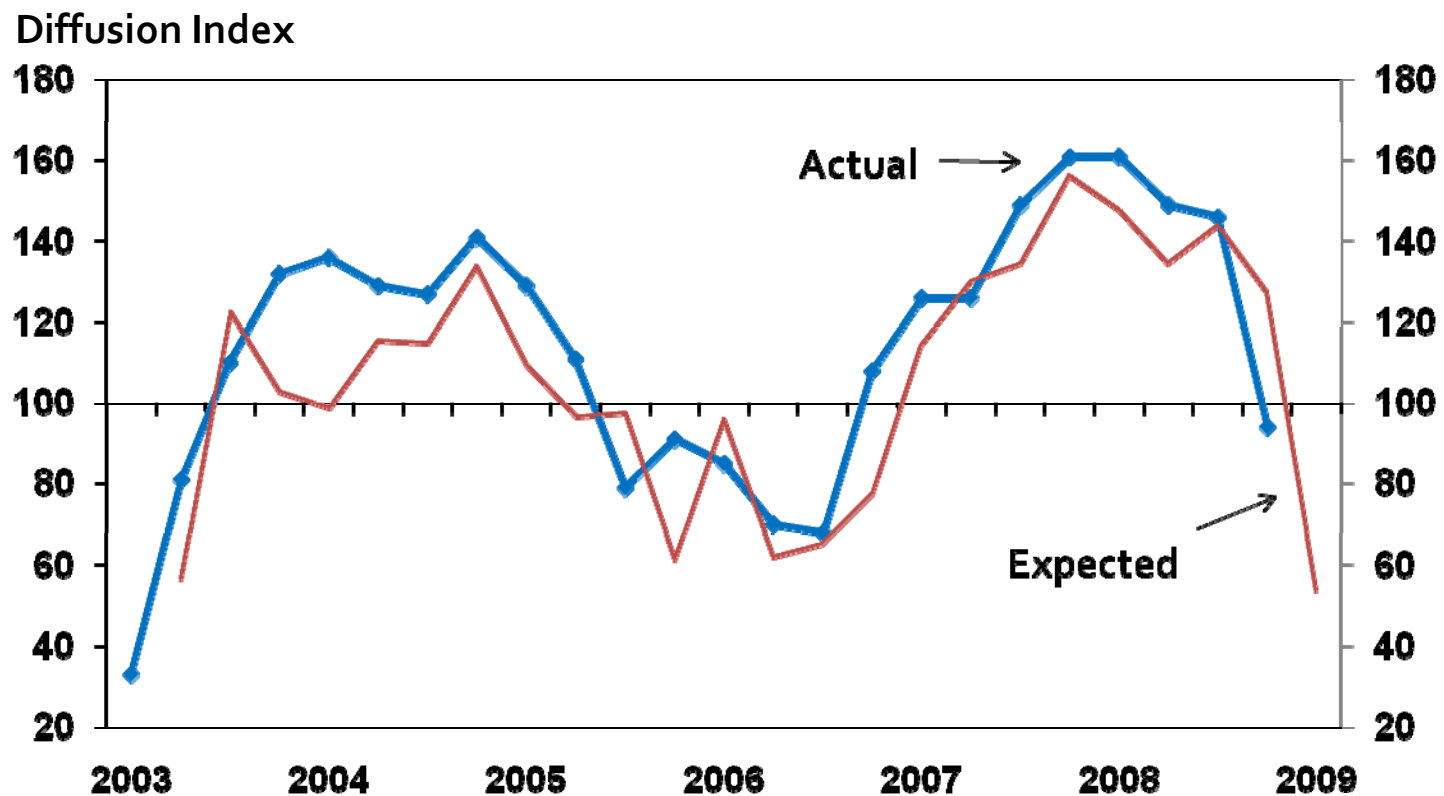


Source: Board of Governors of the Federal Reserve System



Farm income expectations fall sharply.

Farm Income Expectations Among Agricultural Bankers (Tenth Federal Reserve District)



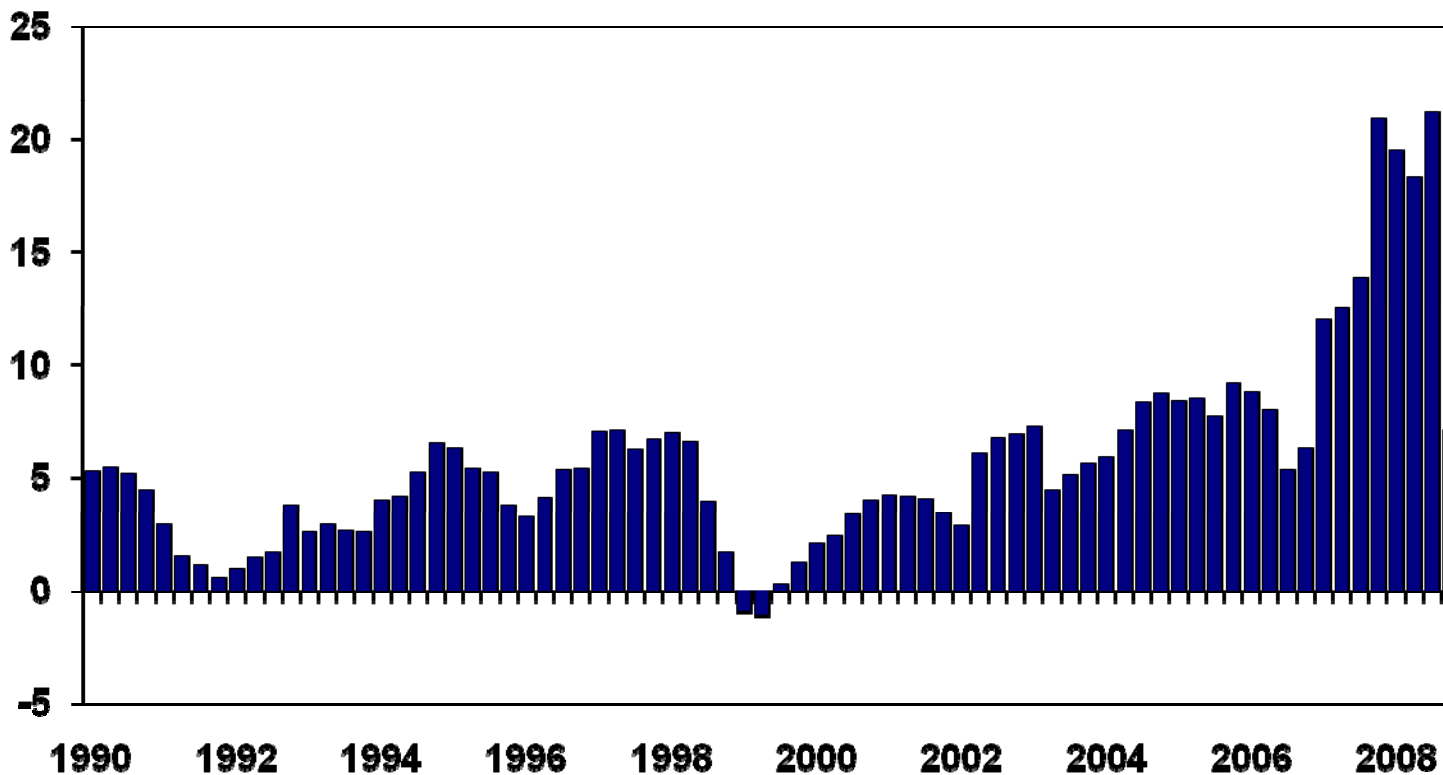
Source: Federal Reserve Bank of Kansas City



If farm incomes wane, what will happen to farmland values?

Nonirrigated Cropland Values (Tenth Federal Reserve District)

Sample percent change from a year ago*



Source: Federal Reserve Bank of Kansas City

*Percent changes are calculated using responses only from those banks reporting in both the past and the current quarter.



Conclusions

- **The Recession intensifies.**
 - A housing bust has spread to financial markets.
 - The financial crisis contributes to a deep recession.
 - Non-ag financial sectors are learning the lessons of the 1980s farm bust.
- **Agricultural Credit Conditions Tighten.**
 - Funds are available, but loan quality is deteriorating.
 - Will farmland values fall amid weaker farm income?
- **Who Accepts Agricultural Risk – Bankers or Farmers?**

