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January 26, 2009

Ag Credit Availability in View of the Banking and Stock Market 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

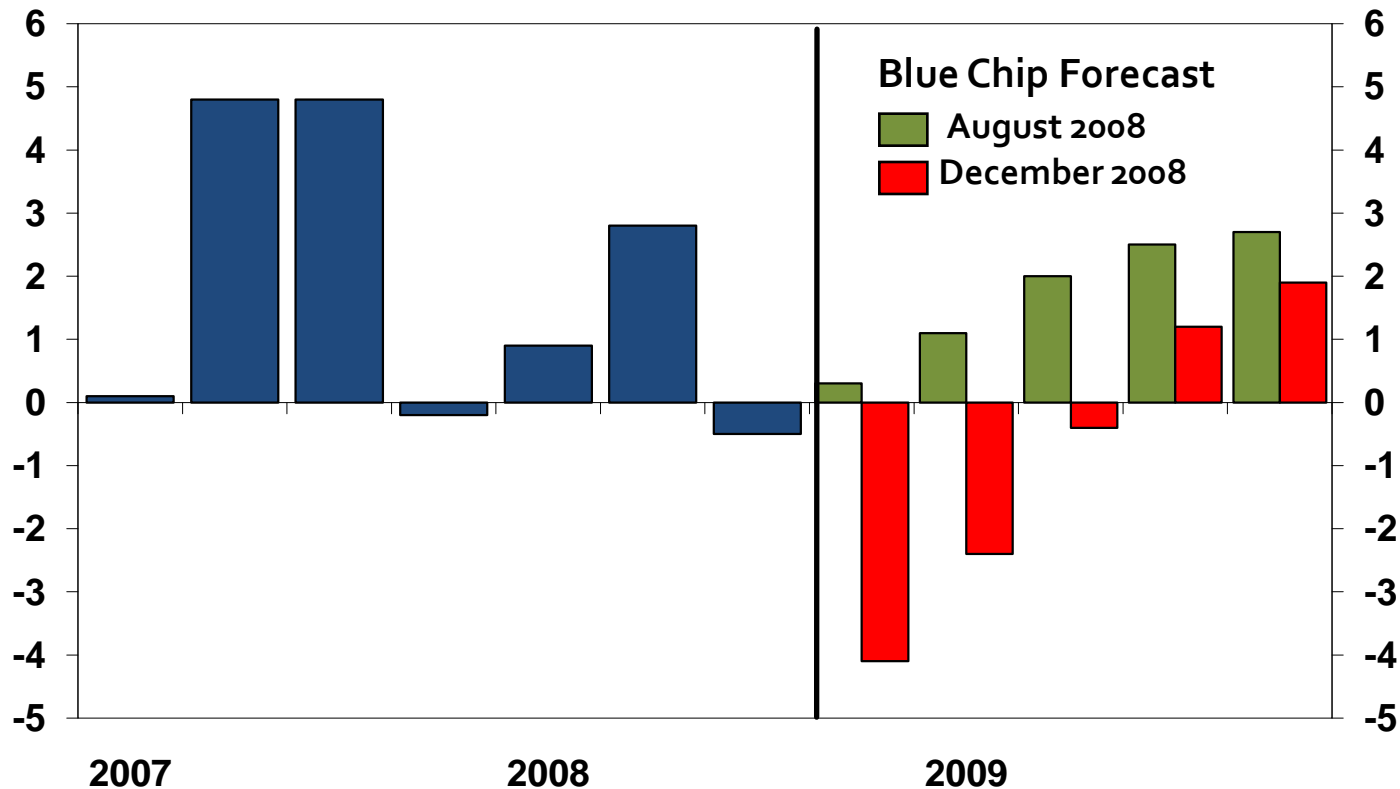
- **The Recession Intensifies**
- **Impacts on Financial Markets**
- **What is the Impact on Agricultural Credit?**



The U.S. economy is in recession.

Real GDP Growth

Annualized percent change from previous quarter

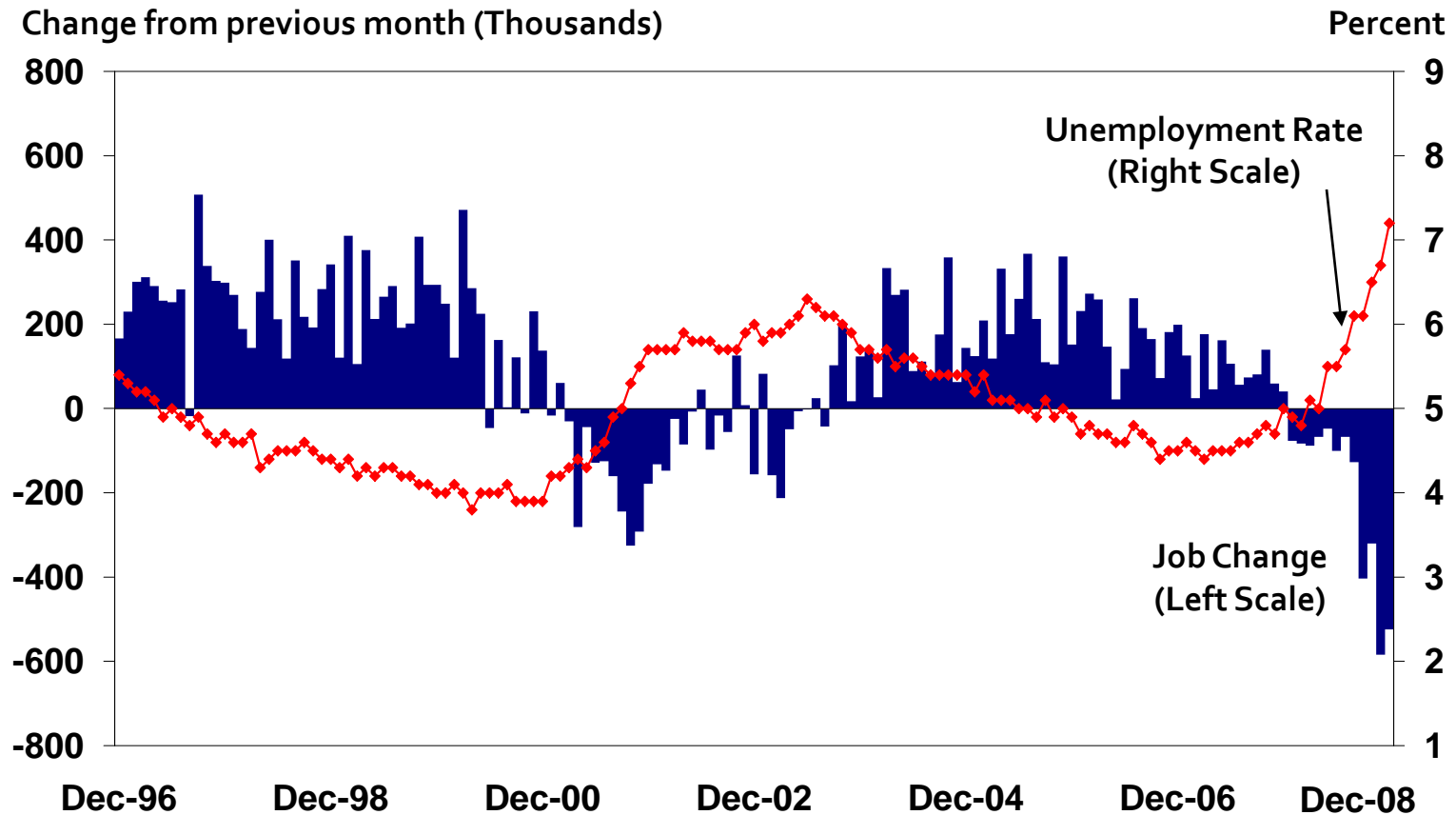


Source: Bureau of Economic Analysis and Blue Chip Economic Indicators



Job losses mount.

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

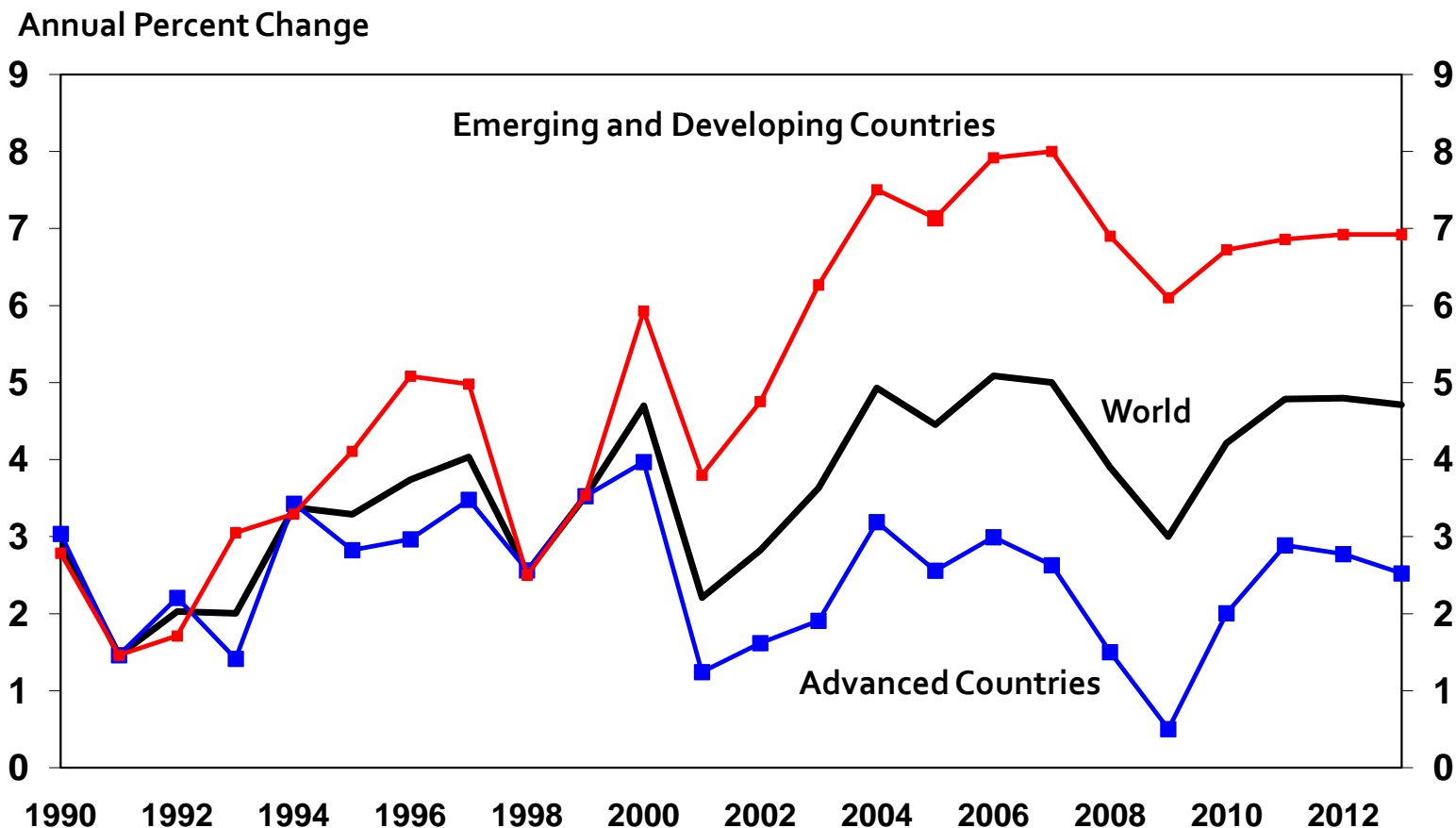


Source: Bureau of Labor Statistics



The recession has spread globally.

World GDP Growth

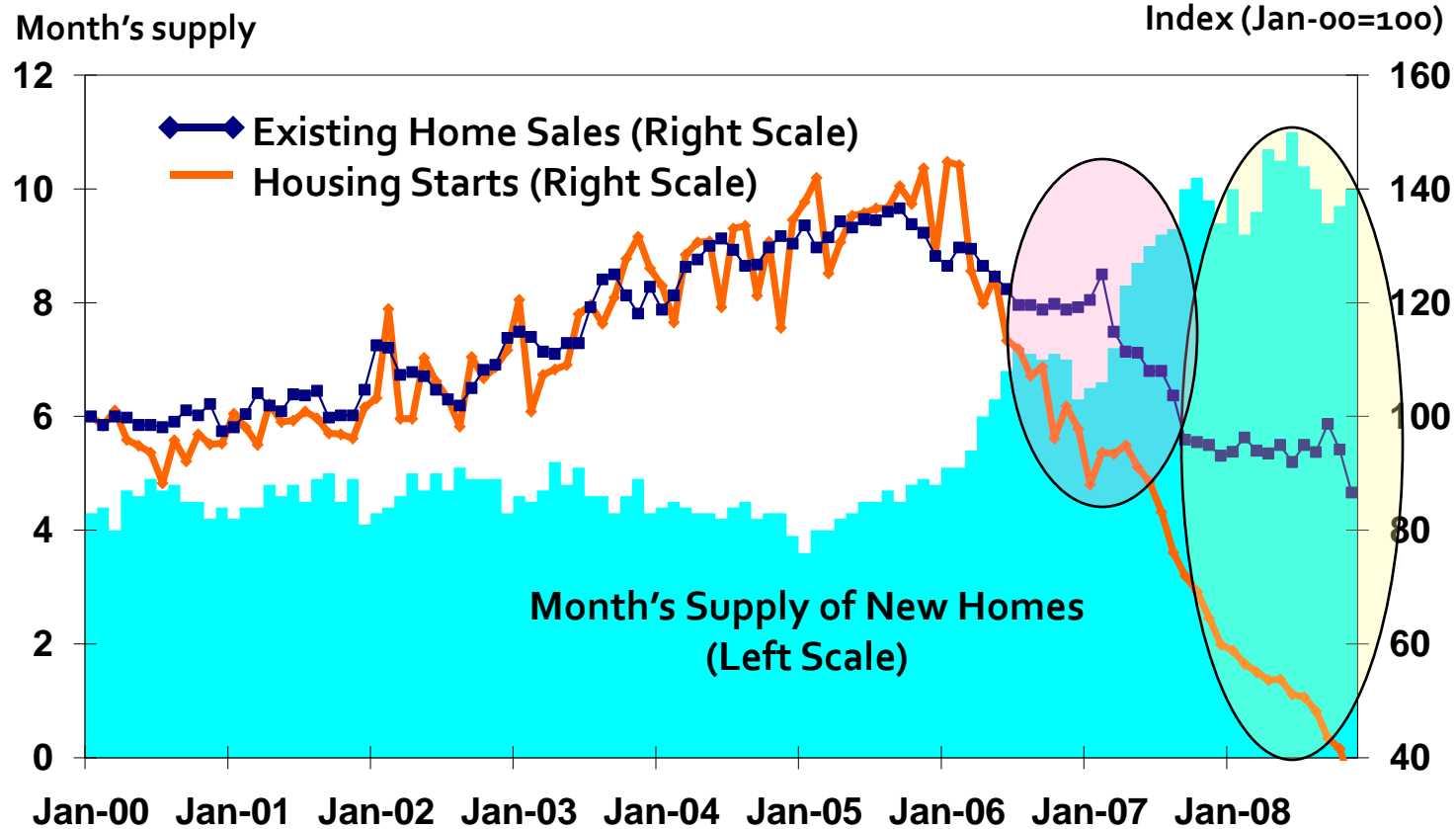


Source: International Monetary Fund, October 2008



It started in the housing sector.

Home Starts, Sales and Inventories

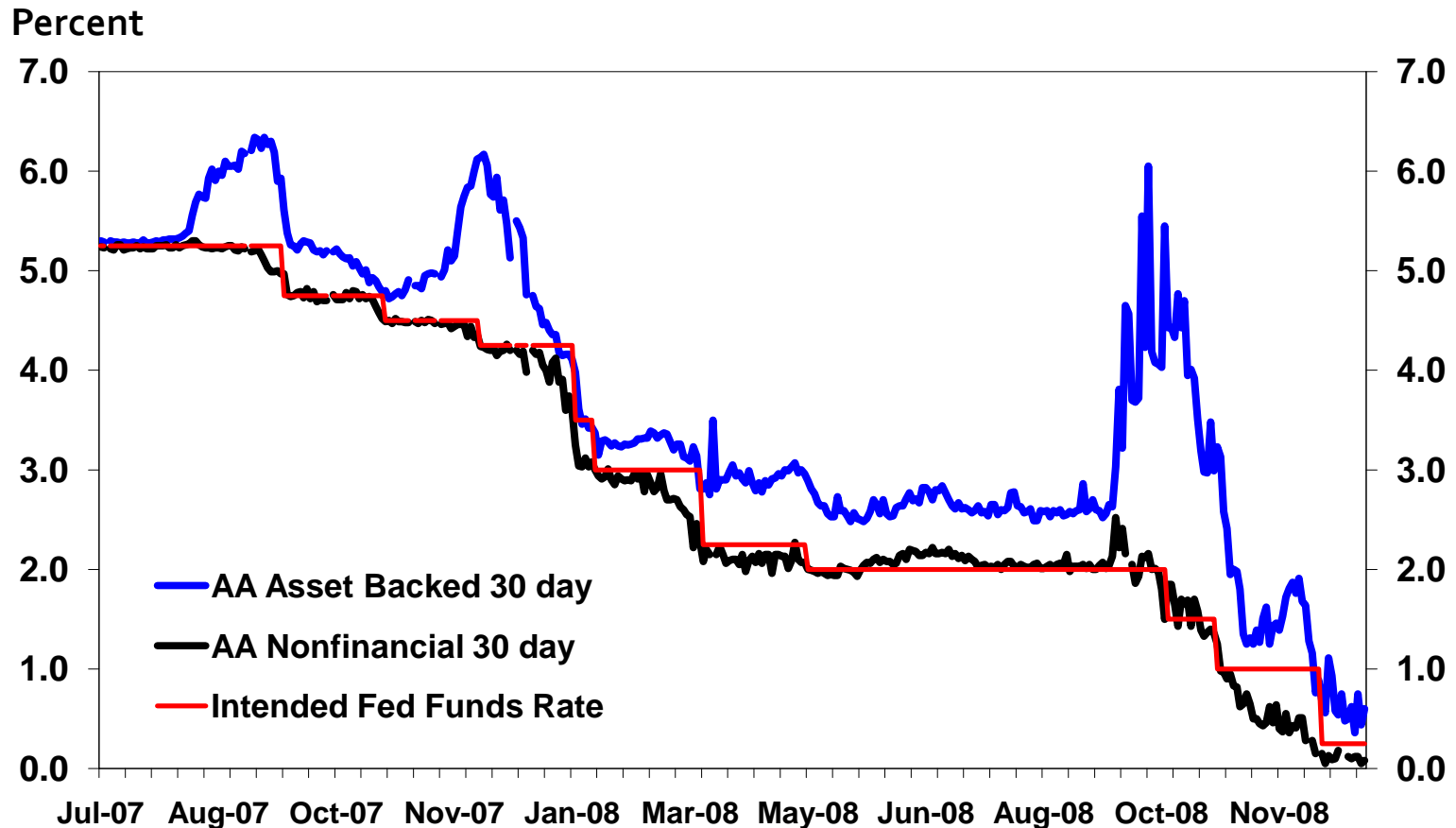


Source: Dept. of Commerce, National Association of Realtors



Financial markets remain fragile.

Commercial Paper Rates and Fed Funds Rate

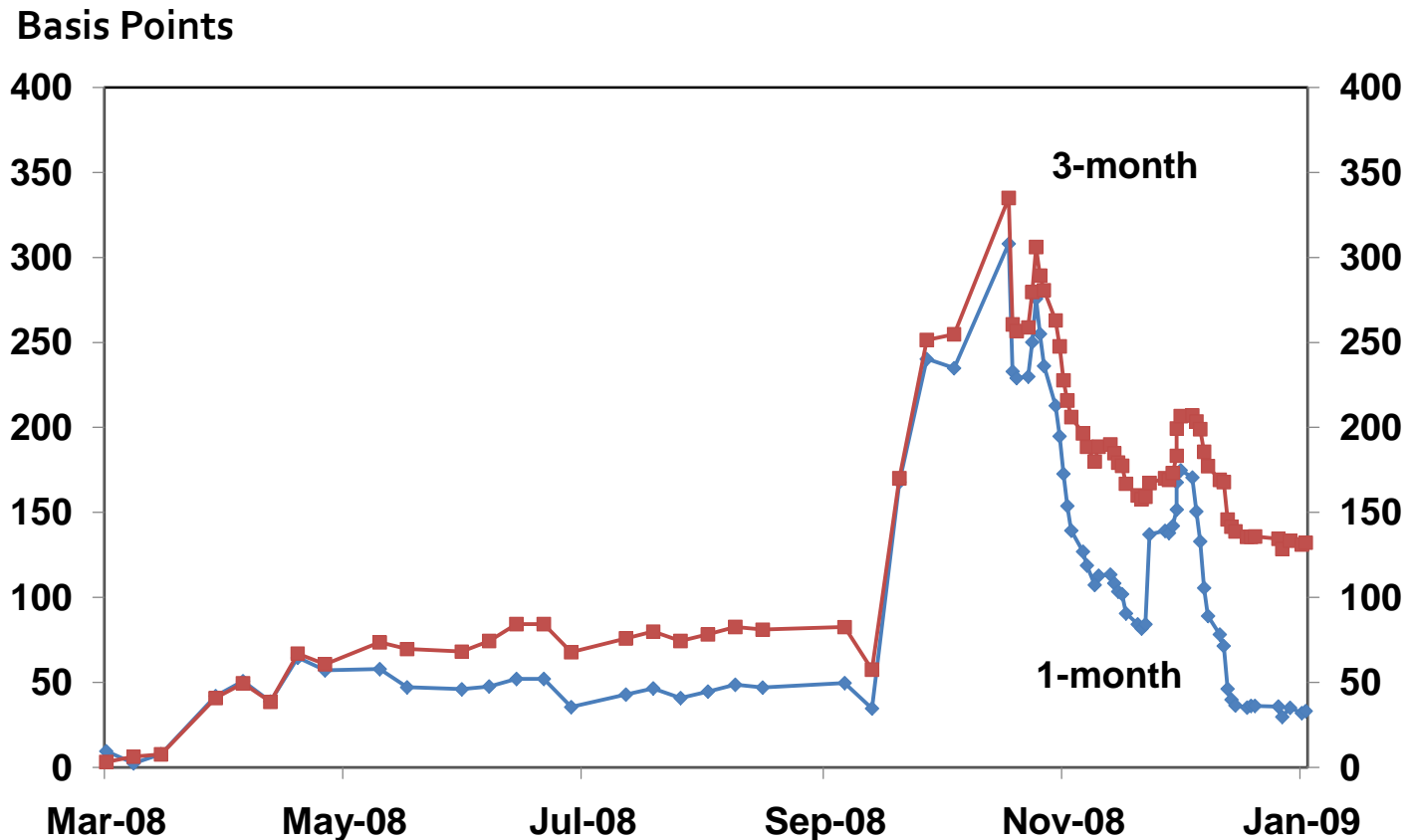


Source: Federal Reserve Board of Governors



Financial market stress remains elevated.

LIBOR-OIS Spread

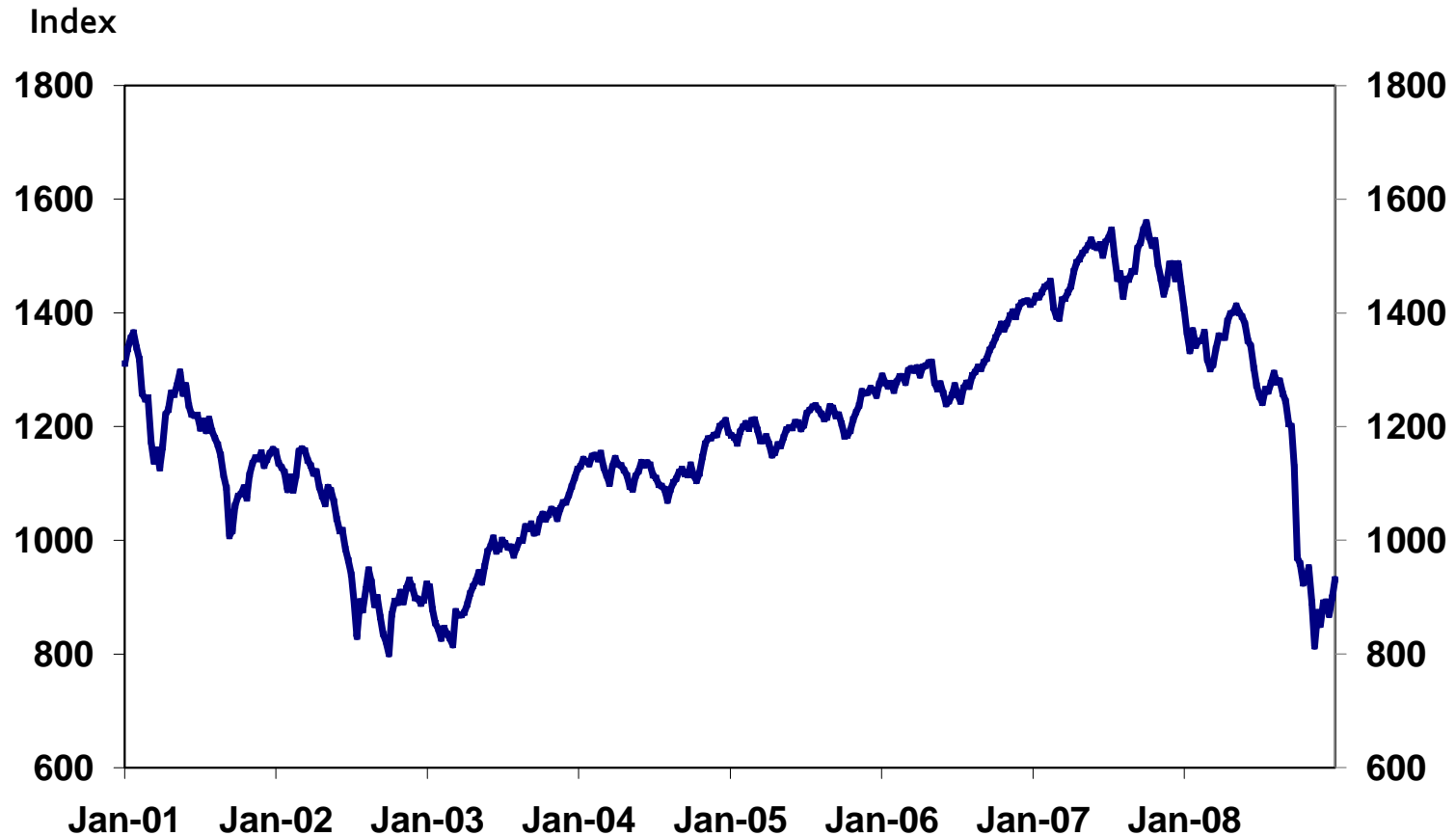


Source: Federal Reserve Board of Governors



Stock market values plummet.

S&P 500 Index

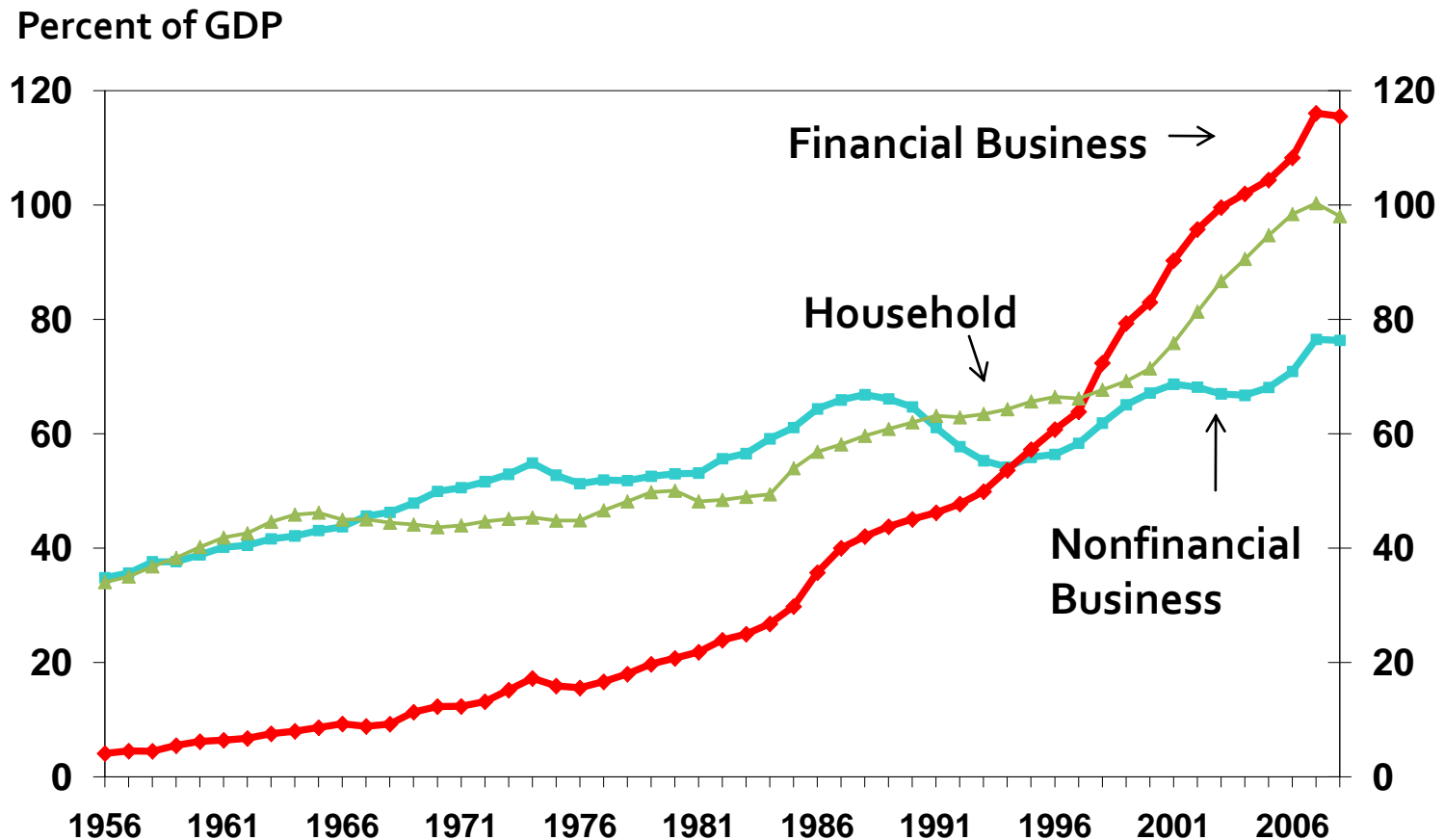


Source: Dow Jones



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

Domestic Debt Outstanding

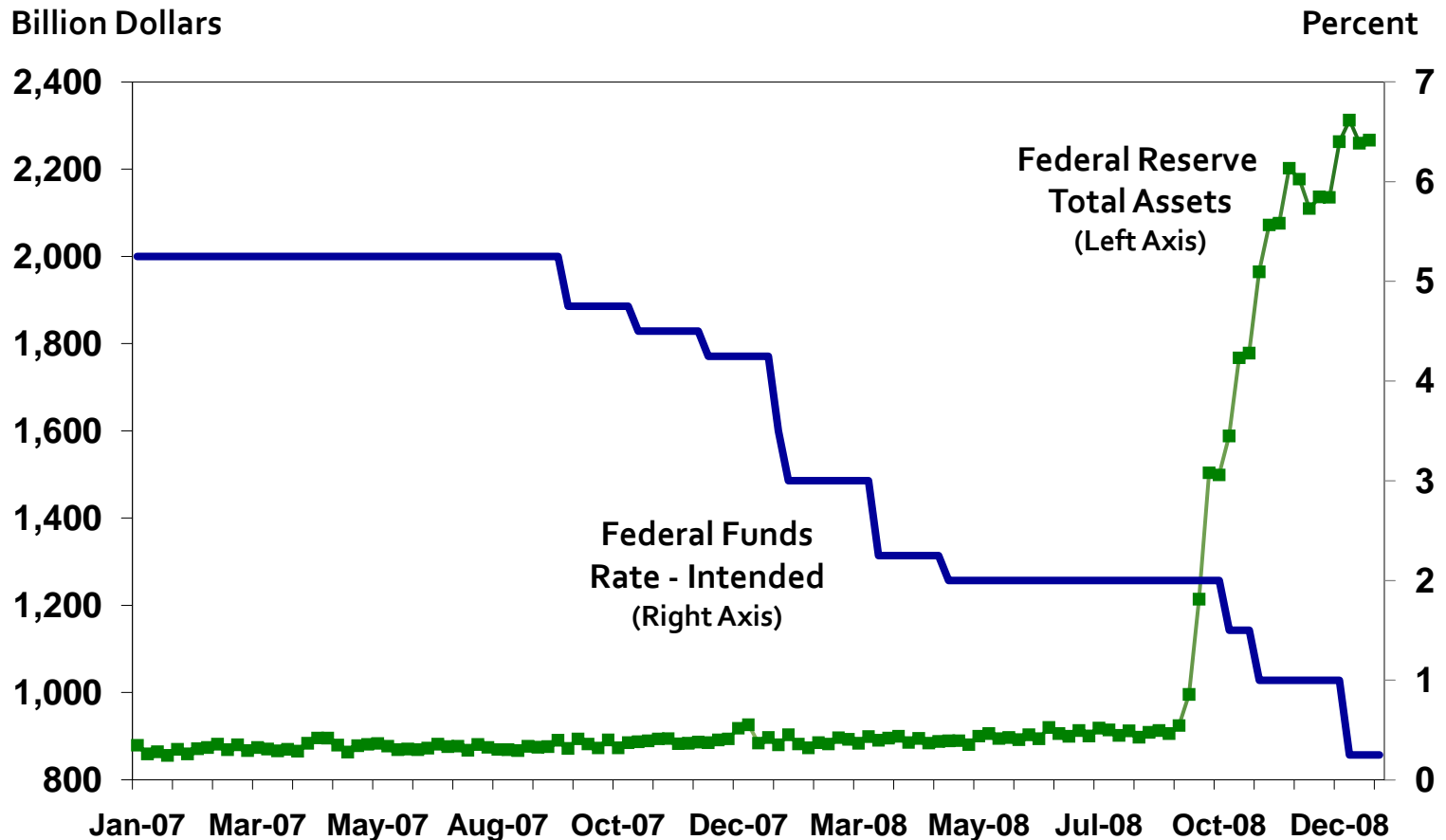


Source: Federal Reserve Board of Governors



The Fed has acted aggressively.

Fed Funds Rate and Federal Reserve Assets

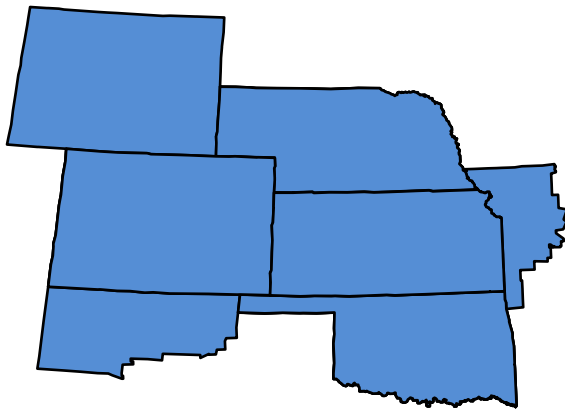


Source: Federal Reserve Board of Governors



Today's Roadmap

- **What is the Impact on Agricultural Credit?**



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

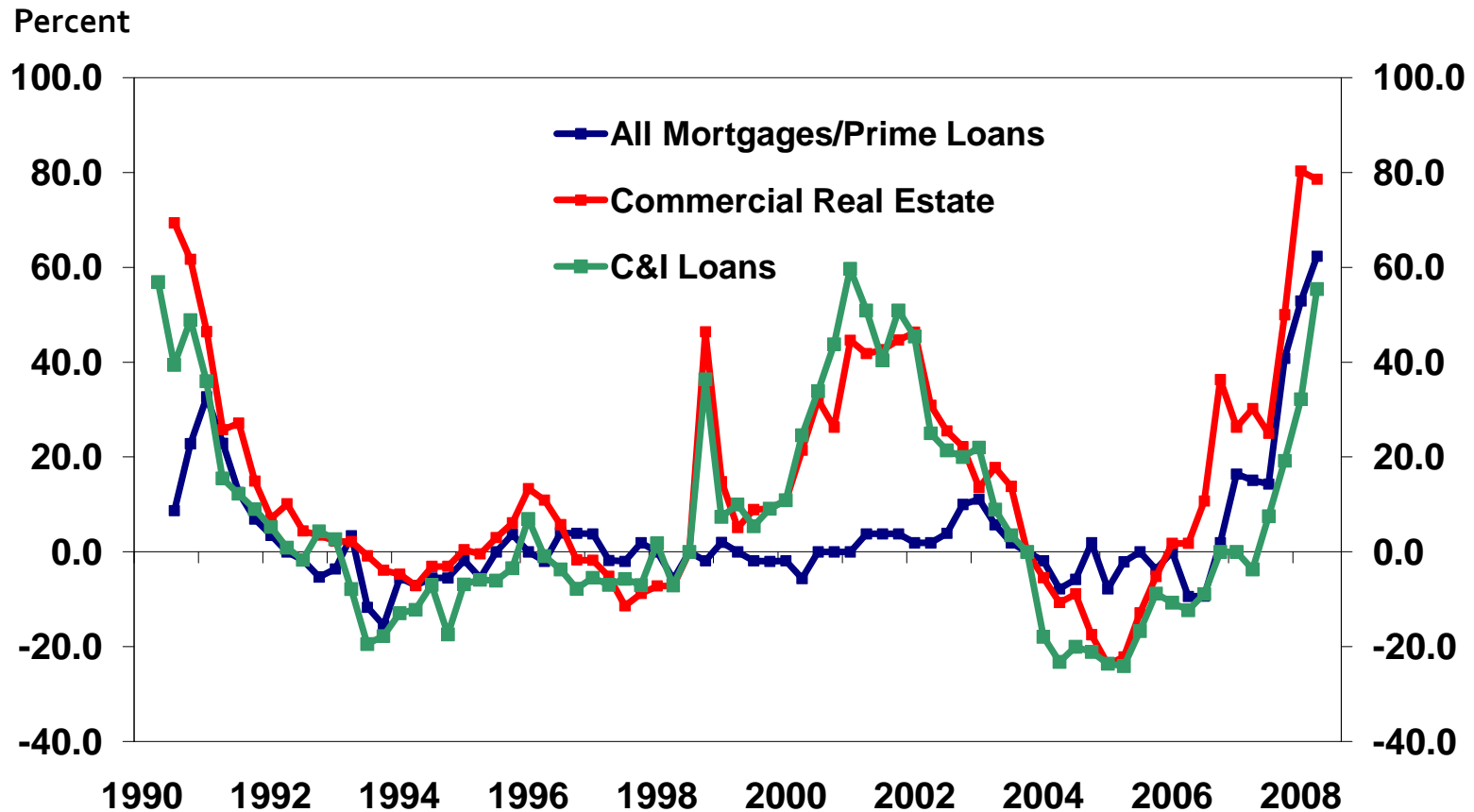
Federal Reserve Bank of Dallas
Agricultural Credit Conditions

<http://www.dallasfed.org/research/agsurvey/index.html>



Banks have tightened credit standards.

Net Percent of Domestic Banks Tightening Credit Standards



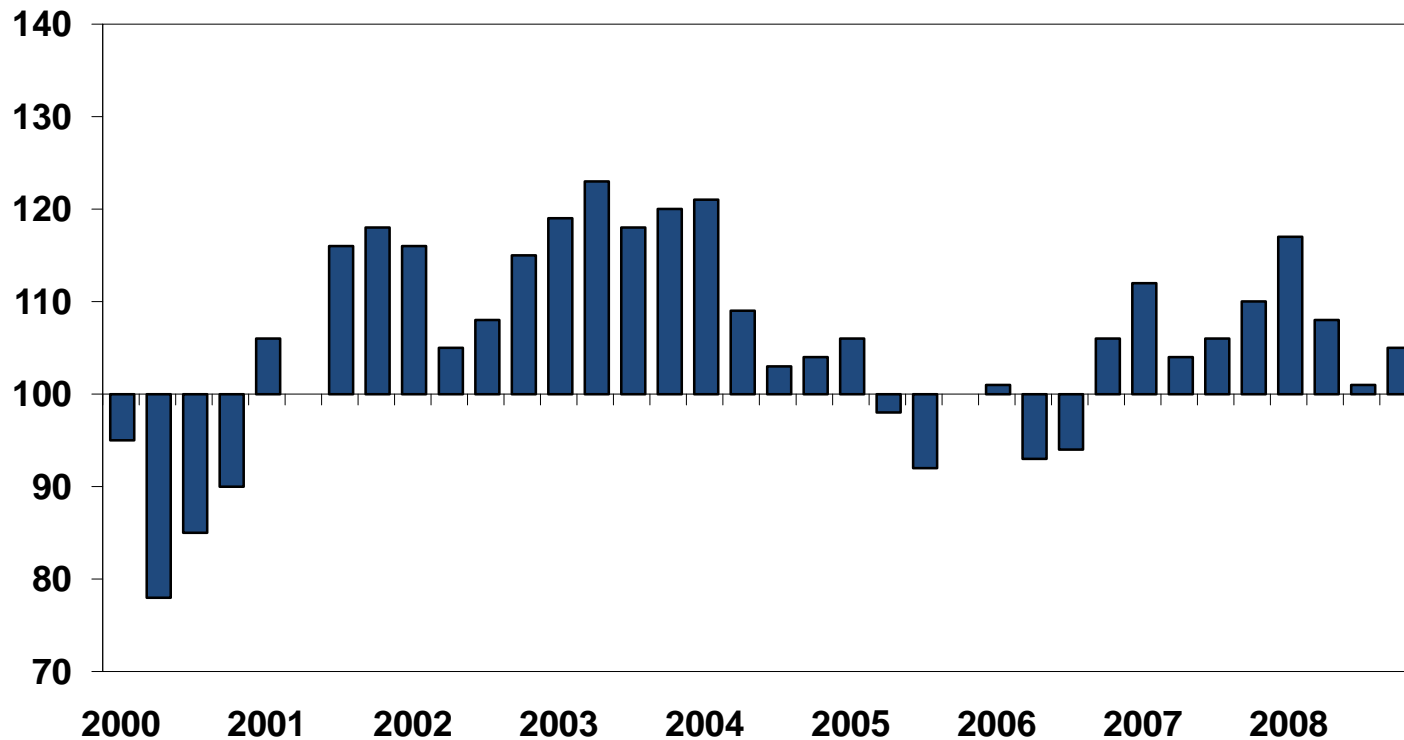
Source: Federal Reserve Board of Governors



Commercial banks have funds available for farm loans.

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

Diffusion Index

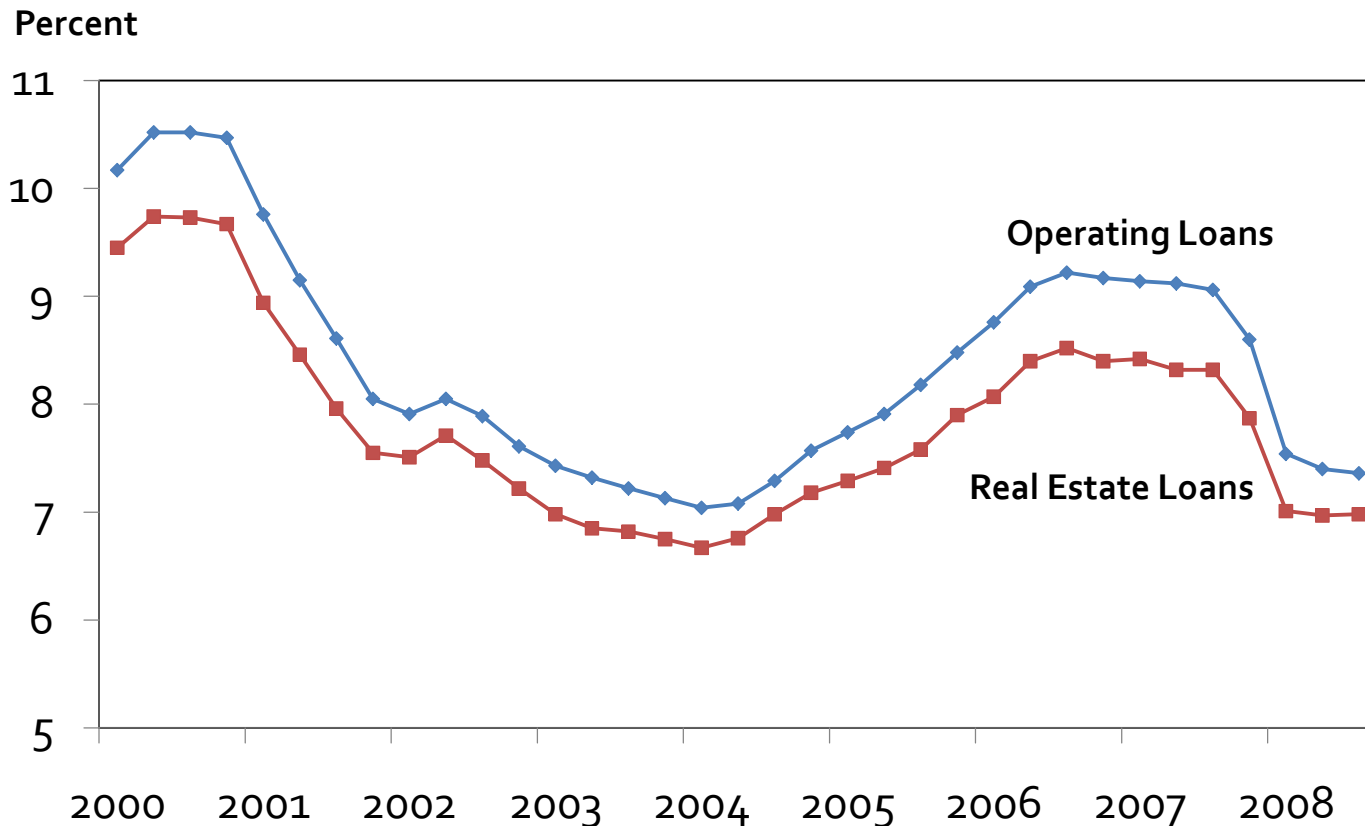


Source: Federal Reserve Bank of Kansas City



The cost of funds has eased.

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



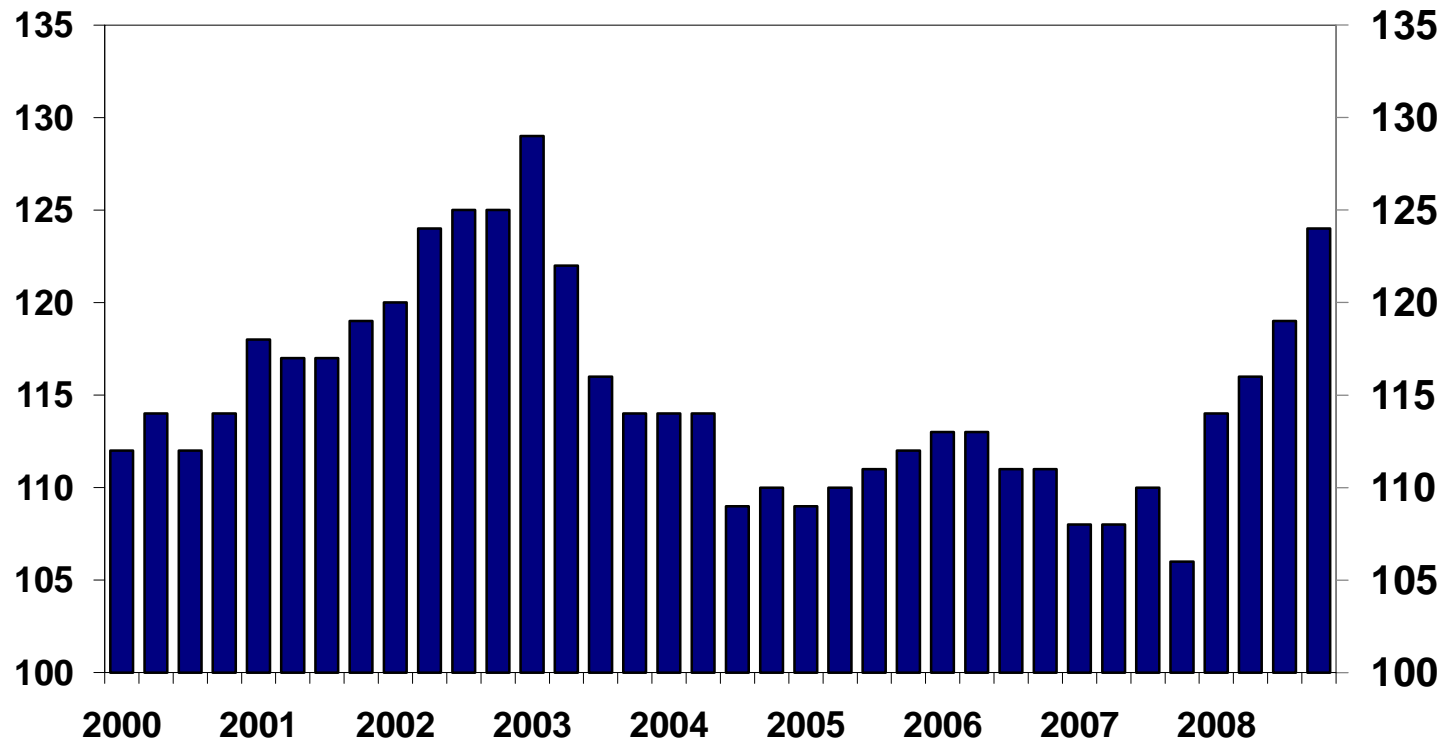
Source: Federal Reserve Bank of Kansas City



Agricultural credit conditions have tightened.

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

Diffusion Index

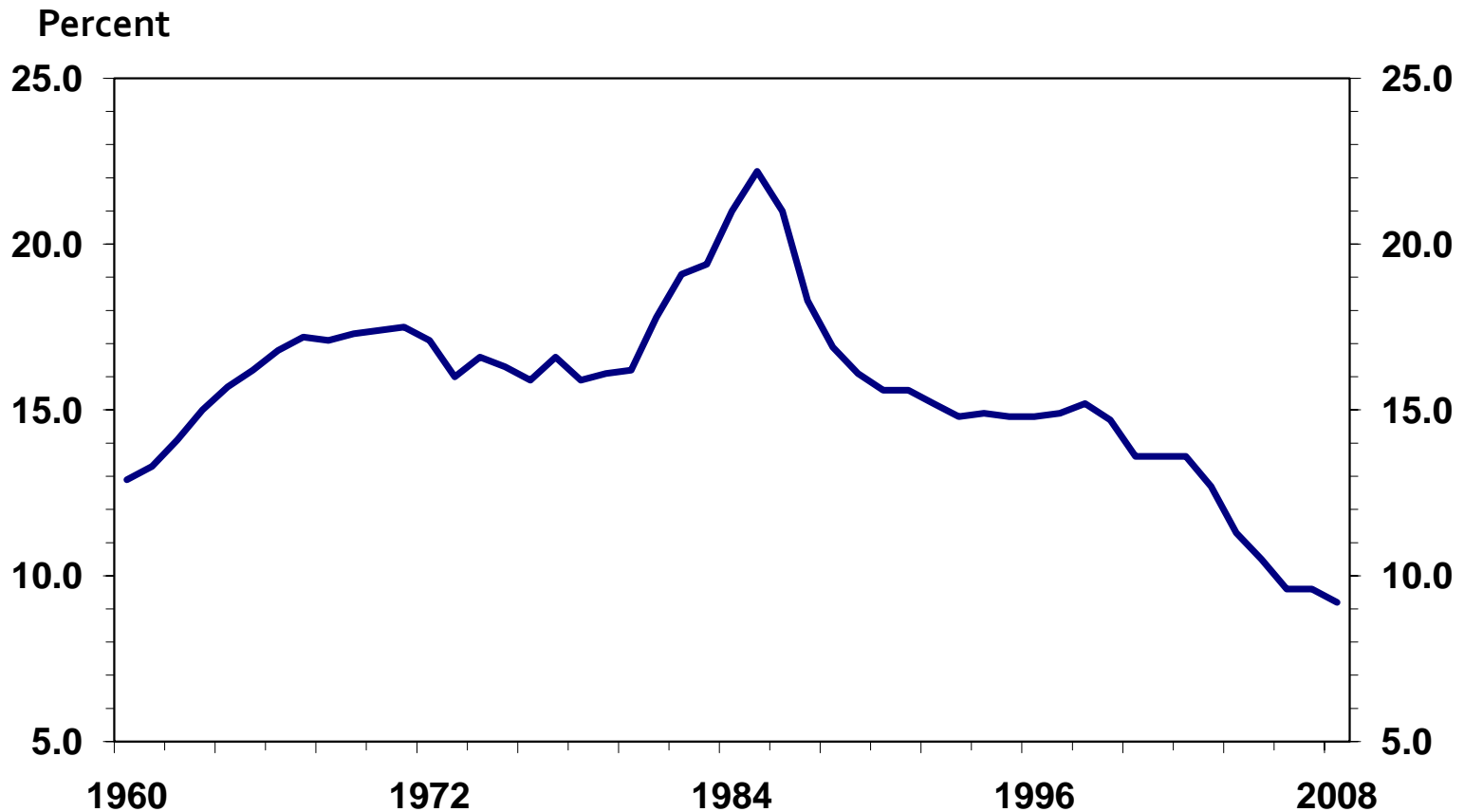


Source: Federal Reserve Bank of Kansas City



Unlike other sectors, farm debt levels remain low.

U.S. Farm Debt to Asset Ratio

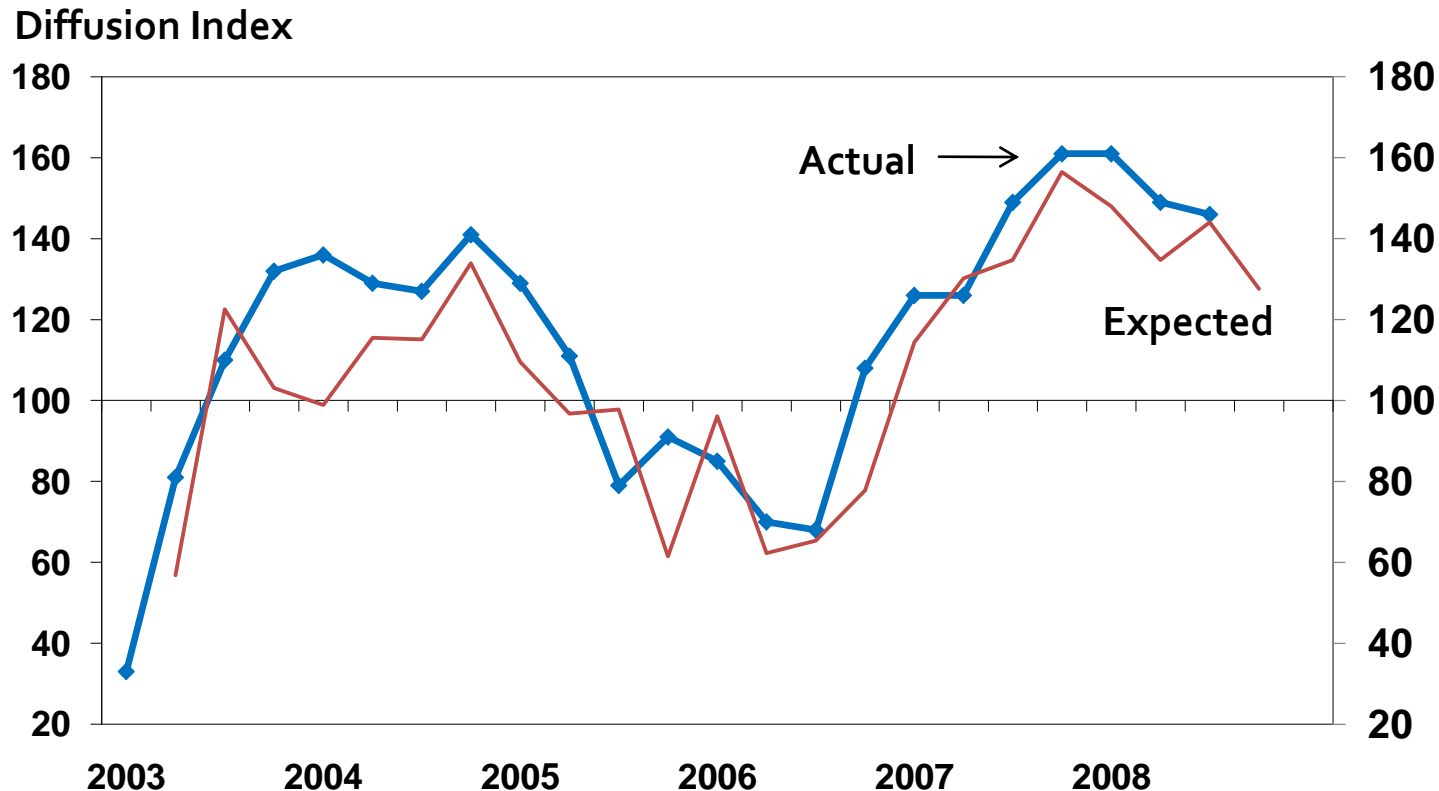


Source: USDA



Expectations for farm income are slowing.

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



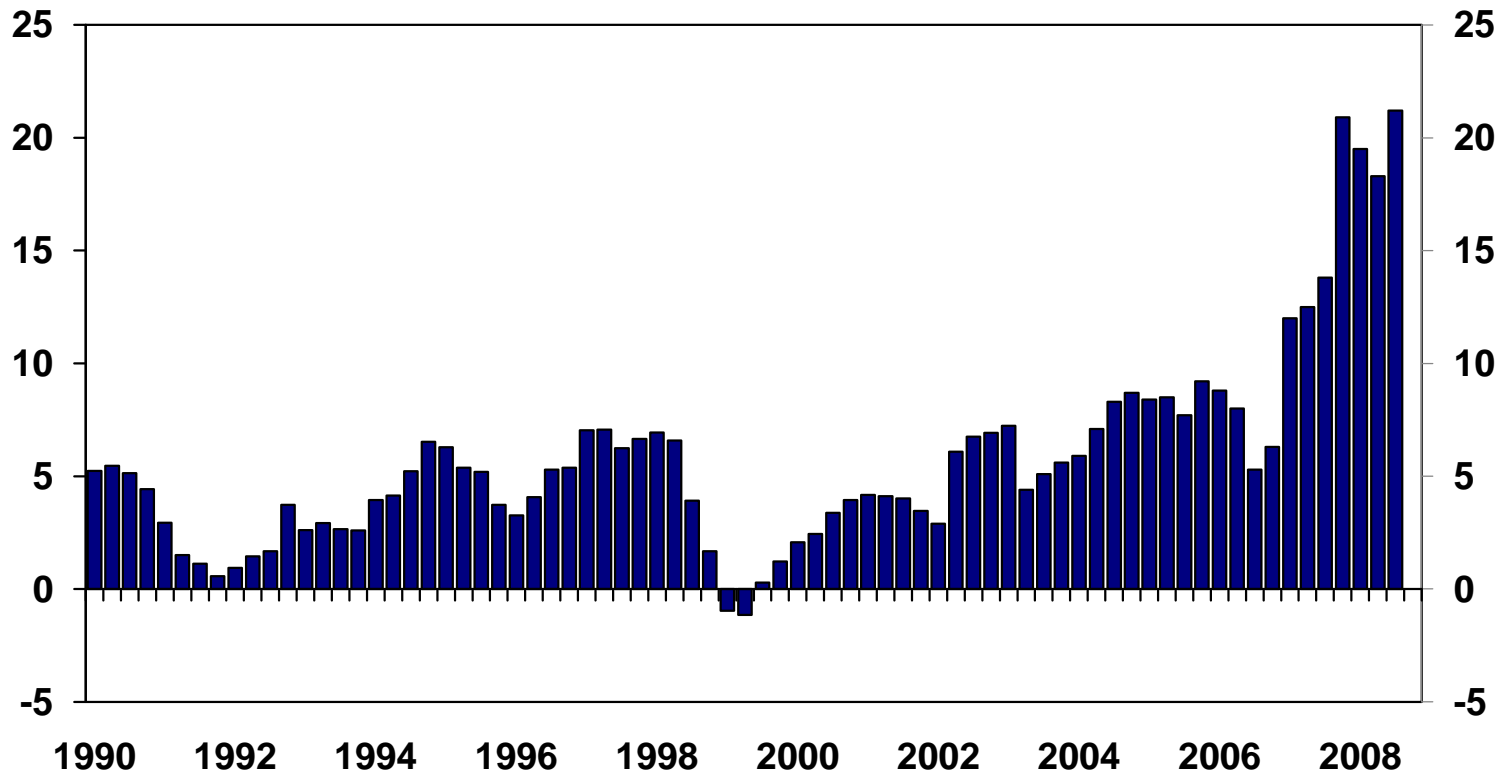
Source: Federal Reserve Bank of Kansas City



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.
 - Financial markets are fragile.
 - 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?**

