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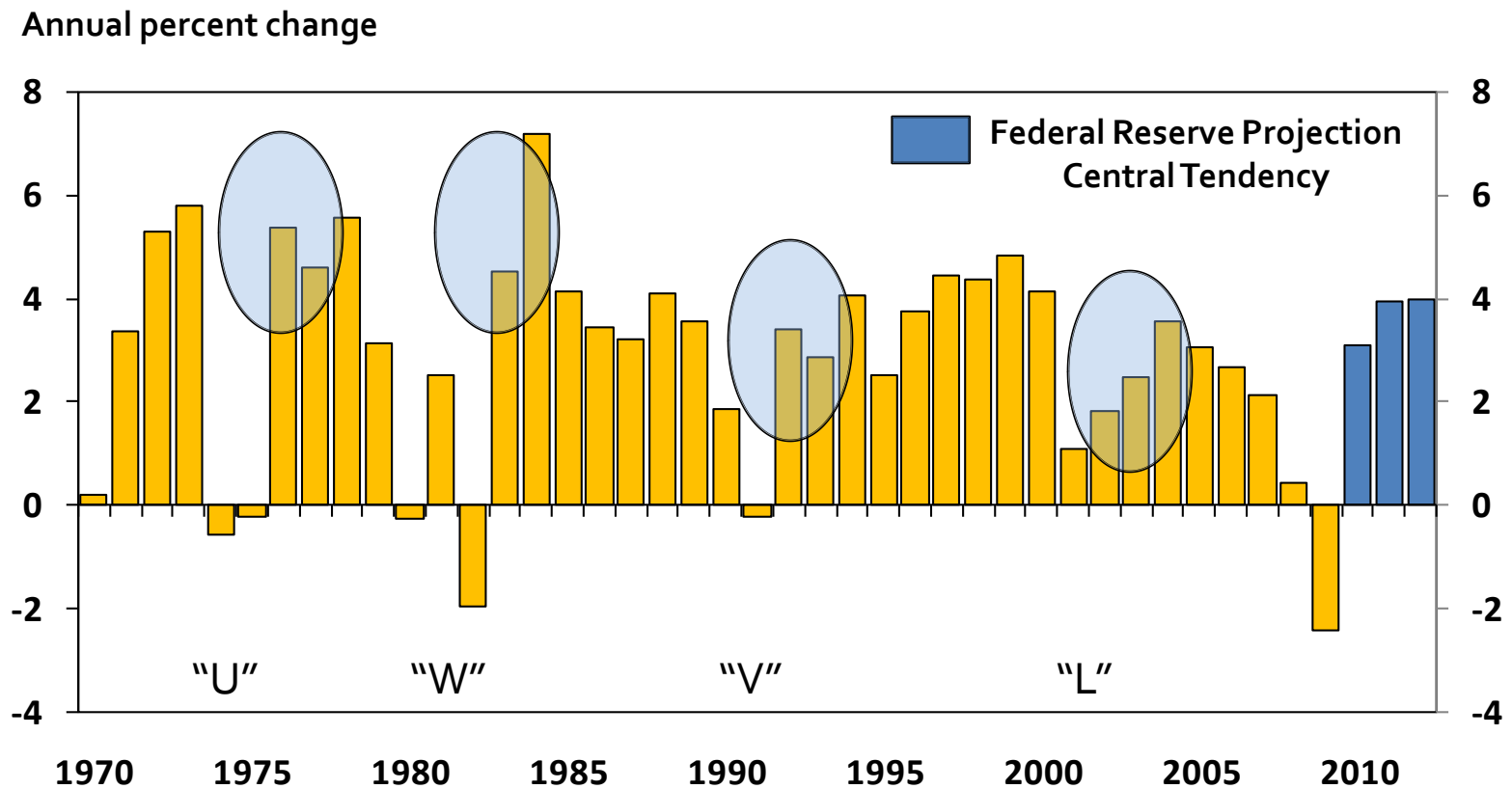
# Macro Economic Outlook with Implications for Agriculture



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.

# The U.S. economy is projected to rebound in 2010.

## Real GDP Growth

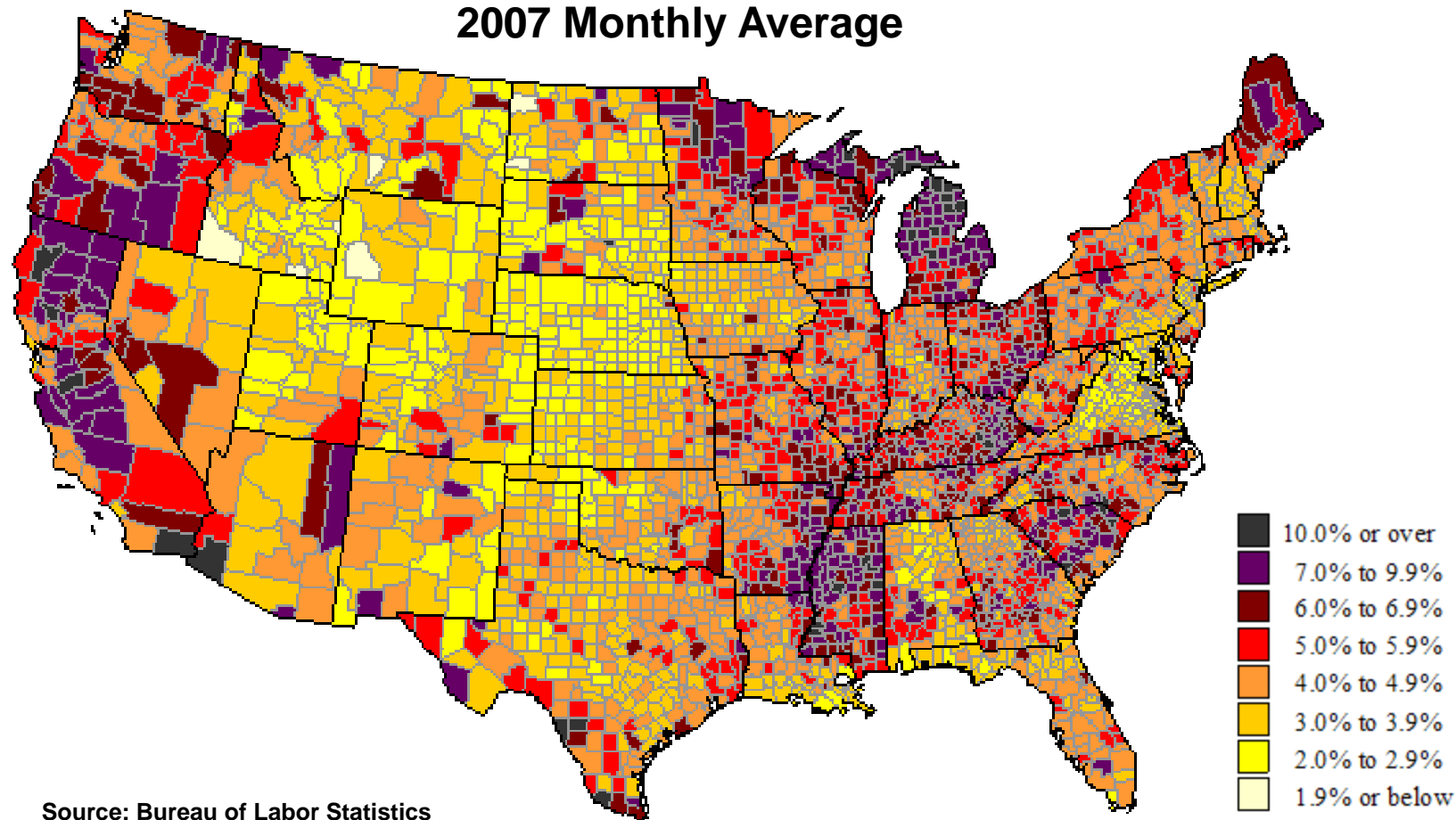


Source: Bureau of Economic Analysis Federal Reserve Board of Governors



# *Rising unemployment rates will limit the recovery.*

## Unemployment Rate 2007 Monthly Average

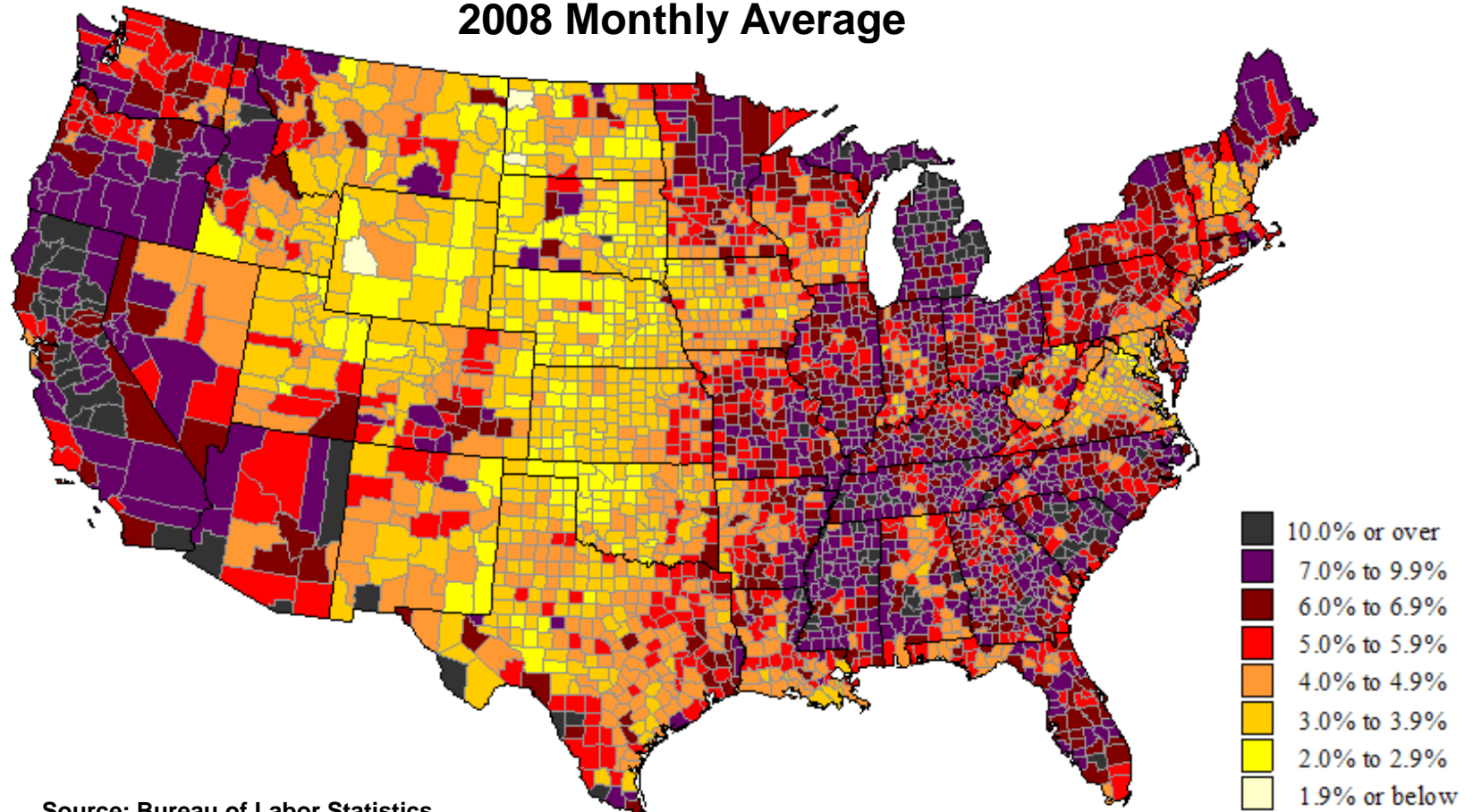


Source: Bureau of Labor Statistics



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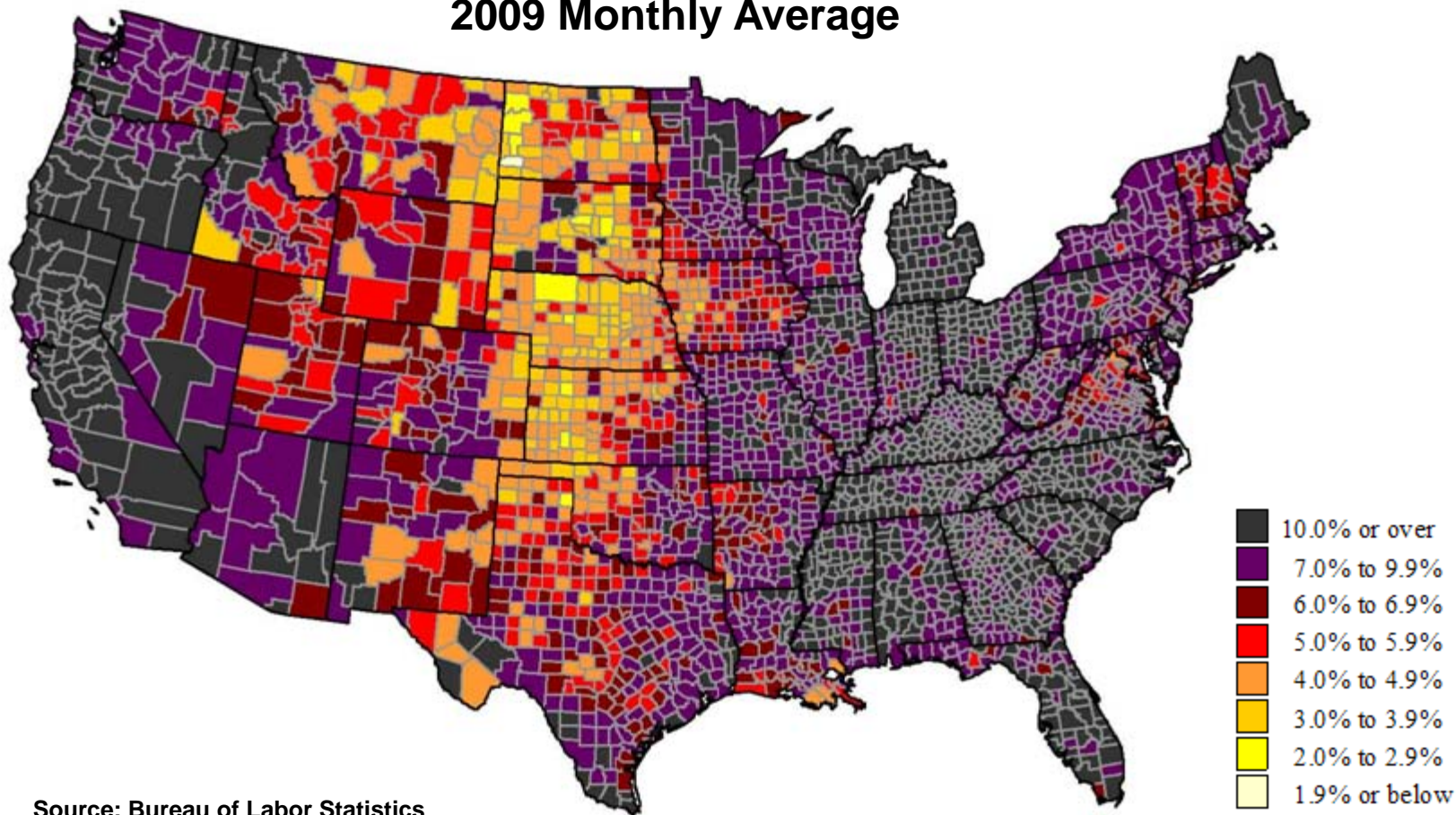


Source: Bureau of Labor Statistics



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## Unemployment Rate 2009 Monthly Average



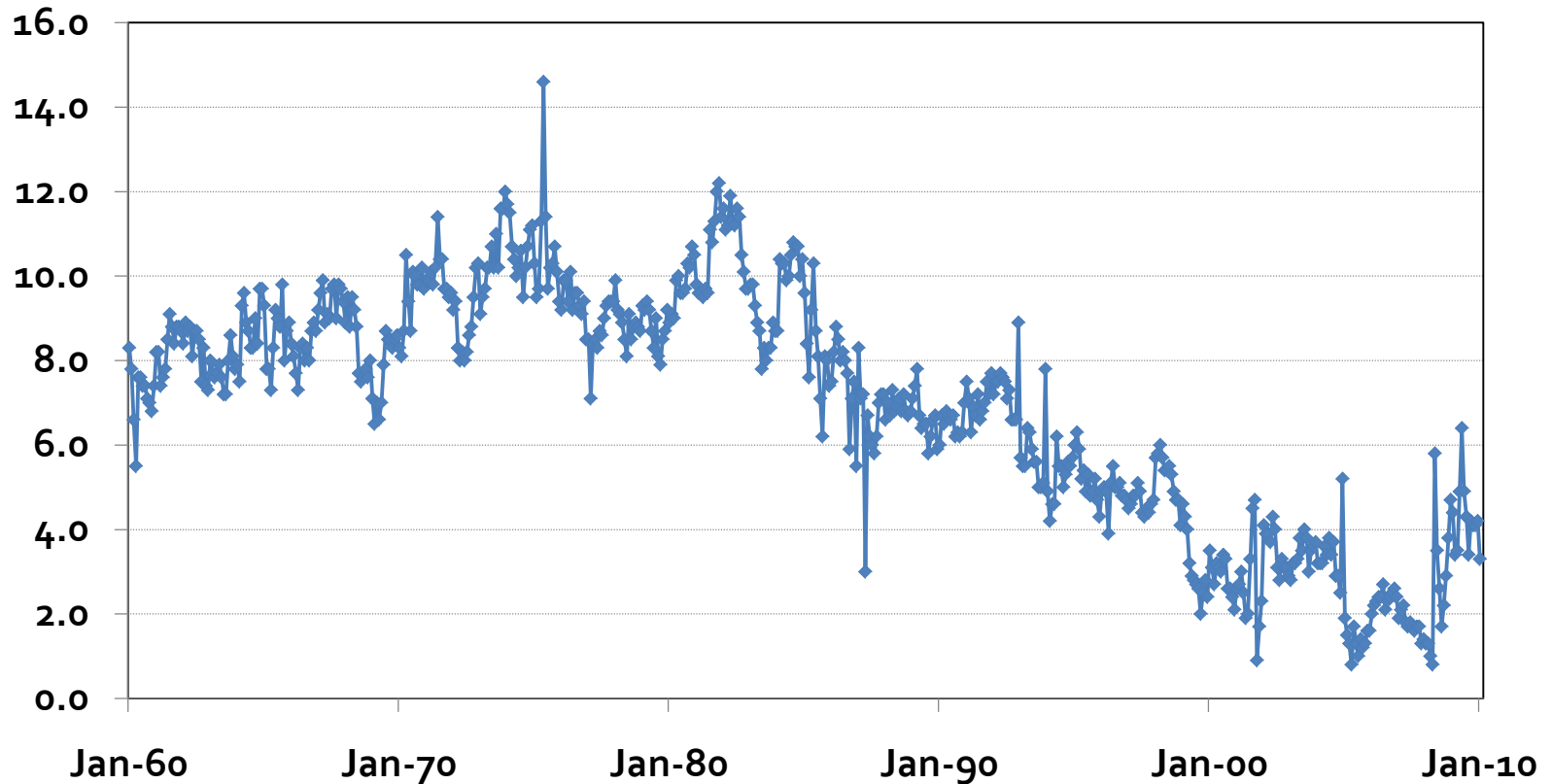
Source: Bureau of Labor Statistics



# *Economic growth will slow as consumers deleverage (save more, spend less).*

## U.S. Personal Savings Rate

Percent of disposable income



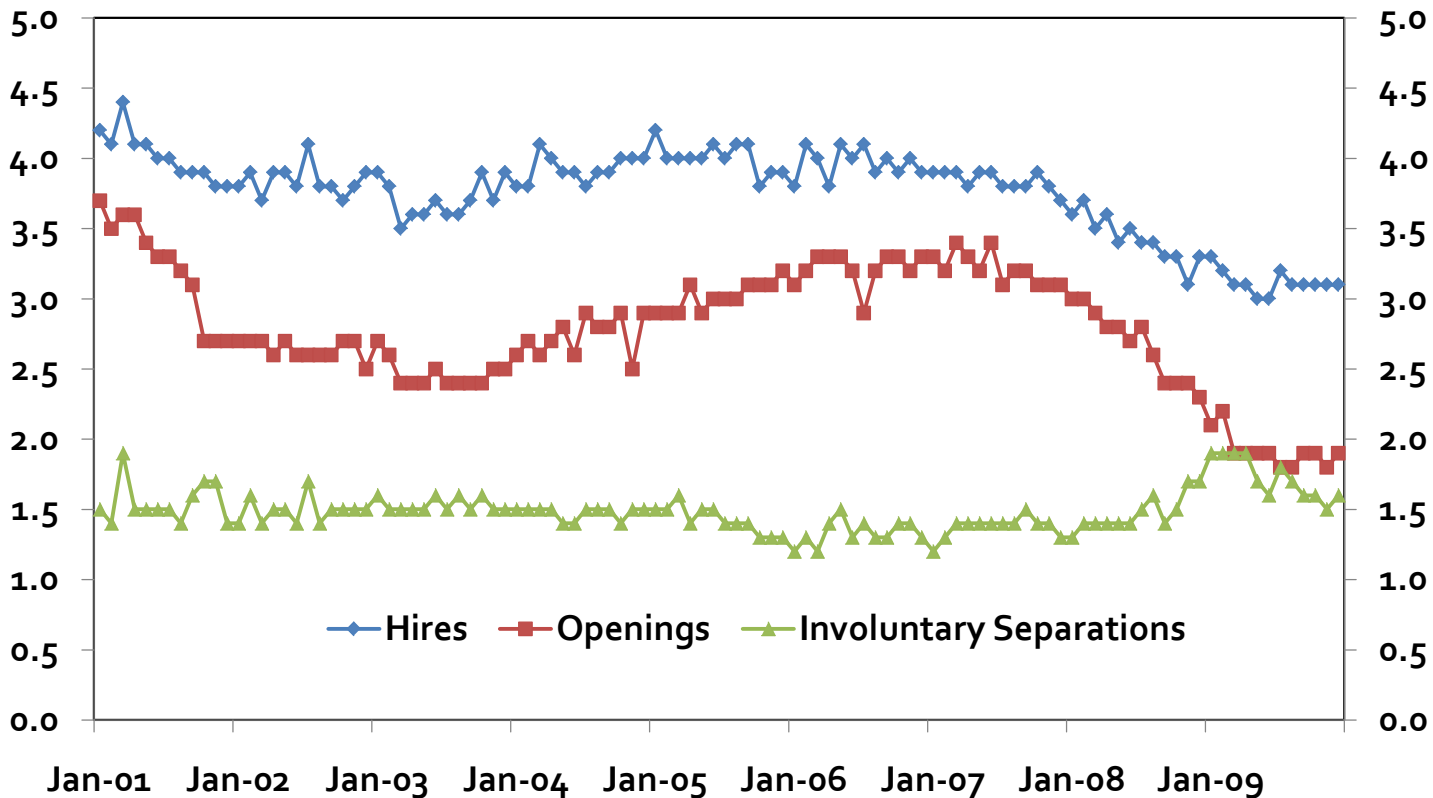
Source: Federal Reserve Bank of St. Louis



# Job openings and hiring will need to rebound before unemployment falls.

## Layoffs, Hiring, and Job Openings

Percent of employment



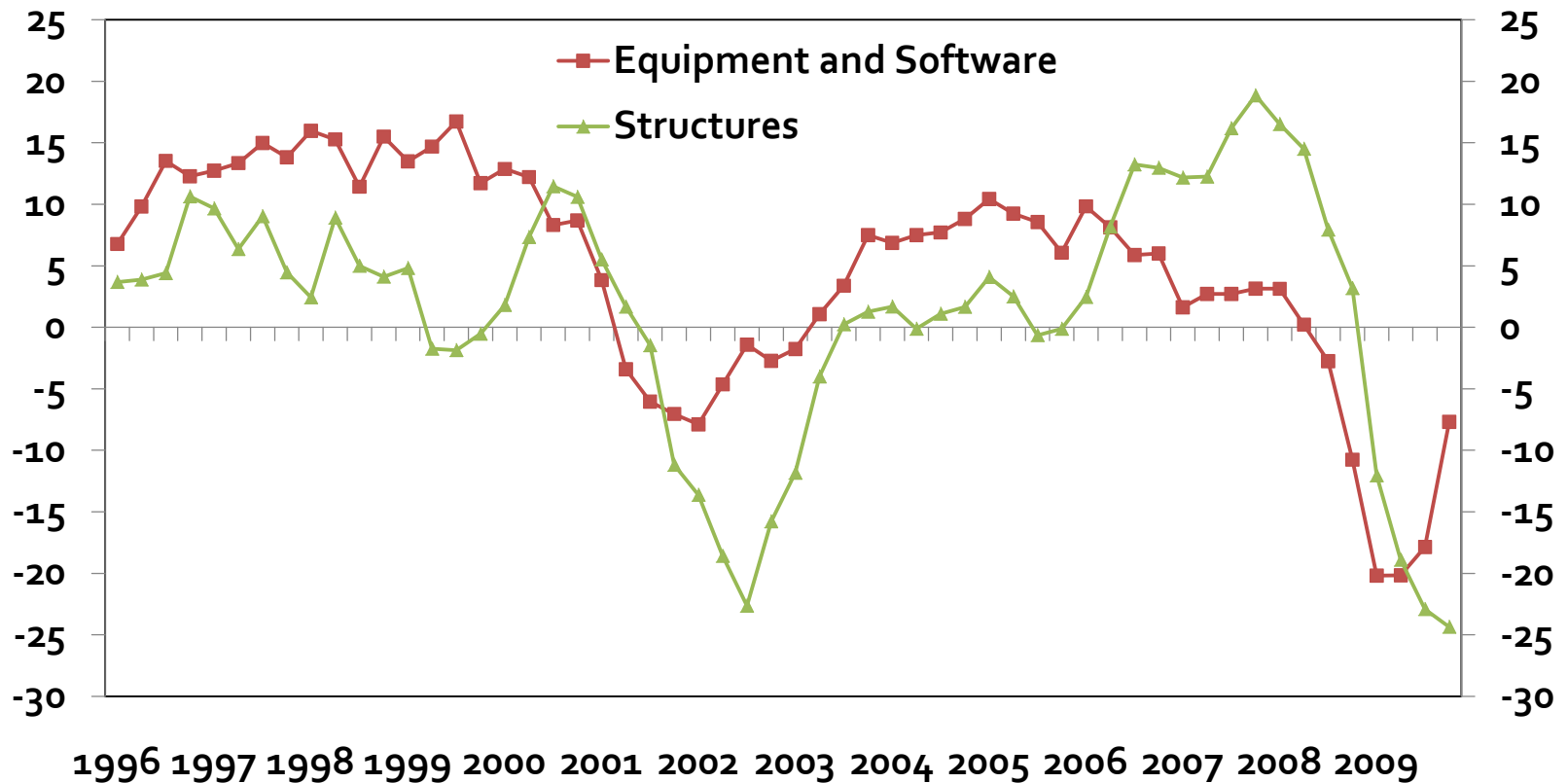
Source: Bureau of Labor Statistics



# *Businesses are starting to replace IT equipment.*

## U.S. Business Investment

Percent change from year ago



Source: Bureau of Economic Analysis





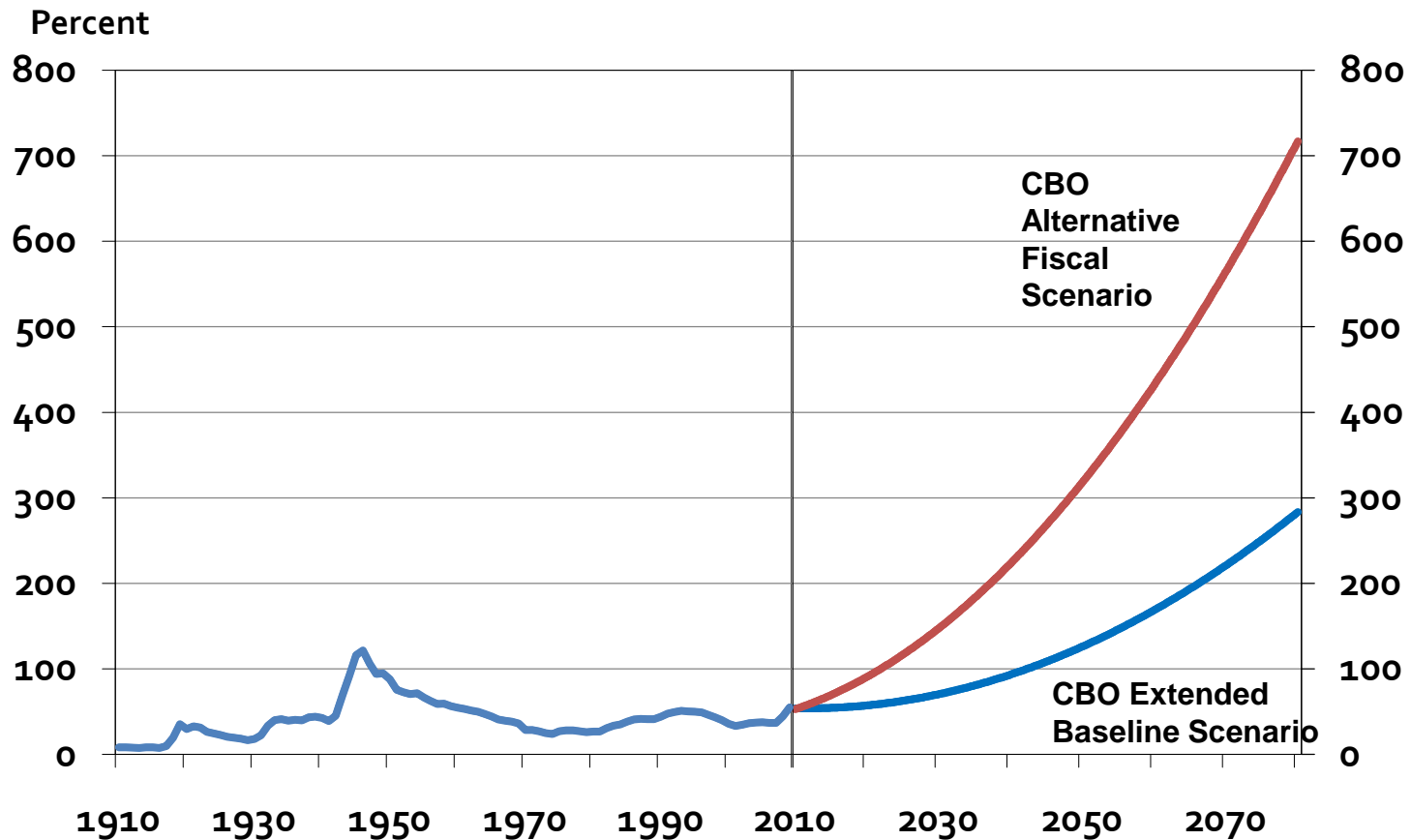
# *Changing Government Policies.*

- Financial markets and regulation
- Environmental policy
- Energy policy
- Health care policy
- Agricultural policy
- Rural development
- ???



# Federal debt is on the rise.

## U.S. Debt as a Percent of GDP



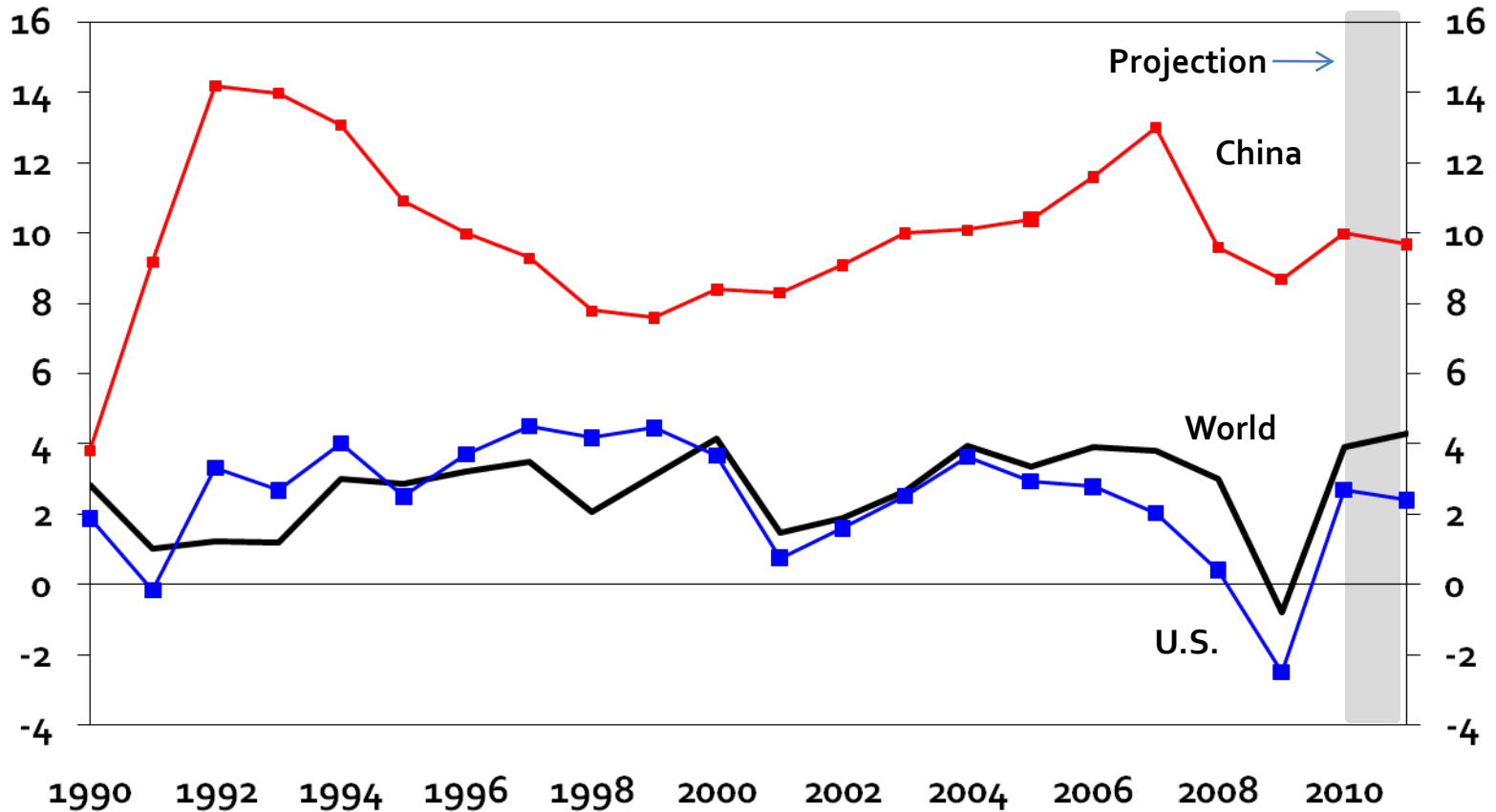
Source: Congressional Budget Office, November 2009



# Will emerging markets lead the recovery?

## GDP Growth

Annual percent change, constant dollars



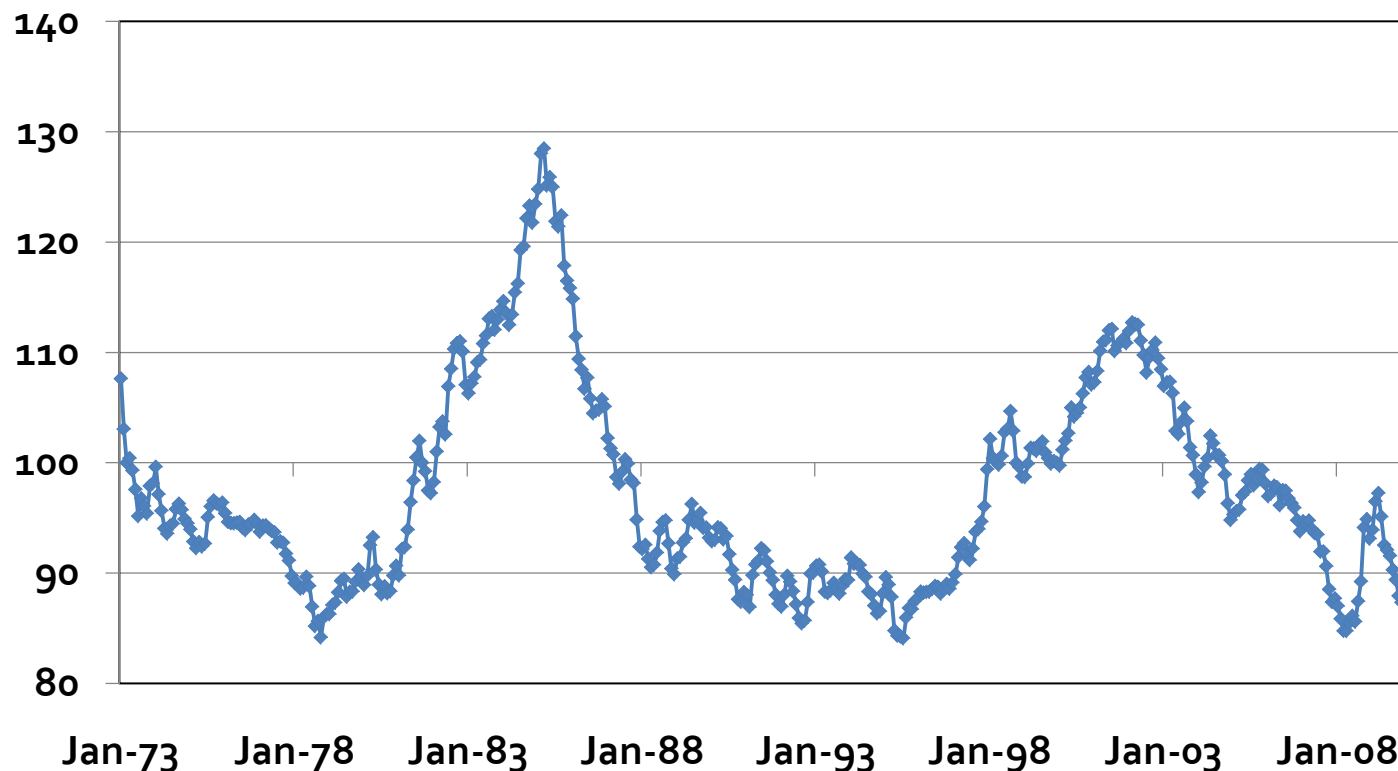
Source: International Monetary Fund, January 2010



# Can stronger global economies and a weaker dollar spur further improvements in the trade balance?

## Broad Value of the Dollar (Price-adjusted)

Index (Mar 1973=100)



Source: Federal Reserve Board of Governors



# Risks to the Agricultural Sector

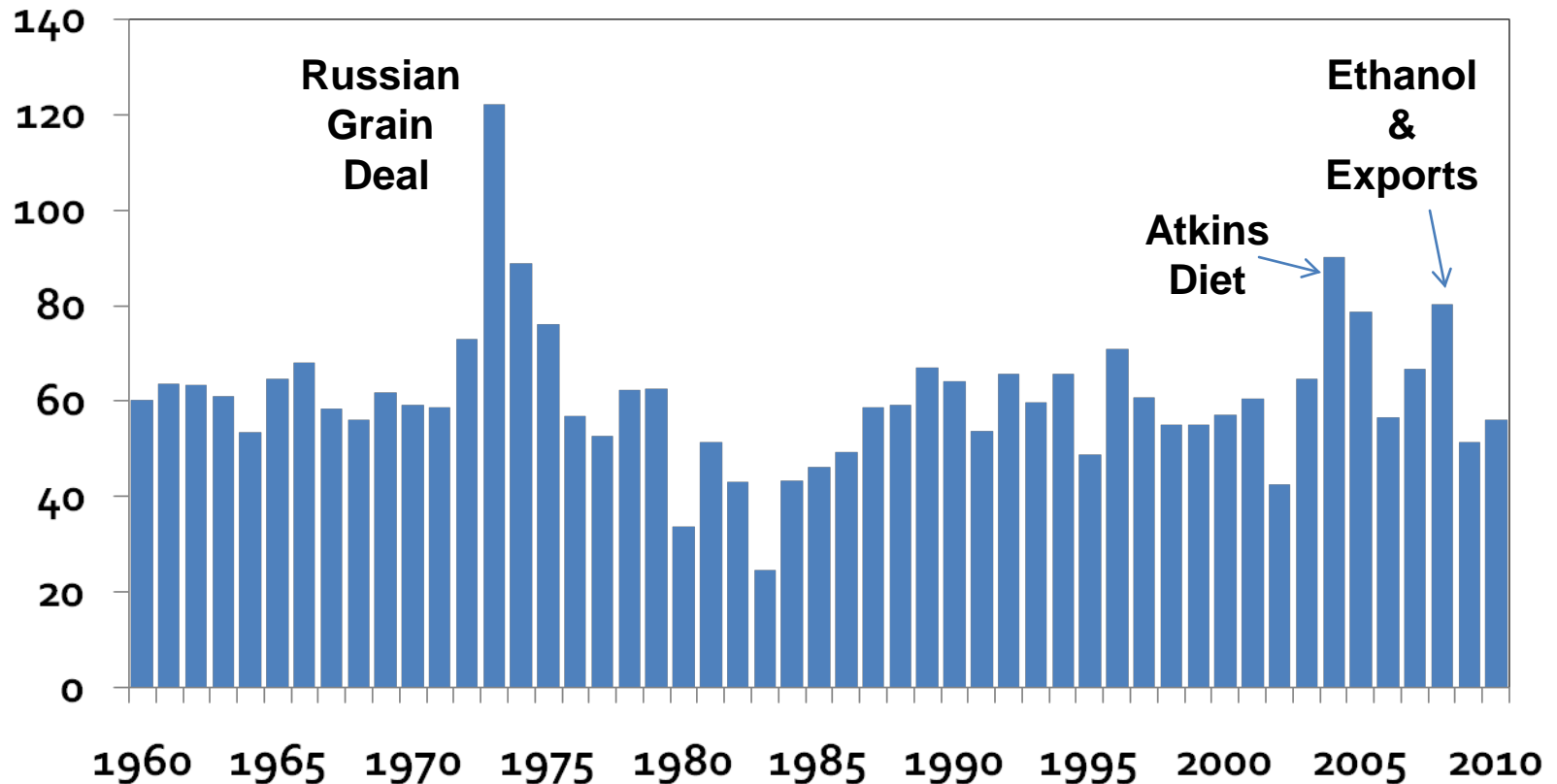
- Will a sluggish recovery limit a farm rebound?



# *Traditionally, farm booms are driven by demand.*

## Real U.S. Net Farm Income

Billion dollars



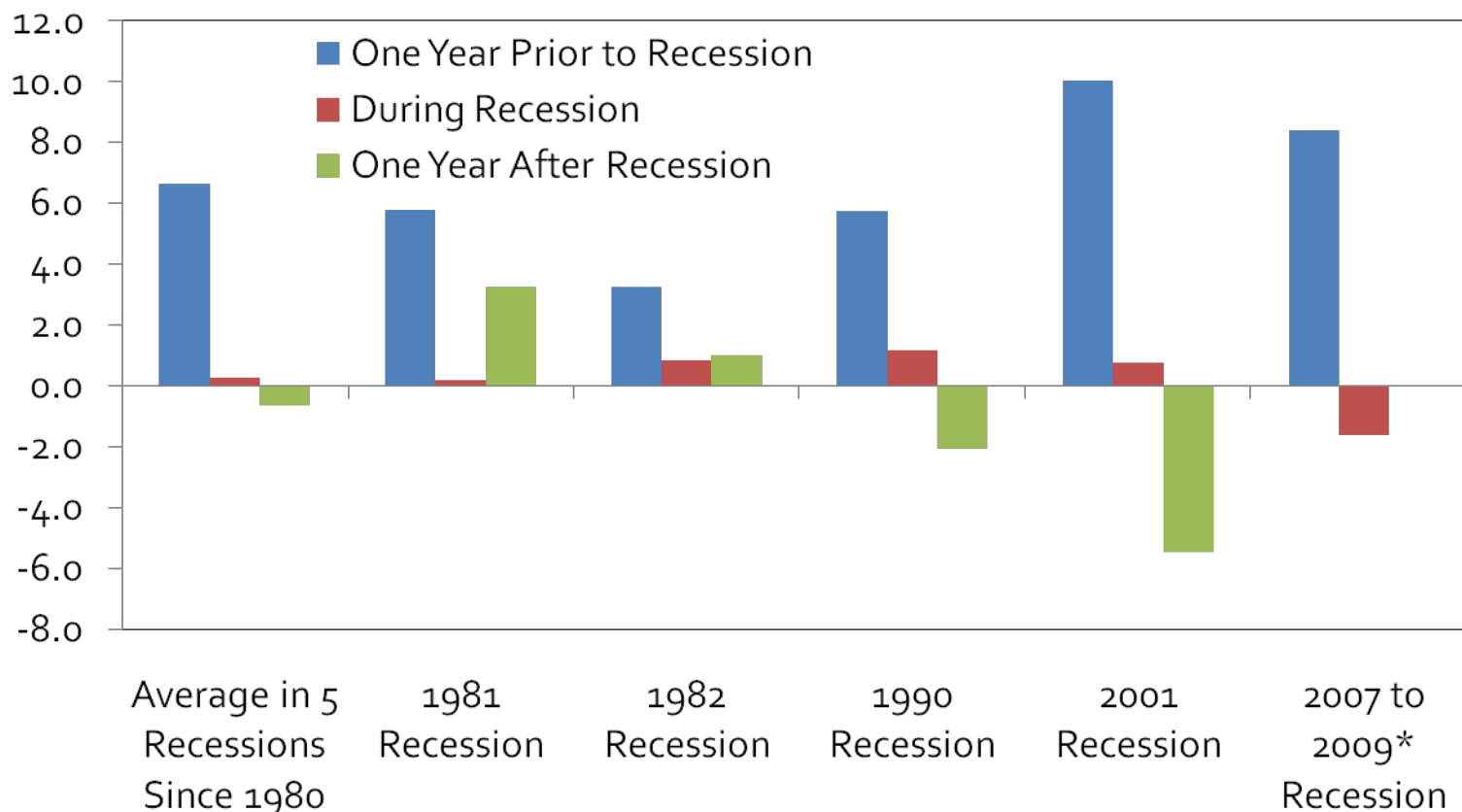
Source: USDA



# Weak recoveries limit the rebound in protein consumption.

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

Percent change



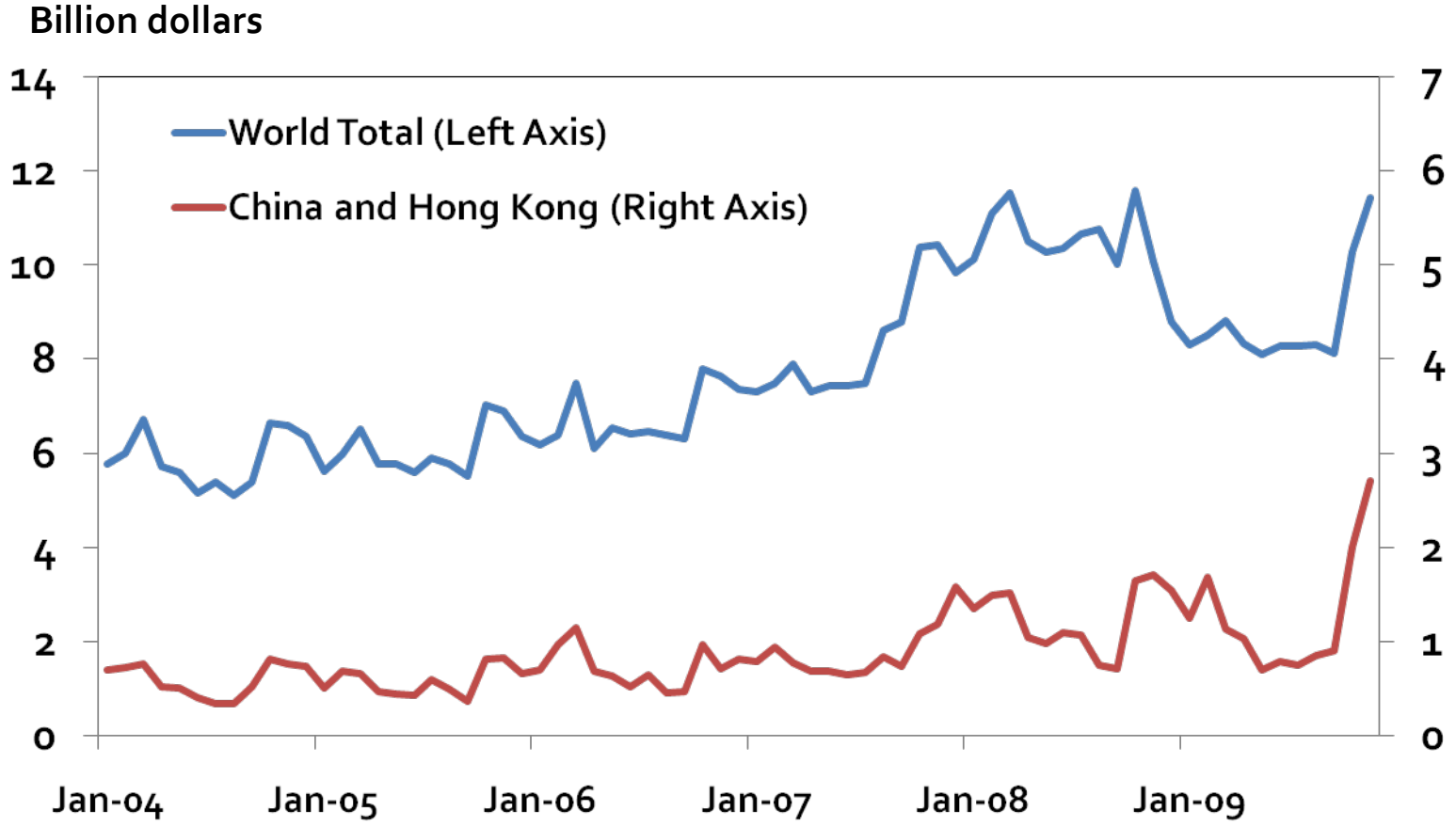
Calculations based on Bureau of Economic Analysis data

\* 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.



# U.S. ag exports rebounded at the end of 2009, fueled by China.

## U.S. Agricultural Exports



Source: USDA





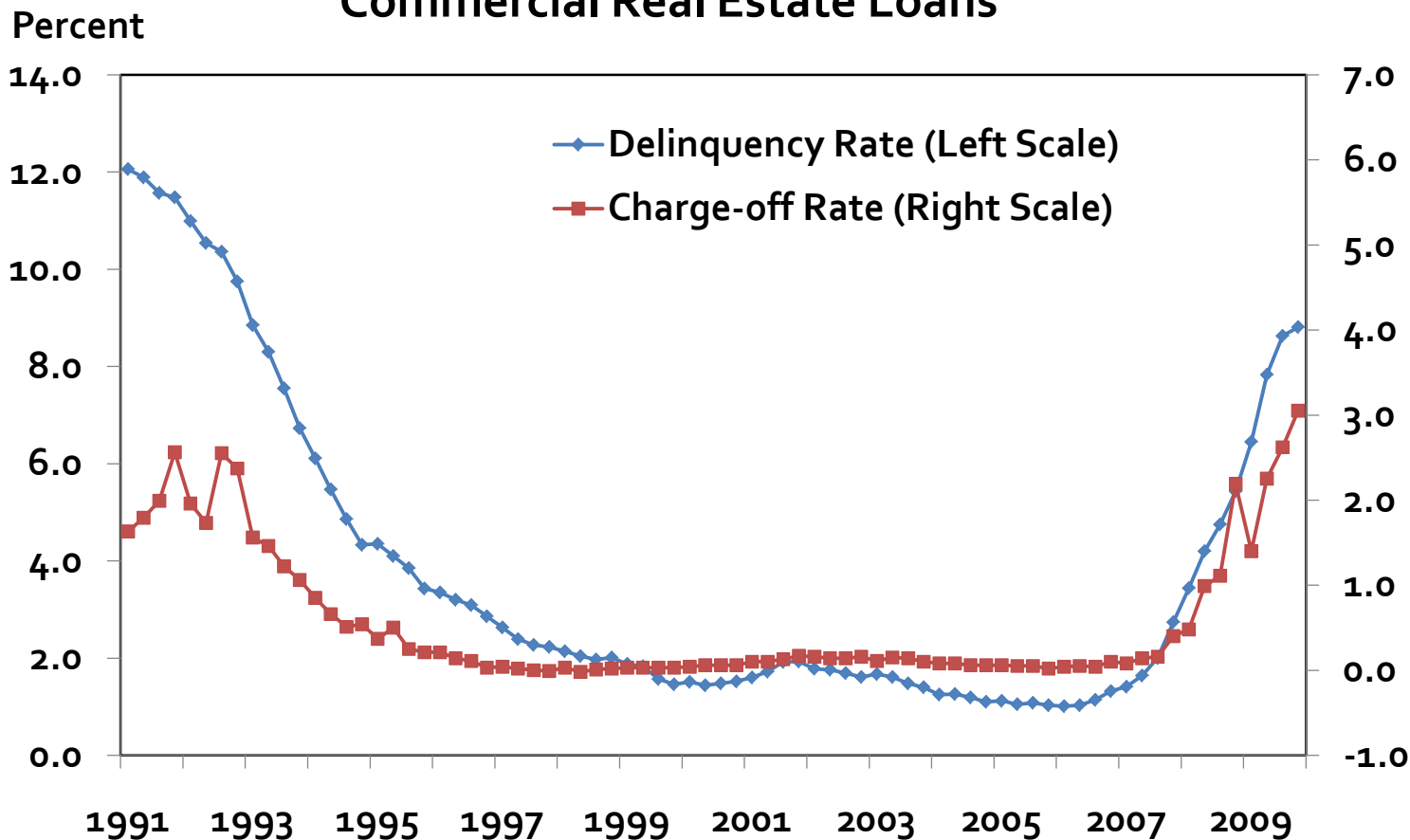
# Risks to the Agricultural Sector

- Will a sluggish recovery limit a farm rebound?
- Will fragile financial markets limit credit?



# Financial market stress has eased, but commercial real estate loans pose a risk.

## Charge-off and Delinquency Rates on Commercial Real Estate Loans

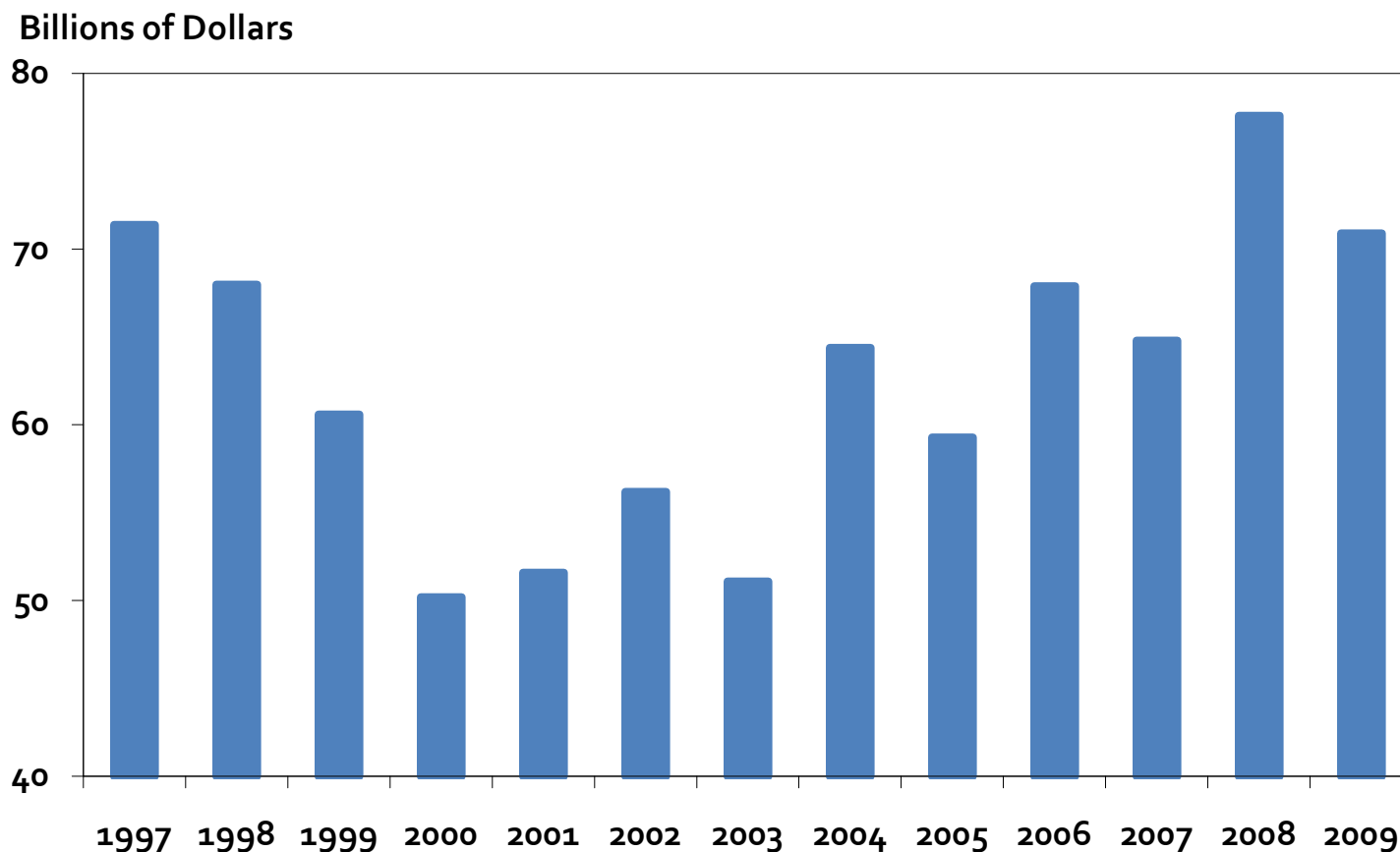


Source: Federal Reserve Board of Governors



# Commercial banks provided debt capital to U.S. agriculture.

## Total Volume of Non-Real Estate Loans to Farmers From Commercial Banks

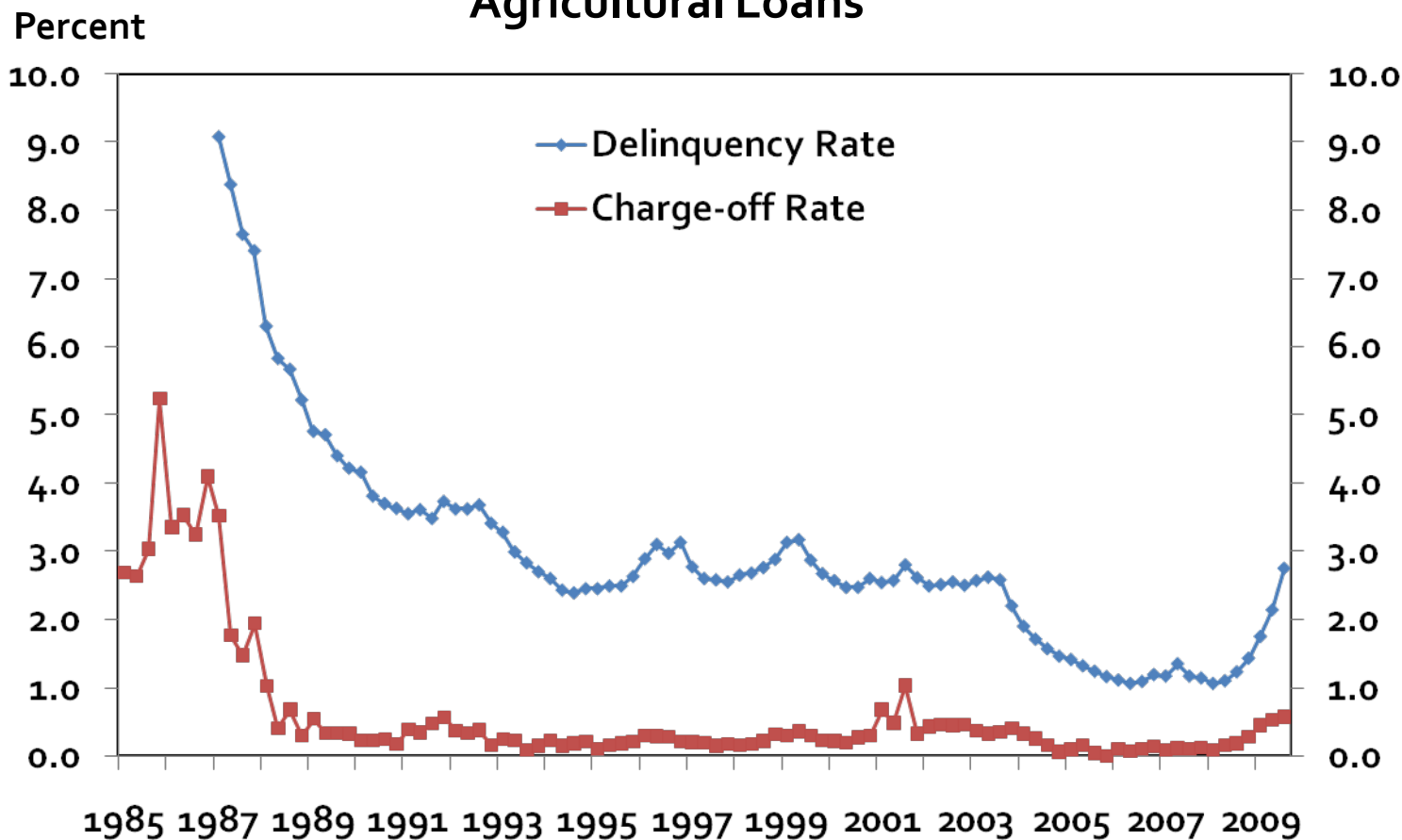


Source: Federal Reserve Agricultural Finance Databook



# Loan delinquency rates and charge-offs edge up.

## Charge-off and Delinquency Rates on Agricultural Loans



Source: Federal Reserve Board of Governors



# Risks to the Agricultural Sector

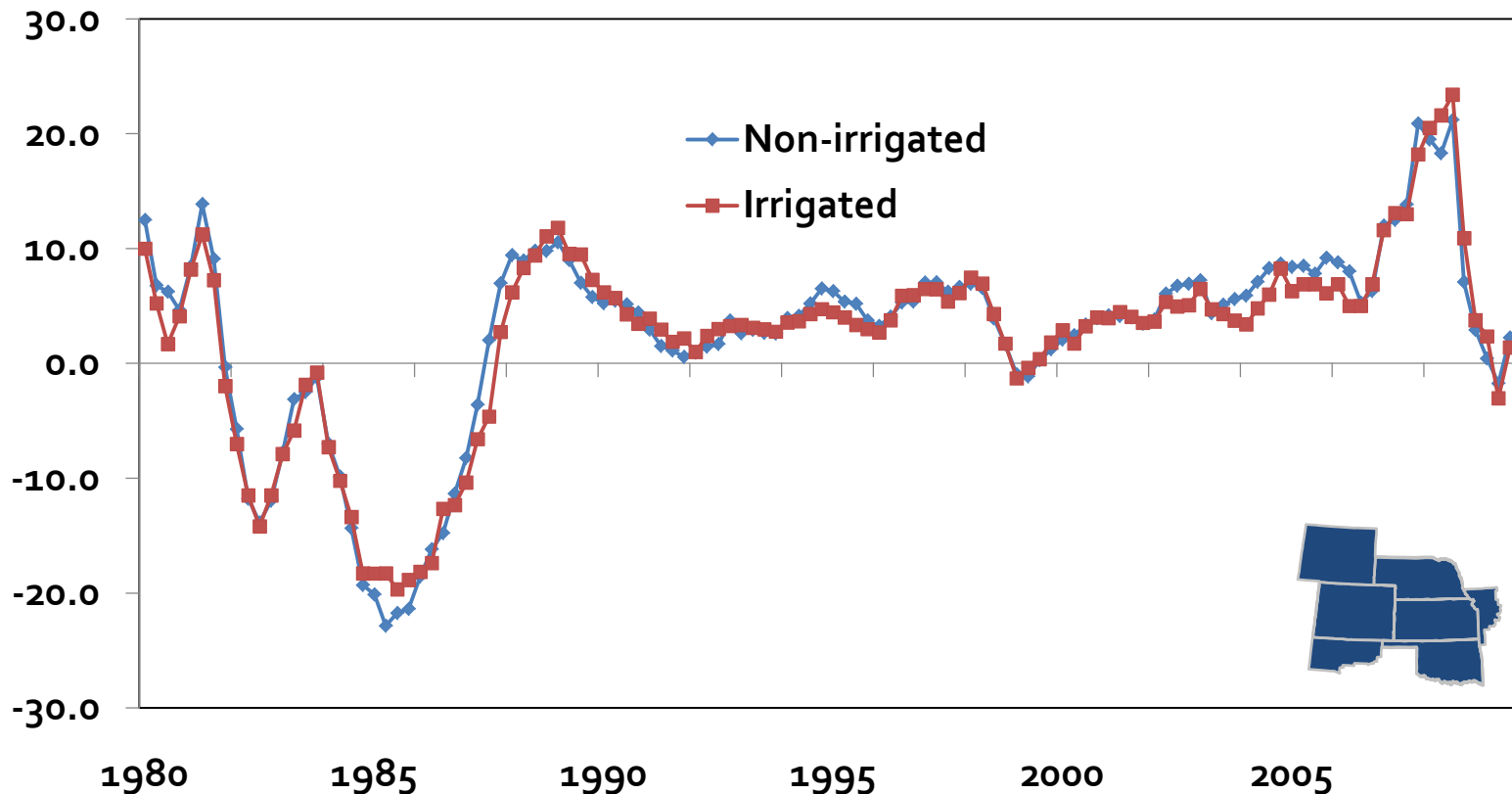
- Will a sluggish recovery limit a farm rebound?
- Will fragile financial markets limit credit?
- Will farmland values hold?



# After topping in 2009, what direction will farmland values follow?

## Irrigated and Non-irrigated Cropland Values (Tenth Federal Reserve District)

Percent change from year ago



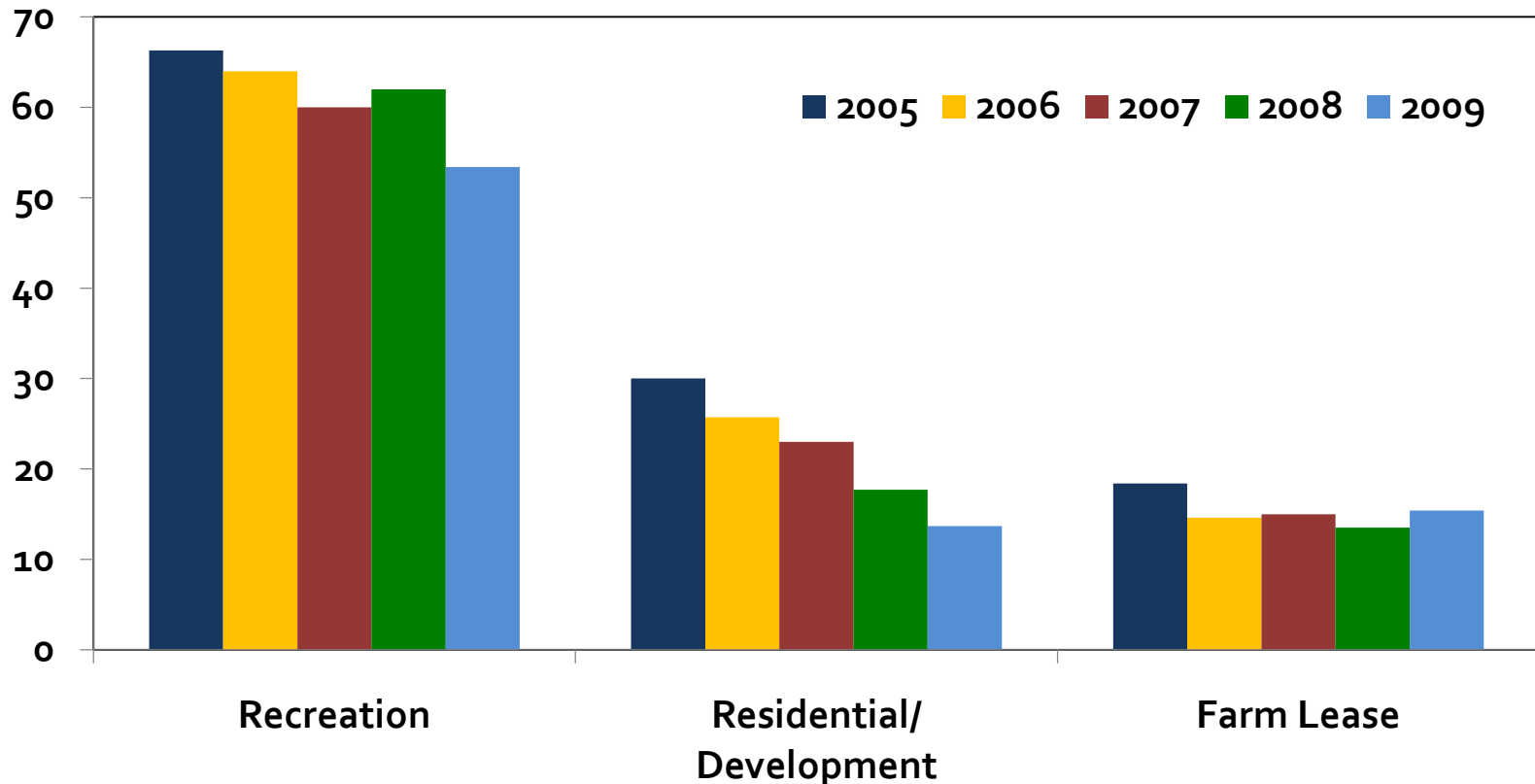
Source: Federal Reserve Banks of Kansas City



# Nonfarm demand for farmland has fallen.

## Reasons for Farmland Purchases by Nonfarmers

Percent of respondents\*



Source: Federal Reserve Bank of Kansas City

\*Respondents were asked the most common reasons for farmland purchases by individuals other than farmers. Respondents could choose more than one response and therefore percentages will not sum to 100.



# Risks to the Agricultural Sector

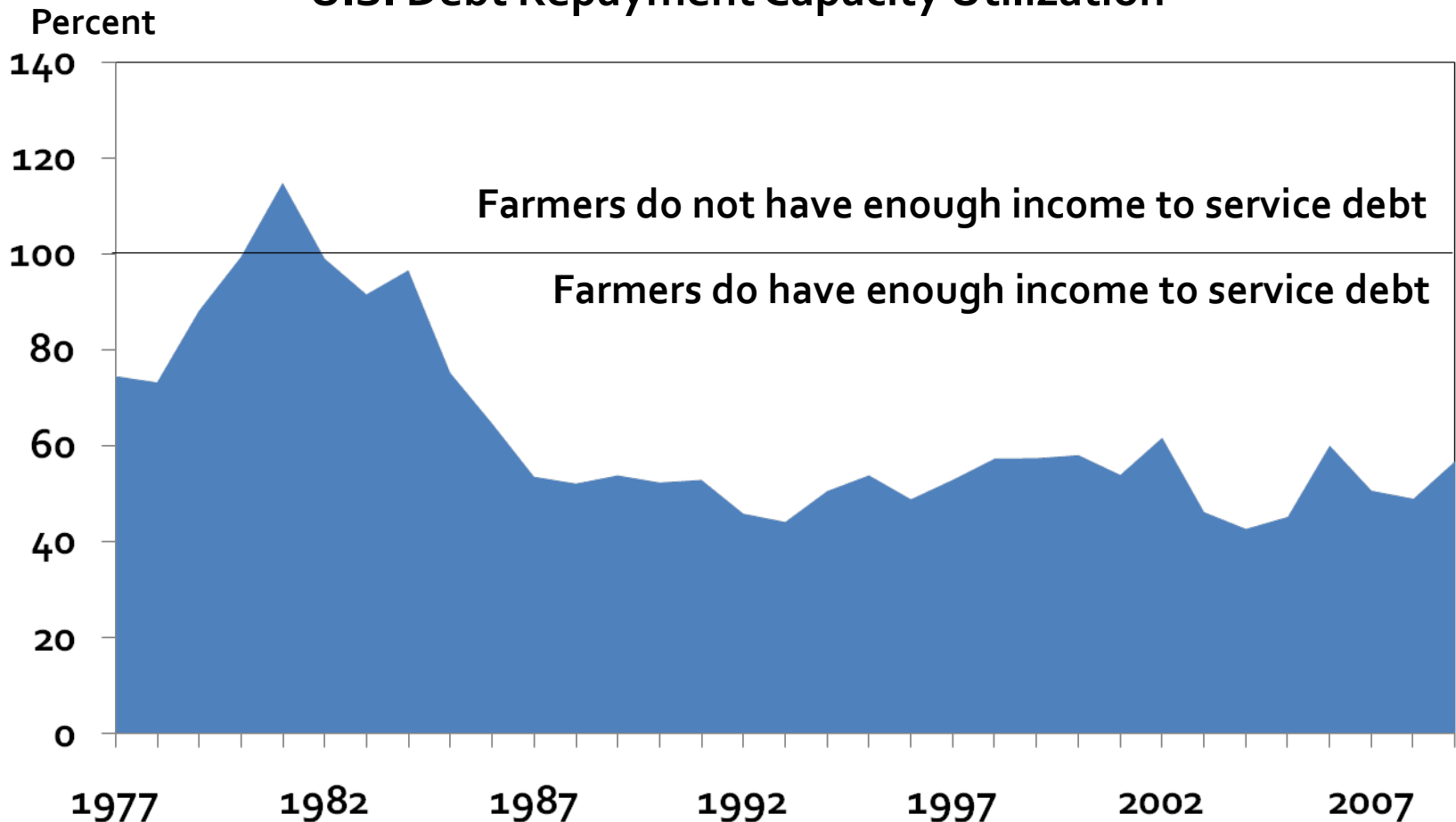
- Will a sluggish recovery limit a farm rebound?
- Will fragile financial markets limit credit?
- Will farmland values hold?
- A 1970s déjà vu?
  - Two missing pieces: debt and inflation





*In general, farmers are financially sound.*

## U.S. Debt Repayment Capacity Utilization

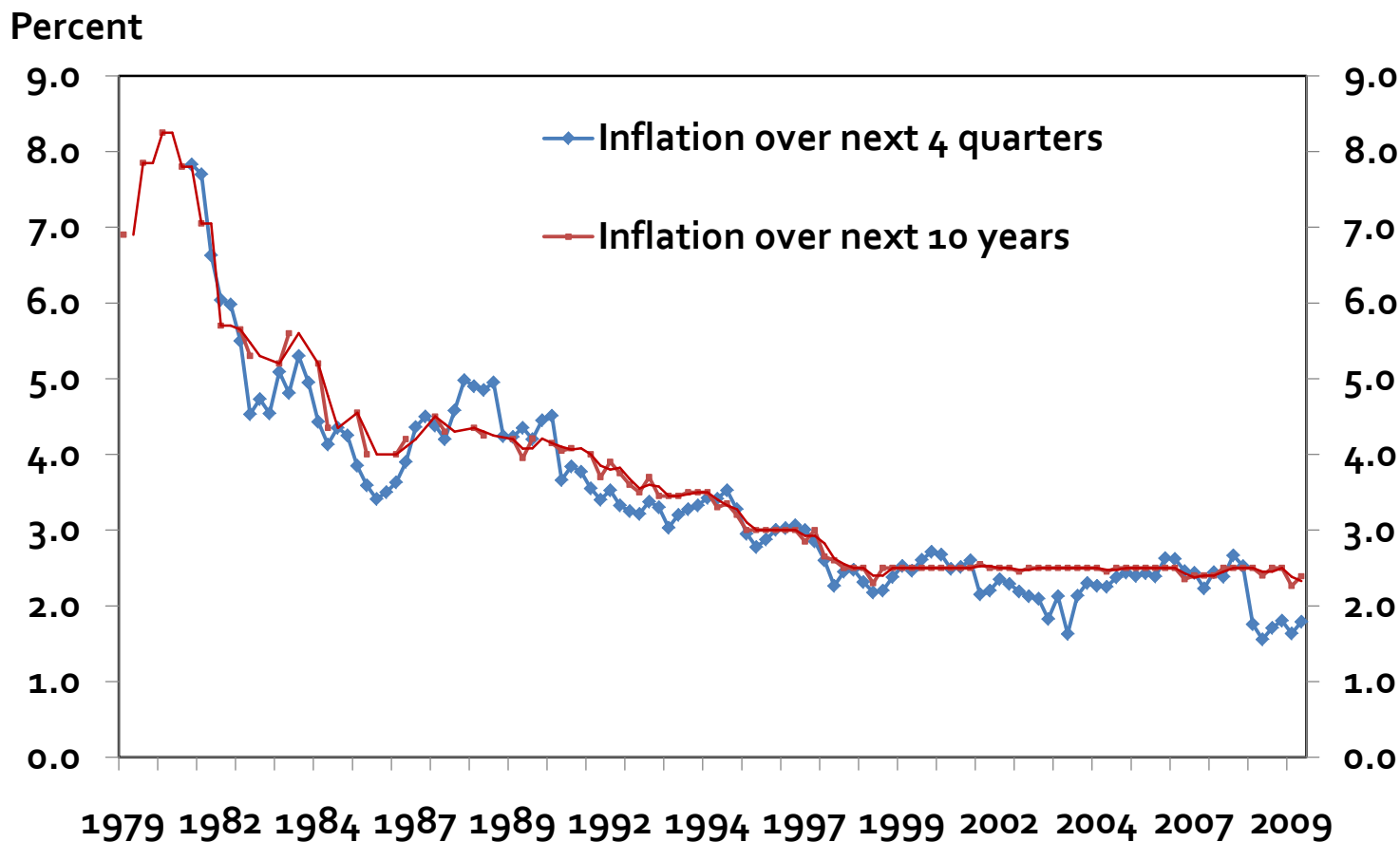


Source: USDA



# *Inflation remains well anchored.*

## Consumer Price Inflation Expectations



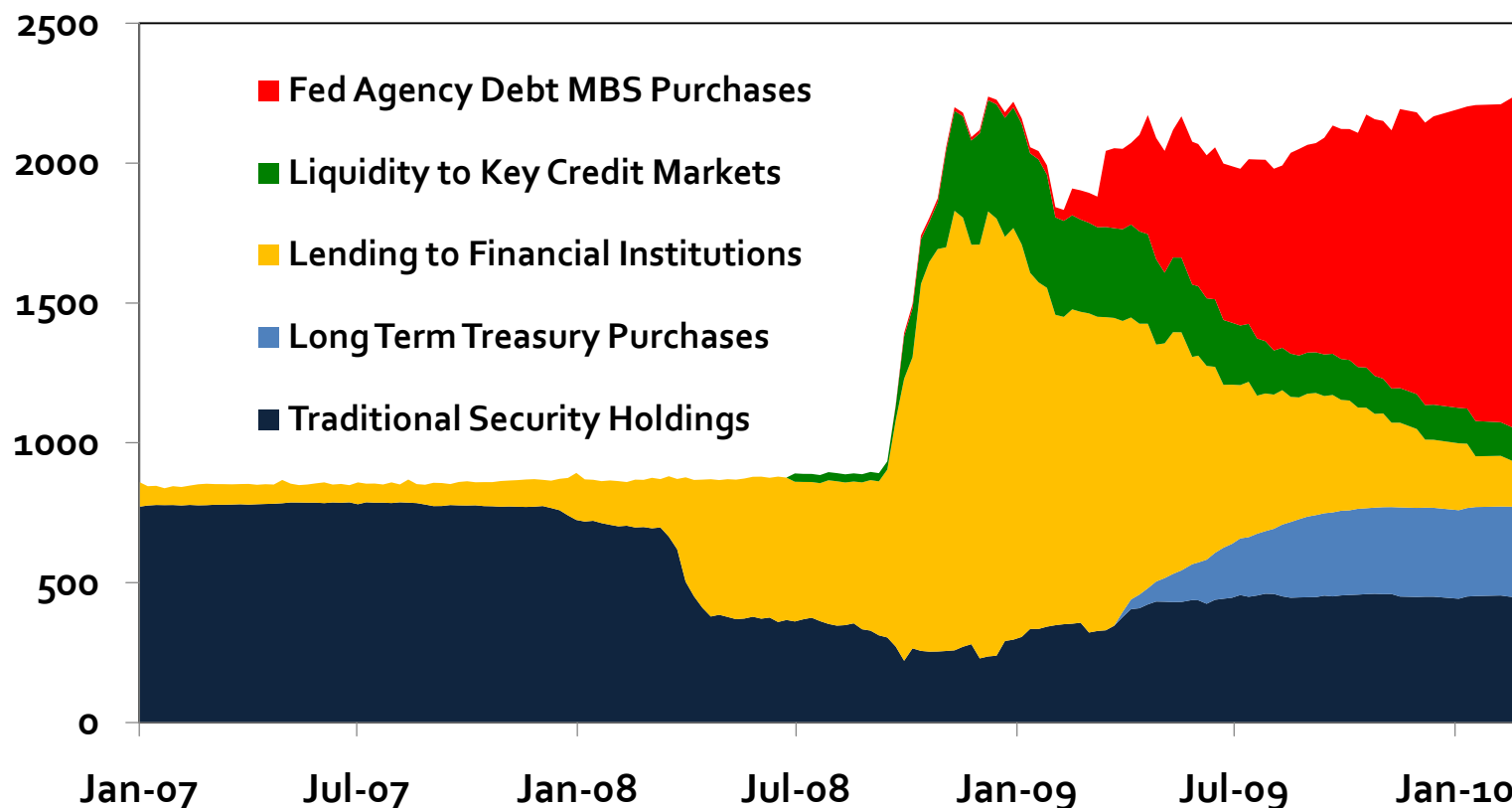
Source: Survey of Professional Forecasters



# The Federal Reserve has to shrink its balance sheet.

## Federal Reserve Balance Sheet: Assets

Billion Dollars



Source: Federal Reserve Board of Governors



# Conclusions

- *The economic recovery is underway.*
- *Any farm rebound will be driven by consumer demand.*
- *Will domestic or foreign consumers lead?*
- *Risks remain for agriculture.*
- *Ag conditions are strikingly similar to the 1970s.*


***Wall Street did not learn the lessons of the 1980s farm crisis.  
DID YOU?***





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AND THE *Global Marketplace*

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