

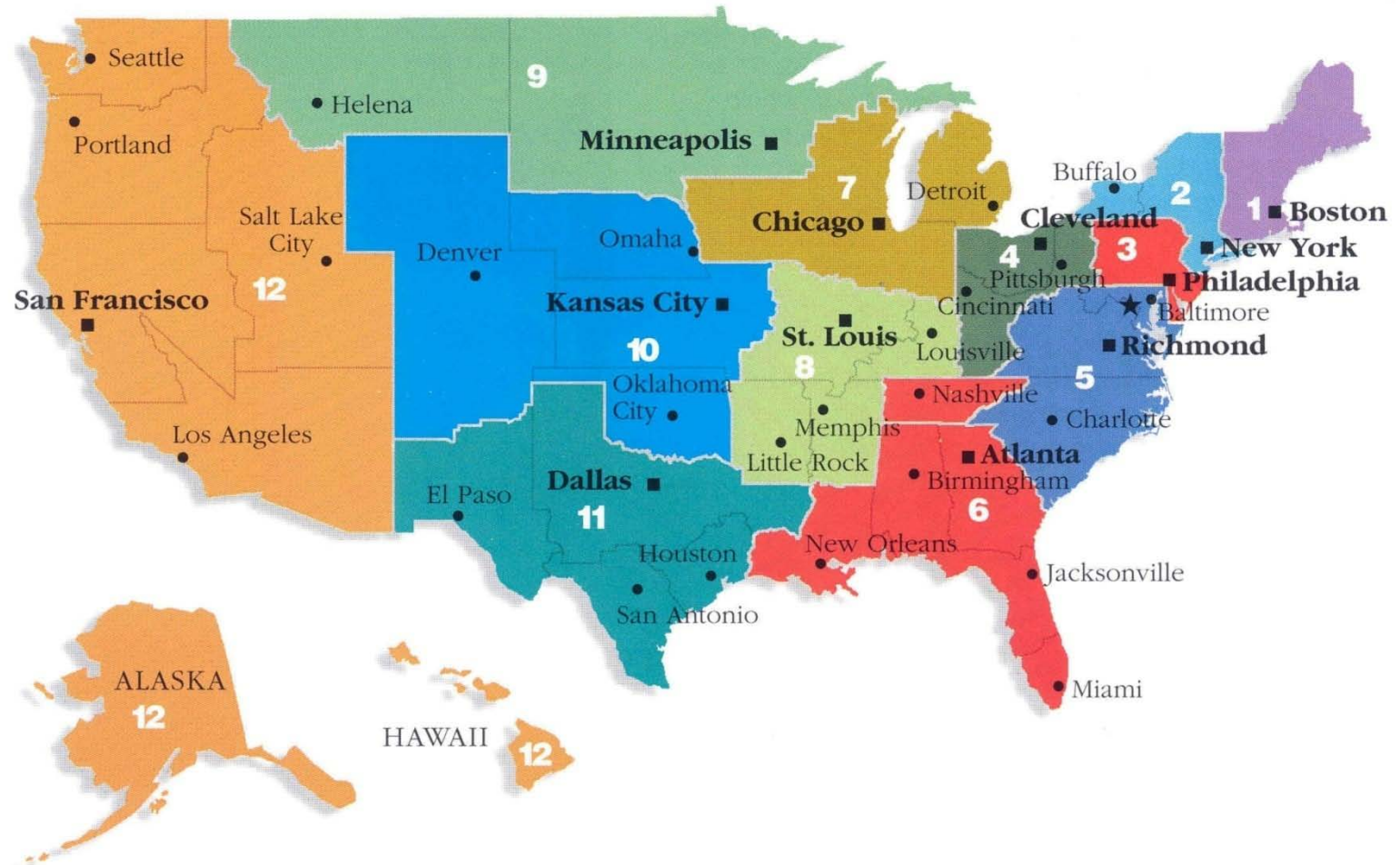
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March 15, 2010

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.

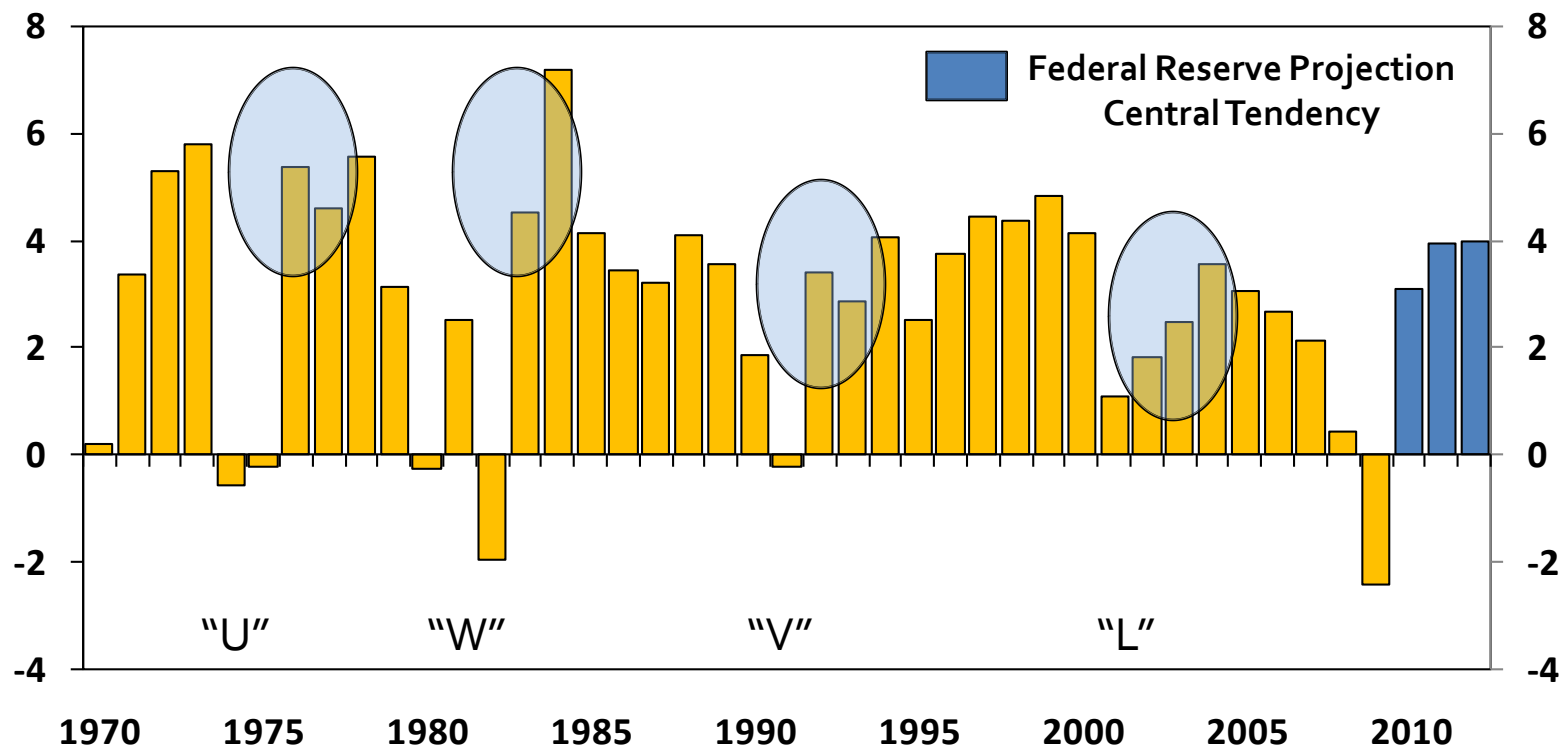
The Federal Reserve System



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

Real GDP Growth

Annual percent change

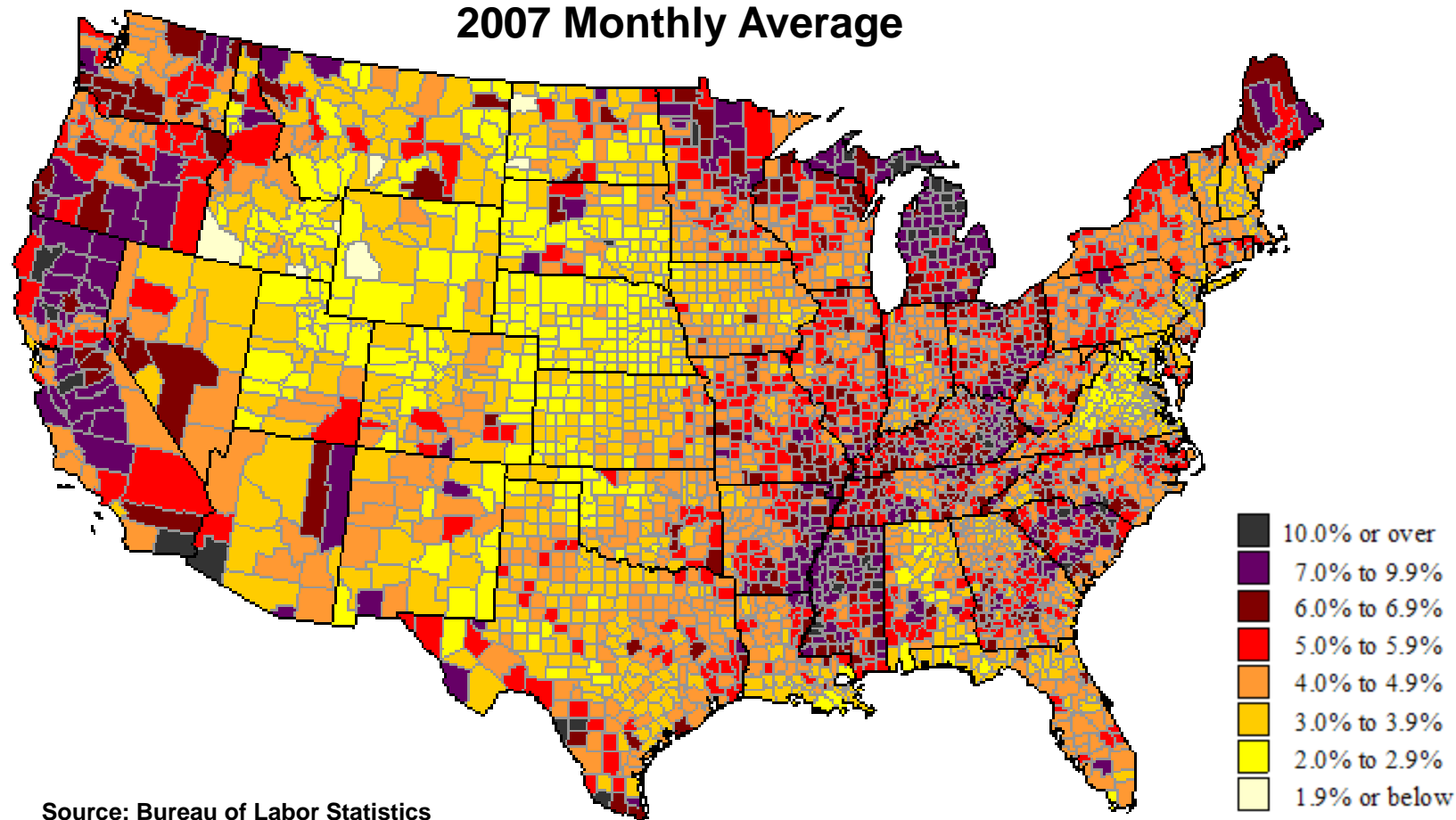


Source: Bureau of Economic Analysis Federal Reserve Board of Governors



Rising unemployment rates will limit the recovery.

Unemployment Rate 2007 Monthly Average

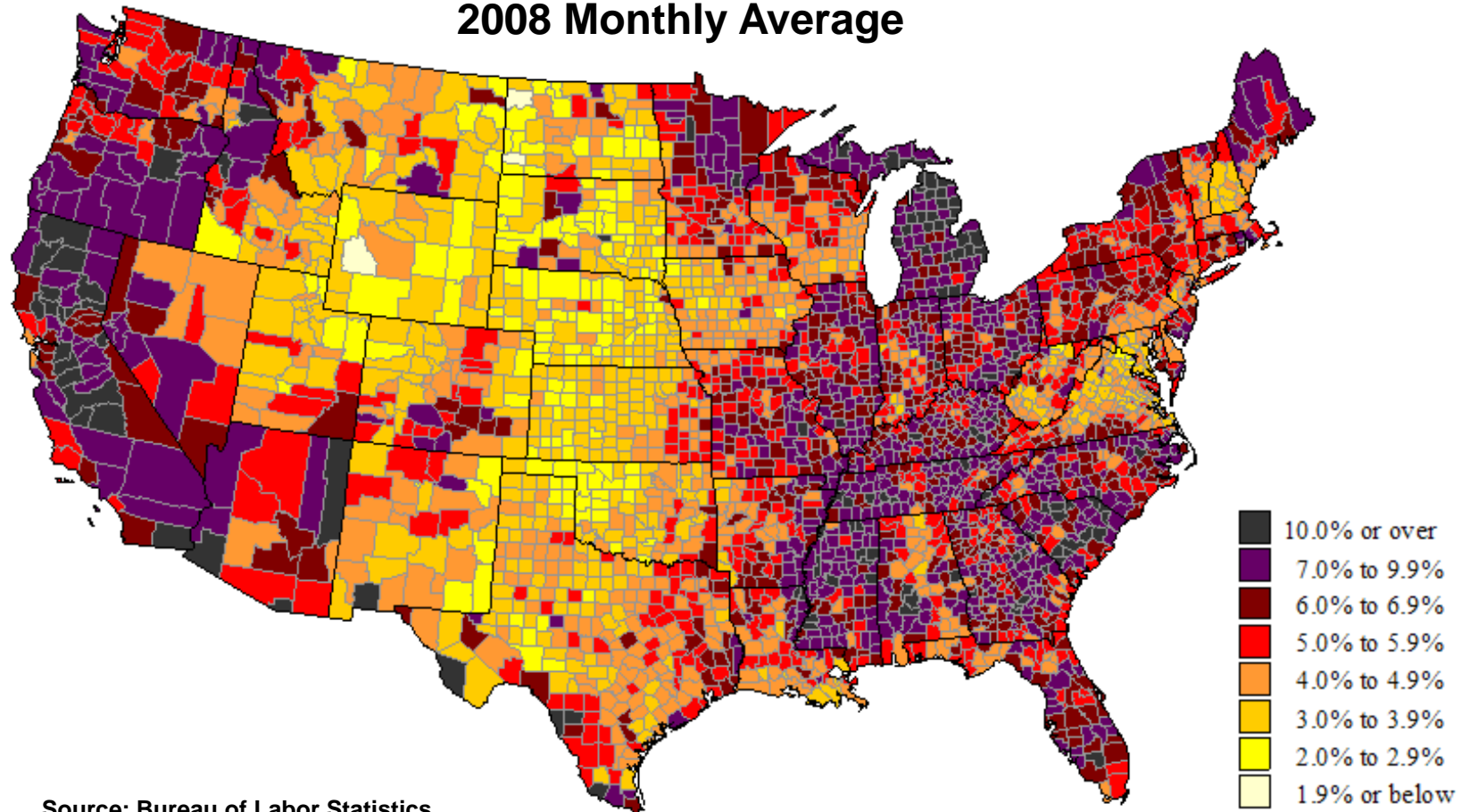


Source: Bureau of Labor Statistics



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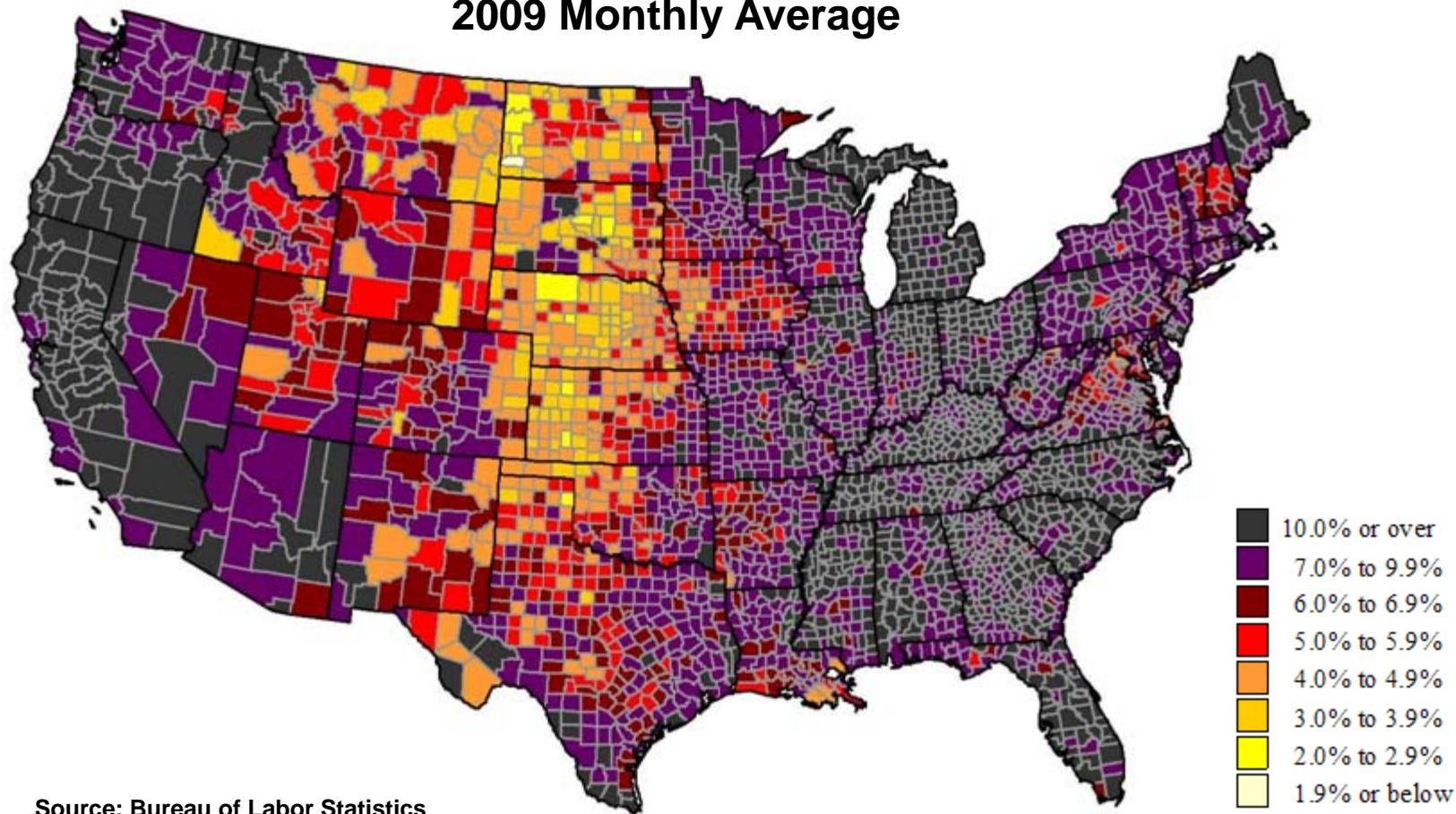


Source: Bureau of Labor Statistics



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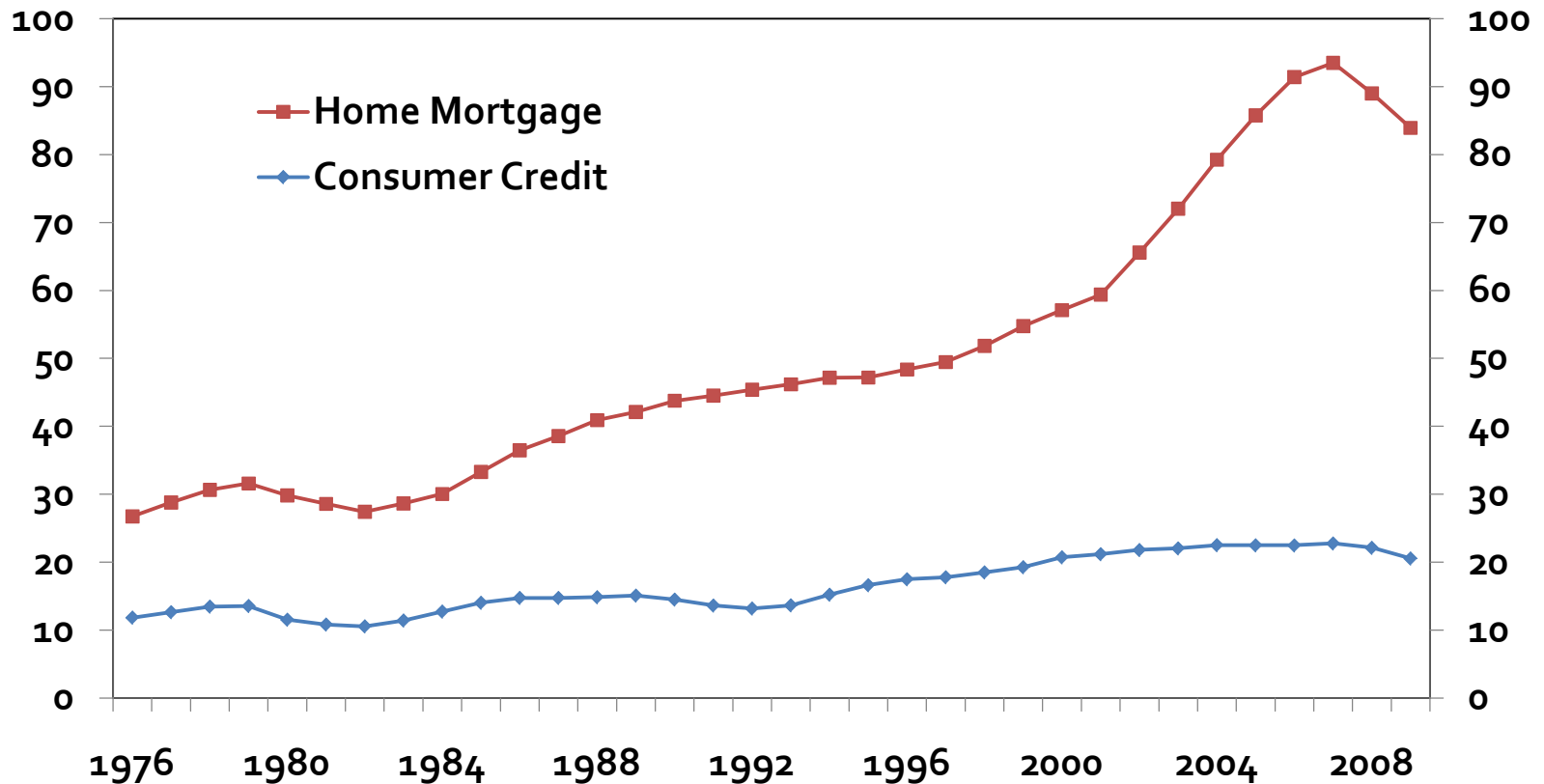
Source: Bureau of Labor Statistics



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

Real Household Debt Outstanding

Thousand dollars (constant 2009 dollars)



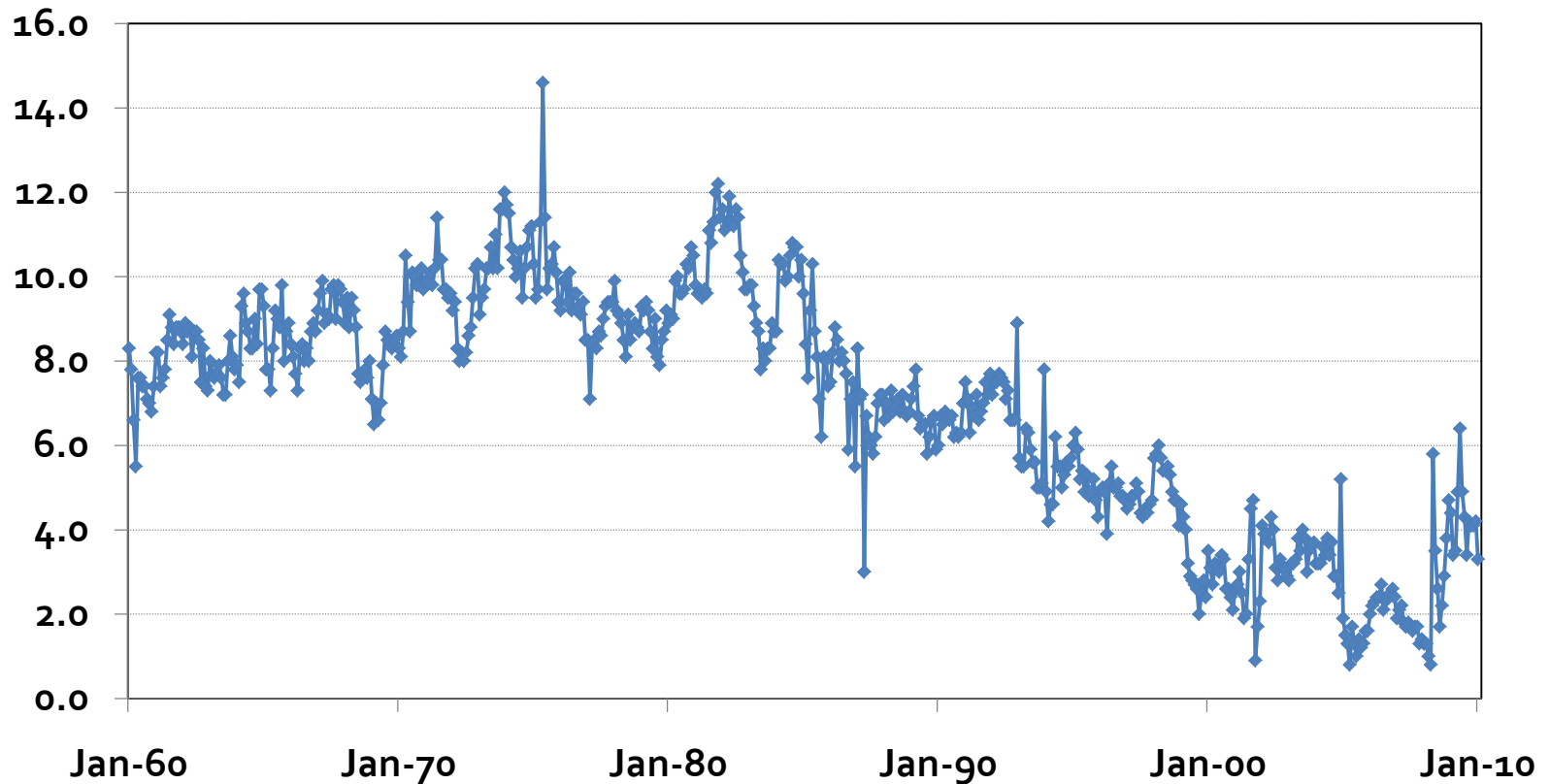
Source: Federal Reserve Board of Governors



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

U.S. Personal Savings Rate

Percent of disposable income



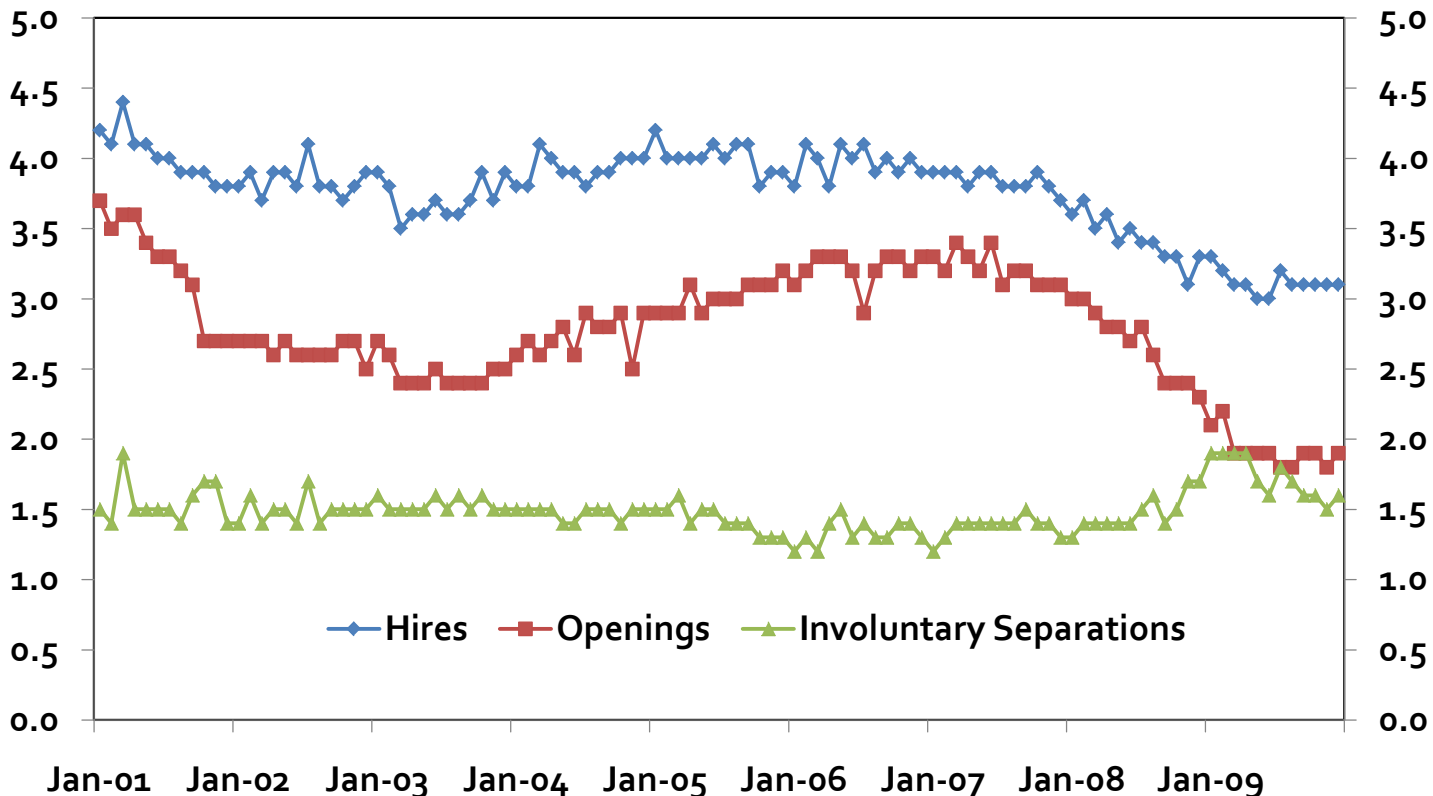
Source: Federal Reserve Bank of St. Louis



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

Layoffs, Hiring, and Job Openings

Percent of employment



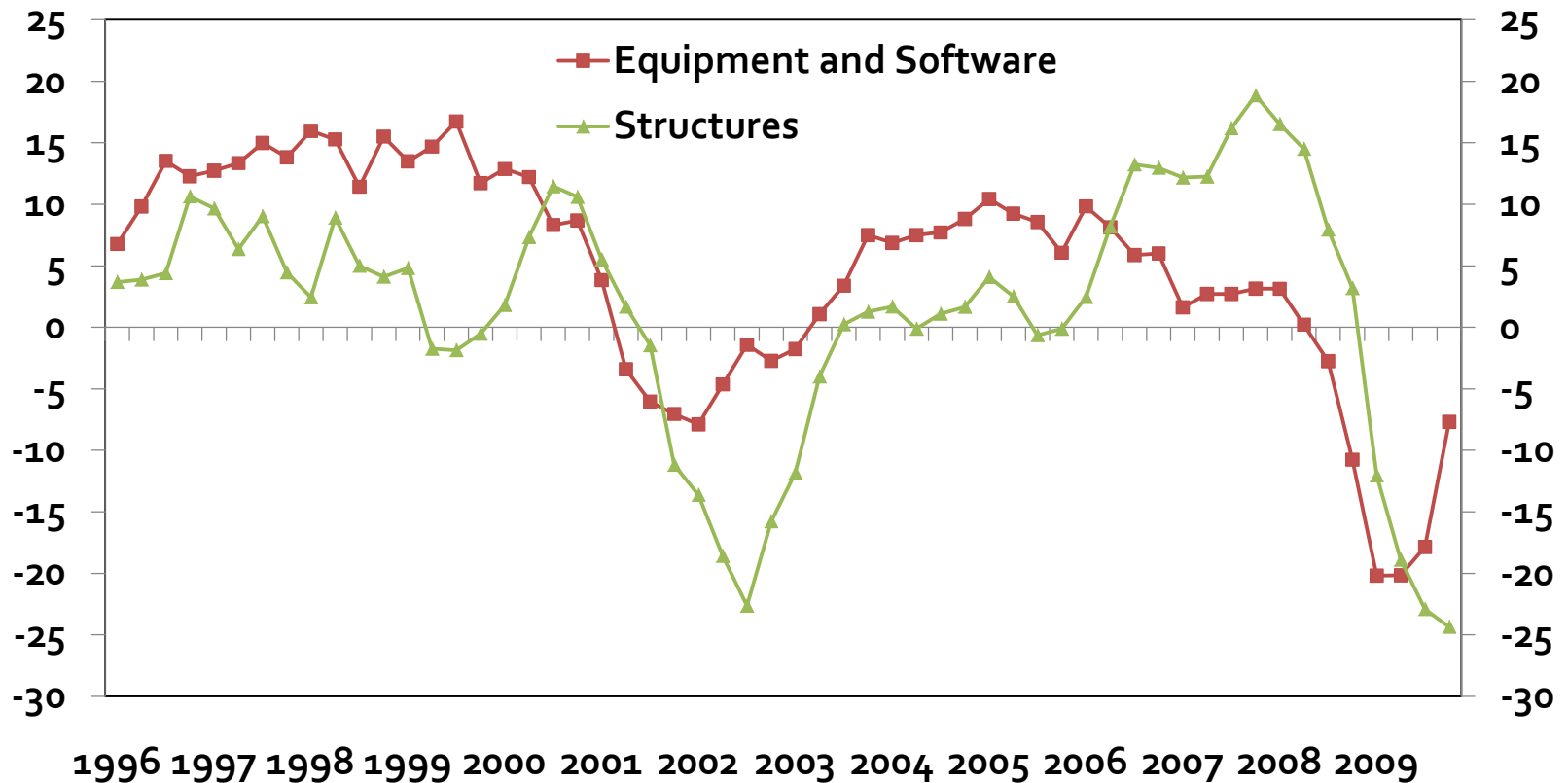
Source: Bureau of Labor Statistics



Businesses are starting to replace IT equipment.

U.S. Business Investment

Percent change from year ago



Source: Bureau of Economic Analysis



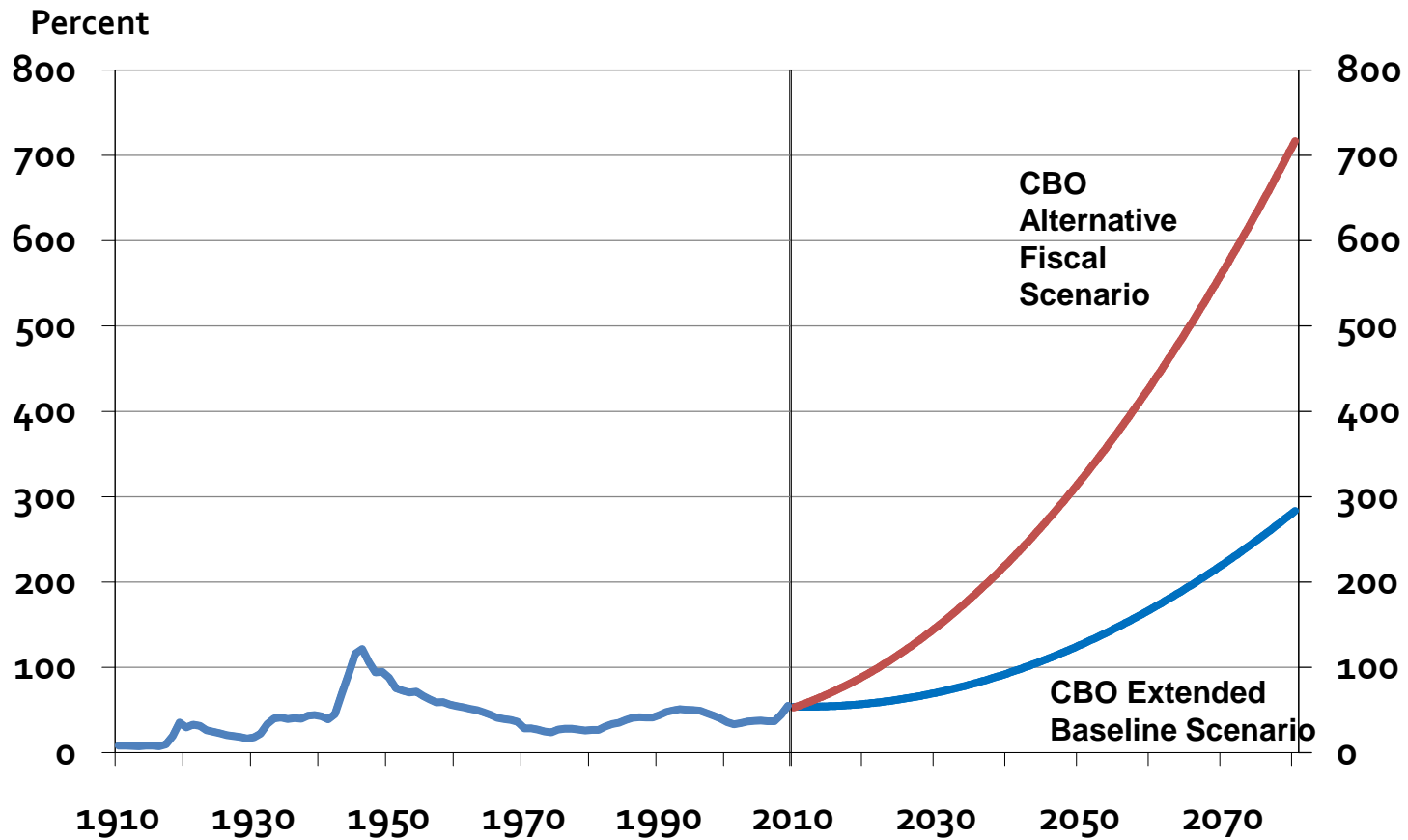
Changing Government Policies.

- 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

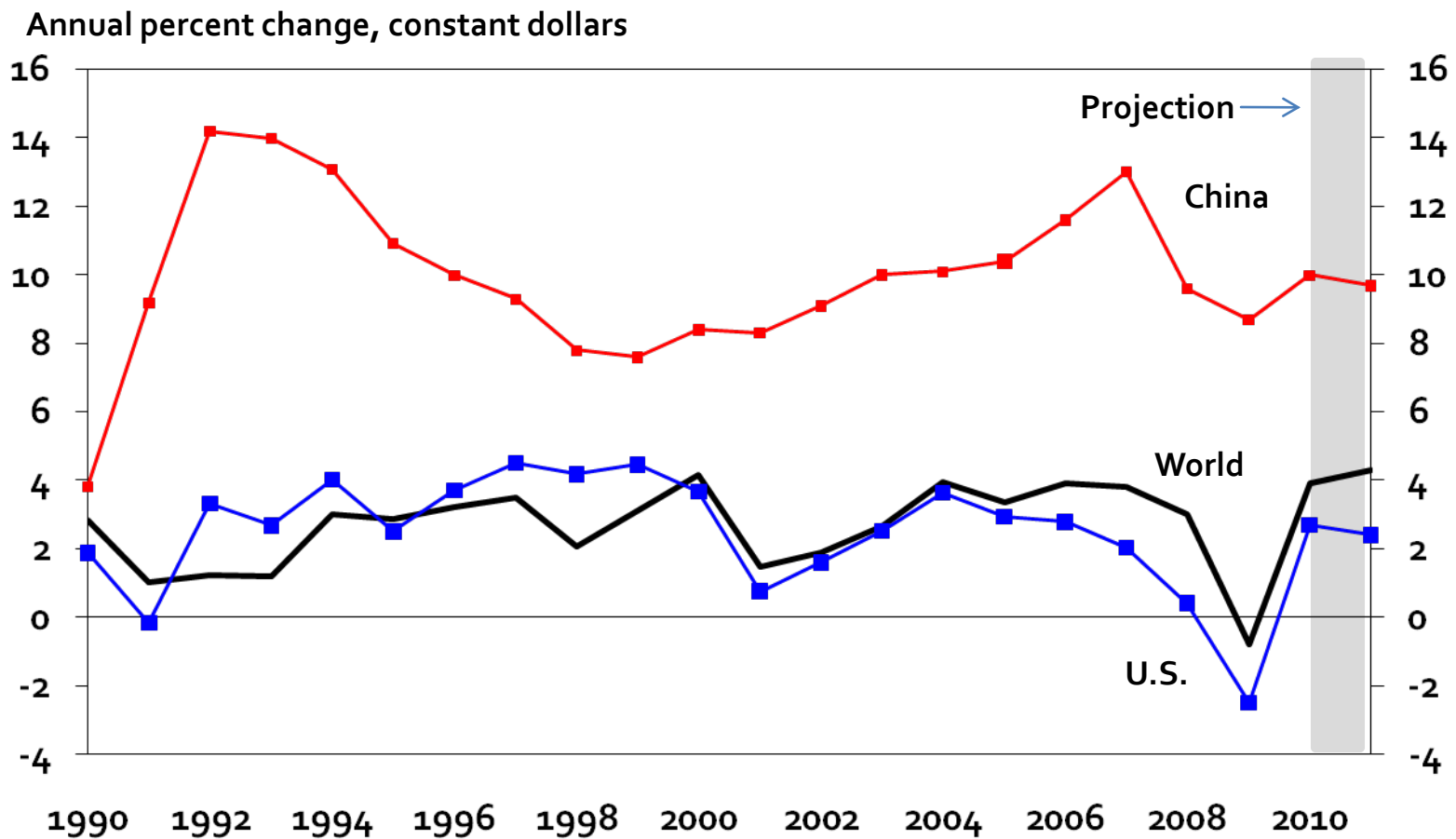


Source: Congressional Budget Office, November 2009



Will emerging markets lead the recovery?

GDP Growth



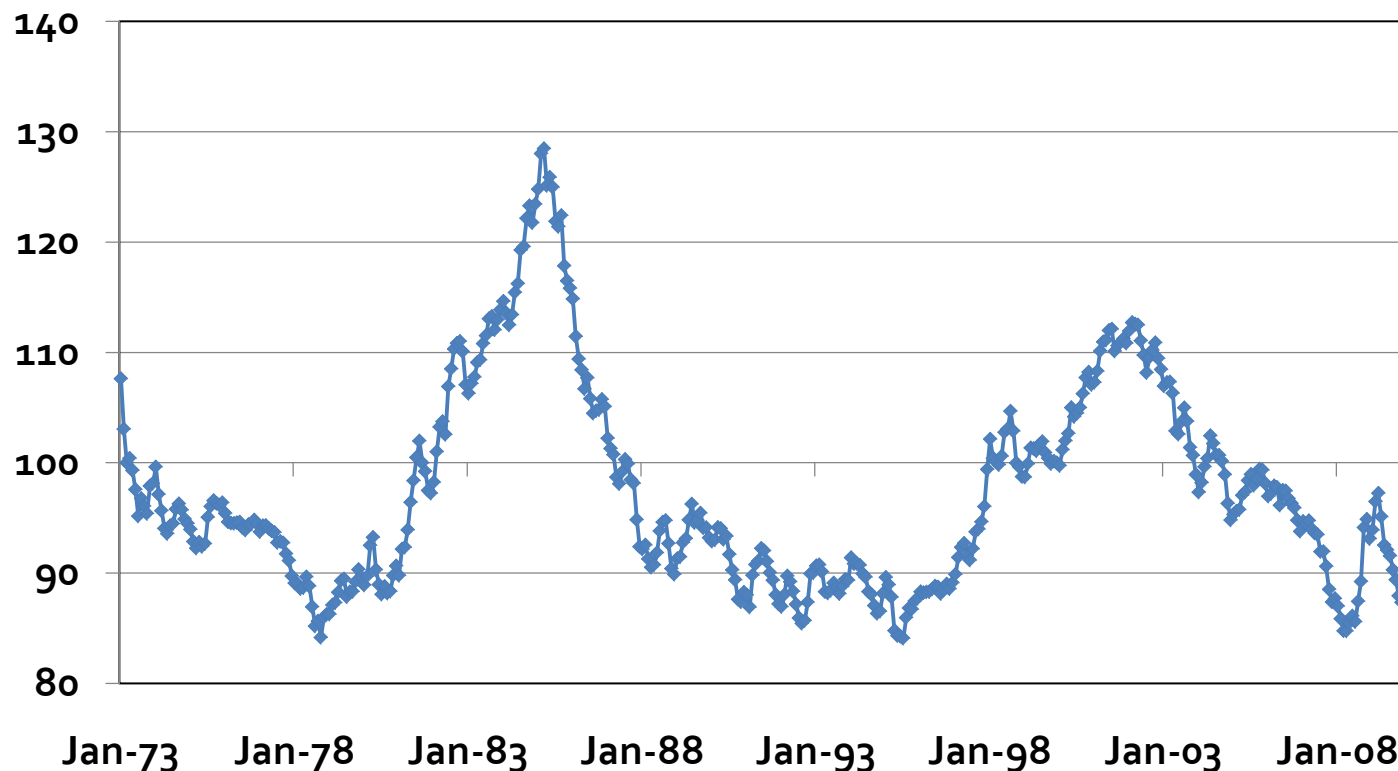
Source: International Monetary Fund, January 2010



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

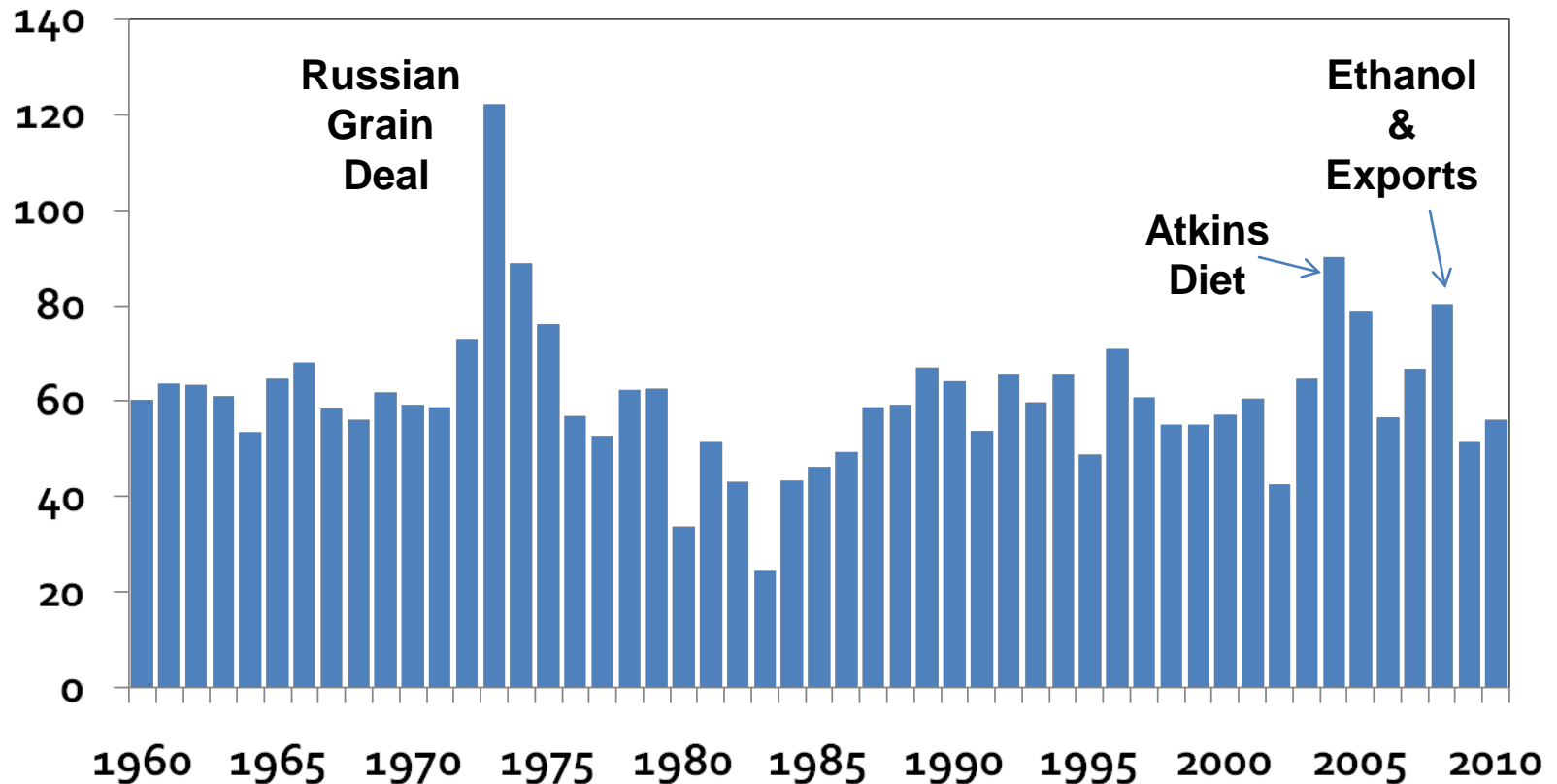
- Will a sluggish recovery limit a farm rebound?



Traditionally, farm booms are driven by demand.

Real U.S. Net Farm Income

Billion dollars



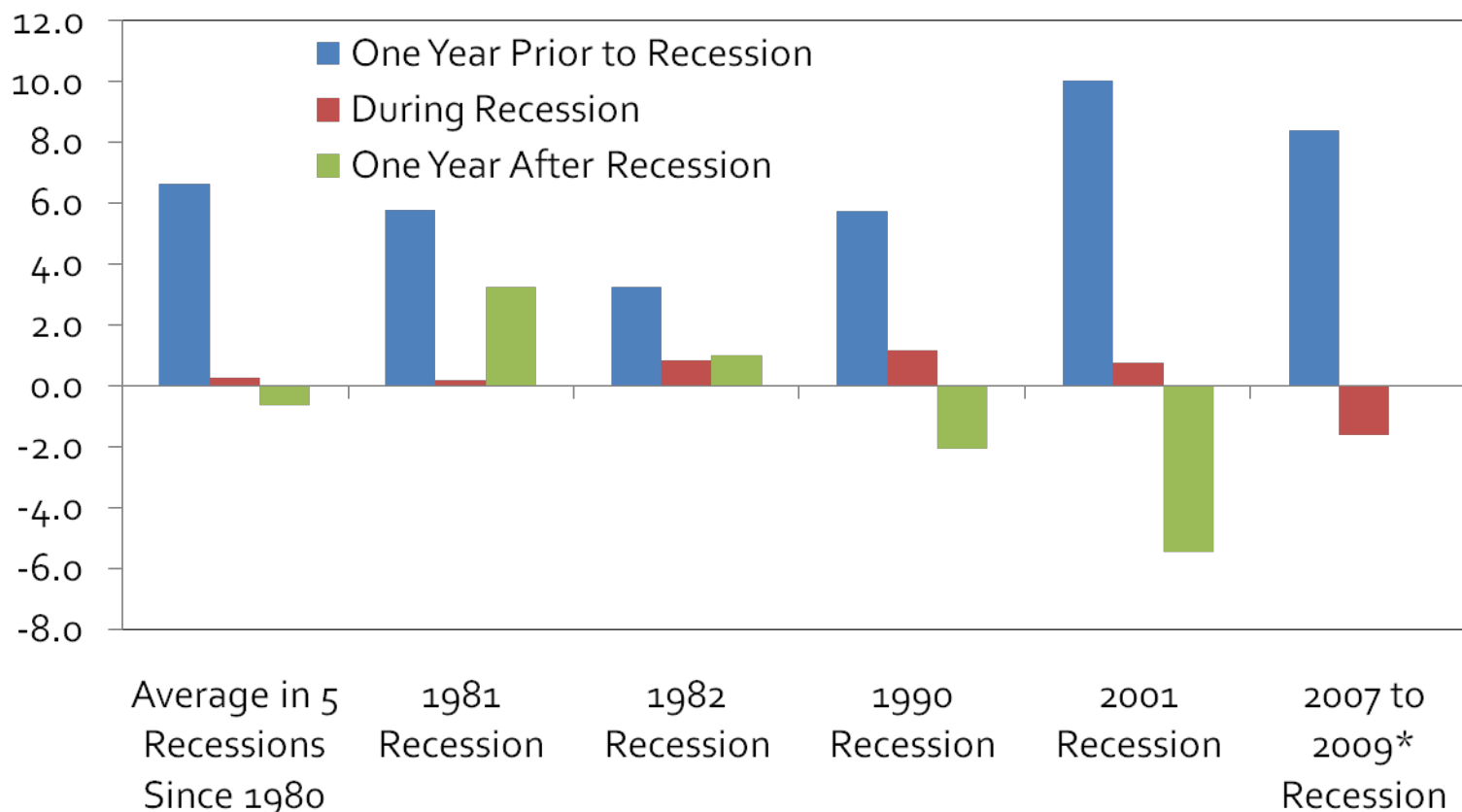
Source: USDA



Weak recoveries limit the rebound in protein consumption.

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

Percent change



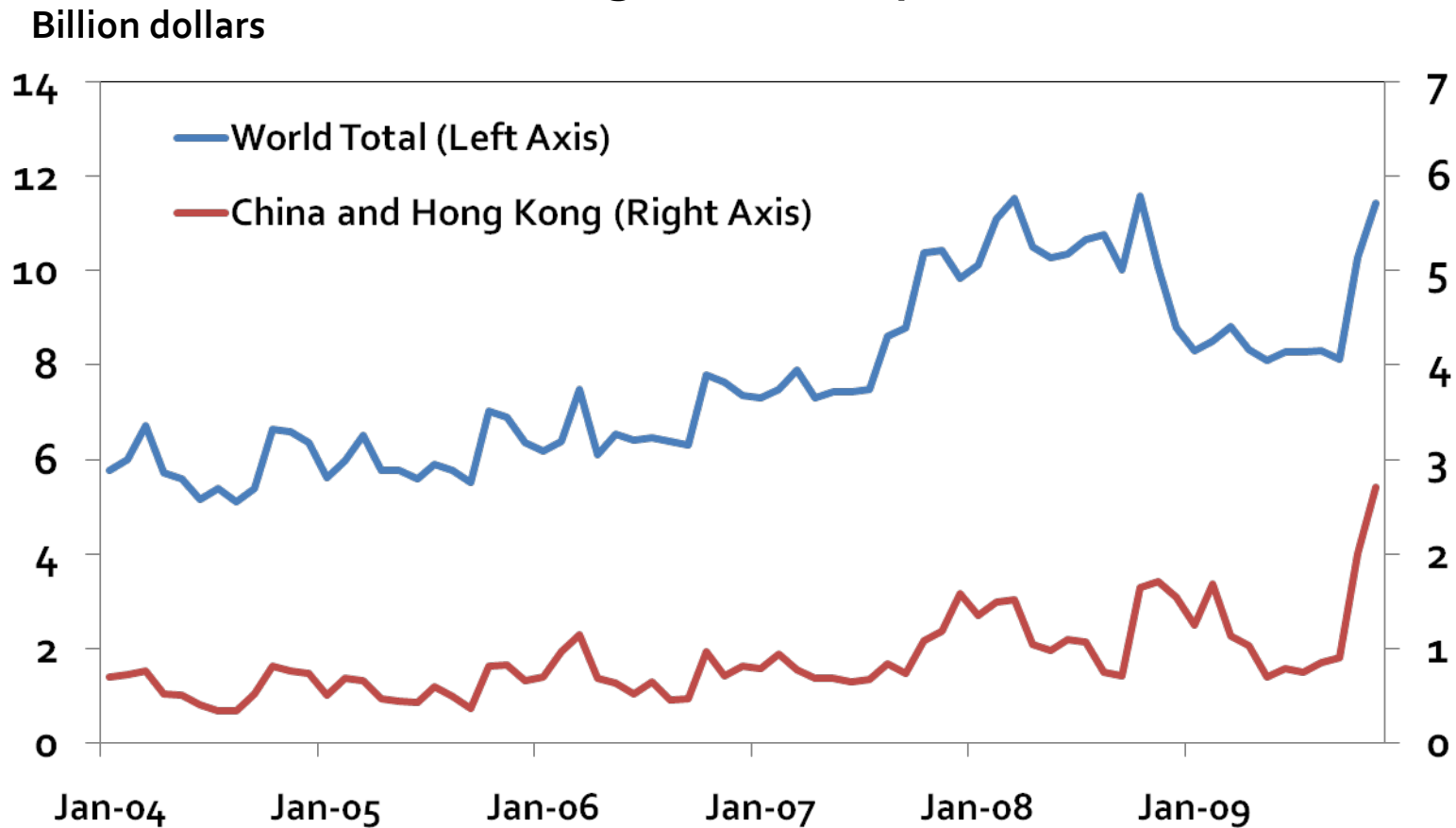
Calculations based on Bureau of Economic Analysis data

* 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

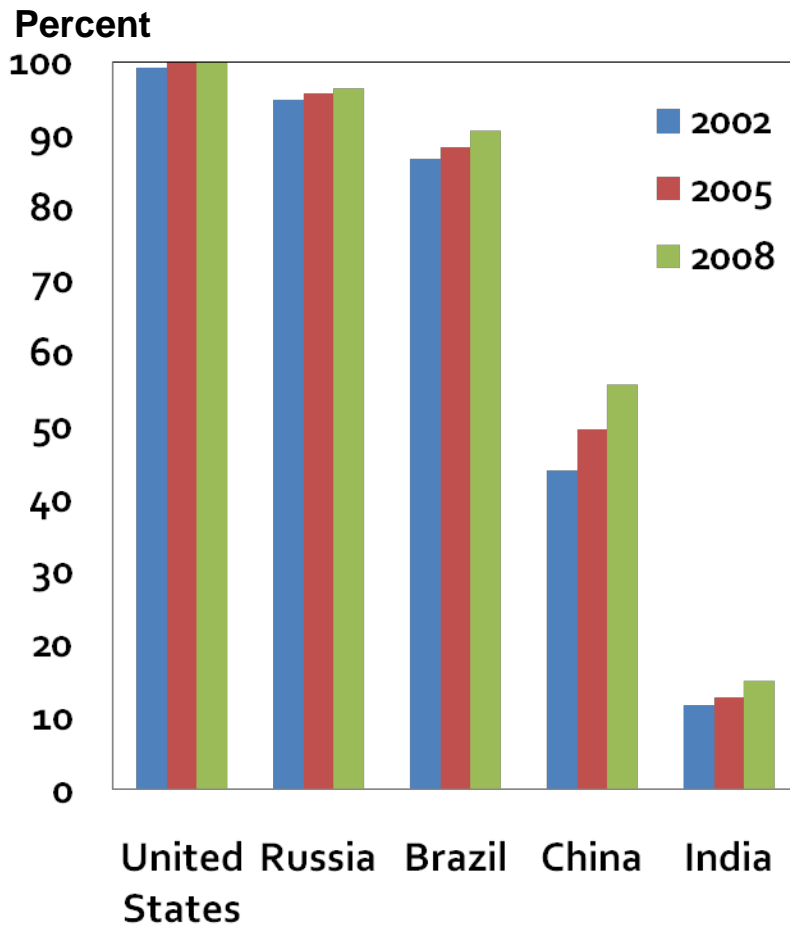


Source: USDA

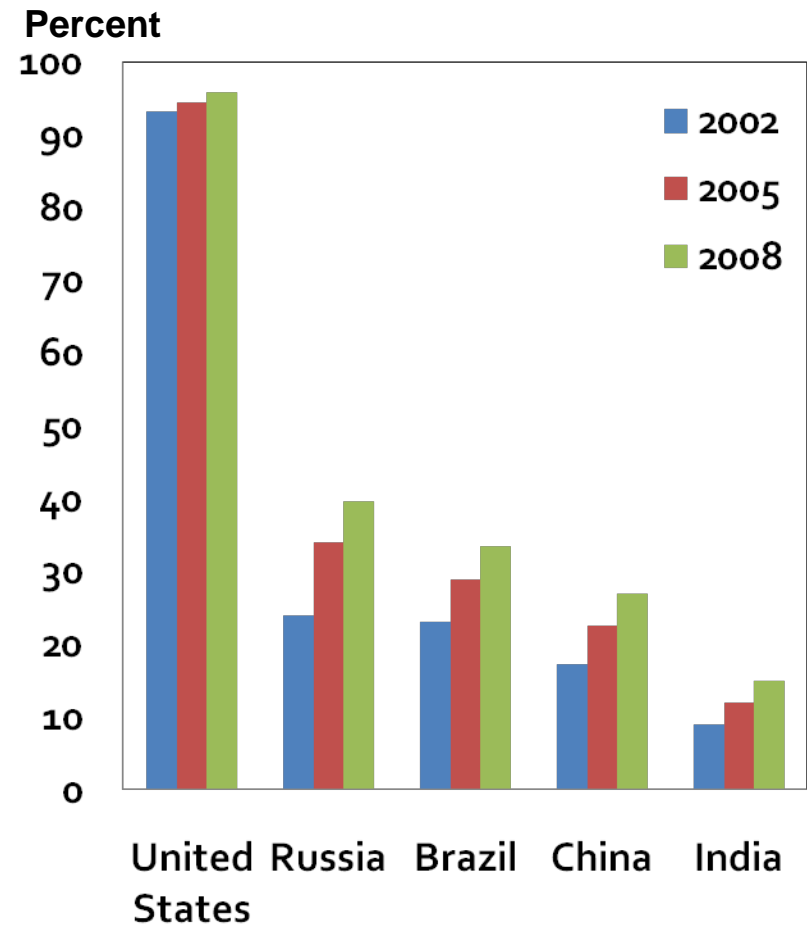


How can Nebraska ag entrepreneurs seize opportunities in emerging countries?

Households Owning a Refrigerator



Households Owning a Microwave Oven



Source: USDA, Euromonitor



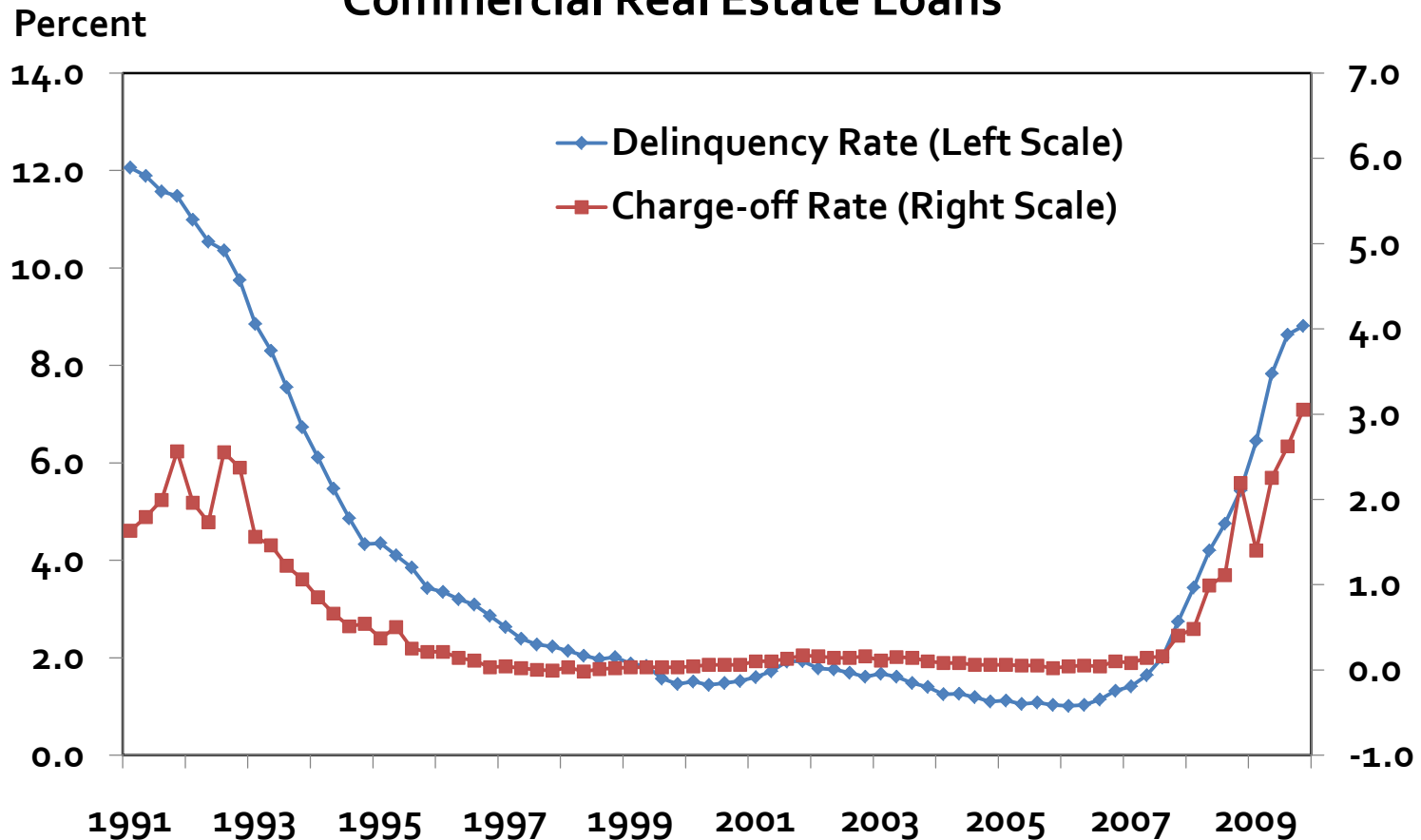
Risks to the Agricultural Sector

- 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

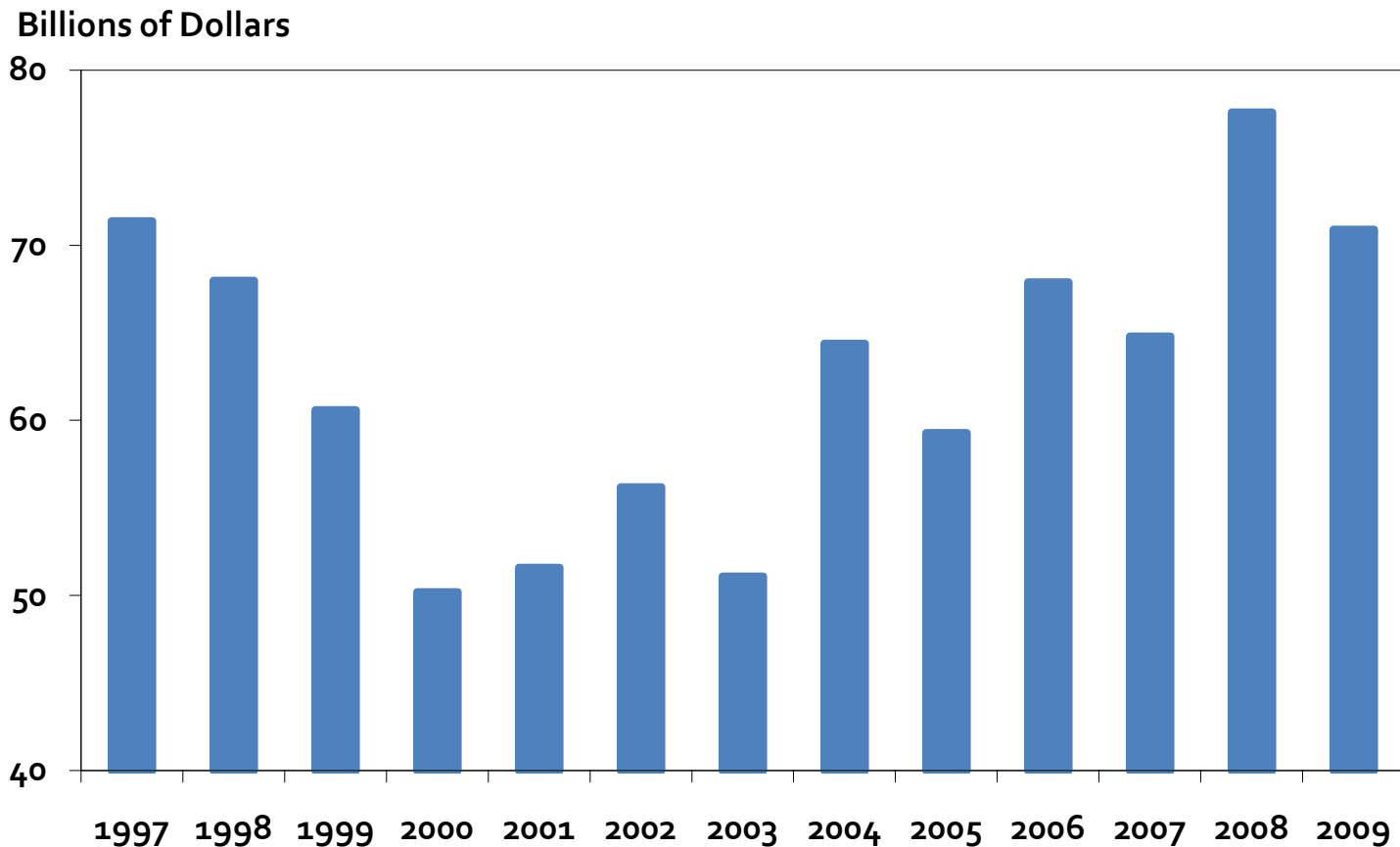


Source: Federal Reserve Board of Governors



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

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

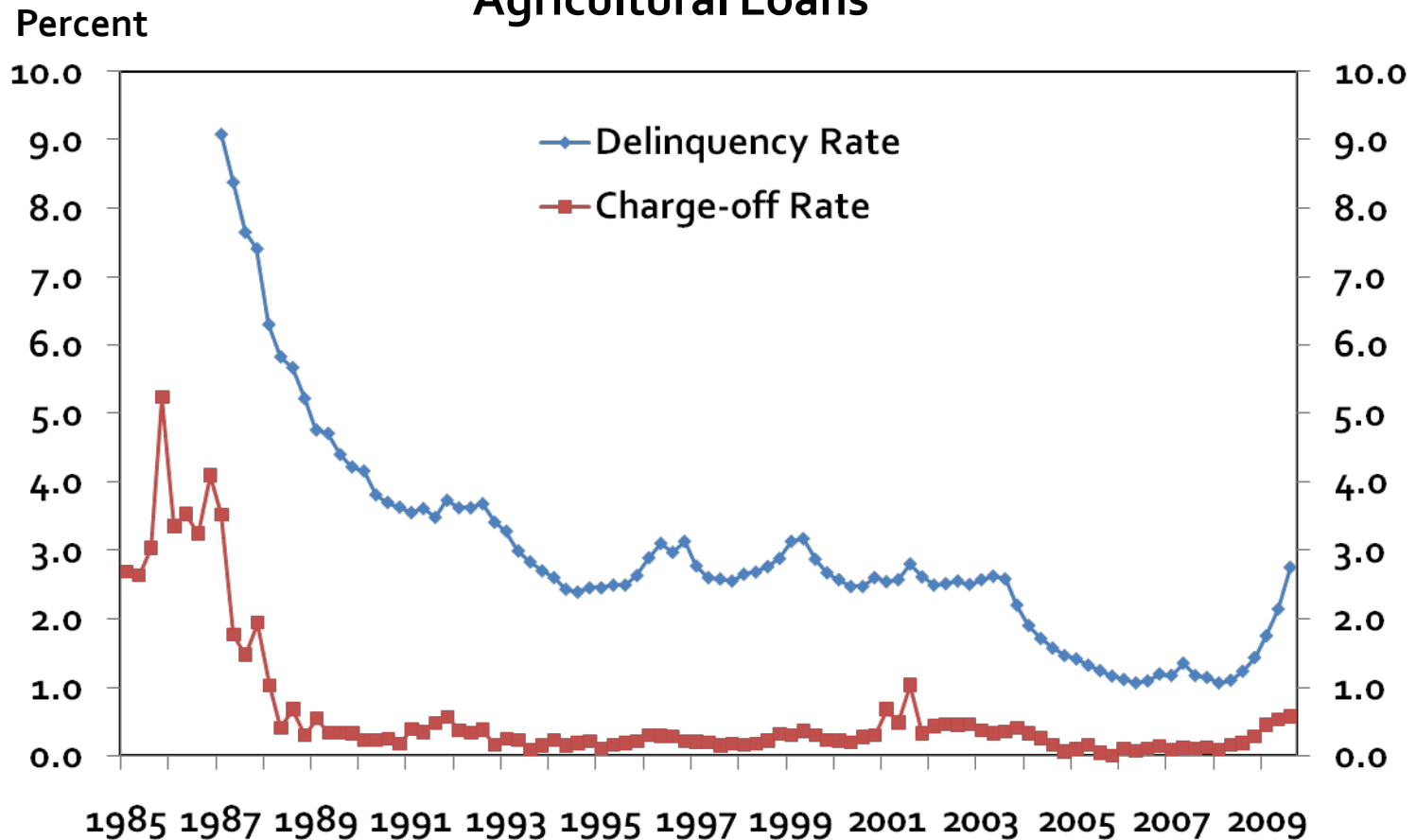


Source: Federal Reserve Agricultural Finance Databook



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

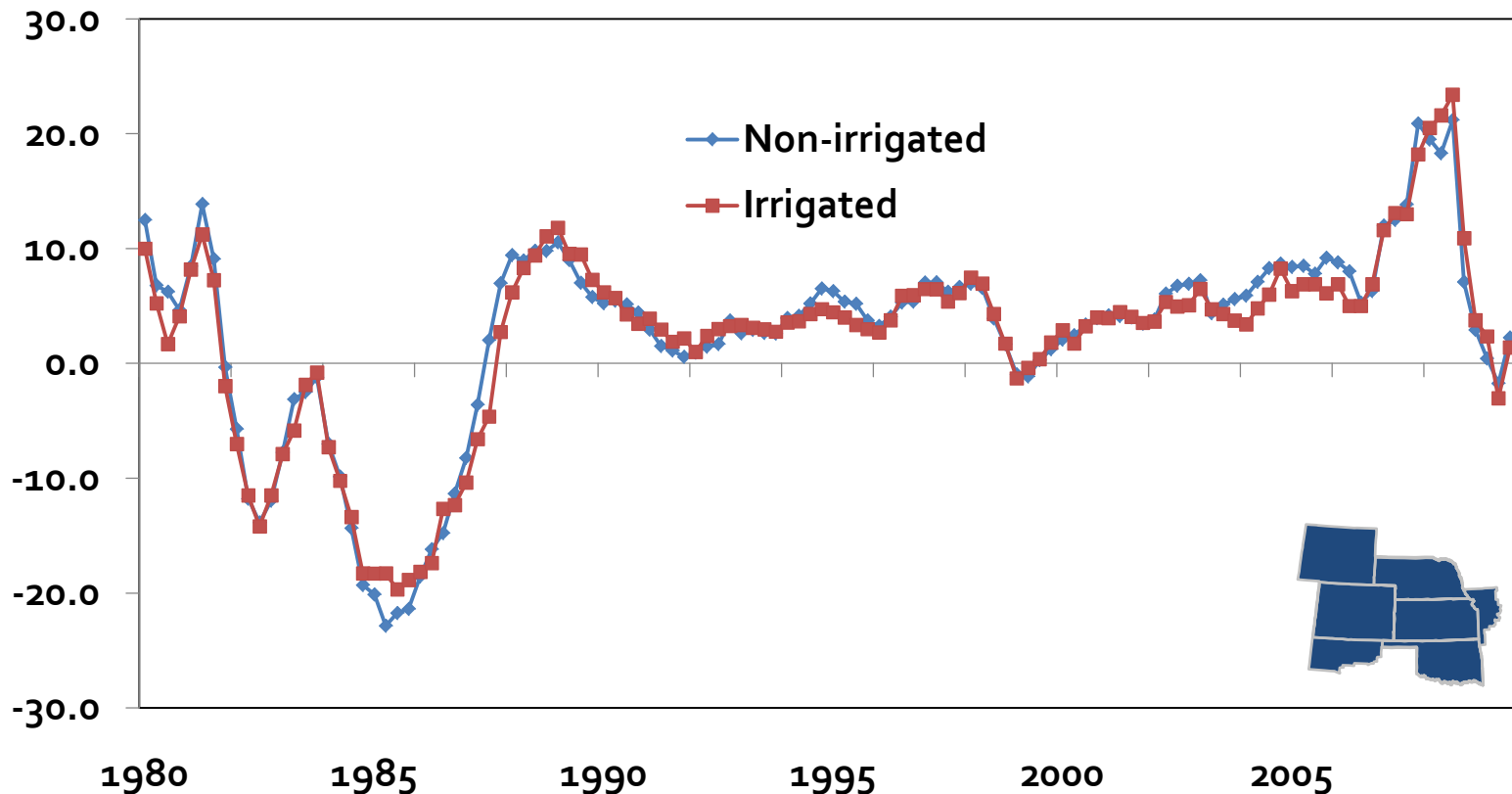
- Will a sluggish recovery limit a farm rebound?
- Will fragile financial markets limit credit?
- Will farmland values hold?



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



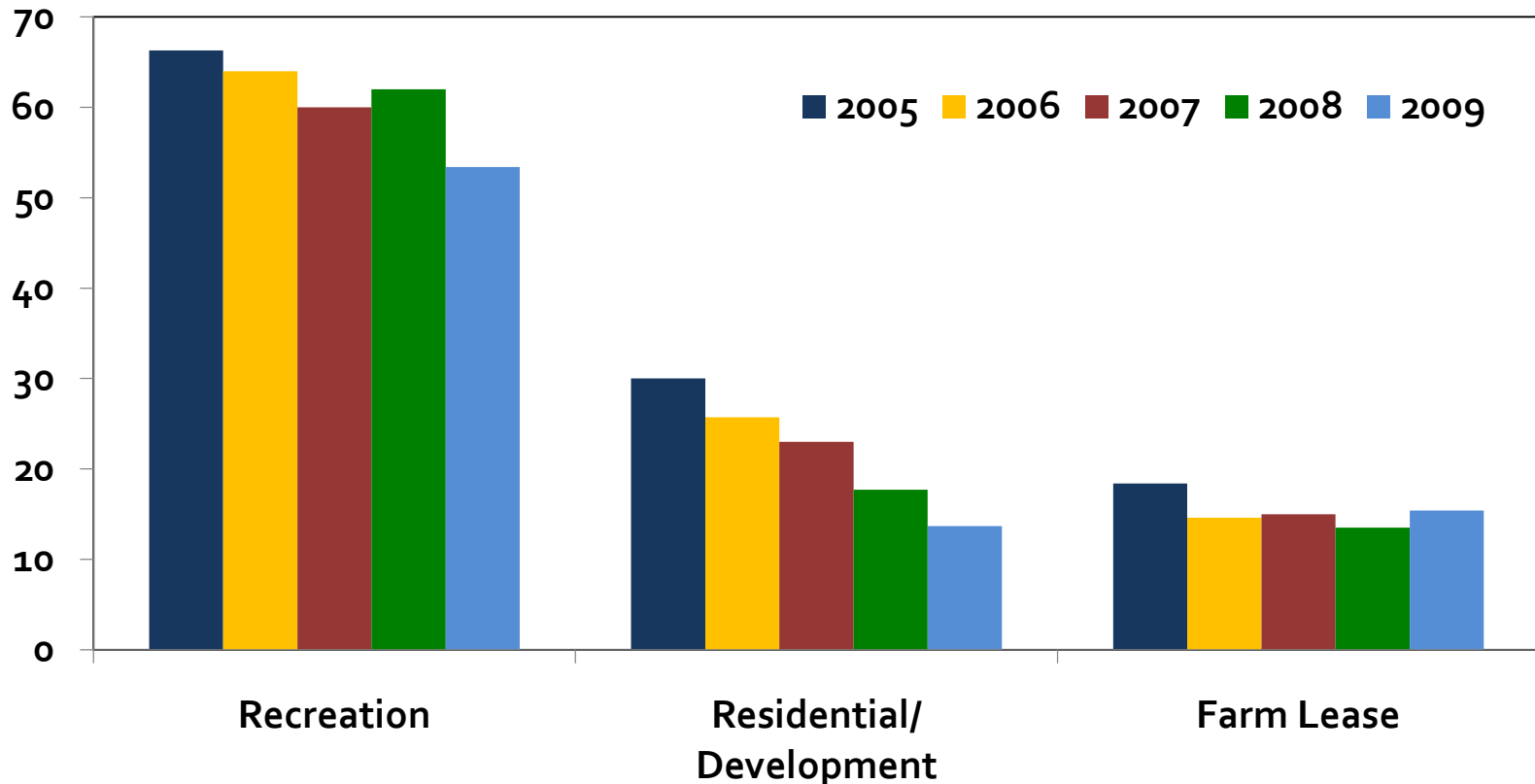
Source: Federal Reserve Banks of Kansas City



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



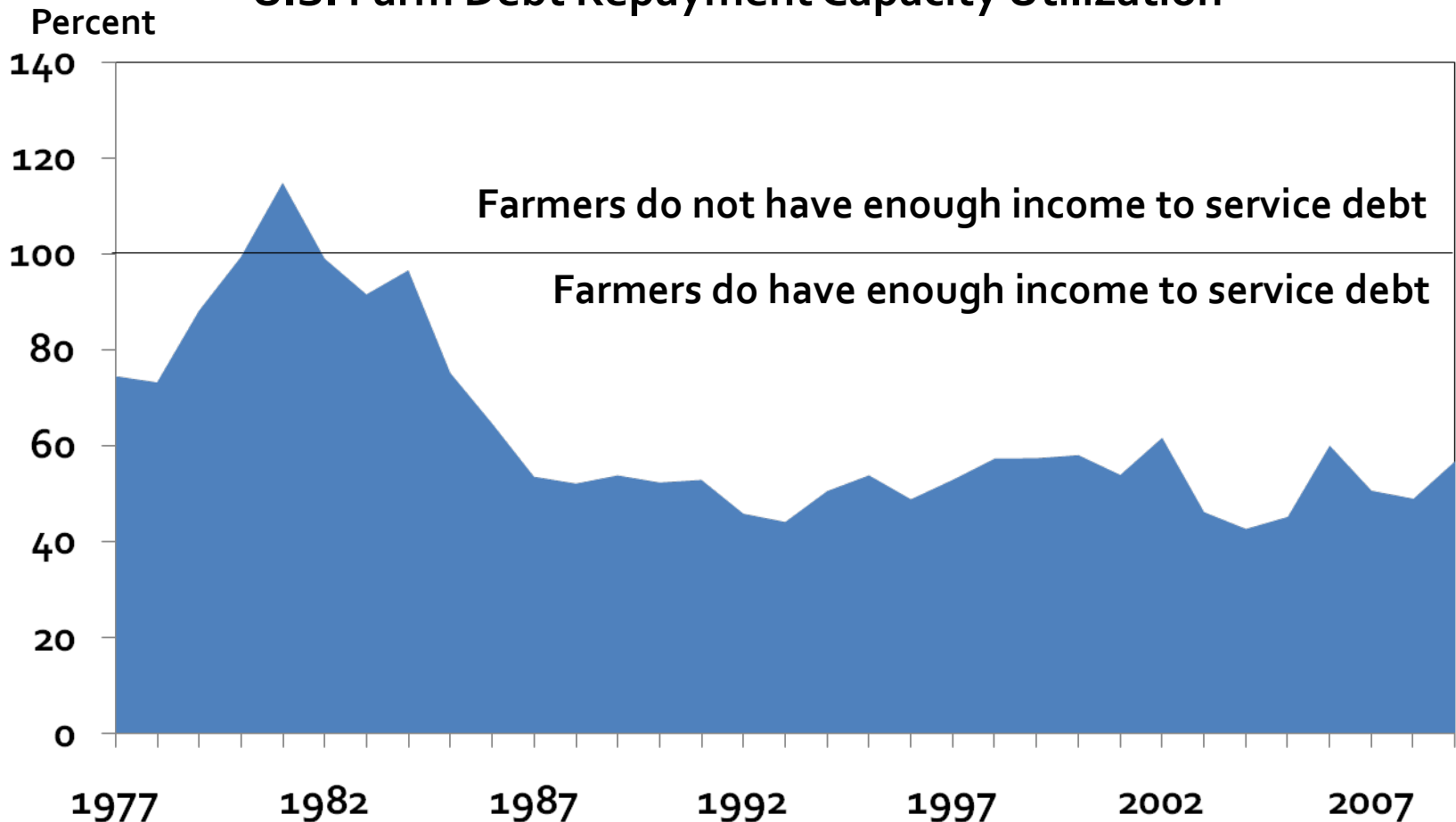
A 1970s Déjà vu

High commodity prices
Surging land values
High energy prices
Record agricultural exports
Rising federal government debt
Large war expenditures
Economic recession
Low value of the dollar
Livestock consolidation
Low real interest rates



In general, farm debt remains at historical levels.

U.S. Farm Debt Repayment Capacity Utilization



Source: USDA

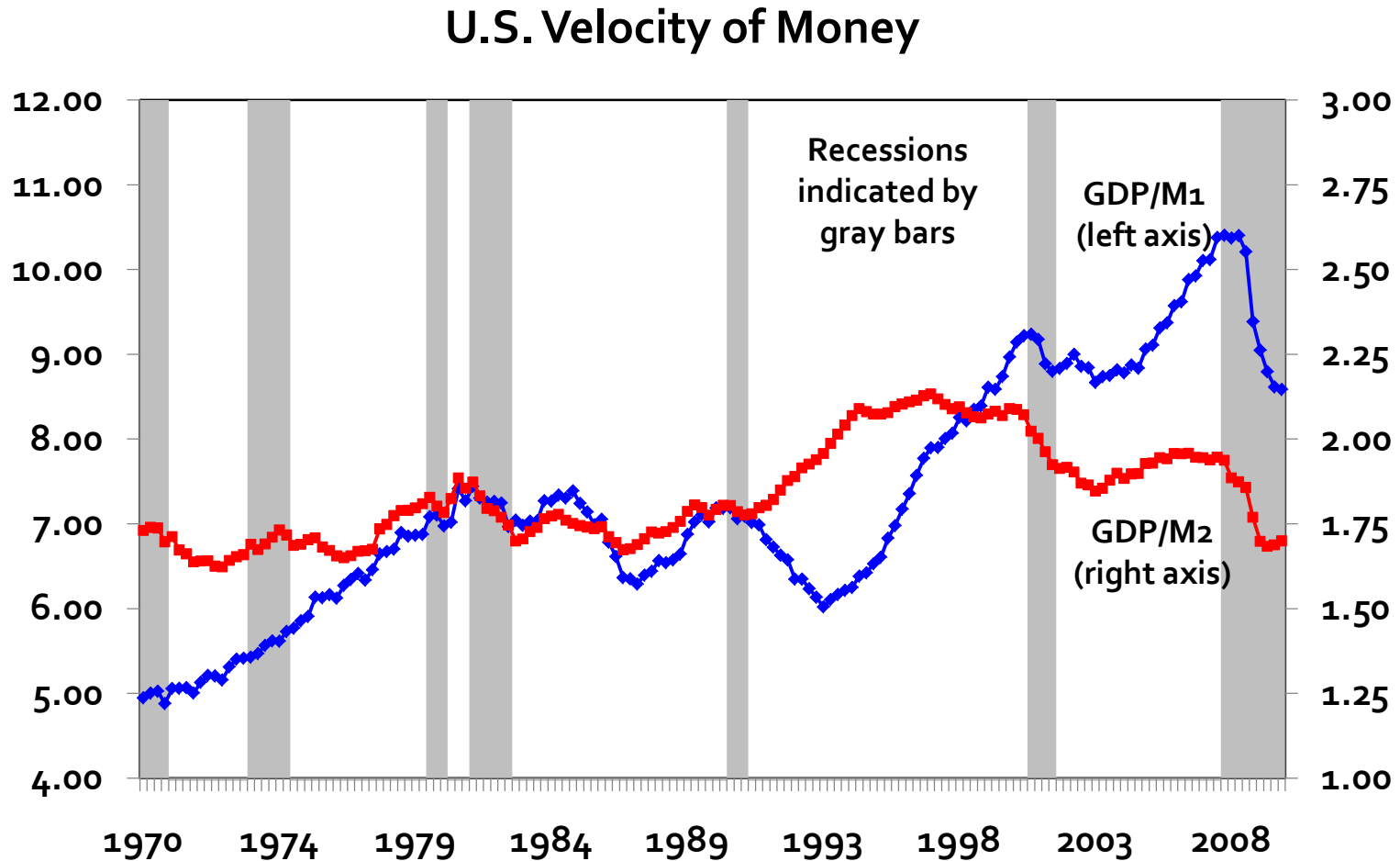


Two Inflationary Perspectives

- Quantity theory of money
 - $\text{Money} * \text{Velocity} = \text{Price} * \text{Quantity}$
- The Definition of Inflation
 - Too Much Money Chasing Too Few Goods
- Expectations on Inflation Depend on Your Focus
 - “Chasing” or velocity which has fallen or ...
 - “Too much money” which has risen sharply.



Velocity has fallen during the recession.



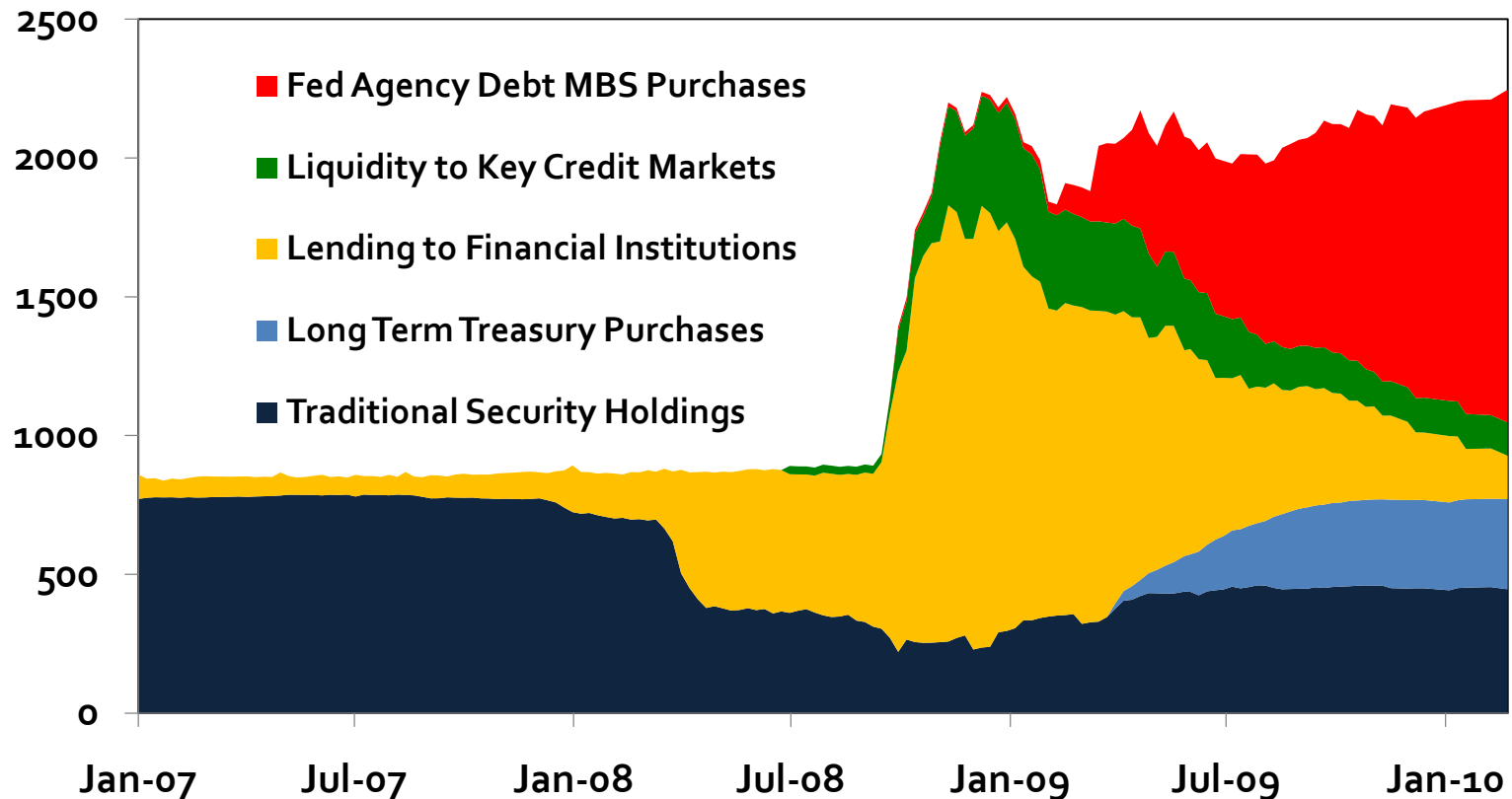
Source: BEA and Federal Reserve Board of Governors



The Federal Reserve has to shrink its balance sheet.

Federal Reserve Balance Sheet: Assets

Billion Dollars

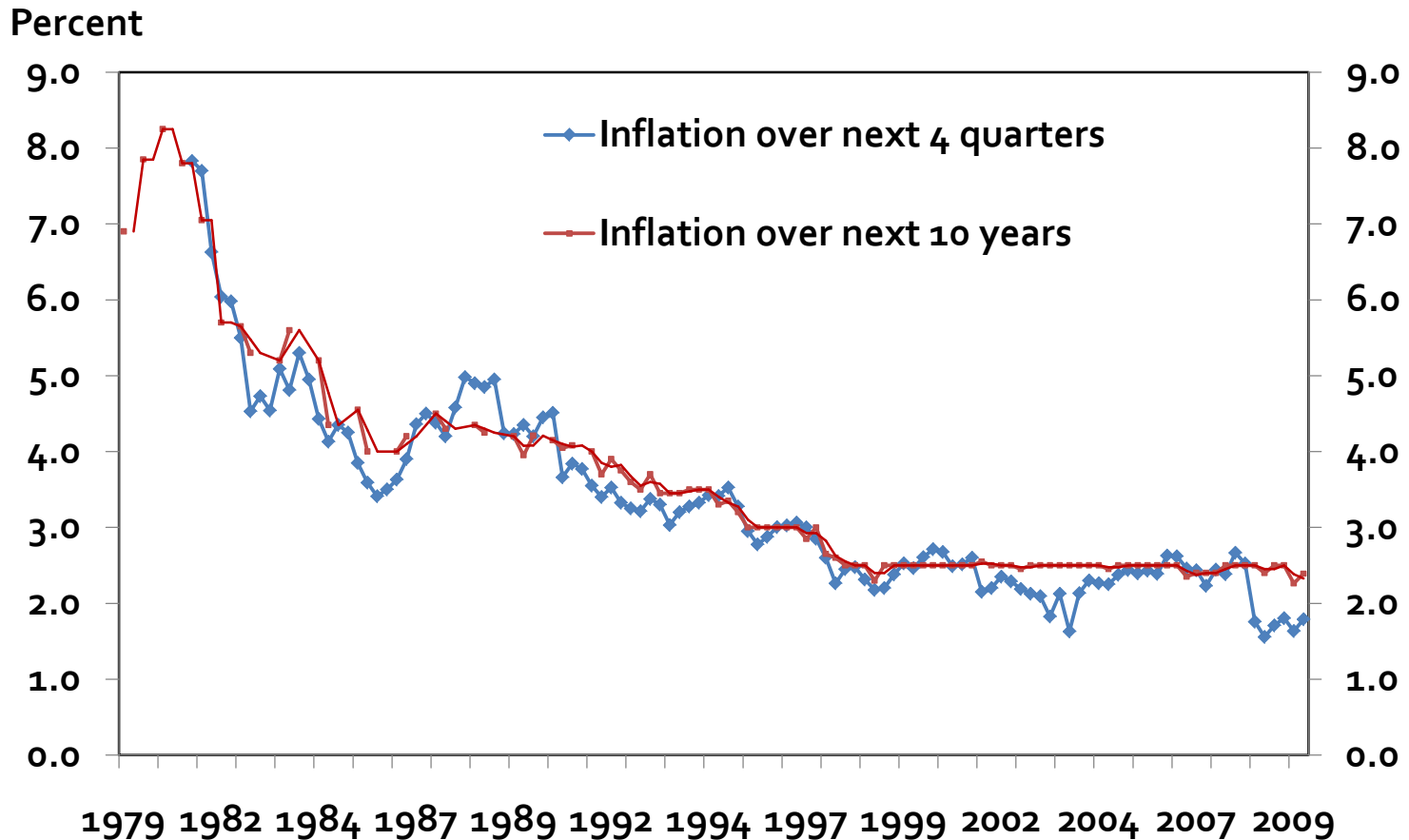


Source: Federal Reserve Board of Governors



Inflation remains well anchored.

Consumer Price Inflation Expectations



Source: Survey of Professional Forecasters



Conclusions

- *A sluggish economic recovery is underway.*
- *Consumer demand will shape the recovery.*
- *Will domestic or foreign consumers lead?*
- *The pace of consumption will shape inflation.*
- *Ag conditions are strikingly similar to the 1970s.*
- *Have Americans learned the lessons of excess debt?*

