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Protein Complex Outlook: Demand Side



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.

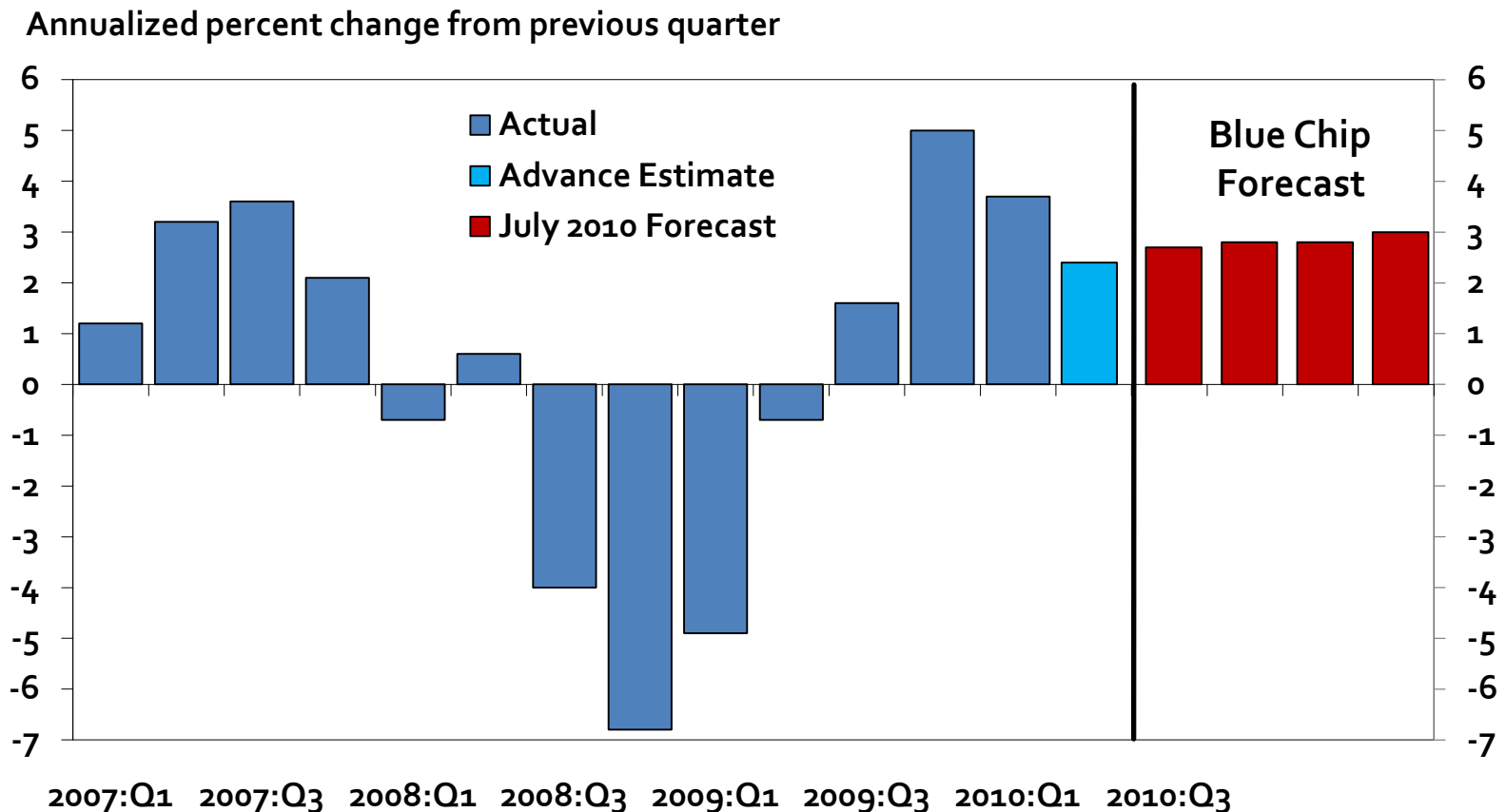
Today's Roadmap

- Protein demand should be heavily influenced by the recovery
- Recovery is at hand but slower than expected
 - Financial Crisis and Impact on Credit
 - Unemployment and Slipping Demand
- Fiscal Challenges for the U.S. Government
- Monetary Challenges for the Federal Reserve
- What lies ahead?



Growth over the last four quarters points to recovery, but it is slower than expected.

Real GDP Growth



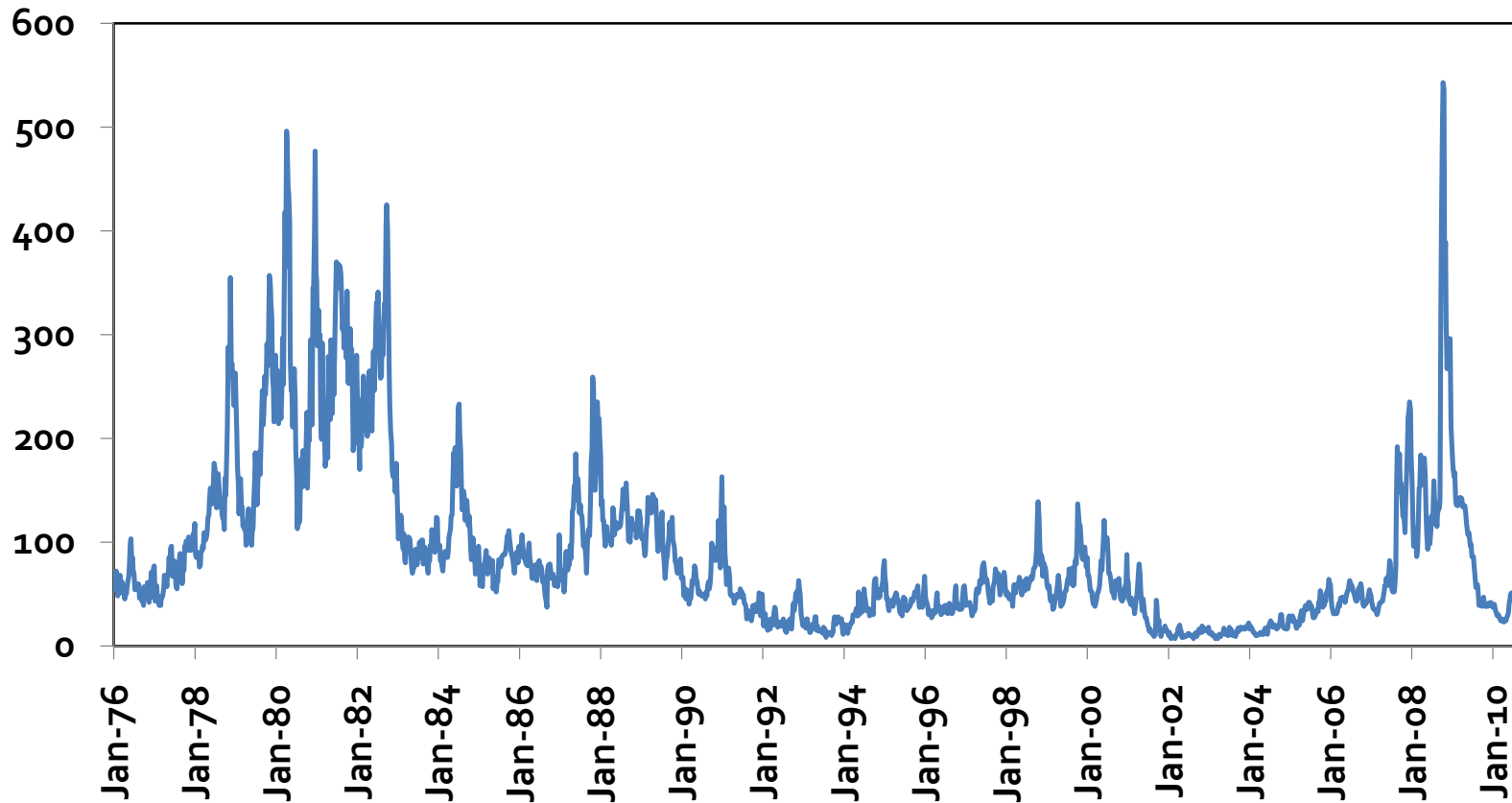
Source: Bureau of Economic Analysis and Blue Chip Economic Indicators



The financial crisis has subsided.

TED Spread

Basis Points

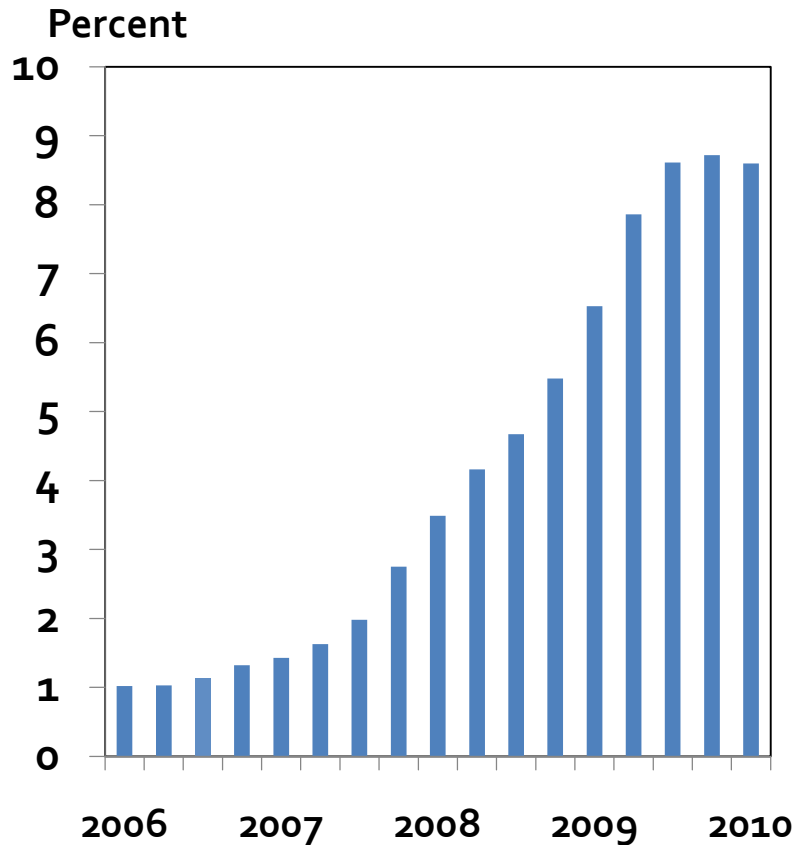


Source: Federal Reserve Board of Governors

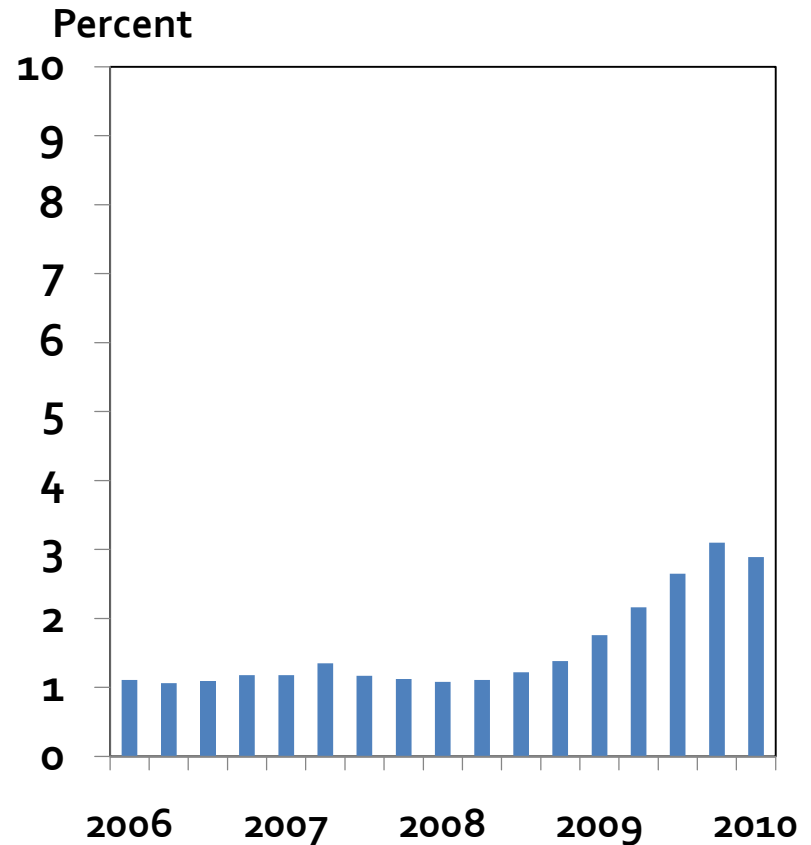


While CRE delinquency rates remain elevated, agriculture has held up better.

Delinquency Rate on Commercial Real Estate Loans



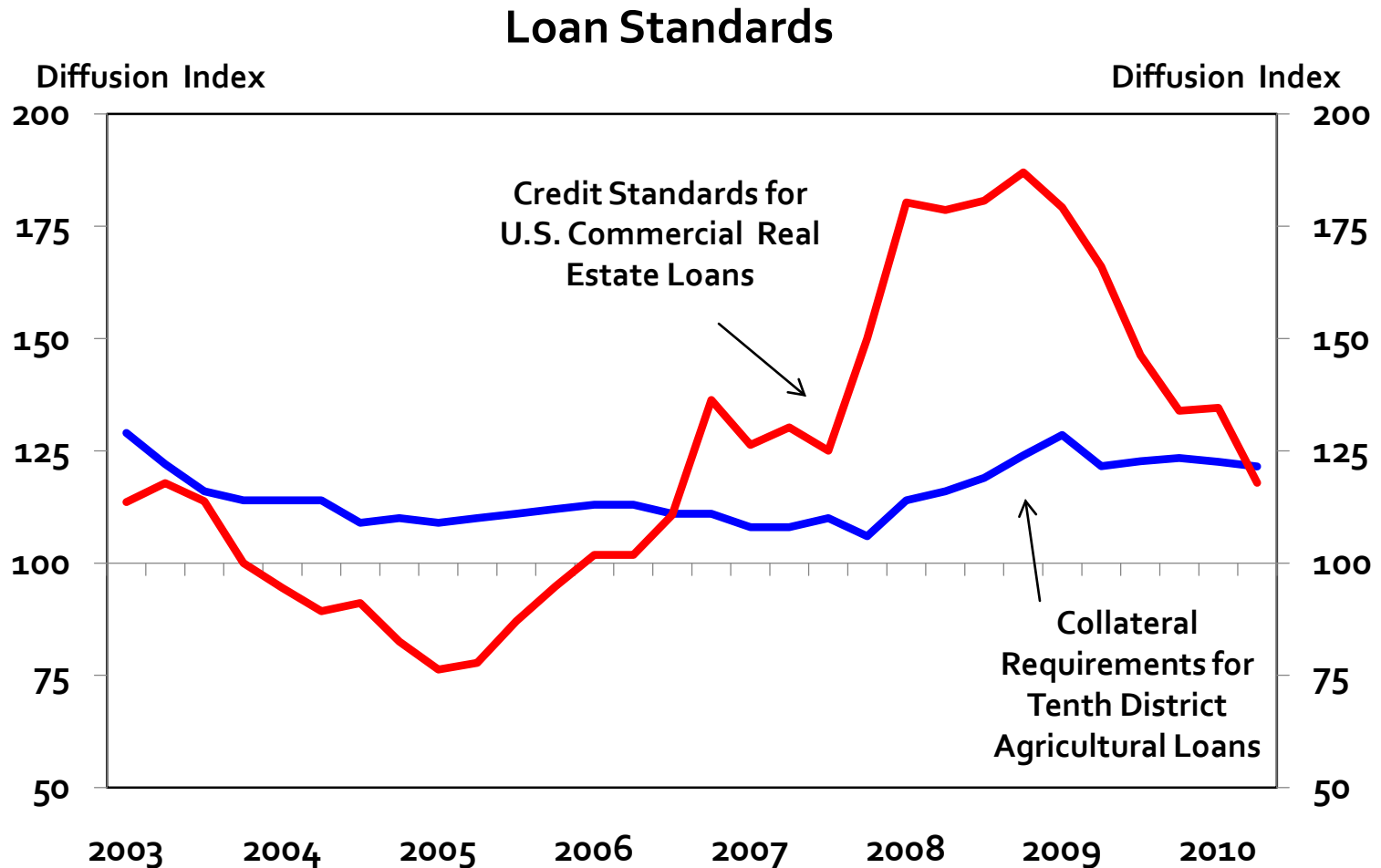
Delinquency Rate on Agricultural Loans



Source: Federal Reserve Board of Governors



While credit remains tight, fewer lenders are raising standards.



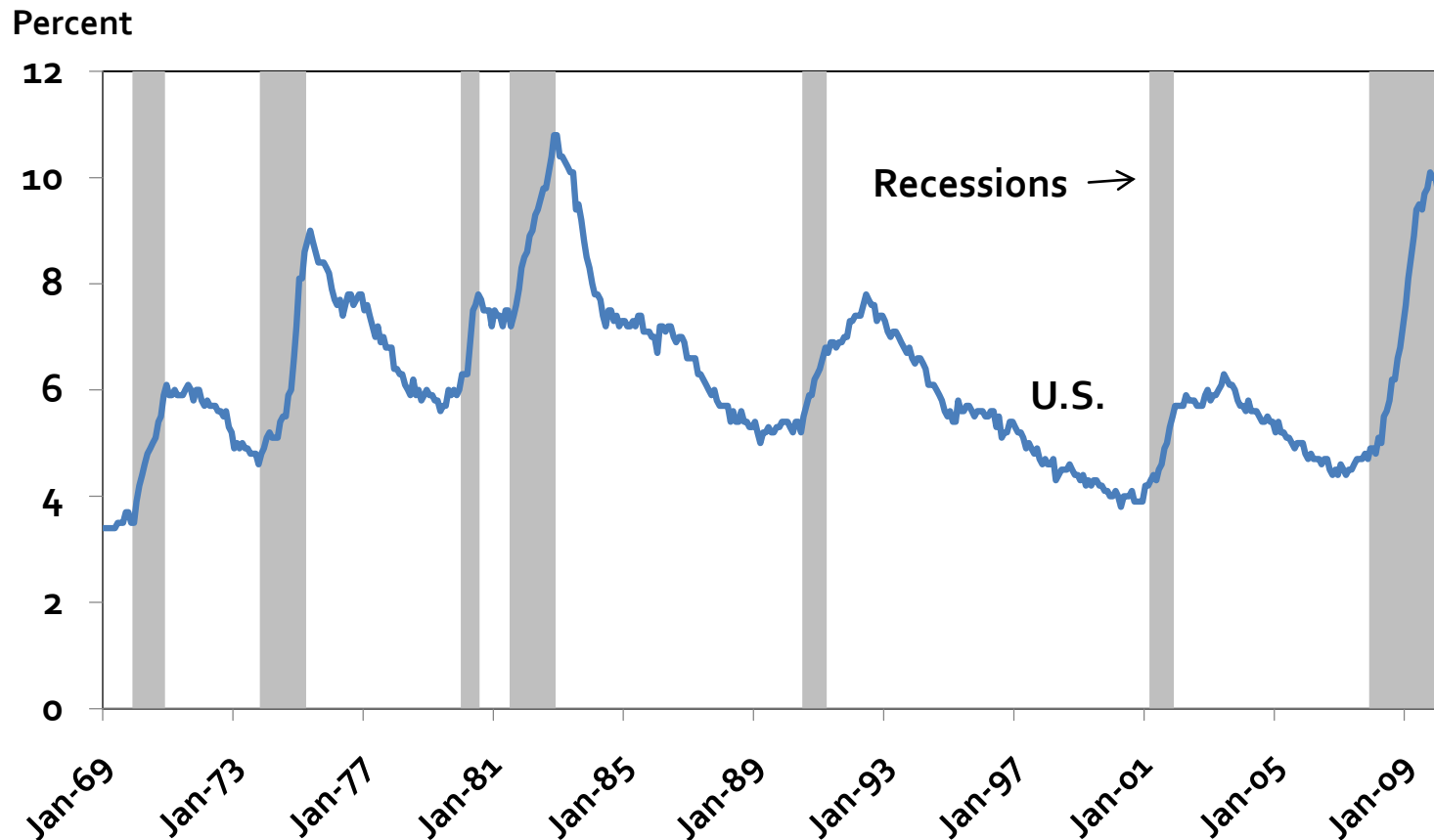
Source: Federal Reserve Board of Governors and Federal Reserve Bank of Kansas City

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Unemployment remains elevated.

U.S. Unemployment Rate (U3)



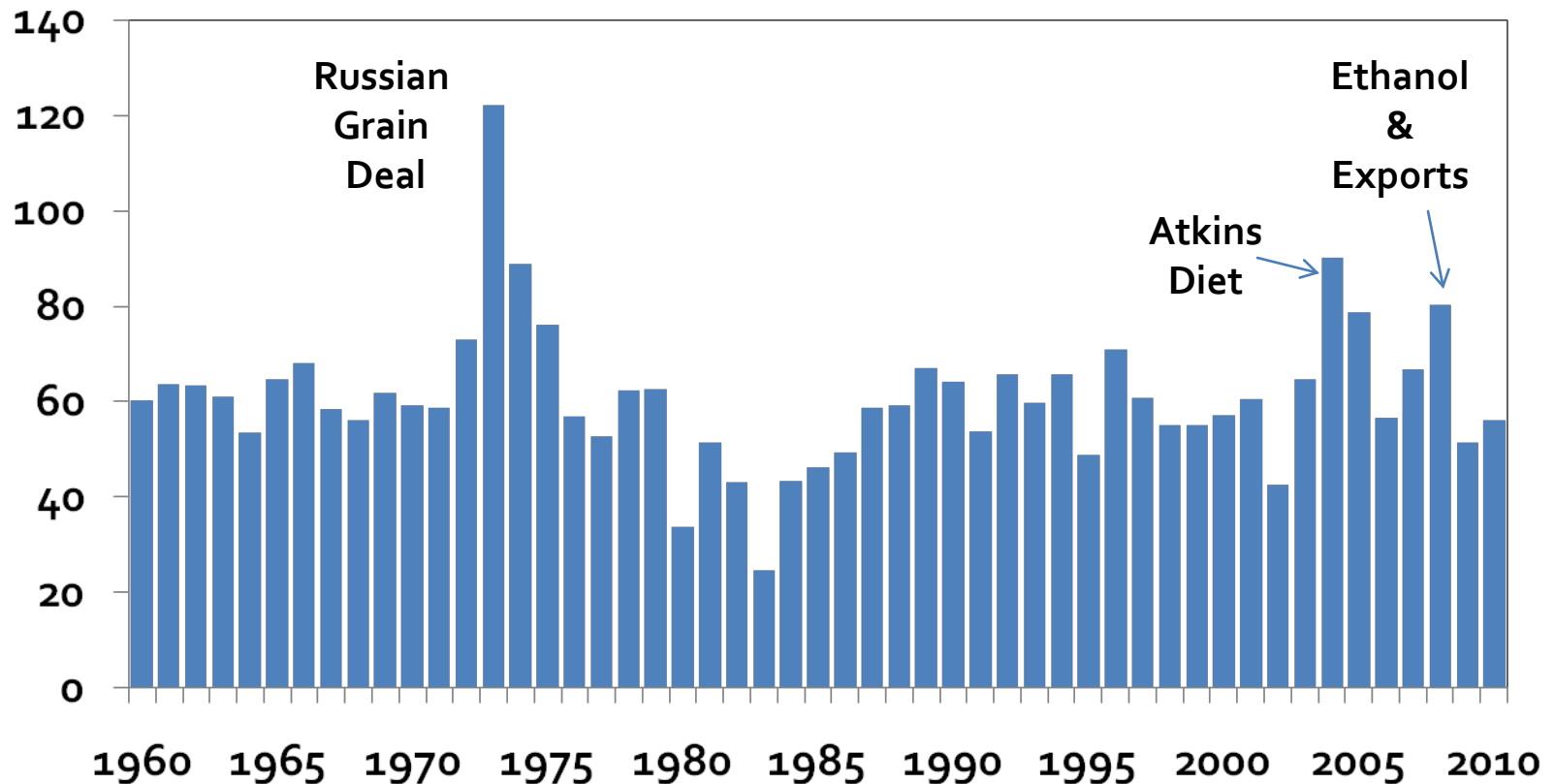
Source: Bureau of Economic Analysis and Bureau of Labor Statistics



Traditionally, surging demand leads to spikes in net farm income.

Real U.S. Net Farm Income

Billion dollars



Source: USDA

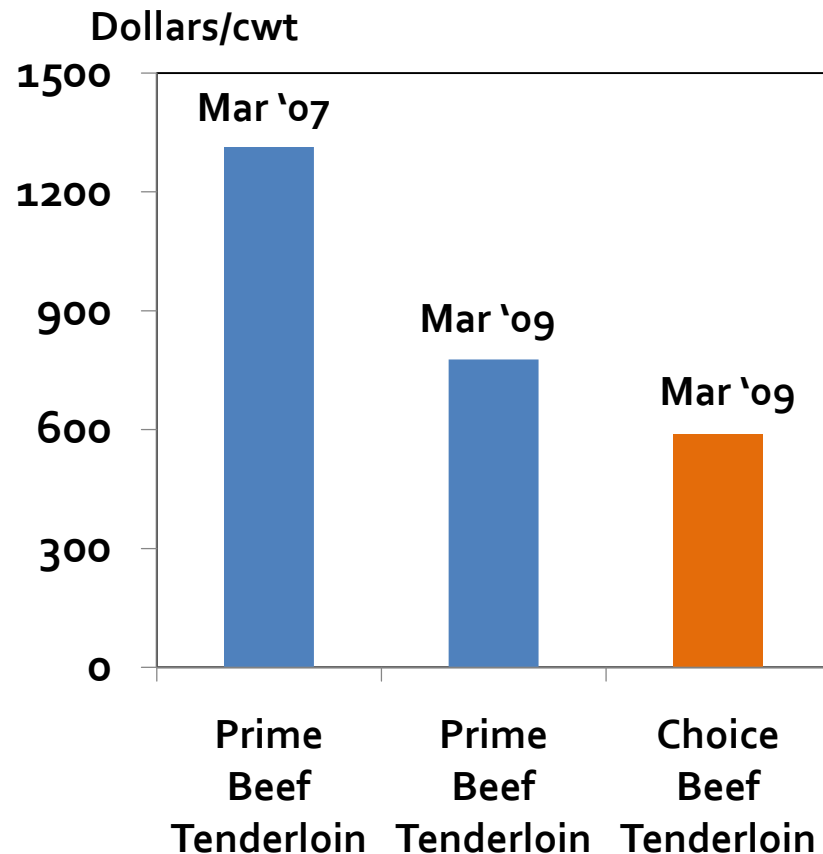


Given the severity of this recession, could the beef industry learn something from high fashion?

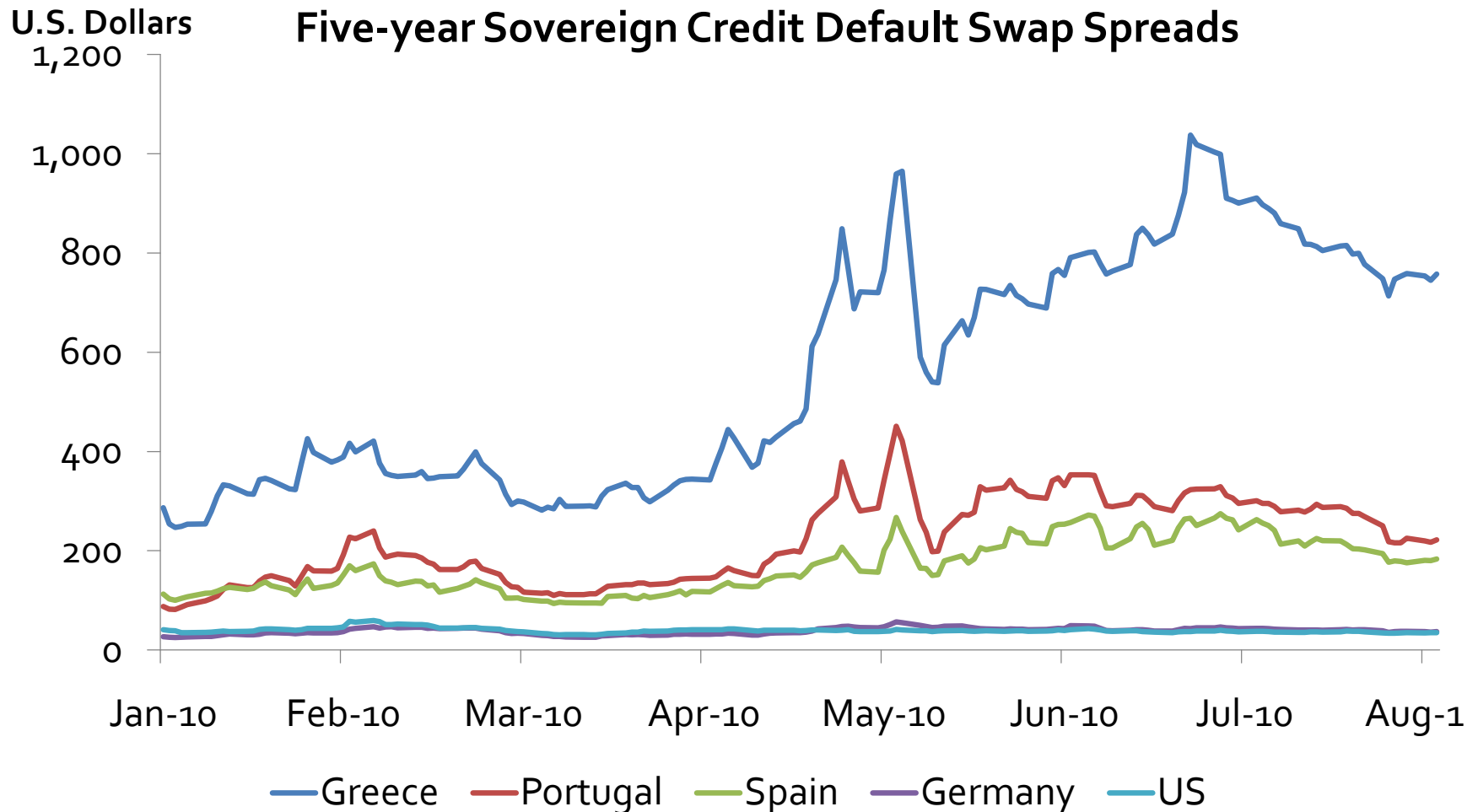
Price of Jeans



Price of Beef Tenderloin



What does the European sovereign debt crisis mean for the U.S. economy and agriculture?

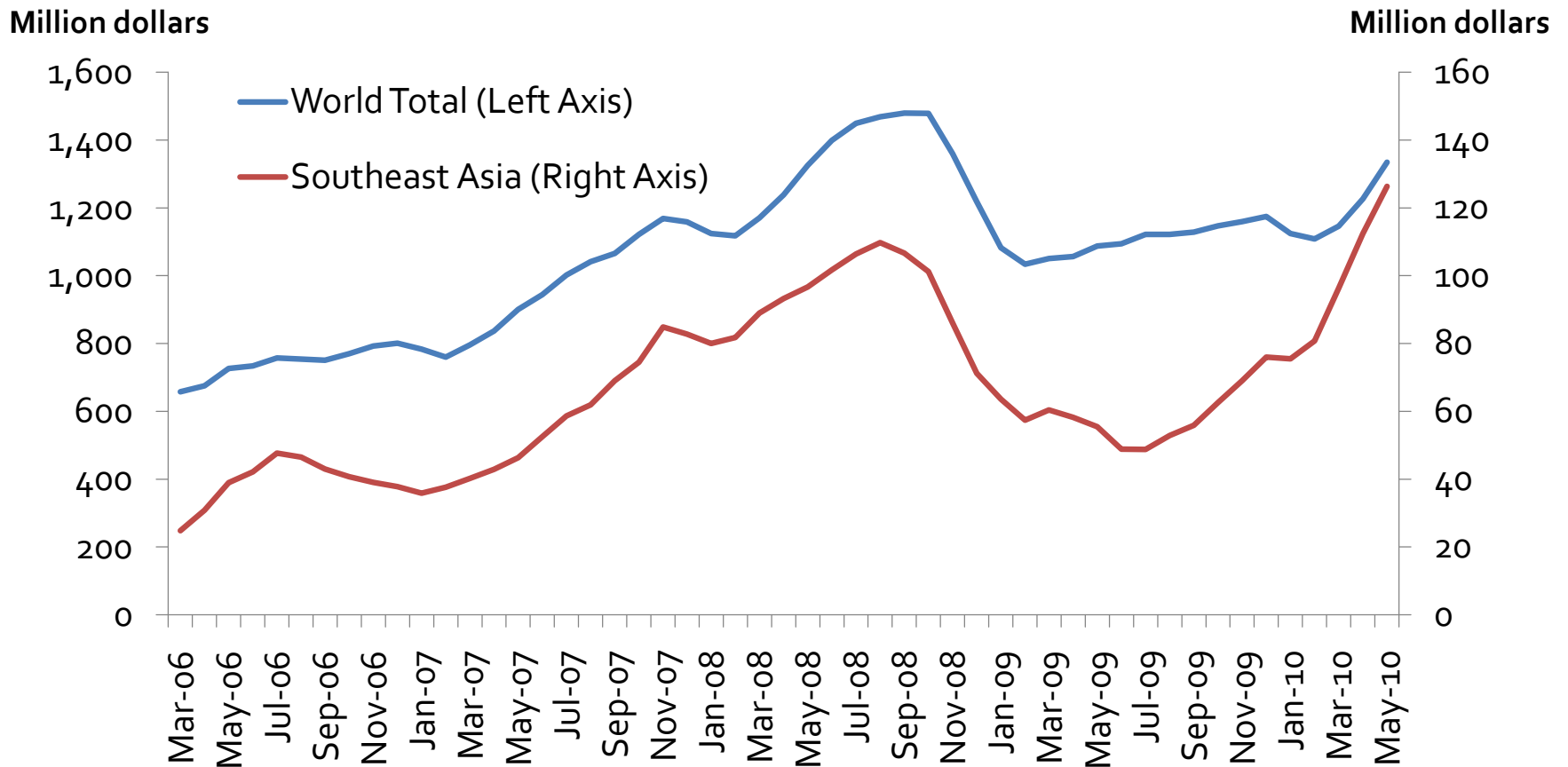


Source: Bloomberg data starting 1/4/10 and ending 5/12/10. U.S. is priced to Euros.



Protein exports are rising.

U.S. Protein Exports (Beef, Dairy, Pork, and Poultry) 3-month moving average

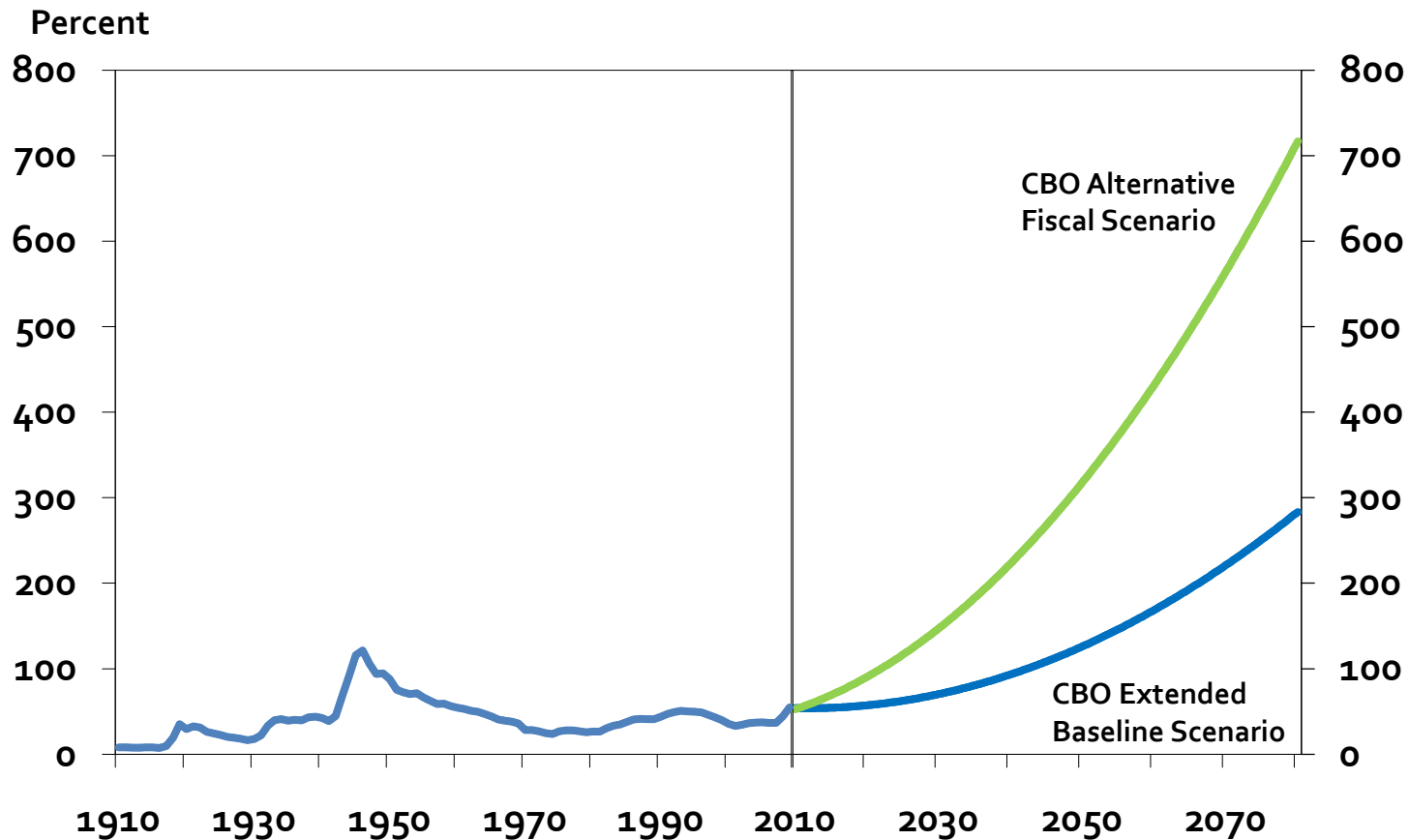


Source: USDA



Short-run Federal debt spending helps stimulate the economy, but can pose long-run challenges.

U.S. Federal Debt as a Percent of GDP



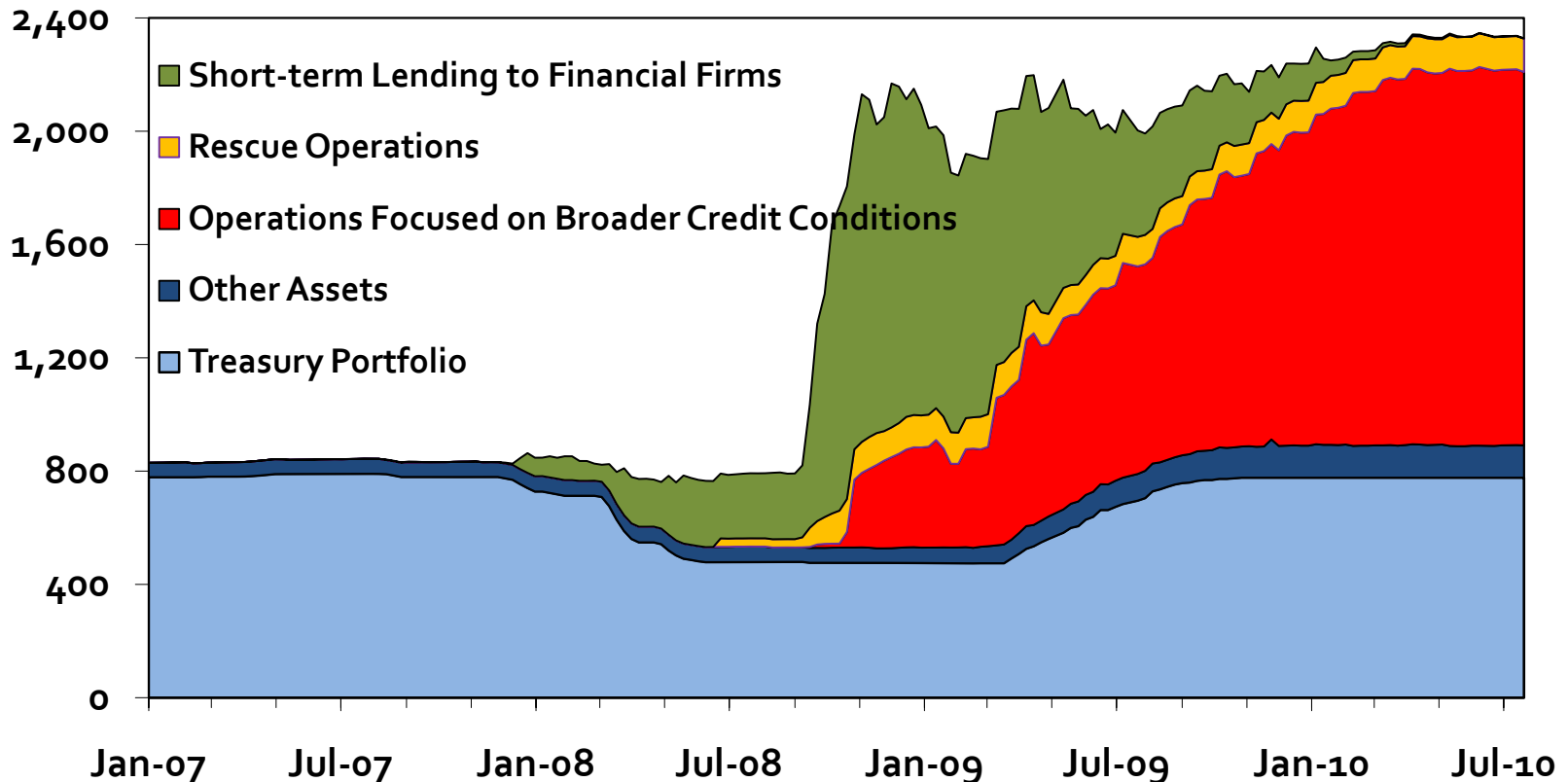
Source: Congressional Budget Office, November 2009



The Federal Reserve's exit strategy does matter for agriculture.

Federal Reserve Balance Sheet: Assets

Billion Dollars

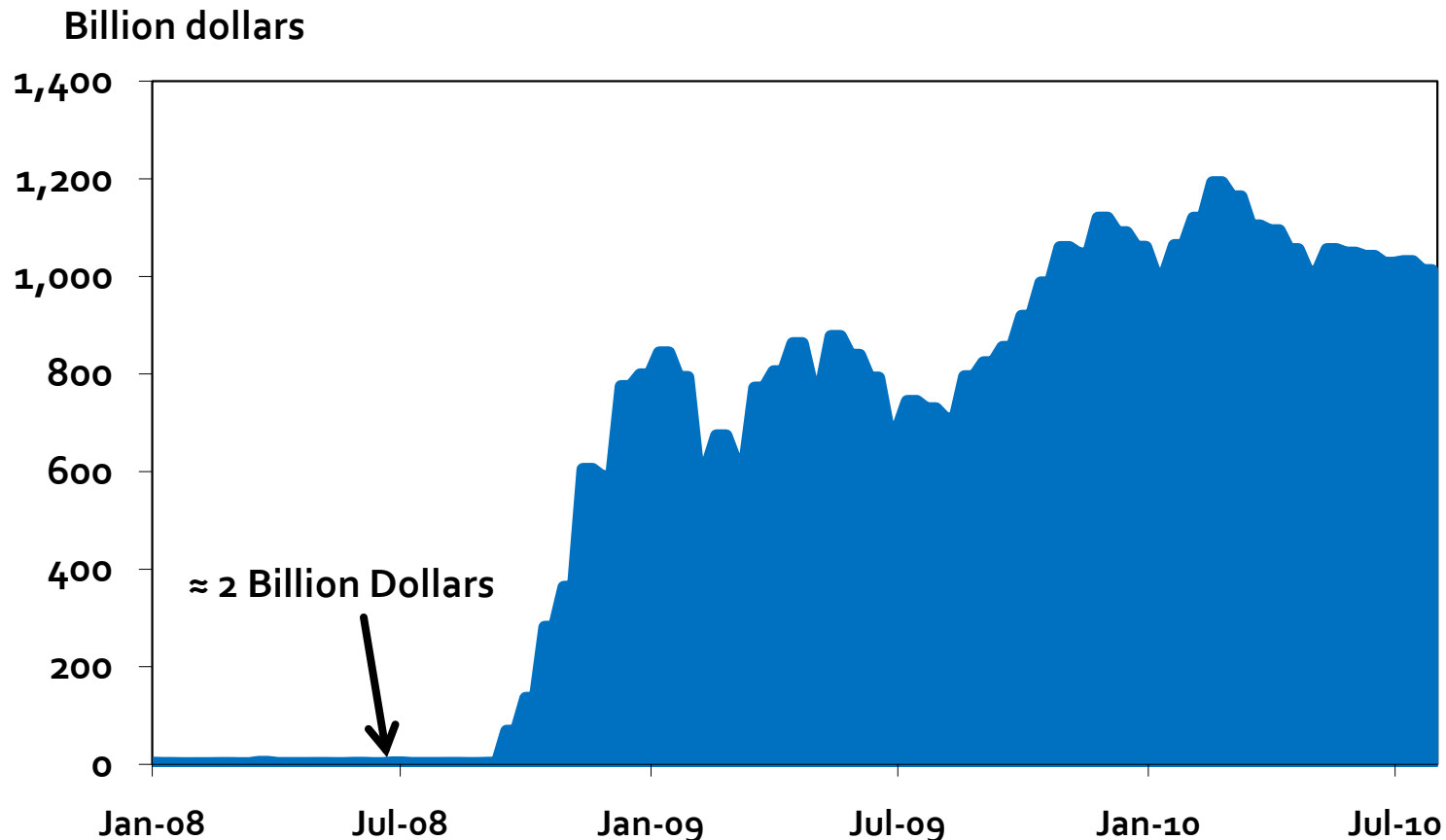


Source: Federal Reserve Board of Governors



Excess reserves held at the Fed have surged.

Excess Reserves of Depository Institutions



Source: Federal Reserve Board of Governors



Inflation expectations remain subdued.

U.S. Inflation Expectations

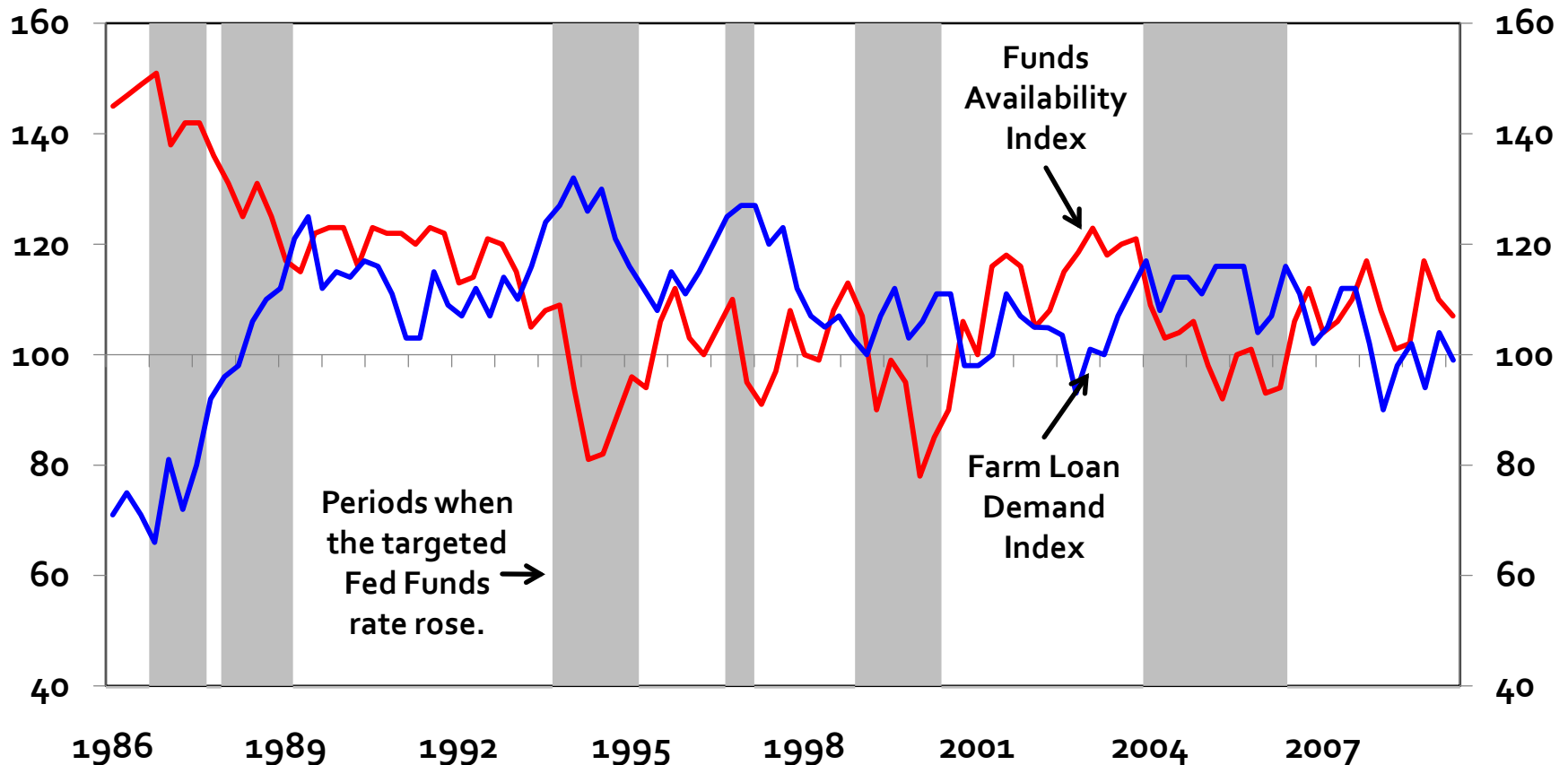


Source: Survey of Professional Forecasters



Historically, when monetary policy tightens, funds available to meet farm loan demand falls.

Tenth District Farm Loan Demand and Funds Availability



Source: Federal Reserve Board of Governors and Federal Reserve Bank of Kansas City

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Questions?

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