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Economic Update – One Year Later



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.

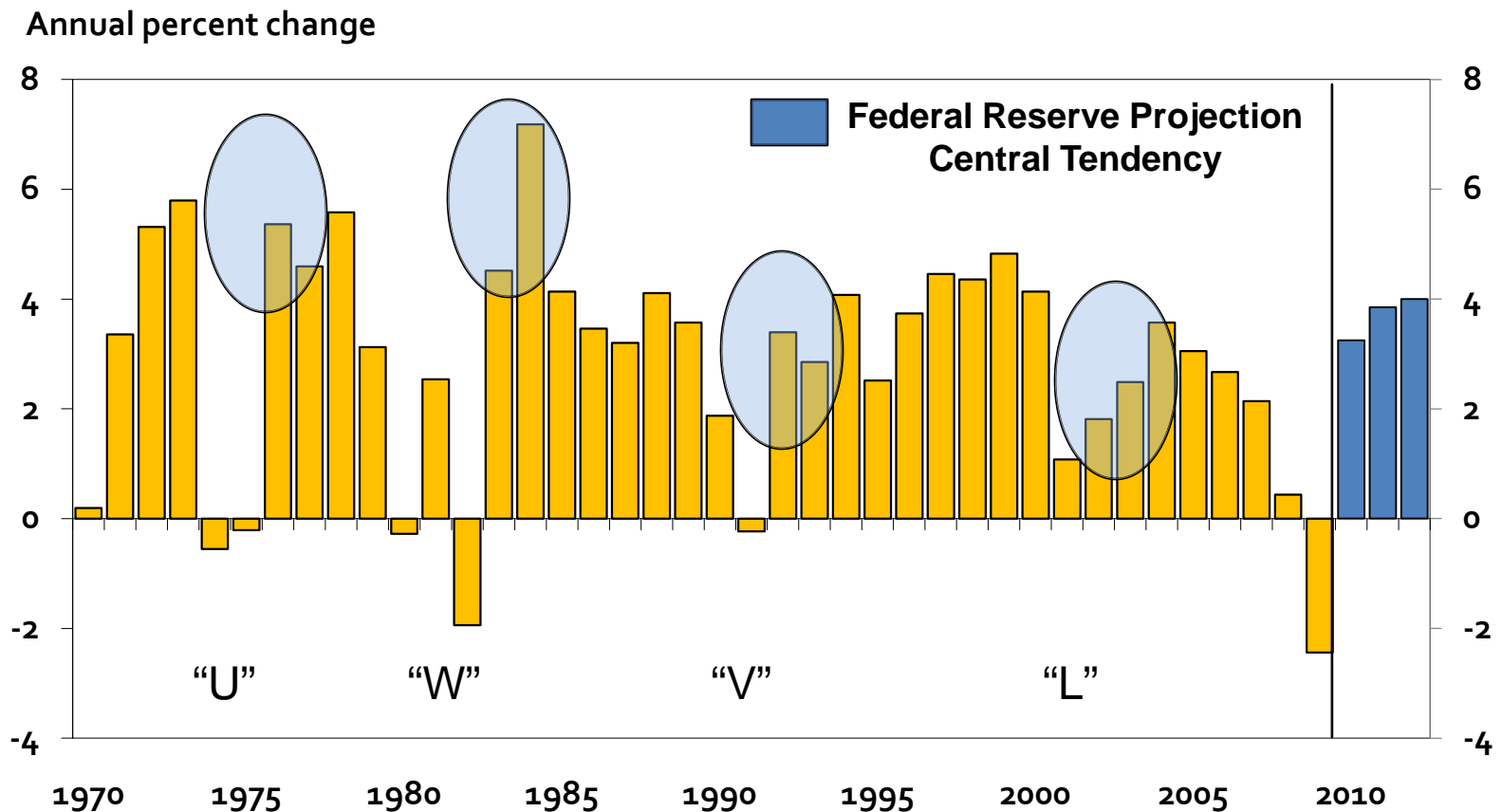
Economic Update – One Year Later

- The economic recovery is underway.
- What does it mean for agriculture?



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

Real GDP Growth

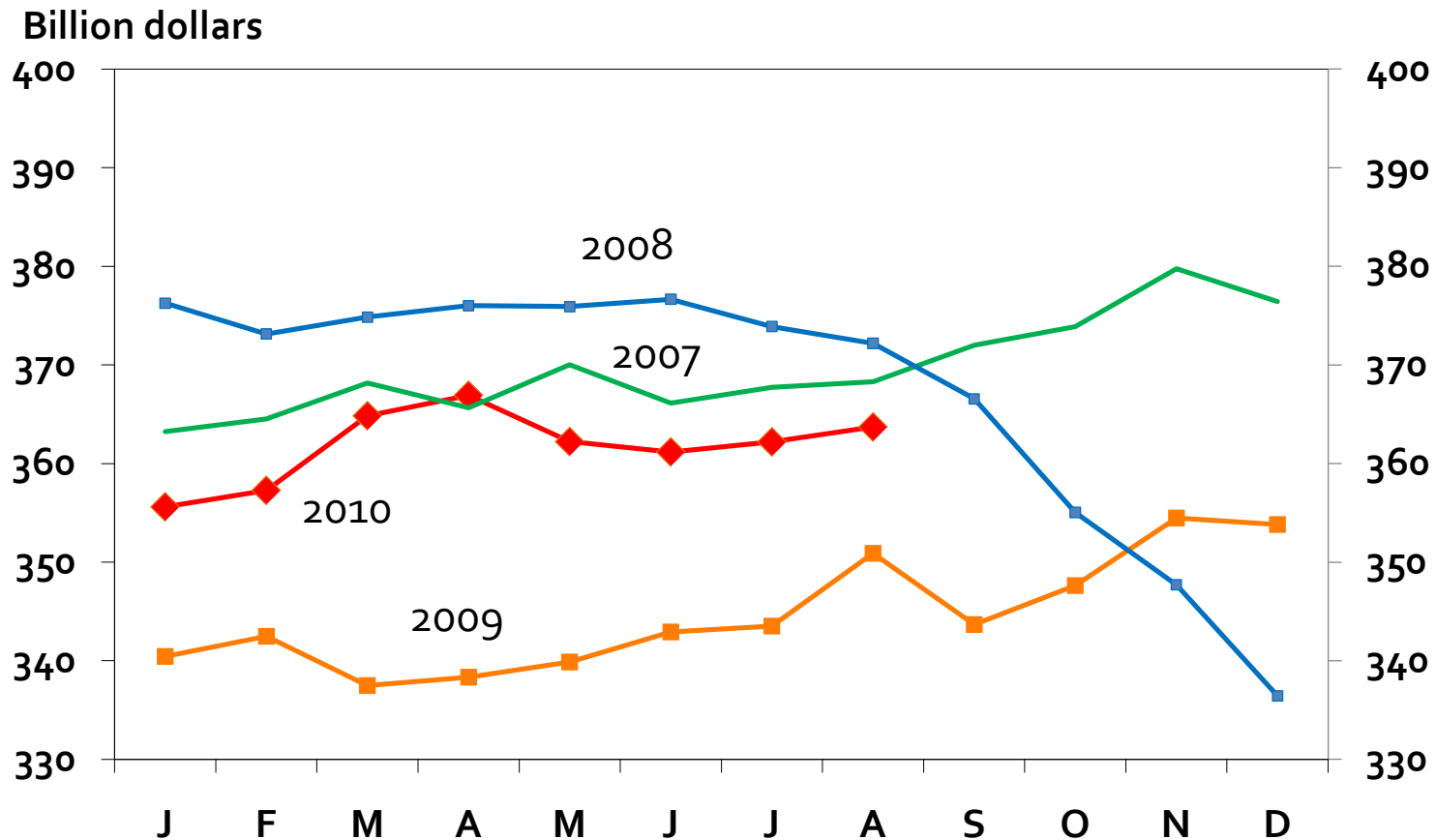


Source: Bureau of Economic Analysis Federal Reserve Board of Governors



U.S. consumers are spending money.

U.S. Monthly Retail and Food Sales

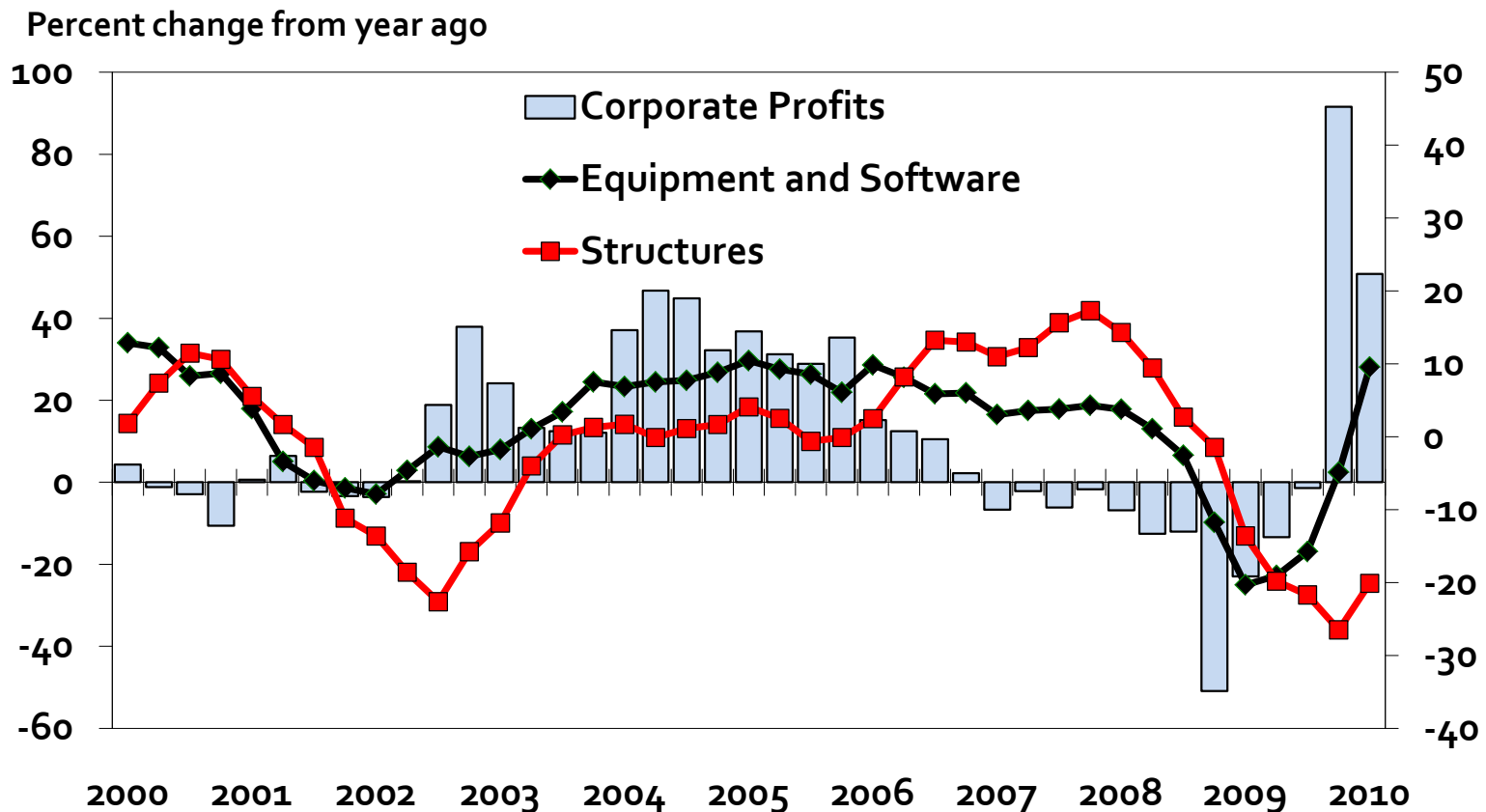


Source: U.S. Census Bureau



Corporate profits and business investment are beginning to rebound.

Corporate Profits and Nonresidential Fixed Investment

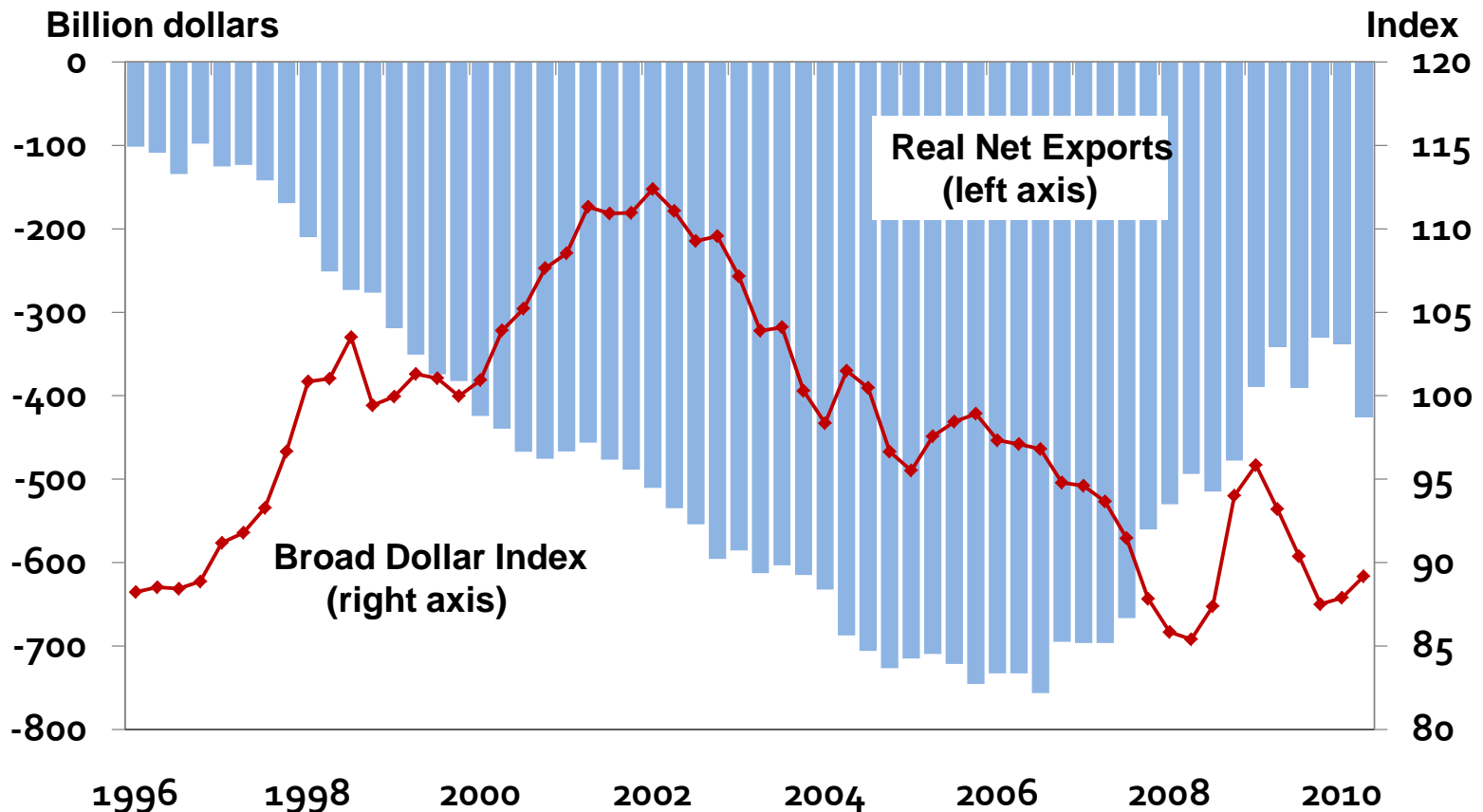


Source: Bureau of Economic Analysis



After dramatic improvements since 2007, U.S. net exports have stabilized.

U.S. Real Net Exports of Goods and Services and Value of the Dollar

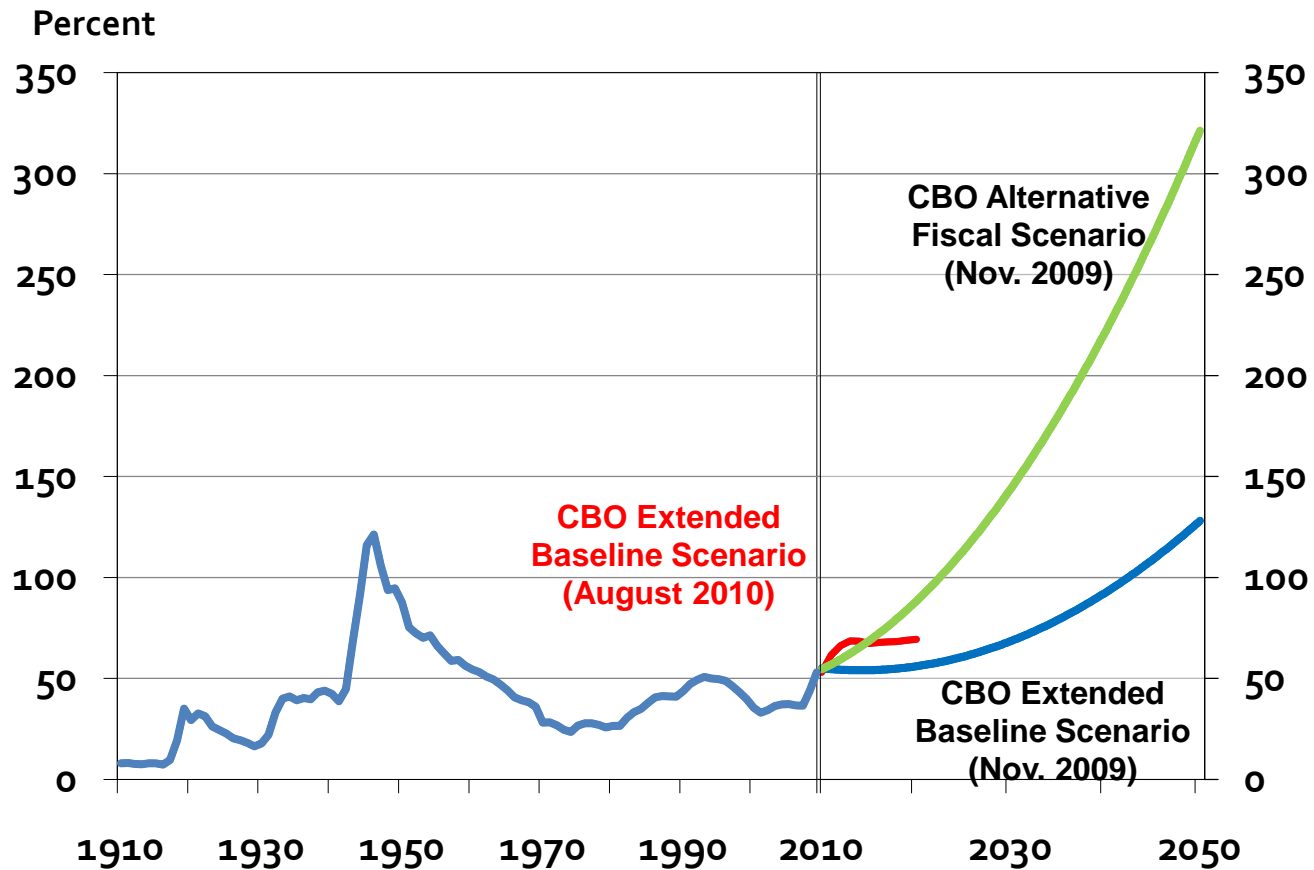


Source: Bureau of Economic Analysis and Federal Reserve Board of Governors



How will surging federal debt levels affect economic conditions long-term?

U.S. Debt as a Percent of GDP



Source: Congressional Budget Office



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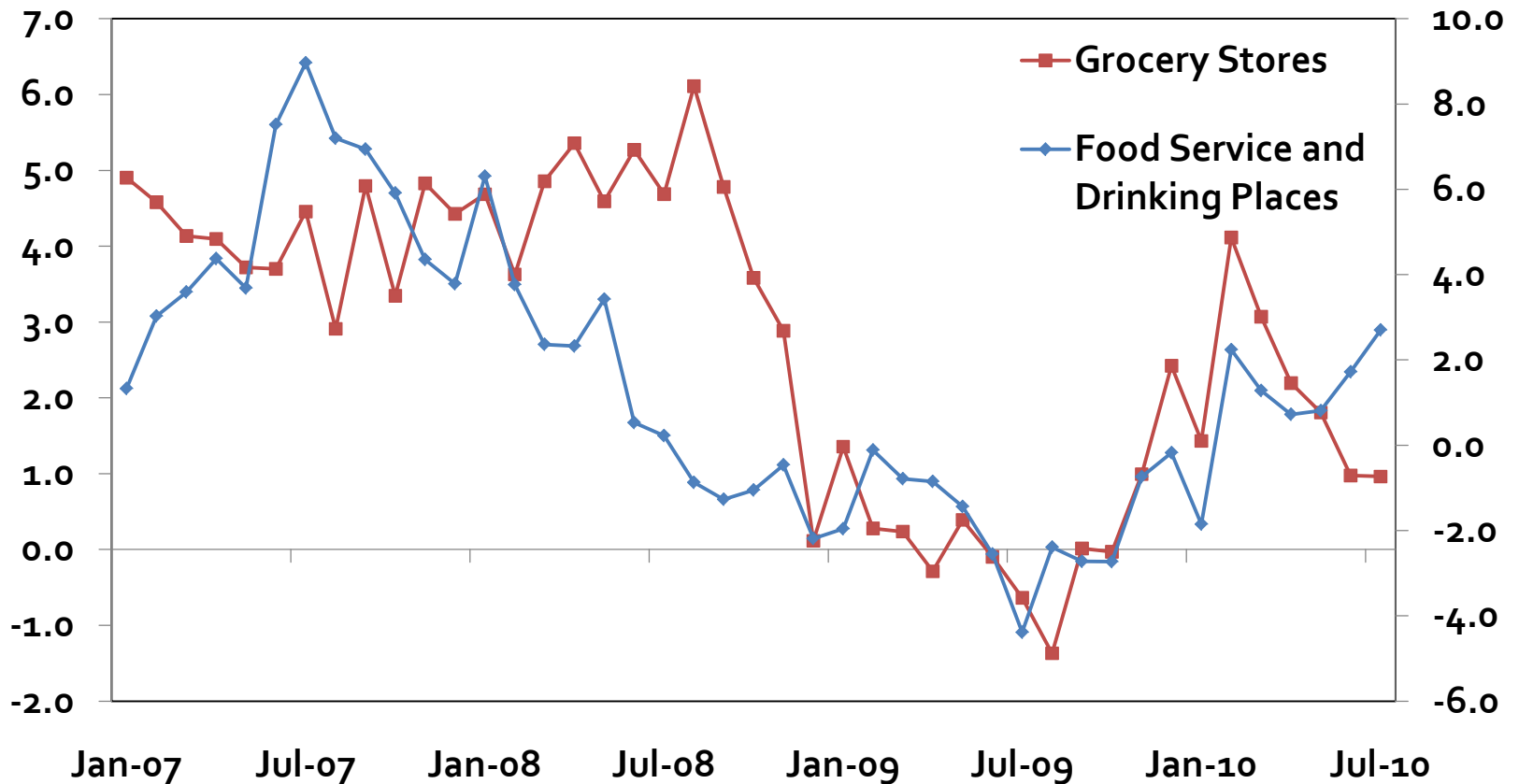
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U.S. food expenditures have rebounded.

U.S. Retail Sales at Grocery Stores and Restaurants

Percent change from year ago

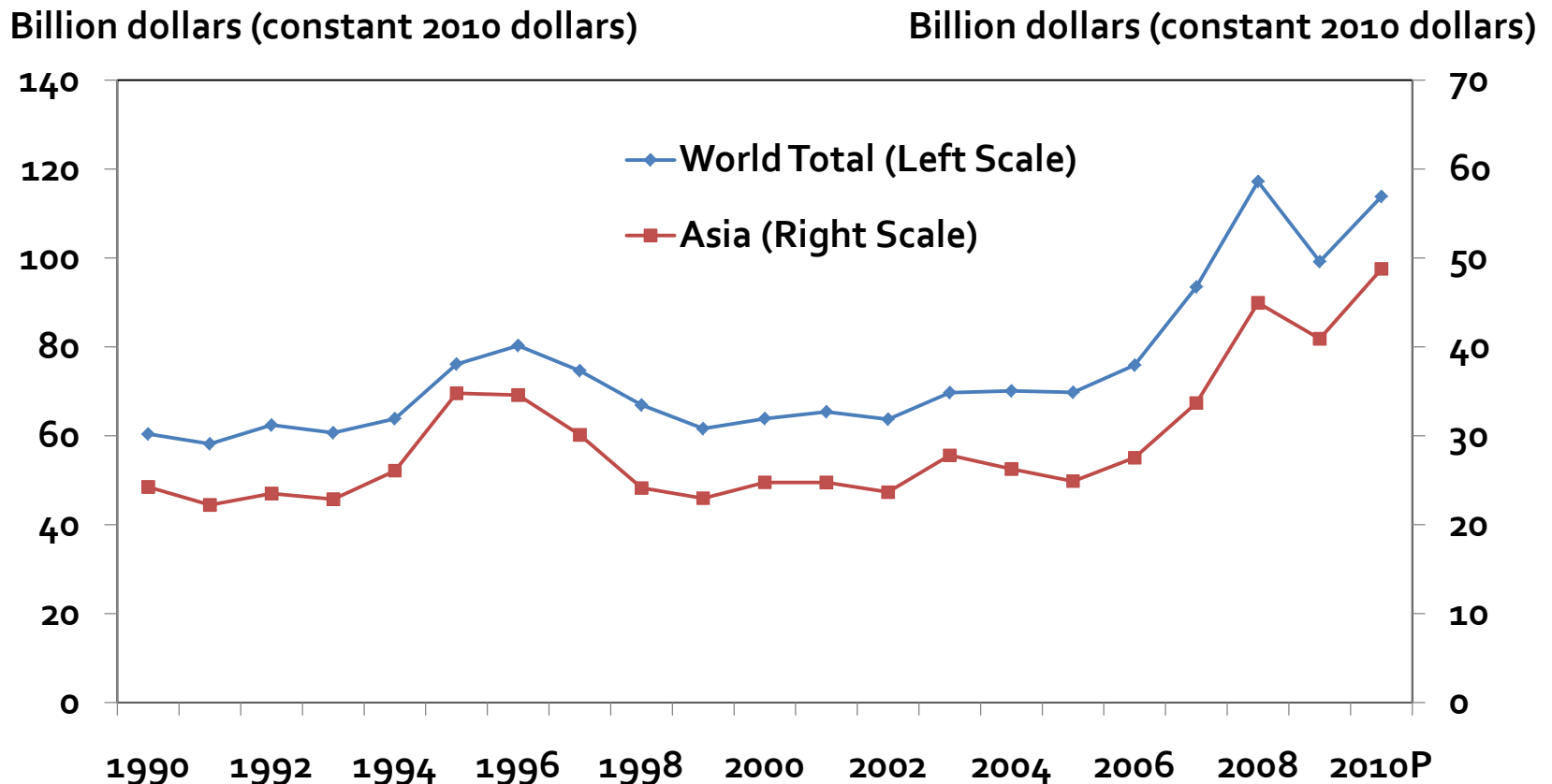


Source: Census Bureau



U.S. agricultural exports have rebounded.

Real U.S. Agricultural Exports



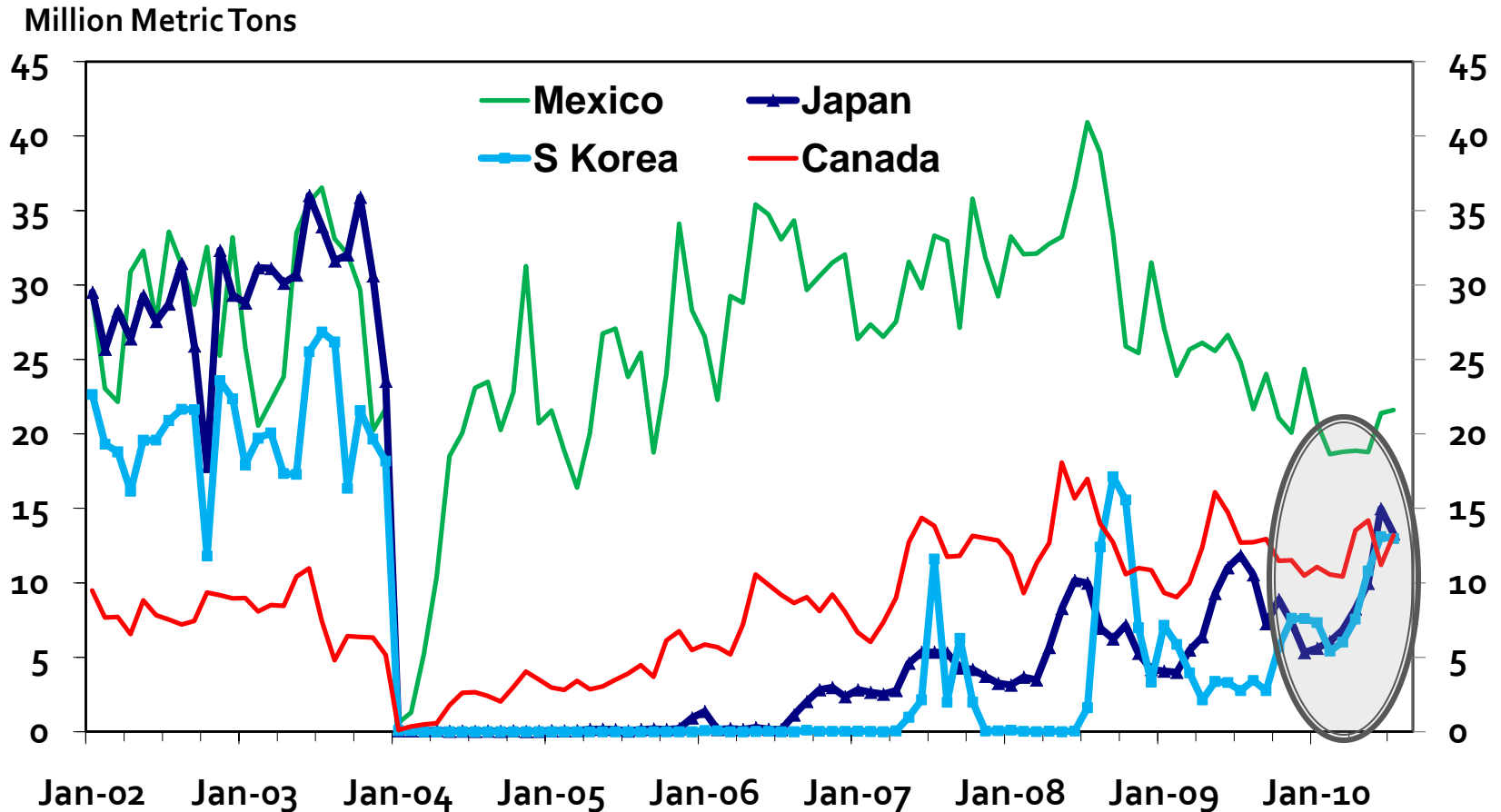
Source: USDA

Note: 2010 projections based on export growth through June 2010



Beef exports to Asia have risen.

U.S. Beef Exports to Major Markets

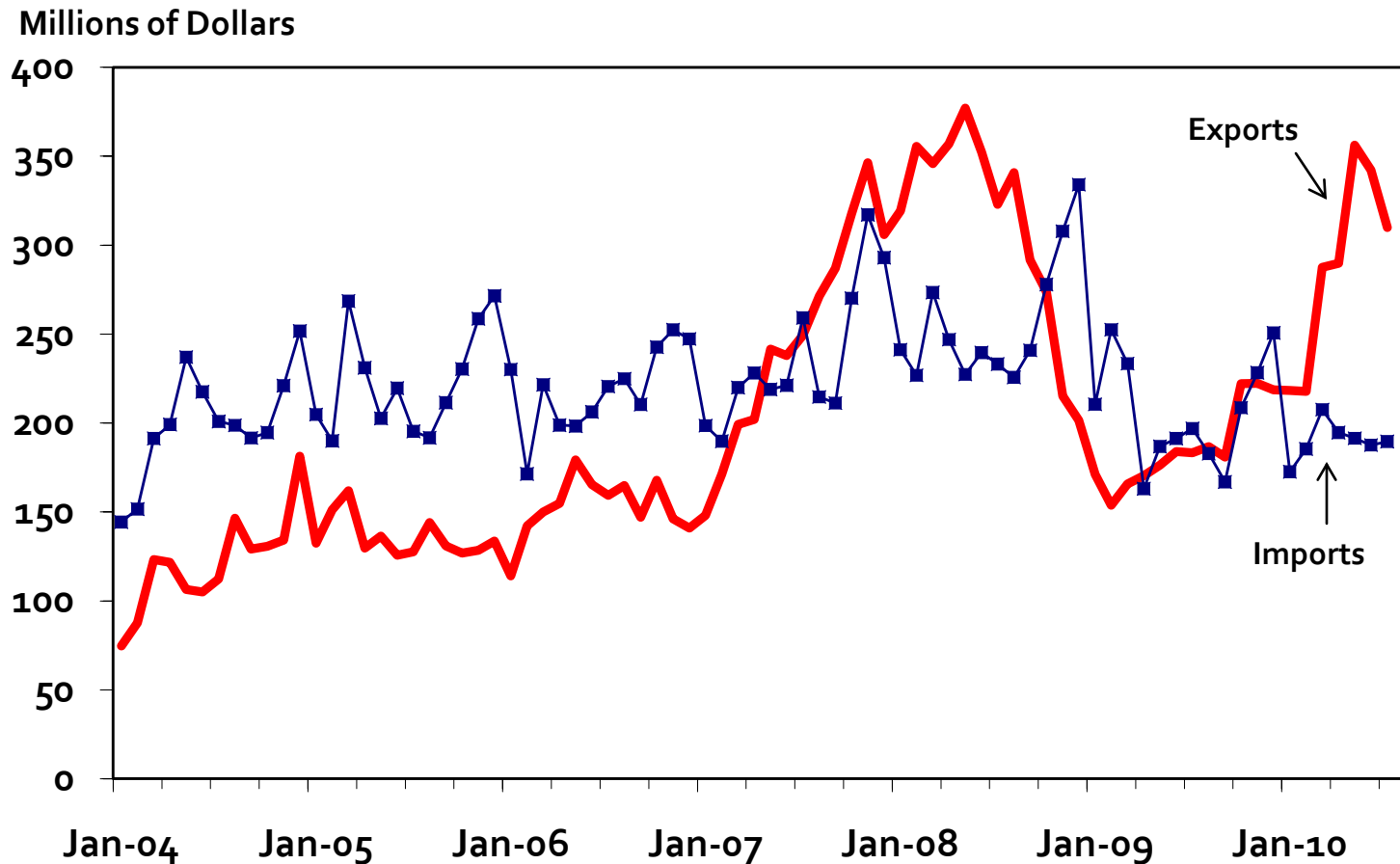


Source: USDA



Dairy exports have rebounded.

U.S. Dairy Imports and Exports



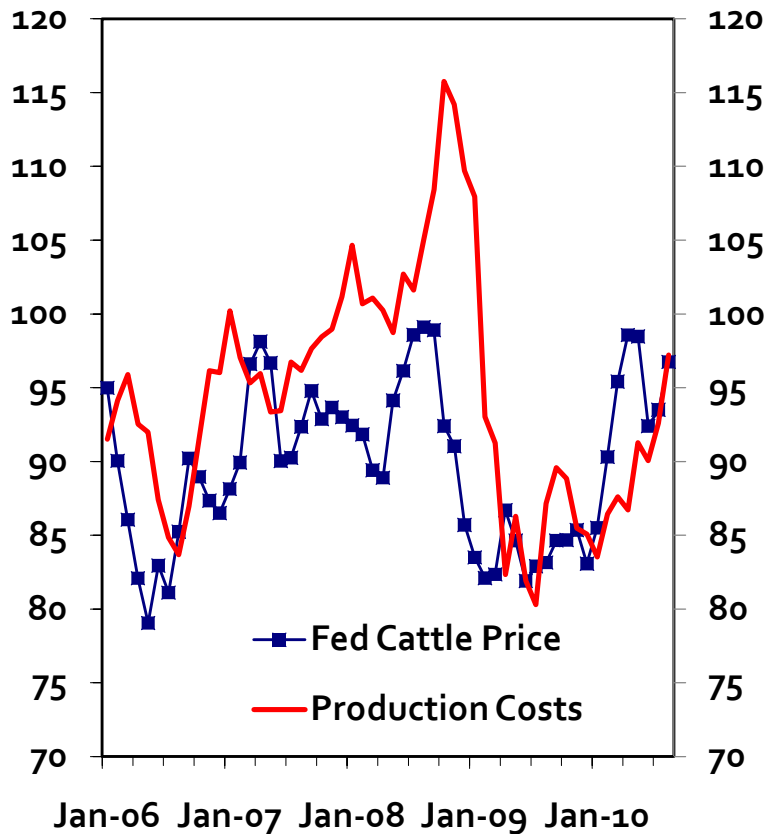
Source: USDA



Will profits improve for livestock producers?

U.S. Cattle Prices and Production Costs

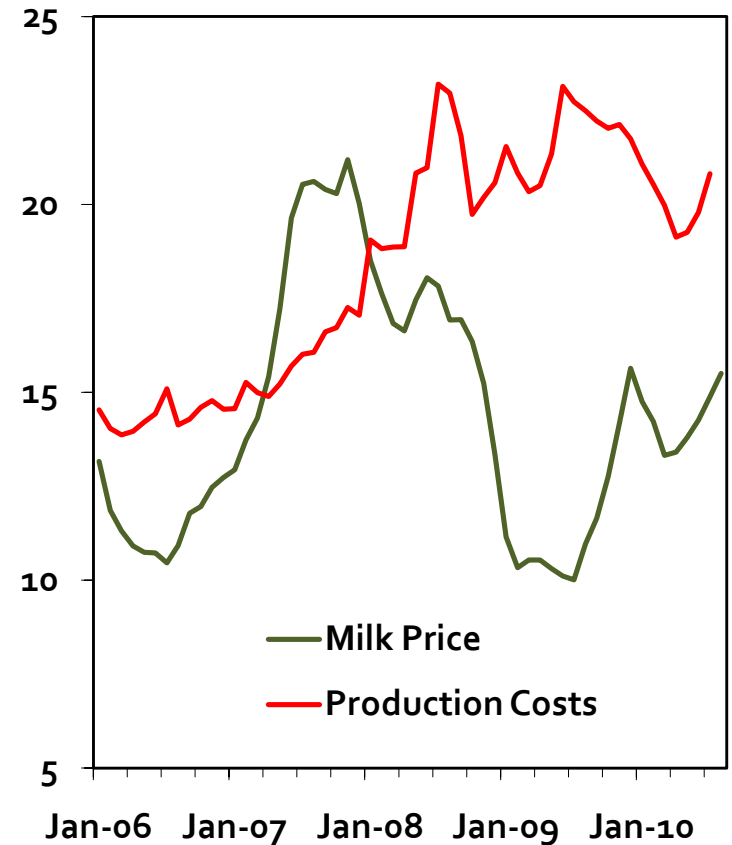
Dollars per hundredweight



Source: USDA

California Milk Price and Production Costs

Dollars per hundredweight

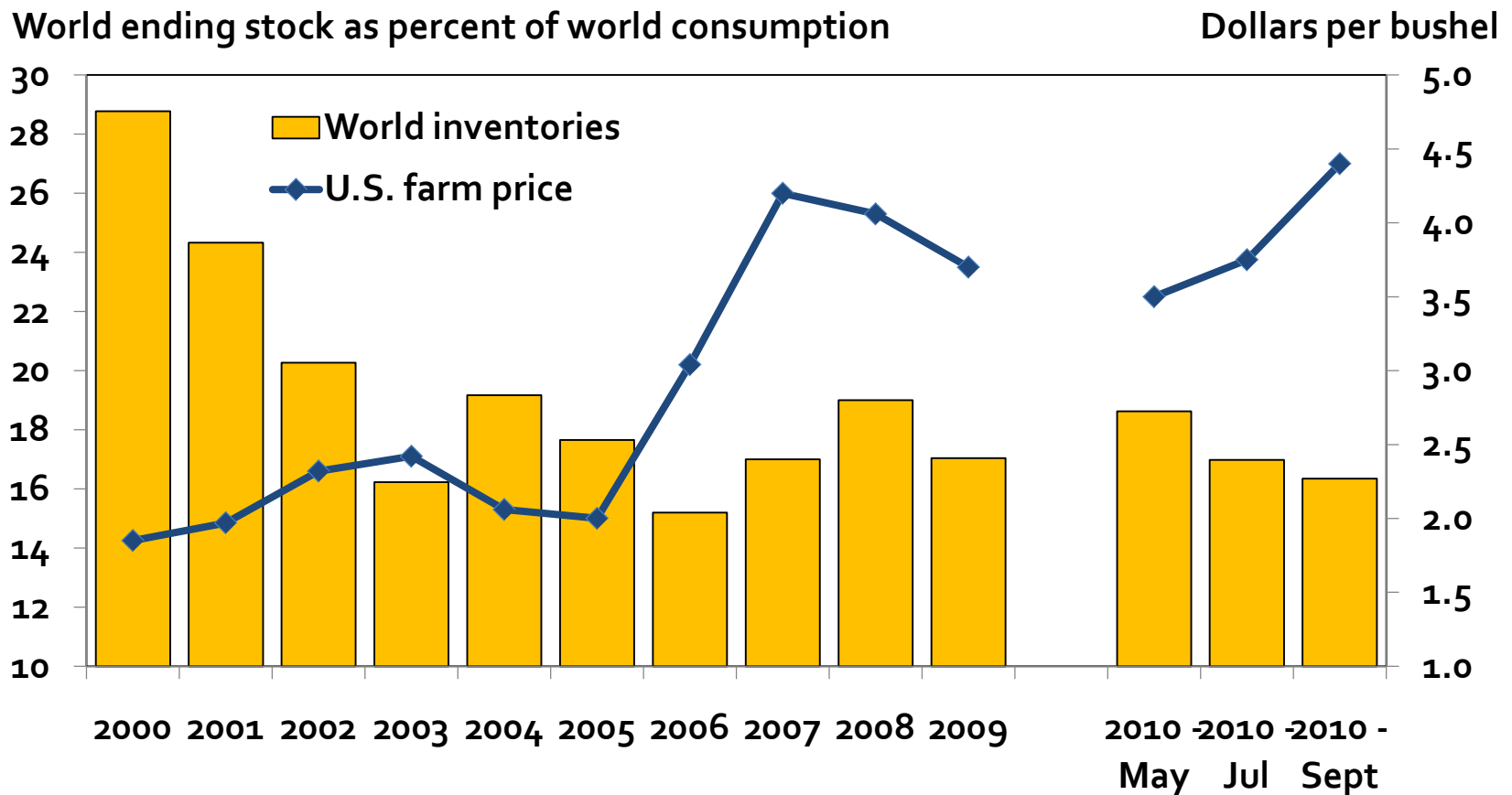


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Regional, Public and Community Affairs Division



Tight crop supplies raise feed costs.

World Corn Inventories and U.S. Corn Price

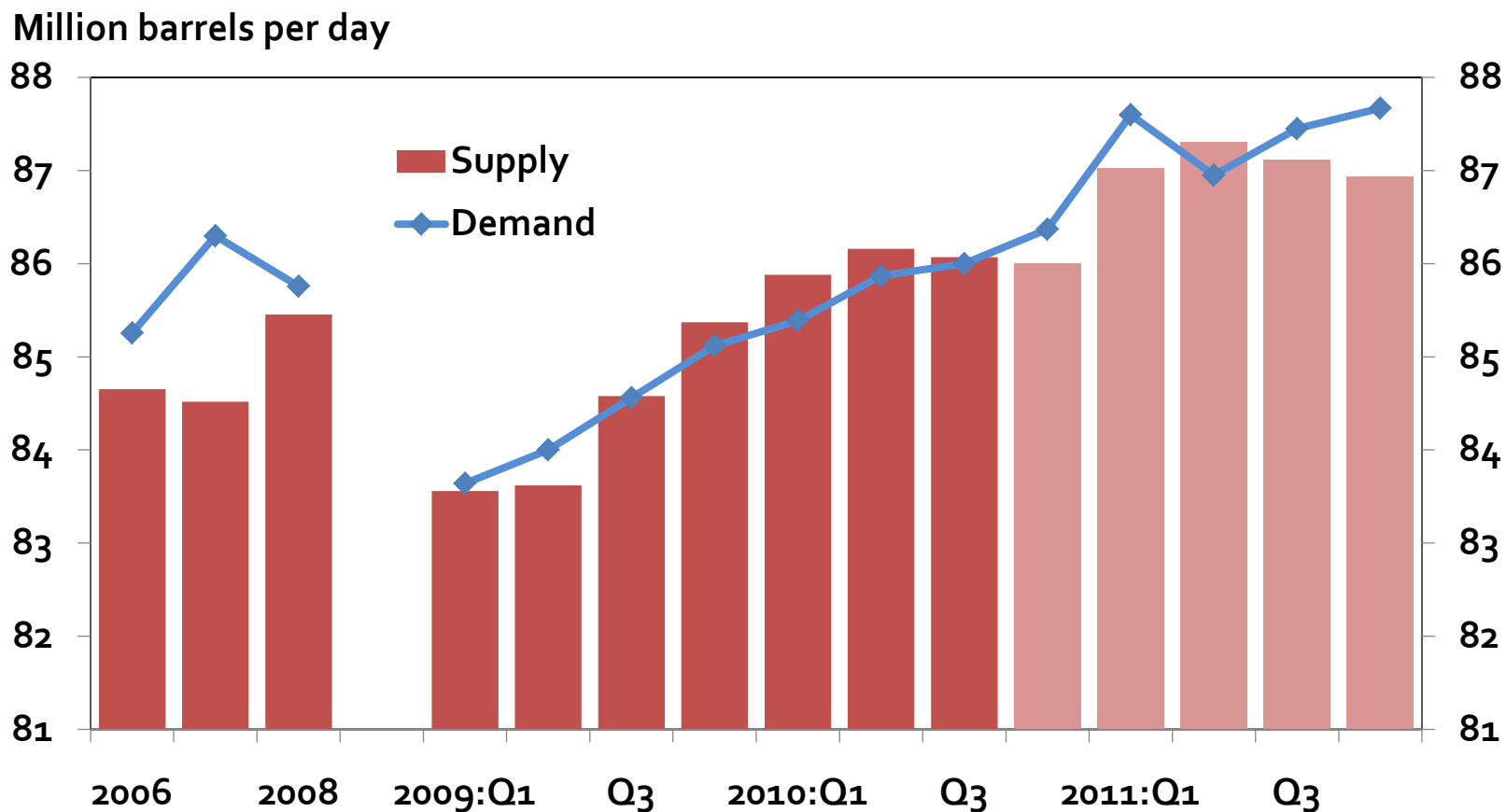


Source: USDA



What happens to prices if crude oil demand outpaces supply?

World Crude Oil and Liquid Fuels Balance



Source: Energy Information Administration

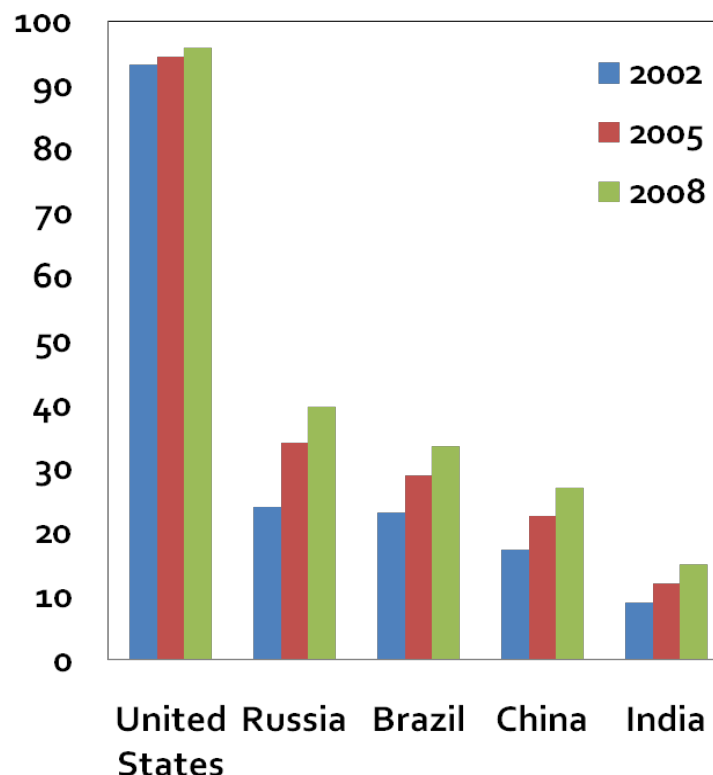


Long-term demand fundamentals are strong.

Robust population and income gains underpin demand.

- World GDP growth strongest in developing countries.
- In 2008, almost half of the world's population earns less than \$2.50 per day.
- At \$2.50 per day, most hunger problems are solved and people start eating processed foods.
- Household amenities, such as microwave ovens, also shift food demand.

Households Owning a Microwave Oven
Percent



Source: USDA



Conclusions

- A modest economic recovery is underway.
- Agriculture is enjoying a rebound in U.S. food expenditures and in export activity.
- Livestock profit opportunities have improved, but risks remain.
 - Tight crop supplies and stronger economic activity could boost commodity prices and feed costs.
 - Are farmland values over-valued?
- How can agriculture capitalize on stronger global economies?



Federal Reserve Bank of Kansas City Omaha Branch

The Main Street Economist:
a bi-monthly publication discussing agriculture and rural America

Agricultural Credit Survey:
a quarterly survey of agricultural credit conditions in the Tenth Federal Reserve District

Coming this fall - **Agricultural Finance Databook:**
a quarterly summary of national agricultural finance conditions

**For Additional Information on
Agricultural and Rural Issues**

www.kansascityfed.org/omaha

