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Macroeconomic, Credit, and Agricultural Issues



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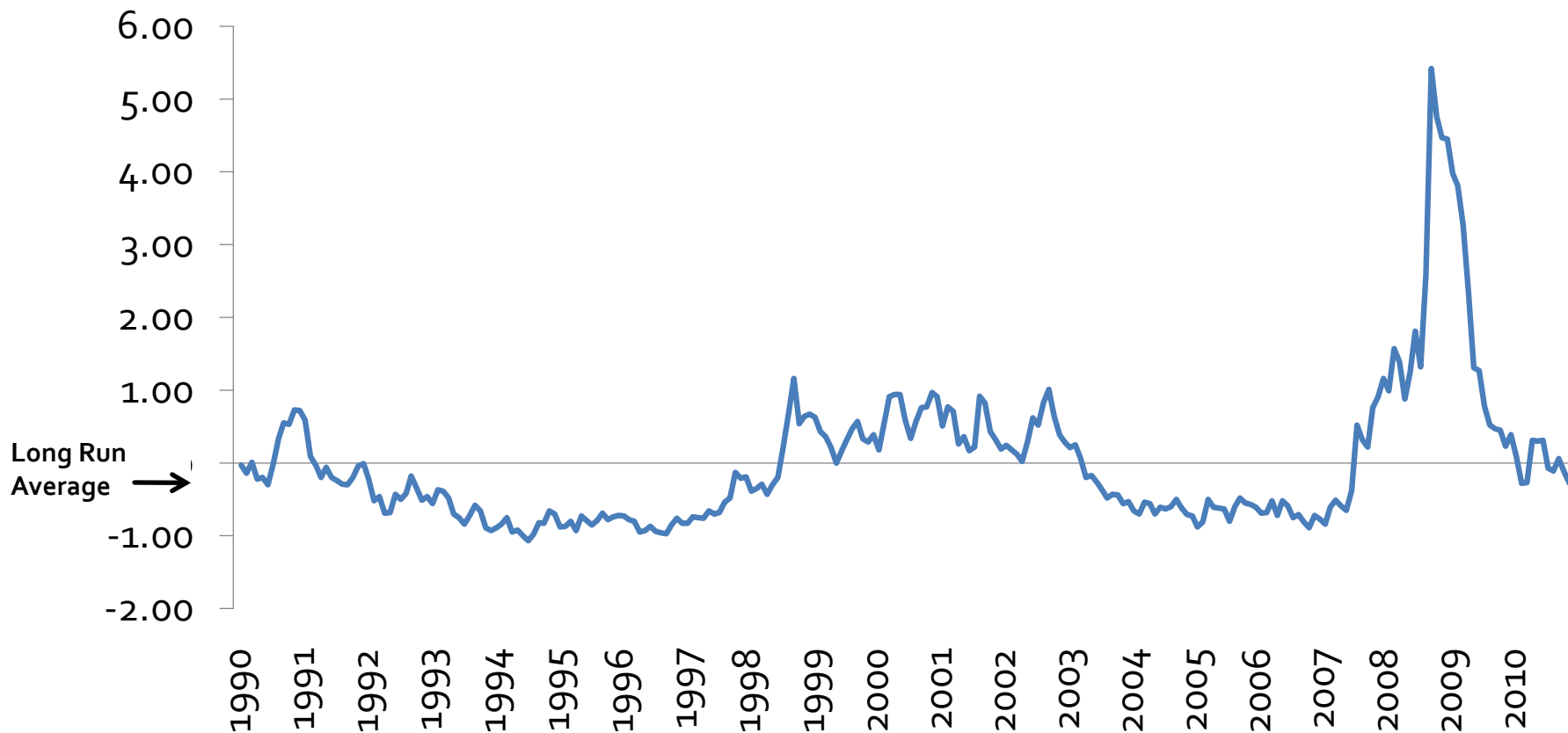
Today's Roadmap

- **The U.S. is recovering from a severe recession, but it is slow**
 - **Financial Crisis and Impact on Credit**
 - **Unemployment, real estate, and business activity**
- **Fiscal, Monetary, and International Challenges**
- **Are farmland values sustainable?**



Recently, financial stress has moved closer to its long-run average.

Kansas City Financial Stress Index

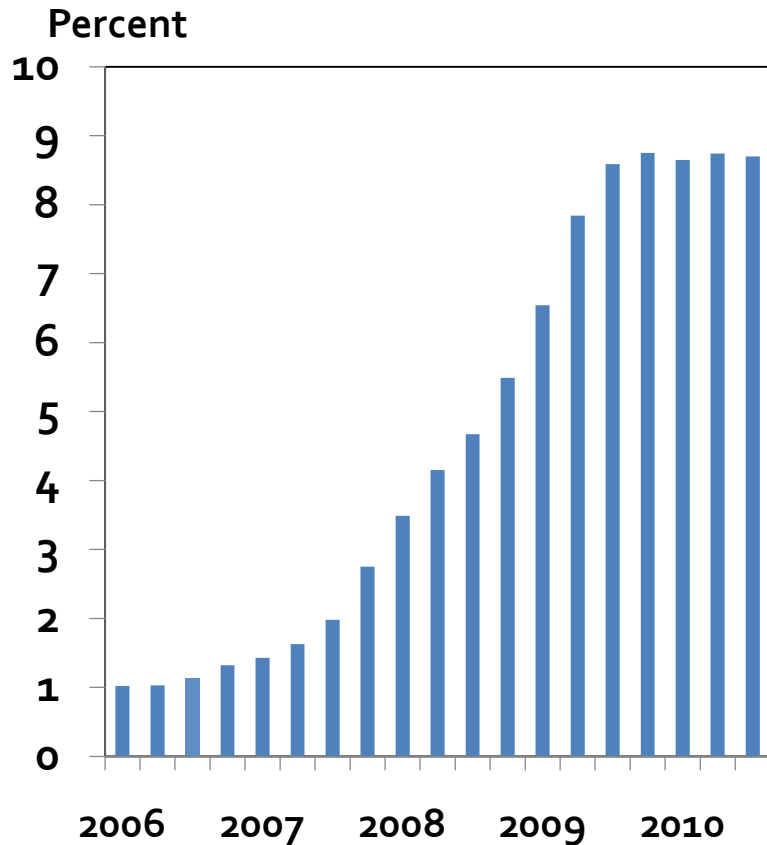


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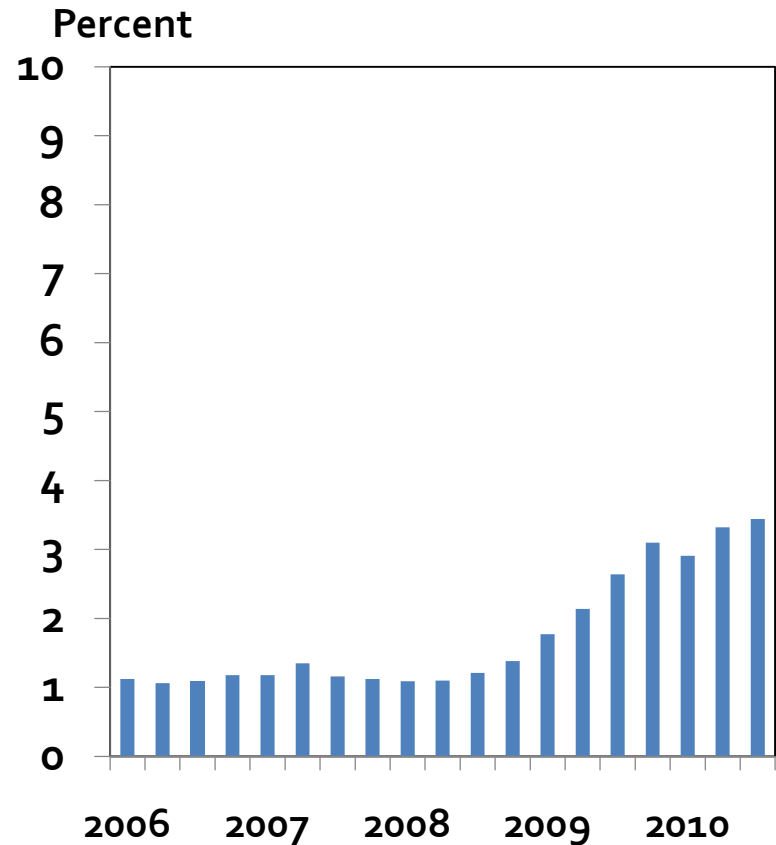


However, delinquency rates on commercial real estate and agricultural loans remain elevated.

Delinquency Rate on Commercial Real Estate Loans



Delinquency Rate on Agricultural Loans

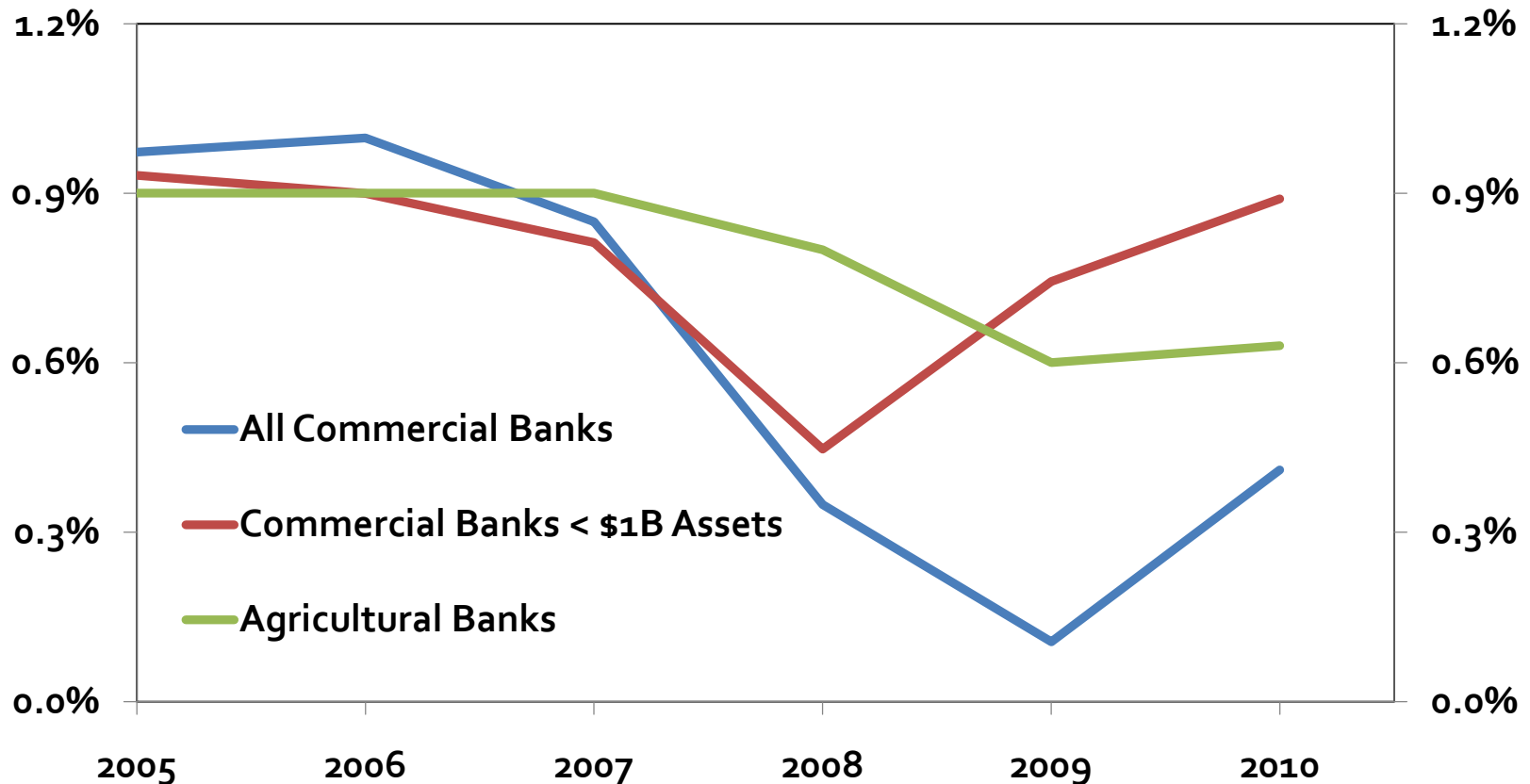


Source: Federal Reserve Board of Governors



Bank profit margins have rebounded.

Return on Assets (third quarter)



Source: FDIC and Agricultural Finance Databook



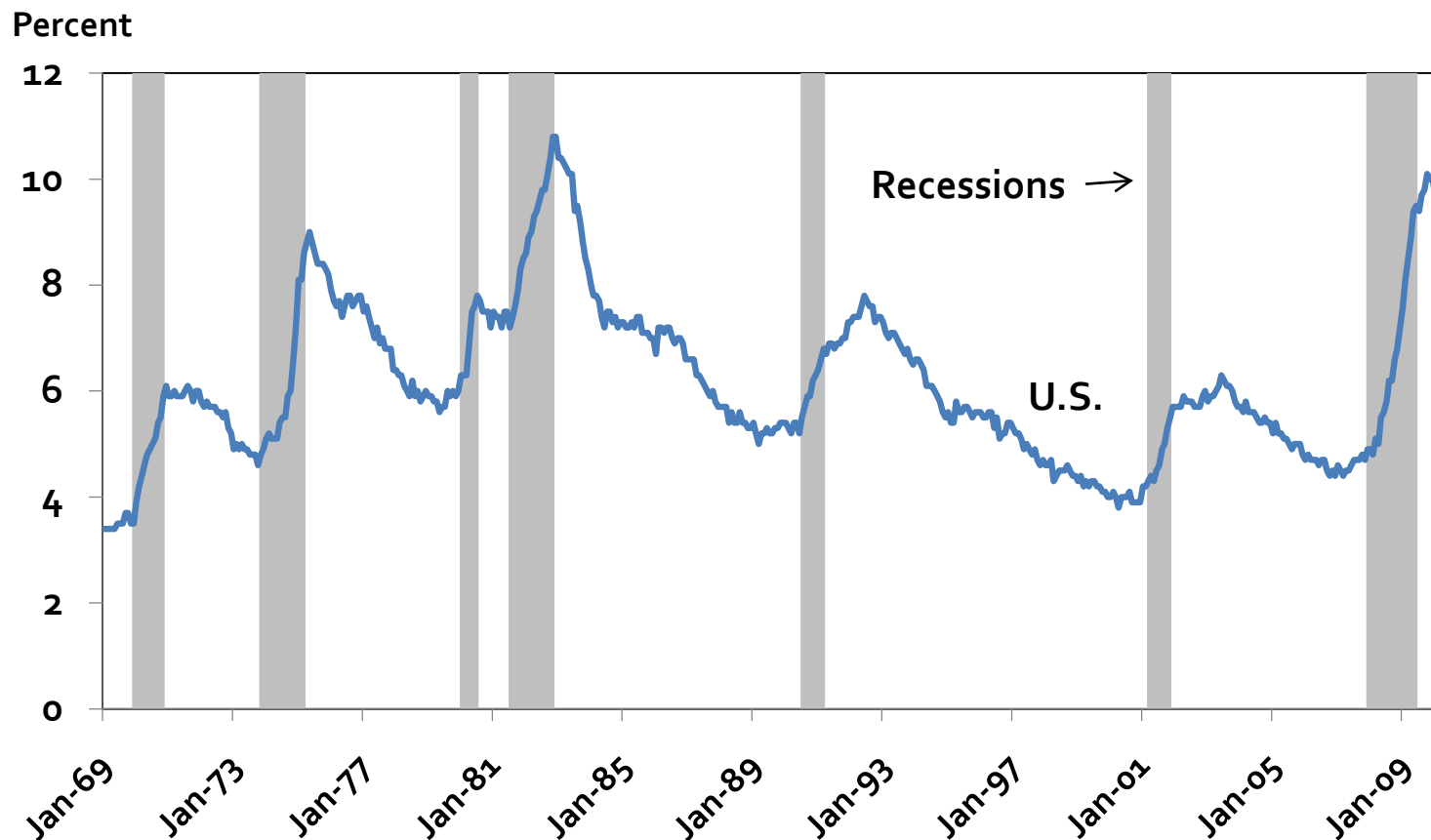
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An elevated unemployment rate is another reason for a slow recovery (limited demand).

U.S. Unemployment Rate (U₃)

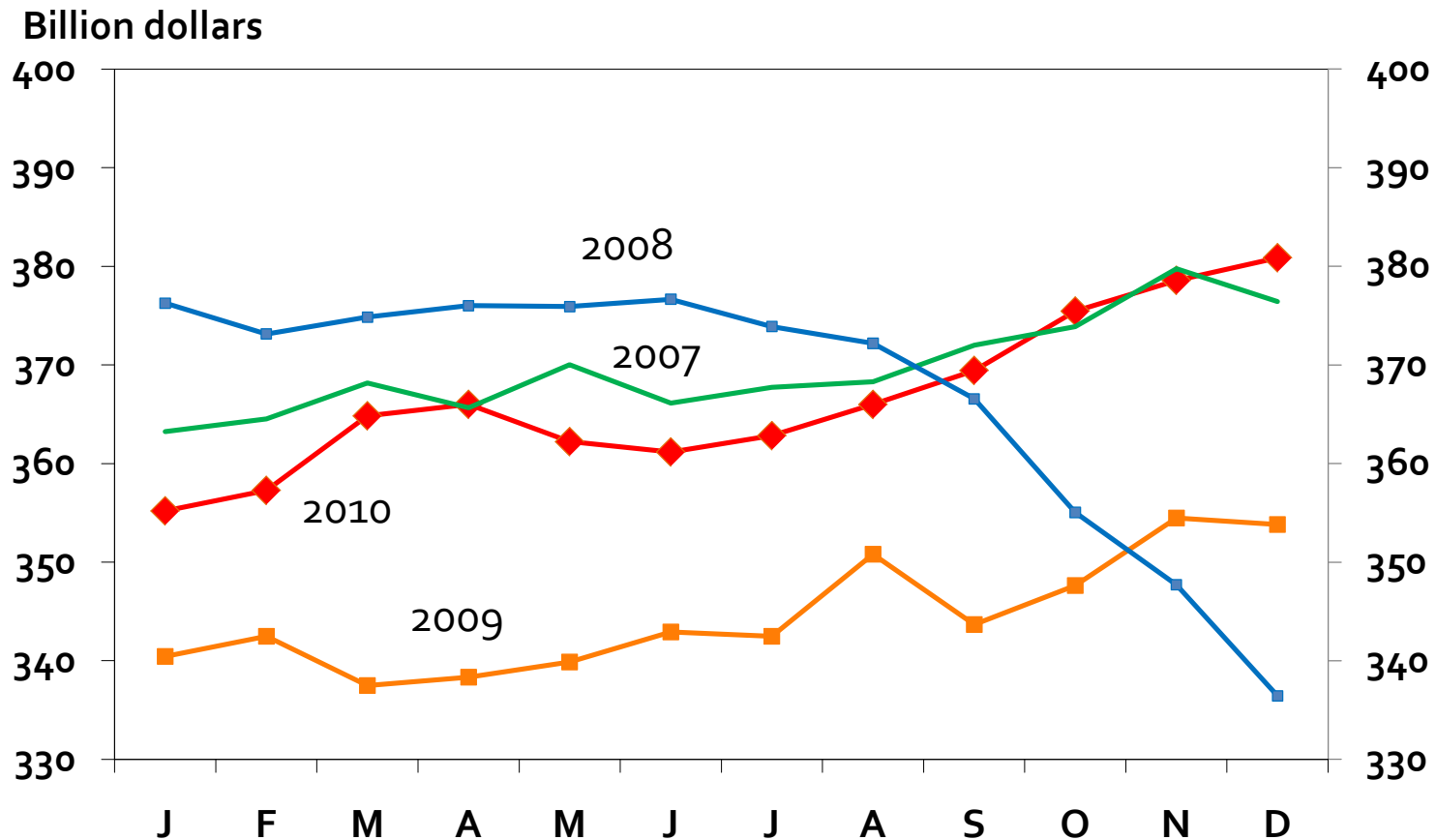


Source: Bureau of Economic Analysis and Bureau of Labor Statistics



U.S. consumers are spending money.

U.S. Monthly Retail and Food Sales

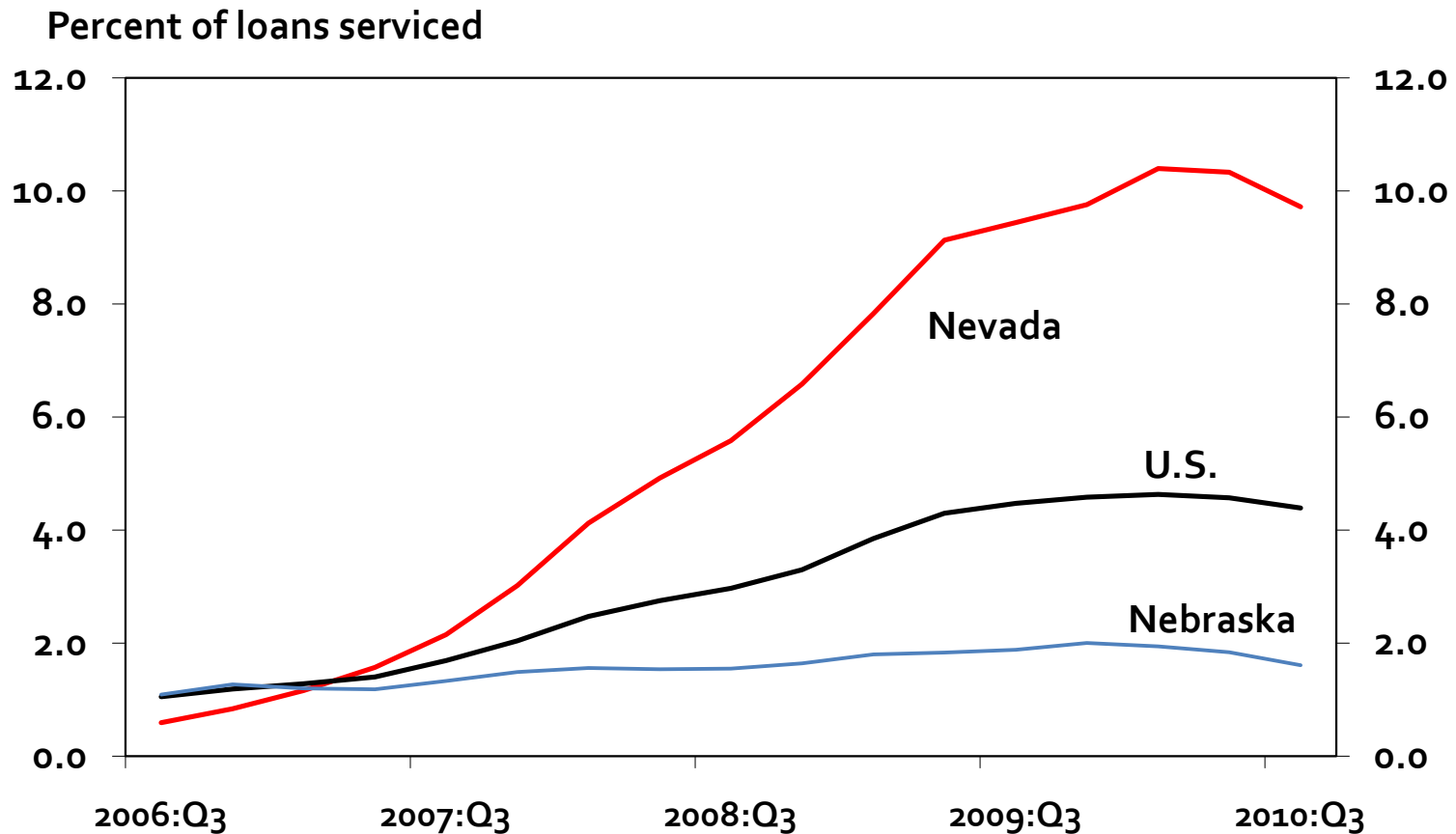


Source: U.S. Census Bureau



Home foreclosure inventories have dipped.

Home Foreclosure Inventory

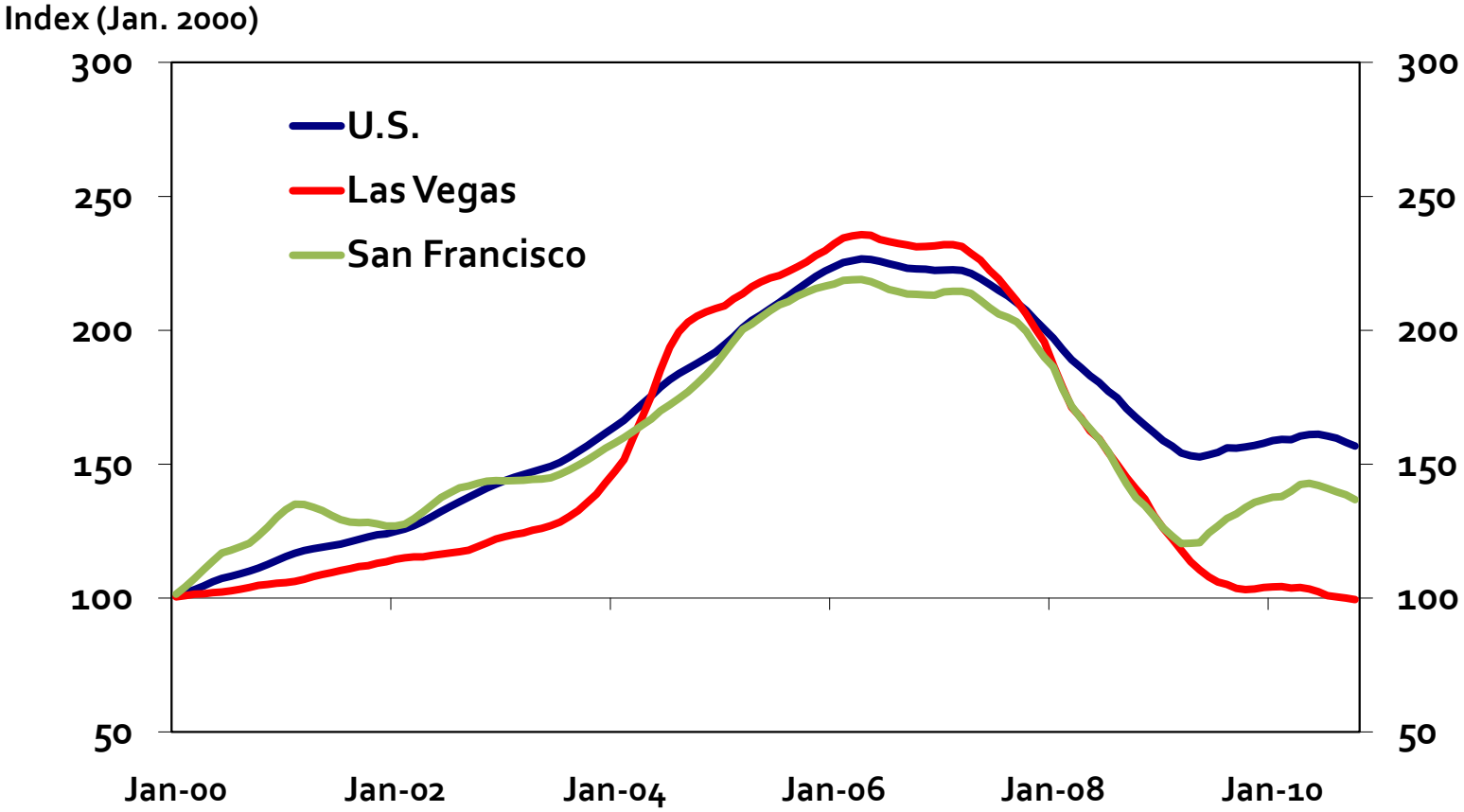


Source: Mortgage Bankers Association



Home prices have dropped, and may be forming a bumpy bottom.

Case-Shiller Home Price Indices

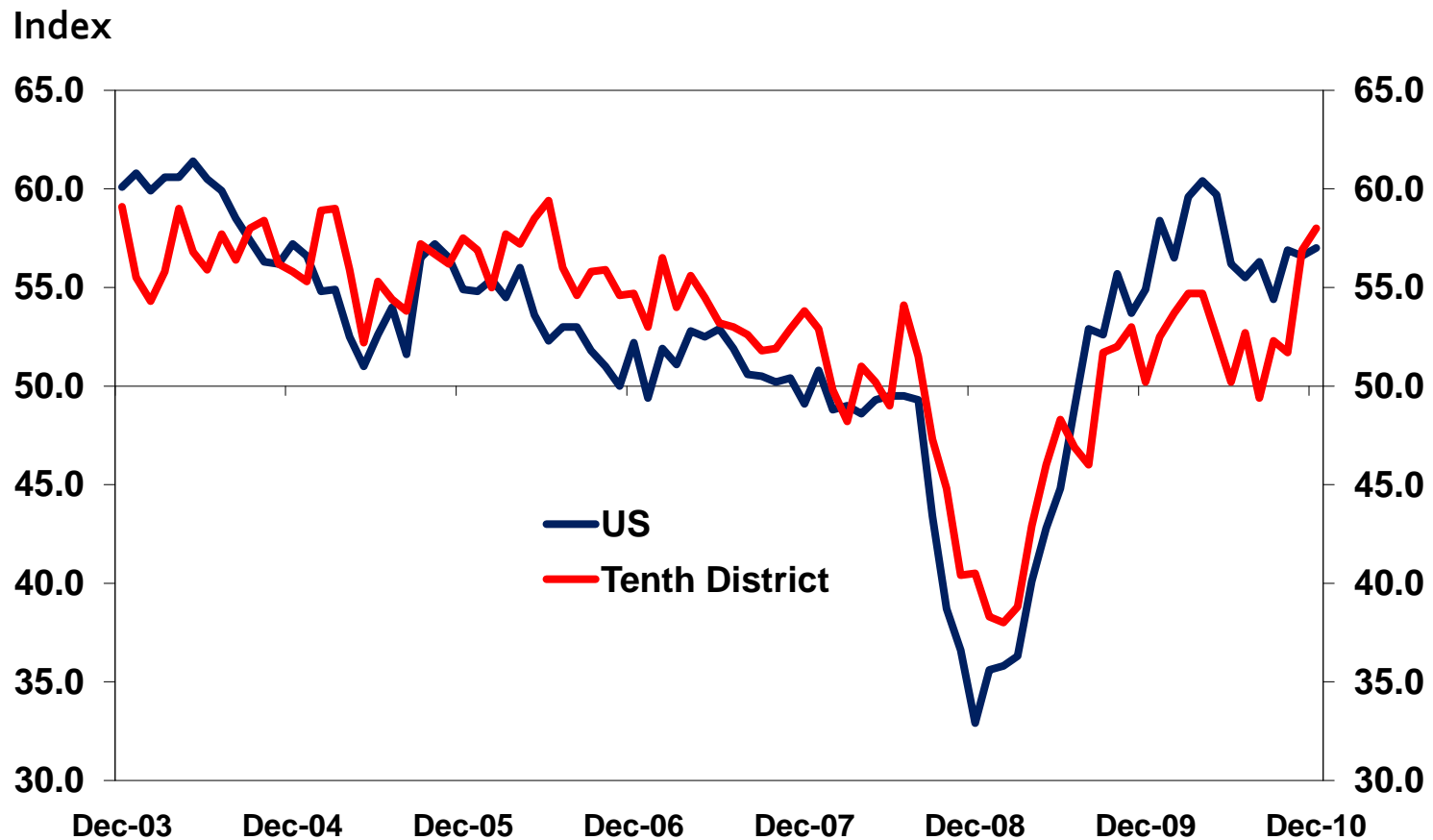


Source: Standard & Poor's



Manufacturing activity has strengthened.

U.S. and Tenth District Manufacturing Production Indices

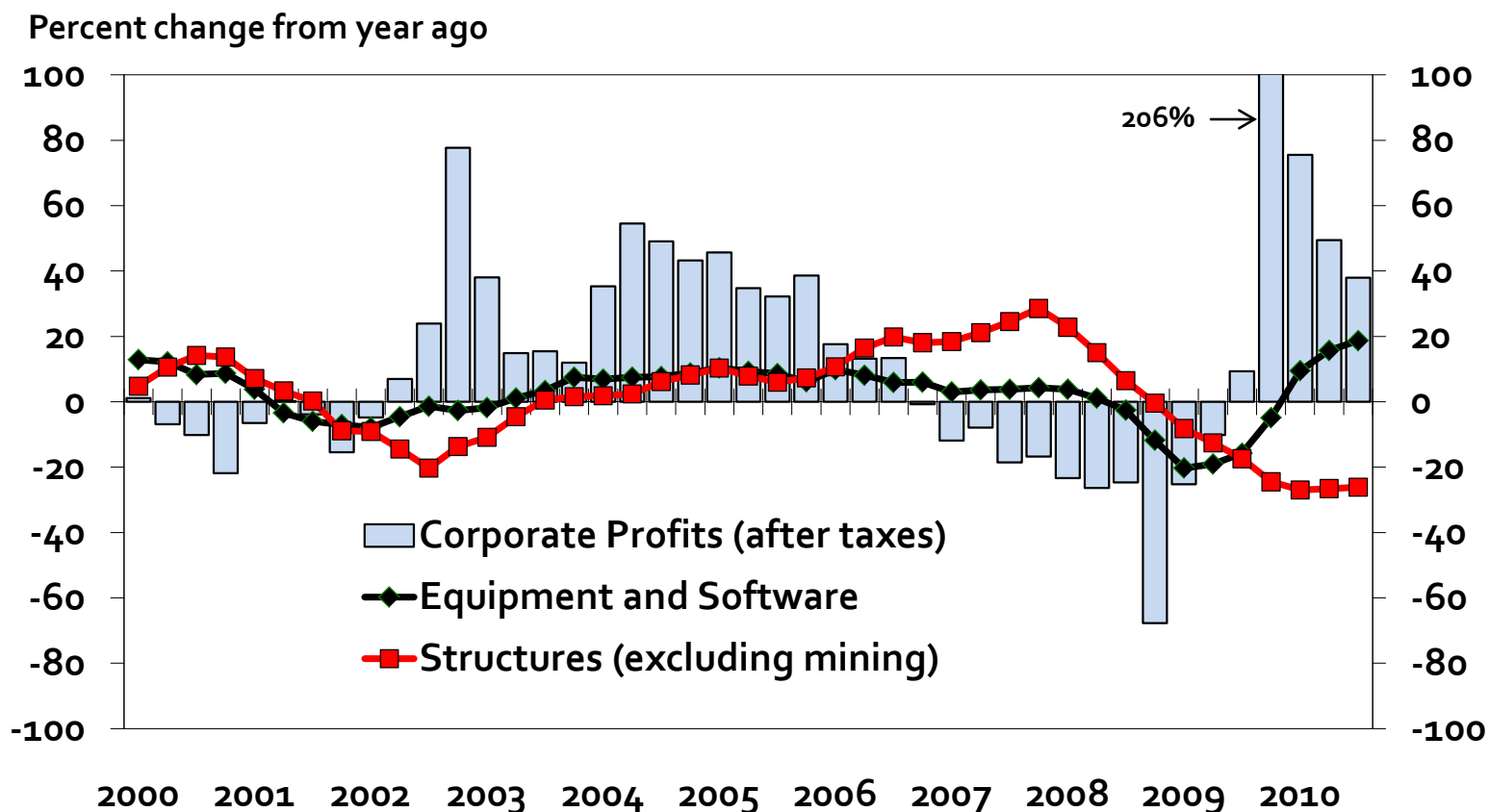


Source: Institute of Supply Management and Federal Reserve Bank of Kansas City



Corporate profits and equipment and software investment have rebounded.

Corporate Profits and Nonresidential Fixed Investment



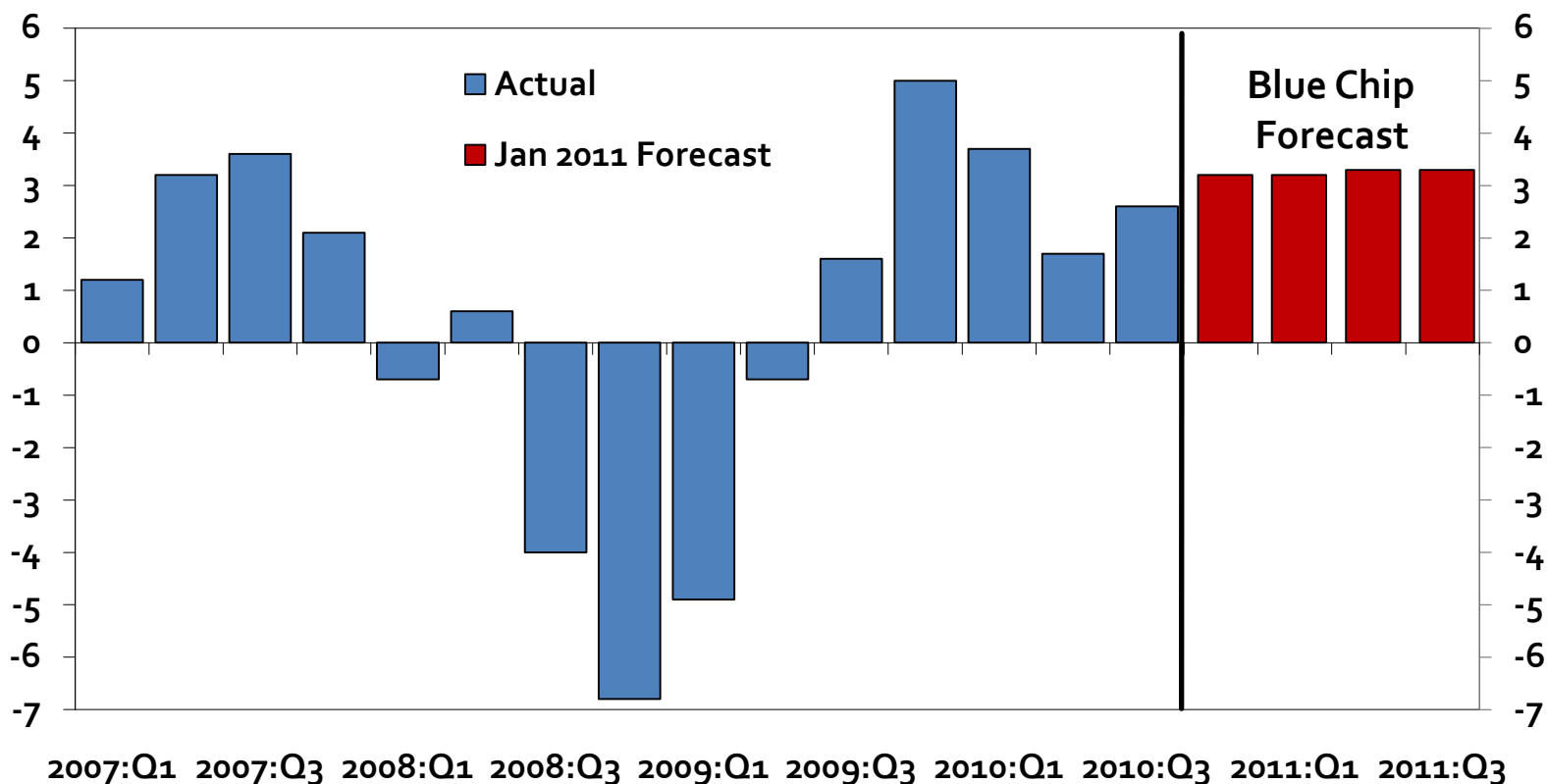
Source: Bureau of Economic Analysis



The economy is recovering from a very steep recession with stronger gains expected in 2011.

Real GDP Growth

Annualized percent change from previous quarter



Source: Bureau of Economic Analysis and Blue Chip Economic Indicators



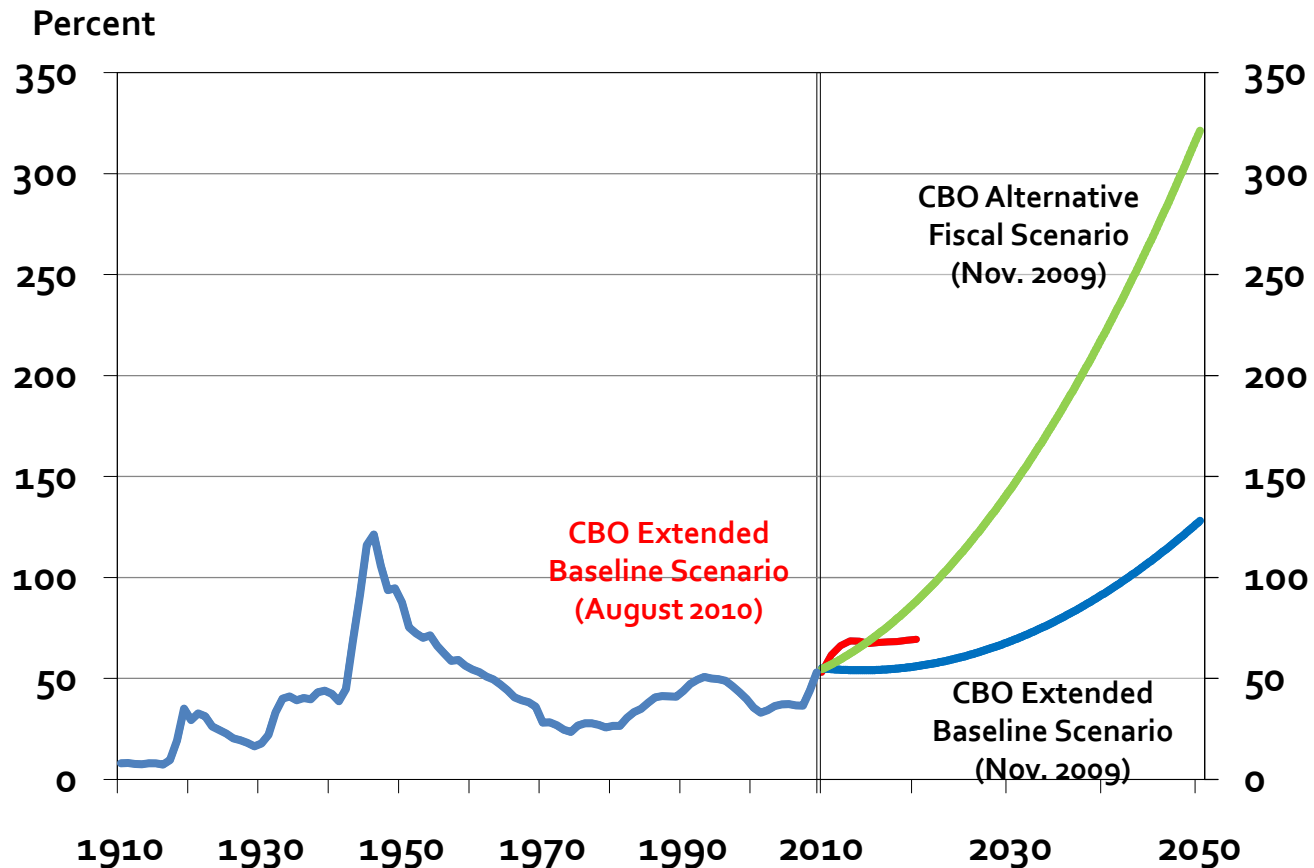
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How will rising federal debt levels affect long-term economic conditions?

U.S. Debt as a Percent of GDP

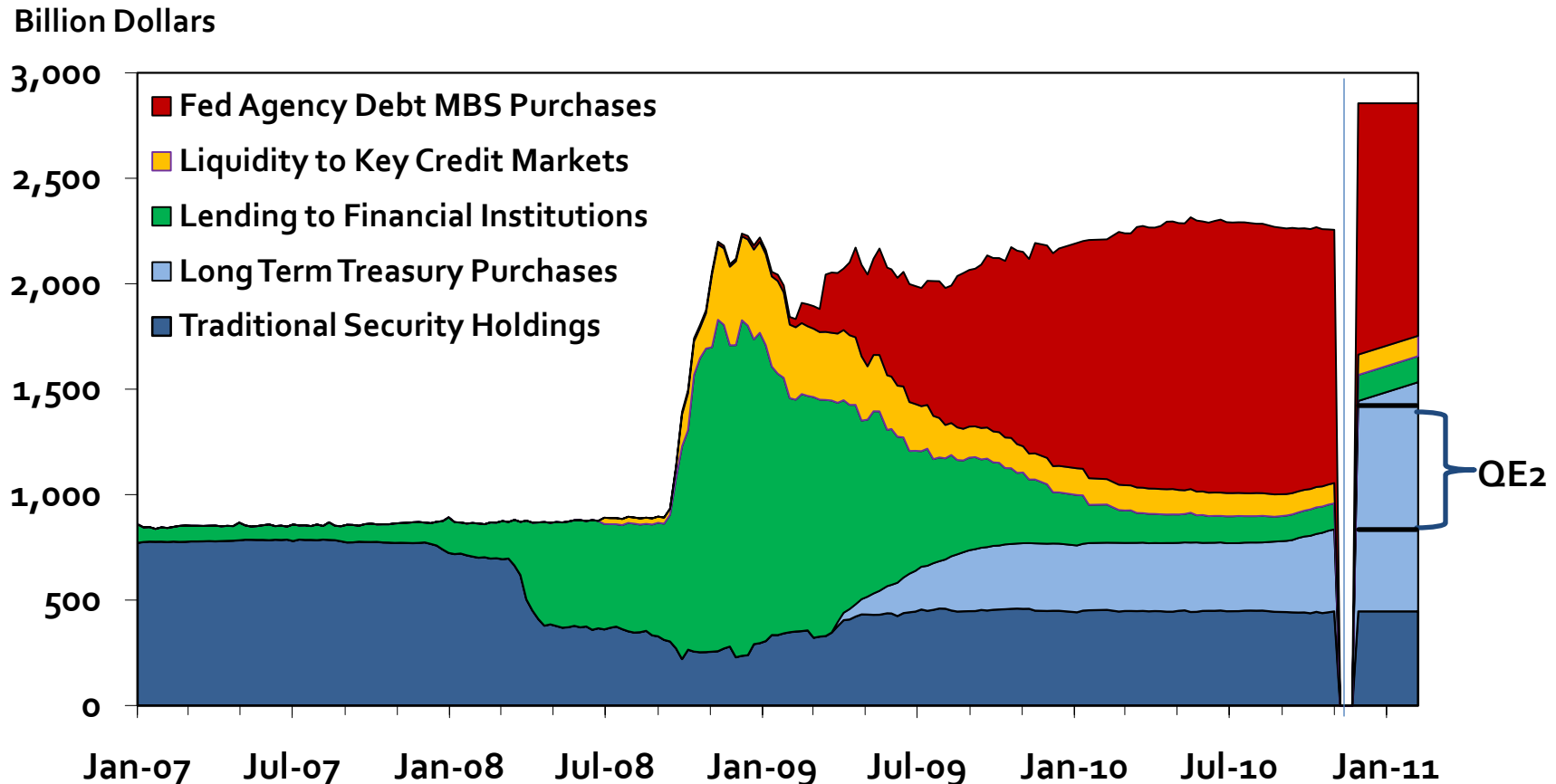


Source: Congressional Budget Office



When the Federal Reserve decides to exit from quantitative easing (QE) policy, what challenges might agriculture face?

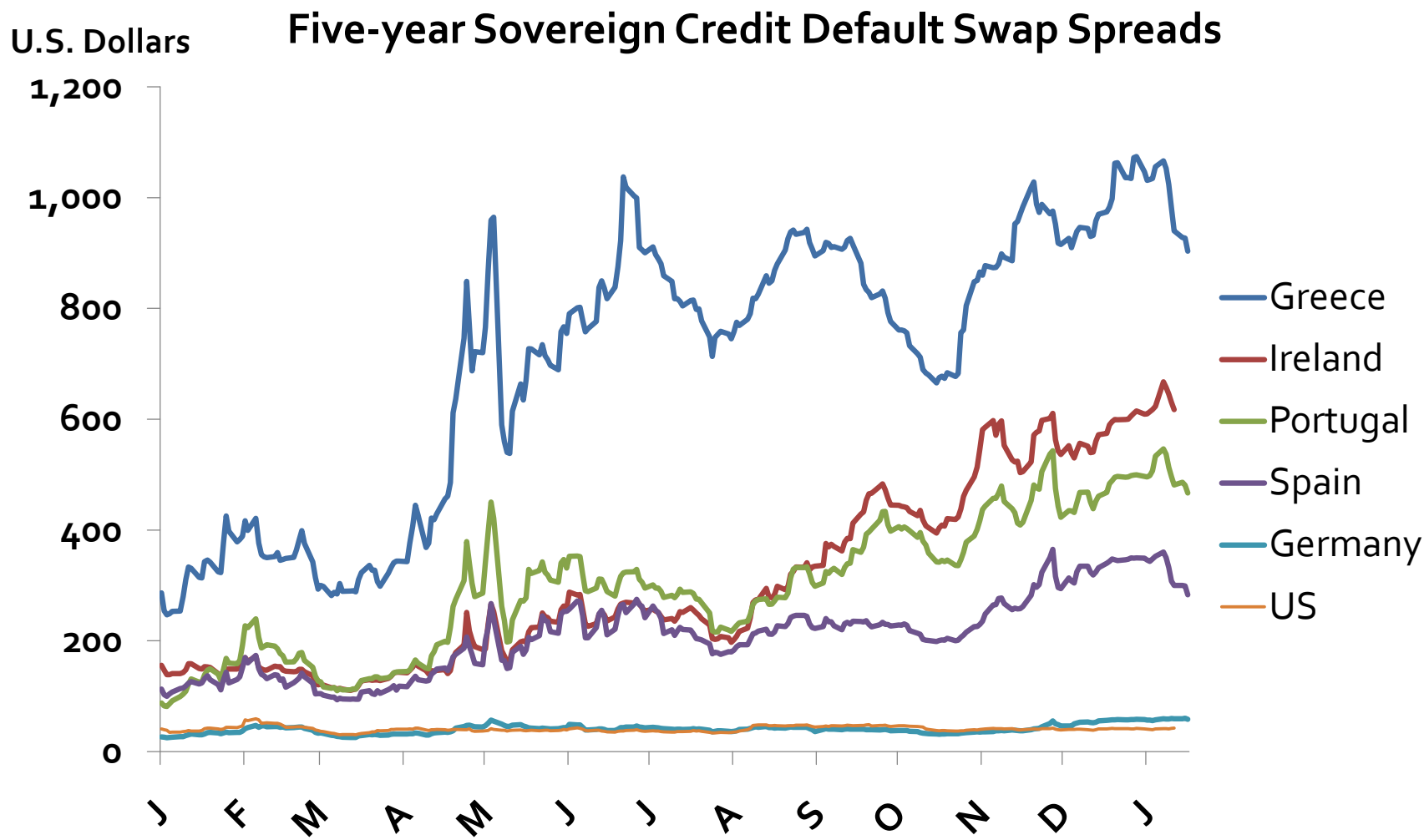
Federal Reserve Balance Sheet: Assets



Source: Federal Reserve Bank of Cleveland



What does the Eurozone Sovereign Debt Crisis mean for the U.S. economy and agriculture?



Source: Bloomberg data starting 1/4/10 and ending 11/30/10. U.S. is priced to Euros.

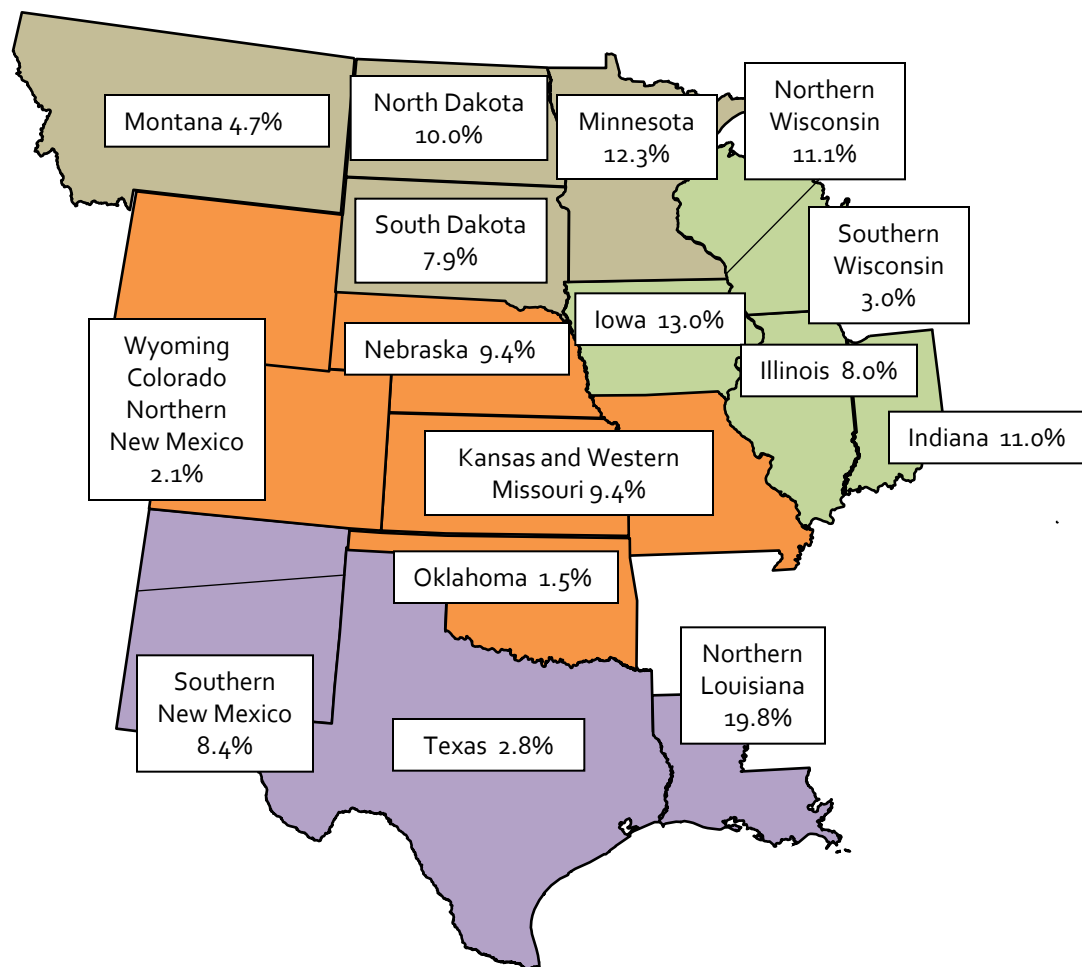


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Good Quality Farmland (Non-irrigated Cropland) Values (Percent change Third Quarter 2009 to Third Quarter 2010)



Source: Federal Reserve District Surveys (Chicago, Minneapolis, Kansas City, Dallas)



Capitalized Revenues from Corn Production

Land values should equal capitalized revenues

$$\text{Land Values} = \frac{\text{Expected Revenues}}{\text{Capitalization Rate}}$$

Assumptions:

Corn Price: \$5.00 per bushel

25% of gross revenues go to land

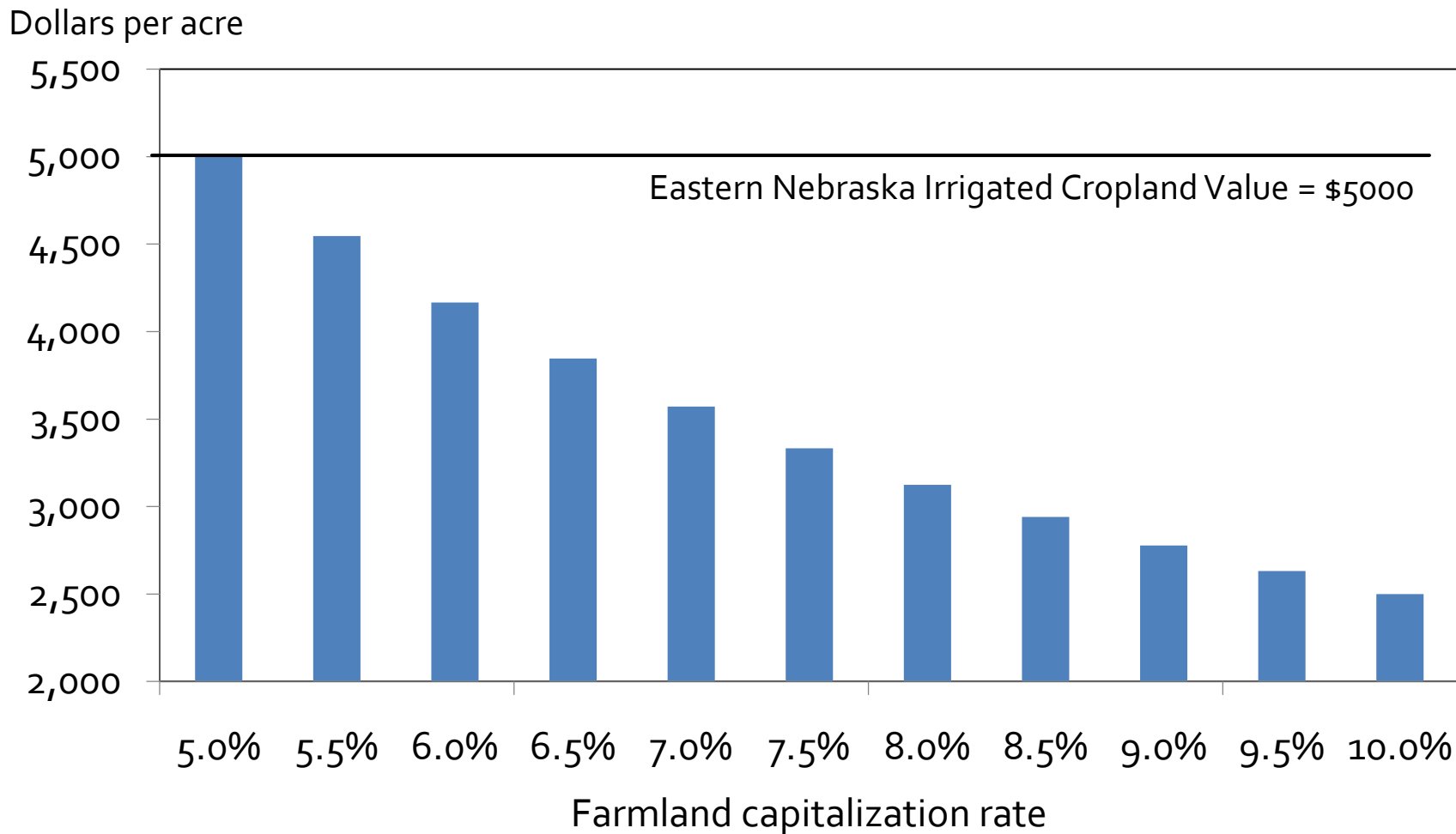
	Yield (bushel per acre)	
	150 bushels	200 bushels
Capitalization rate		
5%	3750	5000

Note: Nebraska irrigated corn yield 198 bushels per acre (2009 average)

U.S. average annual price \$5.20 per bushel (2010 average)



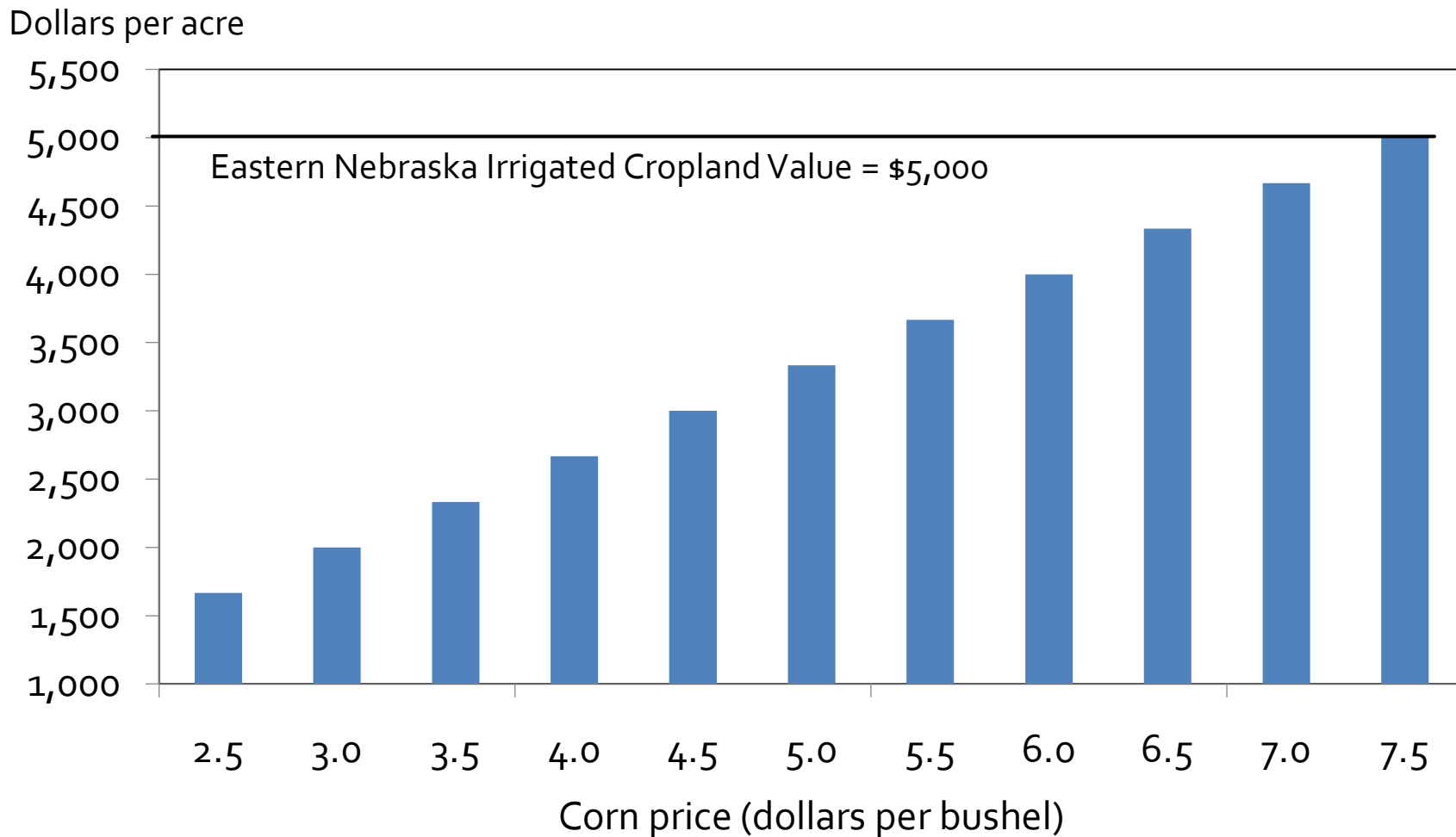
At \$5 per bushel corn, rising cap rates could slash cropland values.



Authors' calculations assuming 200 bushels per acre and 25% of gross revenues capitalized into land.



At a historical cap rate of 7.5 percent, record high corn prices are needed to justify current cropland values.



Authors' calculations assuming 200 bushels per acre and 25% of gross revenues capitalized into land.



Questions?

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