

Brian C. Briggeman, Ph.D.

Economist

Federal Reserve Bank of Kansas City – Omaha Branch

www.kansascityfed.org/omaha

May 20, 2010

Changes in the Economic Landscape



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

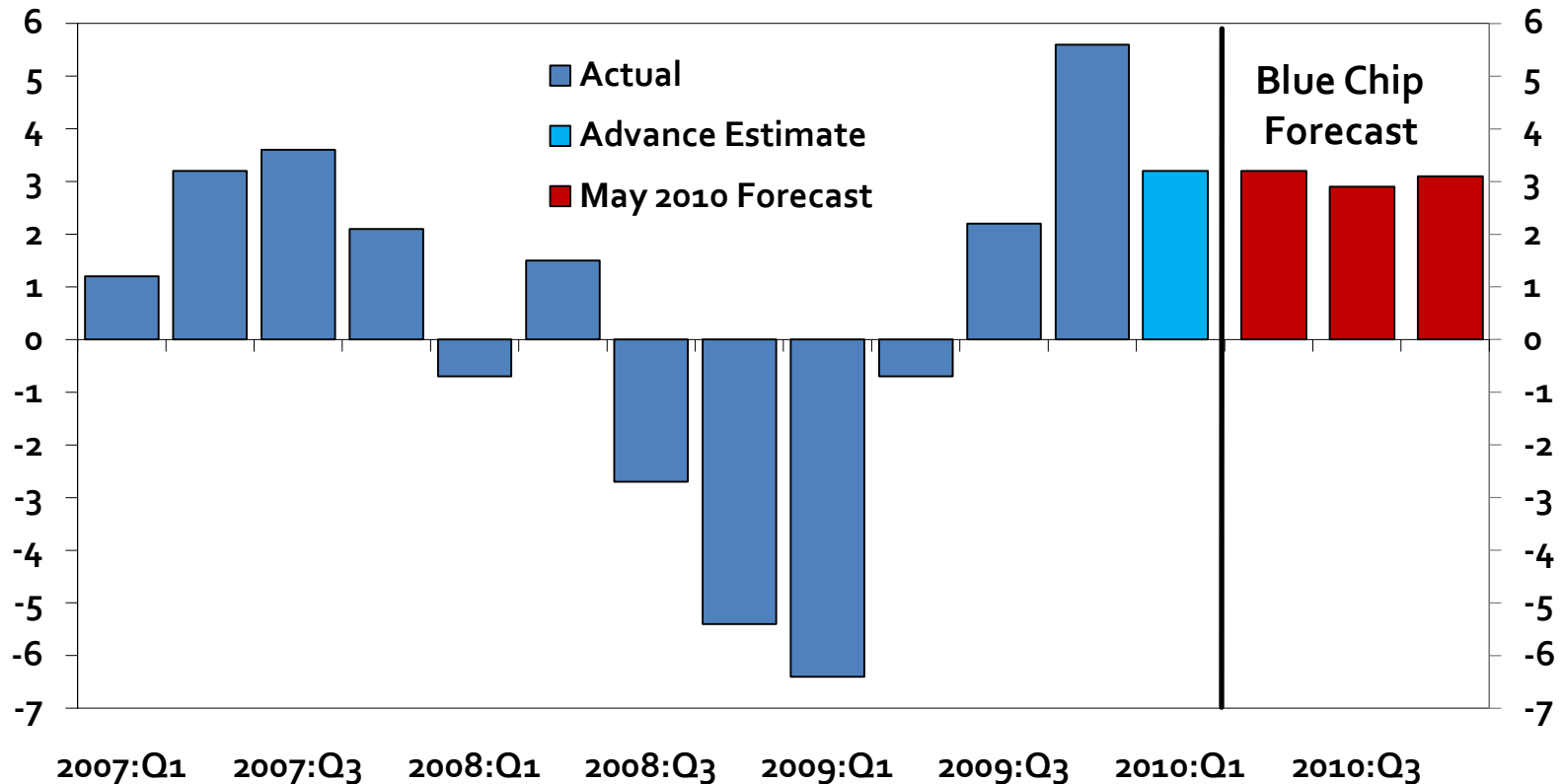
- **Uncertainties Surrounding the Recovery**
 - Financial Crisis and Impact on Credit
 - Unemployment and Slipping Demand
- **Changes in Residential, Nonresidential and Financial Investments**
- **Global, Fiscal, and Monetary Challenges**



Recently, real GDP has risen, but forecasters expect just above trend growth.

Real GDP Growth

Annualized percent change from previous quarter

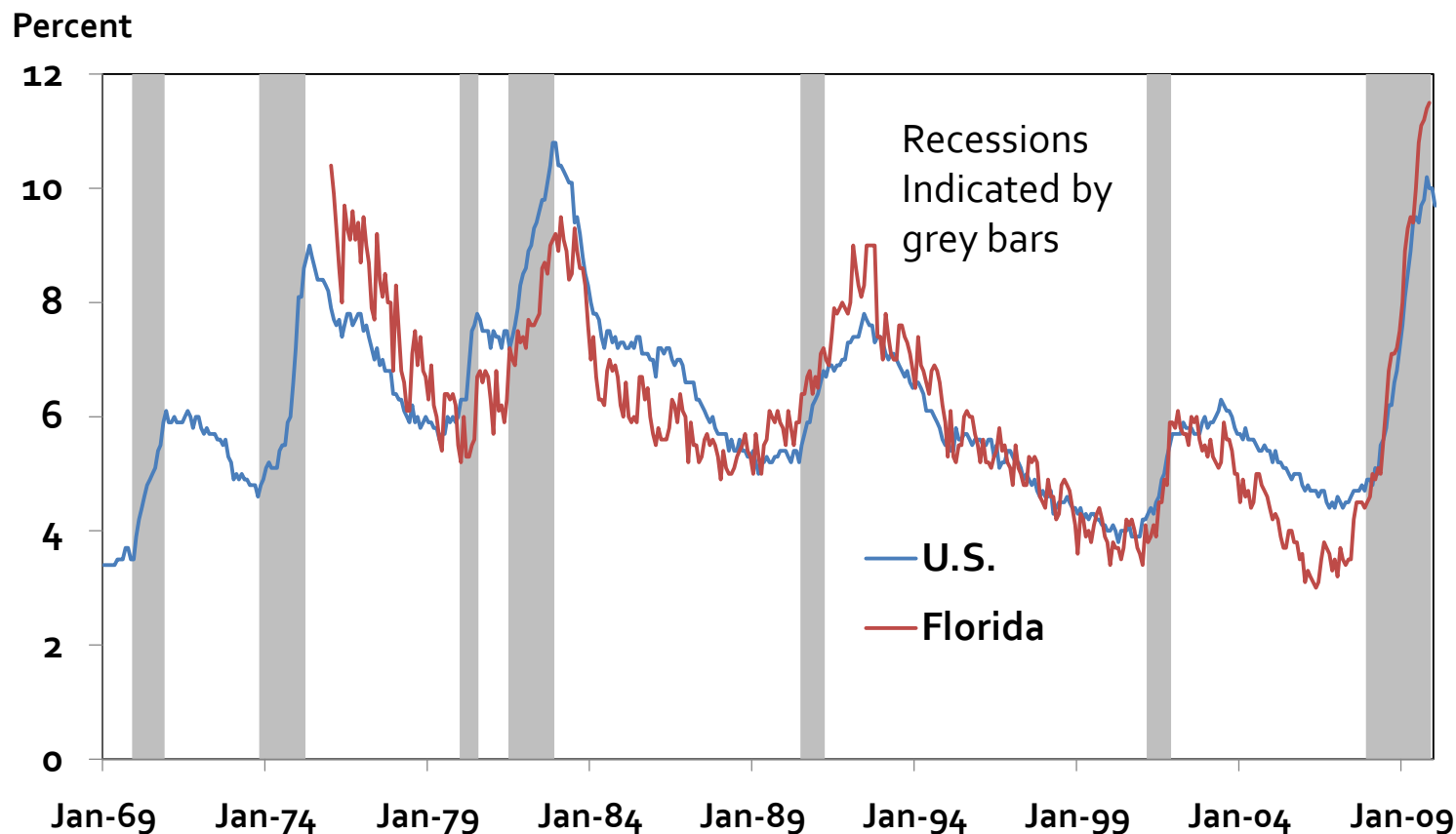


Source: Bureau of Economic Analysis and Blue Chip Economic Indicators



An elevated unemployment rate may weigh on the recovery.

Unemployment Rate



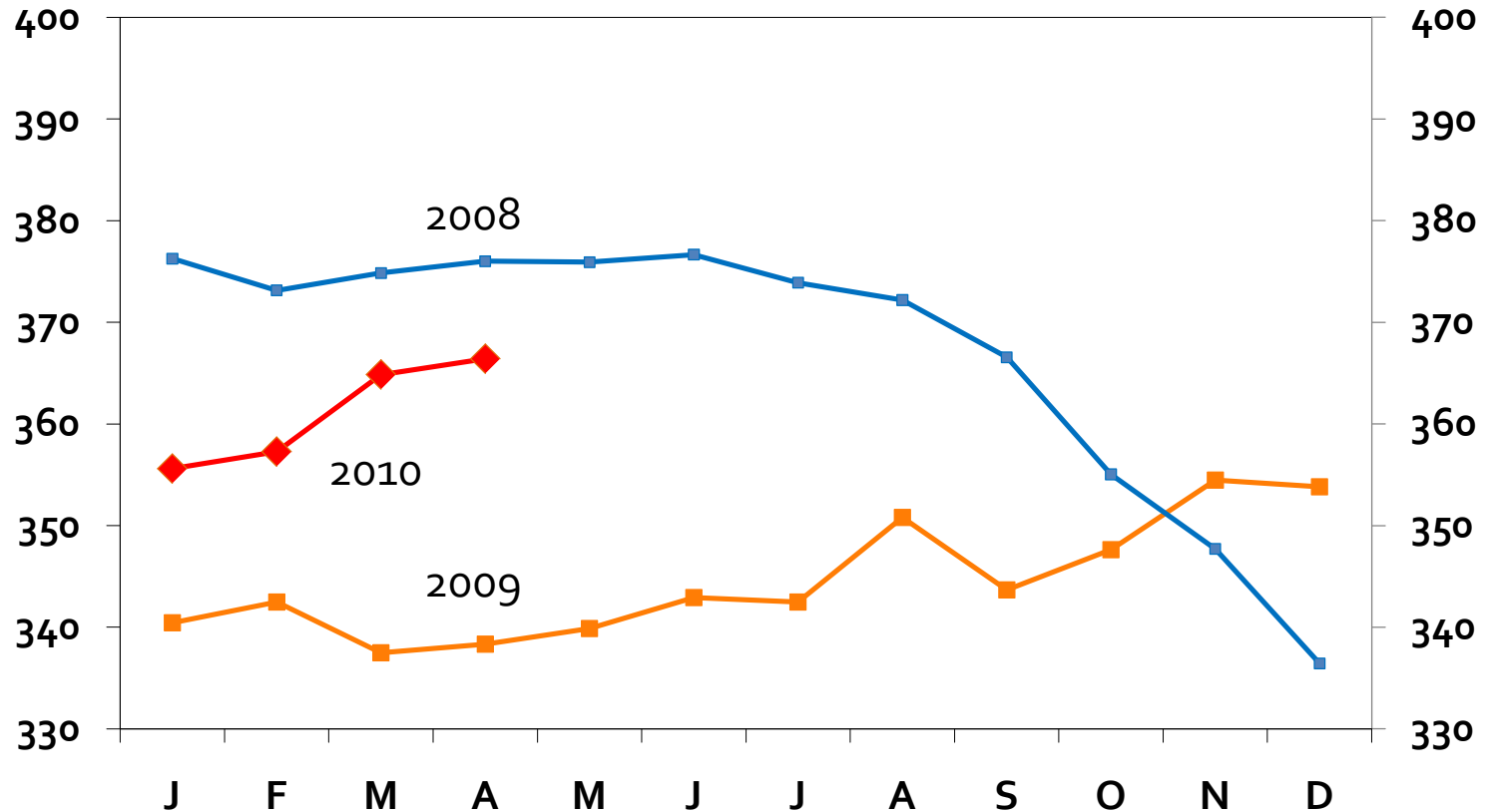
Source: Bureau of Economic Analysis and Bureau of Labor Statistics



Since the slump in 2008, retail sales have improved.

U.S. Monthly Retail and Food Sales

Billion dollars (nominal)

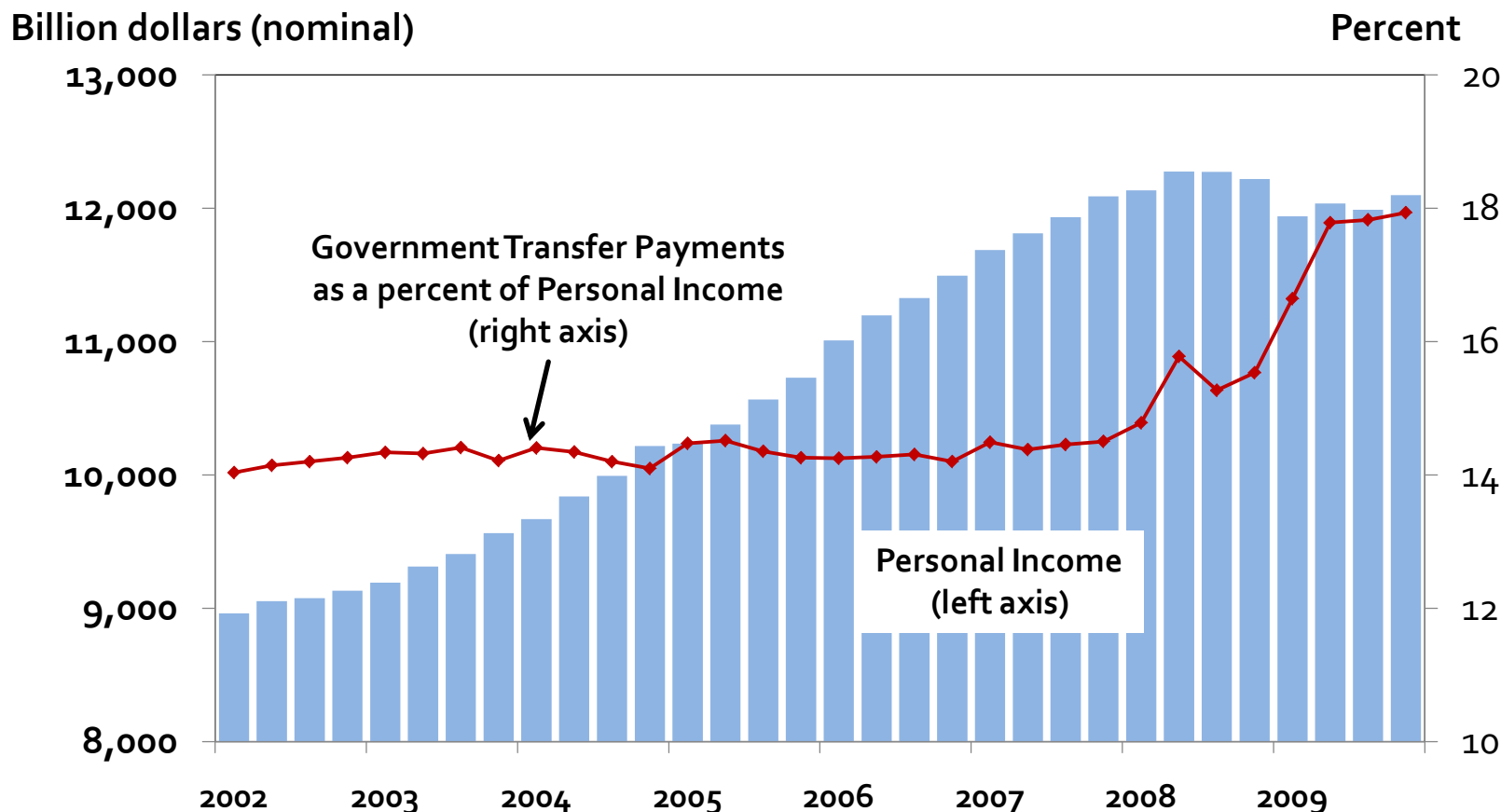


Source: U.S. Census Bureau



Government transfer payments have supported personal income, which has helped consumption.

Personal Income and Share of Government Transfer Payments



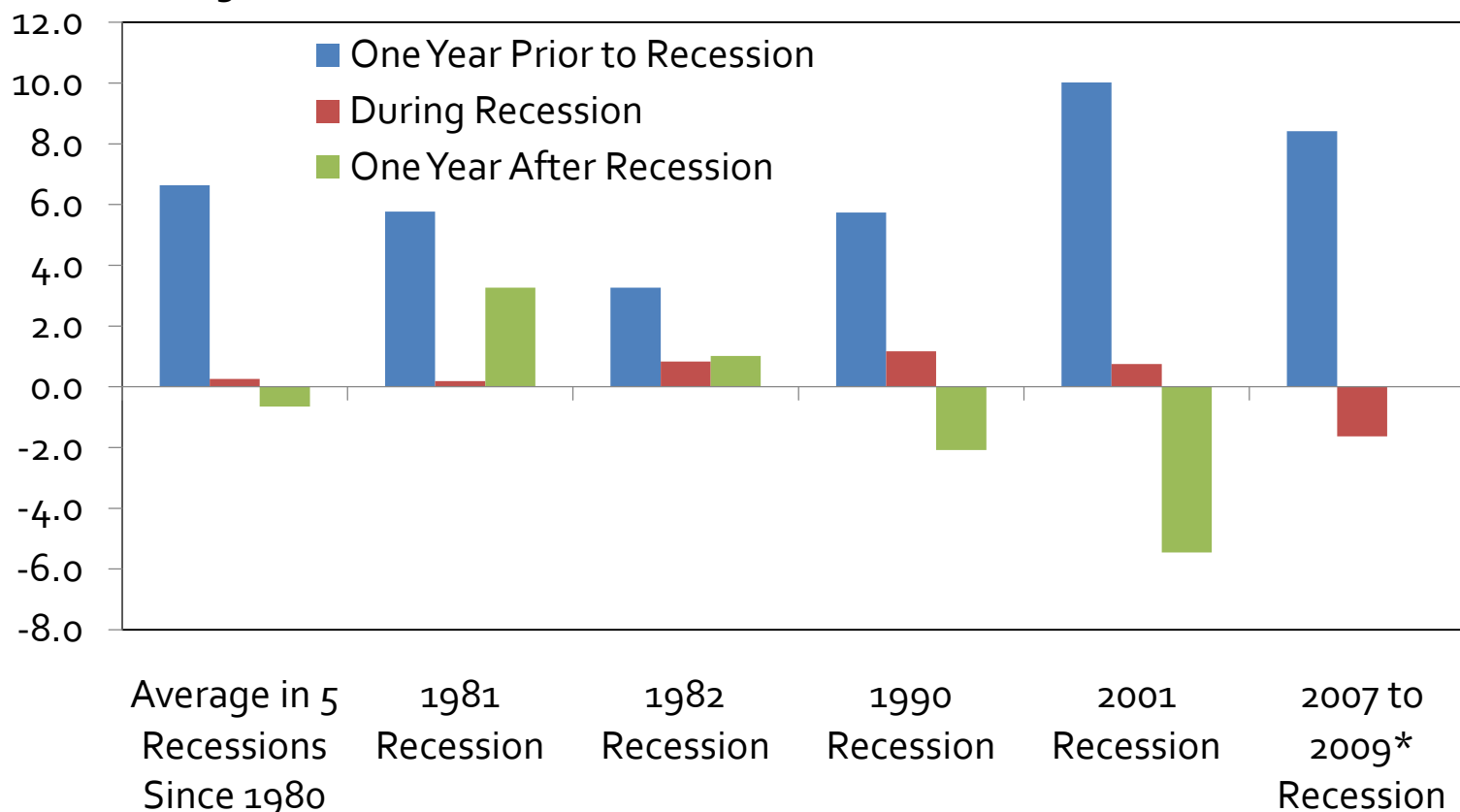
Source: Bureau of Economic Analysis



Meat and milk spending tends to decline in jobless recoveries.

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.

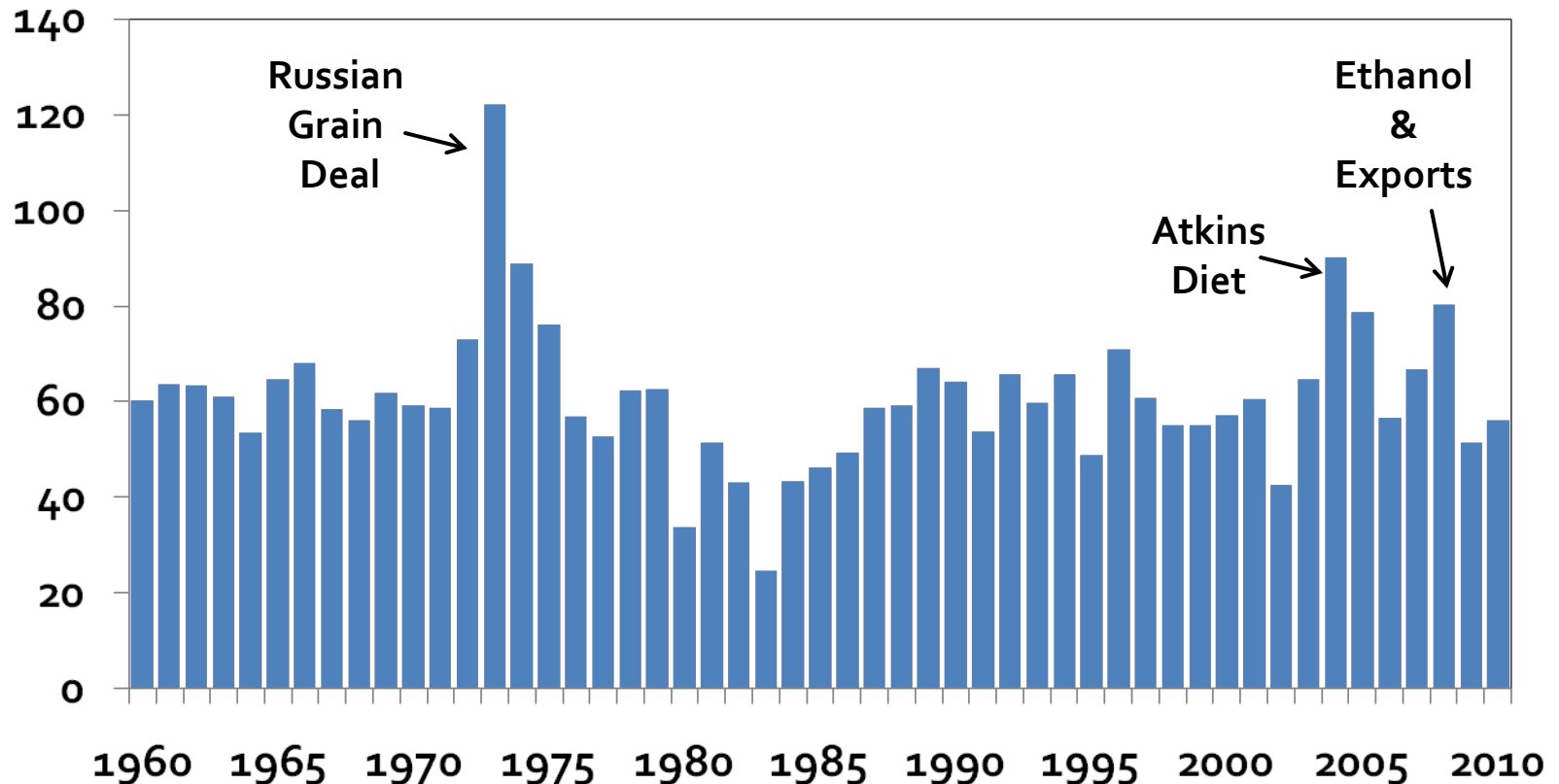
•At the time of publication, the end of the recession has yet to be specified.



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

Real U.S. Net Farm Income

Billion dollars
(2005 Constant Dollars)



Source: USDA

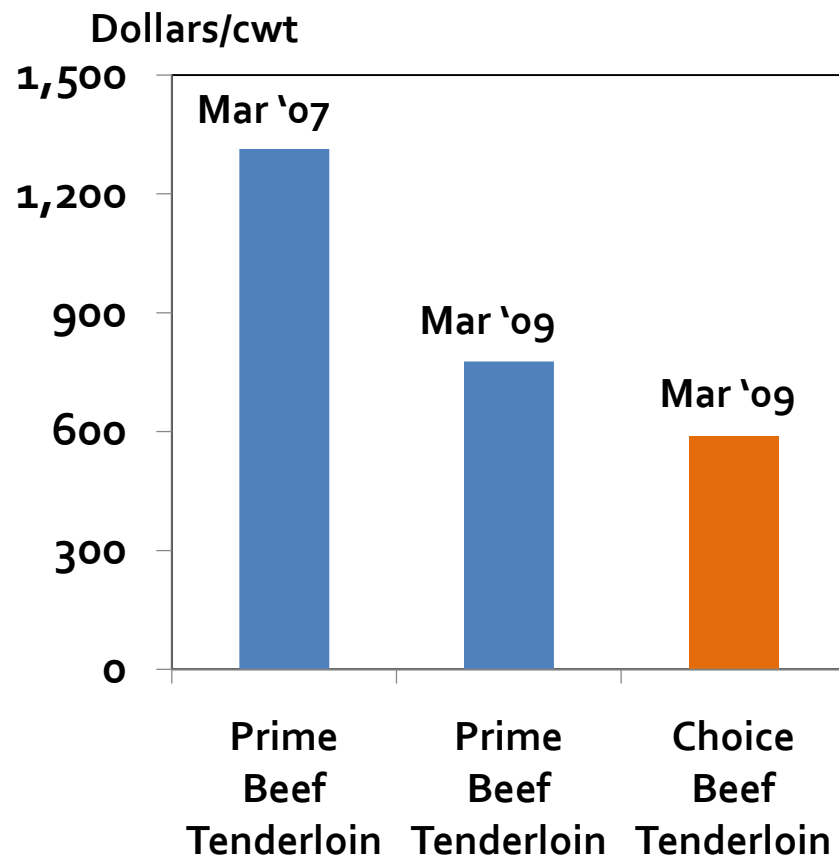


Given the severity of this recession, could the beef industry learn something from high fashion?

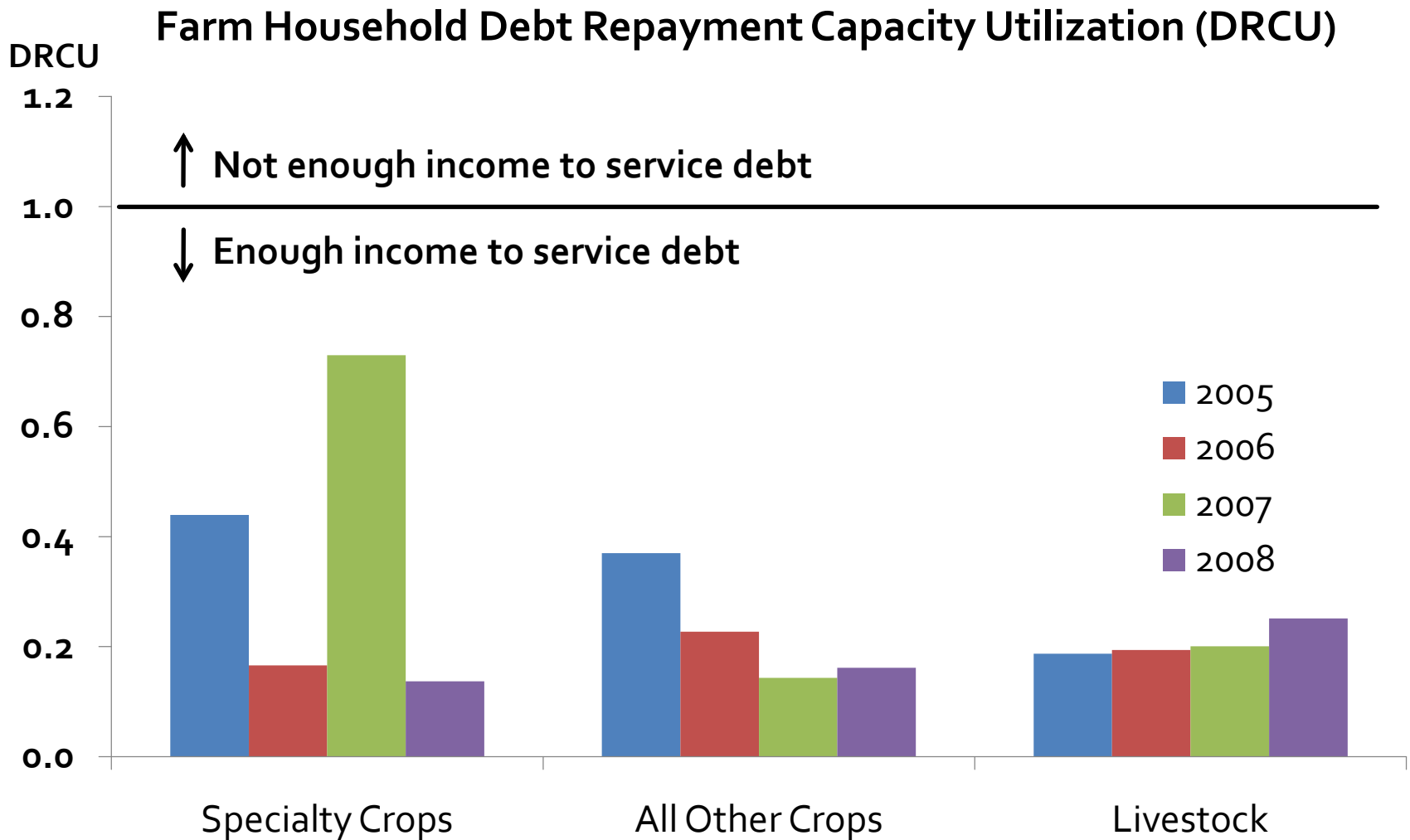
Price of Jeans



Price of Beef Tenderloin



Specialty crops debt repayment appears to be more volatile due in part to nonfarm factors.



Source: Author's calculations using USDA Agricultural Resource Management Survey data.
Reported DRCU is the average for each group.



Today's Roadmap

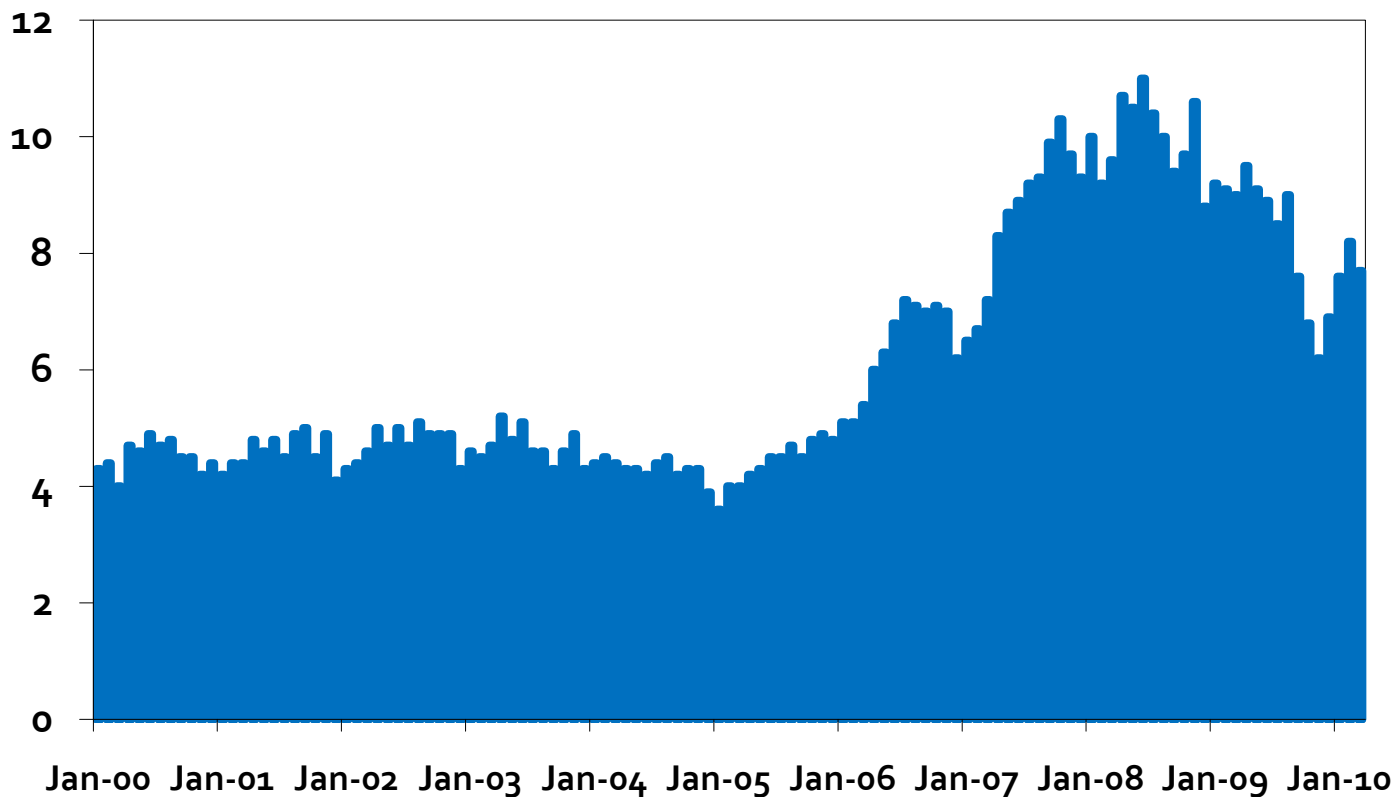
- **Uncertainties Surrounding the Recovery**
 - Financial Crisis and Impact on Credit
 - Unemployment and Slipping Demand
- **Changes in Residential, Nonresidential and Financial Investments**



Tax credits have helped work off some of the home inventory, but what happens when they expire?

Existing Single Family Housing Inventories

Months Supply at the
Current Sales Rate

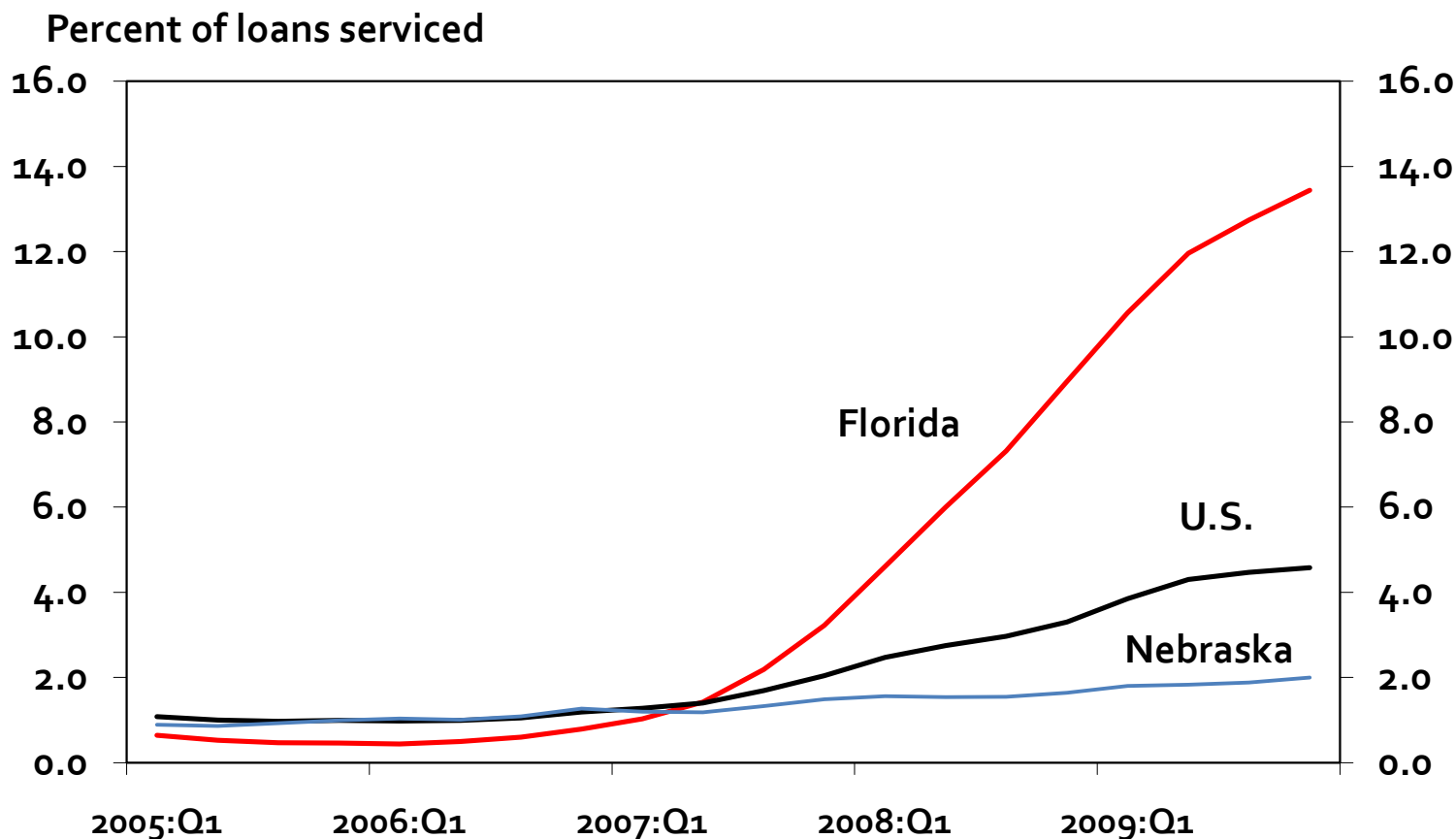


Source: National Association of Realtors



In Florida, the home foreclosure inventory has surged.

Home Foreclosure Inventory

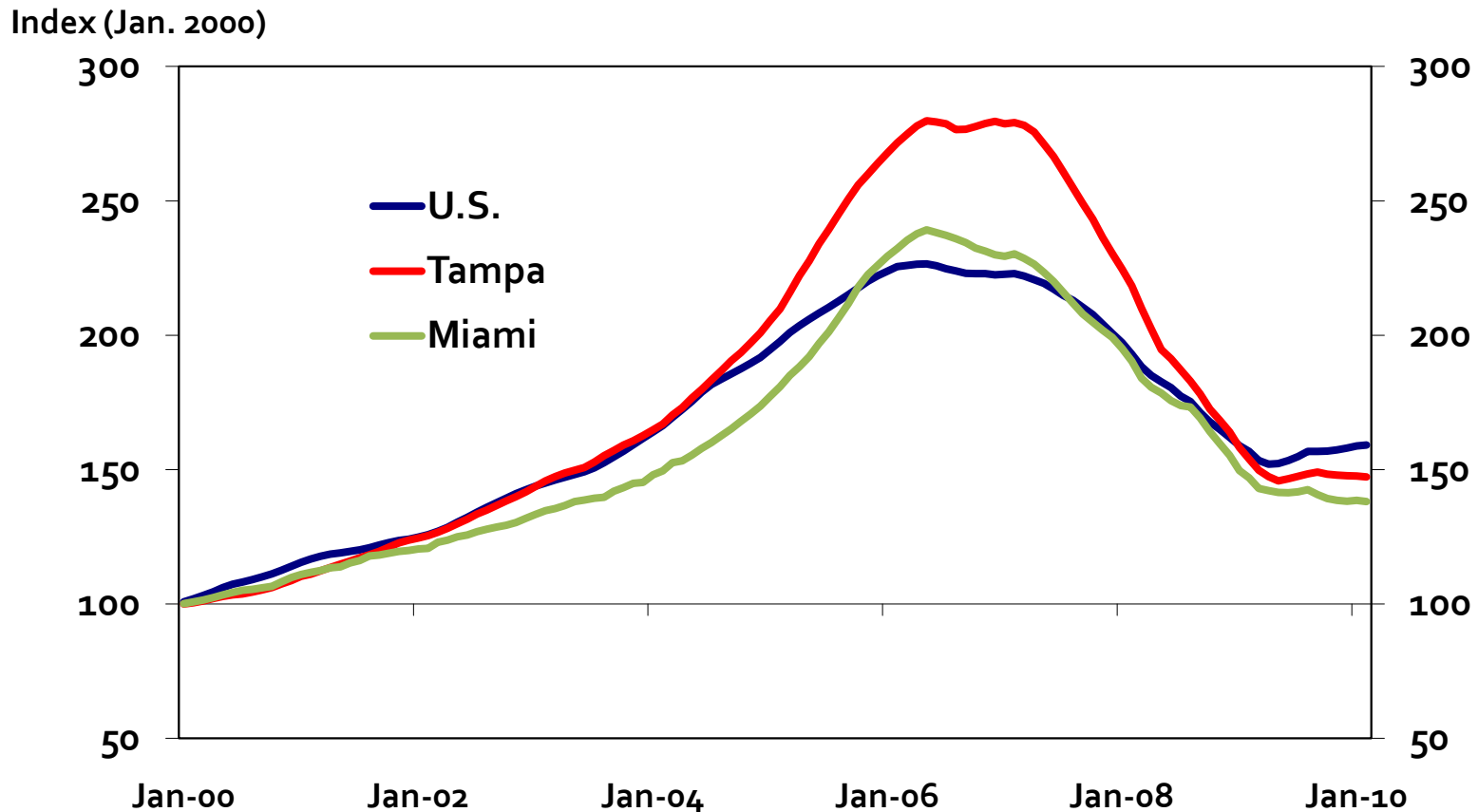


Source: Mortgage Bankers Association



Since plummeting from their all-time highs, home prices are essentially flat.

Case-Shiller Home Price Indices

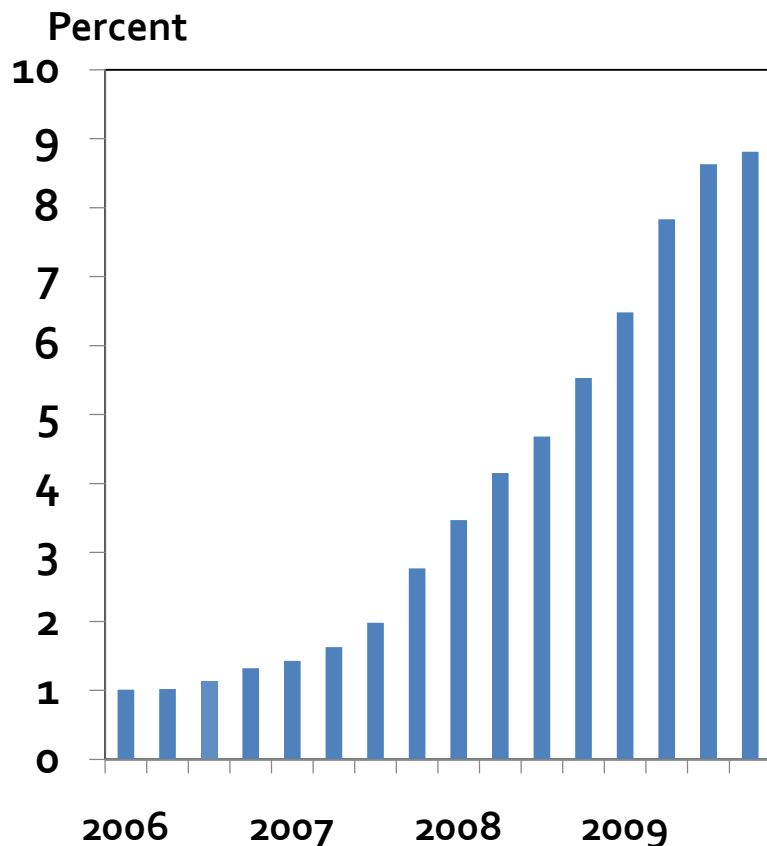


Source: Standard & Poor's

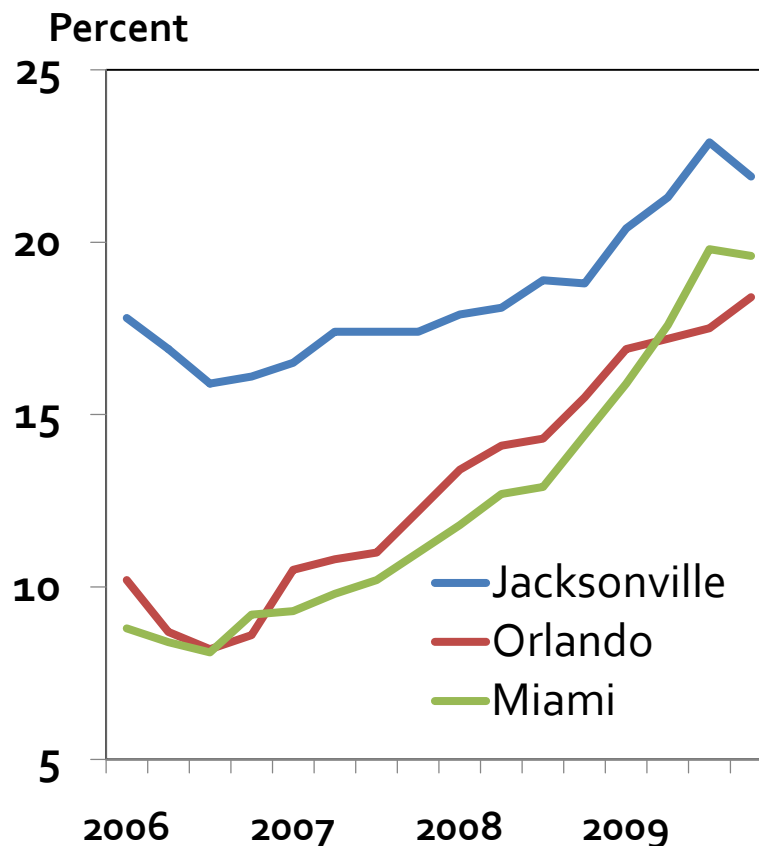


Loan delinquency rates and office vacancy rates on commercial real estate remain elevated.

Delinquency Rate on Commercial Real Estate Loans (U.S.)



Office Vacancy Rates (Selected Florida Cities)

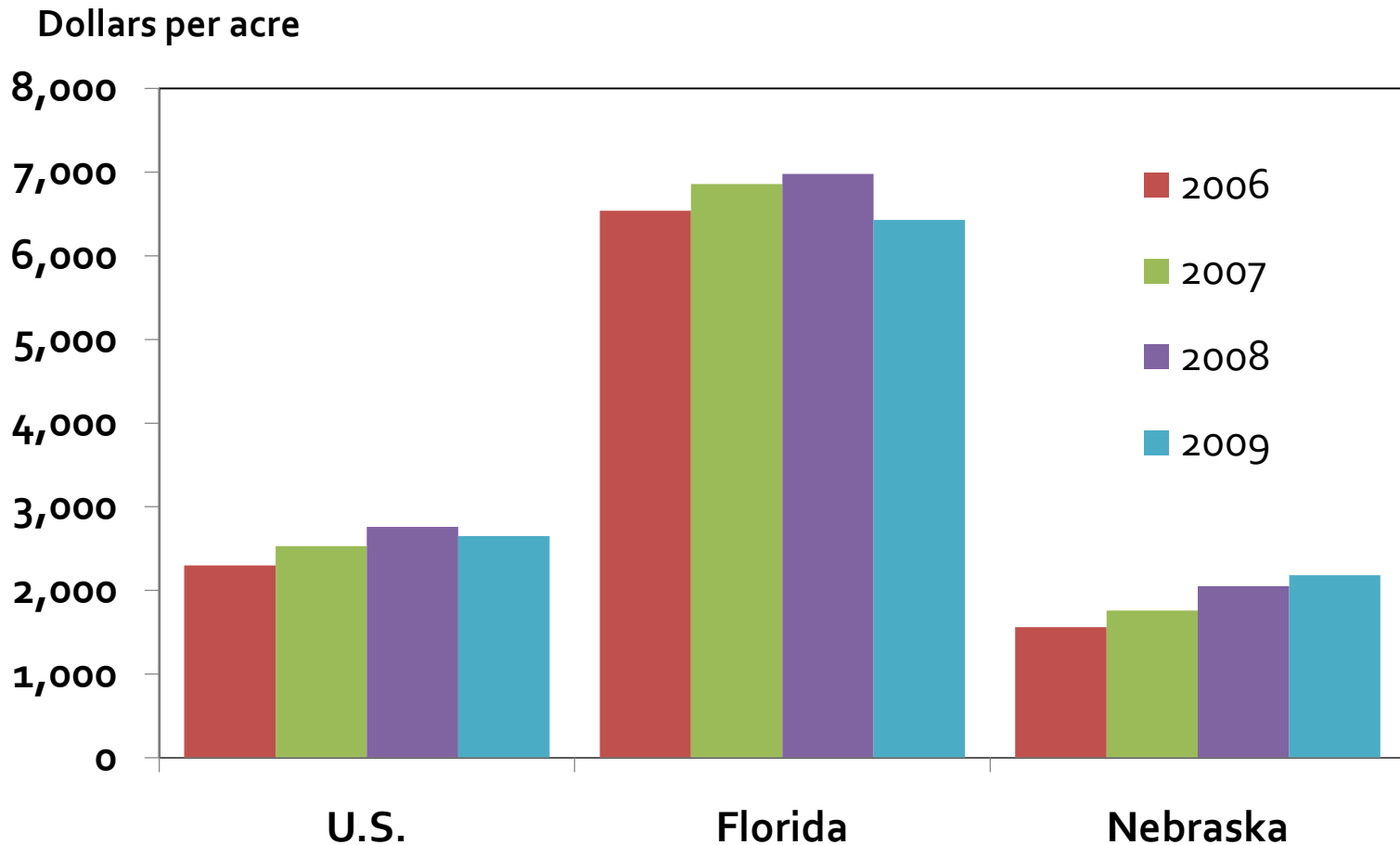


Source: Federal Reserve Board of Governors and Torto Wheaton



In Florida, nonfarm factors have negatively influenced cropland values.

Cropland Values



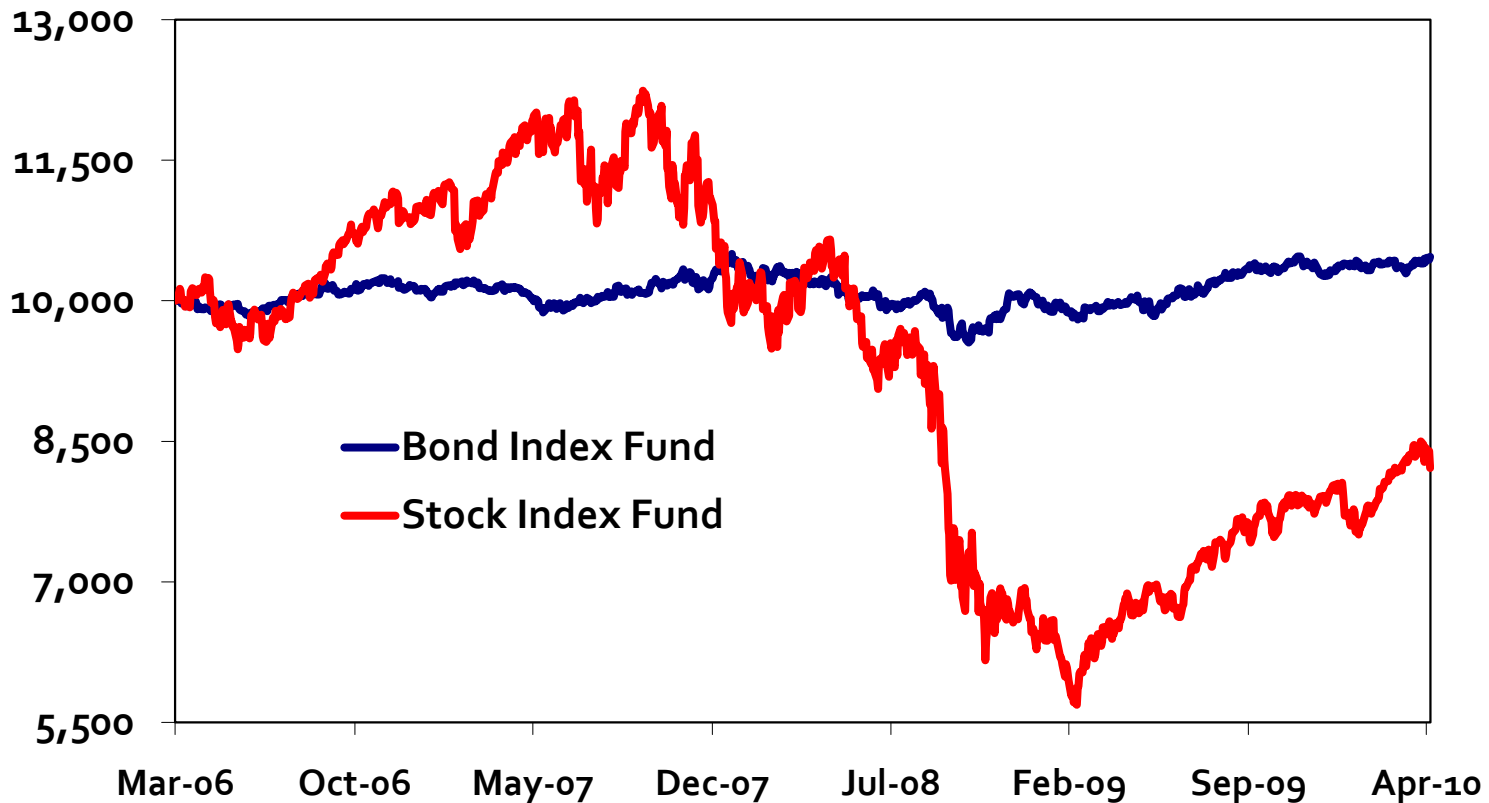
Source: USDA



How will U.S. citizens go about repairing damaged investment portfolios?

Investment Scenarios

Dollars (Nominal) for a hypothetical investment of \$10,000

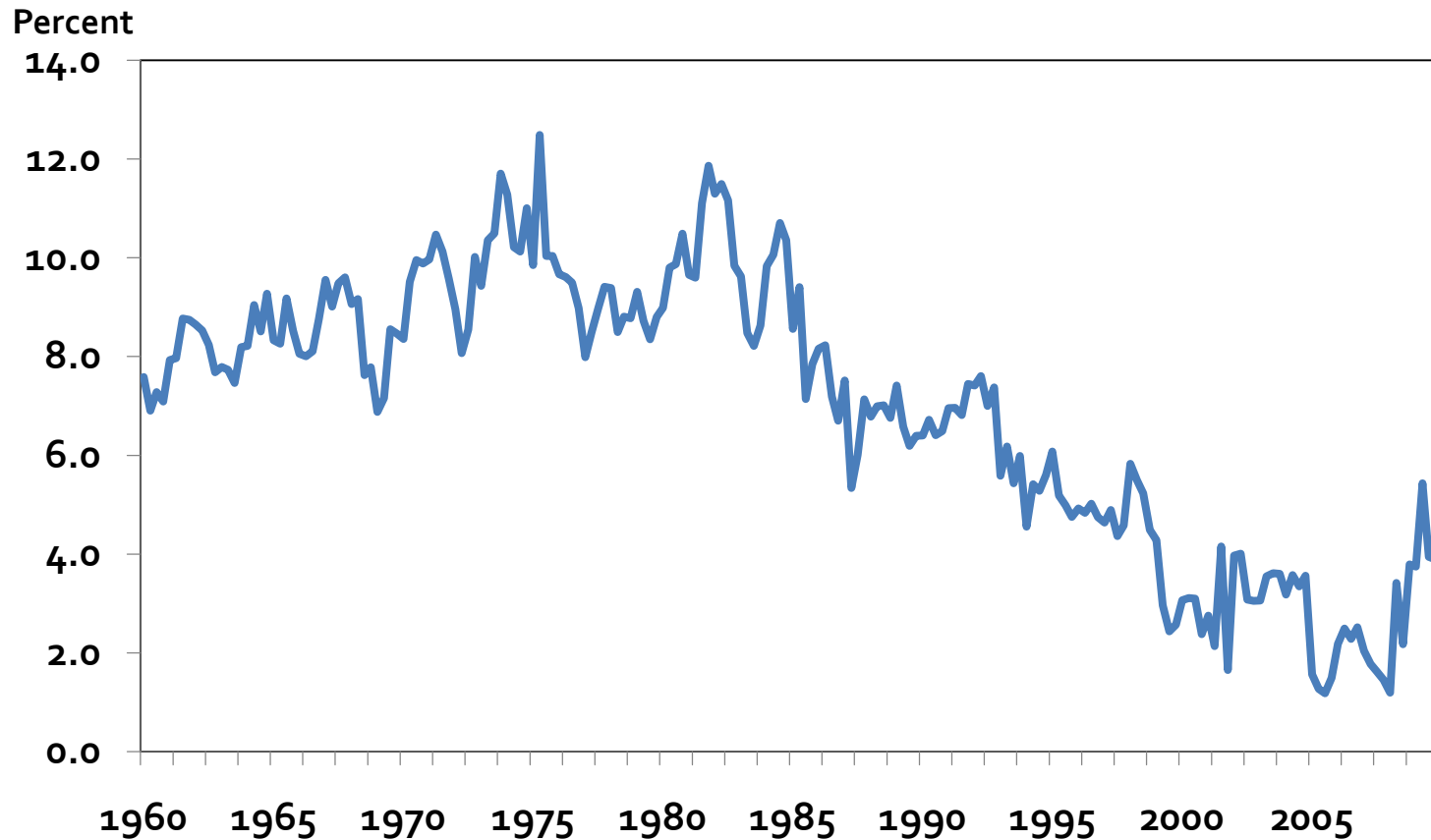


Source: TIAA-CREF and author's calculations



The personal savings rate remains historically low.

Personal Savings as a Percent of Disposable Income



Source: Bureau of Economic Analysis

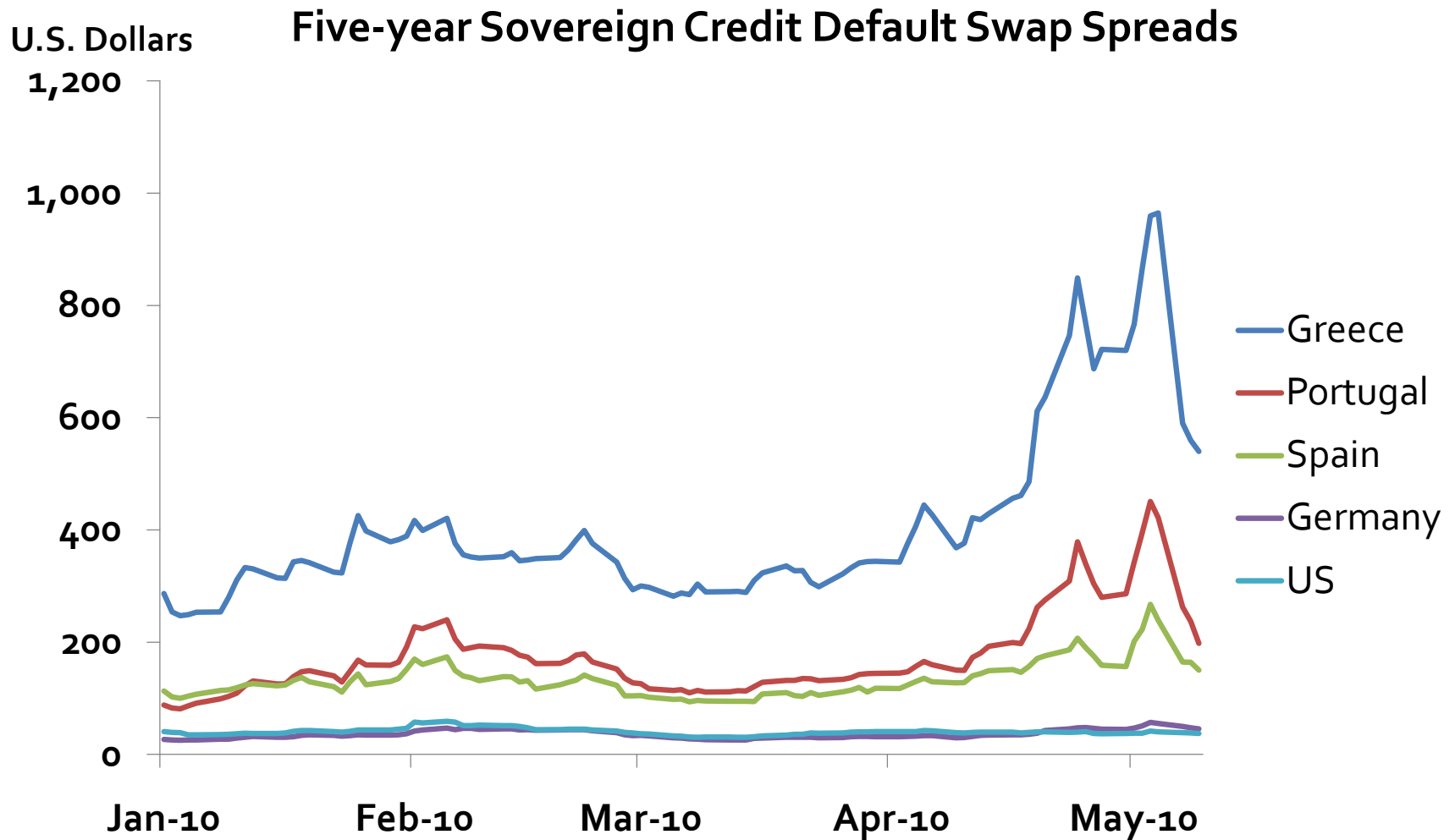


Today's Roadmap

- **Uncertainties Surrounding the Recovery**
 - Financial Crisis and Impact on Credit
 - Unemployment and Slipping Demand
- **Changes in Residential, Nonresidential and Financial Investments**
- **Global, Fiscal, and Monetary Challenges**



What does the Greek crisis mean for the U.S. economy and agriculture?

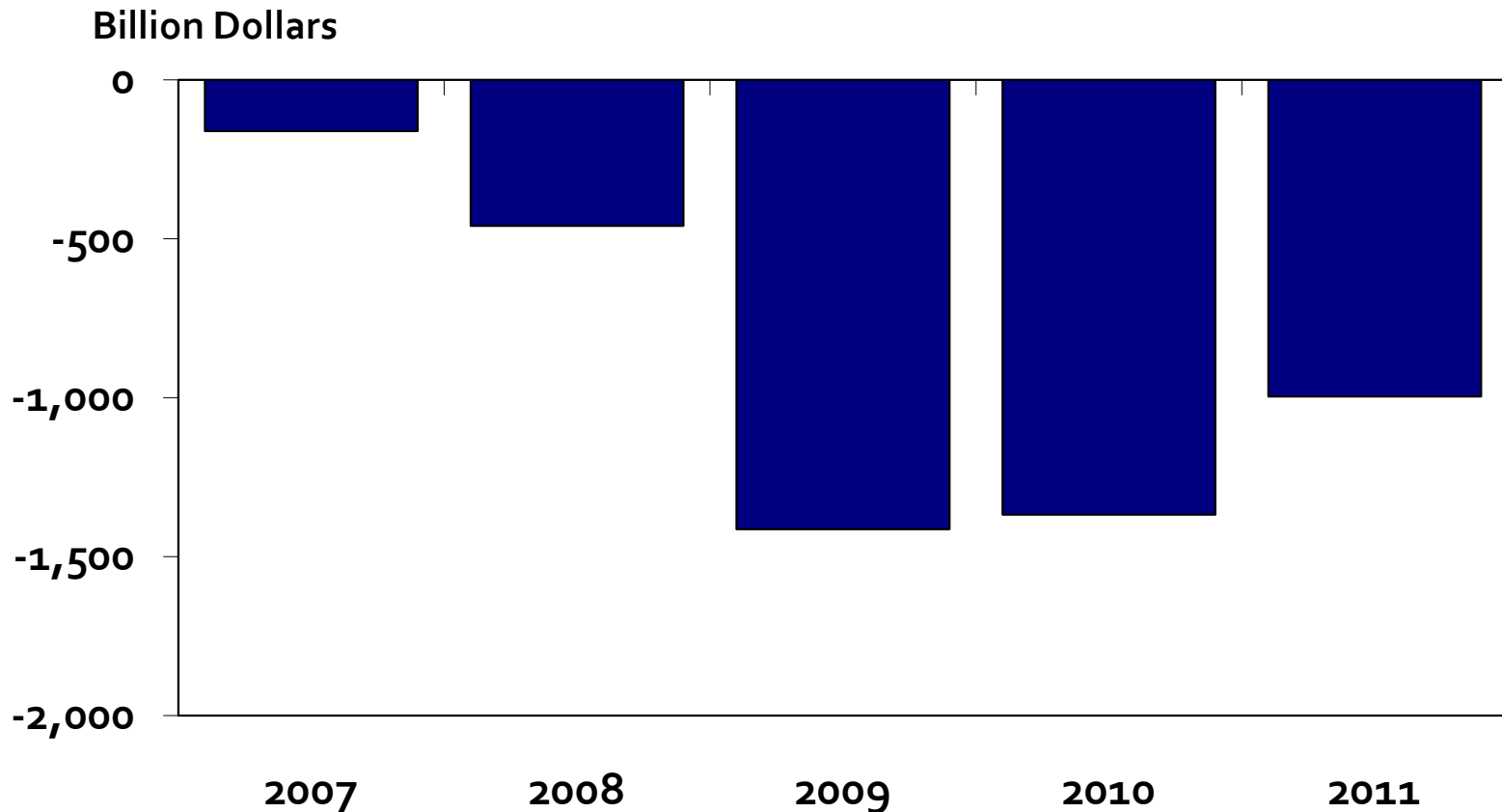


Source: Bloomberg data starting 1/4/10 and ending 5/12/10. U.S. is priced to Euros.



In the short run, deficit spending provides stimulus to the economy. However, it can present long run challenges.

U.S. Federal Budget Deficit Projections



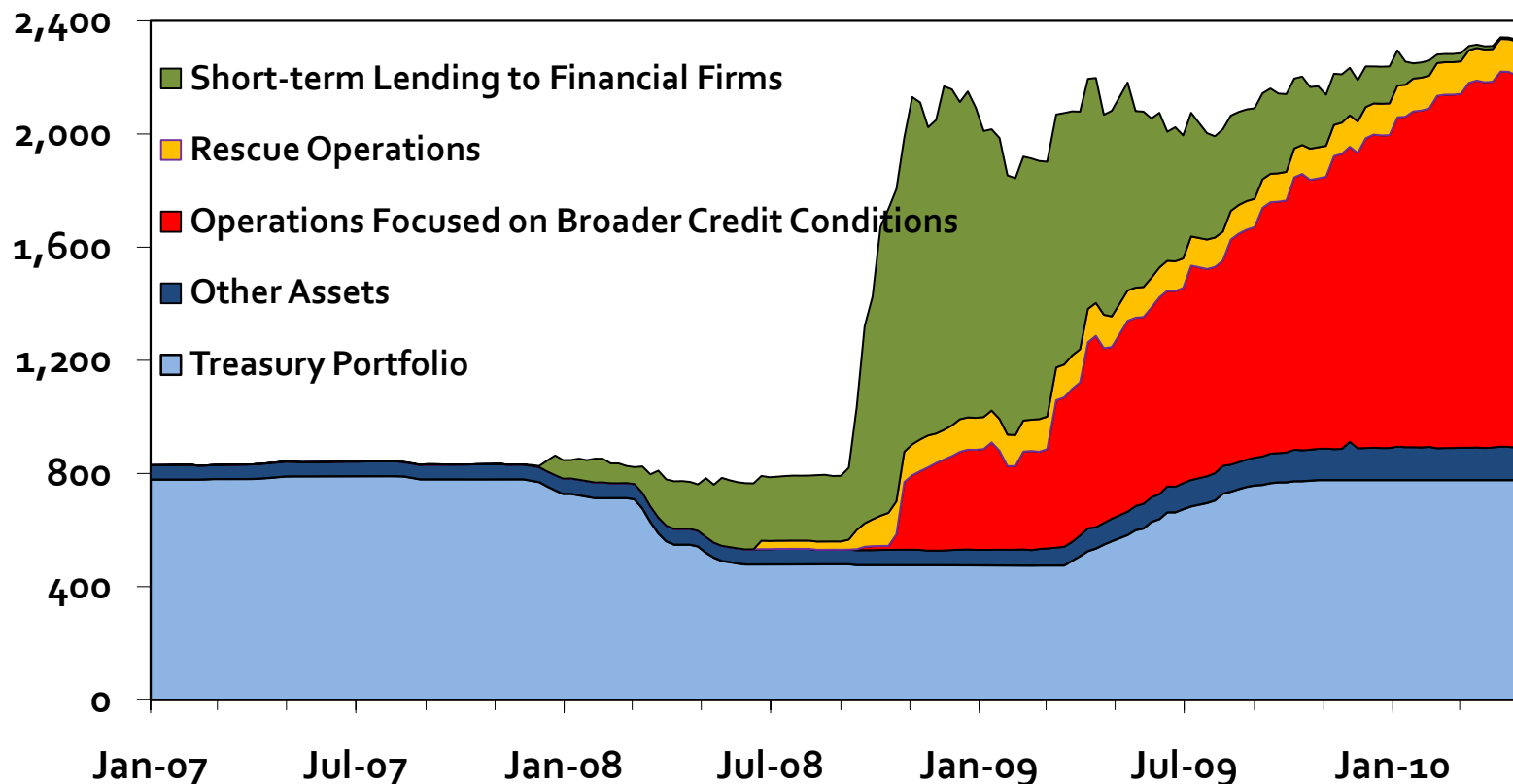
Source: Congressional Budget Office, March 2010



To combat the financial crisis and recession, the Federal Reserve has expanded its balance sheet.

Federal Reserve Balance Sheet: Assets

Billion Dollars

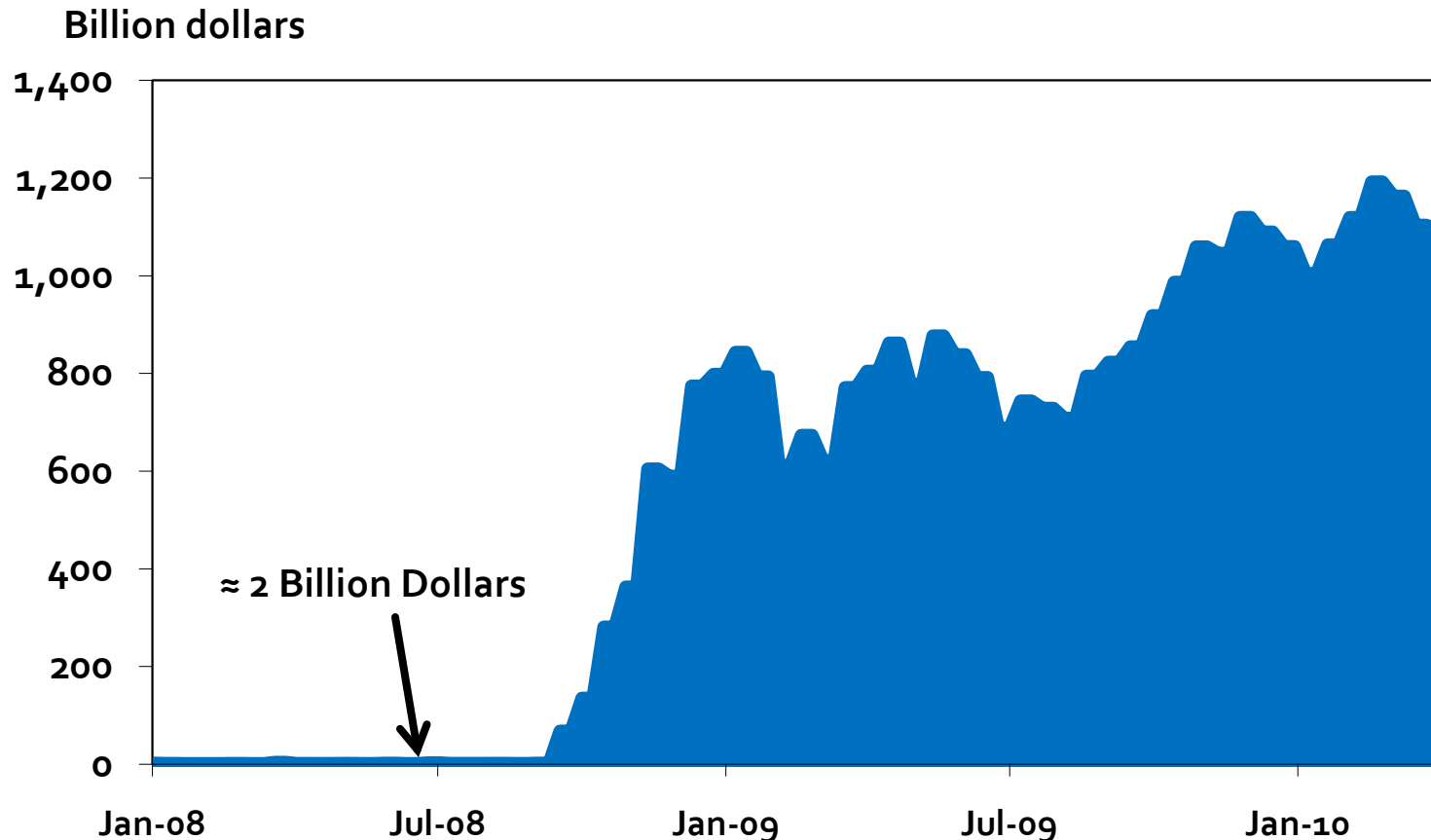


Source: Federal Reserve Board of Governors



Excess reserves held at the Fed have surged.

Excess Reserves of Depository Institutions



Source: Federal Reserve Board of Governors



Inflation is expected to remain contained.

Average Annual Inflation Expectations: Consumer Price Index



Source: Survey of Professional Forecasters



Conclusions

- It appears the U.S. is recovering from a steep recession. Yet, risks and uncertainty appear to be weighing on the recovery.
- While ag has held up relatively better than other industries, parts of ag have struggled.
- Knowing your business' finances should help you develop strategies to seize opportunities when they become available.



Questions?

Federal Reserve Bank of Kansas City – Omaha
Branch

www.kansascityfed.org/omaha

