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February 3, 2010

Current Economic Outlook and Its Impact on 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.

Today's Roadmap

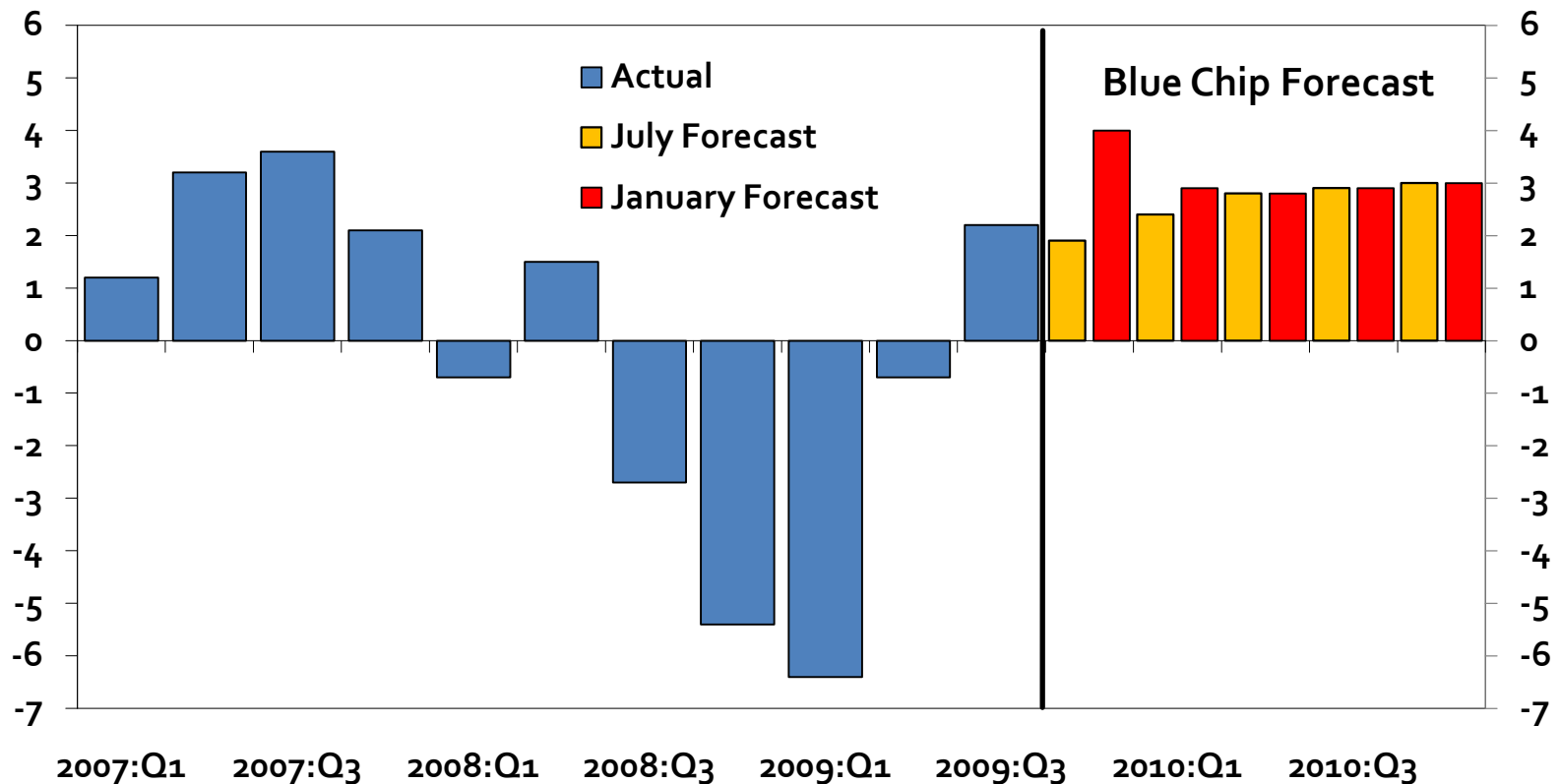
- **The Macro Economy and Agriculture**
- **Combating the Financial Crisis and Recession**
- **Concerns of Accommodative Monetary Policy**



Forecasters expect a slow U.S. recovery.

Real GDP Growth

Annualized percent change from previous quarter

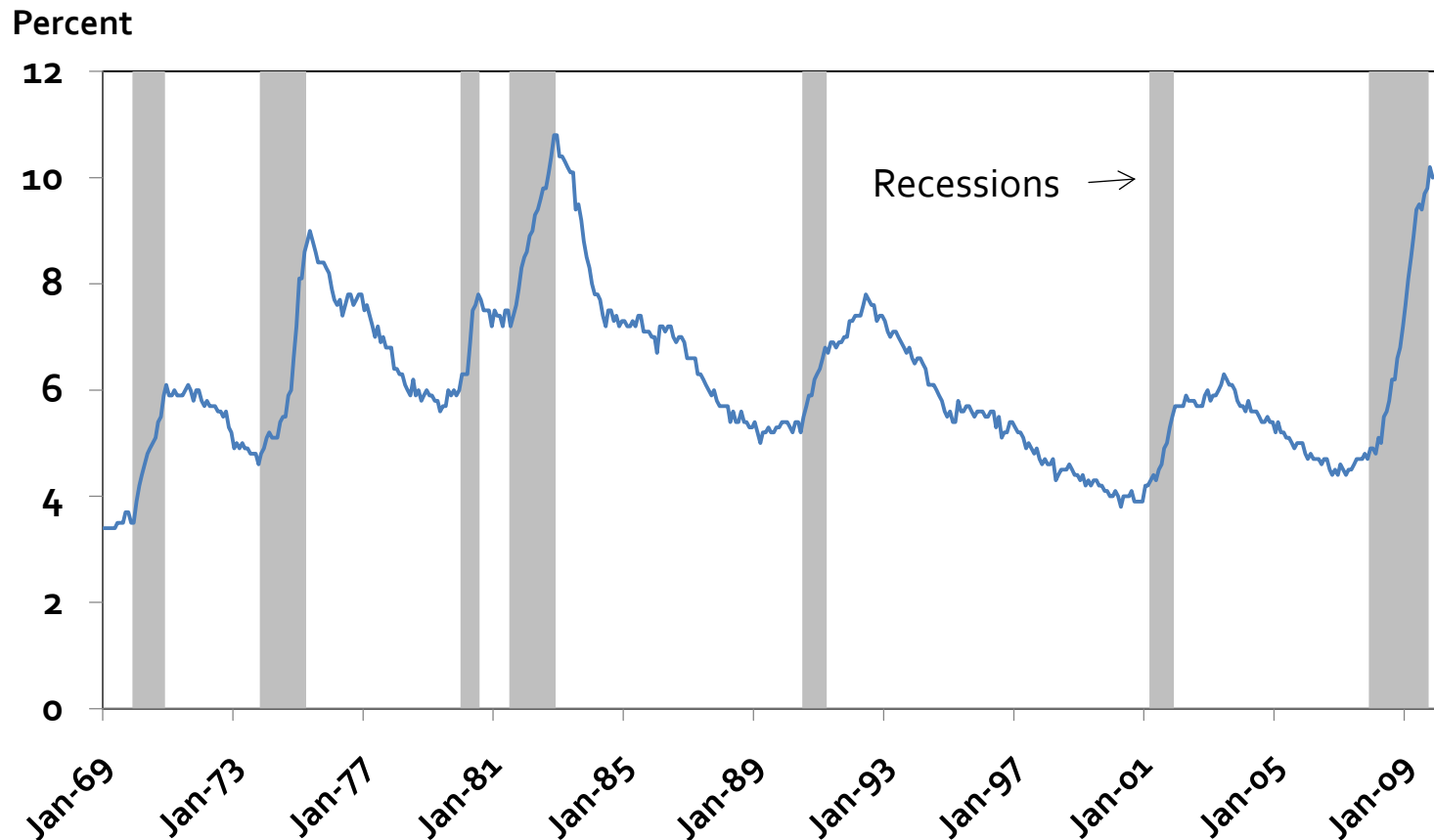


Source: Bureau of Economic Analysis and Blue Chip Economic Indicators



An elevated unemployment rate is one reason a slow recovery is expected.

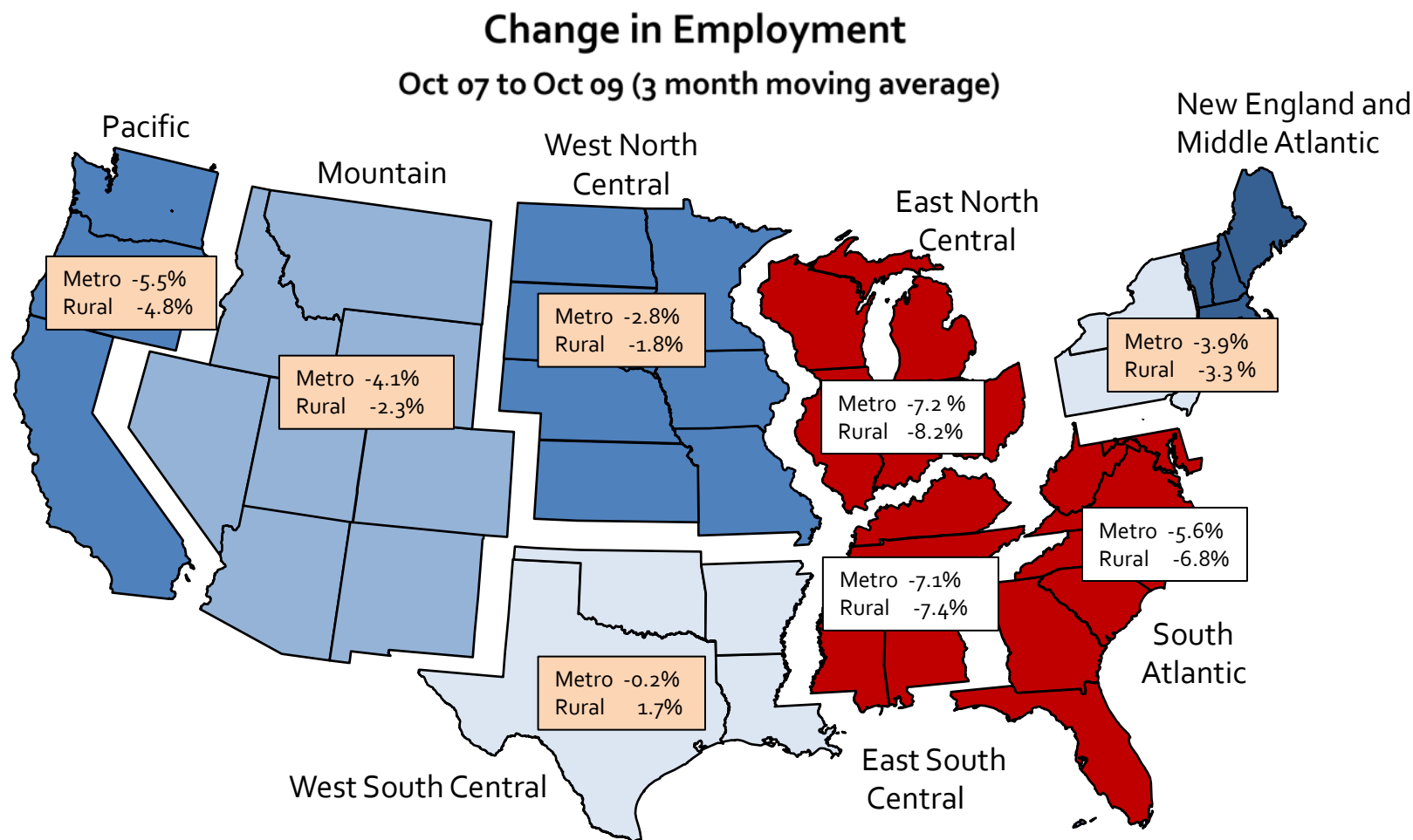
U.S. Unemployment Rate



Source: Bureau of Economic Analysis and Bureau of Labor Statistics



Employment in rural areas has fared better than in metro areas.

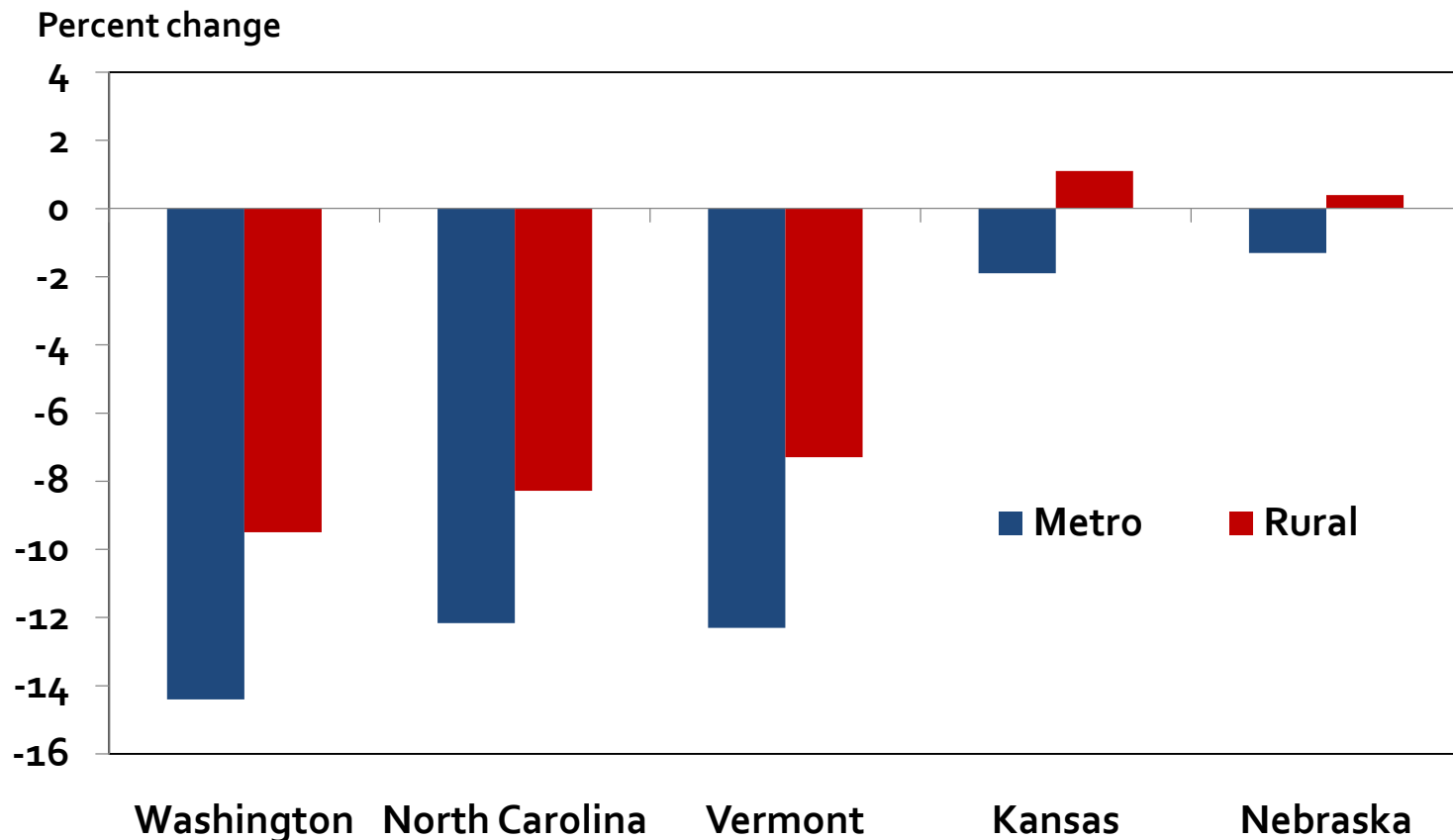


Calculations based on Bureau of Labor Statistics, LAUS data



Consumer spending in rural places has not fallen as dramatically as in metro areas.

Retail Sales Growth 2007 to 2009



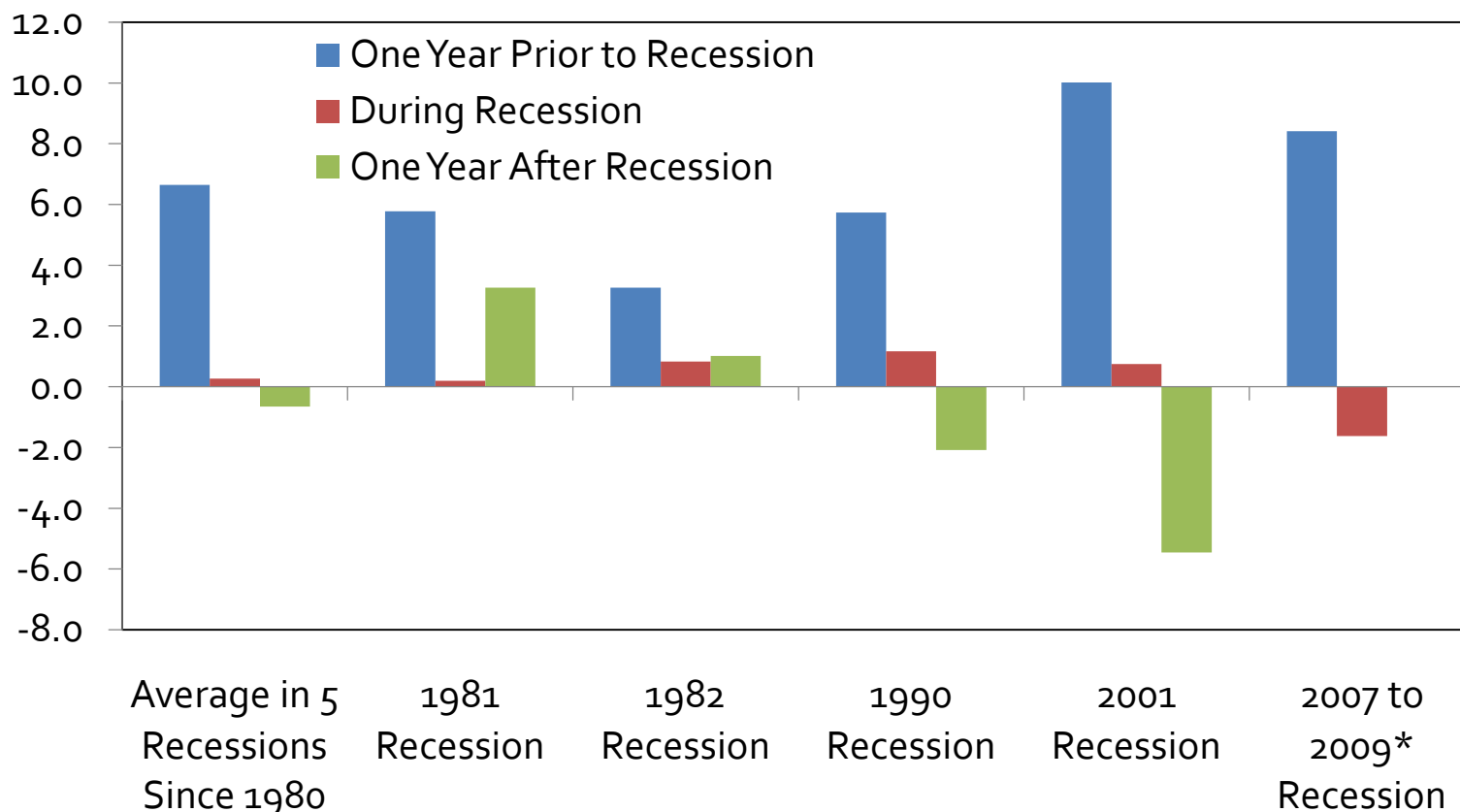
Year-to-date through second quarter retail sales obtained from various department of revenues



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

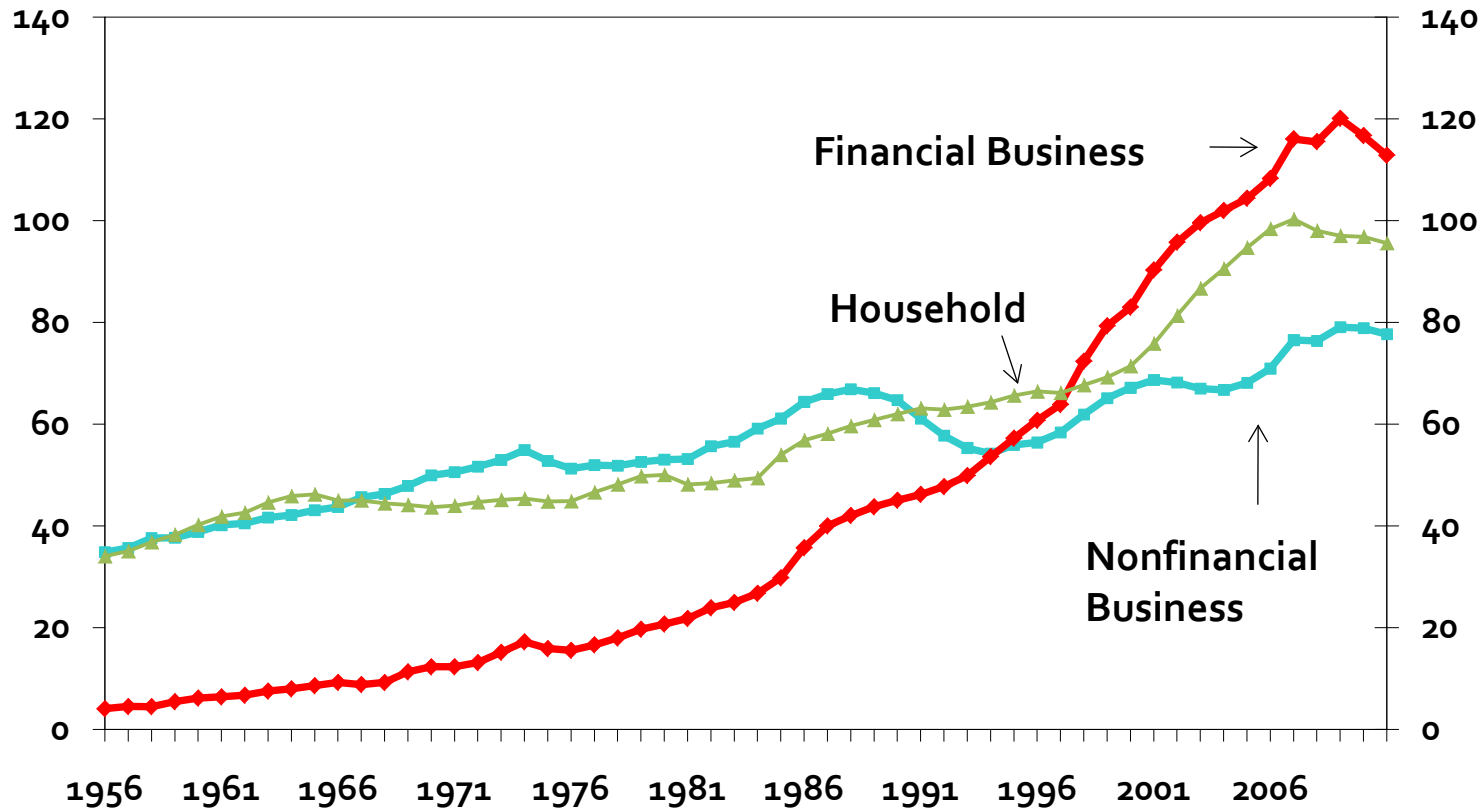
* The National Bureau of Economic Research indicates the recession started in Dec. 2007. At the time of publication, the end of the recession has yet to be specified.



Deleveraging slows the recovery in the near-term, but should help stabilize long-run growth.

Domestic Debt Outstanding

Percent of GDP

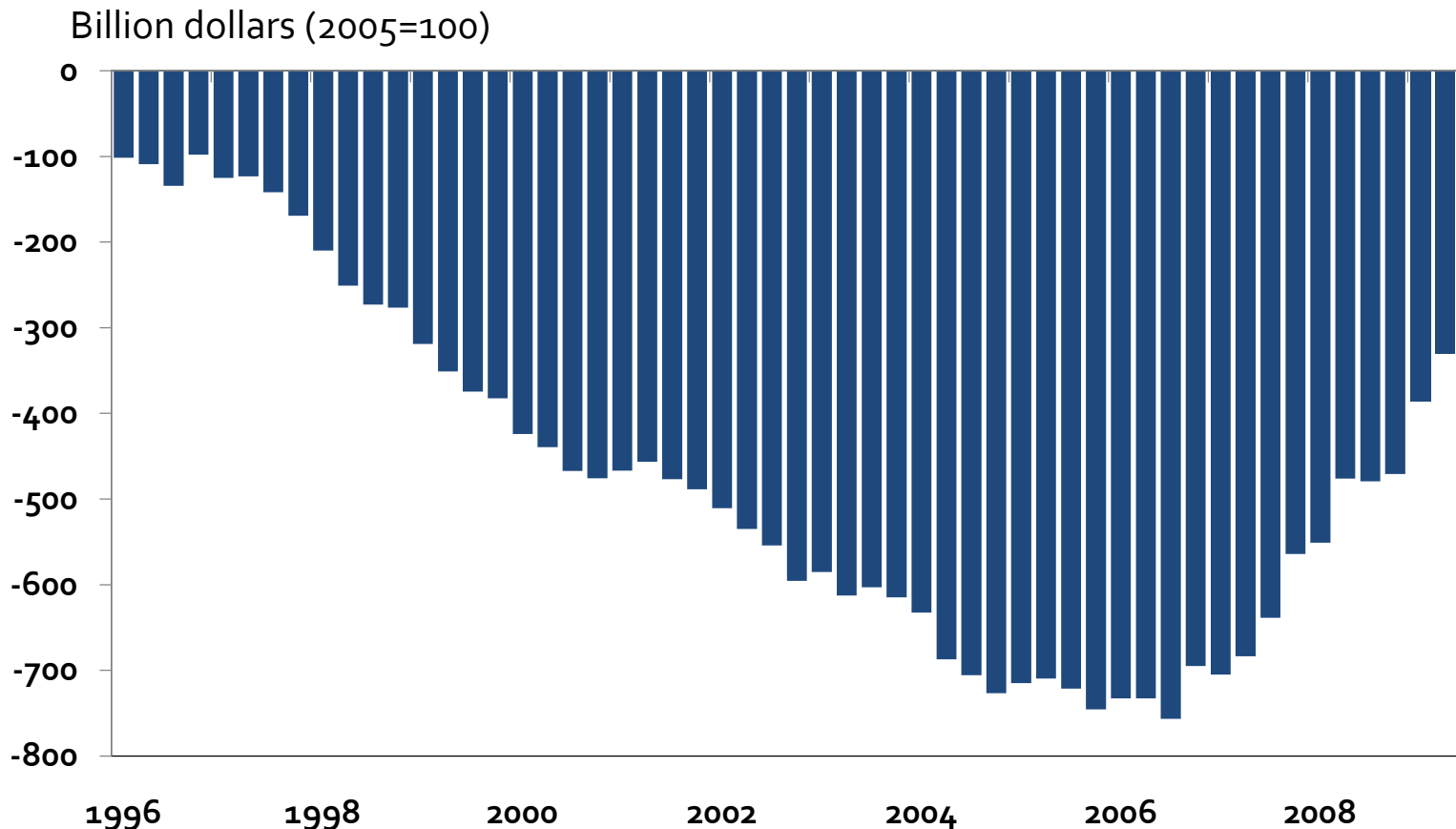


Source: Federal Reserve Board of Governors



The trade balance has improved.

Real Net Exports of Goods and Services

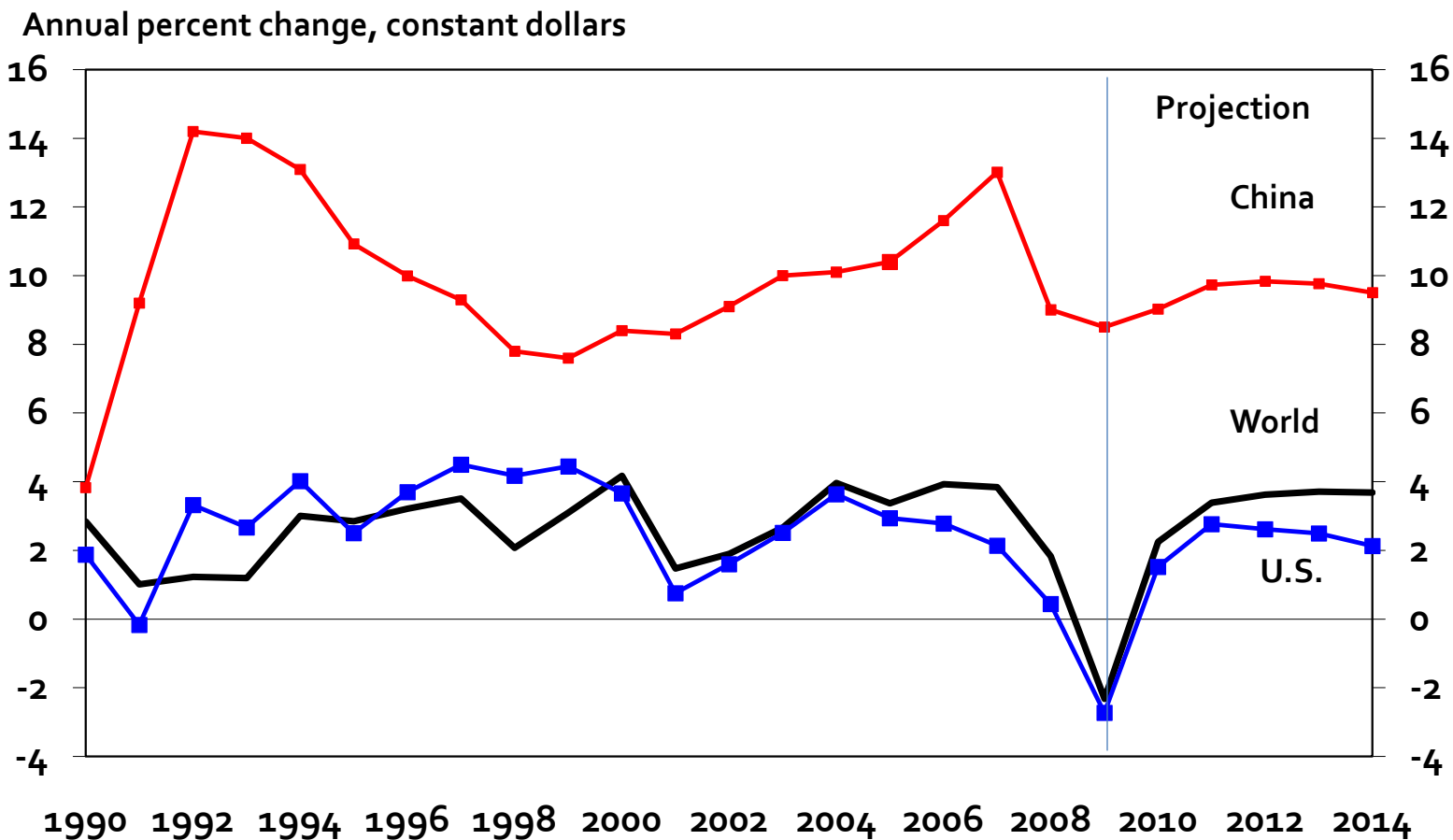


Source: Bureau of Economic Analysis



More robust growth in emerging and developing countries may provide opportunities for developed countries.

GDP Growth

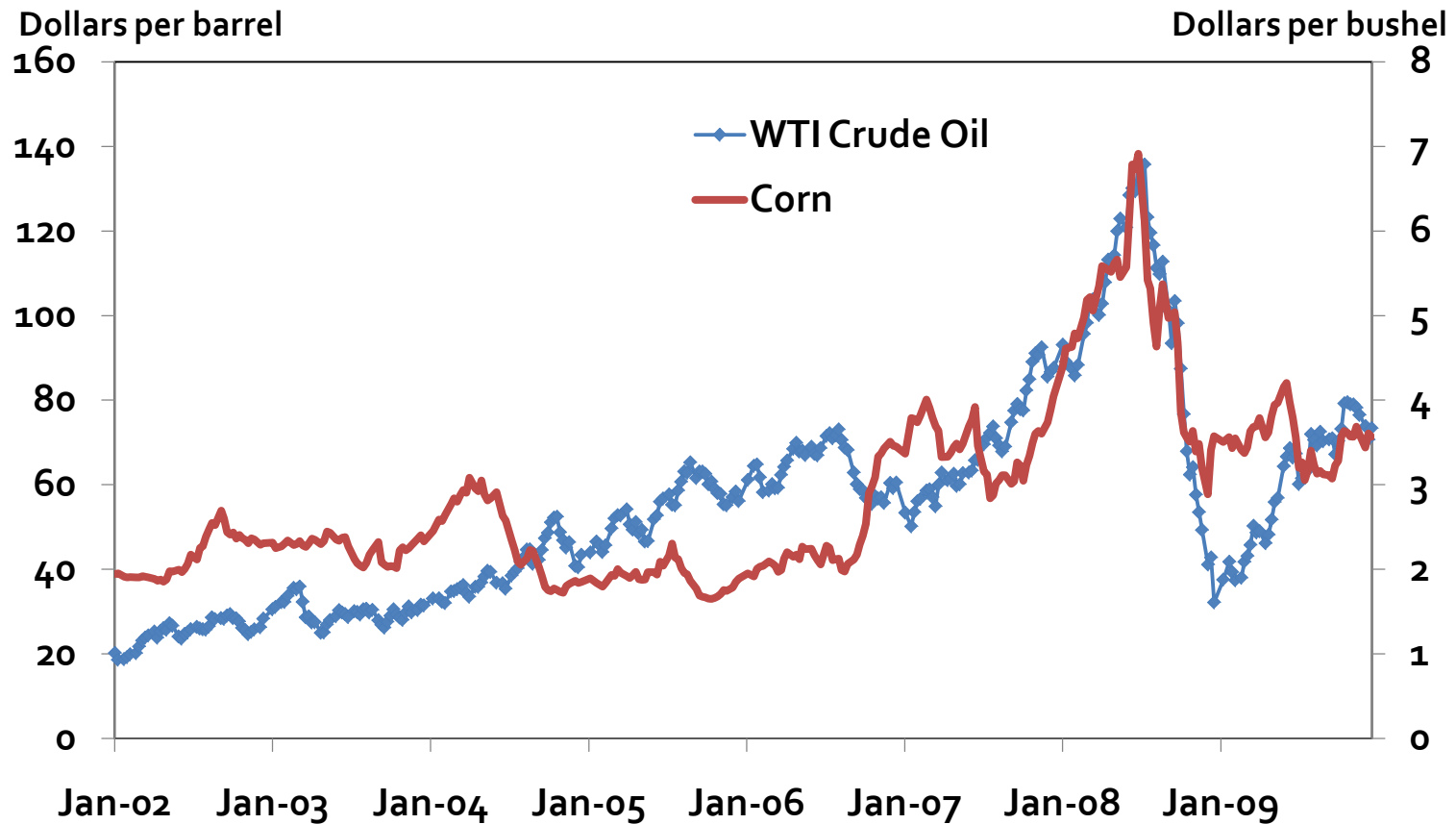


Source: International Monetary Fund, October 2009



Will foreign growth drive commodity markets?

Crude Oil and Corn Prices



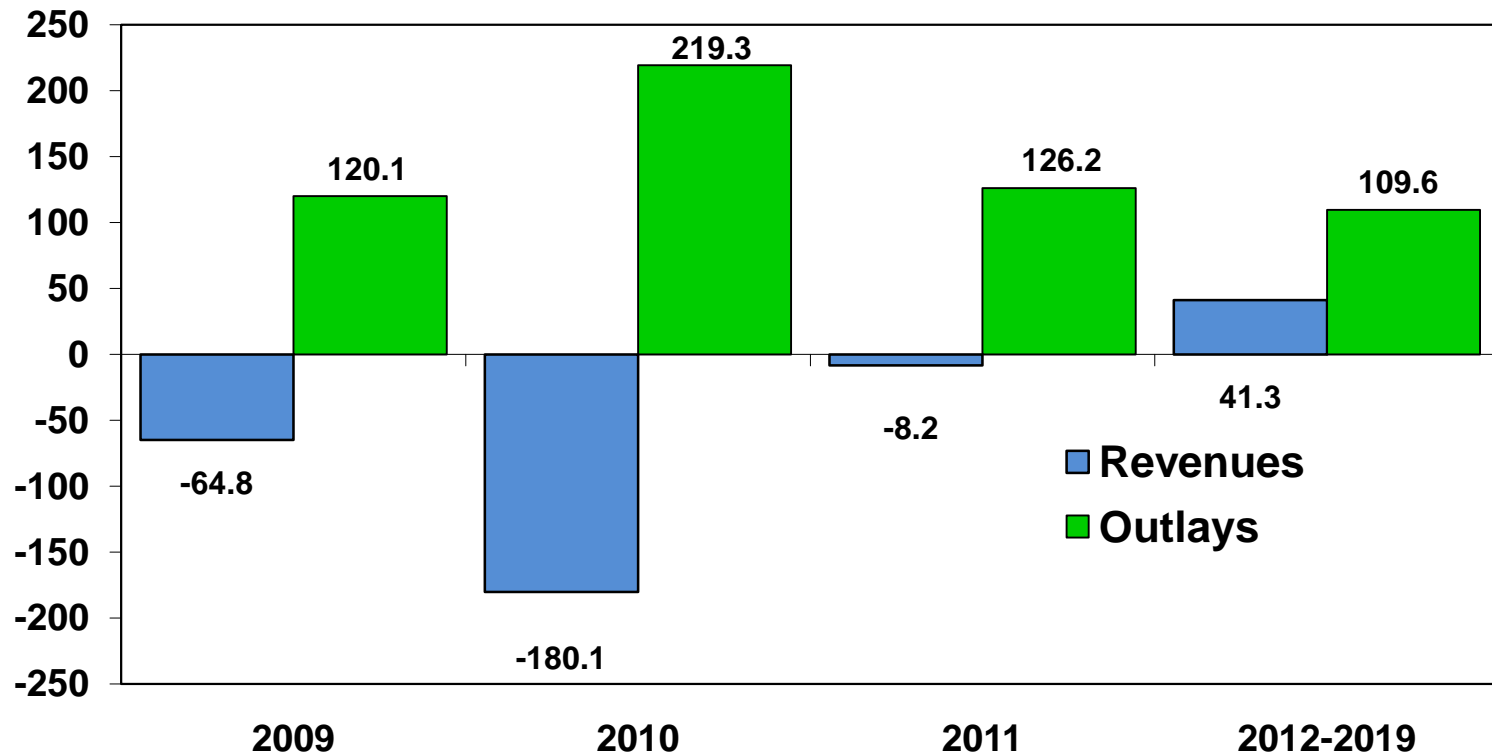
Source: Commodity Research Bureau



Will the stimulus package spur growth in 2010?

Estimated Budget Impact of American Recovery and Reinvestment Act (ARRA) of 2009

Billion Dollars



Source: Congressional Budget Office, February 13, 2009



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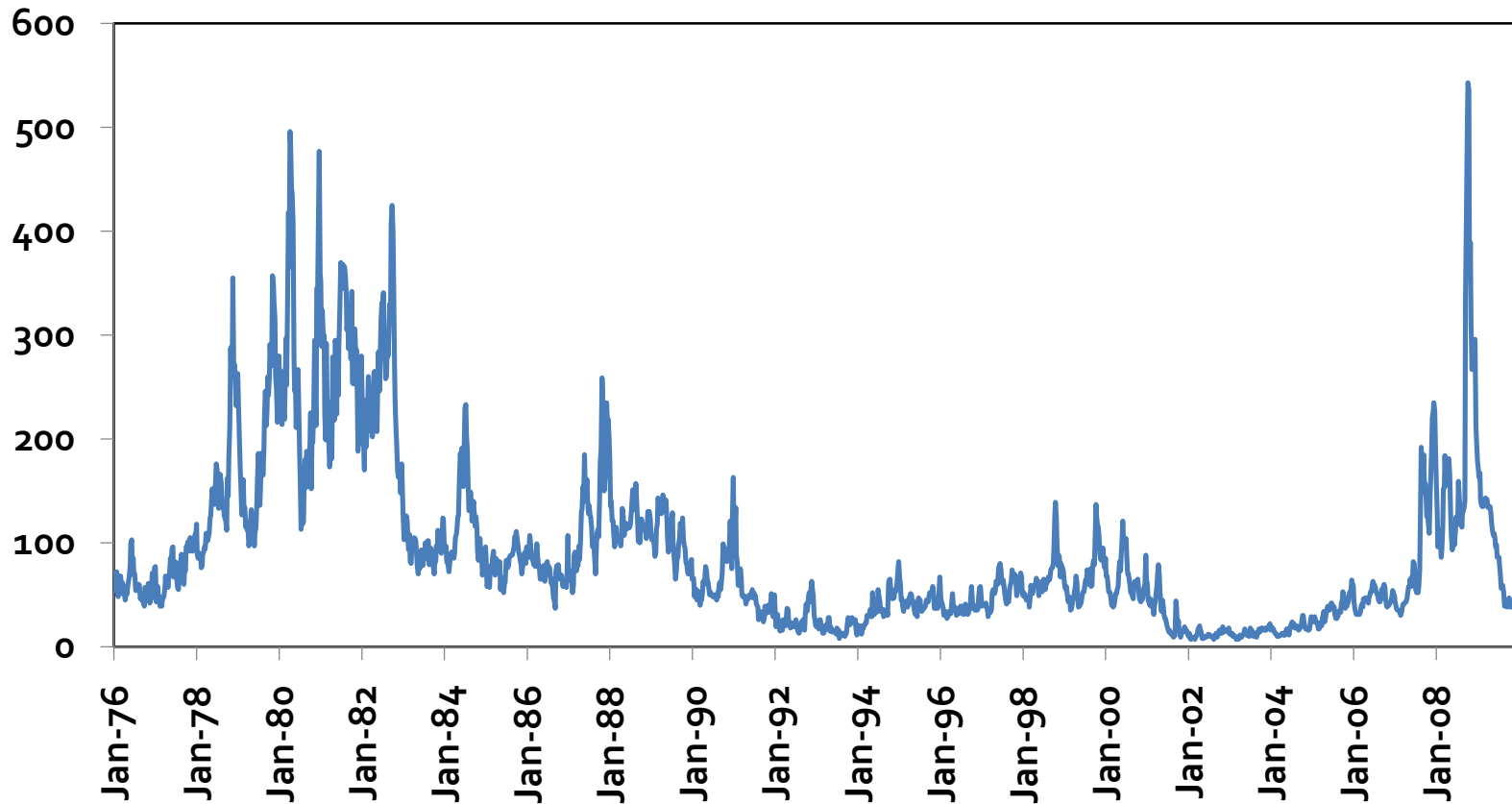
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The financial crisis has eased.

TED Spread

Basis Points



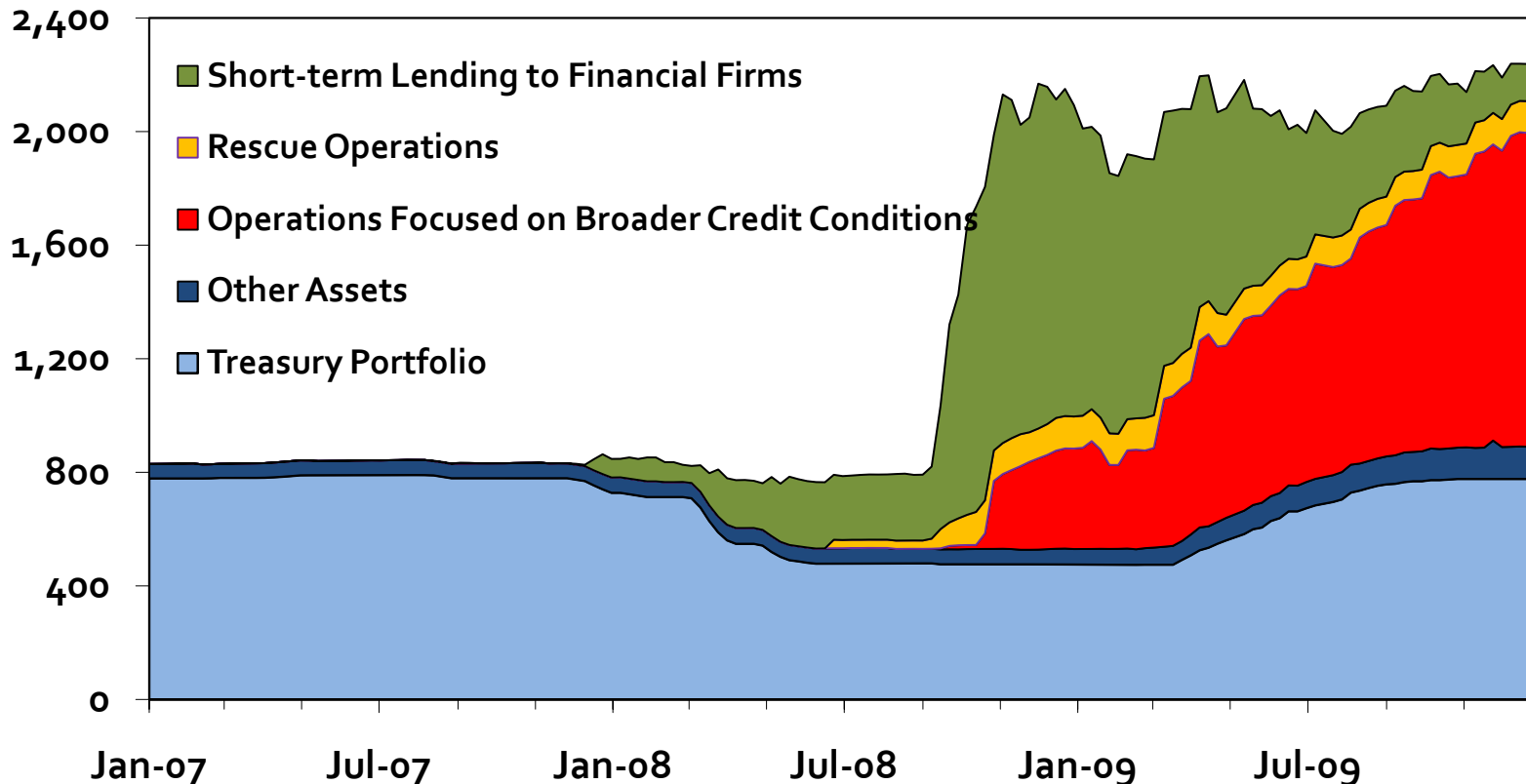
Source: Federal Reserve Board of Governors



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

Federal Reserve Balance Sheet: Assets

Billion Dollars

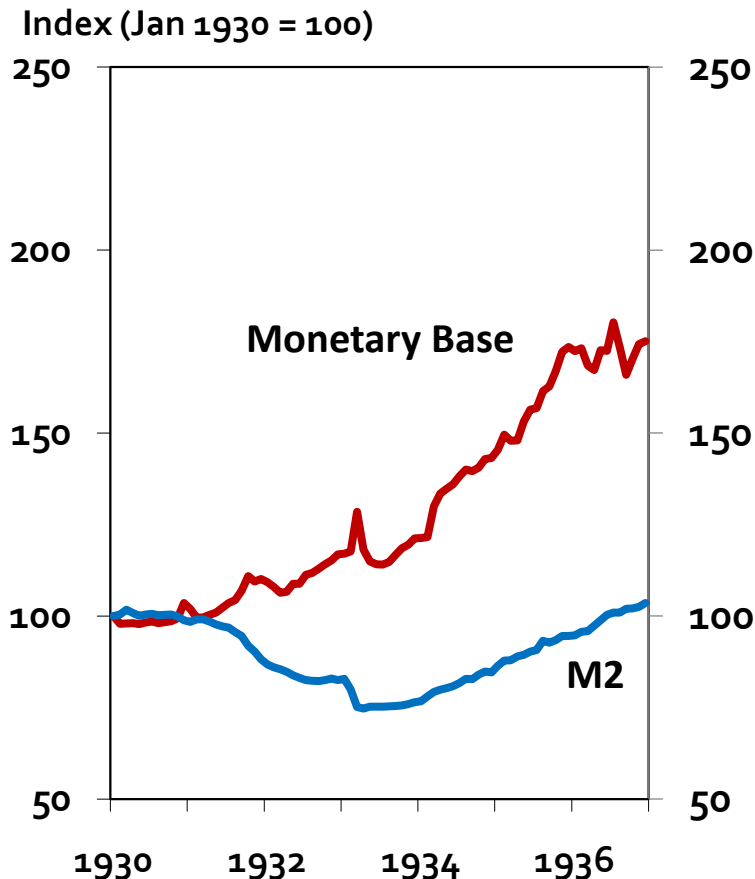


Source: Federal Reserve Board of Governors

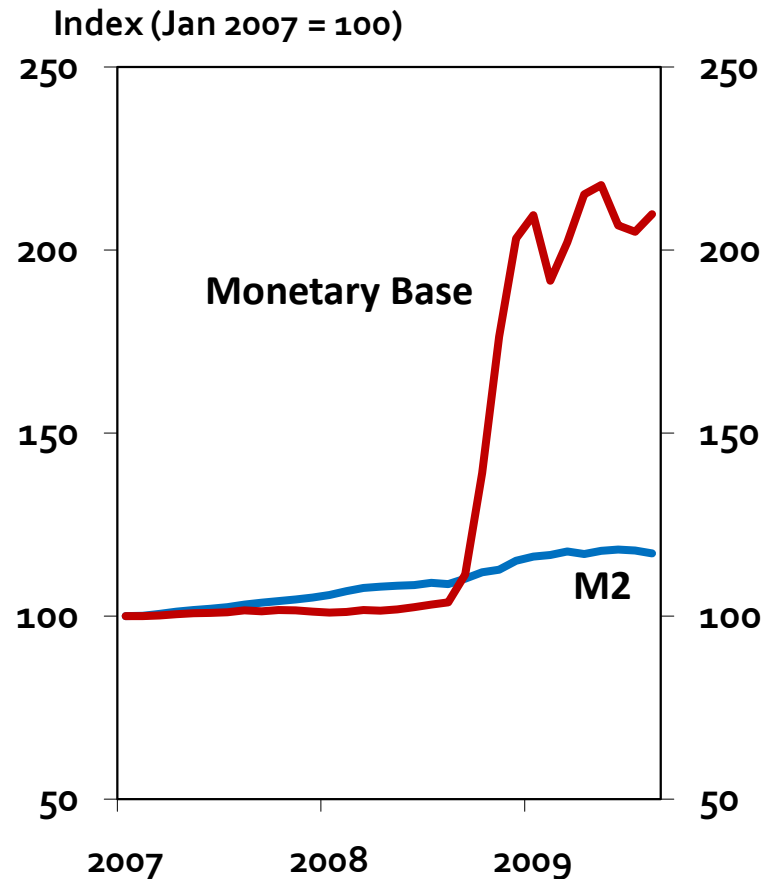


Despite a surging monetary base, inflation has been subdued.

Growth in Monetary Aggregates



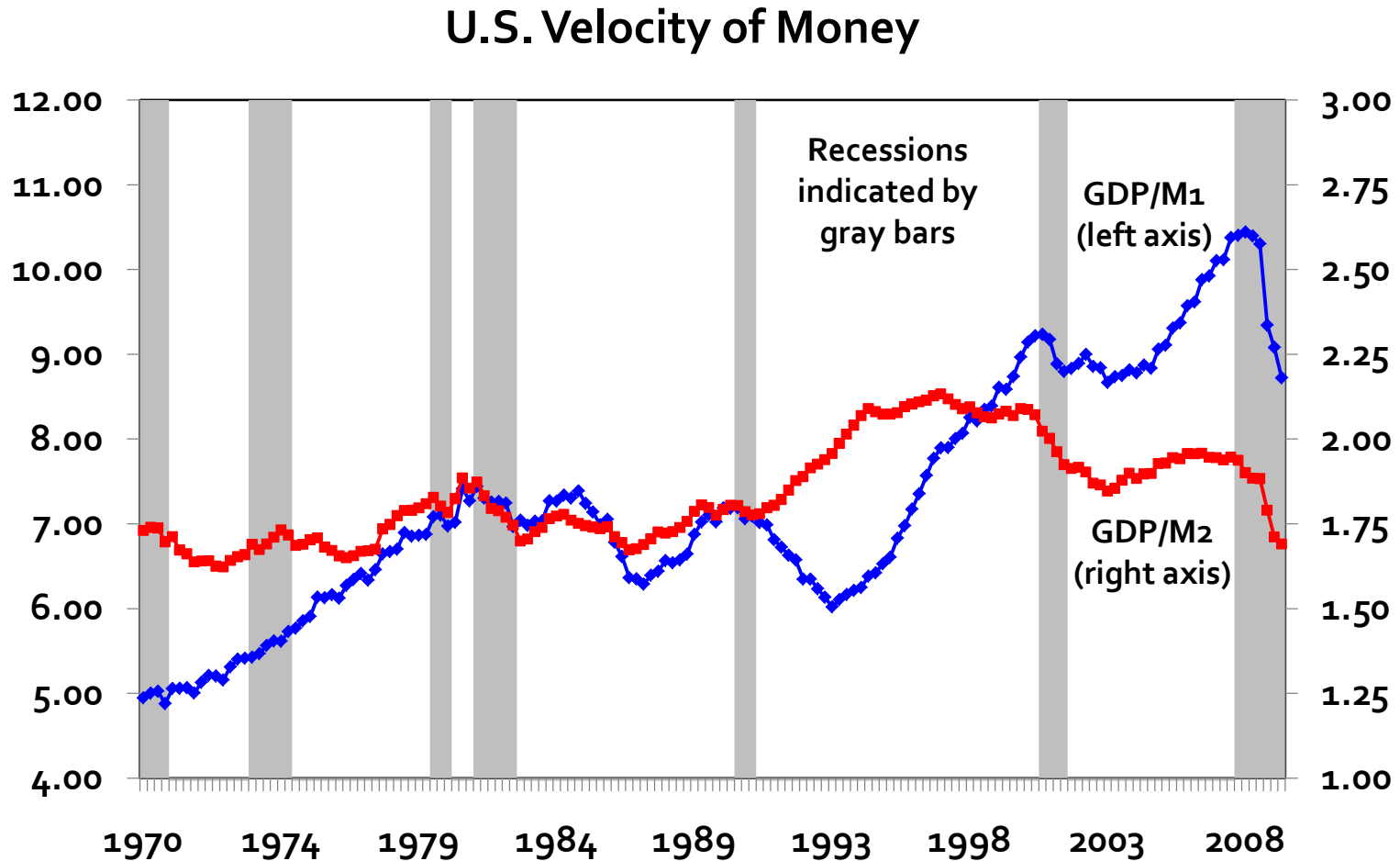
Source: Federal Reserve Bank of St. Louis, Friedman and Schwartz



Source: Federal Reserve Board of Governors



The velocity of money has plummeted, which has suppressed inflation.



Source: BEA and Federal Reserve Board of Governors



Are there consequences for maintaining excessively low interest rates over a lengthy period?

- “Low rates also interfere with economy’s ability to allocate resources and distort longer-term saving and investment decisions.”
- “While [the Federal Reserve] must be aggressive in our response to a crisis, and remain patient in the early stages of a recovery, we must also be resolute in the commitment to our longer-run mission and objectives if we are to properly fulfill our public mandate.”

Quotes taken from Tom Hoenig’s speech (1/7/10):

<http://www.kc.frb.org/speechbio/hoenigpdf/Hoenig.01.07.10.pdf>



Conclusions

- **The financial crisis and recession appear to be ending, but risks surround the recovery.**
- **An elevated unemployment rate and high debt levels may dampen the recovery, but a significant amount of monetary and fiscal stimulus is in the system.**
- **When will consumers and investors start “chasing”?**





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