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# Macro Economic Outlook for the Cattle Industry



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

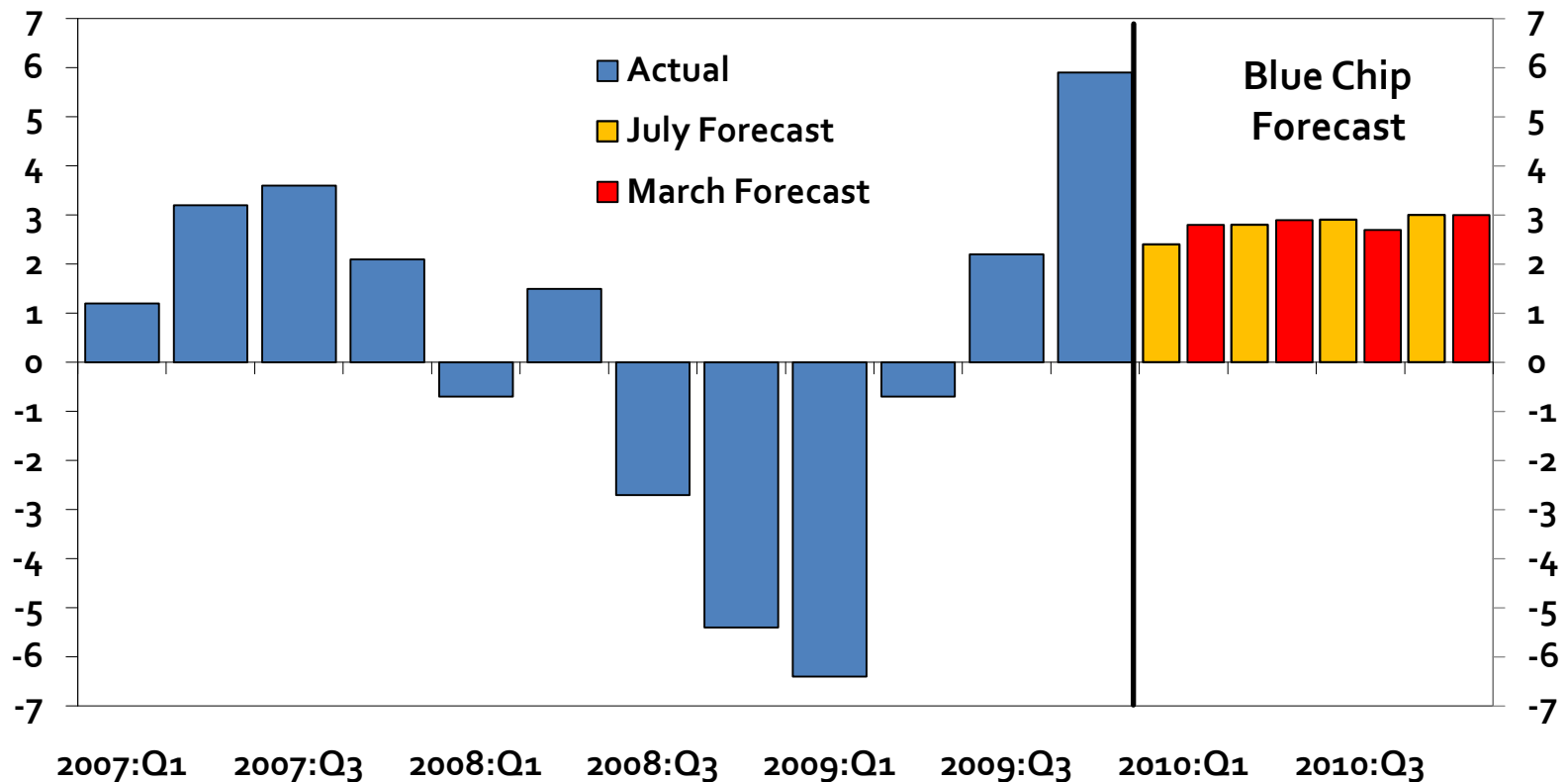
- **Why are forecasters expecting a slow recovery?**
  - **Financial Crisis and Impact on Credit**
  - **Unemployment and Slipping Demand**
- **Fiscal Challenges for the U.S. Government**
- **Monetary Challenges for the Federal Reserve**
- **What lies ahead?**



# Forecasters expect a slow U.S. recovery.

## Real GDP Growth

Annualized percent change from previous quarter



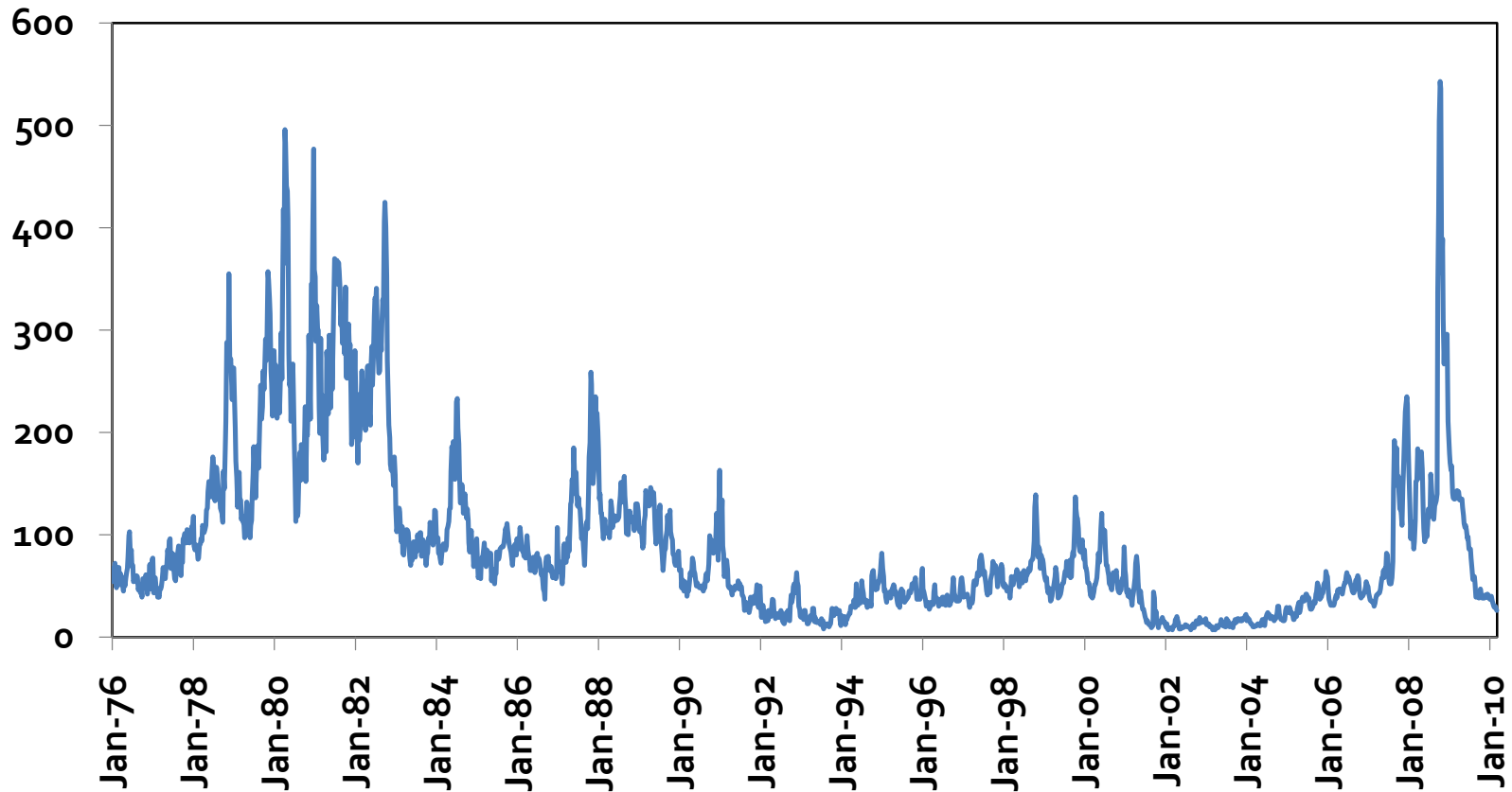
Source: Bureau of Economic Analysis and Blue Chip Economic Indicators



# The financial crisis has eased.

## TED Spread

Basis Points

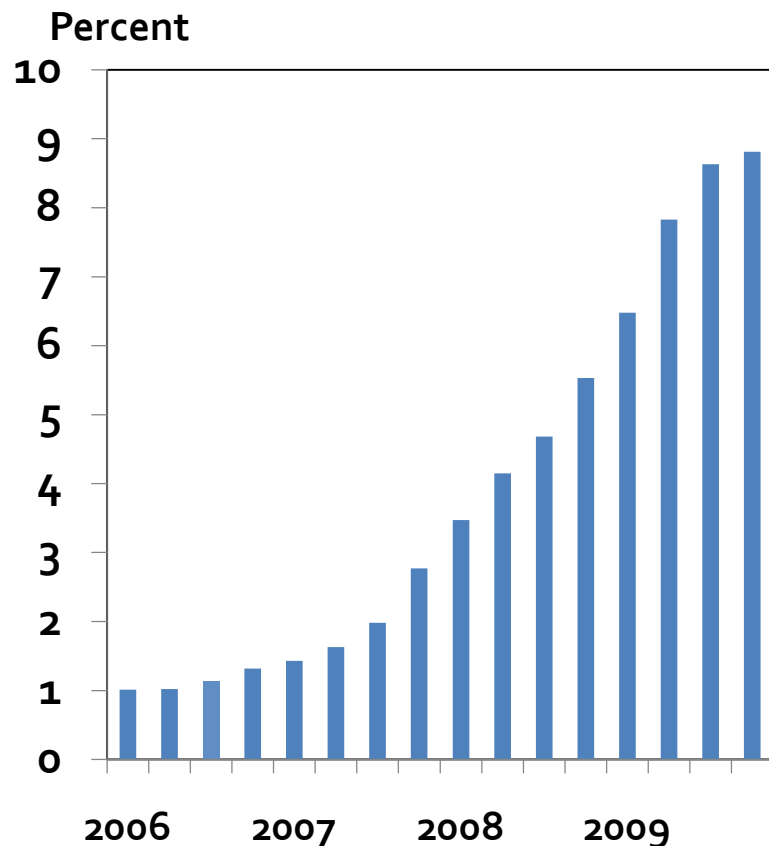


Source: Federal Reserve Board of Governors

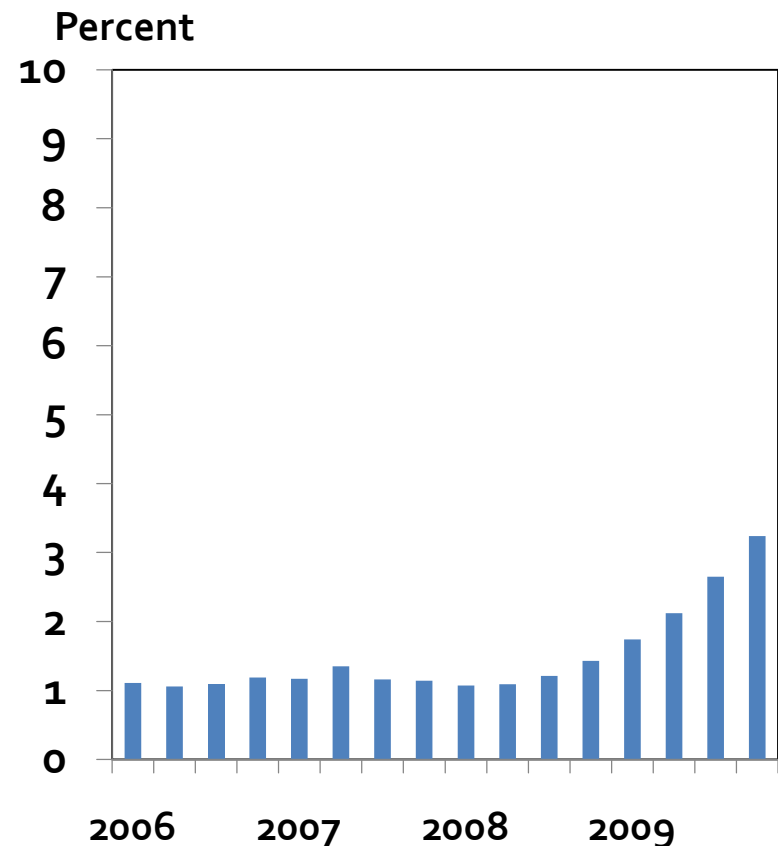


# However, delinquency rates on commercial real estate and agricultural loans are rising.

## Delinquency Rate on Commercial Real Estate Loans



## Delinquency Rate on Agricultural Loans

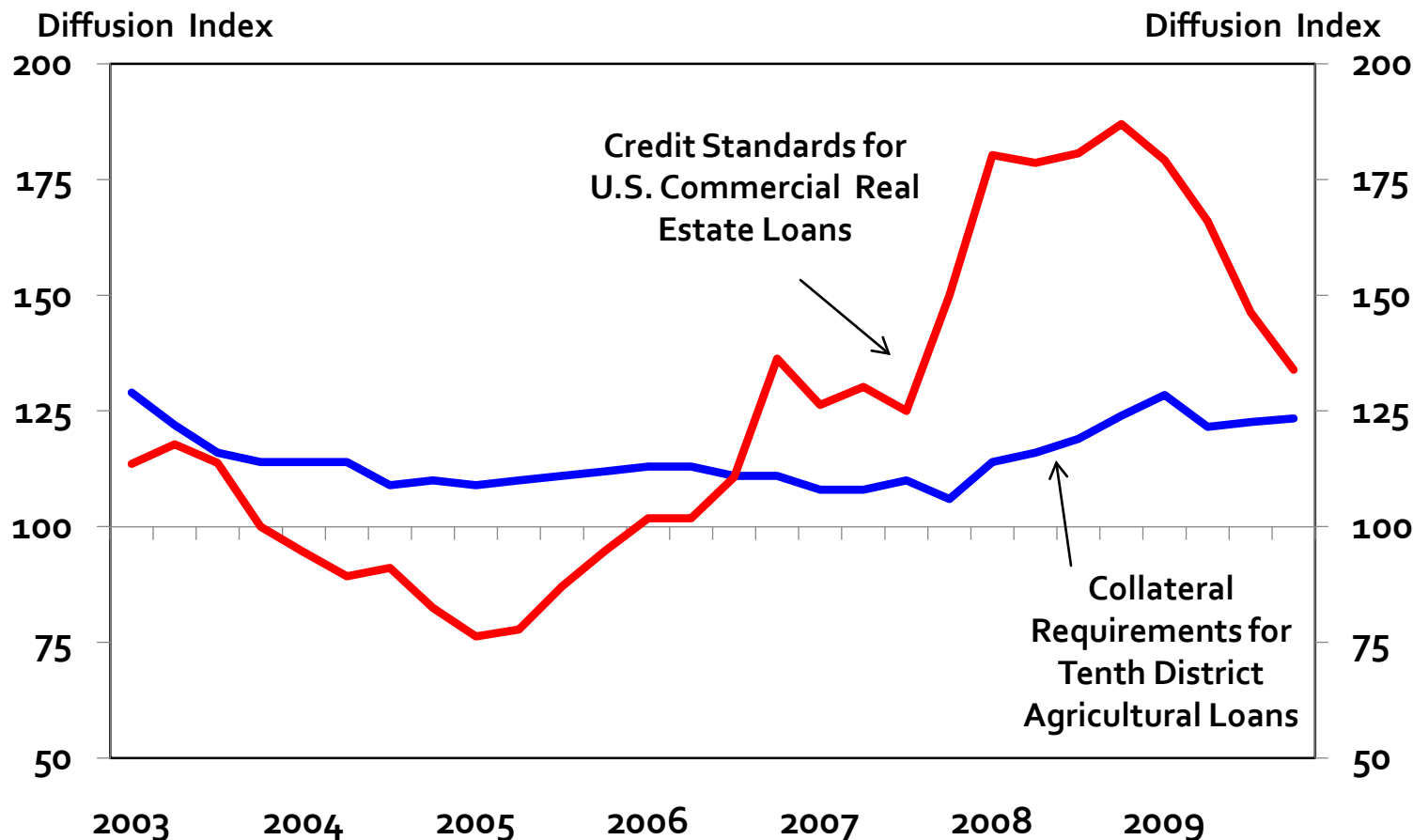


Source: Federal Reserve Board of Governors



# While fewer lenders report raising credit standards, credit is still tight.

## Loan Standards



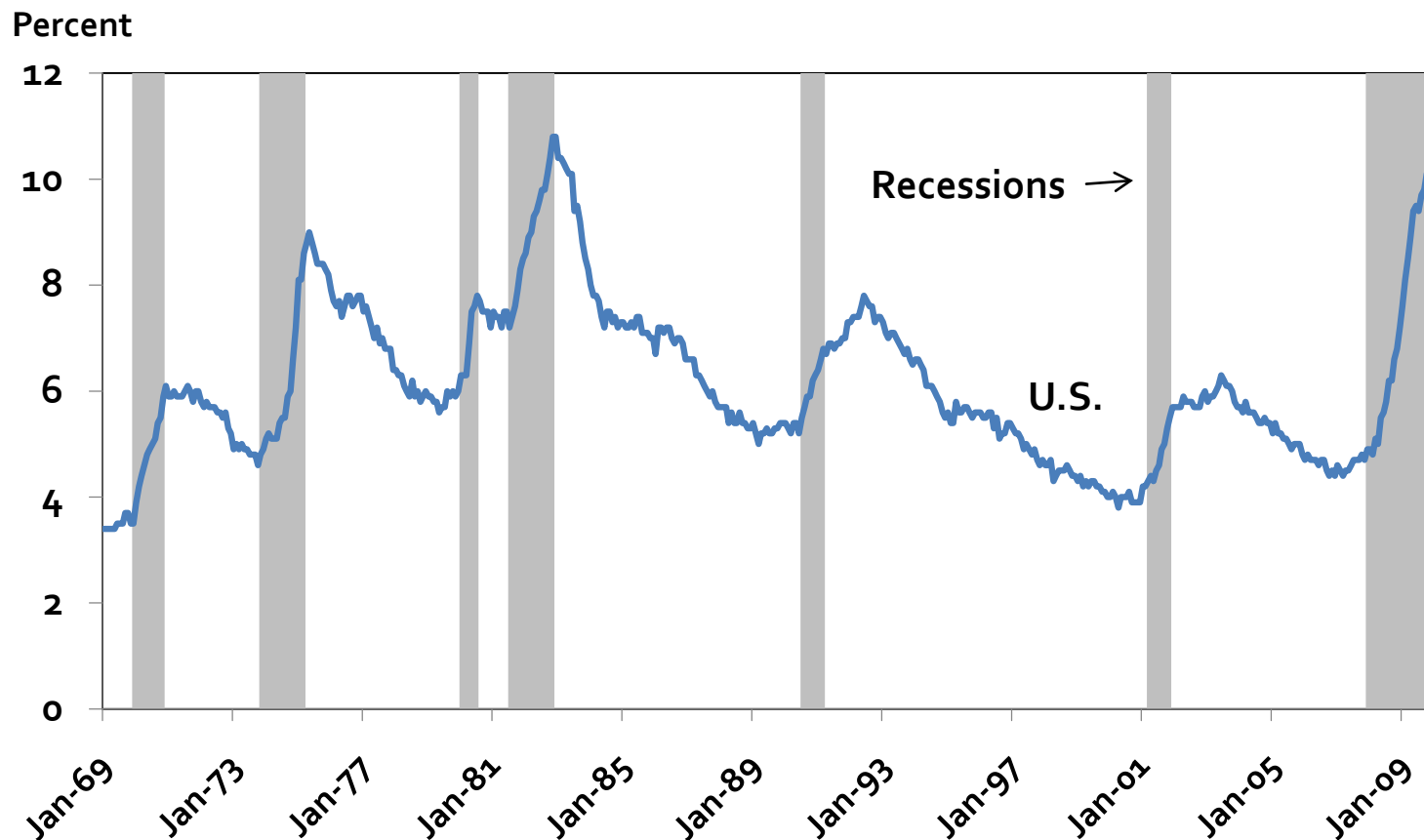
Source: Federal Reserve Board of Governors and Federal Reserve Bank of Kansas City

Federal Reserve Bank of Kansas City – Omaha Branch  
Regional, Public and Community Affairs Division



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

## U.S. Unemployment Rate (U<sub>3</sub>)



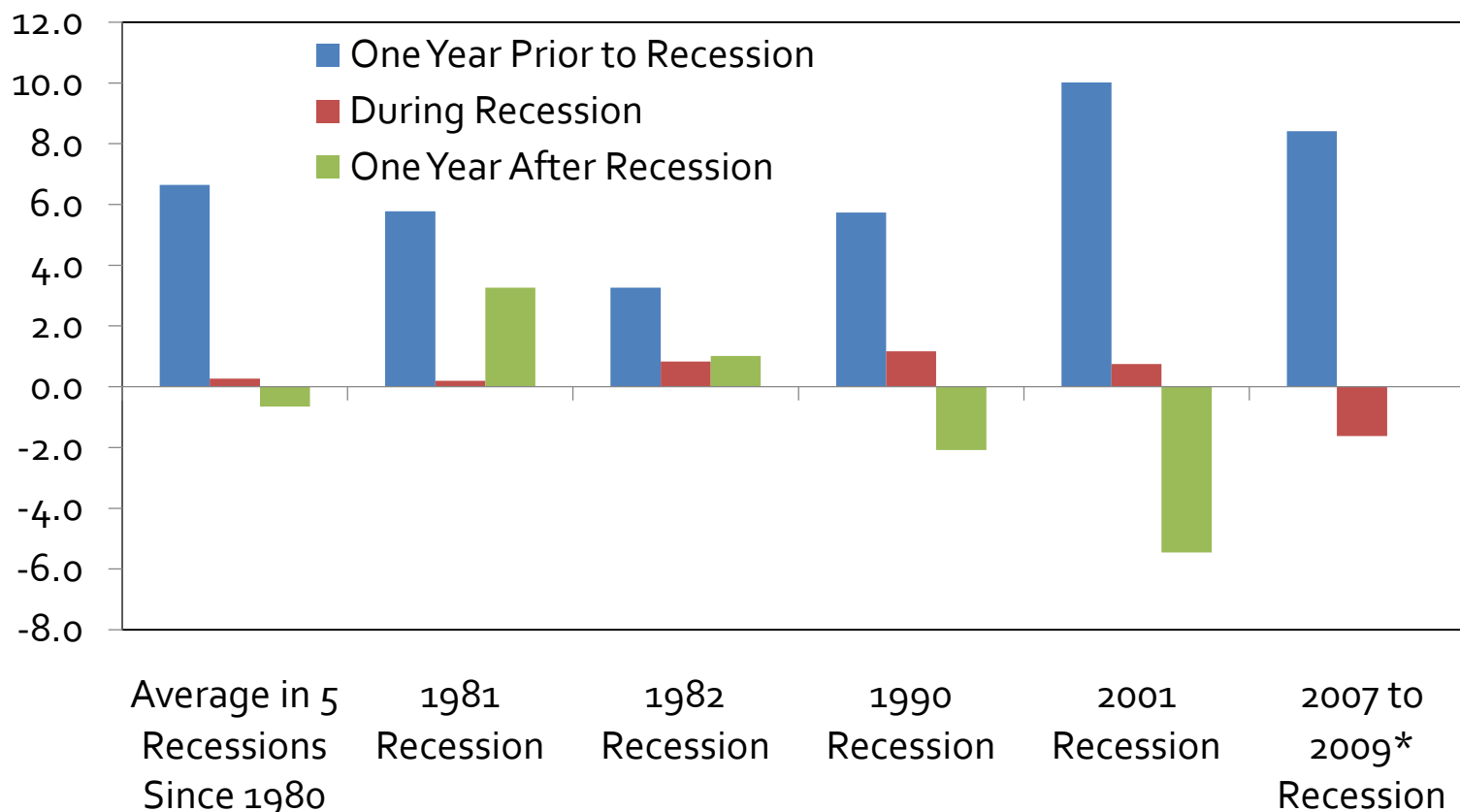
Source: Bureau of Economic Analysis and Bureau of Labor Statistics



# 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.

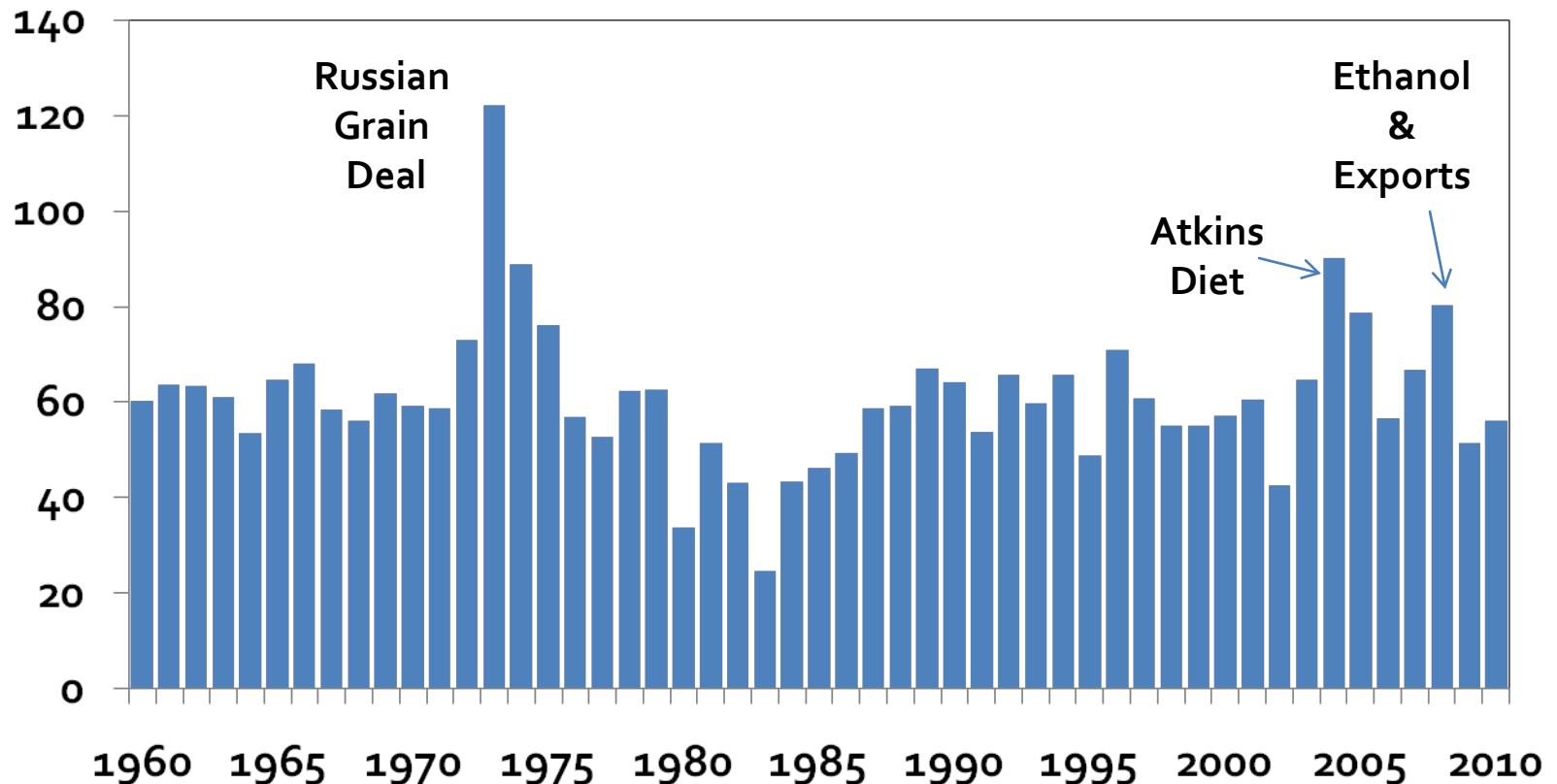




# Traditionally, surging demand leads to spikes in net farm income.

## Real U.S. Net Farm Income

Billion dollars



Source: USDA

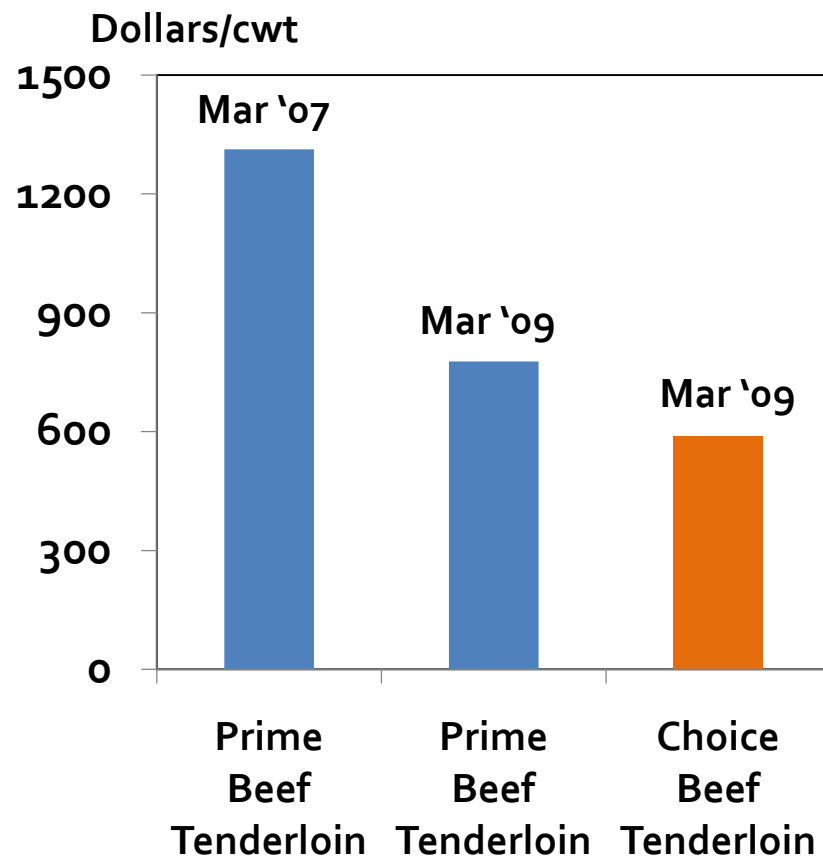


# Given the severity of this recession, could the beef industry learn something from high fashion?

## Price of Jeans

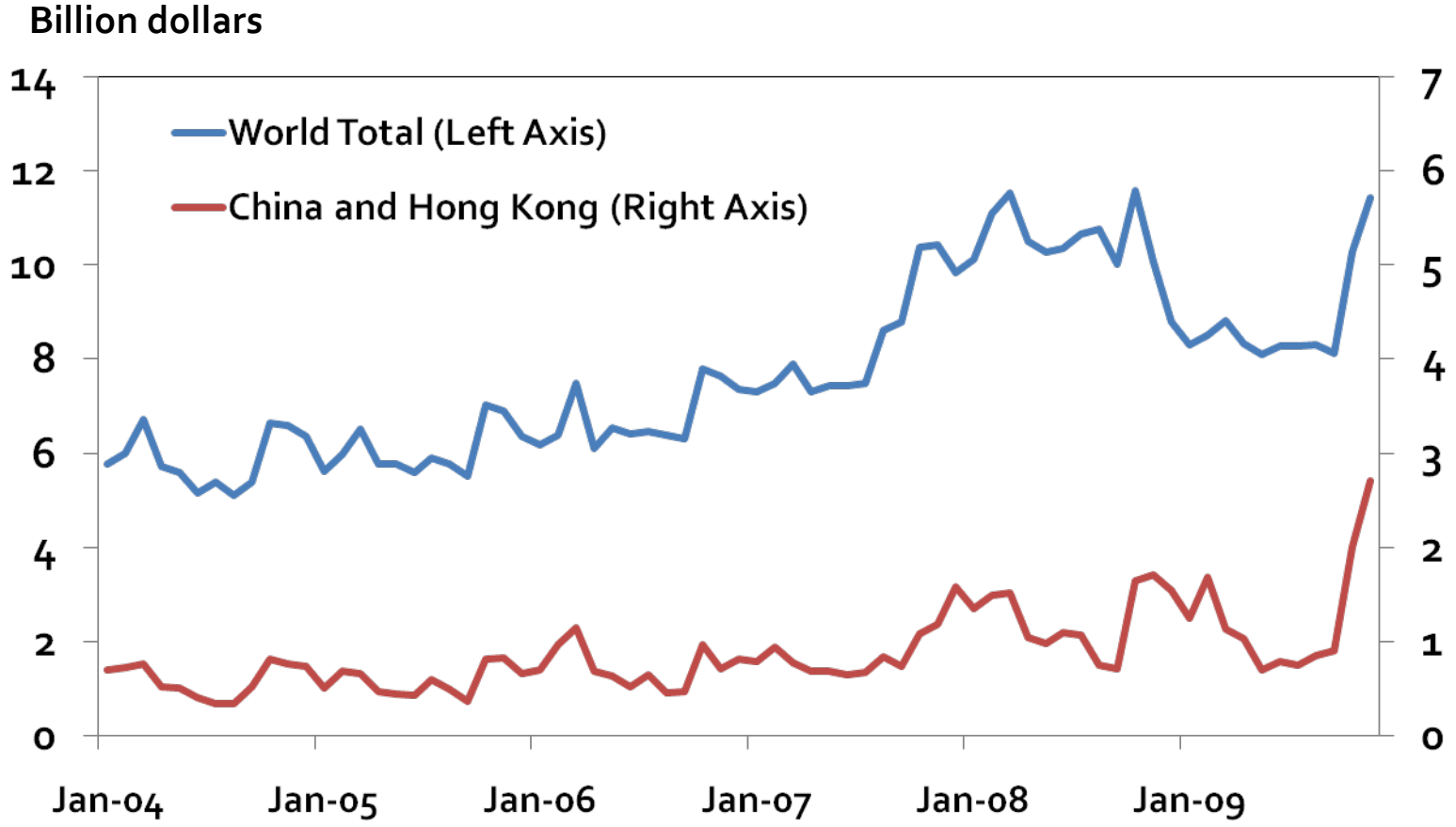


## Price of Beef Tenderloin



# U.S. ag exports rebounded at the end of 2009, fueled by China.

## U.S. Agricultural Exports

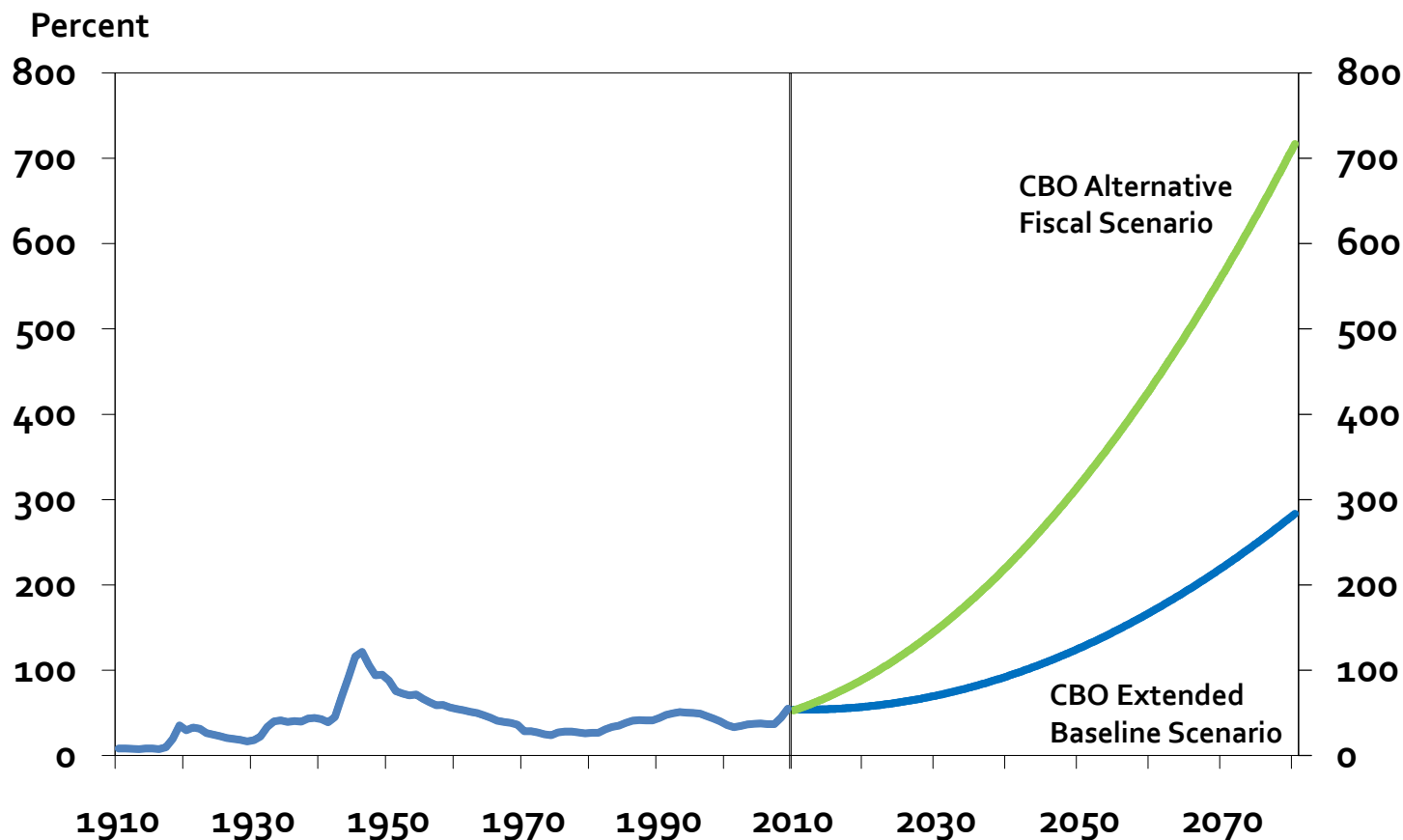


Source: USDA



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

## U.S. Federal Debt as a Percent of GDP



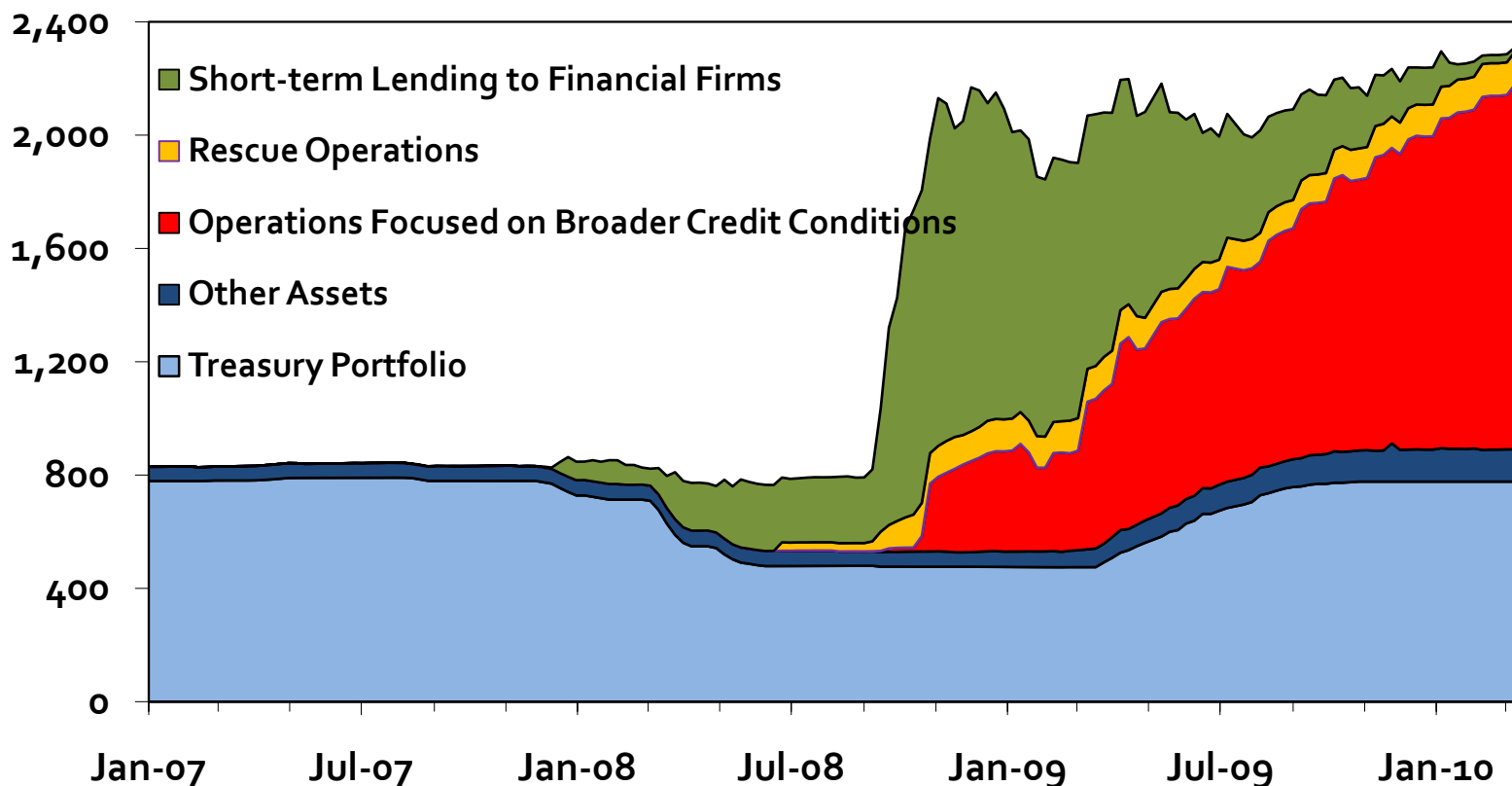
Source: Congressional Budget Office, November 2009



# The Federal Reserve provided a lot of liquidity, which helped financial markets. But it is not sustainable in the long-run.

## Federal Reserve Balance Sheet: Assets

Billion Dollars

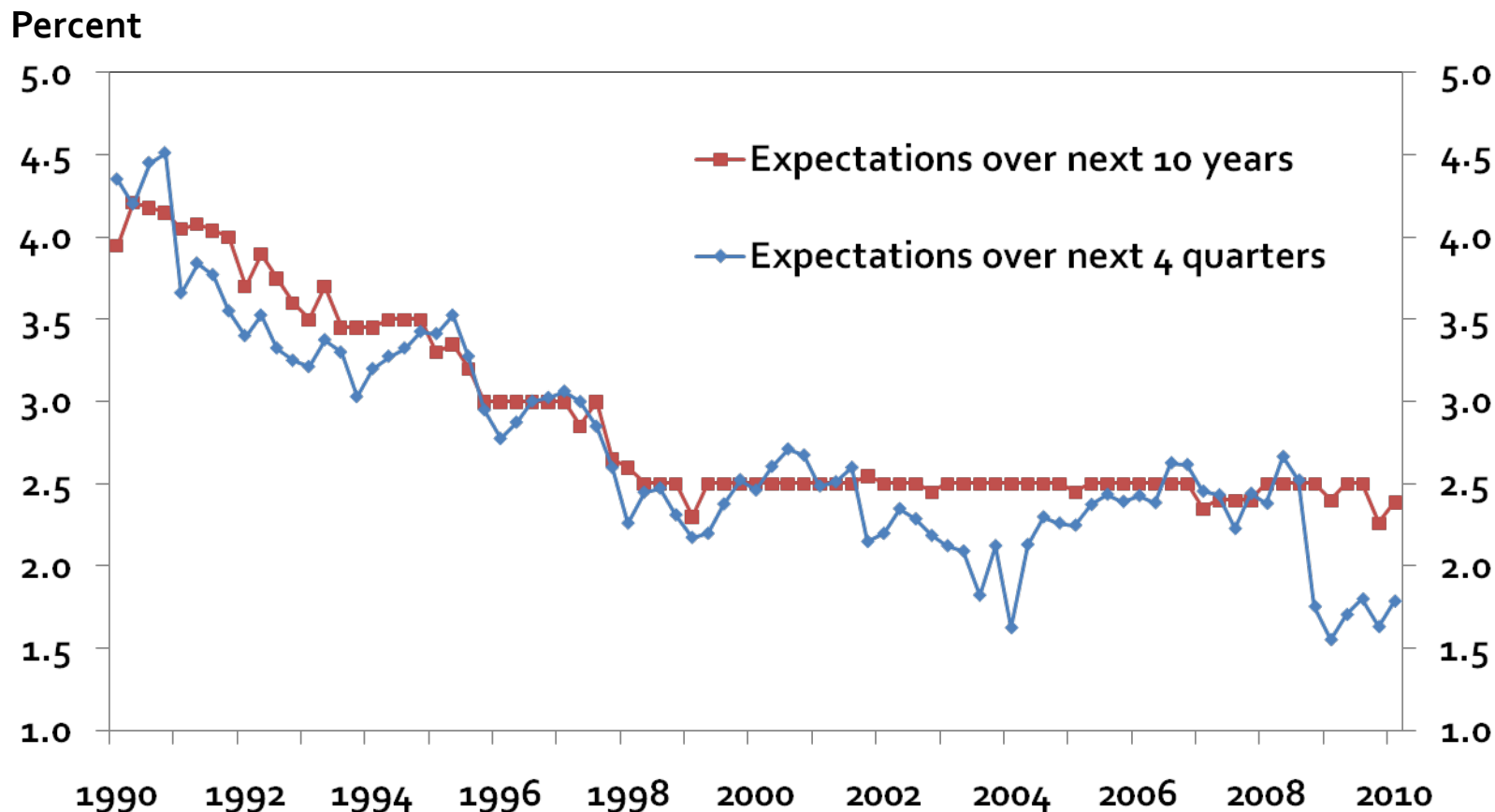


Source: Federal Reserve Board of Governors



# Inflation expectations remain low despite the large amount of liquidity in the marketplace.

## U.S. Inflation Expectations

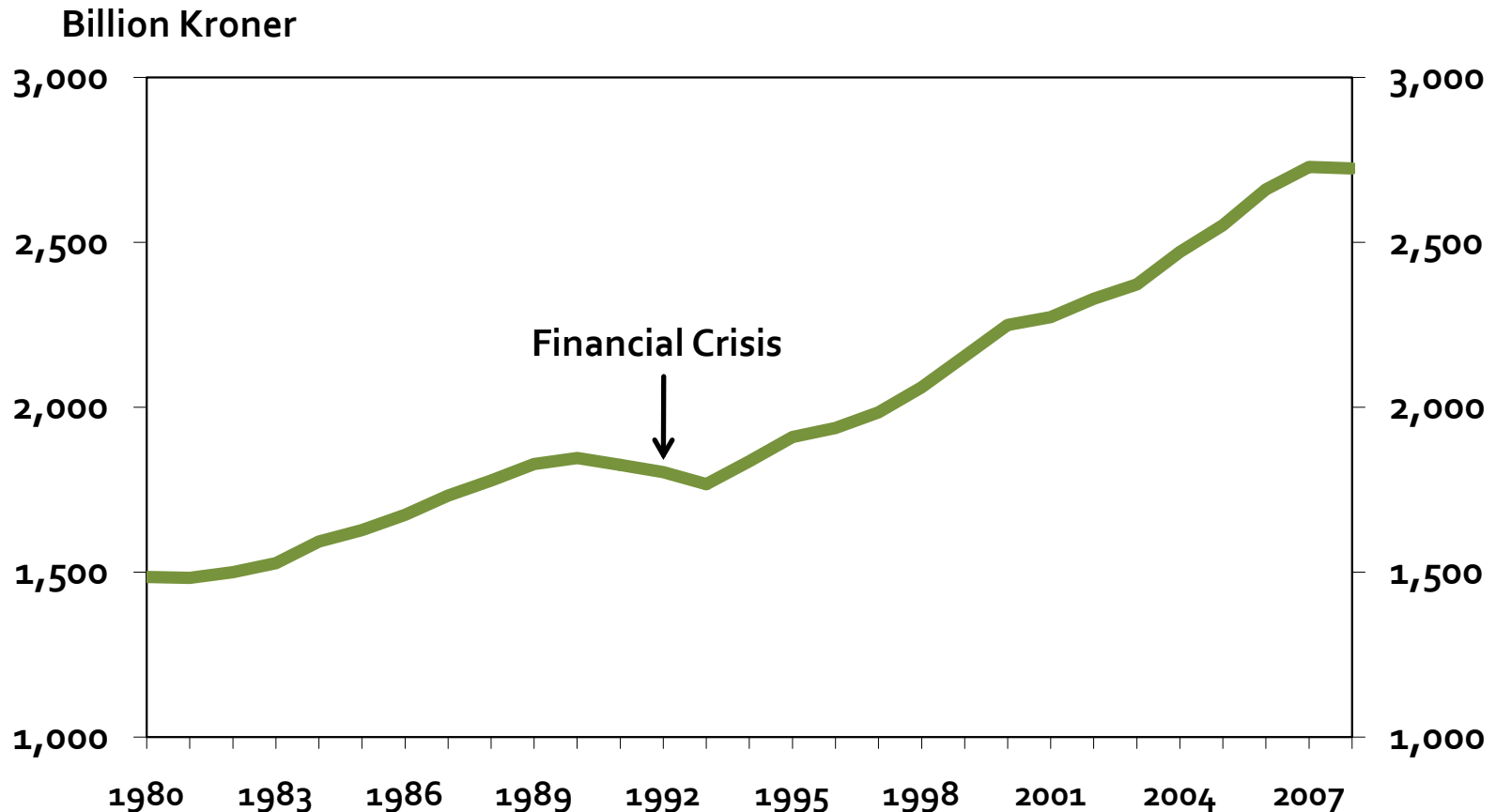


Source: Survey of Professional Forecasters



# Could the future path of U.S. GDP be similar to another country (Sweden) that experienced a financial crisis?

## Sweden Gross Domestic Product

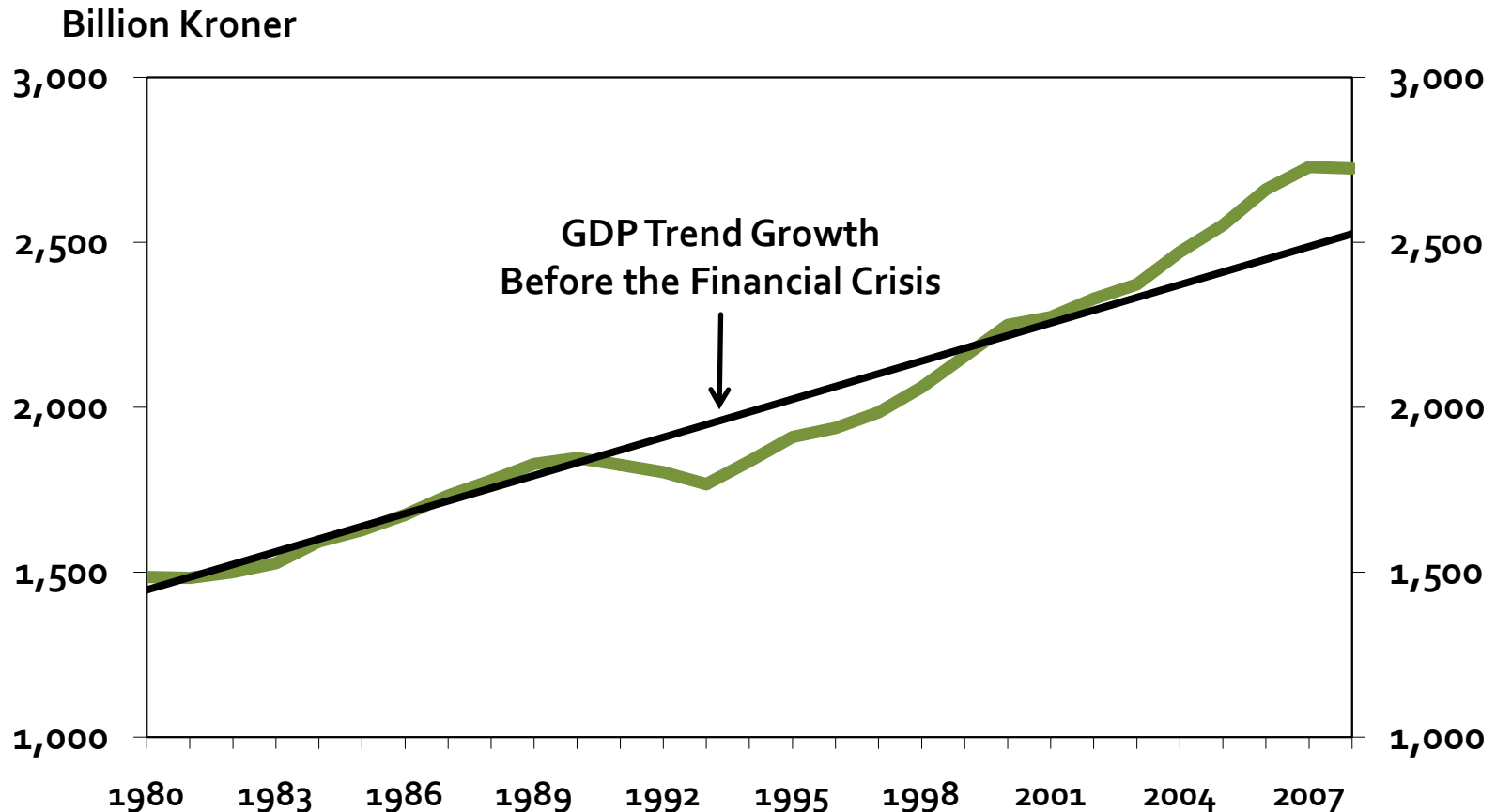


Source: International Monetary Fund



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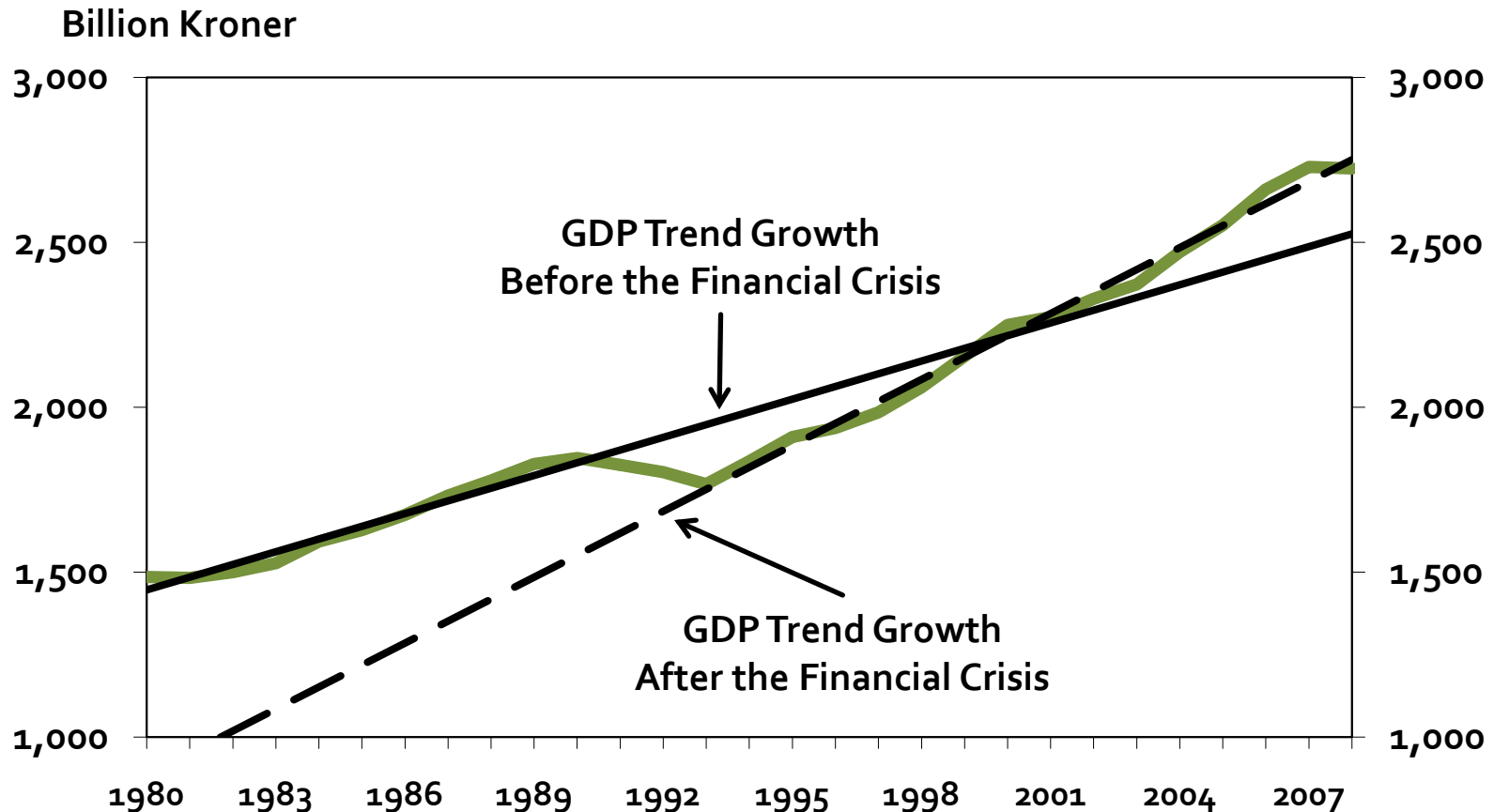
Source: International Monetary Fund





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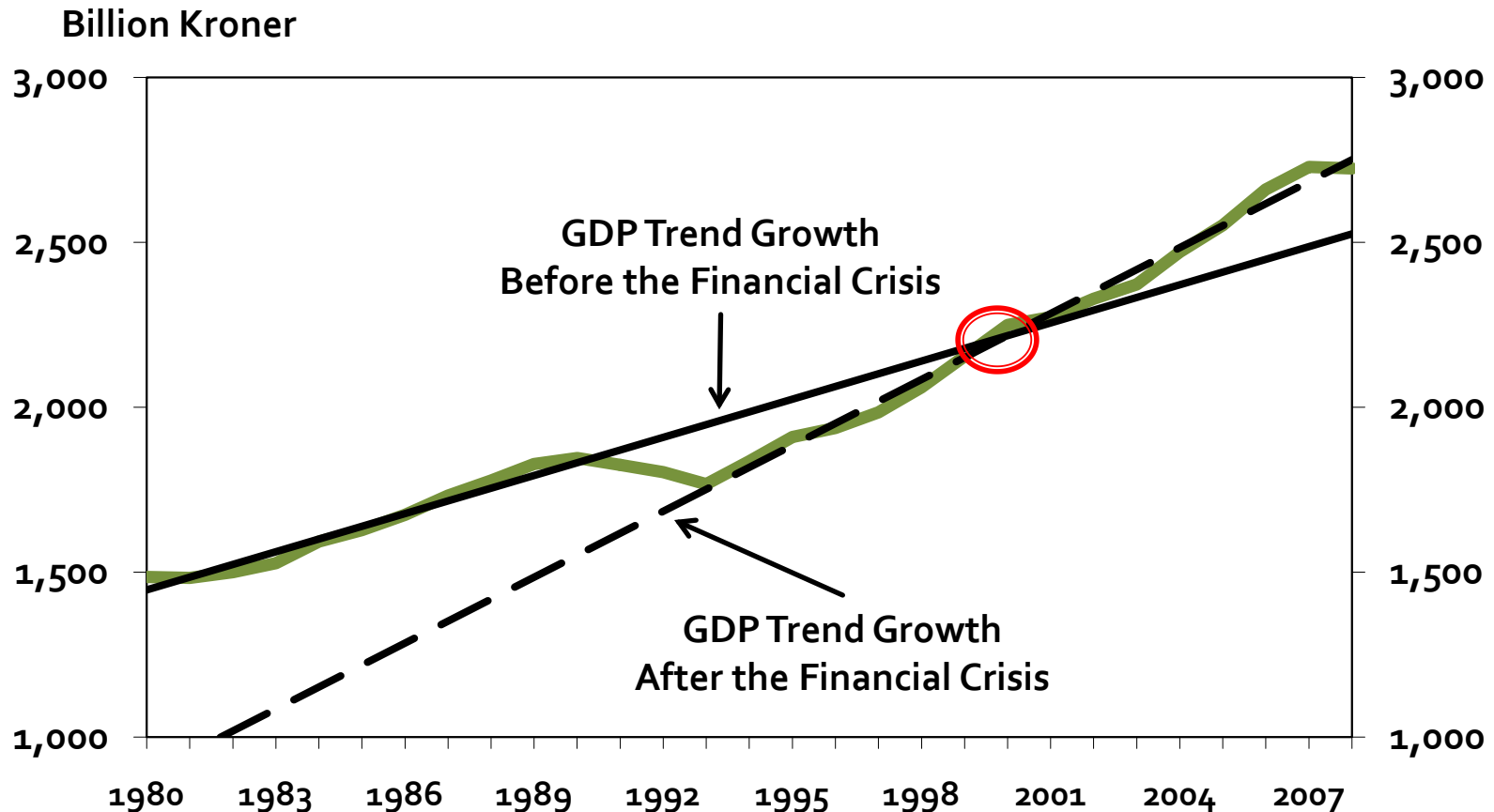


Source: International Monetary Fund



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Source: International Monetary Fund



# 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>



# Questions?

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