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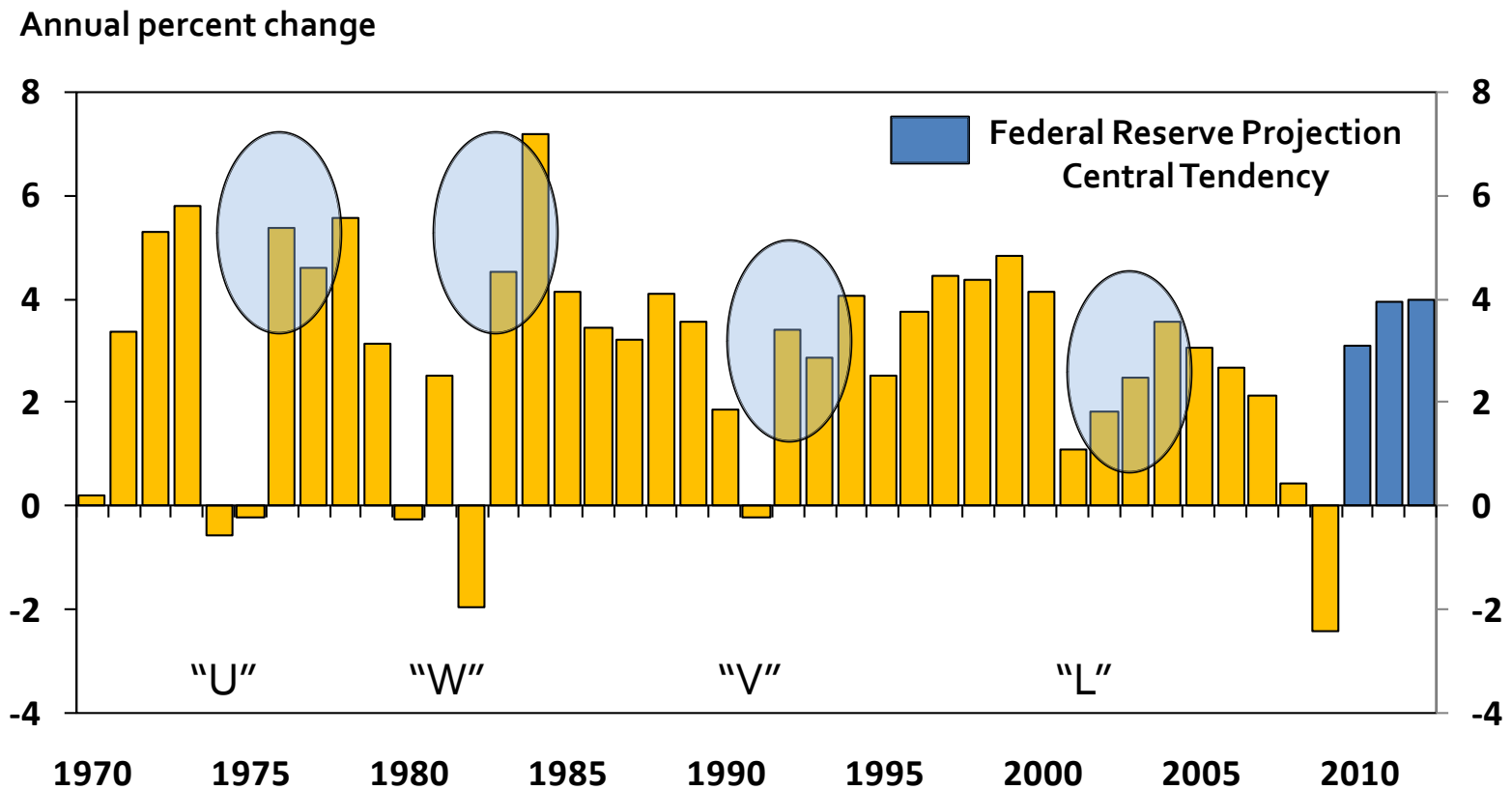
Ag's New Golden Era? High Hopes, Uncertain Profits



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.

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

Real GDP Growth

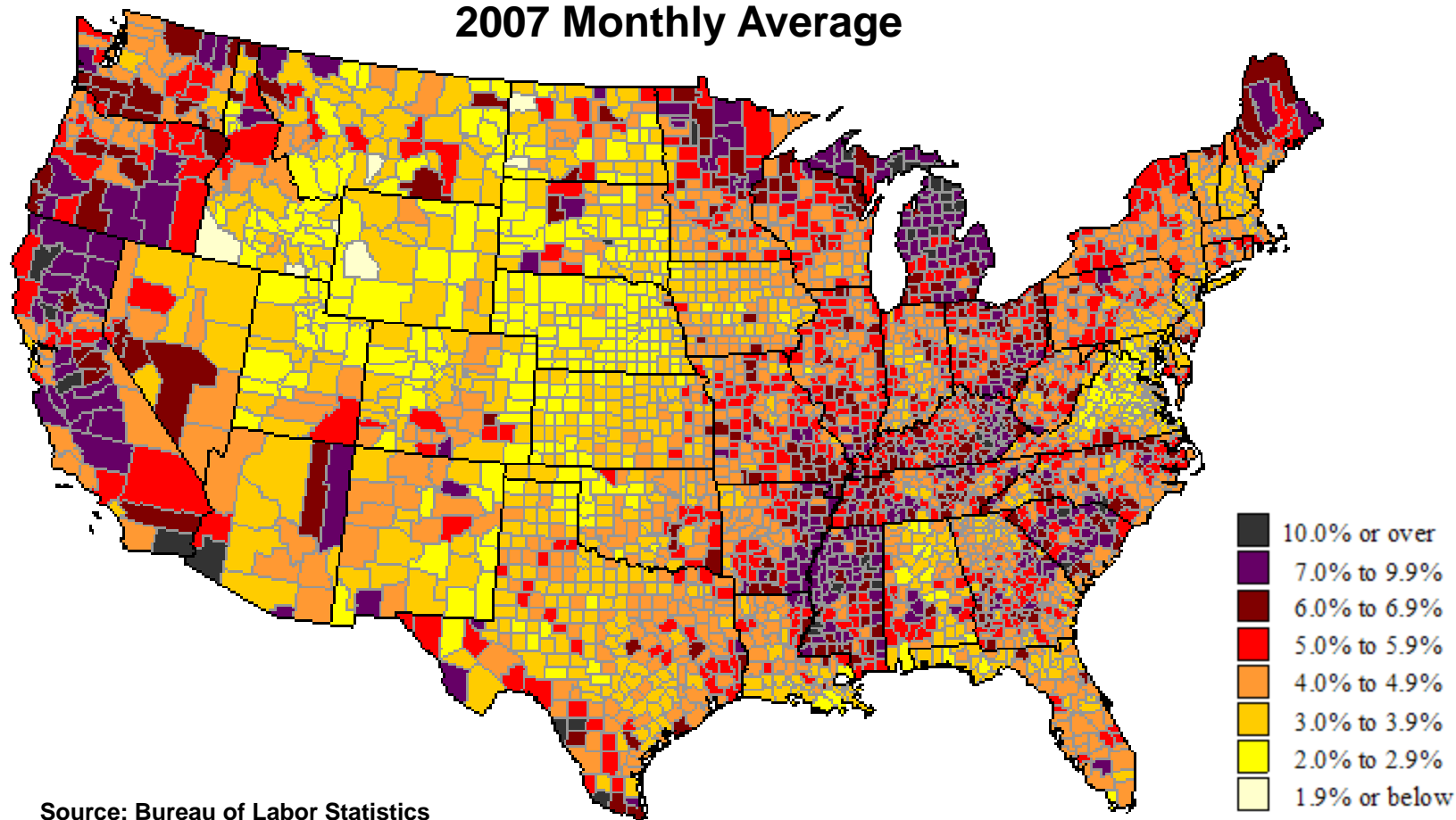


Source: Bureau of Economic Analysis Federal Reserve Board of Governors



Nebraska Avoided the Worst of the Recession

Unemployment Rate
2007 Monthly Average

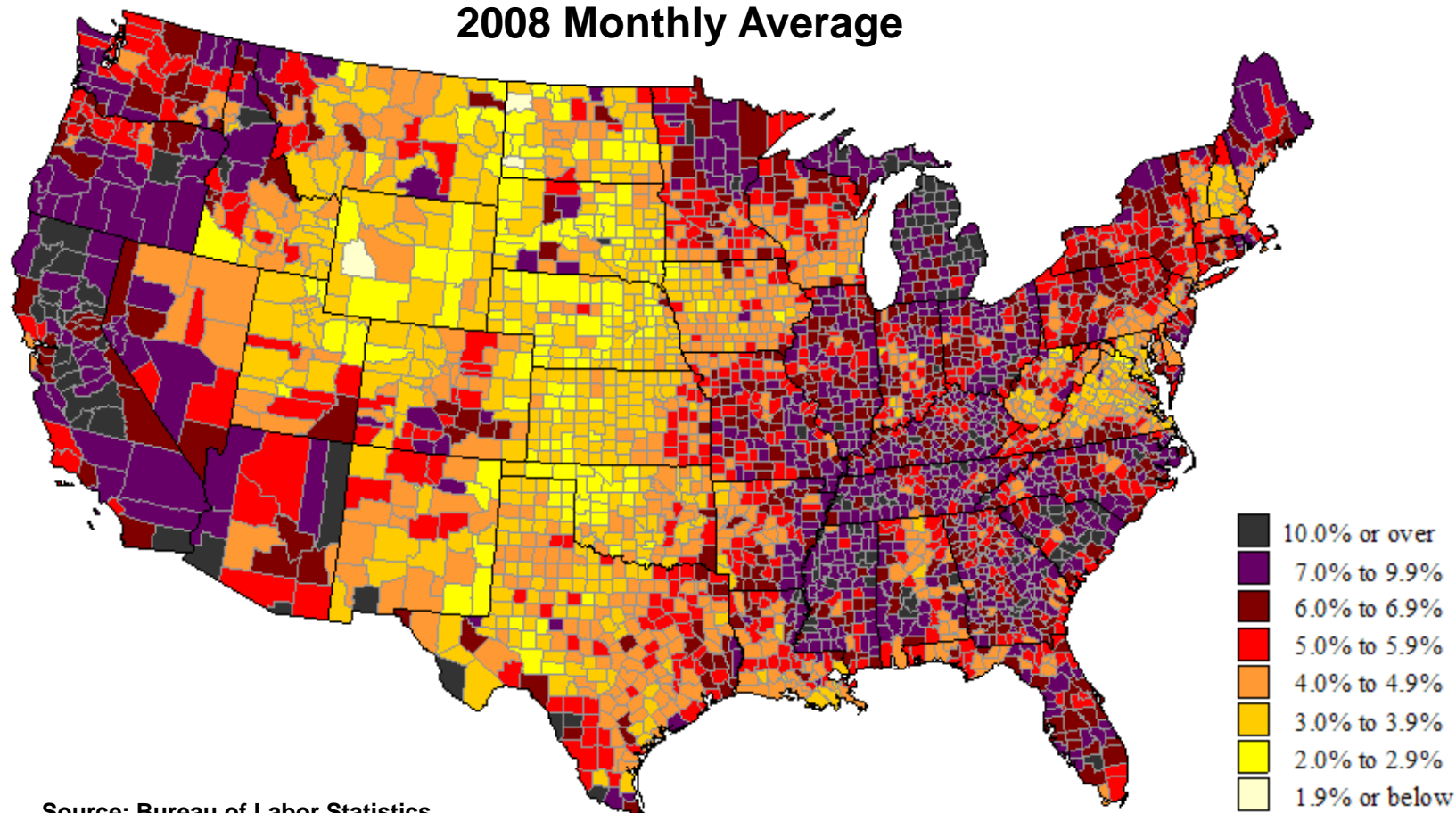


Source: Bureau of Labor Statistics



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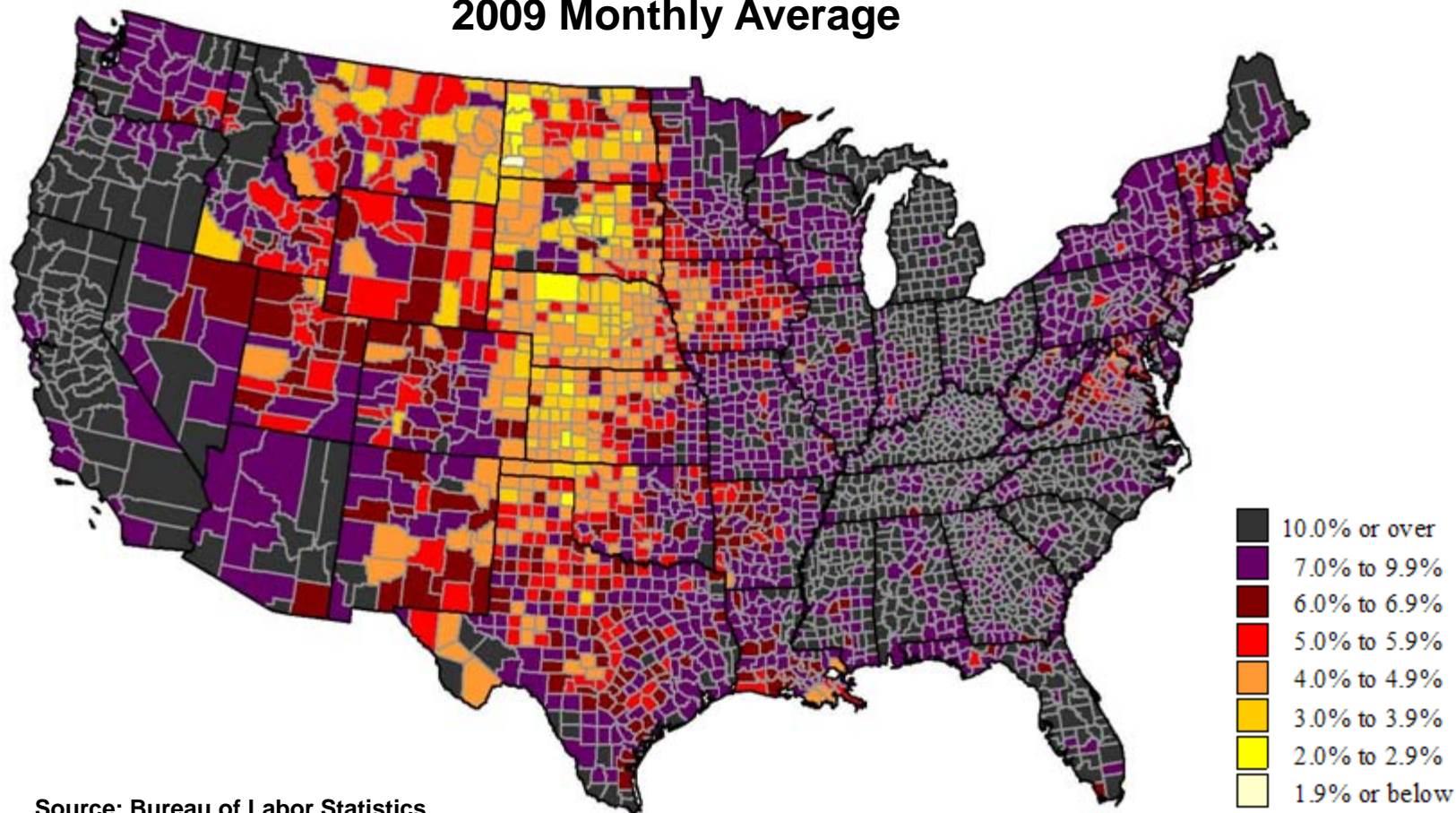


Source: Bureau of Labor Statistics



Nebraska Avoided the Worst of the Recession

Unemployment Rate
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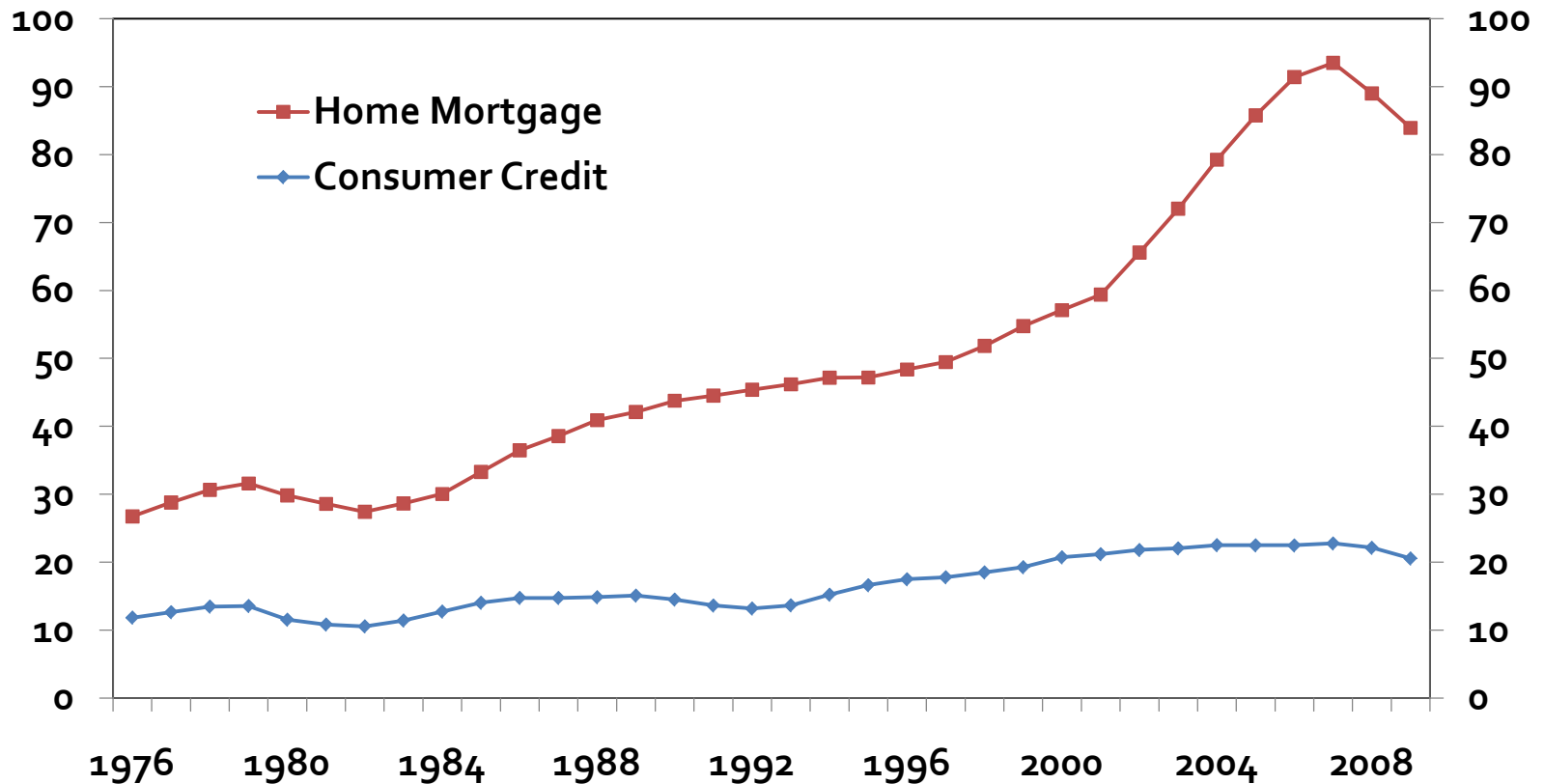
Source: Bureau of Labor Statistics



Economic growth will slow as consumers deleverage (save more, spend less).

Real Household Debt Outstanding

Thousand dollars (constant 2009 dollars)



Source: Federal Reserve Board of Governors



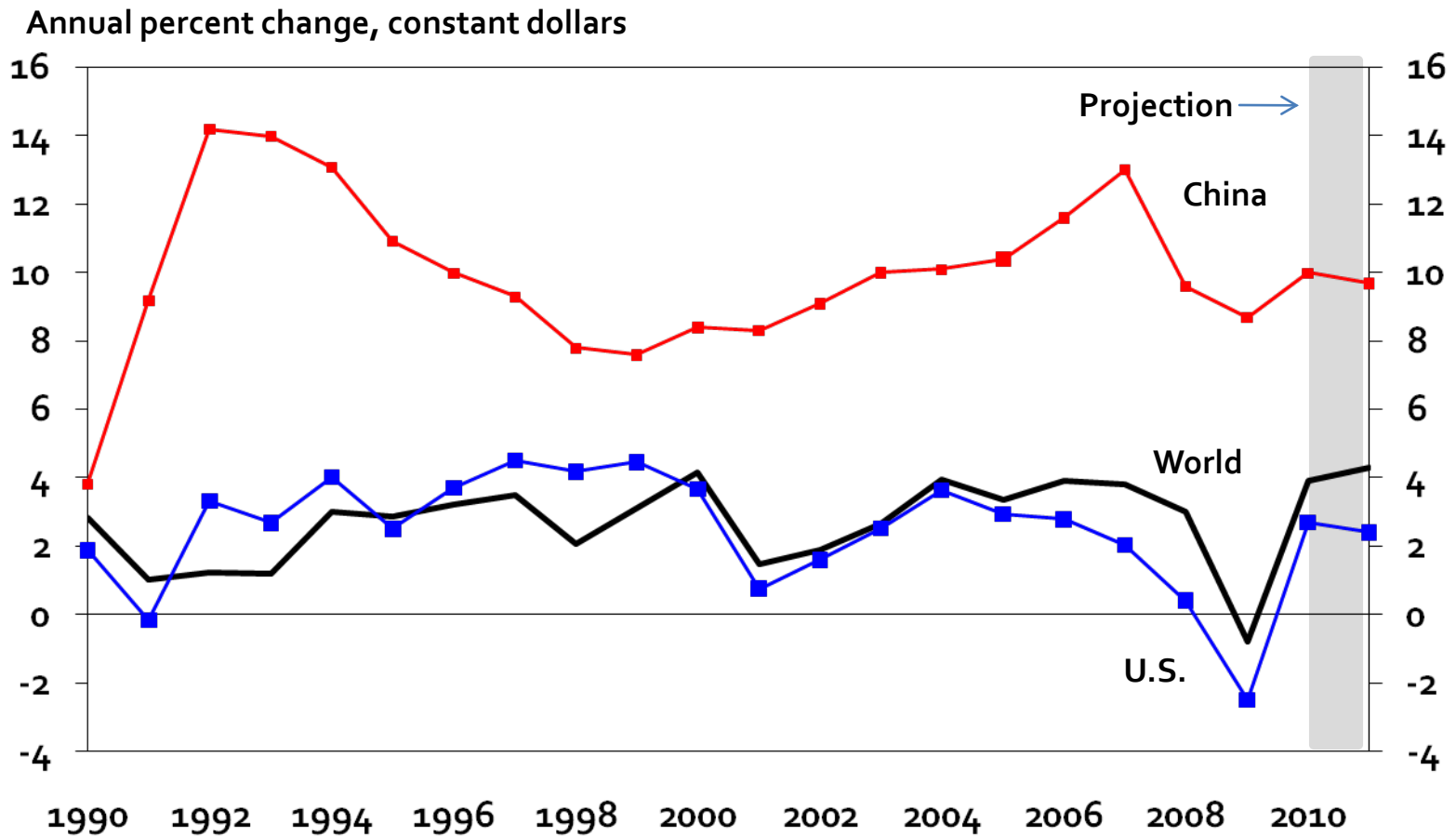
Changing Government Policies.

- Financial markets and regulation
- Environmental policy
- Energy policy
- Health care policy
- Agricultural policy
- Rural development
- ???



Where are tomorrow's consumers?

GDP Growth

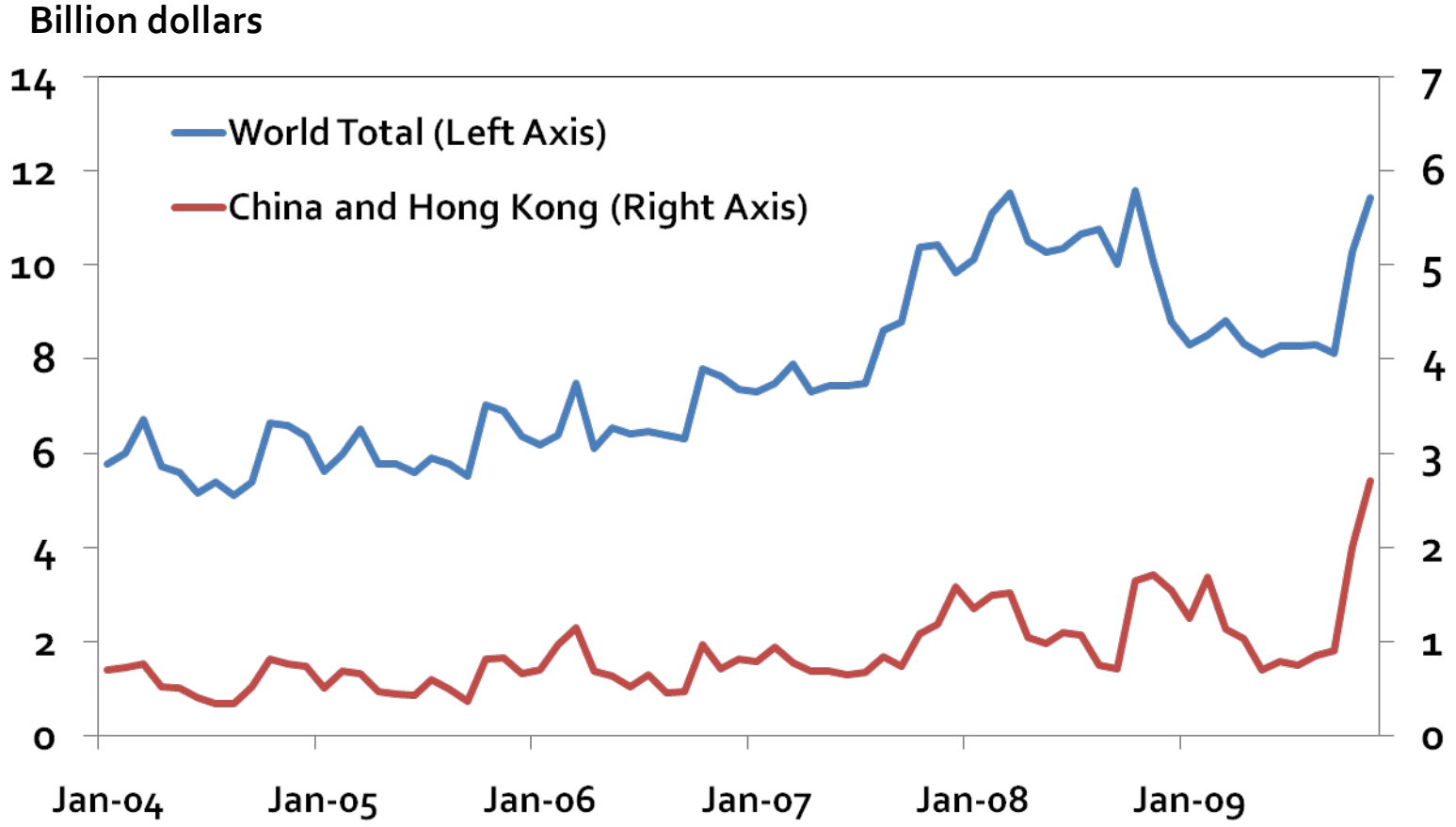


Source: International Monetary Fund, January 2010



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

U.S. Agricultural Exports



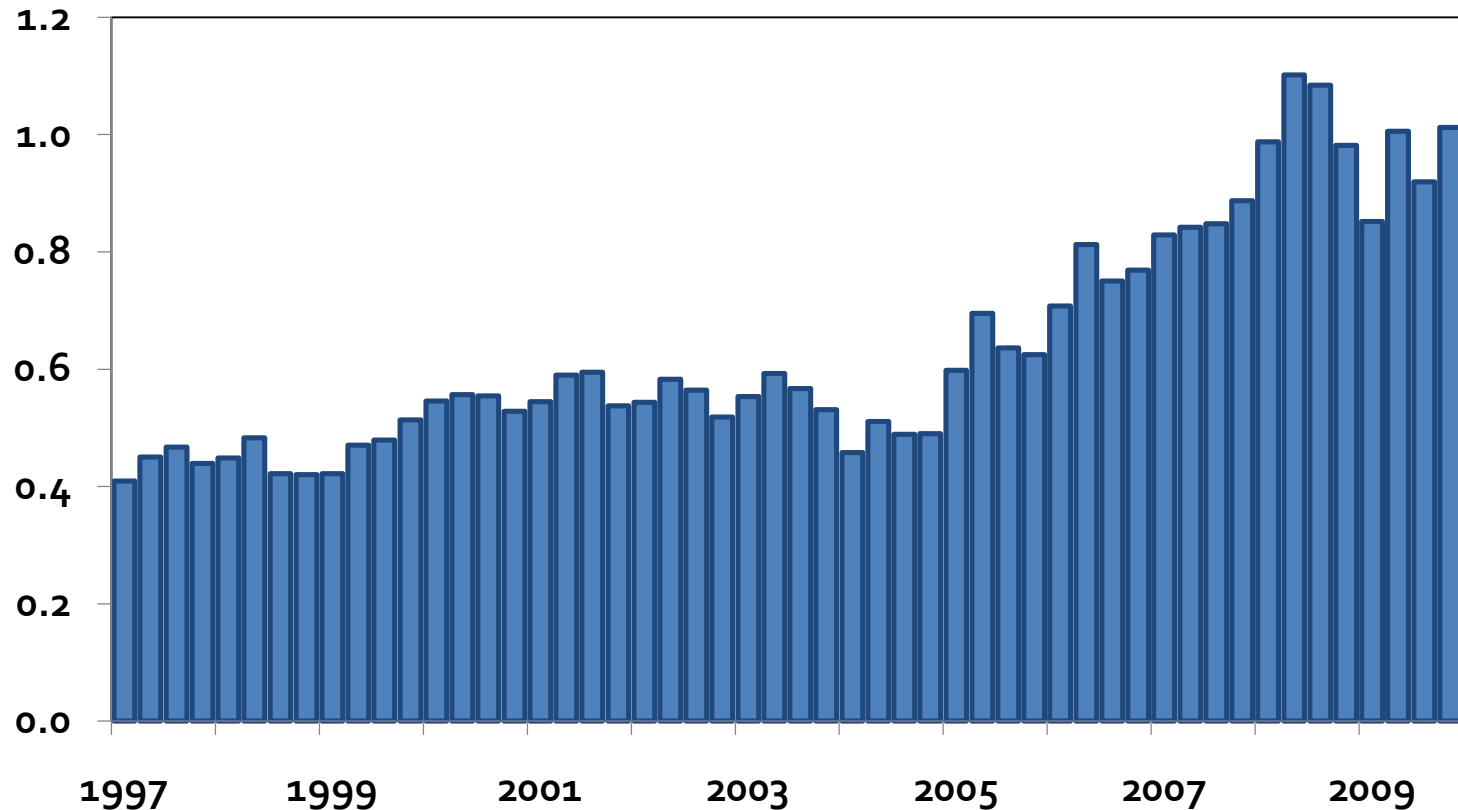
Source: USDA



Nebraska's exports remain strong.

Nebraska Manufactured Exports

Billion dollars



Source: WISERTrade



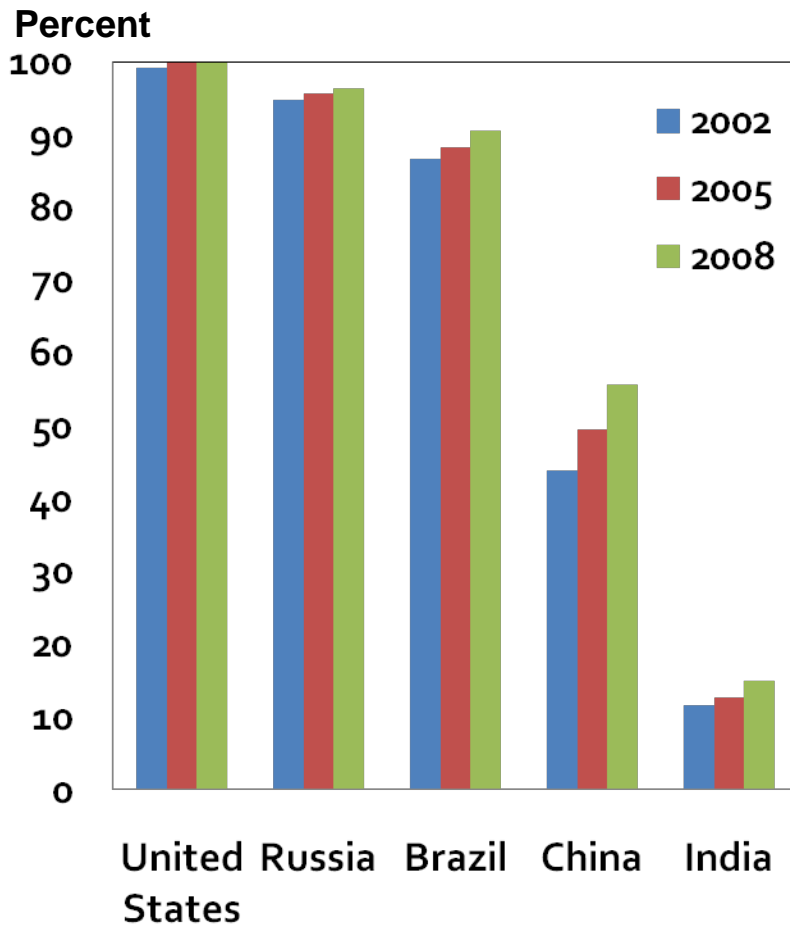
To capture opportunities, Nebraska agriculture needs to be entrepreneurial.

Ski Nebraska

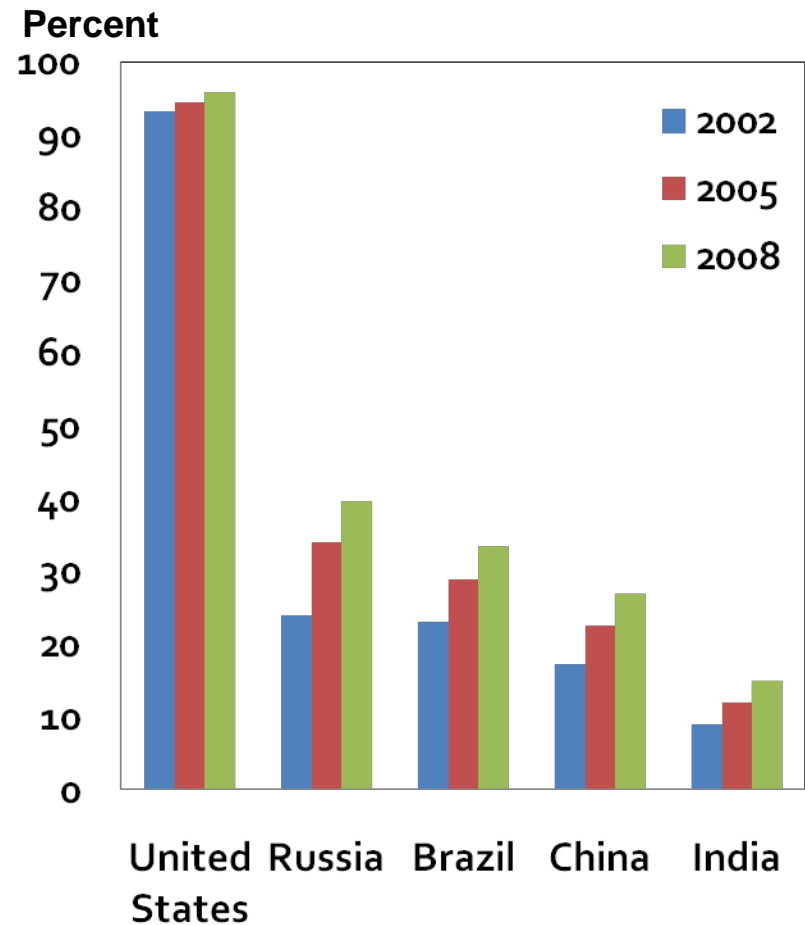


How can Nebraska ag entrepreneurs seize opportunities in emerging countries?

Households Owning a Refrigerator



Households Owning a Microwave Oven



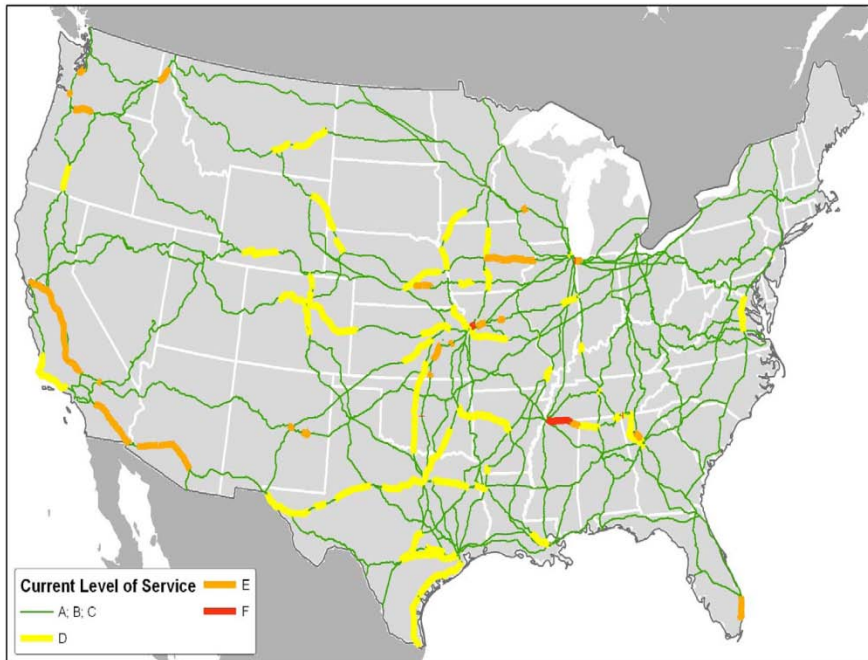
Source: USDA, Euromonitor



Will transportation infrastructure be a competitive advantage for U.S. farmers?

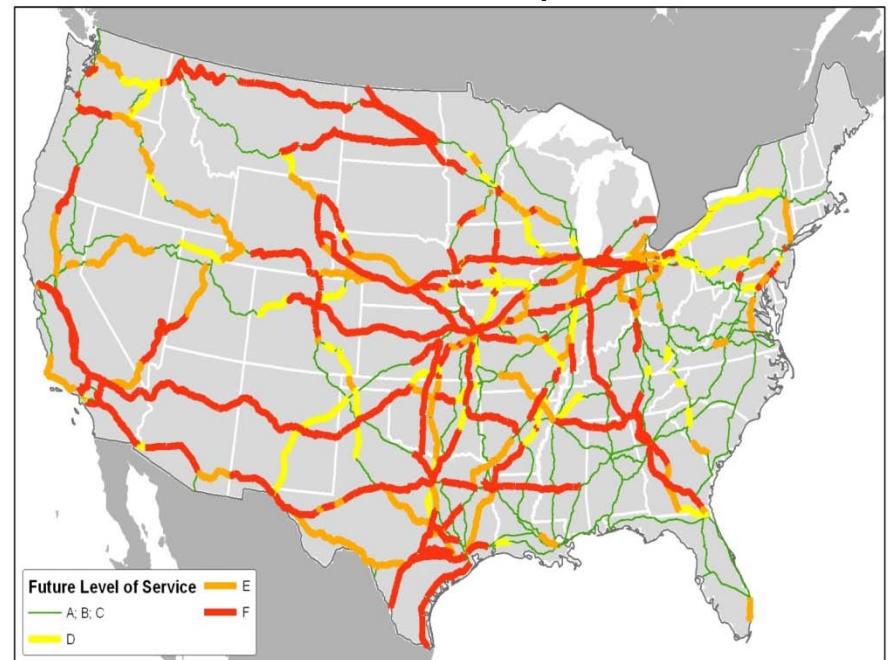
Railroad Capacity

2007



Below capacity Near capacity

2035 – without improvements



At capacity Above capacity

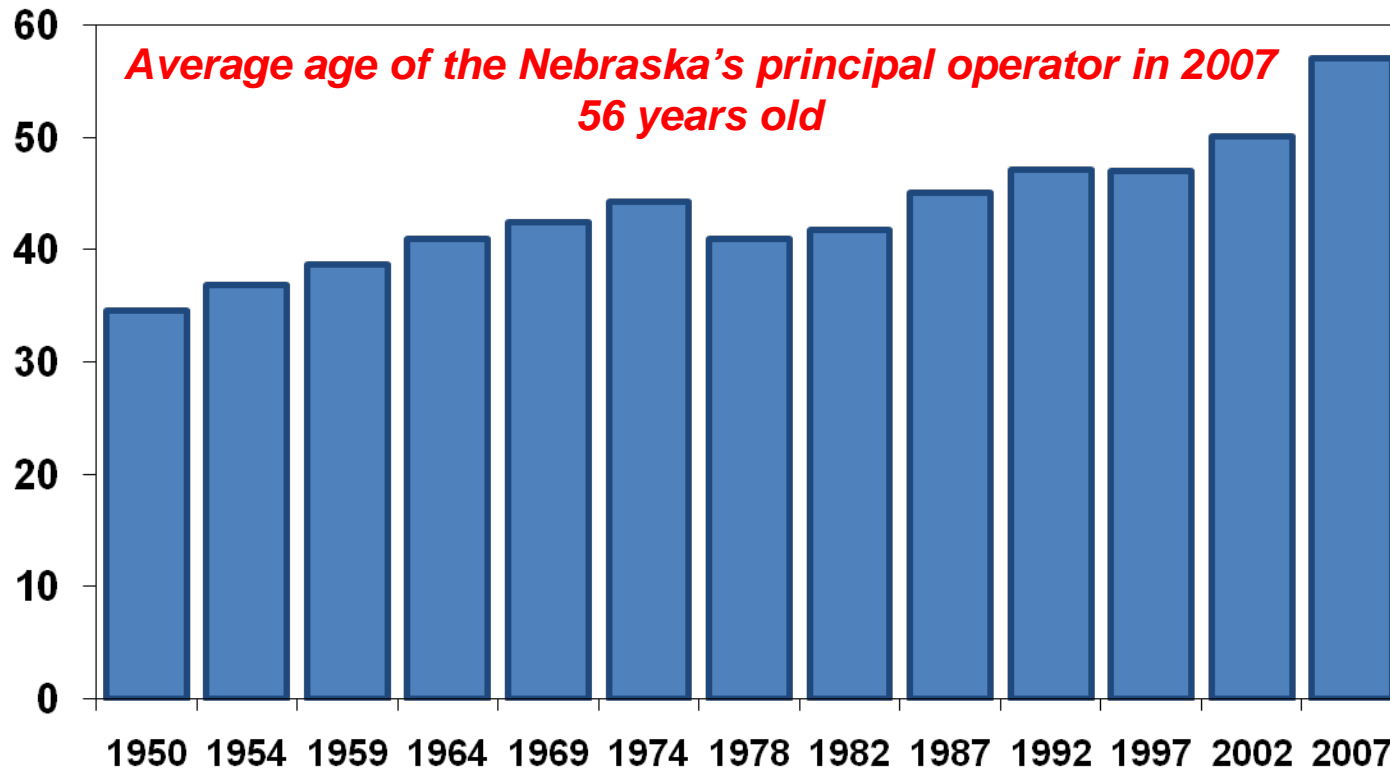
Source: U.S. Dept. of Transportation



Where Will Agriculture's Next Generation of Leaders Emerge?

Age of U.S. Farmers

Percent 55 or older



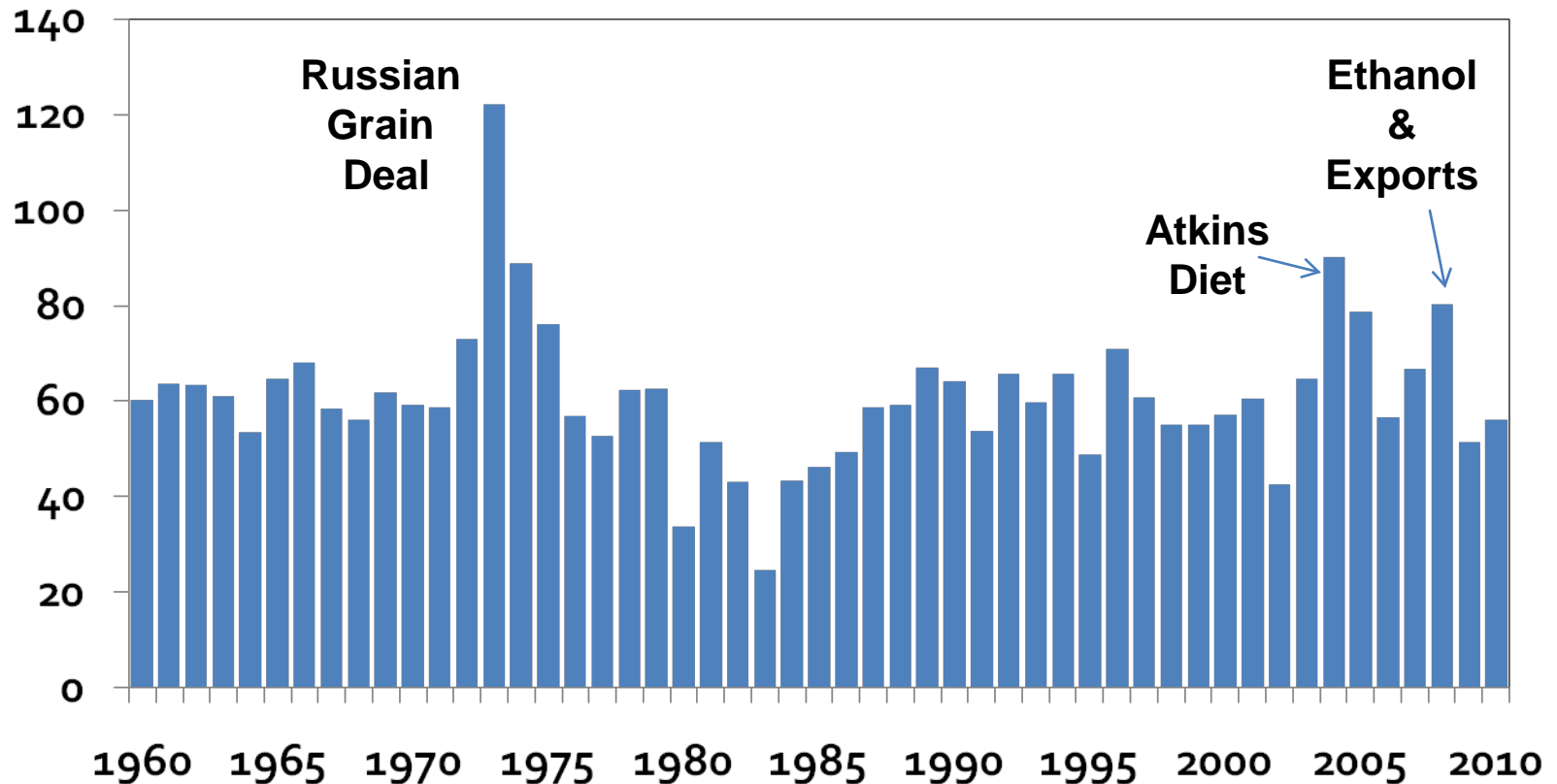
Source: USDA, ERS



Traditionally, farm booms are driven by demand.

Real U.S. Net Farm Income

Billion dollars



Source: USDA

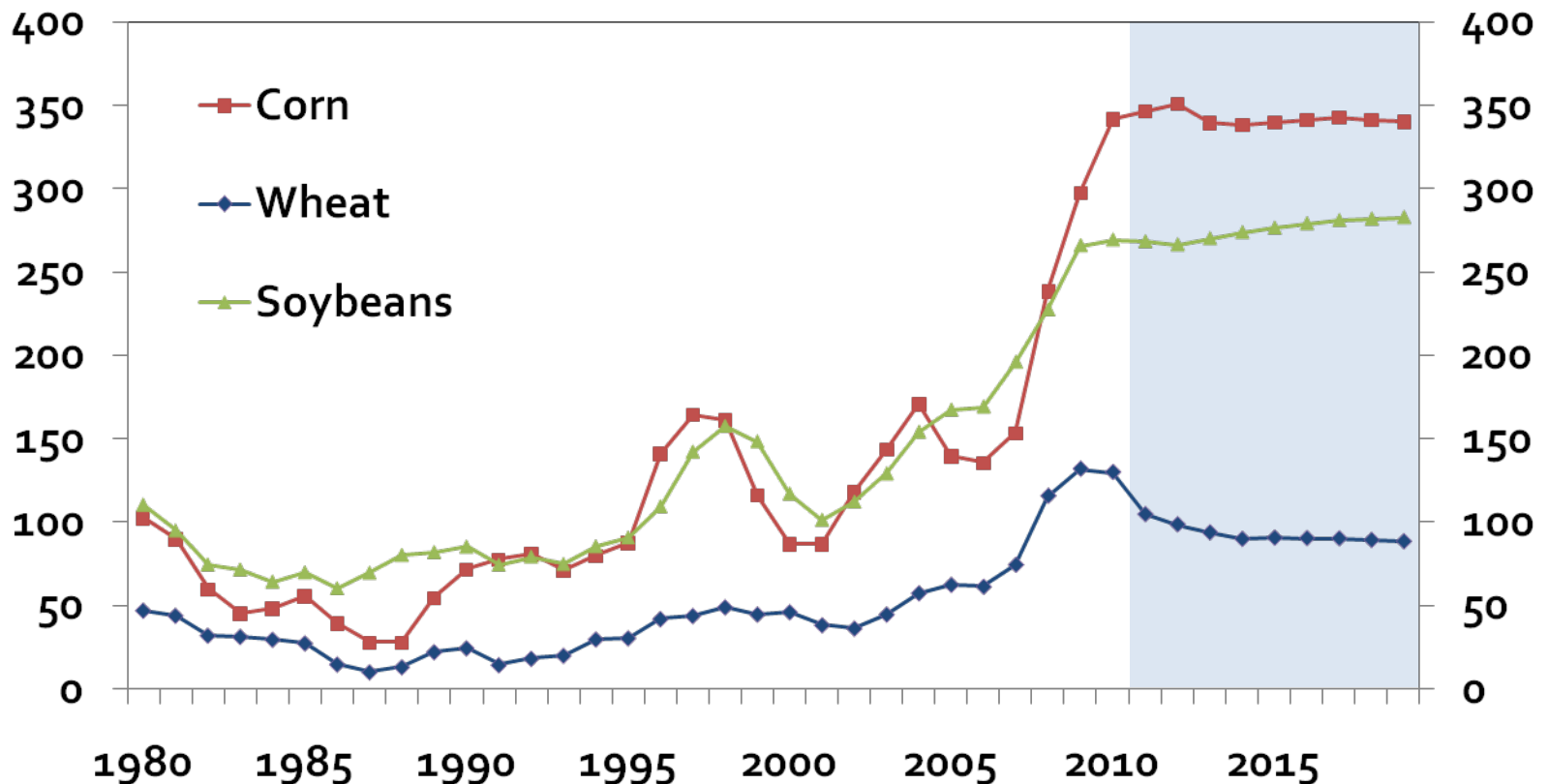


A decade of high crop profits?

Net Returns to Crop Production

(Gross Market Returns Less Variable or Cash Costs)

Dollars per acre (three year moving average)



Source: USDA

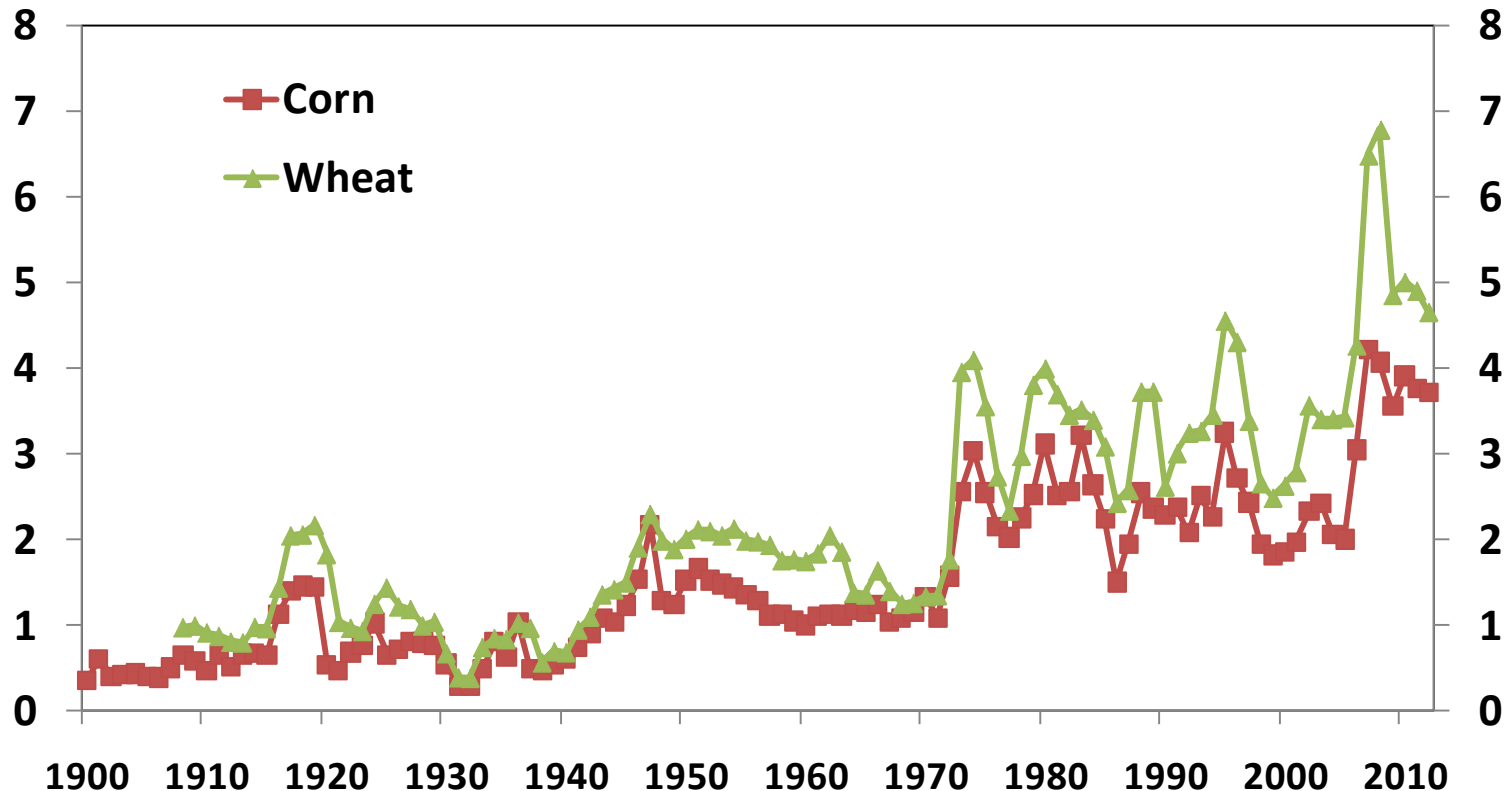
Variable costs exclude costs for labor and management, depreciation, land, taxes, insurance, and farm overhead.



Prices and profits, however, could be volatile.

U.S. Farm Level Crop Prices

Dollars per bushel



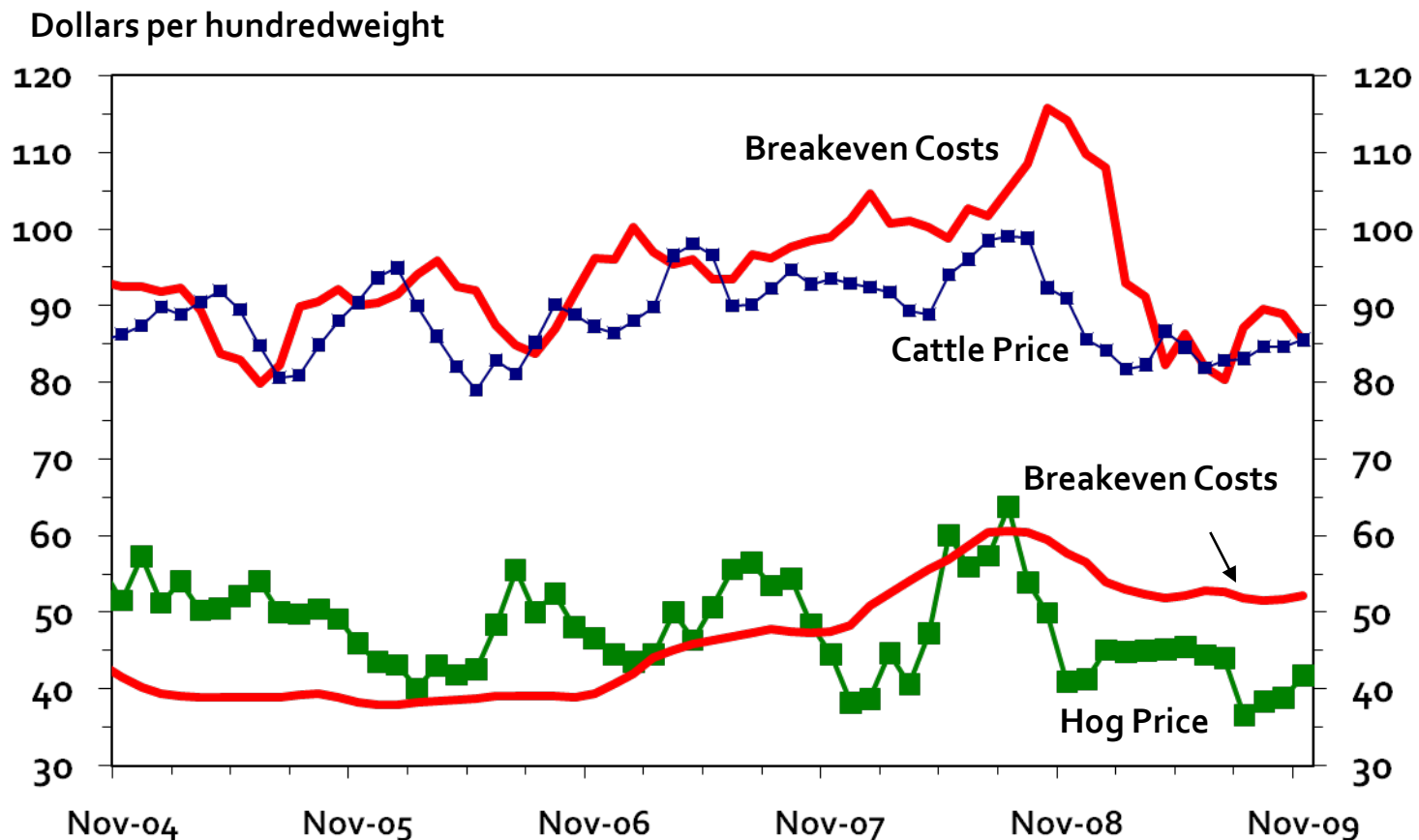
Source: USDA

Variable costs exclude costs for labor and management, depreciation, land, taxes, insurance, and farm overhead.



High feed costs will stress livestock enterprises.

U.S. Livestock Prices and Breakeven Costs



Source: USDA and Iowa State University



A 1970s Déjà vu

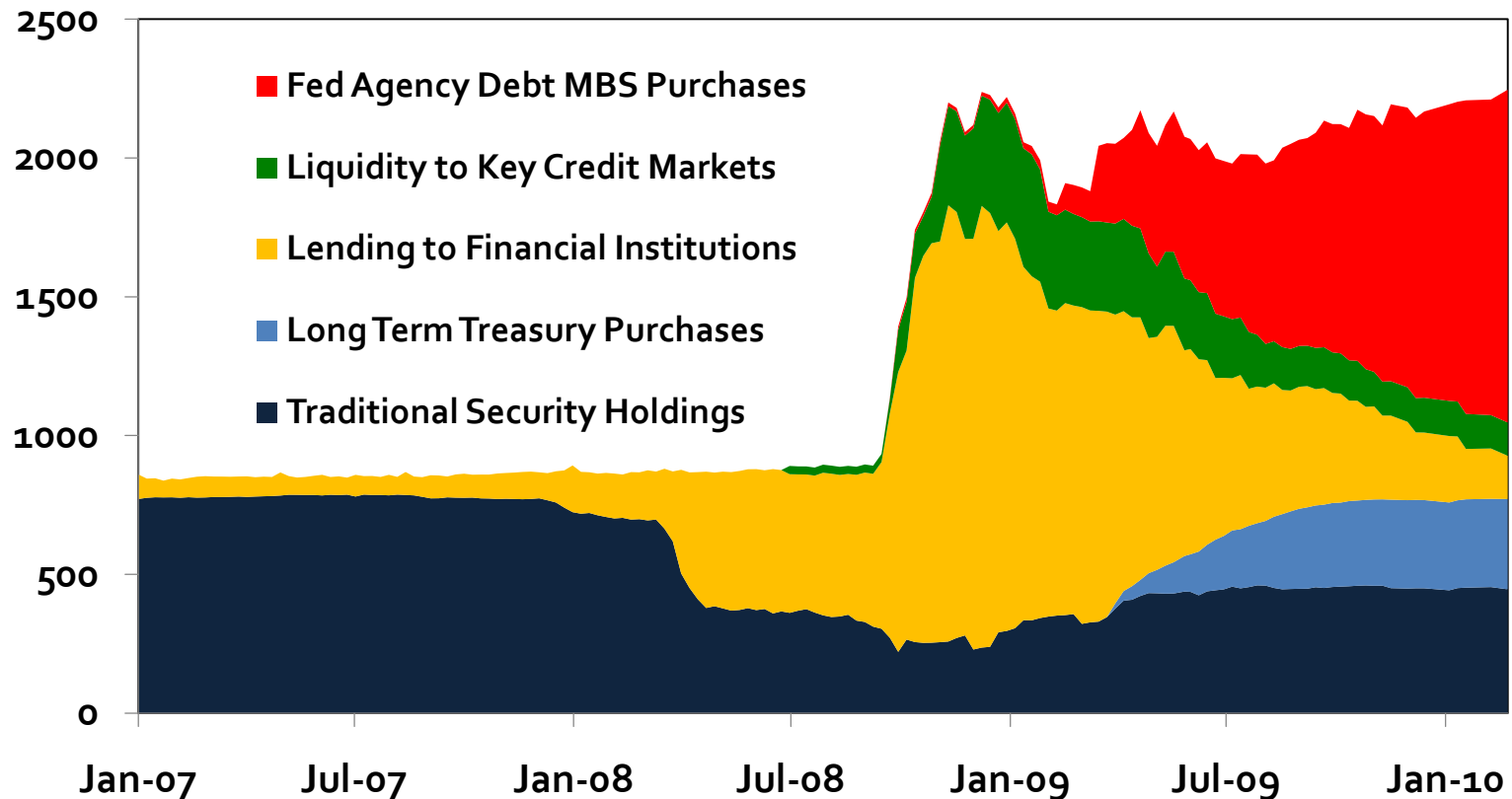
High commodity prices
Surging land values
High energy prices
Record agricultural exports
Rising federal government debt
Large war expenditures
Economic recession
Low value of the dollar
Livestock consolidation
Low real interest rates



The Federal Reserve has to shrink its balance sheet.

Federal Reserve Balance Sheet: Assets

Billion Dollars

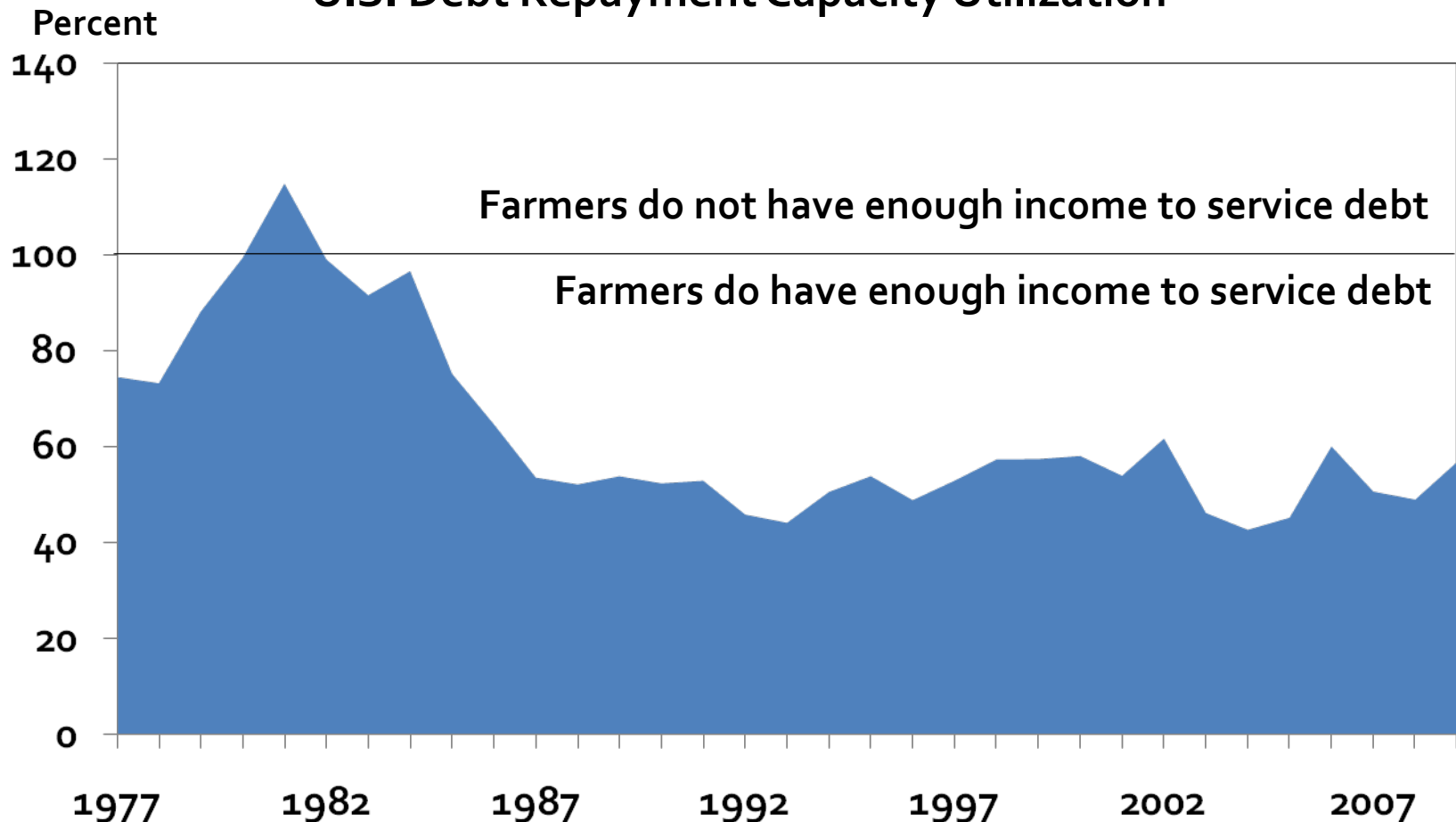


Source: Federal Reserve Board of Governors



Use debt wisely so you do NOT repeat the 1980s

U.S. Debt Repayment Capacity Utilization



Source: USDA



Conclusions

- *Recovery opens new horizons for Nebraska agriculture.*
- *Any farm rebound will be driven by consumer demand.*
- *Will domestic or foreign consumers lead?*
- *High hopes for prosperity are not certain.*
- *Economic conditions are eerily similar to the 1970s.*

***Wall Street did not learn the lessons of the 1980s farm crisis.
DID YOU?***



For More Information

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