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February 4, 2010

Where's the Recovery?



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.

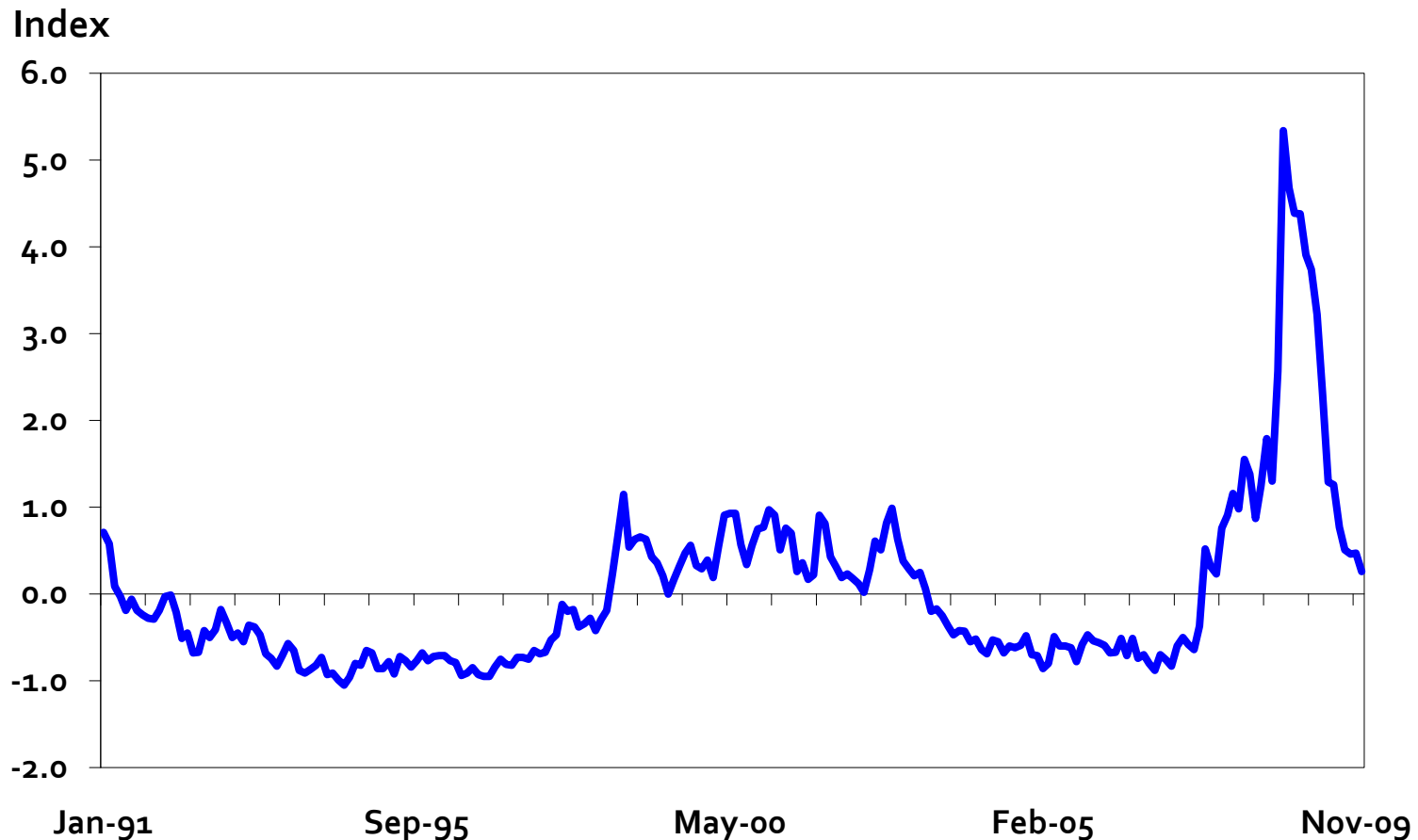
Today's Roadmap

- **The financial crisis has eased and the economic recovery is underway.**
- **However, financial risks remain and the recovery could be sluggish.**
- **A sluggish recovery will limit any short-term rebound in the agricultural sector.**



The financial market crisis has eased.

Financial Stress Index



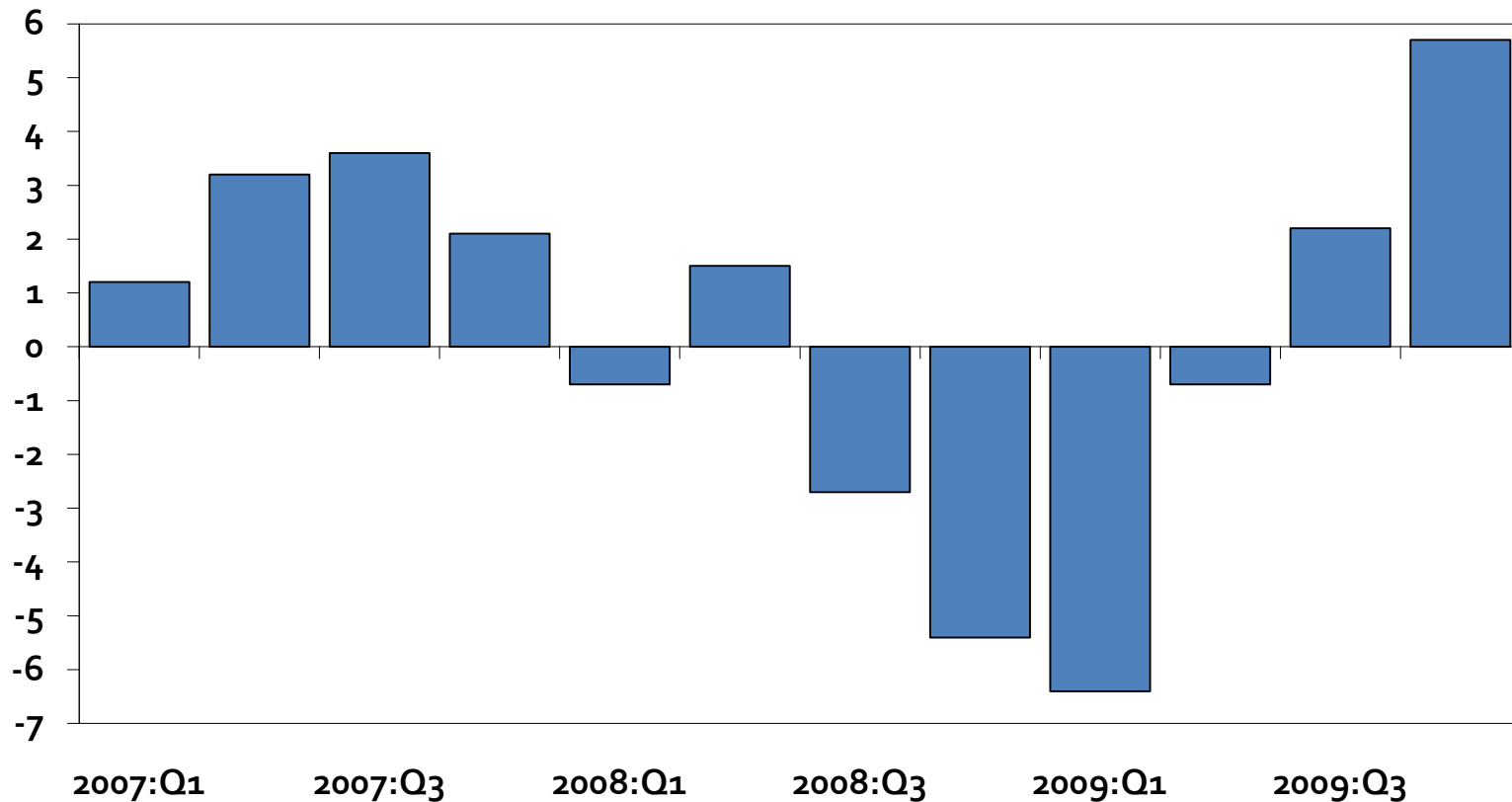
Source: Federal Reserve Bank of Kansas City



Economic growth surges to end the year.

Real GDP Growth

Annualized percent change from previous quarter

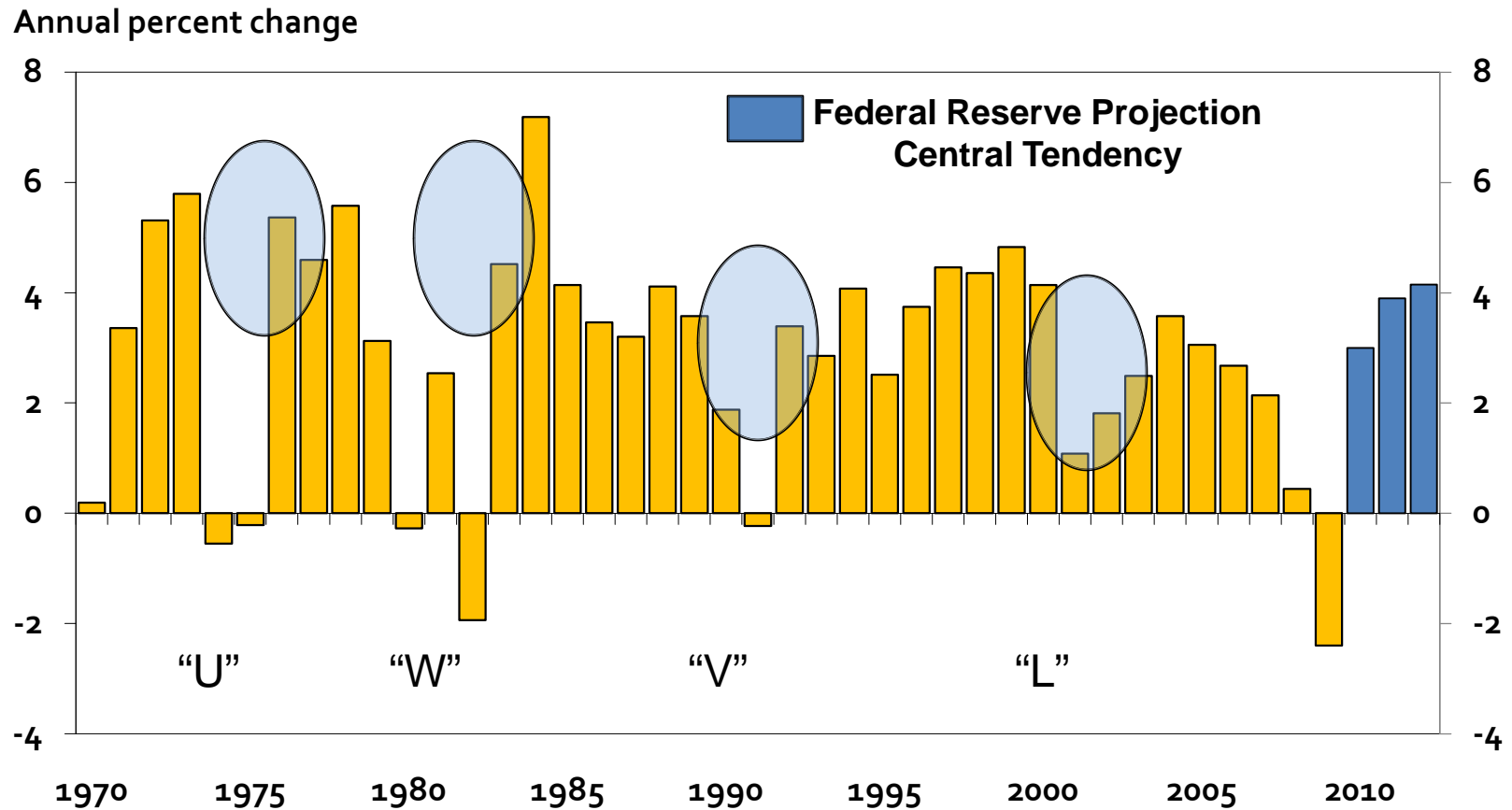


Source: Bureau of Economic Analysis and Blue Chip Economic Indicators



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

Real GDP Growth



Source: Bureau of Economic Analysis Federal Reserve Board of Governors



Today's Roadmap

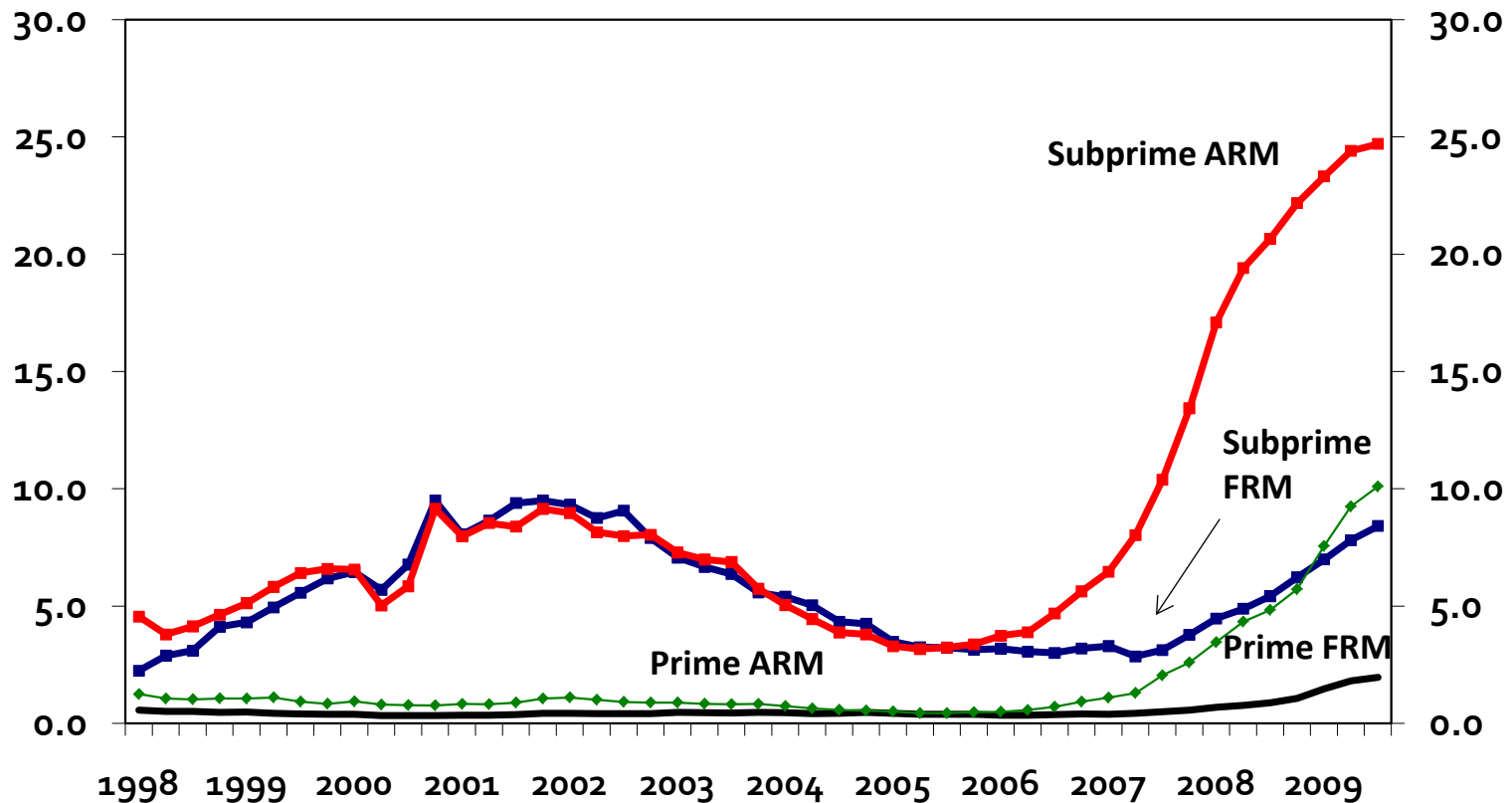
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Home foreclosures continue to rise.

U.S. Foreclosure Rates by Mortgage Type

Percent of Loans Serviced

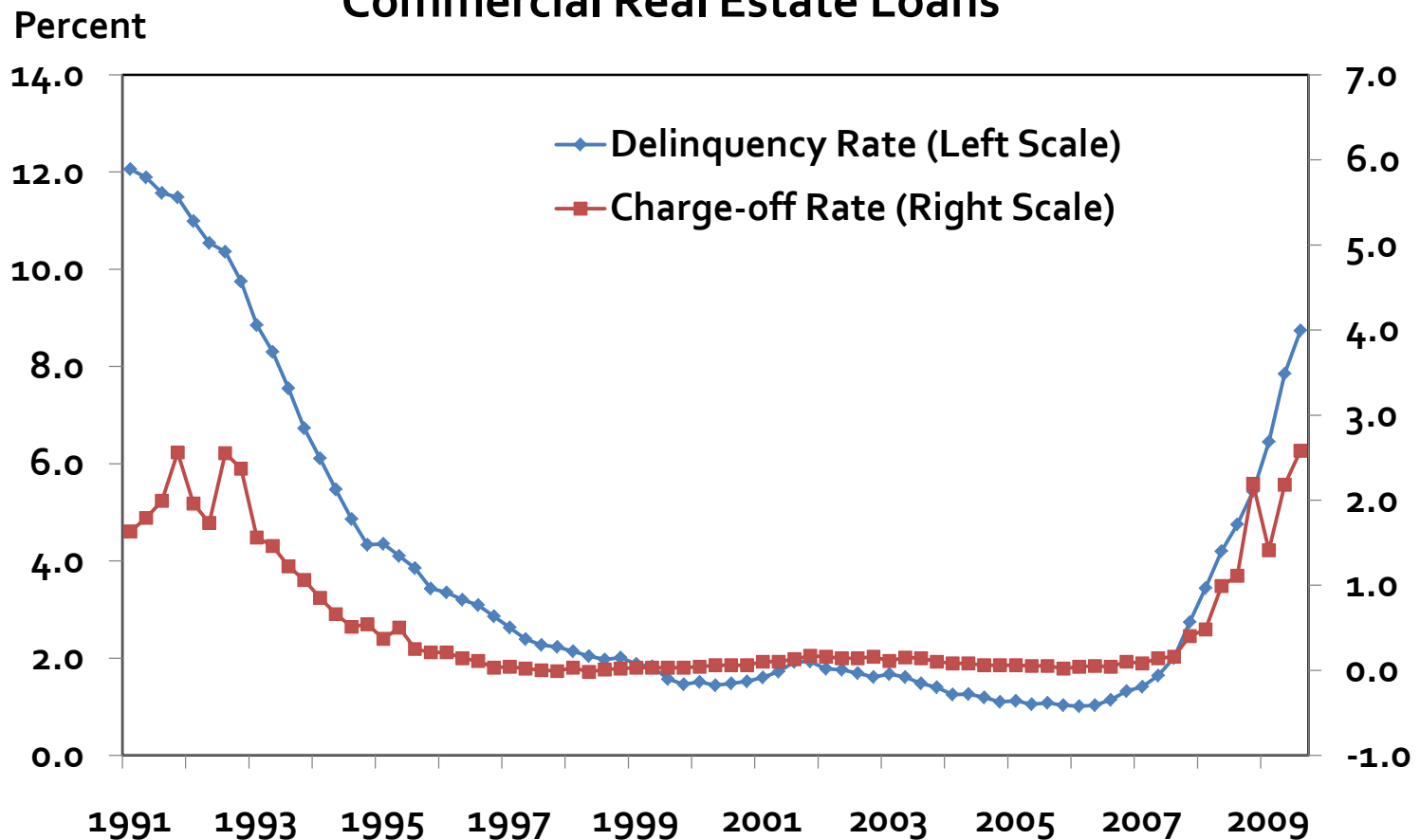


Source: Mortgage Bankers Association



Delinquency rates rise on commercial real estate loans.

Charge-off and Delinquency Rates on Commercial Real Estate Loans



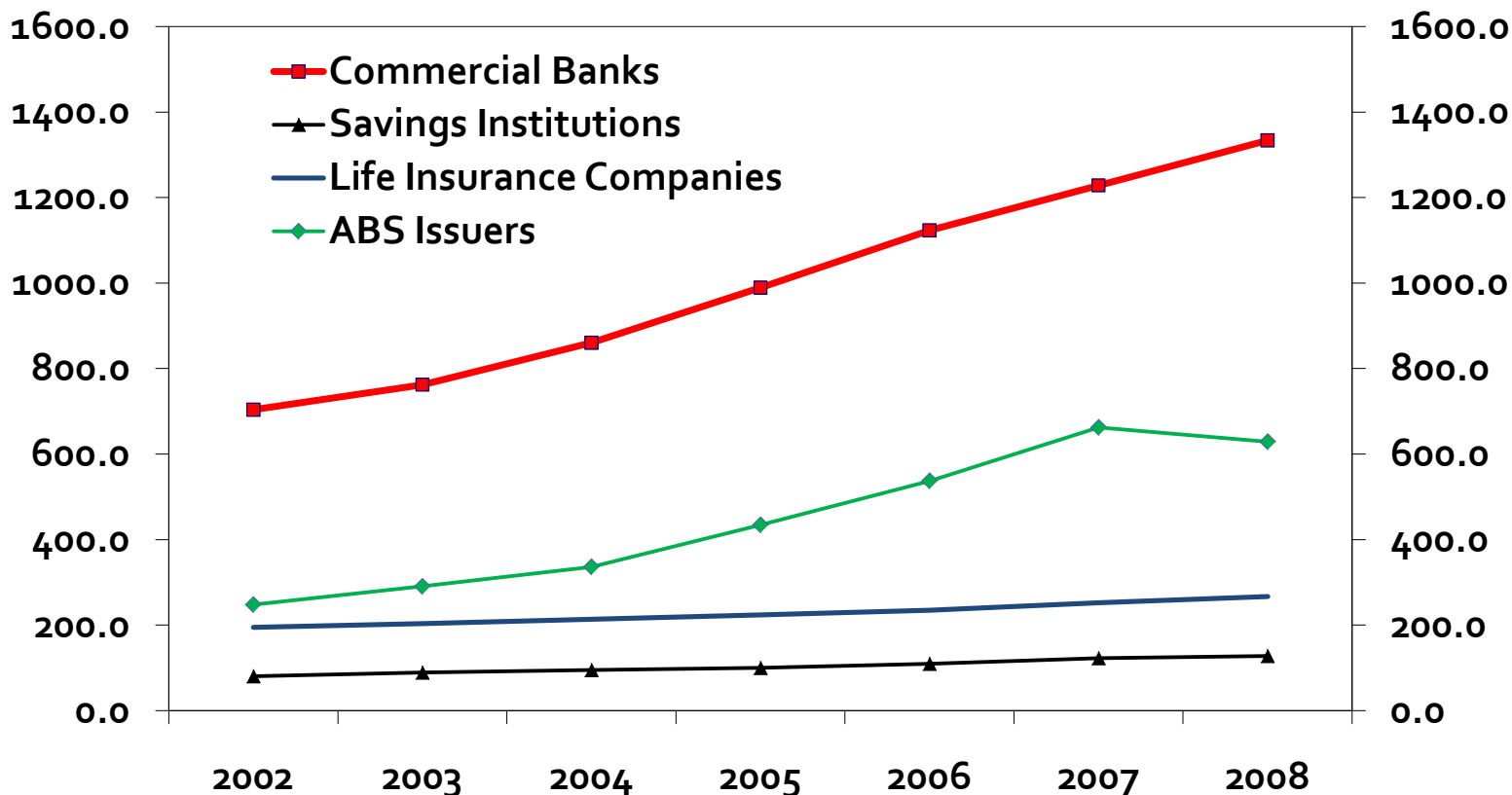
Source: Federal Reserve Board of Governors



Commercial banks hold a lot of commercial mortgage debt.

Commercial Mortgage Debt Outstanding by Type of Institution

Billion dollars



Source: Federal Reserve Board of Governors



Today's Roadmap

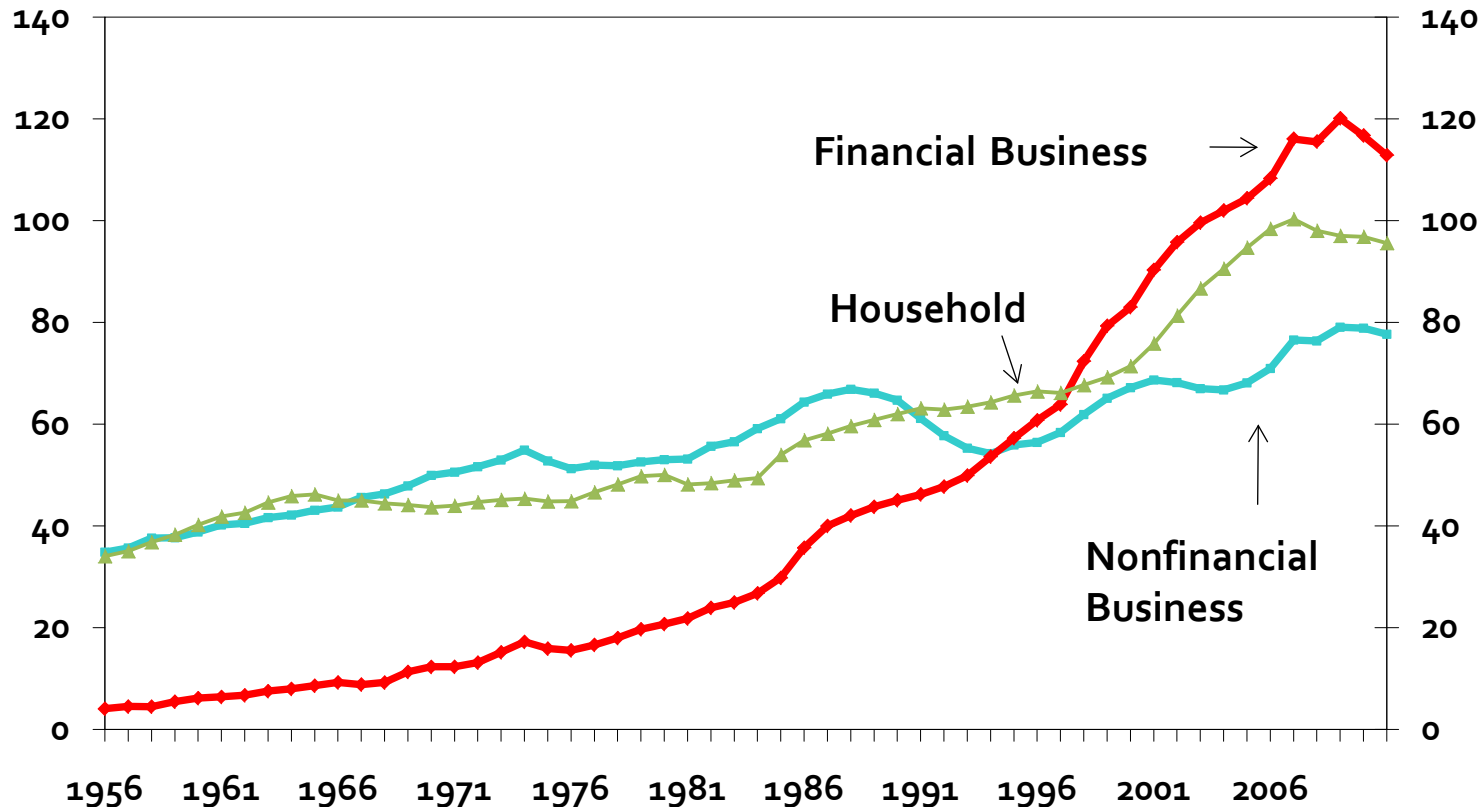
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Deleveraging could contribute to a sluggish recovery as consumers save more and spend less.

Domestic Debt Outstanding

Percent of GDP

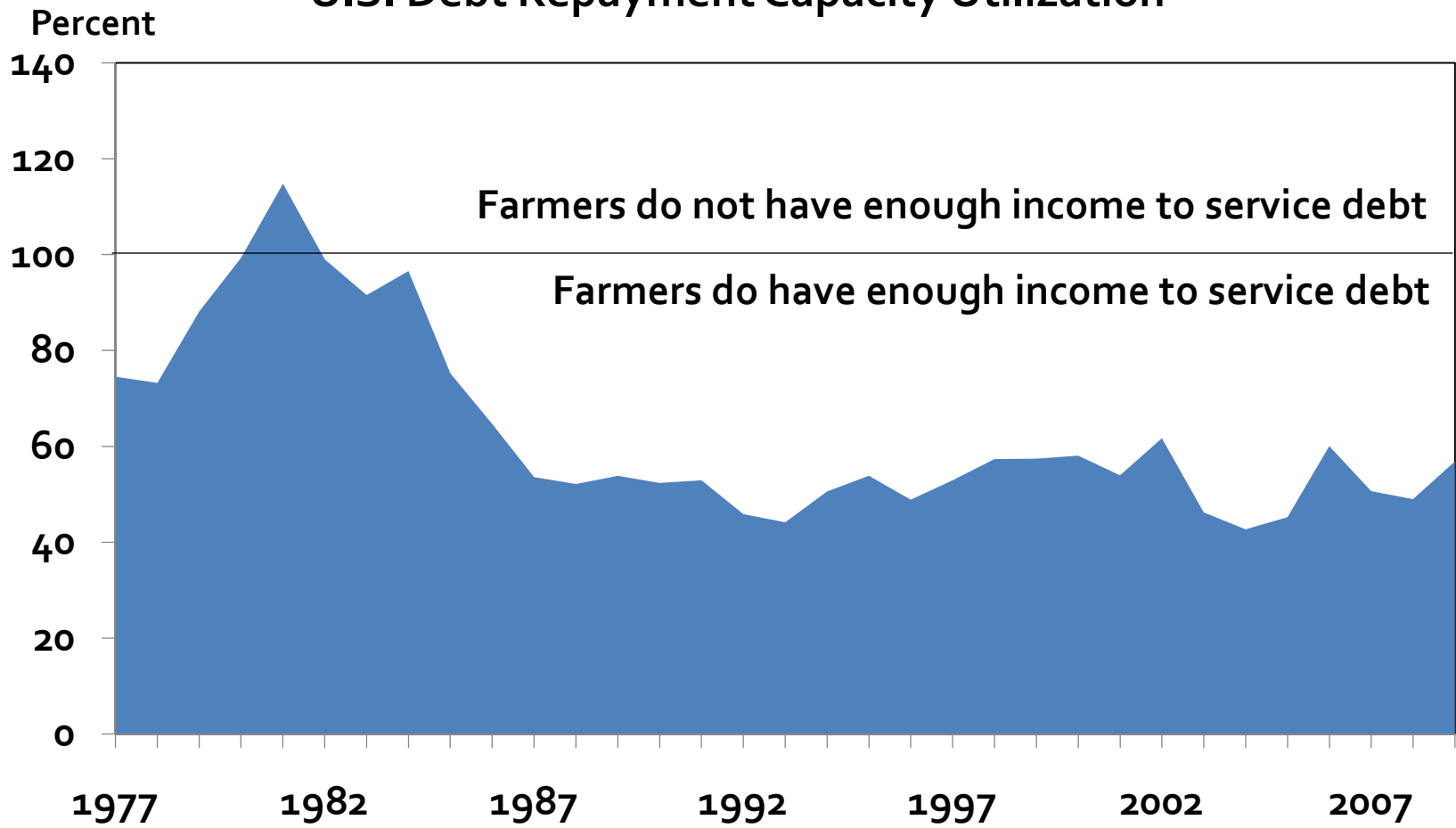


Source: Federal Reserve Board of Governors



Farmers learned the lessons of deleveraging in the 1980s.

U.S. Debt Repayment Capacity Utilization

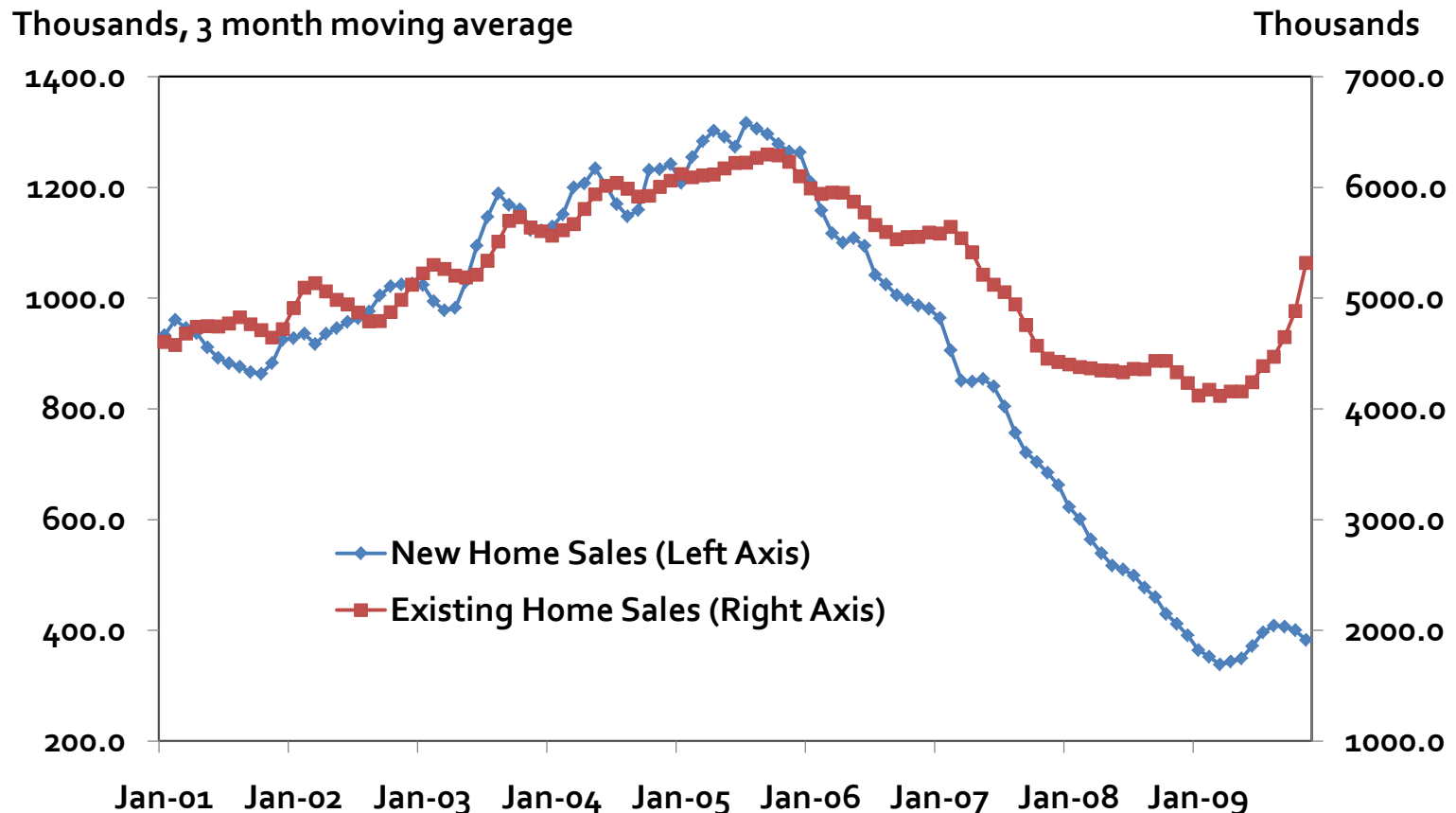


Source: USDA



Tax credits have spurred home sales.

New and Existing Single-Family Home Sales

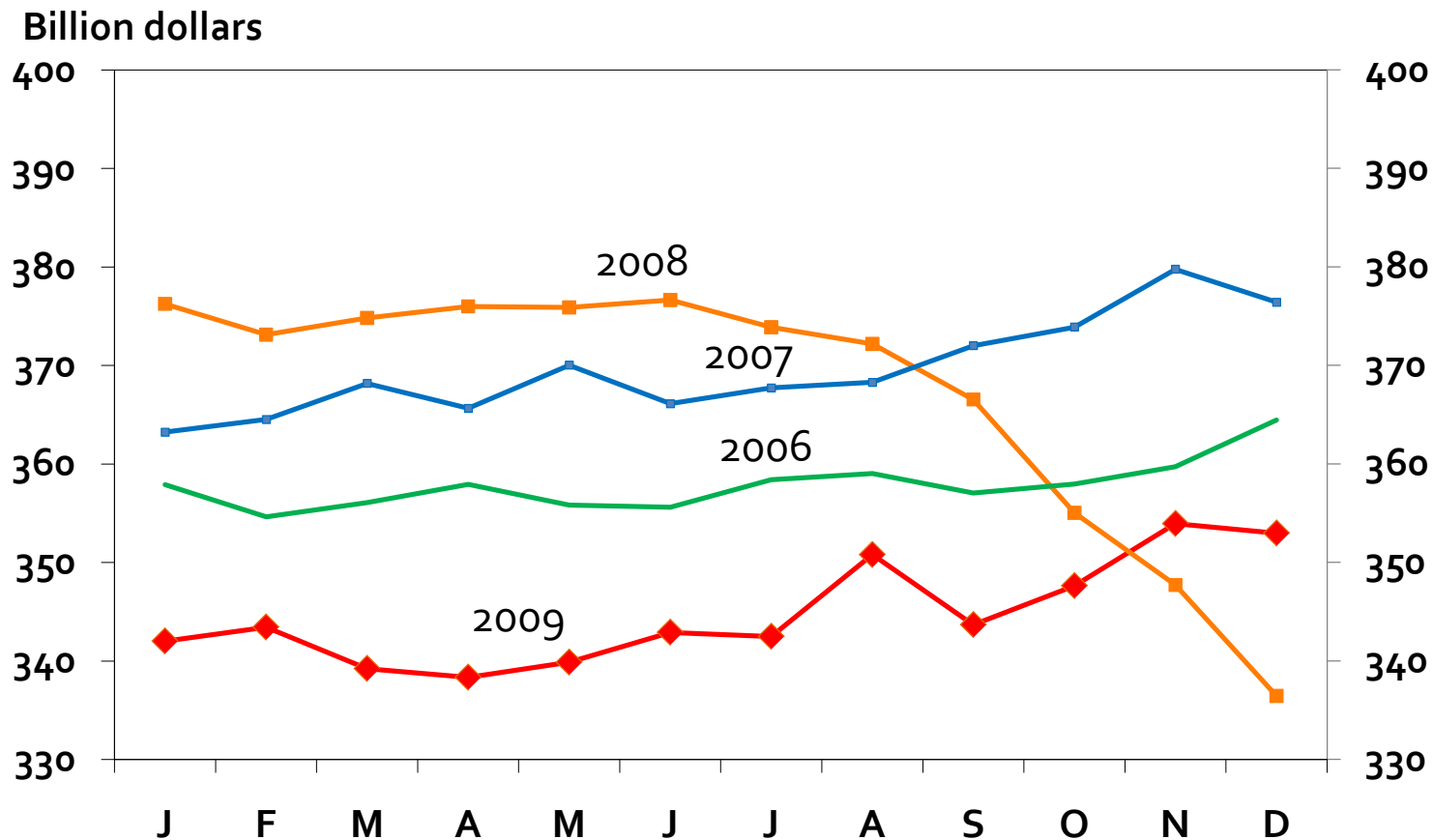


Source: Census Bureau and National Association of Realtors



Consumer spending remains soft.

U.S. Monthly Retail and Food Sales

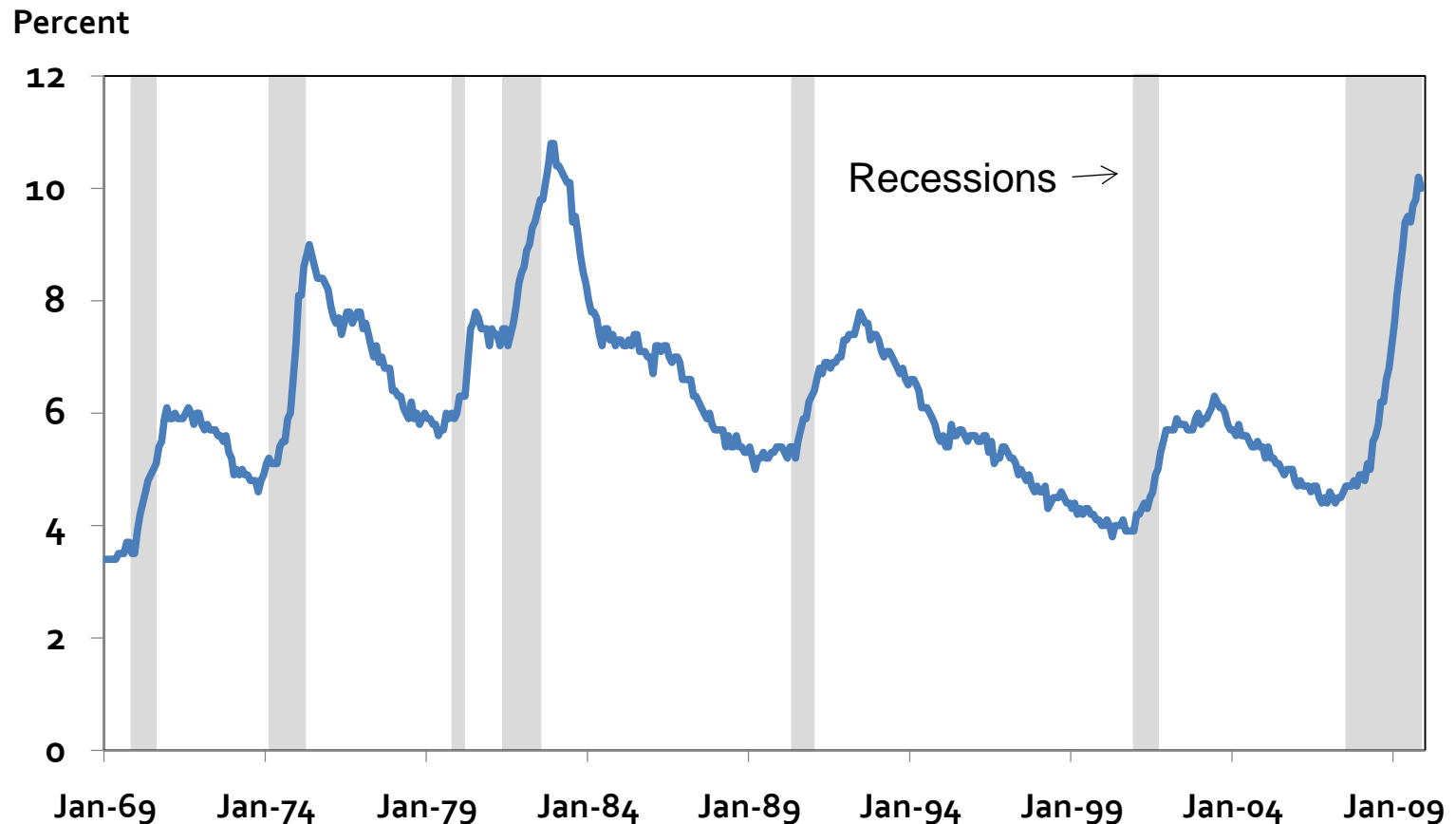


Source: U.S. Census Bureau



High unemployment rates could dampen the recovery.

U.S. Unemployment Rate

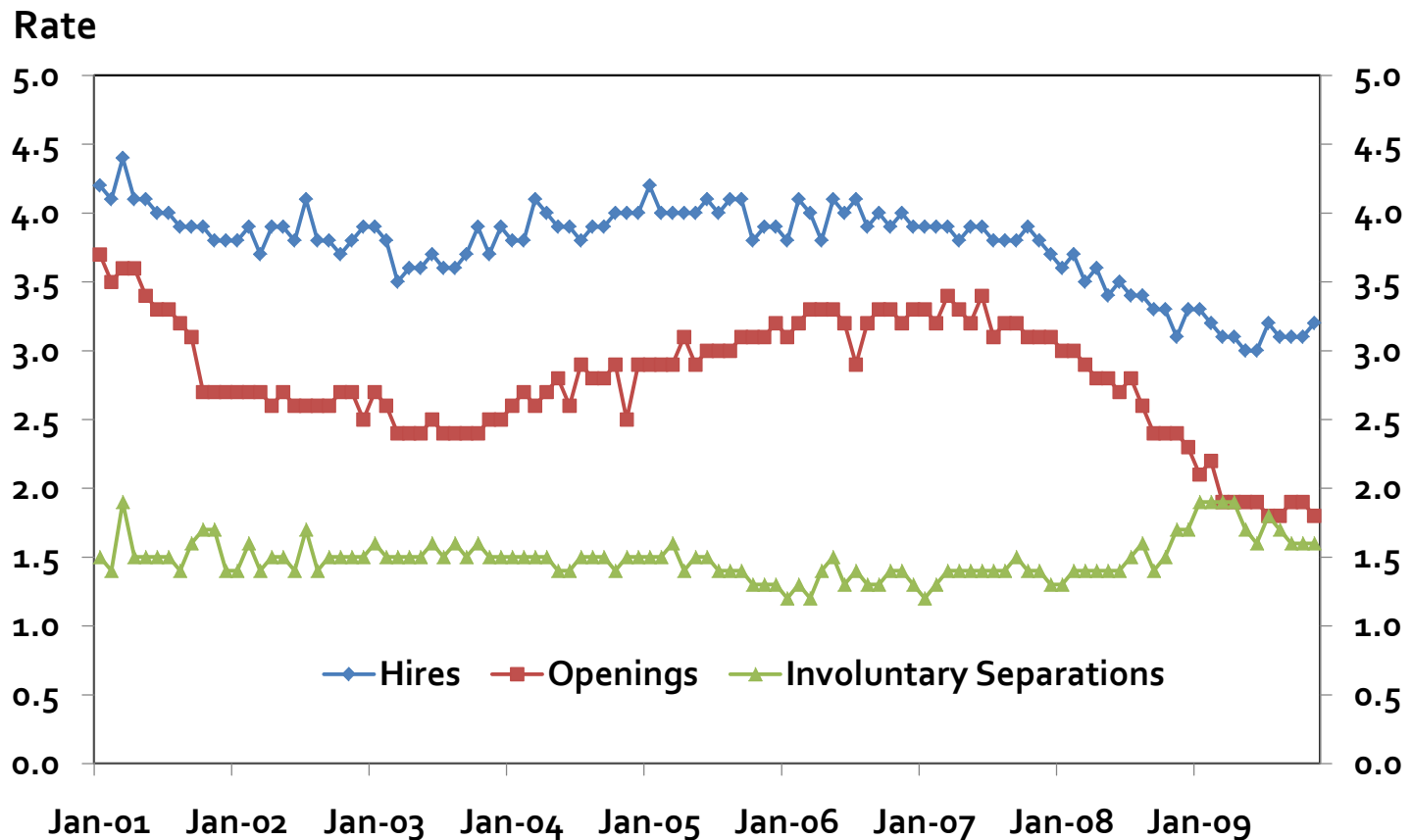


Source: Bureau of Economic Analysis



Job openings and hiring will need to rebound before unemployment falls.

Layoffs, Hiring, and Job Openings

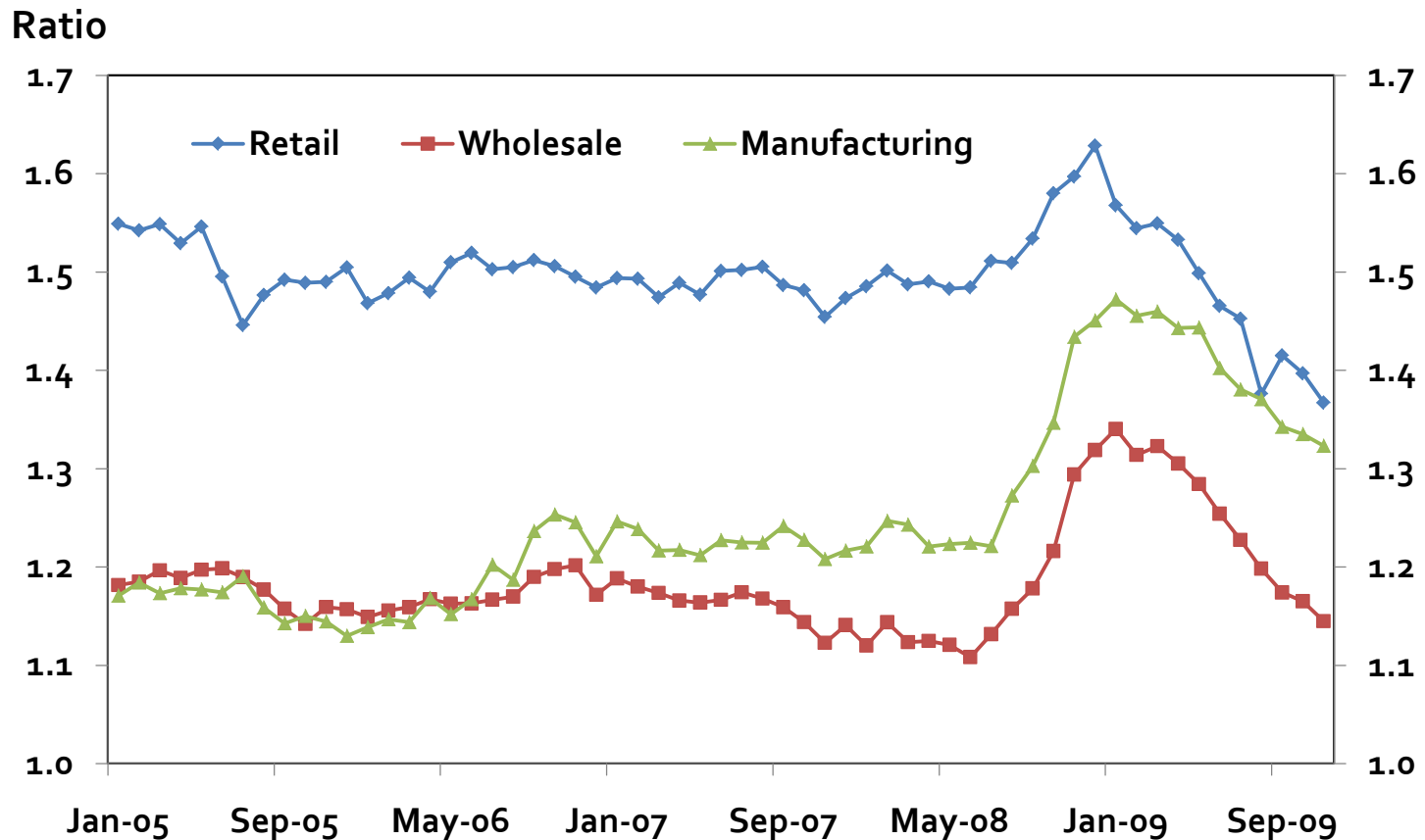


Source: Bureau of Labor Statistics



Growth at the end of 2009 was driven by inventory adjustments.

Inventory-to-Sales Ratio



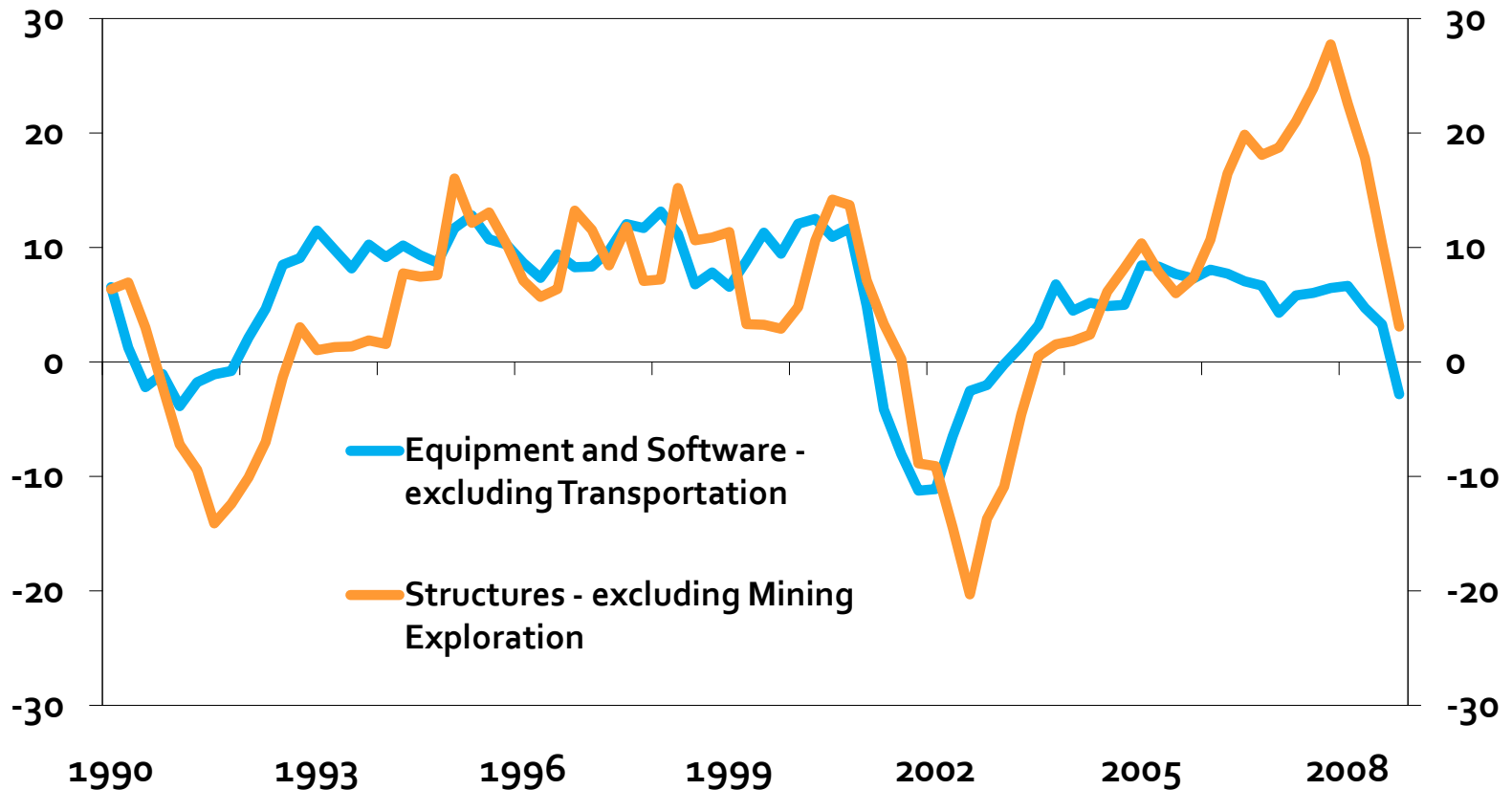
Source: Federal Reserve Board of Governors



Despite low inventories, uncertainty limits business investment.

U.S. Non-residential Investment

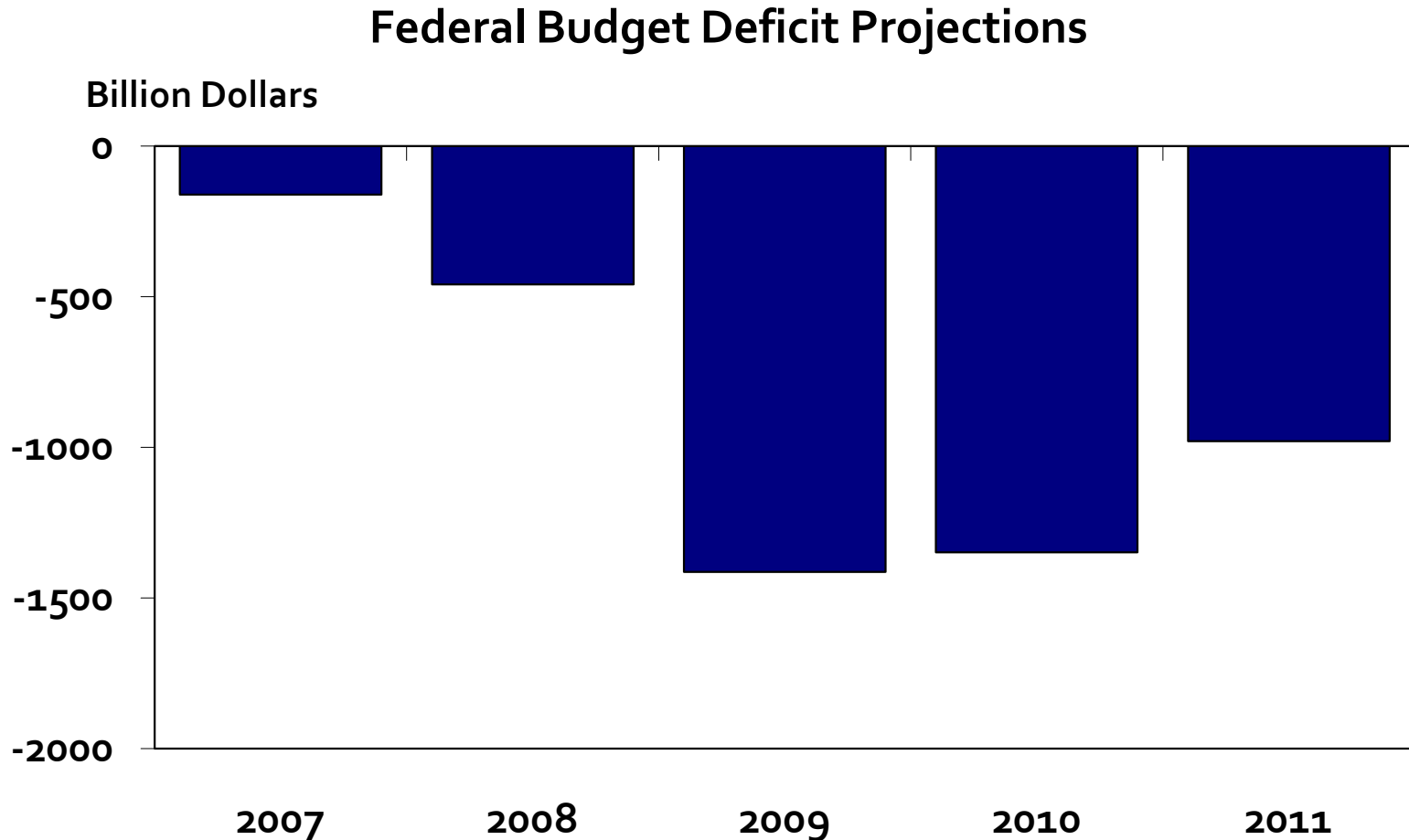
Percent change from year ago



Source: Census Bureau



Federal deficits are expected to rise.

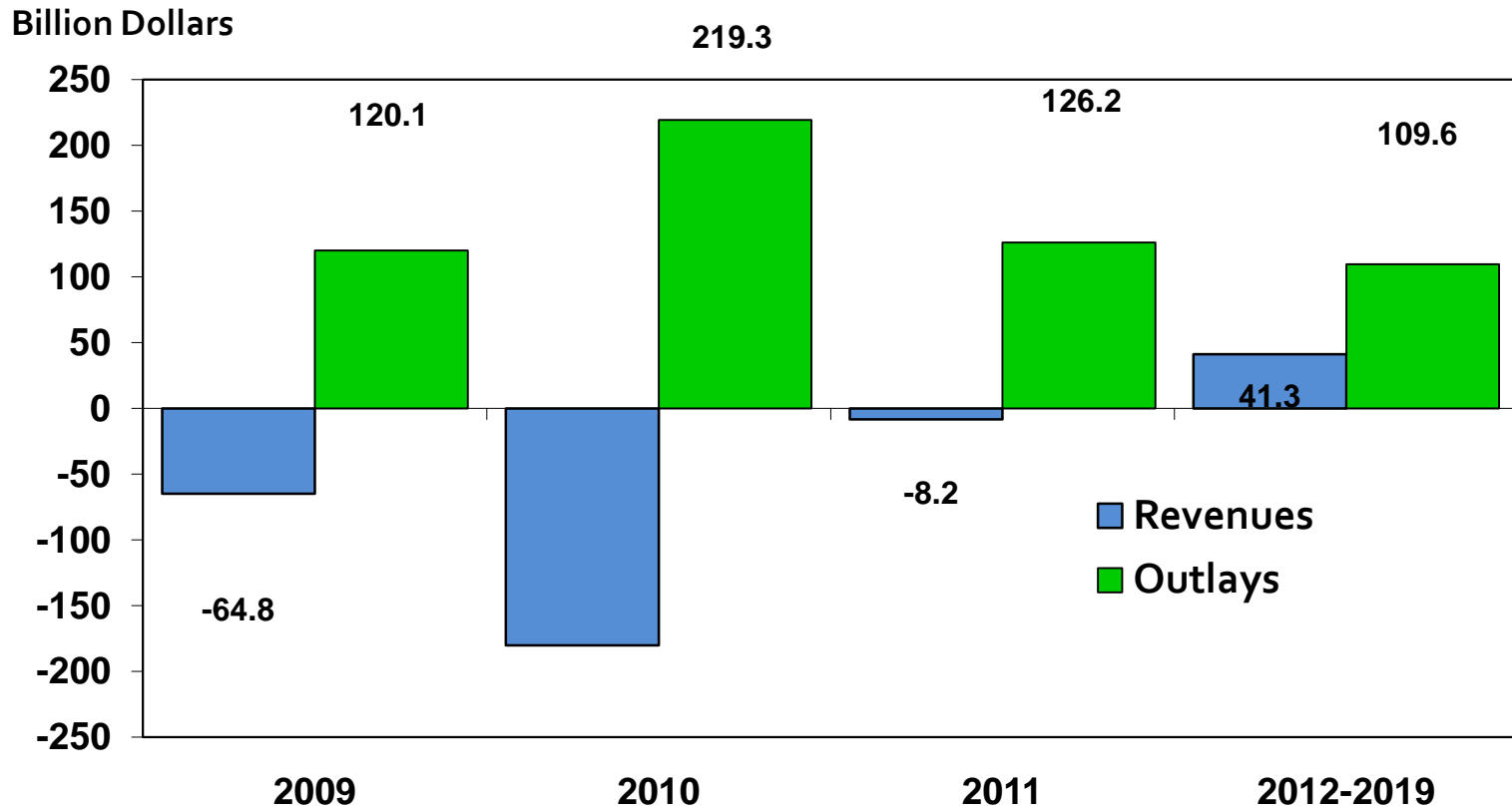


Source: Congressional Budget Office, January 2010



Will the stimulus package spur growth in 2010?

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



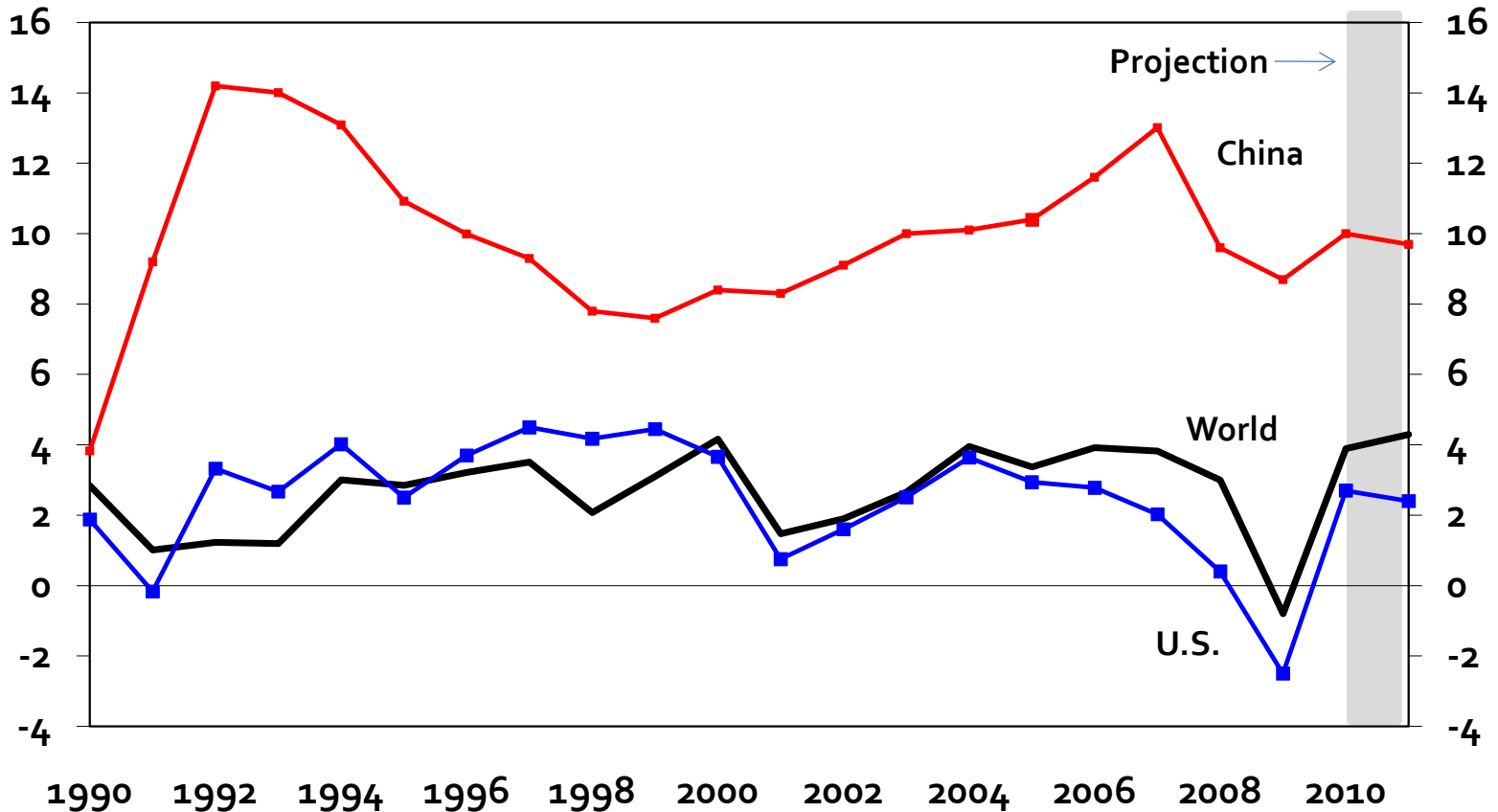
Source: Congressional Budget Office, February 13, 2009



Will emerging countries lead the recovery?

GDP Growth

Annual percent change, constant dollars

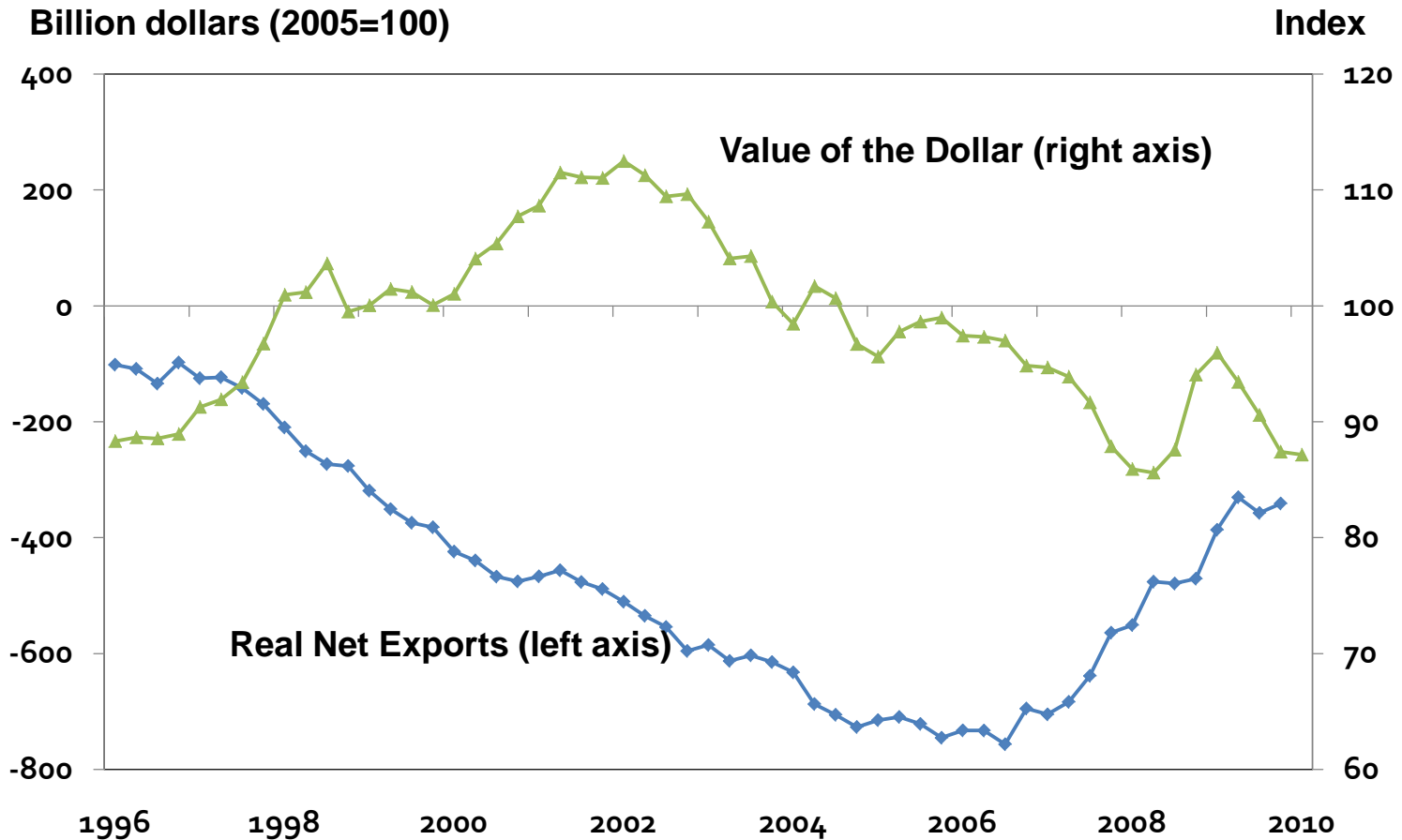


Source: International Monetary Fund, January 2010



Can stronger global economies and a weaker dollar spur further improvements in the trade balance?

Real Net Exports of Goods and Services Value of the Dollar



Source: Bureau of Economic Analysis

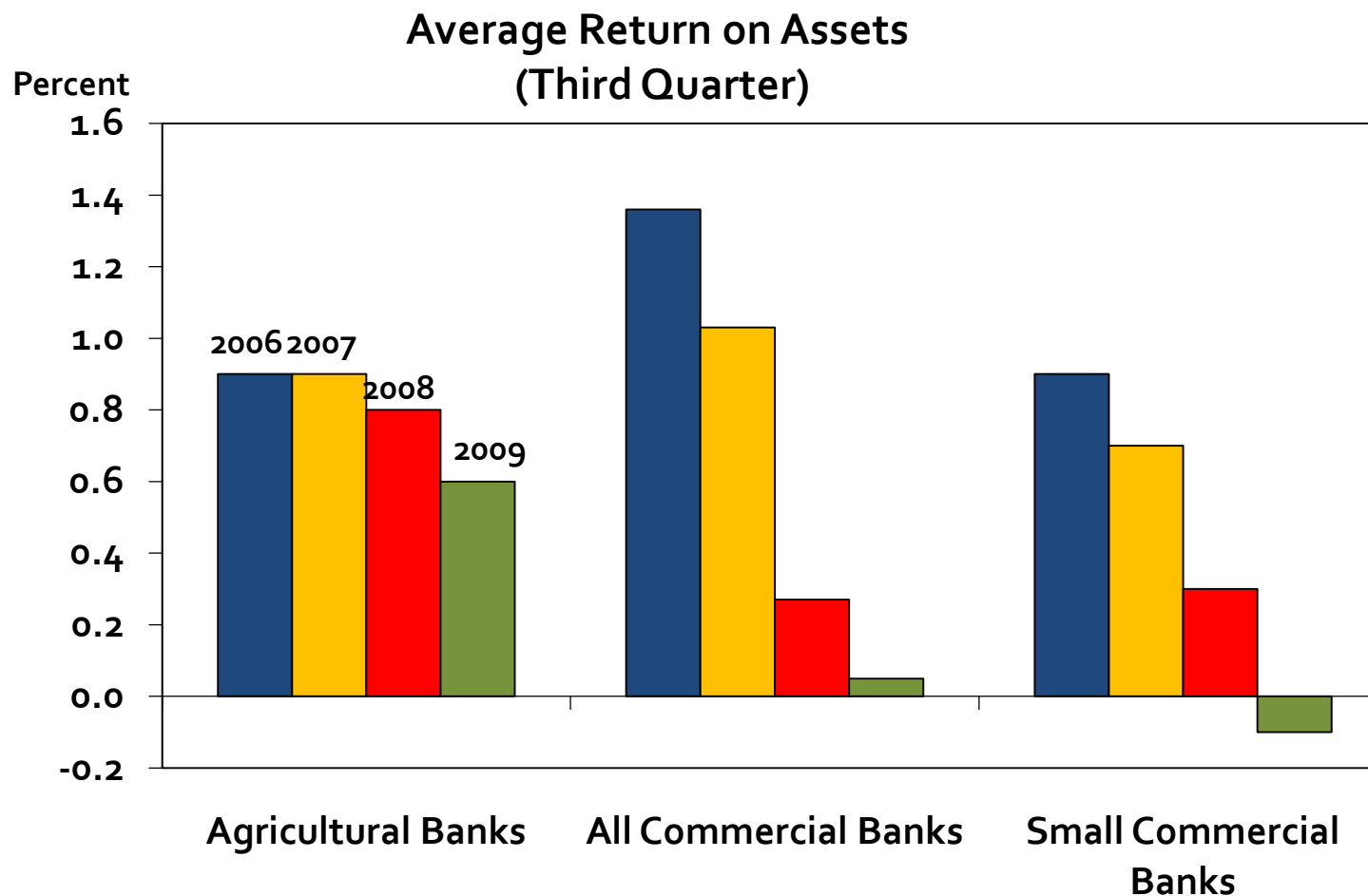


Risks for Agriculture

- **Credit – will funds be available for agriculture?**



Agricultural bank returns are still strong.



Source: Board of Governors of the Federal Reserve and FDIC

Agricultural banks are banks with agricultural loans accounting for 14% or more of their loan portfolio.

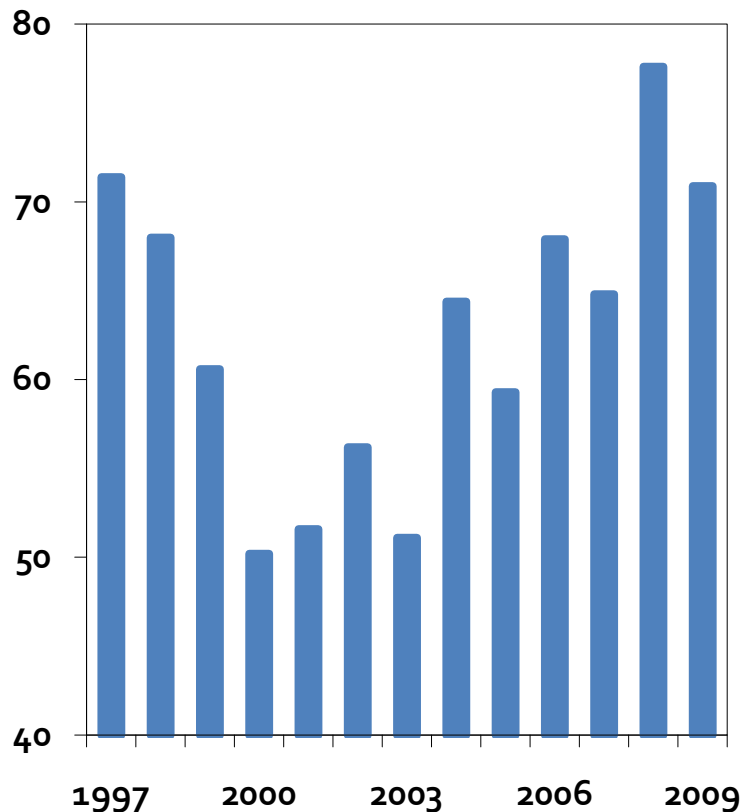
Small commercial banks are banks with less than \$500 million in assets



Non-real estate loans are edged down in both number and volume.

Total Volume of Non-Real Estate Loans to Farmers

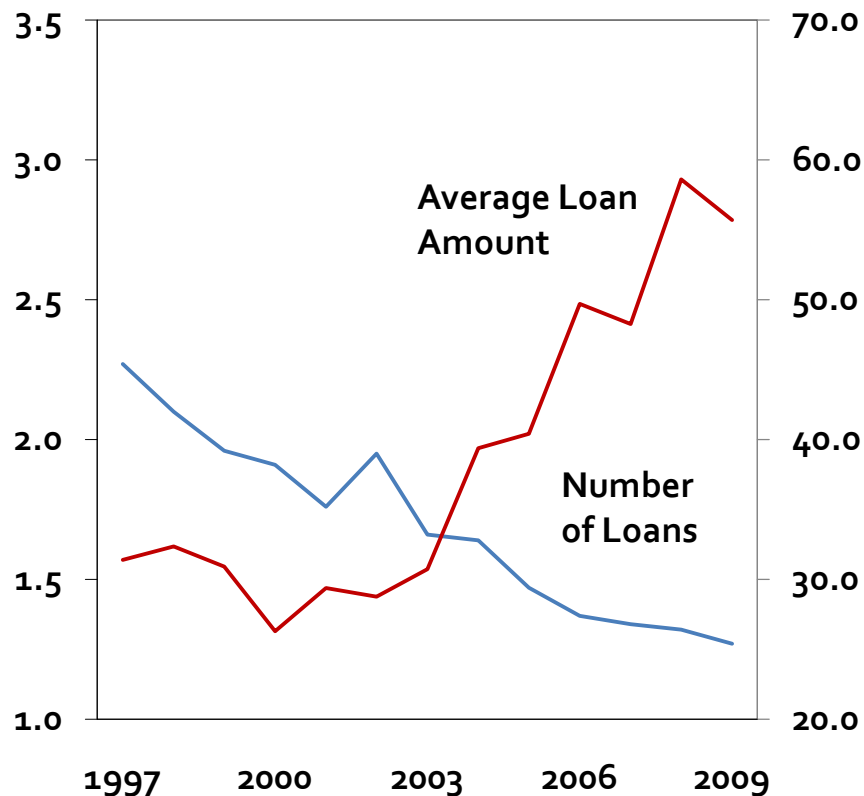
Billions of Dollars



Non-Real Estate Loans to Farmers (Number and Average Amount)

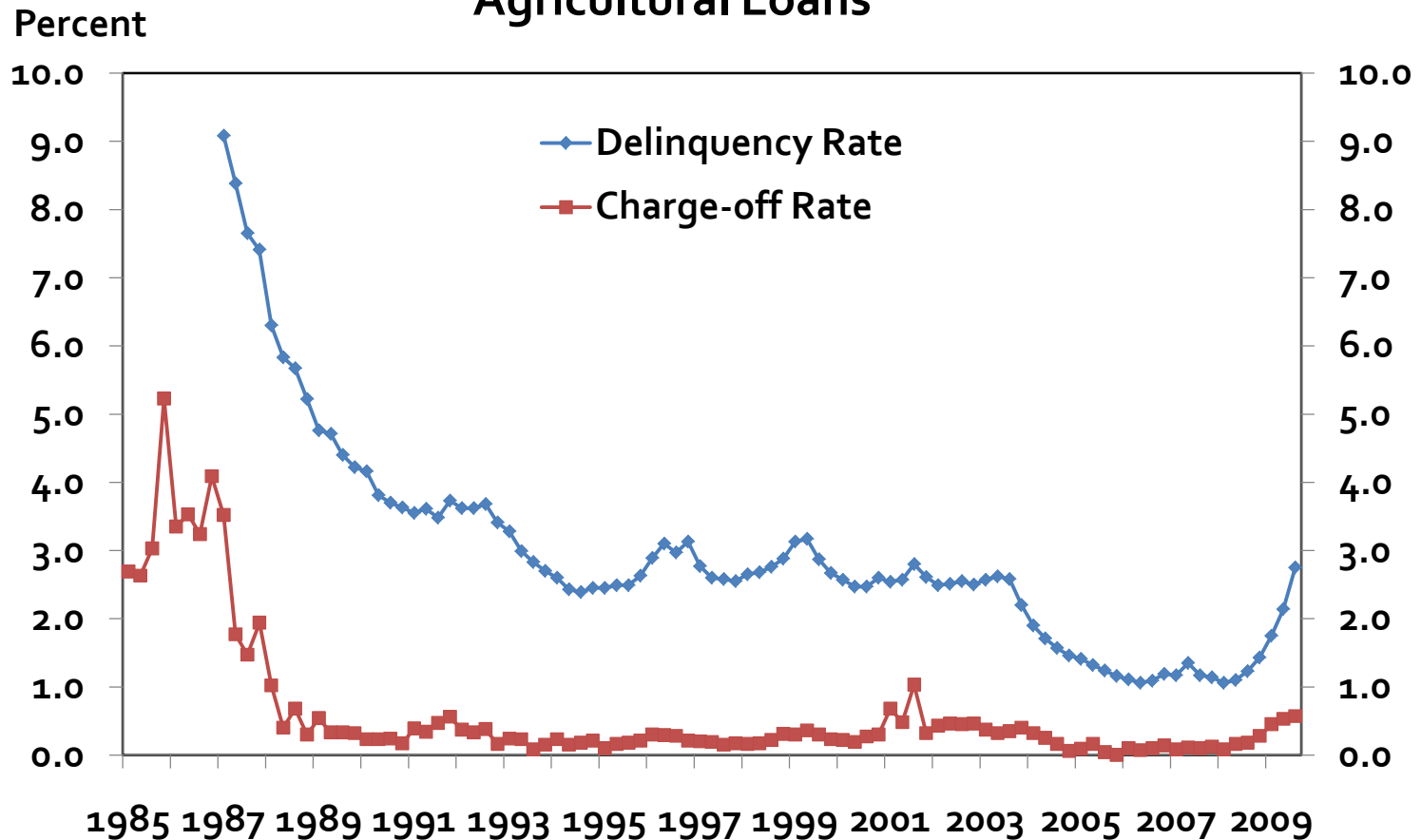
Millions of Loans

Thousands of Dollars



Loan delinquency rates and charge-offs edge up.

Charge-off and Delinquency Rates on Agricultural Loans



Source: Federal Reserve Board of Governors



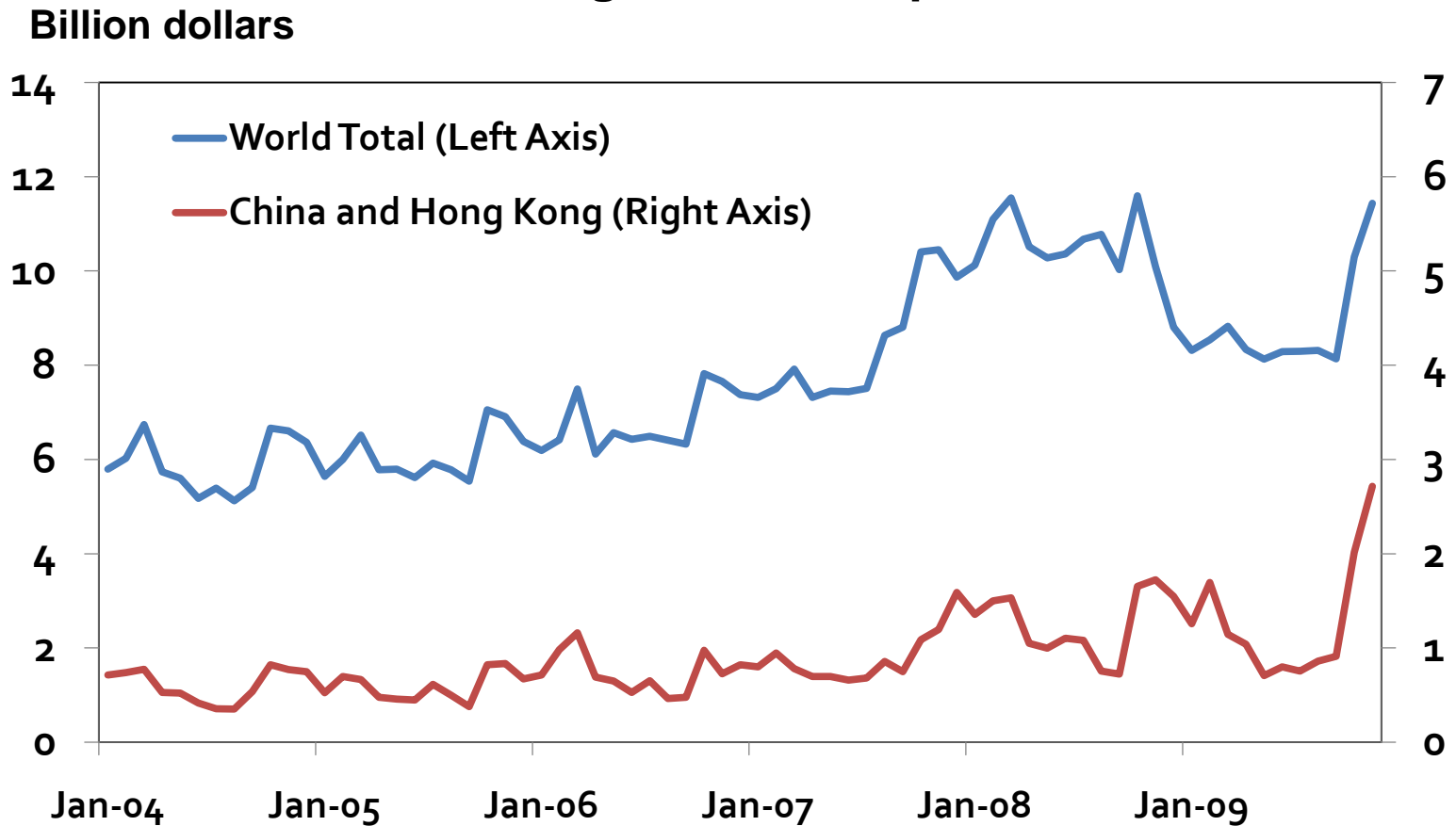
Risks for Agriculture

- **Credit – will funds be available for agriculture?**
- **Profits – will demand and profits rebound if the recovery is sluggish?**



Will export activity rebound in 2010?

U.S. Agricultural Exports

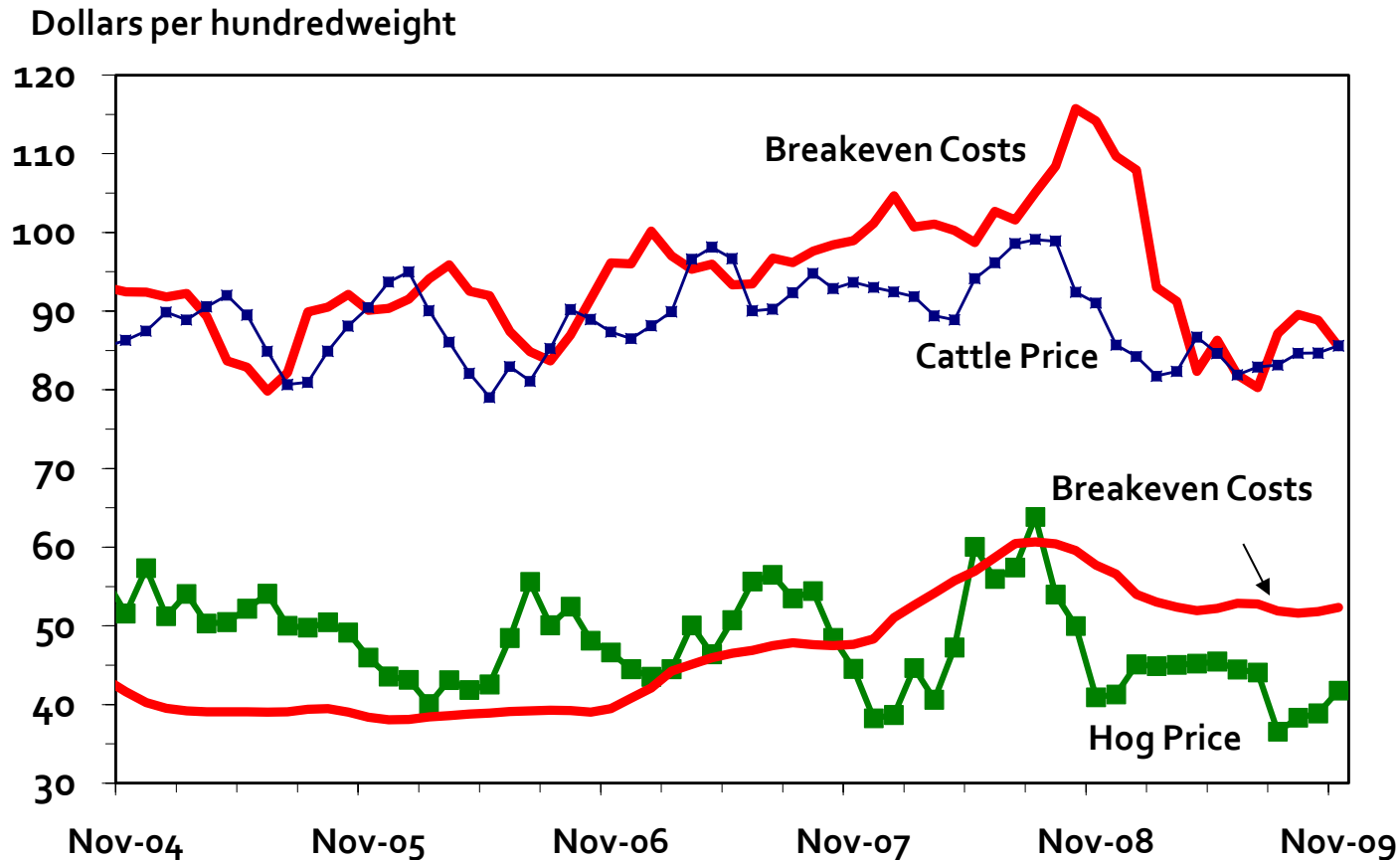


Source: USDA



Fewer losses in livestock sectors will support U.S. farm income.

U.S. Livestock Prices and Breakeven Costs



Source: USDA and Iowa State University



Risks for Agriculture

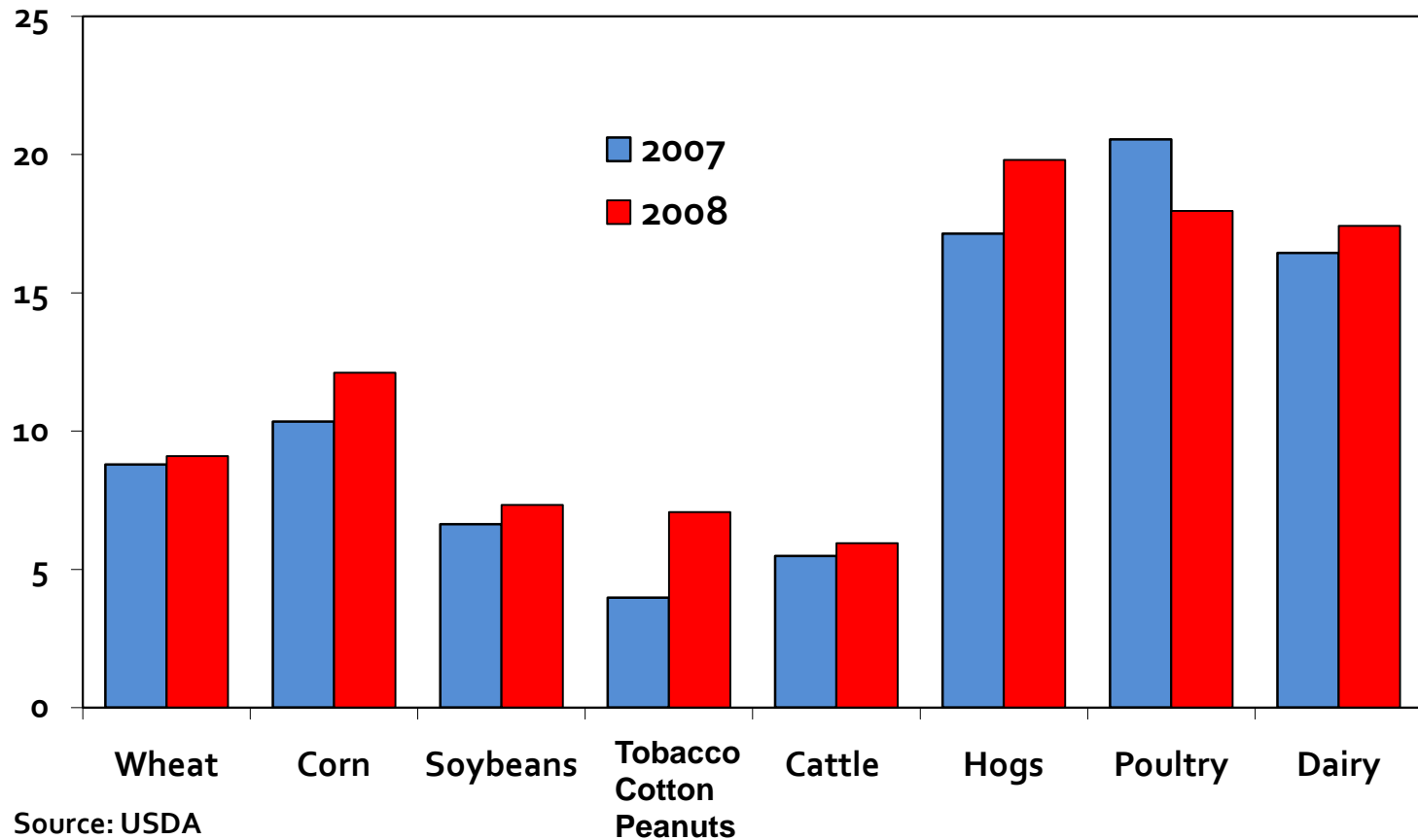
- **Credit – will funds be available for agriculture?**
- **Profits – will demand and profits rebound if the recovery is sluggish?**
- **Leverage – will farmers limit debt growth?**



Livestock sectors are more highly leveraged.

Debt-to-Asset Ratio by Farm Production Sector

Debt-to-Asset Ratio



Source: USDA



Risks for Agriculture

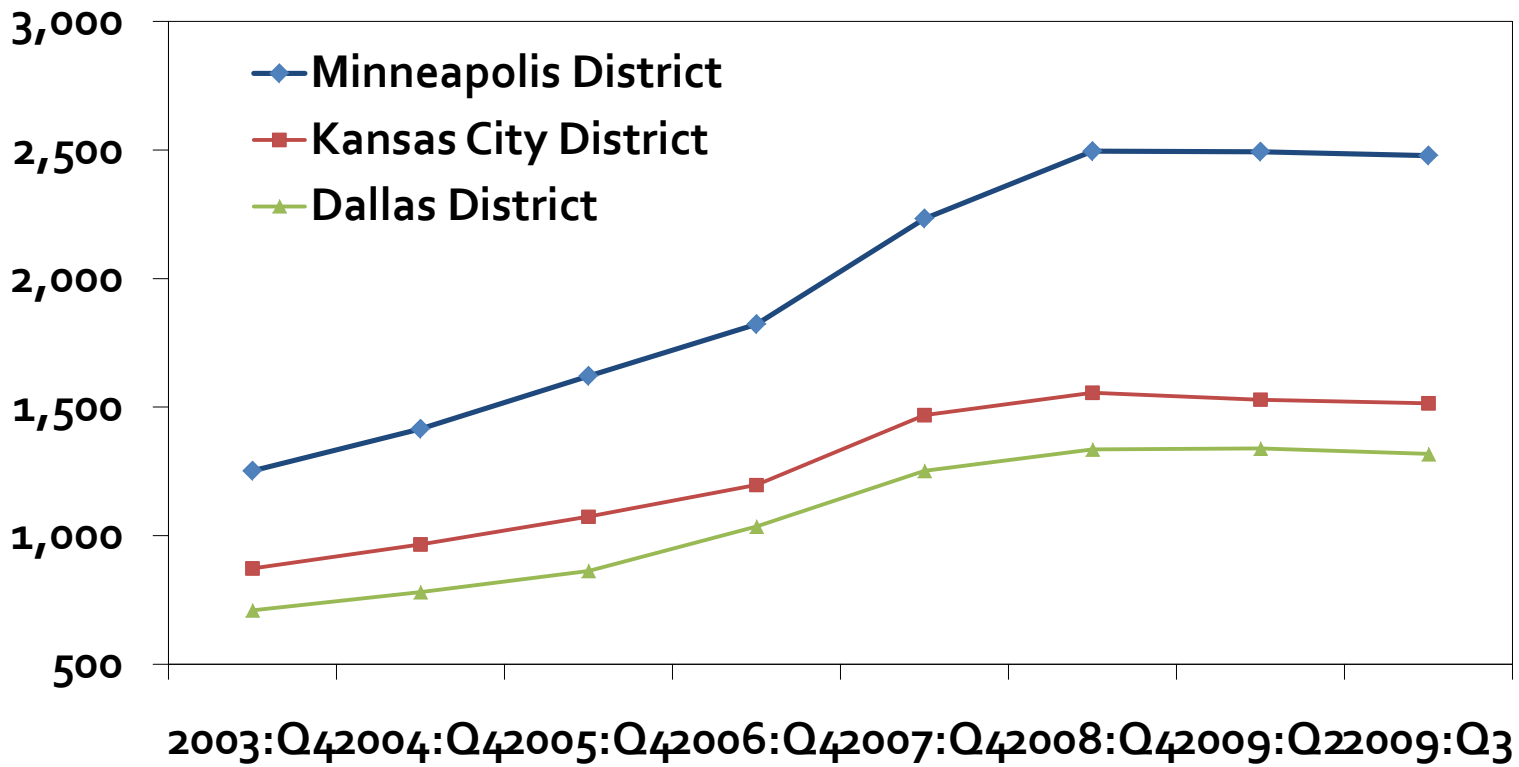
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- **Profits – will demand and profits rebound if the recovery is sluggish?**
- **Leverage – will farmers limit debt growth?**
- **Collateral – will farmland values hold?**



After topping in 2009, what direction will farmland values follow?

Cropland Values in Federal Reserve Districts

Dollars per acre



Source: Federal Reserve Banks of Kansas City, Minneapolis, and Dallas



Risks for Agriculture

- **Credit – will funds be available for agriculture?**
- **Profits – will demand and profits rebound if the recovery is sluggish?**
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- **Collateral – will farmland values hold?**
- **Counterparties – how do producers identify, document, and manage counterparty risk?**



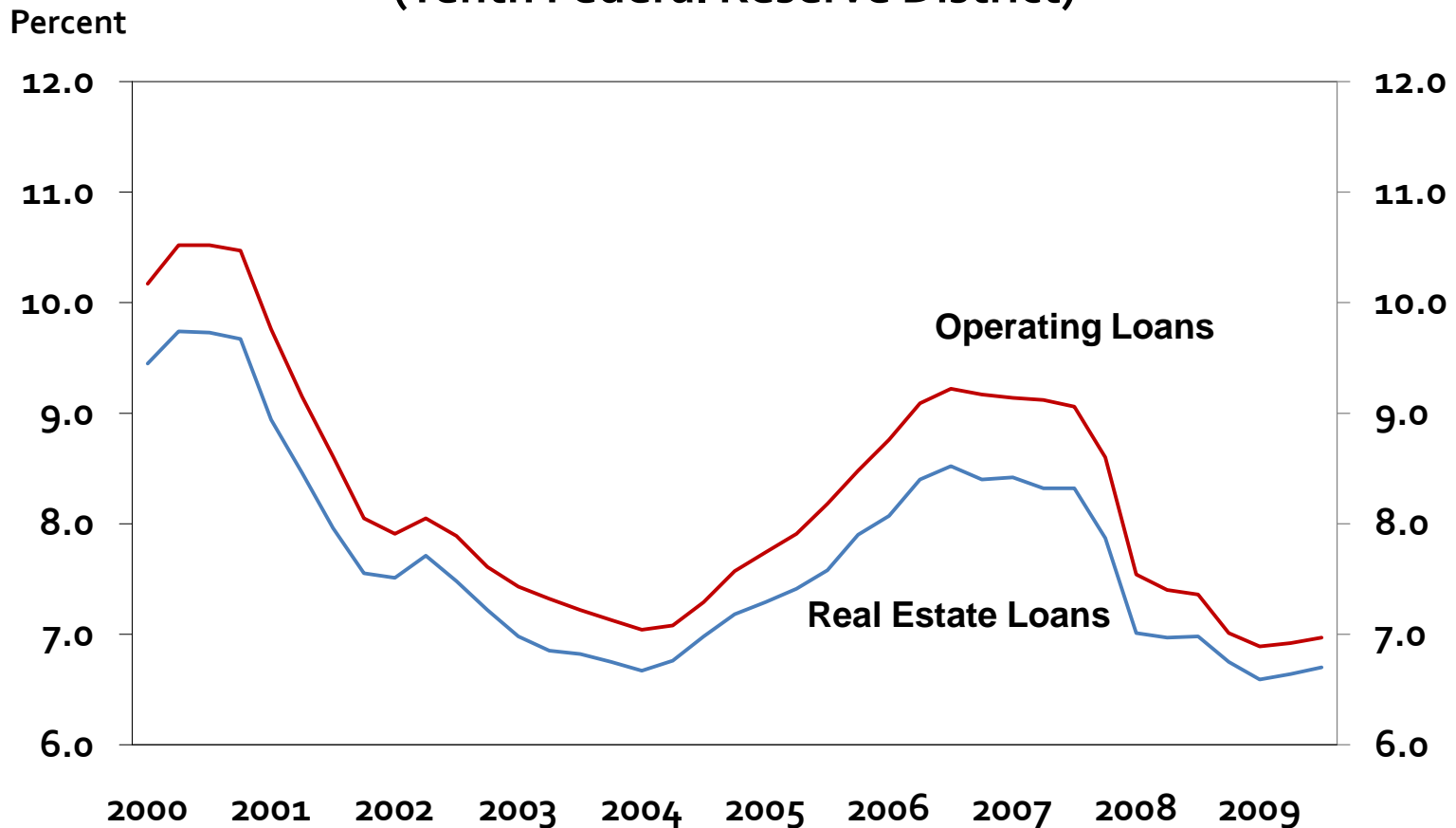
Risks for Agriculture

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- **Counterparties – how do producers identify, document, and manage counterparty risk?**
- **Interest rates – when and how high will interest rates rise during the recovery?**



Interest rates remain low.

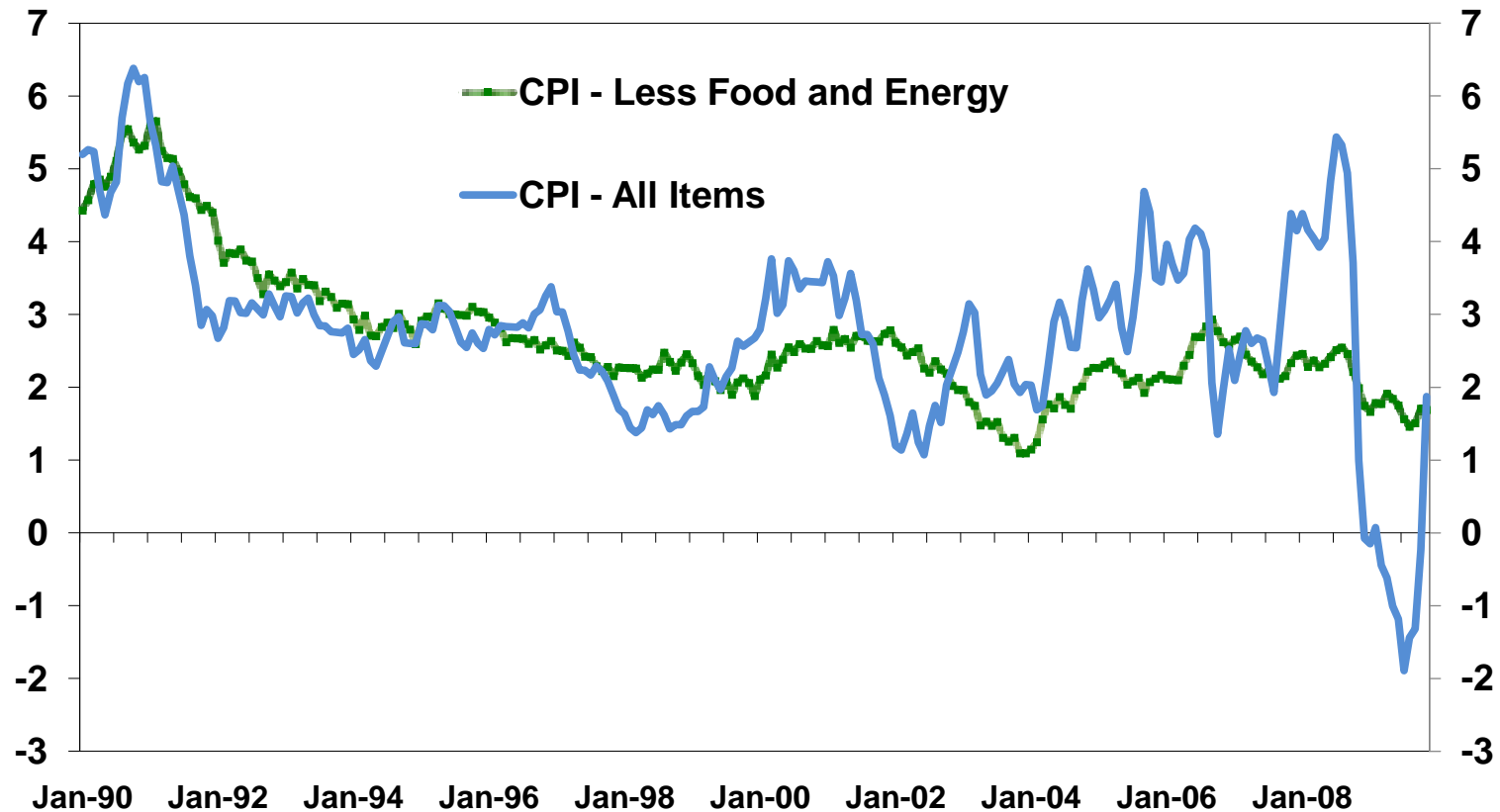
Average Interest Rates (Tenth Federal Reserve District)



The U.S. is experiencing disinflation.

Consumer Price Inflation

Percent

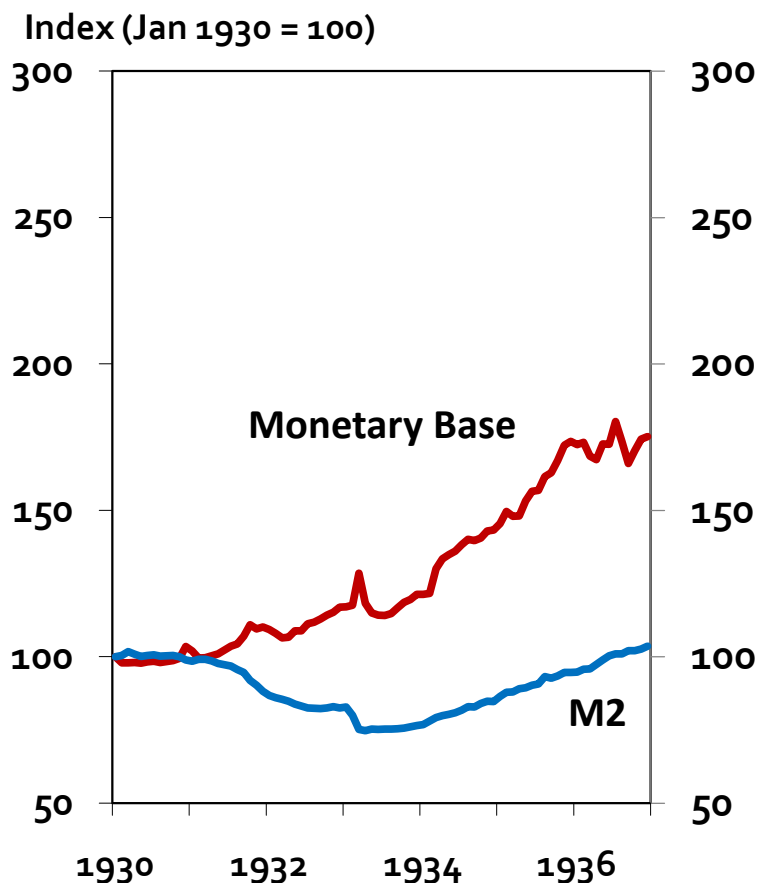


Source: Bureau of Labor Statistics

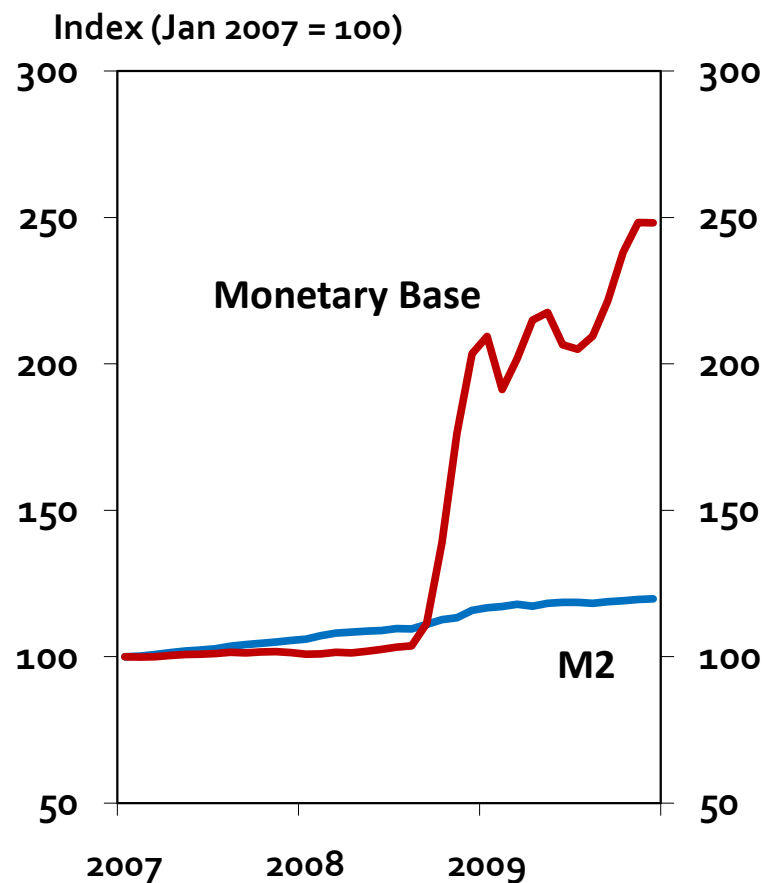


The U.S. has not experienced 1930's deflation.

Growth in Monetary Aggregates



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



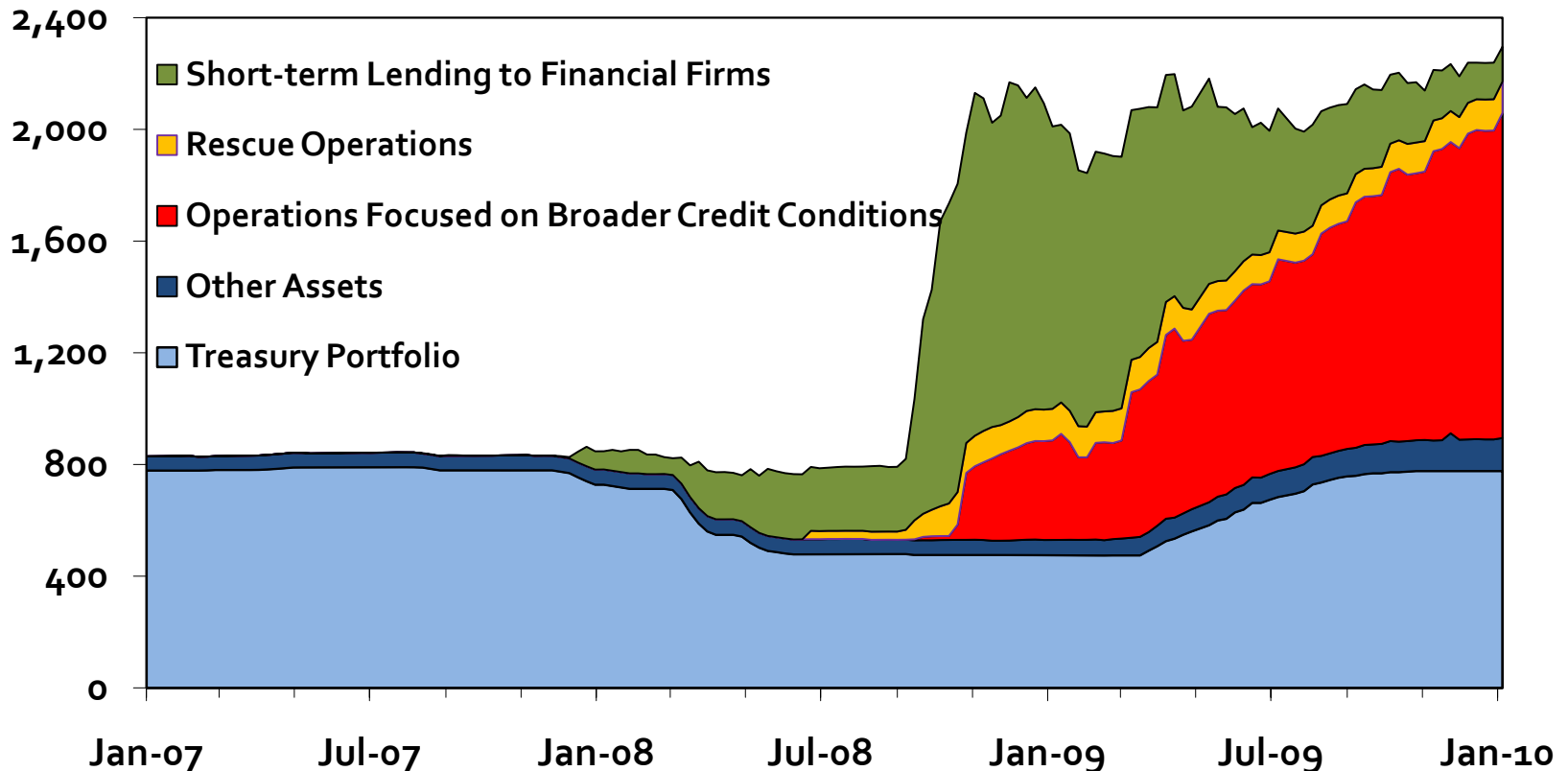
Source: Federal Reserve Board of Governors



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

Federal Reserve Balance Sheet: Assets

Billion Dollars

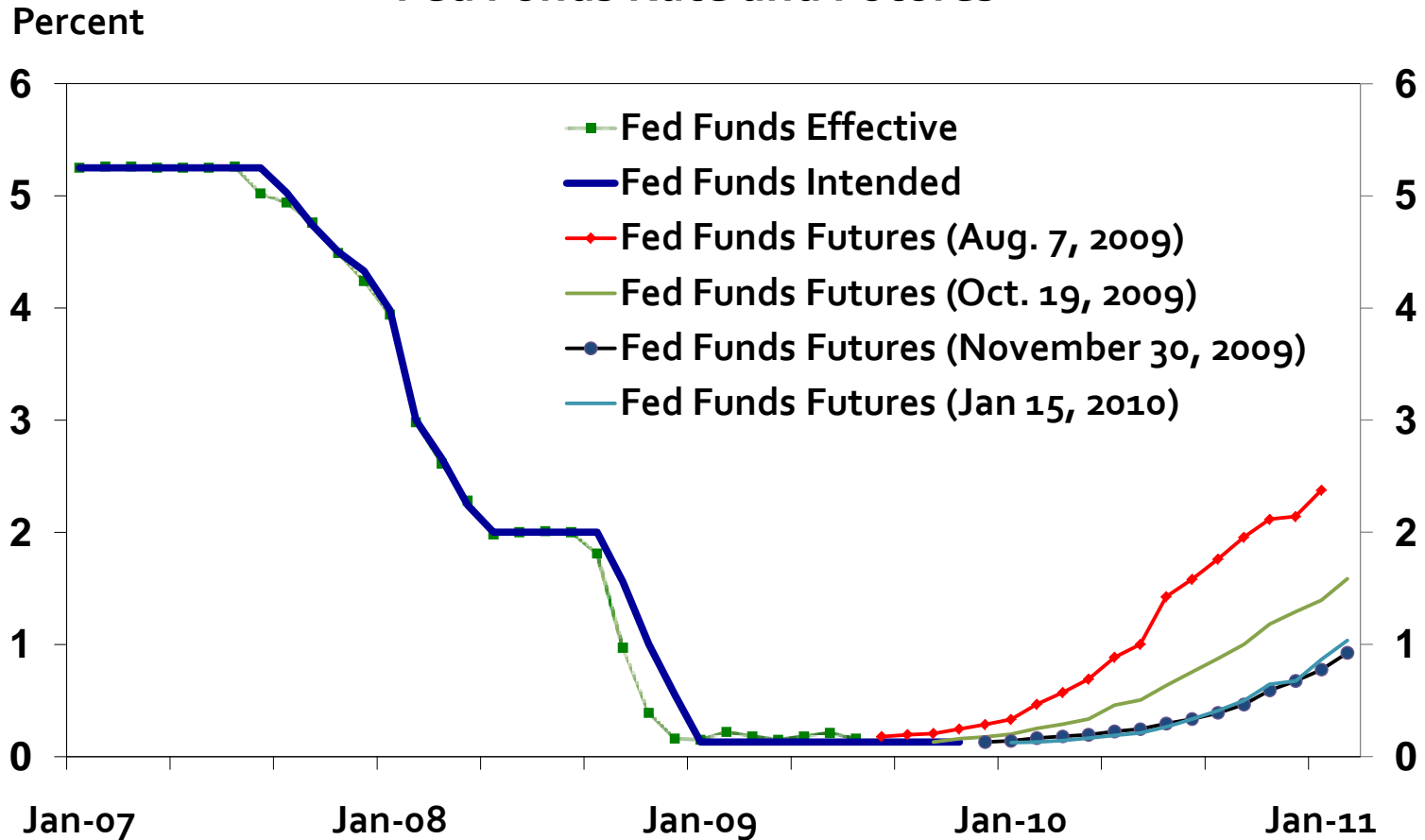


Source: Federal Reserve Board of Governors



When will interest rates rise?

Fed Funds Rate and Futures



Source: Federal Reserve Board of Governors and CME Group



Conclusions


- **Economic and financial conditions have improved dramatically in the past year.**
- **Still, risks remain in a sluggish recovery.**
- **The U.S. economy is going through a deleveraging process, which takes time.**
- **U.S. agriculture is not immune to macroeconomic conditions.**





Farming, Finance,
AND THE *Global Marketplace*

JUNE 8-9, 2010
Federal Reserve Bank of Kansas City
Kansas City, Missouri



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