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.
Economic moods varied across the nation.

Unemployment Rates by County
Jan. 2010 to Dec. 2010 average

Source: Bureau of Labor Statistics
Rural economies held up better during the great recession.

**U.S. Employment**

- **Non-metro (left scale)**
- **Metro (right scale)**

Source: USDA
Stronger farm incomes boost agricultural equipment sales.

U.S. Real Net Farm Income and Agricultural Equipment Sales

Percent change from previous year

2006 2007 2008 2009 2010 2011 *

Real Net Farm Income

4-Wheel Drive Tractor Sales

Source: Association of Equipment Manufacturers and USDA

* Net farm income forecast for 2011 dated February 2011, Tractor sales YTD through February 2011
Cropland values surge across the Corn Belt.

Non-irrigated Cropland Values
(Percent change 2009:Q4 to 2010:Q4)

Source: Federal Reserve District Surveys
(Chicago, Minneapolis, Kansas City, Dallas)
Opportunity #1: China’s exports surge to record highs.

U.S. Agricultural Exports

Constant 2005 dollars (billions)

Source: USDA
Threat #1: Higher interest could slow the Chinese economy.

China’s Inflation and Interest Rates

Percent change from year ago

Percent

Jan-05 Jan-06 Jan-07 Jan-08 Jan-09 Jan-10 Jan-11

Interest Rate on One Year Deposits (Left Scale)

Consumer Price Inflation: 12-month (Right Scale)
Opportunity #2: Mandates dictate stronger ethanol demand.

U.S. Ethanol Production Capacity and Production

Source: Renewable Fuels Association, capacity data based on January information
Threat #2: Public Support for Bio-Fuels

What happens to ethanol if the subsidies, tariffs and mandates disappear?
Opportunity #3: Tight supplies boost farm prices.

U.S. Corn Inventory and Farm Price

Source: USDA
Threat #3: The Best Cure for High Prices is High Prices

Farmers Always Produce Themselves Out of Prosperity

- 2011: U.S. Acres Planted to Corn Up 4.3%
- 2020: U.S. Corn Yields Up 17 Percent

How Quickly Could Farm Incomes Fall?

- 2013: Average Annual Corn Price is $4.10
- 2013: Net returns above variable costs for corn fall 40% below today’s levels.

Source: USDA
Opportunity #4: Soaring Global Food Prices

World Food Prices

Index (2002 to 2004 average = 100)

Percent change from June 2010

- Sugar: 87 percent
- Oils: 65 percent
- Cereals: 62 percent

Jan-06 | Jan-07 | Jan-08 | Jan-09 | Jan-10 | Jan-1

Source: Food and Agricultural Organization of the United Nations
Threat #4: Food prices, Middle East riots, and oil

Food Share of Household Expenditure by Country, 2009

- Pakistan: 45.7%
- Algeria: 43.9%
- Jordan: 40.9%
- Egypt: 38.8%
- China: 34.9%
- India: 32.4%
- Brazil: 24.6%
- Japan: 14.6%
- Germany: 11.4%
- Canada: 9.2%
- U.S.: 6.9%

Source: USDA
Opportunity #5: Low interest rates lift farm incomes.

Sources: USDA, Federal Reserve, BLS
Threat #5: Higher interest rates cut profits and farmland values

Capitalized Revenues from Corn Production

Dollars per acre

Dollars per bushel

- Capitalized Value at 7% capitalization rate and 200 bushel yield
- Estimated Eastern Nebraska Irrigated Cropland Value
Opportunity #6: Farm debt ratios fall to record lows.

Farm Debt Ratios

Sources: USDA
Threat #6: How much debt do farmers really have?

Growth in Farm Real Estate and Non-Real Estate Debt (2009 to 2010)

Percent change from previous year

<table>
<thead>
<tr>
<th>Source</th>
<th>Real Estate</th>
<th>Non-Real Estate</th>
</tr>
</thead>
<tbody>
<tr>
<td>USDA data</td>
<td>-2.5%</td>
<td>-3.0%</td>
</tr>
<tr>
<td>Commercial Bank loans</td>
<td>2.1%</td>
<td>-1.5%</td>
</tr>
<tr>
<td>Farm Credit System loans</td>
<td>2.3%</td>
<td>4.3%</td>
</tr>
</tbody>
</table>

Source: USDA, Agricultural Finance Databook, Federal Farm Credit Banks
Opportunity #7: Middle-aged residents return to rural America

Source: Federal Reserve Bank of Kansas City
Today’s 40 year olds were teenagers in the 1980s.

What is this their memory of rural America?
For More Information on Agricultural and Rural Economies

www.kansascityfed.org