Economic Update
A better economic mood in Nebraska.
Nebraska’s retail activity has rebounded, especially in rural areas.

![Graph showing Nebraska’s Retail Jobs and Sales Growth](image_url)

Source: BLS and Nebraska Dept. of Revenue

* Fourth quarter retail sales data is through November 2010
Stronger farm incomes boost agricultural equipment sales.

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

Percent change from previous year

Source: Association of Equipment Manufacturers and USDA
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)
Surging Land Values
Tight Global Supplies
Booming Farm Incomes
Low Interest Rates
15 billion gallons of ethanol
Record-High Chinese Exports
Record low debt-to-asset ratios
Risk #1: High Interest Rates

The Net Present Value of Farmland

\[ \text{Land Values} = \frac{\text{Expected Revenues}}{\text{Capitalization Rate}} \]

- High Interest Rates Lead to Lower Farm Revenues
- High Interest Rates Lead to Higher Capitalization Rates

What happens to farmland values under high interest rates?
Risk #2: 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
Risk #3: Food vs Fuel

What We Know: Ethanol is based on Mandates, Tariffs, and Subsidies.

The Questions Being Asked Again: Will the Answers Be Different?

- What are the public benefits?
- Does it reduce our dependence on foreign oil?
- Is ethanol environmentally sustainable?
- Can we afford it?
- What is the impact on food prices?
- How long before advanced ethanol is viable?
Risk #4: China and U.S. Agricultural Trade

What happens to U.S. exports if China slows their economy?

- China’s Inflation and Interest Rate

<table>
<thead>
<tr>
<th></th>
<th>CPI (12-month)</th>
<th>Interest Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 2010</td>
<td>1.93%</td>
<td>2.25%</td>
</tr>
<tr>
<td>Jan. 2011</td>
<td>5.66%</td>
<td>3.00%</td>
</tr>
</tbody>
</table>

How many of you believe the U.S. is a world power because we can feed ourselves?

Why is China any different?
Risk #5: Farm Debt

The Lesson of the 1980s: Falling Asset Values and High Debt are a Recipe for Bankruptcy

Will Farmer’s Resist the Temptations?

It’s a huge opportunity. When am I going to get this chance again?

I’ve waited 30 years for that land to sell.

They never make any more land.

With rates this low, what’s a little bit more?

I’m not going to make any money in the bank or stock market.
For More Information on The Nebraska Economy and Rural America

www.kansascityfed.org/omaha