Capital Markets and Their Impact on You and Your Customers

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

- Financial Crisis
- Economic Recession
- Inflation and Federal Reserve exit strategy
- Risks to the Livestock Sector
The financial market crisis has eased.

Commercial Paper Rates

Percent

Jun-07 Aug-07 Nov-07 Jan-08 Apr-08 Jul-08 Sep-08 Dec-08 Feb-09 May-09 Jul-09

Source: Federal Reserve Board of Governors
The financial markets still remain fragile.
Is commercial real estate a risk?

Commercial Mortgage Debt Outstanding by Type of Institution

Source: Federal Reserve Board of Governors
Commercial vacancy rates are on the rise.

U.S. Commercial Real Estate Vacancy Rates

Source: Torto-Wheaton Research
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.
Loan delinquency rates and charge-offs edge up.

Charge-off and Delinquency Rates on Agricultural Loans

Source: Federal Reserve Board of Governors
Collateral requirements have tightened and loan maturities have fallen.

Collateral Requirements and Loan Maturity on Non-Real Estate Loans

Diffusion Index

Source: Federal Reserve Bank of Kansas City and Agricultural Finance Databook

Average Maturity of Non-Real Estate Loans – U.S. (Right Axis)

Collateral Required Tenth Federal Reserve District (Left Axis)

Federal Reserve Bank of Kansas City – Omaha Branch
Regional, Public and Community Affairs Division
Low profits have trimmed livestock lending.

Volume of Livestock Loans made to Farmers

Billion dollars

Source: Agricultural Finance Databook
Today’s Roadmap

- Financial Crisis
- Economic Recession
If forecasts hold, we have hit bottom.

Real GDP Growth

Annualized percent change from previous quarter

Source: Bureau of Economic Analysis and Blue Chip Economic Indicators
Consumer spending is beginning to stabilize.

U.S. Monthly Retail and Food Sales

Billion dollars

Source: U.S. Census Bureau
Job losses will limit domestic spending.

U.S. Non-farm Job Growth and Unemployment Rate

Change from previous month (Thousands) Percent

-800 -600 -400 -200 0 200 400 600 800


Job Change (Left Scale)

Unemployment Rate (Right Scale)

Source: Bureau of Labor Statistics
Lower wealth levels will limit spending.

Assets Held by Households and Nonprofit Organization

Source: Federal Reserve Board of Governors
In the short-run, increased savings limits spending. In the long-run, best prescription to reduce debt.

Personal Savings as a Percent of Disposable Income

Source: Bureau of Economic Analysis
Food sales decline, especially at restaurants.

Source: USDA
2009 data are year-to-date through June
The bulk of the stimulus package comes in 2010.

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

Billion Dollars

Source: Congressional Budget Office, February 13, 2009
Improvements in the U.S. trade balance continue.

Real Net Exports of Goods and Services

Source: Bureau of Economic Analysis
Will Developing Countries Lead the Recovery?

World GDP Growth

Annual Percent Change

Source: International Monetary Fund, July 2009
What is the future path of the dollar?

Value of the Dollar

Index

Source: Federal Reserve Board of Governors
What direction will commodity prices go?

Crude Oil and Corn Prices

- Corn price per bushel (left scale)
- WTI Crude Oil (right scale)

Source: Commodity Research Bureau
Today’s Roadmap

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Credit Risks for Agriculture

- Profit risk – while a supply adjustment stops huge losses, will demand rebound to spur profits?
Meat and Milk Spending Declines in Jobless Recoveries

U.S. Per Capita Expenditures on Beef, Pork, Poultry, and Milk Products

Percent change


One Year Prior to Recession
During Recession
One Year After Recession

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.
Risks In Agriculture

- **Profit risk** – with high and volatile prices and input costs, will producers face shrinking margins?
- **Collateral risk** – what is the future path of farmland values?
If margins narrow, what is the future path of farmland values?

U.S. Farm Real Estate Values

<table>
<thead>
<tr>
<th>Year</th>
<th>Value (Dollars per acre)</th>
</tr>
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<tbody>
<tr>
<td>2000</td>
<td>1090</td>
</tr>
<tr>
<td>2001</td>
<td>1150</td>
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<td>2002</td>
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</tr>
<tr>
<td>2008</td>
<td>2170</td>
</tr>
<tr>
<td>2009</td>
<td>2100</td>
</tr>
</tbody>
</table>

Source: USDA
Risks In Agriculture

- Profit risk – with high and volatile prices and input costs, will producers face shrinking margins?
- Collateral risk – what is the future path of farmland values?
- Counterparty Risk – how do producers identify, document, and manage counterparty risk?
Risks In Agriculture

- Profit risk – with high and volatile prices and input costs, will producers face shrinking margins?
- Collateral risk – what is the future path of farmland values?
- Counterparty risk – how do producers identify, document, and manage counterparty risk?
- Interest rate risk – when and how high will interest rates rise after the recession?
Monetary Policy Transmission Mechanisms

Economic Review http://www.kansascityfed.org/Publicat/ECONREV/PDF/4q03sell.pdf
The Fed has expanded its balance sheet.

Federal Reserve Balance Sheet: Assets

- Short-term Lending to Financial Firms
- Rescue Operations
- Operations Focused on Broader Credit Conditions
- Other Assets
- Treasury Portfolio

Source: Federal Reserve Board of Governors
What is the future path of interest rates?

Fed Funds Rate

Source: Federal Reserve Board of Governors and CME Group
The Exit Strategy Depends on the “Letter” of Recovery?

U.S. Real GDP Growth

Percent


“U” “W” “V” “L”
The rest of America is learning the lessons of the 1980s farm crisis.

Domestic Debt Outstanding

Percent of GDP

Source: Federal Reserve Board of Governors
For More Information

Federal Reserve Bank of Kansas City – Omaha Branch

www.kansascityfed.org/omaha