An Update on the Agricultural Economy
Today’s Roadmap

- Economic Recovery: how strong will it be?
- The Farm Economy: can it rebound in 2010?
The recovery is underway.

Real GDP Growth

Annualized percent change from previous quarter

Source: Bureau of Economic Analysis and Blue Chip Economic Indicators
The financial market crisis has eased.
The housing sector appears to have bottomed.
Business activity has rebounded.
Will consumers spend this holiday season?

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)

Unemployment Rate (Right Scale)

Job Change (Left Scale)

Source: Bureau of Labor Statistics
Will spending rebound with improved wealth?

Assets Held by Households and Nonprofit Organization

Trillion dollars

Financial Assets (left axis)
Real Estate Assets (right axis)

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

Real Household Debt Outstanding per Household

Thousand Dollars (2008 dollars)

- Consumer Credit
- Mortgage debt

Calculations based on Federal Reserve and Census data
Improvements in the U.S. trade balance continue.

Real Net Exports of Goods and Services

Source: Bureau of Economic Analysis
Will emerging countries lead the recovery?

GDP Growth

Annual percent change, constant dollars

Source: International Monetary Fund, April 2009
A low value of the dollar makes U.S. goods cheaper in foreign markets.

Value of the Dollar

Index: Price adjusted broad index

Source: Federal Reserve Board of Governors
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
Today’s Roadmap

- Economic Recovery: how strong will it be?
Monetary Policy Transmission Mechanisms

1. Short-term interest rates
2. Bank Reserves
3. Bank Credit

Central Bank

Long-term Interest rates

Economic activity

The Fed Has Expanded its Balance Sheet.

Federal Reserve Balance Sheet: Assets

Billion Dollars

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

Source: Federal Reserve Board of Governors
Today’s Roadmap

- Economic Recovery: how strong will it be?
- The Farm Economy: can it rebound in 2010?
Will agricultural export activity remain historically high?

U.S. Net Farm Income

Billion dollars (Real)

Source: USDA, fiscal years

Federal Reserve Bank of Kansas City – Omaha Branch
Regional, Public and Community Affairs Division
Food sales decline, especially at restaurants.

U.S. Food Sales

Percent change from previous year

<table>
<thead>
<tr>
<th>Year</th>
<th>Away-from-home sales</th>
<th>At-home sales</th>
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<tbody>
<tr>
<td>2006</td>
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<td>2008</td>
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<td>2.0</td>
</tr>
<tr>
<td>2009</td>
<td>-4.0</td>
<td>-4.0</td>
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Source: USDA
2009 data are year-to-date through August
Meat and milk spending declines in jobless recoveries

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

Percent change

-8.0  -6.0  -4.0  -2.0  0.0  2.0  4.0  6.0  8.0  10.0  12.0

- One Year Prior to Recession
- During Recession
- One Year After Recession

Average in 5 Recessions Since 1980
1981 Recession
1982 Recession
1990 Recession
2001 Recession
2007 to 2009*

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.
Livestock margins could improve in 2010.

U.S. Livestock Prices and Breakeven Costs

Dollars per hundredweight

Breakeven Costs
Cattle Price
Breakeven Costs
Hog Price

Source: USDA and Iowa State University
But, reduced supplies are needed.
Have seasonal lows been set in the crop sector?

U.S. Crop Prices

Source: Commodity Research Bureau
Crop inventories remain historically low.

World Grain Inventories

Stocks as percent of annual use

- Grains (Corn, Rice, Wheat)

Source: USDA
How will energy prices shape farm profits in 2010?

Energy Prices

Dollar per MMBTU

Dollar per barrel

Crude Oil (right scale)

Natural Gas (left scale)

Source: Bloomberg
Crop margins have declined, but remain above 2006 levels.

Crop Net Returns Above Variable Costs

Source: USDA
Farmland values have eased recently.

Average Farmland Values

Source: USDA
Farmers’ appear to have learned the debt lessons of the 1980s.

U.S. Debt Repayment Capacity Utilization

- Incomes not high enough to service debt
- Incomes high enough to service debt

Source: USDA
Will agricultural exports remain historically high?

U.S. Agricultural Exports

Billion dollars

Source: USDA, fiscal years

Federal Reserve Bank of Kansas City – Omaha Branch
Regional, Public and Community Affairs Division
Will stronger incomes in China spur further gains in U.S. exports?

U.S. Poultry Exports to China

Index (2000 = 100)

Source: Foreign Agricultural Service
2009 forecast based on poultry exports through August.
The financial crisis and recession appear to be ending.

Risks surround the recovery.

The outlook hinges on consumer spending.

As the recovery strengthens, questions will switch from growth to inflation.

Will the recovery lift agricultural demand in 2010?
For More Information

Federal Reserve Bank of Kansas City – Omaha Branch

www.kansascityfed.org/omaha