Regional Economic Conditions, Financial Outlook, and the Credit Crisis

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 Recession Intensifies
  - A housing market correction spread to financial markets.
  - A financial crisis fuels the recession.
- Will Recent Financial Market Improvements Persist?
- What is the Impact on Agricultural Credit?
The U.S. economy is in recession.

Real GDP Growth

Annualized percent change from previous quarter

Source: Bureau of Economic Analysis and Blue Chip Economic Indicators
Stronger growth in the Plains.

Total Non-farm Employment Growth
(Percent change, Dec. 07 to Dec. 08)

Source: Bureau of Labor Statistics
Inflationary pressures have eased.

Consumer Price Inflation

Source: Department of Commerce
### Changes are concentrated in energy goods.

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<tr>
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</thead>
<tbody>
<tr>
<td>Housing</td>
<td>42.4</td>
<td>0.3%</td>
<td>-0.4%</td>
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<tr>
<td>Shelter</td>
<td>32.5</td>
<td>0.2%</td>
<td>-0.06%</td>
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<tr>
<td>Heating Oil</td>
<td>4.7</td>
<td>1.6%</td>
<td>-19.9%</td>
</tr>
<tr>
<td>Gas and Electric</td>
<td>5.1</td>
<td>1.5%</td>
<td>-3.3%</td>
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<tr>
<td>Transportation</td>
<td>17.7</td>
<td>0.8%</td>
<td>-12.7%</td>
</tr>
<tr>
<td>Motor Vehicles</td>
<td>7.2</td>
<td>-0.3%</td>
<td>-0.5%</td>
</tr>
<tr>
<td>Motor Fuel</td>
<td>5.5</td>
<td>2.4%</td>
<td>-108.0%</td>
</tr>
</tbody>
</table>

Source: Bureau of Labor Statistics
The Recession Intensifies

- The housing correction leads to a financial crisis.
It started in the housing sector.

Home Starts, Sales and Inventories

Month’s supply

Index (Jan-00=100)

- Existing Home Sales (Right Scale)
- Housing Starts (Right Scale)

Month’s Supply of New Homes (Left Scale)

Source: Dept. of Commerce, National Association of Realtors
Nationally, home prices are falling.

Repeat-Sales Home Price Index

Percent change from previous year

Source: OFHEO
Financial markets seize.

Commercial Paper Rates

Source: Federal Reserve Board of Governors
Financial market stress remains elevated at longer maturities.

LIBOR-OIS Spread

Basis Points

Mar-08 May-08 Jul-08 Sep-08 Nov-08

3-month 1-month

Source: Federal Reserve Board of Governors
Falling asset values with high leverage is a recipe for bankruptcy.

Domestic Debt Outstanding

Source: Federal Reserve Board of Governors
The Recession Intensifies

- The housing correction leads to a financial crisis.
- Business activity plummets.
Banks have tightened credit standards.

Net Percent of Domestic Banks Tightening Credit Standards

Source: Federal Reserve Board of Governors
Business activity has plummeted.

U.S. Manufacturing and Non-Manufacturing Activity Indices

Source: Institute of Supply Management
Manufacturing activity dropped sharply.

U.S. and Tenth District Manufacturing Production Indices

Source: Institute of Supply Management and Federal Reserve Bank of Kansas City
The Recession Intensifies

- The housing correction leads to a financial crisis.
- Business activity plummets.
- Consumer spending drops sharply.
Job Losses Mount.

Monthly Unemployment Claims

Thousands

Source: Bureau of Labor Statistics
Consumer spending drops sharply.

U.S. Monthly Retail and Food Sales

Billion dollars

Source: U.S. Census Bureau
The Recession Intensifies

- The housing correction leads to a financial crisis.
- Business activity plummets.
- Consumer spending drops sharply.
- Export activity wanes with a global recession and a stronger dollar.
World economic growth has slowed dramatically.

World GDP Growth

Annual Percent Change

Emerging and Developing Countries

World

Advanced Countries

Source: International Monetary Fund, November 2008
The value of the dollar has rebounded.

Value of the Dollar

Index

Jan-00 Jan-01 Jan-02 Jan-03 Jan-04 Jan-05 Jan-06 Jan-07 Jan-08 Jan-09

Source: Federal Reserve Board of Governors
Improvements in the U.S. trade balance stop.

Real Net Exports of Goods and Services

Source: Bureau of Economic Analysis and Blue Chip Forecast, January 2009

Federal Reserve Bank of Kansas City – Omaha Branch
Regional, Public and Community Affairs Division
Export growth was limited in Colorado.

U.S. and Colorado Manufactured Exports

Billion dollars

Source: WISERTrade
The Recession Intensifies

- The housing correction leads to a financial crisis.
- Business activity plummets.
- Consumer spending drops sharply.
- Export activity wanes with a global recession and a stronger dollar.
- Will fiscal and monetary stimulus jump start the economy?
The Fed is pumping liquidity into financial markets.

Source: Federal Reserve Board of Governors
The Fed has acted aggressively.

Fed Funds Rate and Federal Reserve Assets

Source: Federal Reserve Board of Governors
Federal government deficits rise sharply.

Federal Budget Deficit Projections

Source: Congressional Budget Office, January 2009
TARP funds are concentrated on Wall Street.

Breakdown of TARP Funds
(As of January 30, 2009, Billions of Dollars)

Source: Department of the Treasury
Confidence is at a historical low.

Business and Consumer Confidence

Index (2000 Q1 = 100)

Source: The Conference Board
Today’s Roadmap

- The Recession Intensifies
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  - A financial crisis fuels the recession.
- Will Recent Financial Market Improvements Persist?
Commercial paper spreads have narrowed.

Commercial Paper Rates

Source: Federal Reserve Board of Governors
Short-term spread rates have declined.

LIBOR-OIS Spread

Basis Points

Source: Federal Reserve Board of Governors
Today’s Roadmap

- What is the Impact on Agricultural Credit?

Tenth Federal Reserve District
Colorado, Kansas,
Nebraska, Oklahoma, Wyoming,
western Missouri, northern New Mexico

Agricultural Credit Survey
www.kansascityfed.org
Agricultural bank returns are still strong.

Return on Equity

Percent

Agricultural Banks  All Commercial Banks  Small Commercial Banks

Return on Assets

Percent

Agricultural Banks  All Commercial Banks  Small Commercial Banks

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
Commercial banks have funds available for farm loans.

Funds Availability for Farm Loans at Agricultural Banks
(Tenth Federal Reserve District)

Source: Federal Reserve Bank of Kansas City
Interest rates ease further.

Interest Rates for Farm Loans at Agricultural Banks
(Tenth Federal Reserve District)

Source: Federal Reserve Bank of Kansas City
Collateral Required for Farm Loans at Agricultural Banks
(Tenth Federal Reserve District)

Source: Federal Reserve Bank of Kansas City
Risks on agricultural loans edge up in 2008.

Charge-offs and Delinquency Rates on Agricultural Loans

Source: Board of Governors of the Federal Reserve System
Farm income expectations fall sharply.

Farm Income Expectations Among Agricultural Bankers
(Tenth Federal Reserve District)

Source: Federal Reserve Bank of Kansas City
If farm incomes wane, what will happen to farmland values?

Nonirrigated Cropland Values
(Tenth Federal Reserve District)

Sample percent change from a year ago*

Source: Federal Reserve Bank of Kansas City
*Percent changes are calculated using responses only from those banks reporting in both the past and the current quarter.
Conclusions

- The Recession intensifies.
  - A housing bust has spread to financial markets.
  - The financial crisis contributes to a deep recession.
  - Non-ag financial sectors are learning the lessons of the 1980s farm bust.

- Agricultural Credit Conditions Tighten.
  - Funds are available, but loan quality is deteriorating.
  - Will farmland values fall amid weaker farm income?

- Who Accepts Agricultural Risk – Bankers or Farmers?