Changes in the Economic Landscape
Today’s Roadmap

- Uncertainties Surrounding the Recovery
  - Financial Crisis and Impact on Credit
  - Unemployment and Slipping Demand

- Changes in Residential, Nonresidential and Financial Investments

- Global, Fiscal, and Monetary Challenges
Recently, real GDP has risen, but forecasters expect just above trend growth.

Source: Bureau of Economic Analysis and Blue Chip Economic Indicators
An elevated unemployment rate may weigh on the recovery.

Unemployment Rate

Source: Bureau of Economic Analysis and Bureau of Labor Statistics
Since the slump in 2008, retail sales have improved.

U.S. Monthly Retail and Food Sales

Billion dollars (nominal)

Source: U.S. Census Bureau
Government transfer payments have supported personal income, which has helped consumption.

### Personal Income and Share of Government Transfer Payments

- **Billion dollars (nominal)**
- **Percent**

#### Source: Bureau of Economic Analysis
Meat and milk spending tends to decline 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* 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.
Traditionally, surging demand leads to spikes in net farm income.

![Real U.S. Net Farm Income Chart](chart)

Source: USDA
Given the severity of this recession, could the beef industry learn something from high fashion?

**Price of Jeans**

- Retail Price Designer Jean
- Discount Price Designer Jean
- Retail Price Levi Jean

**Price of Beef Tenderloin**

- Prime Beef Tenderloin
- Prime Beef Tenderloin
- Choice Beef Tenderloin

Specialty crops debt repayment appears to be more volatile due in part to nonfarm factors.

Source: Author's calculations using USDA Agricultural Resource Management Survey data. Reported DRCU is the average for each group.
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Tax credits have helped work off some of the home inventory, but what happens when they expire?

Existing Single Family Housing Inventories

Months Supply at the Current Sales Rate

Source: National Association of Realtors
In Florida, the home foreclosure inventory has surged.

Home Foreclosure Inventory

Percent of loans serviced

Source: Mortgage Bankers Association
Since plummeting from their all-time highs, home prices are essentially flat.

Source: Standard & Poor's
Loan delinquency rates and office vacancy rates on commercial real estate remain elevated.

Delinquency Rate on Commercial Real Estate Loans (U.S.)

Office Vacancy Rates (Selected Florida Cities)

Source: Federal Reserve Board of Governors and Torto Wheaton
In Florida, nonfarm factors have negatively influenced cropland values.

Source: USDA
How will U.S. citizens go about repairing damaged investment portfolios?

Investment Scenarios
for a hypothetical investment of $10,000

Source: TIAA-CREF and author’s calculations
The personal savings rate remains historically low.

Personal Savings as a Percent of Disposable Income

Source: Bureau of Economic Analysis
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What does the Greek crisis mean for the U.S. economy and agriculture?

Source: Bloomberg data starting 1/4/10 and ending 5/12/10. U.S. is priced to Euros.
In the short run, deficit spending provides stimulus to the economy. However, it can present long run challenges.

U.S. Federal Budget Deficit Projections

Source: Congressional Budget Office, March 2010
To combat the financial crisis and recession, the Federal Reserve 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
Excess reserves held at the Fed have surged.

Source: Federal Reserve Board of Governors
Inflation is expected to remain contained.

Average Annual Inflation Expectations: Consumer Price Index

Source: Survey of Professional Forecasters
Conclusions

- It appears the U.S. is recovering from a steep recession. Yet, risks and uncertainty appear to be weighing on the recovery.

- While ag has held up relatively better than other industries, parts of ag have struggled.

- Knowing your business’ finances should help you develop strategies to seize opportunities when they become available.
Questions?

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