Farming in Today’s Macro Economy
Today’s Roadmap

- Financial Crisis
- The Macro Economy and Agriculture
- Inflation Concerns and Fed Exit Strategy
- Financial Health of Farmers
The financial crisis has eased.
Financial markets may not be in the clear partly because of commercial real estate.

U.S. Commercial Real Estate Vacancy Rates

Source: Torto-Wheaton Research
Today’s Roadmap

- Financial Crisis
- The Macro Economy and Agriculture
Forecasters expect a slow U.S. recovery.

Real GDP Growth

Annualized percent change from previous quarter

Source: Bureau of Economic Analysis and Blue Chip Economic Indicators
An elevated unemployment rate is one reason for the slow recovery.
Meat and milk spending tends to decline in jobless recoveries.

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

Percent change

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.
Employment in rural areas has fared better than in metro areas.

Change in Employment
Oct 07 to Oct 09 (3 month moving average)

Calculations based on Bureau of Labor Statistics, LAUS data
Deleveraging should contribute to a slow recovery...returning to saving habits.

Source: Federal Reserve Board of Governors
Consumer spending in rural places has not fallen as dramatically as in metro areas.

Retail Sales Growth 2007 to 2009

Year-to-date through second quarter retail sales obtained from various department of revenues
The trade balance has improved.
Will the stimulus package spur growth in 2010?

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

Billion Dollars

Source: Congressional Budget Office, February 13, 2009

-64.8 120.1 219.3 126.2 109.6

-250 -200 -150 -100 -50 0 50 100 150 200 250

2009 2010 2011 2012-2019

Revenues
Outlays
Will emerging and developing countries lead the global recovery?

GDP Growth

Annual percent change, constant dollars

Source: International Monetary Fund, October 2009
Will foreign growth drive commodity markets?

Crude Oil and Corn Prices

Source: Commodity Research Bureau
Today’s Roadmap

- Financial Crisis
- The Macro Economy and Agriculture
- Inflation Concerns and Fed Exit Strategy
The U.S. is experiencing disinflation.

Consumer Price Inflation

Source: Bureau of Labor Statistics
Monetary Policy Transmission Mechanisms

To combat the financial crisis and recession, the Federal Reserve has expanded its balance sheet.
Despite a surging monetary base, inflation has been subdued.

Growth in Monetary Aggregates

Source: Federal Reserve Bank of St. Louis, Friedman and Schwartz

Source: Federal Reserve Board of Governors
When will interest rates rise?

Fed Funds Rate and Futures

Source: Federal Reserve Board of Governors and CME Group
Today’s Roadmap

- Financial Crisis
- The Macro Economy and Agriculture
- Inflation Concerns and Fed Exit Strategy
- Financial Health of Farmers
In general, farmers are financially sound.

U.S. Debt Repayment Capacity Utilization

Source: USDA
Collateral requirements have tightened and loan maturities have fallen.

Collateral Requirements and Loan Maturity on Non-Real Estate Farm Loans

Diffusion Index

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

Collateral Required Tenth Federal Reserve District (Left Axis)

Source: Federal Reserve Bank of Kansas City and Agricultural Finance Databook
Historically, agricultural land values were related to much stress for agricultural lenders.
Conclusions

- The financial crisis and recession appear to be ending, but risks surround the recovery.
- The outlook hinges on consumer spending, both in the U.S. and globally.
- As the recovery strengthens, questions will switch from growth to inflation.
- When will consumers and investors start “chasing”? 
For More Information
Federal Reserve Bank of Kansas City – Omaha Branch

www.kansascityfed.org/omaha