Macro Economic Outlook for the Livestock Industry
Today’s Roadmap

- Why are forecasters expecting a slow recovery?
  - Financial Crisis and Impact on Credit
  - Unemployment and Slipping Demand
- Fiscal Challenges for the U.S. Government
- Monetary Challenges for the Federal Reserve
- What lies ahead?
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
The financial crisis has eased.

TED Spread

Source: Federal Reserve Board of Governors
However, delinquency rates on commercial real estate and agricultural loans are rising.

Source: Federal Reserve Board of Governors
While fewer lenders report raising credit standards, credit is still tight.

Credit Standards for U.S. Commercial Real Estate Loans

Collateral Requirements for Tenth District Agricultural Loans

Source: Federal Reserve Board of Governors and Federal Reserve Bank of Kansas City
An elevated unemployment rate is another reason for a slow recovery (limited demand).

U.S. Unemployment Rate (U3)

Source: Bureau of Economic Analysis and Bureau of Labor Statistics
Meat and milk spending tends to decline in jobless recoveries.

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

Percent change

Average in 5 Recessions Since 1980
Recession
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

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

U.S. ag exports rebounded at the end of 2009, fueled by China.
Short-run Federal debt spending helps stimulate the economy, but can pose long-run challenges.
The Federal Reserve provided a lot of liquidity, which helped financial markets. But it is not sustainable in the long-run.

Federal Reserve Balance Sheet: Assets

Source: Federal Reserve Board of Governors
Inflation expectations remain low despite the large amount of liquidity in the marketplace.

U.S. Inflation Expectations

Source: Survey of Professional Forecasters
Could the future path of U.S. GDP be similar to another country (Sweden) that experienced a financial crisis?

**Sweden Gross Domestic Product**

- **Billion Kroner**
  - 3,000
  - 2,500
  - 2,000
  - 1,500
  - 1,000


- **Source**: International Monetary Fund

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Financial Crisis
Could the future path of U.S. GDP be similar to another country (Sweden) that experienced a financial crisis?

Swedish Gross Domestic Product

Source: International Monetary Fund

GDP Trend Growth Before the Financial Crisis
Could the future path of U.S. GDP be similar to another country (Sweden) that experienced a financial crisis?

Sweden Gross Domestic Product

Source: International Monetary Fund
Could the future path of U.S. GDP be similar to another country (Sweden) that experienced a financial crisis?
Are there consequences for maintaining excessively low interest rates over a lengthy period?

- “Low rates also interfere with economy’s ability to allocate resources and distort longer-term saving and investment decisions.”
- “While [the Federal Reserve] must be aggressive in our response to a crisis, and remain patient in the early stages of a recovery, we must also be resolute in the commitment to our longer-run mission and objectives if we are to properly fulfill our public mandate.”

Quotes taken from Tom Hoenig’s speech (1/7/10): [http://www.kc.frb.org/speechbio/hoenigpdf/Hoenig.01.07.10.pdf](http://www.kc.frb.org/speechbio/hoenigpdf/Hoenig.01.07.10.pdf)
Questions?

Federal Reserve Bank of Kansas City – Omaha Branch

www.kansascityfed.org/omaha
Expanding Federal Reserve assets impacted excess reserves held at the Fed.

Source: Federal Reserve Board of Governors