Current Economic Outlook and Its Impact on Agriculture
Today’s Roadmap

- The Macro Economy and Agriculture
- Combating the Financial Crisis and Recession
- Concerns of Accommodative Monetary Policy
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 a slow recovery is expected.
Employment in rural areas has fared better than in metro areas.

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

- Pacific: Metro -5.5%, Rural -4.8%
- Mountain: Metro -4.1%, Rural -2.3%
- West North Central: Metro -2.8%, Rural -1.8%
- East North Central: Metro -7.2%, Rural -8.2%
- South Atlantic: Metro -5.6%, Rural -6.8%
- New England and Middle Atlantic: Metro -3.9%, Rural -3.3%
- East South Central: Metro -7.1%, Rural -7.4%
- West South Central: Metro -0.2%, Rural 1.7%

Calculations based on Bureau of Labor Statistics, LAUS data
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.
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.
Deleveraging slows the recovery in the near-term, but should help stabilize long-run growth.

Source: Federal Reserve Board of Governors
The trade balance has improved.
More robust growth in emerging and developing countries may provide opportunities for developed countries.

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
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
Today’s Roadmap

- The Macro Economy and Agriculture
- Combating the Financial Crisis and Recession
- Concerns of Accommodative Monetary Policy
The financial crisis has eased.

TED Spread

Basis Points

Source: Federal Reserve Board of Governors
To combat the financial crisis and recession, the Federal Reserve has expanded its balance sheet.
Despite a surging monetary base, inflation has been subdued.
The velocity of money has plummeted, which has suppressed inflation.
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
Conclusions

- The financial crisis and recession appear to be ending, but risks surround the recovery.
- An elevated unemployment rate and high debt levels may dampen the recovery, but a significant amount of monetary and fiscal stimulus is in the system.
- When will consumers and investors start “chasing”? 
For Registration Information, Please E-mail
2010AgSymposium@frbkc.org