Macro Economic Outlook for the Cattle 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?
Forecasts expect a slow U.S. recovery.

**Real GDP Growth**

Annualized percent change from previous quarter

- **Actual**
- **July Forecast**
- **March Forecast**

**Source:** Bureau of Economic Analysis and Blue Chip Economic Indicators
The financial crisis has eased.

TED Spread

Basis Points

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.

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).

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

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

Billion dollars

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

U.S. ag exports rebounded at the end of 2009, fueled by China.

U.S. Agricultural Exports

Billion dollars

Source: USDA
Short-run Federal debt spending helps stimulate the economy, but can pose long-run challenges.

U.S. Federal Debt as a Percent of GDP

Source: Congressional Budget Office, November 2009
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

Billion Dollars

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

Source: International Monetary Fund
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

GDP Trend Growth
Before the Financial Crisis

Source: International Monetary Fund

Federal Reserve Bank of Kansas City – Omaha Branch
Regional, Public and Community Affairs Division
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Sweden Gross Domestic Product

![Graph showing Sweden GDP with trend growth before and after the Financial Crisis.](source: International Monetary Fund)
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

Source: International Monetary Fund
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
Questions?

Federal Reserve Bank of Kansas City – Omaha Branch

www.kansascityfed.org/omaha