Macroeconomic Update and Implications for Agriculture
Recently, real GDP has risen, but forecasters expect just above trend growth.

Source: Bureau of Economic Analysis and Blue Chip Economic Indicators
Elevated delinquency rates and tight credit is one reason forecasters are expecting ‘slow’ growth.

Delinquency Rate on Commercial Real Estate Loans

Delinquency Rate on Agricultural Loans

Source: Federal Reserve Board of Governors
Another factor weighing on the recovery is the uncertainty of the housing rebound.

Home Foreclosure Inventory

Percent of loans serviced


Florida
U.S.
Texas

Source: Mortgage Bankers Association
An elevated unemployment rate is often cited as the biggest contributor to the expected ‘slow’ recovery.

U.S. Unemployment Rate

Source: Bureau of Economic Analysis and Bureau of Labor Statistics
Government transfer payments have supported personal income, which has helped consumption.

**Personal Income and Share of Government Transfer Payments**

- **Personal Income** (left axis)
- **Government Transfer Payments as a percent of Personal Income** (right axis)

Source: Bureau of Economic Analysis
2010 retail sales are above year-ago levels.

U.S. Monthly Retail and Food Sales

Billion dollars

Source: U.S. Census Bureau
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.

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

**Price of Jeans**

- Retail Price: Jan '09
- Discount Price: Jan '09
- Retail Price: Jan '09

**Price of Beef Tenderloin**

- Prime Beef Tenderloin: Mar '07, Mar '09
- Prime Beef Tenderloin: Mar '09
- Choice Beef Tenderloin: Mar '09

Business activity is expanding.

U.S. Manufacturing Activity Indices

Source: Institute of Supply Management
The value of the dollar has come off its financial crisis peak, and net exports are essentially flat.
In the short run, deficit spending provides stimulus to the economy. However, it can present long run challenges.

Federal Budget Deficit Projections

Source: Congressional Budget Office, January 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
Inflation is expected to remain contained.

Average Annual Inflation Expectations: Consumer Price Index

Source: Survey of Professional Forecasters
Excess reserves held at the Federal Reserve have surged.

Source: Federal Reserve Board of Governors
Will farmland values continue to be supported by farm and nonfarm demand?

Farmland Values to Rent Ratio

- Iowa Farmland Value to Rent
- East NE Irrigated Cropland Value to Rent
- S&P PE Ratio (Average since 1945)

Calculations based on Iowa State University and University of Nebraska data
Conclusions

- More positive signs are appearing in the economy
- But challenges exist (e.g., elevated unemployment rate, the U.S. economy deleveraging, monetary, and fiscal)
- How will exiting the accommodative monetary policy (U.S. and abroad) impact the recovery?
For More Information

Federal Reserve Bank of Kansas City – Omaha Branch

www.kansascityfed.org/omaha