Ag’s New Golden Era?
High Hopes, Uncertain Profits

The views expressed are those of the author and do not necessarily reflect the opinions of the Federal Reserve Bank of Kansas City or the Federal Reserve System.
The U.S. economy is projected to rebound in 2010.

Real GDP Growth

Annual percent change

Source: Bureau of Economic Analysis Federal Reserve Board of Governors
Nebraska Avoided the Worst of the Recession

Unemployment Rate
2007 Monthly Average

Source: Bureau of Labor Statistics
Nebraska Avoided the Worst of the Recession

Unemployment Rate
2008 Monthly Average

Source: Bureau of Labor Statistics
Nebraska Avoided the Worst of the Recession

Unemployment Rate
2009 Monthly Average

Source: Bureau of Labor Statistics
Economic growth will slow as consumers deleverage (save more, spend less).
Changing Government Policies.

- Financial markets and regulation
- Environmental policy
- Energy policy
- Health care policy
- Agricultural policy
- Rural development
- ??
Where are tomorrow’s consumers?

GDP Growth

Annual percent change, constant dollars

Source: International Monetary Fund, January 2010
U.S. ag exports rebounded at the end of 2009, fueled by China.

U.S. Agricultural Exports

Billion dollars

Source: USDA
Nebraska’s exports remain strong.

Nebraska Manufactured Exports

Billion dollars

Source: WISERTrade
To capture opportunities, Nebraska agriculture needs to be entrepreneurial.

Ski Nebraska
How can Nebraska ag entrepreneurs seize opportunities in emerging countries?

Households Owning a Refrigerator

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Households Owning a Microwave Oven

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Source: USDA, Euromonitor
Will transportation infrastructure be a competitive advantage for U.S. farmers?

Railroad Capacity

2007

Below capacityNear capacity At capacity Above capacity

2035 – without improvements

Source: U.S. Dept. of Transportation
Where Will Agriculture’s Next Generation of Leaders Emerge?

Age of U.S. Farmers

Percent 55 or older

Average age of the Nebraska’s principal operator in 2007: 56 years old

Source: USDA, ERS
Traditionally, farm booms are driven by demand.

Real U.S. Net Farm Income

Source: USDA
A decade of high crop profits?

Net Returns to Crop Production
(Gross Market Returns Less Variable or Cash Costs)
Dollars per acre (three year moving average)

Source: USDA
Variable costs exclude costs for labor and management, depreciation, land, taxes, insurance, and farm overhead.
Prices and profits, however, could be volatile.

U.S. Farm Level Crop Prices

Dollars per bushel

- Corn
- Wheat

Source: USDA
Variable costs exclude costs for labor and management, depreciation, land, taxes, insurance, and farm overhead.
High feed costs will stress livestock enterprises.

U.S. Livestock Prices and Breakeven Costs

Dollars per hundredweight

Source: USDA and Iowa State University
A 1970s Déjà vu

- High commodity prices
- Surging land values
- High energy prices
- Record agricultural exports
- Economic recession
- Rising federal government debt
- Low value of the dollar
- Large war expenditures
- Low real interest rates
- Livestock consolidation
The Federal Reserve has to shrink its balance sheet.
Use debt wisely so you do NOT repeat the 1980s

U.S. Debt Repayment Capacity Utilization

Farmers do not have enough income to service debt

Farmers do have enough income to service debt

Source: USDA
Conclusions

- Recovery opens new horizons for Nebraska agriculture.
- Any farm rebound will be driven by consumer demand.
- Will domestic or foreign consumers lead?
- High hopes for prosperity are not certain.
- Economic conditions are eerily similar to the 1970s.

Wall Street did not learn the lessons of the 1980s farm crisis. DID YOU?
For More Information

Federal Reserve Bank of Kansas City
Omaha Branch

www.kansascityfed.org/omaha