Where’s the Recovery?
The financial crisis has eased and the economic recovery is underway.

However, financial risks remain and the recovery could be sluggish.

A sluggish recovery will limit any short-term rebound in the agricultural sector.
The financial market crisis has eased.
Economic growth surges to end the year.

Real GDP Growth

Annualized percent change from previous quarter

Source: Bureau of Economic Analysis and Blue Chip Economic Indicators
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
The financial crisis has eased and the economic recovery is underway. However, financial risks remain and the recovery could be sluggish.
Home foreclosures continue to rise.

U.S. Foreclosure Rates by Mortgage Type

Percent of Loans Serviced

Source: Mortgage Bankers Association
Delinquency rates rise on commercial real estate loans.

Charge-off and Delinquency Rates on Commercial Real Estate Loans

Source: Federal Reserve Board of Governors
Commercial banks hold a lot of commercial mortgage debt.

Commercial Mortgage Debt Outstanding by Type of Institution

Billion dollars

Source: Federal Reserve Board of Governors
Today’s Roadmap

- The financial crisis has eased and the economic recovery is underway.
- However, financial risks remain and the recovery could be sluggish.
Deleveraging could contribute to a sluggish recovery as consumers save more and spend less.
Farmers learned the lessons of deleveraging in 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
Tax credits have spurred home sales.

New and Existing Single-Family Home Sales

Thousands, 3 month moving average

Source: Census Bureau and National Association of Realtors
Consumer spending remains soft.

U.S. Monthly Retail and Food Sales

Billion dollars

Source: U.S. Census Bureau
High unemployment rates could dampen the recovery.

U.S. Unemployment Rate

Source: Bureau of Economic Analysis
Job openings and hiring will need to rebound before unemployment falls.
Growth at the end of 2009 was driven by inventory adjustments.

Inventory-to-Sales Ratio

Source: Federal Reserve Board of Governors
Despite low inventories, uncertainty limits business investment.

U.S. Non-residential Investment

Percent change from year ago


Source: Census Bureau
Federal deficits are expected to rise.

Federal Budget Deficit Projections

Billion Dollars

2007 2008 2009 2010 2011

Source: Congressional Budget Office, January 2010
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
Will emerging countries lead the recovery?

GDP Growth

Annual percent change, constant dollars

Source: International Monetary Fund, January 2010
Can stronger global economies and a weaker dollar spur further improvements in the trade balance?

Real Net Exports of Goods and Services

Value of the Dollar

Billion dollars (2005=100)  |  Index
--- | ---
400 | 120
300 | 110
200 | 100
100 | 90
0 | 80
-100 | 70
-200 | 60
-300 | 50
-400 | 40
-500 | 30
-600 | 20
-700 | 10
-800 | 0

Value of the Dollar (right axis)

Real Net Exports (left axis)

Source: Bureau of Economic Analysis
Risks for Agriculture

- Credit – will funds be available for agriculture?
Agricultural bank returns are still strong.

Average Return on Assets (Third Quarter)

Source: Board of Governors of the Federal Reserve and FDIC

Agricultural banks are banks with agricultural loans accounting for 14% or more of their loan portfolio.
Small commercial banks are banks with less than $500 million in assets.
Loan delinquency rates and charge-offs edge up.

Charge-off and Delinquency Rates on Agricultural Loans

Source: Federal Reserve Board of Governors
Risks for Agriculture

- Credit – will funds be available for agriculture?
- Profits – will demand and profits rebound if the recovery is sluggish?
Will export activity rebound in 2010?

U.S. Agricultural Exports

Billion dollars

World Total (Left Axis)
China and Hong Kong (Right Axis)

Source: USDA
Fewer losses in livestock sectors will support U.S. farm income.

U.S. Livestock Prices and Breakeven Costs

Dollars per hundredweight

Breakeven Costs

Cattle Price

Hog Price

Source: USDA and Iowa State University
Risks for Agriculture

- Credit – will funds be available for agriculture?
- Profits – will demand and profits rebound if the recovery is sluggish?
- Leverage – will farmers limit debt growth?
Livestock sectors are more highly leveraged.

Debt-to-Asset Ratio by Farm Production Sector

Debt-to-Asset Ratio

Source: USDA
Risks for Agriculture

- Credit – will funds be available for agriculture?
- Profits – will demand and profits rebound if the recovery is sluggish?
- Leverage – will farmers limit debt growth?
- Collateral – will farmland values hold?
After topping in 2009, what direction will farmland values follow?

Cropland Values in Federal Reserve Districts

Dollars per acre

Minneapolis District
Kansas City District
Dallas District

Source: Federal Reserve Banks of Kansas City, Minneapolis, and Dallas
Risks for Agriculture

- Credit – will funds be available for agriculture?
- Profits – will demand and profits rebound if the recovery is sluggish?
- Leverage – will farmers limit debt growth?
- Collateral – will farmland values hold?
- Counterparties – how do producers identify, document, and manage counterparty risk?
Risks for Agriculture

- Credit – will funds be available for agriculture?
- Profits – will demand and profits rebound if the recovery is sluggish?
- Leverage – will farmers limit debt growth?
- Collateral – will farmland values hold?
- Counterparties – how do producers identify, document, and manage counterparty risk?
- Interest rates – when and how high will interest rates rise during the recovery?
Interest rates remain low.

Average Interest Rates
(Tenth Federal Reserve District)

Source: Federal Reserve Bank of Kansas City
The U.S. is experiencing disinflation.

Source: Bureau of Labor Statistics
The U.S. has not experienced 1930’s deflation.

Growth in Monetary Aggregates

Index (Jan 1930 = 100)

Index (Jan 2007 = 100)

Monetary Base

M2

Source: Federal Reserve Bank of St. Louis, Friedman and Schwartz

Source: Federal Reserve Board of Governors

Federal Reserve Bank of Kansas City – Omaha Branch
Regional, Public and Community Affairs Division
To combat the financial crisis and recession, the Federal Reserve has expanded its balance sheet.
When will interest rates rise?

Fed Funds Rate and Futures

Percent

Fed Funds Effective
Fed Funds Intended
Fed Funds Futures (Aug. 7, 2009)
Fed Funds Futures (Oct. 19, 2009)
Fed Funds Futures (November 30, 2009)
Fed Funds Futures (Jan 15, 2010)

Source: Federal Reserve Board of Governors and CME Group
Conclusions

- Economic and financial conditions have improved dramatically in the past year.
- Still, risks remain in a sluggish recovery.
- The U.S. economy is going through a deleveraging process, which takes time.
- U.S. agriculture is not immune to macroeconomic conditions.
Farming, Finance, and the Global Marketplace

JUNE 8-9, 2010
Federal Reserve Bank of Kansas City
Kansas City, Missouri

For Registration Information, Please E-mail
2010AgSymposium@kc.frb.org