Macro Economic Outlook with Implications for Agriculture
The Federal Reserve System

[Map of the United States with Federal Reserve Banks indicated by different colors and regions labeled with numbers 1-12, including cities and states such as Seattle, Chicago, New York, and Miami.]
The U.S. economy is projected to rebound in 2010.
Rising unemployment rates will limit the recovery.
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Unemployment Rate
2008 Monthly Average

Source: Bureau of Labor Statistics
Rising unemployment rates will limit the recovery.

Unemployment Rate
2009 Monthly Average

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

Real Household Debt Outstanding

Source: Federal Reserve Board of Governors
Economic growth will slow as consumers deleverage (save more, spend less).

U.S. Personal Savings Rate

Source: Federal Reserve Bank of St. Louis
Job openings and hiring will need to rebound before unemployment falls.

Layoffs, Hiring, and Job Openings

Source: Bureau of Labor Statistics
**Businesses are starting to replace IT equipment.**

U.S. Business Investment

Percent change from year ago

- **Equipment and Software**
- **Structures**

Source: Bureau of Economic Analysis
Changing Government Policies.

- Financial markets and regulation
- Environmental policy
- Energy policy
- Health care policy
- Agricultural policy
- Rural development
- ???
Federal debt is on the rise.

U.S. Debt as a Percent of GDP

Source: Congressional Budget Office, November 2009
Will emerging markets 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?

Broad Value of the Dollar
(Price-adjusted)

Index (Mar 1973=100)

Jan-73 Jan-78 Jan-83 Jan-88 Jan-93 Jan-98 Jan-03 Jan-08

Source: Federal Reserve Board of Governors
Risks to the Agricultural Sector

- Will a sluggish recovery limit a farm rebound?
Traditionally, farm booms are driven by demand.

Real U.S. Net Farm Income

Billion dollars

Source: USDA
Weak recoveries limit the rebound in protein consumption.

U.S. Per Capita Expenditures on Beef, Pork, Poultry, and Milk Products

Percent change

- One Year Prior to Recession
- During Recession
- One Year After 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.
U.S. ag exports rebounded at the end of 2009, fueled by China.

U.S. Agricultural Exports

Billion dollars

Source: USDA
How can Nebraska ag entrepreneurs seize opportunities in emerging countries?

Households Owning a Refrigerator

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<th>2002</th>
<th>2005</th>
<th>2008</th>
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Households Owning a Microwave Oven

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Source: USDA, Euromonitor
Risks to the Agricultural Sector

- Will a sluggish recovery limit a farm rebound?
- Will fragile financial markets limit credit?
Financial market stress has eased, but commercial real estate loans pose a risk.

Charge-off and Delinquency Rates on Commercial Real Estate Loans

Source: Federal Reserve Board of Governors
Commercial banks provided debt capital to U.S. agriculture.

Total Volume of Non-Real Estate Loans to Farmers From Commercial Banks

Billions of Dollars

Source: Federal Reserve Agricultural Finance Databook
Loan delinquency rates and charge-offs edge up.

Charge-off and Delinquency Rates on Agricultural Loans

Source: Federal Reserve Board of Governors
Risks to the Agricultural Sector

- Will a sluggish recovery limit a farm rebound?
- Will fragile financial markets limit credit?
- Will farmland values hold?
After topping in 2009, what direction will farmland values follow?

Irrigated and Non-irrigated Cropland Values
(Tenth Federal Reserve District)

Percent change from year ago

Source: Federal Reserve Banks of Kansas City
Nonfarm demand for farmland has fallen.

Reasons for Farmland Purchases by Nonfarmers

Percent of respondents*

Source: Federal Reserve Bank of Kansas City

*Respondents were asked the most common reasons for farmland purchases by individuals other than farmers. Respondents could choose more than one response and therefore percentages will not sum to 100.
Risks to the Agricultural Sector

- Will a sluggish recovery limit a farm rebound?
- Will fragile financial markets limit credit?
- Will farmland values hold?
- A 1970s déjà vu?
  - Two missing pieces: debt and inflation
A 1970s Déjà vu

High commodity prices

Surging land values

High energy prices

Record agricultural exports

Economic recession

Large war expenditures

Rising federal government debt

Low value of the dollar

Livestock consolidation

Low real interest rates
In general, farm debt remains at historical levels.

U.S. Farm Debt Repayment Capacity Utilization

- Farmers do not have enough income to service debt
- Farmers do have enough income to service debt

Source: USDA
Two Inflationary Perspectives

- Quantity theory of money
  - Money * Velocity = Price * Quantity

- The Definition of Inflation
  - Too Much Money Chasing Too Few Goods

- Expectations on Inflation Depend on Your Focus
  - “Chasing” or velocity which has fallen or ...
  - “Too much money” which has risen sharply.
Velocity has fallen during the recession.
The Federal Reserve has to shrink its balance sheet.
Inflation remains well anchored.

Consumer Price Inflation Expectations

Source: Survey of Professional Forecasters
Conclusions

- A sluggish economic recovery is underway.
- Consumer demand will shape the recovery.
- Will domestic or foreign consumers lead?
- The pace of consumption will shape inflation.
- Ag conditions are strikingly similar to the 1970s.
- Have Americans learned the lessons of excess debt?