The Outlook for Agribusiness and Its Impact on the Global Economy

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.
Opportunities and Challenges for Agribusinesses

**Opportunities**

1) Food demand has rebounded
2) U.S. agricultural exports are rising
3) U.S. producers are enjoying banner profits
4) Farm capital expenditures are up
5) Financing costs are low

**Challenges**

1) Elevated unemployment rate
2) Risks to the global recovery
3) Volatility has risen in commodity markets
4) Will high ag commodity prices last?
5) Removing monetary stimulus
Opportunity

U.S. food expenditures have rebounded.

U.S. Retail Sales at Grocery Stores and Restaurants

Source: Census Bureau
An elevated unemployment rate weighs on consumer demand.

Source: Bureau of Economic Analysis and Bureau of Labor Statistics
U.S. agricultural exports have rebounded.

Real U.S. Agricultural Exports

Billion dollars (constant 2010 dollars)

- World Total (Left Scale)
- Asia (Right Scale)

Source: USDA
A growing world population boosts international food demand, but what will they eat?

Households Owning a Refrigerator

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Source: USDA, Euromonitor

Households Owning a Microwave Oven

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Source: USDA, Euromonitor
Inflation is expected to be flat in most emerging and developing countries. One notable exception is China.
What does the Eurozone Sovereign Debt Crisis mean for the U.S. economy and agriculture?

Source: Bloomberg data starting 1/4/10 and ending 11/30/10. U.S. is priced to Euros.
Stronger farm incomes boost agricultural equipment sales.

U.S. Real Net Farm Income and Agricultural Equipment Sales

Percent change from previous year

Source: Association of Equipment Manufacturers and USDA
* Tractor Sales data are year-to-date through October and Net Farm Income forecast for 2010 dated November 30, 2010.
Managed money and swap dealers are back in the market.

[Graph showing average net long contracts as percent of open interest with two indices: Spot Commodity Prices - Foodstuffs (Left Scale) and Net Long Positions (Right Scale).]

Source: CFTC and Commodity Research Bureau
If other countries adopt U.S. technology, global agricultural production could surge.
A steep yield curve provides opportunities for low cost financing.

U.S. Treasury Yield Curve Rates

Source: Federal Reserve Board of Governors
When the Federal Reserve decides to exit from quantitative easing (QE) policy, agribusinesses may face challenges.

Federal Reserve Balance Sheet: Assets

Billion Dollars

- Fed Agency Debt MBS Purchases
- Liquidity to Key Credit Markets
- Lending to Financial Institutions
- Long Term Treasury Purchases
- Traditional Security Holdings

Source: Federal Reserve Bank of Cleveland
Questions?

Federal Reserve Bank of Kansas City – Omaha Branch

www.kansascityfed.org/omaha