Protein Complex Outlook: Demand Side
Today’s Roadmap

- Protein demand should be heavily influenced by the recovery
- Recovery is at hand but slower than expected
  - Financial Crisis and Impact on Credit
  - Unemployment and Slipping Demand
- Fiscal Challenges for the U.S. Government
- Monetary Challenges for the Federal Reserve
- What lies ahead?
Growth over the last four quarters points to recovery, but it is slower than expected.

Real GDP Growth

Annualized percent change from previous quarter

Source: Bureau of Economic Analysis and Blue Chip Economic Indicators
The financial crisis has subsided.

TED Spread

Basis Points

Source: Federal Reserve Board of Governors
While CRE delinquency rates remain elevated, agriculture has held up better.

**Delinquency Rate on Commercial Real Estate Loans**

**Delinquency Rate on Agricultural Loans**

Source: Federal Reserve Board of Governors
While credit remains tight, fewer lenders are raising standards.

Diffusion Index

Credit Standards for U.S. Commercial Real Estate Loans

Collateral Requirements for Tenth District Agricultural Loans

Source: Federal Reserve Board of Governors and Federal Reserve Bank of Kansas City
Unemployment remains elevated.

U.S. Unemployment Rate (U3)

Source: Bureau of Economic Analysis and Bureau of Labor Statistics
Traditionally, surging demand leads to spikes in net farm income.

Real U.S. Net Farm Income

Billion dollars

Source: USDA

Federal Reserve Bank of Kansas City – Omaha Branch
Regional, Public and Community Affairs Division
Given the severity of this recession, could the beef industry learn something from high fashion?

### Price of Jeans

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### Price of Beef Tenderloin

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What does the European sovereign debt crisis mean for the U.S. economy and agriculture?

![Five-year Sovereign Credit Default Swap Spreads](image)

**Source:** Bloomberg data starting 1/4/10 and ending 5/12/10. U.S. is priced to Euros.
Protein exports are rising.

U.S. Protein Exports (Beef, Dairy, Pork, and Poultry)
3-month moving average

Source: USDA
Short-run Federal debt spending helps stimulate the economy, but can pose long-run challenges.
The Federal Reserve’s exit strategy does matter for agriculture.

Federal Reserve Balance Sheet: Assets

Billion Dollars

- Short-term Lending to Financial Firms
- Rescue Operations
- Operations Focused on Broader Credit Conditions
- Other Assets
- Treasury Portfolio

Source: Federal Reserve Board of Governors
Excess reserves held at the Fed have surged.

Excess Reserves of Depository Institutions

Source: Federal Reserve Board of Governors
Inflation expectations remain subdued.

U.S. Inflation Expectations

Source: Survey of Professional Forecasters
Historically, when monetary policy tightens, funds available to meet farm loan demand falls.

Tenth District Farm Loan Demand and Funds Availability

Source: Federal Reserve Board of Governors and Federal Reserve Bank of Kansas City
Questions?

Federal Reserve Bank of Kansas City – Omaha Branch

www.kansascityfed.org/omaha