Agriculture in the Recovery
The U.S. economy is projected to rebound in 2010.
U.S. consumers are spending money.

U.S. Monthly Retail and Food Sales

Source: U.S. Census Bureau
Corporate profits and business investment are beginning to rebound.
After dramatic improvements since 2007, U.S. net exports have stabilized.

Source: Bureau of Economic Analysis and Federal Reserve Board of Governors
How will surging federal debt levels affect economic conditions long-term?

U.S. Debt as a Percent of GDP

Source: Congressional Budget Office
Agriculture in the Recovery

- The economic recovery is underway.
- What does it mean for agriculture?
U.S. food expenditures have rebounded.

U.S. Retail Sales at Grocery Stores and Restaurants

Percent change from year ago

Source: USDA
U.S. agricultural exports have rebounded.

Real U.S. Agricultural Exports
(January to May data)

Billion dollars (constant 2009=100 dollars)

Source: USDA
Robust population and income gains underpin demand.

- World GDP growth strongest in developing countries.
- In 2008, almost half of the world’s population earns less than $2.50 per day.
- At $2.50 per day, most hunger problems are solved and people start eating processed foods.
- Household amenities, such as microwave ovens, also shift food demand.
What happens to prices if crude oil demand outpaces supply?

World Crude Oil and Liquid Fuels Balance

Million barrels per day

Source: Energy Information Administration
What is the future of bio-fuels?

- Ethanol profits are expected to remain at the cost of capital.
  - No new plants

- Economic profits go to scarce resources.
  - Are ethanol plants a scarce resource?
  - Who keeps the blenders credit?

- Can ethanol survive without government subsidies?
  - Ethanol depends on government mandates and tariffs.

- Public benefits of ethanol: Do consumers believe it or care?

Source: Iowa State University
Farmland values are rising again.

Nonirrigated Cropland Values
(Tenth Federal Reserve District)

Source: Federal Reserve Bank of Kansas City
Is a farmland bubble brewing? Are values too high or rents too low?

Farmland Values to Rent Ratio

Ratio

- Iowa Farmland Value to Rent
- East NE Irrigated Cropland Value to Rent
- S&P PE Ratio (Average since 1945)

Calculations based on Iowa State University and University of Nebraska data
Conclusions

- A modest economic recovery is underway.
- Agriculture is enjoying a rebound.
- Will rising populations and income in developing countries spur further gains?
- But risks remain in ...
  - Energy and ethanol
  - Farmland values and capitalization rates
- The global economy is dynamic, will U.S. agriculture change with it?
Federal Reserve Bank of Kansas City
Omaha Branch

The Main Street Economist:
a bi-monthly publication discussing agriculture and rural America

Agricultural Credit Survey:
a quarterly survey of agricultural credit conditions in the Tenth Federal Reserve District

Coming this fall - Agricultural Finance Databook:
a quarterly summary of national agricultural finance conditions

For Additional Information on
Agricultural and Rural Issues

www.kansascityfed.org/omaha