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A Look at Current Economic Conditions and Impacts on Ag Producers and Rural Communities



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.

Today's Roadmap

- **The Recession Intensifies**
 - A housing market correction spreads to financial markets.
 - A financial crisis fuels the recession.
- **Will Recent Financial Market Improvements Persist?**
- **What is the Impact on Agricultural Credit?**



FOMC Statement

(January 28, 2009)

- Information received since the Committee met in December suggests that the ***economy has weakened further.***
- Industrial production, housing starts, and employment have ***continued to decline steeply,***
- as consumers and businesses have ***cut back spending.***
- Furthermore, global demand appears to be ***slowing significantly.***
- Conditions in ***some financial markets have improved,*** in part reflecting government efforts to provide liquidity and strengthen financial institutions;
- nevertheless, credit conditions for households and firms ***remain extremely tight.***
- The Committee anticipates that a gradual recovery in economic activity will begin later this year, but the downside risks to that outlook are significant.



Federal Reserve Economic Projections

(January 28, 2009)

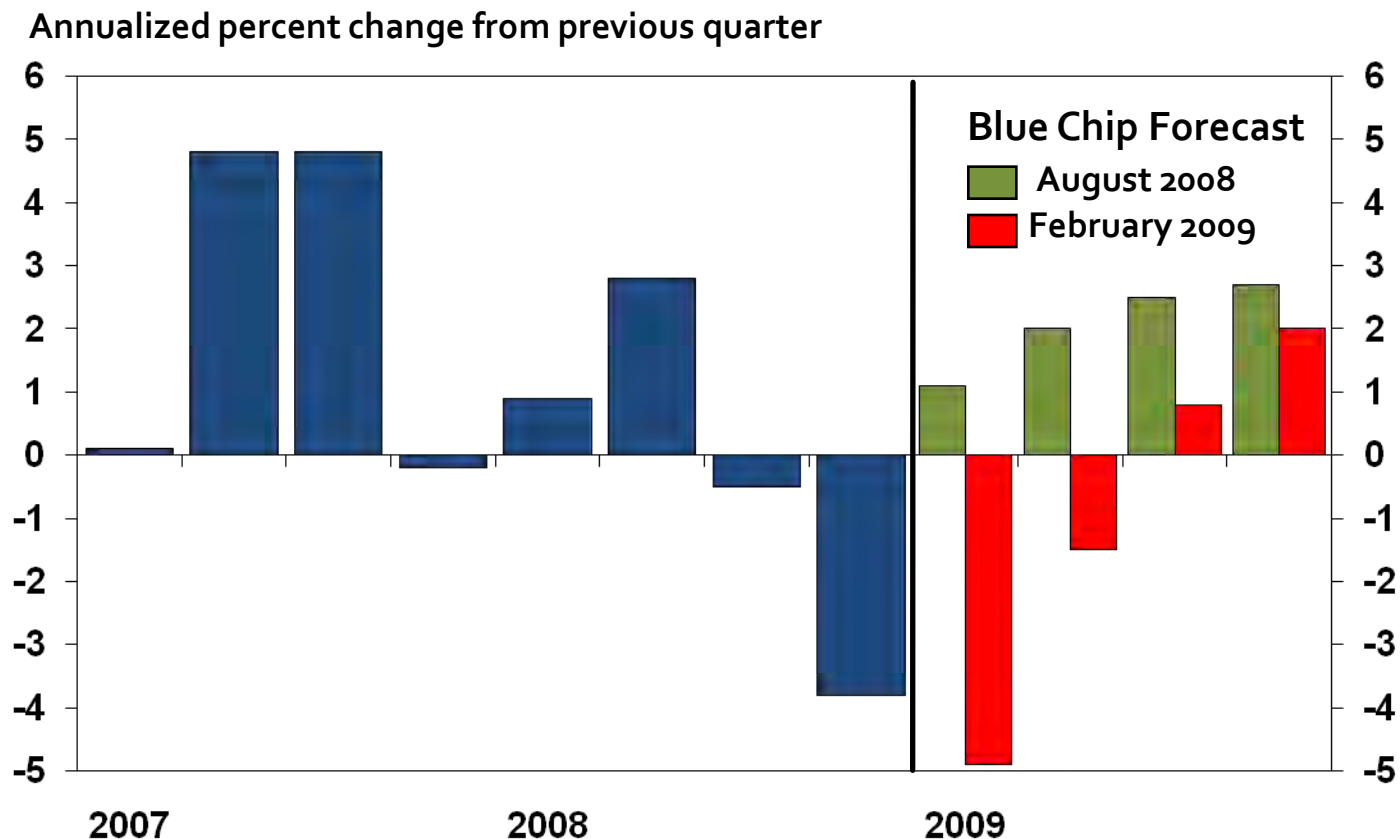
	2009	2010	2011	Longer Run
Real GDP Growth	-1.3 to -0.5	2.5 to 3.3	3.8 to 5.0	2.5 to 2.7
October '08 projection	-.2 to 1.1	2.3 to 3.2	2.8 to 3.6	
Unemployment Rate	8.5 to 8.8	8.0 to 8.3	6.7 to 7.5	4.8 to 5.0
October '08 projection	7.1 to 7.6	6.5 to 7.3	5.5 to 6.6	
PCE Inflation	0.3 to 1.0	1.0 to 1.5	0.9 to 1.7	1.7 to 2.0
October '08 projection	1.3 to 2.0	1.4 to 1.8	1.4 to 1.7	

Source: Summary of Economic Projections, Minutes of the Federal Open Market Committee, January 27-28, 2009.
Available at www.federalreserve.gov



The U.S. economy is in recession.

Real GDP Growth



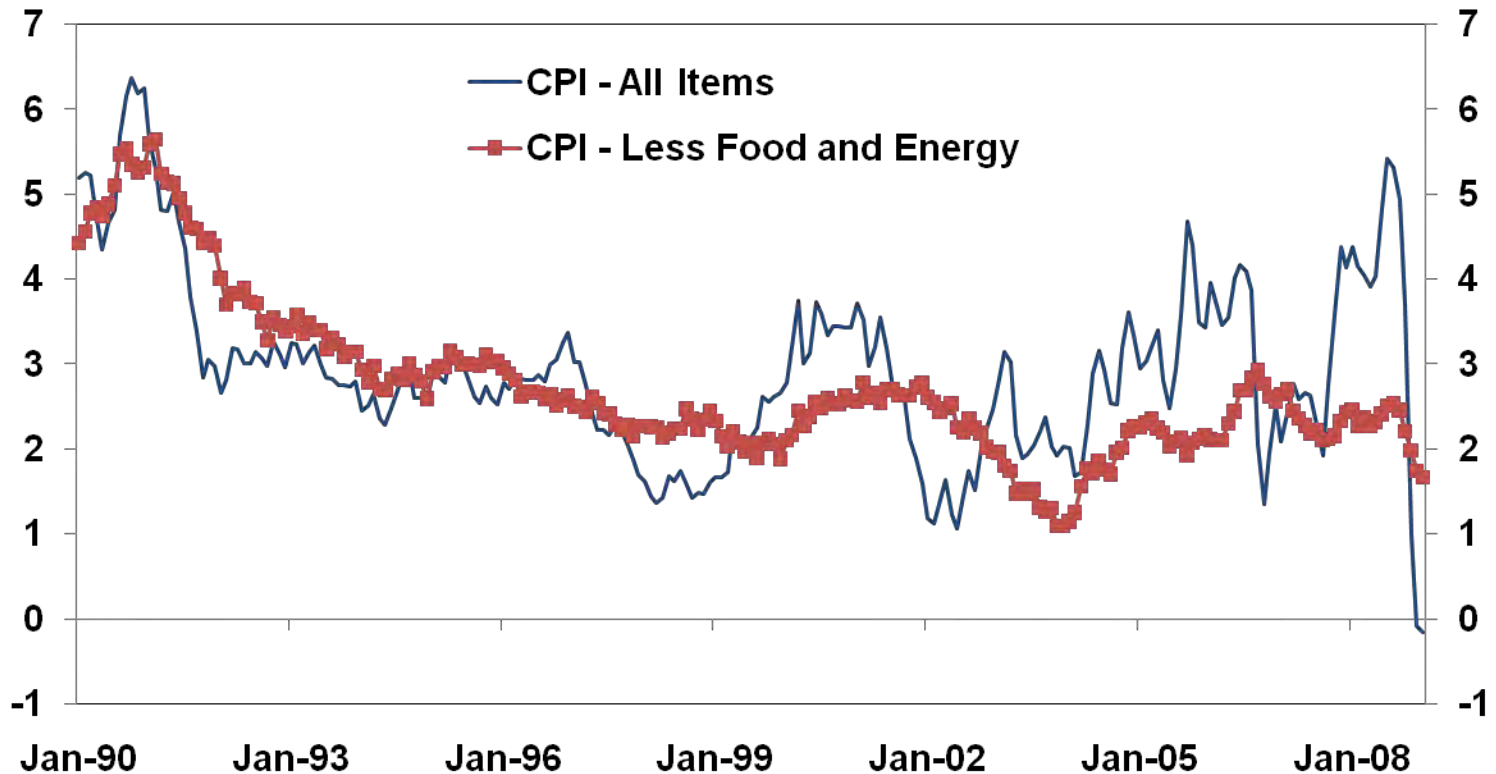
Source: Bureau of Economic Analysis and Blue Chip Economic Indicators



Inflationary pressures have eased.

Consumer Price Inflation

Year over year percent change



Source: Bureau of Labor Statistics



Changes are concentrated in energy goods.

Category	Relative Importance (Percent)	Annualized Rate 3 months ending in October 2008	Annualized Rate 3 months ending in January 2009
Housing	42.4	-0.4%	-0.3%
Shelter	32.5	1.6%	1.4%
Fuel Oil	4.7	-48.7%	-60.6%
Gas and Electric	5.1	-14.5%	-6.6%
Transportation	17.7	-21.3%	-43.0%
Motor Vehicles	7.2	-6.5%	-2.7%
Motor Fuel	5.5	-46.8%	-86.3%

Source: Bureau of Labor Statistics



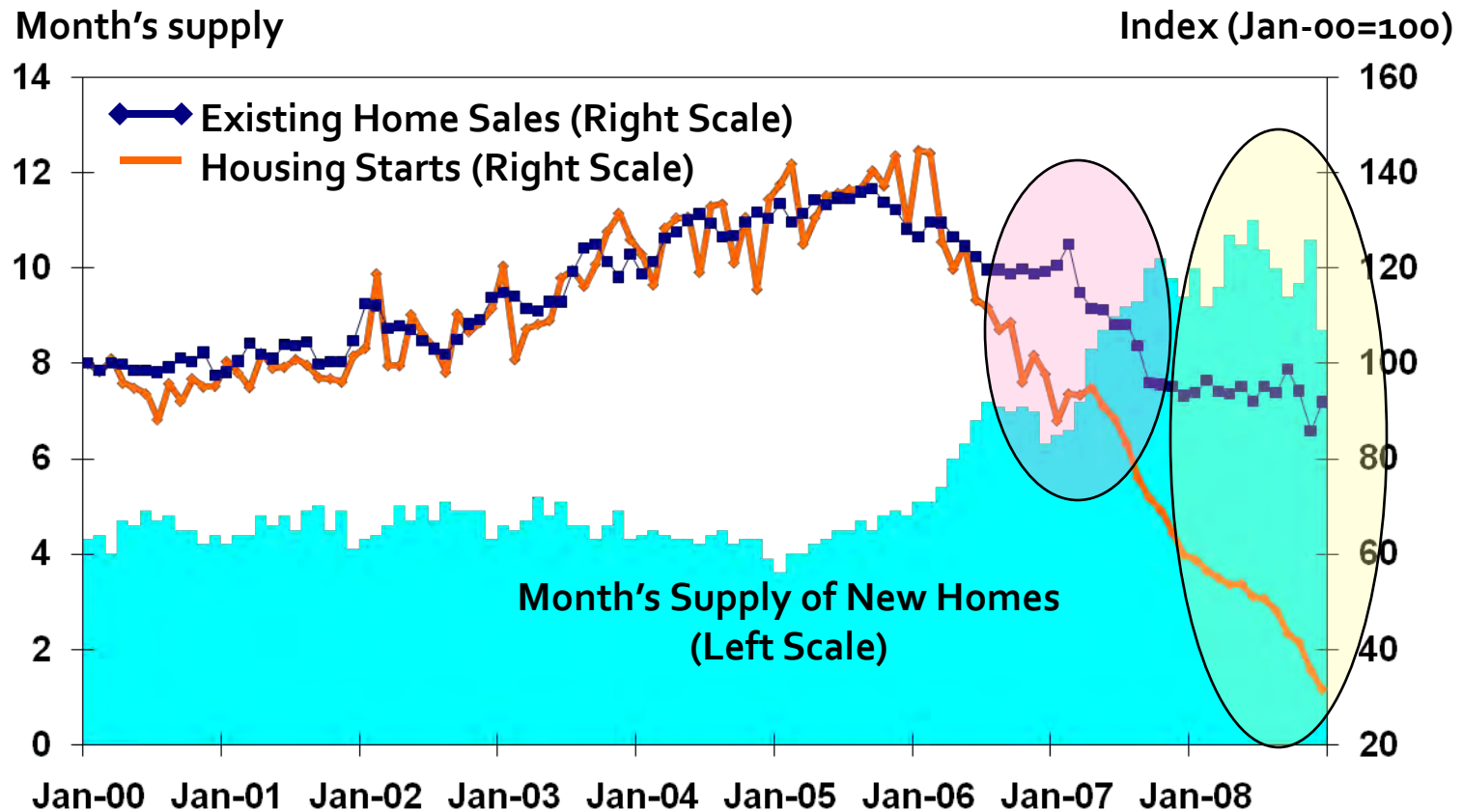
The Recession Intensifies

- **The housing correction leads to a financial crisis.**



It started in the housing sector.

Home Starts, Sales and Inventories



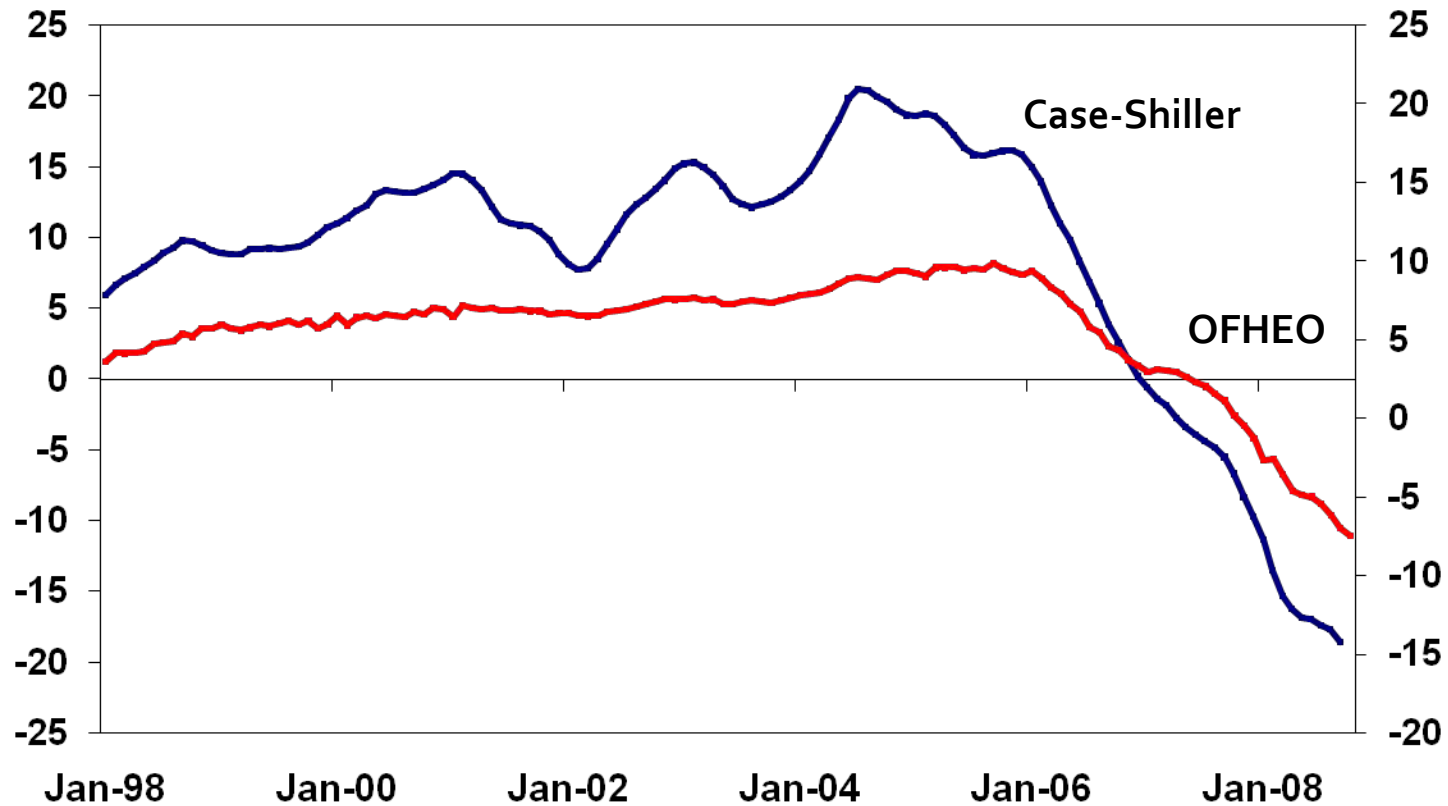
Source: Dept. of Commerce, National Association of Realtors



Nationally, home prices are falling.

U.S. Home Price Indexes

Year over year percent change



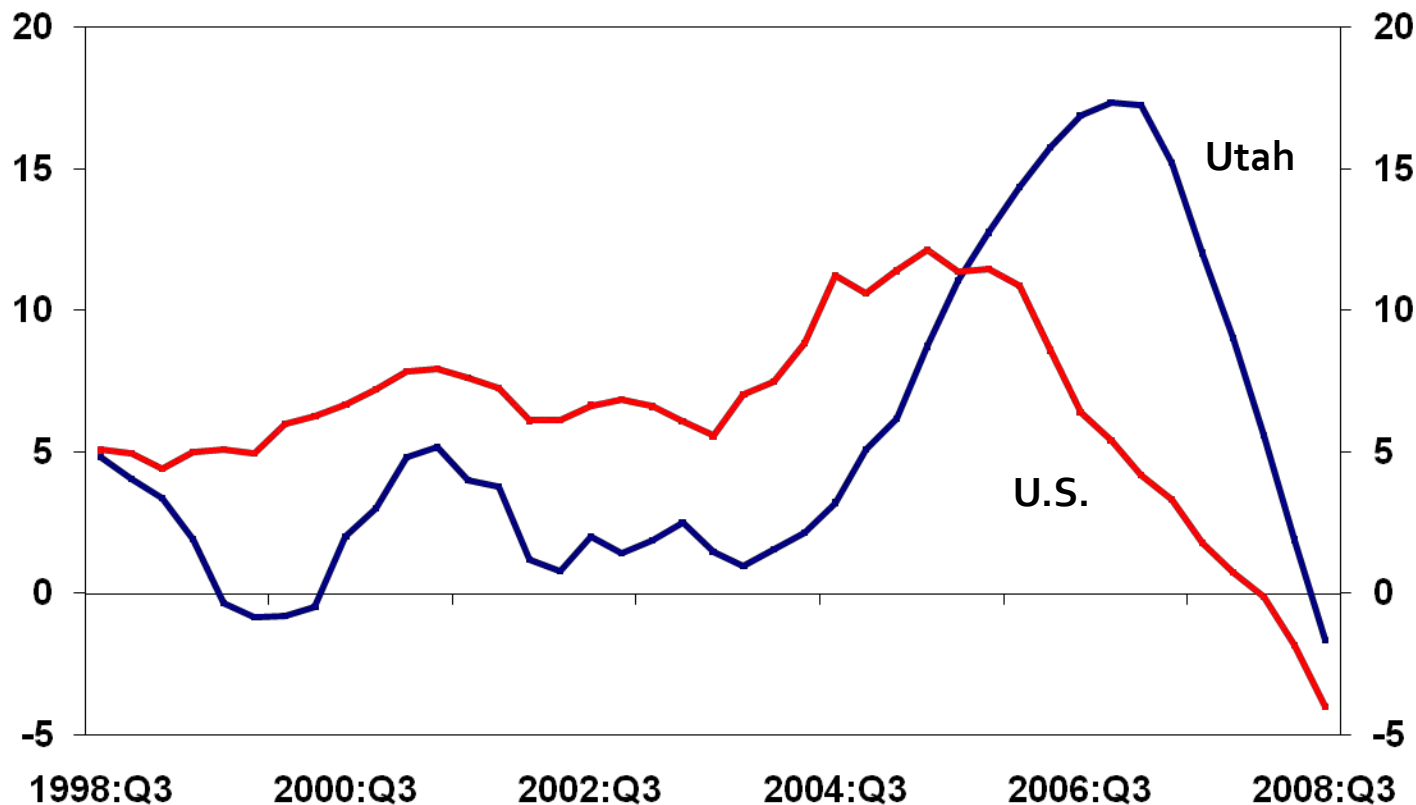
Source: OFHEO and Standard & Poor's



More modest declines in Utah, especially rural Utah.

Repeat-Sales Home Price Index

Year over year percent change

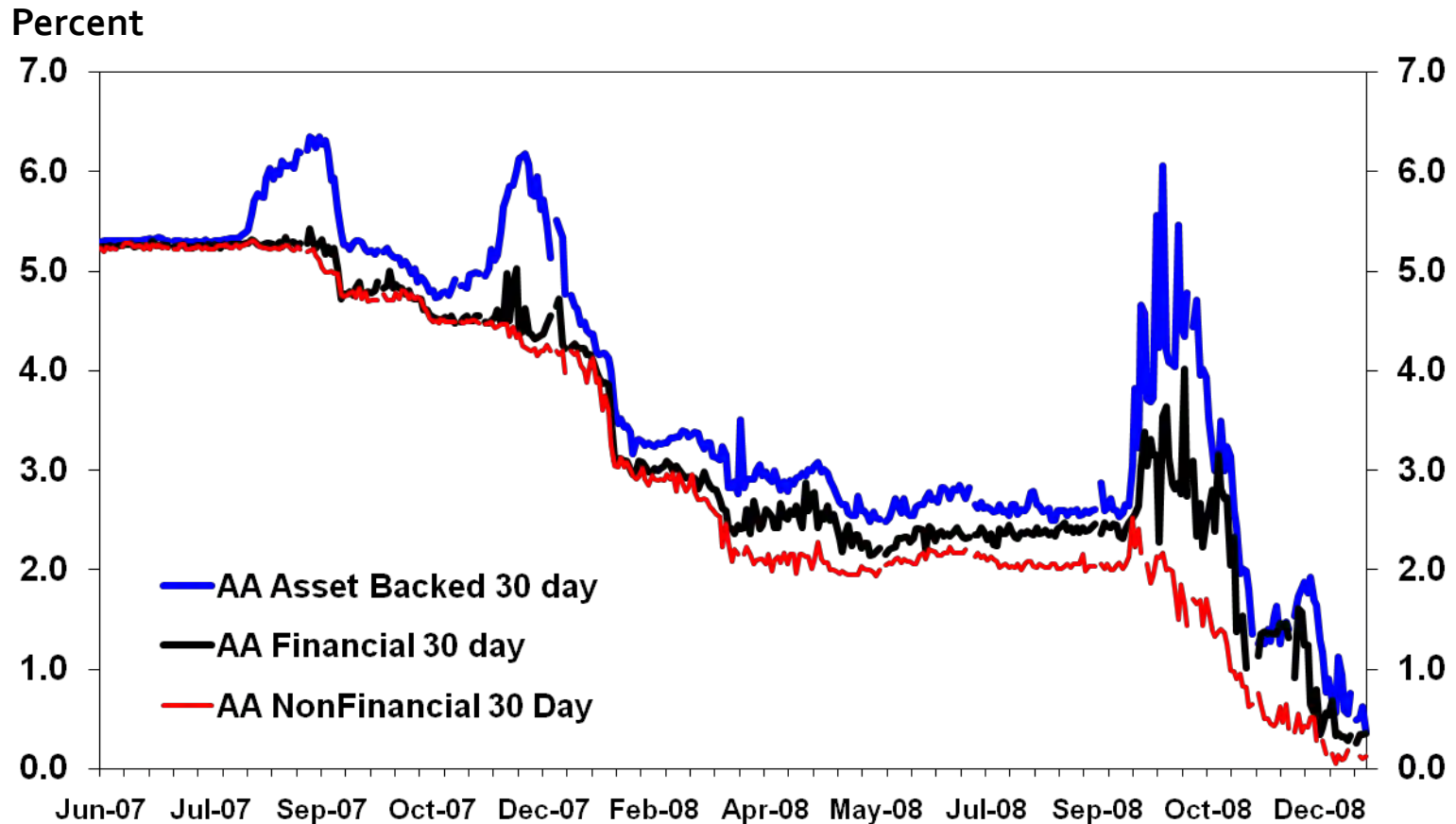


Source: FHFA



Mortgage and financial industry commercial paper markets seized.

Commercial Paper Rates

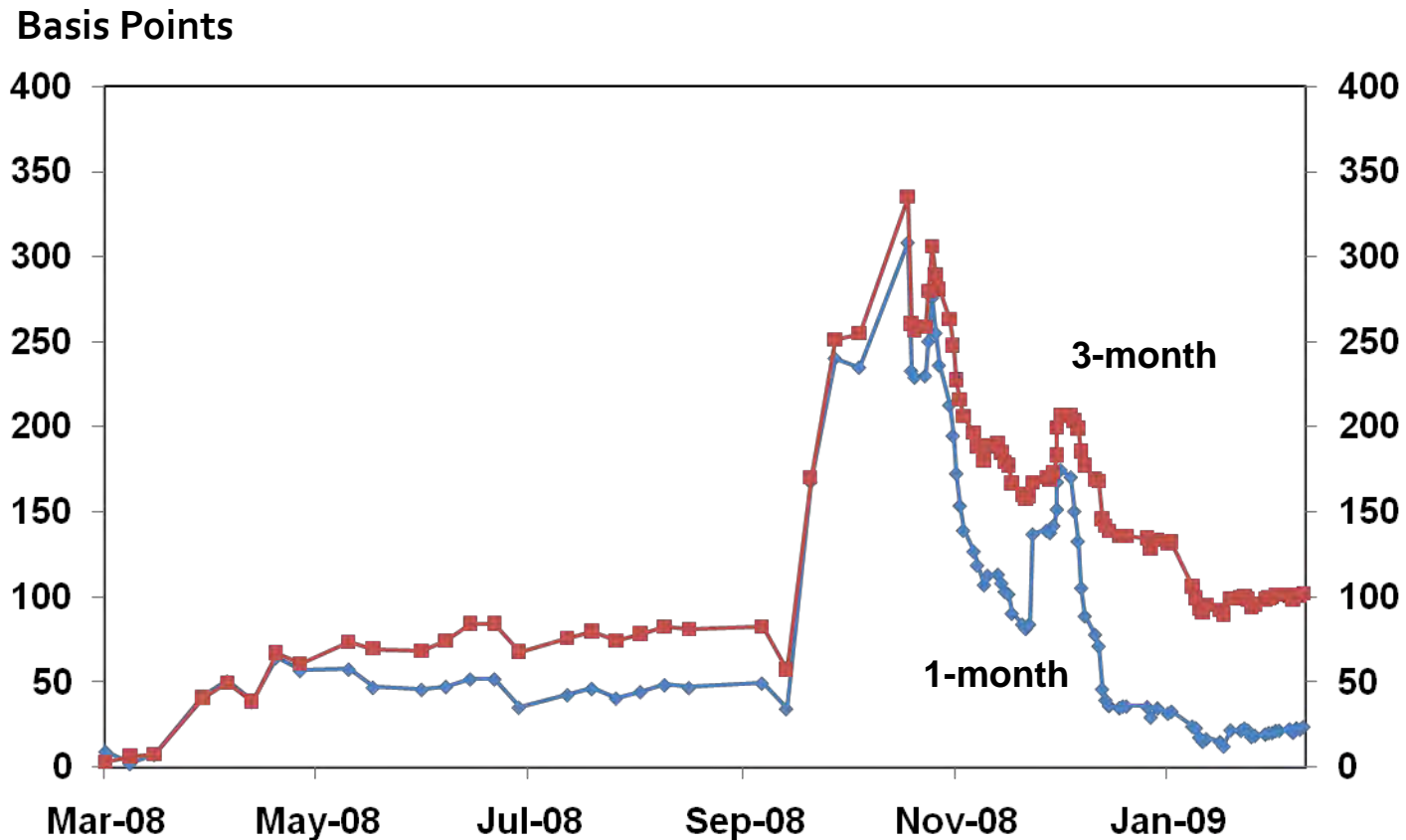


Source: Federal Reserve Board of Governors



Financial market stress remains elevated.

LIBOR-OIS Spread

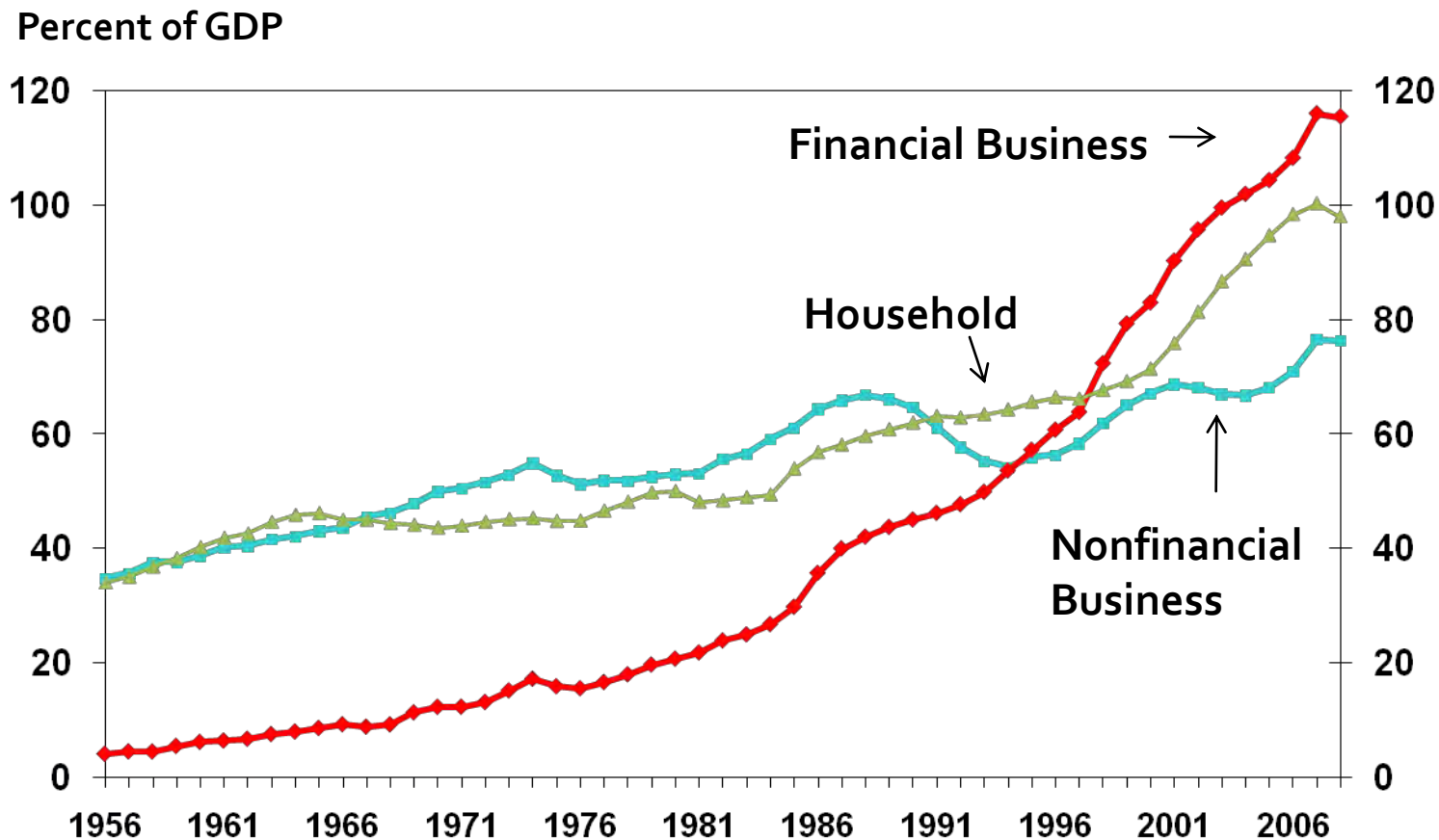


Source: Federal Reserve Board of Governors



Falling asset values with high leverage is a recipe for bankruptcy.

Domestic Debt Outstanding



Source: Federal Reserve Board of Governors



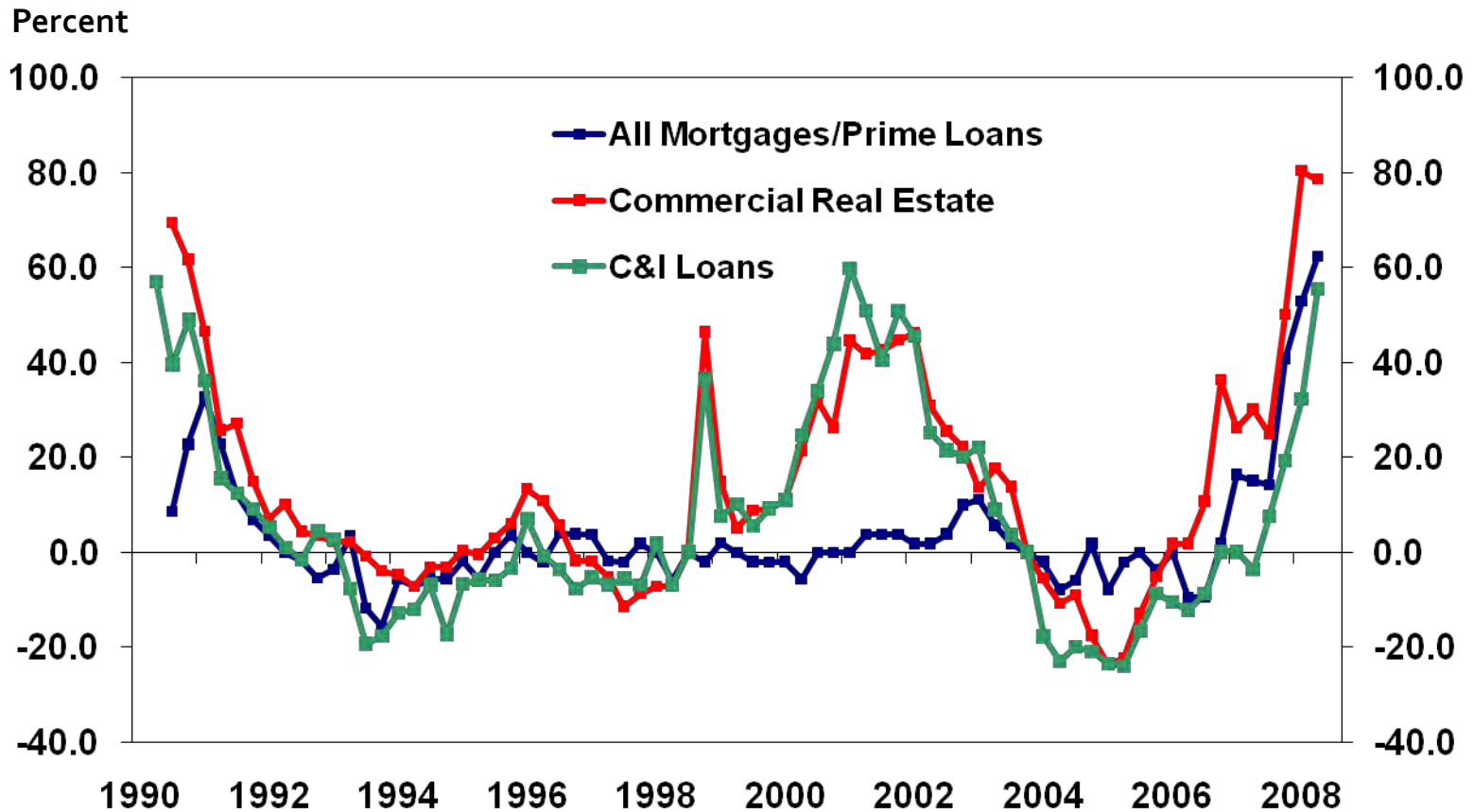
The Recession Intensifies

- **The housing correction leads to a financial crisis.**
- **Business activity plummets.**



Banks have tightened credit standards.

Net Percent of Domestic Banks Tightening Credit Standards

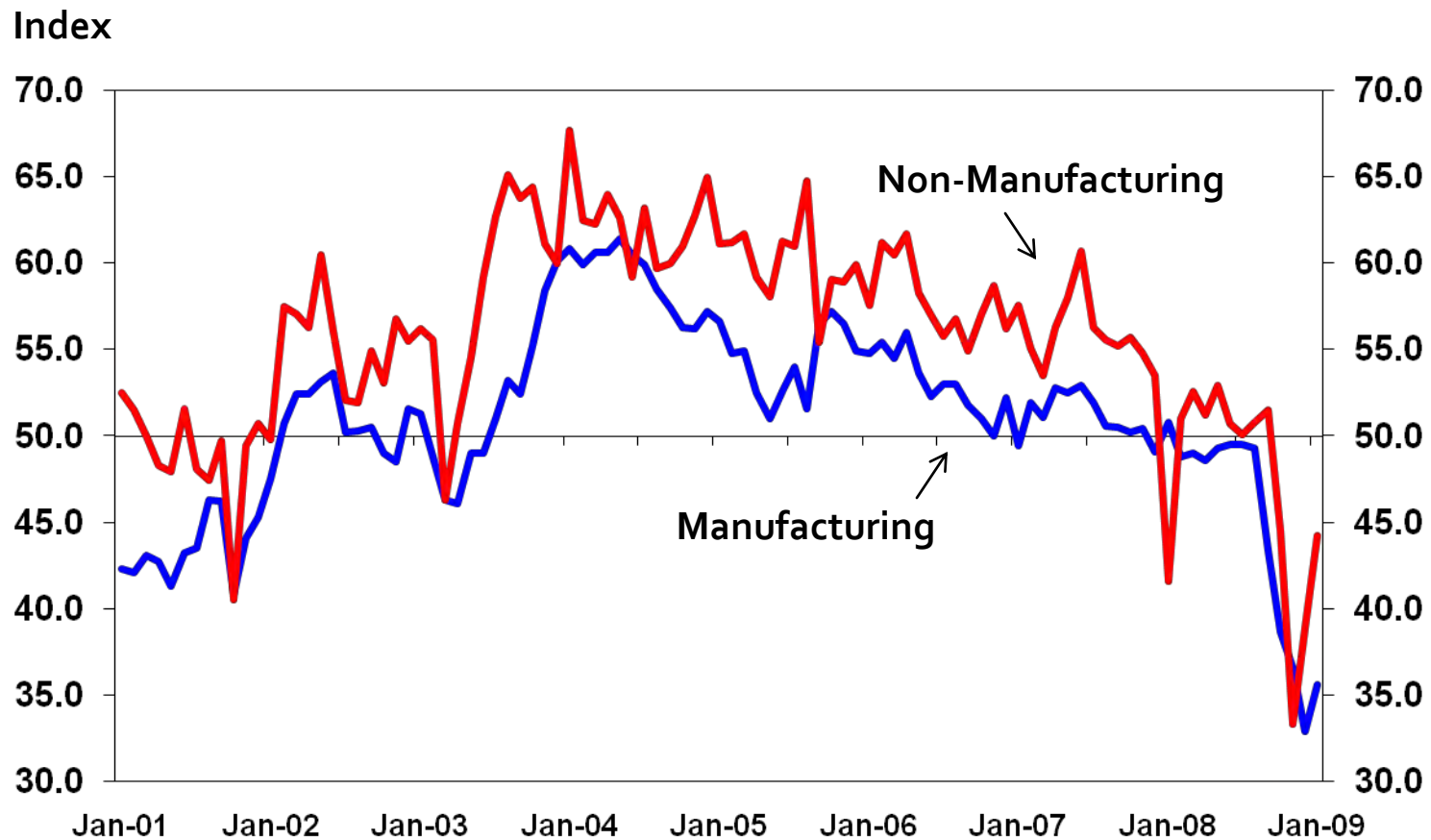


Source: Federal Reserve Board of Governors



Business activity has plummeted.

U.S. Manufacturing and Non-Manufacturing Activity Indices



Source: Institute of Supply Management



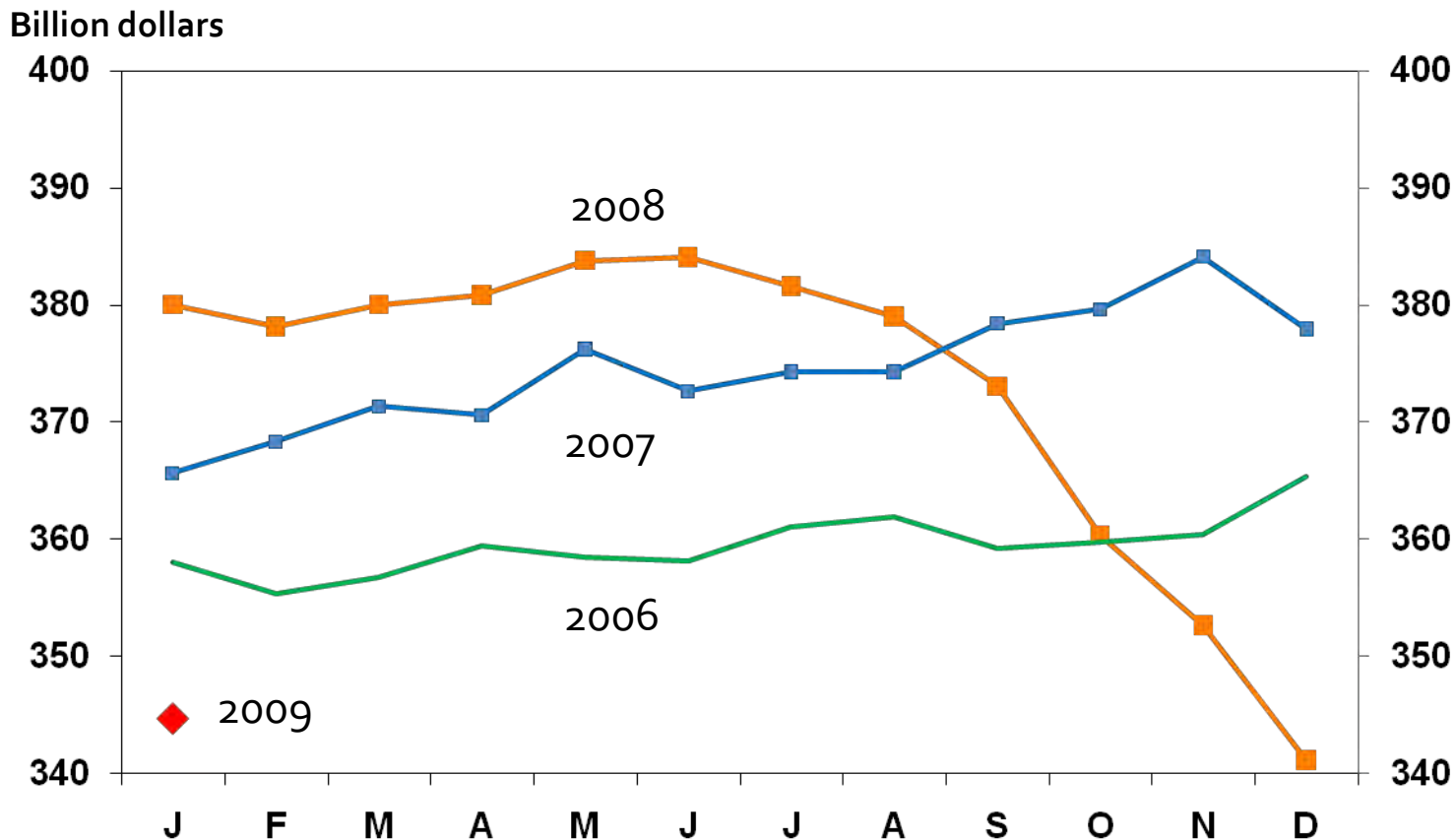
The Recession Intensifies

- **The housing correction leads to a financial crisis.**
- **Business activity plummets.**
- **Consumer spending drops sharply.**



Consumer spending drops sharply.

U.S. Monthly Retail and Food Sales

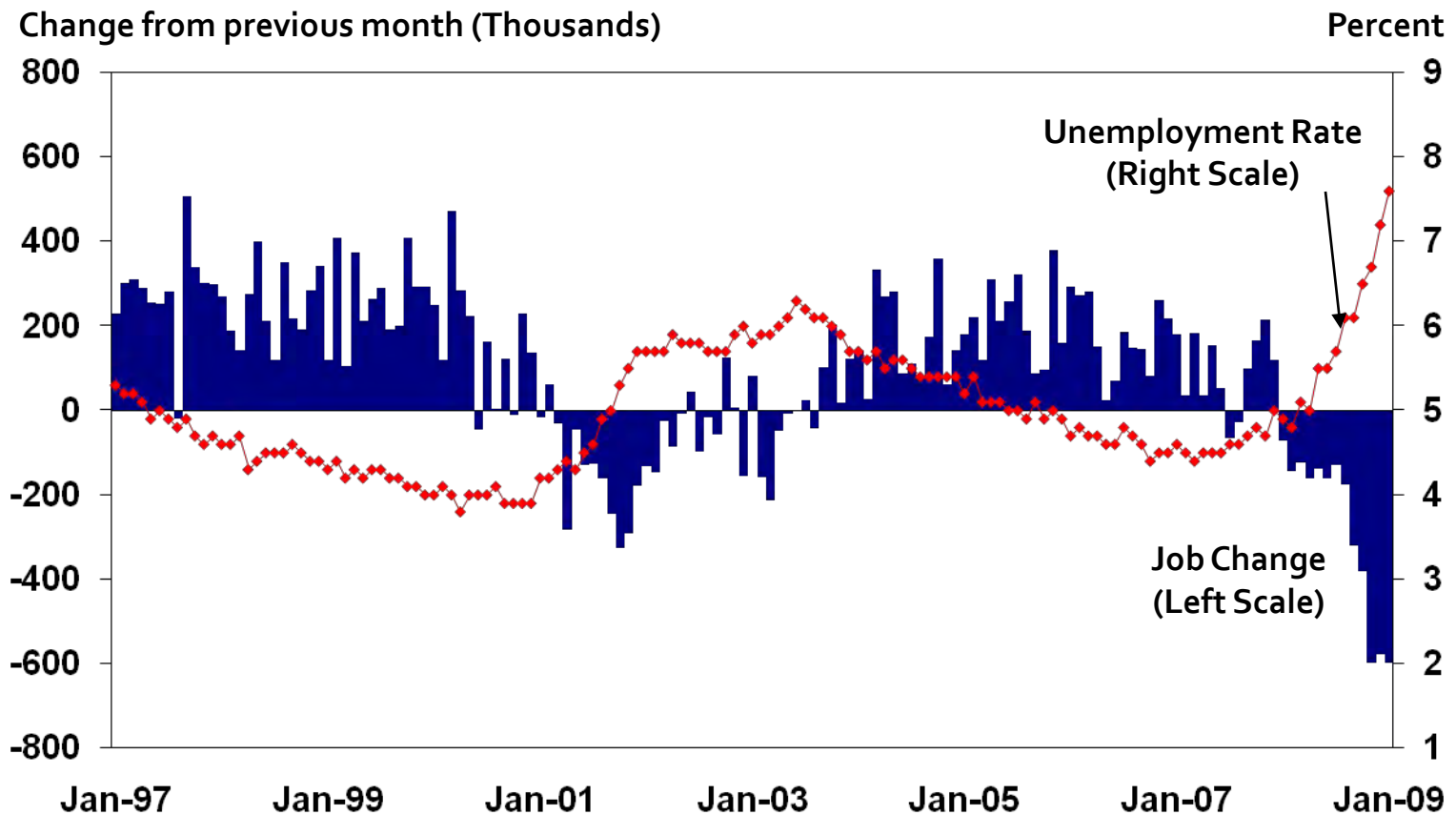


Source: U.S. Census Bureau



Job losses mount.

U.S. Non-farm Job Growth and Unemployment Rate

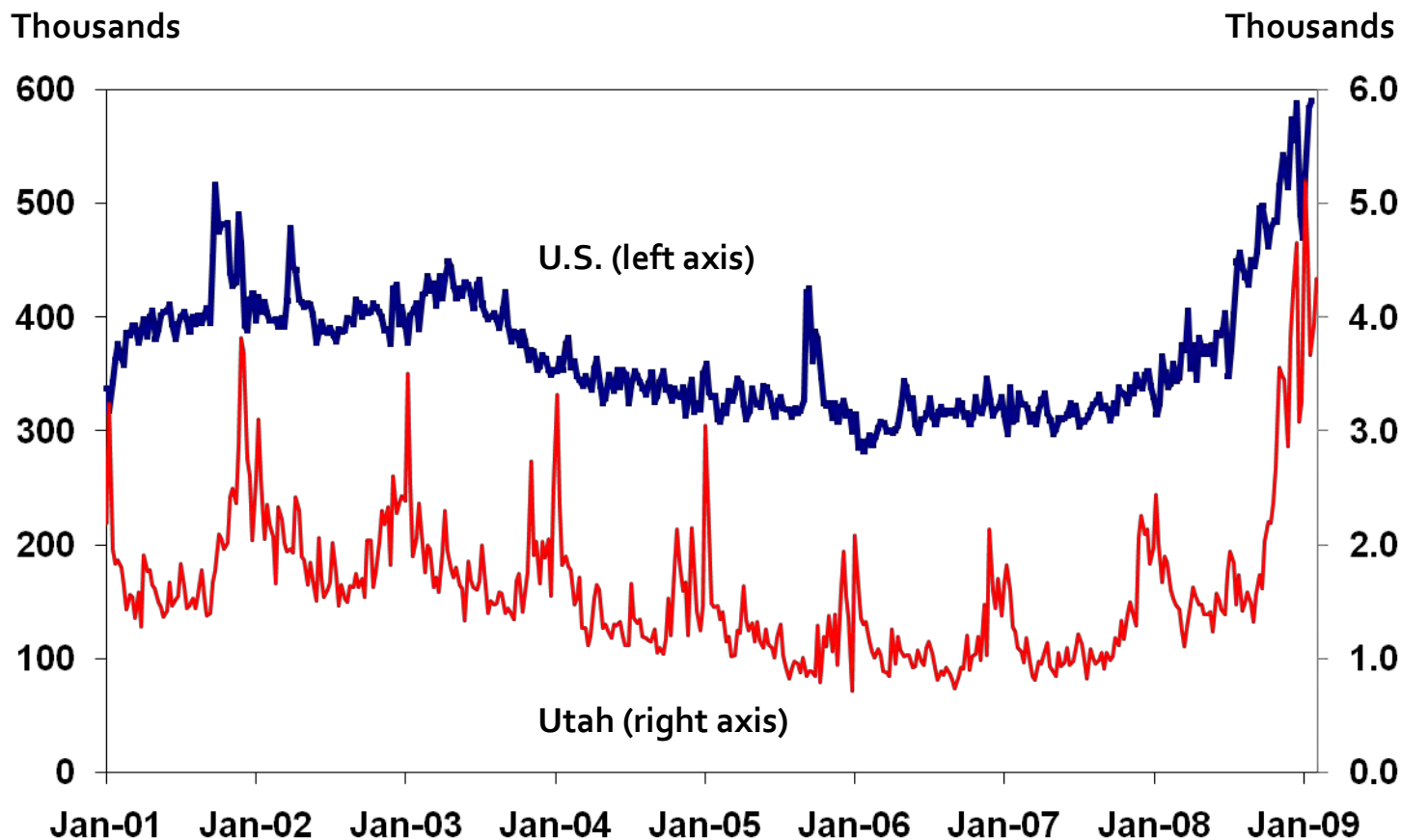


Source: Bureau of Labor Statistics



Utah has experienced steeper job losses.

Weekly Initial Unemployment Claims



Source: Bureau of Labor Statistics



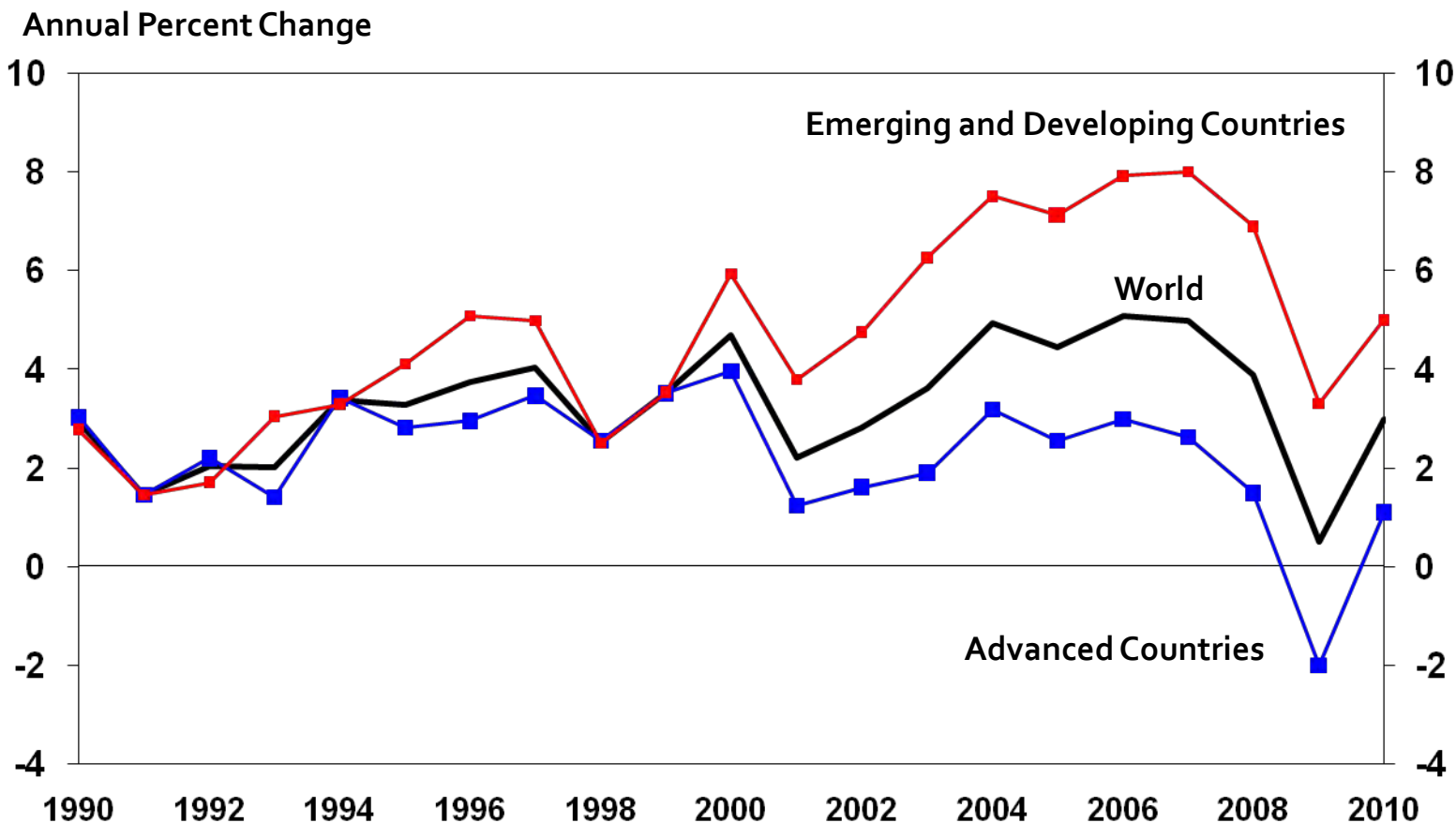
The Recession Intensifies

- **The housing correction leads to a financial crisis.**
- **Business activity plummets.**
- **Consumer spending drops sharply.**
- **Export activity wanes with a global recession and a stronger dollar.**



The recession has spread globally.

World GDP Growth

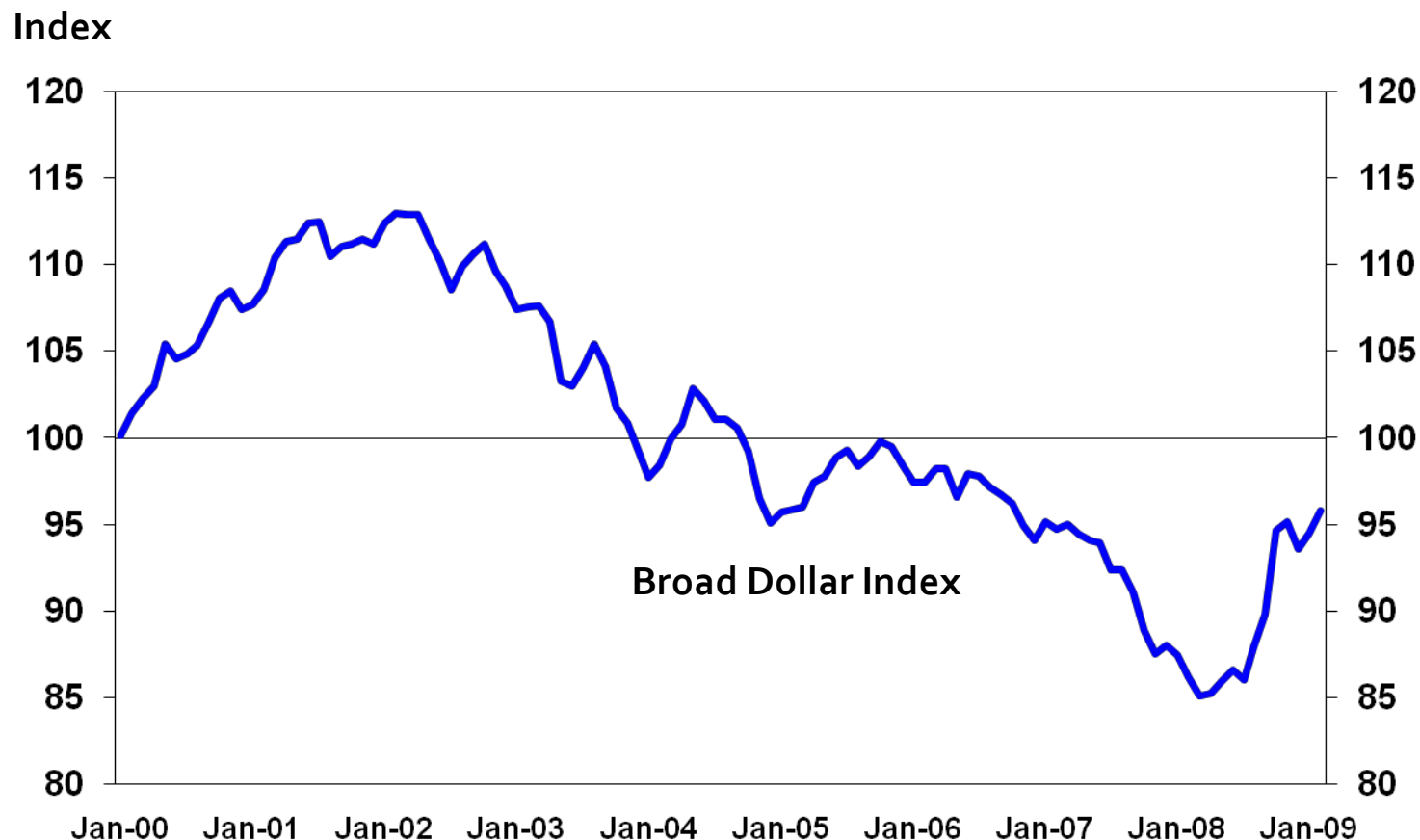


Source: International Monetary Fund, January 2009



The value of the dollar has strengthened as the world searches for safe investments.

Value of the Dollar

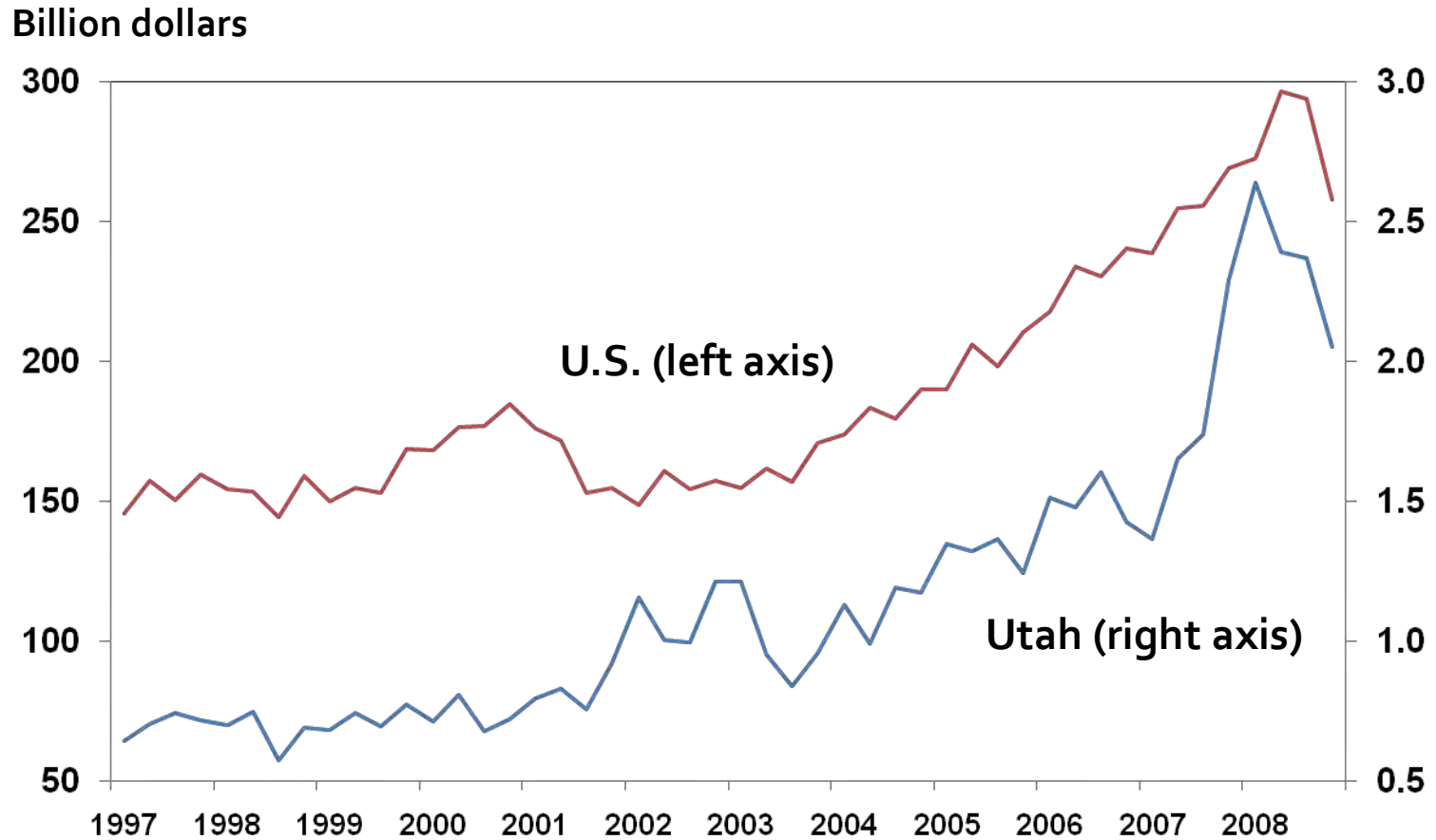


Source: Federal Reserve Board of Governors



Export activity falls.

U.S. and Utah Manufactured Exports

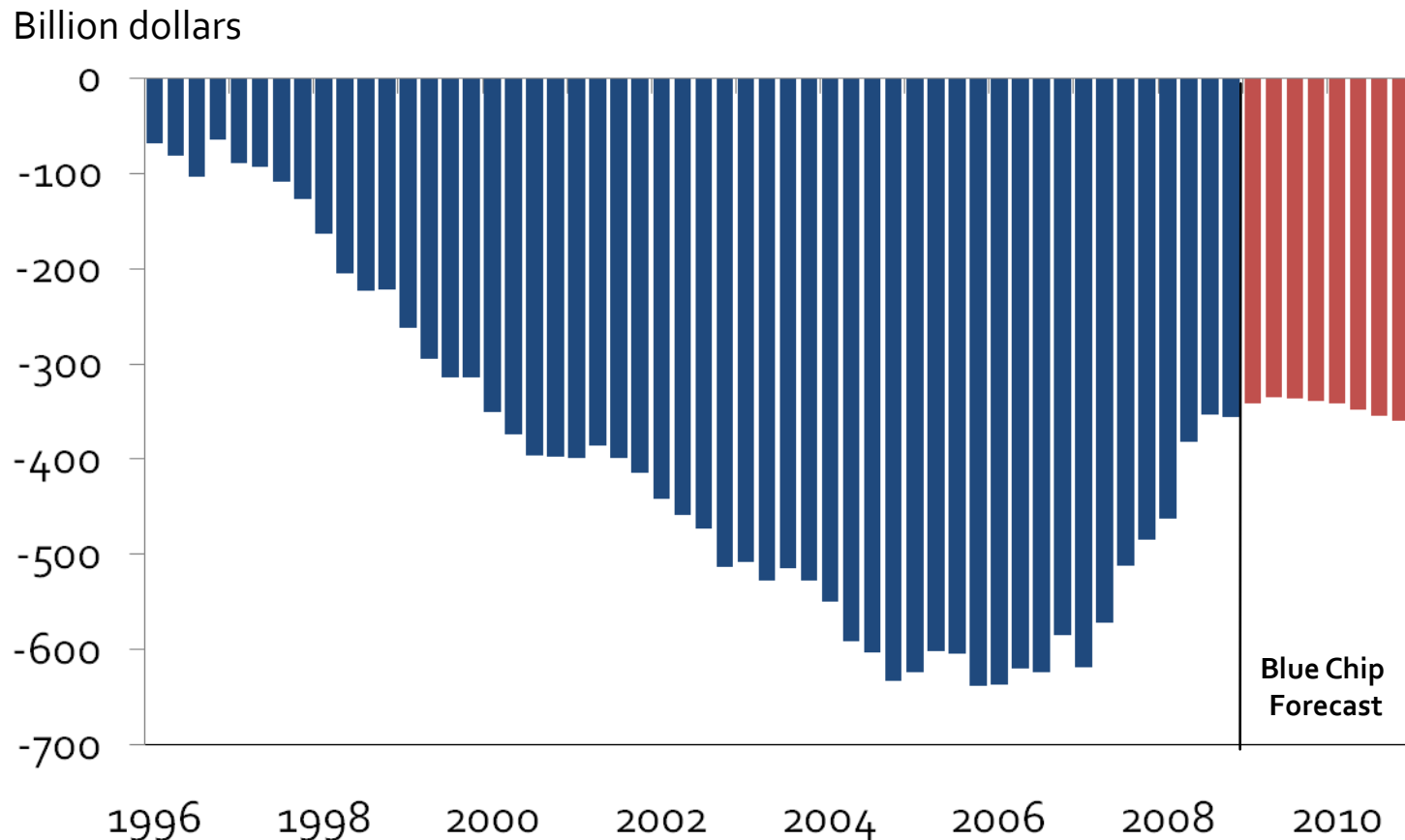


Source: WISERTrade



Improvements in the U.S. trade balance stop.

Real Net Exports of Goods and Services



Source: Bureau of Economic Analysis and Blue Chip Forecast, February 2009



The Recession Intensifies

- The housing correction leads to a financial crisis.
- Business activity plummets.
- Consumer spending drops sharply.
- The recession spreads globally.
- How does the recession compare historically?



Length of U.S. Recessions

Start	End	Length (Months)
Nov. 1973	Mar. 1975	16
Jan. 1980	Jul. 1980	6
Jul. 1981	Nov. 1982	16
Jul. 1990	Mar. 1991	8
Mar. 2001	Nov. 2001	8
Average since World War II		10

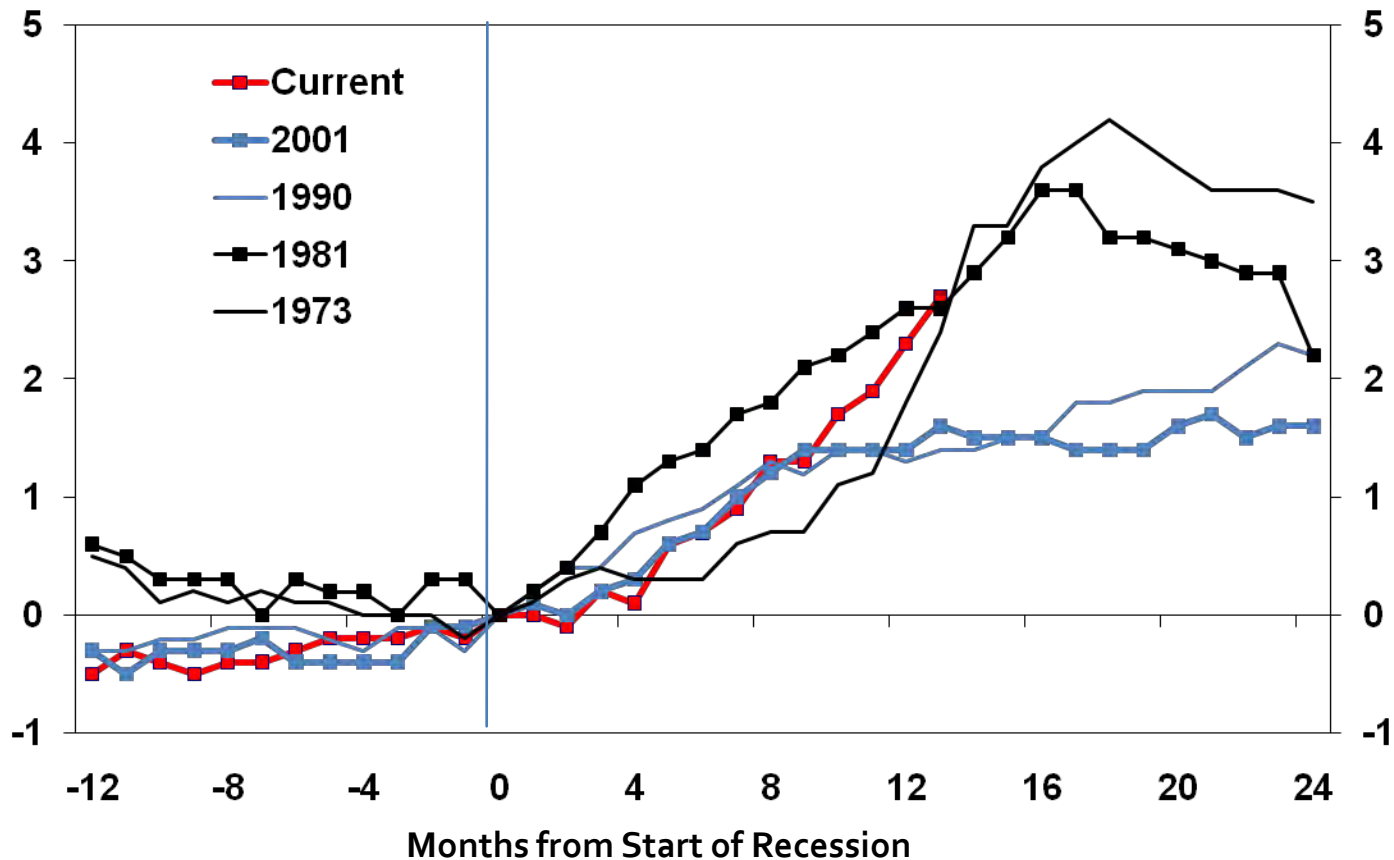
Source: NBER



Job losses are now tracking the 1981 and 1973 recessions.

Unemployment Rate Around Business Cycle Peak

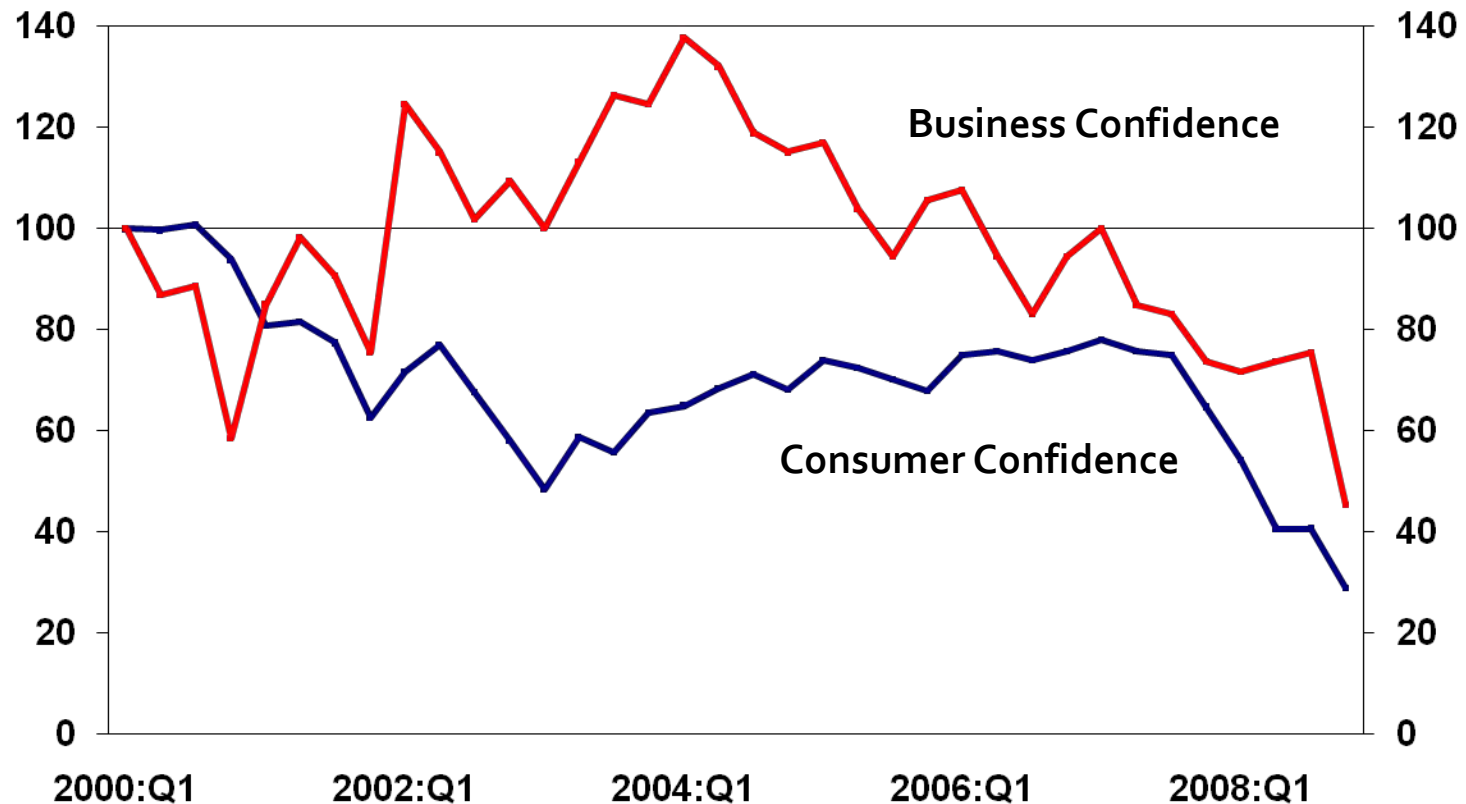
Change in unemployment rate



Business and consumer confidence is low.

Business and Consumer Confidence

Index (2000 Q1 = 100)



Source: The Conference Board



The Recession Intensifies

- The housing correction leads to a financial crisis.
- Business activity plummets.
- Consumer spending drops sharply.
- The recession spreads globally.
- How does the recession compare historically?
- Will fiscal and monetary stimulus jump start the economy?



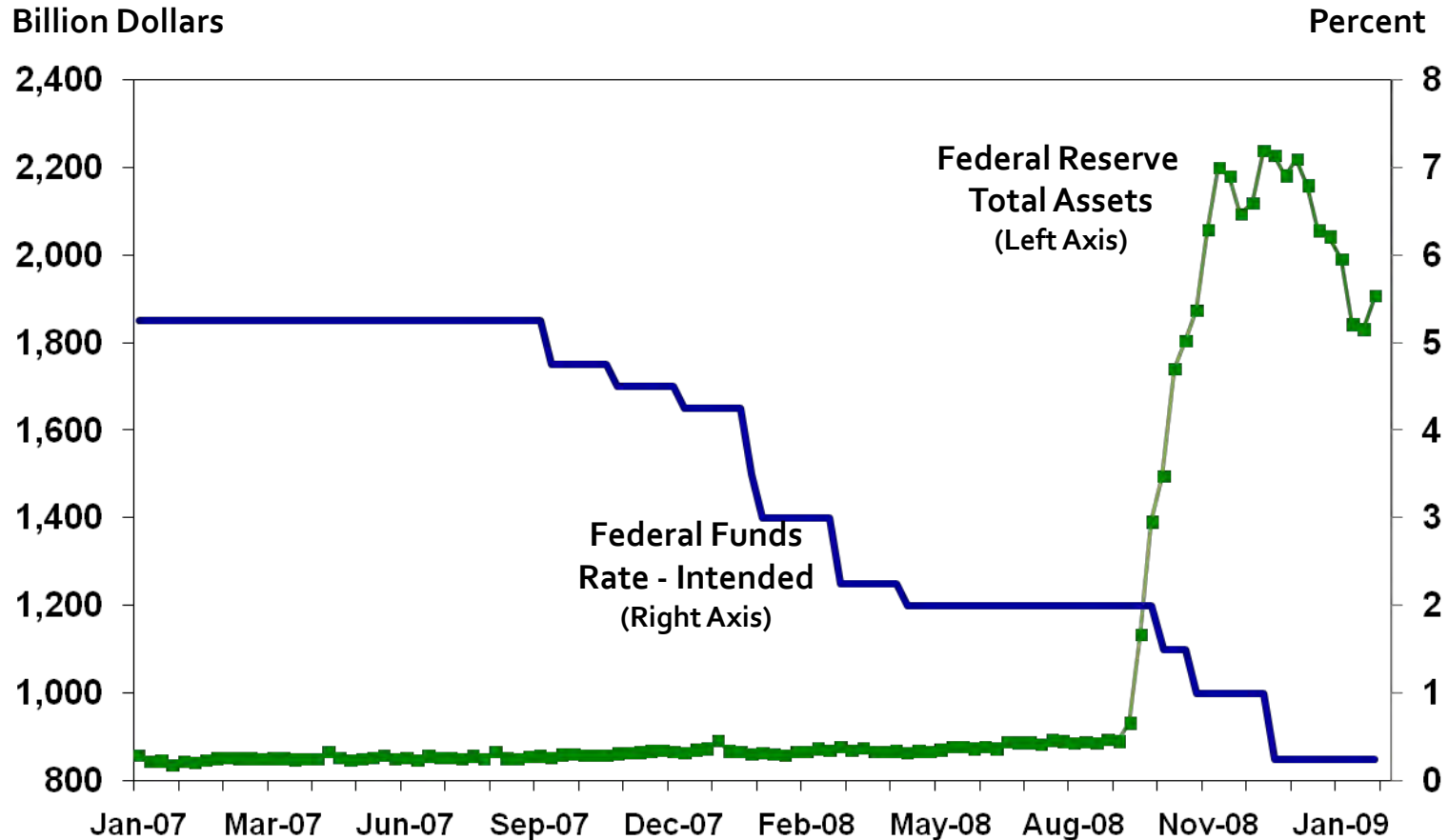
The Fed is pumping liquidity into financial markets.

Primary, Secondary, and Seasonal Credit
Primary Dealer and other Broker-Dealer Credit
Bear-Stearns/Maiden Lane LLC
AIG Credit
Money Market Investor Funding Facility
Central Bank Liquidity Swaps
Term Auction Credit
COMMERCIAL PAPER FUNDING FACILITY
Asset-Backed Commercial Paper Money Market
Consumer and Business Lending Initiative
Mutual Fund Liquidity Facility



The Fed has acted aggressively.

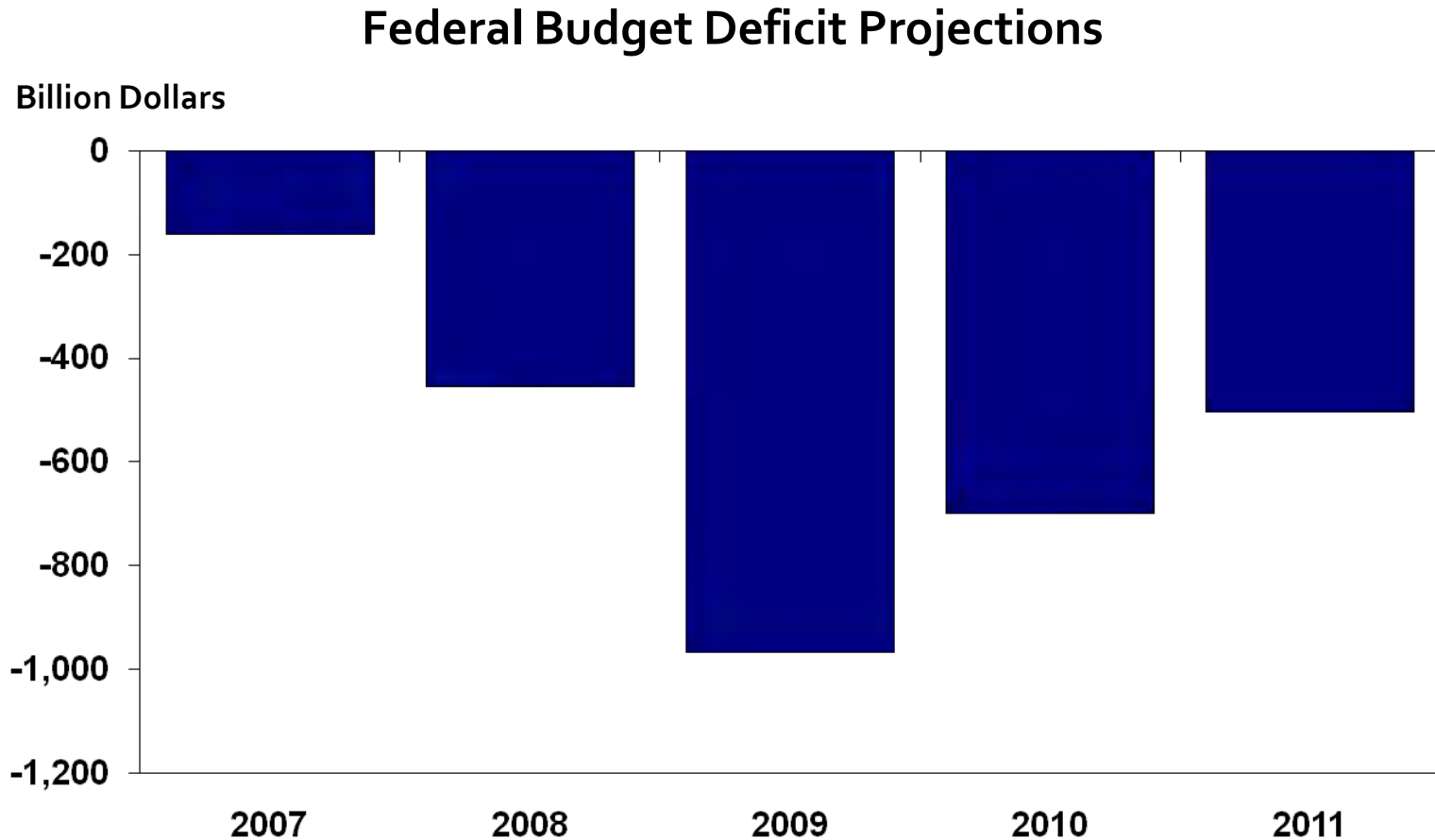
Fed Funds Rate and Federal Reserve Assets



Source: Federal Reserve Board of Governors



Federal government deficits rise sharply.

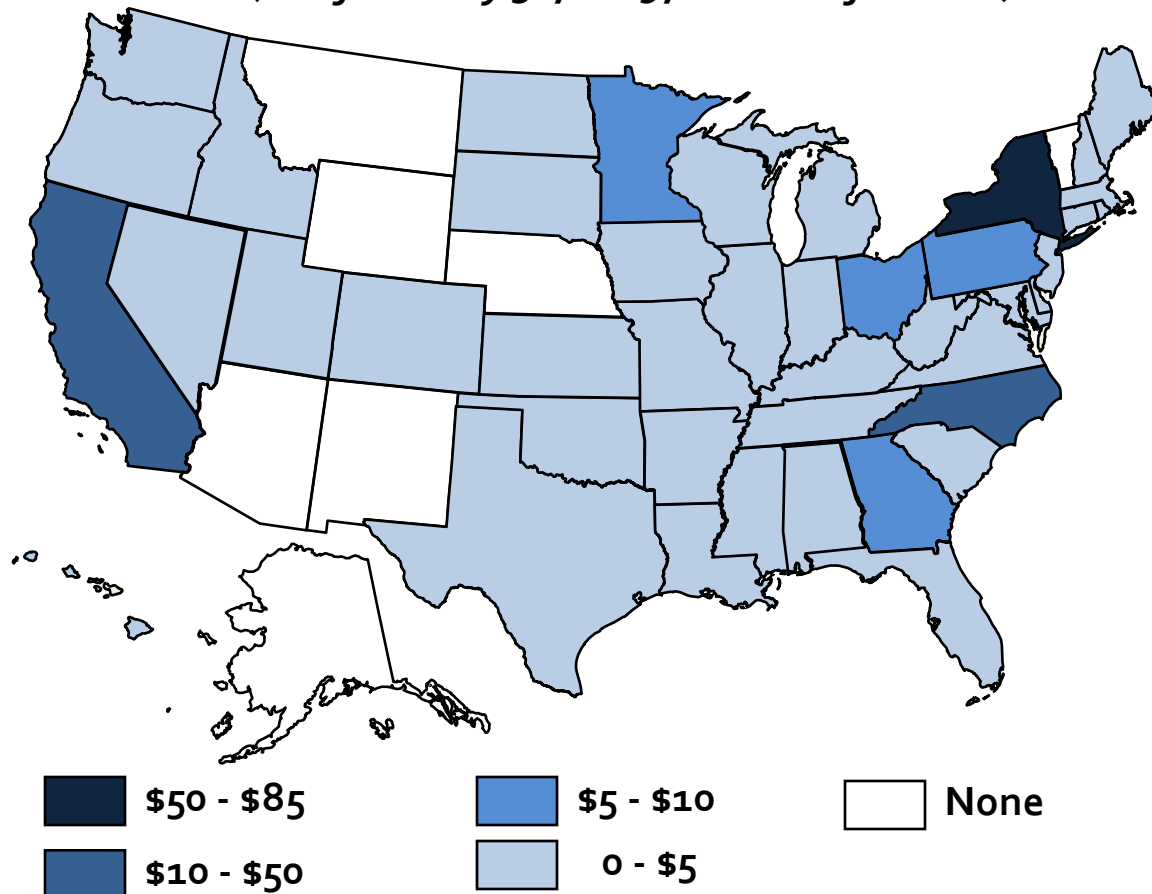


Source: Congressional Budget Office, January 2009



TARP funds are concentrated on Wall Street.

Breakdown of TARP Funds
(As of January 30, 2009, Billions of Dollars)



Source: Department of the Treasury



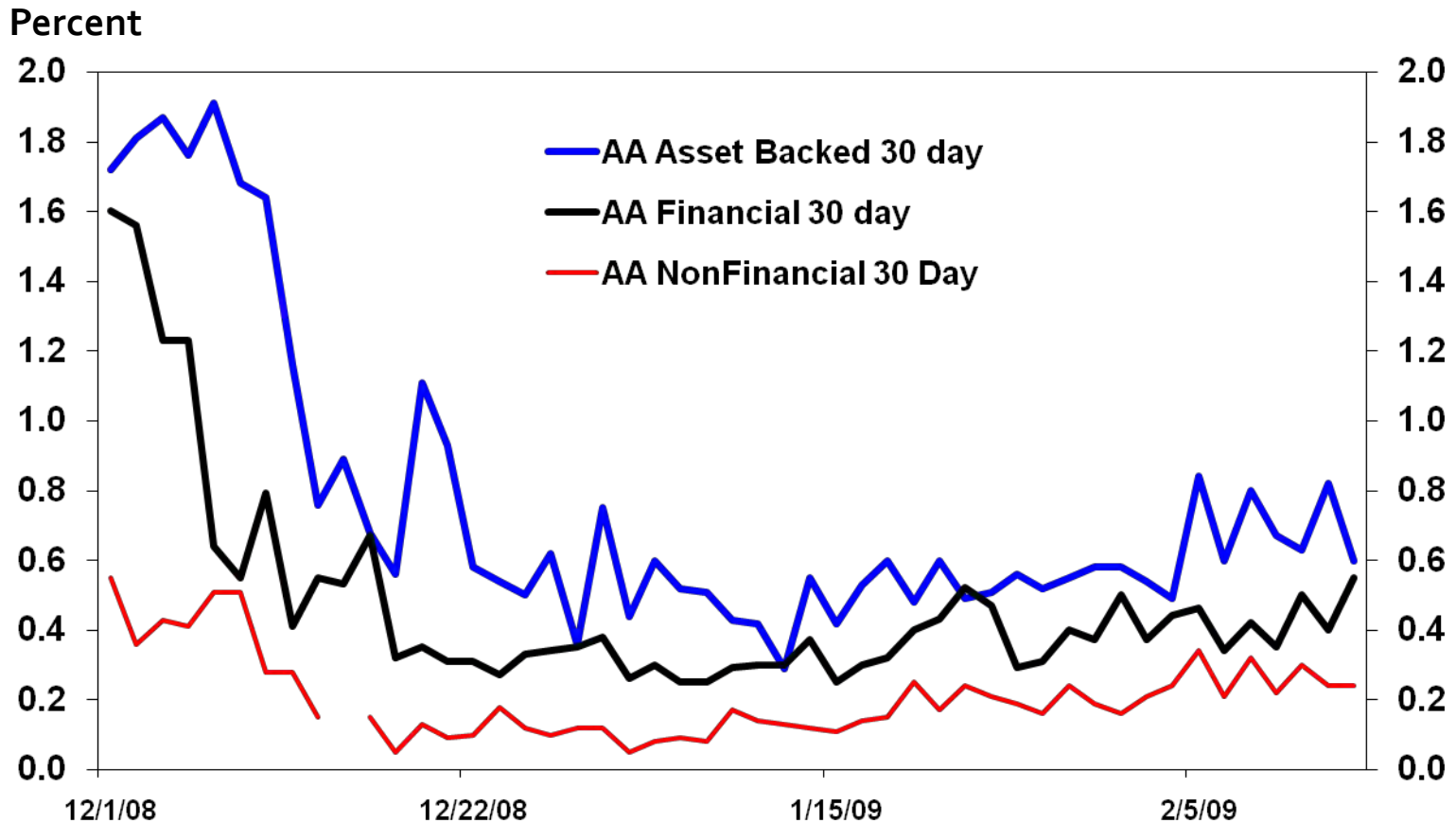
Today's Roadmap

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Commercial paper rates have crept up.

Commercial Paper Rates

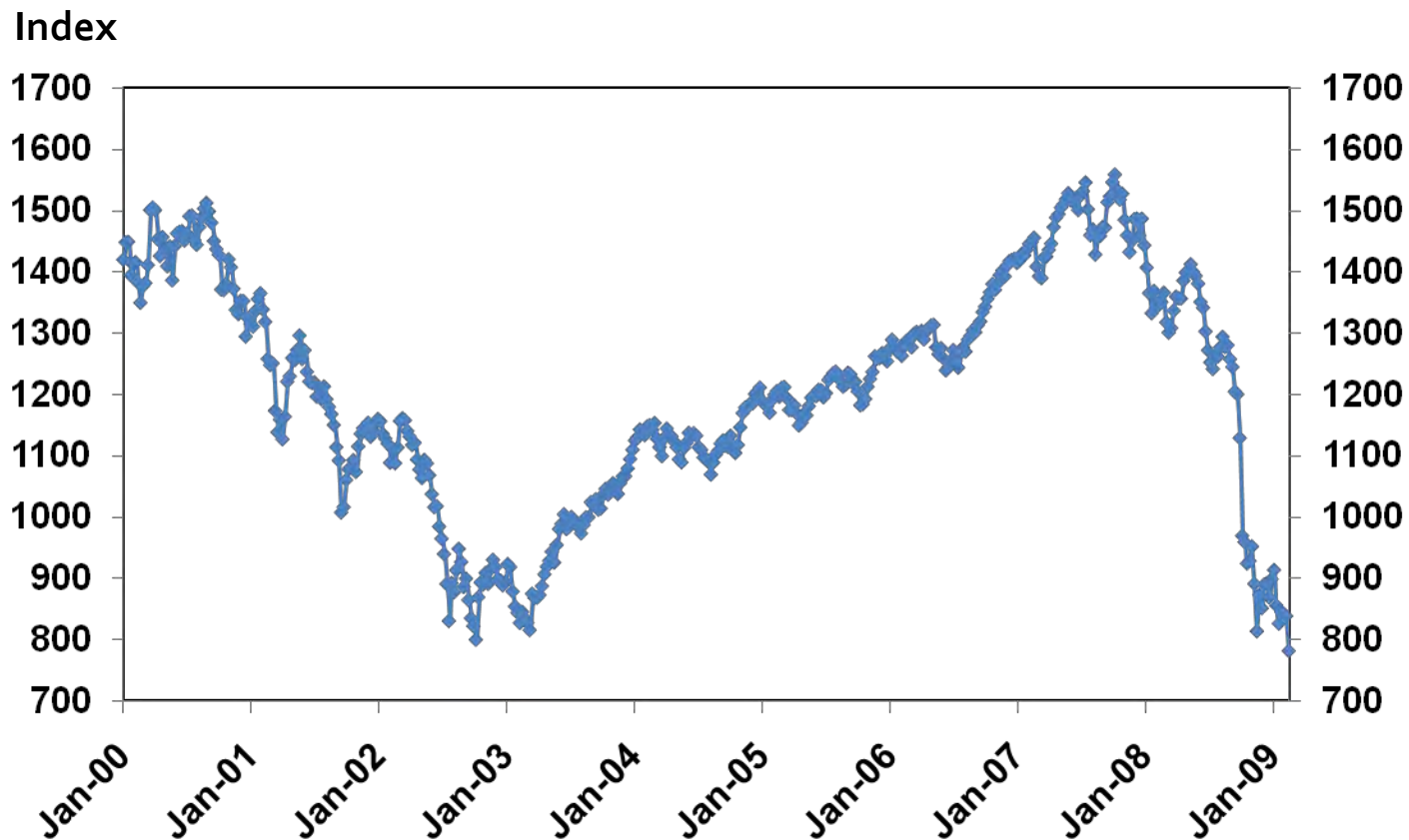


Source: Federal Reserve Board of Governors



Equity markets continue to fall.

S&P Composite Index

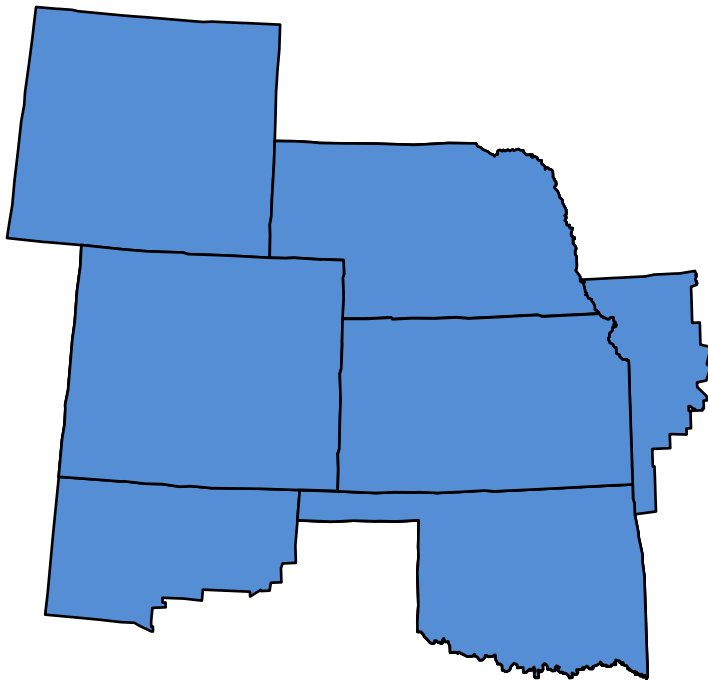


Source: Standard and Poor's



Today's Roadmap

- **What is the Impact on Agricultural Credit?**



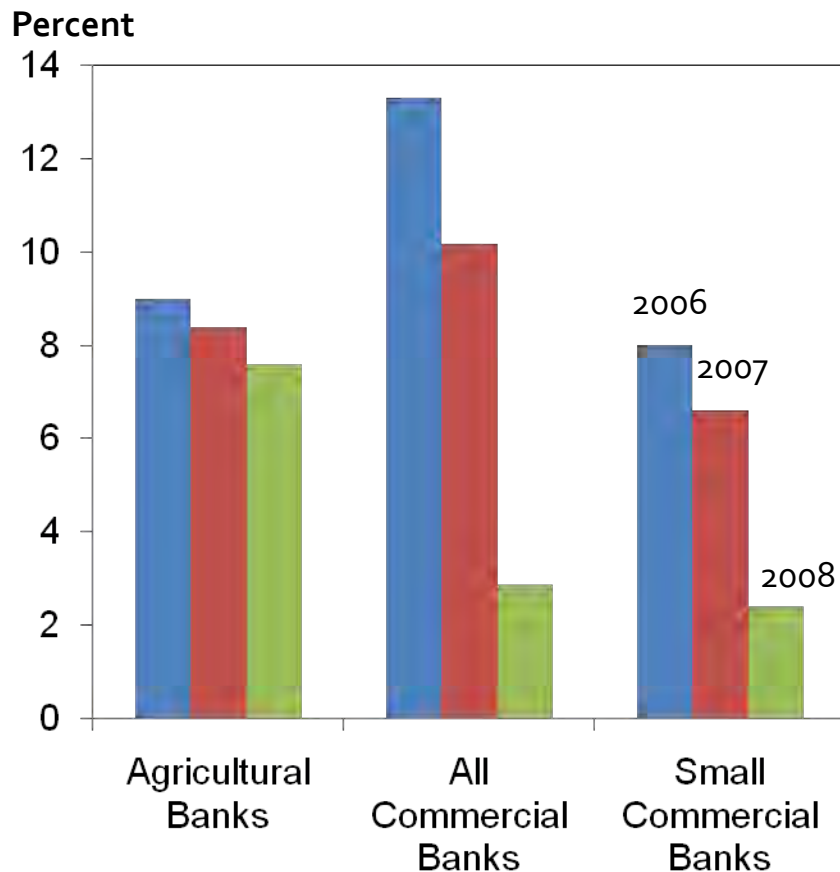
Tenth Federal Reserve District
Colorado, Kansas,
Nebraska, Oklahoma, Wyoming,
western Missouri, northern New Mexico

Agricultural Credit Survey
www.kansascityfed.org

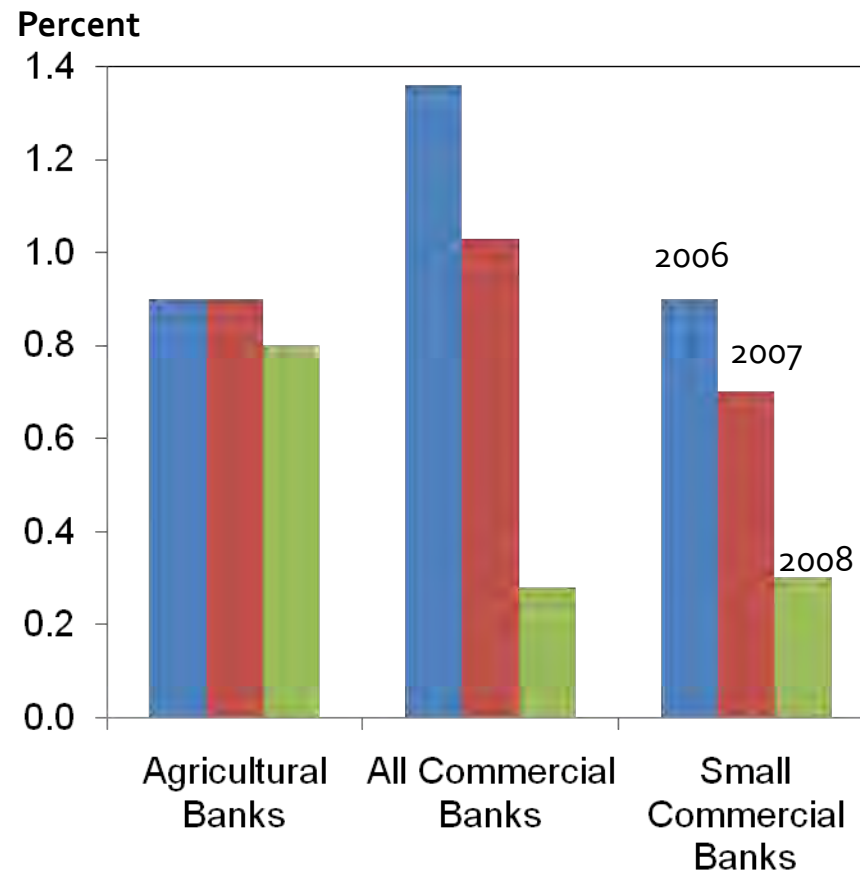


Agricultural bank returns are still strong.

Return on Equity



Return on Assets



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.

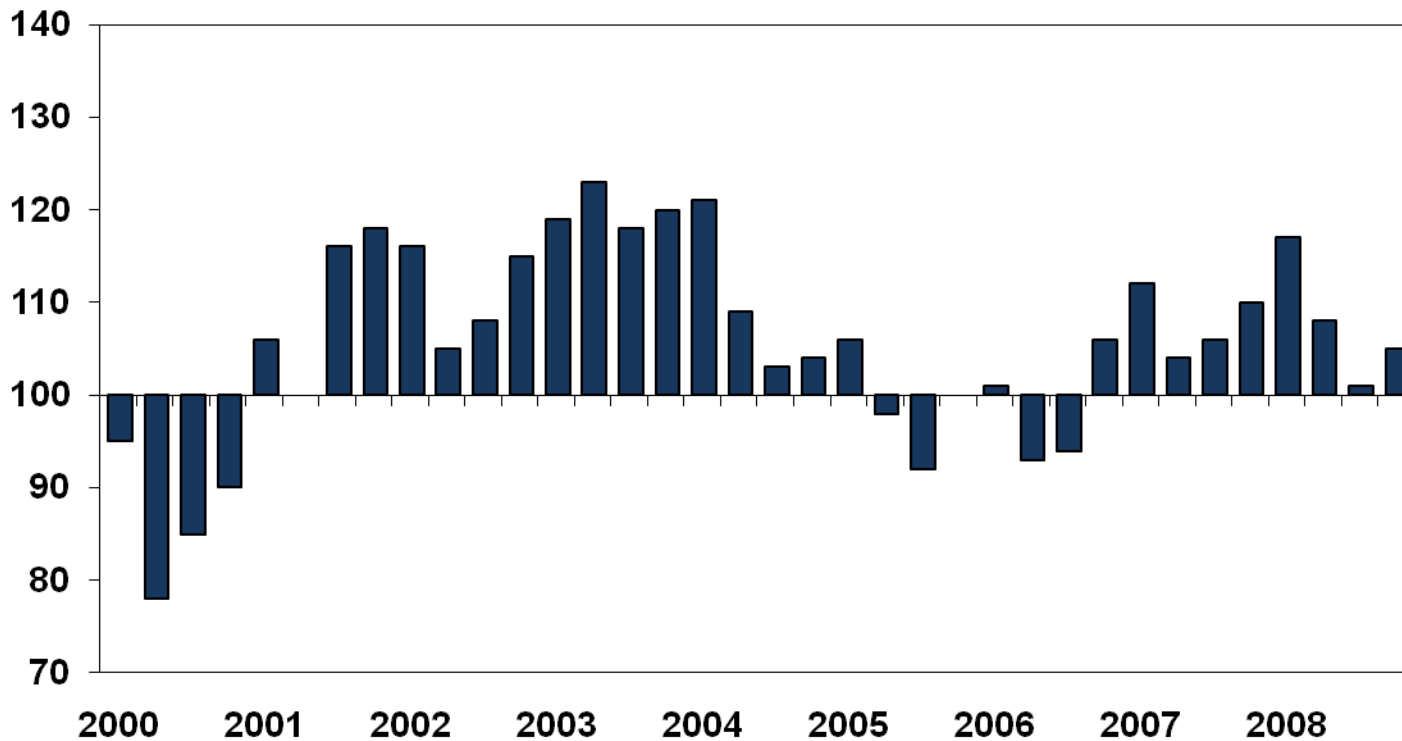
Small commercial banks are banks with less than \$500 million in assets



Commercial banks have funds available for farm loans.

Funds Availability for Farm Loans at Agricultural Banks (Tenth Federal Reserve District)

Diffusion Index

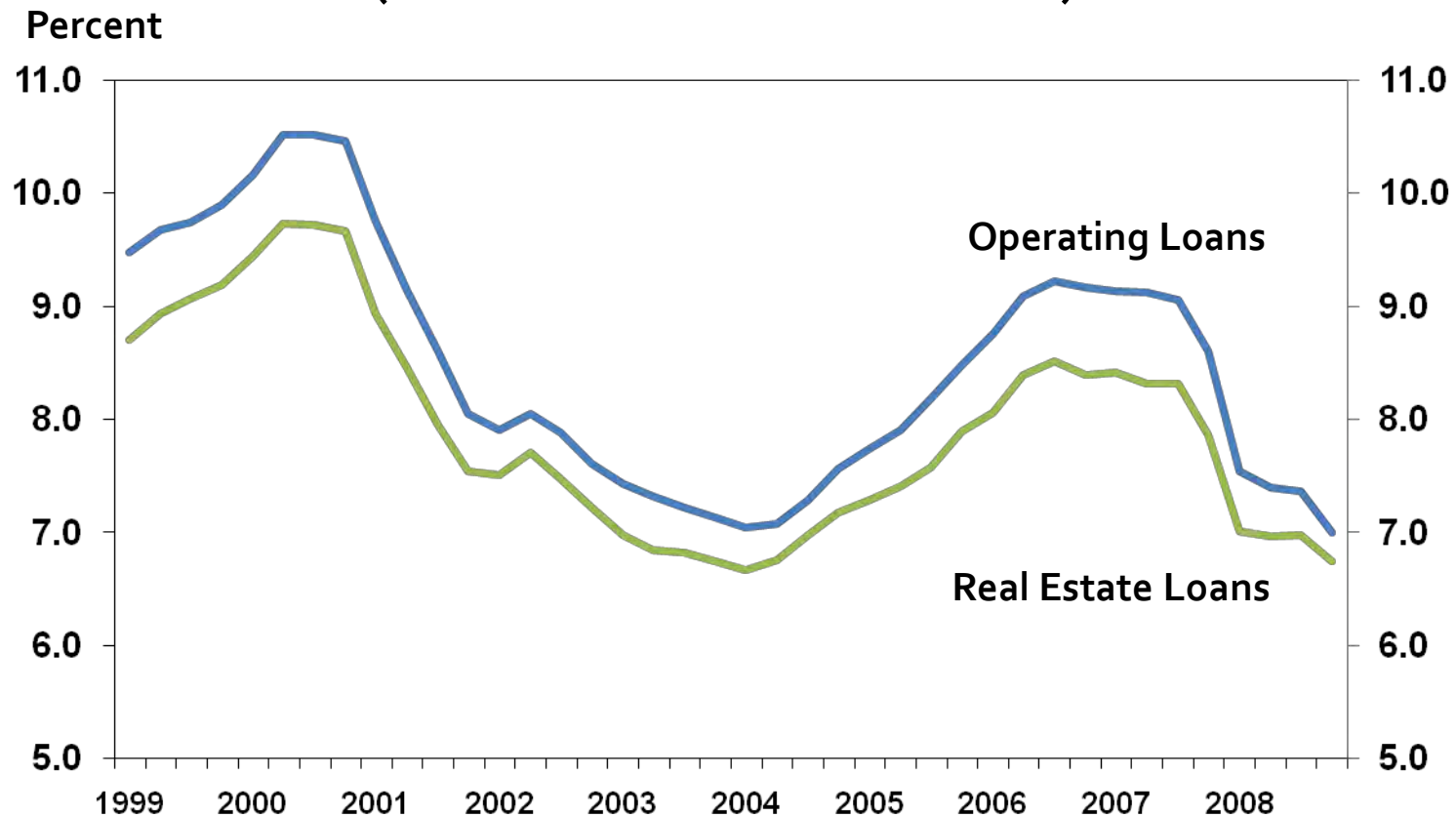


Source: Federal Reserve Bank of Kansas City



Interest rates ease further.

Interest Rates for Farm Loans at Agricultural Banks (Tenth Federal Reserve District)



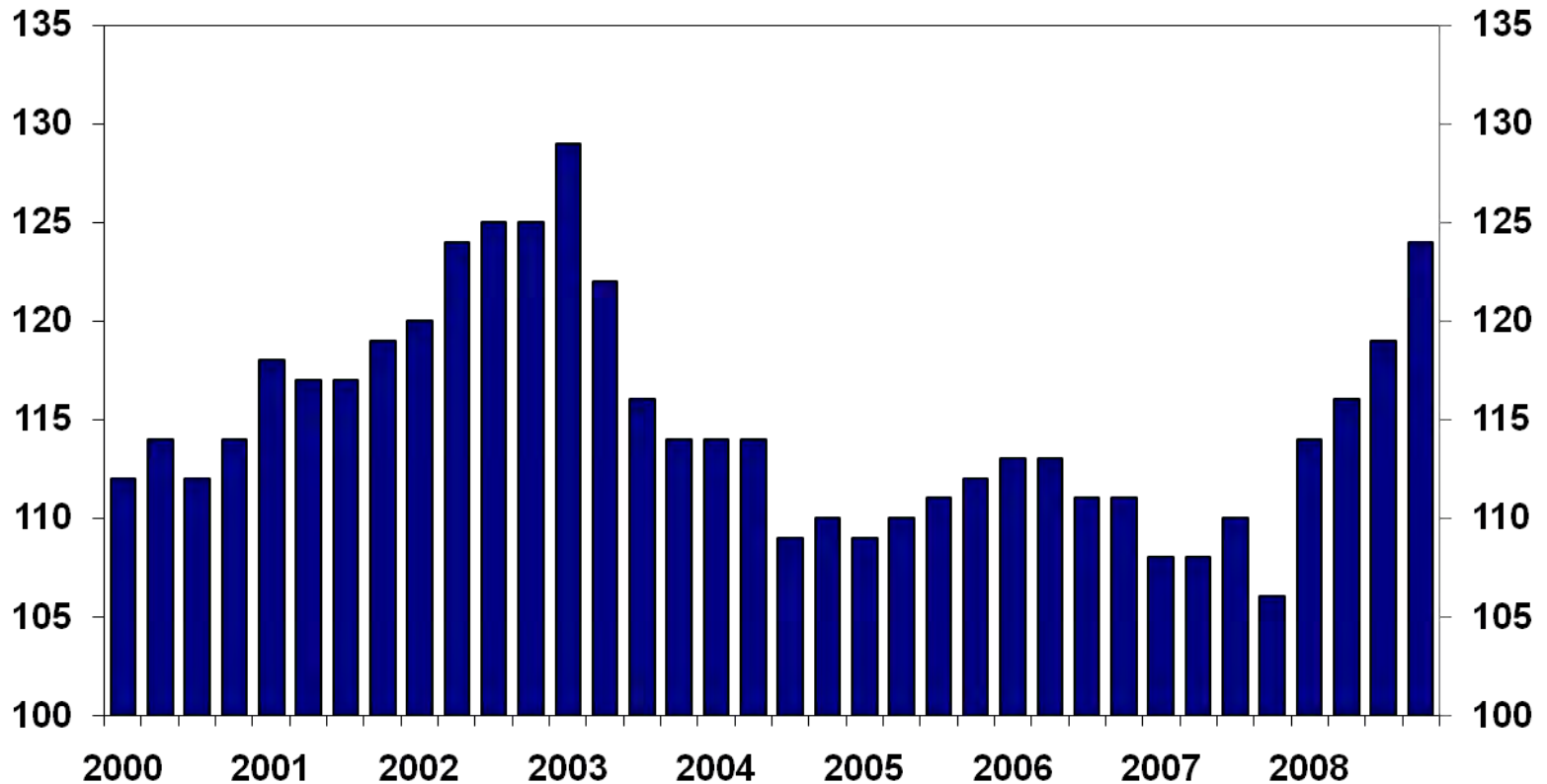
Source: Federal Reserve Bank of Kansas City



Agricultural credit conditions have tightened.

Collateral Required for Farm Loans at Agricultural Banks (Tenth Federal Reserve District)

Diffusion Index

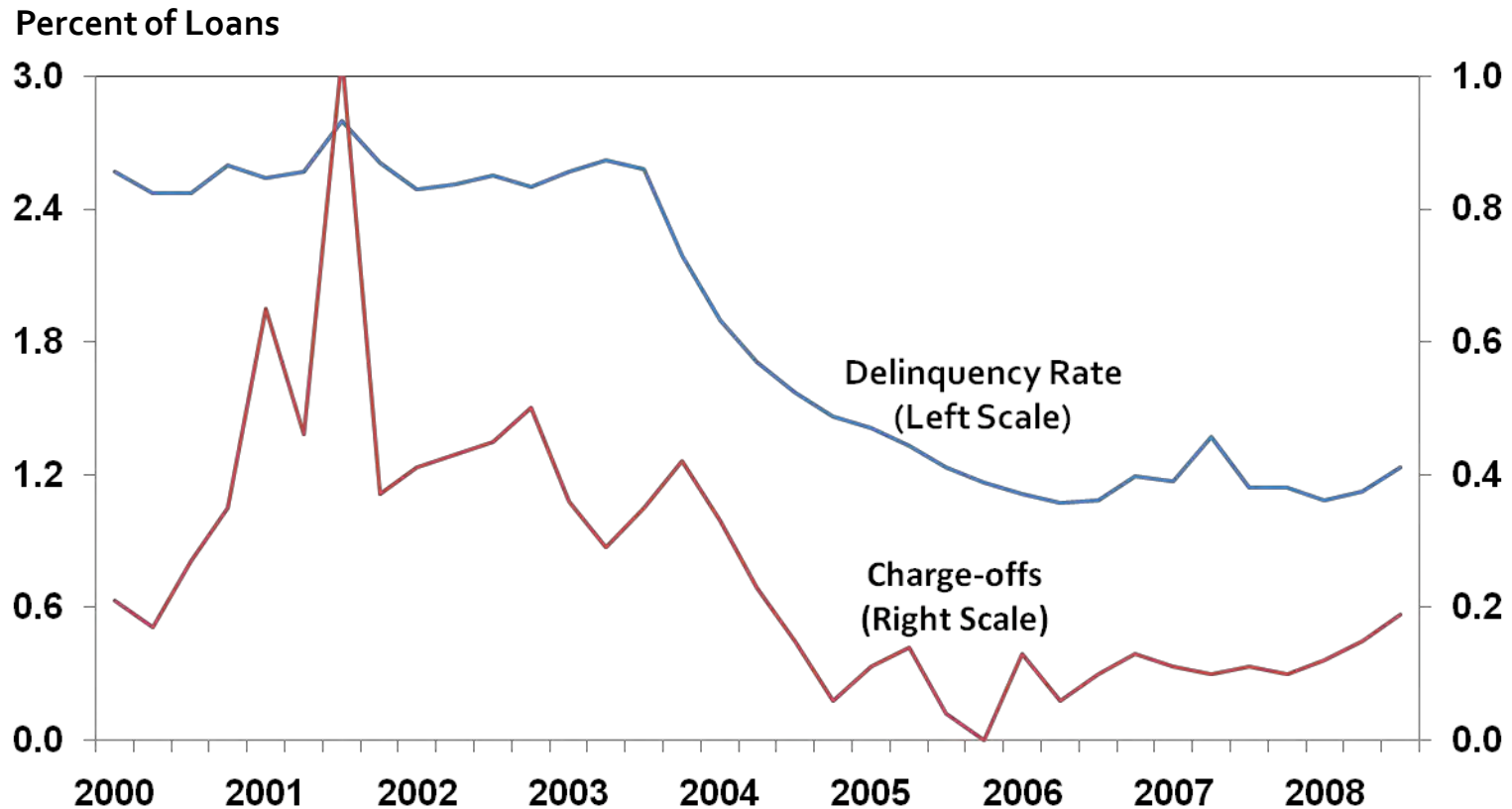


Source: Federal Reserve Bank of Kansas City



Risks on agricultural loans edge up in 2008.

Charge-offs and Delinquency Rates on Agricultural Loans

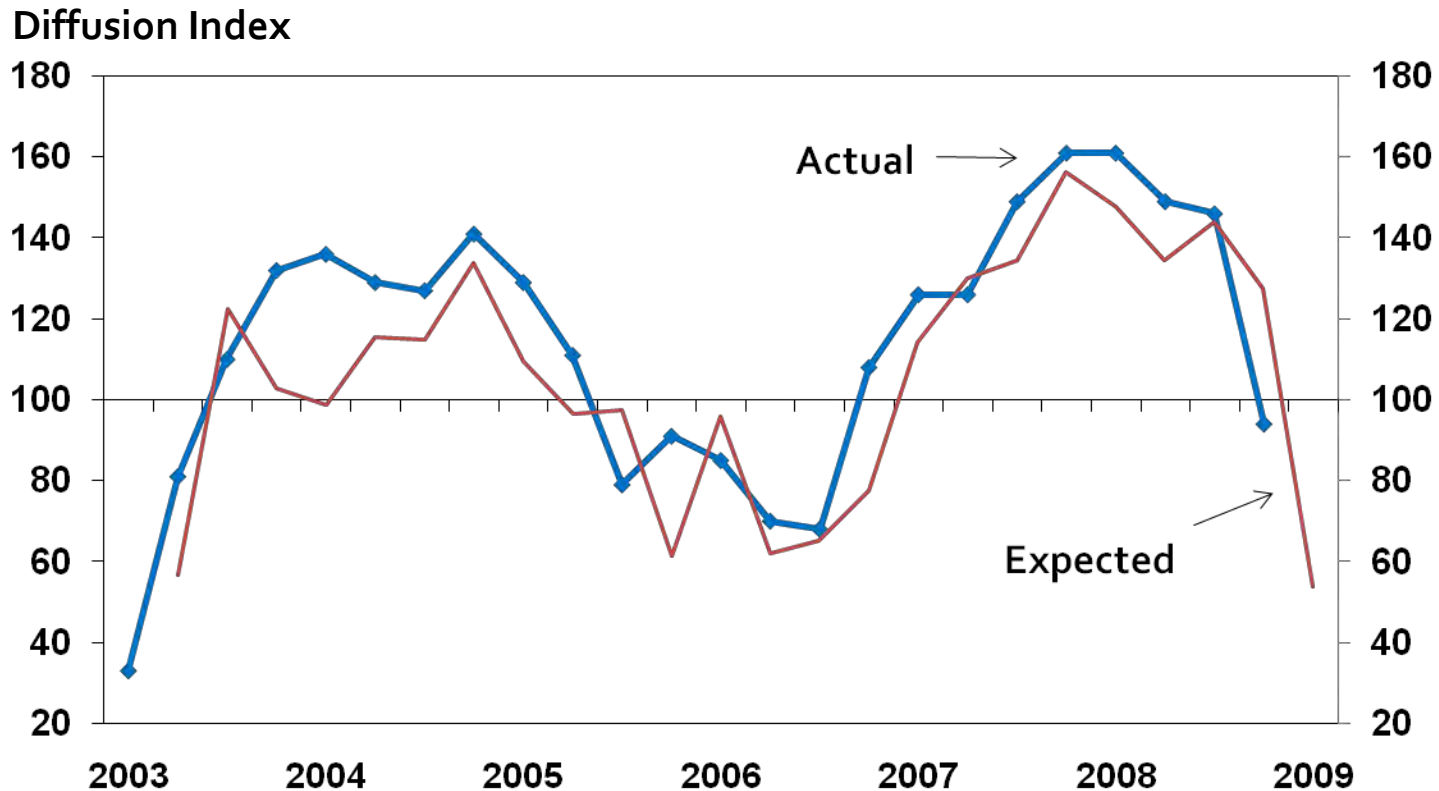


Source: Board of Governors of the Federal Reserve System



Farm income expectations fall sharply.

Farm Income Expectations Among Agricultural Bankers (Tenth Federal Reserve District)



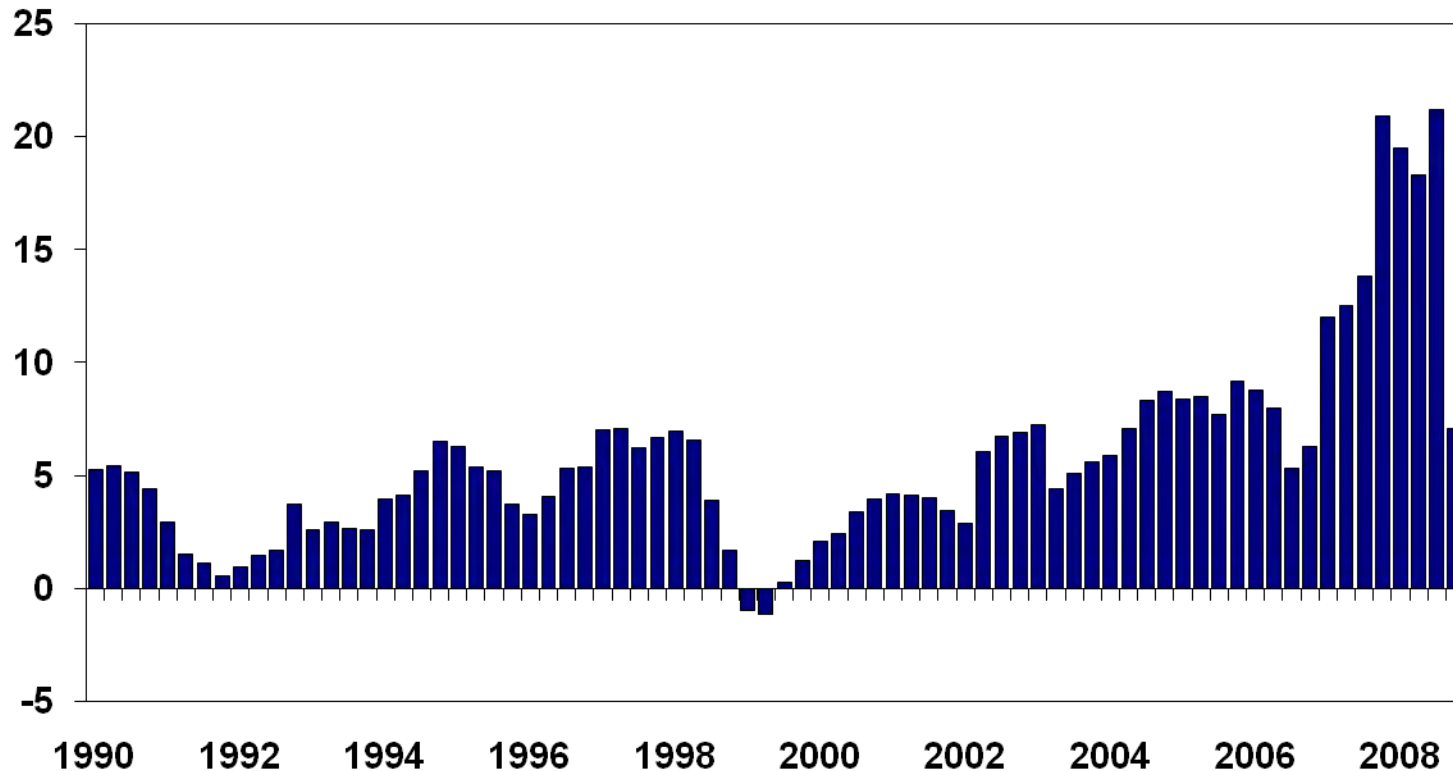
Source: Federal Reserve Bank of Kansas City



If farm incomes wane, what will happen to farmland values?

Nonirrigated Cropland Values (Tenth Federal Reserve District)

Sample percent change from a year ago*



Source: Federal Reserve Bank of Kansas City

*Percent changes are calculated using responses only from those banks reporting in both the past and the current quarter.



Conclusions

- **The Recession intensifies.**
 - A housing bust has spread to financial markets.
 - The financial crisis contributes to a deep recession.
 - Will fiscal and monetary stimulus spark economic growth?
- **Agricultural Credit Conditions Tighten.**
 - Funds are available, but loan quality is deteriorating.
 - Will farmland values fall amid weaker farm income?
- **Who Accepts Agricultural Risk – Bankers or Farmers?**

