



# Economic Overview

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**Office of Regulatory Policy**  
**Presentation to the FCA Board**  
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# **An Overview of Selected Economic Topics**

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- **Economic Growth, Interest Rates, & Banking - Bill Dunn**
- **Farm Income, Commodity Prices, Exports, Farm Programs - Steve Guebert**
- **Farmland Prices, Off-Farm Income and Farm Structure - John Moore**

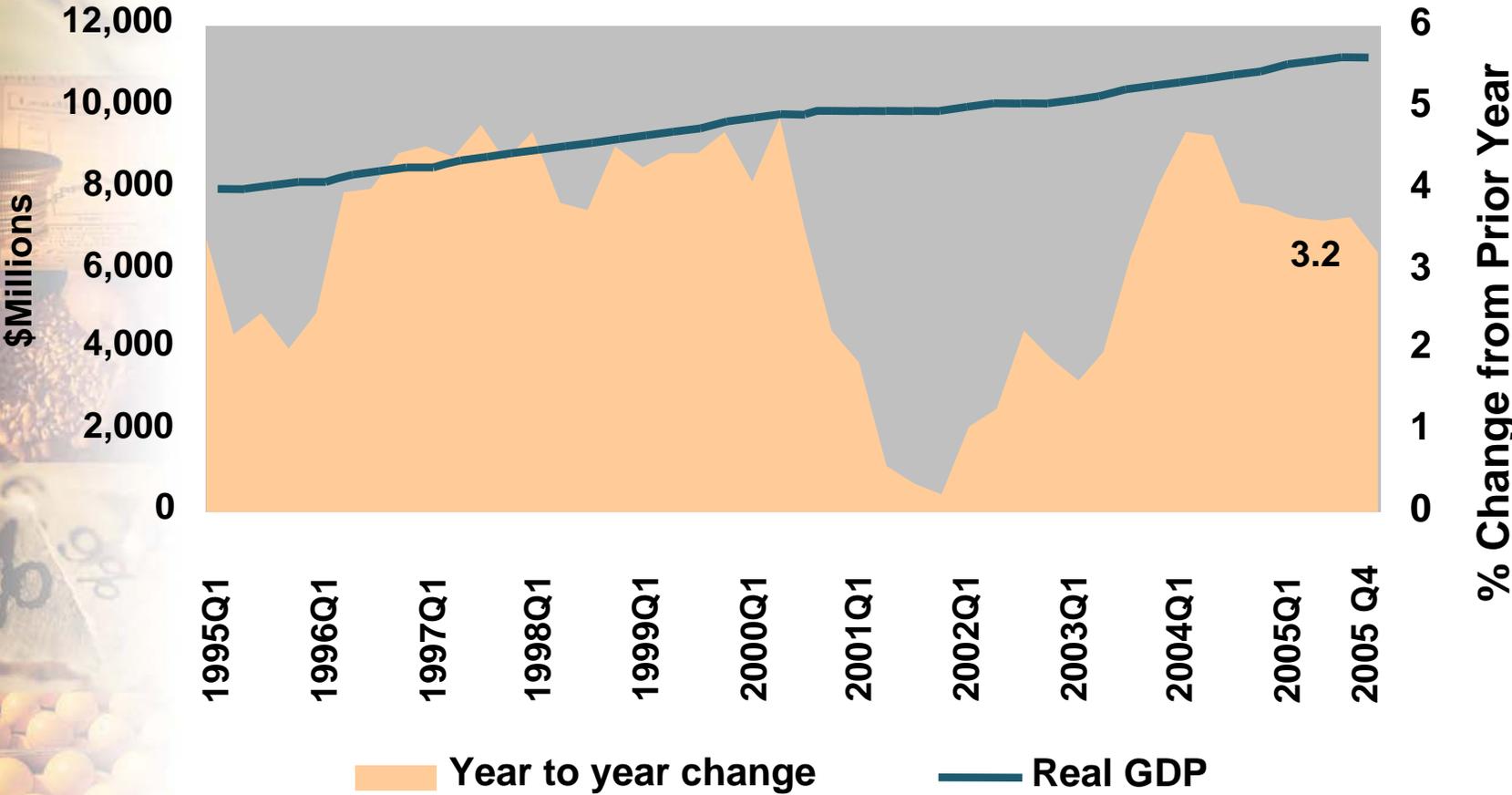


# General Economy

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- **Aggregate Income (GDP)**
  - **World: \$45 trillion**
    - 2005 estimated growth, 3.3%
    - 2006 forecast growth, 3.4%
  - **US: \$12.5 trillion (28% of world)**
    - 2005 estimated growth, 3.5%
    - 2006 forecast growth, 3.3%
- **Implication: US overall exports should increase and imports decrease.**

# US GDP Continues to Grow



Source: Bureau of Economic Analysis. Real GDP, chained 2000

# Interest Rates Still Near 40-year Lows



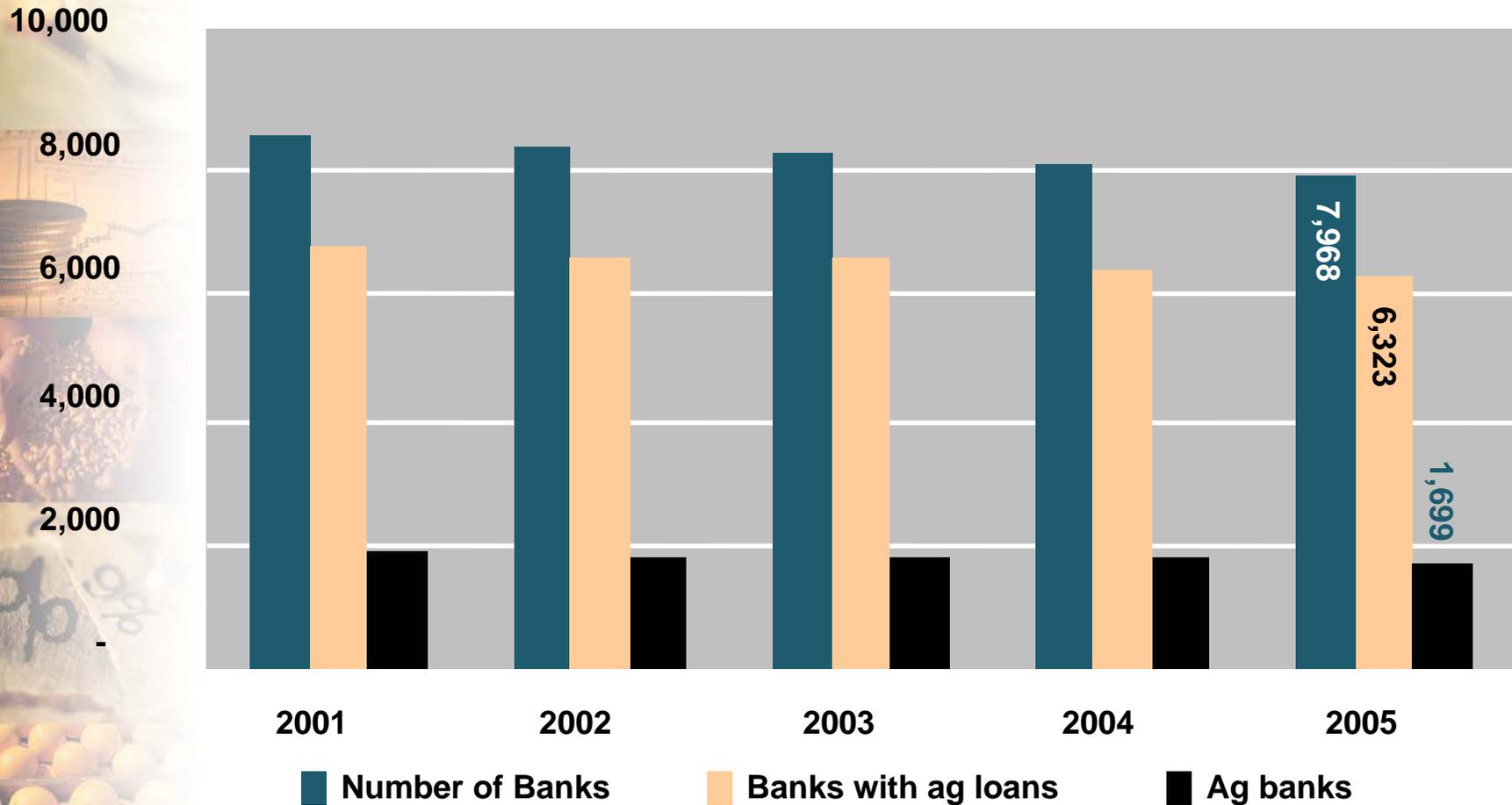
Source: St. Louis Federal Reserve Bank

# Rates Rise and Spreads Narrow



Source: St. Louis Federal Reserve Bank

# Number of Banks Continues to Decline



Source: FFIEC Call Reports (FIS).

# Ag Banks Grew Less

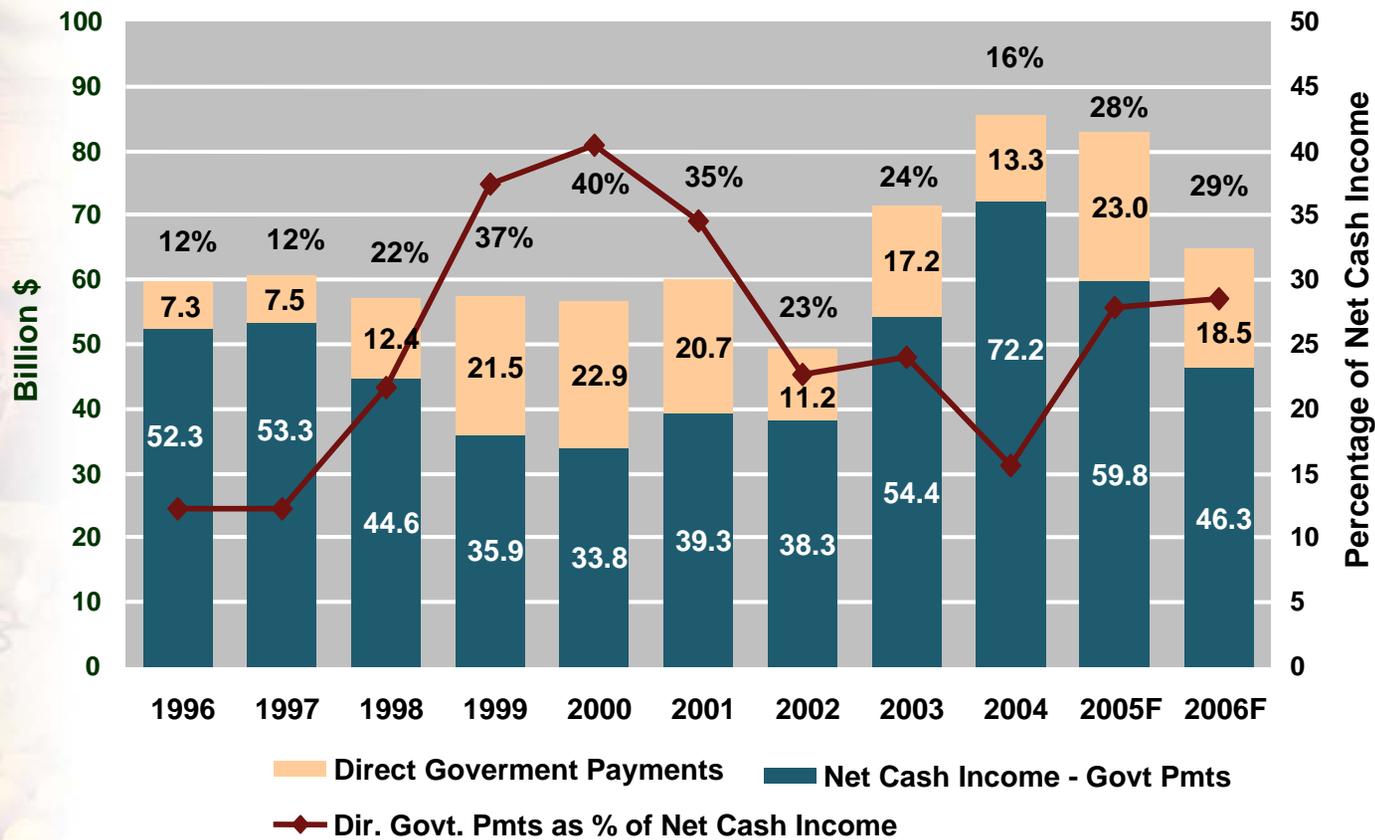
## Percent Change, 2005 v 2004

	All loans	Ag loans
All Banks	9.76	5.94
Banks with Ag loans	10.27	5.94
Ag Banks	5.33	4.93
Farm Credit System	10.28	8.71

Source: FFIEC Call Reports (FIS), FCS Annual Information Statements

# Farm Income Slipping

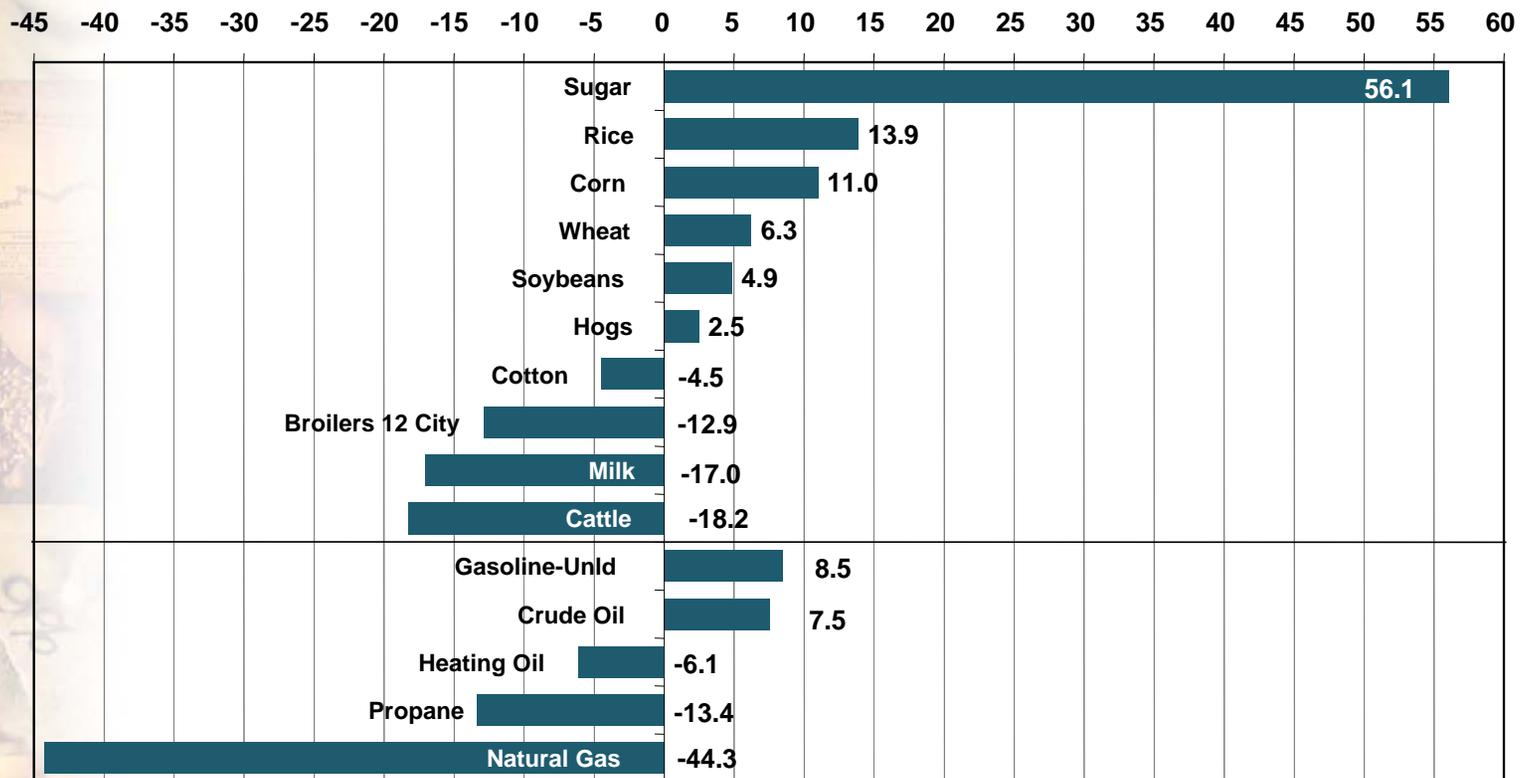
## Net Cash Income and Government Payments



Source: FCA/ORP Chart derived from USDA Data, Feb. 10, 2006.

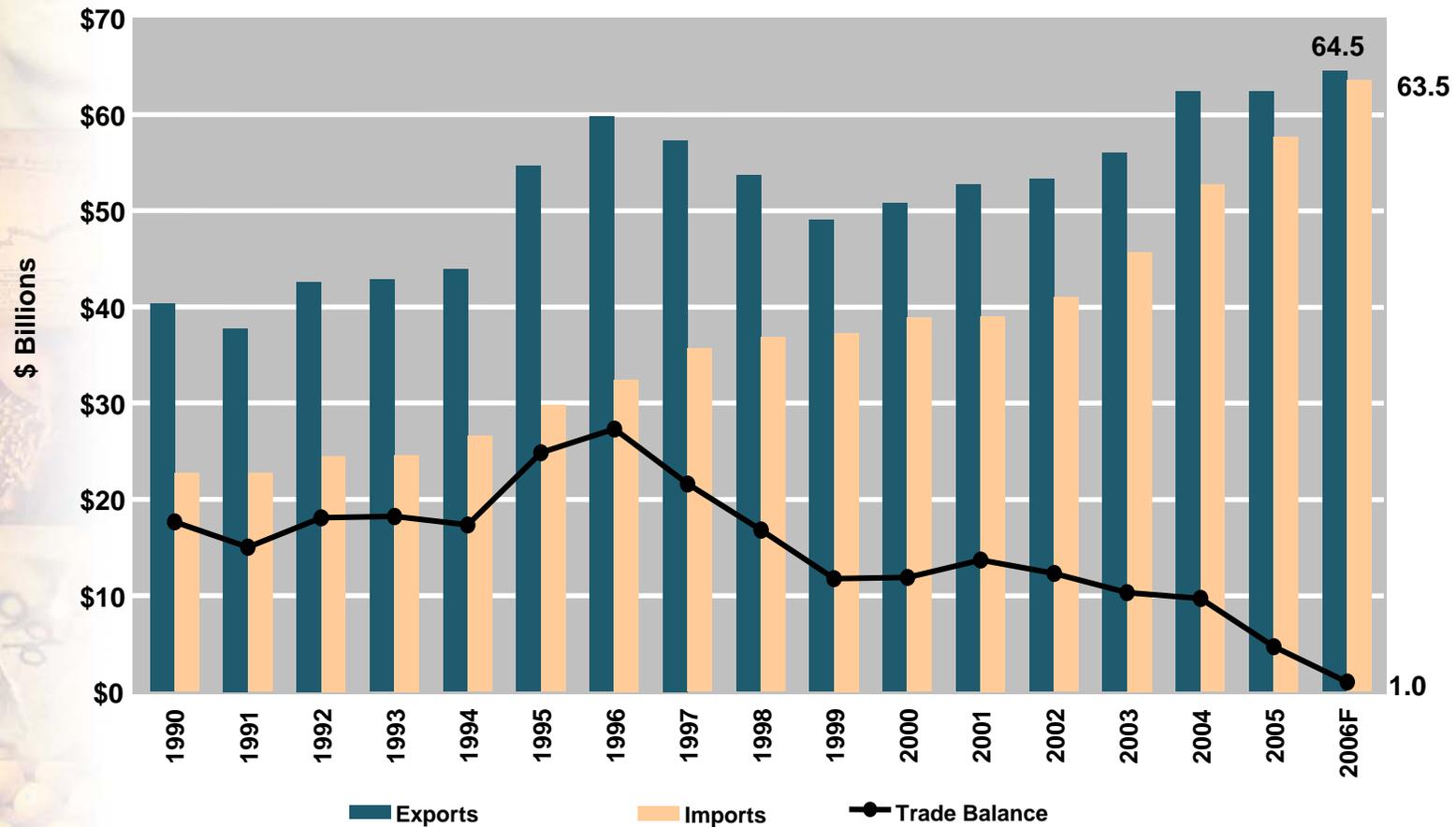
# Commodity Price Changes Since USDA's Income Forecast

Futures Prices: % Change, Oct. 10, 2005 - March 29, 2006



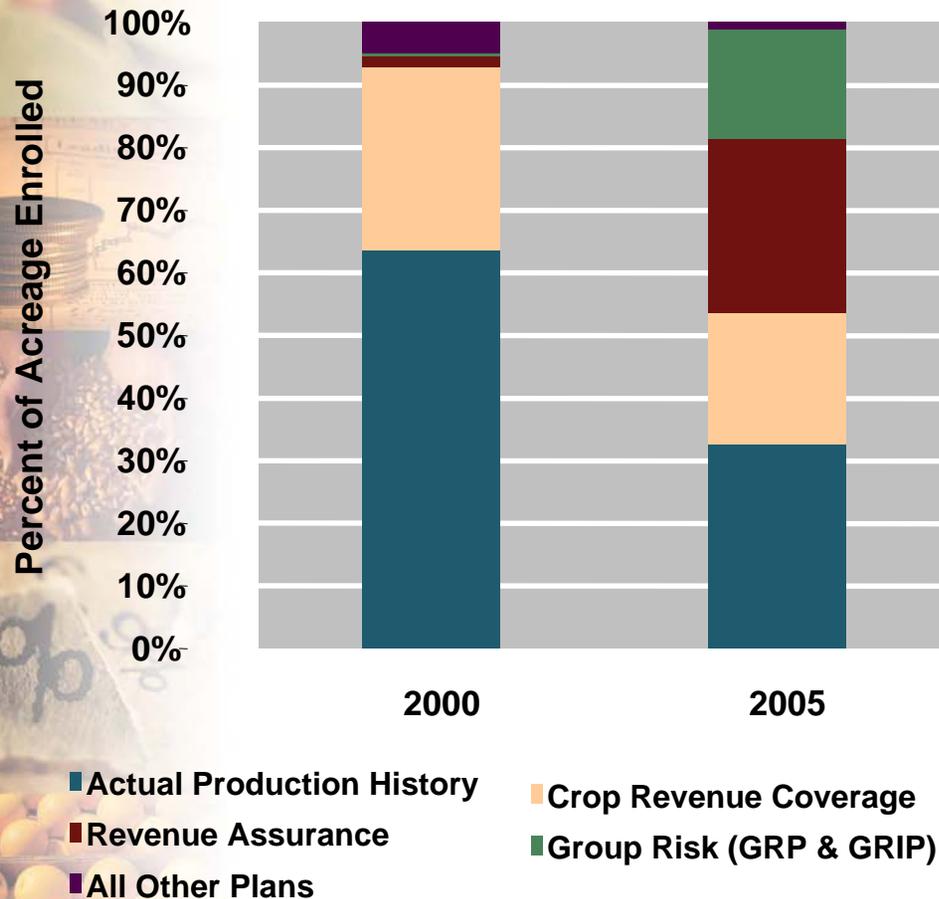
Source: FCA-ORP from Informa Economics & WSJ data; broilers & propane are cash markets; USDA's February farm income forecast was based on October 2005 market information.

# Ag Exports Projected to Rise 3% to a Record \$64.5 billion



Source: FCA-ORP chart derived from USDA data, Feb. 16, 2006.

# Crop Insurance Protection Gains New Plans Being Used Since 2000



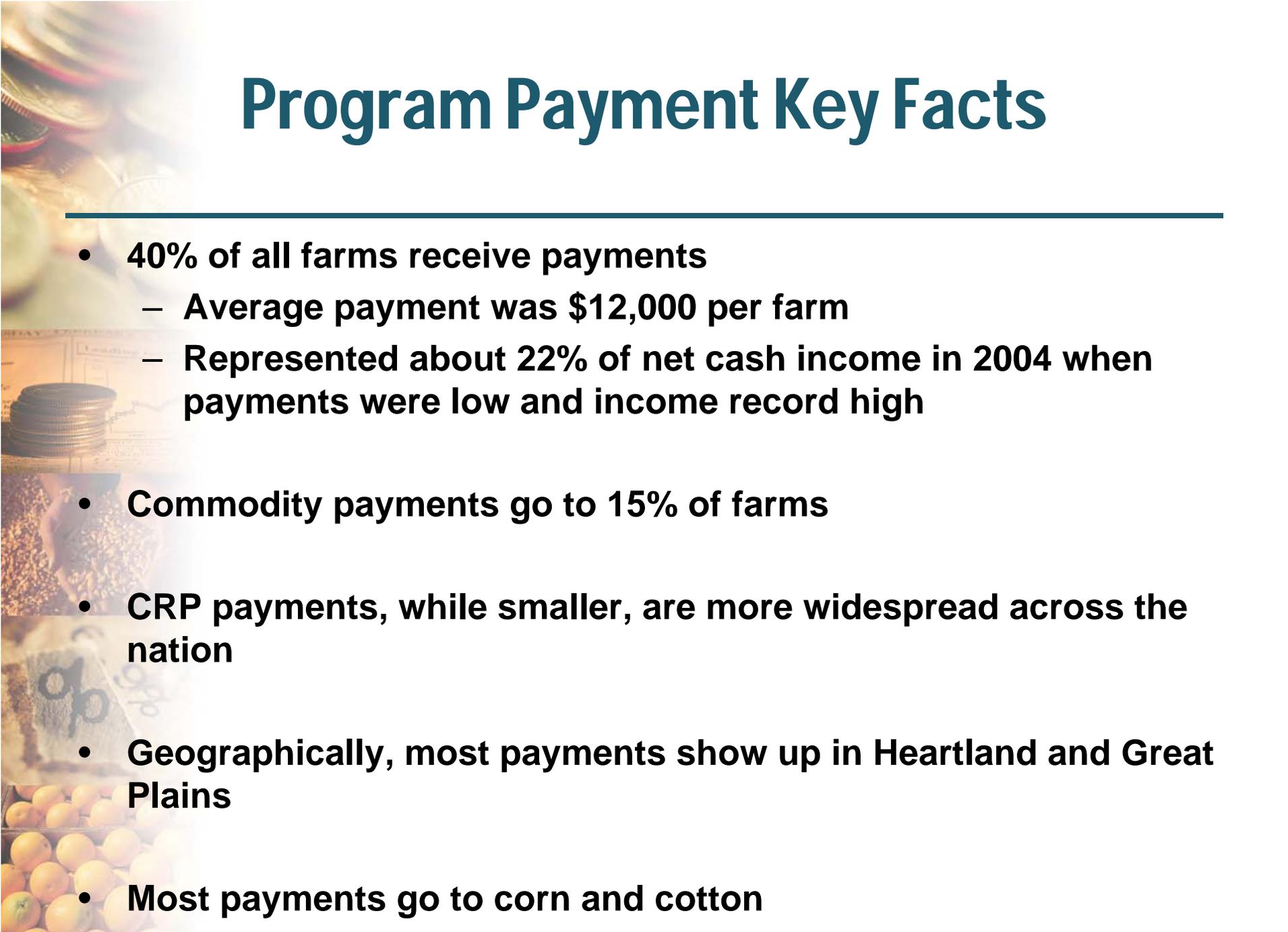
- 246 million acres, up 20%
- \$44 billion liability, + 30%
- But \$240 billion total cash marketing receipts
- Broader protection, big gains in the Revenue Assurance & Group Risk type plans
- Less use of Actual Production History & Crop Revenue Coverage plans

Source: FCA-ORP chart derived from USDA data.

# Large Operations Receive Bulk of Government Payments

Sales class (\$1,000)	% of pay- ments	% of all farms	% of farms receiving payment	Farms with Payments		
				Average payment	Avg net cash farm income	Payments as % of gross
< 10	5.5	54.4	23.6	2,091	-860	25.9
10-100	17.7	28.1	51.9	6,121	10,229	13.0
100-250	21.9	8.4	79.0	15,970	39,432	9.4
over 250	54.8	9.1	75.2	39,189	157,191	7.1
all	100.0	100.0	40.2	12,034	42,373	7.5

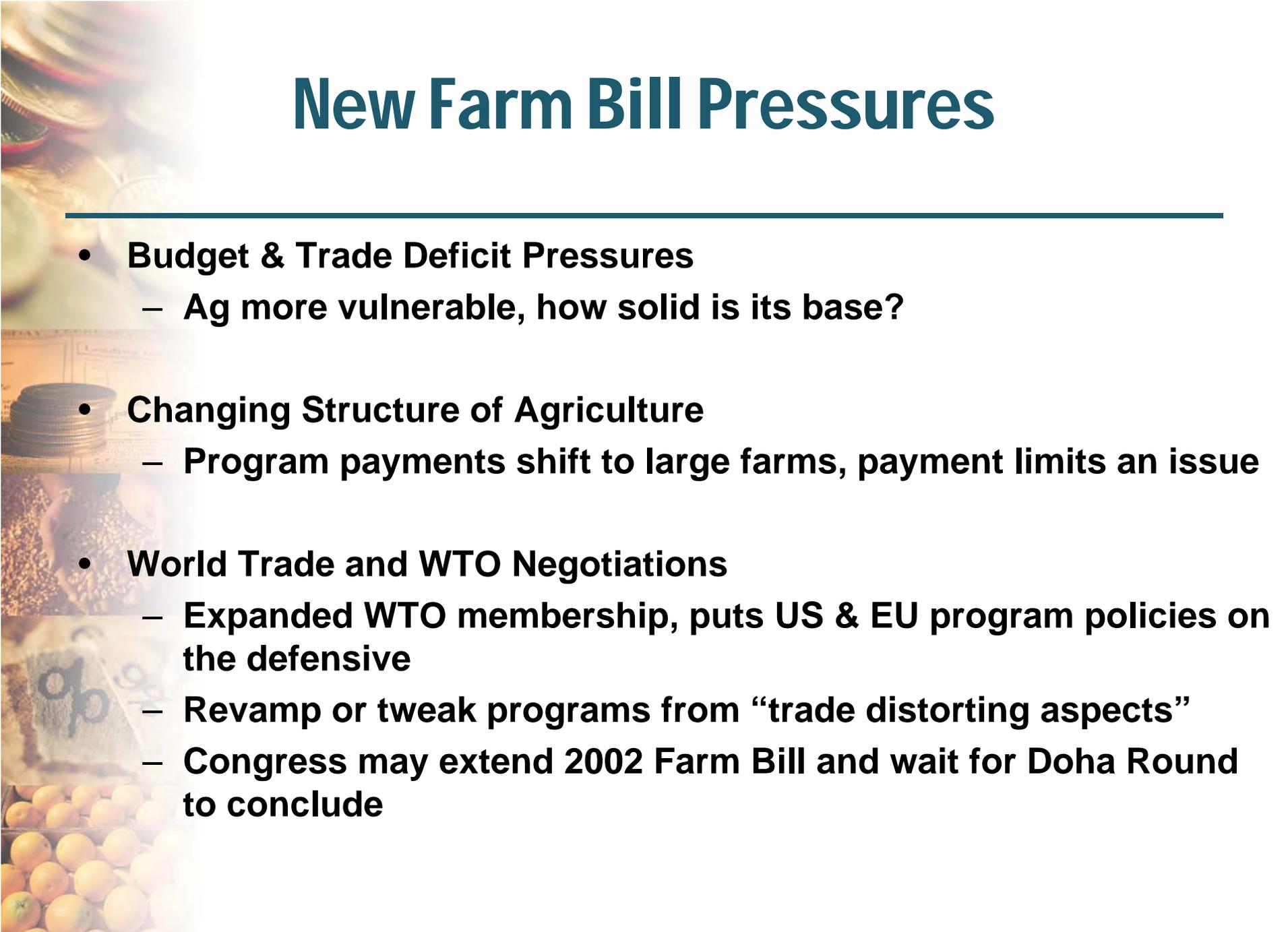
Source: 2004 USDA Agricultural Resource Management Survey.



# Program Payment Key Facts

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- **40% of all farms receive payments**
  - Average payment was \$12,000 per farm
  - Represented about 22% of net cash income in 2004 when payments were low and income record high
- **Commodity payments go to 15% of farms**
- **CRP payments, while smaller, are more widespread across the nation**
- **Geographically, most payments show up in Heartland and Great Plains**
- **Most payments go to corn and cotton**

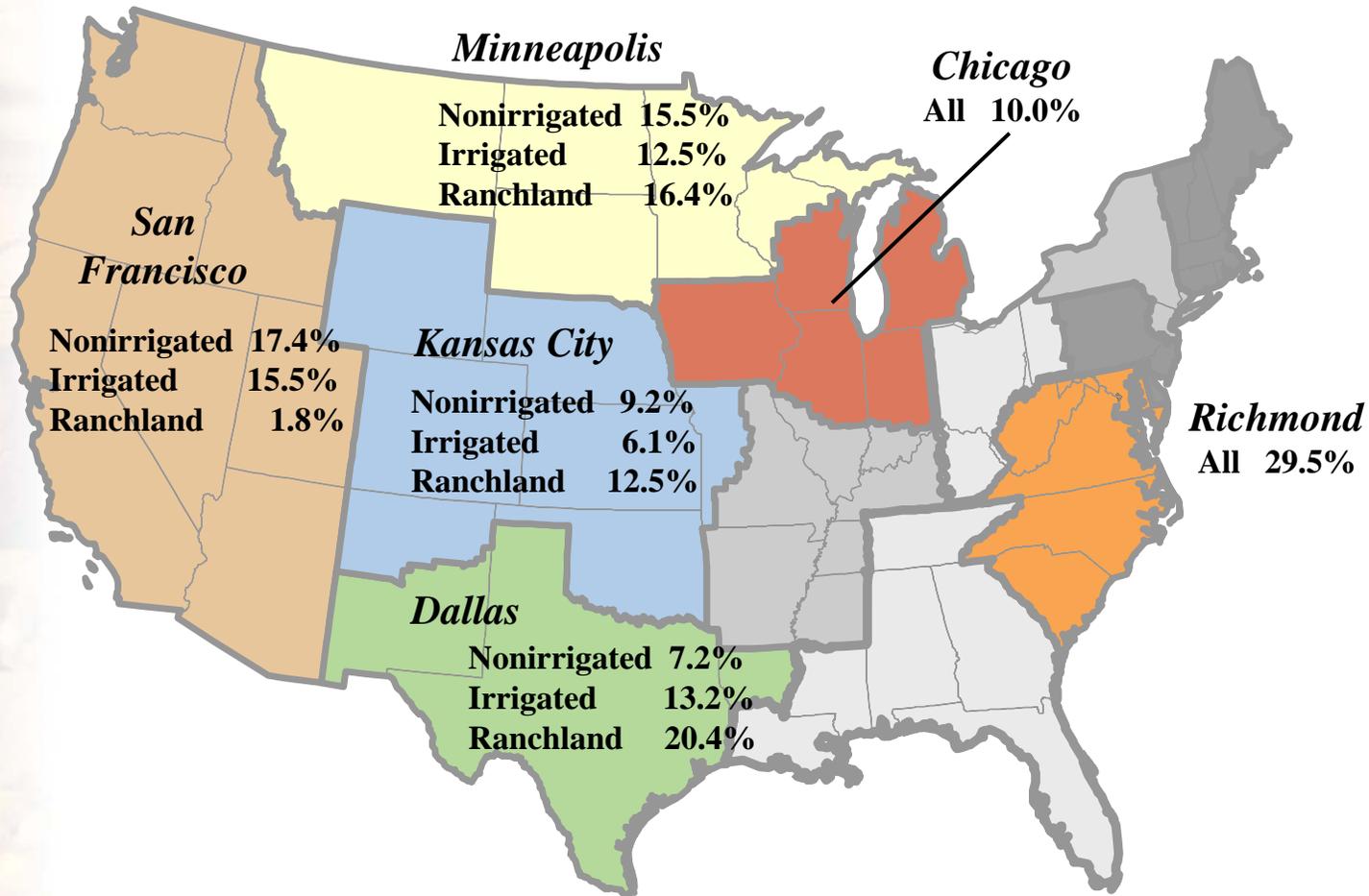


# New Farm Bill Pressures

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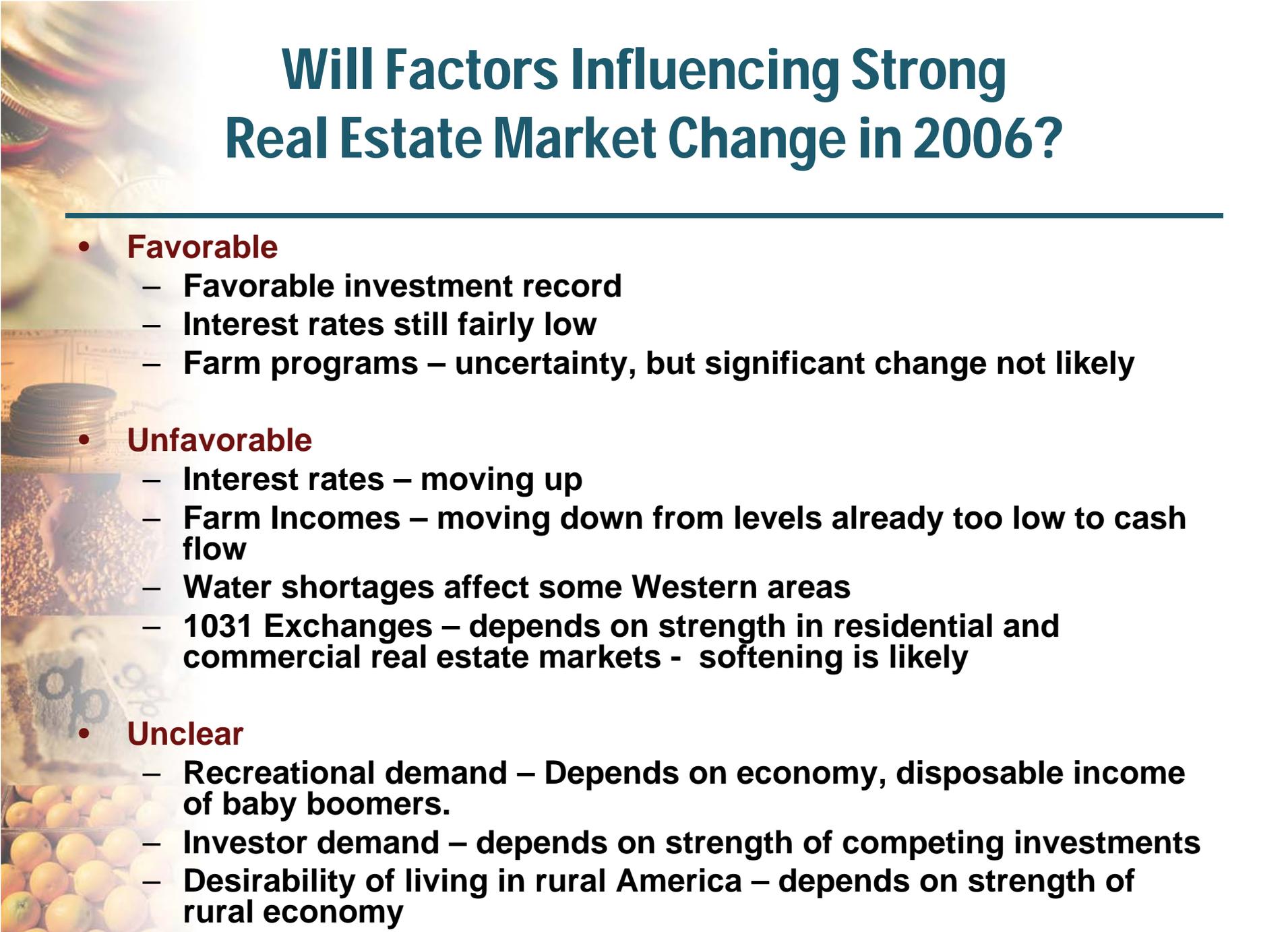
- **Budget & Trade Deficit Pressures**
  - Ag more vulnerable, how solid is its base?
- **Changing Structure of Agriculture**
  - Program payments shift to large farms, payment limits an issue
- **World Trade and WTO Negotiations**
  - Expanded WTO membership, puts US & EU program policies on the defensive
  - Revamp or tweak programs from “trade distorting aspects”
  - Congress may extend 2002 Farm Bill and wait for Doha Round to conclude

# Strong Gains in U.S. Land Values for 2005



\* Percent changes are 4<sup>th</sup> quarter 2005 over 4<sup>th</sup> quarter 2004, except Richmond which are 3<sup>rd</sup> quarter data.

Sources: Federal Reserve Banks of Kansas City, Chicago, Dallas, and Minneapolis (San Francisco computed by Kansas City).



# Will Factors Influencing Strong Real Estate Market Change in 2006?

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- **Favorable**

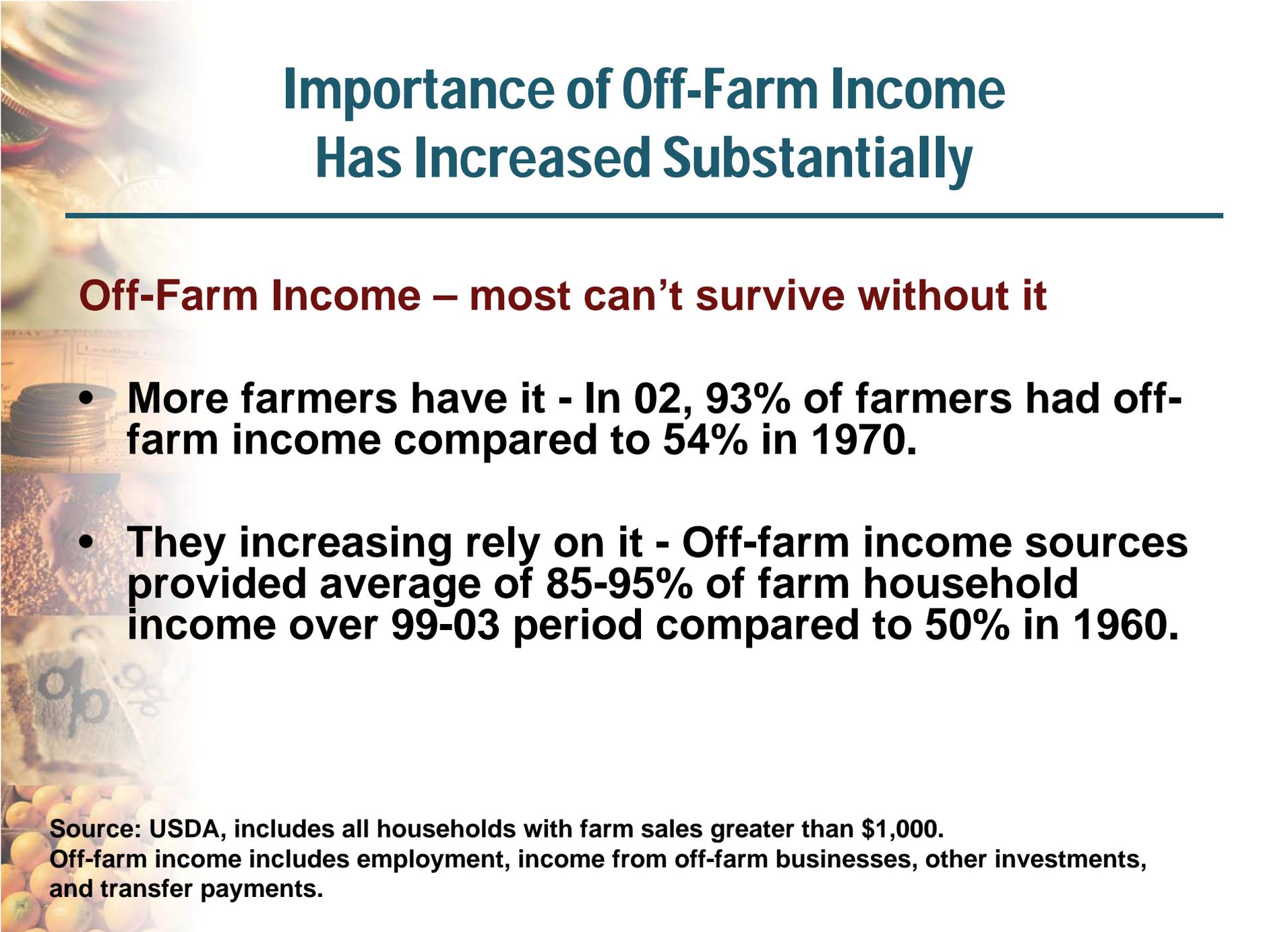
- Favorable investment record
- Interest rates still fairly low
- Farm programs – uncertainty, but significant change not likely

- **Unfavorable**

- Interest rates – moving up
- Farm Incomes – moving down from levels already too low to cash flow
- Water shortages affect some Western areas
- 1031 Exchanges – depends on strength in residential and commercial real estate markets - softening is likely

- **Unclear**

- Recreational demand – Depends on economy, disposable income of baby boomers.
- Investor demand – depends on strength of competing investments
- Desirability of living in rural America – depends on strength of rural economy



# Importance of Off-Farm Income Has Increased Substantially

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## Off-Farm Income – most can't survive without it

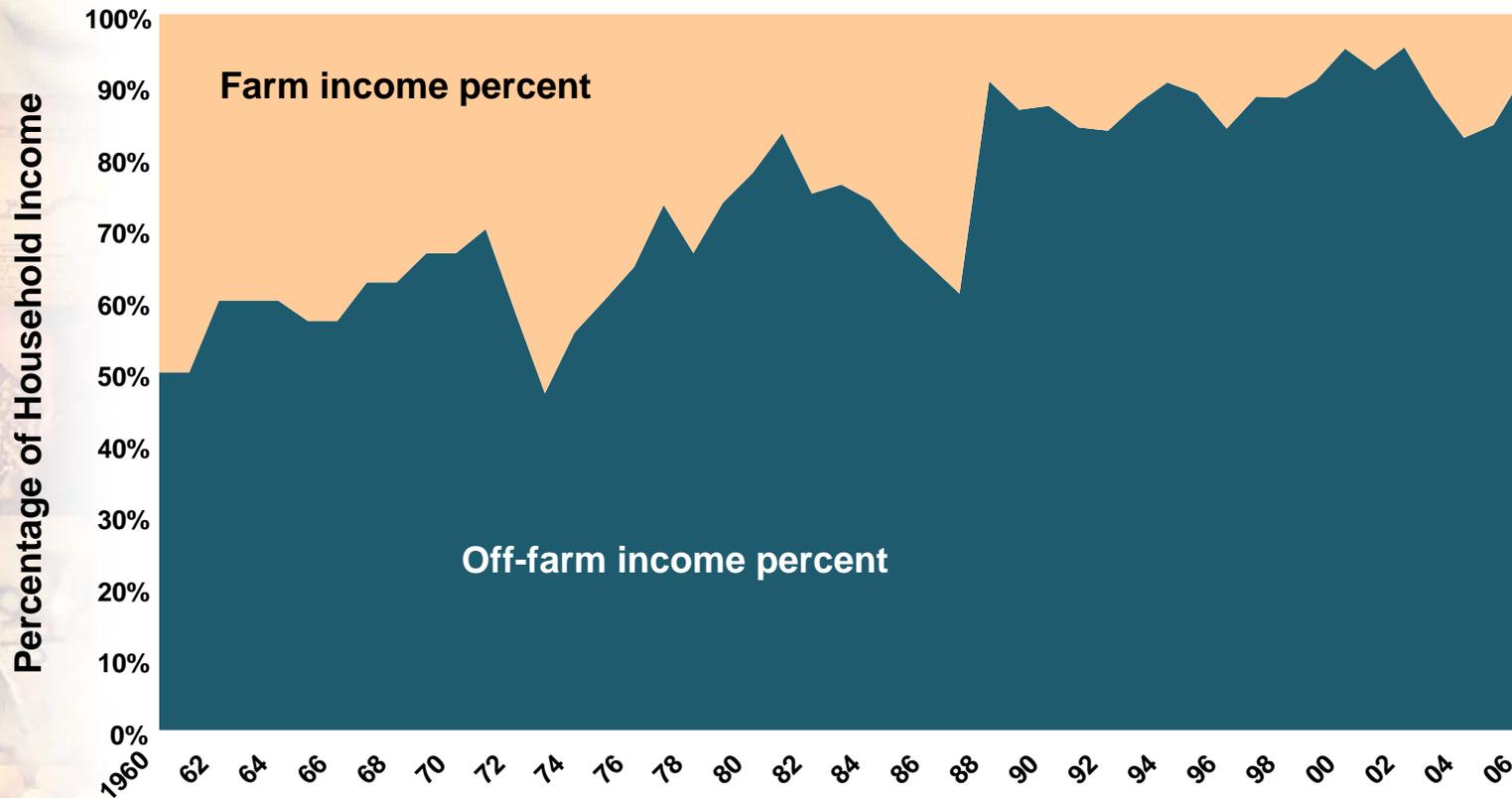
- **More farmers have it - In 02, 93% of farmers had off-farm income compared to 54% in 1970.**
- **They increasingly rely on it - Off-farm income sources provided average of 85-95% of farm household income over 99-03 period compared to 50% in 1960.**

Source: USDA, includes all households with farm sales greater than \$1,000.

Off-farm income includes employment, income from off-farm businesses, other investments, and transfer payments.

# Farm Households Have Increased Reliance on Off-Farm Income

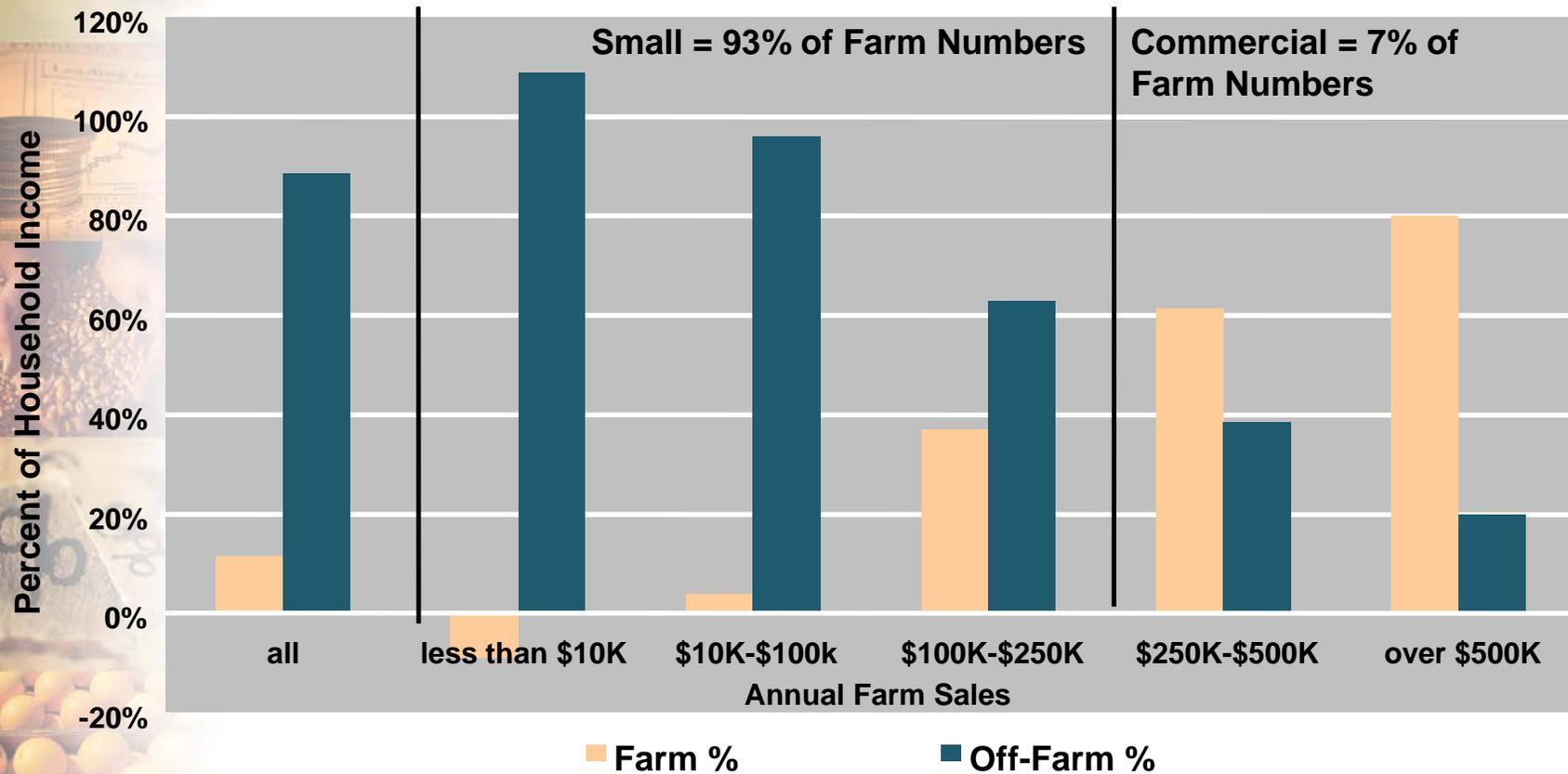
(Household Income For All Farms)



Source: FCA-ORP chart derived from USDA data.

# Small Farms Rely on Off-Farm Income

Off-Farm Income Sources Dominate for "Small" Farms



Source: FCA-ORP, Derived from USDA Data, 2003 ARMS Survey