



# FCA Board Meeting Economic Conditions April 16, 2009

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Chief Economist



# Agenda

- **Macro Economy**
- **Agricultural Economy**
- **Farm Policy**
- **Agricultural Lending**
- **Farm Credit System Funding**

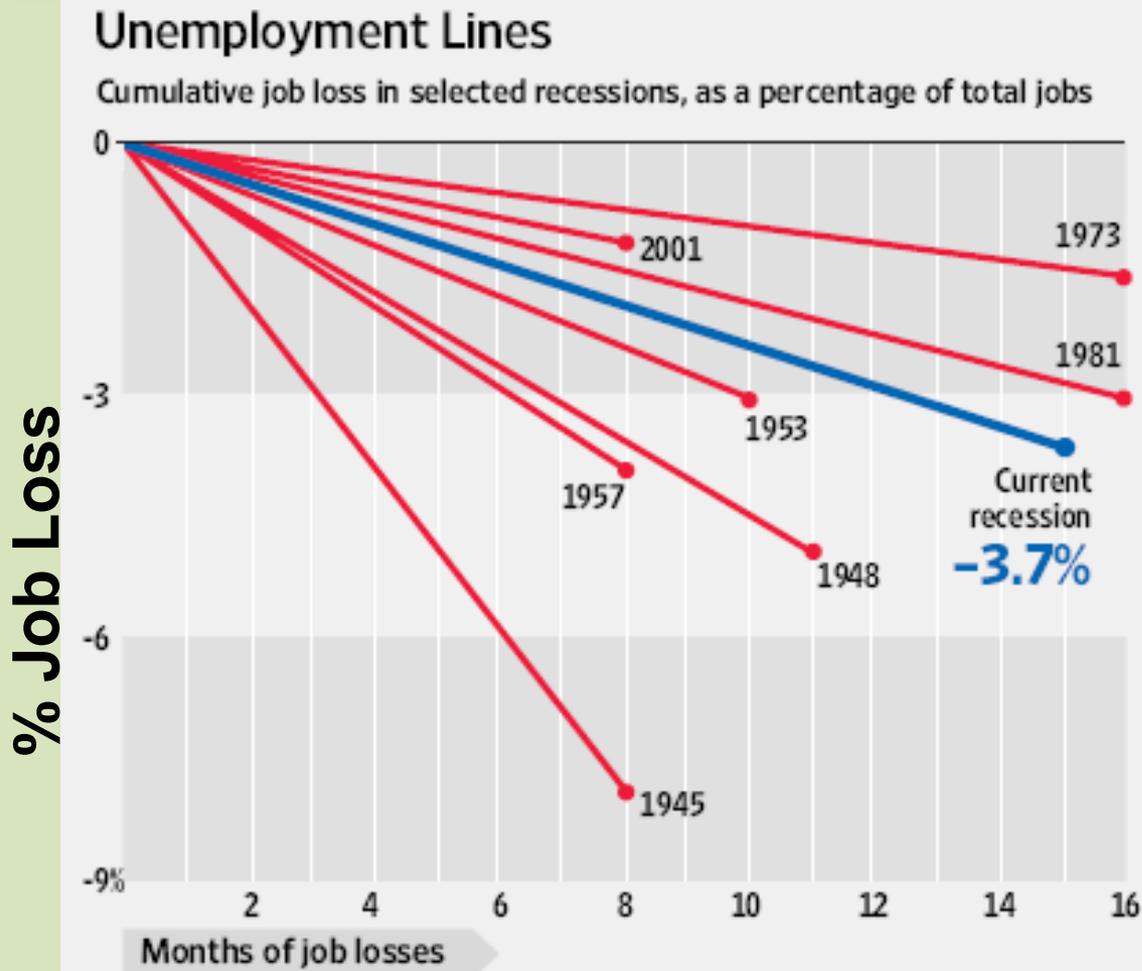


# Macro Economy in Recession

- **Deep and prolonged recession**
- **Increasing loss of jobs**
- **Decline in global growth and trade**
- **Collapse in housing prices continues**
- **Loss in consumer confidence and spending**
- **Crisis in banking and financial markets**
- **Unprecedented fiscal & monetary actions**



# Longest Recession with Highest Job Loss Since 40's



TOTAL JOBS LOST DURING THIS RECESSION

**5.1 million**

JOBS LOST IN MARCH

**663,000**

UNEMPLOYMENT RATE

**8.5%**

WORST UNEMPLOYMENT RATE SINCE

**1983**

Sources: National Bureau of Economic Research; Labor Department

Source: WSJ, April 3, 2009



# Consumers Now Borrowing Less and Saving More

## Household Borrowing and the Personal Saving Rate

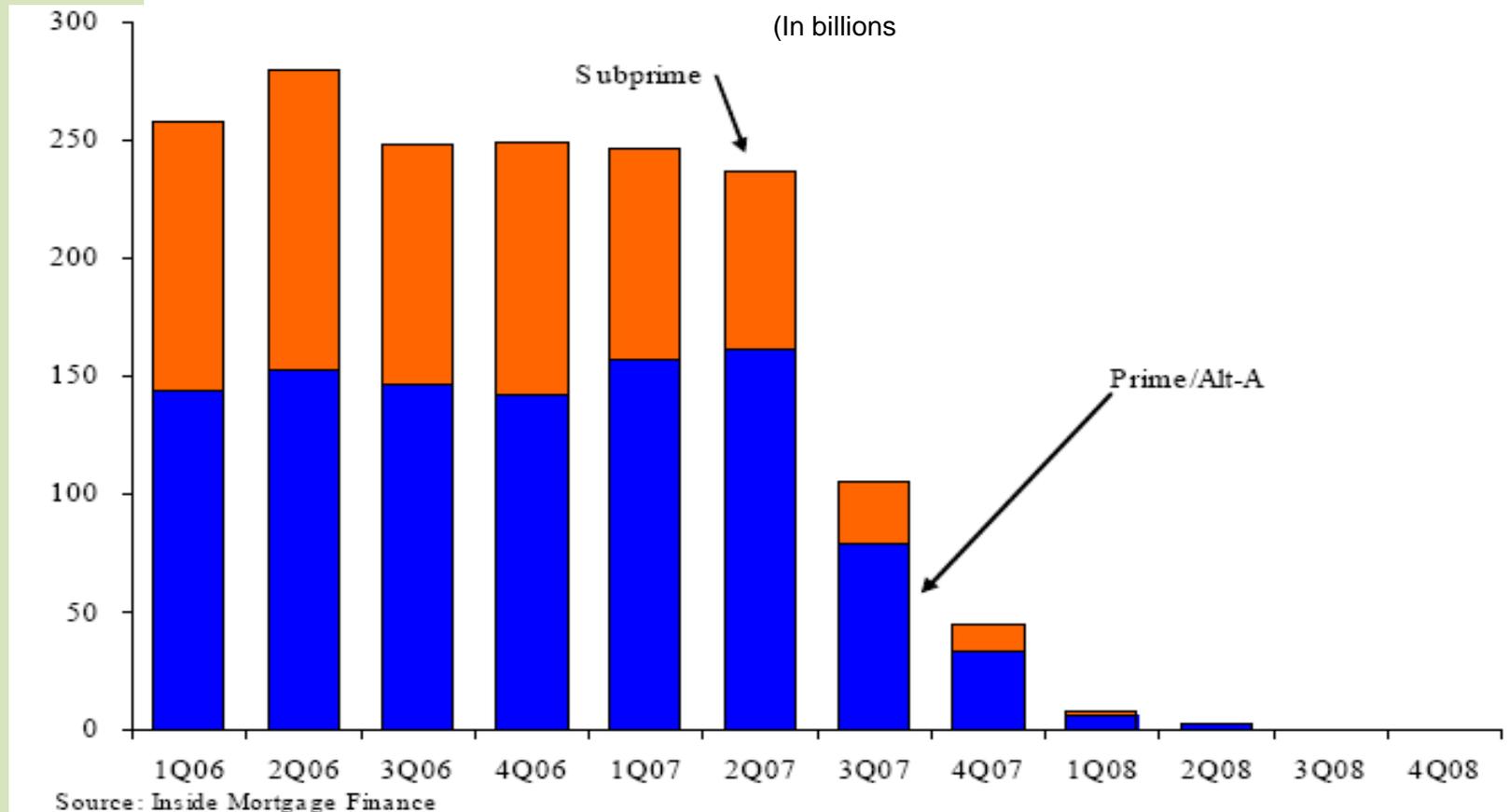


SOURCE: Federal Reserve Board and Bureau of Economic Analysis.



# Securitized Mortgage Market has Collapsed

## Issuance of Private-Label Residential Mortgage-Backed Securities

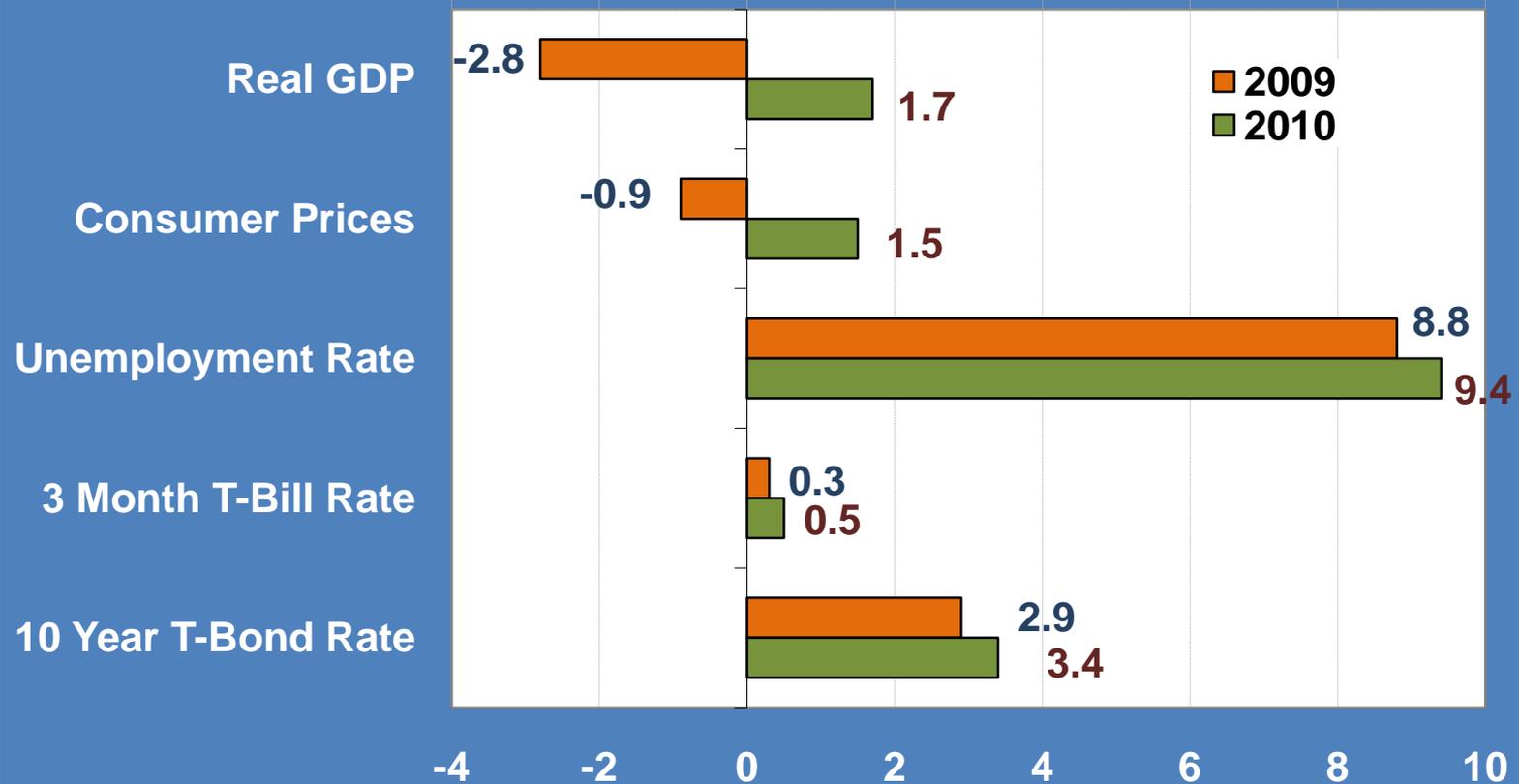


FDIC, Brown, NEC luncheon, 2/27/09



# Macroeconomic Outlook – Key Forecast Indicators 2009 and 2010

## U.S. Economic Indicators, 2009 and 2010 Forecasts\*



\*Average % Change on Previous Year; Unemployment Rate & Treasuries are %; Treasuries are rates at end of June 2009 and March 2010

Source: FCA/ORP based on Consensus Economics, March 9, 2009.



# Macro Economy: Potential Impacts on Agricultural Economy

## Negative

- Stronger dollar = fewer exports
- Declining growth = less food demand, fewer exports
- Non-farm job loss = lower farm family income

## Mixed

- Low oil prices = **positive** for livestock  
**negative** for most crops
- Very low inflation = **positive** for production costs  
**negative** for commodities

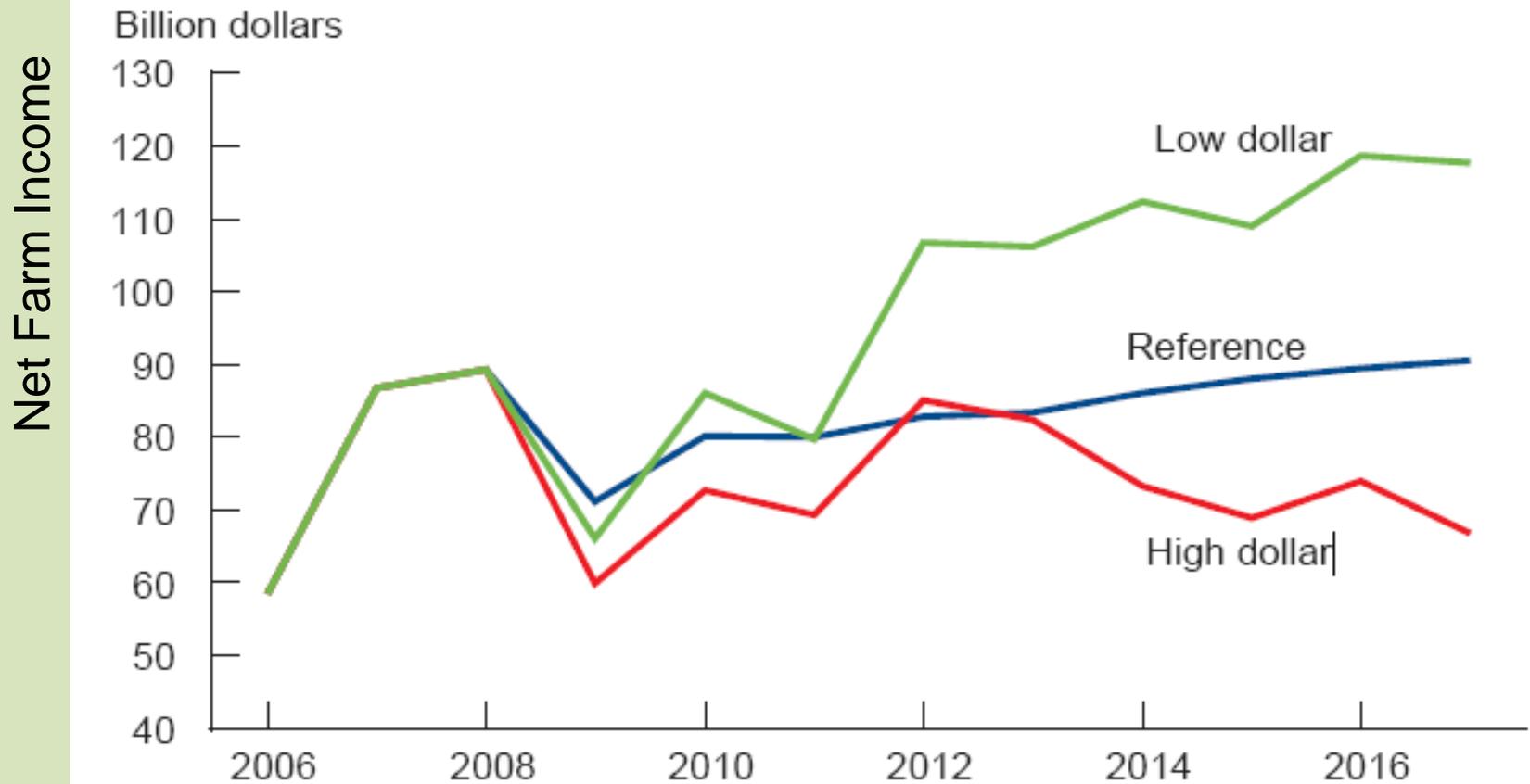
## Positive

- Metro area housing stress <> stress in rural housing
- Low interest rates = lower input costs, support to land prices



# Value of Dollar will be Significant Factor in Determining Farm Income

*Exchange rate scenarios make a difference to farm income*



Source: USDA, Economic Research Service.



# Recession's Impact on Largest Agricultural Export Markets

## 5 Top Importers Purchase 60% of U.S. Ag Exports

Rank	Country	% of total U.S. ag exports (FY 09F)	#1 / #2 import Crops	GDP Growth %		
				08	09	10
1	Canada	15.8	veg/fruit	.5	-1.8	2.3
2	Mexico	14.8	corn/soy	1.4	-2.0	1.8
3	Japan	10.5	corn/ red meat	-0.7	-5.3	1.5
4	China	9.5	soy/fish	9.0	6.5	7.5
5	EU- Area	9.1	soy/nuts	0.7	-2.7	.9
	<b>World</b>			1.9	-1.7	2.3

Source: FCA/ORP data from USDA ERS and World Bank, Global Economic Prospects, 3/30/09 & Consensus Economics, March 12, 2009



# Two-Thirds of Farmers have Off-Farm Wages

	Rural Residential*	Intermediate**	Commercial (Sales >\$250K)	All
Number Farms	1.312M	541K	166K	2.019M
% of farms	65%	27%	8%	100%
% of farms with debt	23%	31%	63%	28%
<b>% of farms with off-farm wages</b>	<b>73%</b>	<b>54%</b>	<b>54%</b>	<b>67%</b>
% of farms with off-farm business income	23%	26%	19%	23%
% of total income from off-farm sources	105%	96%	25%	90%

\*Rural Residential includes limited resource, retirement, and residential lifestyle farms.

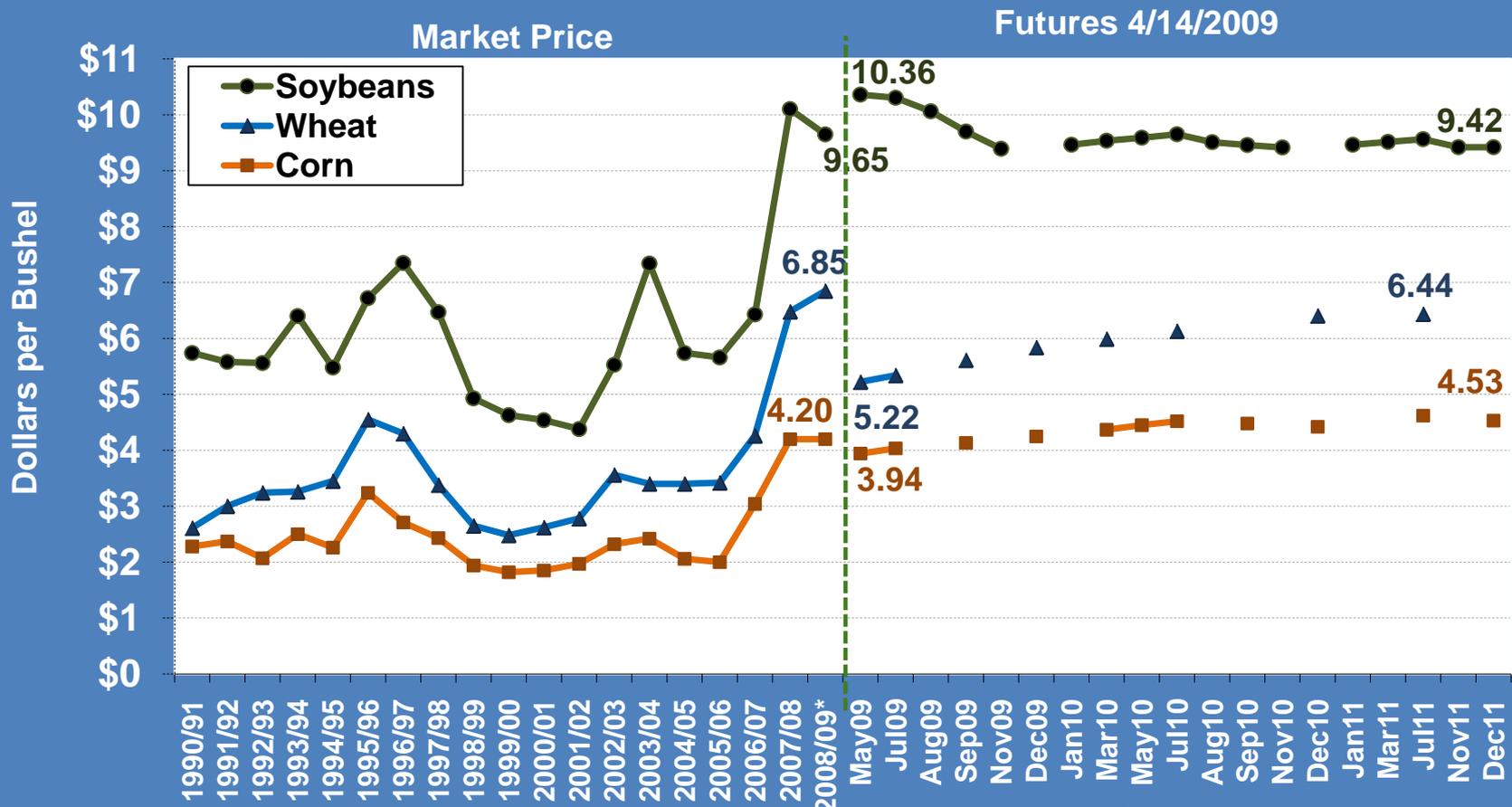
\*\*Intermediate includes farms with less than \$250K sales where farming is the major occupation.

Source: FCA/ORP data from 2007 USDA ARMs survey



# Crop Prices not Expected to Increase Significantly

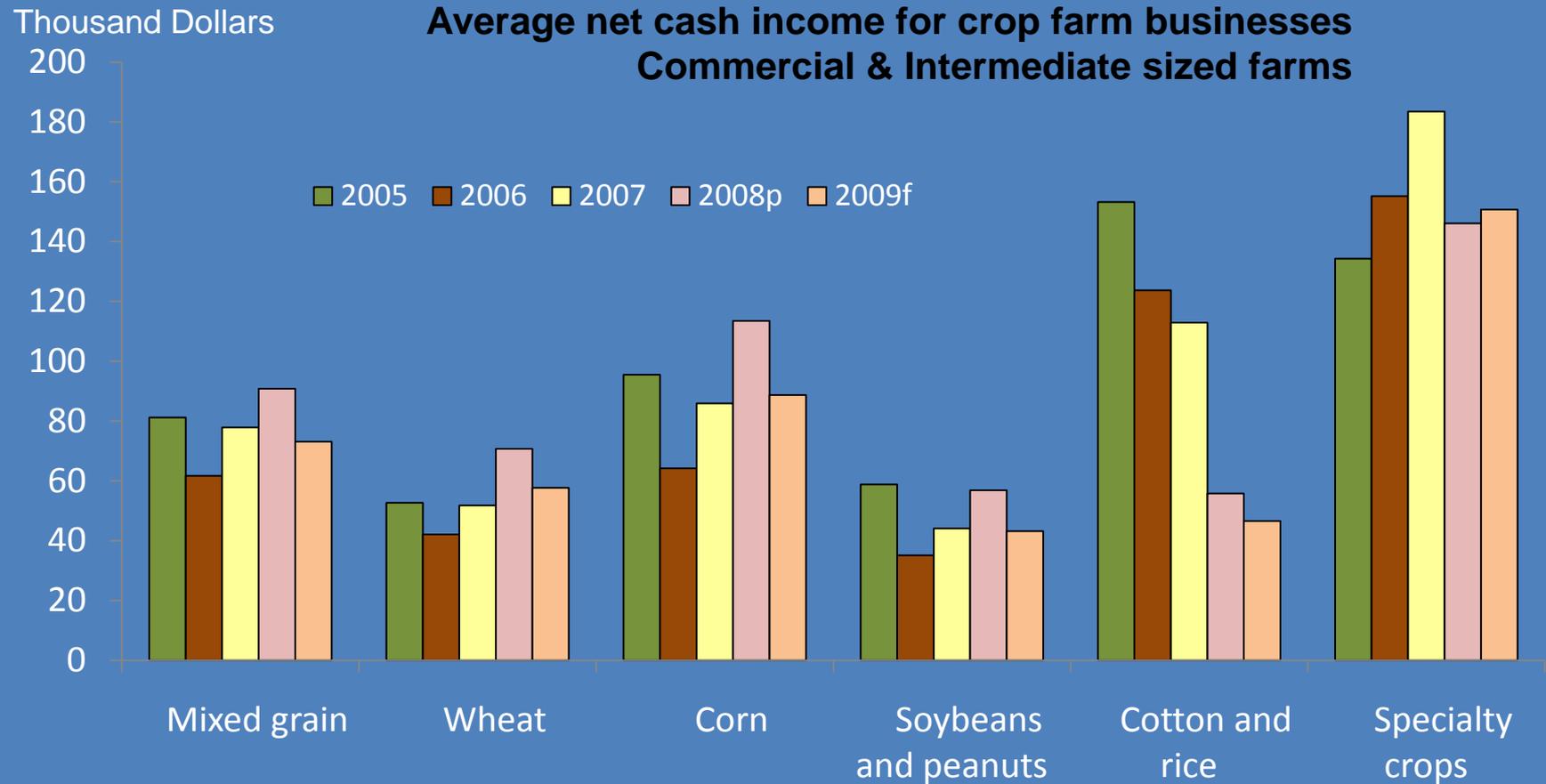
## Crop Prices: U.S. Farm Price and Futures



2008/09\* = Average of price range forecast, 2008/09 crop year.  
 Source: FCA-ORP from USDA data and Chicago Board of Trade data.



# Lower Business Income for Major Crops in 2009

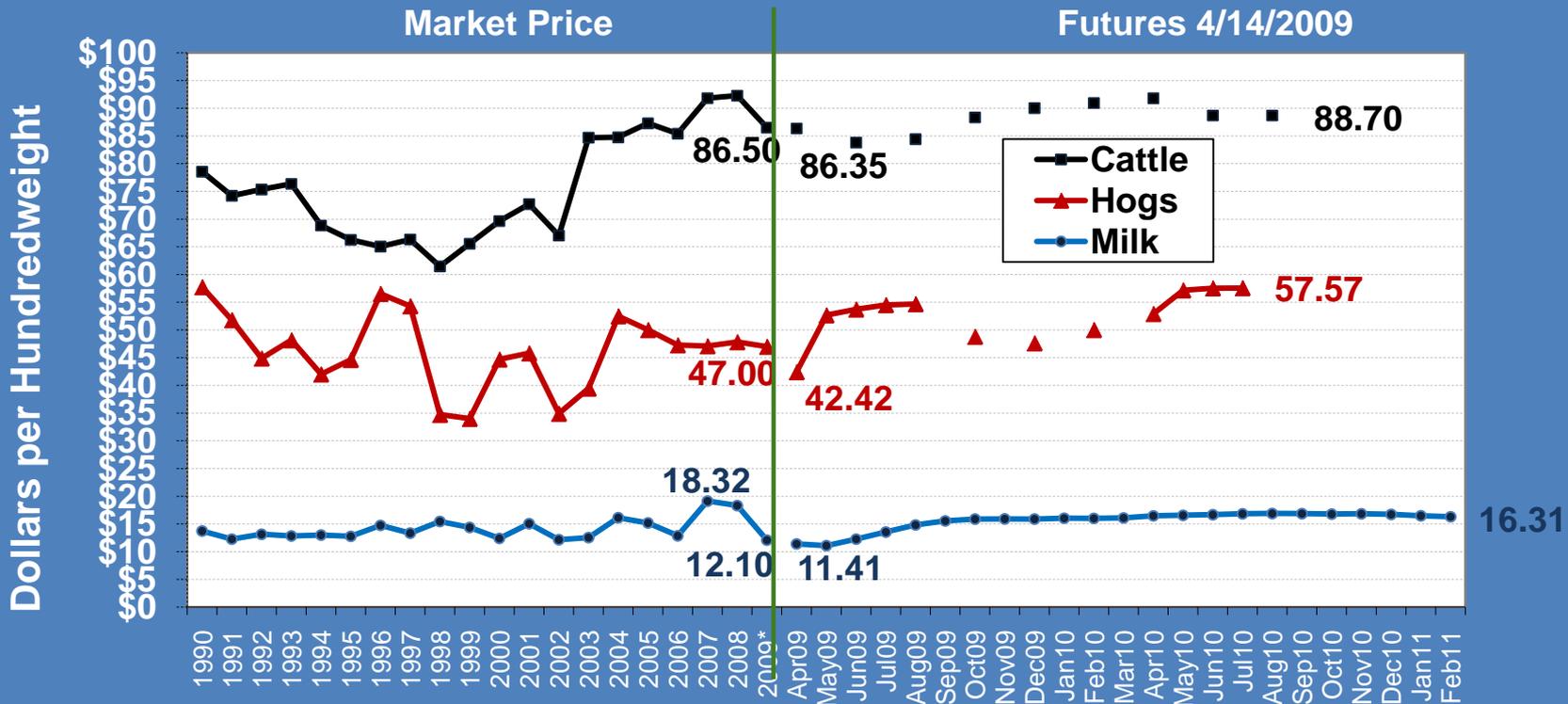


Source: USDA, ERS



# Livestock Markets Begin to Recover in 2009

## Livestock: Market and Futures Prices



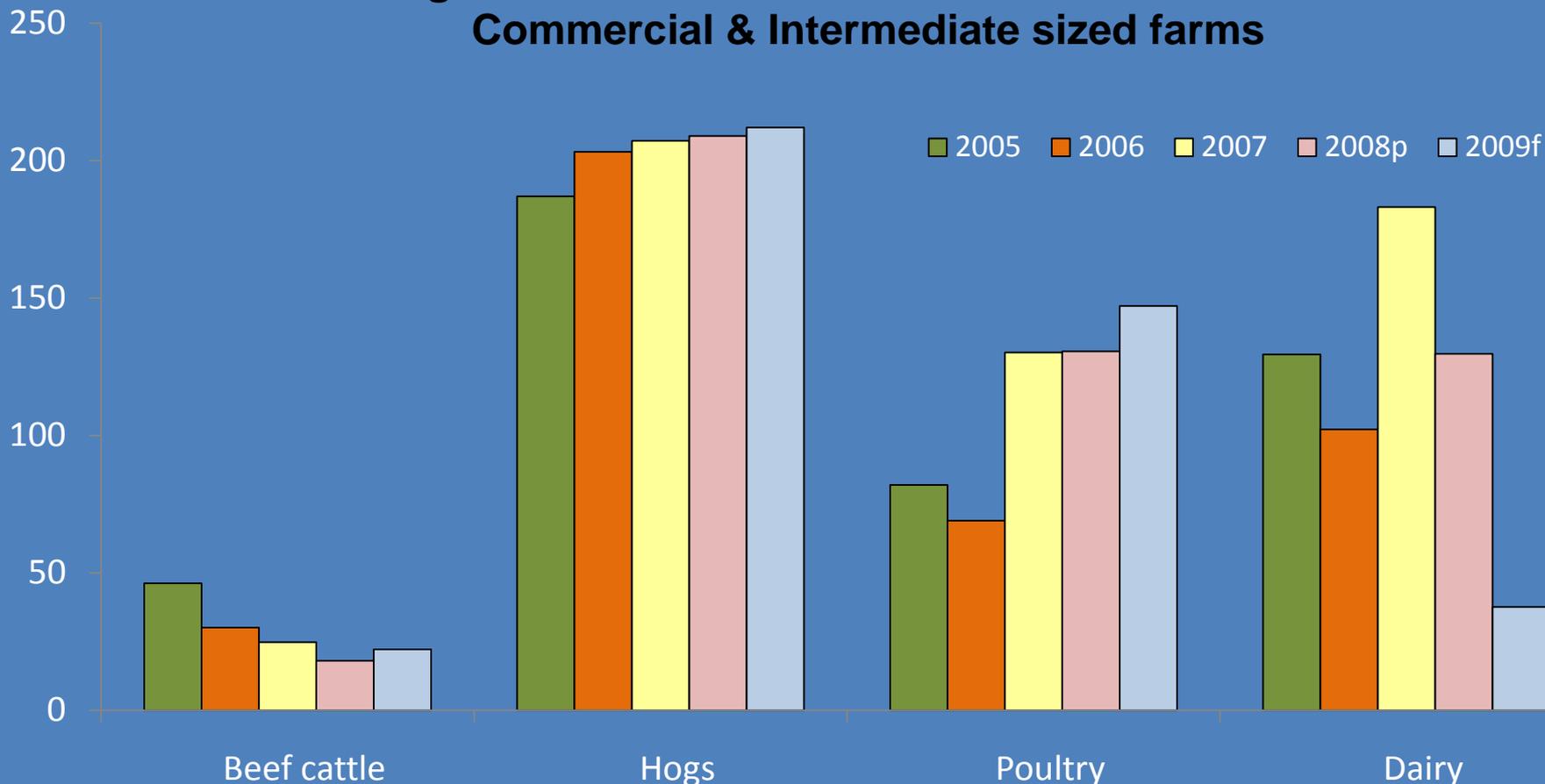
Note: Hog futures converted to live basis by applying 0.74 Live-to Carcass conversion factor.  
 Milk "Futures" = 3-year average ratio of All Milk price to Class III price times Class III futures.  
 2009\* = Average of price range forecast for 2009.  
 Source: FC



# Sharply Lower Business Income for Dairy Producers in 2009

Thousand Dollars

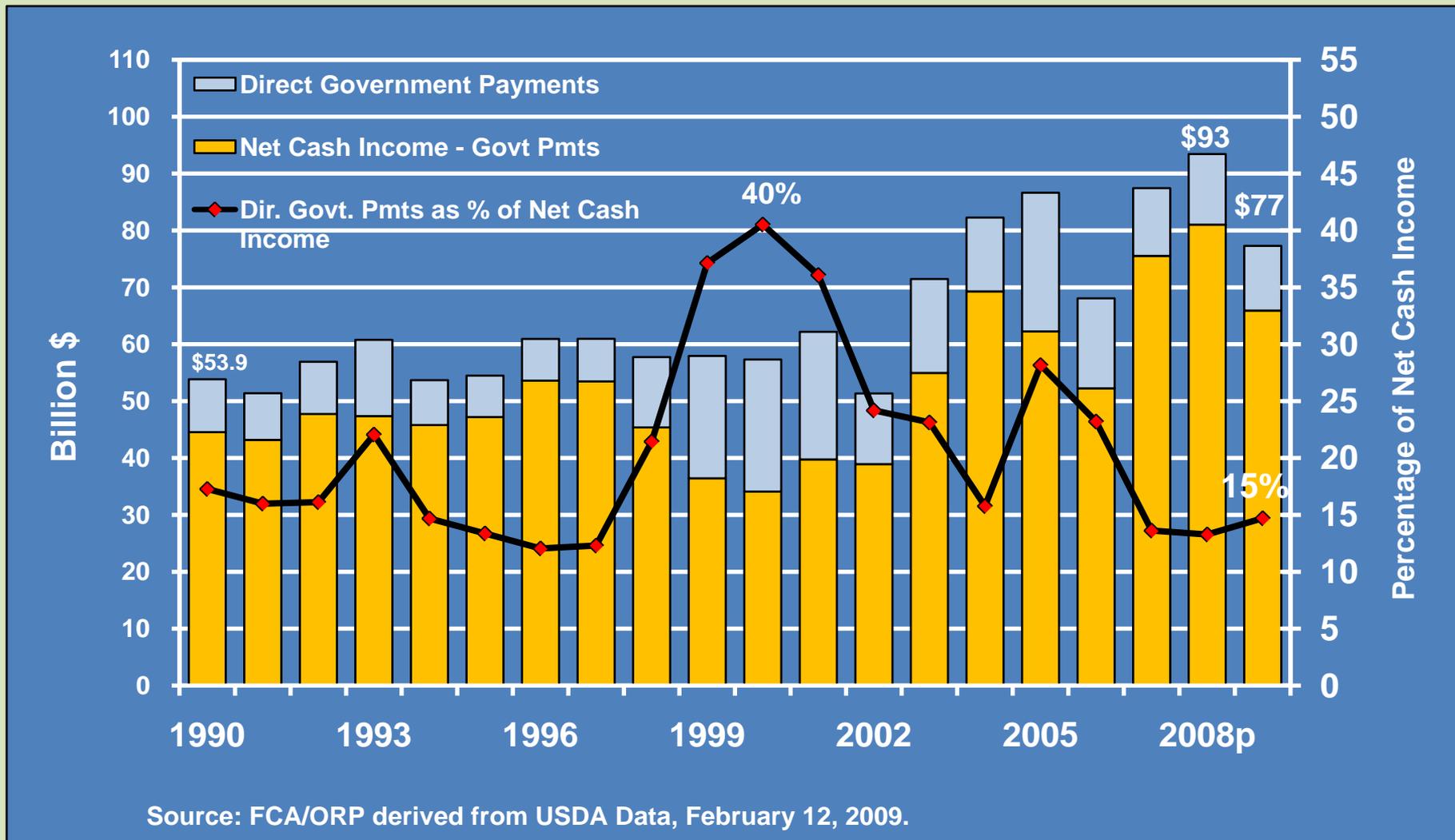
## Average net cash income for livestock farm businesses Commercial & Intermediate sized farms



Source: USDA, ERS



# Net Cash Income To Drop From Record Highs





# Other Factors Impacting Agricultural Economy

- **Farm land values**
  - Q4 08 Fed surveys - quarterly declines of 2-4%
  - Further weakening likely
- **Weather**
  - Drought
  - Water availability uncertain
- **Biofuels**
  - Ethanol plant margins weak



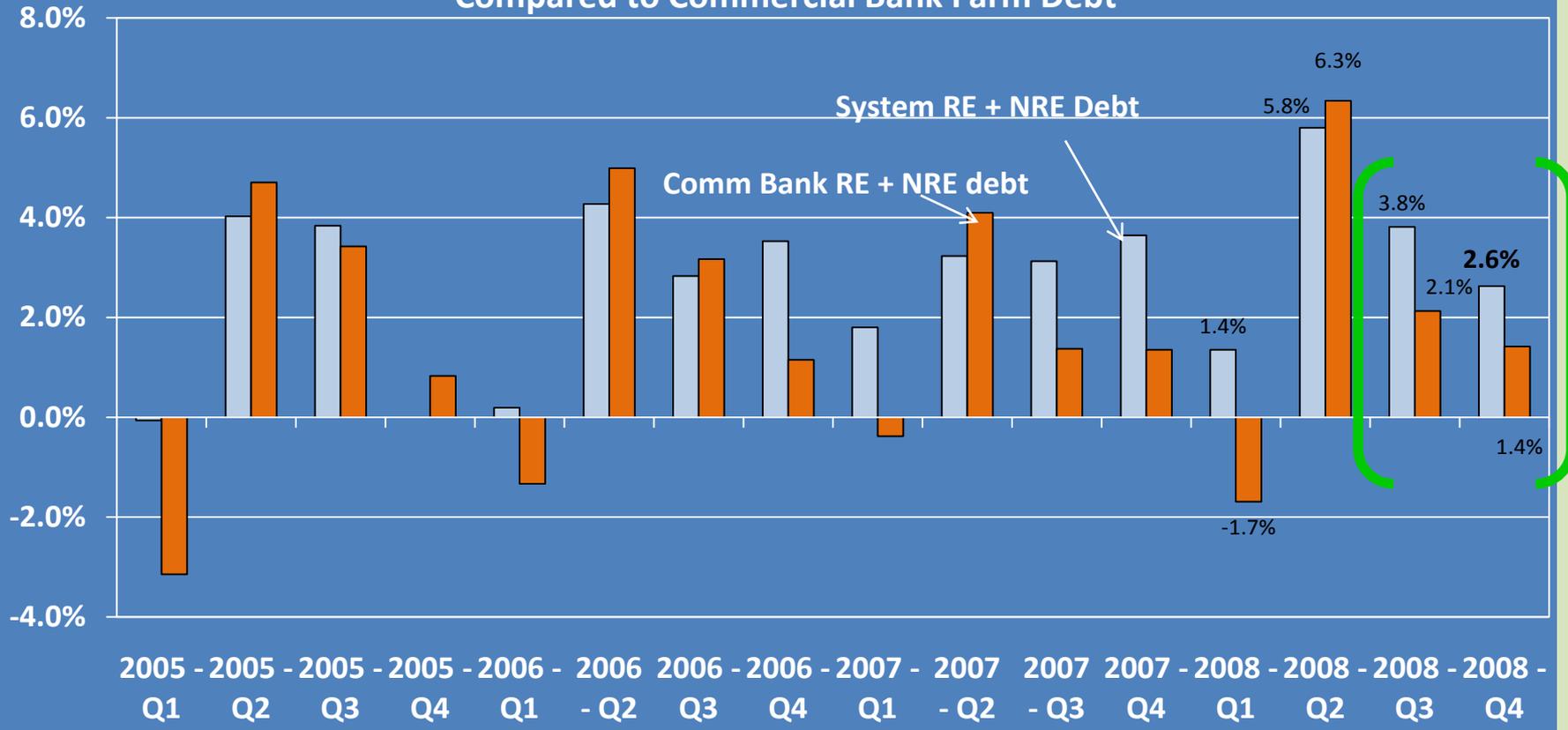
## Farm Policy Now Focuses on Revenue (not price) Risk

- **Optional approaches lower revenue risk**
  1. **Average Crop Revenue Election Program (ACRE)**
  2. **Supplemental Revenue Assistance Program (SURE)**
- **Sign-ups for ACRE cut traditional program benefits**
- **Crop insurance important risk management tool**
- **Stricter eligibility and tighter limits**



# System and Commercial Bank Farm Lending Grew During Credit Crunch of Q4; System Grew Fastest

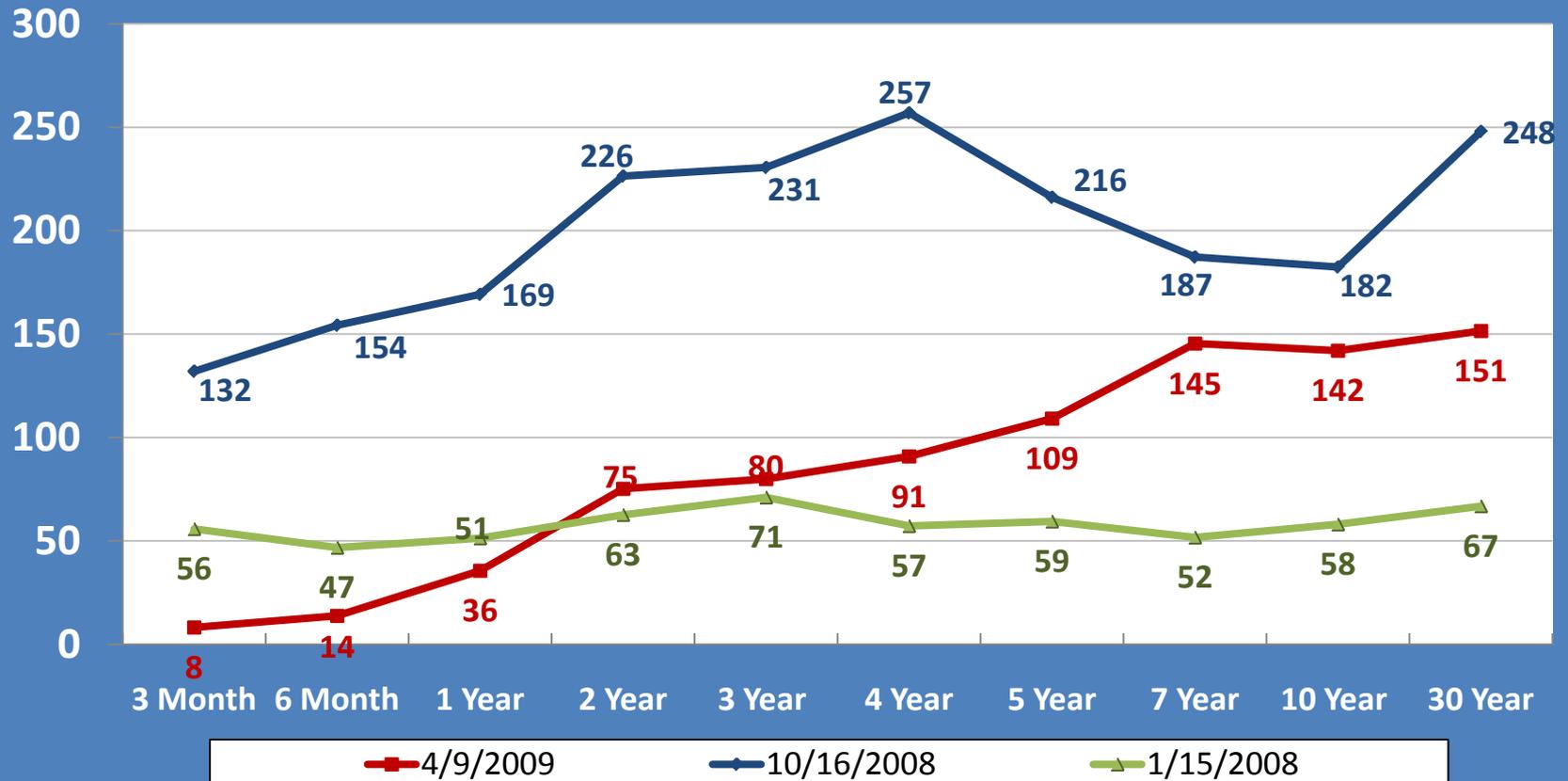
Quarterly Percentage Changes in System Farm RE + NRE Debt Compared to Commercial Bank Farm Debt



Source: ORP data from System Info Statement & Federal Reserve Ag Databook



# FCS Spreads Over Treasuries Still High for Longer Term Debt, but Improved



Source: FCA-ORP from Funding Corporation & Bloomberg data.



## Rising Risks Call for Careful Oversight of System

- **Economy in serious recession—recovery likely slow**
- **Ag export markets weaker**
- **Off-farm income vulnerable to recession**
- **Current actions contribute to uncertainty for inflation and interest rates**
- **Farm income weaker in 2009**
- **Ethanol margins remain weak**
- **Land values weakening**
- **Credit is available for farmers**
- **Challenging financial markets for System funding**



# Contact Information

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