



10-2010

# Economic Outlook 2011: U.S. Economy and Agriculture

Craig Infanger

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**Economic Outlook 2011**  
**U.S. Economy and Agriculture**

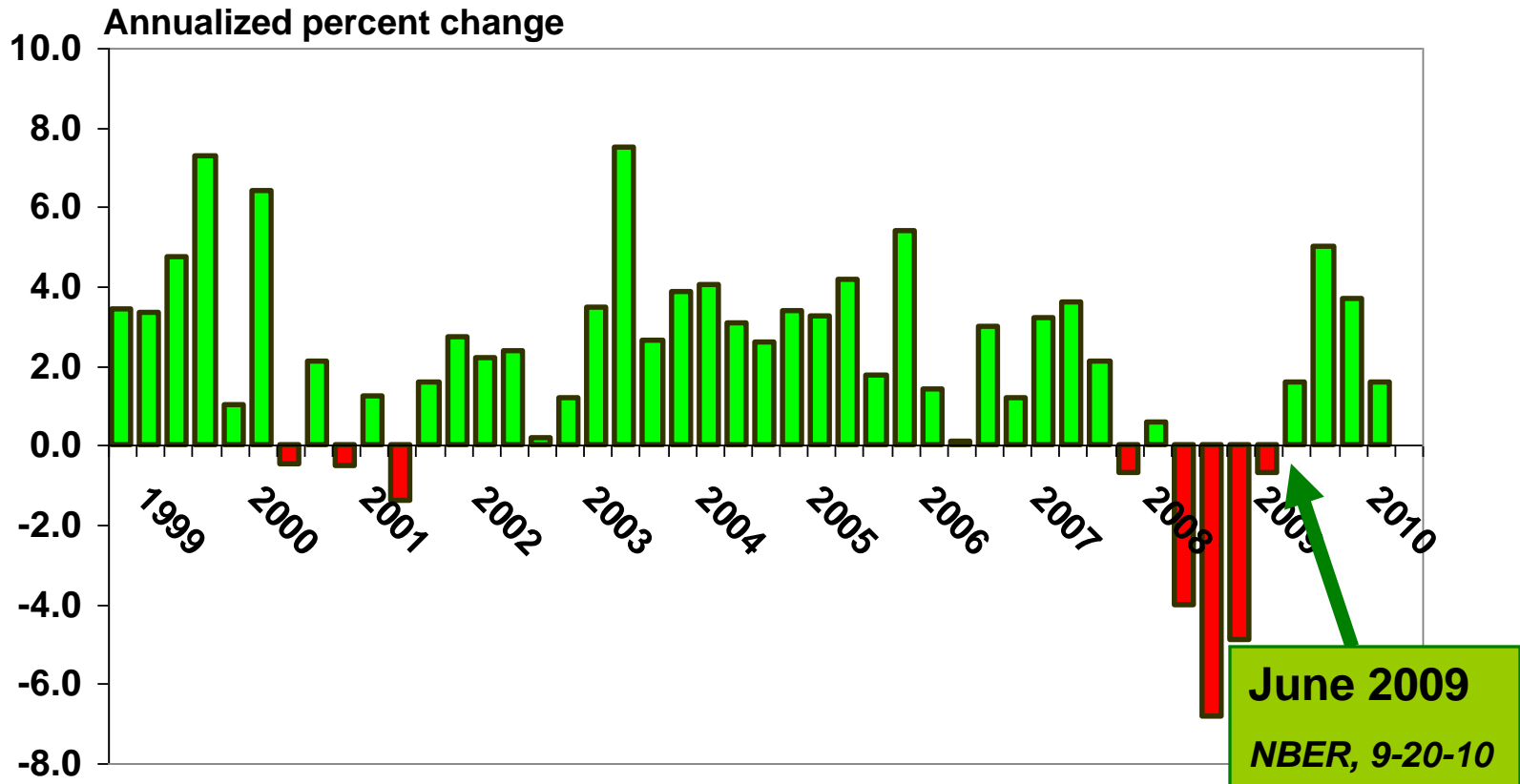
**Economic Subject Matter Meetings**  
**October 2010**

Craig Infanger



# Slow Economic Recovery

## *Quarterly Change in U.S. Real GDP*



Source: Bureau of Economic Analysis

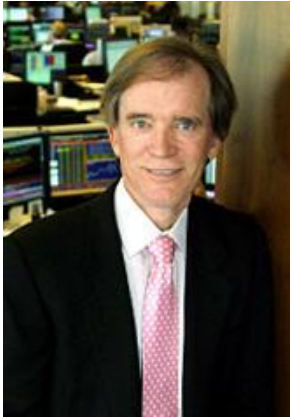


**I don't think anyone fully understands yet how much damage was done to the U.S. economy by the events of September 2008.**

*Daniel Henninger*

*WSJ 9-10-09*

## • The talk about “the new normal”?



**Bill Gross**

The world has changed since early '08 or even '09. The next 10 years will involve deleveraging, re-regulation, and deglobalization. Countries will become more protective in terms of mild tariffs or currency devaluation. The result is a "new normal" of slower growth in the U.S. and global economies.

If an economy grew at 3% to 4% annually over the last 10 years, then it'll grow at 1.5% to 2% over the next 10. We expect returns will be half of what they were in the past decade.

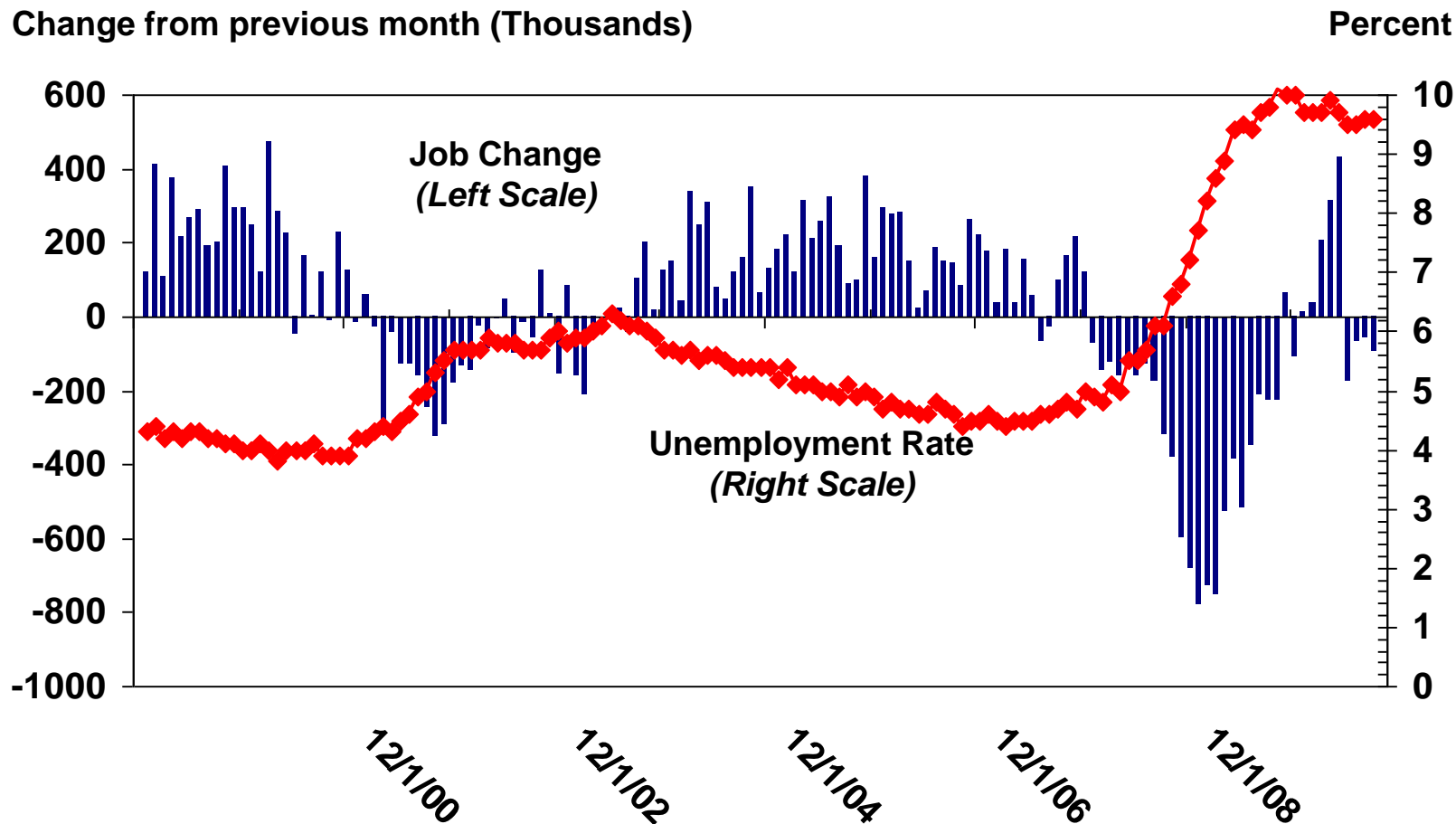


**Jeremy Siegel**

I reject Bill Gross's thesis of the "new normal." I don't believe we'll see slow growth. You have to talk about productivity growth, and that depends on innovation and research. We may be entering a golden age of such innovation because of the explosion of the Internet and international communication. That's what produces breakthroughs.

# Jobless Recovery

## Change in Payroll Employment and Unemployment Rate



Source: Bureau of Labor Statistics

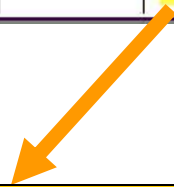


HOUSEHOLD DATA  
NOT SEASONALLY ADJUSTED

A-34. Unemployed persons by reason for unemployment, sex, age, and duration of unemployment

(Percent distribution)

Reason, sex, and age	August 2010						
	Total unemployed		Duration of unemployment				
	Thousands of persons	Percent	Less than 5 weeks	5 to 14 weeks	15 weeks and over		
					Total	15 to 26 weeks	27 weeks and over
Total, 16 years and over .....	14,759	100.0	17.8	26.7	55.5	13.0	42.5

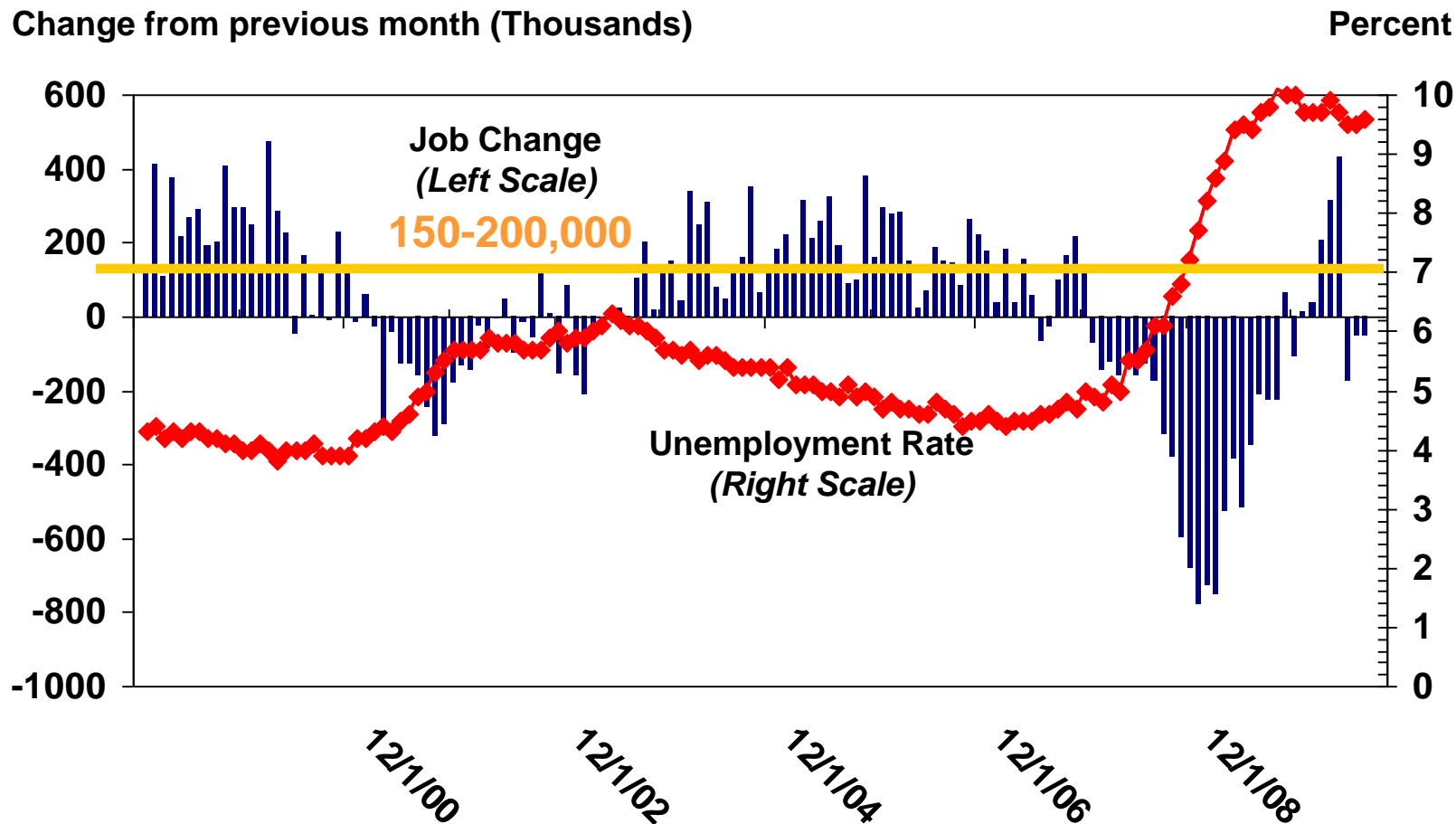


**6.3 million long-term unemployed**



# Jobless Recovery

## Change in Payroll Employment and Unemployment Rate



Source: Bureau of Labor Statistics

## ***Some simple math about “Jobless recovery” and KY agriculture***

- **What is the official definition of a “farm”?**

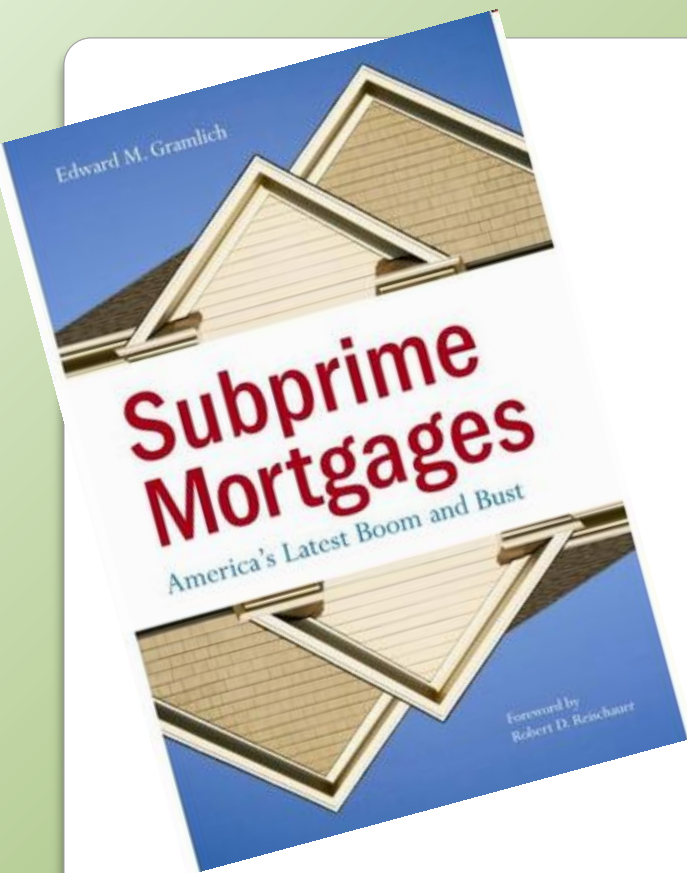
**“any operation that sells at least \$1000 of agricultural commodities or would have sold that amount of produce under normal circumstances.”**

**KY = ~ 85,000 “farms”**

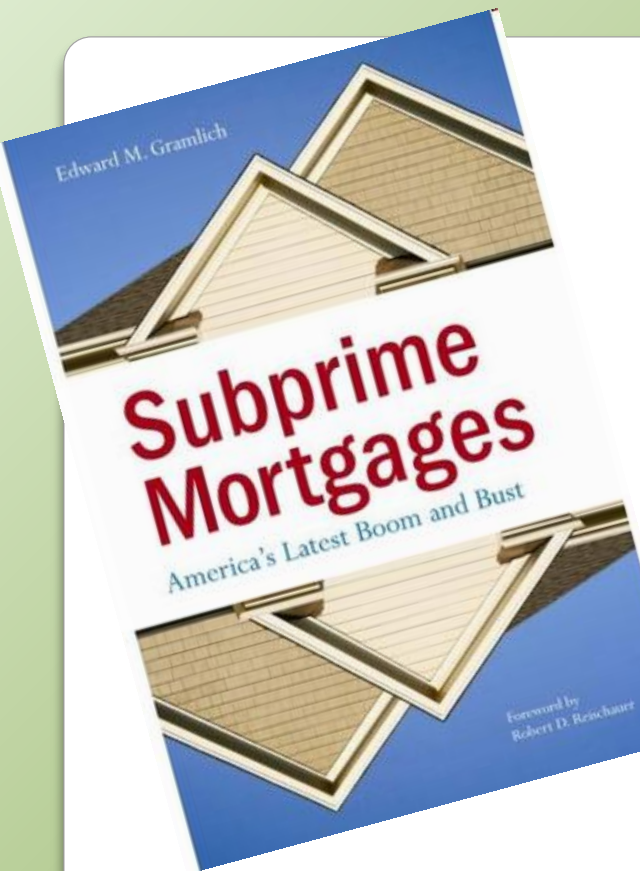
***Some simple math about  
“Jobless recovery” and KY agriculture***

- **\$22,050 Poverty level income, family of four**  
**\$100,000 gross sales x .2 = \$20,000**  
**~6,000 farms in KY**
- **\$41,538 Median household income in KY**  
**\$207,500 gross sales x .2 = \$41,500**  
**~3,000 farms in KY**





**Don't forget where the  
financial crisis began...**



# Home Prices Edge Up But Outlook Darkens

WSJ 9-29-10

By SARA MURRAY

Home prices rose for the fourth-straight month in July, but at a slower pace than in previous months, and they could start falling again as the expiration of government home-buying incentives has put a brake on sales.

employment has consumers worried, making them hesitant to wade into the home market, particularly now that home-buyer tax credits have expired. Such scenarios often lead to a standoff with sellers, who are reluctant to drop prices. Meanwhile, distressed properties continue to make their

RealtyTrac 9-30-10

Foreclosures	Homes for sale	
<b>51,256</b> Homes Sold	<b>237,531</b> New Listings	<b>\$253,050</b> Avg Sales Price
↓ <b>206,512</b> -75.18% Jul vs Jun 2010	↓ <b>238,825</b> -0.54% Aug vs Jul 2010	↑ <b>252,499</b> 0.22% Aug vs Jul 2010

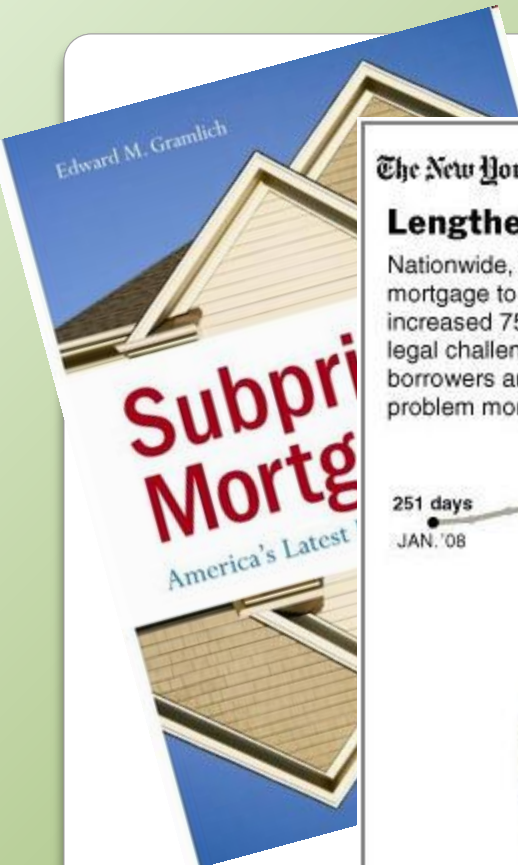
Foreclosures	Homes for sale	
<b>17,090</b> Foreclosures Sold	<b>338,836</b> New Foreclosures	<b>\$170,514</b> Foreclosure Avg Sales Price
↓ <b>65,165</b> -73.77% Jul vs Jun 2010	↑ <b>325,229</b> 4.18% Aug vs Jul 2010	↑ <b>168,741</b> 1.05% Aug vs Jul 2010

## TOP FORECLOSURE CITIES

1. Las Vegas, NV
2. Chicago, IL
3. Miami, FL
4. Phoenix, AZ
5. Orlando, FL

# Home Prices Edge Up

WS/9-29-10

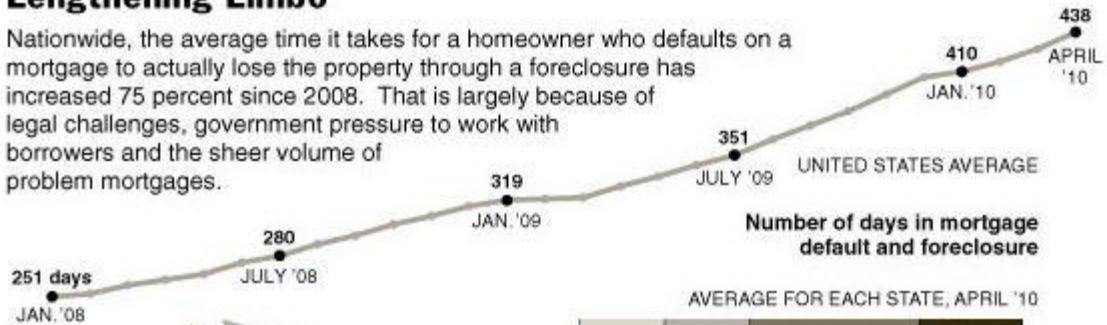


The New York Times

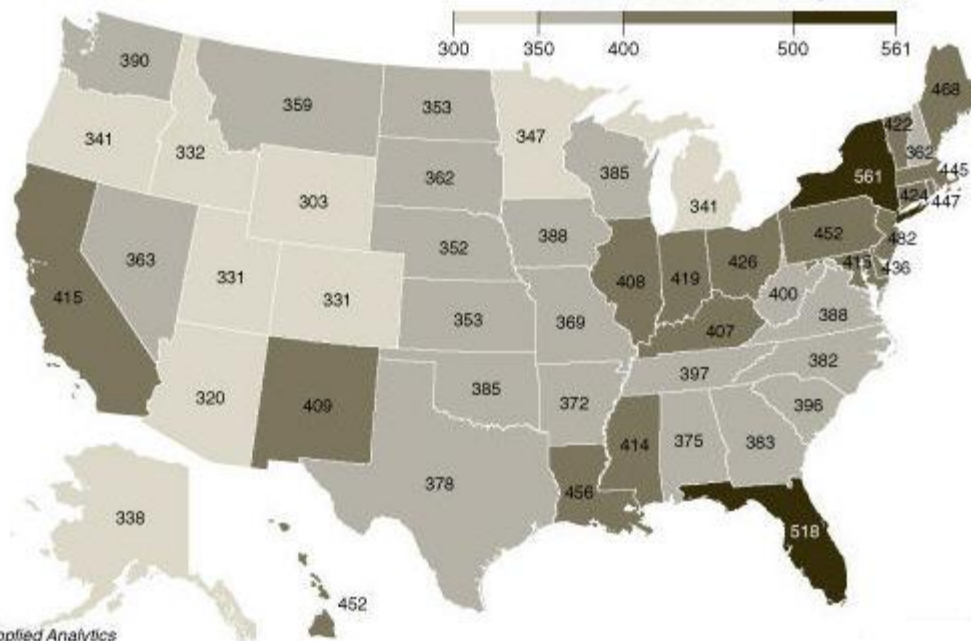
June 1, 2010

## Lengthening Limbo

Nationwide, the average time it takes for a homeowner who defaults on a mortgage to actually lose the property through a foreclosure has increased 75 percent since 2008. That is largely because of legal challenges, government pressure to work with borrowers and the sheer volume of problem mortgages.



AVERAGE FOR EACH STATE, APRIL '10



Source: LPS Applied Analytics

0

22%

010

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4

Sales Price

.05%

010

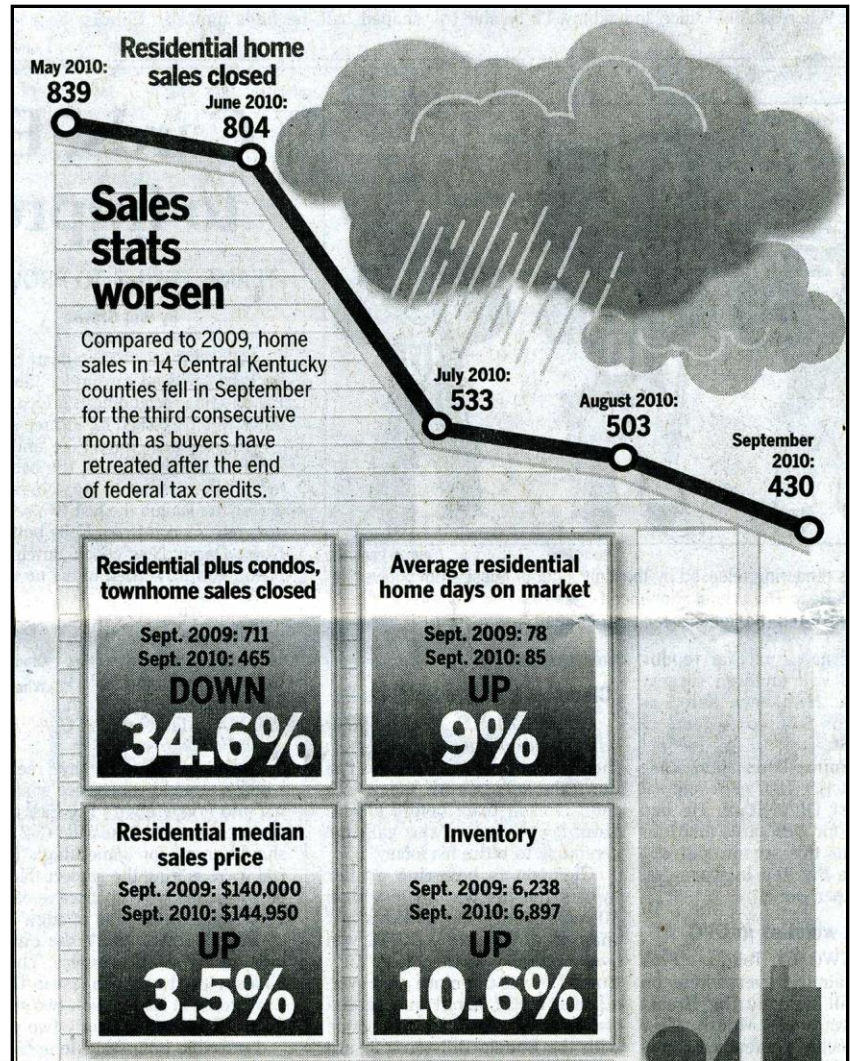
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FL

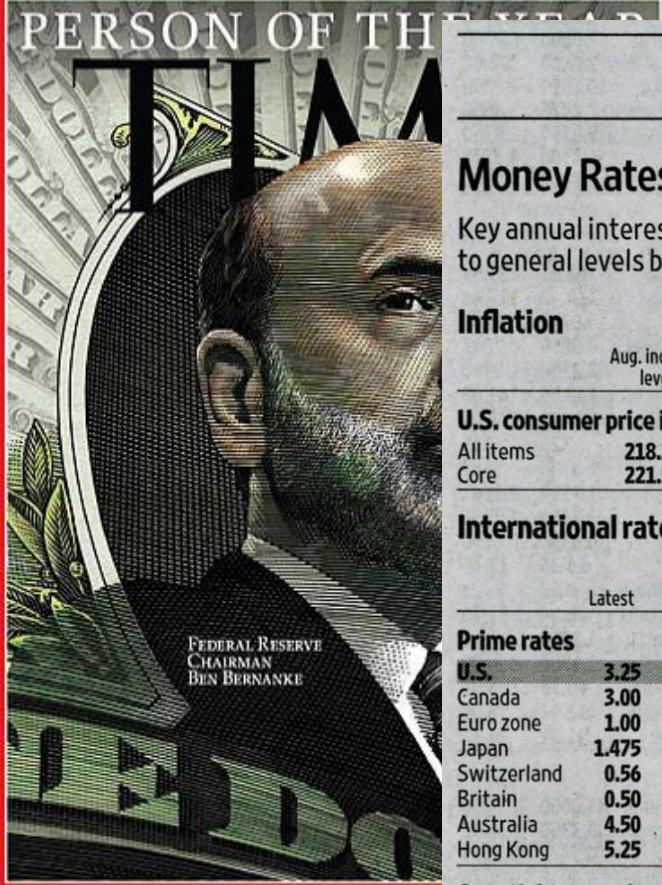
# Despite low interest rates, it will take more time to work out the housing mess.

## Compare Mortgage Rates

Loan Type	Rate	APR
30 Yrs Fixed Rate	3.88%	4.06%
15 Yrs Fixed Rate	3.38%%	3.61%
5/1 Adjustable Rate	2.75%%	3.37%







# BORROWING BENCHMARKS

October 4, 2010

## Money Rates

Key annual interest rates paid to borrow or lend money in U.S. and international markets. Rates below are a guide to general levels but don't always represent actual transactions.

### Inflation

	Aug. index level	CHG FROM (%)	
		July '10	Aug. '09
<b>U.S. consumer price index</b>			
All items	<b>218.312</b>	0.138	1.1
Core	<b>221.551</b>	0.132	0.9

### International rates

	Latest	Week ago	-52-WEEK-	
			High	Low
<b>Prime rates</b>				
<b>U.S.</b>	<b>3.25</b>	3.25	3.25	3.25
Canada	<b>3.00</b>	3.00	3.00	2.25
Euro zone	<b>1.00</b>	1.00	1.00	1.00
Japan	<b>1.475</b>	1.475	1.475	1.475
Switzerland	<b>0.56</b>	0.56	0.89	0.51
Britain	<b>0.50</b>	0.50	0.50	0.50
Australia	<b>4.50</b>	4.50	4.50	3.00
Hong Kong	<b>5.25</b>	5.25	5.25	5.00

### Overnight repurchase

	U.S.	U.K. (BBA)	Euro zone
U.S.	<b>0.21</b>	0.24	0.33
U.K. (BBA)	<b>0.562</b>	0.540	0.573
Euro zone	<b>0.64</b>	0.40	0.68

### U.S. government rates

	Discount
Discount	<b>0.75</b>

	Latest	Week ago	-52-WEEK-High	-52-WEEK-Low
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### Federal funds

Effective rate	<b>0.20</b>	0.19	0.22	0.10
High	<b>0.3750</b>	0.3750	0.5000	0.3125
Low	<b>0.1400</b>	0.0700	0.3200	0.1400
Bid	<b>0.1500</b>	0.1800	0.3800	0.1500
Offer	<b>0.2000</b>	0.2200	0.8333	0.2000

### Treasury bill auction

4 weeks	<b>0.080</b>	0.115	0.170
13 weeks	<b>0.130</b>	0.155	0.175
26 weeks	<b>0.185</b>	0.190	0.265

### Secondary market

#### Freddie Mac

30-year mortgage yields				
30 days	<b>3.98</b>	4.00	5.01	3.77
60 days	<b>4.02</b>	4.04	5.07	3.83
One-year RNY	<b>2.500</b>	2.500	2.500	2.500

#### Fannie Mae

30-year mortgage yields				
30 days	<b>3.767</b>	3.823	4.988	3.674
60 days	<b>3.828</b>	3.884	5.043	3.732

#### Bankers acceptance

30 days	<b>0.45</b>	0.45	0.45	0.21
60 days	<b>0.47</b>	0.47	0.50	0.23
90 days	<b>0.50</b>	0.50	0.55	0.25
120 days	<b>0.55</b>	0.55	0.65	0.26

	Latest	Week ago	-52-WEEK-High	-52-WEEK-Low
150 days	<b>0.60</b>	0.60	0.75	0.31
180 days	<b>0.65</b>	0.65	0.80	0.35

**Oct. '07 3.72%**

**Oct. '08 0.26%**

**Oct. '09 0.04%**

**Oct. '10 0.08%**

#### Dealer commercial paper

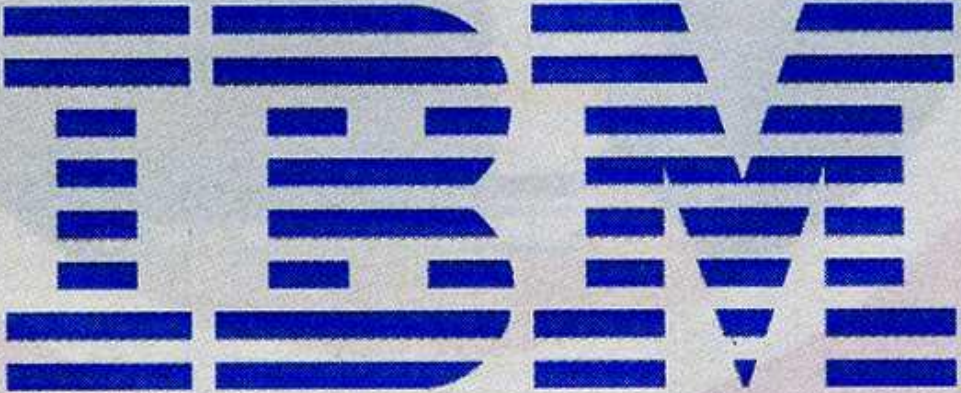
30 days	<b>0.25</b>	0.25	0.35	0.20
60 days	<b>0.26</b>	0.26	0.43	0.20
90 days	<b>0.27</b>	0.27	0.54	0.21

#### Euro commercial paper

30 day	<b>n.a.</b>	n.q.	0.46	0.10
Two month	<b>n.a.</b>	n.q.	0.49	0.18
Three month	<b>0.70</b>	n.q.	0.72	0.35
Four month	<b>0.76</b>	n.q.	0.77	0.40
Five month	<b>0.84</b>	n.q.	0.85	0.50
Six month	<b>0.94</b>	n.q.	0.94	0.61

London interbank offered rate, or Libor

# This cannot be “normal”...



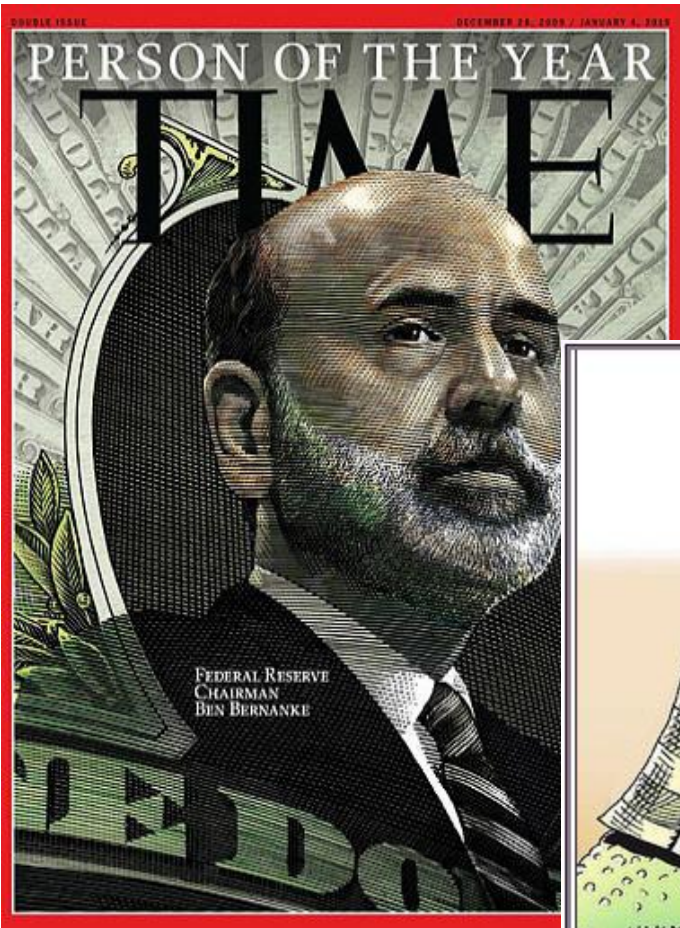
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## Debt Markets

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IBM raised **\$1.5 billion** by selling three-year notes at an interest rate of 1 percent, the lowest on record. Big Blue's bond sale signals that the corporate debt rally that began in June is extending into August. Companies sold \$90.1 billion of bonds in the U.S. in July, the biggest total for that month in more than a decade.

*Bloomberg BusinessWeek, August 9, 2010*



DOUBLE ISSUE DECEMBER 28, 2009 / JANUARY 4, 2010



# WALL STREET JOURNAL.

WEDNESDAY, SEPTEMBER 15, 2010 - VOL. CCLVI NO. 64

★★ \$2.

0.2% NIKKEI 9299.31 ▼ 0.2% STOXX 600 266.40 ▼ 0.02% 10-YRTREAS ▲ 21/32, yield 2.668% OIL \$76.80 ▼ \$0.39 GOLD \$1,269.70 ▲ \$24.60 EURO \$1.3008 YEN 83

## WS — Outlook Clouds Fed Move

# Fed Ponders Bolder Moves

*Bernanke Opens Door to Buying More Securities If Economy Falters Further*

**AHEAD OF THE TAPE** | By Kelly Evans

*Fed Is Backed Into Corner and Low on Ammo*

# Bailout + Credit Programs + Stimulus = \$10T!

Item	Issuer	Amount of Outlay
Commercial Paper Funding Facility	Federal Reserve	\$1,800 billion
Temporary Liquidity Guarantee Program	FDIC	\$1,400 billion
Term Asset-Backed Securities Loan Facility (TALF)	Federal Reserve	\$1,000 billion
Term Auction Facility (TAF)	Federal Reserve	\$900 billion
<b>Fannie Mae</b> (NYSE: <a href="#">FNM</a> ), <b>Freddie Mac</b> (NYSE: <a href="#">FRE</a> ), and <b>Ginnie Mae</b>	U.S. Treasury / Federal Reserve	\$800 billion
Obama Stimulus Plan	U.S. Treasury	\$787 billion
Treasury Asset Relief Program (TARP)	U.S. Treasury	\$700 billion
Total USD international currency swap lines	Federal Reserve	\$688 billion
Money Market Investor Funding Facility	Federal Reserve	\$540 billion
<b>Citigroup</b> (NYSE: <a href="#">C</a> ) Guarantee	U.S. Treasury / FDIC	\$306 billion
Hope for Homeowners Act of 2008	U.S. Treasury	\$304 billion
Term Securities Lending Facility (TSLF)	Federal Reserve	\$225 billion
Economic Stimulus Act of 2008	U.S. Treasury	\$168 billion
Other loans: Primary Dealer Credit, etc.*	Federal Reserve	\$142.9 billion
Paid to <b>JPMorgan Chase</b> (NYSE: <a href="#">JPM</a> ) to settle Lehman debt	Federal Reserve	\$138 billion
<b>Bank of America</b> (NYSE: <a href="#">BAC</a> ) Guarantee	U.S. Treasury / FDIC	\$118 billion
<b>AIG</b> (NYSE: <a href="#">AIG</a> ) Bailout		
<b>Bear Stearns</b> brok		
I'm afraid to lo		

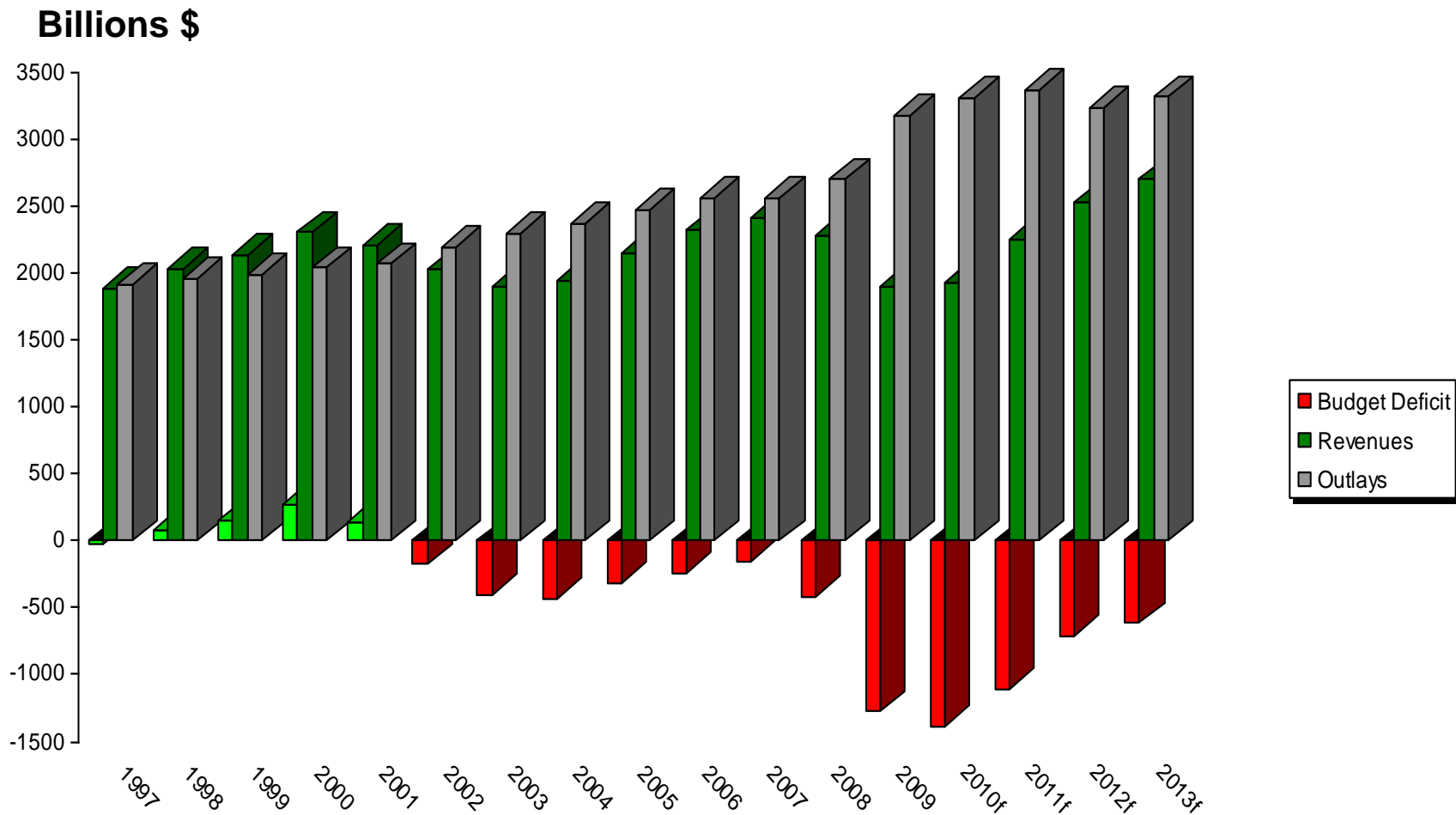
**\$14,230,000,000,000**

<b>Total:</b>	<b>\$10,155,300,000,000</b>
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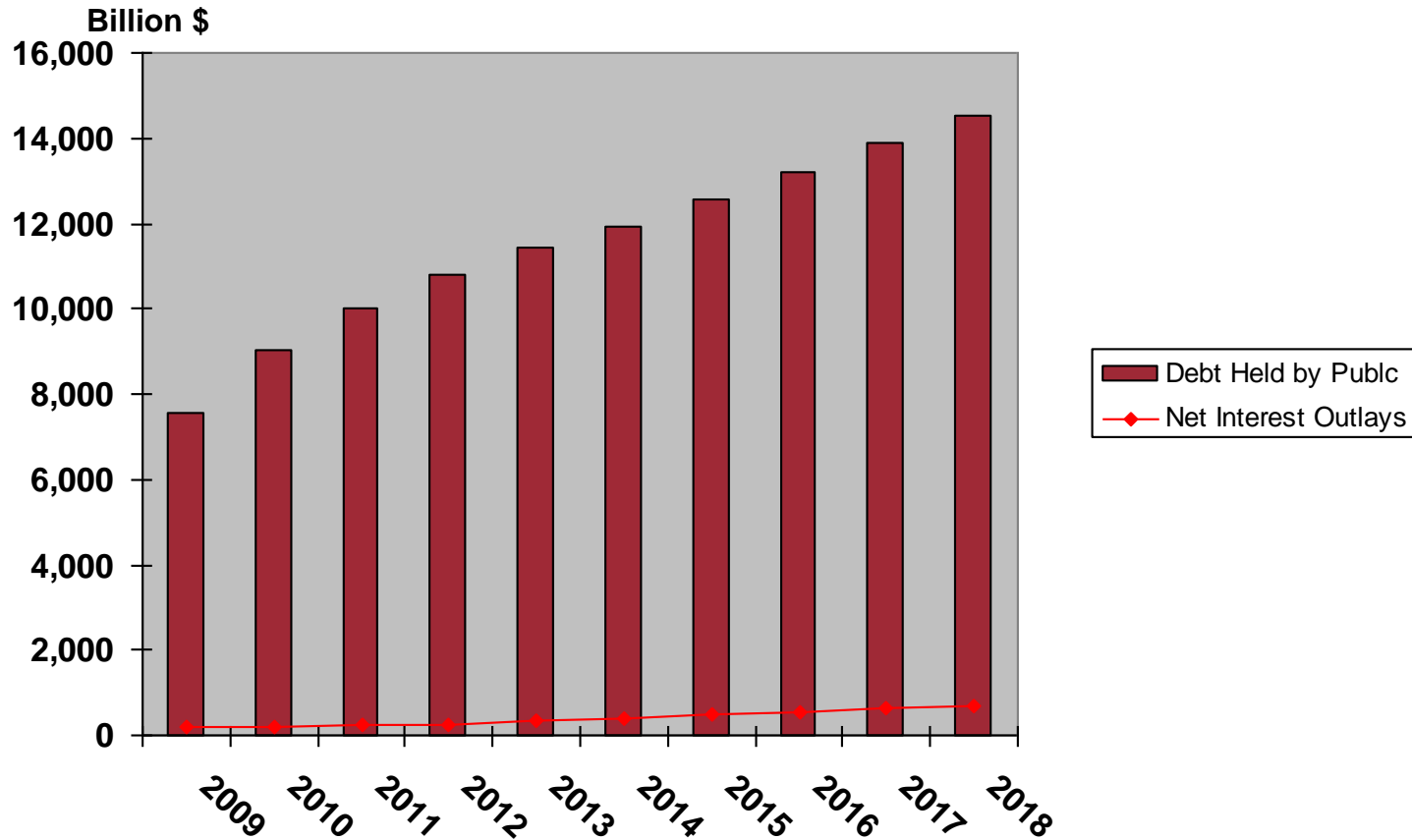
*Agricultural Economics*

# Federal Budget Surplus/Deficit 1997-2011



Source: CBO

# Total Debt Held by the Public and Net Interest Costs



Source: CBO

# Total Debt Held by the Public and Net Interest Costs

## CBO's Baseline Budget Projections

	Actual 2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total, 2011- 2015	Total, 2011- 2020
In Billions of Dollars														
<b>Revenues</b>														
Individual income taxes	915	891	1,211	1,404	1,589	1,743	1,904	2,055	2,193	2,326	2,461	2,602	7,851	19,489
Corporate income taxes	138	188	307	353	385	449	379	390	407	413	419	419	1,875	3,923
Social insurance taxes	891	862	922	979	1,047	1,117	1,178	1,235	1,291	1,357	1,417	1,475	5,243	12,018
Other revenues	161	203	207	216	214	253	282	296	309	325	343	359	1,172	2,804
<b>Total Revenues</b>	<b>2,105</b>	<b>2,143</b>	<b>2,648</b>	<b>2,953</b>	<b>3,236</b>	<b>3,561</b>	<b>3,743</b>	<b>3,975</b>	<b>4,201</b>	<b>4,421</b>	<b>4,640</b>	<b>4,856</b>	<b>16,140</b>	<b>38,234</b>
On-budget	1,451	1,512	1,982	2,251	2,489	2,766	2,902	3,092	3,276	3,449	3,624	3,796	12,391	29,628
Off-budget	654	631	665	702	746	795	841	883	925	973	1,016	1,060	3,749	8,607
<b>Outlays</b>														
Mandatory spending	2,093	1,925	2,085	1,971	2,035	2,172	2,316	2,515	2,646	2,766	2,964	3,141	10,579	24,610
Discretionary spending	1,238	1,358	1,404	1,388	1,399	1,418	1,443	1,481	1,511	1,542	1,584	1,622	7,051	14,791
<b>Net interest</b>	<b>187</b>	<b>202</b>	<b>225</b>	<b>259</b>	<b>326</b>	<b>410</b>	<b>492</b>	<b>564</b>	<b>623</b>	<b>676</b>	<b>726</b>	<b>778</b>	<b>1,712</b>	<b>5,079</b>
<b>Total Outlays</b>	<b>3,518</b>	<b>3,485</b>	<b>3,714</b>	<b>3,618</b>	<b>3,760</b>	<b>4,000</b>	<b>4,250</b>	<b>4,560</b>	<b>4,780</b>	<b>4,983</b>	<b>5,274</b>	<b>5,541</b>	<b>19,342</b>	<b>44,400</b>
On-budget	3,001	2,931	3,136	3,017	3,128	3,335	3,553	3,824	4,002	4,160	4,401	4,613	16,170	37,170
Off-budget	517	554	578	601	632	664	698	735	777	824	874	928	3,173	7,311
<b>Deficit (-) or Surplus</b>	<b>-1,413</b>	<b>-1,342</b>	<b>-1,066</b>	<b>-665</b>	<b>-525</b>	<b>-438</b>	<b>-507</b>	<b>-585</b>	<b>-579</b>	<b>-562</b>	<b>-634</b>	<b>-685</b>	<b>-3,202</b>	<b>-6,246</b>

Source: CBO



# Outlook for 2011

- Frustratingly low economic growth.
- Jobless recovery for 2-3 years.
- Low interest rates, at least for one more year.
- +/-1.5% inflation, risk of deflation
- Massive federal deficits limit policy options, squeeze programs.

## ECONOMIC FORECASTS

### GDP growth

Slow growth -- +1.5% to 2.5%

### Interest rates

Remain low – Prime to 3.75% - 4% by summer 2011

### Inflation

Low in near term; risk of deflation

### Energy Prices

Crude oil trends in \$75-\$85 range; natural gas price remains low

### Unemployment

Slowly declining over 2-3 years; jobless recovery

### Trade deficit

Large but manageable

### Budget deficit

Another near-record high of \$1.3T declines to \$1T in 2011

# Macroeconomic Impacts on Ag Policy

- Potential political change in the Congress will change Ag Committee leadership.



# Macroeconomic Impacts on Ag Policy

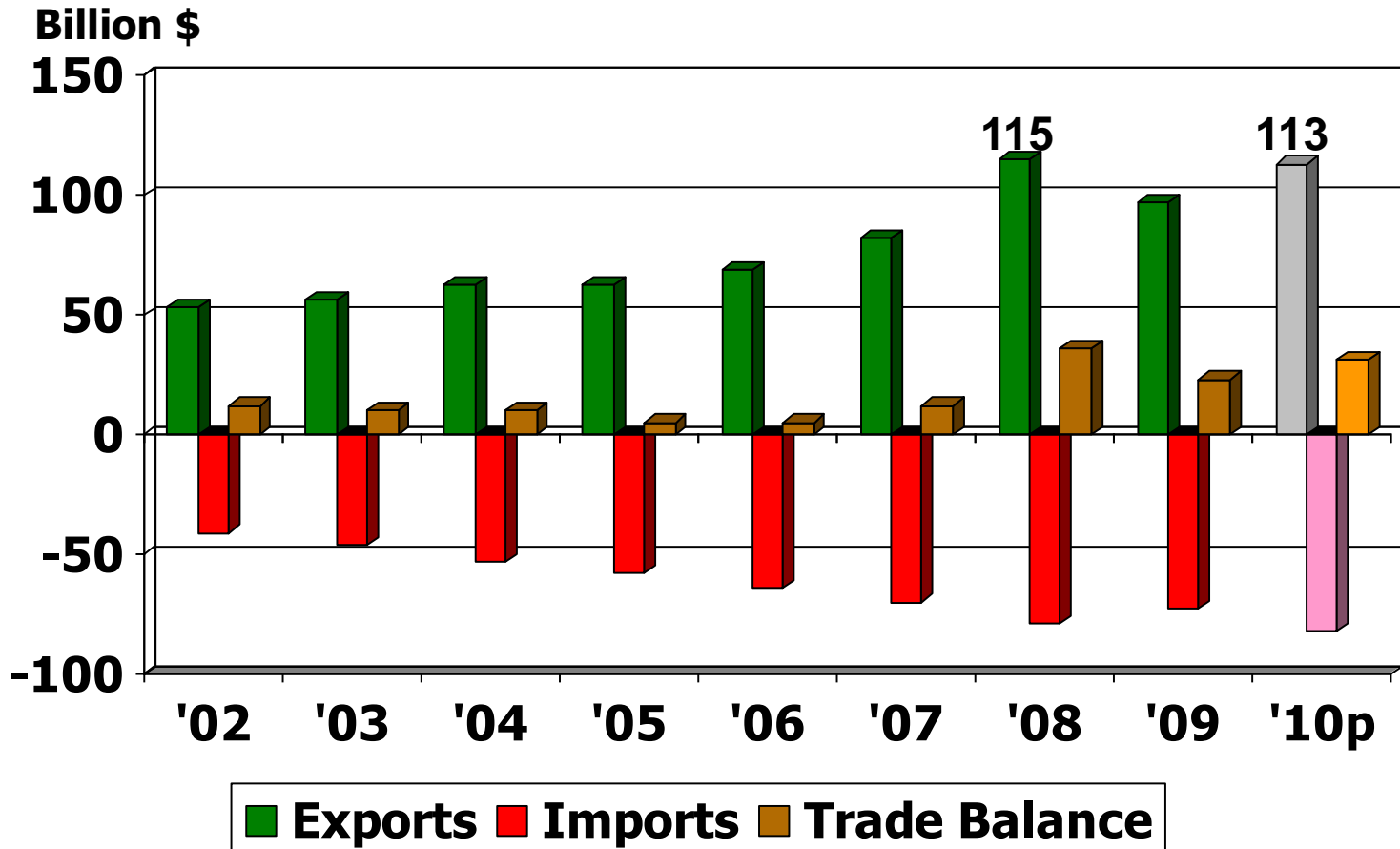
- Potential political change in the Congress will change Ag Committee leadership.
- Budget deficits will impact current programs and the next Farm Bill. Budget reconciliation in 2011? Traditional coalition between poverty/nutrition groups and farm groups to pass a Farm Bill in 2012?
- Tea Party influence in Congress – serious about taxes and spending?

# Agriculture: Bright Spot in Economic Recovery



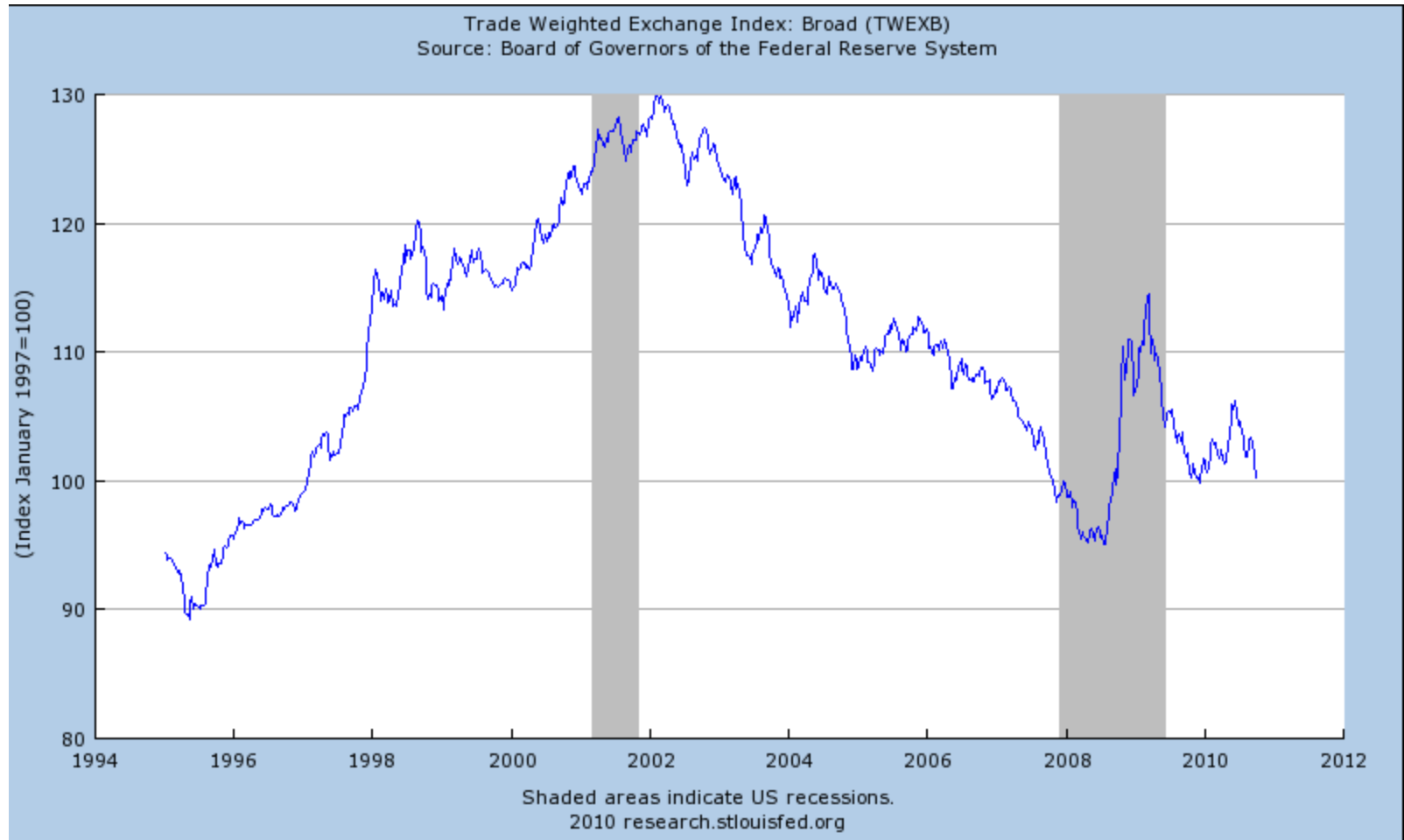
# U.S. Agricultural Trade

*Exports rebound to record-high levels*



Source: USDA, ERS; fiscal year ending 9/30; p=preliminary

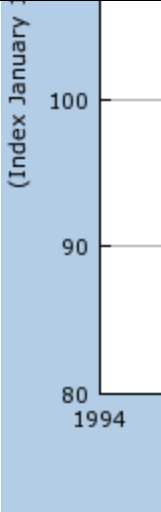
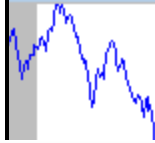
# “Strong” or “Weak” Dollar?



# “Weak” Dollar?



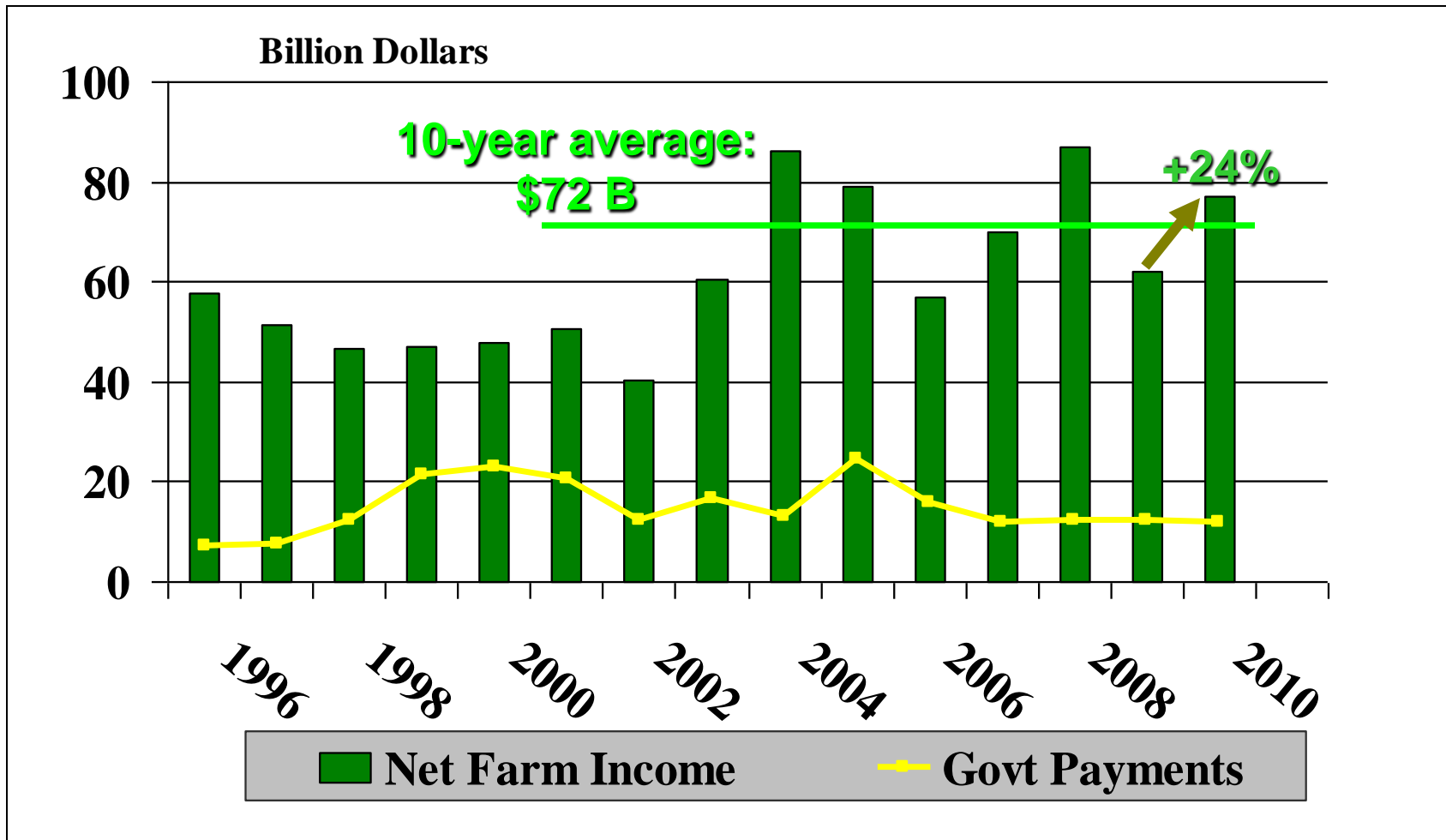
and Exchange Index: Broad (TWEXB)  
governors of the Federal Reserve System



Big Mac Index	In Local Currency	In U.S. dollars
U.S.	\$3.73	\$3.73
Brazil	Real 8.71	\$5.20
China	Yuan 13.2	\$1.96
Euro Zone	Euro 3.38	\$4.69
Mexico	Peso 32	\$2.56
Norway	Kroner 45	\$7.77
Japan	¥ 320	\$3.85
Russia	Ruble 71	\$2.37
South Africa	Rand 18.5	\$2.69
Sweden	S Kr 48	\$7.22
Ukraine	Hryvnia 14	\$1.80

# U.S. Net Farm Income

*Net Farm Income rebounds strongly in 2010*

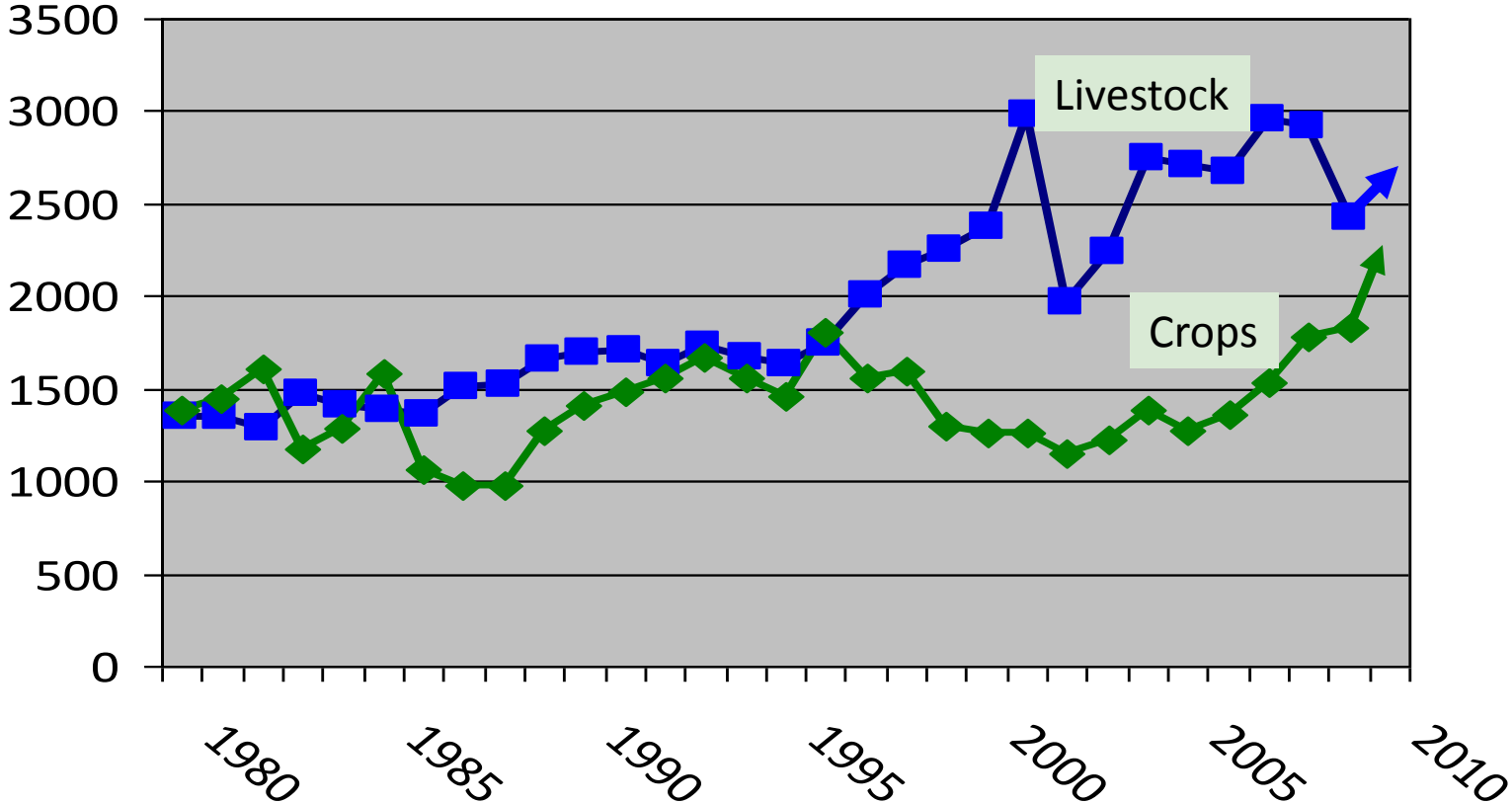


Source: USDA, ERS



# KY Agricultural Cash Receipts

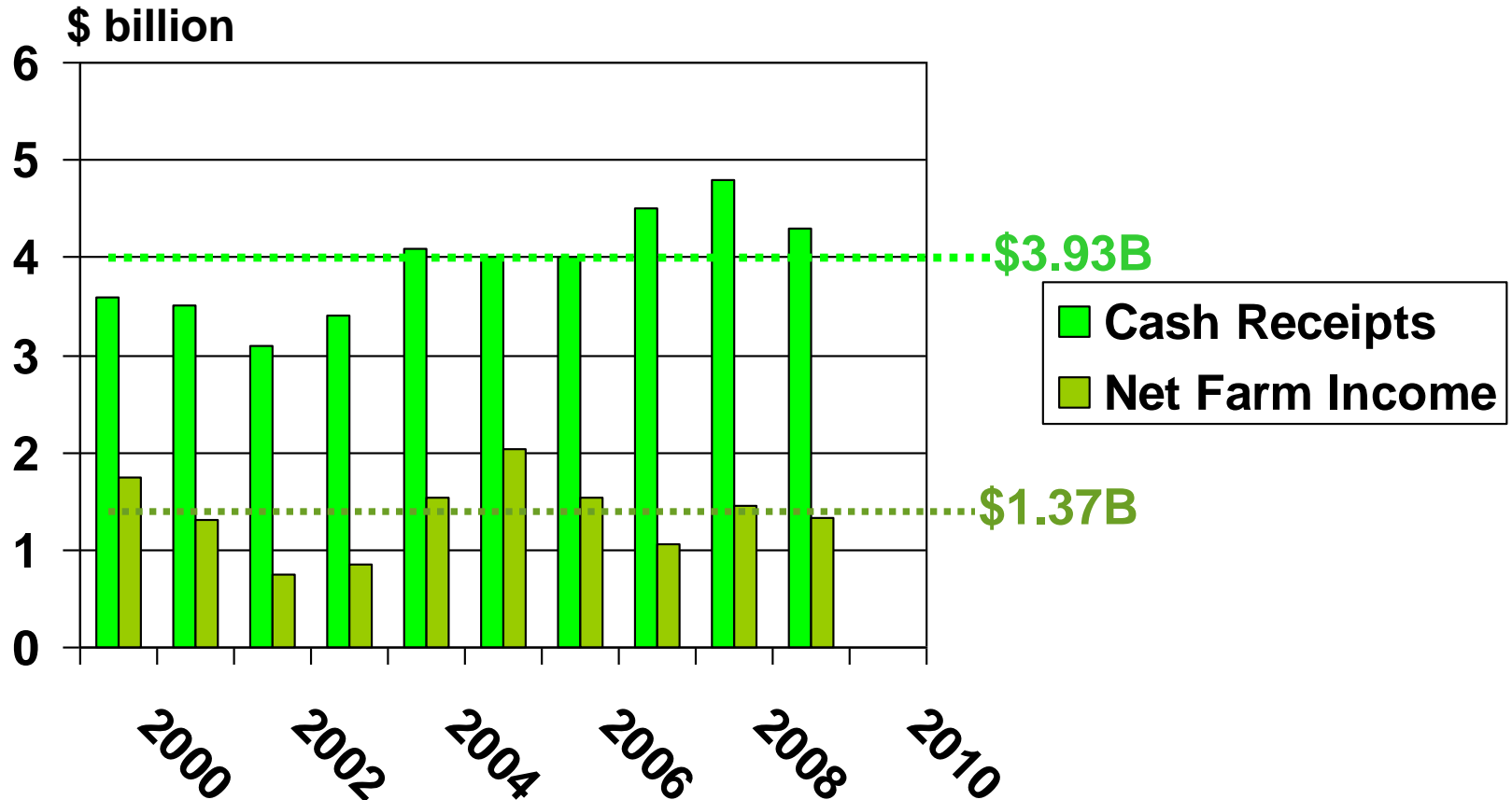
Million Dollars



Source: USDA, NASS

# KY Cash Receipts and Net Income

*Will Kentucky follow the trend?*



# Outlook for Ag in 2011

- Will the world and U.S. economies continue to grow?
- “Jobless recovery” will continue to impact KY farmers and rural communities.
- Another year of favorable weather?
- No wildcards in the deck for Ag in 2011? No major food safety issues, trade wars, etc.