

Economic Outlook 2011 U.S. Economy and Agriculture

November 29, 2010

Craig Infanger



“It is safe to say that the global recession has finally shown up on the doorstep of the agriculture economy...”

Michael Swanson
Wells Fargo & Co



THE WALL STREET JOURNAL

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Farm Belt Bounces Back

Corn, Soybean, Cotton Prices Advance as Asian Demand Lifts U.S. Heartland

By Scott Klemm

Major agricultural commodities continued their upward climb in prices, underwriting how much of America's farm belt is booming area as the overall economy continues to struggle.

For more on the delivery of corn and soybean into 2010/11, see page 10.

For more on the delivery of cotton, see page 10.

For more on the delivery of wheat, see page 10.

For more on the delivery of rice, see page 10.

For more on the delivery of sorghum, see page 10.

For more on the delivery of pulses, see page 10.

For more on the delivery of oilseeds, see page 10.

For more on the delivery of livestock, see page 10.

For more on the delivery of aquaculture, see page 10.

For more on the delivery of forestry, see page 10.

For more on the delivery of other agricultural products, see page 10.



THE WALL STREET JOURNAL

Land Becomes Cash Crop in Farm Belt

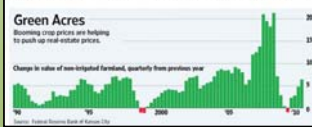
Prices for irrigated cropland soared 9.6% in the third quarter across the western south of the Farm Belt amid booming demand for U.S. crops, according to a survey released Friday by the Federal Reserve Bank of Kansas City.

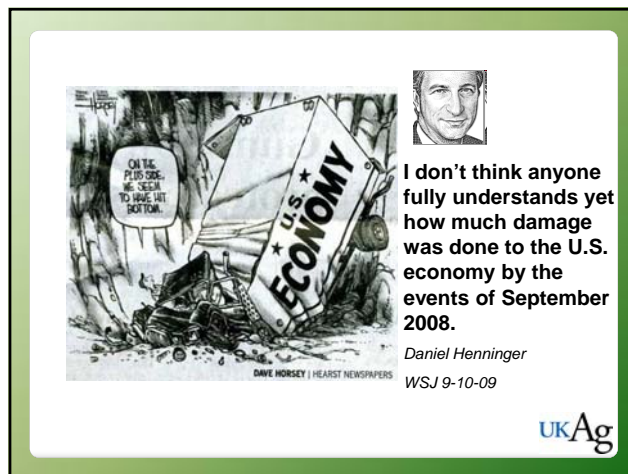
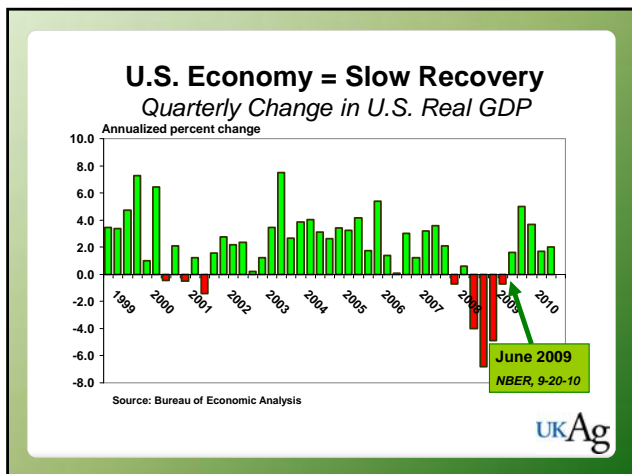
The quarterly survey of the region covers the 10th District, which covers western Missouri, Nebraska, Kansas, Oklahoma, Wyoming, Colorado and northern New Mexico, found that farmland prices rose for the fourth consecutive quarter since a drop in the third quarter of 2009, which it when the livestock sector was contracting in face of the steep recession.

The value of irrigated cropland in the region rose 9.4% compared with the 2009 third quarter, while nonirrigated cropland in the region rose 4.4%.

The rise in farmland prices is another sign that the U.S. farm economy is pulling out of the sharp recession for more robustly than the general economy, which is burdened by a stubbornly high unemployment rate and weak real-estate values. The U.S. Agriculture Department estimates that U.S. net farm income, a rough measure of profitability, is jumping 24% this year to \$77.1 billion.

While most demand for farmland is coming from farmers, there also is growing interest among nonfarm investors who are looking for hard assets with a higher rate of return, and as a potential hedge against future inflation. Ron Schroder, of Schroder Real Estate and Auction Co., based in Indiana, says more outside investors, including pension funds, are buying farmland. "They're looking at agricultural land as a class of assets that they should have in their portfolio," he says.





• The talk about “the new normal”?

Bill Gross

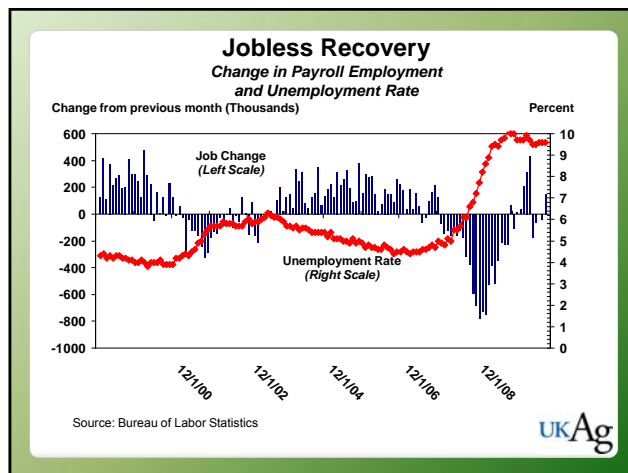
The world has changed since early '08 or even '09. The next 10 years will involve deleveraging, re-regulation, and deglobalization. Countries will become more protective in terms of mild tariffs or currency devaluation. The result is a “new normal” of slower growth in the U.S. and global economies.

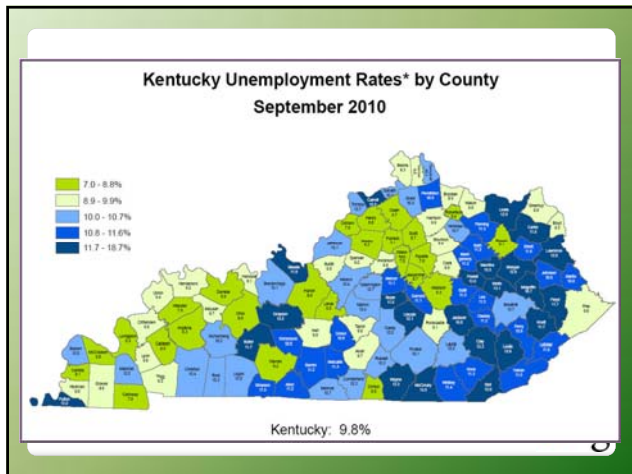
If an economy grew at 3% to 4% annually over the last 10 years, then it'll grow at 1.5% to 2% over the next 10. We expect returns will be half of what they were in the past decade.

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.

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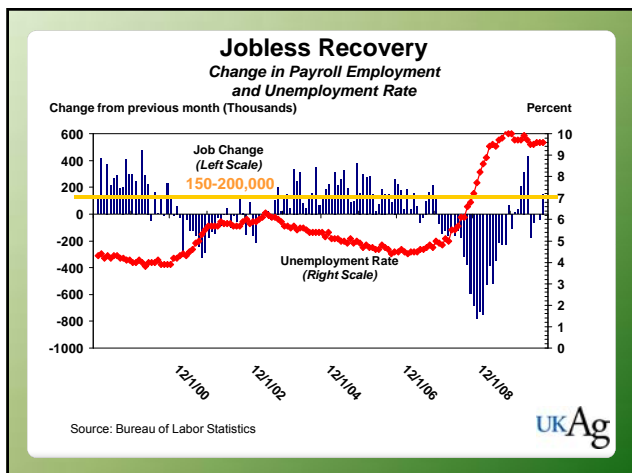
HOUSEHOLD DATA
NOT SEASONALLY ADJUSTED

A.34. Unemployed persons by reason for unemployment, sex, age, and duration of unemployment
(Percent distribution)

Reason, sex, and age	October 2010					
	Total unemployed		Duration of unemployment			
	Thousands of persons	Percent	Less than 5 weeks	5 to 14 weeks	15 weeks and over	
					15 weeks and over	27 weeks and over
Total, 15 years and over	13,803	100.0	17.6	21.8	60.7	16.8
						43.9

6.1 million long-term unemployed

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Some simple math about "Jobless recovery" and KY agriculture

- What is the official definition of a "farm"?
- How many "farms" do we have in KY?

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**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"



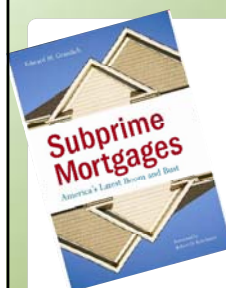
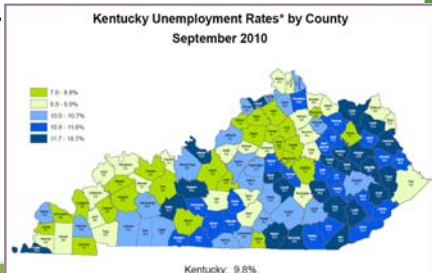
**Some simple math about
"Jobless recovery" and KY agriculture**

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



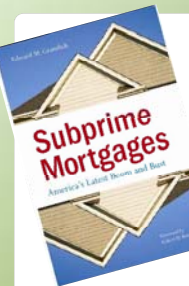
**"Jobless recovery" is not good news
for rural Kentucky**

- Kentucky's 85,000 farms are dependent on off-farm jobs.
- >35,000 principal operators worked 200+ days off the farm.



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





Home Prices Edge Up But Outlook Darkens

WSJ 9-29-10

By Sara Minter
Home prices rose for the fourth straight month in July, but all a silver pane from 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 demand-side shifts lead to a standoff with sellers, who are reluctant to drop prices. Meanwhile, distressed properties continue to make their way through the market.


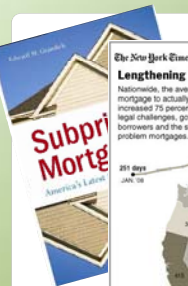
RealtyTrac 9-30-10

Foreclosures Homes Sold	Homes for sale New Listings	Avg Sales Price
51,256	237,531	\$253,050
↑ 296,817 +75.18% Jul vs Jun 2010	↓ 238,835 -0.54% Aug vs Jul 2010	↑ 252,809 0.22% Aug vs Jul 2010

Foreclosures Foreclosures Sold	Homes for sale New Foreclosures	Foreclosure Avg Sales Price
17,090	338,836	\$170,514
↓ 65,165 -73.77% Jul vs Jun 2010	↑ 325,229 4.18% Aug vs Jul 2010	↑ 168,748 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

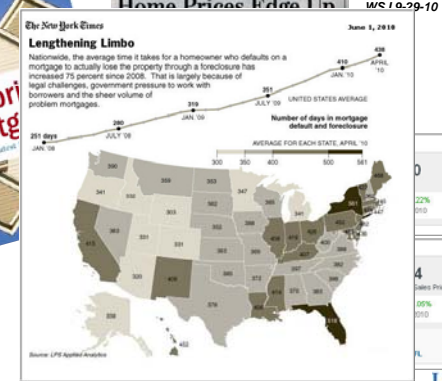
Home Prices Edge Up

WSJ 9-29-10

The New York Times

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.



Number of days in mortgage default and foreclosure

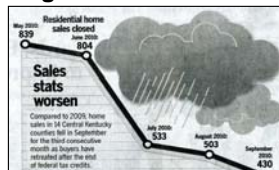
AVERAGE FOR EACH STATE, APRIL '10

251 days (Jan 08) → 267 days (Jul 09) → 351 days (Apr 10)



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

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%



Residential home sales closed
New Sales

Compared to 2009, home sales in 14 Central Kentucky counties fell in September for the third consecutive month as buyers have retreated after the end of federal tax credits.


Residential plus condos, townhome sales closed	Average residential home days on market
↓ 839 (Sep 2009) to 430 (Sep 2010)	↑ 533 (Aug 2010) to 503 (Sep 2010)

DOW	UP
34.6%	9%

Residential median sales price	Inventory
↓ 2009: \$248,208 (Sep 2009) to \$244,960 (Sep 2010)	↑ 2009: 4,218 (Sep 2009) to 4,837 (Sep 2010)

3.5% 10.6%

Herald-Leader 10-15-10



Borrowing Benchmarks

Money Rates

Key annual interest rates paid to borrow or lend money in U.S. and interest to general levels but don't always represent actual transactions.

Inflation	Oct Index	Oct. 2009 to Oct. 10	Oct. 10	Oct. 09	10-yr High	10-yr Low
U.S. consumer price index	228,321	0.25%	1.2	4.66	4.68	0.91
All items	228,679	0.07%	0.6	4.13	4.24	0.27
Core				4.11	4.27	0.79

Secondary market	30-year mortgage yields	90-day T-bill	1-yr T-bill	3-yr T-bill	5-yr T-bill
Prime rate	4.25	0.25%	0.25%	0.25%	0.25%

International rates	1-yr	3-yr	5-yr
Canada	1.00	1.00	1.00
France	1.00	1.00	1.00
Germany	1.00	1.00	1.00
Japan	1.00	1.00	1.00
UK	1.00	1.00	1.00
Switzerland	1.00	1.00	1.00
Netherlands	1.00	1.00	1.00
Spain	1.00	1.00	1.00
Italy	1.00	1.00	1.00
Australia	1.00	1.00	1.00
India	1.00	1.00	1.00
China	1.00	1.00	1.00
South Korea	1.00	1.00	1.00

U.S. government rates	30-day	90-day	1-yr	2-yr	3-yr	5-yr	10-yr	30-yr
Discount	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25


Federal funds	Effective rate	High	Low	Target
Overnight	0.25	0.25	0.25	0.25
4-weeks	0.25	0.25	0.25	0.25
13-weeks	0.25	0.25	0.25	0.25
26-weeks	0.25	0.25	0.25	0.25

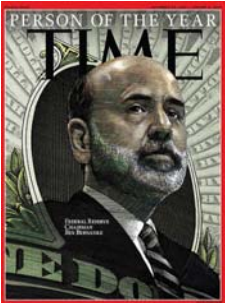
Commercial paper	30 to 45 days	41 to 90 days	91 to 120 days	120 to 144 days	144 to 270 days	270 to 360 days
Discount	0.25	0.25	0.25	0.25	0.25	0.25

Dealer commercial paper	30 days	45 days	60 days	90 days	120 days	180 days
Discount	0.25	0.25	0.25	0.25	0.25	0.25

Treasury bill auction

4-weeks	13-weeks	26-weeks	30 days	45 days	60 days	90 days
0.25	0.25	0.25	0.25	0.25	0.25	0.25





Borrowing Benchmarks

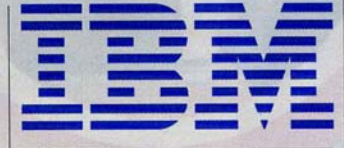
Money Rates

Key annual interest rates paid to borrow or lend money in U.S. and internat to general levels but don't always represent actual transactions.

Inflation		Secondary market	
Out index	Chg./1000000	Label	Rate
Year	Sept '10	Label	Rate
U.S. consumer price index			
All items	222.252	1.2%	1.2
Core	222.879	0.8%	0.8
International rates			
Label	Rate	Label	Rate
Prime rates			
Bk.	3.25	30-day mortgage yields	4.82
London	1.00	90-day	4.18
Japan	1.47%	1-year	4.06
Switzerland	0.50	2-year	3.91
Britain	0.50	3-year	3.75
Australia	4.25	4-year	3.50
Hong Kong	3.25	5-year	3.25
Overnight repurchase			
U.S.	0.25	30-day	4.06
U.K. (3BA)	0.50	90-day	3.91
Europe	0.75	1-year	3.75
U.S. government rates			
Discount			
Federal funds	0.25	30-day	4.06
High	0.25	90-day	3.91
Low	0.25	1-year	3.75
Other	0.25	2-year	3.50
Treasury bill auction			
4-week	0.25	30-day	4.06
13-week	0.25	90-day	3.91
26-week	0.25	1-year	3.75
Dealer commercial paper			
4-week	0.25	30-day	4.06
13-week	0.25	90-day	3.91
26-week	0.25	1-year	3.75

Nov. '07 3.63%
Nov. '08 0.09%
Nov. '09 0.05%
Nov. '10 0.16%


This cannot be "normal"...



Debt Markets

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 \$901 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



This cannot be "normal" ...

A first: TIPS sell for negative yield

Auction shows buyers willing to pay for inflation protection

by John Hogneger
USA TODAY

Investors are so worried about increased inflation that for the first time ever they paid for sub-zero yields on Treasury Inflation-Protected Securities, better known as TIPS, at a yield of -0.55% — the first time TIPS ever sold for a negative yield.

TIPS pay a modest fixed interest rate, but the government adjusts the principal to TIPS to track the change in the consumer price index. So investors' returns are compensated for inflation. Investors pushed up the price of the TIPS auctioned Monday to \$105.50 for every \$100 of face value, resulting in a -0.55% yield when inflation is set at zero the next time the fixed interest payments — currently 0.5% — aren't enough to repay the purchase price, resulting in a negative yield.

Bond investors apparently weren't worried that inflation will be flat, or that deflation — a period of falling prices — will set near zero and inflation at 1.1% even higher. But a percentage point in inflation via a TIPS auction is better than living a full percentage point.

The TIPS auction represented a market turnaround for the bond market, which has been choppy since Treasury's interest rate cuts last year. The Fed has been keeping short-term interest rates at nearly zero in an attempt to combat deflation and get the economy going.

The Fed has also discussed another round of quantitative easing to pump even more money into the system by purchasing securities on the open market, saying for them with newly created money.

But the market is now starting to price in future inflation. "Every day for the last month so far, rates in getting priced out of the market," said Tom.


Demand for TIPS was high at Monday's auction. Investors put \$2.24 of bids for every \$1 in TIPS being auctioned. That rate — called the bid-asker ratio — has averaged \$2.38 to every \$1 offered the past 10 auctions.

Large institutions, including foreign central banks, bought about 70% of Monday's TIPS offering.

Investors, who are starting to get worried about inflation, say they're buying more TIPS. "People are coming with their dollars," he says.

... for the first time ever they paid sub-zero yields on TIPS... a yield of -0.55%"

USA TODAY, October 26, 2010








PERSON OF THE YEAR TIME

Fed minutes show lower recovery expectations

Central bank reduces growth, job forecasts

By Paul Davidson
USA TODAY

The Federal Reserve lowered its economic forecast as it moved to provide a commercial stimulus early this month and projected unemployment rates could be higher than normal next when the economy is at full throttle again.

In the minutes of its Nov. 2-3 open market meeting, the central bank also shed light on why it decided to raise the 10-1 rate to buy \$500 billion in Treasury bonds by June 30 to help lower

long-term interest rates. Reason included fears the nation could fall into "prolonged decline" that would be "very costly."

The Fed cut its growth forecast for next year to a 2.5% moderate 2% to 3.0% from the 3.5% to 4.2% it projected in June. And it raised its projected unemployment rate for next year's fourth quarter to 8.5% to 9.1% from 8.2% to 8.7%. Unemployment was 8.9% in October.

Many of the 27 economists questioned by USA TODAY on Tuesday said they think the Fed's growth and job forecasts are too optimistic.

Yes, the central bank expects the "longer run" jobless rate — even when the economy is booming again — to be five or six years — to be 5% to 6%, up from its long forecast of 5% to 5.5%.

Some Fed officials cautioned that some slow view to "longer-term structural changes in the job market. They fretted about "mismatch" between jobs and workers. That means, for instance, laid-off manufacturing workers may lack skills for growing fields such as health care.

The Fed slightly raised its inflation estimate but says it should stay below its preferred 2% level for several years.

The minutes show most policymakers believed the asset purchases would push down long-term interest rates and prove costly. That should prompt both consumers and businesses to borrow and spend more.

Some, however, said the pump-priming would have "limited effect." They worried concern about a fall in the dollar — which would bolster U.S. exports but could lead other nations to retaliate — and an "unintentionally large increase in inflation."

The stimulus has been tipped by Republicans who say it will benefit families. Nations such as China say the U.S. will gain an unfair trade edge.

The minutes also reveal that the Fed held an unusual teleconference meeting Oct. 13 in which it discussed setting a federal inflation target but decided against it. It also discussed whether the Fed chairman should hold press briefings and whether he should hold press briefings.

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USA Today, 11-24-2010

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
Foreign Moe (NYSE: EBS), Freddie Mac (NYSE: FREL), and Ginnie Mae	U.S. Treasury / Federal Reserve	\$800 billion
Obama Stimulus Plan	U.S. Treasury	\$787 billion
Treasury Asset Relief Program (TARIP)	U.S. Treasury	\$700 billion
Total USD International currency swap lines	Federal Reserve	\$688 billion
Money Market Investor Funding Facility	Federal Reserve	\$540 billion
CRISmp (NYSE: C) 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 JPMorgan Chase (NYSE: JPM) to settle Lehman debt	Federal Reserve	\$138 billion
Bank of America (NYSE: BAC) Guarantee	U.S. Treasury / FDIC	\$118 billion
AG (NYSE: AG) Bailout	Federal Reserve	\$112.5 billion
Bear Stearns bro		
Fin affiliated to		
Total:		\$10,155,300,000,000

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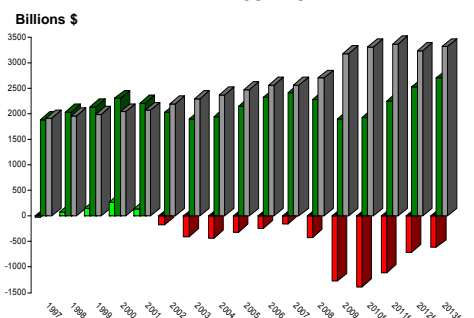
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Bear Stearns bro		
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Total:		\$10,155,300,000,000

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Federal Budget Surplus/Deficit 1997-2011

Billions \$

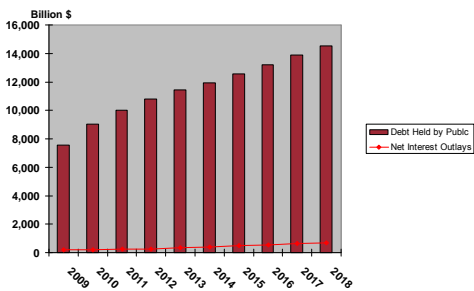


Legend: Budget Deficit (Red), Revenues (Green), Outlays (Grey)

Source: CBO

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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														
Revenues														
Individual income taxes	915	891	1,211	1,404	1,509	1,743	1,904	2,055	2,193	2,328	2,461	2,602	7,851	19,489
Corporate income taxes	138	180	307	353	385	449	379	390	407	413	420	410	1,675	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	200	207	216	214	262	282	296	300	325	343	359	1,172	2,891
Total Revenues	2,105	2,143	2,648	2,953	3,236	3,561	3,743	3,975	4,201	4,421	4,640	4,856	16,140	38,234
On-budget	1,451	1,512	1,952	2,251	2,489	2,766	2,902	3,092	3,276	3,449	3,624	3,794	12,391	29,628
Off-budget	654	631	695	702	746	795	841	883	925	972	1,016	1,062	3,749	8,606
Outlays														
Mandatory spending	2,093	1,925	2,065	1,971	2,035	2,172	2,316	2,515	2,646	2,766	2,964	3,141	10,579	24,630
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
Net interest	187	202	225	259	326	410	492	564	623	676	726	778	1,712	5,079
Total Outlays	3,518	3,485	3,714	3,618	3,760	4,000	4,230	4,560	4,780	4,983	5,274	5,541	19,342	44,480
On-budget	3,061	2,931	3,136	3,017	3,128	3,235	3,553	3,824	4,002	4,168	4,401	4,631	16,170	37,170
Off-budget	517	554	578	601	632	664	696	736	777	815	873	910	3,172	7,310
Deficit (-) or Surplus	-1,413	-1,342	-1,066	-665	-525	-438	-507	-585	-579	-562	-634	-685	-3,202	-6,246

Source: CBO



Total Debt Held by the Public and Net Interest Costs

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Corporate income taxes	138	180	307	353	385	449	379	390	407	413	420	410	1,675	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	200	207	216	214	262	282	296	300	325	343	359	1,172	2,891
Total Revenues	2,105	2,143	2,648	2,953	3,236	3,561	3,743	3,975	4,201	4,421	4,640	4,856	16,140	38,234
On-budget	1,451	1,512	1,952	2,251	2,489	2,766	2,902	3,092	3,276	3,449	3,624	3,794	12,391	29,628
Off-budget	654	631	695	702	746	795	841	883	925	972	1,016	1,062	3,749	8,606
Outlays														
Mandatory spending	2,093	1,925	2,065	1,971	2,035	2,172	2,316	2,515	2,646	2,766	2,964	3,141	10,579	24,630
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
Net interest	187	202	225	259	326	410	492	564	623	676	726	778	1,712	5,079
Total Outlays	3,518	3,485	3,714	3,618	3,760	4,000	4,230	4,560	4,780	4,983	5,274	5,541	19,342	44,480
On-budget	3,061	2,931	3,136	3,017	3,128	3,235	3,553	3,824	4,002	4,168	4,401	4,631	16,170	37,170
Off-budget	517	554	578	601	632	664	696	736	777	815	873	910	3,172	7,310
Deficit (-) or Surplus	-1,413	-1,342	-1,066	-665	-525	-438	-507	-585	-579	-562	-634	-685	-3,202	-6,246

Source: CBO

~6%
15%

14%
44%



A Taxpayer's Itemized Receipt

WSJ FIVE: Working couple with income of \$100,000

Item	Amount paid	Retained credit with income of \$100,000
Charitable contributions	\$4,000.00	\$4,000.00
Medical expenses	1,200.00	1,200.00
Mortgage interest	12,000.00	12,000.00
State and local taxes	10,000.00	10,000.00
Charitable contributions	1,000.00	1,000.00
Medical expenses	1,200.00	1,200.00
Mortgage interest	12,000.00	12,000.00
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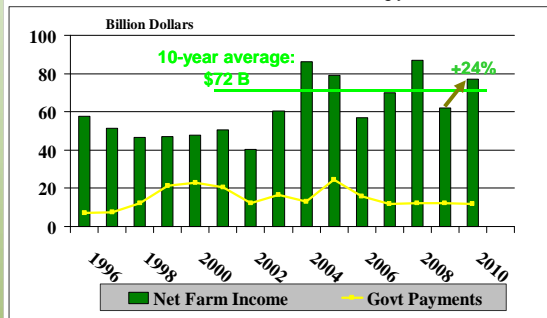
Agriculture: A Bright Spot in the Slow Economic Recovery



UKAg

U.S. Net Farm Income

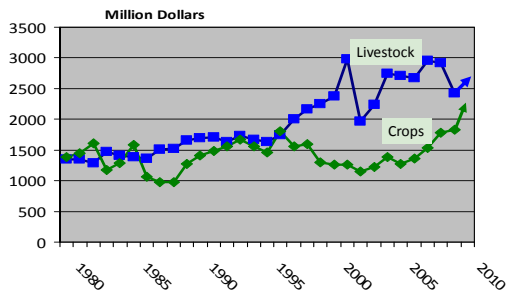
Net Farm Income rebounds strongly in 2010



Source: USDA, ERS

UKAg

KY Agricultural Cash Receipts

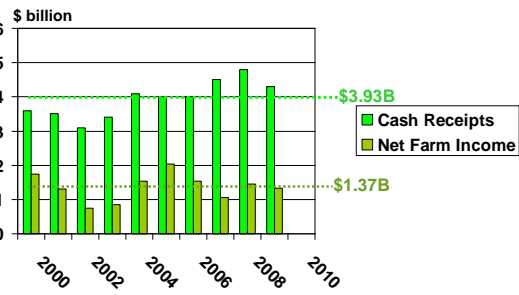


Source: USDA, NASS

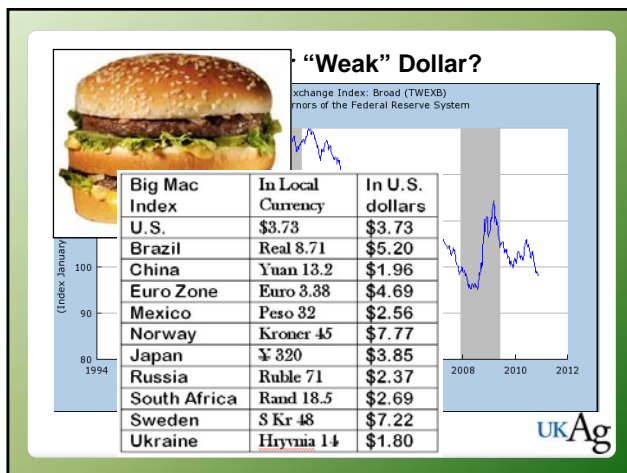
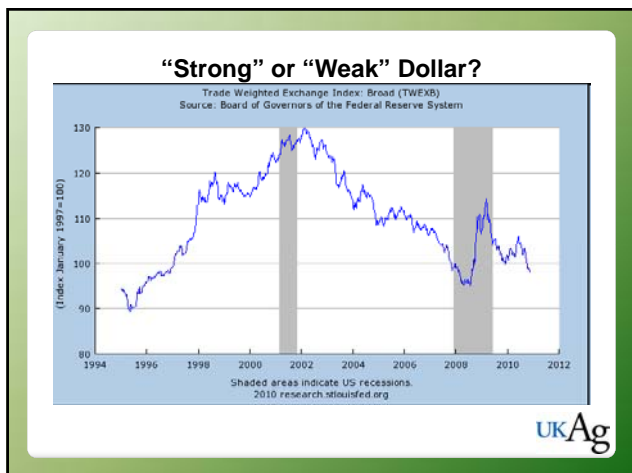
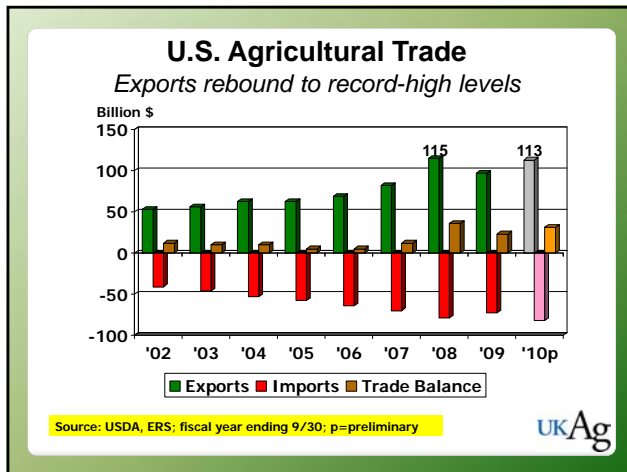
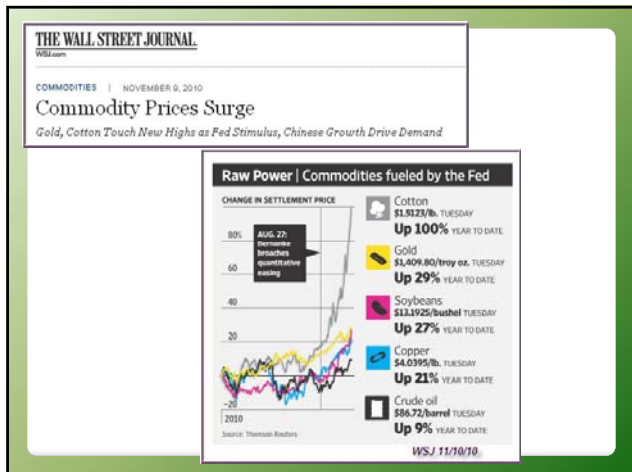
UKAg

KY Cash Receipts and Net Income

Kentucky follows the trend?



UKAg



Outlook for Ag in 2011

- Will the world and U.S. economies continue to grow?



Outlook for Ag in 2011

- Will the world and U.S. economies continue to grow?
Top Ag Export customers:
 - Canada
 - Mexico
 - China
 - Japan
 - S. Korea
 - E.U.



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 for 2-3-4 more years.



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 for 2-3-4 more years.
- Another year of favorable weather?



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 for 2-3-4 more years.
- Another year of favorable weather?
- Will there be wildcards in the deck for Ag in 2011? No major food safety issues, trade wars, open conflict on the Korean Peninsula, etc.

