

GENERAL SESSION I
***Impacts of the Financial Market Crisis
on the Agriculture Sector***

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Professor Featherstone is recognized as a leading scholar in agricultural finance. His work has resulted in teaching and research awards as well as quotation in the Wall Street Journal and other popular publications. He served as an Associate Editor for the American Journal of Agricultural Economics and on the editorial board of Choices. He has more than 90 articles published in journals such as The Review of Economics and Statistics, American Journal of Agricultural Economics, Review of Agricultural Economics, Applied Economics, and Agricultural Finance Review. Allen has international experience lecturing and researching in Europe, Asia, Africa, and South America.

Abstract/Summary

The last half of 2008 was one of the more turbulent times since the Great Depression. The origin of that turbulence were sown years previously due to a variety of reasons including historically low interest rates, lax credit standards in the home mortgage market partially encouraged by the U.S. Congress, and bad decisions made by market participants including mortgage lenders, mortgage borrowers, and Wall Street. The results of the crisis has been a tremendous destruction of wealth globally, reduced credit availability, and a low level of consumer confidence that has not been seen in nearly 30 years. At the same time, the U.S. agricultural sector during 2008 was very healthy. In some respects, the health of the production agricultural sector is as good as it has been in nearly 30 years. However, there are certainly some ominous features on the horizon that could affect the health of the agricultural sector. This presentation will examine the Financial Crisis and its impacts on the agricultural sector.

Impact of the Financial Market Crisis on the Agricultural Sector

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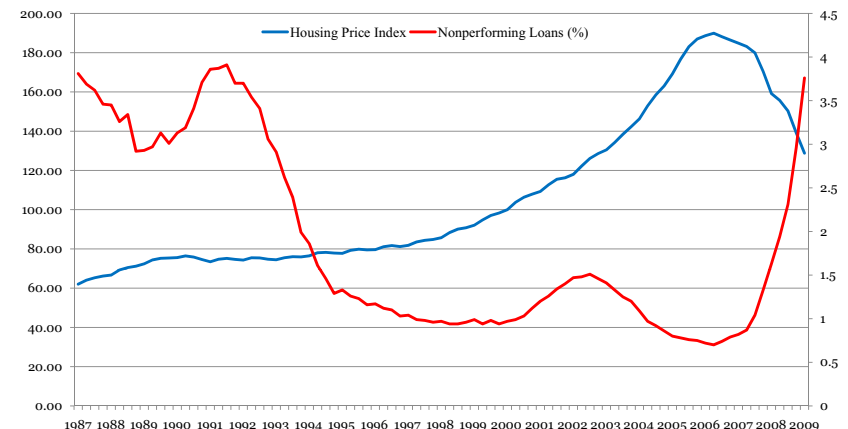
Introduction

- Last half of 2008 one of the more turbulent times since the Great Depression
- Uncertainty regarding future economic conditions still exist
- Origin due to:
 - Historically low interest rates
 - Lax credit standards
 - Poor decision making
- Results have been:
 - Destruction of global equity
 - Reduced credit availability
 - Low level of consumer confidence

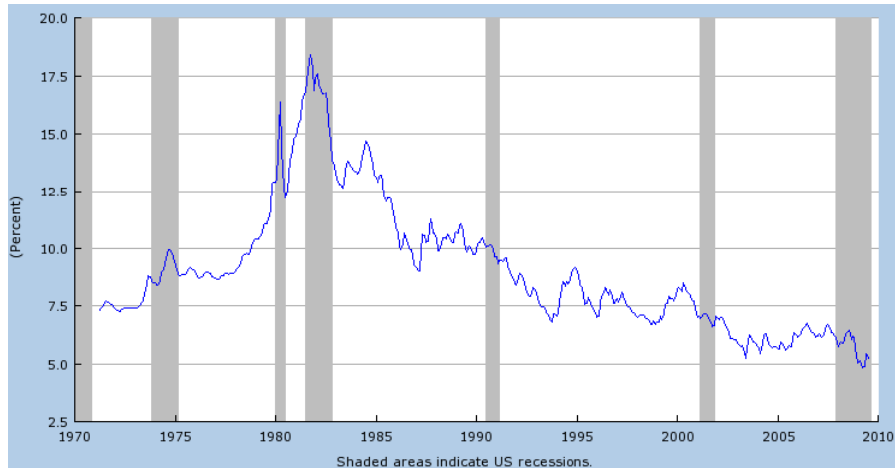
Comparison to Farm Crisis in the 1980s

- Housing market bubble
 - Housing prices had increase over 20 years
 - Collateral value based lending
 - Little emphasis on repayment capacity
 - Relaxed credit underwriting standards
 - Historically low interest rates
 - Special teaser rates
 - Moved collateral off the books by repackaging
 - Bankruptcy in the mortgages

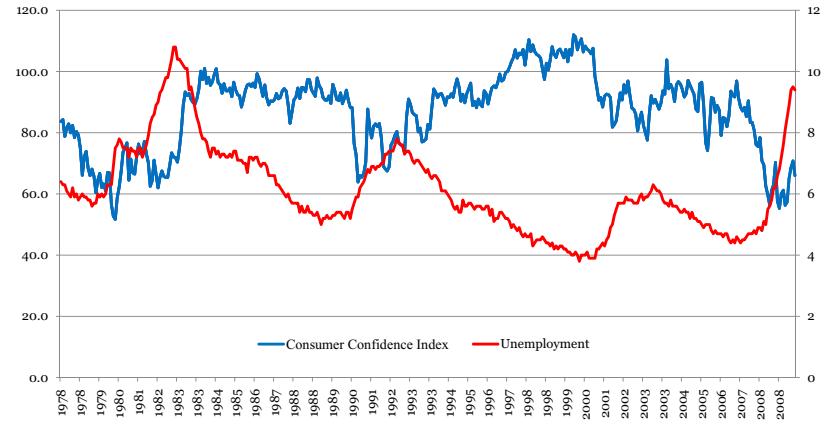
Housing Prices and Non-performing Loans



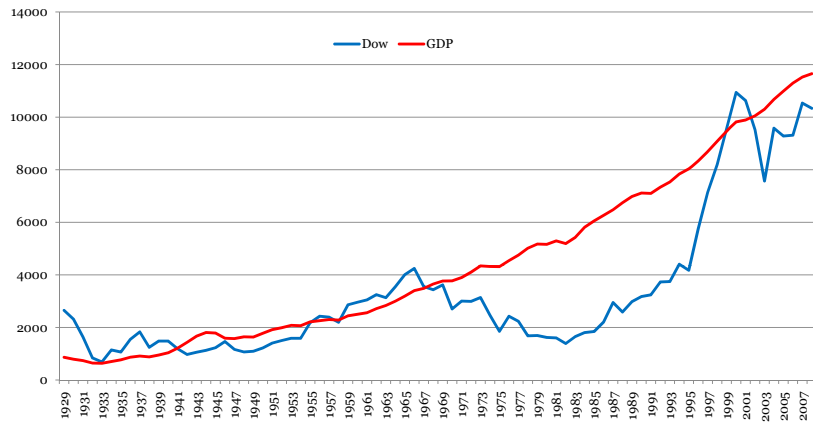
30 Year Conventional Mortgage Rate



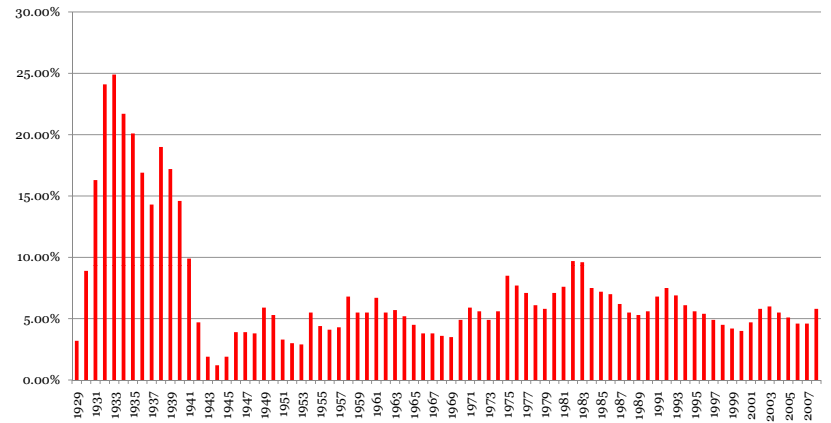
Consumer Confidence and Unemployment



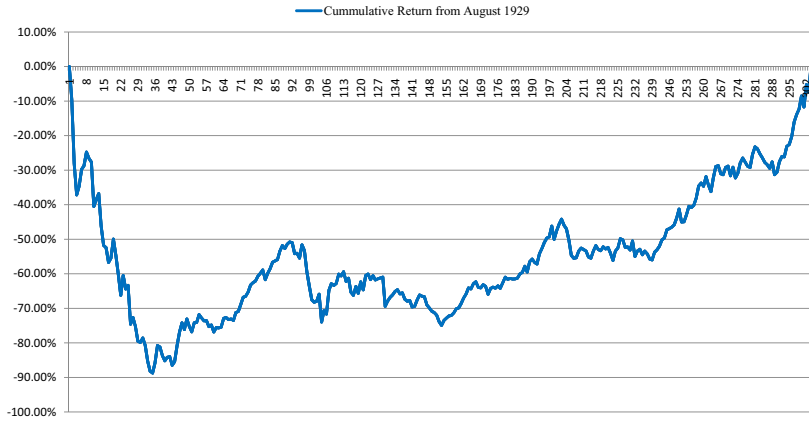
GDP and Stock Market Performance



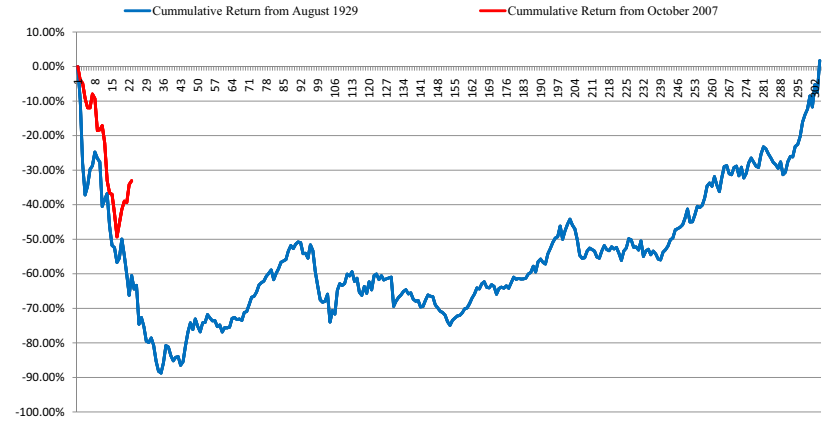
Annual U.S. Unemployment Rate



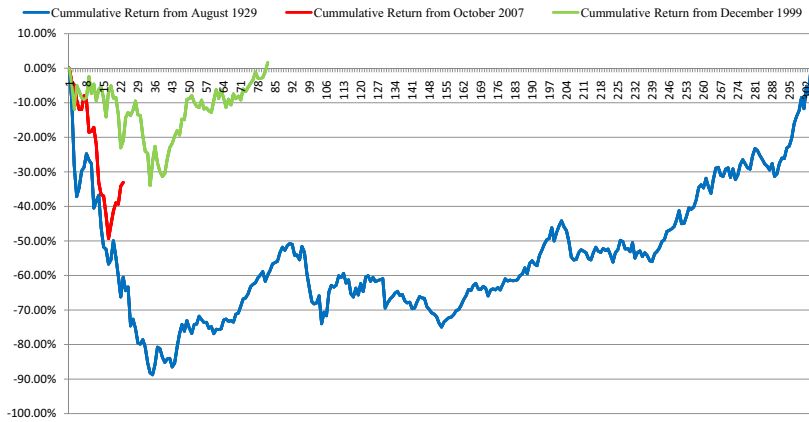
Cumulative Market declines



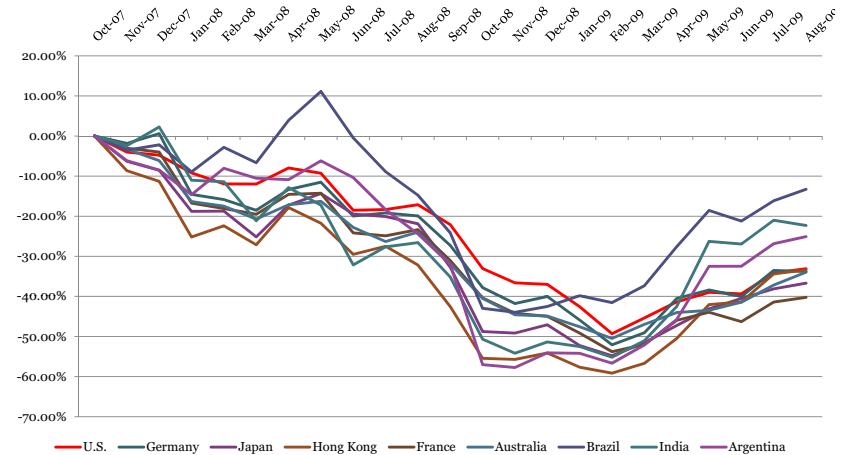
Cumulative Market declines



Cumulative Market declines

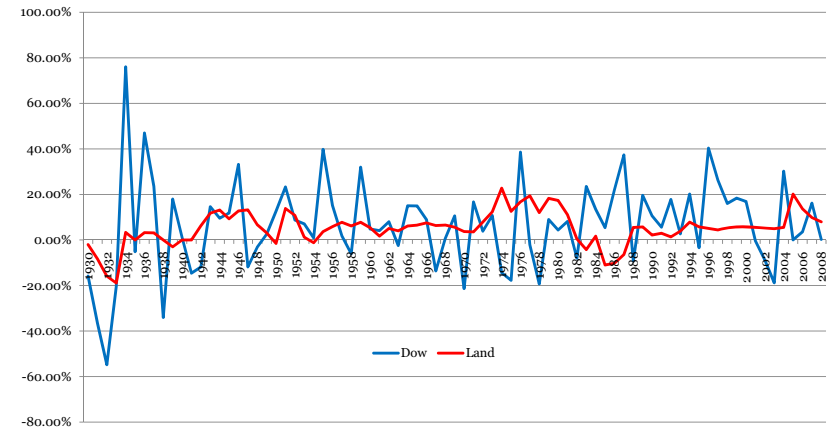


Global Nature of Decline

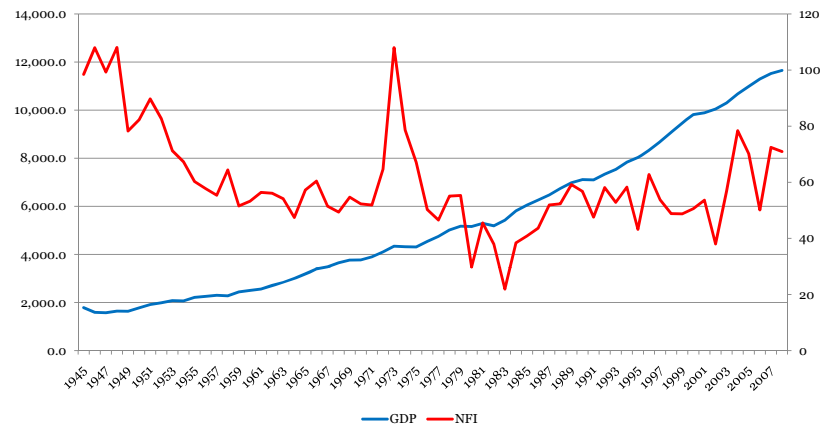


Agricultural Effects

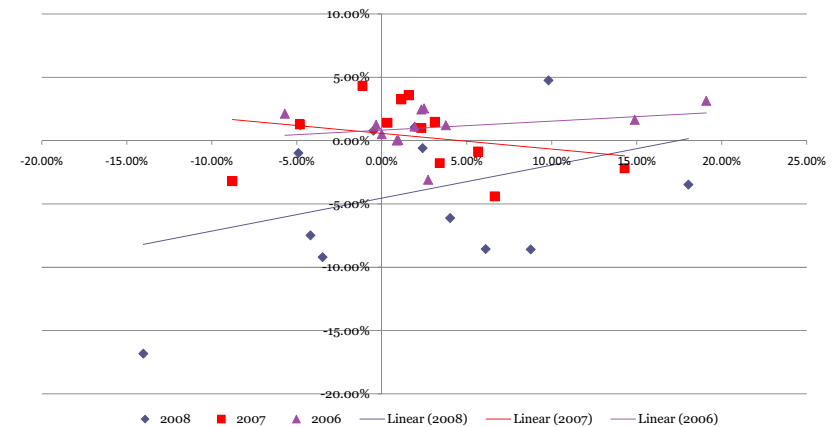
Land Values and Stock Markets Prices



Overall Economy and the Farm Economy



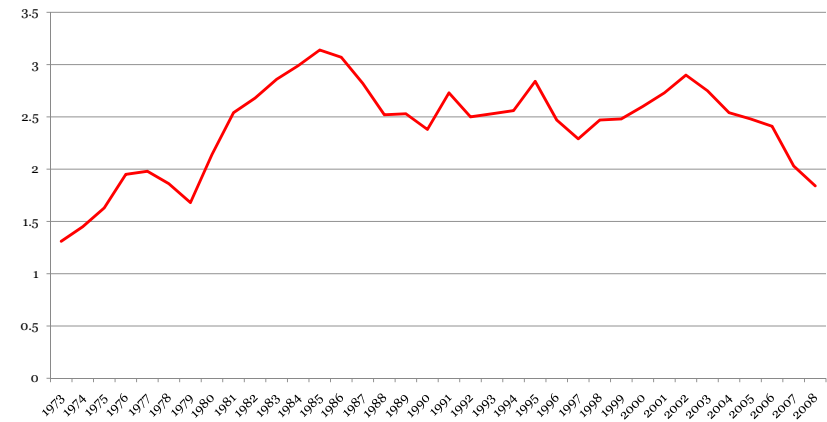
Monthly Changes in Corn Price and S&P 500



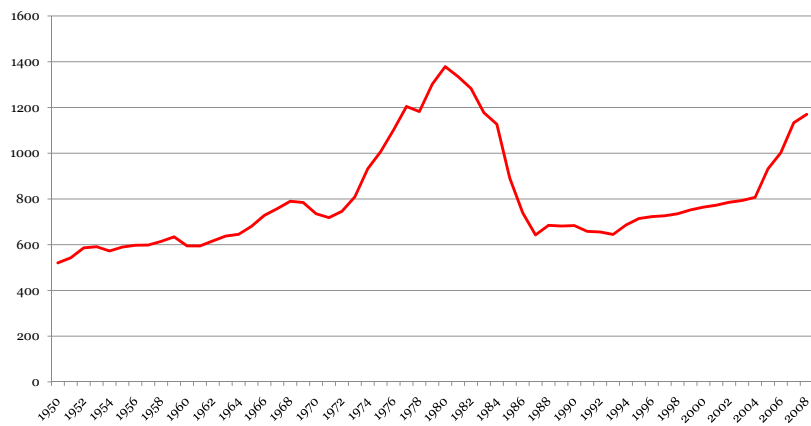
Summary of Price Effects

- The relationship between the overall economy and the agricultural economy tends to be not strong
- If anything there is a slightly negative effect between the overall economy and the agricultural economy
- Overall market effects and price effects are not strong

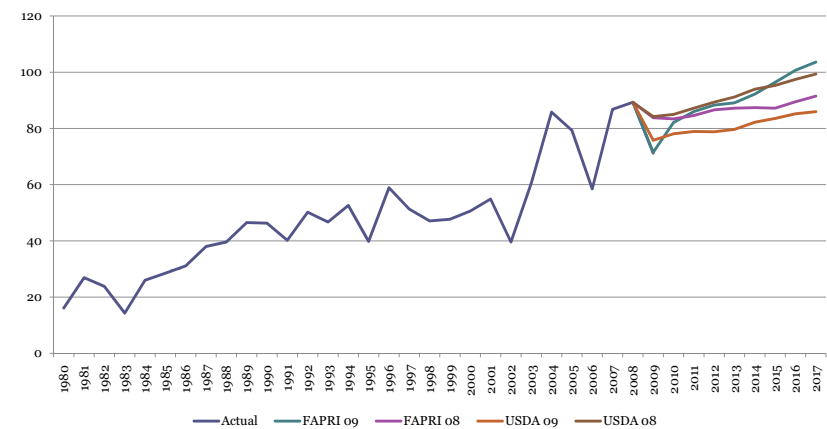
Probability of Farm Default



Inflation Adjusted Land Prices

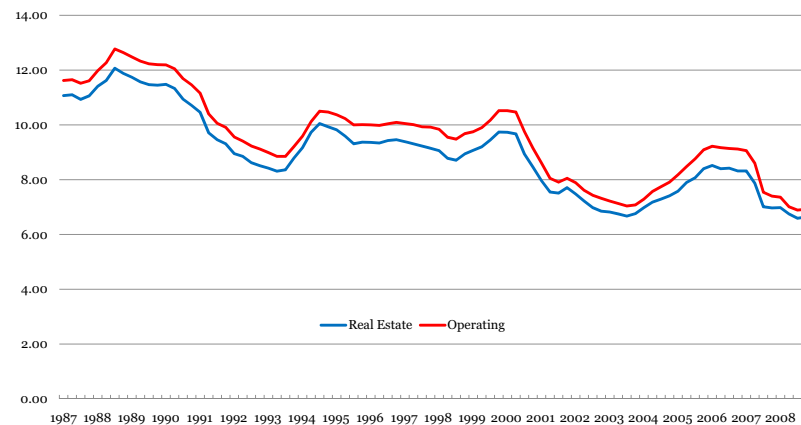


U.S. Farm Income Projections

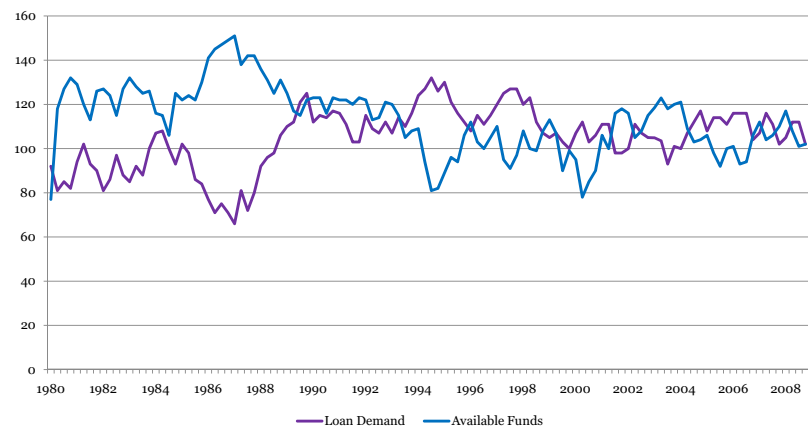


Agricultural Credit Conditions

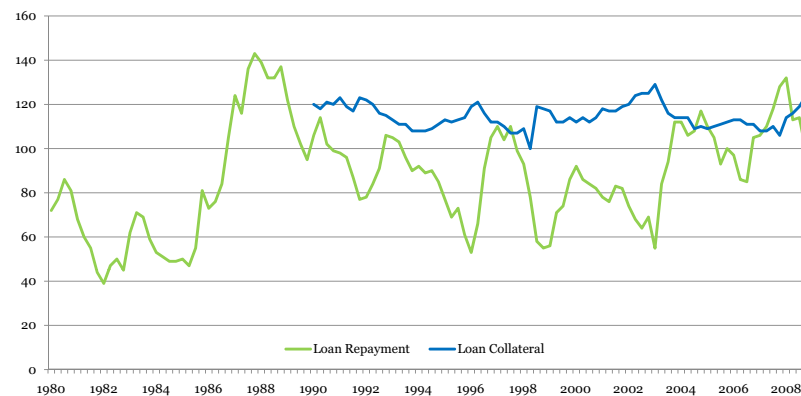
Agricultural Interest Rates



Loan Demand and Available Funds



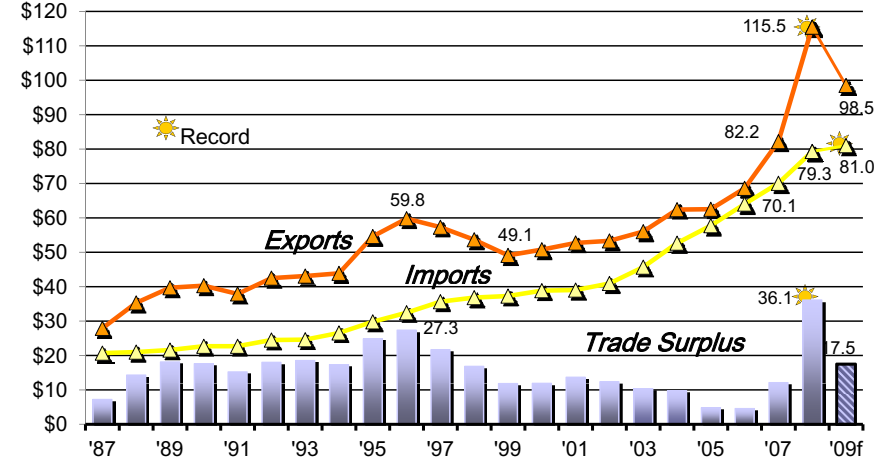
Loan Repayment and Collateral Requirements



Agricultural Income Considerations

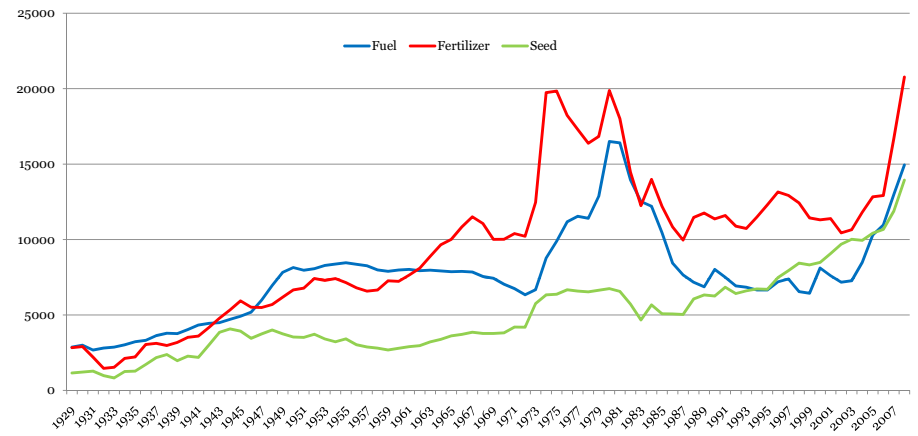
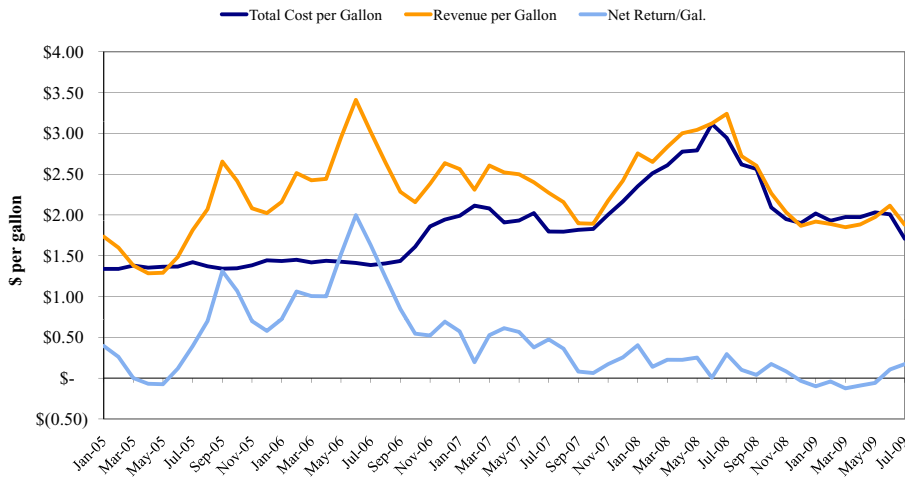
Global Effects

Trade Value (\$Billion)



Profitability of Ethanol Production

Input Market Effects





Conclusions

- Overall financial crisis has been felt in economies around the globe
- More than a 30% loss in global equity
- Decline in consumer confidence
- Unemployment increases
- Credit crisis in non agricultural sector
- Has not really affected agricultural yet



Agricultural Sector Conclusions

- Insulated from the credit crisis so far
- Effects more likely to be due to demand destruction
- Countries reduce aggregate demand especially for discretionary items
- Effects in other countries may be more severe than in the U.S.
- Certain commodities will be affected more severely



Agricultural Sector Conclusions

- Entering situation in strong financial position
- Situation could change in a couple of years
- Warning Signals
 - Agricultural Land Market
 - Profitability of the Sector
- Livestock based enterprises facing difficult prospects
- Grain sector next?
- Inputs markets will be effected differently



How long before stability?

- Links to the farm crisis
- Land market took 5 years to work through
- Housing market nearing decline of 3 years
- May need to decline another 1 percent but will we over react?
- The agricultural land bubble was contained, the housing bubble was not
- Important differences