1. Macroeconomic Instability: To Be Continued?

Allen Featherstone **<afeather@agecon.ksu.edu>**

Allen M. Featherstone, Director of Masters of Agribusiness and Professor of Agricultural Economics at Kansas State University, holds M.S. and Ph.D. degrees in agricultural economics from Purdue University. He also holds a B.S. in agricultural economics and economics from the University of Wisconsin-River Falls. Professor Featherstone is recognized as a leading scholar in agricultural finance. His work has resulted in teaching and research awards and quotation in the Wall Street Journal and other publications. He served as Associate Editor for the American Journal of Agricultural Economics and on the editorial board of Choices. He has more than 110 articles published in a variety of journals. He has experience lecturing and researching in Europe, Asia, Africa, and South America.

Abstract/Summary

The bursting of the housing bubble placed the U.S. economy into a recession that has had major ramifications in the rest of the economy. This led to a major recession that the economy has had difficulty shaking. The agricultural economy took five years to right itself during the 1980s. The housing market has experienced declines for about 5 years. Does this begin to signal the end of the crisis? Have the major indicators changed? What are the signals moving forward?

Macroeconomic Instability: To Be Continued?

Allen M. Featherstone
Kansas State University

Conclusions from 2009 Risk and Profit

- Overall financial crisis that began in 2007 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

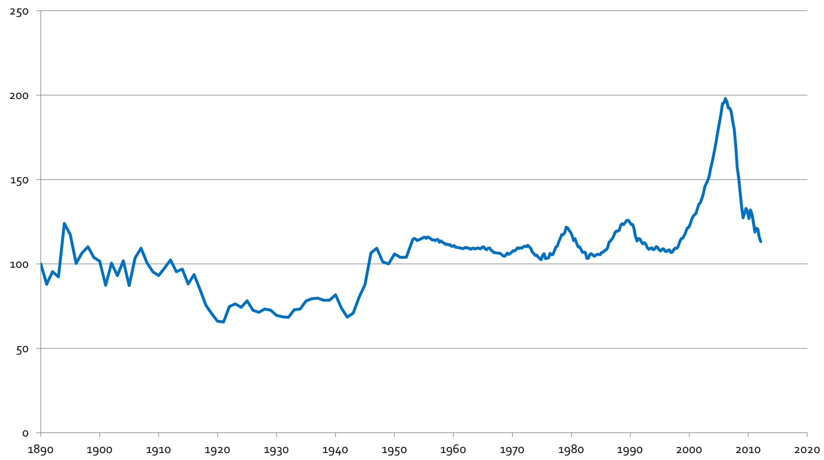
How long before stability?

- 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

Outline of Discussion

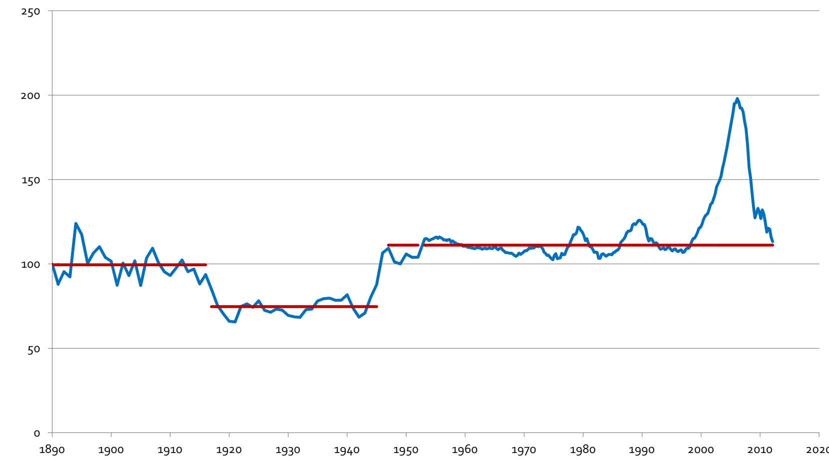
- Housing Market
- Economic Performance
  - Gross Domestic Product Growth
  - Stock Market Performance
- Interest and Inflation Rates
- Unemployment
- Global Performance

Inflation Adjusted Housing Prices



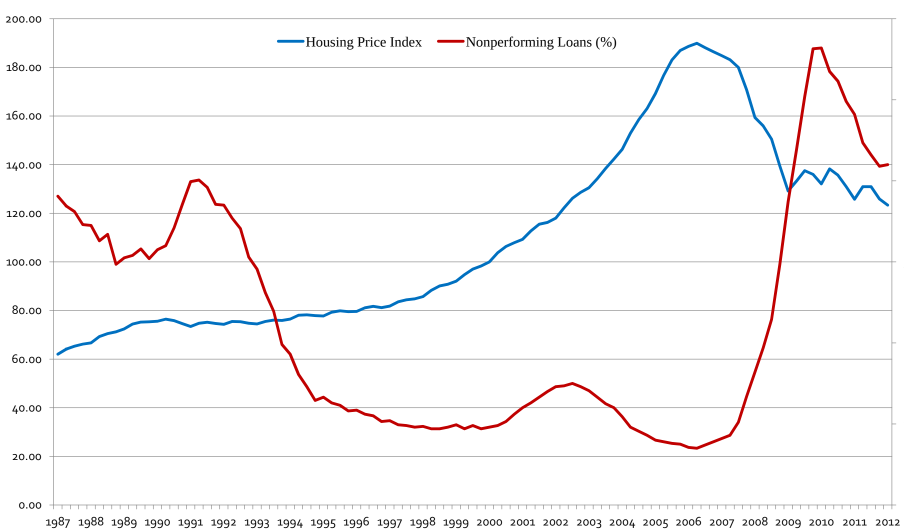
Source: Shiller

Inflation Adjusted Housing Prices



Source: Shiller

Housing Prices and Non-performing Loans



Futures Market on Housing

- Case-Shiller Index traded by the CME group
- Expected Price Change in Housing Price

	Expected Change in Housing Price (%)
November 2012 – 2013	2.3%
November 2013 – 2014	2.1%
November 2014 – 2015	2.0%
November 2015 – 2016	2.0%

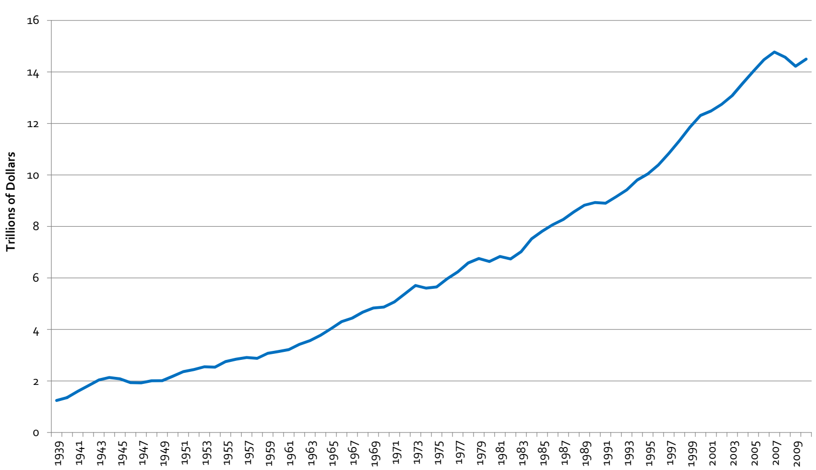
Source: CME Group 8/15/12

Housing Summary

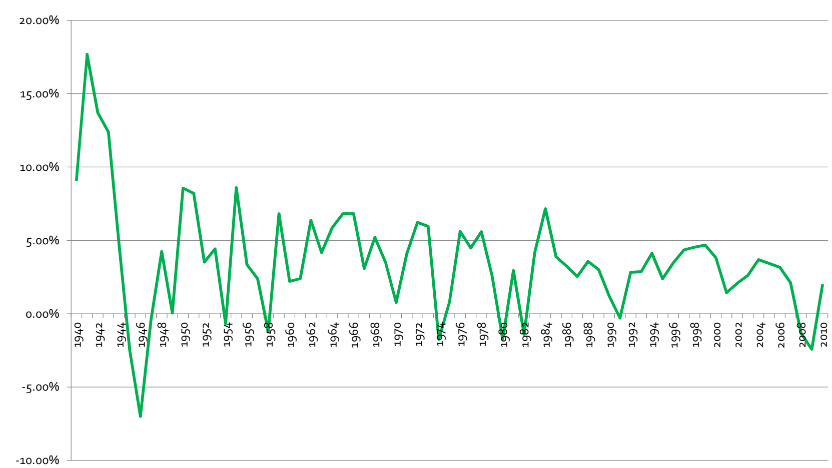
- The housing market appears to be back to a longer term real level
- There are a substantial amount of properties that need to be sold before the market will begin to increase above inflation
- Therefore, the market will likely remain sluggish increasing roughly at the price of inflation

Economic Performance

Inflation Adjusted U.S. GDP

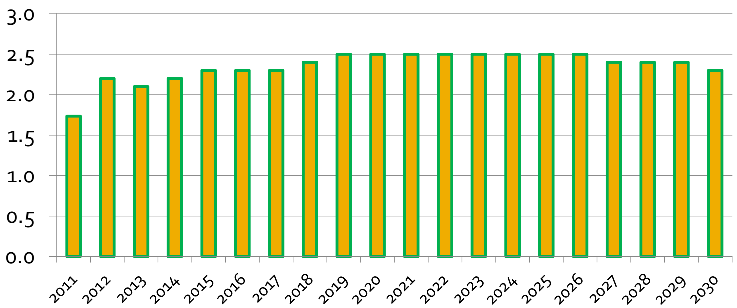


Real GDP Growth



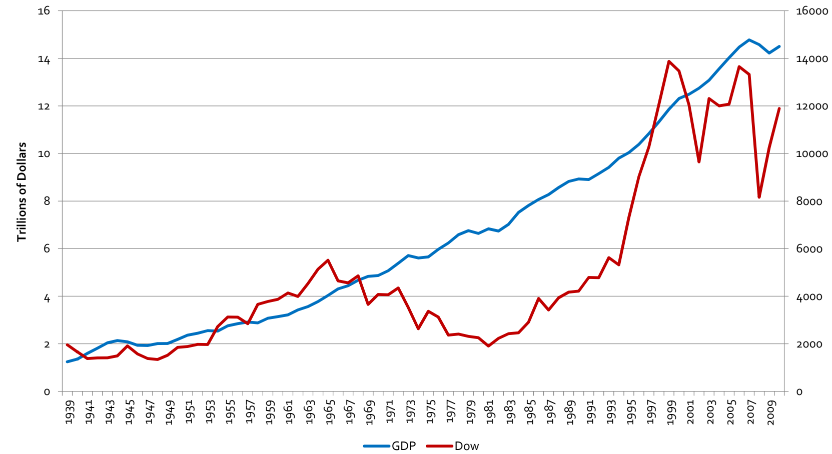
GDP Summary

- GDP growth out of the latest recession has been slow
- Projections are that it will remain slow

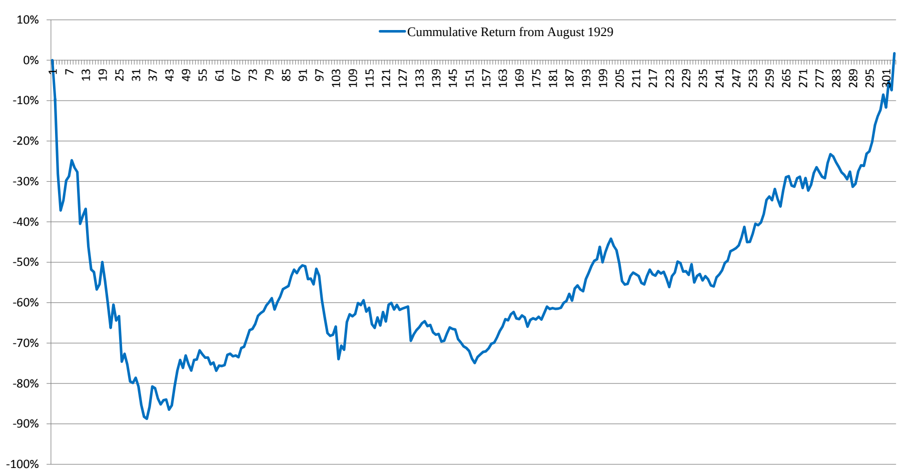


Source: Economic Intelligence Unit, *Economist*

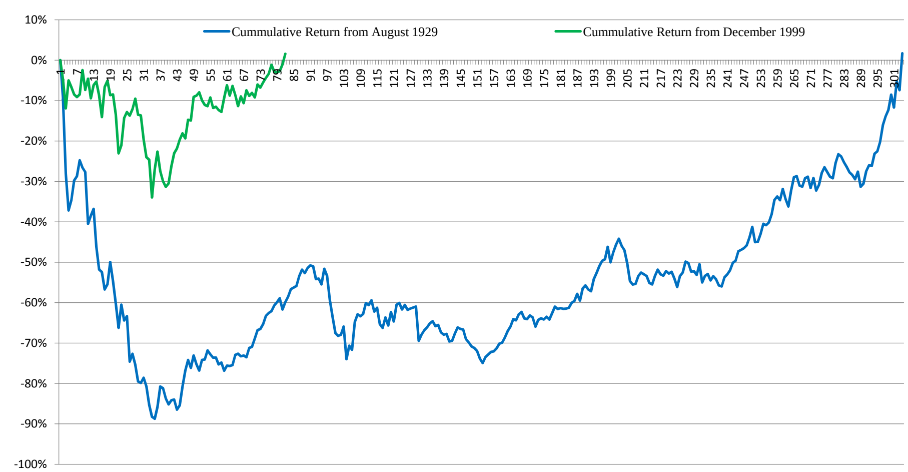
Inflation Adjusted GDP and the Dow



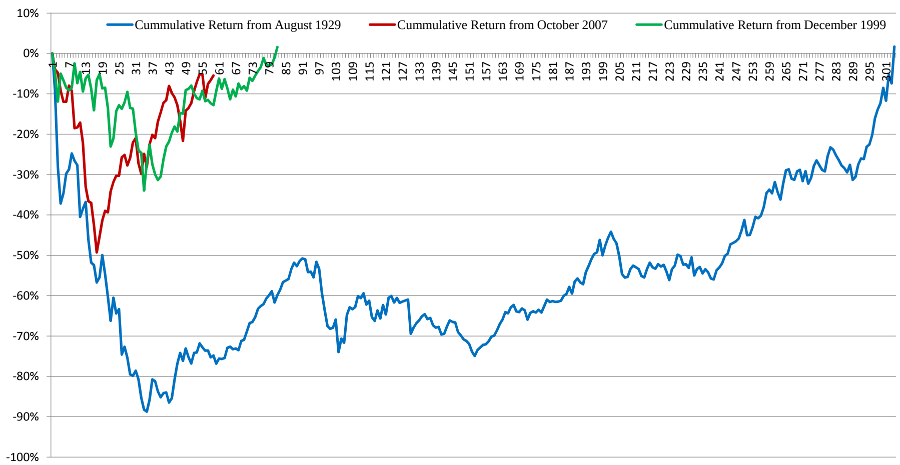
Cumulative Market declines



Cumulative Market declines



Cumulative Market declines



Futures Market on the S&P 500

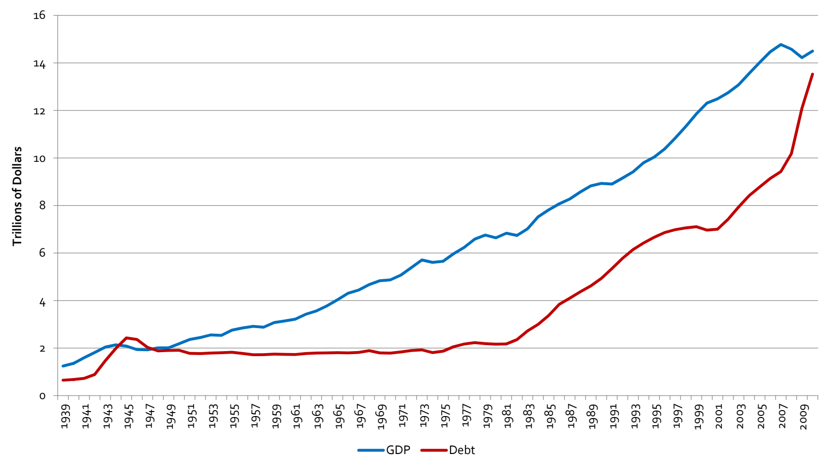
- S&P Futures Market Traded on the CME
- Expected Price Change in the S&P 500

	Expected Change in S&P 500 (%)
December 2012 – 2013	-1.8%
December 2013 – 2014	-1.9%
December 2014 – 2015	-1.0%
December 2015 – 2016	-0.4%

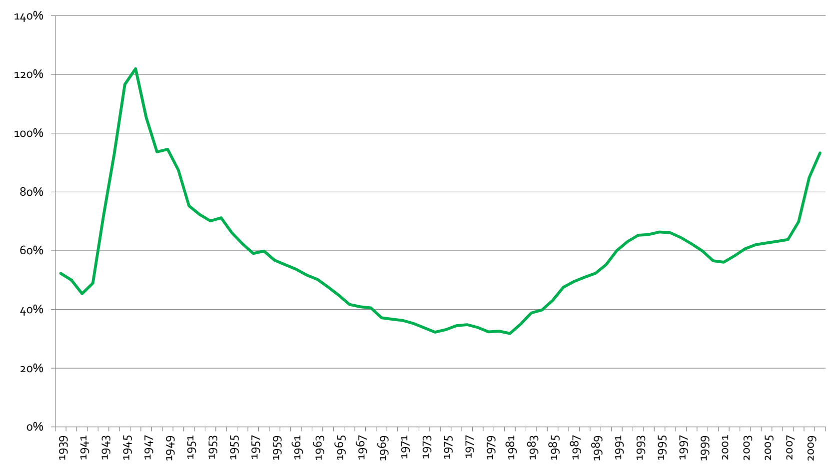
Source: CME Group 8/15/12

Interest Rates

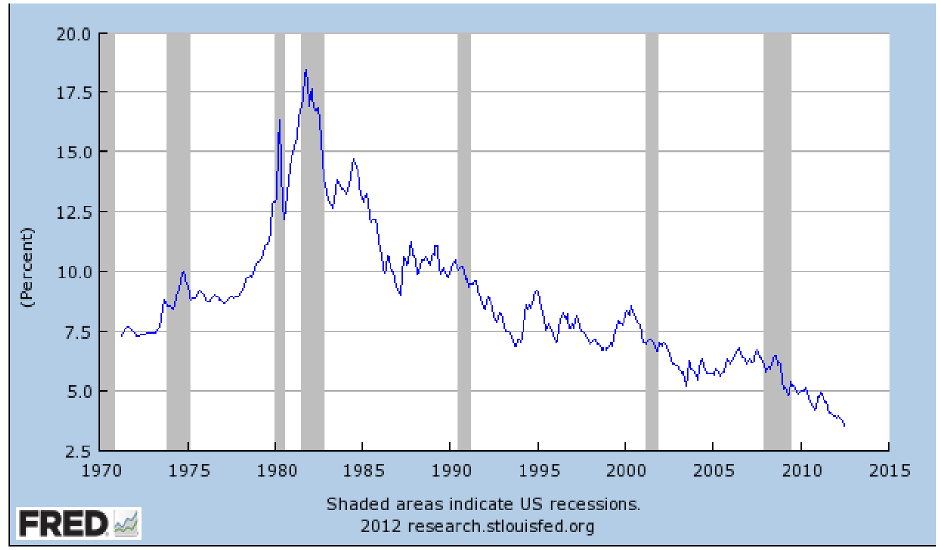
Inflation Adjusted GDP and Debt



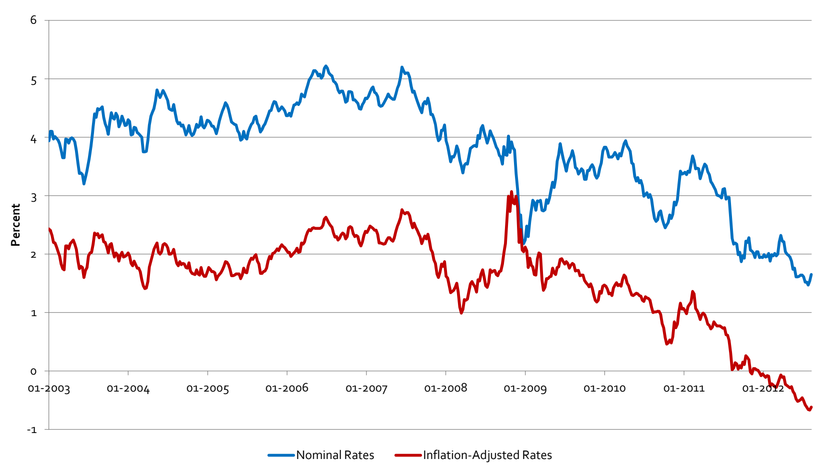
National Debt Percentage of GDP



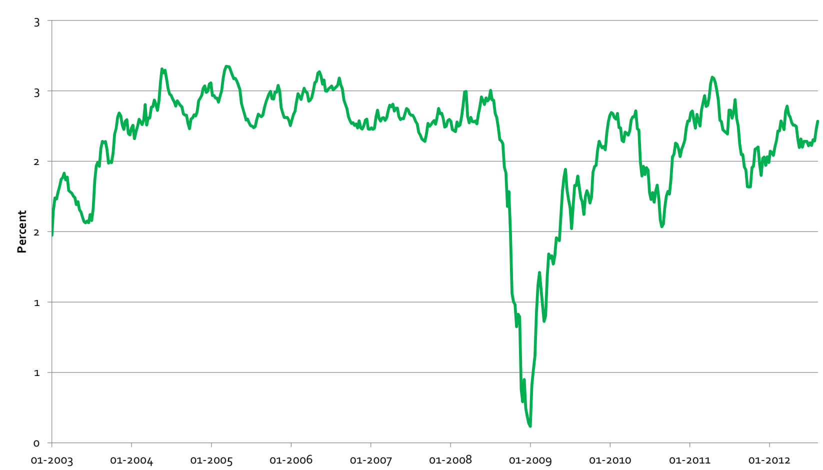
30 Year Conventional Mortgage Rate



10 Year Treasury and Tip Rates



Implied 10 Year Inflation Rate



Interest and Inflation Rates

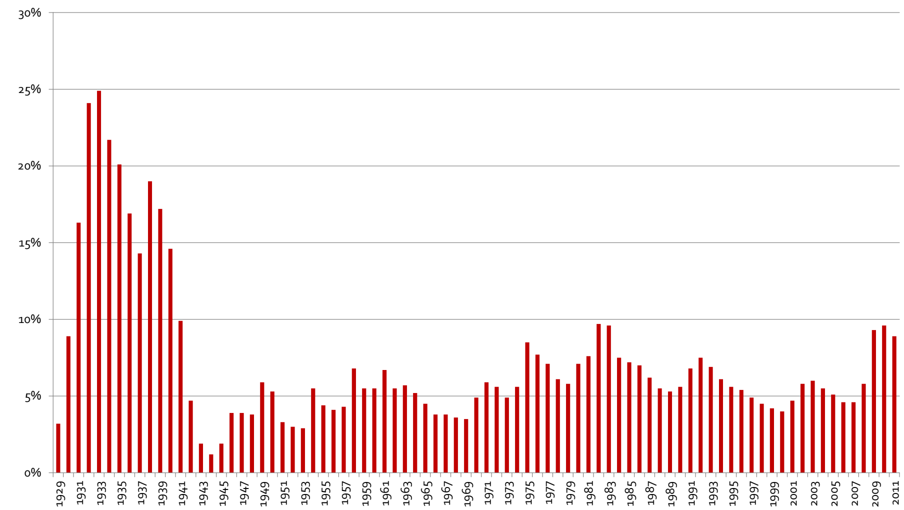
- Interest and Inflation Rate information as of August 10, 2012

	5 Year Rates	2nd 5 Years
Nominal Rates	0.71%	2.60%
Inflation-Adjusted Rates	-1.21%	-0.03%
Pseudo Inflation Rates	1.94%	2.63%

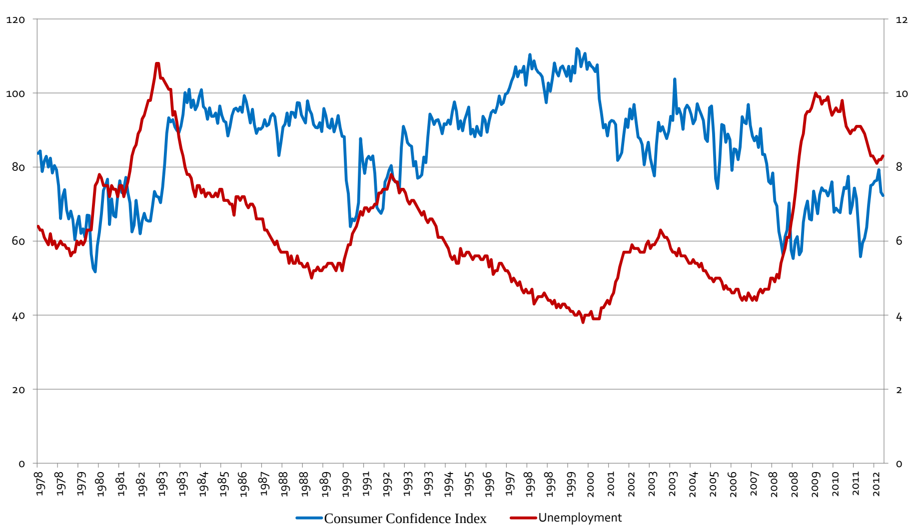
- Rates as of August 12, 2011

	5 Year Rates	2nd 5 Years
Nominal Rates	0.99%	3.57%
Inflation-Adjusted Rates	-0.84%	0.89%
Pseudo Inflation Rates	1.85%	2.66%

Annual U.S. Unemployment Rate



Consumer Confidence and Unemployment

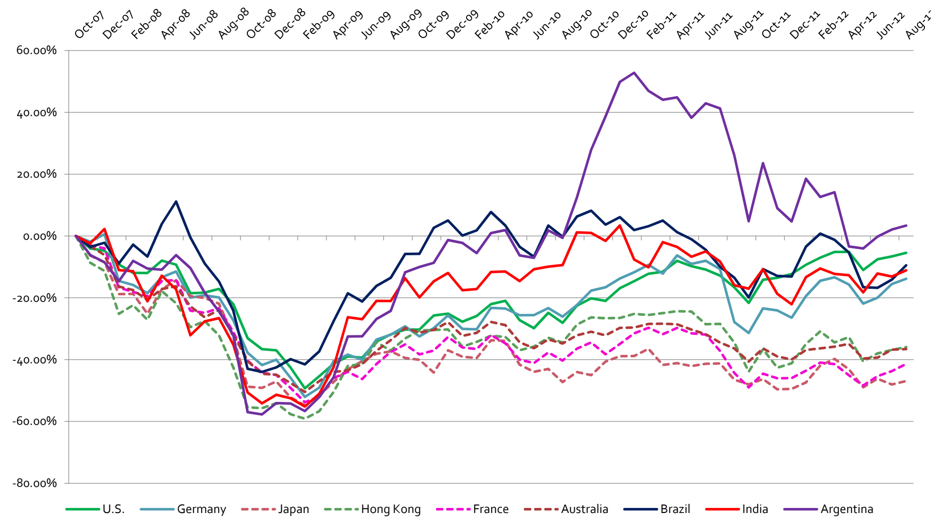


Relationship Between Consumer Confidence and Unemployment

- Highest correlation with a 13 month lag
- Current month correlation is -0.57
- 13 month lag correlation is -0.78
- Expectation based on consumer confidence would be for an increase in unemployment for August and then a slight decrease through next May

Global Effects

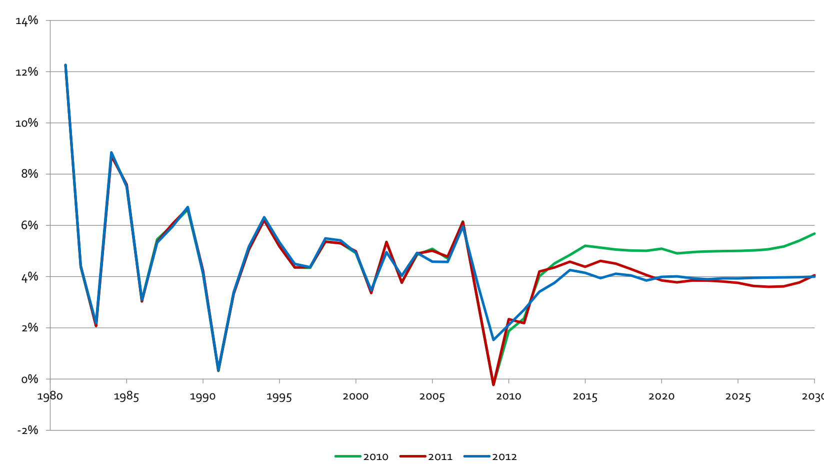
Global Connectedness of Markets



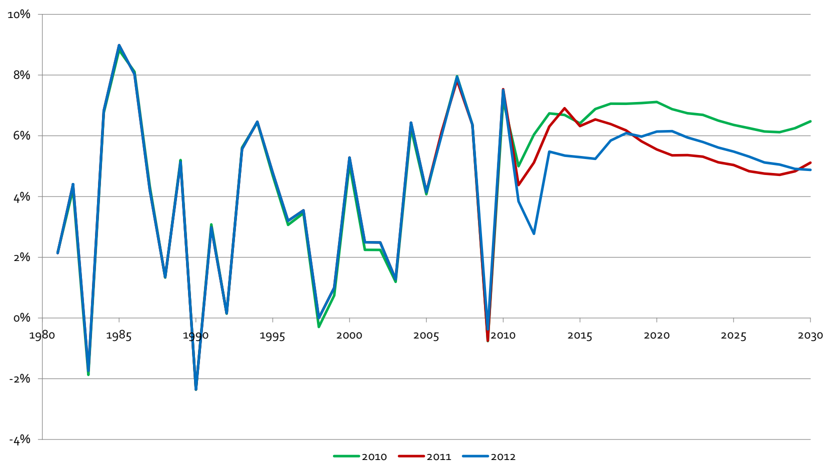
Change in Forecasted Per Capita GDP Growth (2012-2030)

Country	2010 Forecast	2011 Forecast	2012 Forecast
Australia	5.1%	4.0%	4.0%
Brazil	6.5%	5.6%	5.5%
China	8.4%	7.2%	7.2%
France	4.6%	3.8%	3.7%
India	8.4%	7.3%	7.3%
Kenya	7.0%	5.7%	5.6%
United States	5.1%	3.9%	3.7%

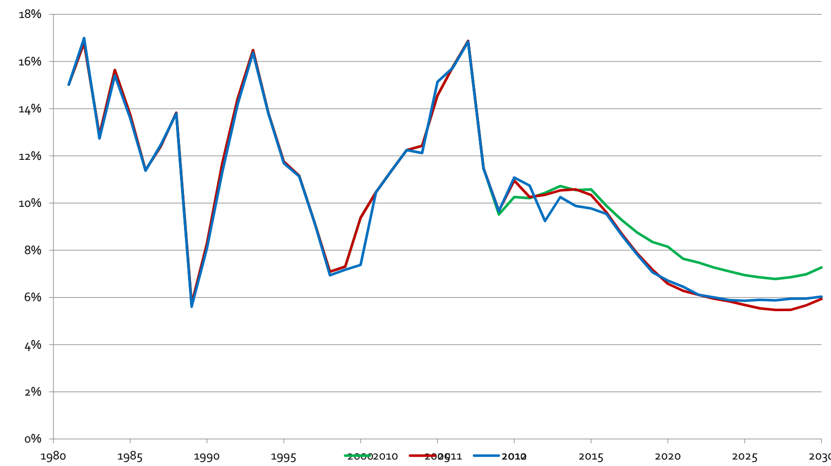
Changing Per Capita GDP Forecasted Growth (Australia)



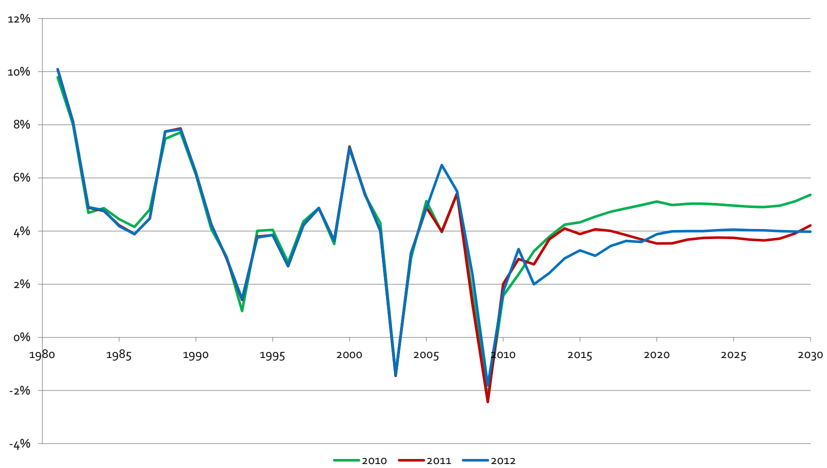
Changing Per Capita GDP Forecasted Growth (Brazil)



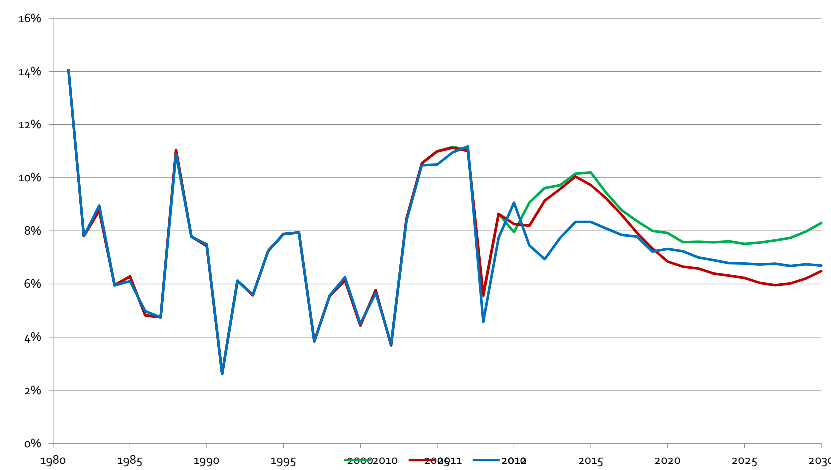
Changing Per Capita GDP Forecasted Growth (China)



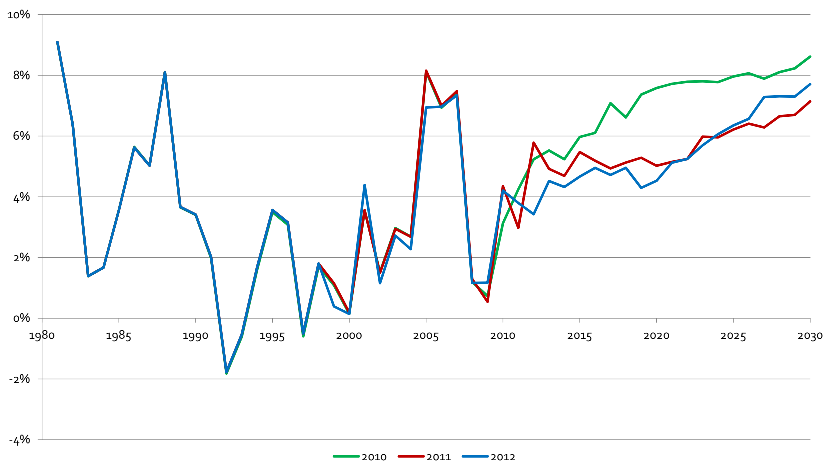
Changing Per Capita GDP Forecasted Growth (France)



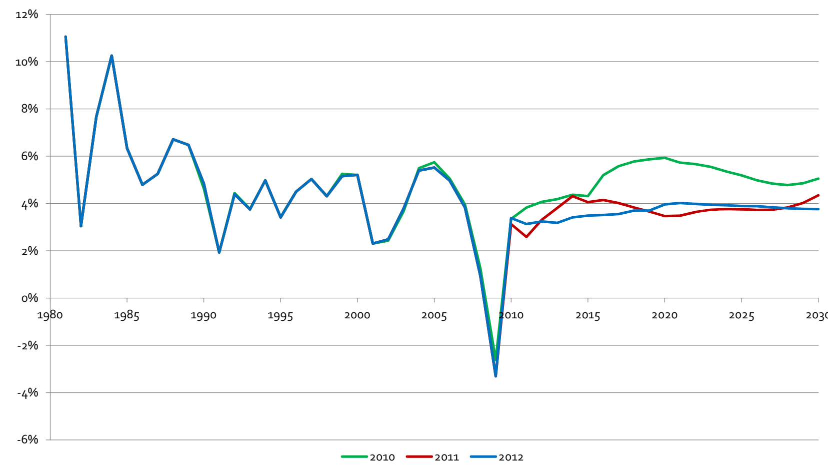
Changing Per Capita GDP Forecasted Growth (India)



Changing Per Capita GDP Forecasted Growth (Kenya)



Changing Per Capita GDP Forecasted Growth (United States)



Global Growth Conclusions

- Forecasted GDP growth estimates are slowing especially in the near term
- Slower GDP growth globally will not be positive for the U.S. economy or agriculture in particular

How long before stability?

- Stability will be an elusive goal
- However
  - The housing market is closer to the bottom
  - Land market took 5 years to work through
  - Housing market nearing decline of 6 years
  - Probably starting to see less drag on that and other markets as debt issues are worked through
- Most projections suggest a sluggish economy over the next few years
- Path will not likely be as smooth as projections indicate
- European debt issues and India and China growth issues will be key