



## DTN-Progressive Farmer Ag Summit 2012

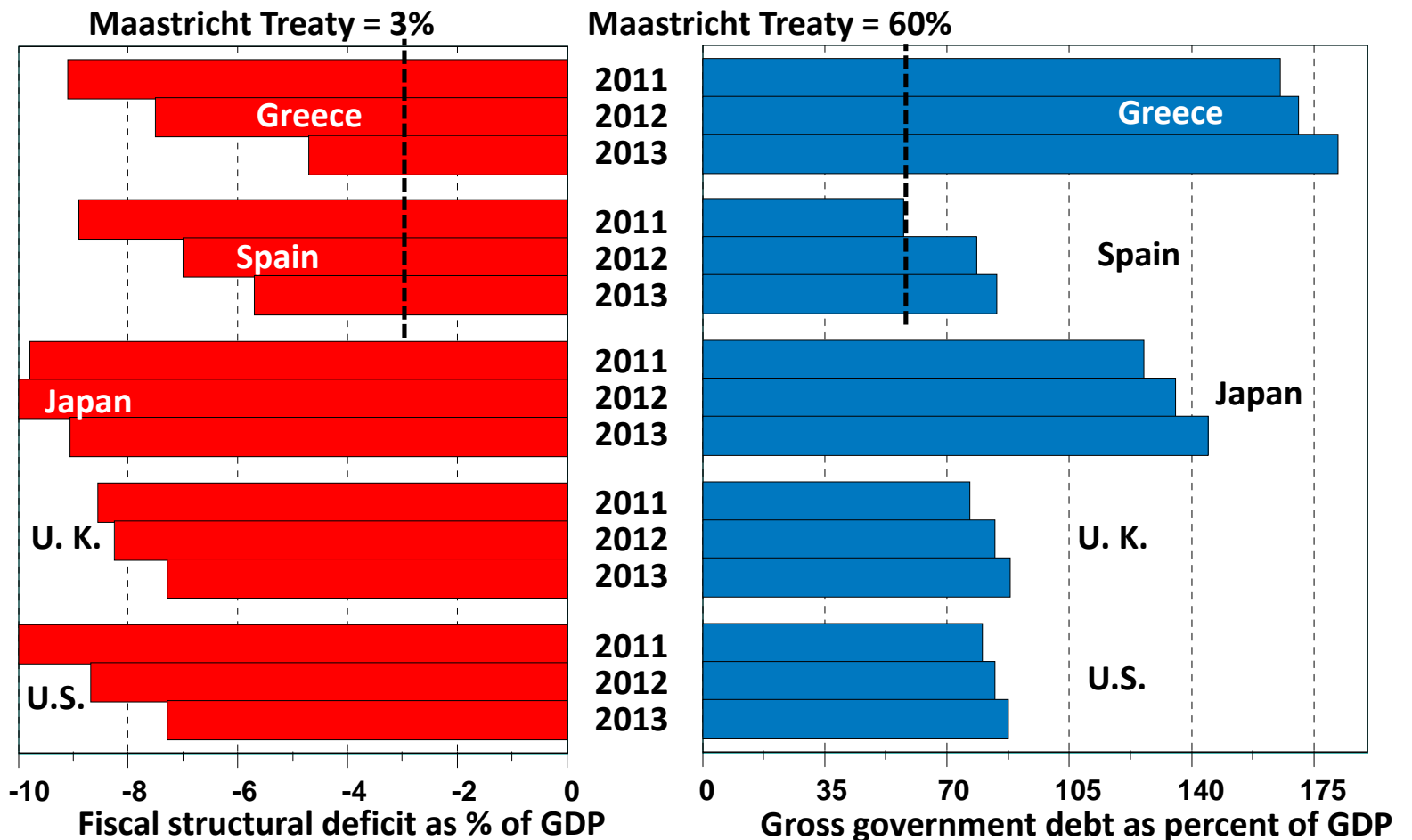
*“Hazards from  
Budget Crisis Here  
and Abroad”*

**Presentation by:**  
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## Debt and Fiscal Issues Will Challenge Major Advanced Economies Beyond Europe



Data source: International Monetary Fund, WEO



## ***“Hazards from Budget Crisis Here and Abroad”***

***This is not just about a “fiscal cliff” in 2013:***

- 1. It is about beginning a multiyear transition with major fiscal and monetary corrections in the U.S., Europe and Asia.**
- 2. It is about strategic choices regarding the role and size of government.**
- 3. It is about fiscal drag, legislative and regulatory clarity for the business sectors and financial market realignment.**
- 4. It is about currency realignments that will reflect the pace of adjustments in the regions and impact trade flows.**
- 5. It is about a growing role for Asia in the global economy and the realignment of their export dependent growth strategies.**
- 6. It is about agriculture’s domestic and global market potential and the impacts of changes in farm and energy policy, regulation and tax code (estate taxes, 1031 like exchanges).**

Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)



## A Global Rebound That Will Boost Trade Will Require Recovery in U.S./Europe

Percent change in annual world growth (purchasing-power parity rates)

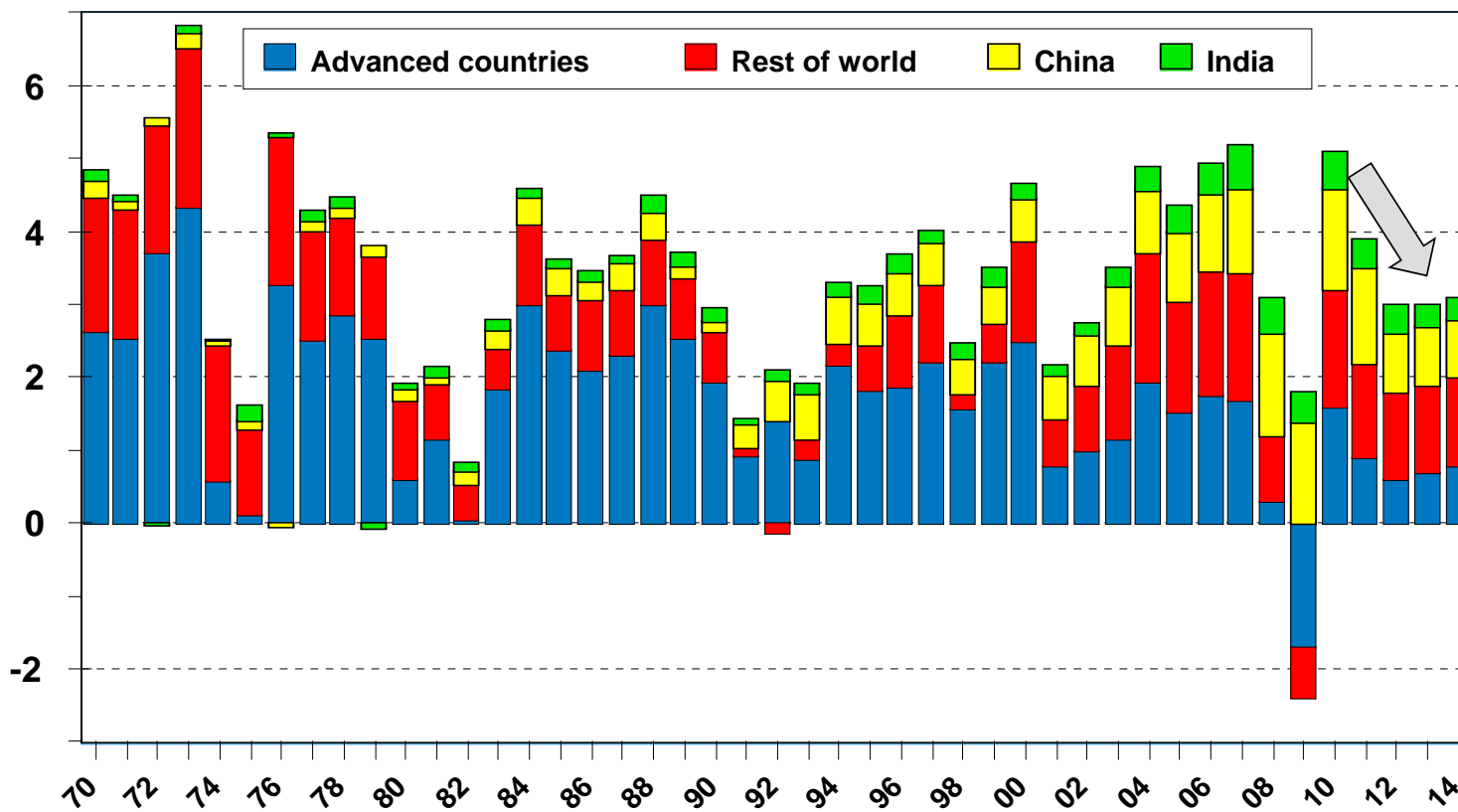


Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)



## *The Largest Chinese Trading Partners Drive China's Economic Growth Potential*

<u>Region</u>	<u>Exports</u>	<u>Imports</u>	<u>Trade Balance</u>
<b>European Union</b>	<b>356.0</b>	<b>211.2</b>	<b>+144.8</b>
<b>United States</b>	<b>324.5</b>	<b>122.2</b>	<b>+202.3</b>
<b>Hong Kong</b>	<b>268.0</b>	<b>15.5</b>	<b>+252.5</b>
<b>ASEAN</b>	<b>170.1</b>	<b>192.8</b>	<b>-22.7</b>
<b>Japan</b>	<b>148.3</b>	<b>194.6</b>	<b>-46.3</b>
<b>South Korea</b>	<b>82.9</b>	<b>162.7</b>	<b>-79.8</b>
<b>India</b>	<b>50.5</b>	<b>23.4</b>	<b>+27.1</b>
<b>Russia</b>	<b>38.9</b>	<b>40.3</b>	<b>-1.4</b>
<b>Taiwan</b>	<b>35.1</b>	<b>124.9</b>	<b>-89.8</b>



## *U.S. Agriculture Export Destinations Have Increasing Asian Flavor*

<u>Top 15 Markets 2012</u>		<u>Top 15 Markets 2000</u>	
	Bil. US\$		Bil. US\$
1. China	23.4	1. Japan	9.3
2. Canada	20.0	2. Canada	7.5
3. Mexico	18.9	3. EU-27	6.5
4. Japan	13.8	4. Mexico	6.3
5. EU-27	8.9	5. South Korea	2.5
6. South Korea	6.2	6. Taiwan	2.0
7. Hong Kong	3.4	7. China	1.5
8. Taiwan	3.1	8. Hong Kong	1.2
9. Indonesia	2.5	9. Egypt	1.1
10. Philippines	2.3	10. Philippines	0.9
11. Turkey	1.9	11. Turkey	0.7
12. Egypt	1.8	12. Indonesia	0.7
13. Viet Nam	1.5	13. Russia	0.7
14. Russia	1.5	14. Dominican Rep.	0.5
15. Thailand	1.3	15. Saudi Arabia	0.5
<b>Total all exports</b>	<b>135.8</b>	<b>Total all exports</b>	<b>50.8</b>

*Asian markets account for 45% of U.S. exports and occupy 9 of the top 15 market destinations. China has become the #1 market with Thailand and Viet Nam growing rapidly!*

Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)



## Grains, Meats & Dairy Exports Focused on Markets That Rely on U.S. / European Growth

Commodity	Percent of U.S. production exported (3 year avg.)	U.S. export destinations (top 7) (5 year average)							Top 7 as percent of total exports
		1	2	3	4	5	6	7	
<b>Total grains and oilseeds</b>	24%								
Wheat	53%	Japan	Nigeria	Mexico	Egypt	Philippines	S. Korea	Iraq	52%
Corn	13%	Japan	Mexico	S. Korea	Taiwan	Egypt	Canada	China	76%
Soybeans	45%	China*	Mexico	Japan	Taiwan	Indonesia	Germany	Egypt	85%
Rice	16%	Mexico	Japan	Canada	Haiti	Saudi Arabia	S. Korea	Jordan	66%
<b>Total meat</b>	17%								
Pork	23%	Japan	Mexico	Canada	China*	S. Korea	Russia	Australia	89%
Beef	10%	Canada	Mexico	Japan	S. Korea	China*	Russia	Taiwan	83%
Broilers	19%	Russia	China*	Canada	Mexico	Cuba	Angola	Taiwan	58%
Turkeys	13%	Mexico	China*	Canada	Dominican	Taiwan	Panama	Guatemala	81%
<b>Total dairy</b>	17%	Mexico	Canada	China*	Japan	Philippines	Indonesia	S. Korea	62%
<b>Total Ag Trade</b>		Asia	N. America	EU-27	M. East	S. America	N. Africa	Caribbean	92%

\* China and Hong Kong

Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)



## ***Sovereign Debts and Fiscal Cliffs Will Dominate Global Economy for Many Years!***

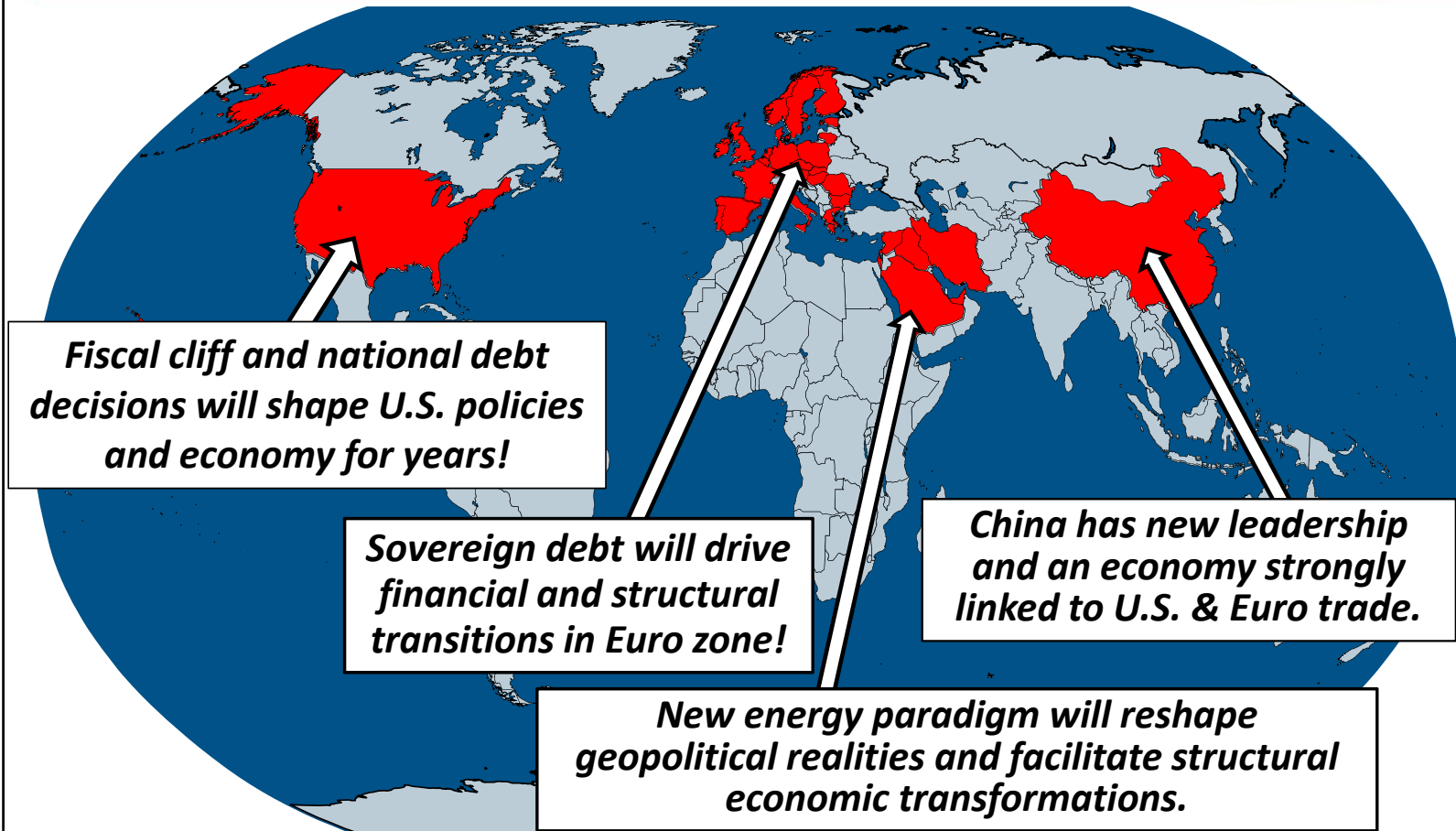


Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)





## A New Energy Paradigm and Geopolitics Will Mean Major Market and Policy Shifts



Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)



## *Strategic Decisions Lead by These Political Leaders Will Shape Global Growth Path*



## *Euro Region Struggling to Transition*

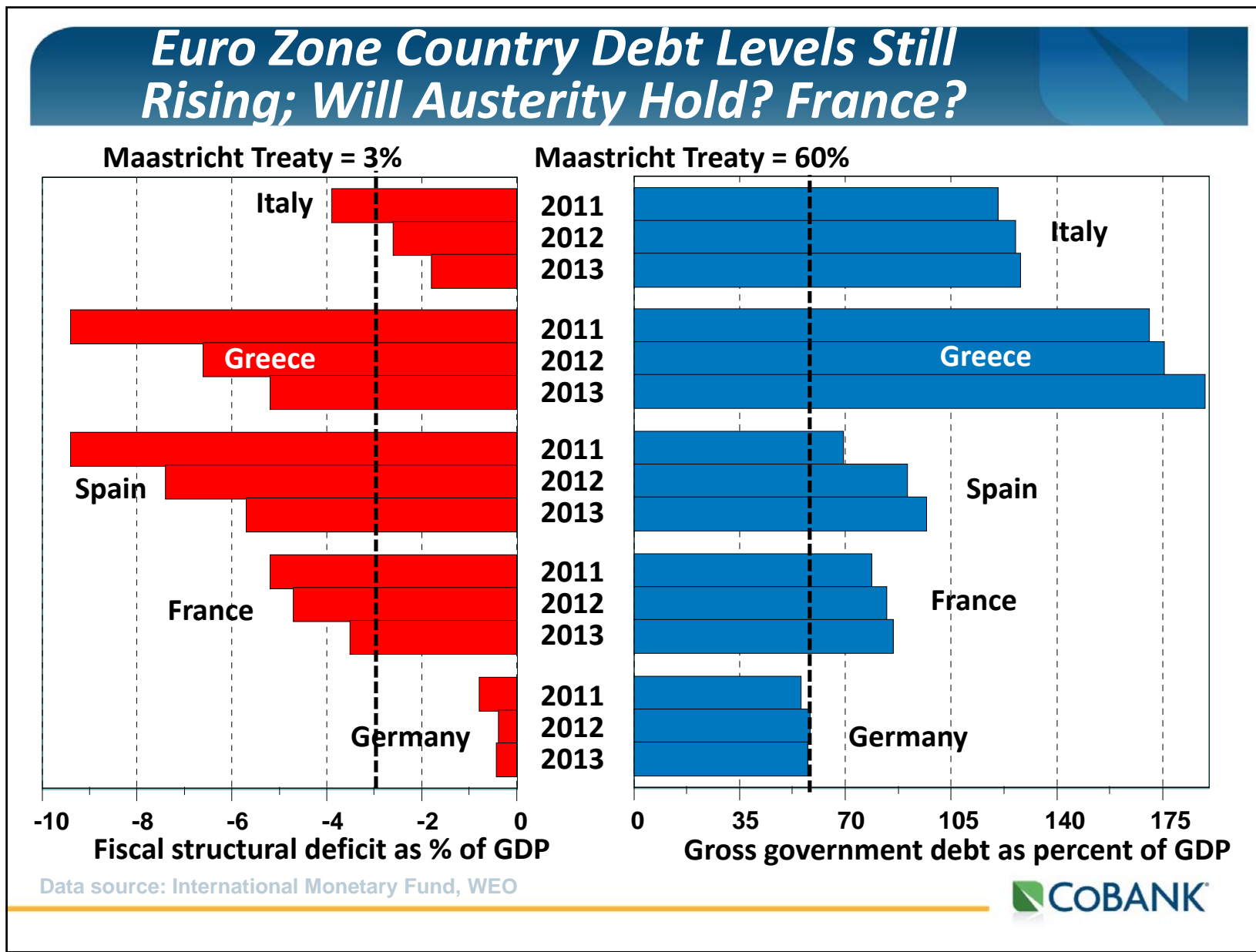
**Angela Merkel**  
German Chancellor  
A state vote in January and Federal elections in September

**Jens Weidmann**  
President Bundesbank  
Limit the German burden!

**Mario Draghi**  
ECB President  
ECB will do whatever it takes

Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)





## *Euro Region Struggling to Transition*

Monetary Union → Fiscal Union → Banking Union

*No shortcut*

*No quick solution*

*Recent actions have calmed waters..... but  
reality is a 3 to 5 year volatile transition!*

Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)



## *Euro Region Struggling*

### **Building fiscal union:**

- ✓ **ECB defines Outright Monetary Transactions (OMT)**  
Purchases short term sovereign debt (1-3year maturities) with no fund limit on ECB.

**Countries must approach EFSF/ESM for assistance and agree to structural reforms to improve fiscal positions and enhance labor competitiveness. Forfeiting sovereignty.**

### **Building banking union:**

- ✓ **ECB would have authority over Europe's 6000 banks**
  - **Single depository insurer.**
  - **Standard practices in winding down bankrupt banks.**
  - **Authority for EFSF/ESM to recapitalize banks directly.**

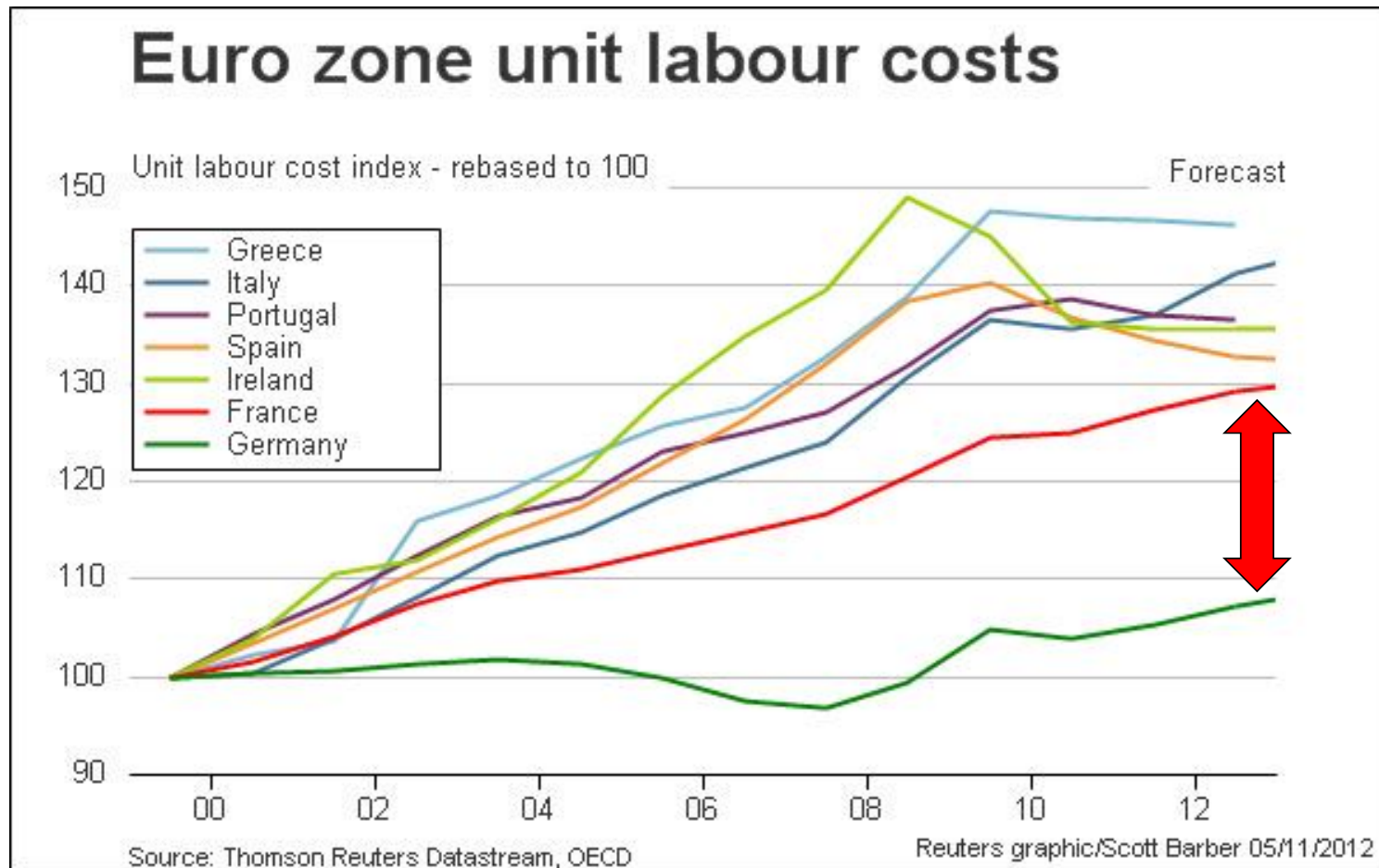
**EFSF (European Financial Stability Facility) ESM (European Stability Mechanism)**

Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)



## The Competitiveness of Weak Sovereigns is Structural Problem That Must be Fixed

### Euro zone unit labour costs



## Weak Euro Zone Growth Rates Unlikely to Improve Dramatically Over Next Three Years

Percent growth rate per year

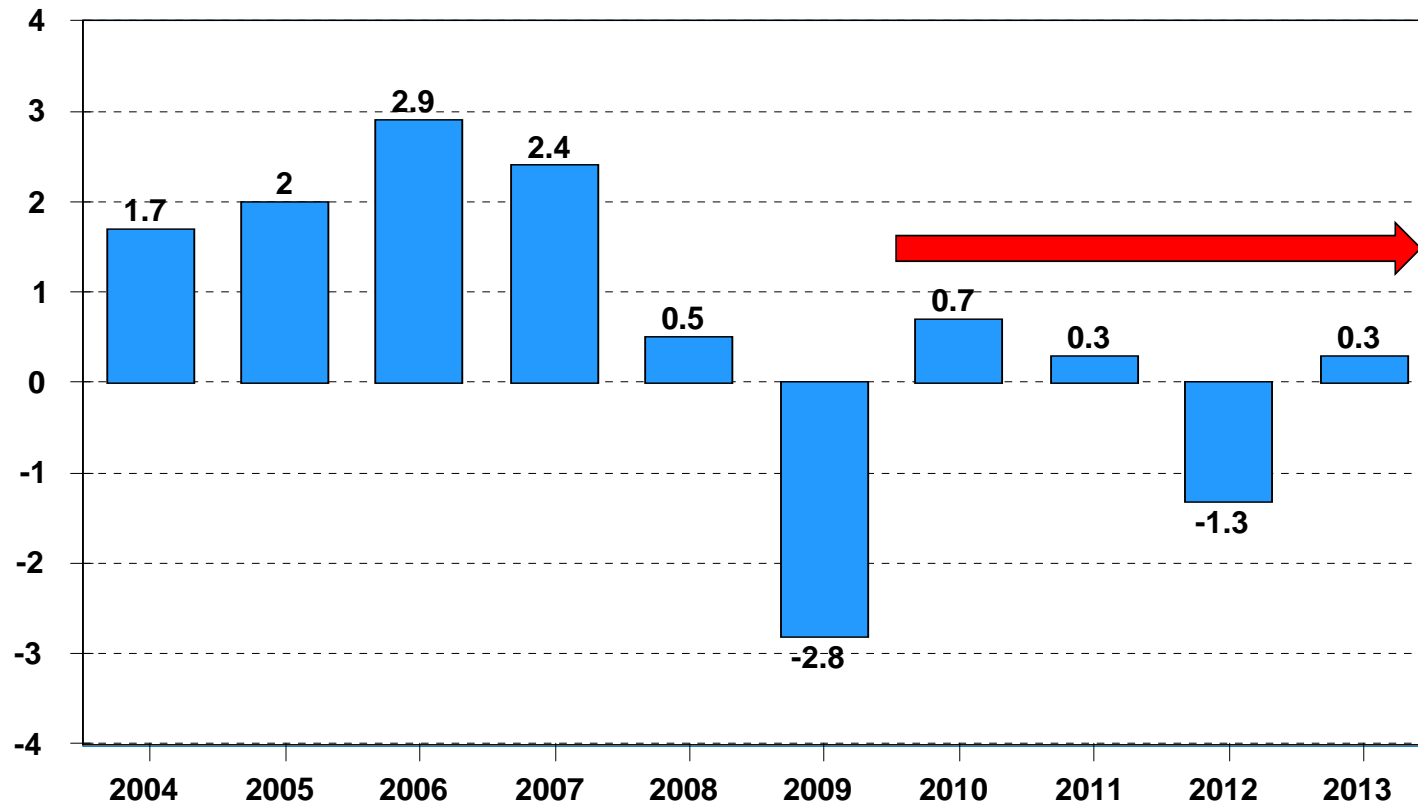
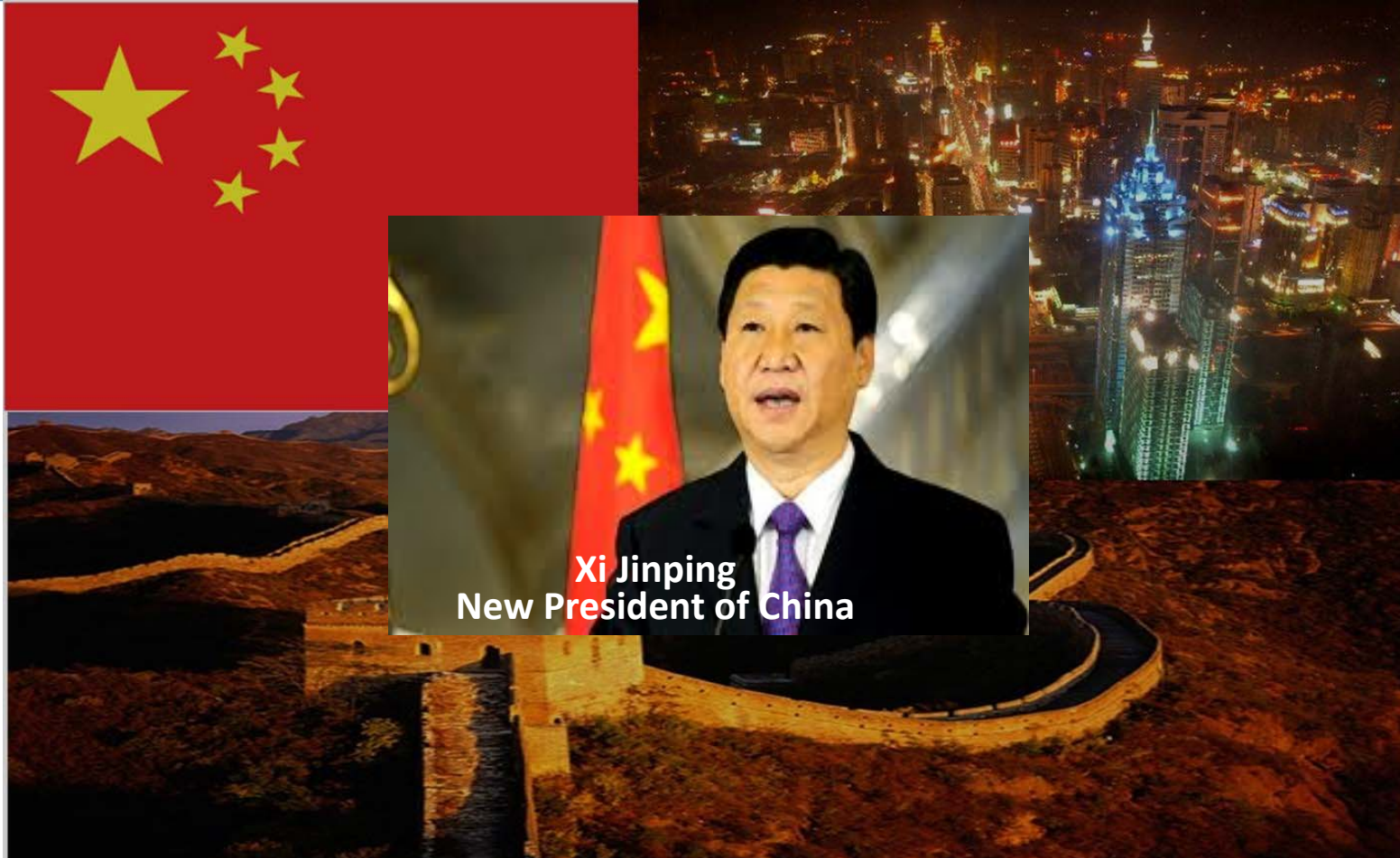


Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)





## *China Is Undergoing a Once-in-a-Decade Leadership Transition*



**Xi Jinping**  
New President of China

Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)



## Growth in China Has Slowed as the Once-in-a-Decade Leadership Transition Begins

Percent growth rate per year

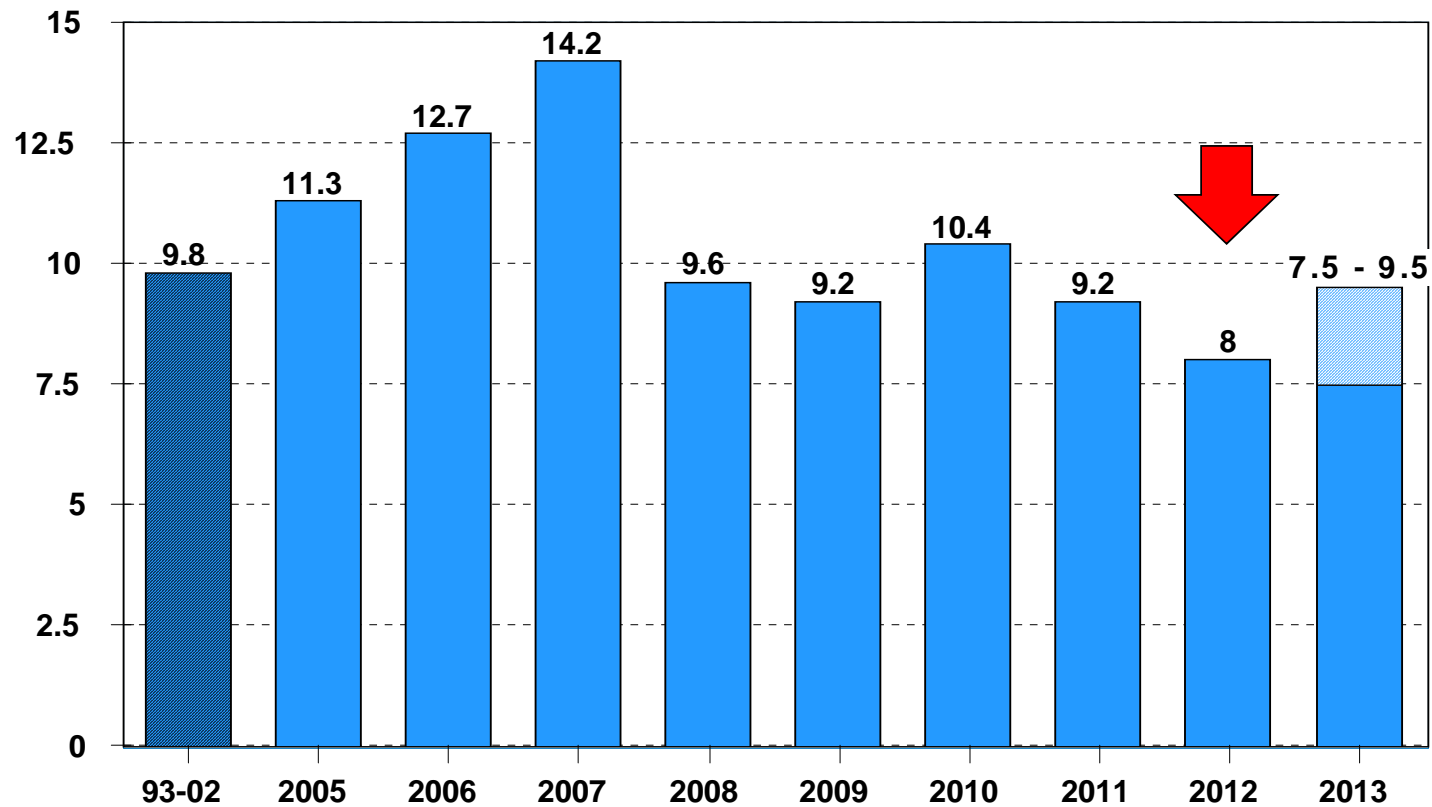


Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)



## Modest Inflation Gives China's New Leadership More Stimulus Options

Percent change from year earlier

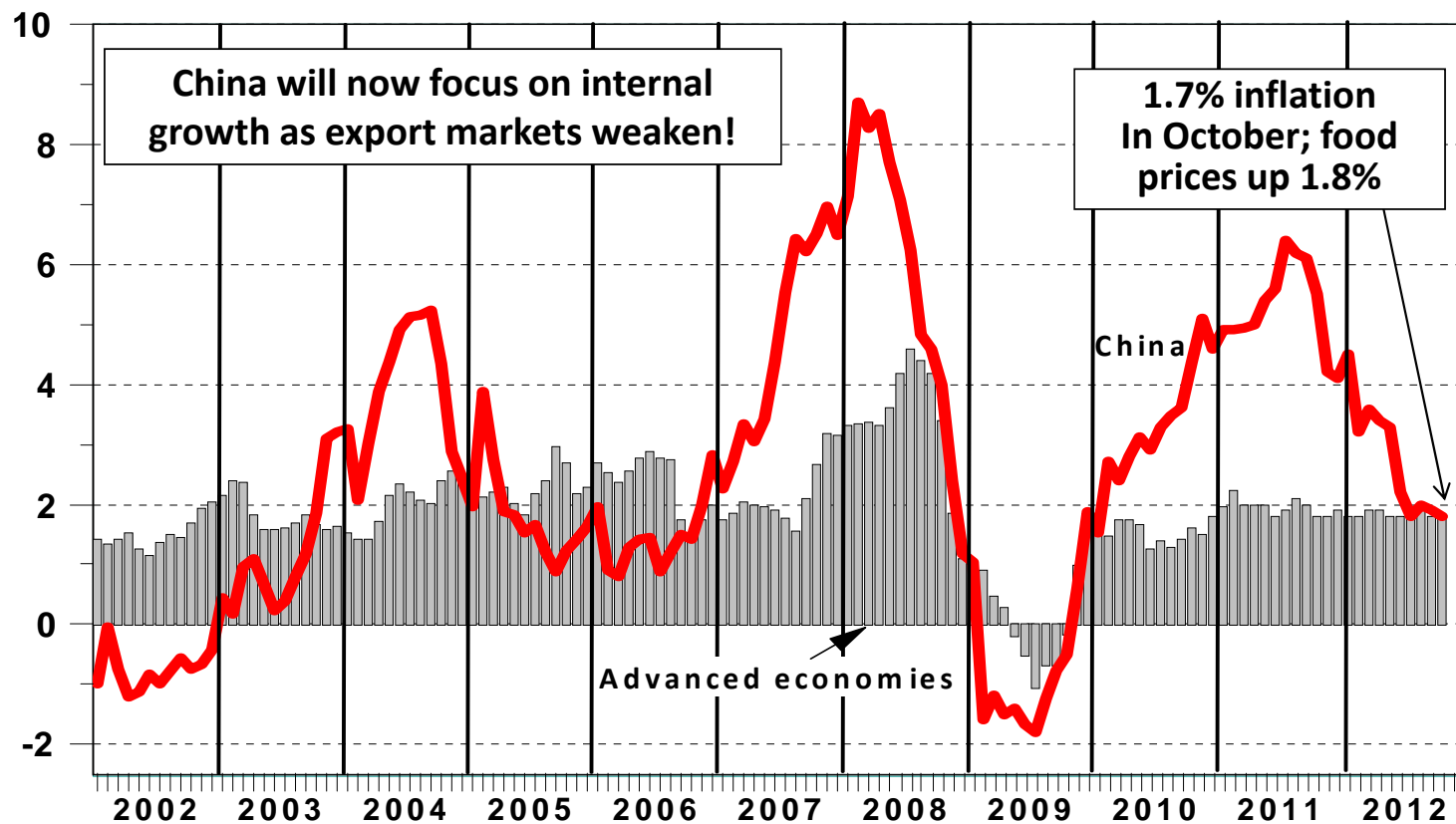


Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)



## Subdued Inflation and Weak Export Sector May Signal More Financial Stimulus

Central bank policy rate

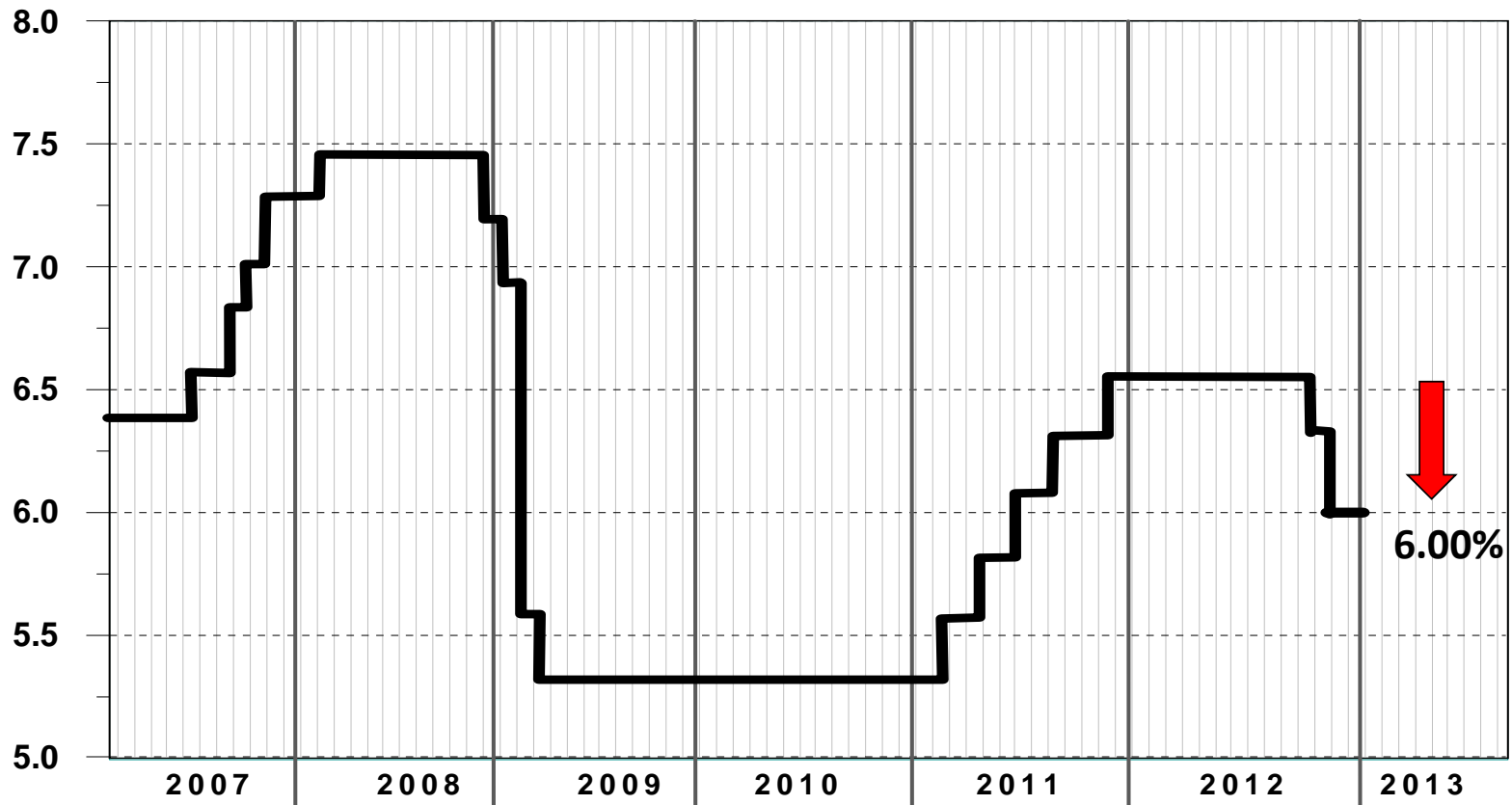


Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)



## *U.S. Recovery Remains Subdued But Policy Uncertainties Pose Challenge!*

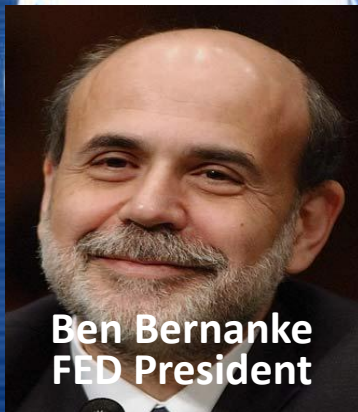
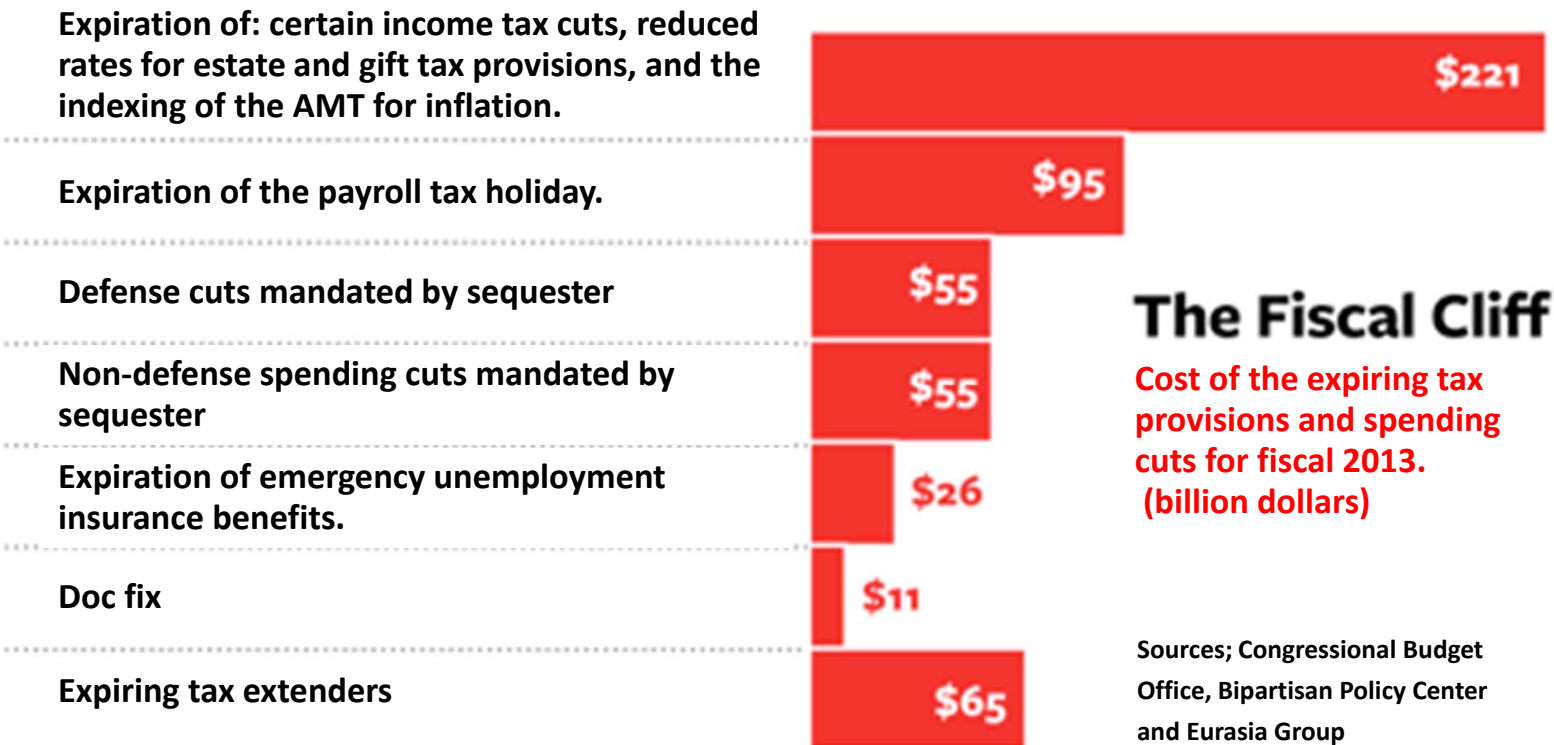


Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)



## Current Focus on Fiscal Cliff Detracts From Broader Challenges Ahead



**\$528 billion = 3.3% of U.S. economy in 2013  
 (currently projected growth is 3.7%)**

Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)



## *Fiscal Cliff Impacts on Consumers Will Vary By Type of Revenue Generator*

	(bil. \$) Estimated Impact	Marginal Propensity to consume	(bil. \$) Estimated spending Impact	% change in retail sales from 2012
<b>Payroll tax cut</b>	<b>\$126</b>	<b>60%</b>	<b>\$126</b>	<b>-1.5%</b>
<b>Upper Income tax rate expiration</b>	<b>\$56</b>	<b>30%</b>	<b>\$56</b>	<b>-0.3%</b>
<b>Affordable Care Act Personal taxes</b>	<b>\$24</b>	<b>30%</b>	<b>\$24</b>	<b>-0.2%</b>
<b>Emergency Unemployment benefits</b>	<b>\$12</b>	<b>60%</b>	<b>\$12</b>	<b>-0.2%</b>
<b>Total</b>	<b>\$218</b>	<b>51%</b>	<b>\$218</b>	<b>-2.3%</b>

Source: Bureau of Economic Analysis, Census and Goldman Sachs



# Too Much Uncertainty to Build Base for Rapid Recovery in U.S. Economy

Percent change in quarterly Gross Domestic Product (Chained 2005\$)\*

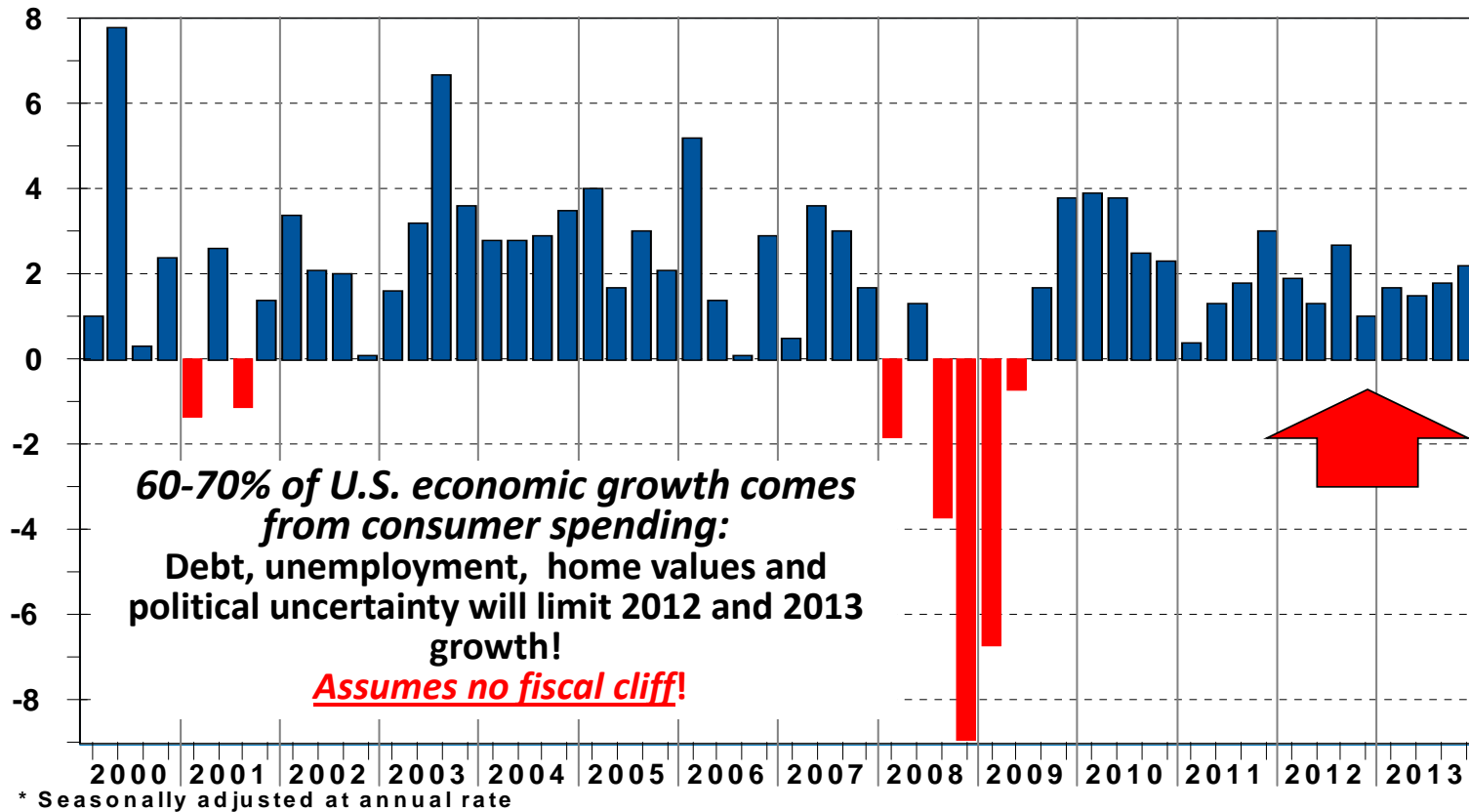


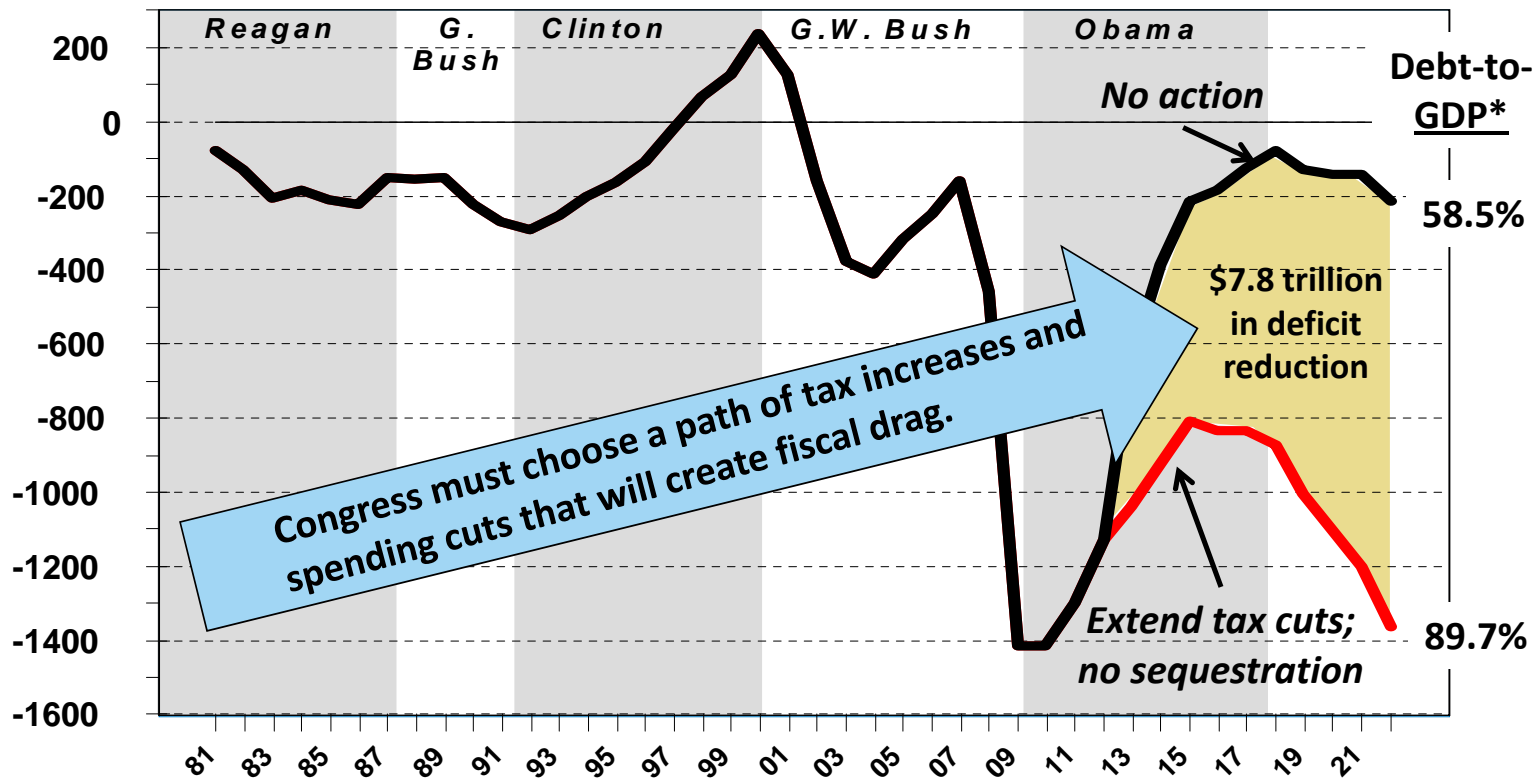
Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)





# Congress Must Eventually Choose A Path Between No Action and Kick-the-Can

Deficit in billion dollars

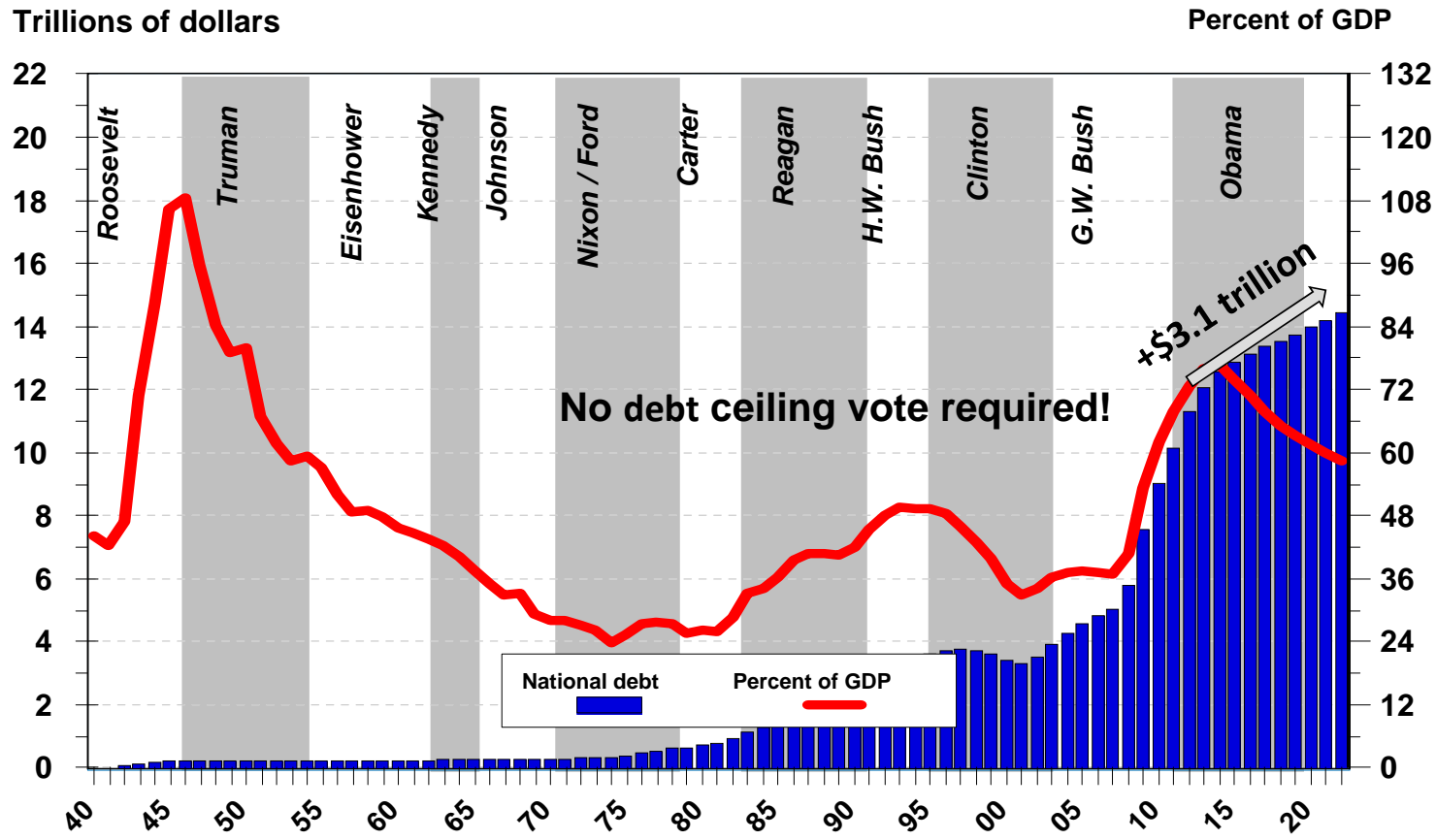


Source: Congressional Budget Office (August, 2012), BEA and Treasury Department and forecast  
 \* National debt held by the public as percent of GDP

Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)

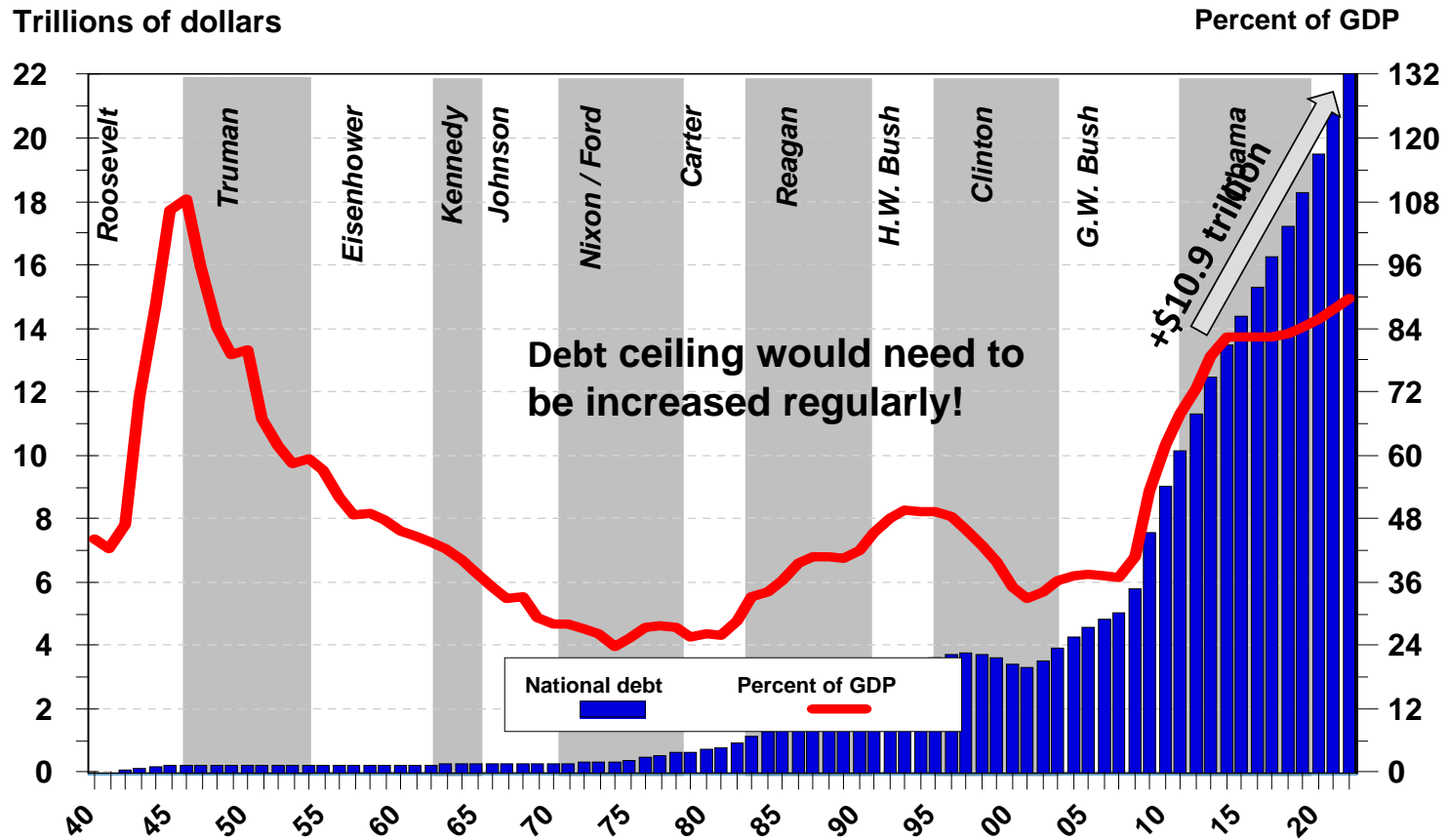


# Taking No Action Would Put Budget on Path to Limit National Debt Increases



\* National debt held by the public as percent of GDP  
 Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary) **COBANK**

## By Extending Tax Cuts and Eliminating Spending Cuts The National Debt Doubles



\* National debt held by the public as percent of GDP

Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)



## Debt Ceiling Debate Will Be Part of Fiscal Cliff Patch and Final Deficit Reduction Debate

### Debt-Ceiling Pileup

The federal government will hit the debt ceiling at the end of the year, just as the country is expected to reach the so-called fiscal cliff of expiring tax provisions and spending cuts.

Partisan gridlock makes it unlikely that Washington will address the debt ceiling before the **November** elections.

The timing is uncertain, but the government is on track to hit the statutory debt limit in **December**.

Treasury could take "extraordinary measures," as it did last summer, to keep the government running until perhaps **mid-March**.

**Key due dates:**

**April 1:** Social Security Supplemental Security Income benefits

**April 1 and 15:** Active and retired military pay

**April 10:** Social Security benefits

Federal debt limit: \$16.394 trillion



\*Solid line shows actual; dashed line shows estimate.

Graphic by: Peter Bell and Catherine Hollander  
 Sources: Treasury Department; staff reporting

Debt ceiling applies to debt held by the public and intergovernmental debt (e.g. social security trust fund invested in treasuries).



# The Budget Debate Will Likely Continue For Several Years!

Revenue and outlays as percent of GDP

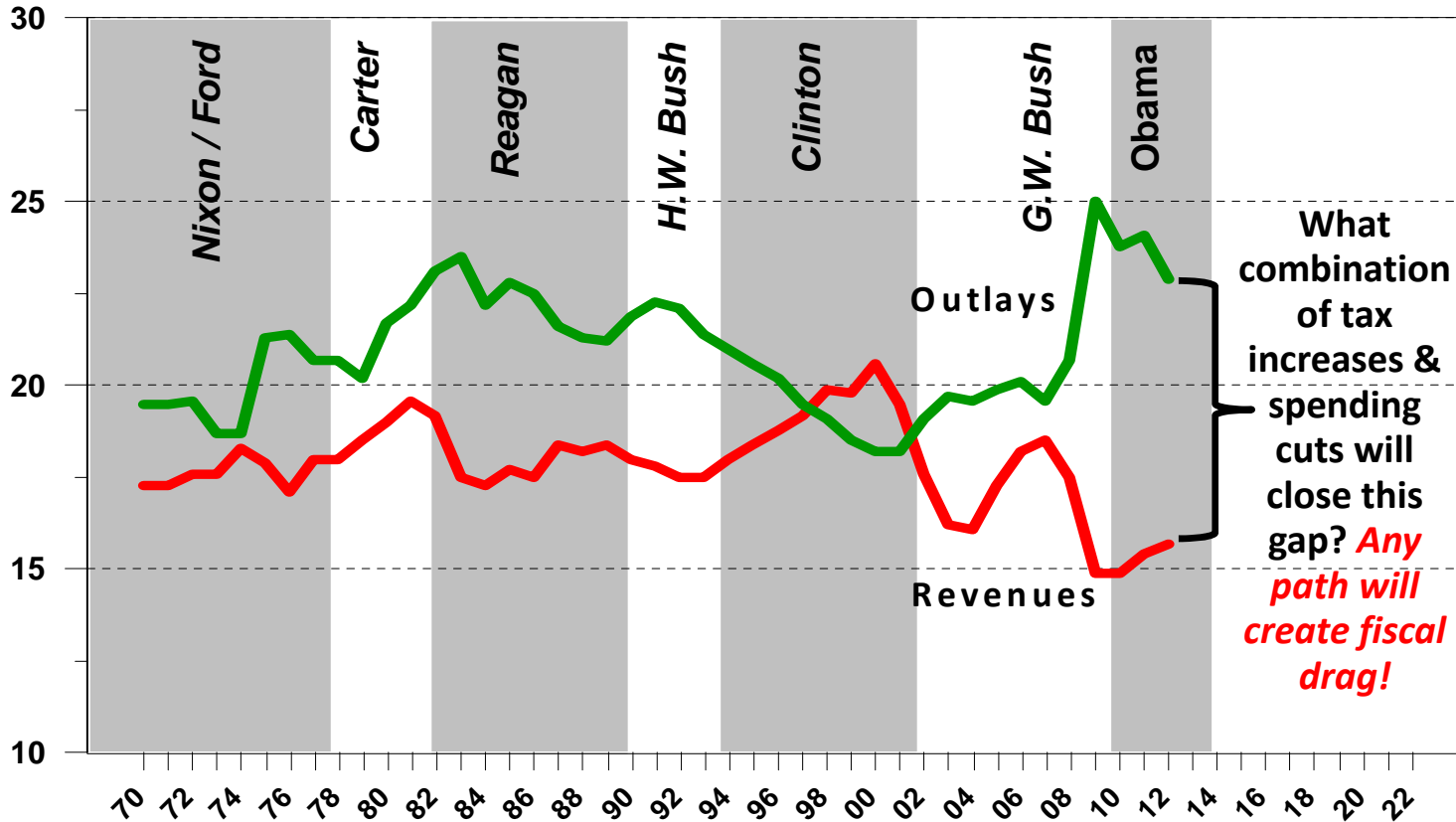


Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)



## ***U.S. Economic Policy Transitions Will Create Headwinds for Recovery!***

**U.S. is proposing to undertake major policy reform:**

<b>Financial sector</b>	<b>Financial sector regulatory reform implementation</b>
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<b>Energy sector</b>	<b>New energy paradigm; Fracking technology changes landscape! Comprehensive reassessment</b>
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<b>Immigration</b>	<b>Reform groundwork being laid for 2013</b>
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<b>Health care sector</b>	<b>Uninsured, medicare / medicaid reform?</b>
---------------------------	---

<b>Regulatory oversight</b>	<b>Clean air &amp; water, Food safety</b>
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<b>Deficit reduction</b>	<b>Changing tax policy and entitlement programs (including farm and food programs).</b>
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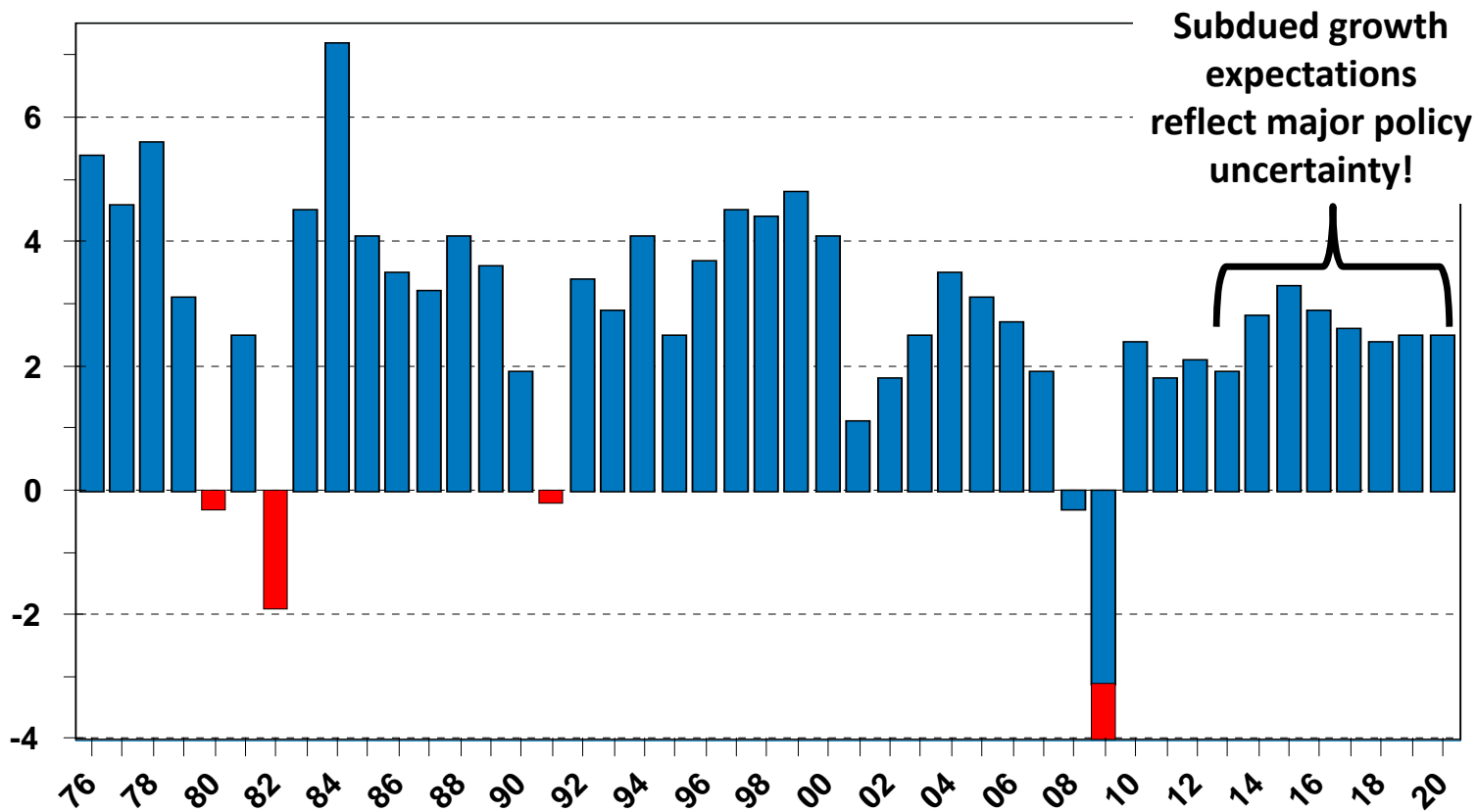
**Virtually every sector of the economy will be impacted and risk management and investment strategies cannot deal with uncertainties. Companies can measure and adjust to risk based on a set of rules. Can't assess uncertainty!**

Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)



## Removing \$2-3 Trillion in Stimulus Over Next Decade Will Create Fiscal Drag

Percent change Gross Domestic Product (Chained 2005\$)



Subdued growth expectations reflect major policy uncertainty!

Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)



## *Monetary Policy Will Adjust to Fiscal Policy Wild Card and Economic Growth*



Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)





## Federal Reserve Will Continue To Promote Growth in 2012-15: QE3 / Operation Twist

Percent

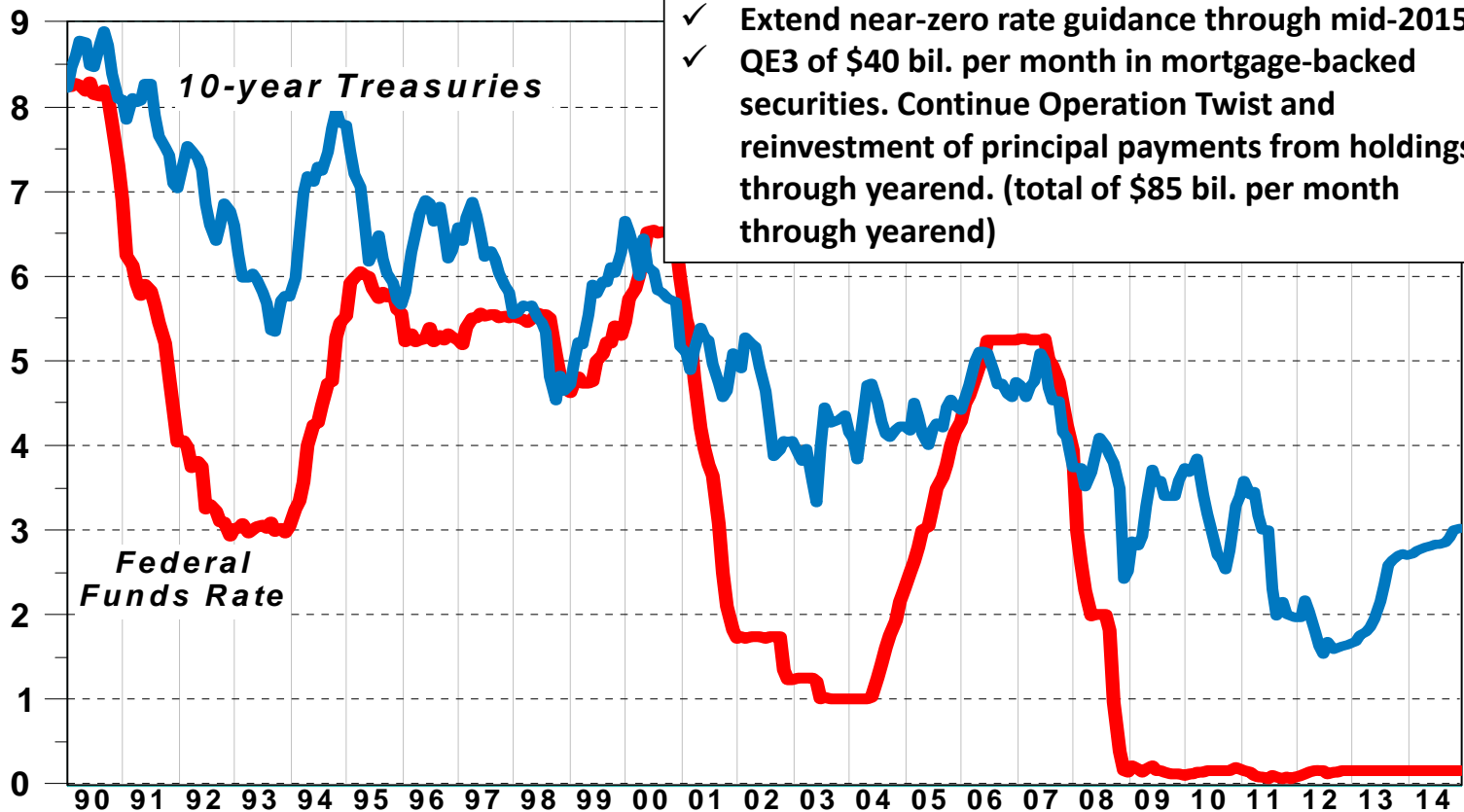
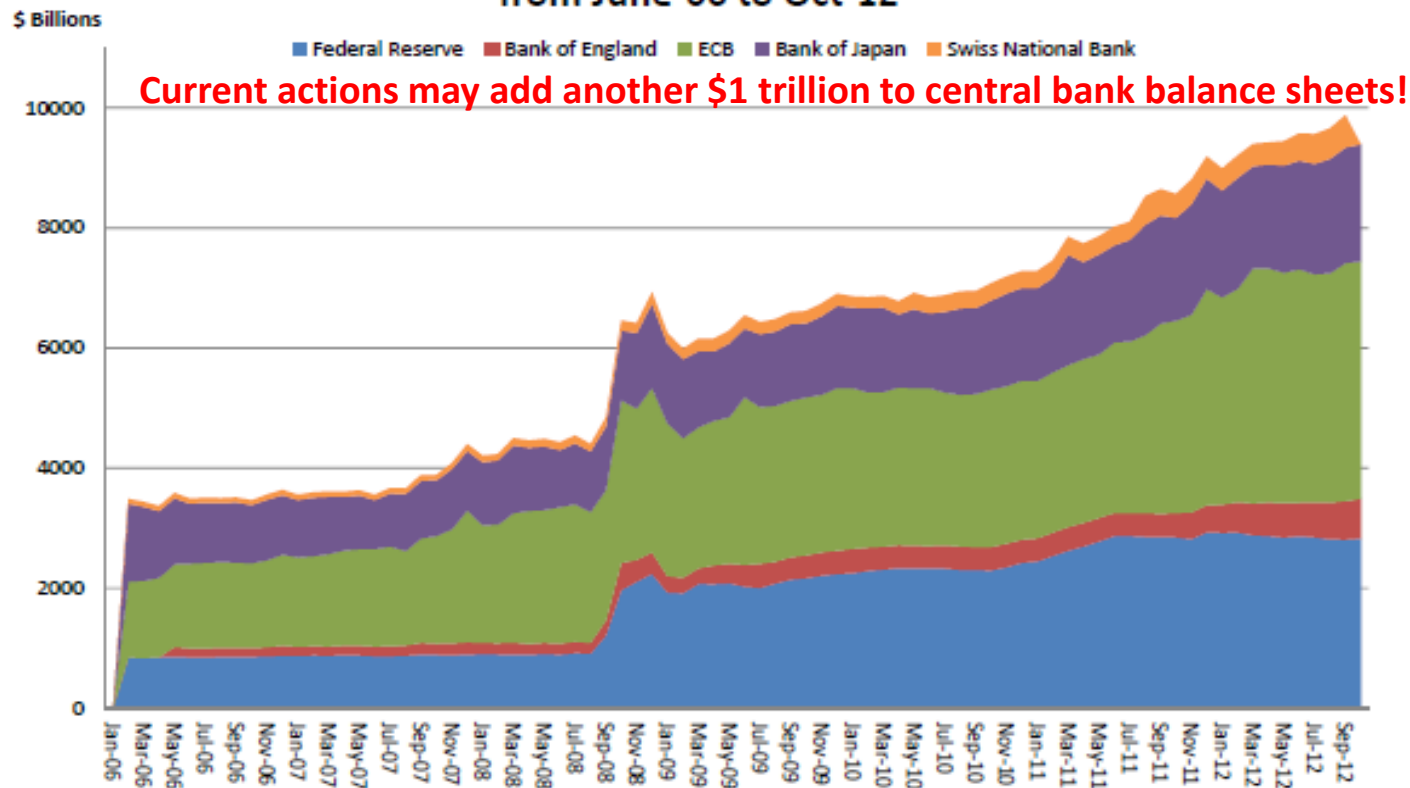


Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)



## World's Central Banks Have Injected \$6 Trillion into the Global Economy ...

Monthly Central Bank Assets (Dollar Equivalents on Left Scale \$ Billions) for US, UK, Japan, Euro Area, and Swiss National Bank from June-06 to Oct-12



Data and chart source: Cumberland Advisors, Oct. 12



## *Supply Concerns Will Drive Markets in Short Term But Demand Will be Longer Term Issue*



Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)



## World Grain Stocks Decline is Accelerating With Reduced Harvests

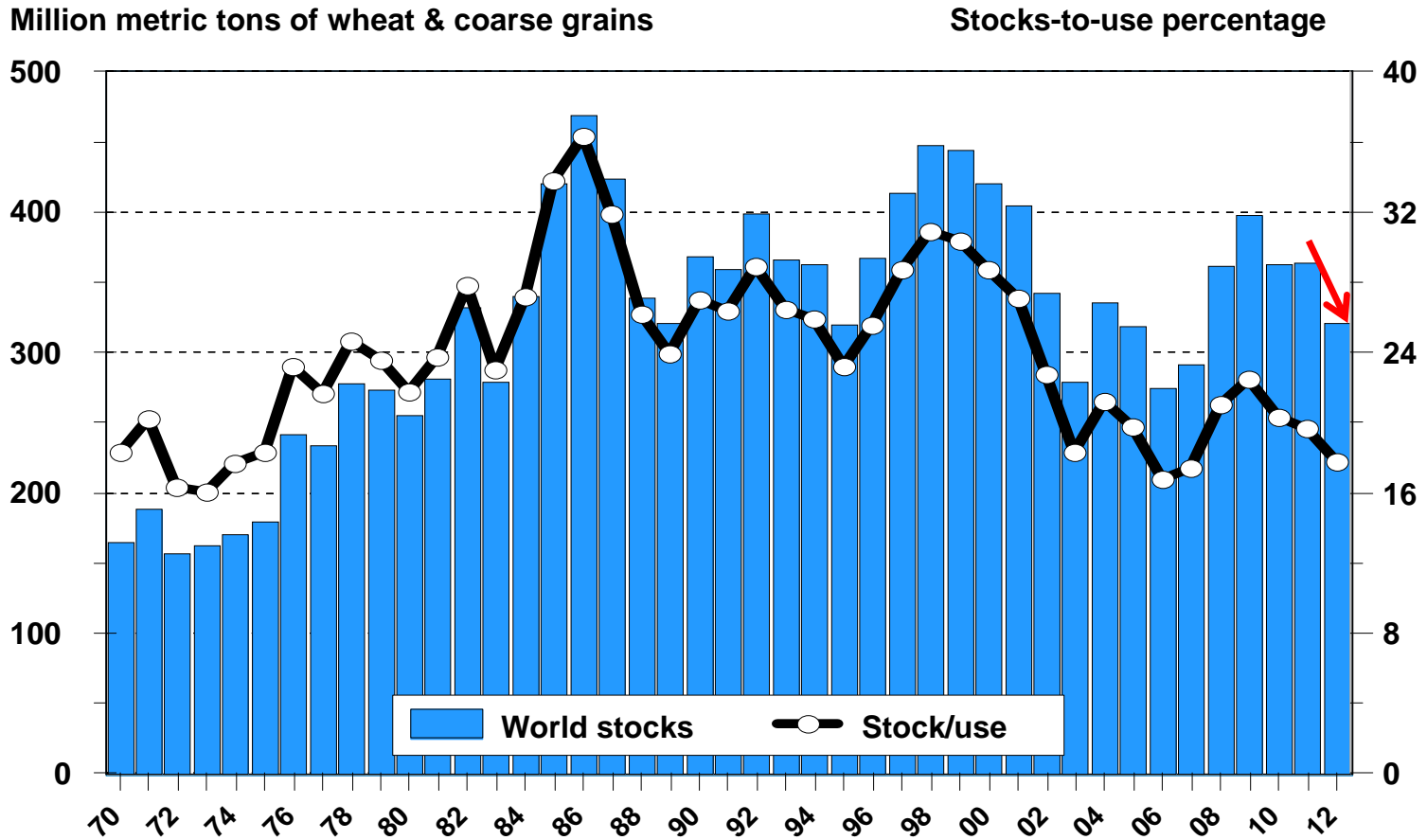


Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)



## Global Soybean Stocks Rely on Record S. American Crop Now Being Planted

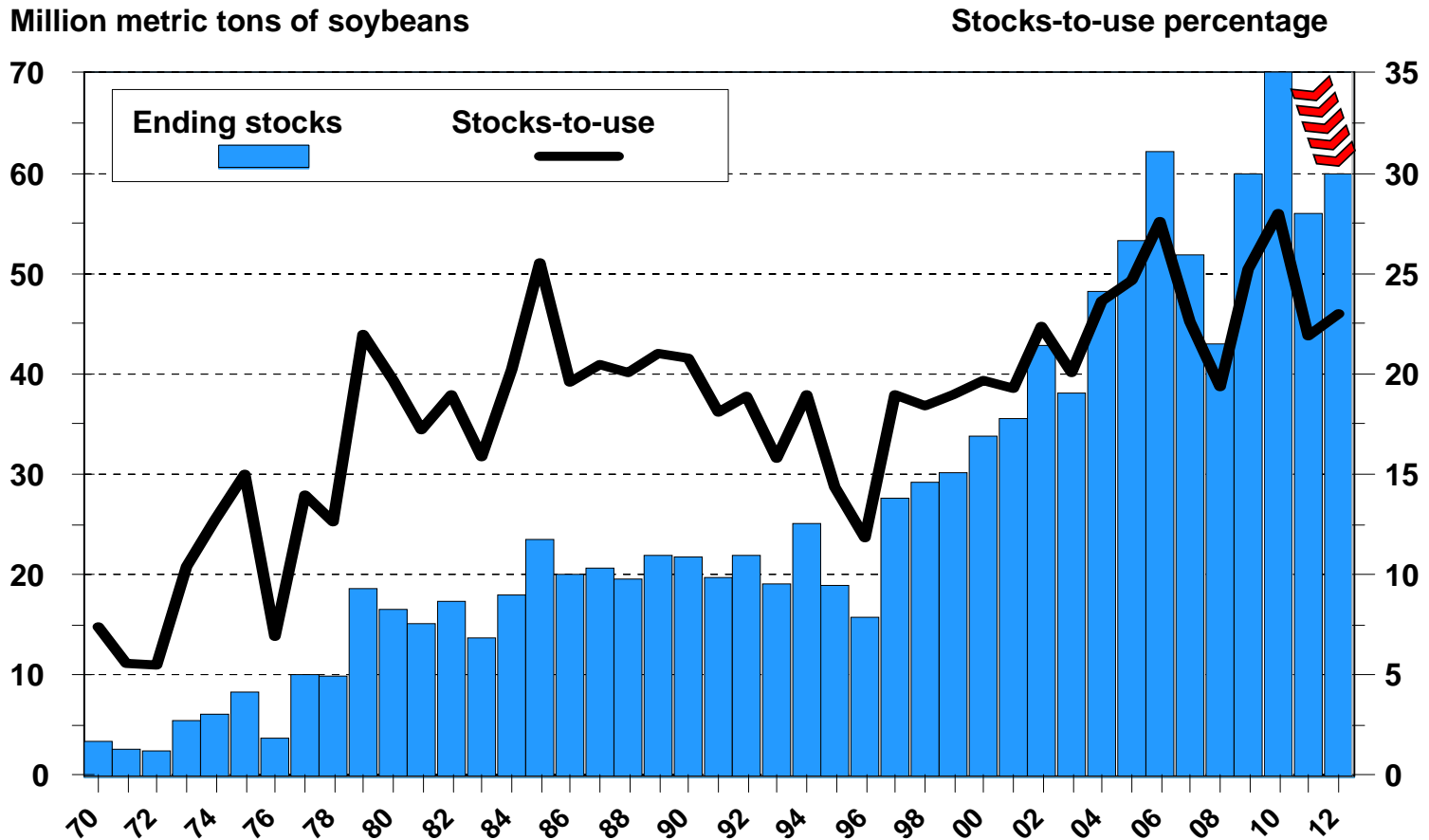


Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)



## Growth in U.S. Grain Exports Will Be Vital As Stocks Rebuild and Competitors Expand

Million metric tons of U.S. exports

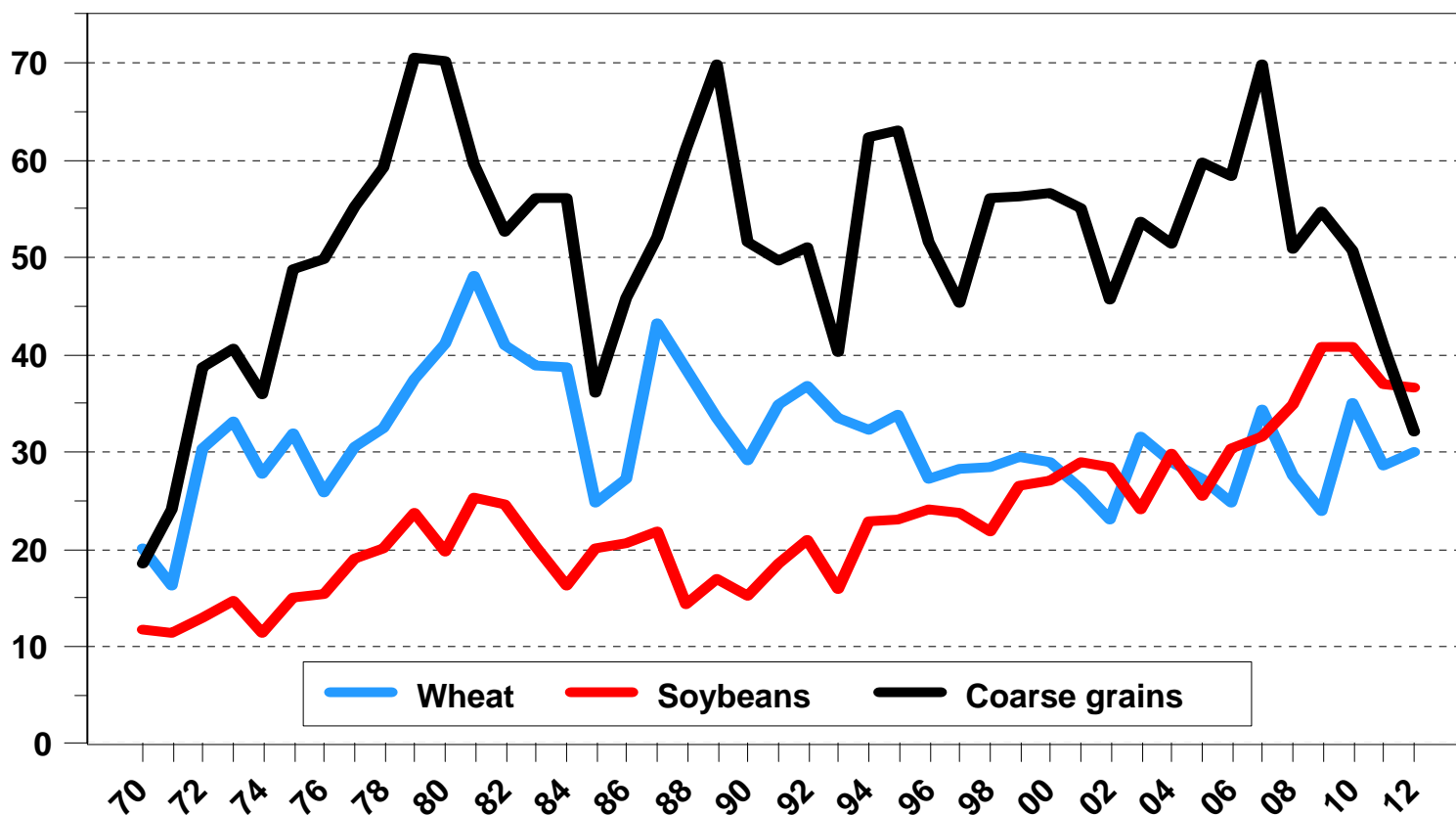


Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)



## Export Market Will Be Key to Positive Animal Protein and Dairy Returns

Billion pounds (red meat: carcass weight; poultry: ready-to-cook)

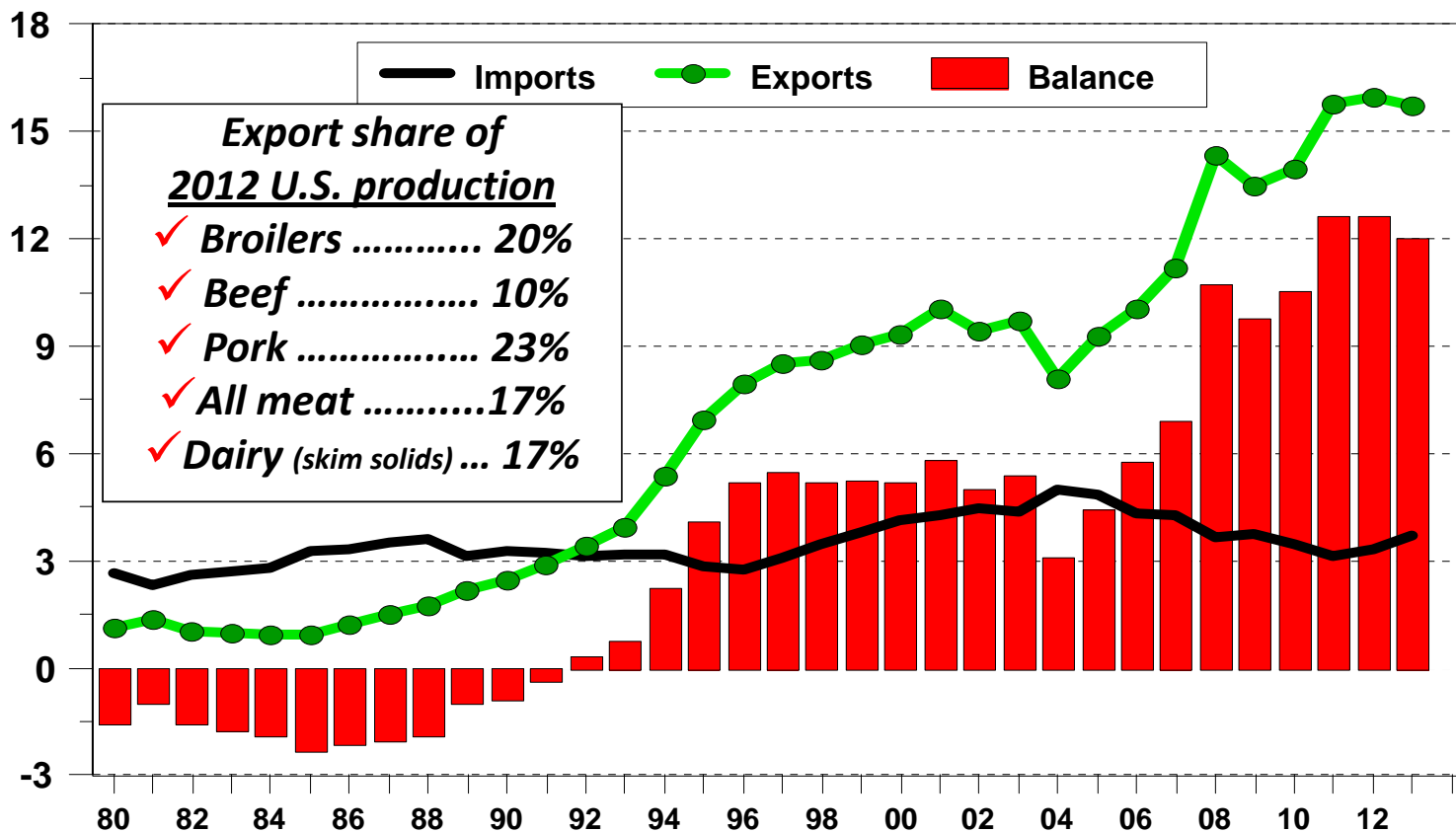


Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)



## ***Farm Bill and Final Deficit Reduction Packages Will Impact Agriculture Sector***

### **Farm bill:**

**Fiscal cliff down payment could include new farm bill or simply score savings, extend current farm bill and direct committees to achieve required savings. Movement from direct payments to insurance programs likely for 2014. Magnitude and composition of required savings will change as full deficit reduction package evolves!**

### **Tax code changes:**

**Fiscal cliff down payment will include some tax code changes that could impact consumer demand for meat and dairy but full deficit reduction package will address estate taxes, 1031 like exchanges, capital gains, depreciation allowances, etc.**

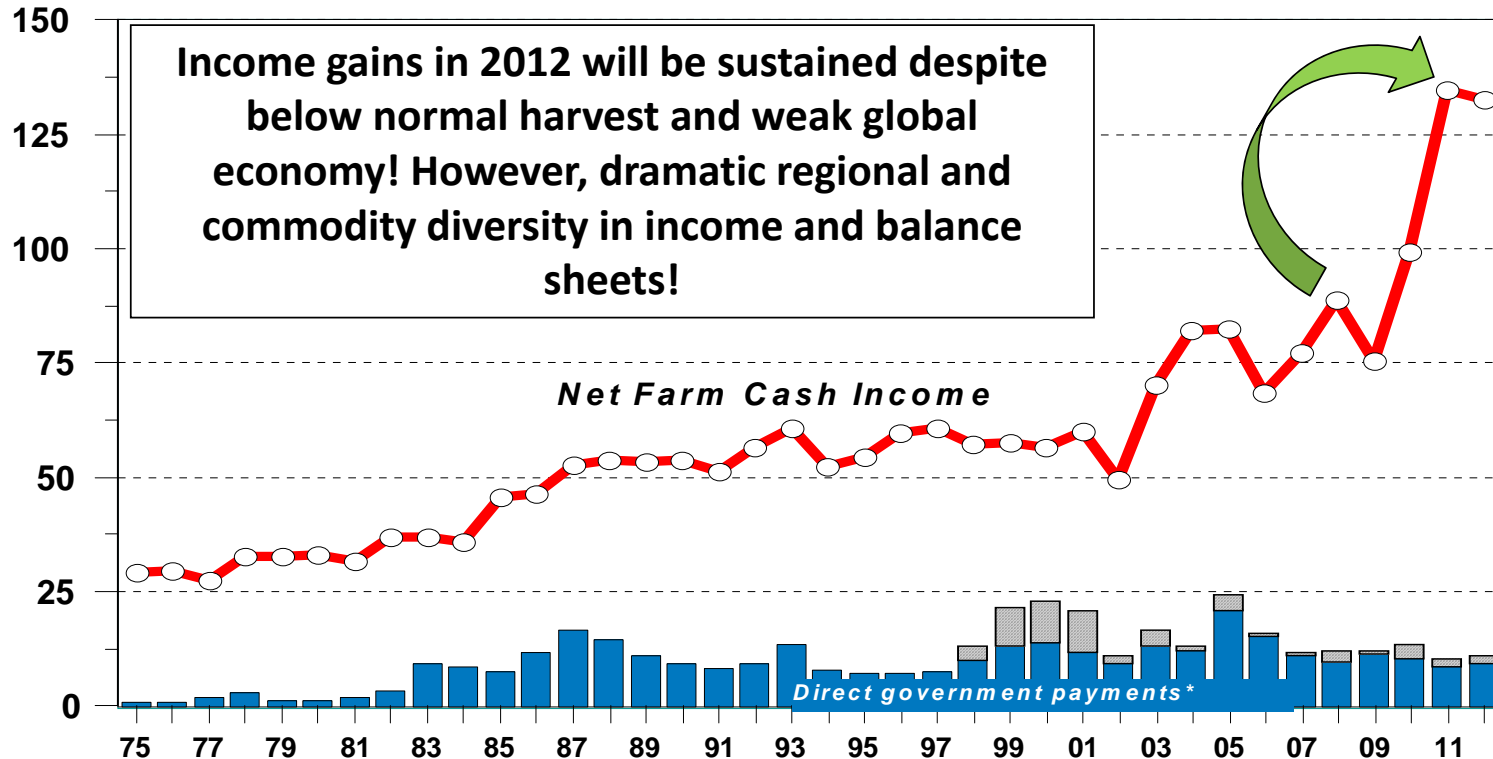
Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)





## Farm Income Remains Strong But Protein and Dairy Remain Under Pressures

Billion dollars



\* emergency payments are striped area of government payments)

Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)



# Farm Debt Leveraging Has Not Followed Land Prices Higher

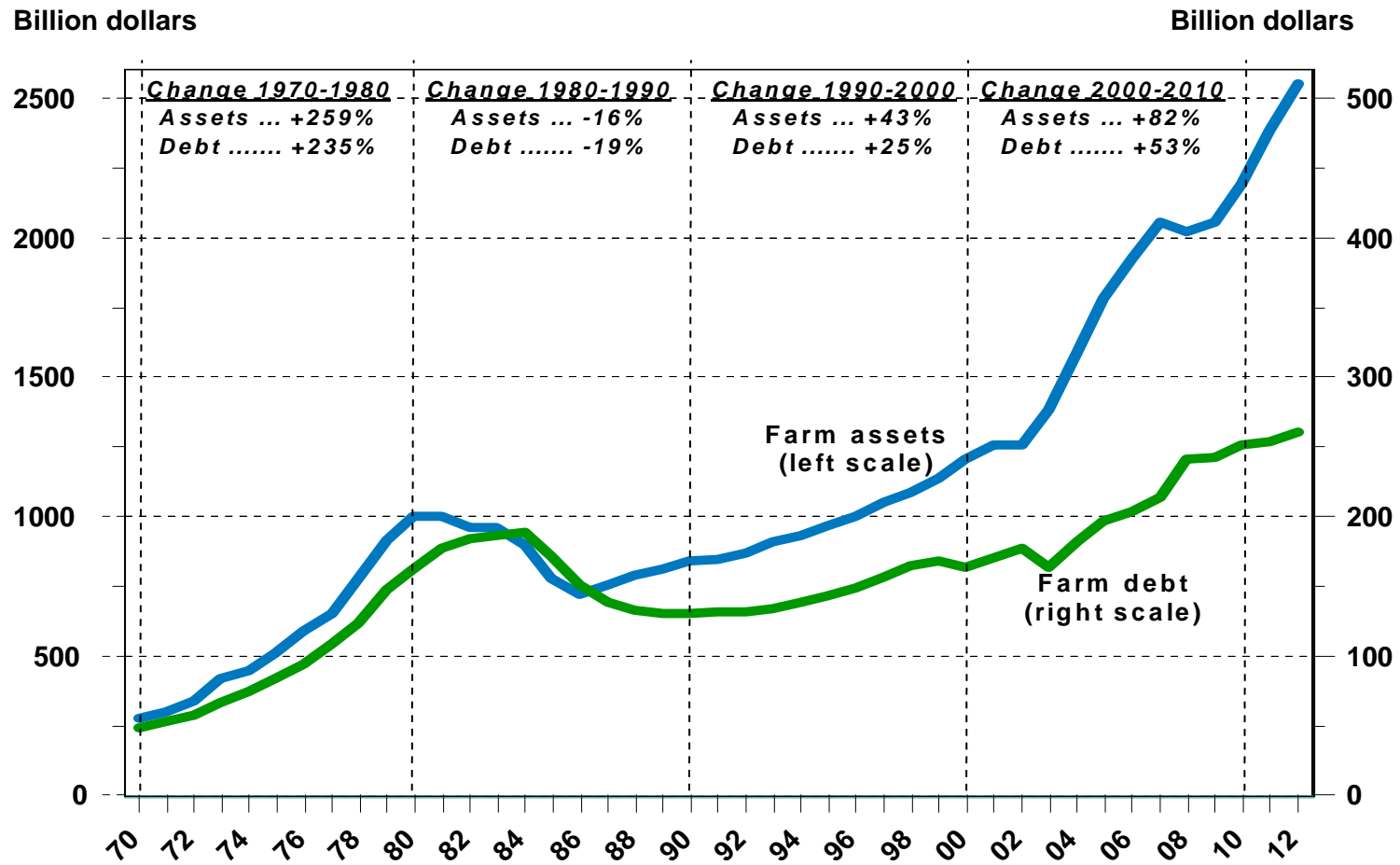


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