

Economic Outlook for 2012: A Transition in Agricultural Markets?

**National Grain And Feed Association
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Major Ag Drivers Are Transitioning ...








The near term outlook for the food, fiber and agriculture sector is strong but the drivers of that prosperity will be transitioning in the years ahead!

In the past decade

- ✓ farm prices have reached record levels,**
- ✓ land prices have increased by over 80 percent,**
- ✓ the value of exports has more than doubled,**
- ✓ net cash income has averaged one-third higher than the previous decade,**
- ✓ and the sector has been resilient through a severe global recession!**

Major Ag Drivers Are Transitioning ...

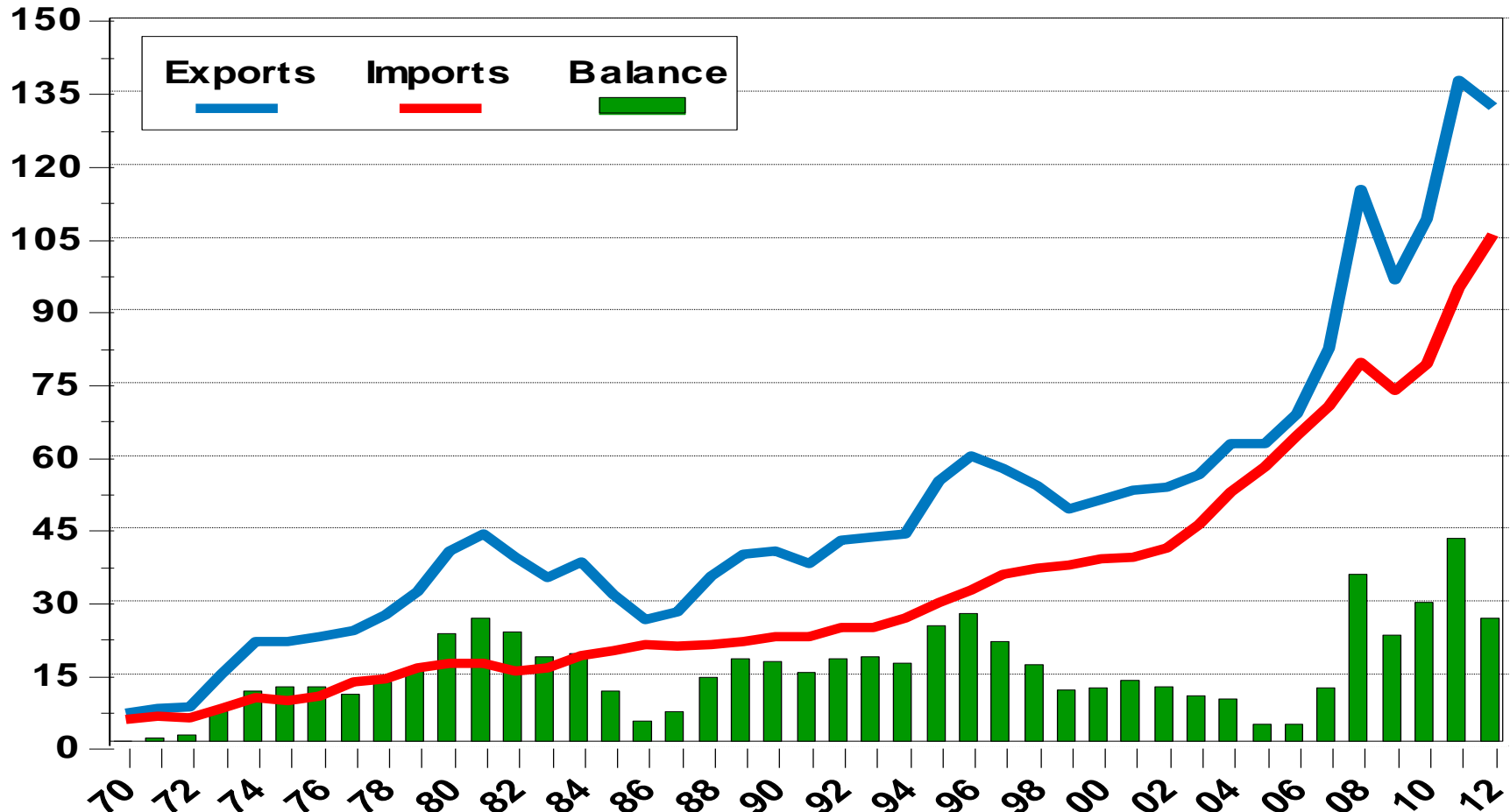


- ✓ rapid growing ethanol industry will be plateauing. 
- ✓ global weather/crop developments have been limiting, but mother nature is unpredictable. (Below trend ? yields equivalent to 1.7 bil. bushels of corn.) 
- ✓ the rapidly growing emerging markets, led by China, will continue to drive grain, protein & dairy demand. 
- ✓ Resilient U.S. consumer demand could be tested. 
- ✓ massive global liquidity from monetary ease and fiscal stimulus has boosted demand. This will recede as governments and central banks withdraw stimulus. (fiscal & monetary drag). Currencies will realign. 

Exports Will Become a More Significant Factor in U.S. Agriculture



Billion dollars per fiscal year



U.S. Agriculture Export Destinations Have Increasing Asian Flavor



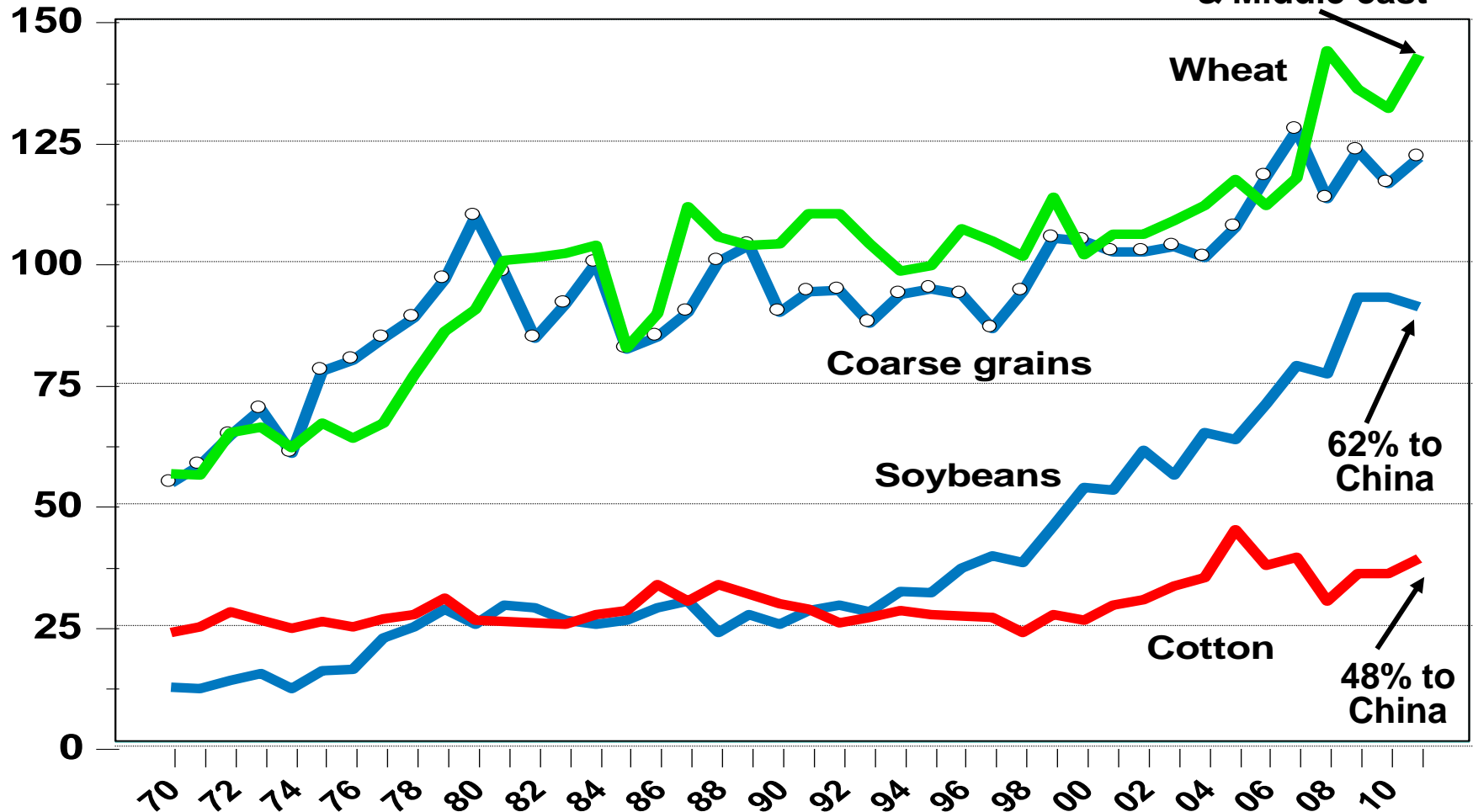
<u>Top 15 Markets 2011</u>		<u>Top 15 Markets 2000</u>	
	Bil. US\$		Bil. US\$
1.China	19.9	1.Japan	9.3
2. Canada	18.6	2. Canada	7.5
3. Mexico	17.7	3. EU-27	6.5
4. Japan	13.9	4. Mexico	6.3
5. EU-27	10.2	5. South Korea	2.5
6. South Korea	6.8	6. Taiwan	2.0
7. Hong Kong	3.2	7. China	1.5
8. Taiwan	3.6	8. Hong Kong	1.2
9. Indonesia	3.0	9. Egypt	1.1
10. Turkey	2.5	10. Philippines	0.9
11. Egypt	3.0	11. Turkey	0.7
12. Philippines	2.0	12. Indonesia	0.7
13. Thailand	1.5	13. Russia	0.7
14. Viet Nam	1.6	14. Dominican Rep.	0.5
15. Russia	1.4	15. Saudi Arabia	0.5
Total all exports	137.4	Total all exports	50.8

Asian markets account for 43% 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!

Much of Global Trade Strength Linked to China



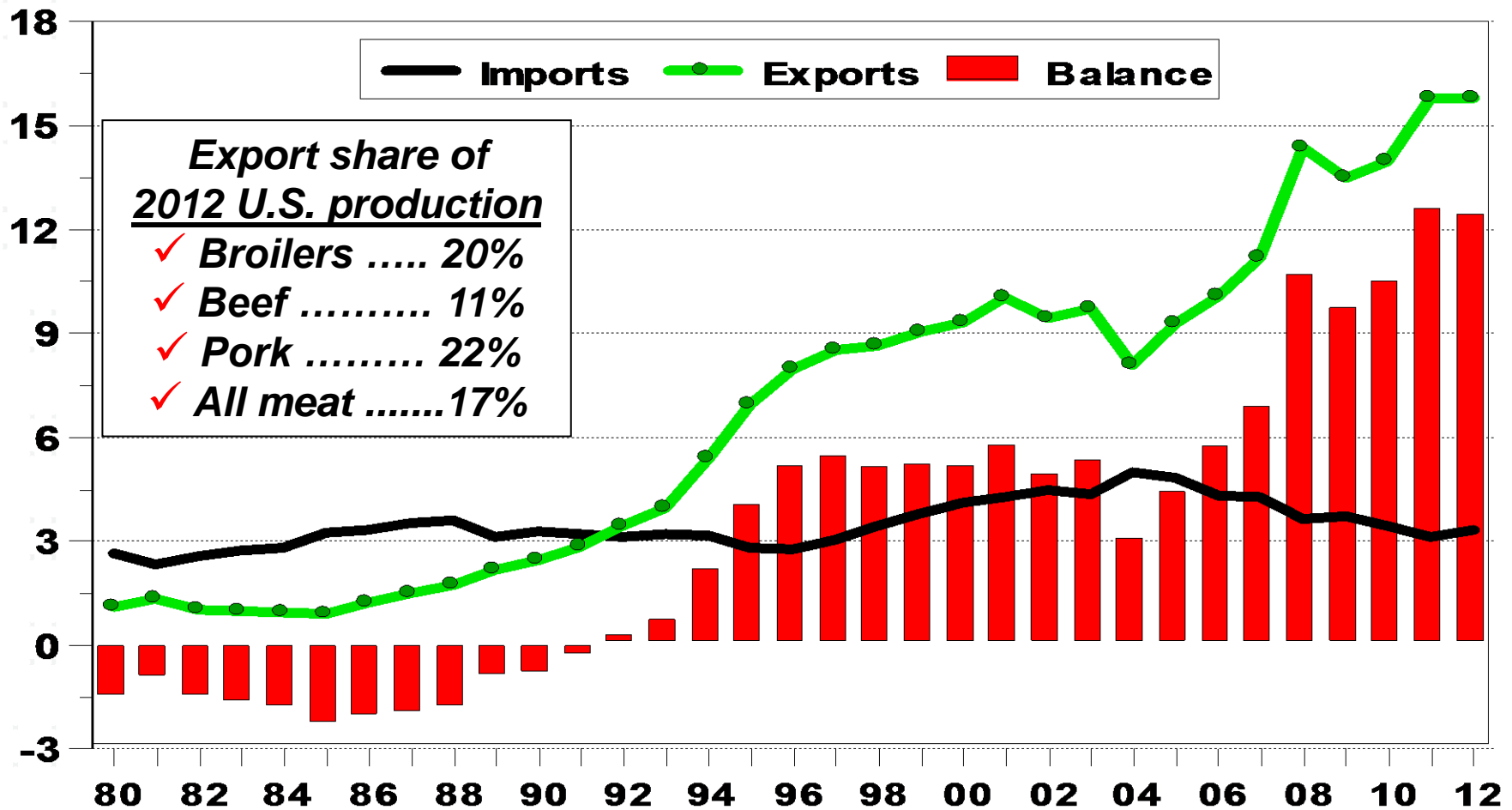
Million metric tons or bales



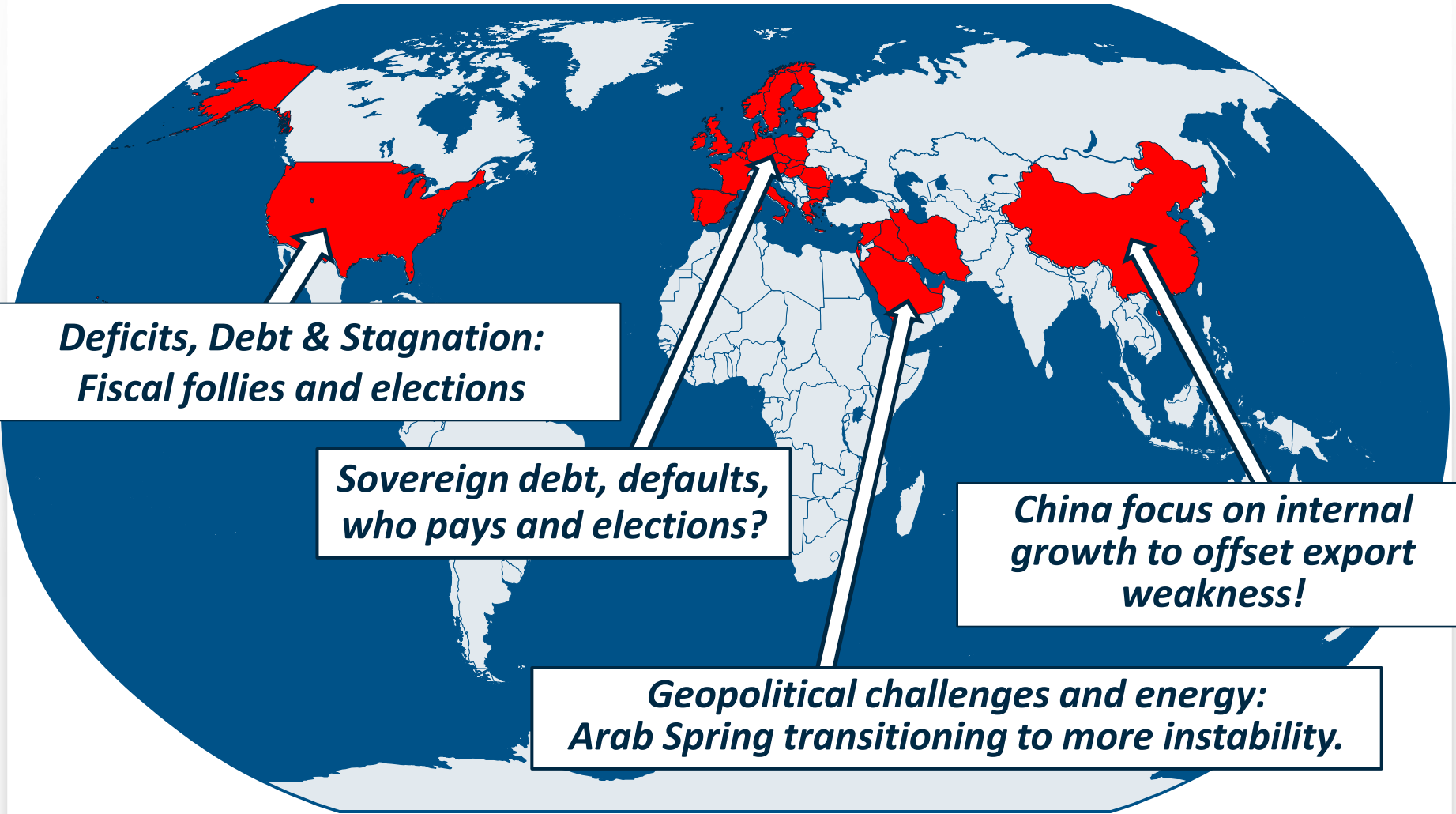
Export Market Will Be Key to Positive Protein Returns Through 2012



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



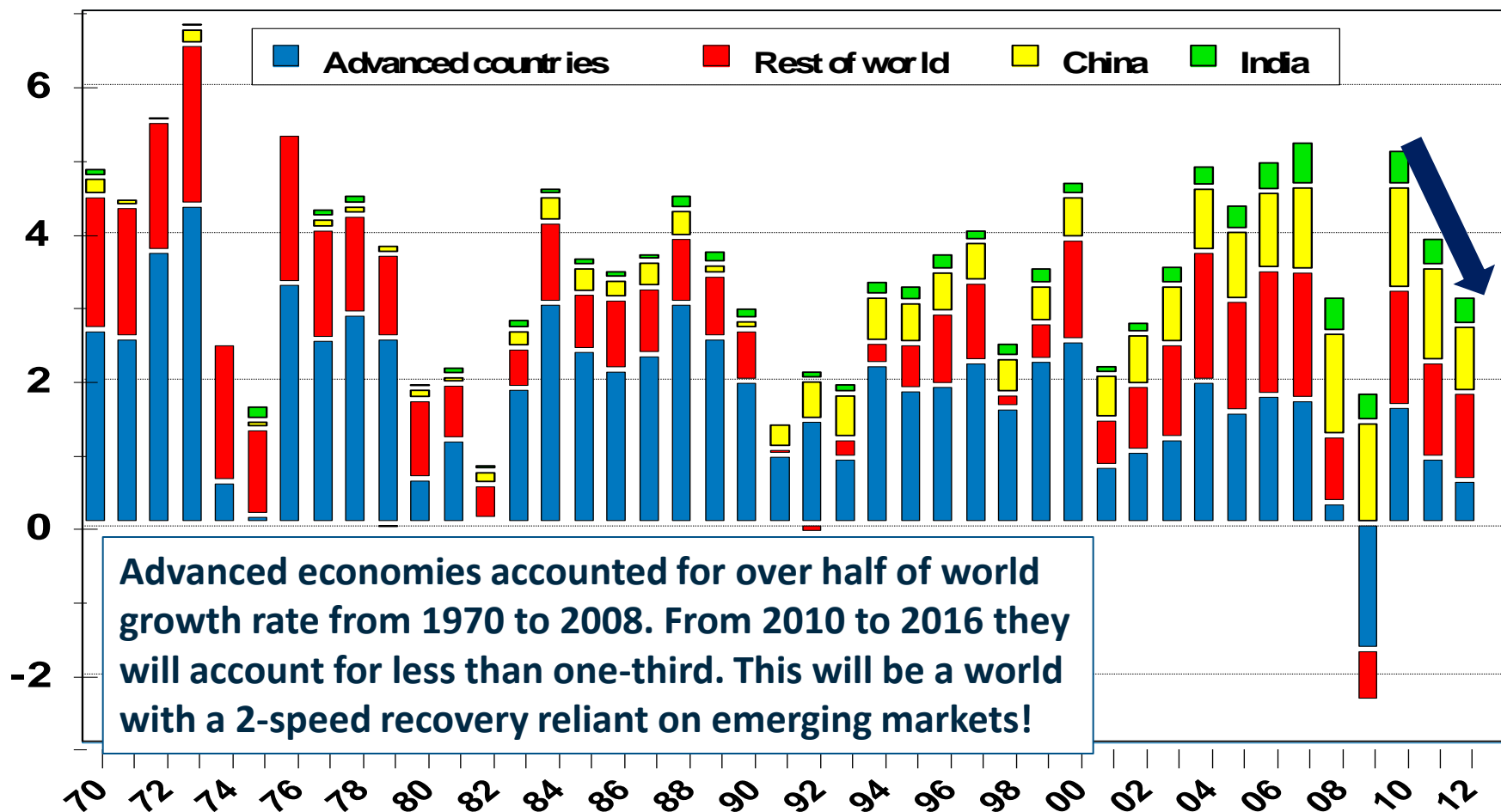
A More Export Dependent U.S. Agriculture Confronts Global Economy



Global Economy Facing Crisis of Confidence Regarding U.S. and Europe



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



Global Economy Weakens As Advanced Economies Struggle



Economic Growth Rates (percent change)

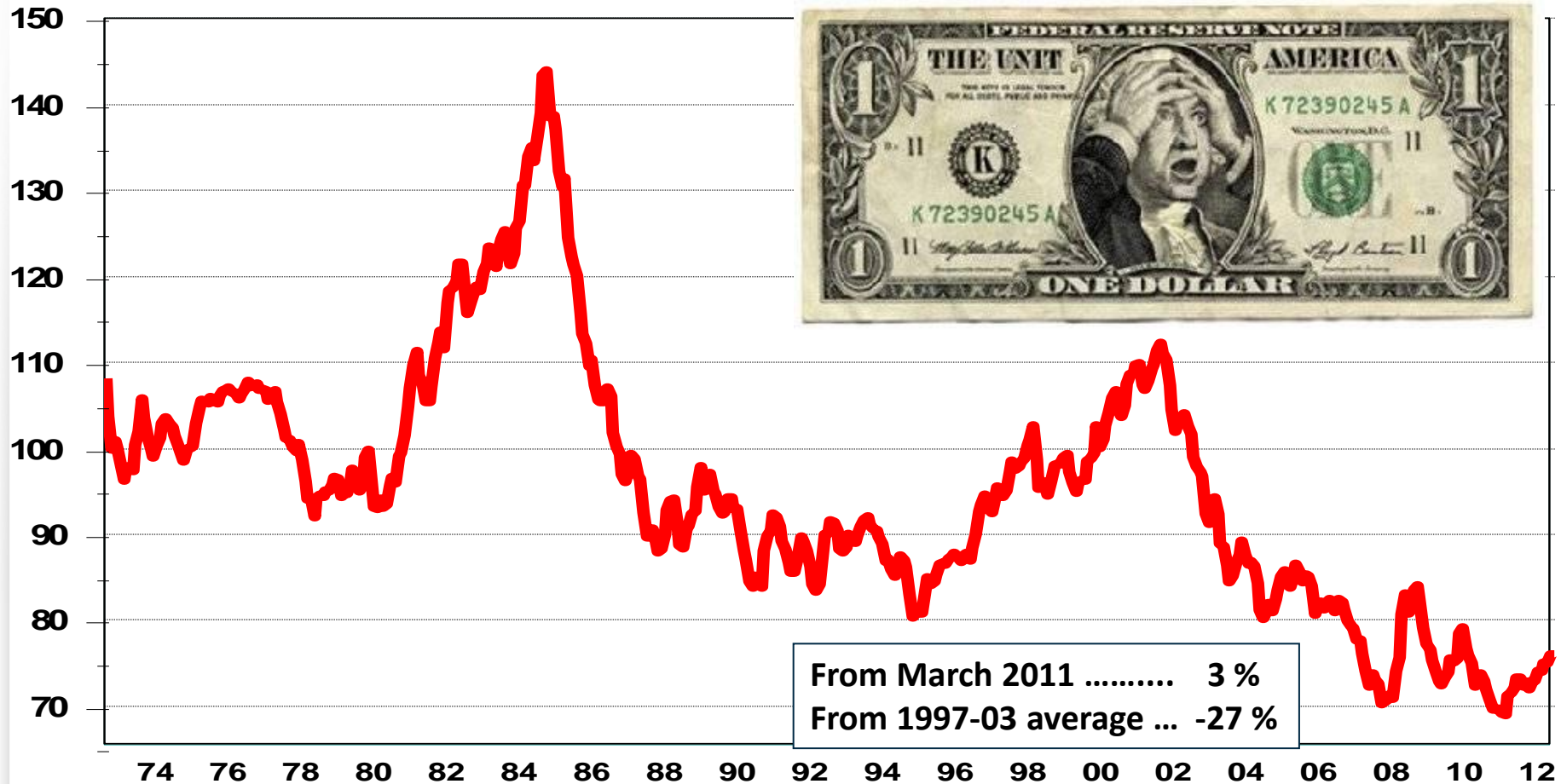
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
World	5.2	3.8	3.3	3.9
U.S.	3.0	1.8	2.0	2.2
Euro	1.9	1.6	-0.5	0.8
U.K.	2.1	0.9	0.6	2.0
Japan	4.4	-0.9	2.0	1.6
Newly Ind. Asia	8.4	4.2	3.3	4.1
Cen. & Eastern Europe	4.5	5.1	1.1	2.4
China	10.4	9.2	8.2	8.8
India	9.9	7.4	7.0	7.3
Brazil	7.5	2.9	3.0	4.0
Mexico	5.4	4.1	3.5	3.5

Lack of confidence in Europe and geopolitical issues in oil markets are limiting 2012 growth expectations!

Dollar Has Rebounded Against Euro But Steady Against Asian Currencies



Index of US dollar value relative to major currencies (March 1973=100)



* weighted average of the foreign exchange values of the U.S. dollar against a subset of currencies that circulate widely outside the country of issue

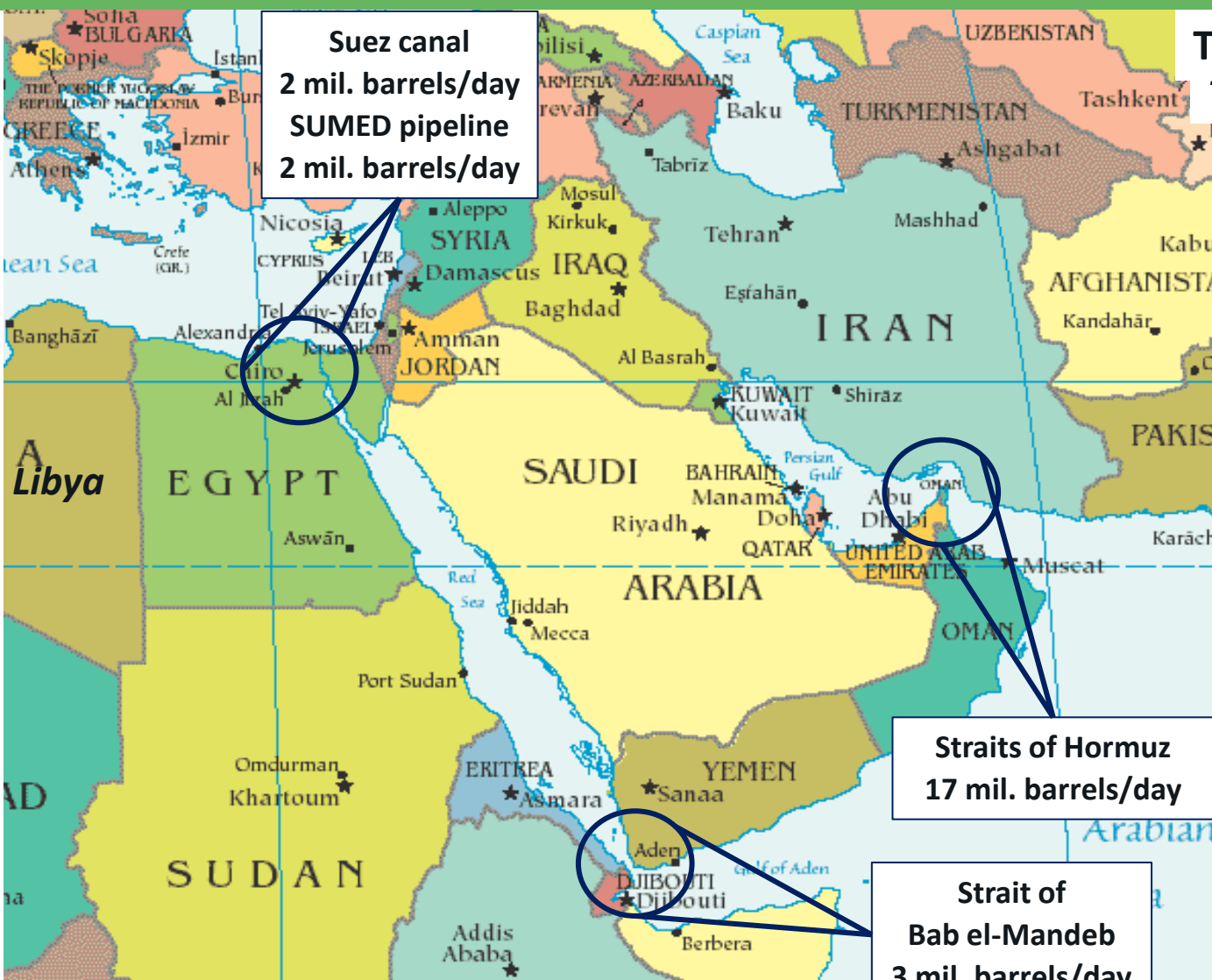
Energy Markets Could Be Major Volatile Wildcard in 2012



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



Middle East Turmoil Will Keep Oil Markets Unsettled



Top World Oil Exporters*

Thousand barrels per day

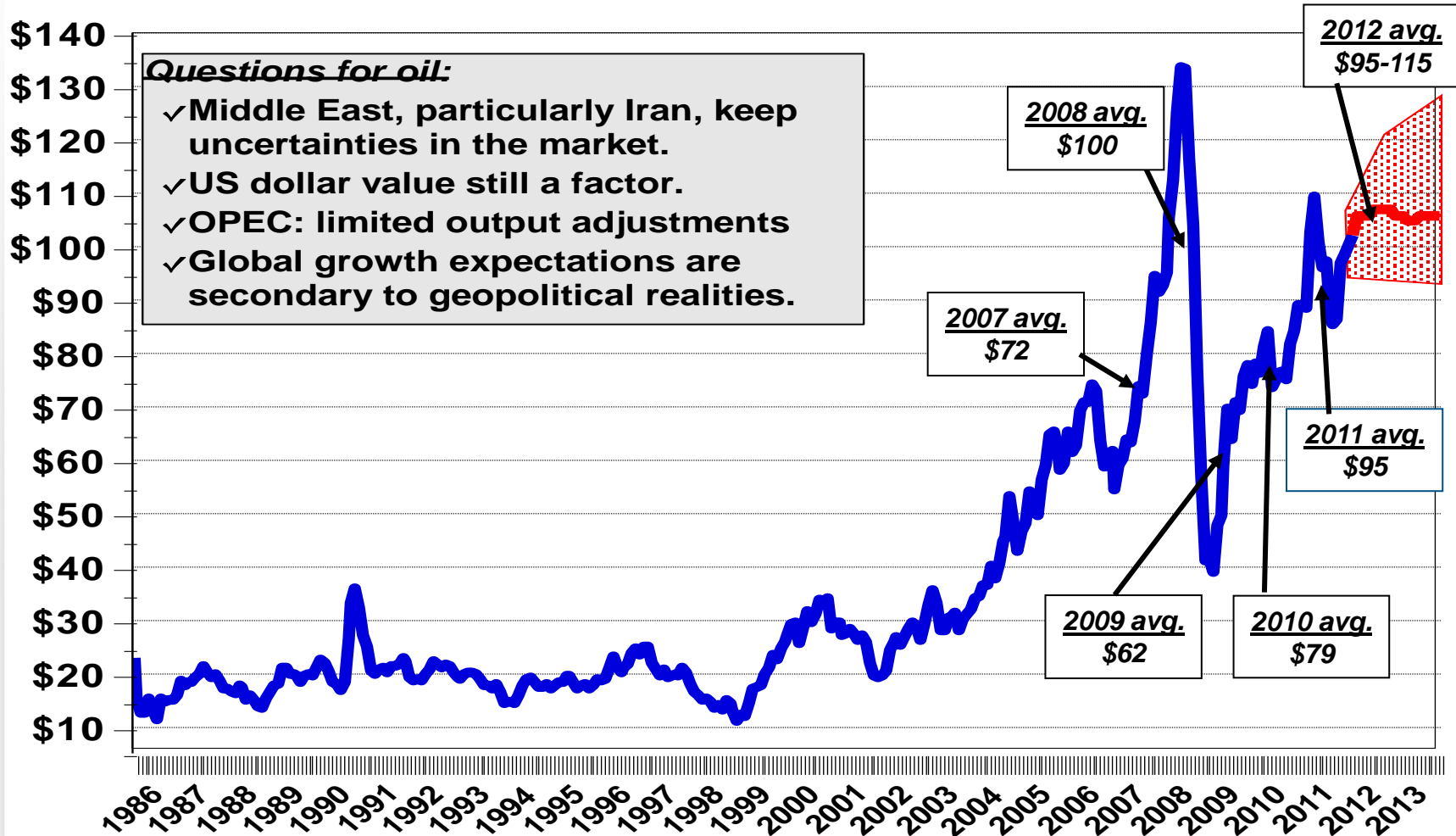
Exports

Saudi Arabia	7,322
Russia	7,194
Iran	2,486
UAE	2,303
Norway	2,132
Kuwait	2,124
Nigeria	1,939
Angola	1,878
Algeria	1,807
Iraq	1,764
Venezuela	1,748
Libya	1,525
Kazakhstan	1,299
Canada	1,144
Qatar	1,066

Oil Prices Tracks Global Growth, the U.S. Dollar and Geopolitical Turmoil



Dollars per barrel; spot price West Texas Intermediate



Rising Gas Prices Will Restrain U.S. Consumer Demand



Oil Price Impacts

\$10 per barrel
increase in oil prices



+24-25 cents per
gallon for gasoline



+\$30-35 billion in
consumer gasoline
expenses diverted from
other markets. Reduces
economic growth 0.2 to
0.3 percent points.

Data source: International Monetary Fund, WEO

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



China Is A Country of Dramatic Contrast and Growth



Data source: International Monetary Fund, WEO

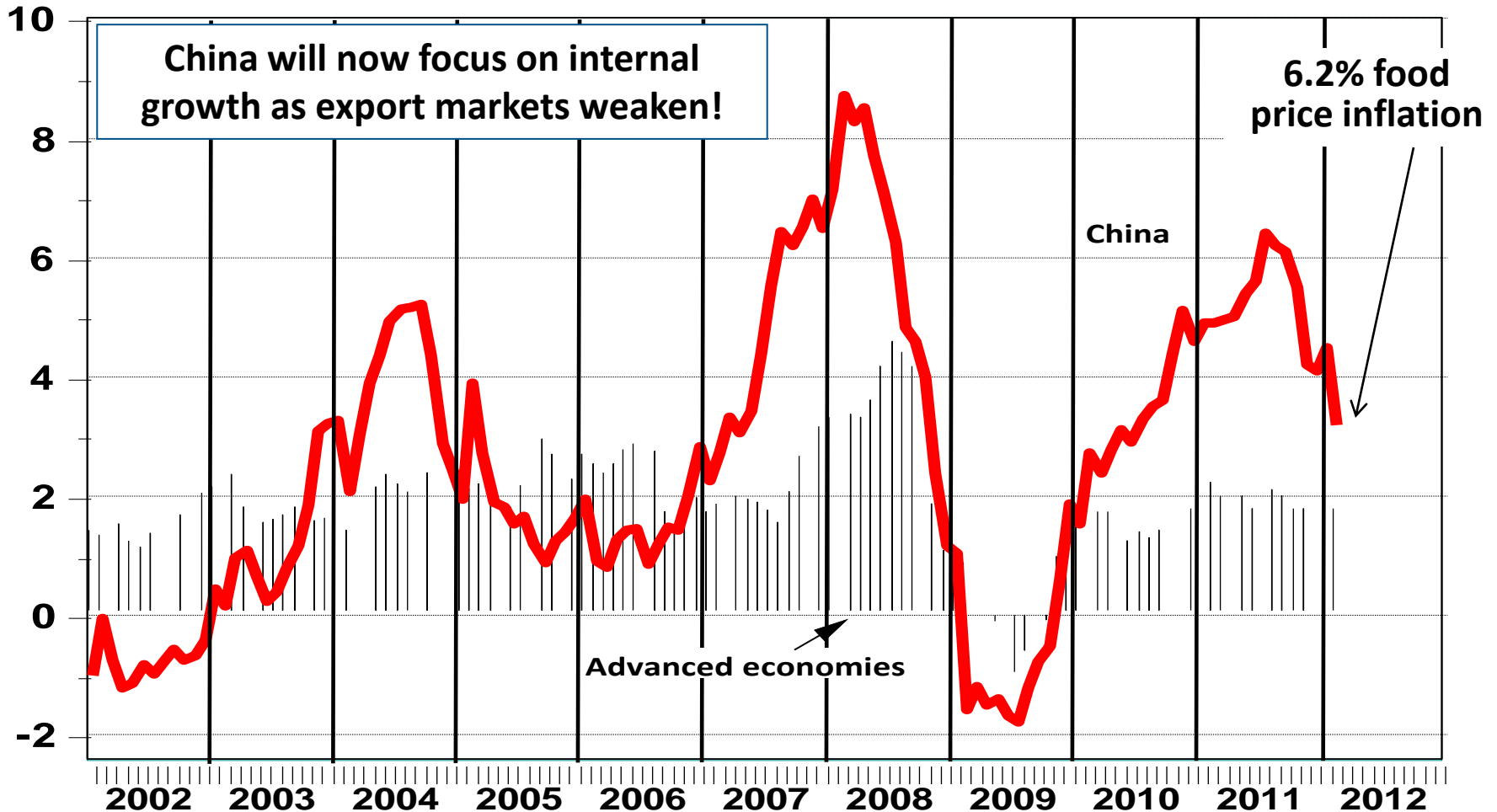
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China Has Made Inflation a Priority and May be Succeeding



Percent (headline inflation)



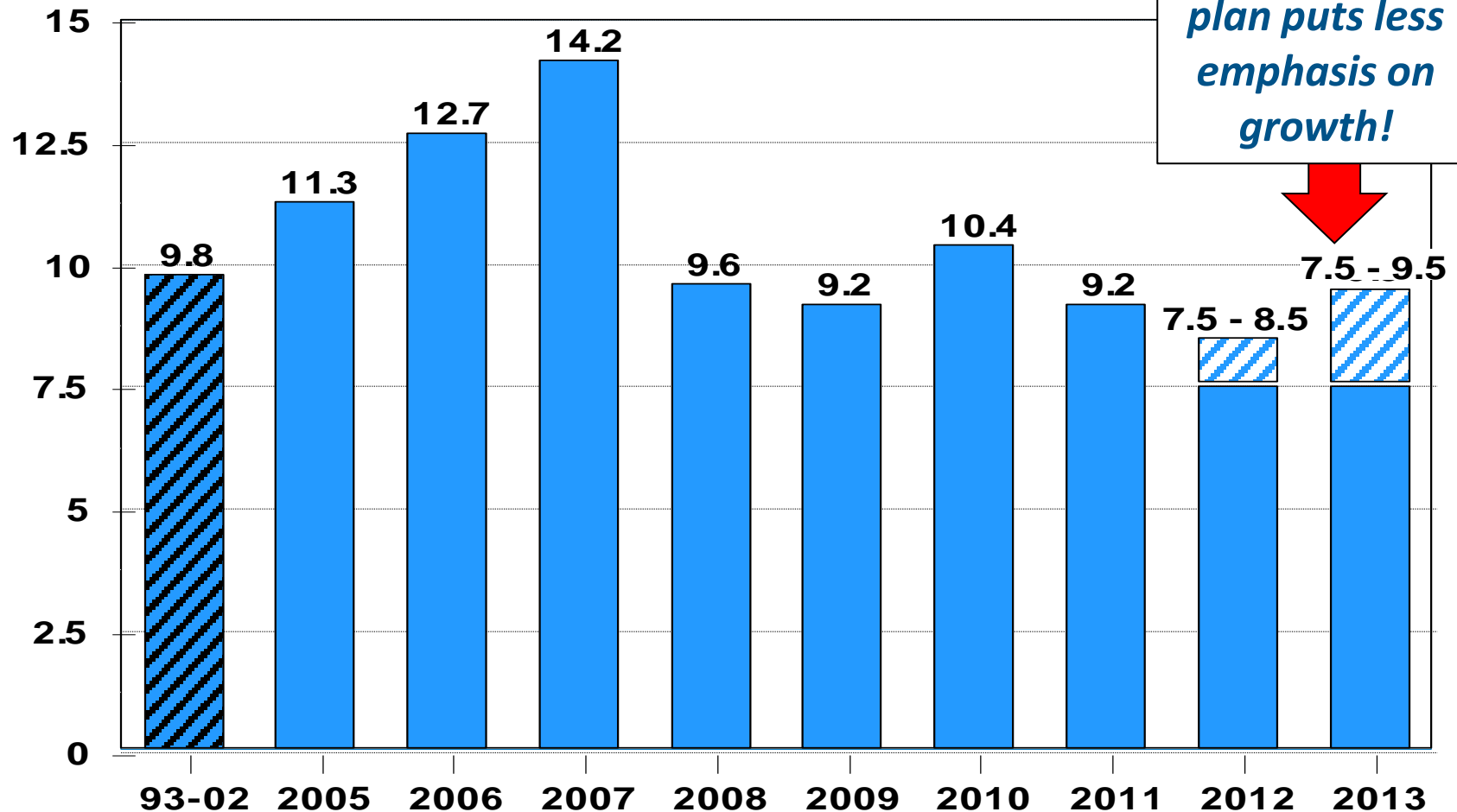
Data source: International Monetary Fund, WEO

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Growth in China Will Begin to Slow As Export Sector Weakens



Percent growth rate per year



Data source: International Monetary Fund, WEO

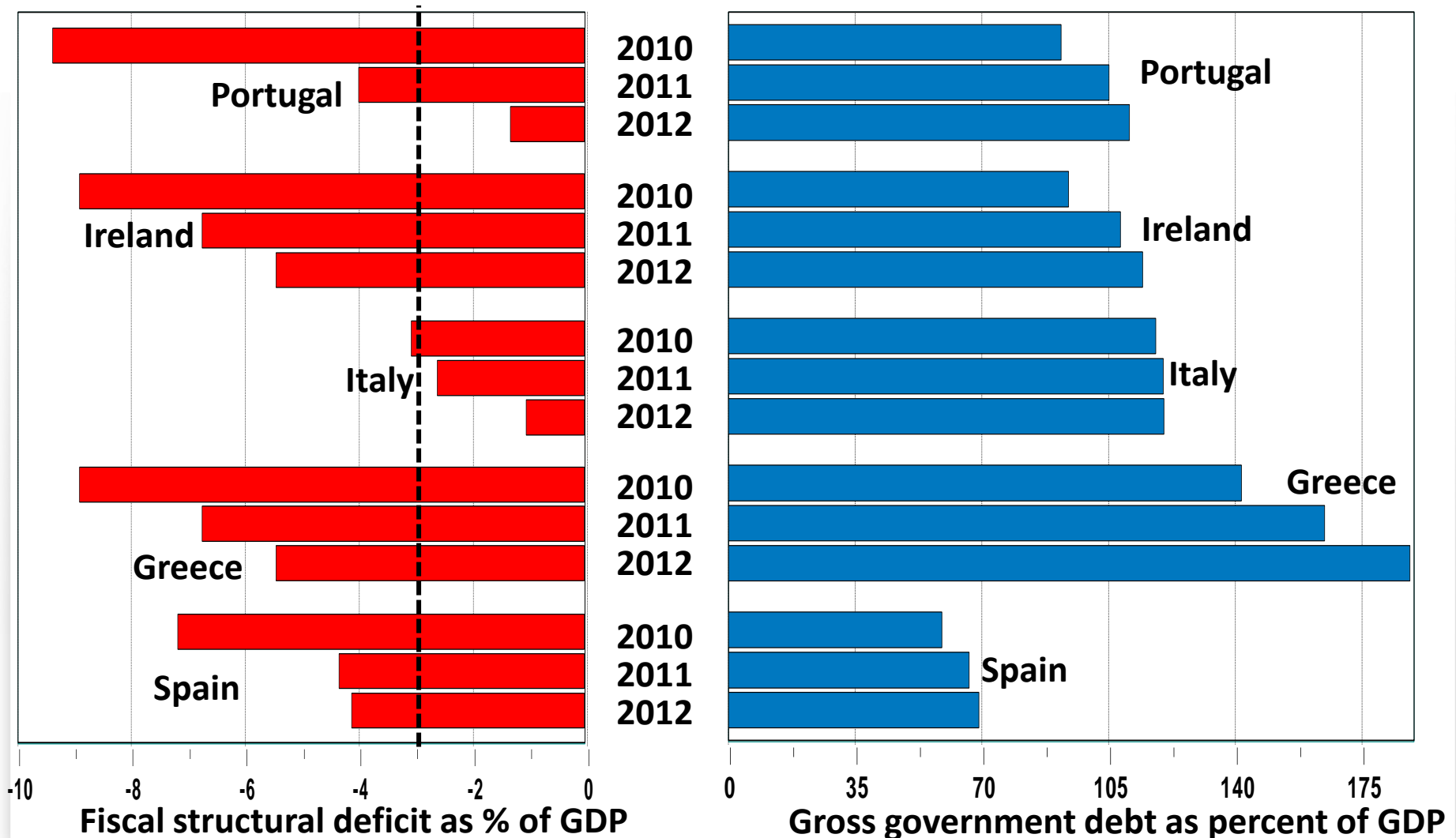
Chart source: Knowledge Exchange Division, CoBank, ACB (confidential and proprietary)

Euro Region Struggles With Recession and Financial Contagion



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

Euro Zone Countries Have Significant Debt Challenges; Will Austerity Hold?



Data source: International Monetary Fund, WEO

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

Interest Rates Easing With Greek Deal But Portugal on the Rise



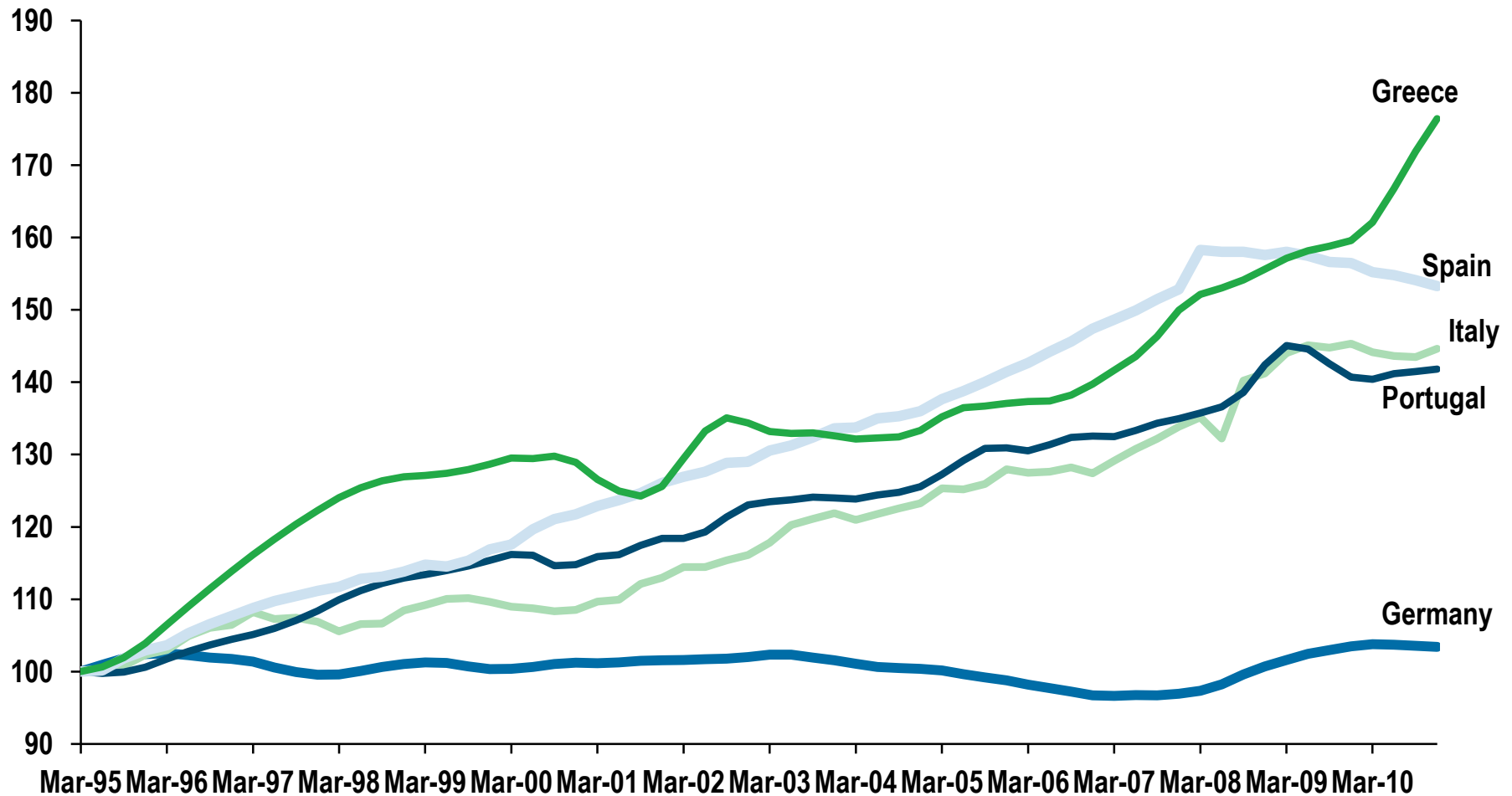
10-year benchmark government bond interest rates



The Competitiveness of Weak Sovereigns is Problem to Fix



Unit labour costs in the business sector

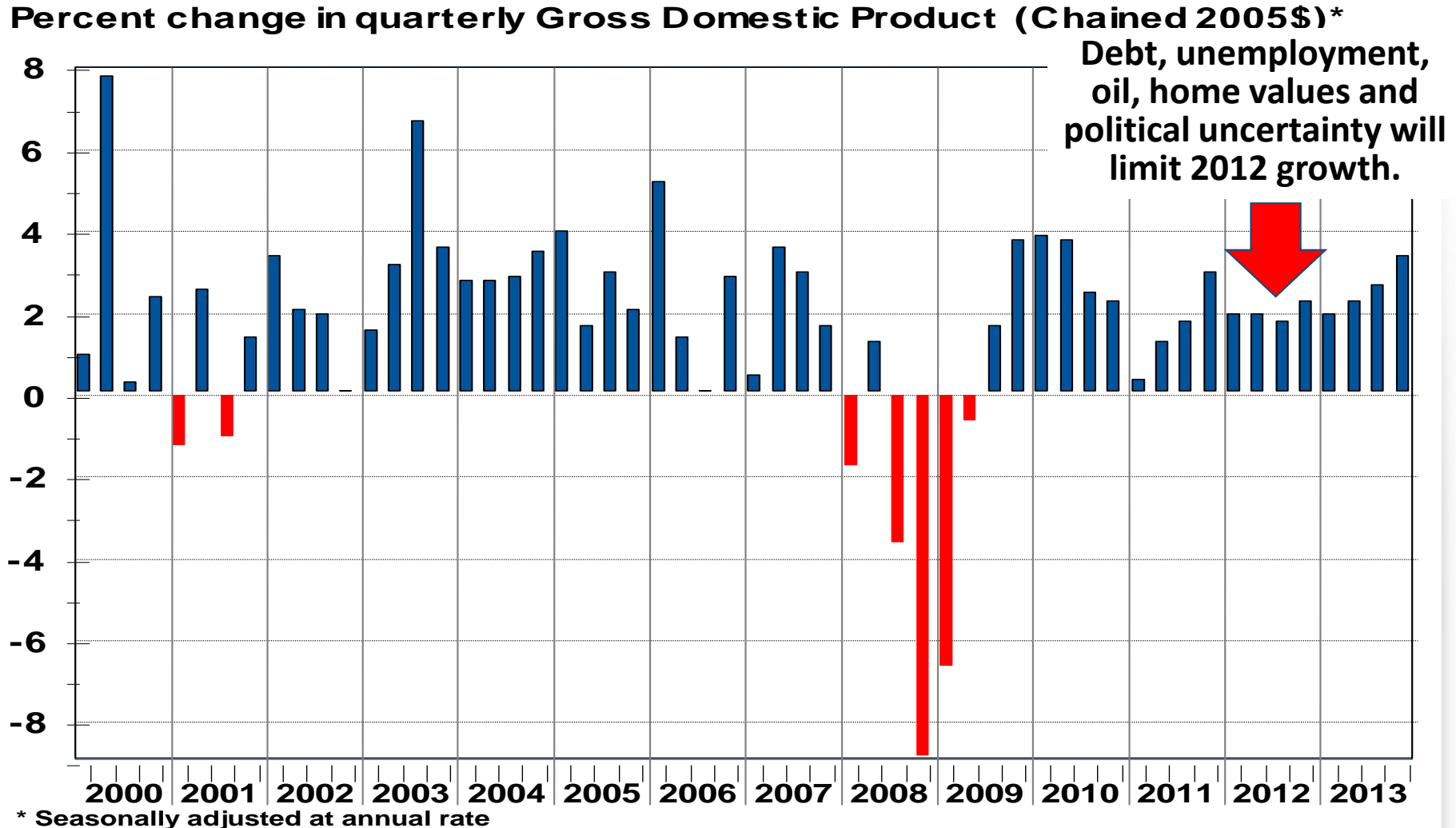


The U.S. Transition



**United
States**

Too Much Uncertainty to Build Base for Rapid Recovery

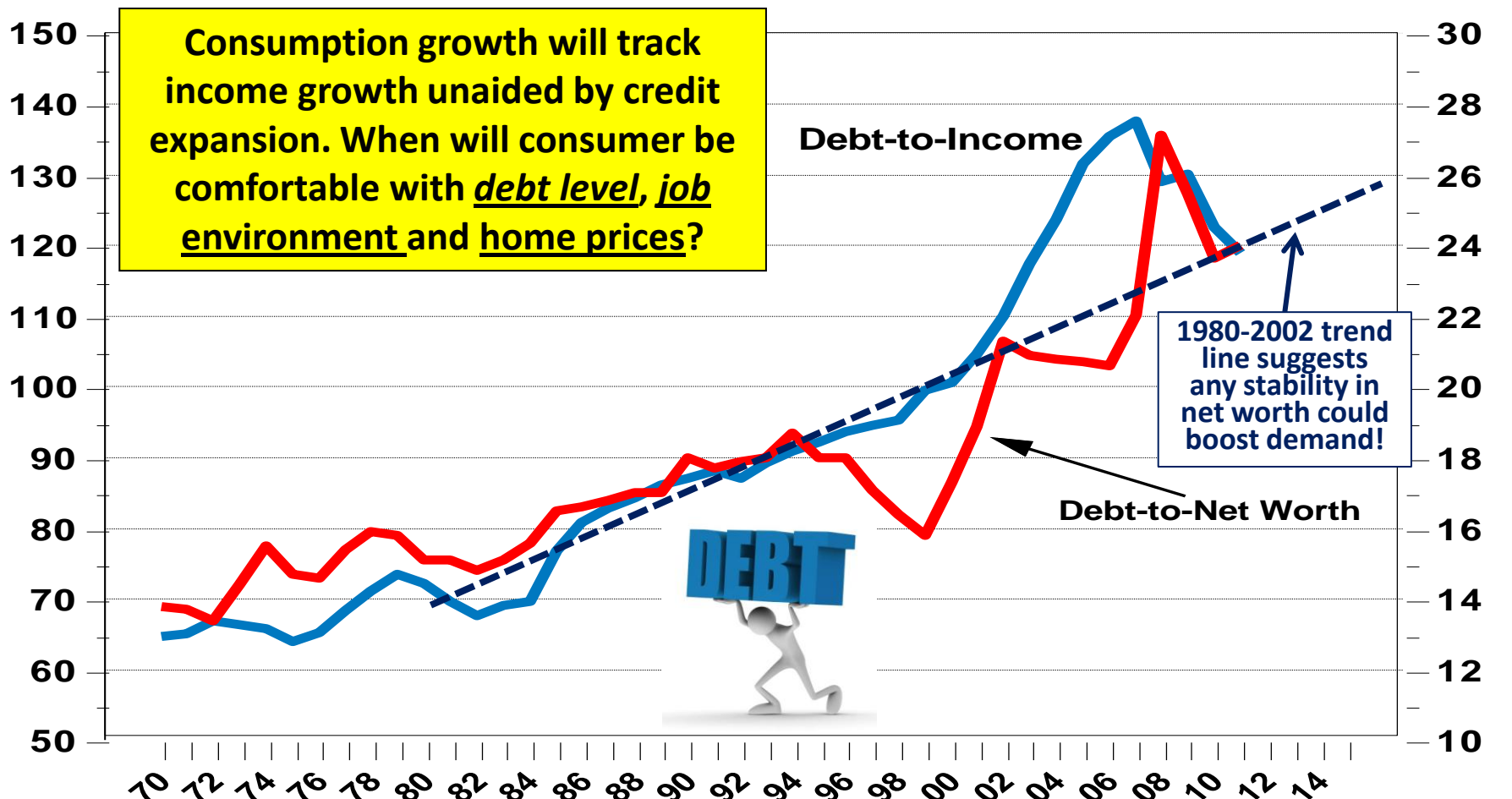


Deleveraging Consumer Will Temper Demand But Progress Has Been Made



Percent (debt-to-income)

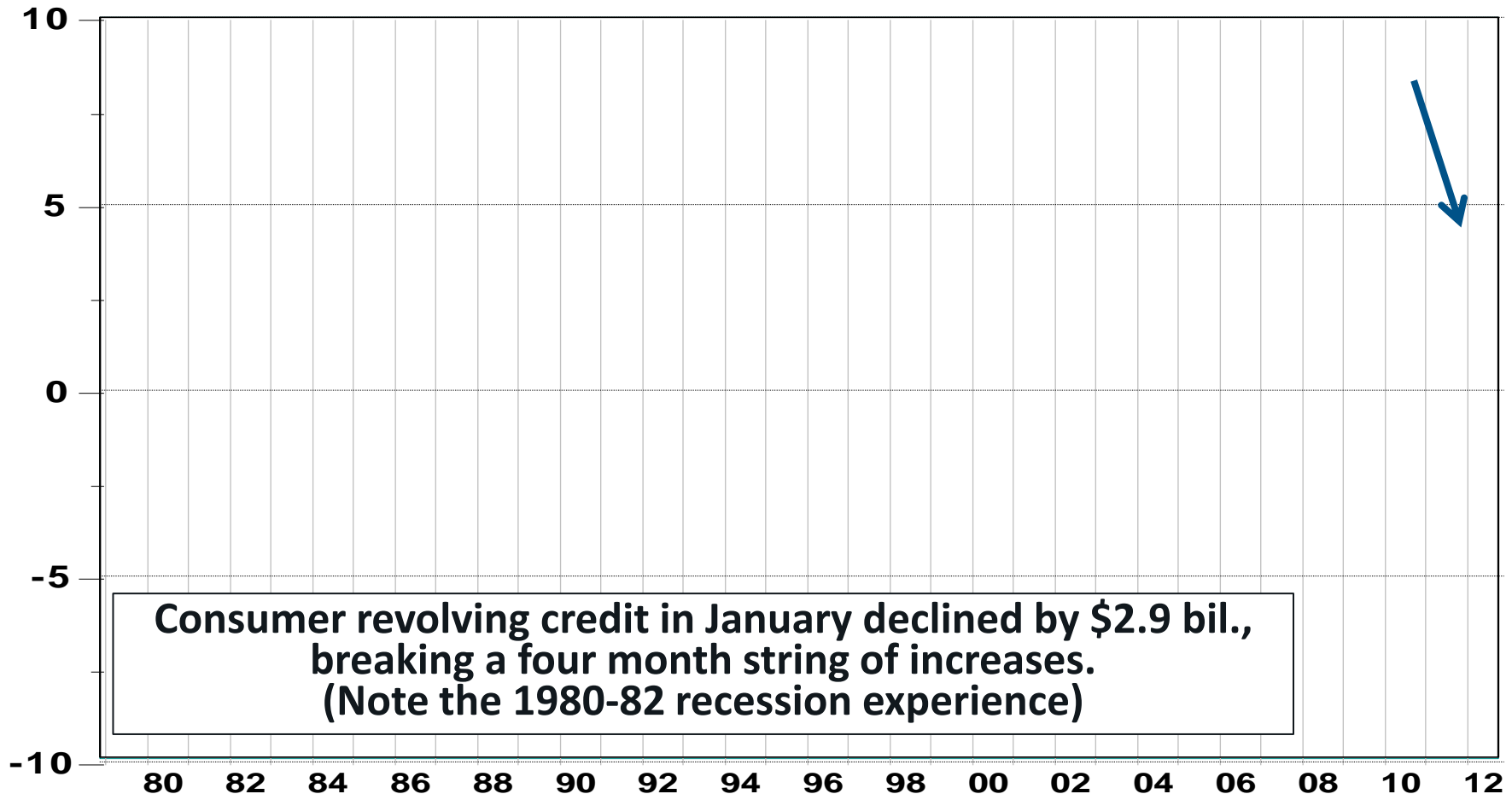
Percent (debt-to-net worth)



Will Consumer Deleveraging End and Give Boost to Weak Income Growth?



Billion dollars (change in 3-month moving average of consumer revolving credit)

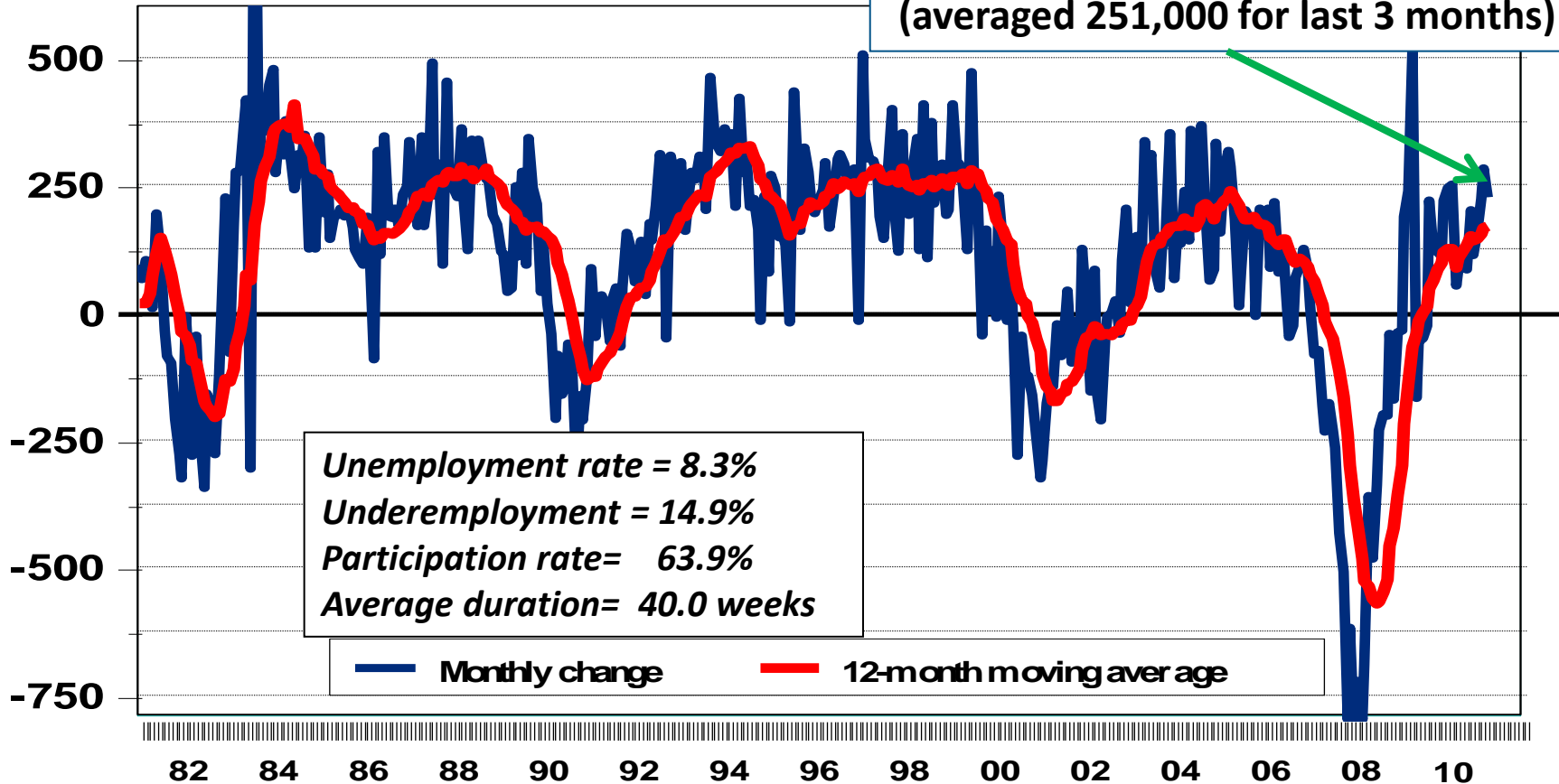


Job Gains Continue With Unemployment Rate Steady



Change in nonfarm payrolls (thous

227,000 jobs created in January!
(233,000 in private sector)
(averaged 251,000 for last 3 months)

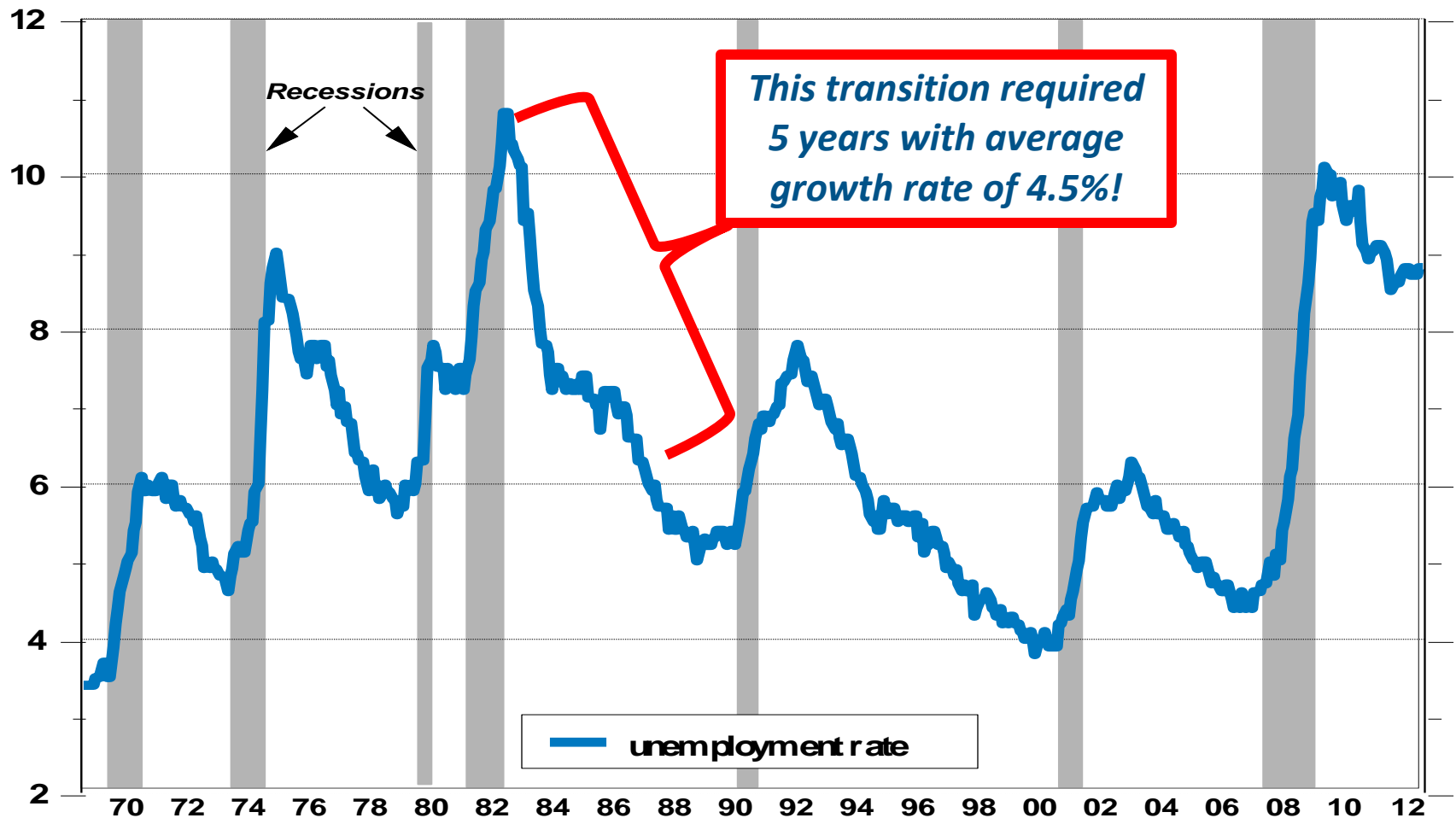


* Business cycle troughs: Nov 1982, March 1991, November 2001 and June 2009.

Continued High Unemployment and Excess Capacity in Labor Markets



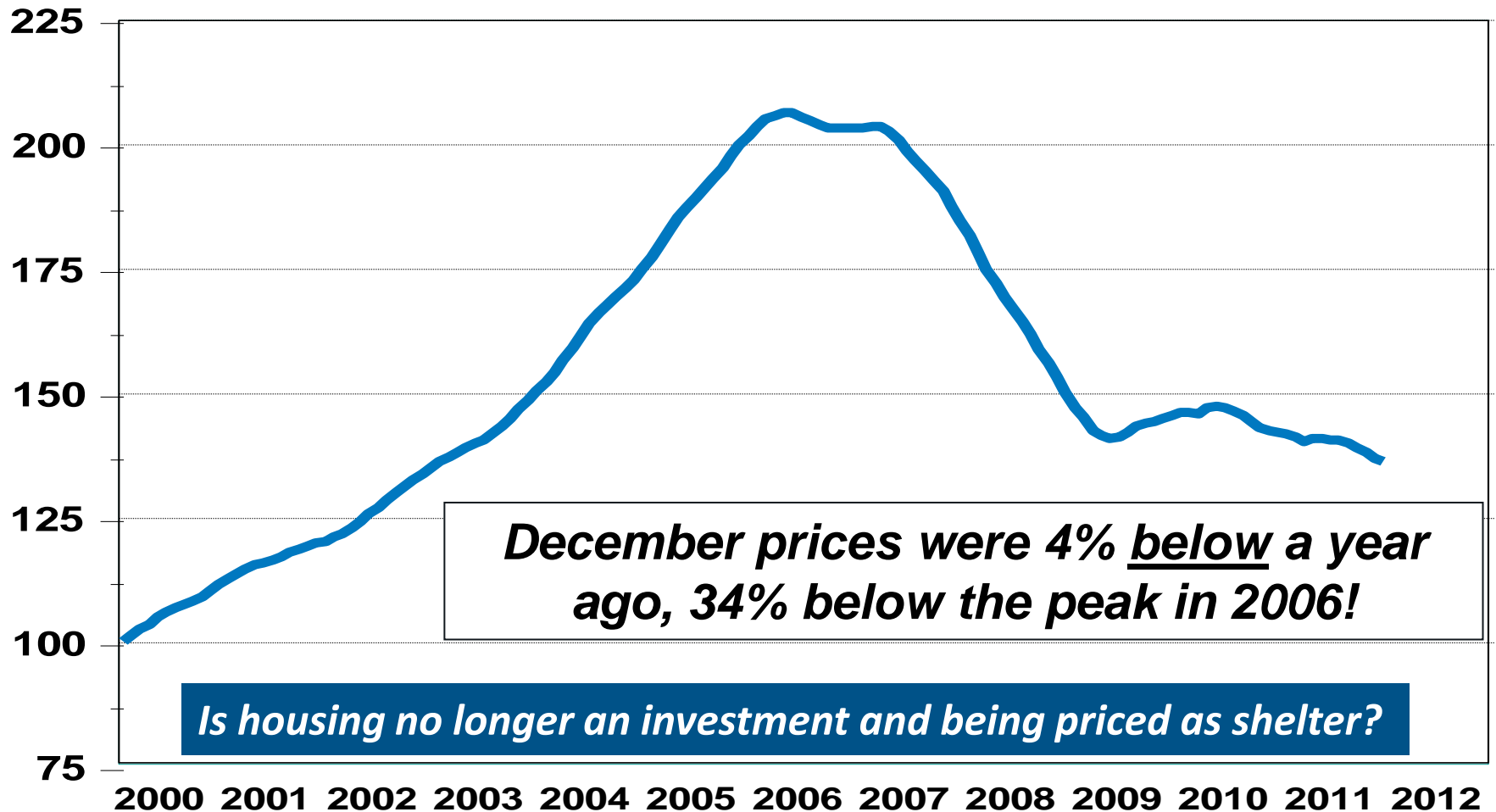
Percent rate of unemployment



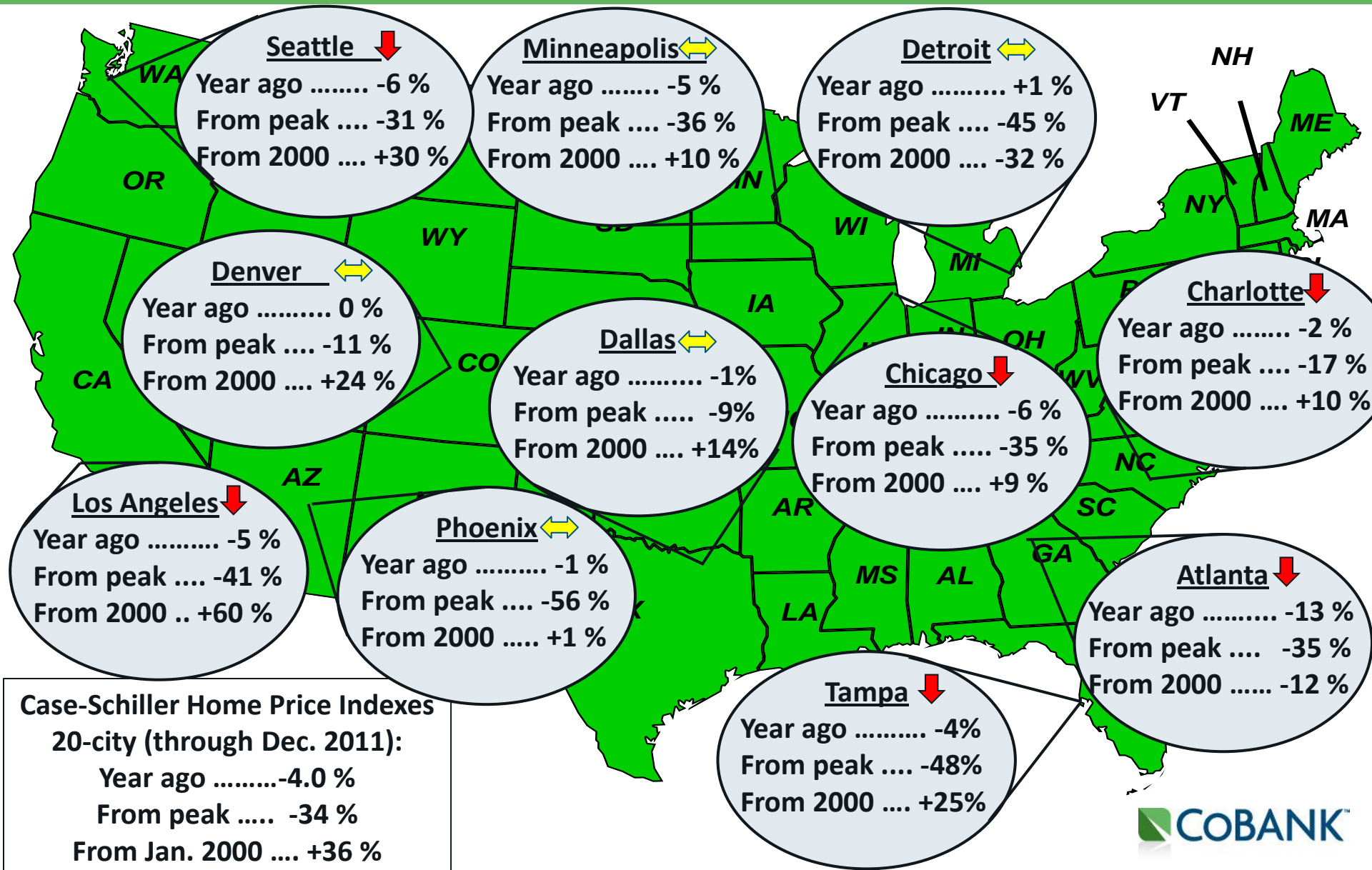
Home Prices Continue to Decline: Is End in Sight?



Monthly S&P/Case-Shiller 20-City Home Price Index



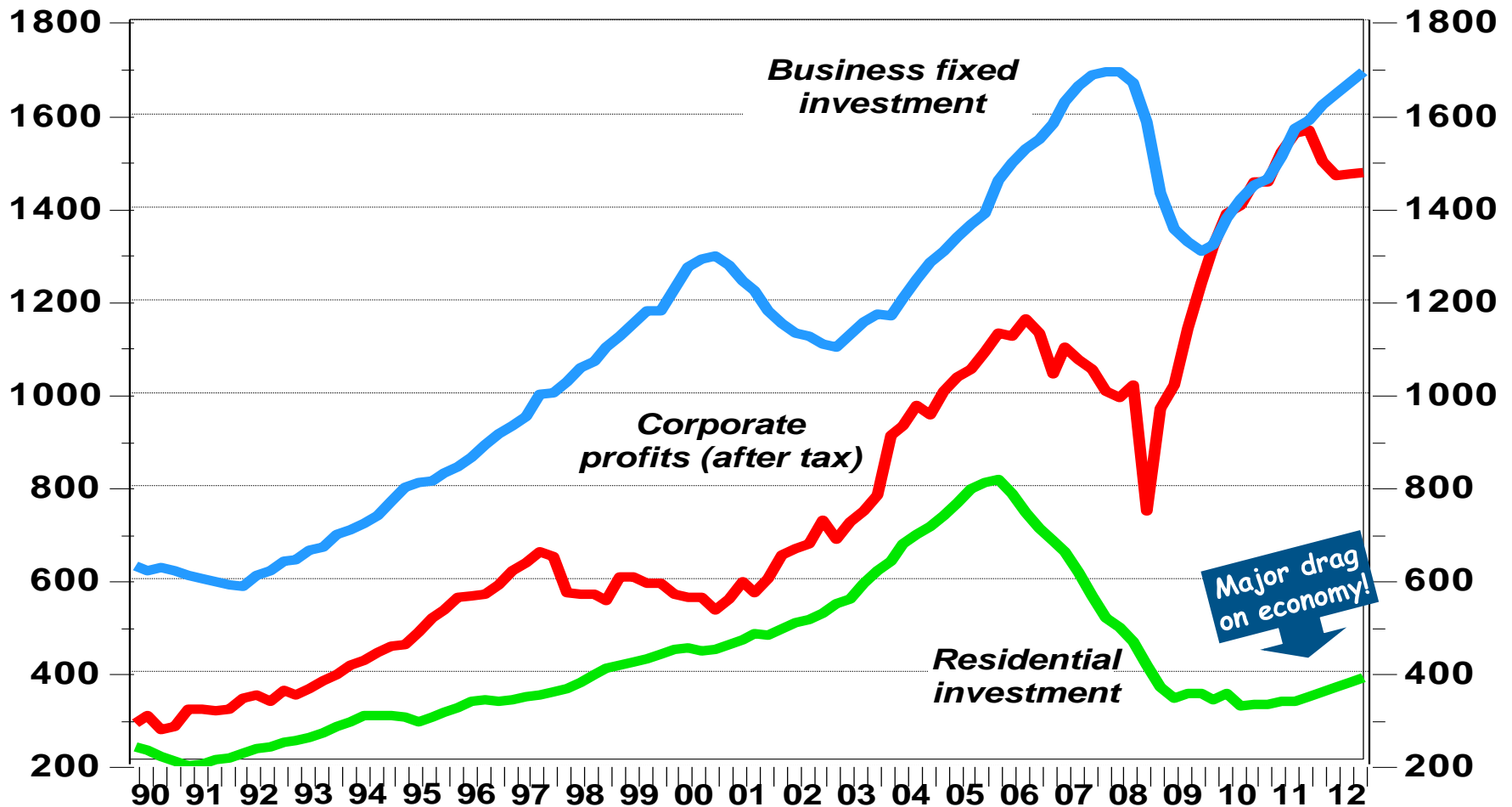
Home Prices Continuing to Fall in Many Regions of the Country



Housing Stagnate But Business Investment Lags Corporate Profit



Billion dollars in profits; investment at annual rates



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



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

Financial sector	Financial sector regulatory reform implementation
Energy sector	Comprehensive energy policy/climate change ; transition from fossil fuels!
Immigration	Reform groundwork being laid for 2012
Health care sector	Uninsured, medicare / medicaid reform?
Regulatory oversight	Clean air & water, Food safety
Deficit reduction	Tax policy; entitlement programs (including farm and food programs).

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!

Monetary Policy Will Hold Line !



U.S. Treasury Department

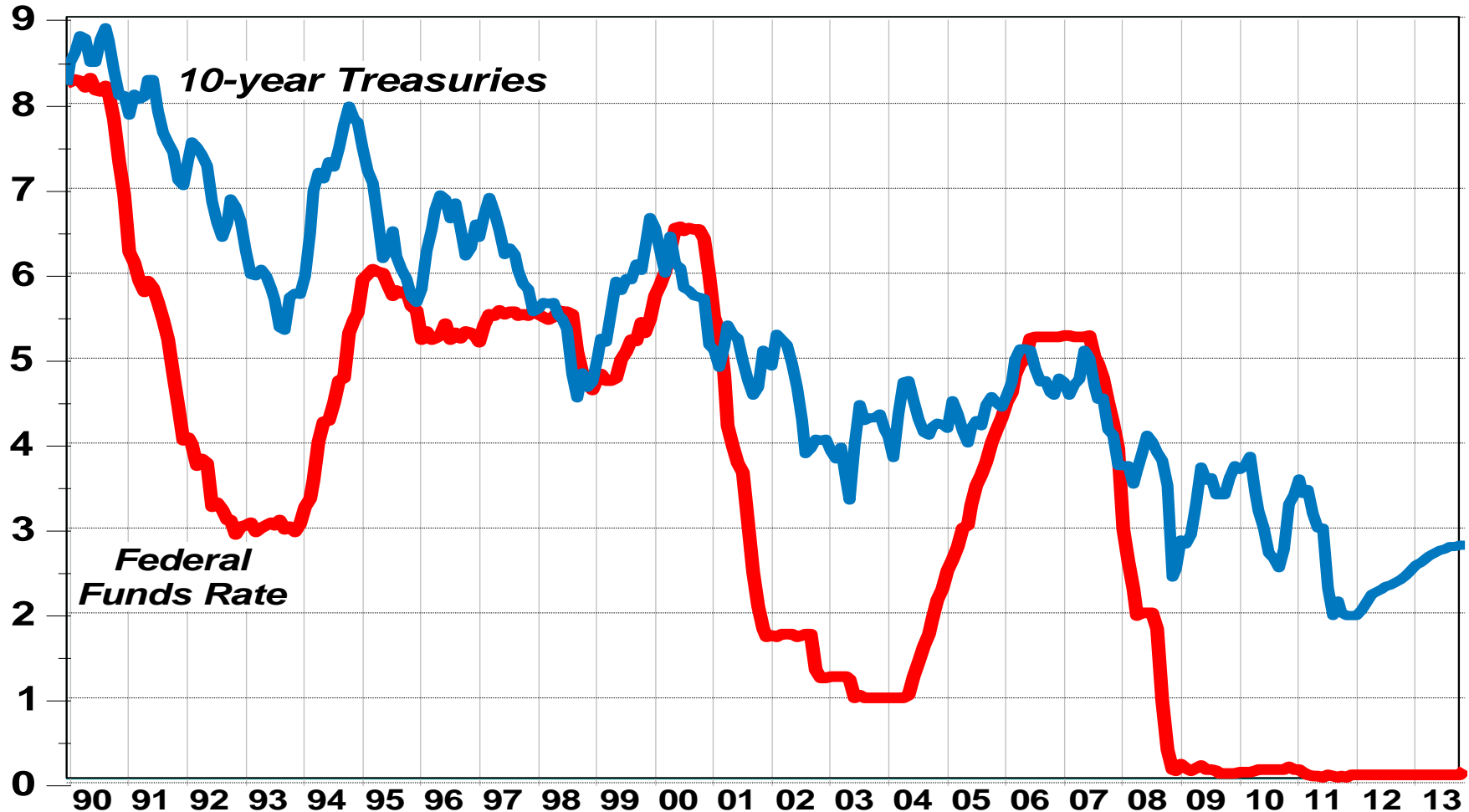


U.S. Federal Reserve

Federal Reserve Will Continue To Promote Growth in 2012-14



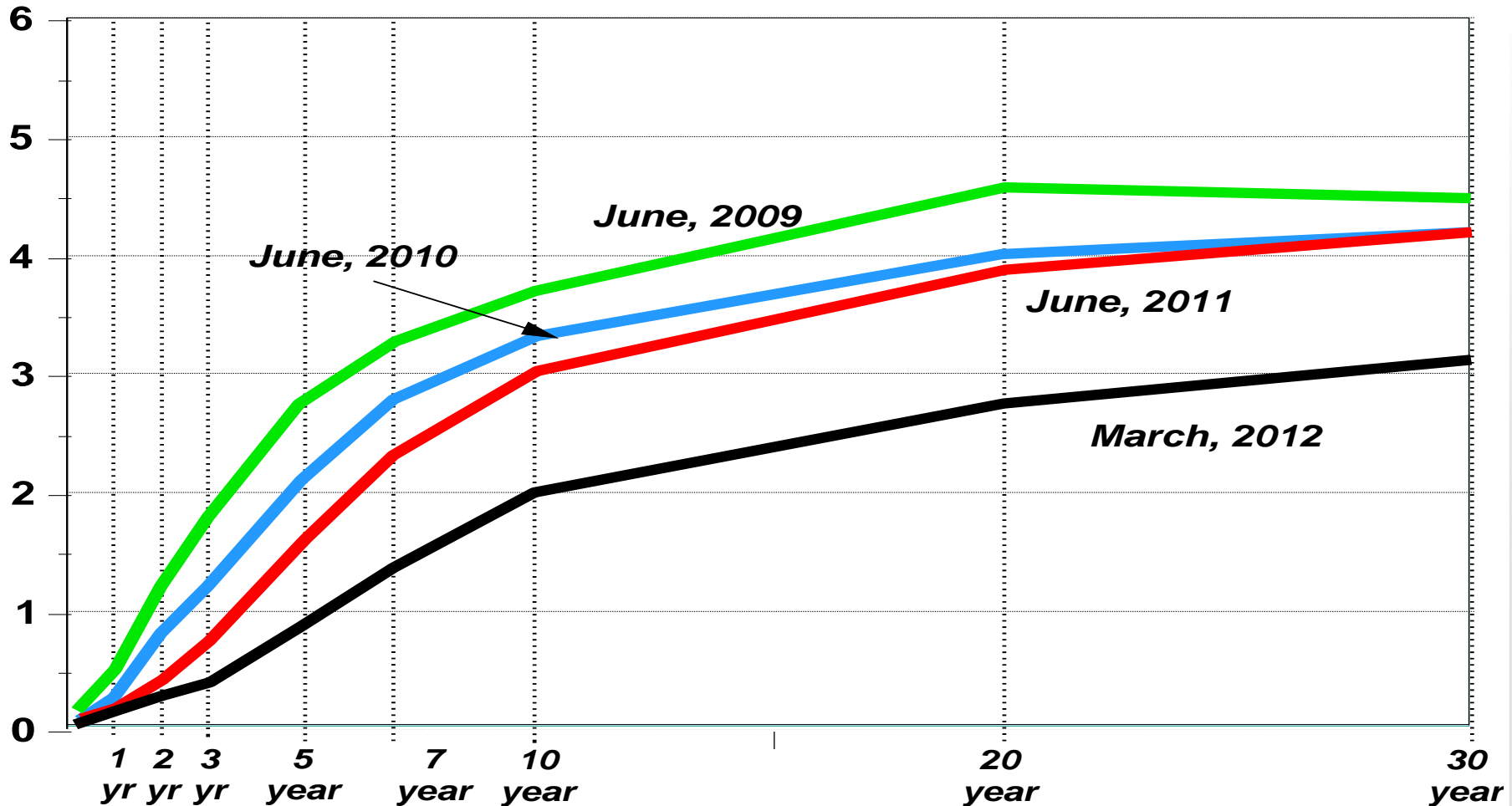
Percent



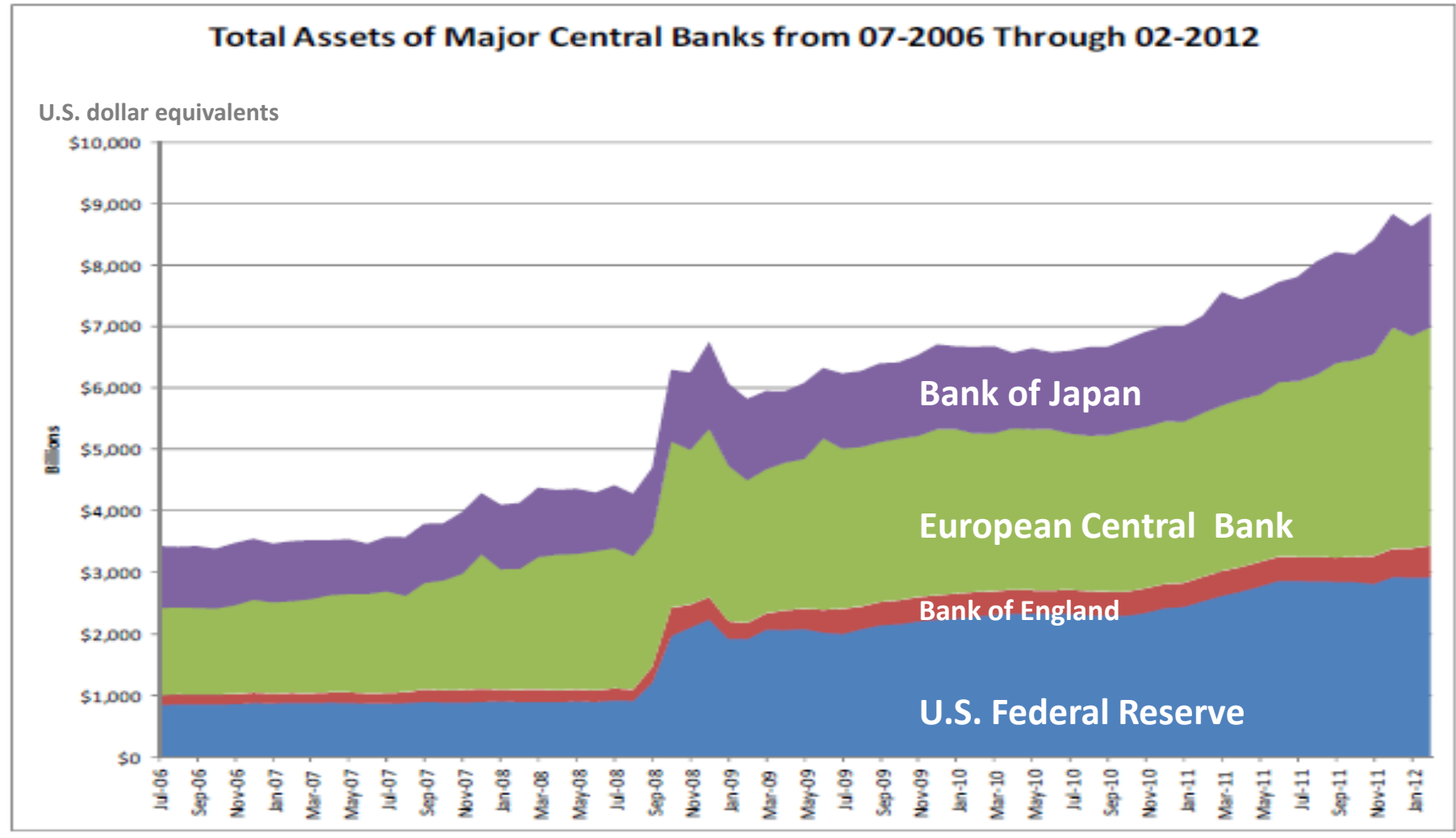
Yield Curve Flattening As Fed Policy Maintains Ease



Percent rate



Total Assets of Major Central Banks A Challenge to Unwind



Fiscal Policy Still Wild Card

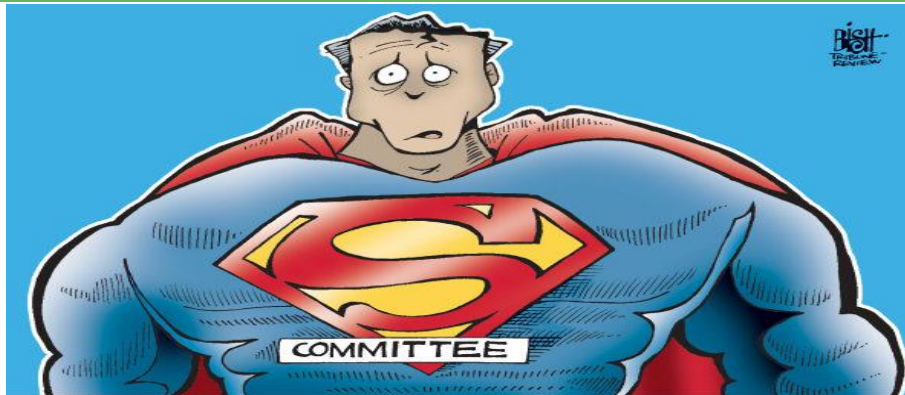


White House



Congress

The Super Committee Fails to Reach Agreement Surprise?



ACTUALLY, THE "S" STANDS FOR "SINKING SHIP"



The sequestration process that will achieve \$1.2 trillion in reductions over 10 years equally divided between domestic and defense national security spending is underway. No cuts until 2013. Tax cuts expire In 2013!

How would financial markets react if Congress alters commitment to deficit reduction???

November 2012 Presidential and Congressional Elections

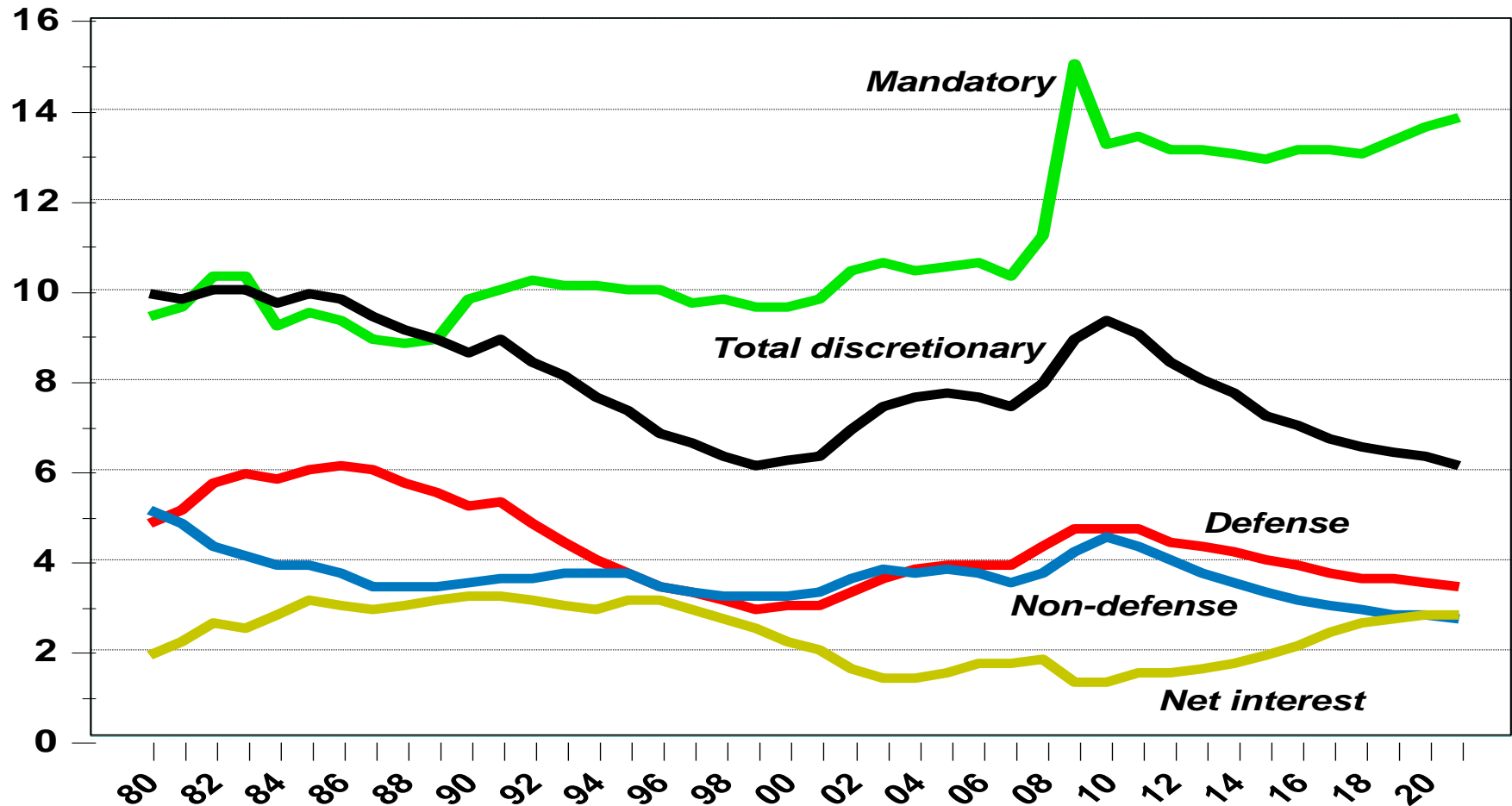
Nov./Dec. 2012 Lame duck session of Congress

Jan 2013 Debt ceiling would need to raised again by Congress, sequestration cuts would begin and tax cuts would expire without Congressional action.

Sequestration Requires Reductions in Discretionary Accounts



Percent of Gross Domestic Product



Can A “Do Nothing Congress” Reduce Deficits and Control Debt?



YES!

Sequestration and Expiring Tax Cuts Solve Problem

Sequestration = -\$2 trillion

Expiring tax cuts = -\$4-5 trillion

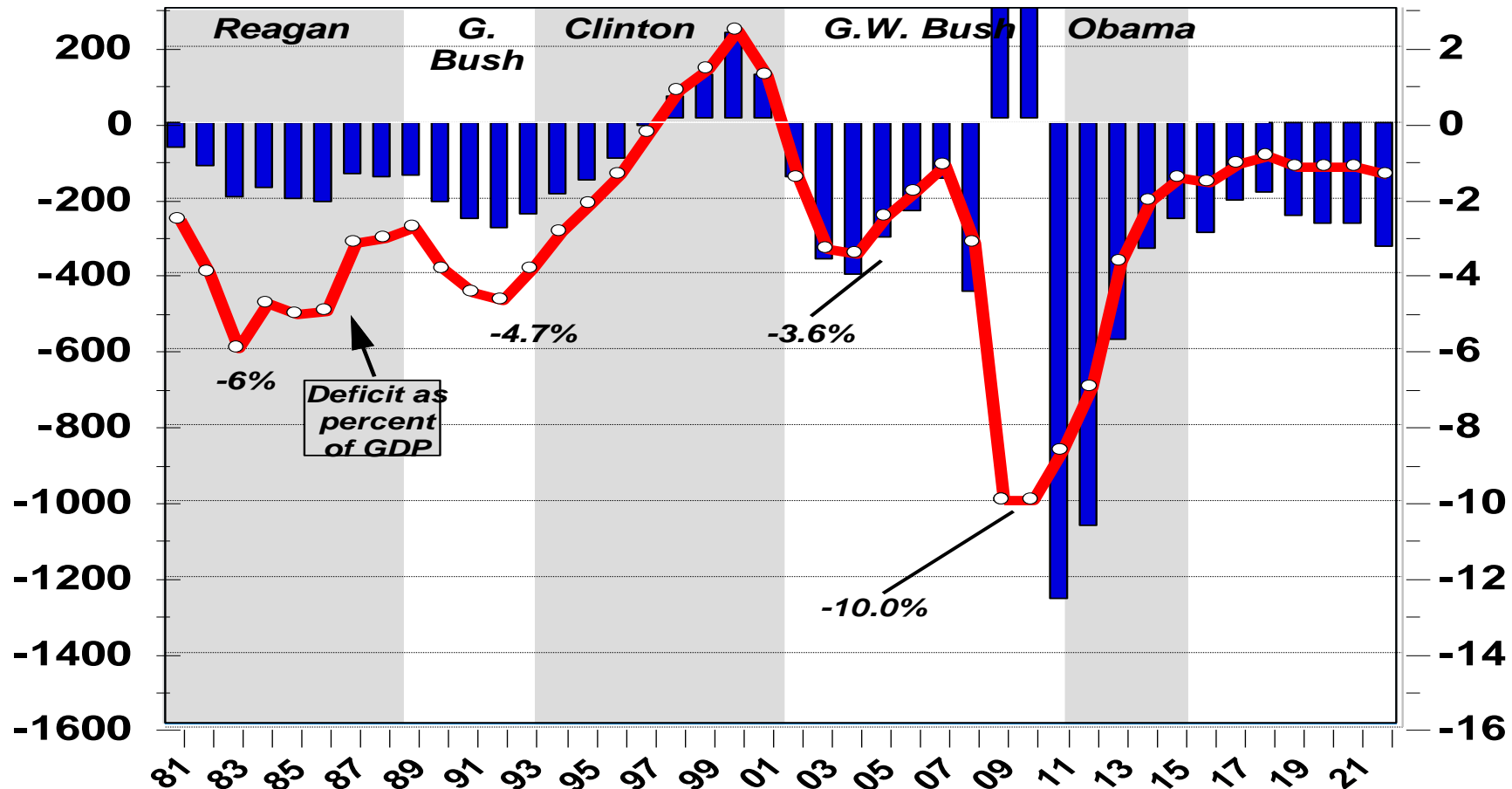
(Is this the new baseline with \$6-7 trillion in cuts?)

If Congress Takes NO Action the Baseline improves Dramatically



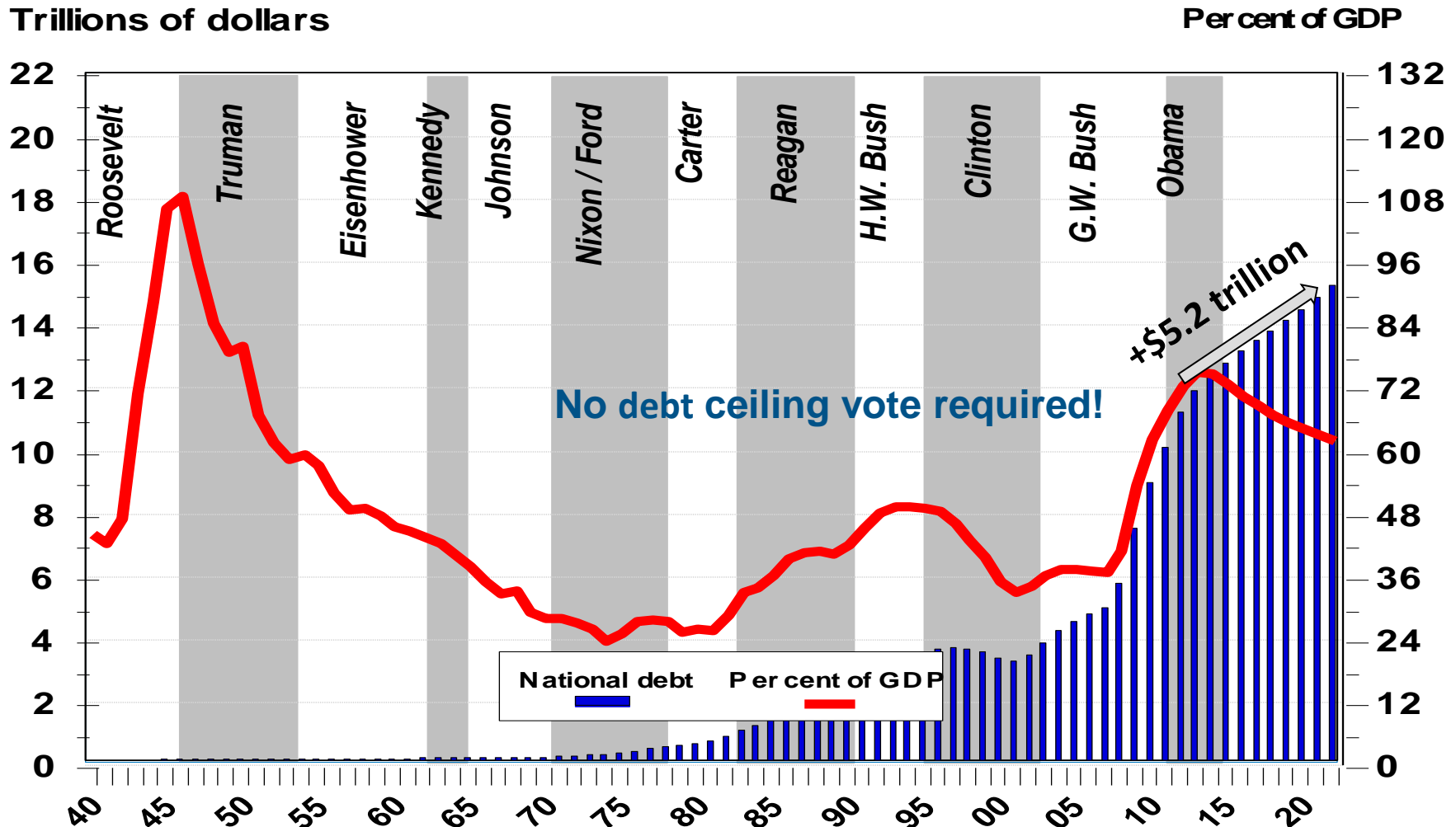
Deficit in billion dollars

Percent of GDP



Source: Congressional Budget Office (February, 2012), BEA and Treasury Department and forecast

U.S. National Debt Increases by Only \$4.4 Trillion Over Next Decade



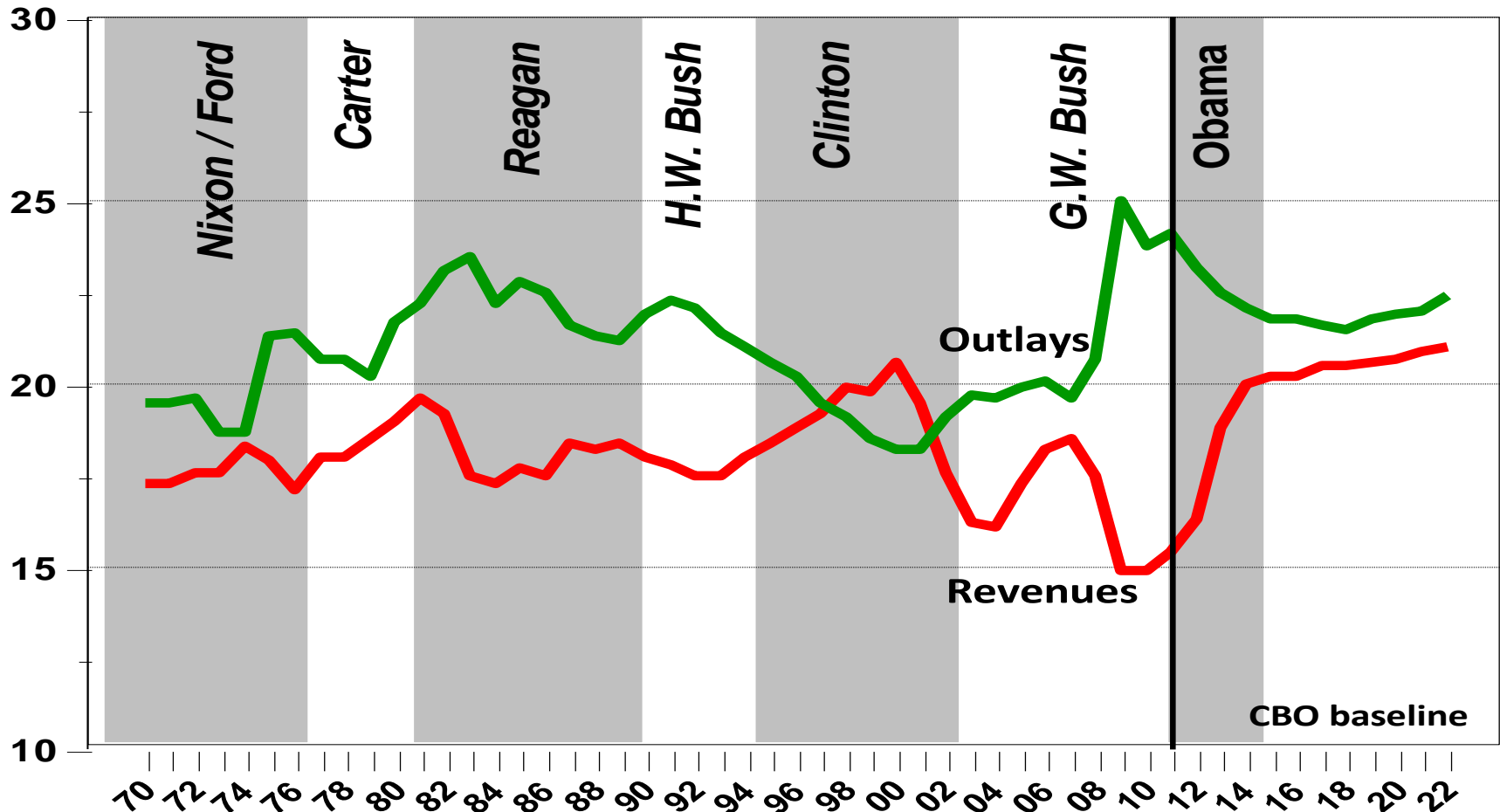
*Assumptions: phase-out in Iraq/ Afghanistan; Permanent extension of tax provisions. Aug. 2011

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

Improving Deficit in CBO Baseline Results Mainly from Expiring Tax Cuts



Revenue and outlays as percent of GDP



This Baseline Presents Major Challenges to Normal Budget Process



Normally Congress is trying to solve a problem; this time they are seeking an alternative to an existing solution!

Who has leverage in this scenario?

The 2012 elections complicate the efforts to find a bipartisan alternative to the baseline! No tax pledges and no entitlement cut pledges don't work.

Will it all be kicked to lame duck session in Nov./Dec. 2012?



Political Uncertainty Also Limits Pace of Economic Recovery



White House



Congress

Obama Vs ?????? It's the economy stupid!	<u>Current Balance</u>			
	<u>House</u>		<u>Senate</u>	
	193 Dems	242 Reps.	53 Dems & Ind.	47 Reps.
	<u>Seats up in 2012</u>			
	All 435 seats		23 Dems & Ind.	10 Reps.

This is Market Action Into 2013 !



The issues that have driven markets over the past year have not been resolved. Volatility remains until policies are in place! Agriculture will do well but normal yields in a subdued global economy could be the catalyst that begins a market transition.

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