

FEDERAL MONETARY POLICY

Dr. Norm Dalsted
Professor and Extension Economist
Department of Agricultural and Resource Economics
Colorado State University

Dr. Rich Llewelyn
Extension Assistant
Department of Agricultural Economics
Kansas State University
rvl@ksu.edu



Federal Monetary Policy

- Federal Reserve act signed into law in December 1913 by Woodrow Wilson
- WHY? To provide the Nation with a safer, more flexible, and more stable monetary and financial system.
- Often call the Fed, is the central bank of the United States. With the principal goal of **economic stability**.

Federal Monetary Policy

- ▶ Has three well known responsibilities:
 1. Conducting monetary policy
 2. Supervising and regulating financial institutions
 3. Providing services to financial institutions
- ▶ The Fed's actions affect the economy and therefore you.

Federal Monetary Policy

- ▶ To ensure accountability and remain free from political pressures, the Fed is composed of both private and public elements.

Structure

- ▶ **Board of Governors** provides oversight to the 12 Reserve Banks. The president appoints the Chair (currently Jerome Powell) for a 4-year term (Powell was sworn in February 5, 2018).
- ▶ There are 7 members from which the president selects chair and vice chair.

Structure

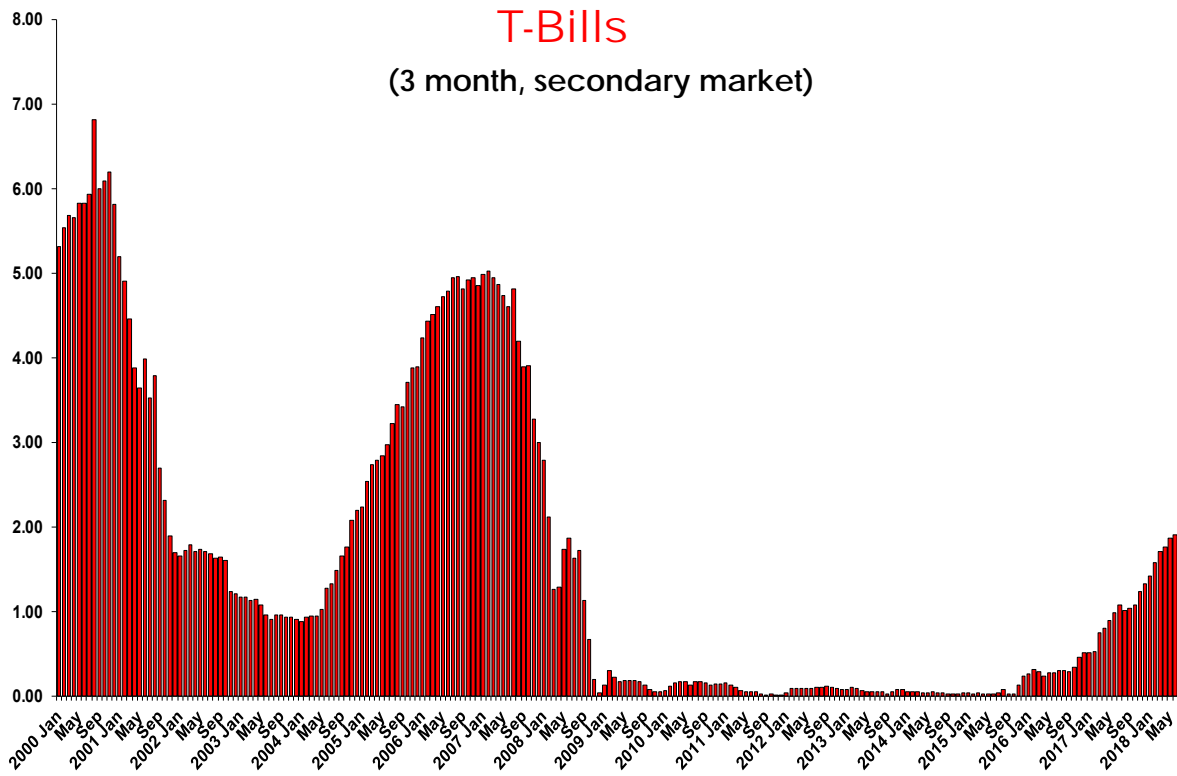
- ▶ There are three advisory councils
 - ▶ Federal Advisory Council
 - ▶ Consumer Advisory Council
 - ▶ Thrift Advisory Council
- ▶ Informs the Board on matters of current interest.
- ▶ **The Federal Open market Committee (FOMC)** can affect overall economic activity through **monetary policy**.

Structure

- Consists of the 7 Board members and all 12 presidents of the Reserve Banks but voting members consist of the 7 Board members, the president of the New York Reserve Bank and the presidents of 4 other Reserve Banks (serve on 1 year rotation).
- Meets 8 times per year to determine what the federal funds rate is to be. Currently set at 2.5% as of September 26, 2018.

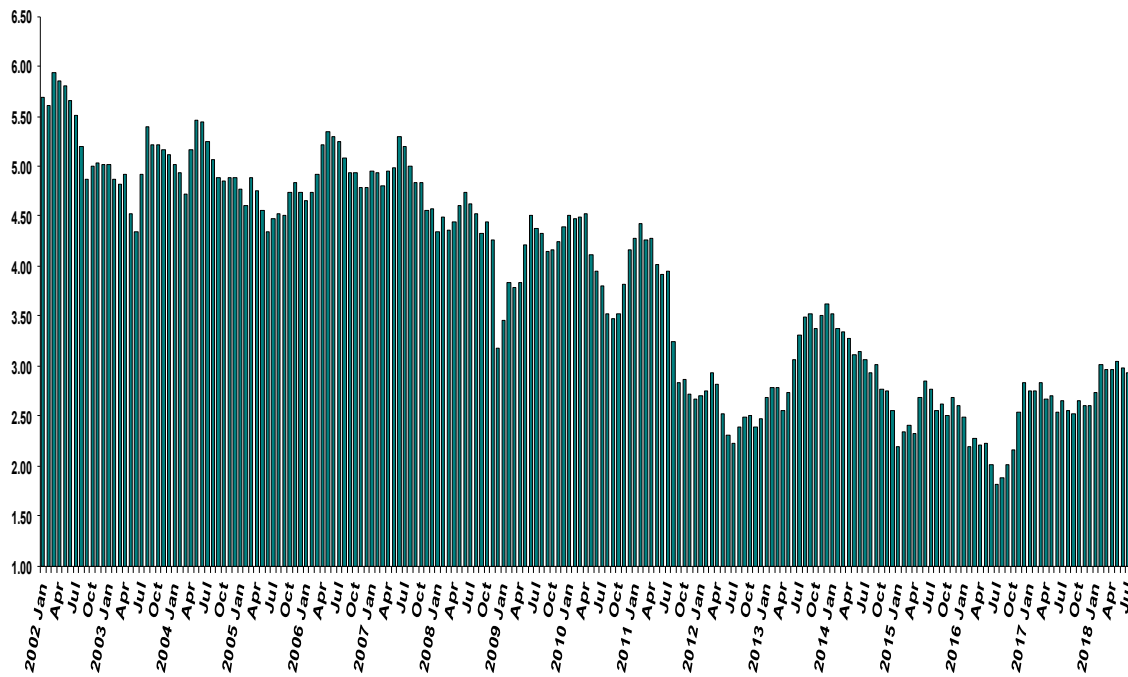
Structure

- The fed funds rate controls short-term interest rates—member banks' prime rate, most adjustable rates and interest-only loans, and credit card rates.
- The 2008 recession was instrumental in the rate reduction to 0.25 percent. The rate remained until December 2015.
- Currently 2.25%, following a 0.25% increase on September 26.
- The fed also signaled it would raise rates to 2.5% in December 2018, to 3.0% in 2019, and to 3.5% in 2020.

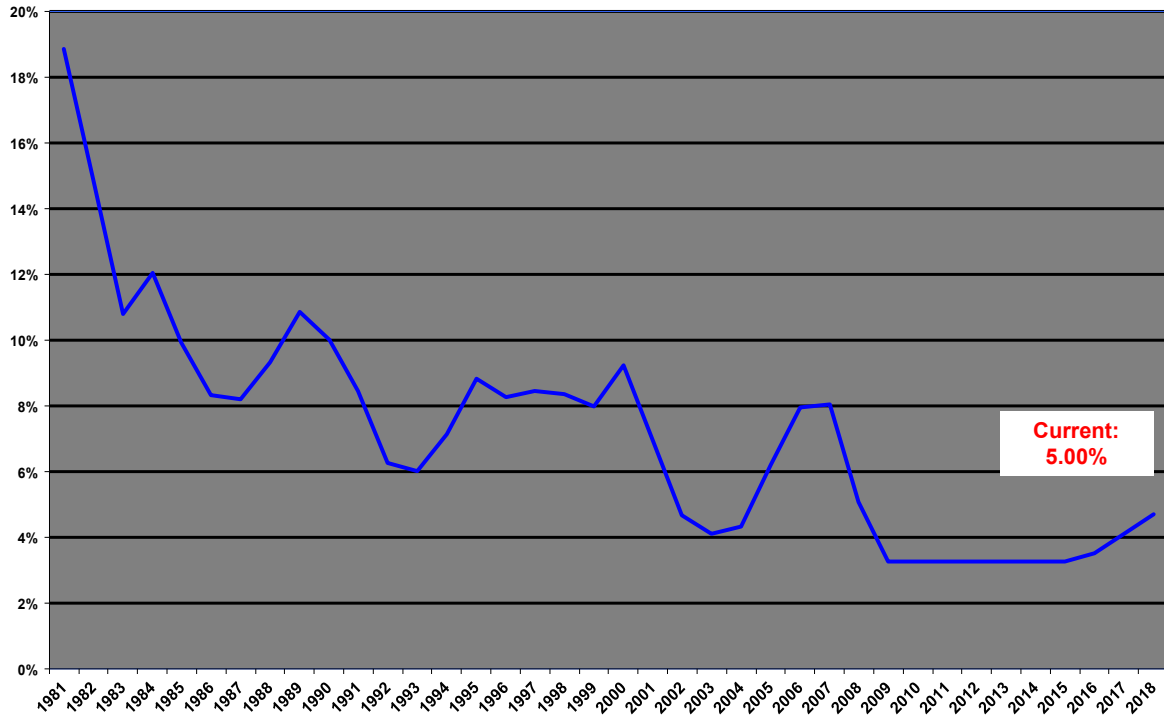


Long-Term Treasury Securities

(20 year, Treasury constant maturities)

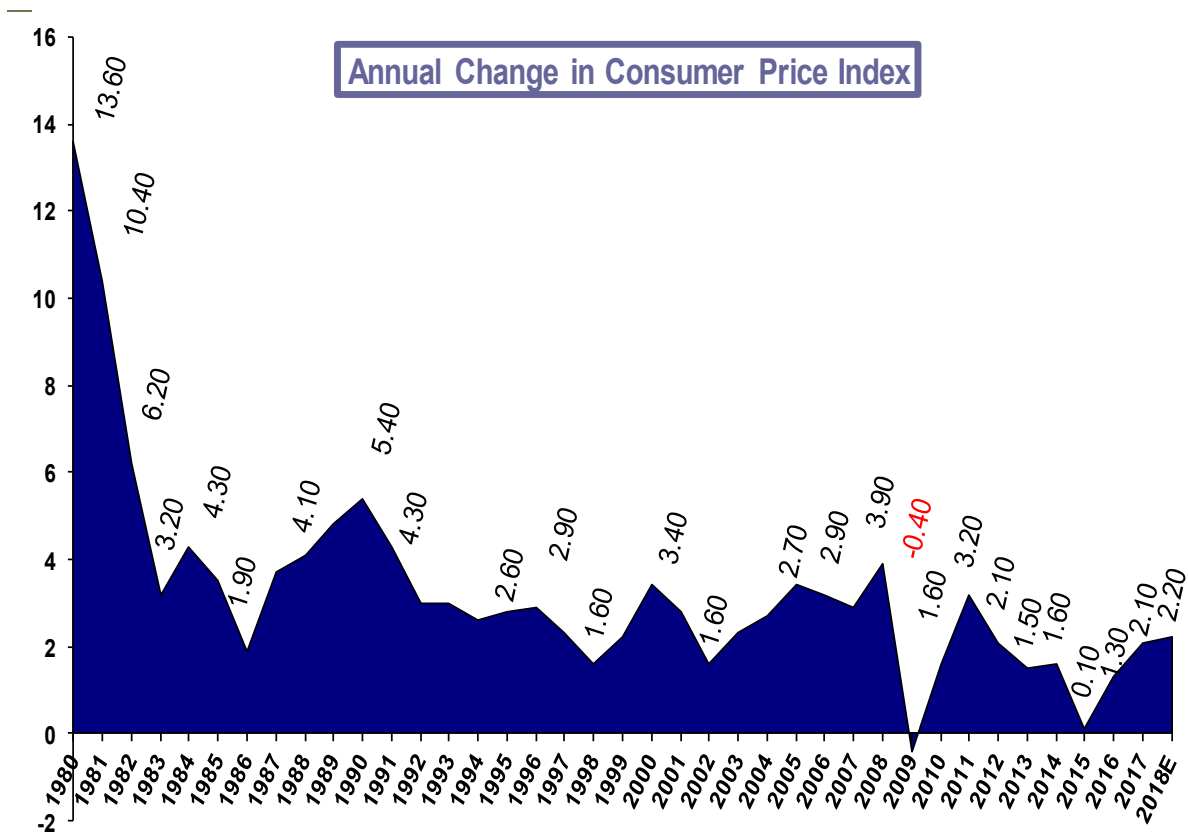


U.S. Prime Rate



Structure

- THE RATE IS CRITICAL IN DETERMINING U.S. ECONOMIC OUTLOOK PARTICULARLY ECONOMIC GROWTH.
- A key factor in their decision regarding the rate is INFLATION. Their stated goal is 2 percent—if inflation is determined to be increasing the federal funds rate will move higher.



Structure

- **Reserve Banks** are named after their location —Kansas City Reserve Bank which encompasses the states of Kansas, Nebraska, Colorado, Oklahoma and western Missouri.
- Reserve Banks are quasi-governmental or legally private but functionally public institutions. Owned by the commercial banks (own stock) in their region. This is to assure accountability and insulation from political pressure.

Functions of the 12 Reserve Banks:

1. Contribute to monetary policy discussion within FOMC.
2. Vote on the direction of monetary policy.
3. Each president brings their own unique views on views of the national economy as well as what is the situation in their respective regions.

Functions (continued)

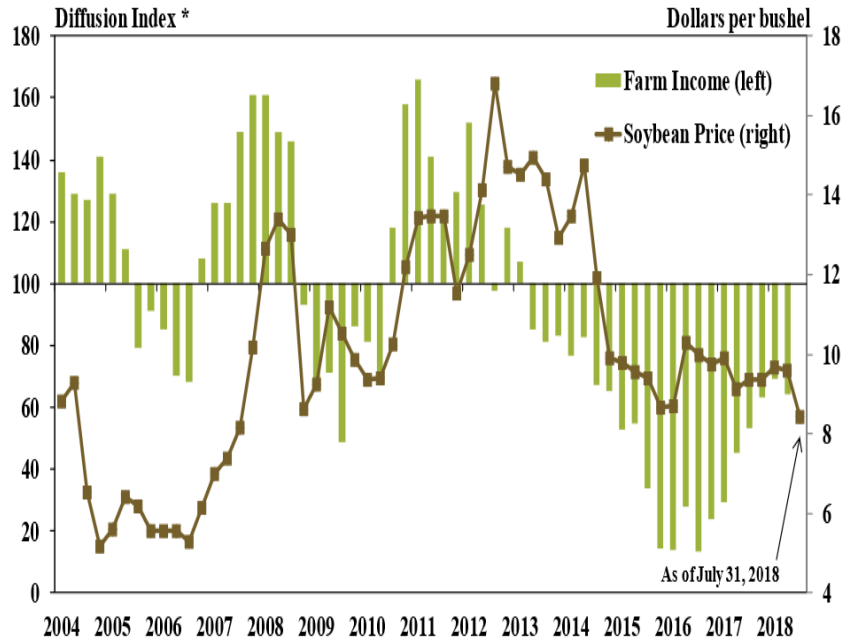
4. Each bank reaches out to gather economic information related to their region.
5. Each Reserve Bank has its own Board of Directors. These directors oversee the Bank's operation and bring considerable information on business and financial condition in their respective regions. The decisions by these directors are subject to the Board of Governor's review.

Factors Contributing to the FOMC Future Decisions

- ▶ The following graphs will provide insight into what elements are important to Reserve Banks and the data/information the member bank collects to aid in their decision-making process.
- ▶ Dr. Allison Felix, Chief Economist of the Denver Reserve Bank has prepared the economic report for this region. I (Norm Dalsted) would like to thank Allison for her willingness to share her research.



Chart 1: Tenth District Farm Income and Crop Prices



*Bankers responded to each item by indicating whether conditions during the current quarter were higher than, lower than or the same as in the year-earlier period. The index numbers are computed by subtracting the percentage of bankers who responded "lower" from the percentage who responded "higher" and adding 100.
 Sources: Wall Street Journal and Haver Analytics

Net Farm Income of Members of the Kansas Farm Management Association

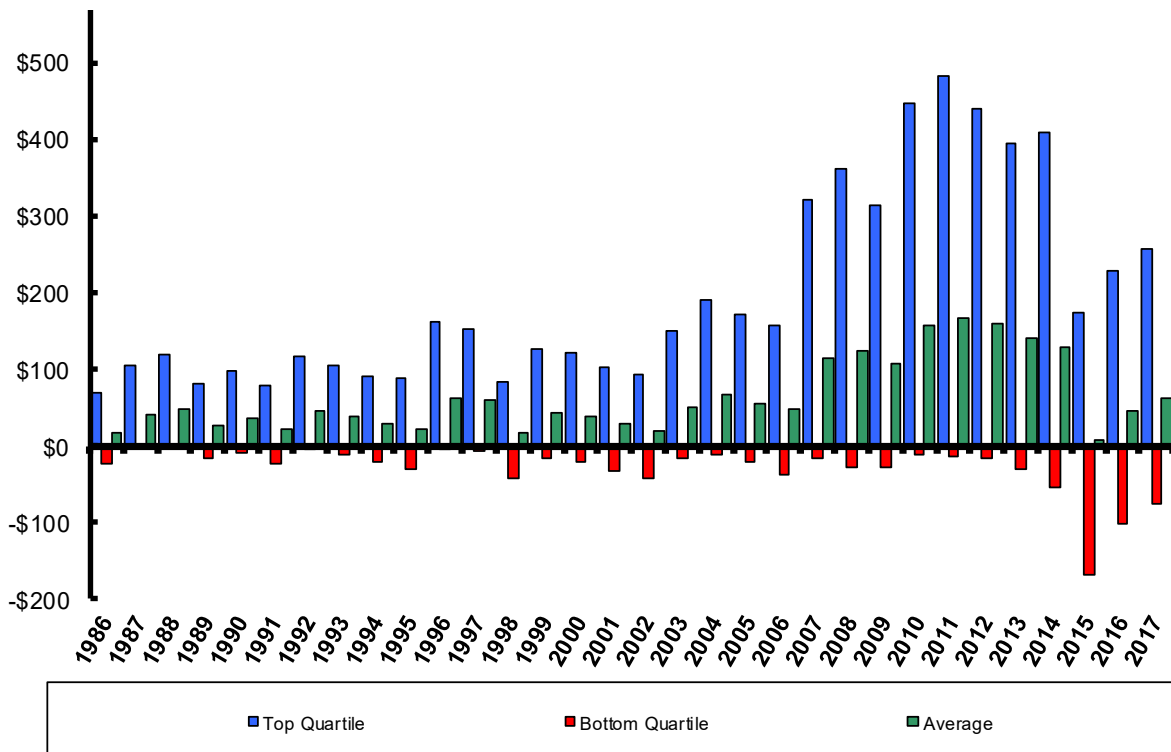
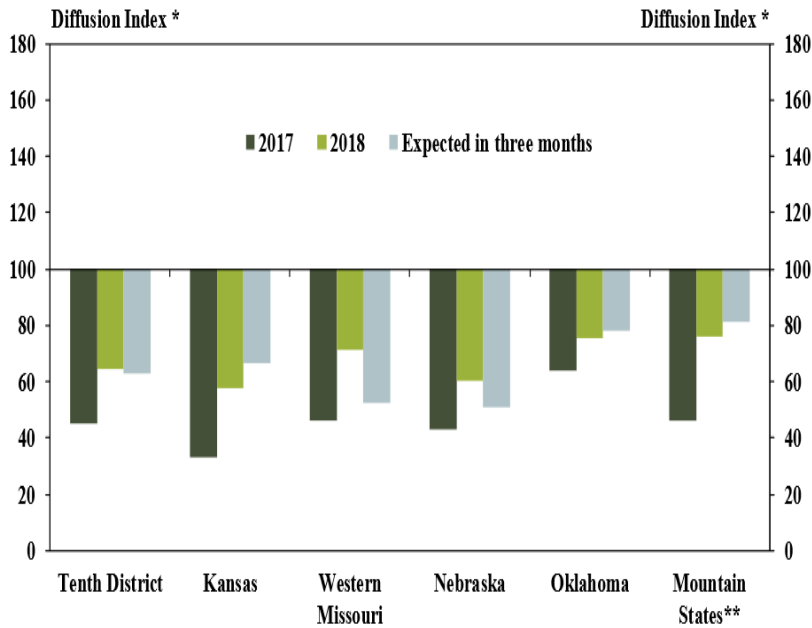
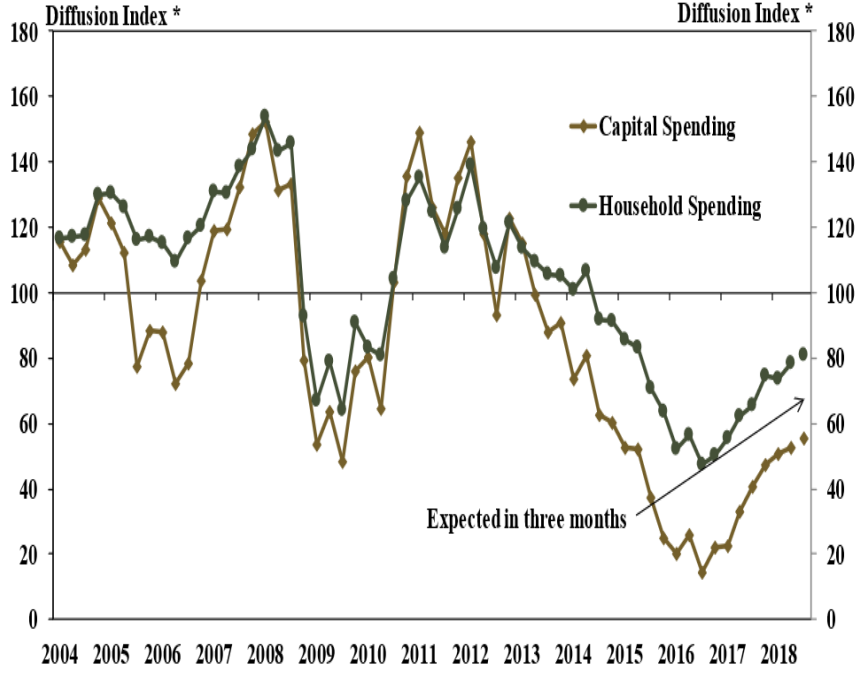


Chart 2: Farm Income and Farm Income Expectations, Second Quarter



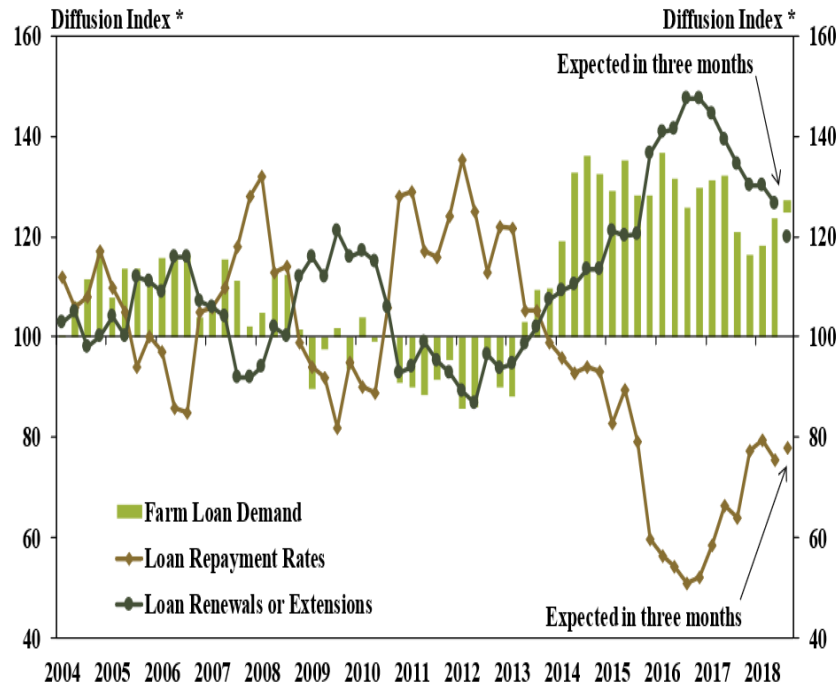
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 ** Mountain States include Colorado, northern New Mexico and Wyoming

Chart 3: Tenth District Farm Spending



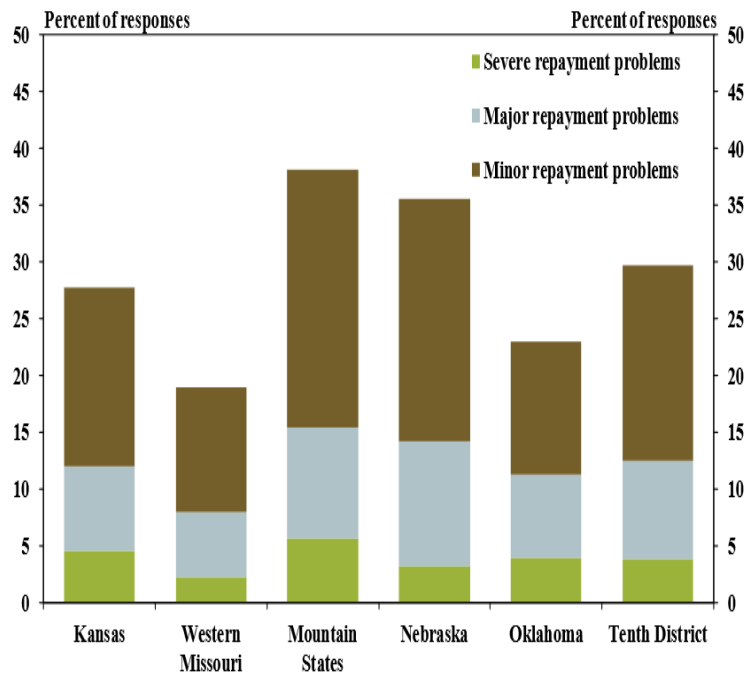
*Bankers responded to each item by indicating whether conditions during the current quarter were higher than, lower than or the same as in the year-earlier period. The index numbers are computed by subtracting the percentage of bankers who responded "lower" from the percentage who responded "higher" and adding 100.

Chart 5: Tenth District Credit Conditions



*Bankers responded to each item by indicating whether conditions during the current quarter were higher than, lower than or the same as in the year-earlier period. The index numbers are computed by subtracting the percentage of bankers who responded "lower" from the percentage who responded "higher" and adding 100.

Chart 6: Farm Loan Repayment Problems, Second Quarter 2018



*Bankers were asked to indicate what percent of their total farm loan portfolio falls within each descriptive category of repayment problems (severe, major, minor or no significant repayment problems). Results are reported as the average values within each category for all banks.

Chart 7: Percent of Farm Operating Loan Applications Denied, Second Quarter

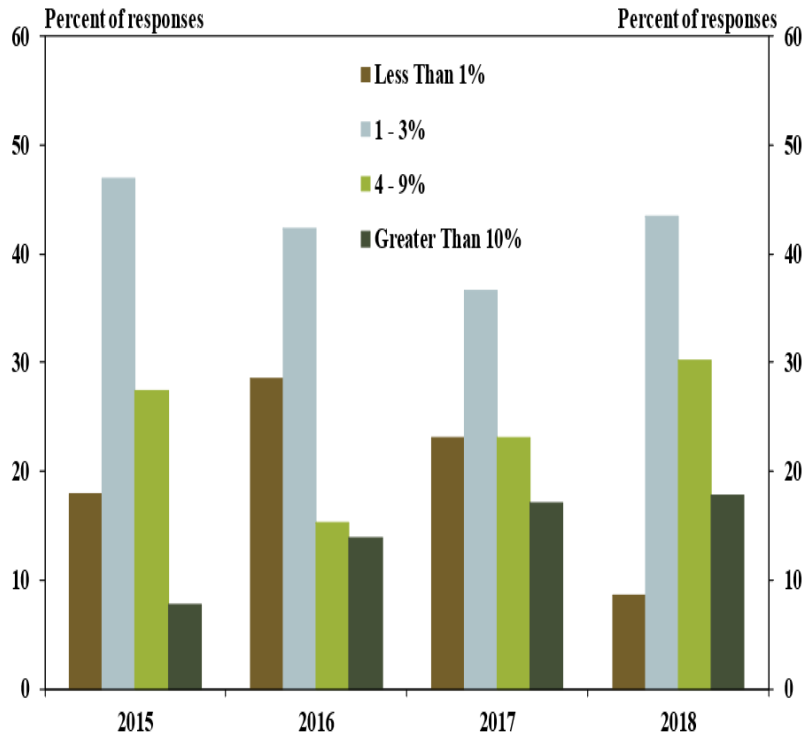
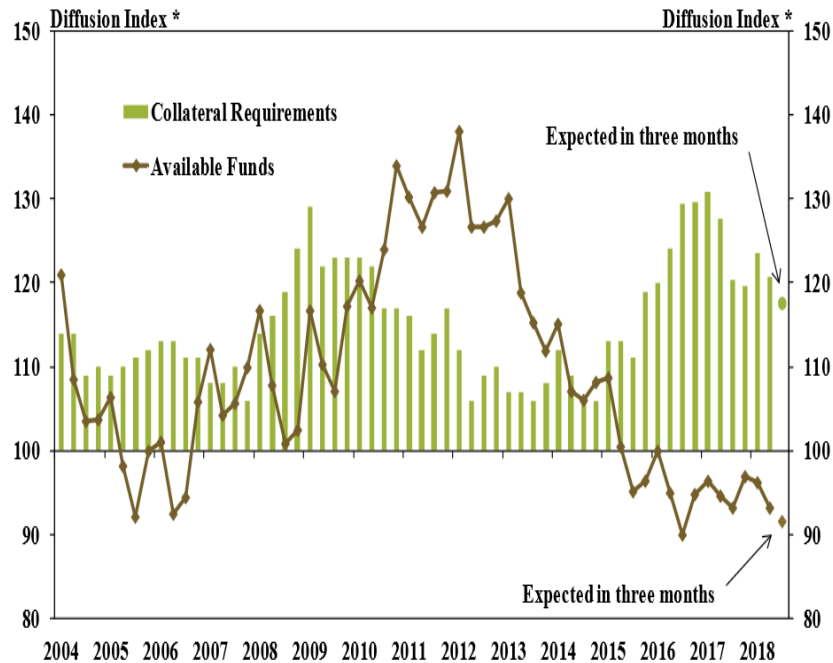


Chart 8: Tenth District Credit Conditions



*Bankers responded to each item by indicating whether conditions during the current quarter were higher than, lower than or the same as in the year-earlier period. The index numbers are computed by subtracting the percentage of bankers who responded "lower" from the percentage who responded "higher" and adding 100.

Chart 10: Tenth District Average Interest Rates, Second Quarter

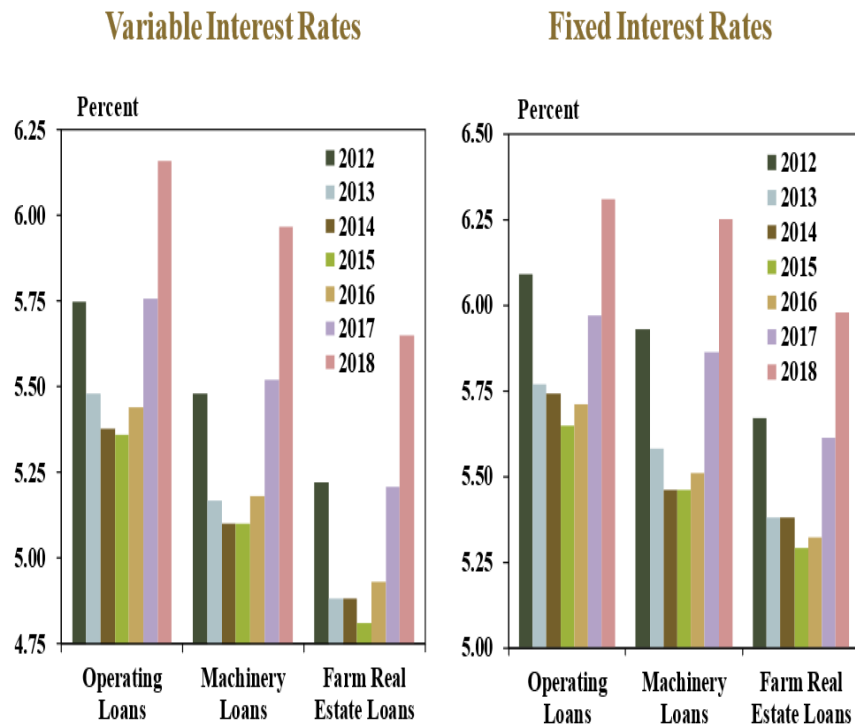
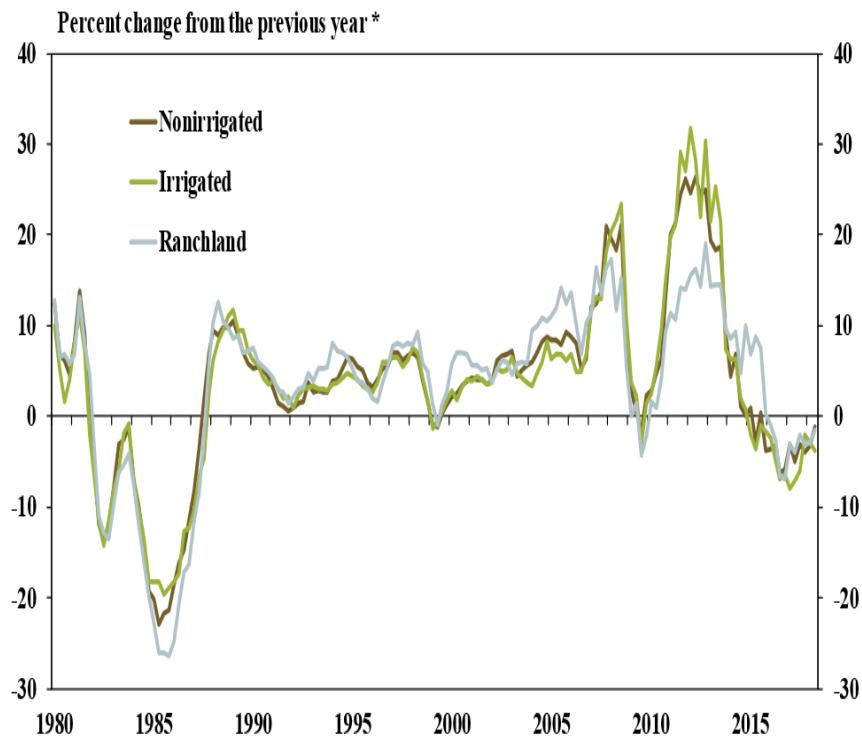


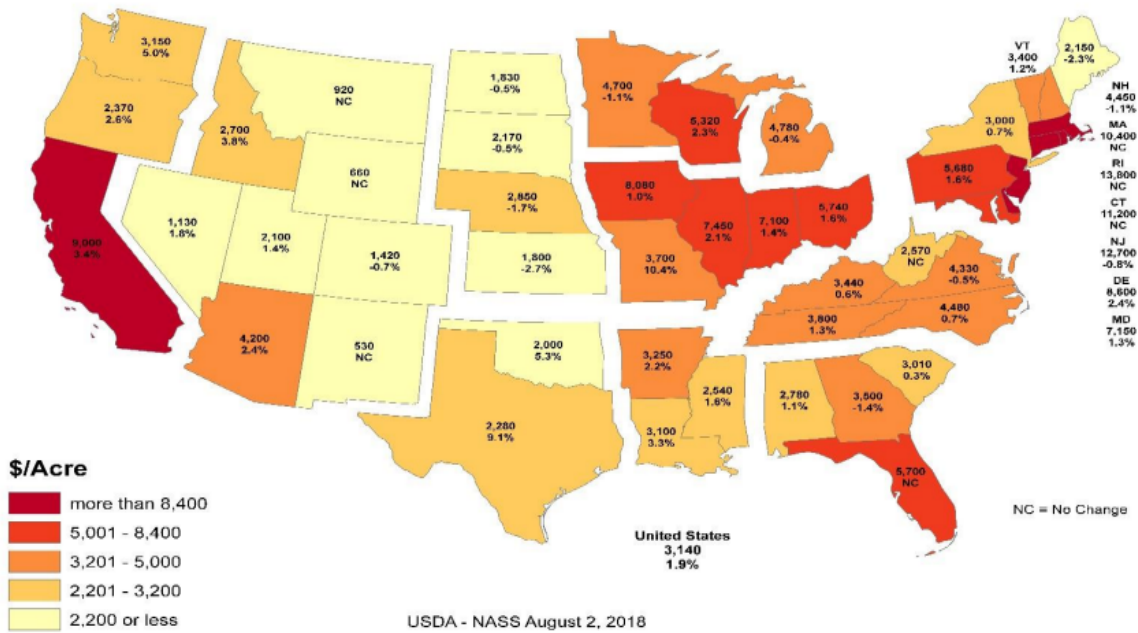
Chart 11: Tenth District Farmland Values



*Percent changes are calculated using responses only from those banks reporting in both the past and the current quarters.

2018 Farm Real Estate Value by State

Dollars per Acre and Percent Change from 2017



Land Values 2018 Summary (August 2018)
USDA, National Agricultural Statistics Service

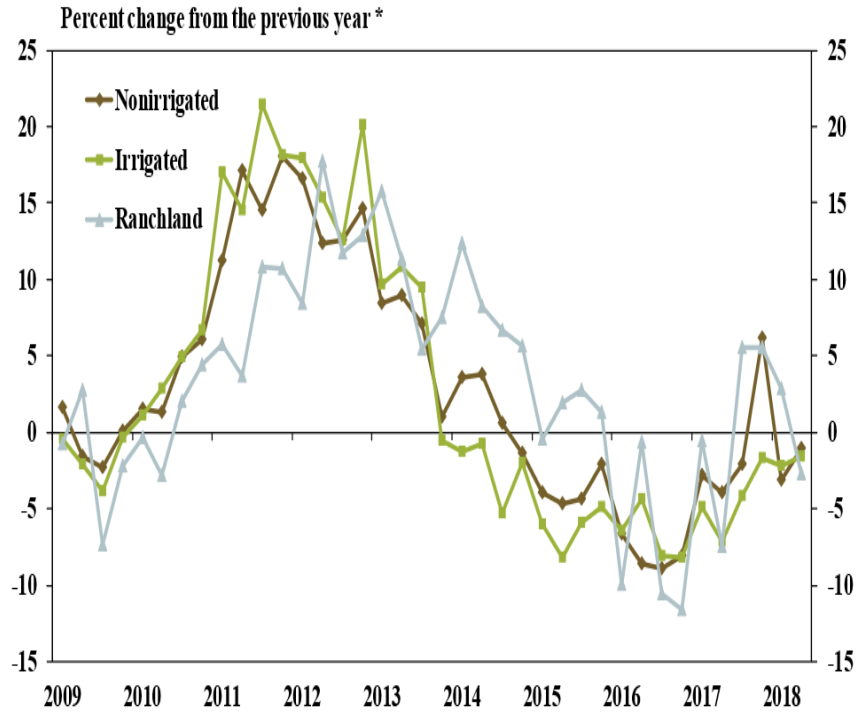
The screenshot shows the AgManager.info website interface. At the top, there is a navigation bar with the Kansas State University logo and 'Agricultural Economics' text. Below this is a secondary navigation menu with links for Home, About, Events, Contributors, Custom Rates, Farm Mgmt Guides, Tools, News, WASDE, Livestock Charts, KFMA, Programs, Sponsors, and KSFMPA. A search bar is located on the right side of this menu.

The main content area features a large banner image of a field with a fence, titled 'Land & Leasing'. Below the banner, there is a sub-navigation menu with options: Land & Leasing, Crop Insurance, Grain Marketing, Livestock & Meat, and Ag Policy. A search bar is also present here.

The page content includes a 'Land Buying & Valuing' section with a 'View' button and social media sharing icons. Below this, there is a 'Sections' list containing 'Land Buying and Valuing'. The page footer contains a 'Show all' button.

Mykel Taylor: Land Buying and Valuing page + Kansas Land Values April each year on AgManager.info + Webinar
<http://www.agmanager.info/land-leasing/land-buying-valuing>

Chart 12: Tenth District Cash Rents



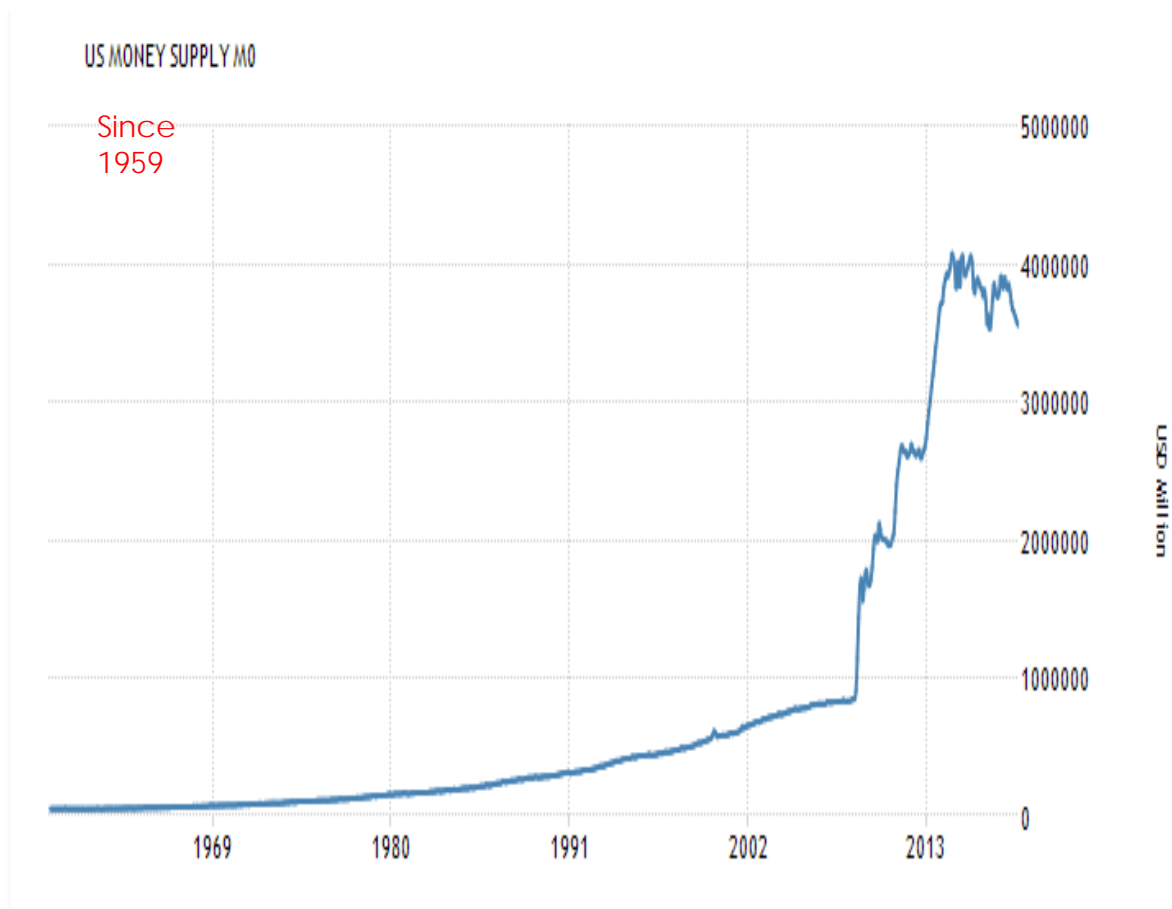
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The screenshot shows the AgManager.info website interface. At the top, there's a navigation bar with 'KANSAS STATE UNIVERSITY' and 'Agricultural Economics'. Below that is a search bar and a menu with categories like 'Land & Leasing', 'Crop Insurance', 'Grain Marketing', 'Livestock & Meat', and 'Ag Policy'. The main content area features a large image of a field with a fence and the heading 'Land & Leasing'. Below the image, there's a sub-heading 'Land Rental Rates' and a 'View' button.

Mykel Taylor: Land Rental Rates
February each year on AgManager.info
<http://www.agmanager.info/land-leasing/land-rental-rates>

Money Supply and Unwinding the Fed's Positions

- In response to the 2008 recession and following (e.g. quantitative easing), the Fed took extraordinary measures and drove interest rates very low and kept them there a long time.
- Now, some argue there are benefits to continuing this policy or at least going slow due to international issues, etc.
- Others suggest these policies may be promoting excessive risk-taking and that the economy is doing well and inflation is becoming an issue. This latter group has more influence right now.
- In addition, the Fed needs to unwind the assets on its balance sheet, but CAREFULLY. So far, it is going very slowly.



US MONEY SUPPLY M0

Since
2008

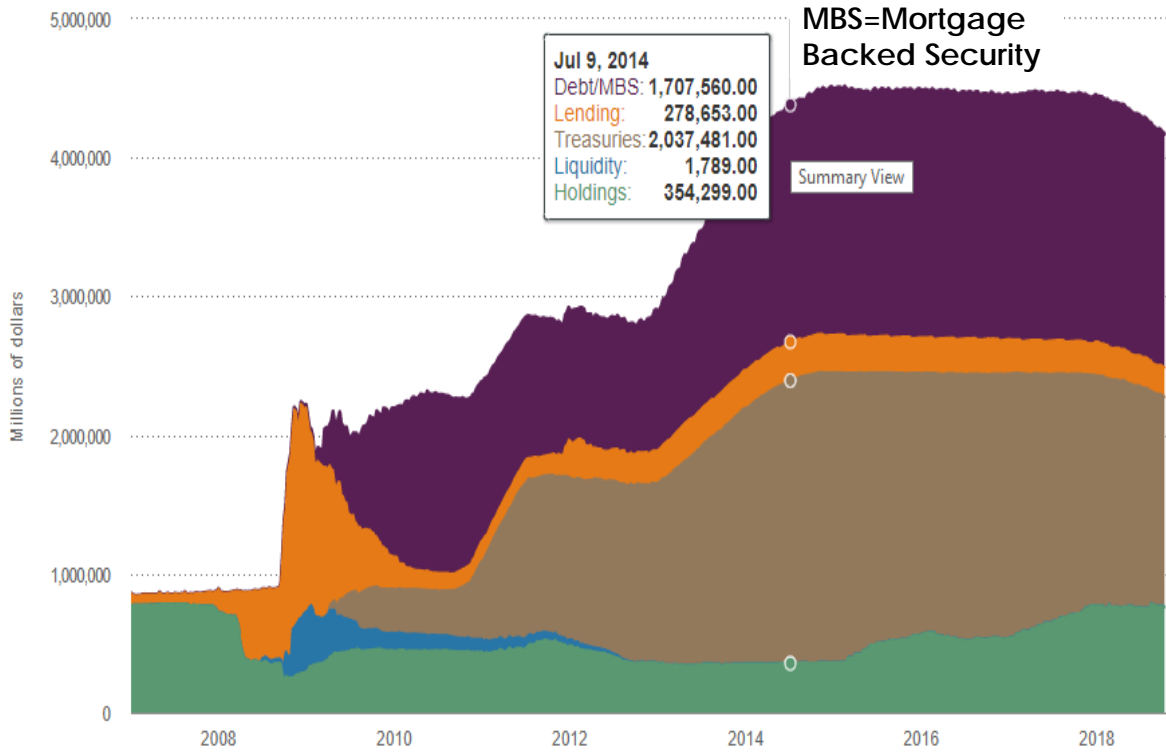


US MONEY SUPPLY M0

Since
2017

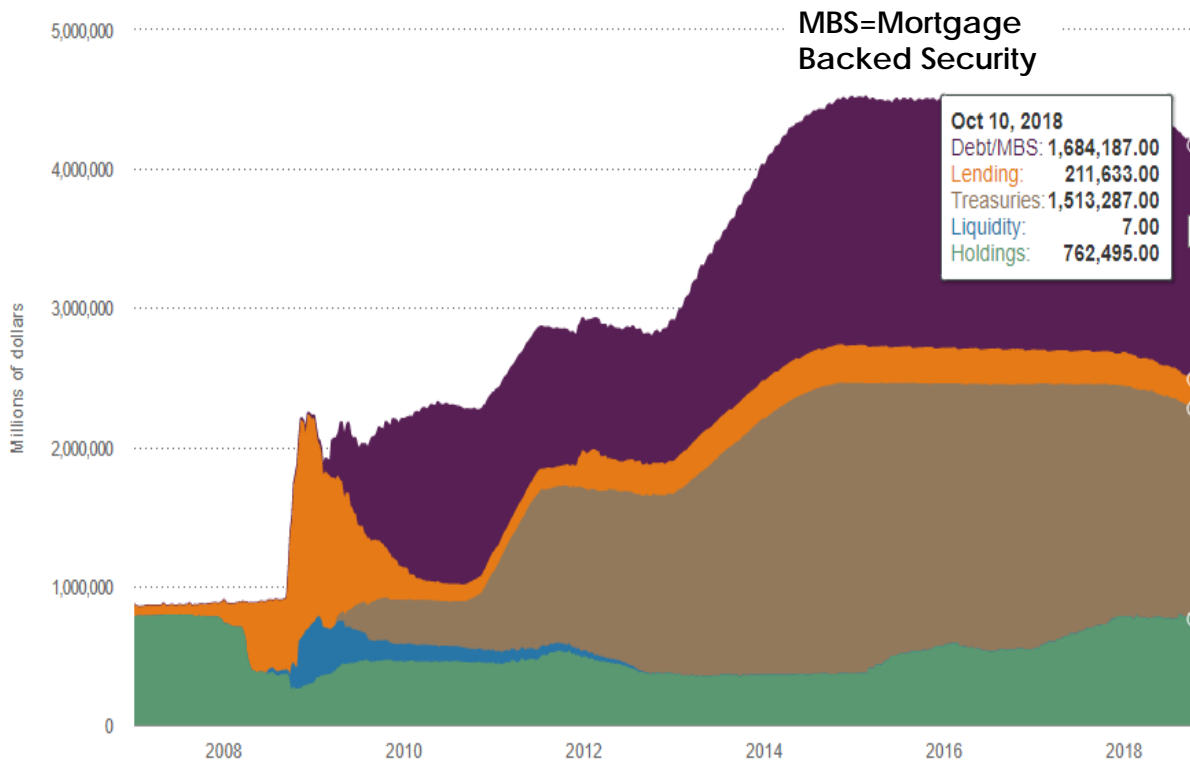


- Federal Agency Debt and Mortgage-Backed Securities Purchases
- Long Term Treasury Purchases
- Traditional Security Holdings
- Lending To Financial Institutions
- Providing Liquidity To Key Credit Markets



Source: Federal Reserve Board, Haver Analytics.

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Source: Federal Reserve Board, Haver Analytics.

Summary and Final Thoughts

- ▶ Ag sector is struggling, but not everyone in ag is struggling.
 - ▶ Land values declining some (lower net farm income and spending) – affects balance sheets and collateral
 - ▶ Loan demand up, available funds more limited, collateral requirements higher
 - ▶ Higher interest rates – more interest paid, cash flow issues
 - ▶ May be some opportunities for those who aren't over-leveraged or have cash

Summary and Final Thoughts

- ▶ Expect continuing increase in interest rates in 2019. This has big effects in agriculture.
 - ▶ Watch how the Fed unwinds its balance sheet, particularly the mortgage-backed securities (MBS) that it owns. If too quickly, could have negative repercussions on the economy.
 - ▶ Target inflation has been 2%. Will this change (increase)?
 - ▶ How do politics affect the Fed's actions (President Trump's criticism of the Fed may actually have the opposite effect of what he's wanting).



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