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Impact of Interest Rates on the Local Economy

October 23, 2015

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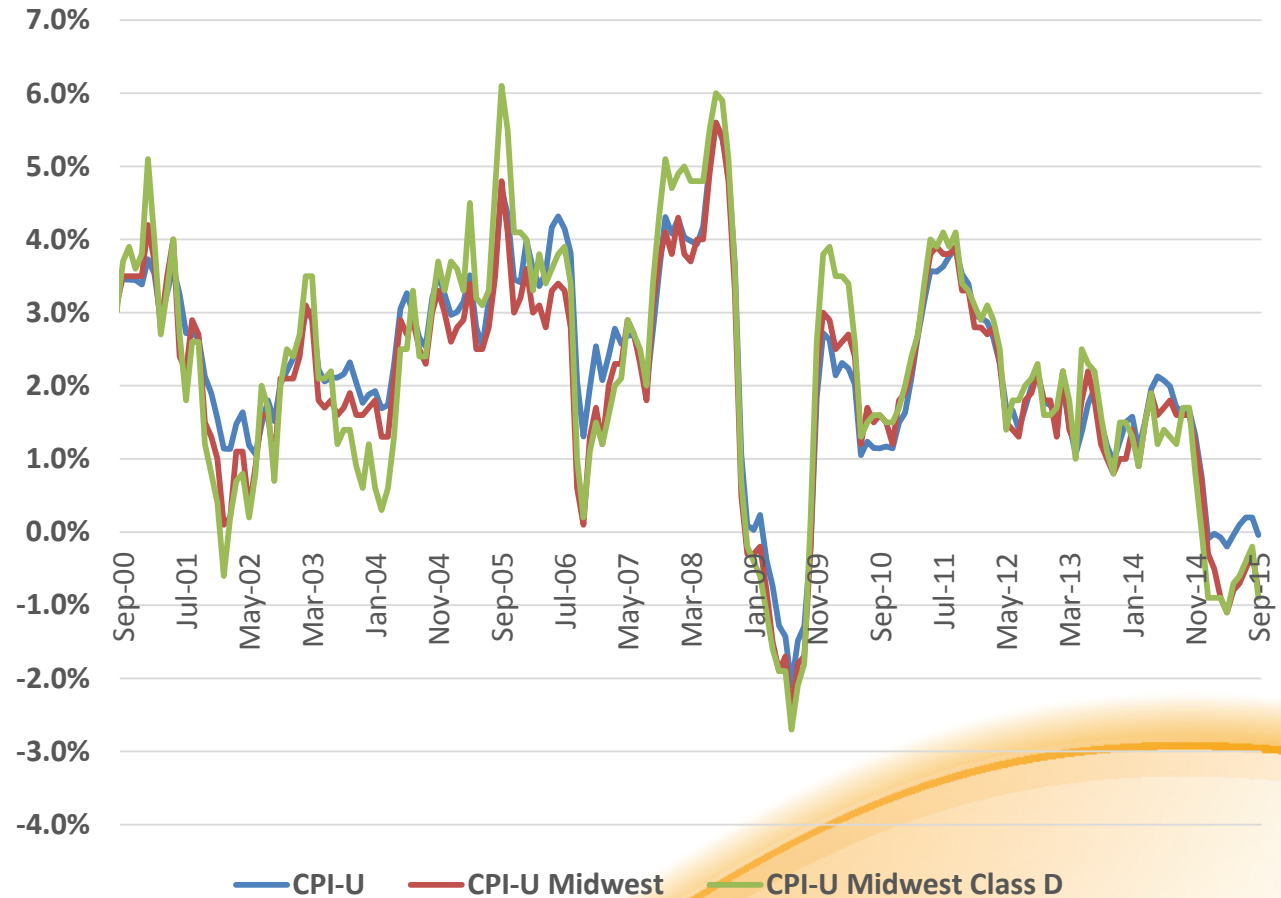
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The Impact of Interest Rates on the Local Economy

- Should the Federal Reserve start targeting a higher federal funds rate?
 - Two important goals of the Fed:
 - Price stability – Keep inflation in check
 - High employment – Promote employment growth

Price Stability - Inflation by Area

- 2014 averaged 1.62% while 2015 could end the year near 0%.
- Midwest area slightly less than national rate for 2015.
- Class D areas are a little more sporadic but following same trends as national rate. Could finish the year negative.
- Kansas rates following same trend as regional data.

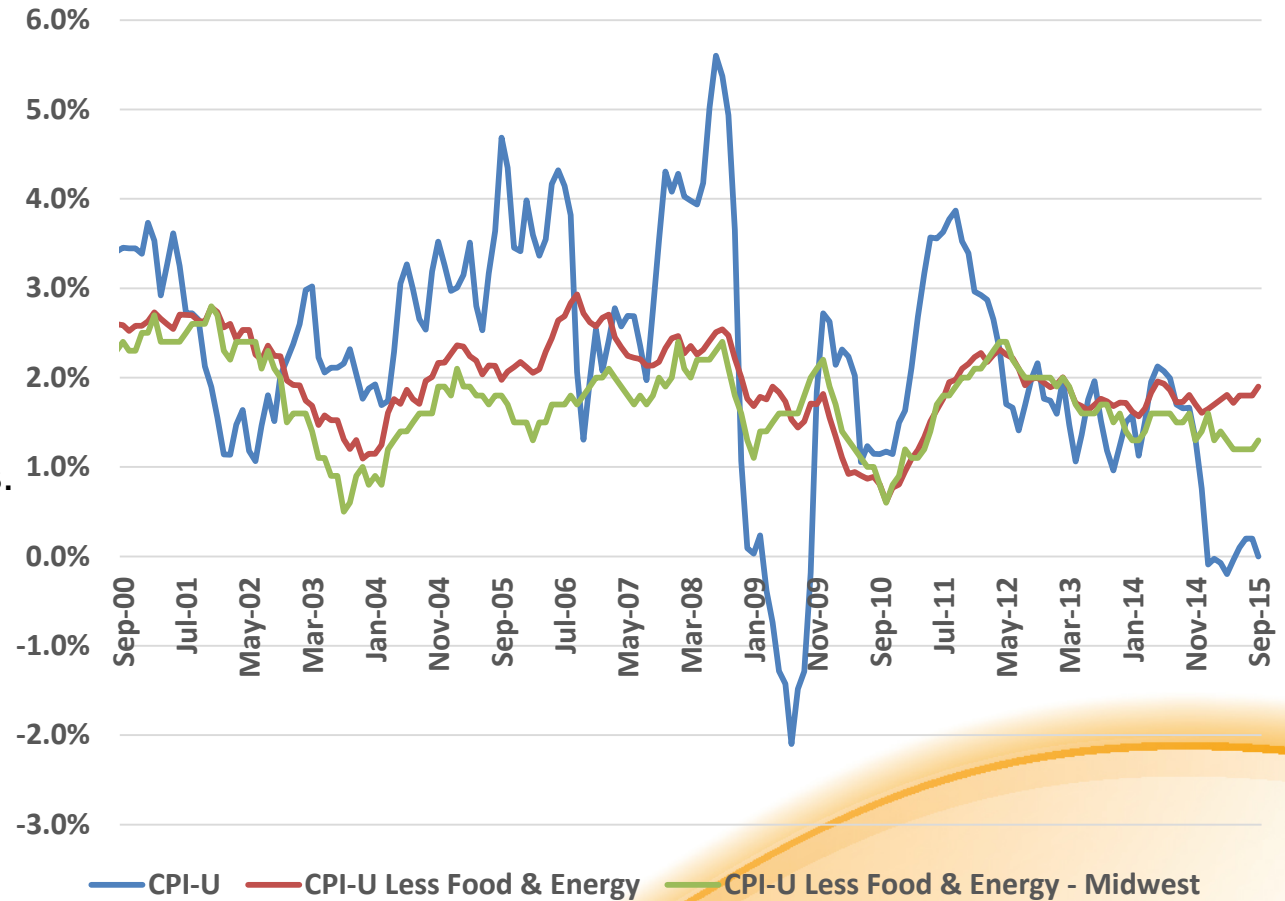


CPI-U Midwest Includes: ND, SD, NE, KS, MO, IA, MN, WI, IL, IN, MI, OH

CPI-U Midwest Class D: Population centers less than 50,000

Price Stability - Inflation – Less Food and Energy

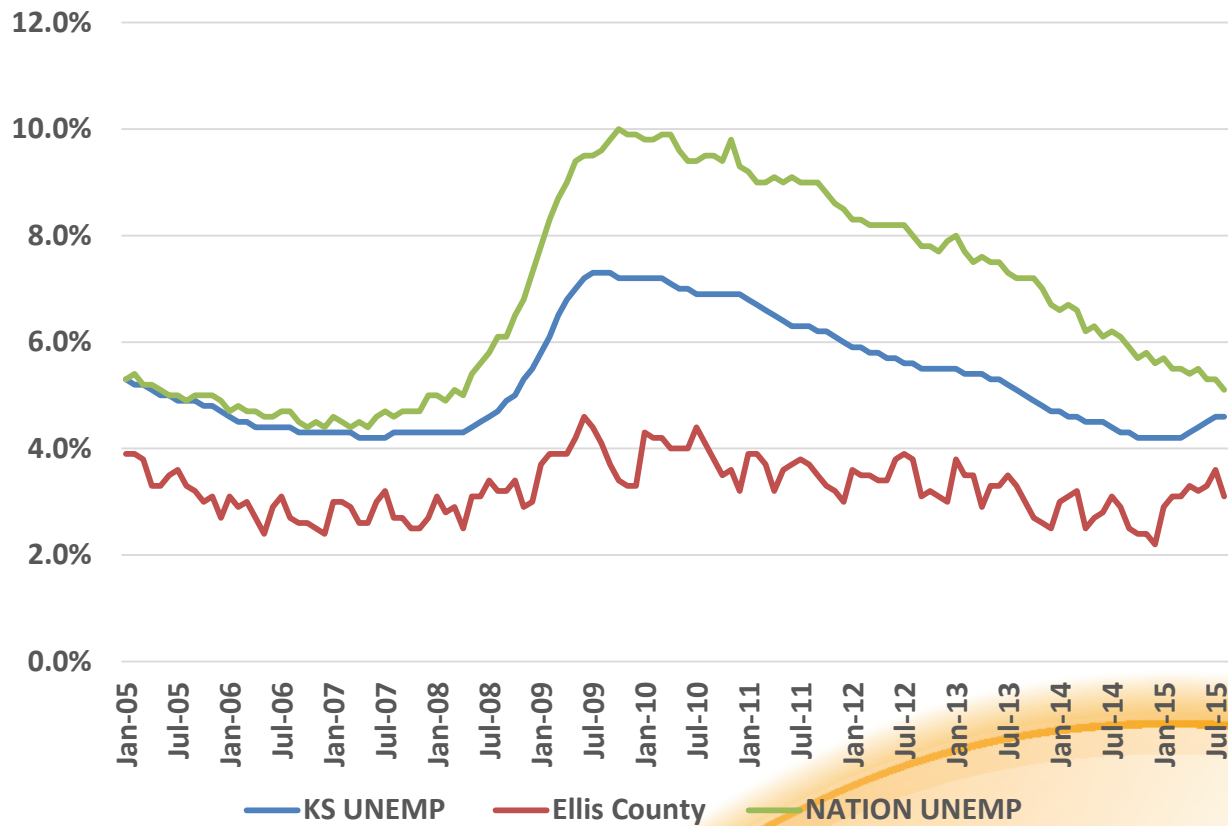
- Core inflation (less food and energy) was more stable in 2014 finishing at 1.7%.
- YTD core inflation averaging 1.8% for 2015.
- Kansas levels following same trends.



Employment Growth - U.S. and State

Unemployment Levels

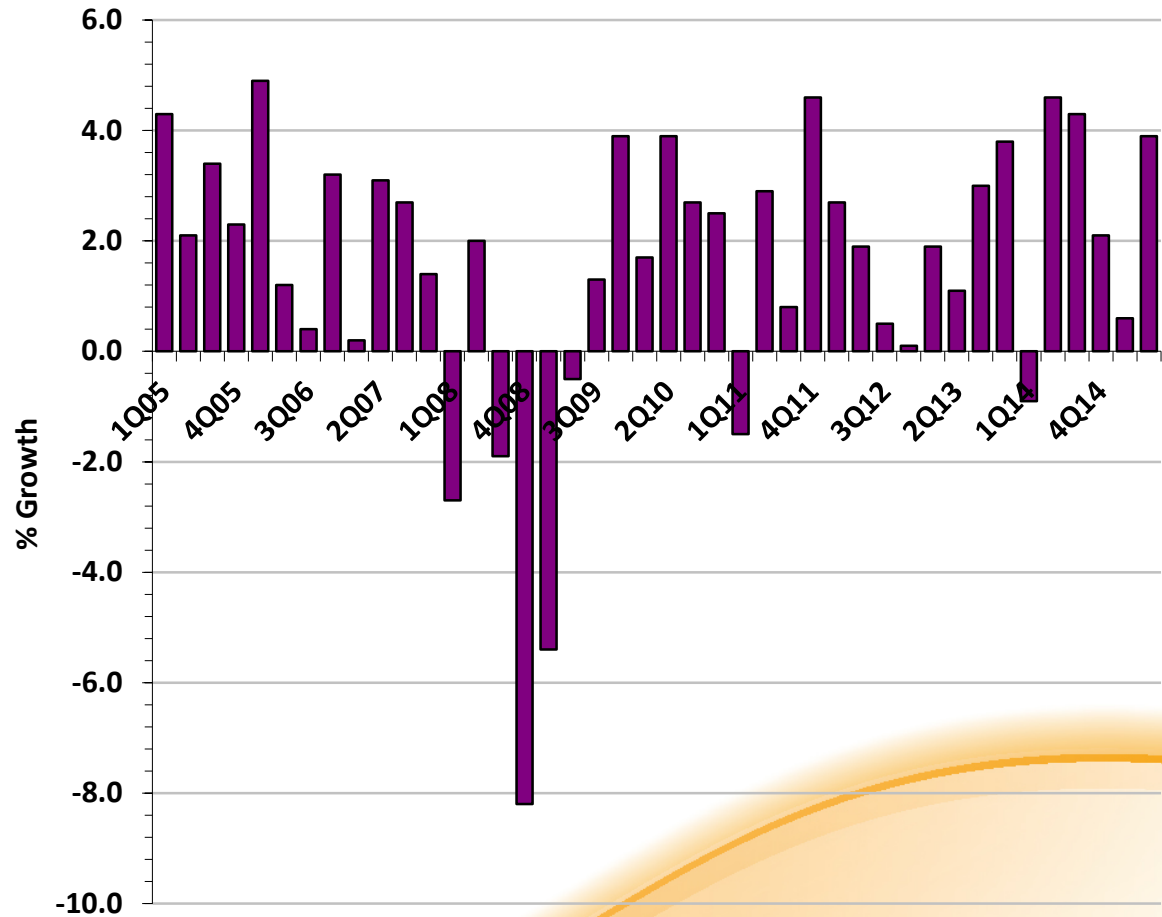
- BLS Household Survey & Local Area Unemployment Statistics (LAUS).
- National unemployment not back to pre-recession levels.
- Kansas levels up slightly first half of 2015.



National and state seasonally adjusted
Ellis county not seasonally adjusted

U.S. GDP Growth Comparison

- Finished 2014 with 2.4% growth.
- Third estimate by the BEA indicates 2nd Qtr. 2015 real GDP increased by an annual rate of 3.9%.



The Impact of Interest Rates on the Local Economy

- Should the Federal Reserve start targeting a higher federal funds rate?
 - Price stability –We are having no problem with inflation, which is a sign that our recovery since the recession is not robust.
 - High employment – Unemployment numbers are down but not to pre-recession levels.
 - Countries outside of the U.S. are not having spectacular growth.
- Pressure from many people to start raising interest rate
 - A sign of confidence in our economy.
 - Without a raise the Fed could not rely on targeting a lower rate when it is already at historical lows. Current Fed Fund Rate (FFR) is within “a range of 0% to .25%”.

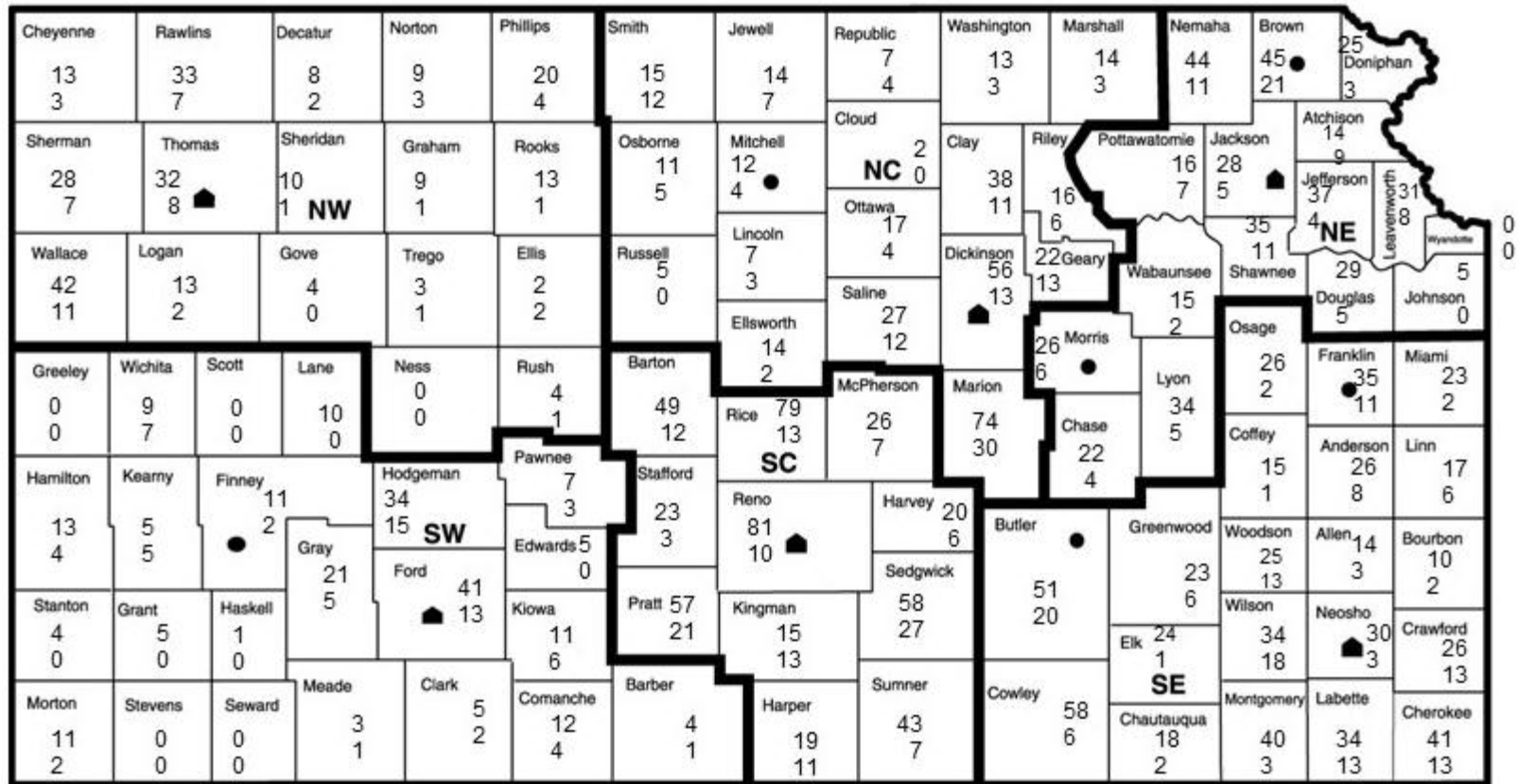
The Impact of Interest Rates on the Local Economy

- What will happen if the Federal Reserve does target a higher federal funds rate?
 - A increase in the Fed Funds Rate will lure people from around the world to invest in the dollar. This will likely increase the value of the dollar, which has a negative impact on exports.
 - In our area this impacts everything we export, including agricultural products.

Kansas Farm Management Association Enterprise Summaries

- The Enterprise Summaries
 - Empirical data from Kansas Farm Management Association (KFMA) member farms.
 - Provide producer records of the allocation of returns, cost of production, and physical production information.
 - Unpaid family and operator labor is allocated using labor standards as a guide.
 - Each enterprise summary represents the average of all completed enterprise records.

Kansas Farm Management Association Enterprise Summaries



ASSOCIATION HEADQUARTERS
 SATELLITE OFFICE

Annual Profit Summary

Non Irrigated All Tillage Wheat - Kansas

Kansas	2010	2011	2012	2013	2014
Number of farms	230	346	244	260	230
Yield/Acre	45	40	48	42	32
\$/Bush	\$5.04	\$6.95	\$7.52	\$6.87	\$6.08

- Gross income includes subsidies and crop insurance payments.



Annual Profit Summary

Non Irrigated No-Till Wheat – Northwest Kansas

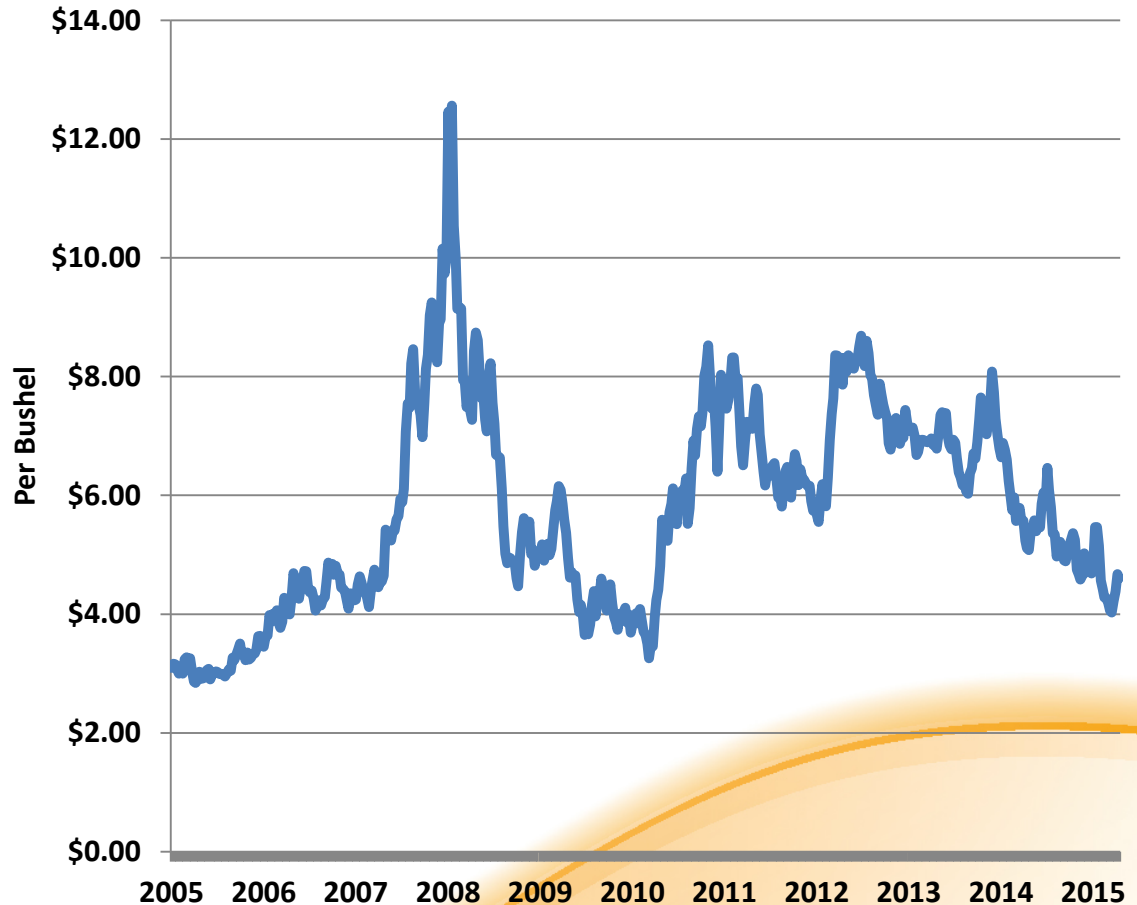
Kansas	2010	2011	2012	2013	2014
Number of farms	63	69	18	43	40
Yield/Acre	56	37	44.59	22.37	31.62
\$/Bush	\$5.38	\$6.66	\$7.87	\$6.78	\$5.97

- Gross income includes subsidies and crop insurance payments.
- Prices currently around \$4.25 bushel.



Average Cash Wheat Price – Northwest Kansas

- Prices have been trending lower since 2012.
- Prices currently around \$4.25 bushel, which is equivalent to 2010 levels.

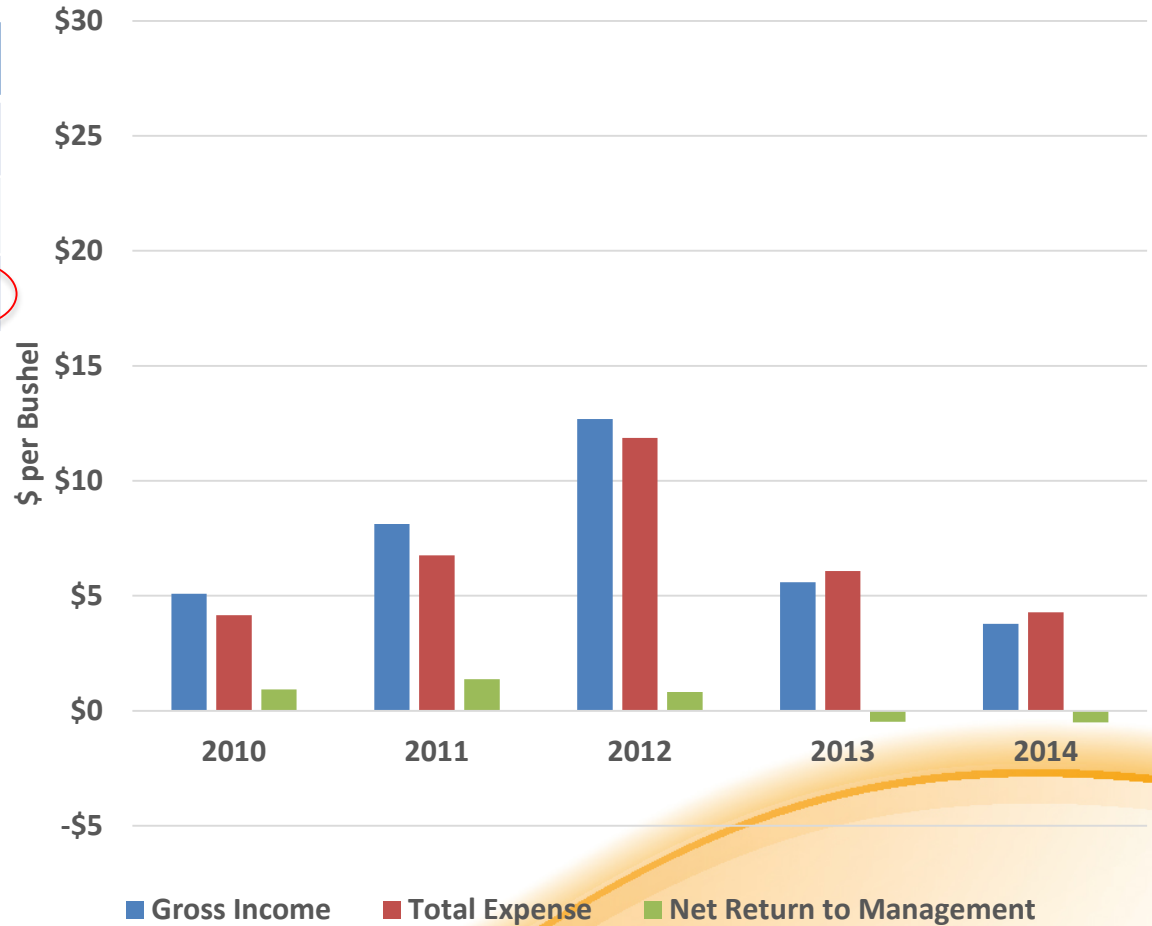


Annual Profit Summary

Non Irrigated All Tillage Corn - Kansas

Kansas	2010	2011	2012	2013	2014
Number of farms	151	271	178	168	127
Yield/Acre	112	67	45.11	81.07	123.75
\$/Bush	\$4.87	\$6.20	\$7.19	\$4.39	\$3.60

- Gross income includes subsidies and crop insurance payments.

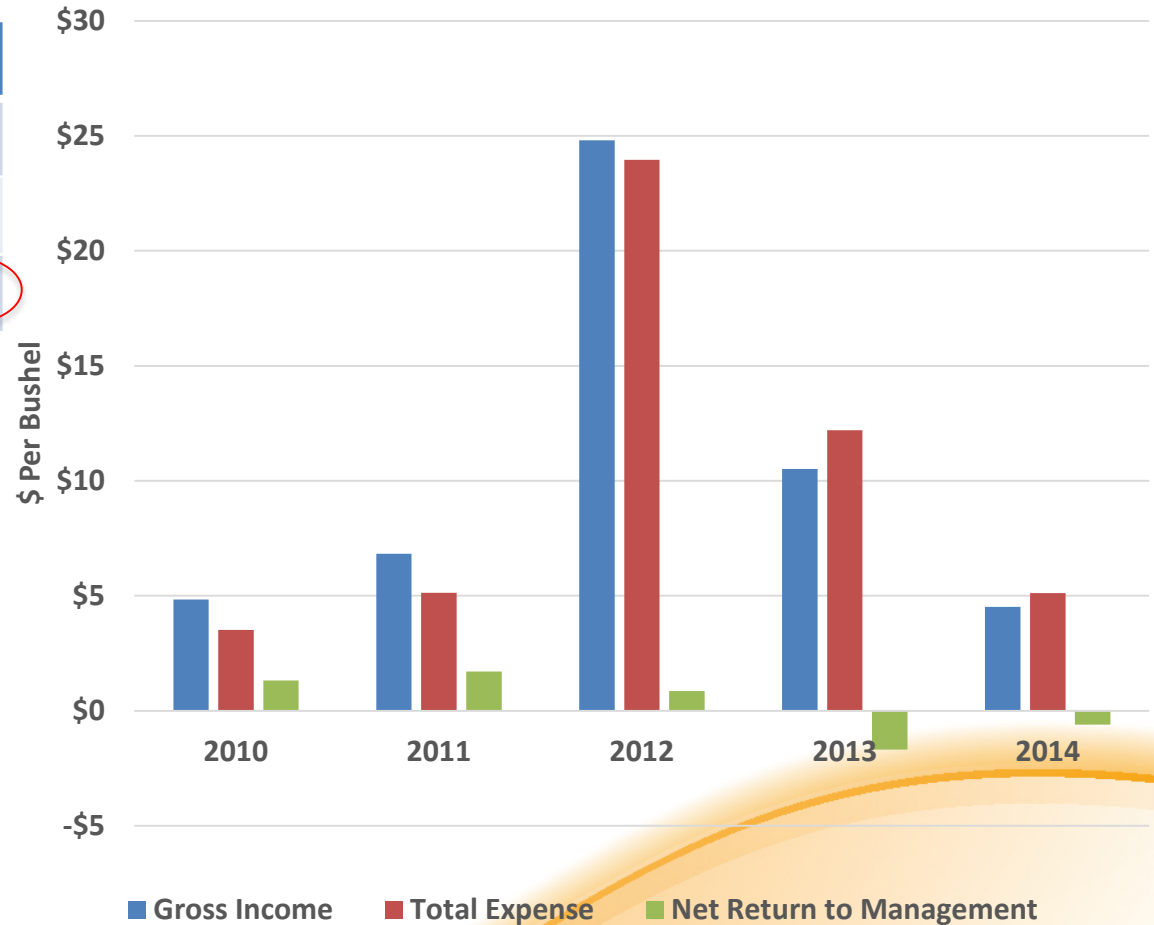


Annual Profit Summary

Non Irrigated No-Till Corn – Northwest Kansas

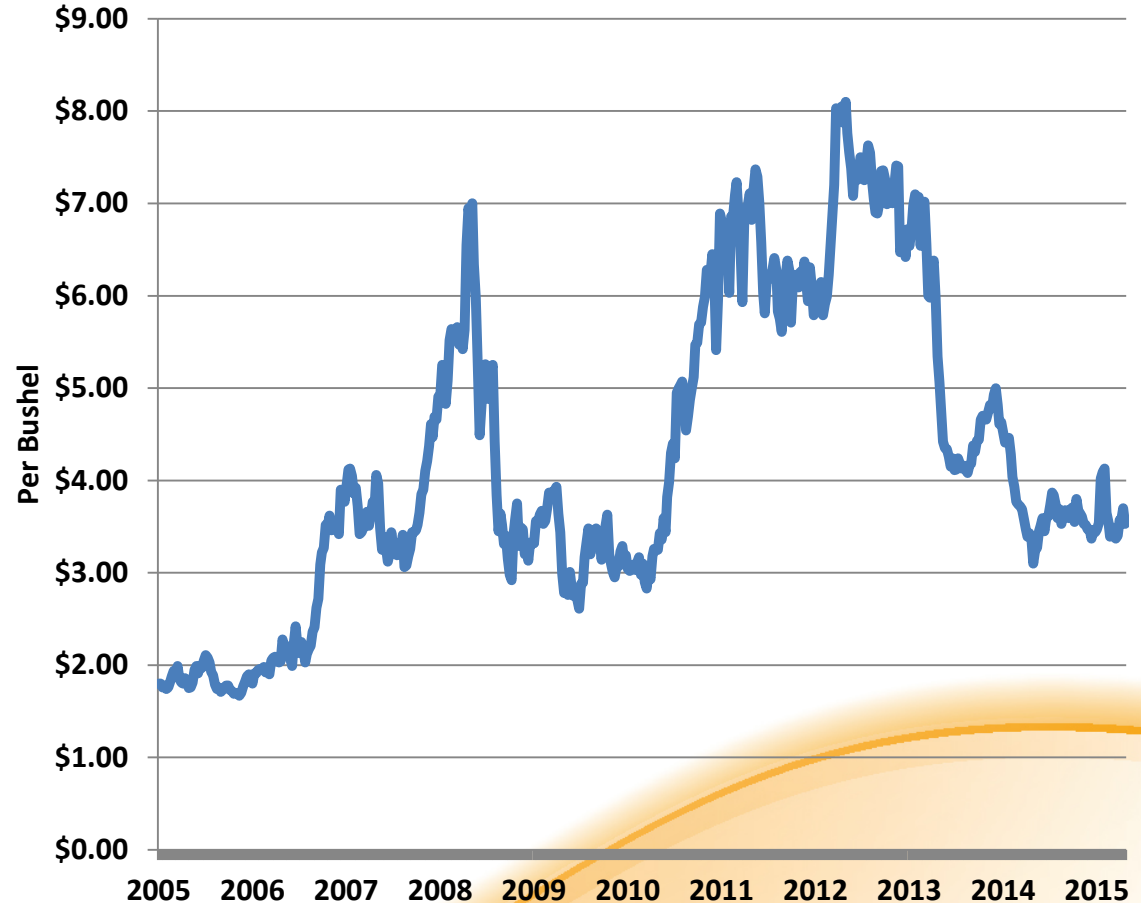
Kansas	2010	2011	2012	2013	2014
Number of farms	95	92	33	34	29
Yield/Acre	94	76	15.7	30.16	71.42
\$/Bush	\$4.74	\$6.18	\$7.05	\$4.88	\$3.93

- Gross income includes subsidies and crop insurance payments.
- Prices currently around \$3.56 bushel.



Average Cash Corn Price – Northwest Kansas

- Prices trending lower through 2014.
- Prices currently around \$3.56 bushel, which is equivalent to 2010 levels.



Annual Profit Summary

Non Irrigated All Tillage Grain Sorghum - Kansas

Kansas	2010	2011	2012	2013	2014
Number of farms	97	191	141	149	134
Yield/Acre	79	68	38.56	66.48	78.97
\$/Bush	\$4.60	\$5.95	\$6.67	\$4.22	\$3.94

- Gross income includes subsidies and crop insurance payments.

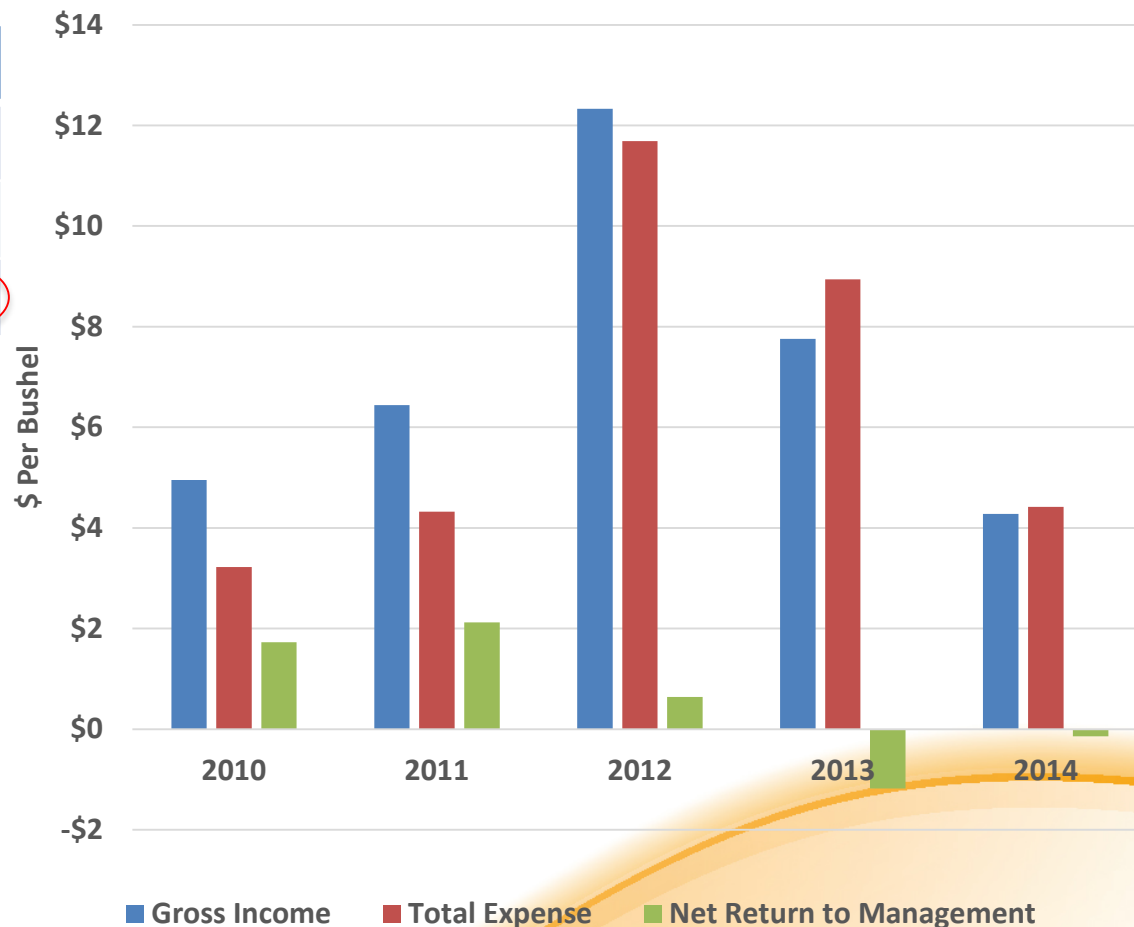


Annual Profit Summary

Non Irrigated No-Till Grain Sorghum – Northwest Kansas

Kansas	2010	2011	2012	2013	2014
Number of farms	60	72	34	37	36
Yield/Acre	89	77	27.96	34.75	72.22
\$/Bush	\$4.74	\$5.95	\$6.73	\$4.31	\$3.97

- Gross income includes subsidies and crop insurance payments.
- Northwest Kansas able to keep yield/acre close to overall Kansas average for 2014.
- Prices currently around \$3.30 bushel.



Average Cash Grain Sorghum Price – Northwest Kansas

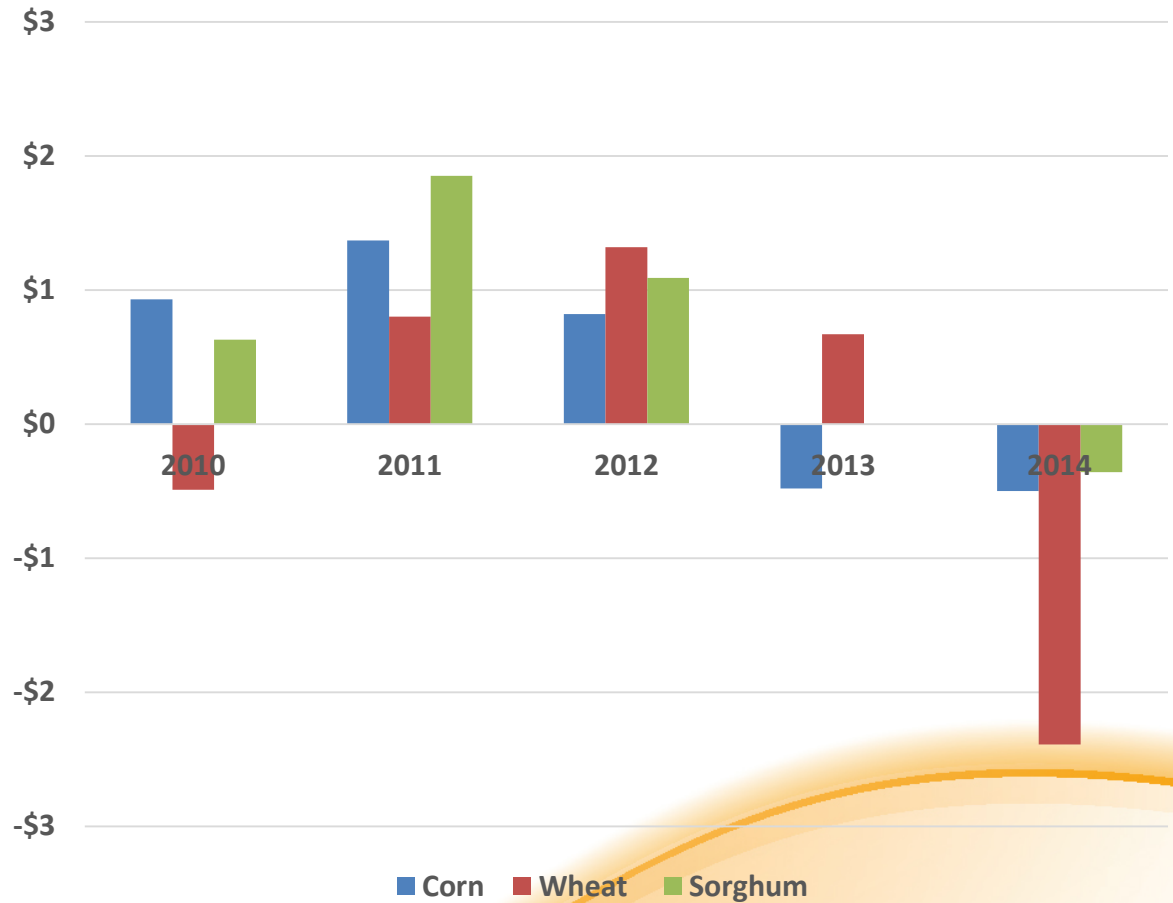
- Prices trending lower through 2014, then turned up in 2015.
- Prices have dropped back off since beginning of the year.
- Prices are currently around \$3.30 bushel, which is equivalent to 2014 and 2010.



Net Return to Management

Non Irrigated All Tillage – Kansas

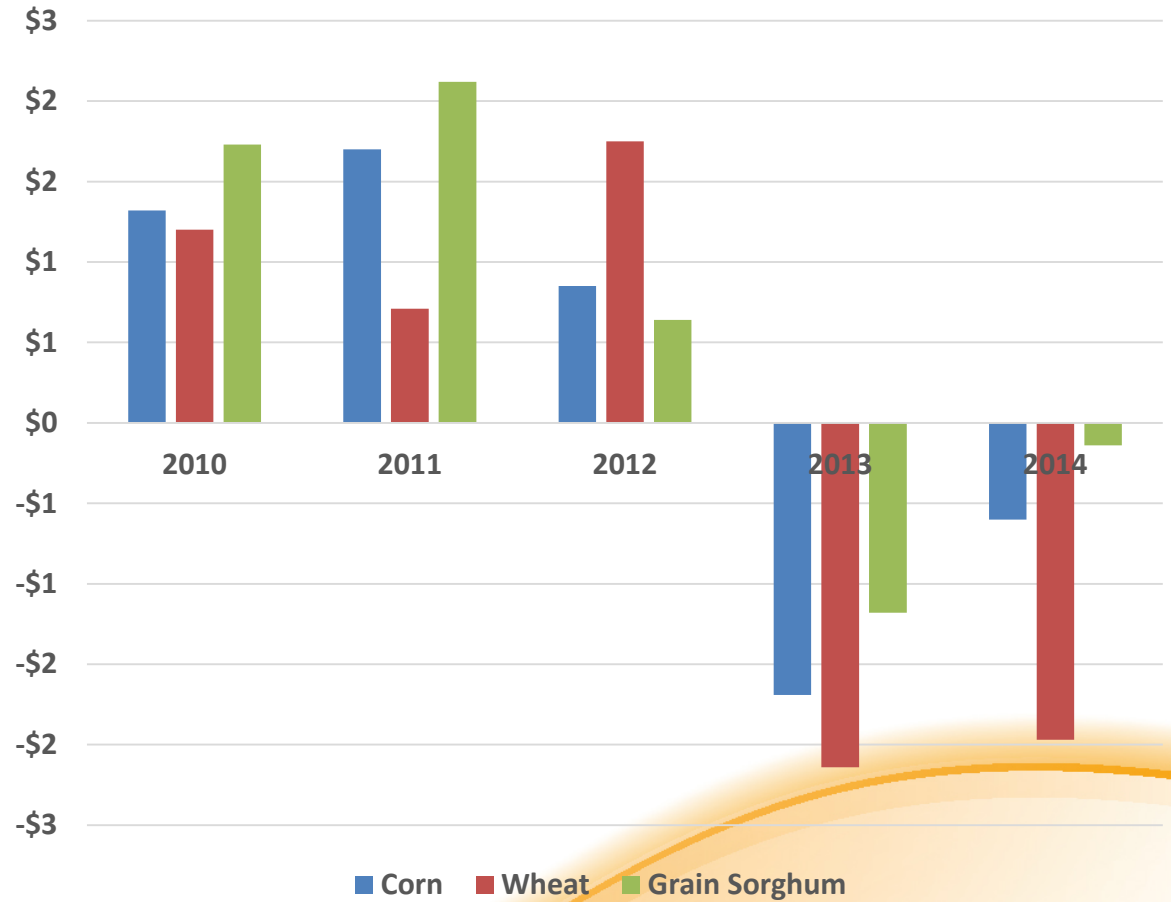
- Wheat profitability impacted by high expenses, low yields, and lower price.
- Sorghum profitable in 2010 thru 2012.
 - Broke even in 2013.
 - Loss in 2014.



Net Return to Management

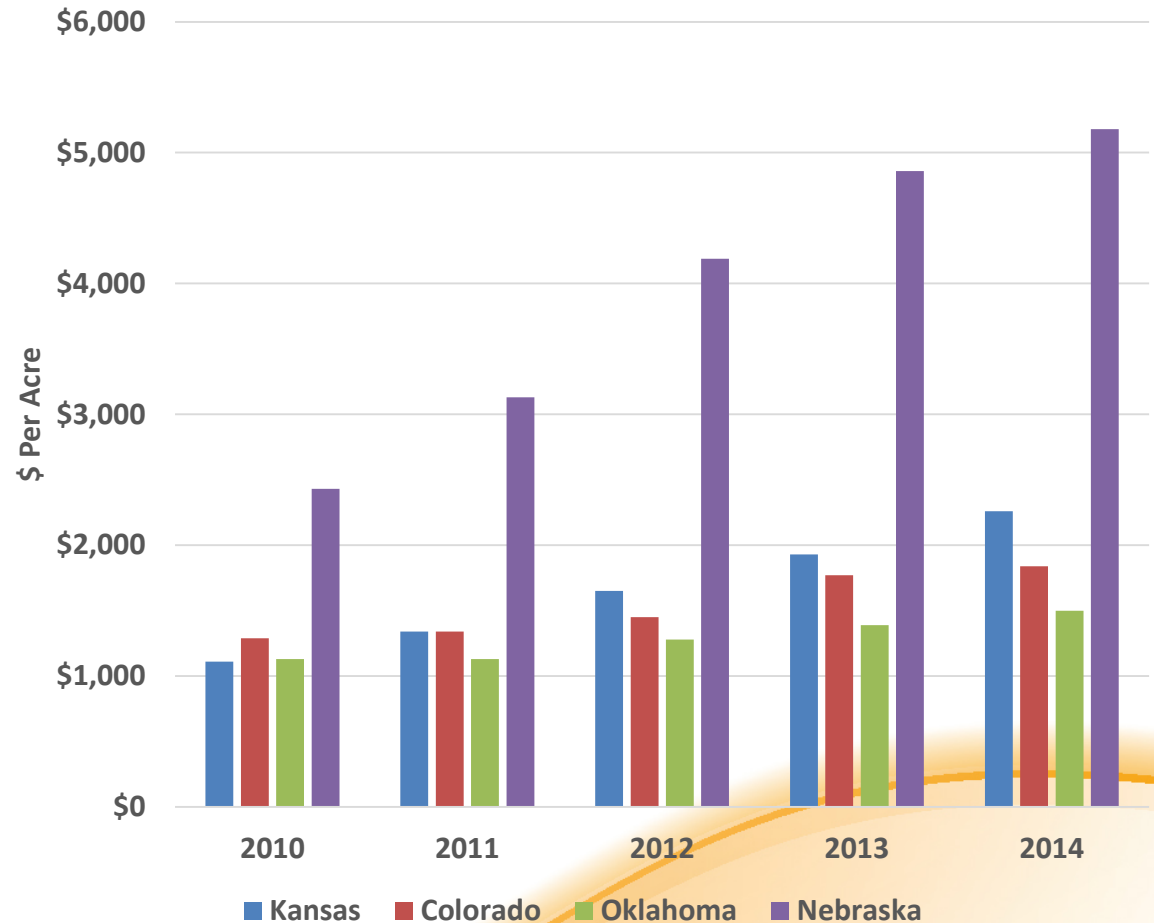
Non Irrigated No-Till – Northwest Kansas

- Northwest Kansas suffering from drier weather and lower yields.
- Grain Sorghum appears to have favored better in Northwest Kansas compared to wheat and corn.



Cropland, Average Value per Acre

- Nebraska and Kansas showing the largest increases in land values.
- Will it continue to increase, remain steady, or start to decline?
 - Declining commodity prices and increasing input costs are pressuring the profitability of farmers.
 - Increasing equity markets have soured the taste for cropland by investors.
 - With no significant change in commodity prices, the value of cropland will be pressured downward. More land will be on the market if producers become over-leveraged.



Summary

- Although there is a low rate of inflation, the Federal Reserve will gradually start targeting a higher federal funds rate.
 - U.S. Real GDP doing better than many parts of the world.
 - Approaching natural rate of unemployment. Employers may find it harder to find employees.
- Although there are many variables that impact agricultural exports (trade policies, production due to weather and technology, etc.), an increase in the value of the dollar would be one more variable going against agricultural profitability right now.
- Land prices have reached a peak and are seeing some weakness.
 - Commodity prices lower.
 - Input prices are high.
 - Farmers nervous about making payments on new equipment purchased when crop prices were high.

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