Uncertainty and Volatility in Global and Domestic Markets

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Strong growth in emerging economies (China, India, Brazil)

Weaker growth in mature economies (U.S., Europe, Japan)
Global Demographics

Neutral to negative

Negative

Positive
City of Shenzhen, China
GDP growth has been positive but anemic since 3Q09.
Consumer Headwinds

- Unemployment
- Weakness in labor income
- Weakness in consumer balance sheets
  - Equity values
  - Home prices
- Households are still de-leveraging
Unused capacity
  ▪ Manufacturing
  ▪ Employment

Slow demand

Increased productivity

Limited credit availability for small businesses
Government Headwinds

- Tax receipts are down well below pre-recession levels
- State and local governments must cut spending and/or reduce tax rates
- State & local spending is 2X federal spending
Headwinds – Politics at Play

- Legislative and regulatory uncertainty
- Full consequences of major new legislation are still unknown
  - Health care reform
  - Financial regulatory reform
Fundamental Issues – Competitiveness

- Serious challenges to U.S. economy from countries that previously supported our standard of living

- U.S. competitiveness bolstered our economy
  - High-paying jobs
  - Wealth for shareholders
  - Drove a higher standard of living
U.S. consumers responded by borrowing to maintain a standard of living they felt entitled to.

- Borrowing went from 80% of income to 160%.
- You can’t borrow your way to prosperity!
Fundamental Issues – Policy Response

- Fed lowered rates 7 years ago to keep growth going
- Too many houses vs. efficient plants, factories & infrastructure
- Policy response doesn’t address the underlying issue of competitiveness
- Debt shifted from private sector to public sector
- Little impact from stimulus
- Supply of money vs. velocity of money
- Health care and the growing entitlement burden
Fundamental Issues – Banking System

- Excess capacity
- Banks took on more leverage and risk to drive share price
- Current policies don’t address this problem
- Low interest rates are subsidizing bank earnings and encouraging an oversized system
Fundamental Issues – A Diminished Fed

- Fed no longer viewed as a powerful institution
- Role is to maintain employment and moderate inflation
  - 9.6% unemployment and signs of deflation
- Decreased ability to influence investor confidence
Leaders have not been willing to address the deficit and demonstrate financial discipline

Politically motivated decisions

Delaying the day of reckoning
Implications for CoBank and Farm Credit

- Elevated political risks & continued debates about GSE status
- Access to funding remains robust
- Both CoBank and the FCS remain financially strong
- Earnings build capital and fund patronage
- Building organizational capacity to deal with volatility and uncertainty
Global population will reach 9 billion people by 2050

Demand for high-quality agricultural products will continue to increase

Limited land available for increased production

U.S. remains the world leader in terms of food quality, efficiency, safety and nutritional value
American Agribusiness: A Sustainable Competitive Advantage

THANK YOU