

Economic Perspectives

January 2015

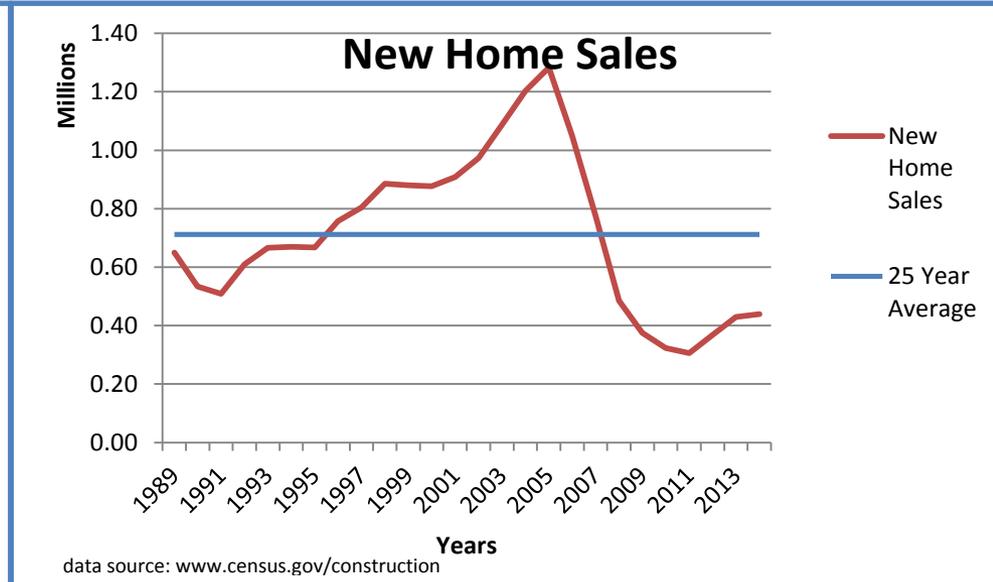
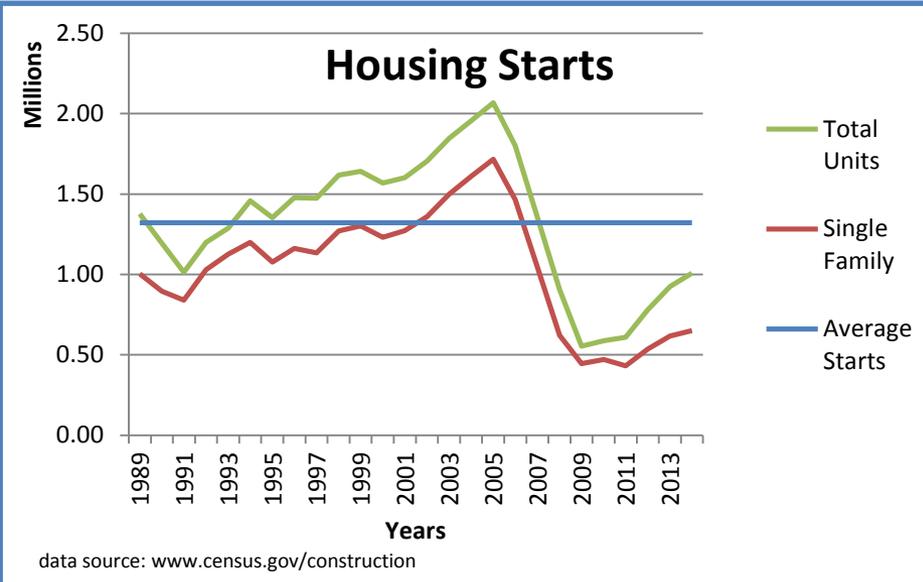


Doug Robison
*Senior Vice President -
Western ID*

U.S. Economic Outlook

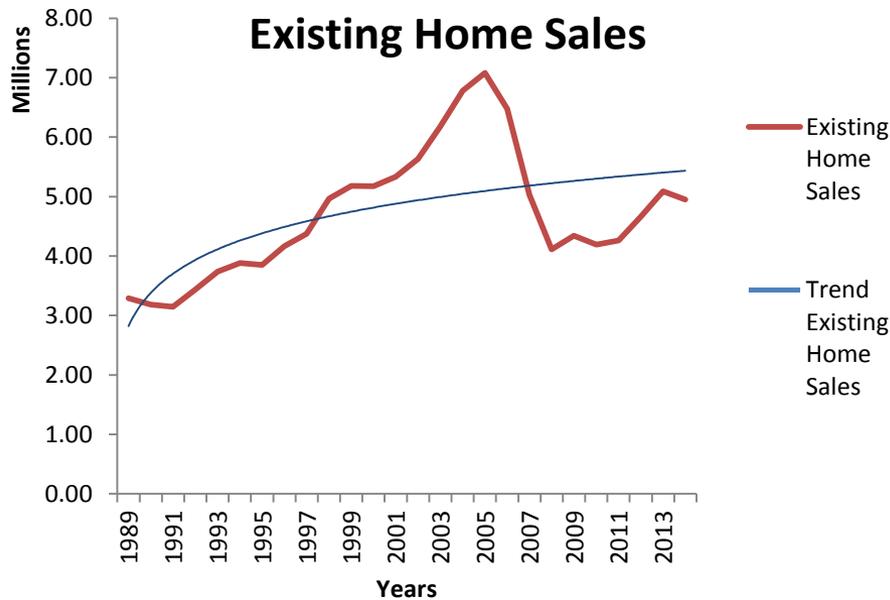
- Stable U.S. Economy
 - GDP
 - Energy Prices
 - Unemployment
 - Manufacturing Surveys
 - Housing
- Headwinds
 - Choppy Growth
 - Fed Policy Uncertainty
 - Geopolitical Concerns

U.S. New Housing

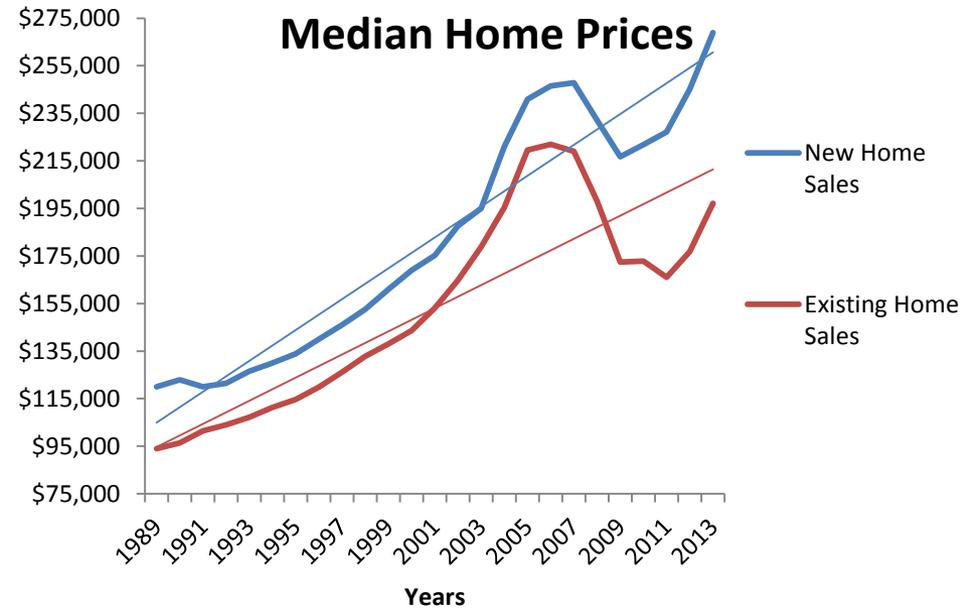


- Housing Starts at 1.0 million
- Multi-family Dwellings
- New Single Family Homes
 - Projected at 560,000 in 2015
- Changing Demographics
 - 1 million young adults living at home

U.S. Existing Home Sales & Prices



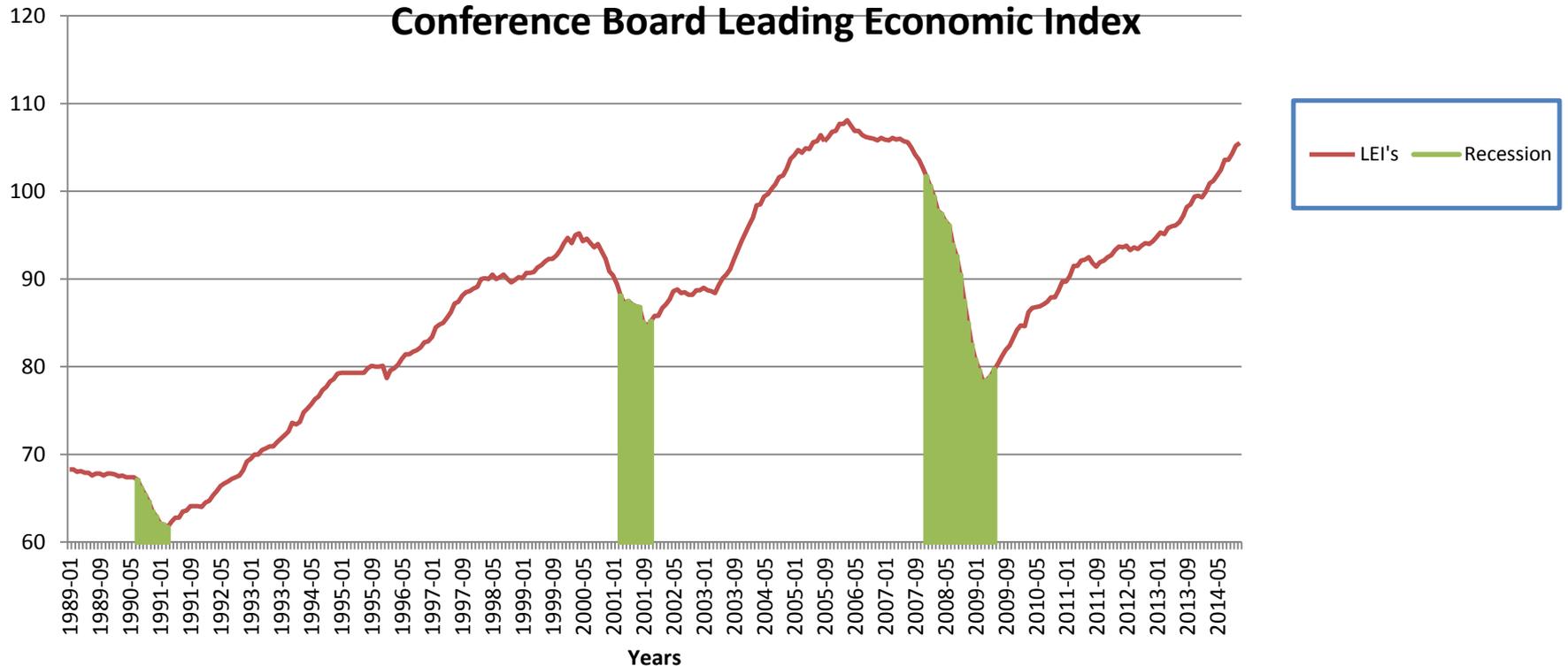
data source: www.census.gov/construction



data source: www.census.gov/construction & www.stlouisfed.org/fred2

- Housing accounts for 17% to 18% of U.S. GDP
- Near Normal Existing Home Sales: 5.0 million
- New Home Prices Increased Faster than Existing
- Source of Strength

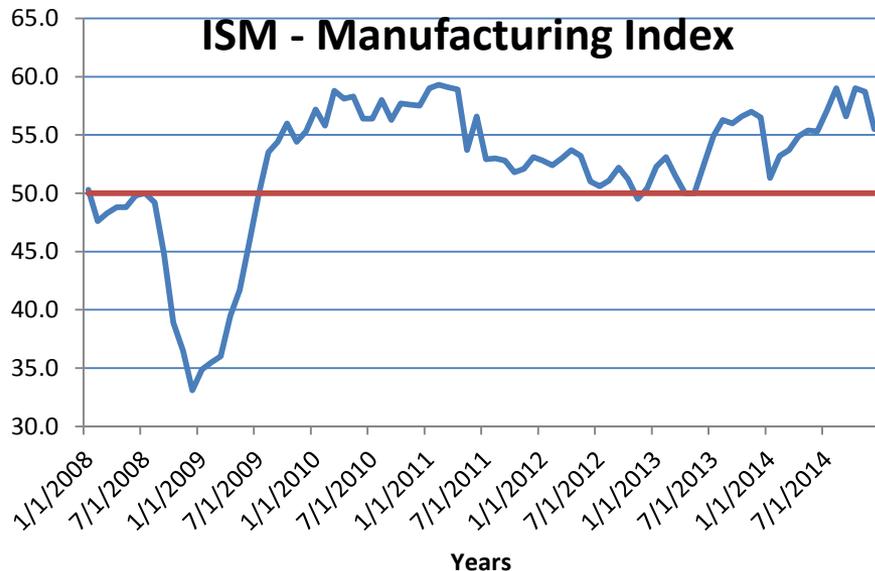
U.S. Leading Economic Indicators



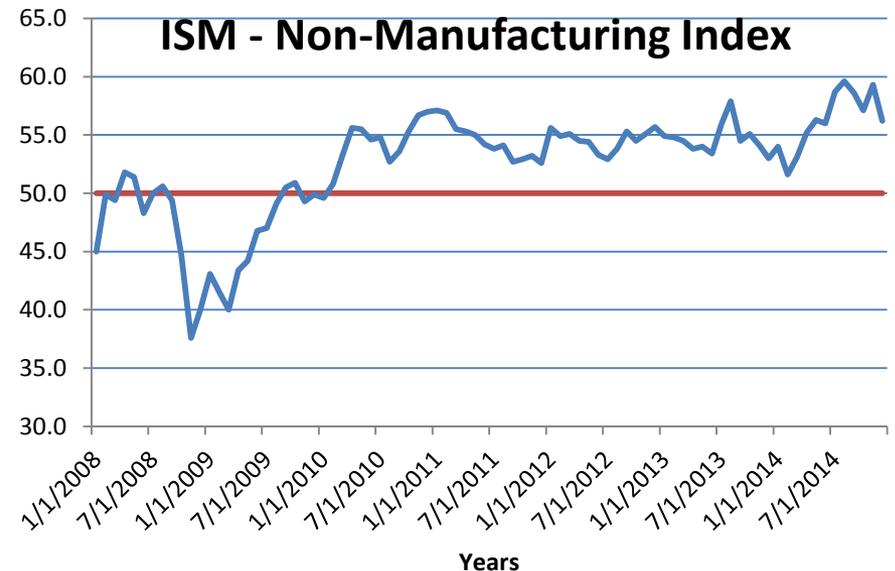
data source: www.conference-board.org

- Past 6 months annualized gains of 6.61%
 - Prior 6 months annualized gains of 5.48%
 - Prior 6 months annualized gains of 4.21%
 - Prior 6 months annualized gains of 2.09%

Institute of Supply Management (ISM)



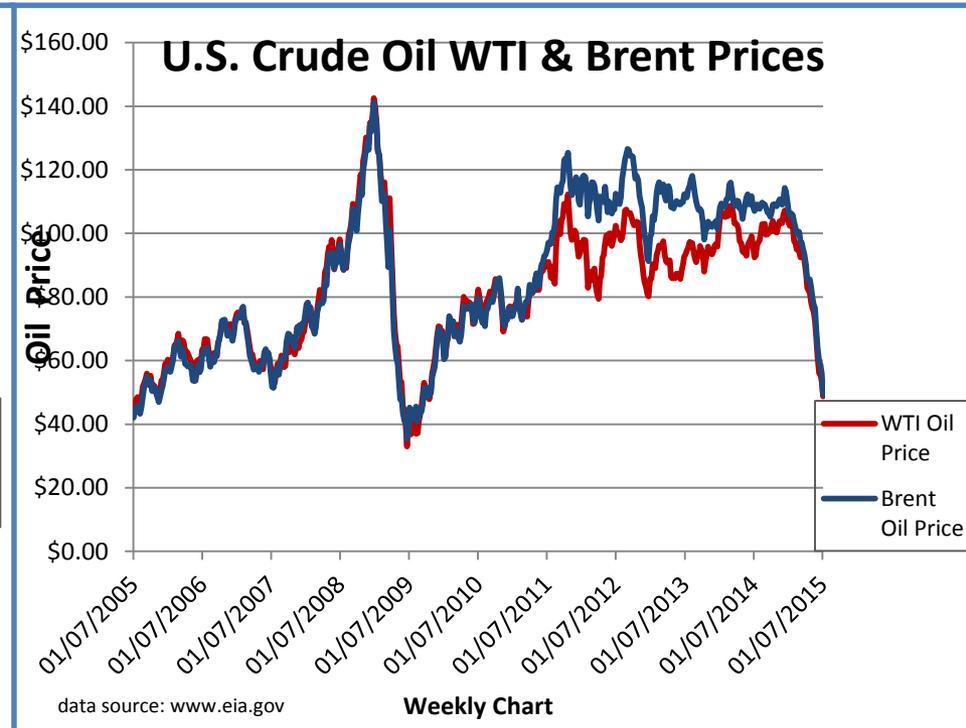
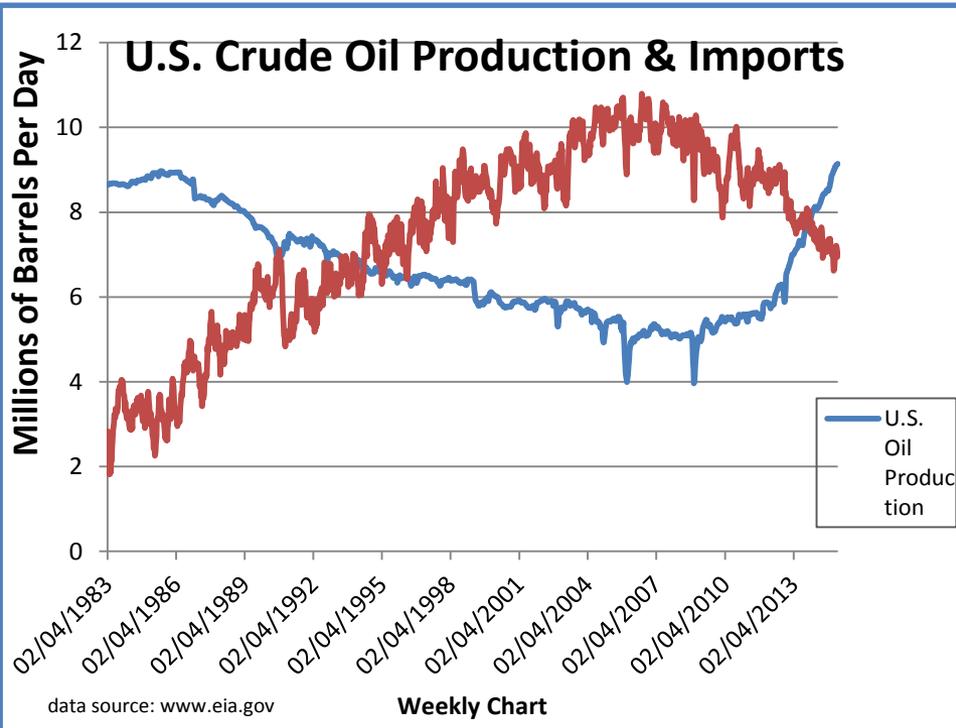
data source: www.stlouisfed.org/fred2



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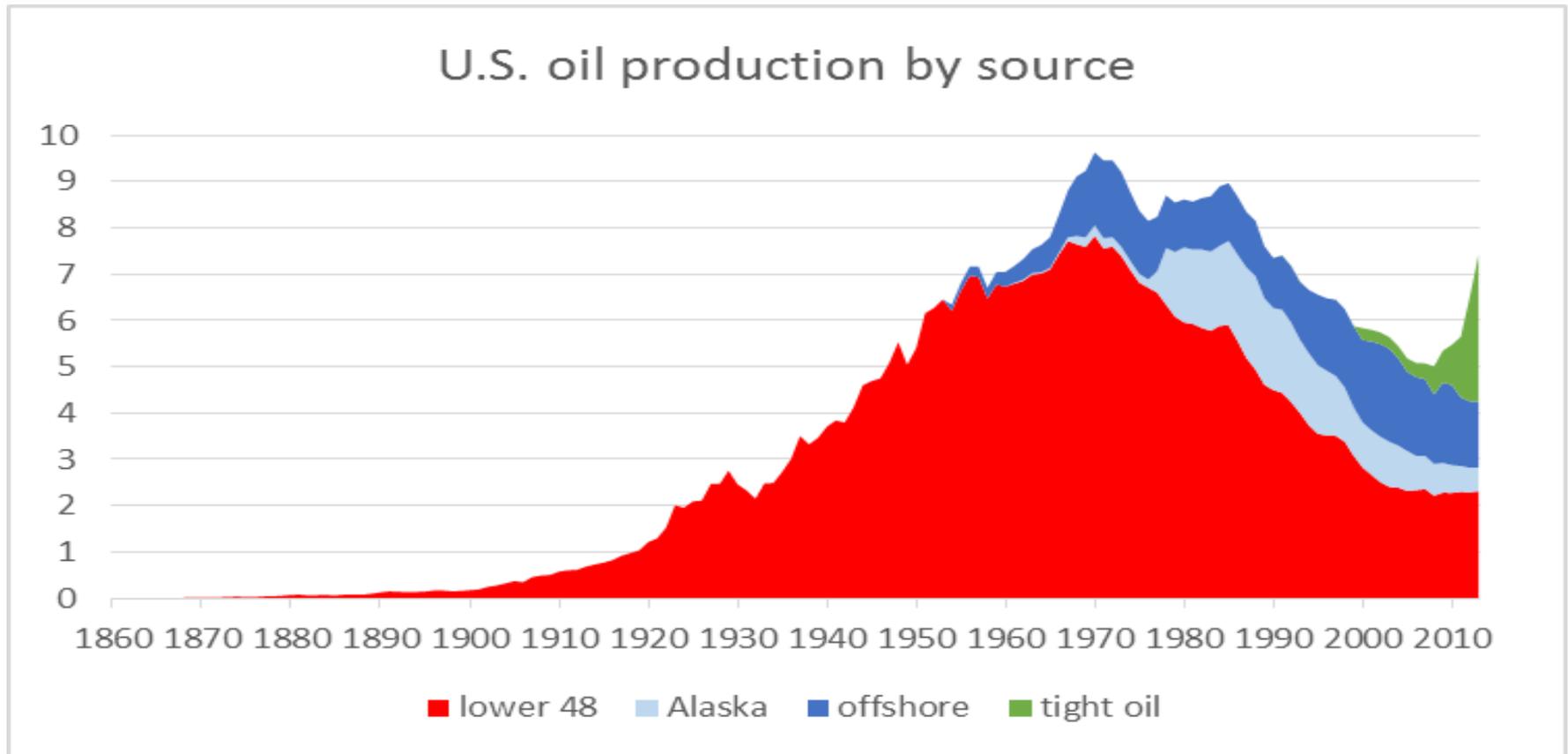
- Greater than 50 Signals Expansion
- Manufacturing & Services Weakened in December
 - December Manufacturing 55.5%
 - December Services 56.2%
 - ISM's in Europe and China

U.S. Energy Production & Prices



- U.S. to become the world's top oil producer?
 - Currently #3 in Crude Oil Production Behind Saudi Arabia & Russia
 - OPEC
- Technically energy independent by 2035
 - Domestic Energy satisfies 84% of U.S. needs

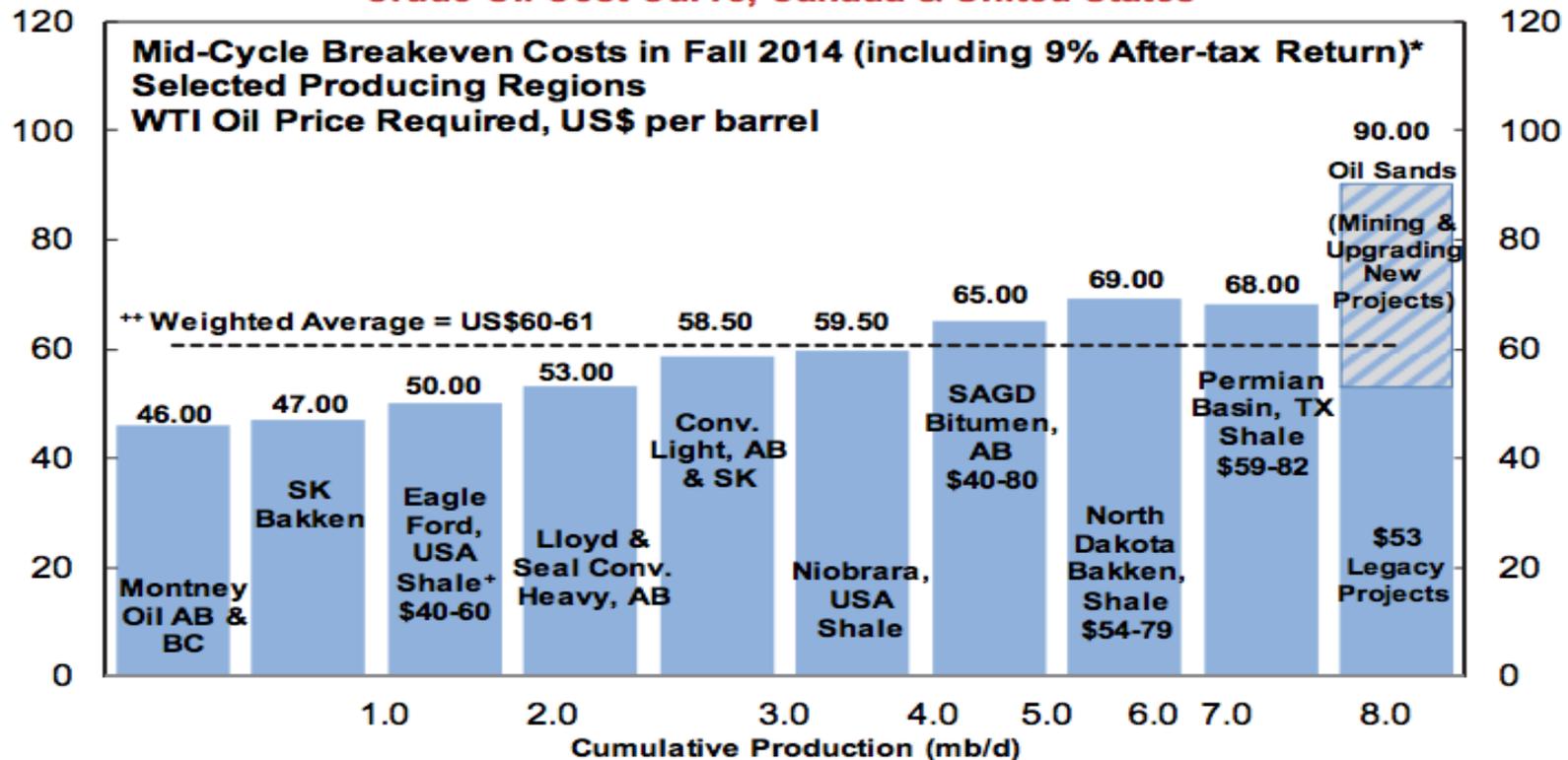
U.S. Oil Sources



- Tight Oil – Primarily Shale Oil

Break-even Oil Production Costs

Crude Oil Cost Curve, Canada & United States



* Excludes 'up-front' costs (initial land acquisition, seismic and infrastructure costs): treats 'up-front' costs as 'sunk'. Rough estimate of 'up-front' costs = US\$5-10 per barrel, though wide regional differences exist. Includes royalties, which are more advantageous in Alberta/Saskatchewan.

+ Liquids-rich Eagle Ford plays, assuming natural gas prices of US\$3.80 per mmbtu.

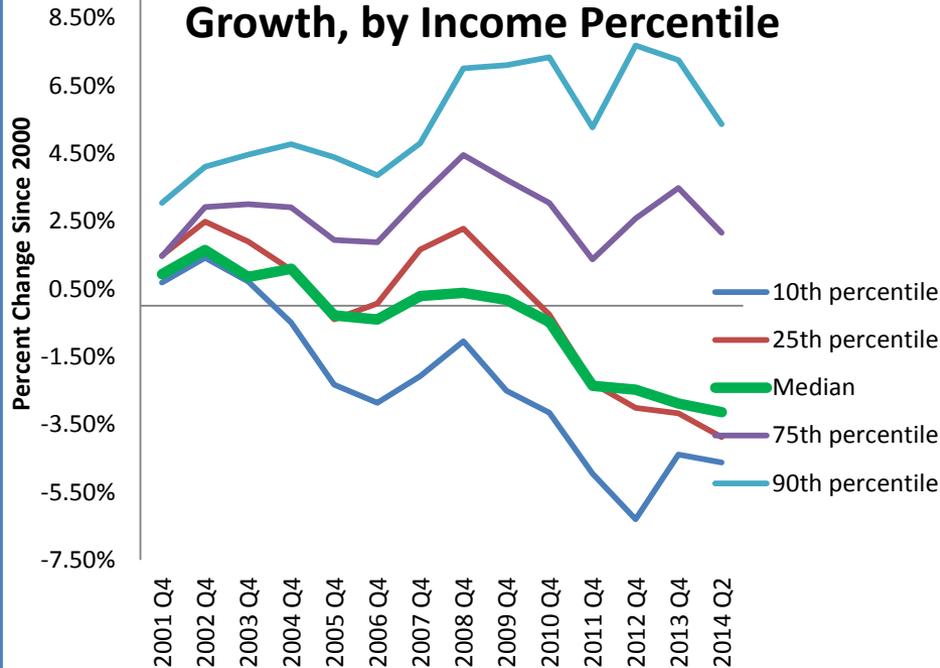
++ Weighted avg. = US\$60-61 including existing Integrated Oil Sands at C\$53 per barrel.

Saudi Arabia: US\$10-25 per barrel.

Data source: Scotiabank Equity Research and Scotiabank Economics.

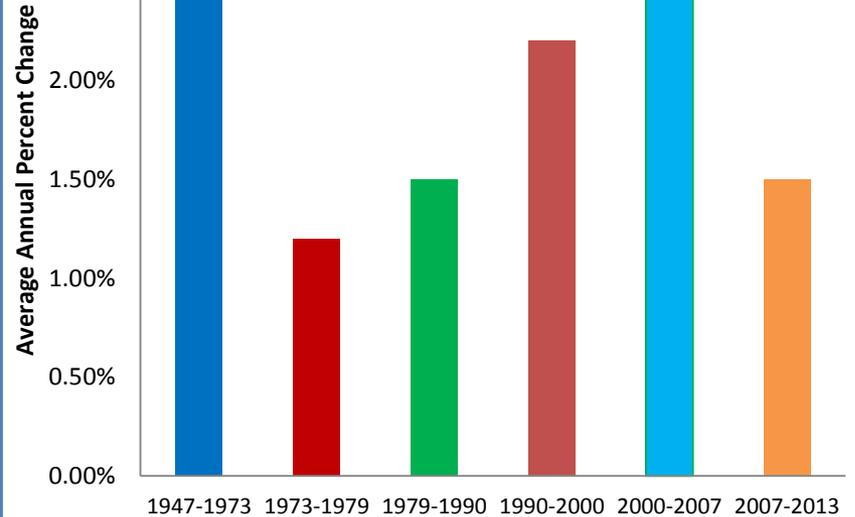
U.S. Wage Growth & Productivity

Inflation Adjusted Weekly Earnings Growth, by Income Percentile



data source: www.bls.gov

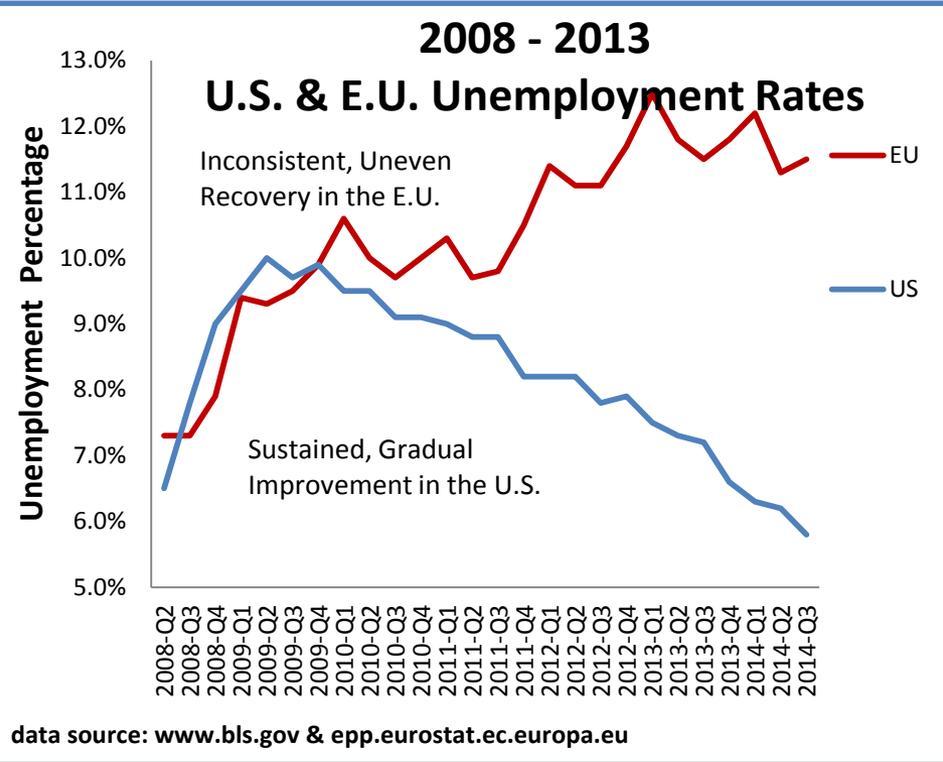
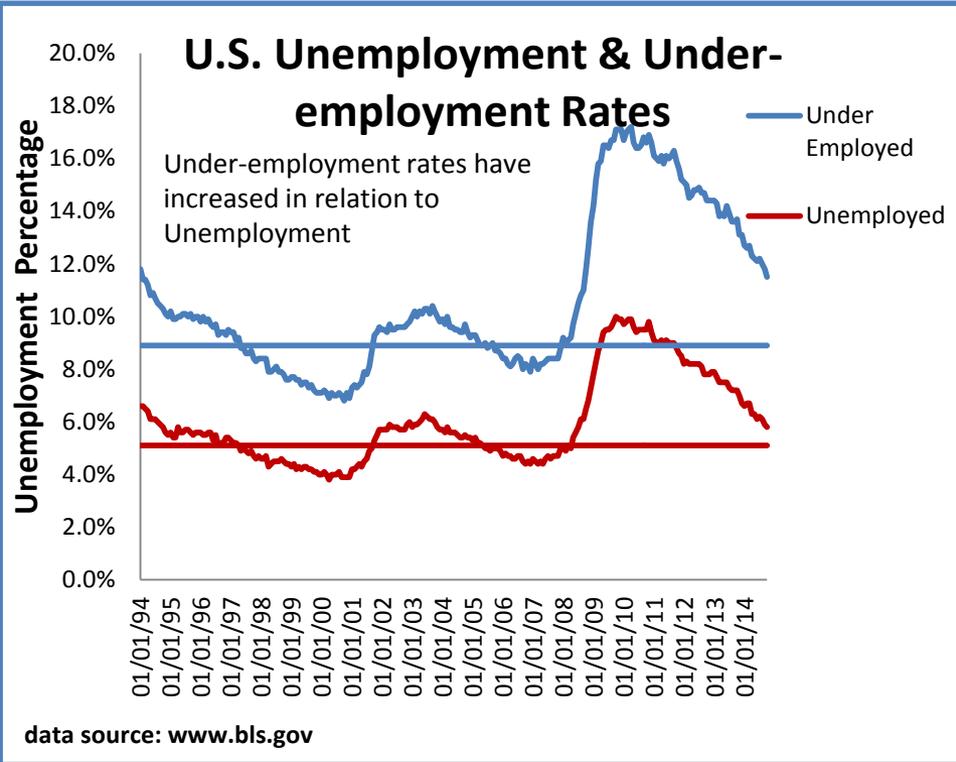
Productivity Change in the Nonfarm Business Sector, 1947-2013



data source: www.bls.gov

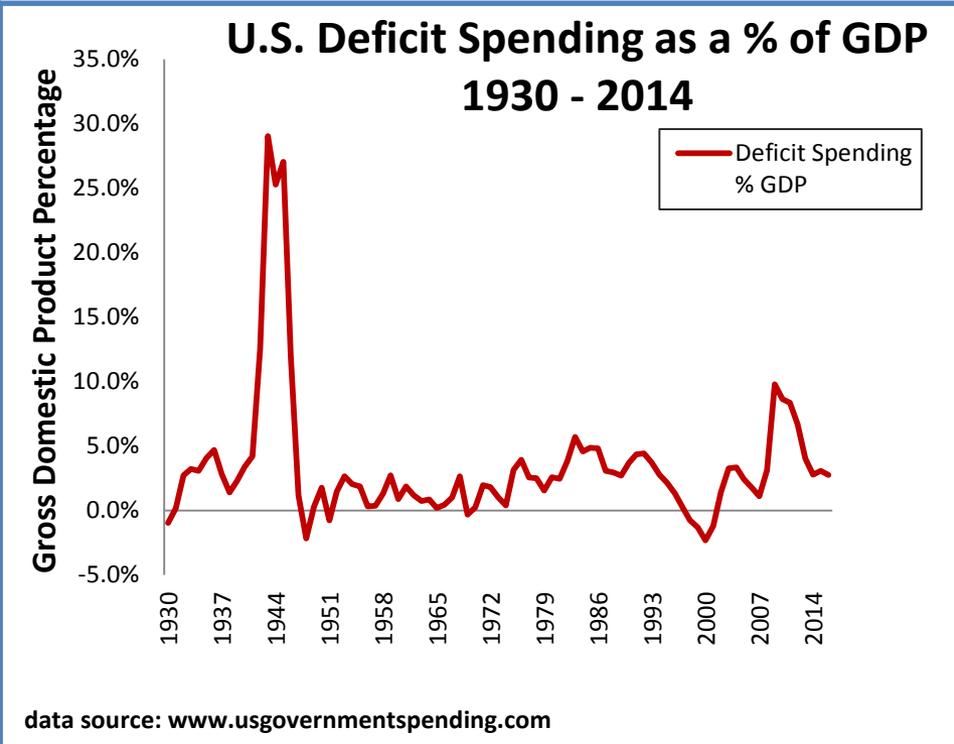
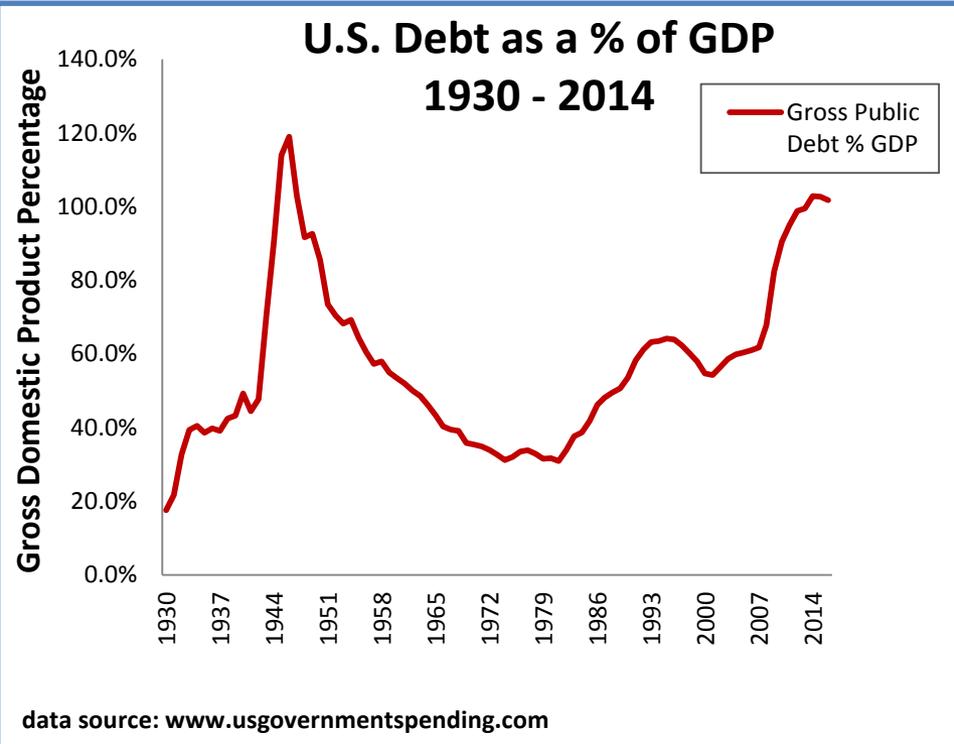
- Change in median weekly earnings is negative
 - Top wage earners experienced growth
- Productivity is up 27.2% in the same period
 - Growth slowed following the Great Recession

Unemployment



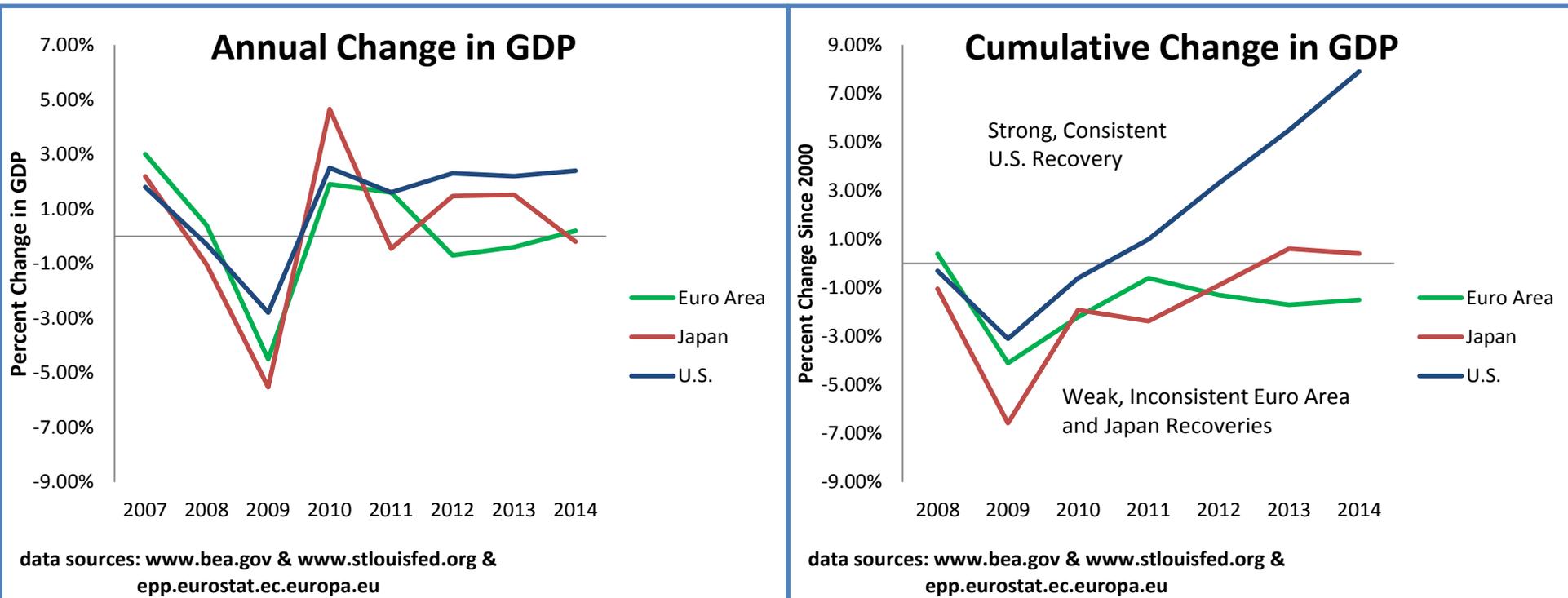
- US Unemployment Rate = 5.6%
 - Labor Participation Rate 62.7% (lowest since 1978)
- Euro Area Unemployment Rate = 11.5%
 - Youth Unemployment (23.3% in Euro Area)
- Japan's Unemployment Rate = 4.1%

U.S. Debt & Deficits



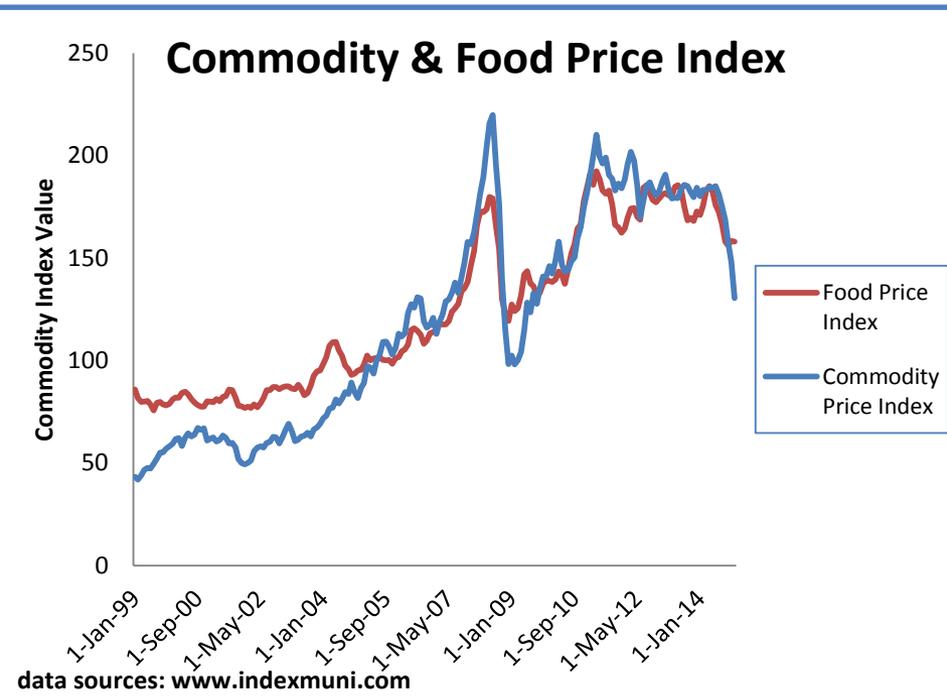
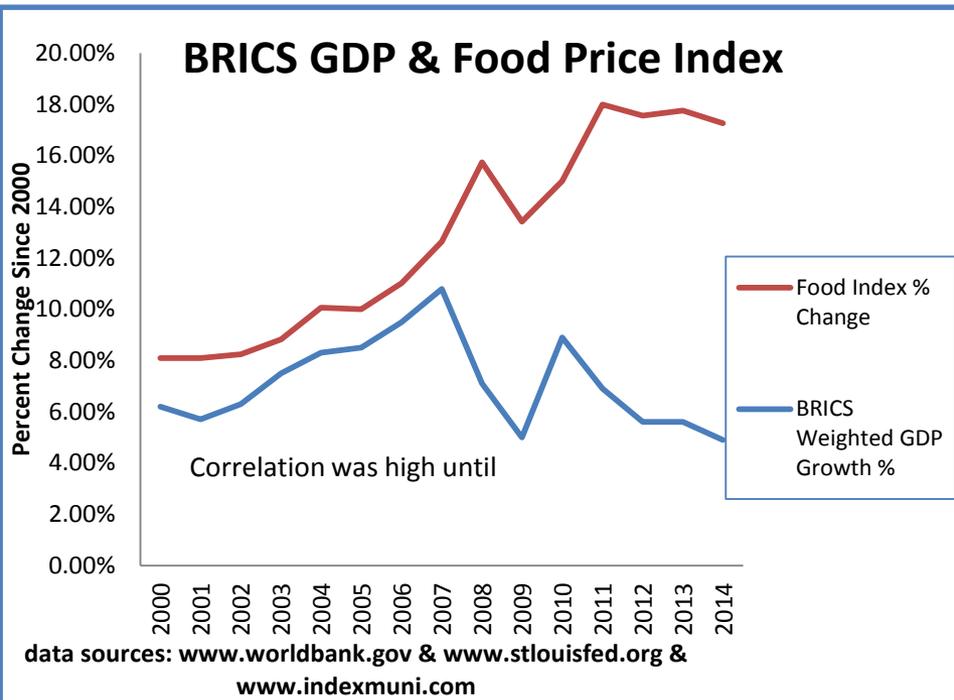
- Near-term Outlook is Favorable
- Long-term Outlook Remains weak
 - Entitlements

GDP Growth – Developed Nations



- United States vs. Eurozone Recovery
 - 3rd Quarter GDP: U.S. 5.0% vs. Euro 0.4% vs. Japan -0.4%

Emerging Markets & Commodities

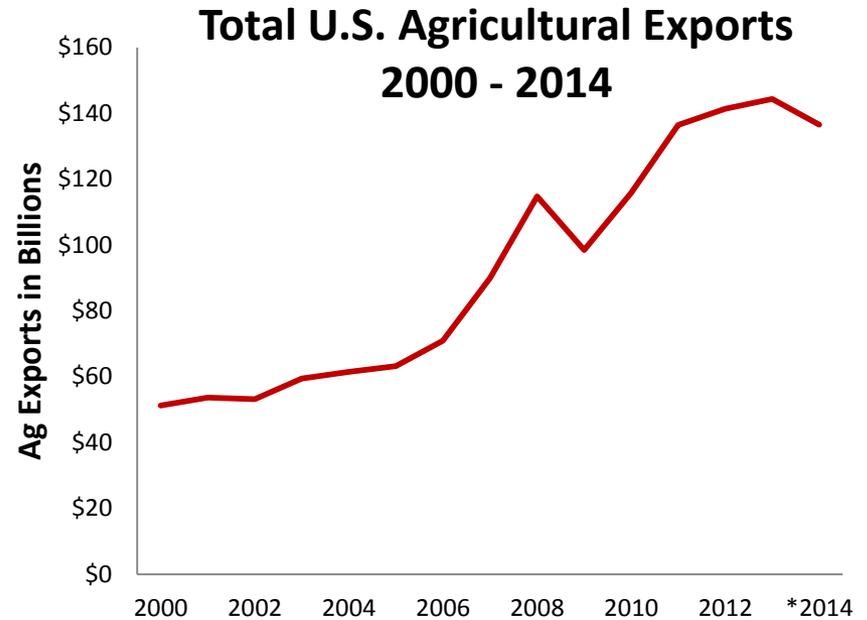


- BRICS (Brazil, Russia, India, South Africa, & China)
 - 8% GDP = Commodities Boom
 - 5% GDP = Commodities Soft/Flat
 - 3% GDP = Commodities Crash
 - Where are they at today = 4.0%

U.S. Dollar Index & Ag Exports



data source: www.stlouisfed.org



data source: www.stlouisfed.org *2014 - December Estimated

- Dollar Strength
- Commodity Headwind

Population Matters

- U.S. Population Growth Rate = +0.77%
 - Birth rate = 1.9
- Euro Area Population Growth Rate = +0.27%
 - Birth rate = 1.4
- Japan's Population Growth Rate = -0.20%
 - Birth rate = 1.3
- China's Population Growth Rate = +0.50%
 - Birth rate = 1.66

Quantitative Easing

- Objectives:
 - Increase the Money Supply
 - Reduce Long Term Interest Rates
 - Create a Wealth Effect
 - Stimulate Economic Growth
- Federal Reserve Balance Sheet
 - \$4.49 trillion in assets as of the 3rd quarter 2014
 - \$800 billion in assets prior to the Financial Crisis
- Unintended Consequences
 - Capital Flight
 - Asset Bubbles
 - Tapering

Federal Reserve “Normalization”

- Dual Mandate: Price Stability & Employment
- Short-term Rates (Prime, LIBOR, etc.)
 - Mid-2015
 - 1.7% Inflation Rate
 - Wages & Inflation
 - Capacity Utilization = 79%
 - 2014 Ag Inflation rate = 5.7%
- Long-term 10-year Rates
 - U.S. 10-year Treasury 1.80%
 - Germany 0.46%, Italy 1.75%, Spain 1.59%
 - Japan 0.24%, China 3.56%

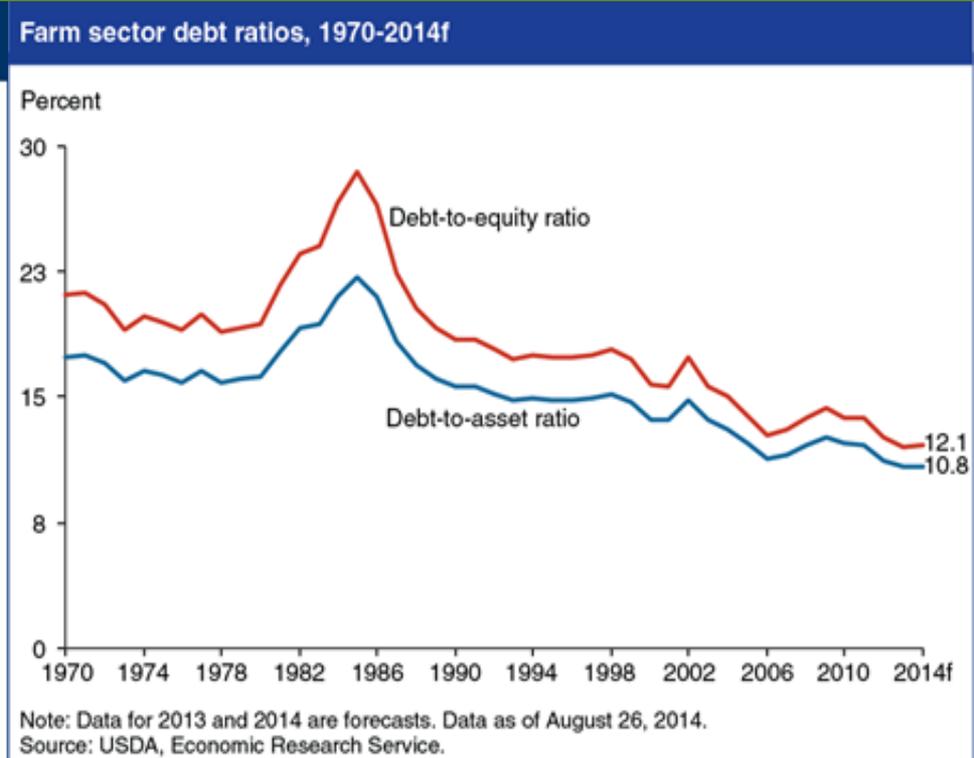
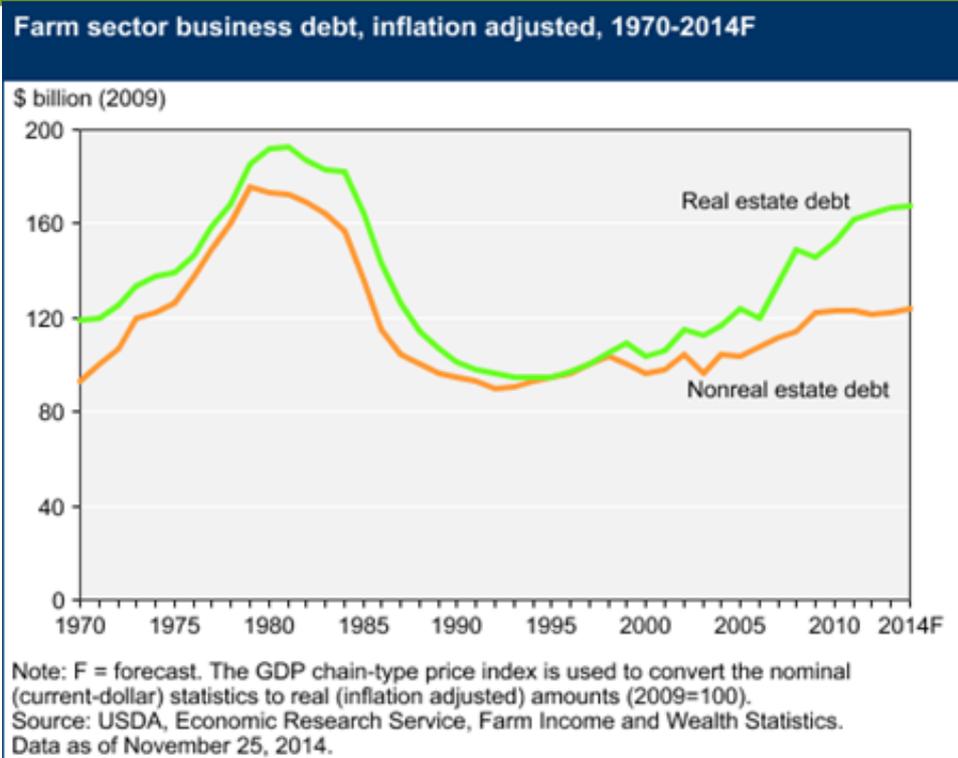
Agricultural Super Cycle

- Three Comparable Periods to Today
 - 1910's, 1950's, 1970's
- Common Components
 - Low Interest Rates
 - Strong Exports
 - Weak Dollar
- Outcomes
 - 1910's = Bust, Land Devaluation
 - 1950's = Moderation and Continued Growth
 - 1970's = Bust, Land Devaluation

Agricultural Super Cycle Continued

- Is this the Biggest Super Cycle in History?
- Is this Boom Different?
 - Leverage
 - Capital Expenditures / Net Income
- All Cycles End
 - “Most do so abruptly”
 - Only 1 out of the last 3 super cycles ended well

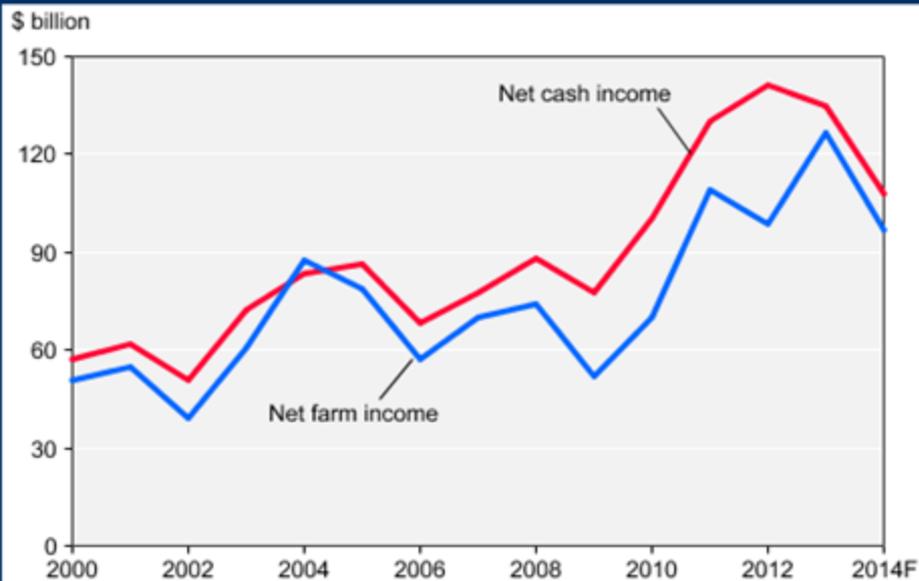
Agricultural Liabilities & Solvency



- Liabilities moderating in 2014
- Concentrated leverage in fewer operations

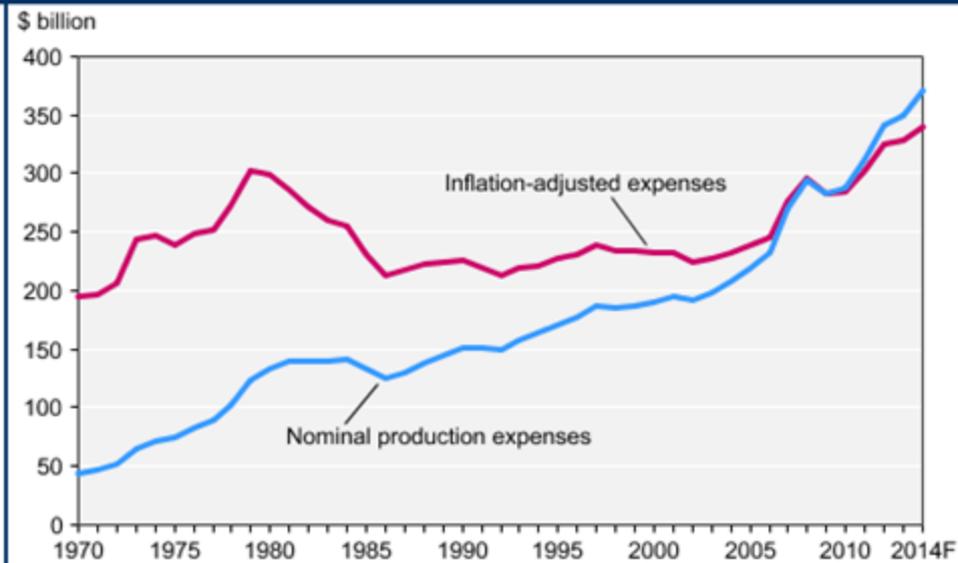
U.S. & Idaho Net Cash Income

Net farm income and net cash income, 2000-2014F



Note: F = forecast.
Source: USDA, Economic Research Service, Farm Income and Wealth Statistics.
Data as of November 25, 2014.

Nominal and inflation-adjusted farm production expenses, 1970-2014F



Note: F = forecast. Values are adjusted using the chain-type GDP deflator, 2009=100.
Source: USDA, Economic Research Service, Farm Income and Wealth Statistics.
Data as of November 25, 2014.

- Net Farm Income Forecast at \$96.9 Billion
 - Down 23.4% from 2013
 - 10-year average Net Farm Income = \$82.4 Billion
- Farm Inflation to fall in 2015
 - 2014 Farm Inflation projected at 5.7%

9 Billion People & Growth in Agriculture

- 9 Billion People to feed by 2050
 - Or maybe 2045?
 - Growing Middle Class
 - Volatility
 - Where is this Population Growth?

2045 Projected Population Growth

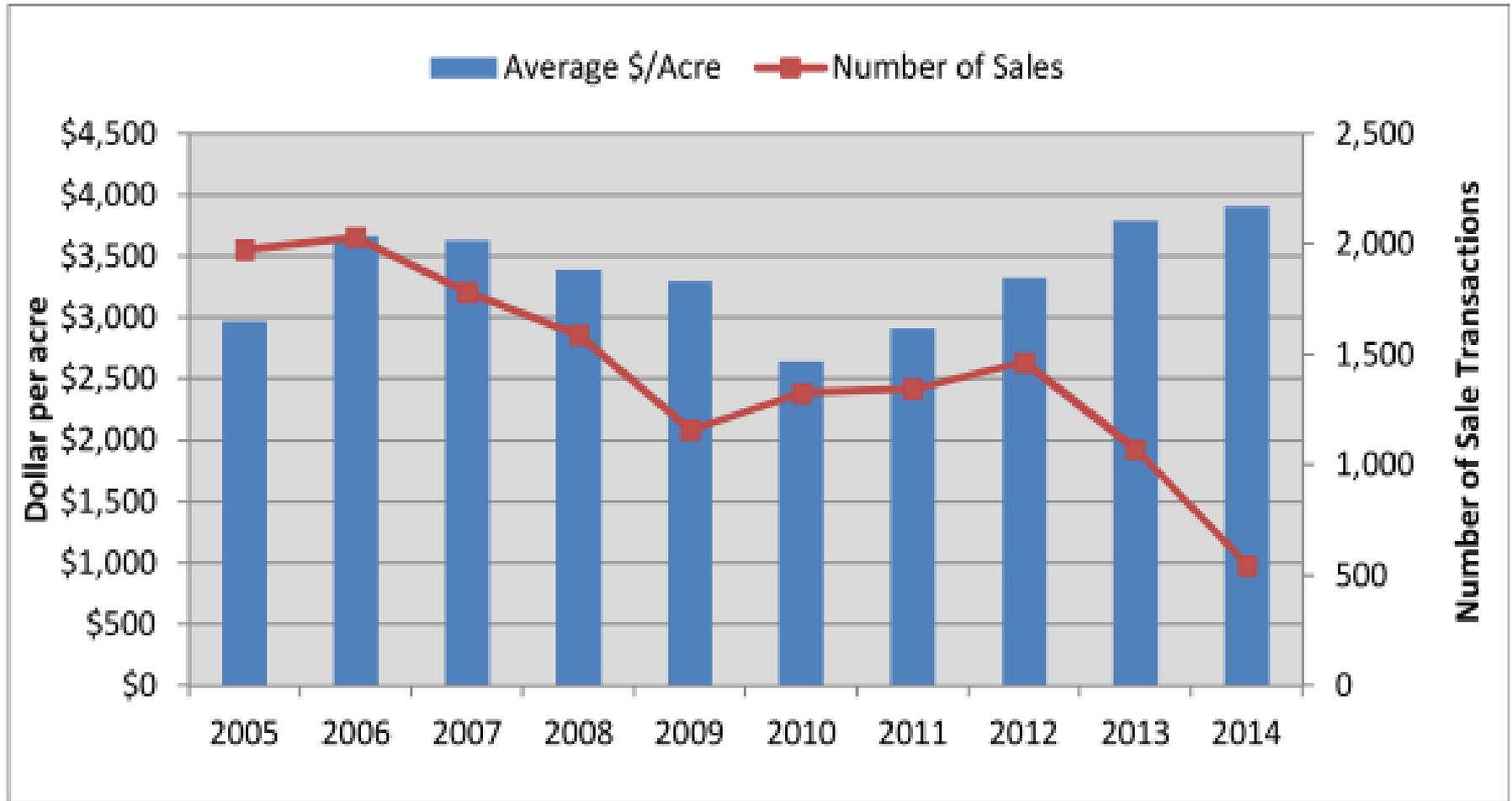
Country or territory	2015 Population	2045 Proj. Population	Population Growth	Percentage
 India	1,308,221	1,664,519	356,298	27.24%
 Nigeria	179,791	354,369	174,578	97.10%
 Pakistan	189,648	267,240	77,592	40.91%
 Tanzania	52,311	122,533	70,222	134.24%
 United States	323,885	393,454	69,569	21.48%
 Democratic Republic of the Congo	75,190	138,096	62,906	83.66%
 Ethiopia	92,000	139,730	47,730	51.88%
 Philippines	101,421	148,595	47,174	46.51%
 Uganda	39,113	85,251	46,138	117.96%
 Kenya	46,332	88,907	42,575	91.89%

- 50% of the world's population will come from the top 10 countries listed above
- 50% of the world's population growth is projected to come from Africa alone

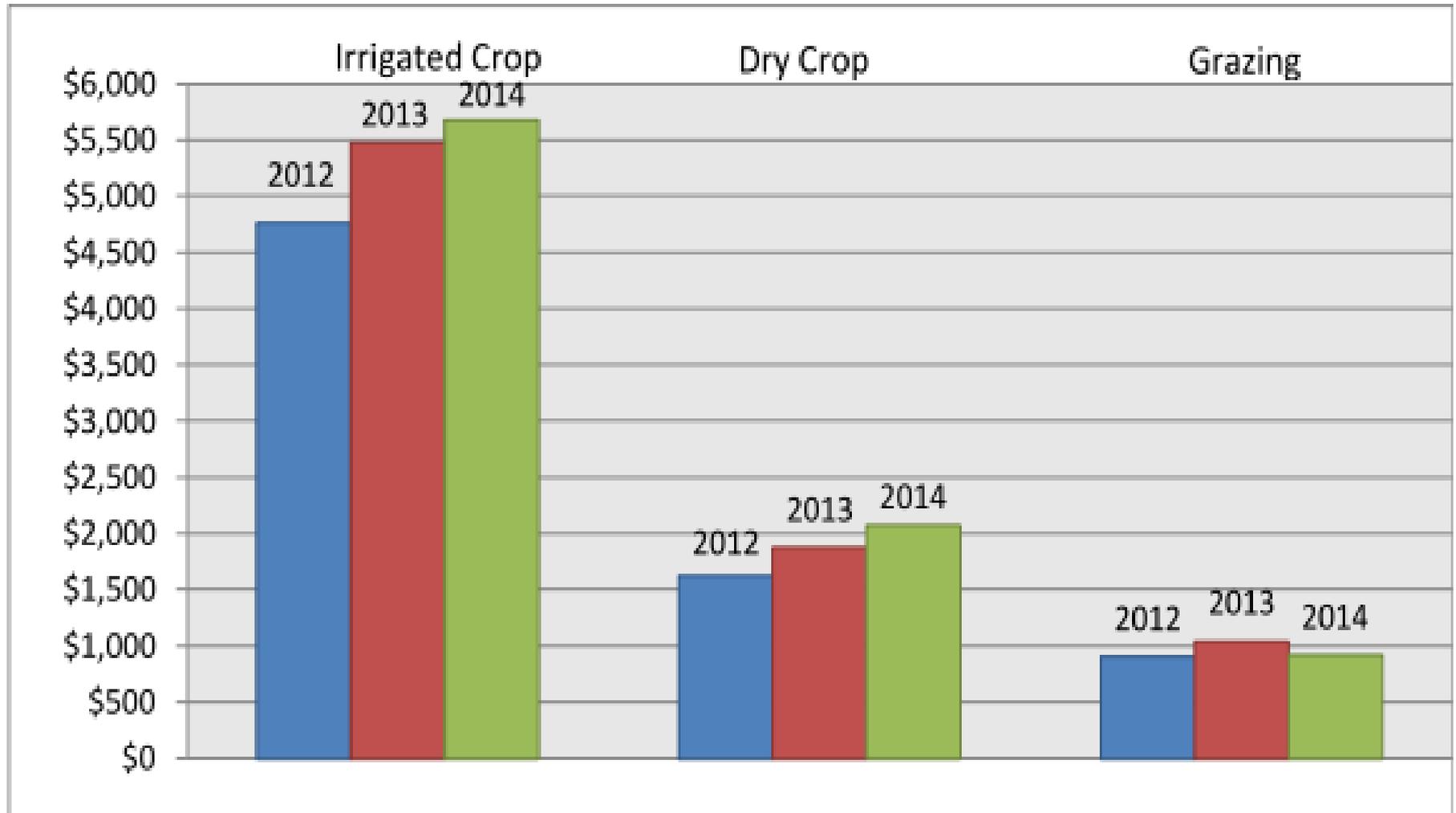
Land Values

- Northwest
- Midwest
- Purdue University
- Institutional Investors
- Outlook

Land Value Trends



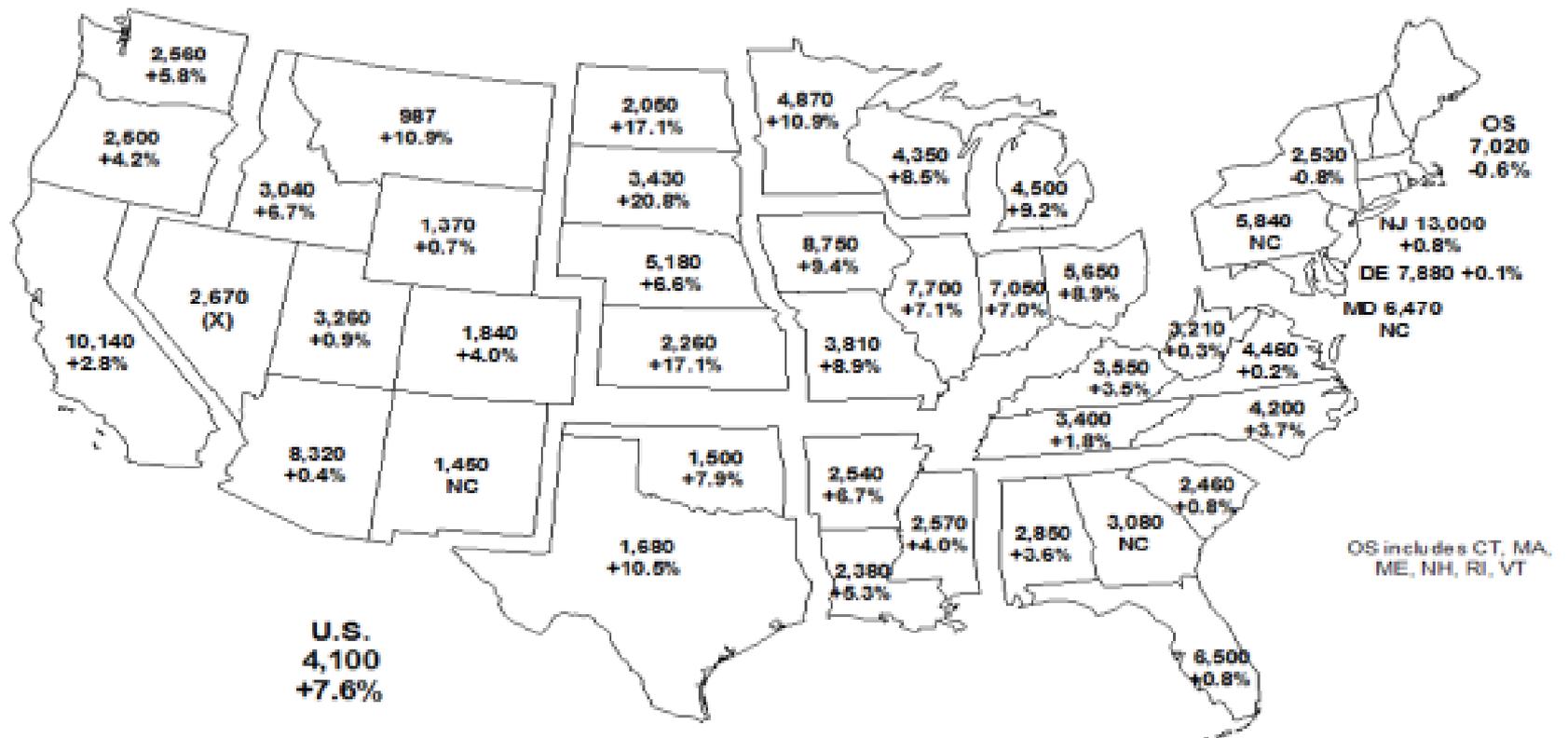
Land Value Trends



Land Value Trends

2014 Cropland Value by State

Dollars per Acre and Percent Change from 2013



NC = No Change
(X) = Not applicable

Conclusion

Questions?

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