

The background of the slide is a light yellow-green color with a faint, semi-transparent image of wheat stalks. A small, dark rectangular inset on the left side of the slide shows a close-up of wheat stalks with a bright sun flare behind them.

Impacts of the Financial Crisis on Agriculture

Sheridan Little



Outline

- Terms
- Causes of Crisis
- Government Responses
- Affects to Ag Industry



Terms

- Subprime mortgage
- Asset-Backed Security (ABS)
- Investment Banks



Cause of Crisis

- Too many “bad” mortgages
- Assumption that housing market always increased
 - Led to increase in subprime loaning
- Requirements for loans began to diminish
 - Banks began to give out 125% value on subprime mortgages



Cause of Crisis

- In 2006, house sales stall, prices begin to fall
- Recipients on subprime mortgages cannot sell for profit, begin to foreclose
- Banks begin losing money as they are not able to recoup costs of mortgages
- Credit becomes strained as banks are unwilling to loan to each other



Government Solutions

- Fed lowers interest rates from 5.25% to 2%
 - Discovered that it was not a liquidity problem
- Offers \$75 billion of private money to buy “bad” loans
- Bush Admin passes \$700 billion bank bailout in Oct. 2008



Government Solution

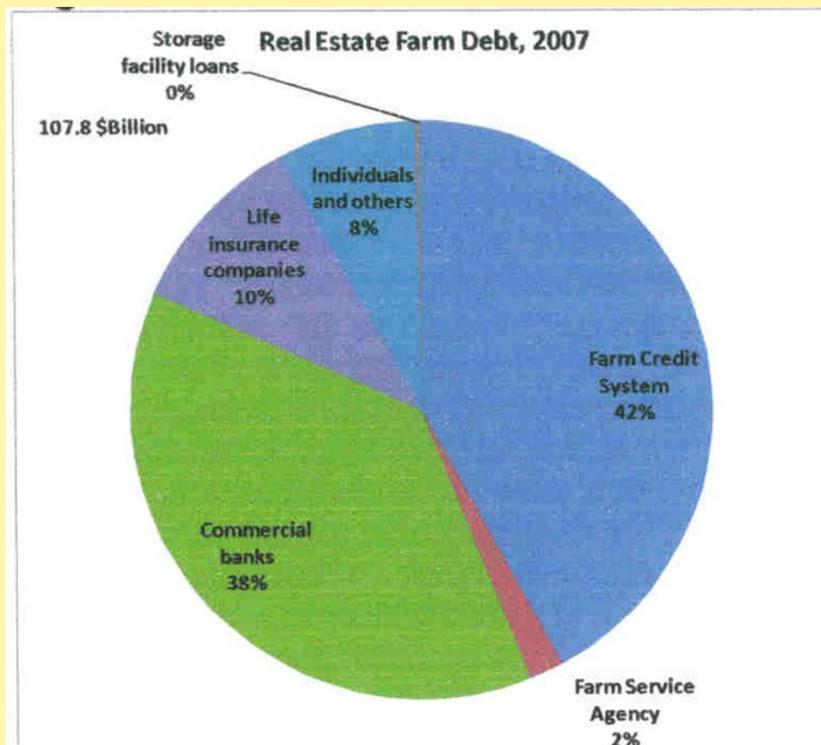
- The recession kept on after the bailout
- Obama admin passes a \$1 trillion stimulus in Feb 2009
 - Attempt to stabilize economy



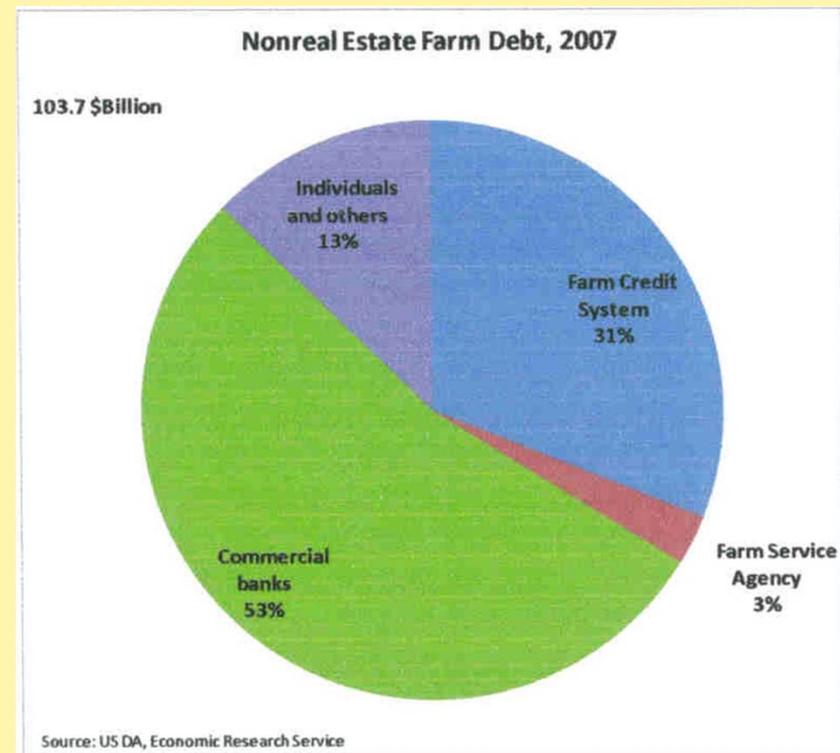


Affects on Ag Industry

Real Estate



Non-Real Estate





Affects on Ag Industry

- Commercial Banks are the majority of lending to Ag
 - Among those, most are small banks

Asset Size (\$ Million)	% of Ag Loans at Commercial Banks	Number of Banks
Less than 100	16.09%	2,507
100-500	33.96%	2,677
500-1,000	10.44%	474
1,000-10,000	17.85%	347
Greater than 10,000	21.66%	66



Affects on Ag Industry

- Ag products generally have fairly inelastic demand
- Ag products have also been relatively high in recent years
- May have hurt expansion in the short-run with limits in financing credit
- All-in-all low impact to agriculture compared to many other industries



Works Cited

- United States Bureau of Labor Statistics. 2010. "Labor Force Statistics from the Current Population Survey." <http://www.bls.gov/cps/>
- Barnes, R. 2008. "The Fuel that Fed the Subprime Meltdown."
<http://www.investopedia.com/articles/07/subprime-overview.asp?Page=1>
- Paulson, N. 2008. "The Current Financial Crisis: How Did We Get Here?"
http://www.farmdoc.illinois.edu/ifeu/IFEU_08_01/IFEU_08_01.pdf
- Amadeo, K. 2008. "Could the Mortgage Crisis and Bank Bailout Have Been Prevented?" http://useconomy.about.com/od/criticalissues/a/prevent_crisis.htm
- Raum, T. & Aversa, J. 2008. "Bush Asking For \$700 Billion Bailout"
http://www.huffingtonpost.com/2008/09/20/bush-asking-for-700-billion_127926.html
- Barrientos, M. 2010. IndexMundi.com
<http://www.indexmundi.com/commodities/?commodity=commodity-price-index&months=60>
- Good, D. & Irwin, S. 2008. "Implications of Credit Market Problems for Crop Prices"
http://www.farmdoc.illinois.edu/ifeu/IFEU_08_03/IFEU_08_03.pdf
- Congressional Budget Office. 2010. "Budget and Economic Information"
<http://www.cbo.gov/budget/budget.shtml>