Farmers face strong dollar, interest rate uncertainty

By BRENNA WIEGAND
For the Capital Press

A stronger dollar and the possibility of an interest rate increase are two factors that could impact farmers and ranchers this winter, experts say.

"Market volatility remains elevated as uncertainty seems to have intensified," said Brent Fetsch, Oregon president of Northwest Farm Credit Services. "We look for the dollar to hold onto its gains and for us here in Oregon — and quite frankly across the Pacific Northwest — that strong dollar will continue to negatively impact exports."

Brent Fetsch

Fetsch said 80 percent of ag products in Oregon go out of state; 50 percent of those are sold internationally, and that the combination of the strong U.S. dollar and Port of Portland's loss of Terminal 6 container carriers will likely continue to adversely impact Oregon agriculture.

"The next Federal Reserve meeting is in December and all eyes are on chairwoman Janet Yellen to find out whether the Federal Reserve will increase interest rates in December or early 2016," Fetsch said. "We're at historic lows; we're at almost zero percent monetary policy, meaning you can't take it any lower without going negative. … The threat of weaker employment and economic growth are among the many factors that could lead to deferring on raising rates."

Courtesy Harvest Capital
Harvest Capital President Brian Field, left, visits with farmer Peter Dinsdale of Blue Heron Farm in Independence, Ore. He says all farmers should have a firm grasp of finance.

Though long-term rates have fallen a bit, near-term rates are inching up, said Brian Field, founder of Harvest Capital, an independently owned real estate lender based in Canby, Ore. "We're not down to the level that we were in May of 2013 — that was probably the low of our lifetime.

"I've been doing this for 35 years and have got it tracked back to 1960," Field said.

"If I'm an investor I would be indifferent at borrowing from the U.S. government at the Treasury rate exactly which, say for a 3-year bill is under 2 percent, or if I add 2.5 to 3 percent for risk," Field said. "I could lend that out to agriculture secured by real estate and it's a risk-adjusted spread between perfect credit and agriculture real estate credit."

Understanding concepts like this can mean the difference between failure and success, he said.

"I think it ought to be a state requirement that every young person who wants to go back to the farm spend five years after they get out of college working for a regional bank or a real estate investor in agriculture so they can live and breathe this stuff and then take that back to the farm," Field said.

Fed chairwoman signals growing likelihood of rate hike

By MARTIN CRUTSINGER
AP Economics Writer

WASHINGTON — Federal Reserve Chairwoman Janet Yellen told Congress Dec. 3 that economic conditions appear to be improving enough for policymakers to raise interest rates when they meet this month — as long as there are no major shocks that undermine confidence.

Yellen said that even after the first rate hike, the Fed expects future rate increases will be at a gradual pace that will keep borrowing costs low for consumers and businesses.

In testimony before the Joint Economic Committee, Yellen warned that waiting an extended period of time to start raising rates would carry risks.

"Were the FOMC to delay the start ... for too long," she said, "we would likely end up having to tighten policy relatively abruptly to keep the economy from overshooting" the Fed's goals for unemployment and inflation.

"Such an abrupt tightening would risk disrupting financial markets and perhaps even inadvertently push the economy into a recession," Yellen said.

She also cited a concern raised by Fed critics that keeping rates exceptionally low for too long "could also encourage excessive risk taking and thus undermine financial stability."

Fed policymakers meet on Dec. 15-16. The Fed's key short-term rate has been at a record low near zero for the past seven years.

Many private economists are forecasting the first rate hike by the Federal Open Market Committee, the Fed's policy panel, will be a modest quarter-point move, which will be followed by four more quarter-point moves over the next year.

"Between today and the next FOMC meeting, we will receive additional data that bear on the economic outlook. These data include a range of indicators regarding the labor market, inflation and economic activity," Yellen told the JEC. "When my colleagues and I meet, we will assess all of the available data and their implications for the economic outlook in making our decision."

The Fed has left its target for the federal funds rate, the interest that banks charge on overnight loans, near zero since December 2008. It has used ultra-low borrowing costs as a way to stimulate economic activity and fight the worst recession since the Great Depression of the 1930s. The Fed has not raised the funds rate since June 2006.

Yellen said that the Fed currently anticipates that even after further improvements in the labor market and inflation, economic conditions are likely to warrant lower rates than normal "for some time."

Yellen said that a Fed move to start raising rates will be a sign of "how far our economy has come in recovering from the effects of the financial crisis and the Great Recession. In that sense, it is a day that I expect we all are looking forward to."

Yellen spoke shortly after the European Central Bank announced that it was cutting a key interest rate and extending its stimulus program to enhance efforts to bolster the 19 European countries that use the euro currency. This action disappointed investors, who had been looking for stronger moves.

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