FCA Board Receives Report on Economic Implications of Brexit

McLEAN, Va., August 11, 2016 — At its monthly meeting today, the Farm Credit Administration Board received a report on the economic implications of the recent referendum in which the citizens of the United Kingdom voted to leave the European Union.

According to the report, the vote, known as Brexit for “British exit,” sent shockwaves through global financial markets. Equity markets around the world fell sharply in the first two days of trading; government bond yields dropped to historic lows; and the British pound depreciated against other major currencies by the largest amount in a single day. Many analysts believe that the market volatility caused by Brexit will make the Federal Reserve more cautious about raising interest rates this year, which would benefit borrowers at the expense of savers.

The higher cost of imports, and cutbacks in investment and consumer spending are expected to negatively affect the U.K. economy over the next several years. Some economists even predict a recession in the U.K., but not in the United States or in other major economies.

The U.S. dollar appreciated against most currencies as investors sought safety from the turbulence after the vote. The stronger dollar makes U.S. goods more expensive to foreigners and makes foreign goods cheaper for Americans, which will exacerbate an already large trade deficit ($763 billion for 2015).

U.S. exports of agricultural and related products to the U.K. are relatively small (2 percent of the total for 2015), led by forest products, tree nuts, fish, and soybeans. However, U.S. agricultural exports to all markets are significant, accounting for more than $150 billion in 2015, or 10 percent of total U.S. goods exported and 0.8 percent of the U.S. economy.

Farm Credit System institutions have significant loan concentrations in commodities with a large trade exposure, including soybeans, wheat, dairy products, and tree nuts. Reduced
exports of agricultural products as a result of the stronger dollar will further pressure already low commodity prices, U.S. farm income, and the overall farm economy.

Report
During the closed session of the meeting, the board received a quarterly report from the Office of Secondary Market Oversight.

Notational Votes
Since the July 14 FCA Board meeting, one notational vote has occurred. Notational votes are actions taken by the FCA Board between board meetings.

- On August 8, the FCA Board approved an updated policy on Equal Employment Opportunity and Diversity. The policy was slightly edited at the Equal Employment Opportunity Commission’s recommendation to indicate that FCA begins prompt, thorough, and impartial investigations within 10 days of receiving notice of harassment allegations.

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The Farm Credit Administration is the safety and soundness regulator of the Farm Credit System. The System consists of two government-sponsored enterprises — a nationwide network of cooperative banks and associations established in 1916, and a secondary market entity known as the Federal Agricultural Mortgage Corporation (Farmer Mac) that was established in 1988. The System’s borrower-owned banks and associations provide credit to farmers, ranchers, residents of rural communities, agricultural and rural utility cooperatives, and other eligible and creditworthy borrowers. Farmer Mac provides a secondary market for agricultural real estate loans, rural housing mortgage loans, and certain rural utility loans. Members of the FCA Board are Kenneth A. Spearman, Board Chairman and CEO; Dallas P. Tonsager; and Jeffery S. Hall.

Note: FCA news releases are available on the web at www.fca.gov.