

Today's Business Economy

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Topics of Discussion

- Update on Farm Credit System and Northwest FCS
- U.S. Economy update
- Key macro economic issues
- Interest Rate Forecast
- Today and Tomorrow's Business Environment
- Questions and Contact Information

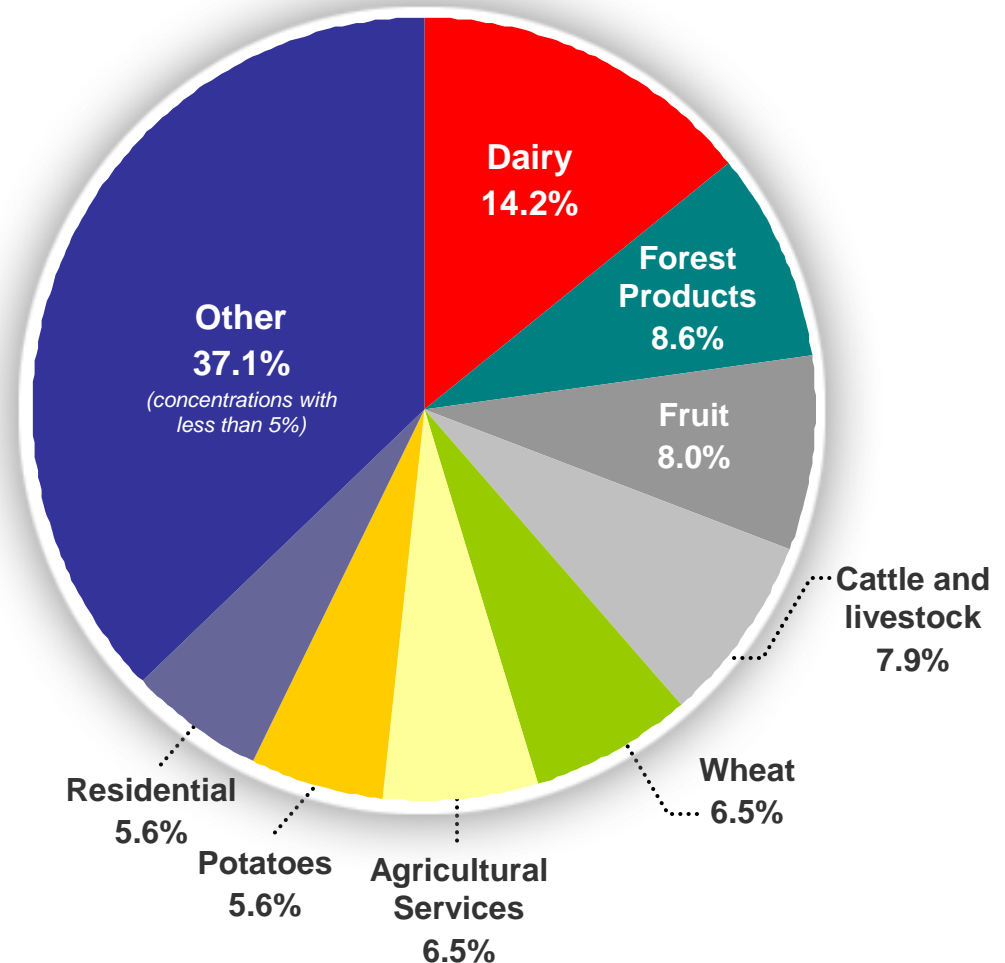
About the Farm Credit System as of 3/31/11

- Created by Act of Congress in 1916
- 87 Associations (retail lending) and 5 wholesale banks
- \$177.6 billion in loans and \$231.3 billion in total assets
- Capital ratio of 14.7%
- Net Income of \$3.5 billion for 2010
- Farm Credit System funds approximately 40% of all US farm business debt

About Northwest FCS as of 3/31/11

New CEO Transition (Phil DiPofi) going well

- 616 employees in 45 offices and Spokane headquarters
- \$10.2 billion of loan volume with 13,000 customers
- \$150.1 million in net income for 2010 and distributed \$36.0 million of patronage to members
- \$42.2 million of net income in Q1 2011
- 13.5% Capital Ratio
- Financing 38% of the value of Northwest farm production
- Leading crop insurance provider in the Northwest

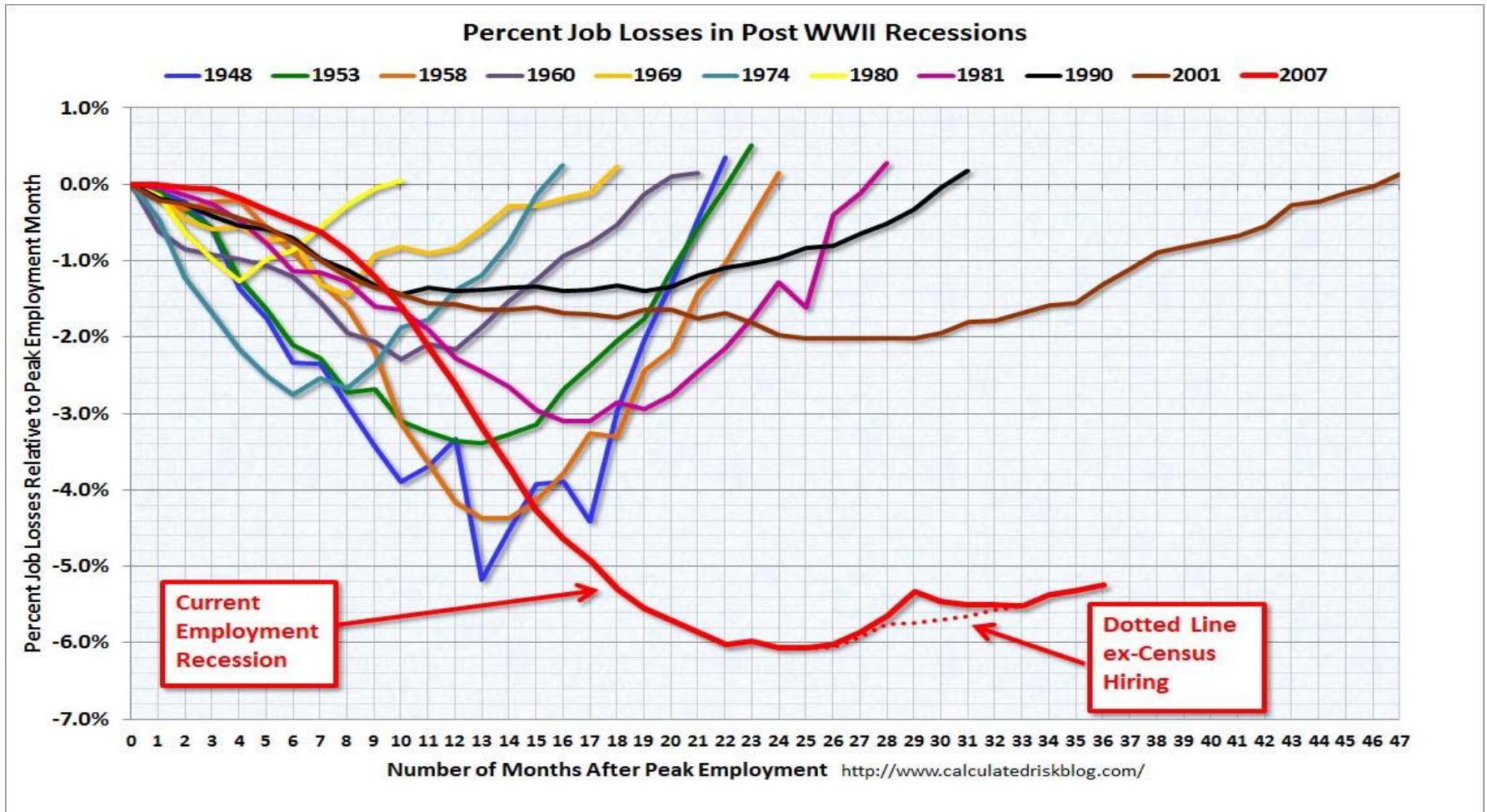


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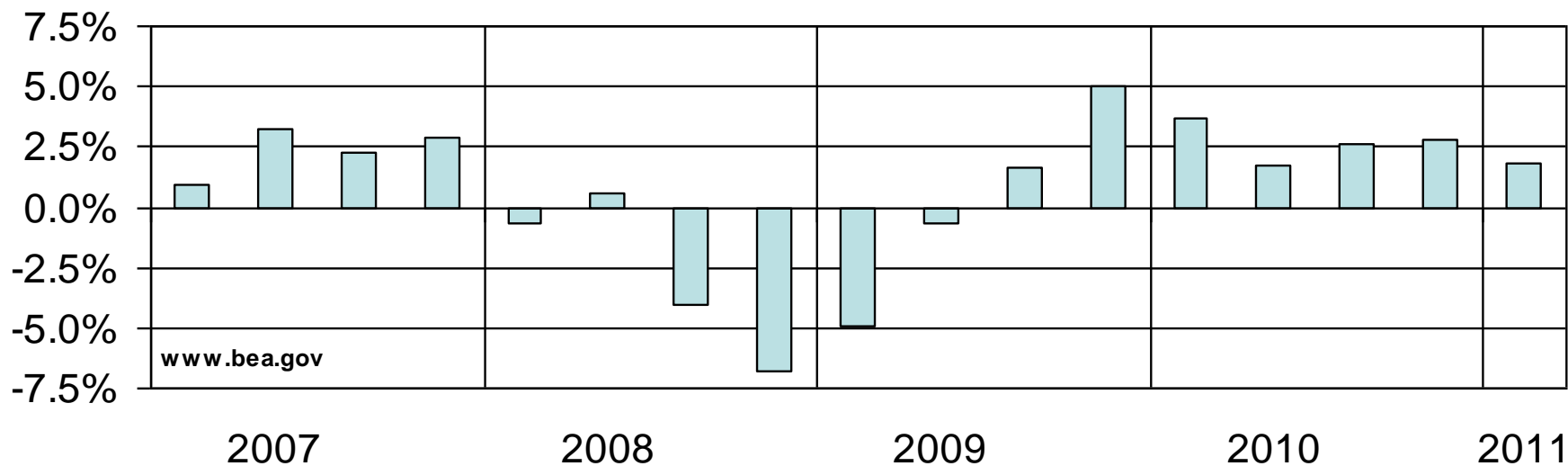
The opinions and comments by the presenter do not necessarily reflect the views of Northwest FCS

U.S. Job Losses

(from Bianco Research)



Economic Growth (Real GDP)



- $GDP = C + I + G + (X - M)$
- The economy expanded by 1.8% in Q1-2011
- Economic growth for all of 2010 amounted to 2.9%
- Growth remains too slow to bring unemployment down
- Q2 GDP growth expected to be 2.5-3.0%

Headwinds for a Strong Recovery

- Unemployment too high at 9.1% (uptick in May), underemployment almost 16% and May new jobs of only 54k (usually around 250k in a normal recovery)
- Weak new housing starts—560k annualized for the month of May (2+ million during housing bubble with normal around 1.2 million)
- Consumer spending and confidence/sentiment is weak—consumer spending accounts for 67% of GDP
- However, retail sales are picking up and above historical averages
- Small business development and hiring is lagging in this post-recession recovery

U.S. Economy will recover...eventually

- U.S. GDP is more than double that of Japan or China
- 2010 GDP:
 - USA - \$14.6 trillion
 - China - \$5.7 trillion
 - Japan - \$5.4 trillion
 - Germany - \$3.3 trillion
 - Brazil - \$2.0 trillion
 - India - \$1.4 trillion
 - Russia - \$1.5 trillion
 - European Union – \$16.4 trillion**
- US Dollar is the reserve currency of the world
- Stable government and infrastructure (Capital Markets)
- Innovation and creativity abilities

Key Issues to Resolve

- U.S. Govt fiscal budget and deficit spending problems—impact to AAA rating and low rates
- Housing problems:
 - Fannie/Freddie reform—post 2012 election
 - Foreclosure problems—another 3 – 4 years?
 - Underwater mortgages are limiting job mobility
- European debt crisis—European banks hold large amount of European sovereign debt
- When will Japan rebuilding start?

Interest Rate Forecast

- Fed Funds forecast = 0.25% through 2011 and into Q2 2012
- Fed continues to maintain commitment to keep rates at “exceptionally low levels” for an “extended period” of time at recent meeting
- Core Inflation has remained mild but May’s number is starting to show pressure—annual increase of 1.5% for Core CPI and 3.4% for CPI (Headline Inflation)
- Change in Fed language will come before actual rate increases
- Prime Rate stays at 3.25% into Q2 2012

Interest Rate Forecast cont.

- Tough to predict longer term rates
- 10Y Treasury has been volatile because:
 - US fiscal problems
 - S&P downgrade from “Stable” to “Negative” for US Debt
 - End of Fed Quantitative Easing Part II on 6/30/11
 - Japan tsunami and nuclear crisis
 - European sovereign debt crisis
- Large U.S. deficit and borrowings will have a larger impact on Treasury rates than historical factors like inflation
- 10Y Treasury Yields = 3.00 – 3.75% over the next 12 months??? (currently at 3.00%)

Today and Tomorrow's Business Environment

- Low short-term and long-term interest rates—Positive
- U.S. government fiscal problems—Negative, but reforms needed for Positive impacts long-term
- U.S. economy is still growing despite all the negatives like unemployment and housing problems—Positive
- Regulation (banking, consumer protection, derivatives, etc) are dramatically increasing—Negative s/t, but potentially Positive l/t
- Large businesses and investors still have lots of cash on their balance sheets—Positive
- Bifurcation of consumers (shrinking middle class)—Unknown

Questions?

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- Sorry, I am not on Twitter and do not use Facebook very much