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Outlook: The U.S. in 2050

The economic upheaval of the past few years has necessarily focused the attention of America’s political leaders on short-term measures that will get the country back on track. At the same time, policymakers can’t afford to lose sight of long-term challenges posed by significant population growth in the U.S. over the next four decades.

Economist Joel Kotkin predicts the U.S. population will climb from about 300 million people today to 400 million by mid-century. In his latest book, *The Next Hundred Million: America in 2050*, he argues that the United States’ greatest priority will be to create opportunities for this huge number of new people.

Kotkin is a consultant on economic development issues around the world and is the “New Geographer” columnist for Forbes.com. He is also the Distinguished Presidential Fellow in Urban Futures at Chapman University in Orange, Calif., and an adjunct fellow at the Legatum Institute in London. OUTLOOK recently spoke with Kotkin about what could go right, and wrong, over the next 40 years.

OUTLOOK: You project the United States will grow to 400 million people by 2050. What will be required for those 100 million more people?

Joel Kotkin: There needs to be an investment in all forms of infrastructure – roads, freight rail, ports, airports, education. Without these we will suffer terrible inefficiencies. We have to have both wise fiscal management and growth. We also need to think big and not suffer a poverty of ambition.

A colleague of mine has said that we may have to build 150 new cities. How do we build those cities? How do we build the infrastructure so that we have the energy, water and all that? There is really very little thought going into that right now. If the U.S. is going to deal with its budget problems for the long term, we’re not only going to have deal with 100 million people, but we’re going to have to make them productive. They’re going to need to be able get around, to be in touch with each other electronically and they’re going to need resources, food, energy and water.



Joel Kotkin is a Distinguished Presidential Fellow in Urban Futures at Chapman University.

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OUTLOOK: Will these changes be a net positive or a net negative for the United States?

JK: It's going to be a net positive, if we do the right thing. We're in a better situation than the countries we compete against. Our work force will increase by a considerable amount, whereas the Europeans and Japanese and Koreans – almost all advanced country workforces – will be aging very, very rapidly. We certainly have some great advantages there. But if our economy stagnates, this advantage could turn into a disadvantage. The economy stagnating would hurt aging countries, as well. But if we end up with a generation of Millennials, let's say, that goes through 10 or 15 years of 10-percent or 9-percent unemployment, it will be very negative. And certainly we don't want to see that.

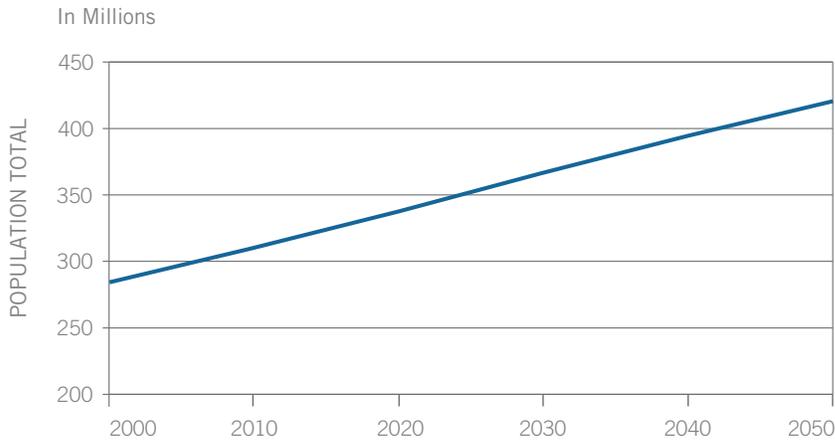
OUTLOOK: How is it that the United States will see its population grow by 33 percent over the next 40 years while most developed countries are shrinking? What accounts for the difference?

JK: There are three major factors. One is immigration. Most of Western Europe is shutting down its immigration. The second is the fact that Americans have single-family homes. If you force people to live in high density, they likely will have fewer children. That's just a tautology among relatively educated populations. The third thing is that Americans are more religious. Sixty percent think religion is important. In most of Western Europe and East Asia, it's 15 percent or less. Religious people have more kids than non-religious people. Those are probably three major points of divergence. There are others that have to do with the national ethos, but that's much less tangible.

OUTLOOK: How will the next hundred million Americans differ most significantly from the first 300 million?

JK: If you look at the population by race today, it's about 65 percent non-Hispanic Anglo; 16 percent Hispanic; 12 percent black; 5 percent Asian; about 2 percent everything else. By 2050, you're looking at about 8 percent Asian; 12 percent black; 30 percent Hispanic; and only 46 percent non-Hispanic Anglo. So, you're talking about a very dramatic change. Who knows if it will be exactly that way, but it will be very different from today.

PROJECTED GROWTH OF THE U.S. POPULATION



Source: U.S. Census Bureau

But I also think this population will have a very strong mixed-raced characteristic. In other words, there will be a lot of people of mixed ancestry. We already can see it in the mixture in food, in culture and music. And that's just going to continue to accelerate. I was in Louisville, Kentucky, recently and there was a band called Appalatin – a blend of Appalachian music with Latino music. This will be the most diverse large population in world history. There's nothing even remotely close. The reason I say 'large population' is that you may see Australia and Canada with some of the same characteristics in a much smaller population base.

Business will see tremendous opportunities within this trend. You almost have to think of immigration, and the children of immigrants, as a developing country within a developed one. If you go to a Latin- or Asian-dominated shopping center, they are experiencing growth rates that are more similar to what you find in an Indian or Chinese city than what you find in most American cities. The Hispanic market alone in the U.S. is one of the largest markets. The U.S. ethnic market is now the sixth largest market in the world. And it's growing very rapidly. The Asian market in the U.S. has gone from \$116 billion in 1990 to \$752 billion today.

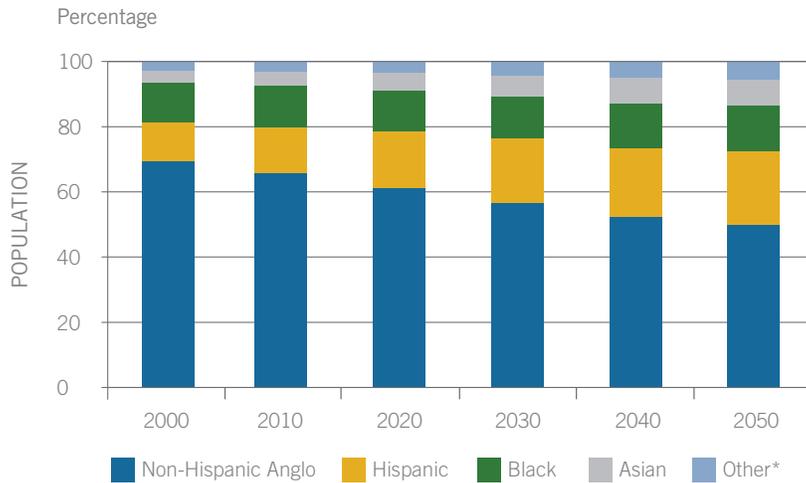
Additionally, immigrants and their offspring are moving out of cities and into suburbs. They are gradually moving into the interior of the country. This will energize both the heartland and the suburbs with growing markets, labor and entrepreneurs.

OUTLOOK: What regions of the country will rise up due to population increases? What regions won't?

JK: The big winner of the big states is Texas – lots of land, pro-business, pro-growth. Texans are also pretty tolerant in terms of ethnic diversity. I've spent a lot of time in Texas, and it's a pretty upbeat place. They're saying: "We're going to build up a port, we're going to build up the airport, we're going to build new communities, and we're going to build up universities." That's what California was like in 1970s.

If you get a bunch of California businessmen in a room and a bunch of Texas businessmen in a room, you get a very different vibe. In Texas, you get more people saying things like, "I'm going to expand, I'm going to do this, I'm excited about the future." In California, it's more, "How do I protect myself from the government, can I move any of the functions of

PROJECTED PERCENTAGES OF THE U.S. POPULATION BY RACE AND HISPANIC ORIGIN



*Includes American Indian, Alaska Native, Native Hawaiian, Pacific Islander or Multiracial

Source: U.S. Census Bureau

my business either oversees or to another part of the country?" I just don't see that kind of verve in California that I used to see.

There are some strong players on the West Coast, such as Seattle, which has headquarters for Costco, Amazon, Starbucks, Boeing operations and Microsoft. It's tremendously strong, along with the clean energy of hydroelectric power. They are the one state that held it together. Not so much the case in Oregon and California.

OUTLOOK: *You've written that 2010 may mark the end of the California era and the beginning of the Texas one.*

JK: You have a state that's pro-growth, that has lots of energy. I was just at Texas Tech in Lubbock. They're building like mad, they're expanding their

student base. It's really very different than the kind of feeling that you get at a University of California or Cal State campus, where they're just trying to hold on.

People move to Texas for opportunity; you don't go there for the scenery. You could almost say that Texas is what California was, in terms of being the land of opportunity. And maybe it's just a natural historical progression. California got crowded, it got rich, it decided it really didn't care about growing. One academic talked about San Francisco as on the cutting edge of this – as being "post-economic" – in which people go there not to make a living or to progress, but for lifestyle reasons.

OUTLOOK: *What other regions of the country show promise in your view?*

JK: The Great Plains, that whole region that starts in west Texas and goes all the way to the Dakotas, is sort of a great opportunity region in the next 20-30 years. Low cost, lots of energy, very strong basic industries, good work ethic, and a lot of good land-grant colleges. These states also offer a good quality of life that, for most people, can no longer be afforded on the coasts. Des Moines, Omaha, Fargo, Sioux Falls, going all the way down to Fort Worth and Dallas, those are places doing pretty well. Oklahoma is another one.

OUTLOOK: *What will the next 40 years of change mean for rural areas versus cities and suburbs?*

JK: Rural areas will be reinvented. Many small towns will disappear but others will thrive. More rural residents will be plugged into the metropolitan economy via telecommunications and transportation linkages.

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The secular trend on migration is out of the big mega-regions and out of the very small towns to cities with populations of 250,000 to about 2.5 million. They're going to have to figure out how to grow intelligently and avoid some of the problems the big mega-regions have. And at the same time, these regions also need to figure out how to maintain the transportation and communications linkages that they need to participate in the global community.

Much of what the U.S. will be exporting will be coming from that rural part of the country. Food is absolutely critical. A lot of the manufacturing has been moving to that part of the country, Caterpillar and companies like that. You're going to see a lot of high-tech coming out of those areas as well.

OUTLOOK: What about resources like energy and water? Do we need to worry about shortages?

JK: If we have shortages, we will to some extent have created them either by not having adequate conservation, which is very important, and not developing the resources we have. We certainly have the natural gas. It's just a question of whether we're going to go get it; the same is true for water as well. California has got huge amounts of water locked up in the Sierra. But do we build more dams so on wet years we can store more water for the dry ones? Or do we do nothing? Fundamentally, there's an element in the U.S. that says, "No, we're not going to build anything new, we're going to go steady state." Well, if we had a steady state population, you could make that case, but you don't have a steady-state population.

OUTLOOK: How important will renewable energy be?

JK: All you're doing with renewables is exchanging somewhat cheaper conventional energy for much more expensive renewable energy, and that equation doesn't work very well for the economy. The renewables are a longer term thing. The notion that you're going to get anything remotely affordable on renewables on a massive scale is pretty far-fetched. Hopefully that will change over time. Also, these huge solar projects can have a bad environmental impact. And they're going to generate electricity for 30,000 homes. A gas-fired plant, or a nuclear plant, can do many times that.



Essentially, ‘efficient cities’ will be smaller cities that offer the amenities and advantages of mega-cities without the congestion.

OUTLOOK: *You describe the concept of “efficient cities.” What are they and where will they be located?*

JK: Let’s say Houston, with 5 million people, can now provide very much what New York can provide, in terms of the economics. Now there are cultural things you can provide in New York that you can’t get elsewhere. But in terms of functionality, you get the functionality at a lower cost, shorter commutes, so that’s what I mean by efficiency. Houston is able to do it with a bigger population than what some other cities are able to do. You try to get up around 10 million population and it starts to get very dysfunctional. I would argue that Los Angeles 20 years ago or 30 years ago, in many ways, functioned much better than it does now. Essentially, these will be smaller cities – here or abroad – that offer the amenities and advantages of mega-cities without the congestion. These are places that are well-managed and have a good sense of their identity.

OUTLOOK: *What policies should the federal government focus on to deal with the changes that are coming? What mistakes should it make sure to avoid?*

JK: It should get away from the one-size-fits-all, we-know-best mentality. We have to re-embrace the idea of federalism. If Portland isn’t interested in growth and is more interested in being green, more interested in banning cars or whatever they want to do, let them try it. That’s what a federal system is about, within certain limits. We really need to think about the fact that this is a very big country, with very big differences culturally and economically. You can’t have the whole country try to be like Massachusetts, which has its own unique demography, history and economic trajectory. No one’s approach is better; no one’s approach is worse. They’re just different.

Interest Rates and Economic Indicators

The interest rate and economic data on this page were updated as of 12/31/10. They are intended to provide rate or cost indications only and are for notional amounts in excess of \$5 million except for forward fixed rates.

KEY ECONOMIC INDICATORS

Gross Domestic Product (GDP) measures the change in total output of the U.S. economy. The Consumer Price Index (CPI) is a measure of consumer inflation. The federal funds rate is the rate charged by banks to one another on overnight funds. The target federal funds rate is set by the Federal Reserve as one of the tools of monetary policy. The interest rate on the 10-year U.S. Treasury Note is considered a reflection of the market's view of longer-term macroeconomic performance; the 2-year projection provides a view of more near-term economic performance.

ECONOMIC AND INTEREST RATE PROJECTIONS

Source: Insight Economics, LLC & Blue Chip Economic Indicators **US Treasury Securities**

2010	GDP	CPI	Fed Funds	2-year	10-year
Q3	2.50%	1.50%	0.19%	0.50%	2.80%
Q4	2.50%	2.10%	0.19%	0.50%	2.80%
2011	GDP	CPI	Funds	2-year	10-year
Q1	2.50%	1.70%	0.19%	0.60%	3.10%
Q2	2.80%	1.40%	0.20%	0.70%	3.50%
Q3	3.00%	1.70%	0.22%	0.80%	3.60%

PROJECTIONS OF FUTURE INTEREST RATES

The table below reflects current market expectations about interest rates at given points in the future. Implied forward rates are the most commonly used measure of the outlook for interest rates. The forward rates listed are derived from the current interest rate curve using a mathematical formula to project future interest rate levels.

IMPLIED FORWARD RATES

Years Forward	3-month LIBOR	1-year Swap	3-year Swap	5-year Swap	7-year Swap	10-year Swap
Today	0.30%	0.47%	1.34%	2.24%	2.89%	3.46%
0.25	0.40%	0.58%	1.55%	2.41%	3.01%	3.55%
0.50	0.51%	0.78%	1.75%	2.64%	3.18%	3.69%
0.75	0.65%	1.00%	2.03%	2.85%	3.38%	3.84%
1.00	0.85%	1.24%	2.23%	3.05%	3.50%	3.94%
1.50	1.38%	1.79%	2.76%	3.43%	3.84%	4.20%
2.00	1.91%	2.28%	3.17%	3.75%	4.07%	4.37%
2.50	2.39%	2.76%	3.55%	4.03%	4.30%	4.54%
3.00	2.88%	3.25%	3.93%	4.31%	4.52%	4.71%
4.00	3.70%	4.05%	4.48%	4.68%	4.84%	4.94%
5.00	4.19%	4.54%	4.79%	4.93%	5.01%	5.06%

HEDGING THE COST OF FUTURE LOANS

A forward fixed rate is a fixed loan rate on a specified balance that can be drawn on or before a predetermined future date. The table below lists the additional cost incurred today to fix a loan at a future date.

FORWARD FIXED RATES

Cost of Forward Funds

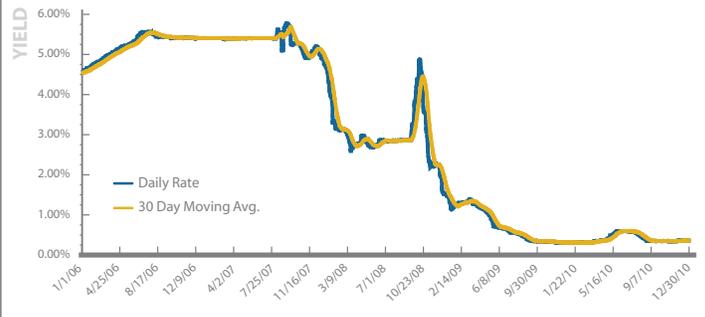
Forward Period (Days)	Average Life of Loan			
	2-yr	3-yr	5-yr	10-yr
30	8	10	10	7
90	19	24	26	17
180	32	44	48	32
365	68	84	88	59

Costs are stated in basis points per year.

SHORT-TERM INTEREST RATES

This graph depicts the recent history of the cost to fund floating rate loans. Three-month LIBOR is the most commonly used index for short-term financing.

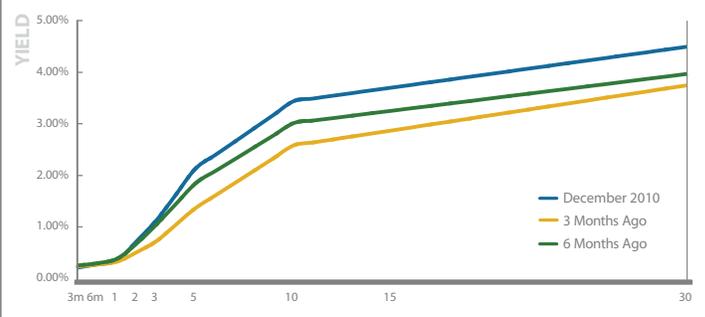
3-MONTH LIBOR



RELATION OF INTEREST RATE TO MATURITY

The yield curve is the relation between the cost of borrowing and the time to maturity of debt for a given borrower in a given currency. Typically, interest rates on long-term securities are higher than rates on short-term securities. Long-term securities generally require a risk premium for inflation uncertainty, for liquidity, and for potential default risk.

TREASURY YIELD CURVE





About CoBank

CoBank is a \$60 billion cooperative bank serving vital industries across rural America. The bank provides loans, leases, export financing and other financial services to agribusinesses and rural power, water and communications providers in all 50 states.

CoBank is a member of the Farm Credit System, a nationwide network of banks and retail lending associations chartered to support the borrowing needs of U.S. agriculture and the nation's rural economy. In addition to serving its direct borrowers, the bank also provides wholesale loans and other financial services to affiliated Farm Credit associations and other partners across the country.

Headquartered outside Denver, Colorado, CoBank serves customers from regional banking centers across the U.S. and also maintains an international representative office in Singapore. For more information about CoBank, visit the bank's web site at www.cobank.com.

Commentary in Outlook is for general information only and does not necessarily reflect the opinion of CoBank. The information was obtained from sources that CoBank believes to be reliable but is not intended to provide specific advice.

CoBank 2010 Conference Call and Webcast

Please join CoBank on **Tuesday, March 1, 2011, at 3 p.m. Eastern Time** for our year-end conference call and webcast. The 60-minute call will feature a presentation of 2010 financial highlights and Q&A with CoBank executives.

Joining via phone:

- Dial-in number: 866-362-4820
- Passcode: 16622859

Joining via the Internet:

- To register, visit www.cobank.com and click on the "2010 Earnings Webcast" link at the top of the page.

How to ask questions:

- Instructions will be provided on how to submit questions during the webcast. In addition, you can submit questions in advance by emailing them to corp.comm@cobank.com.

If you have additional questions, please contact CoBank Corporate Communications at 800-542-8072 x 45862.