

News Release

THE FEDERAL RESERVE BANK of KANSAS CITY

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Can Ethanol Power the Rural Economy?

Ethanol has become the holy grail for the economies of many rural communities across the nation with high oil prices and surging corn prices. While ethanol's success has been fierce, profits can swing wildly because of forces beyond the industry's control. What will ethanol profits look like in the future, and what are the risks for the industry?

"Can Ethanol Power the Rural Economy?" delves into the background, growth and profit potential of the booming ethanol industry. The article is featured in the most recent edition of the Federal Reserve Bank of Kansas City's *Main Street Economist*. Omaha Branch Executive and Assistant Vice President Jason Henderson and Senior Auditor Nancy Novack authored the article.

Novack and Henderson explore the mechanics and background of producing ethanol, as well as its attraction to rural communities, demonstrated by the strong wave of investment in new plants and existing plant upgrades.

The authors analyzed ethanol profits by simulating market reactions to varying corn prices and ethanol prices. The scenarios revealed not only a high variability in ethanol profits, but also a significant potential for losses when high corn prices are coupled with low crude oil prices.

Volatility in crude oil, ethanol and corn prices clearly pose risks to ethanol's profitability, as do transportation issues, policy changes and the potential for new technologies to change ethanol production practices.

The complete article is available on the Bank's Web site at www.kansascityfed.org.

The Tenth Federal Reserve District encompasses Colorado, Kansas, Nebraska, Oklahoma, Wyoming, northern New Mexico, and western Missouri.

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