

2019 Ag Forum - ASFMRA

Economic Outlook & Implications for Agriculture

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“There are two classes of forecasters – those who don’t know, and those who don’t know they don’t know..”

John Kenneth Galbraith

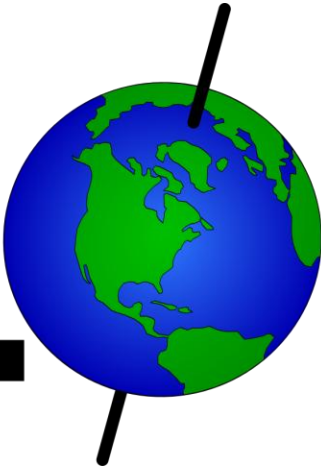




economic data:
view through your
own lens



GLOBAL

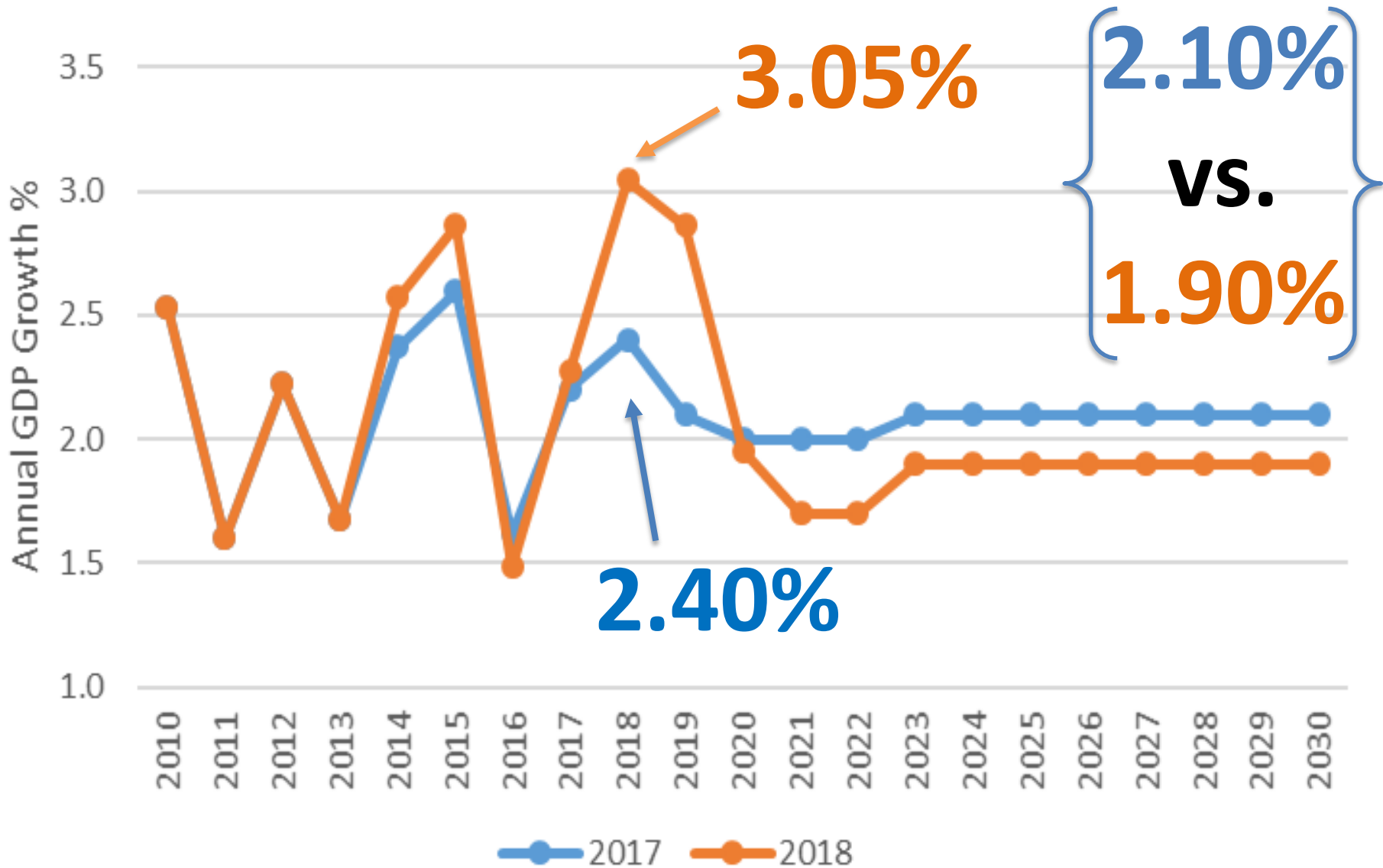


baseline GDP forecasts 2017 vs. 2018

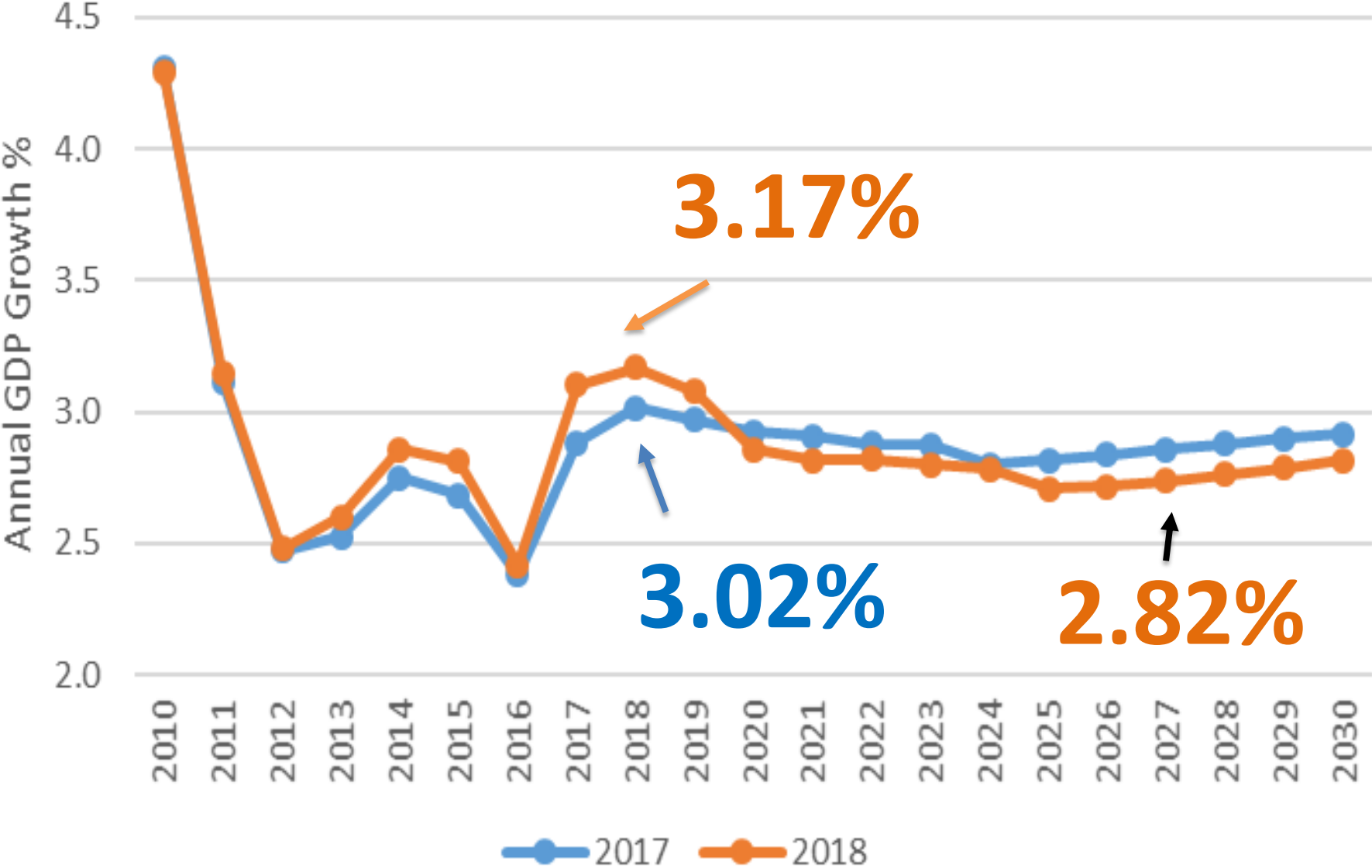
Source: World Bank World Development Indicators, International Financial Statistics of the IMF, IHS Global Insight, and Oxford Economic Forecasting, as well as estimated and projected values developed by the Economic Research Service all converted to a 2010 base year. See: USDA-ERS International Macroeconomic Dataset at

<https://www.ers.usda.gov/data-products/international-macroeconomic-data-set.aspx>

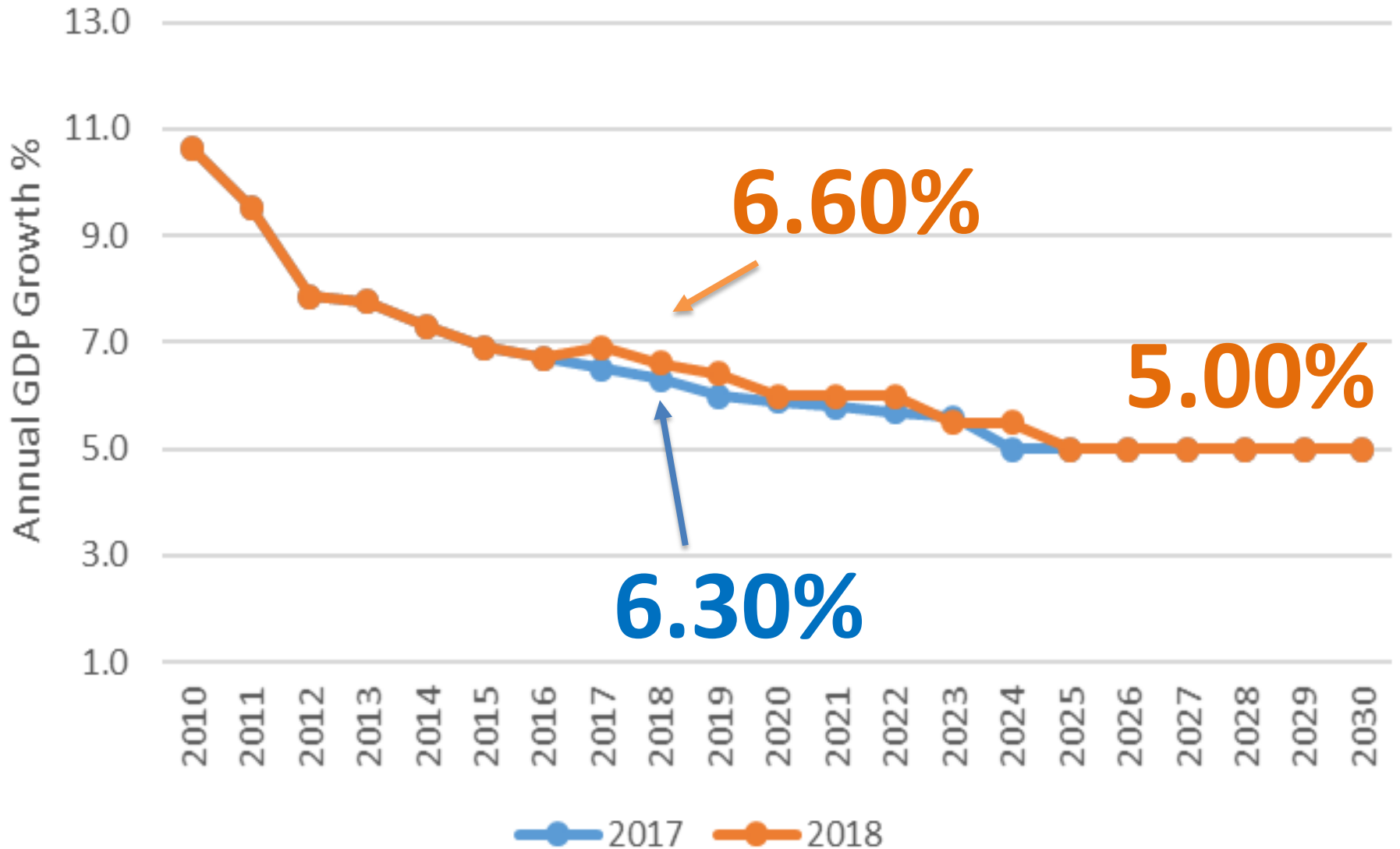
United States GDP Forecasts



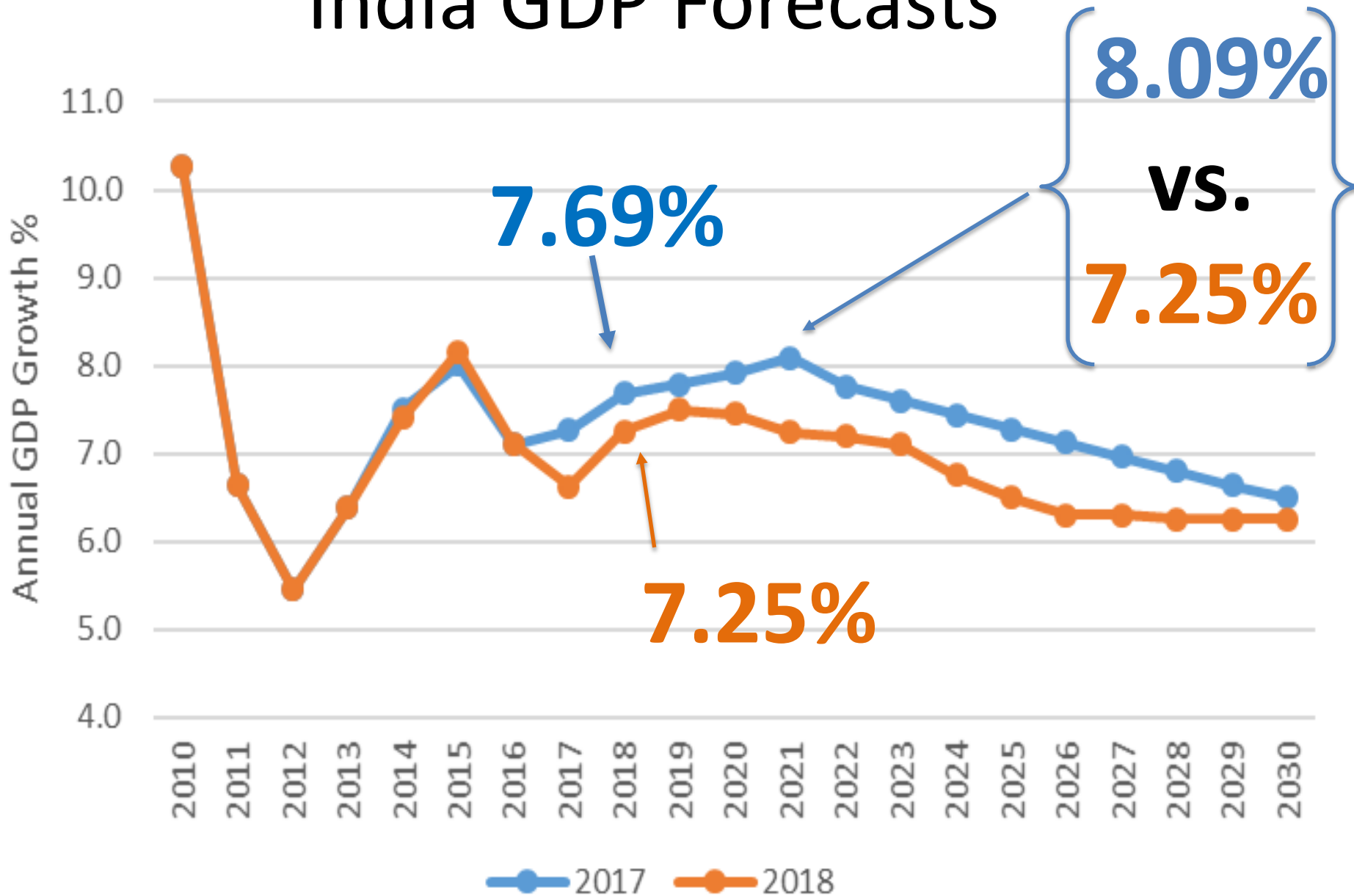
World GDP Forecasts



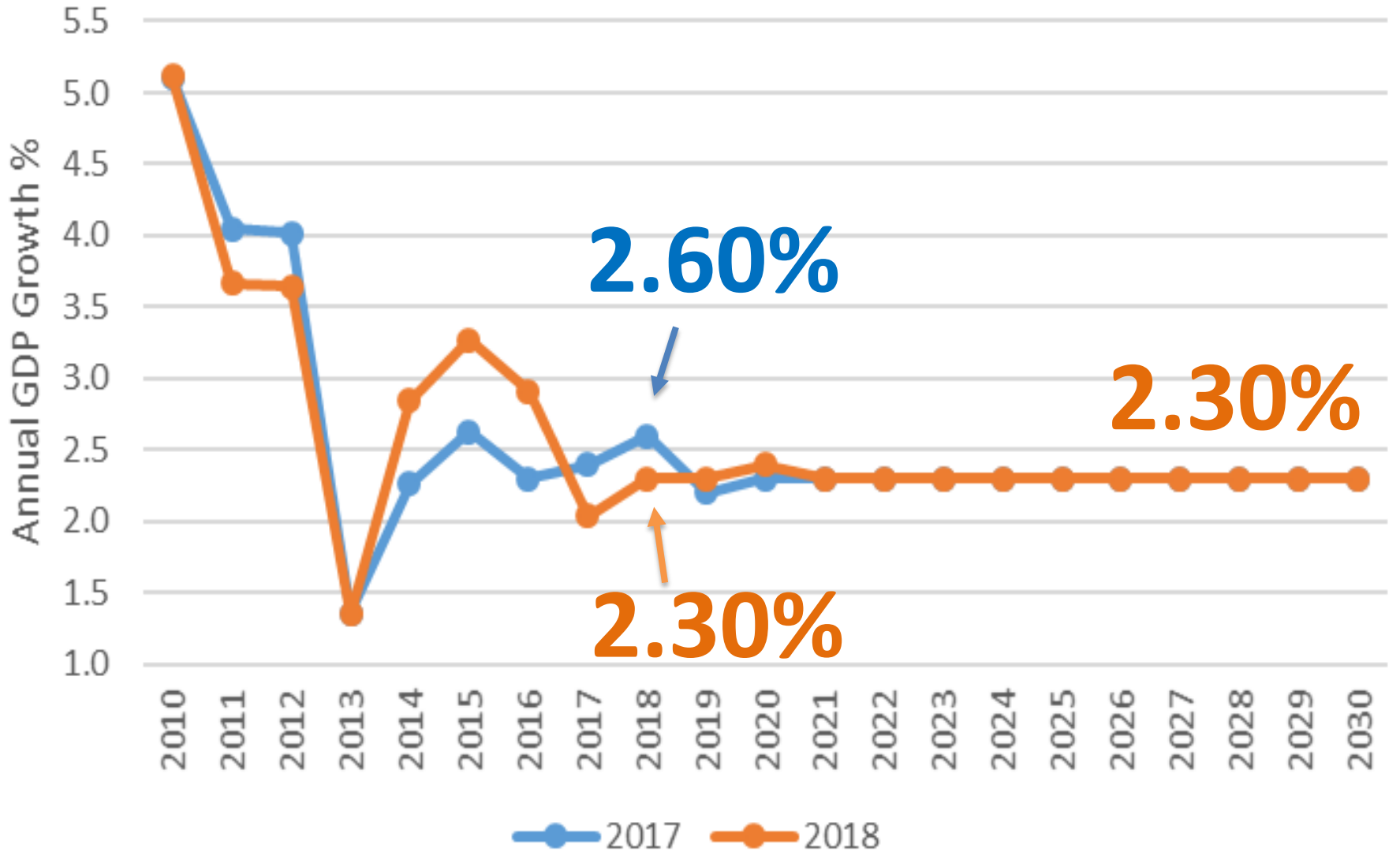
China GDP Forecasts



India GDP Forecasts



Mexico GDP Forecasts



Multiple Choice: the country with highest forecasted avg. real GDP growth rate from 2019 to 2030 is.....

- a) India**
- b) Guyana**
- c) Libya**
- d) France**

Guyana

8.84%



Source: World Bank World Development Indicators, International Financial Statistics of the IMF, IHS Global Insight, and Oxford Economic Forecasting, as well as estimated and projected values developed by the Economic Research Service all converted to a 2010 base year. See: USDA-ERS International Macroeconomic Dataset at <https://www.ers.usda.gov/data-products/international-macroeconomic-data-set.aspx>

Summary

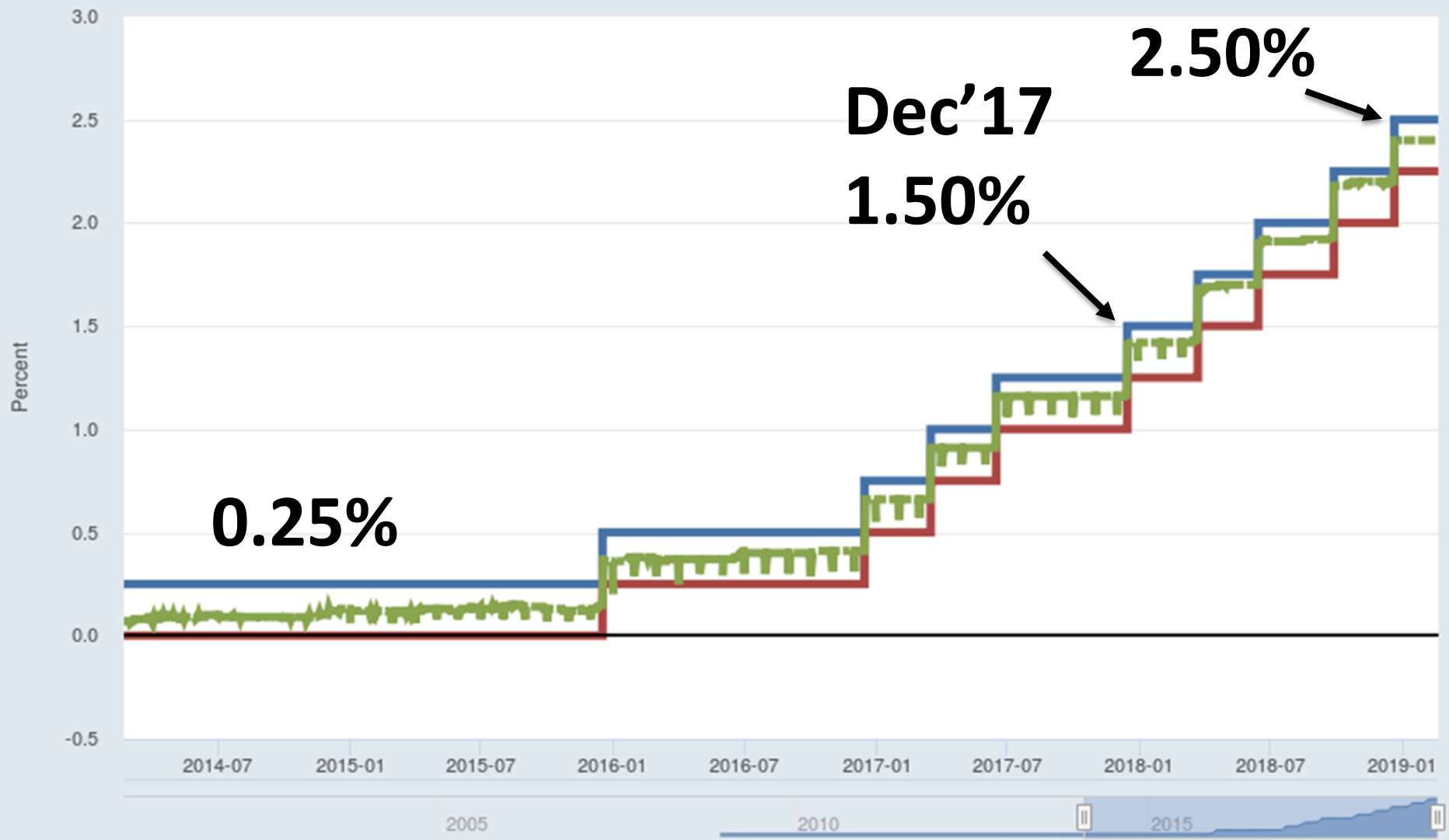
- 2018 was a good year > 2017 forecast
- Generally stable U.S. and World GDP growth
- Some revisions downward for long run
- Slowing growth prospects in China and India
- Shocks?
- Innovation?







- Federal Funds Target Range - Upper Limit
- Federal Funds Target Range - Lower Limit
- Effective Federal Funds Rate



0.25%

**Dec'17
1.50%**

**Dec'18
2.50%**

Shaded areas indicate U.S. recessions

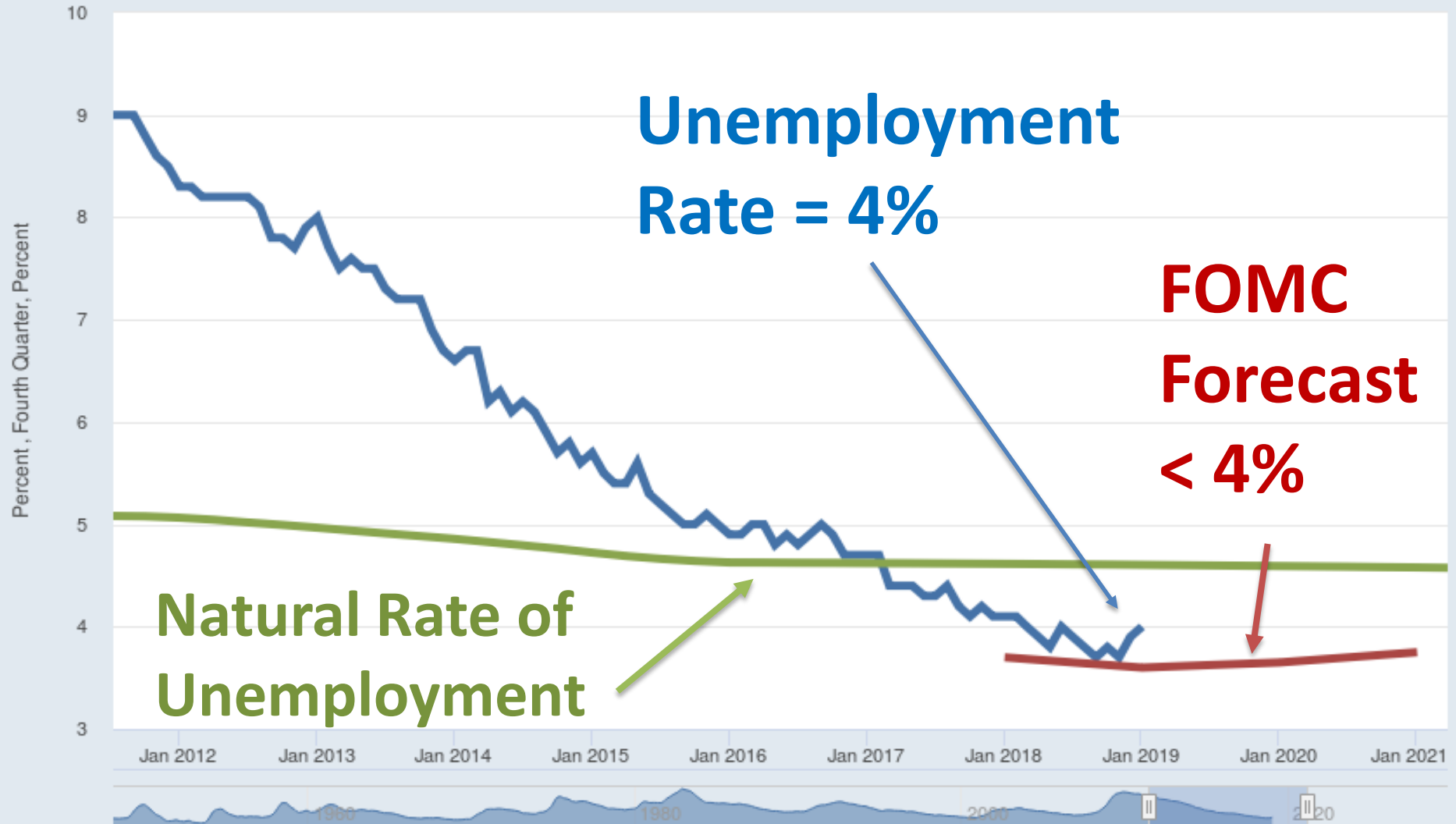
Sources: Board of Governors, New York Fed

myf.red/g/n2BB

United States Unemployment

FRED

- Civilian Unemployment Rate
- FOMC Summary of Economic Projections for the Civilian Unemployment Rate, Central Tendency, Midpoint
- Natural Rate of Unemployment (Long-Term)



Shaded areas indicate U.S. recessions

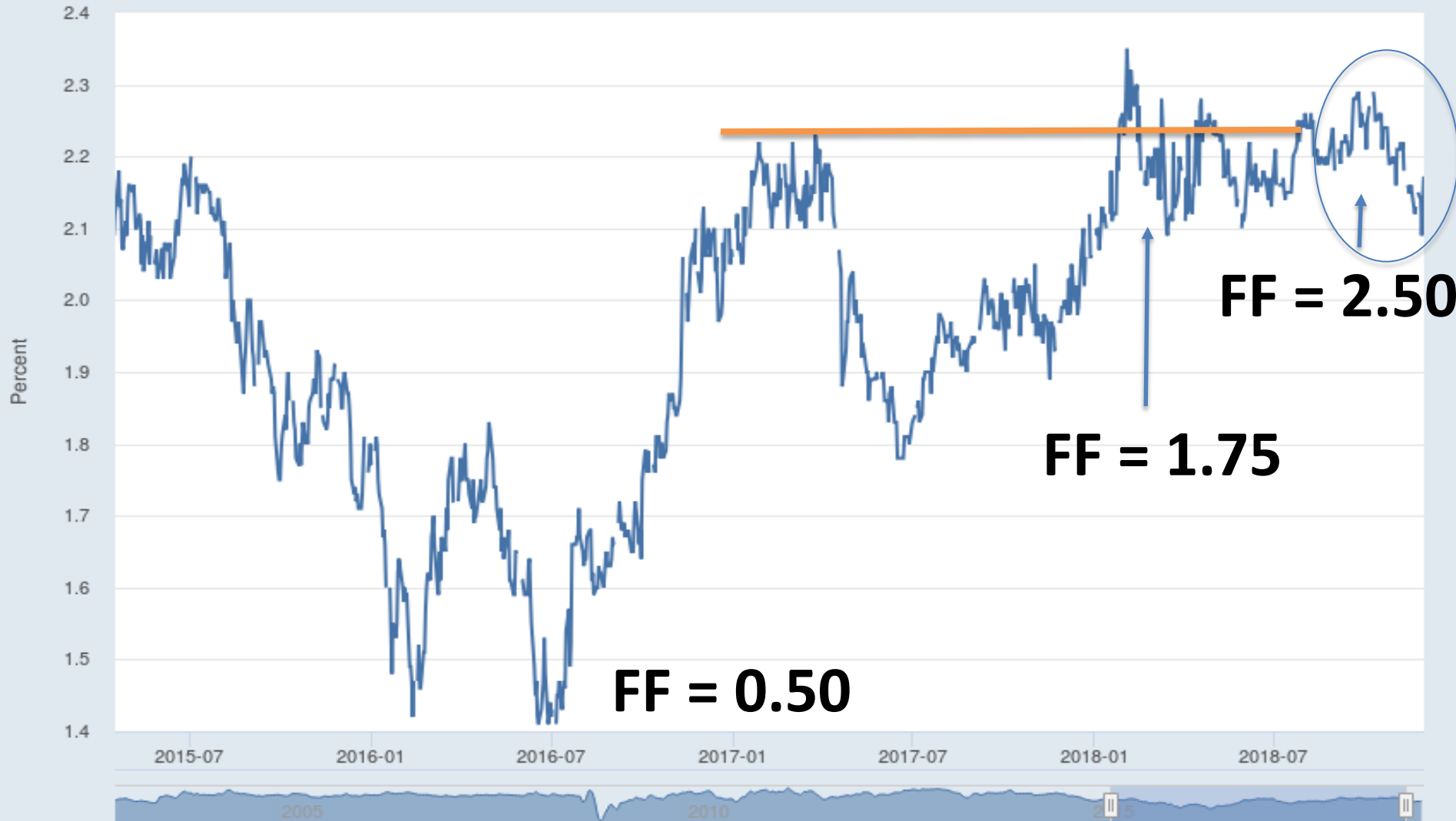
Sources: BLS, CBO, St. Louis Fed

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Expected 5-Yr. Inflation / 5 Yrs. from Now

FRED

— 5-Year, 5-Year Forward Inflation Expectation Rate



Shaded areas indicate U.S. recessions

Source: Federal Reserve Bank of St. Louis

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CME Fed Watch: a market-based forecast

CME FedWatch Tool

Stay up-to-date with the latest probabilities of FOMC rate moves with the CME FedWatch Tool.

<http://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html/?redirect=/trading/interest-rates/fed-funds.html>

March 2018 FOMC Meeting

Probability	Federal Funds Target
16.9%	125 - 150 bps
83.1%	150 - 175 bps

March 2019 FOMC Meeting

Probability	Federal Funds Target
96.1%	225 - 250 bps
3.9%	250 - 275 bps

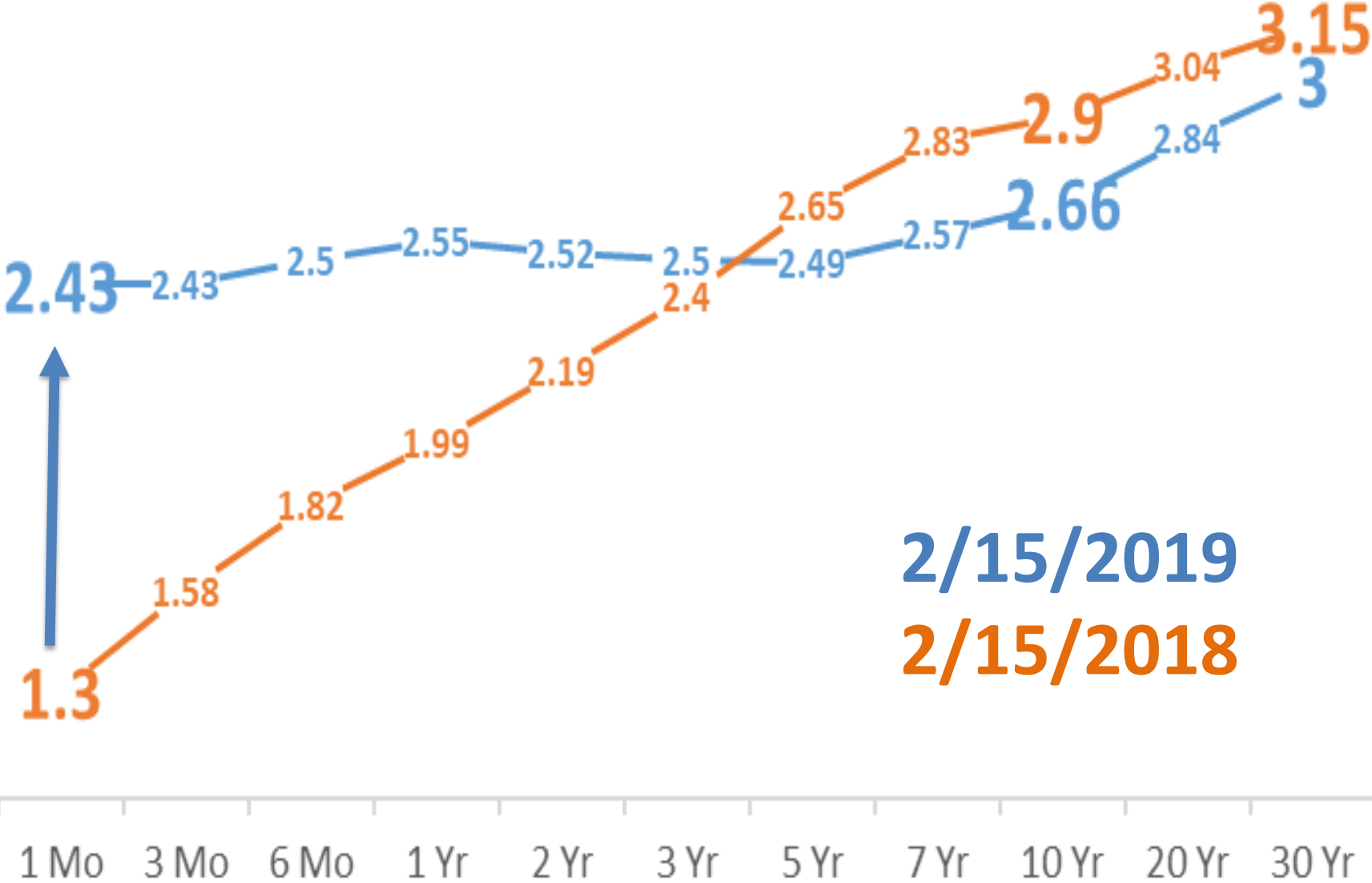
Jan 2020 FOMC Meeting

Probability	Federal Funds Target
0.9%	175 - 200 bps
15.3%	200 - 225 bps
78.9%	<i>225 – 250 bps</i>
4.8%	250 – 275 bps
0.1%	275 – 300 bps

<u>%</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
3.63		**	**
3.50			
3.38		***	*
3.25			
3.13	*****	****	*****
3.00			
2.88	*****	*****	****
2.75			
2.63	****	*	***
2.50			
2.38	**	*	*
2.25			

**FOMC
Projections
12.19.18**

Treasury Yield Curve



10 Yr. Treasury, Aaa, and Baa Bond Yields

FRED

- Long-Term Government Bond Yields: 10-year: Main (Including Benchmark) for the United States
- Moody's Seasoned Aaa Corporate Bond Yield
- Moody's Seasoned Baa Corporate Bond Yield



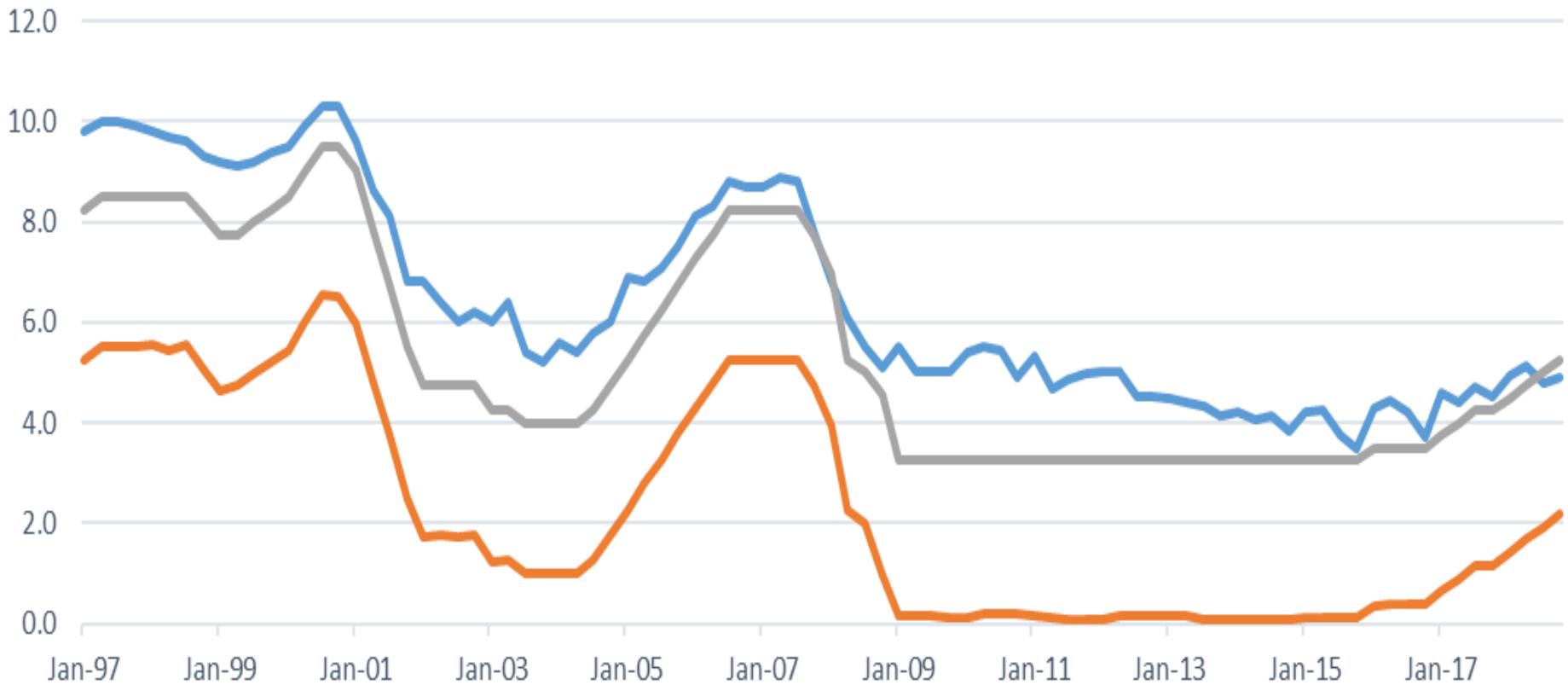
Shaded areas indicate U.S. recessions

Sources: Moody's, OECD

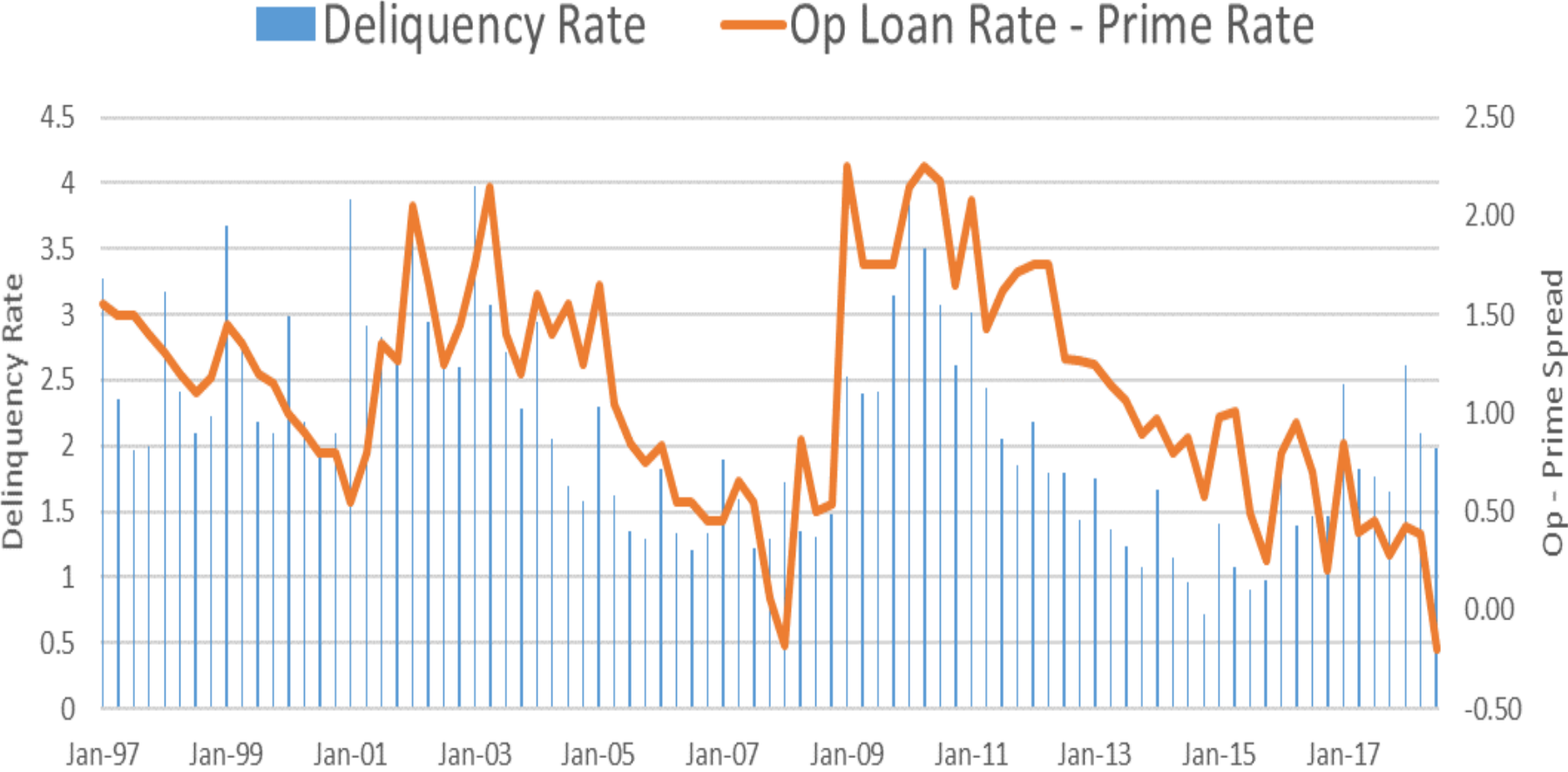
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Operating Loan Rate vs. Prime Rate

— Operating Loan Rate — Fed Funds Rate — Prime Rate



Op Loan Rate – Prime vs. Delinquencies



Summary

- Strong employment outlook
- Inflation in check – rate increases working
- Fed sentiment in contrast to market sentiment
- Long-term yield spreads stable / narrowing
- Ag operations loans – interest too low?
- Long-term treasury yields?

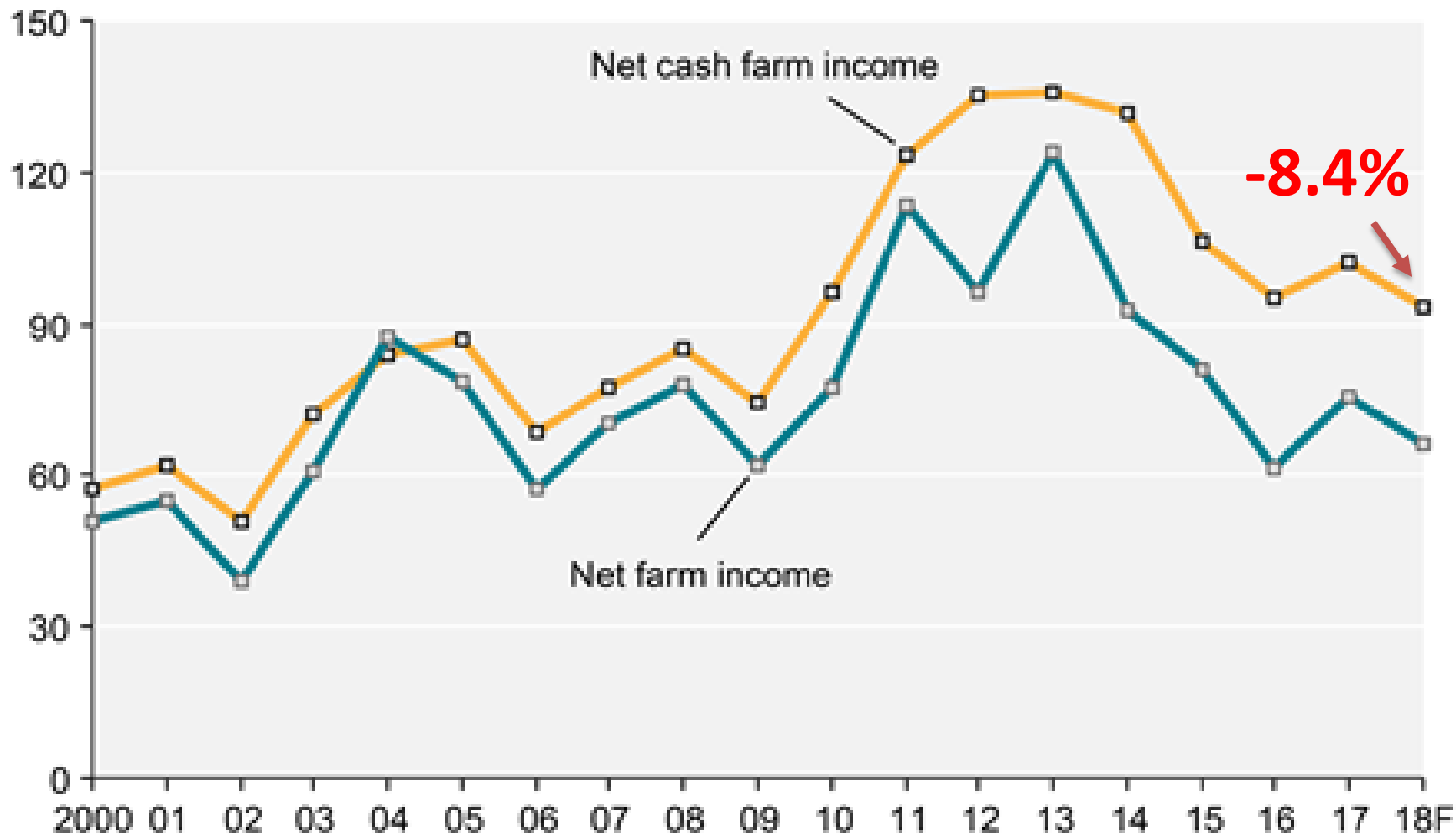


farm income?: a story of low prices



Net farm income and net cash farm income, 2000-18F

\$ billion, nominal



Note: F = forecast.

Source: USDA, Economic Research Service, Farm Income and Wealth Statistics.

Data as of November 30, 2018.

Average Net Cash Farm Income

Commodity Specialization	Change 2017F to 2018F (last year)	Change 2017 to 2018F (current)
Cotton	-9.1%	-6.3%
Specialty Crops	-7.8%	-15.1%
Other Crops	-6.7%	-2.6%
Cattle / Calf	+6.2%	-25.2%
Dairy	-19.2%	-40.5%

Source: USDA, Economic Research Service, Farm Income and Wealth Statistics data product, Farm business average net cash income by commodity specialization and region. Data as of November 30, 2018.

See: <https://www.ers.usda.gov/topics/farm-economy/farm-sector-income-finances/farm-business-income/>

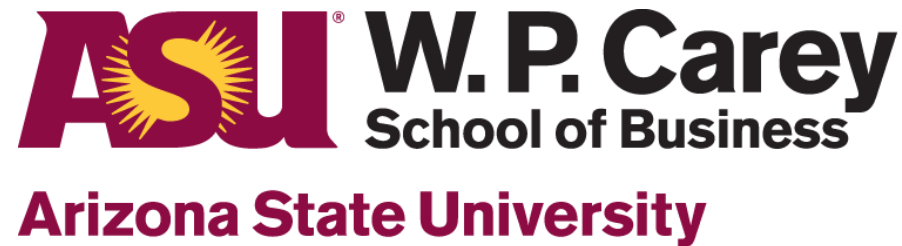
Thoughts for Agribusiness?

- Respectable and steady growth in output
- Low inflation for now
- Interest rates and cost of capital
- Farm income and farm financial performance?
- Risk is just variability of outcomes (good and bad)



100% certainty

Thank you!



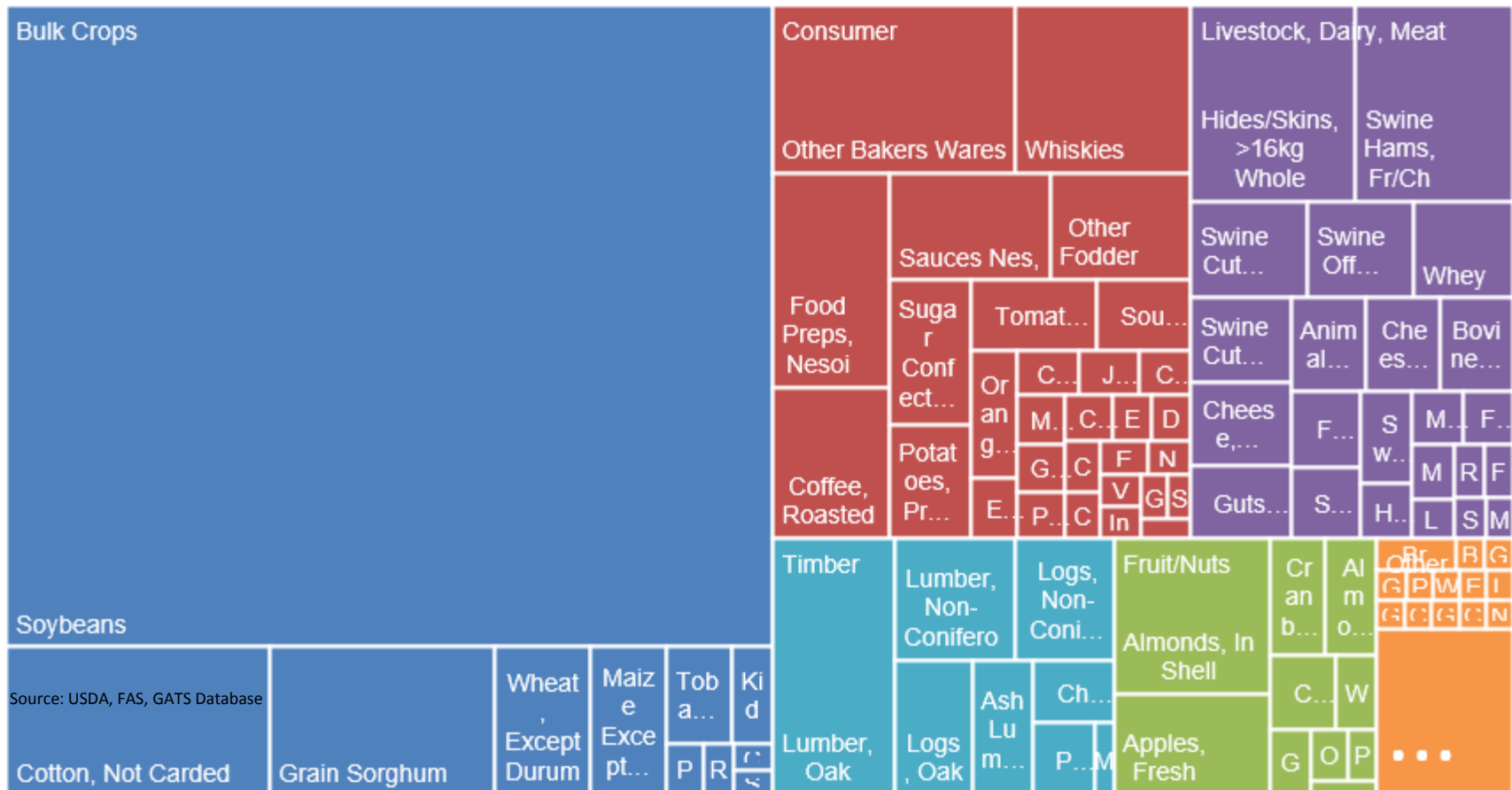
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Tariffs Specific to Agriculture

■ Bulk Crops ■ Consumer ■ Fruit/Nuts ■ Livestock, Dairy, Meat ■ Timber ■ Other



Source: USDA, FAS, GATS Database

AG TECH: 100+ TECHNOLOGY COMPANIES CHANGING THE FARM

