

2023 Ag Forum – AZ ASFMRA

State, Regional & National Economic Outlook

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Morrison School of Agribusiness



Hello Chatbot



Hello! How can I assist you today?

MA

I am giving a talk tomorrow at the annual Arizona Ag Forum sponsored by the AZ Chapter of the American Society of Farm Managers and Rural Appraisers. I would like to start my talk with a short joke. I need a joke that the attendees will appreciate, and one that also makes fun of agricultural economists. Do you have any suggestions?



I see! Here's a short joke you could use to start your talk:

Why did the agricultural economist quit his job?

Because he was tired of just farming for compliments!

I hope this joke works well for your audience and helps set a light-hearted tone for your talk.

Good luck with your presentation!



overview

Economic growth

Interest rates & inflation

Farm income &
commodity price outlook

Thoughts...

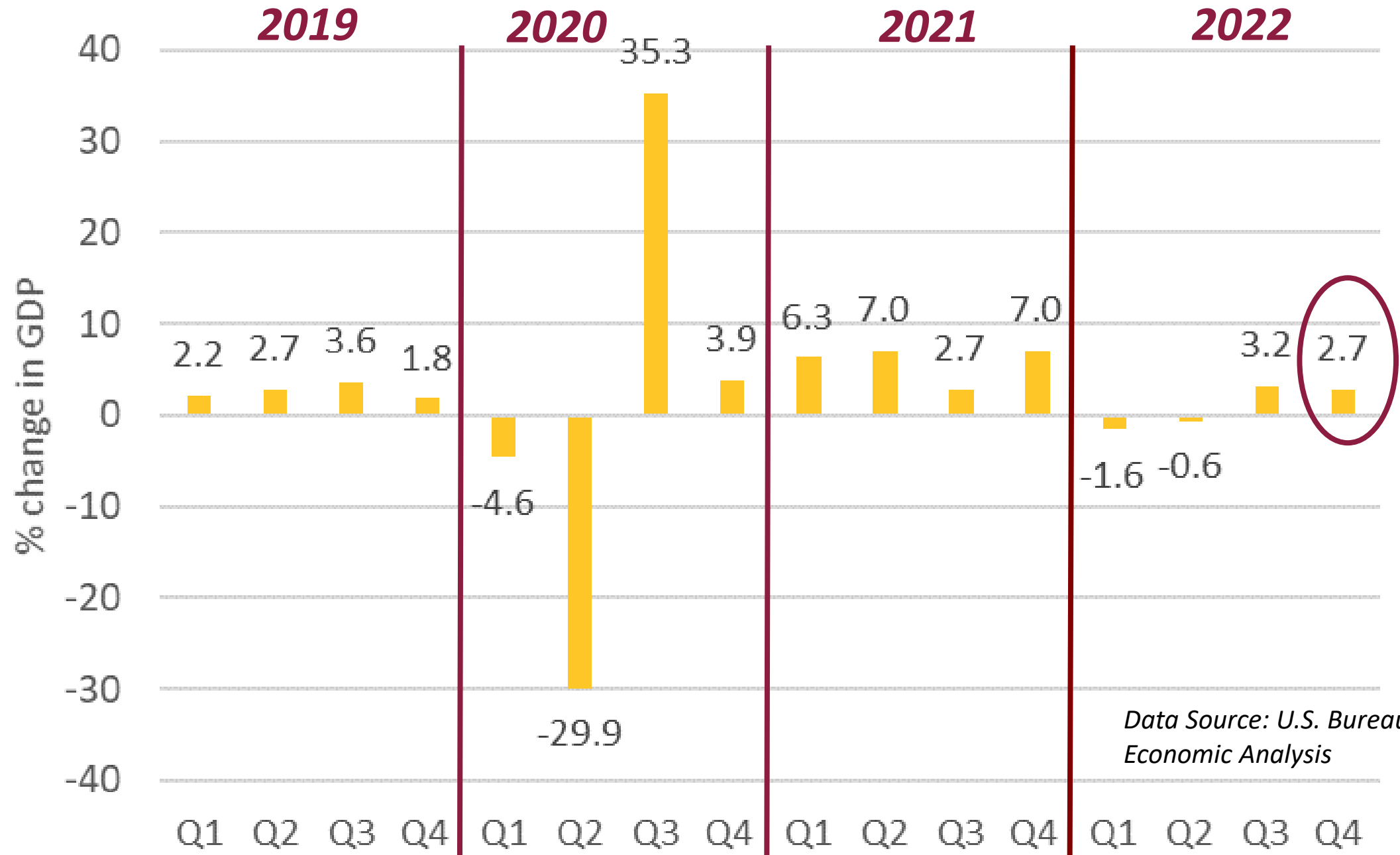
Economic growth

“Charlie and I plead ignorance and firmly believe that near-term economic and market forecasts are worse than useless..”

Warren Buffett
Berkshire Hathaway Shareholder Letter - 2022



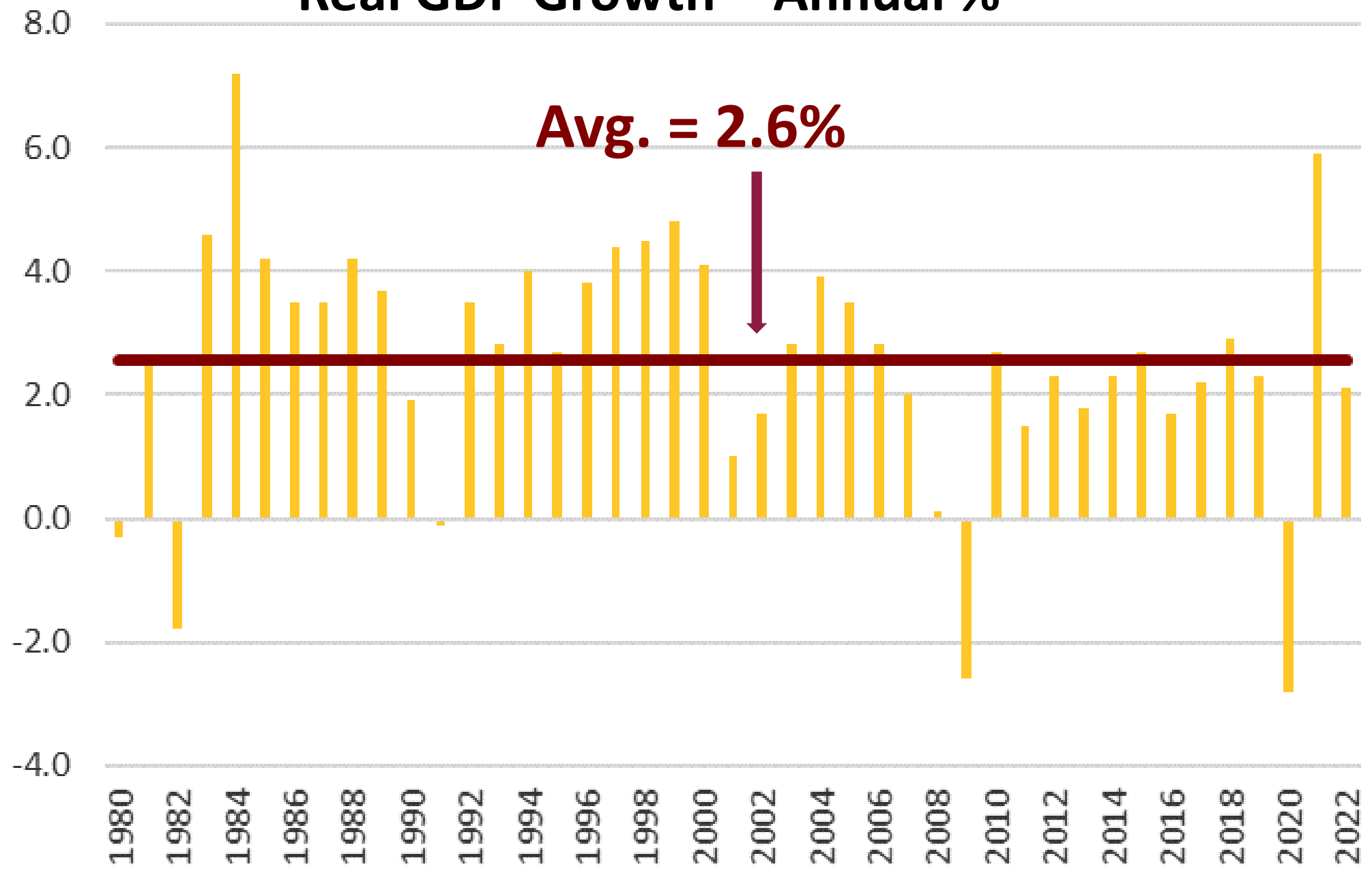
Real GDP - % Change from Previous Quarter



Data Source: U.S. Bureau of Economic Analysis

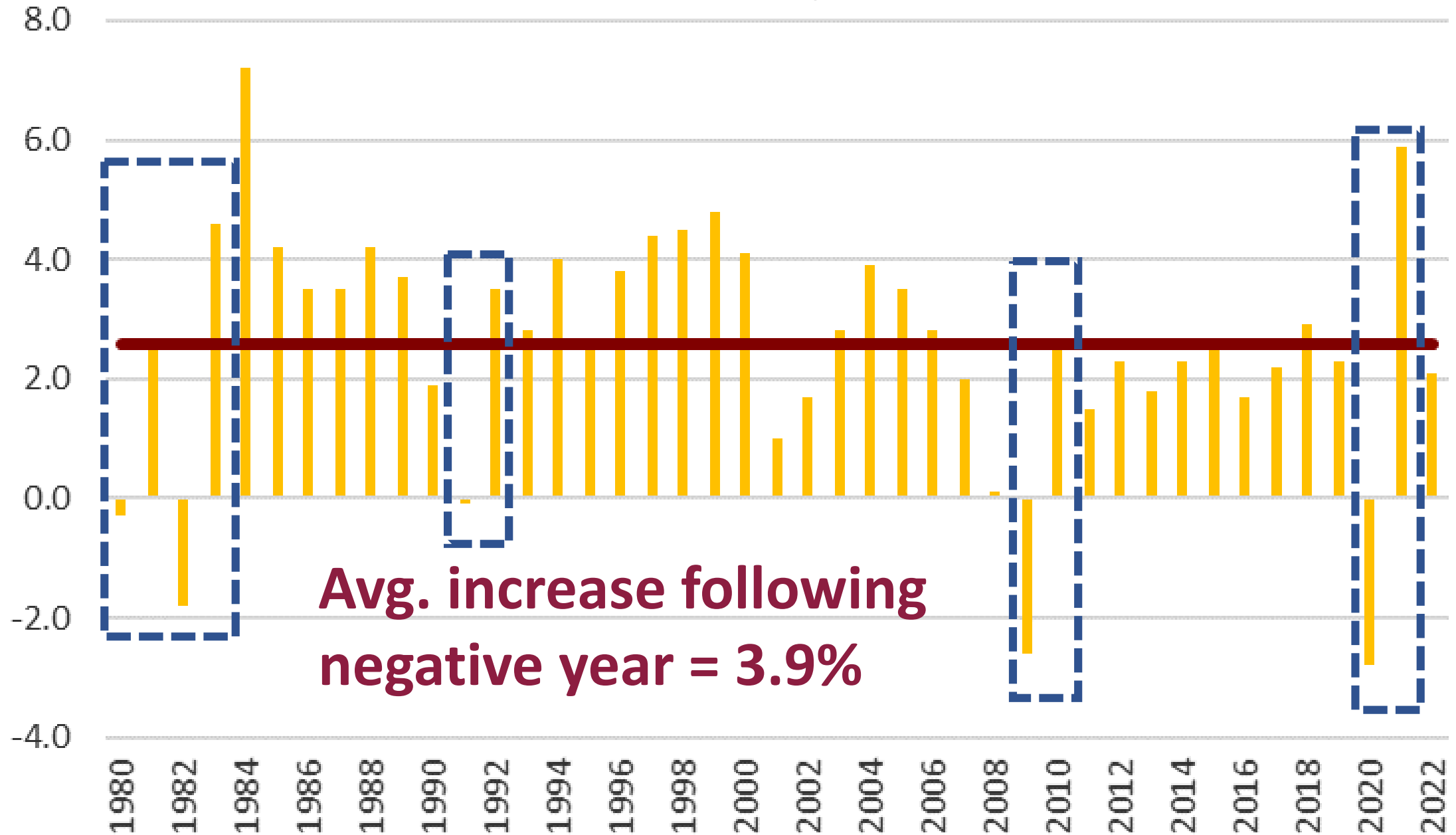


Real GDP Growth - Annual %



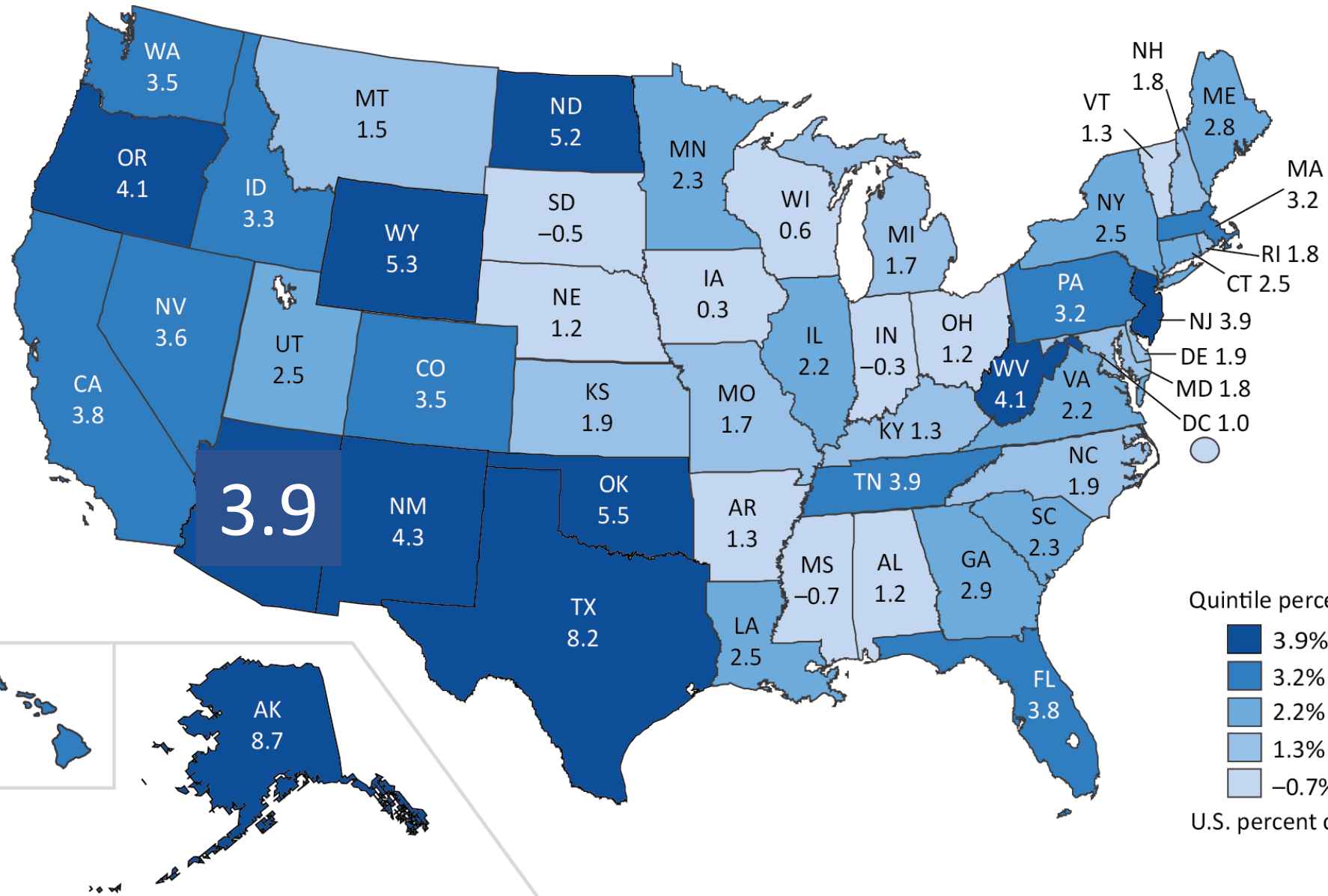
Data Source: U.S. Bureau of Economic Analysis

Real GDP Growth - Annual %



**Avg. increase following
negative year = 3.9%**

Real GDP: Percent Change at Annual Rate, 2022:Q2–2022:Q3





Annual GDP Forecasts

Country	2023 Forecast	Avg. Forecast 2024 to 2027
U.S.	0.30%	1.90%
Canada	0.50%	1.95%
Mexico	1.10%	2.28%
Brazil	1.00%	1.65%
Russia	-2.60%	1.23%
India	5.40%	6.35%
China	5.70%	4.25%
World	1.90%	2.68%

Data Source: Economist Intelligence Unit (EIU) Database

Interesting GDP Data

Country	2022	2023 Forecast	Avg. Forecast 2024 to 2027
Ukraine	-35.5%	0.7%	3.2%
Guyana	59.0%	23.0%	20%**

Data Source: Economist Intelligence Unit (EIU) Database

thoughts on economic growth

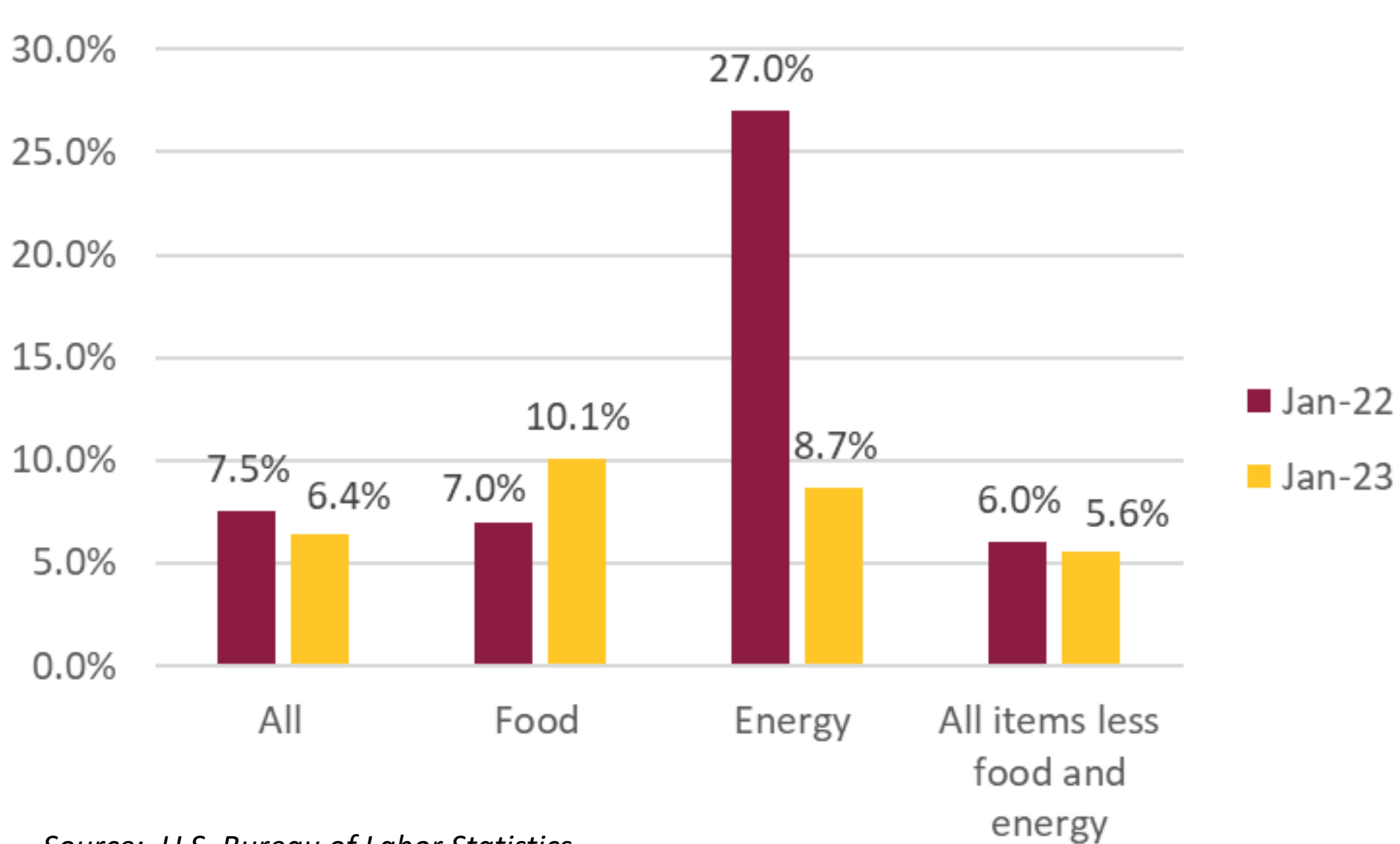
- Recession? Length? Impact?
- China's growth continues to mature with longer-term growth prospects shifting to India
- Capital constraints? Cost of capital?
- Need for resiliency

Interest rates & inflation

*“A nickel ain’t worth a dime
anymore...”*

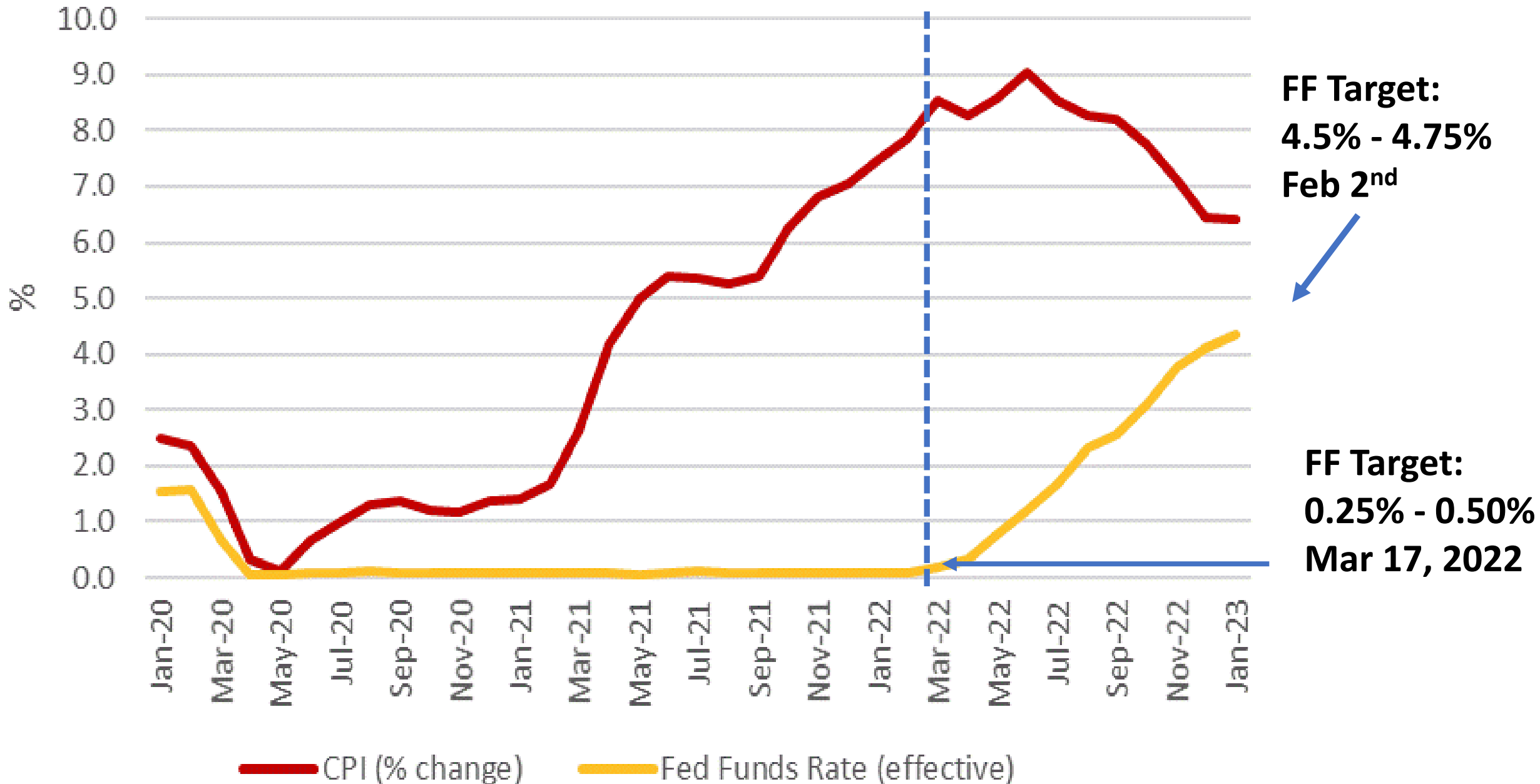
Yogi Berra

12 month % change in CPI (Jan 23 vs. Jan. 22)



Source: U.S. Bureau of Labor Statistics

CPI % Change vs. Effective Federal Funds Rate

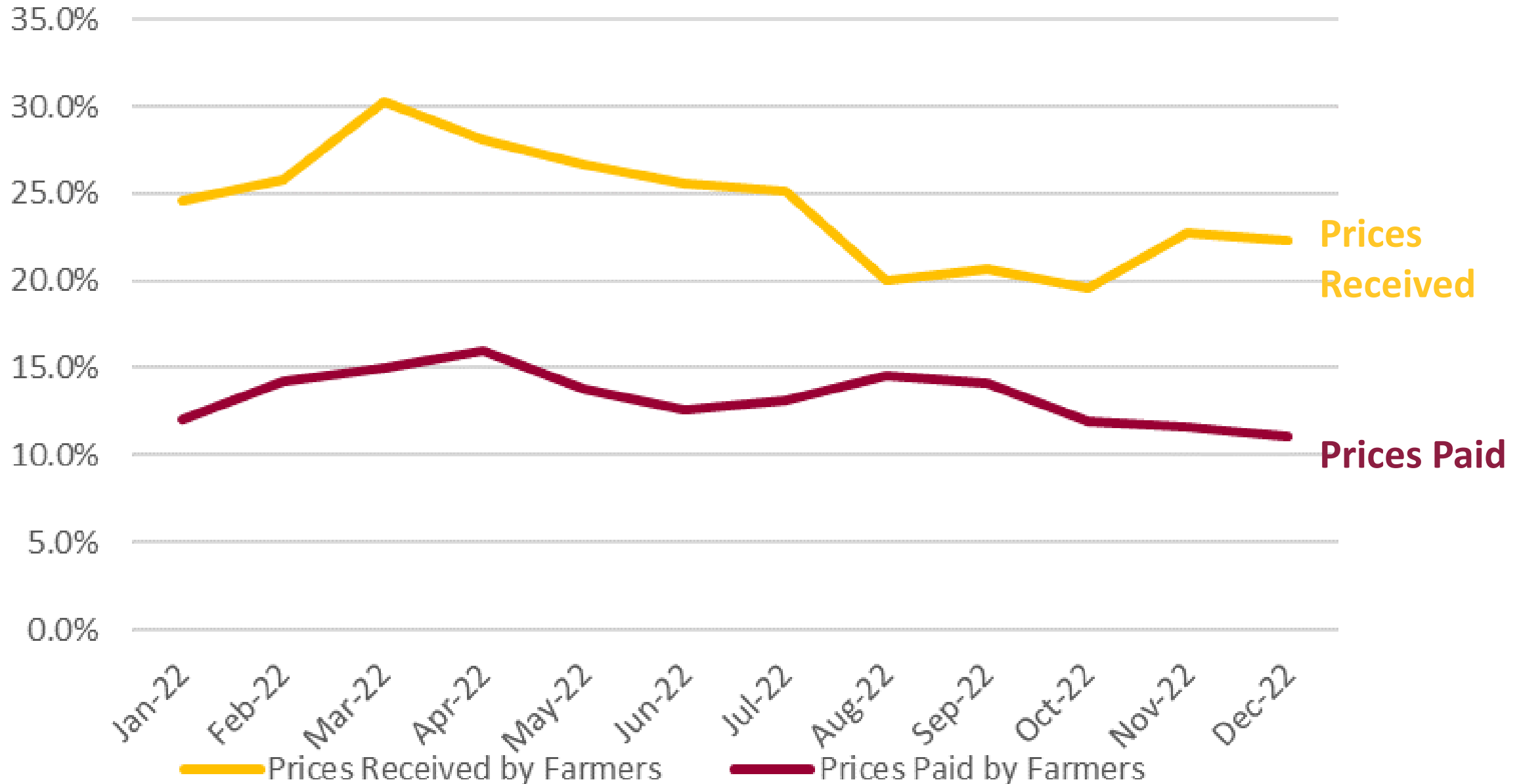


**FF Target:
4.5% - 4.75%
Feb 2nd**

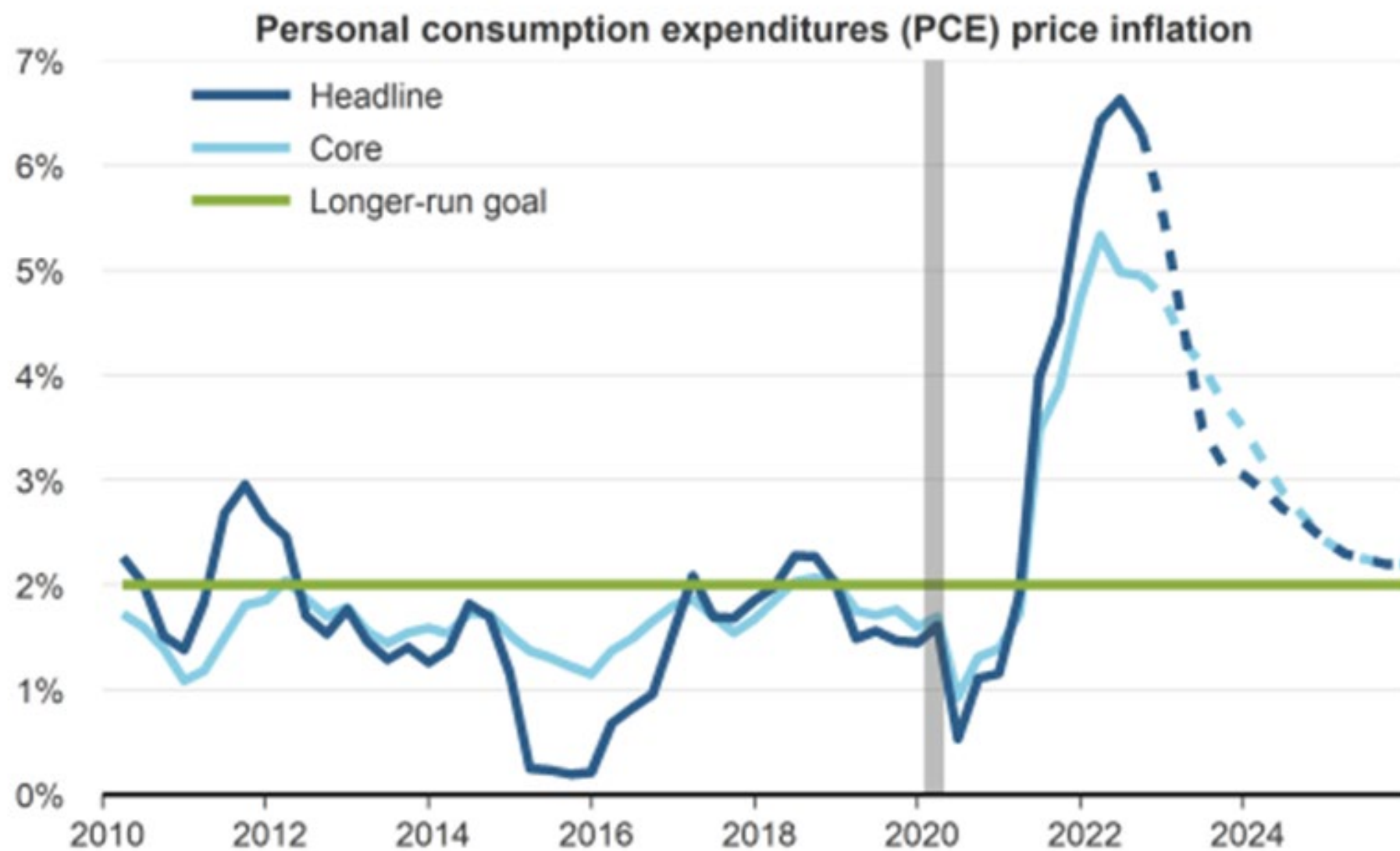


**FF Target:
0.25% - 0.50%
Mar 17, 2022**

12 Month % Change in Prices Received and Paid by Farmers Index (2022)



Inflation likely to remain above 2% for some time



Notes: 4-quarter change in personal consumption expenditures price index. Dashed line represents the FRBSF forecast.

Source: Bureau of Economic Analysis and FRBSF staff



5-Year, 5-Year Forward Inflation Expected Rate



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.

<https://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html>

CME FedWatch (Feb. 27, 2023)

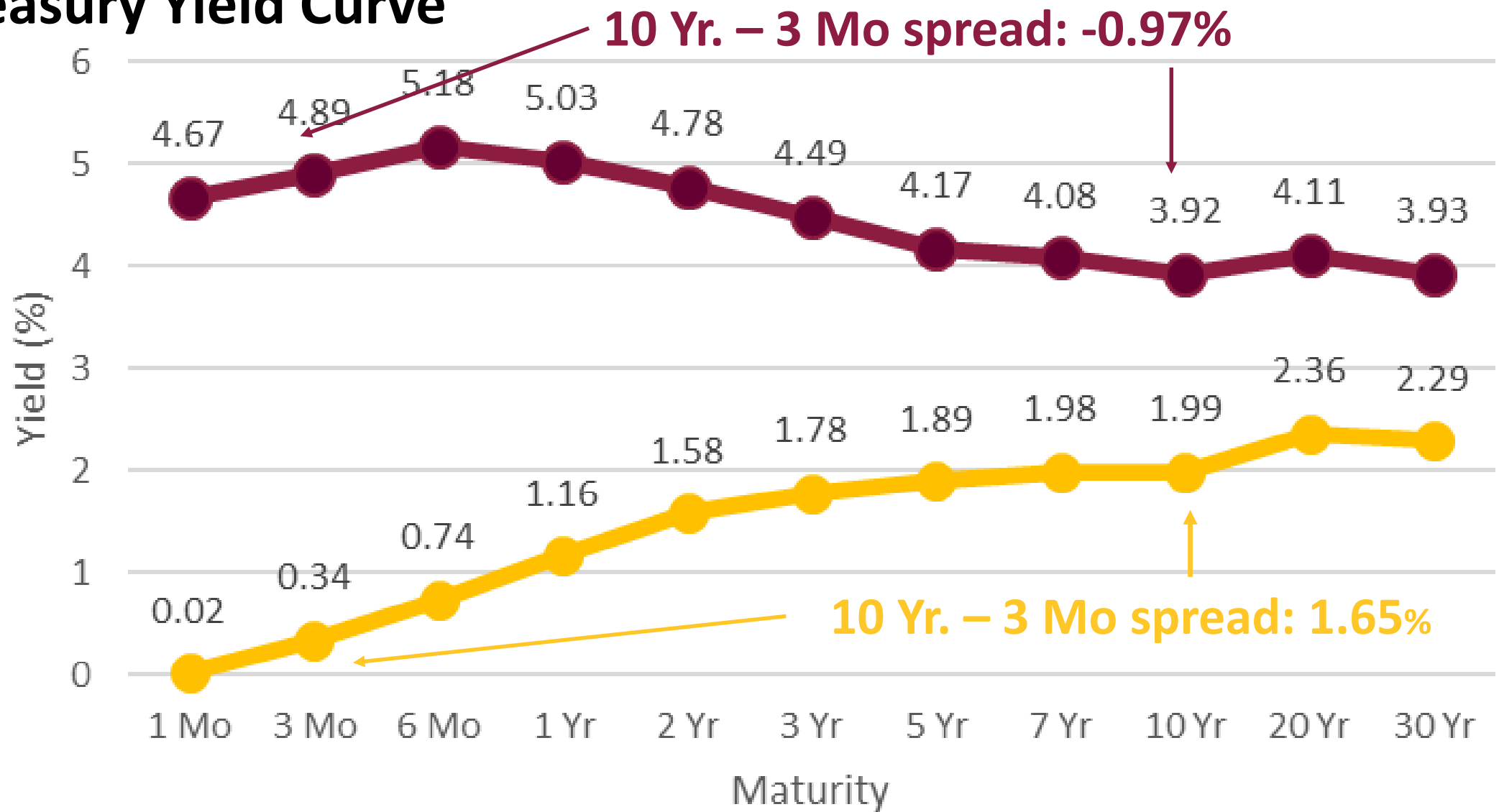
MEETING DATE	Target	Prob	Prob >	Prob <
3/22/2023	475-500	76.0%	24.0%	0.0%
5/3/2023	500-525	64.2%	35.8%	0.0%
6/14/203	525-550	50.5%	22.1%	27.4%
7/26/2023	525-550	41.9%	40.9%	17.2%
9/20/2023	525-550	41.4%	41.7%	16.9%
11/1/2023	525-550	39.8%	36.7%	23.5%
12/13/2023	525-550	35.6%	26.5%	37.9%

CME FedWatch (accessed 2/27/2023):

<https://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html>

This time last year CME Fed Watch predicted only a 0.70% chance that FFR would be greater than 250-275 by December 2022 ... actual was 425-450

Treasury Yield Curve



2/27/2023 2/23/2022

thoughts on interest rates & inflation











- Fed will raise FF rate until inflation is at target level of 2% to 3%
- How fast? How long? How high?
- Short-term vs. long-term relationship – precursor to recession?
- Cost of capital, valuations, and financial distress?

Farm income & commodity price outlook

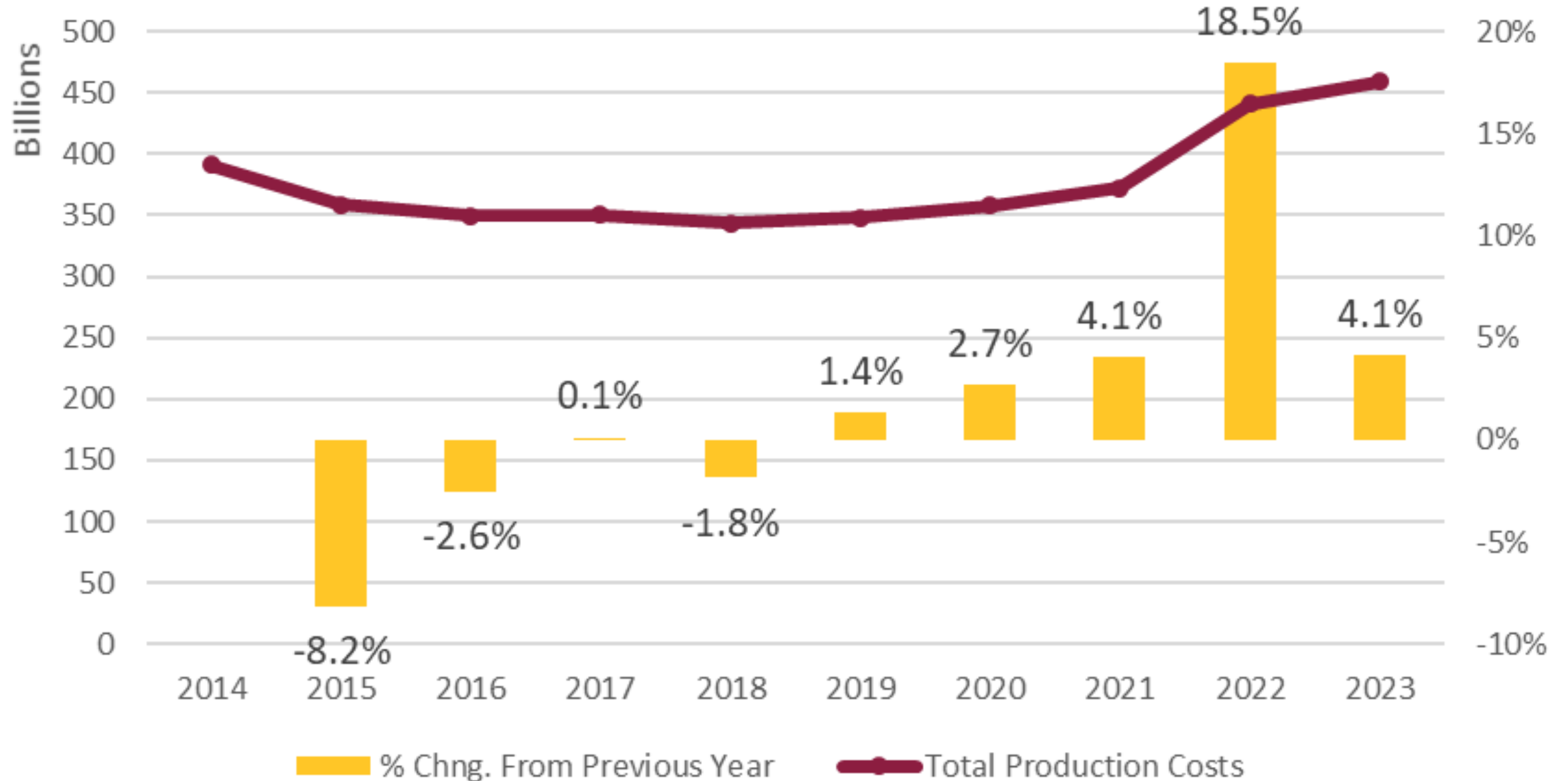
“It’s all is obvious once it’s over...”

Dr. Doug Olsen
Professor of Marketing
W. P. Carey School of Business



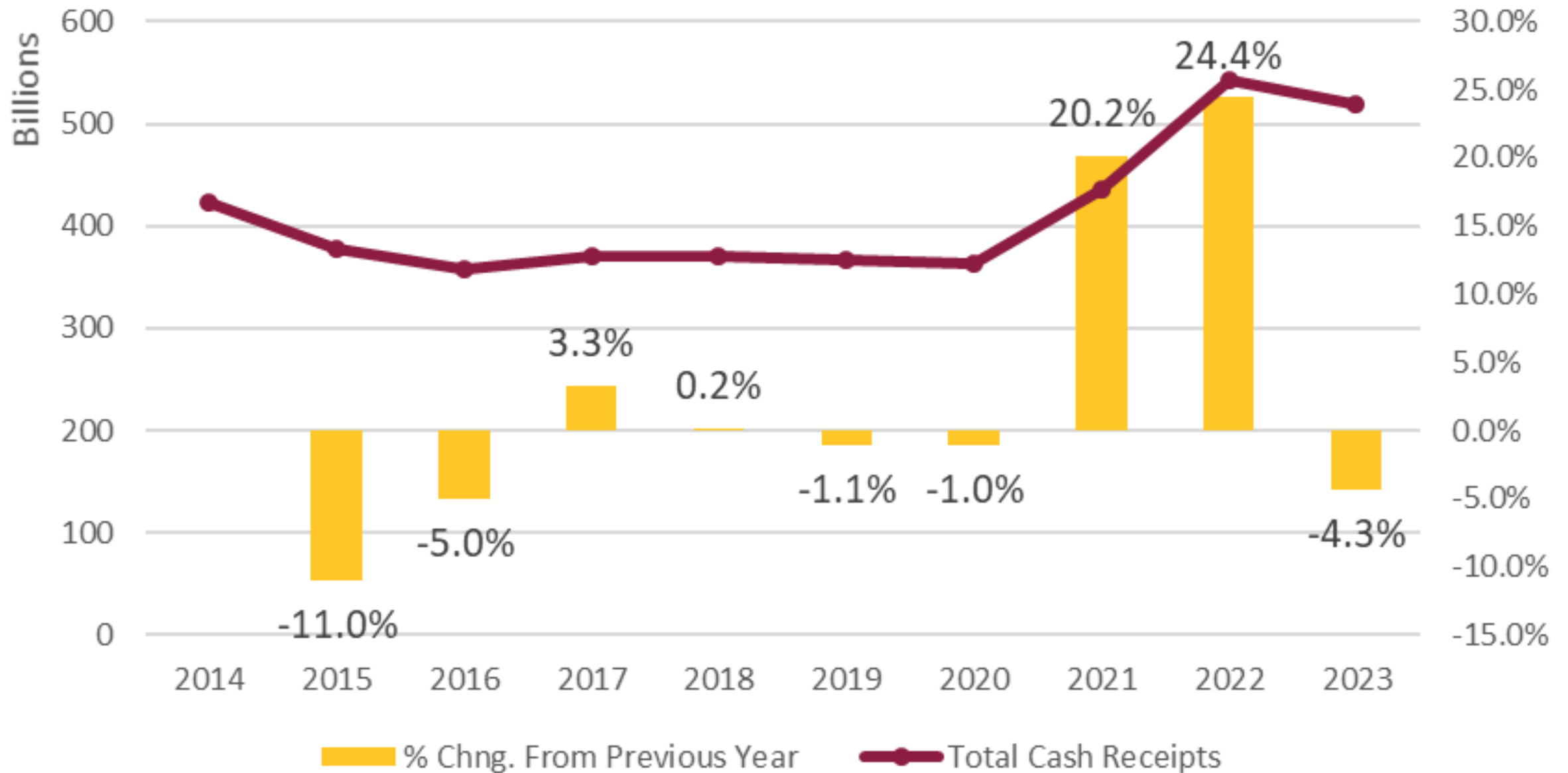
2023 Farm Sector Income Forecast USDA – ERS (as of Feb 7, 2023)	% Change from 2022F to 2023F	
Farm Cash Receipts		- 4.3%
Crop Receipts		- 3.1%
Animal Receipts		- 5.7%
Govt. Payments		- 34.4%
Production Expenses		+ 4.1%
Feed		- 5.1%
Fertilizer		- 0.8%
Interest expense		+ 22.4%
Labor		+ 7.3%
Fuel & Oil		- 14.9%

Total Production Expenses (Excluding Dwellings)

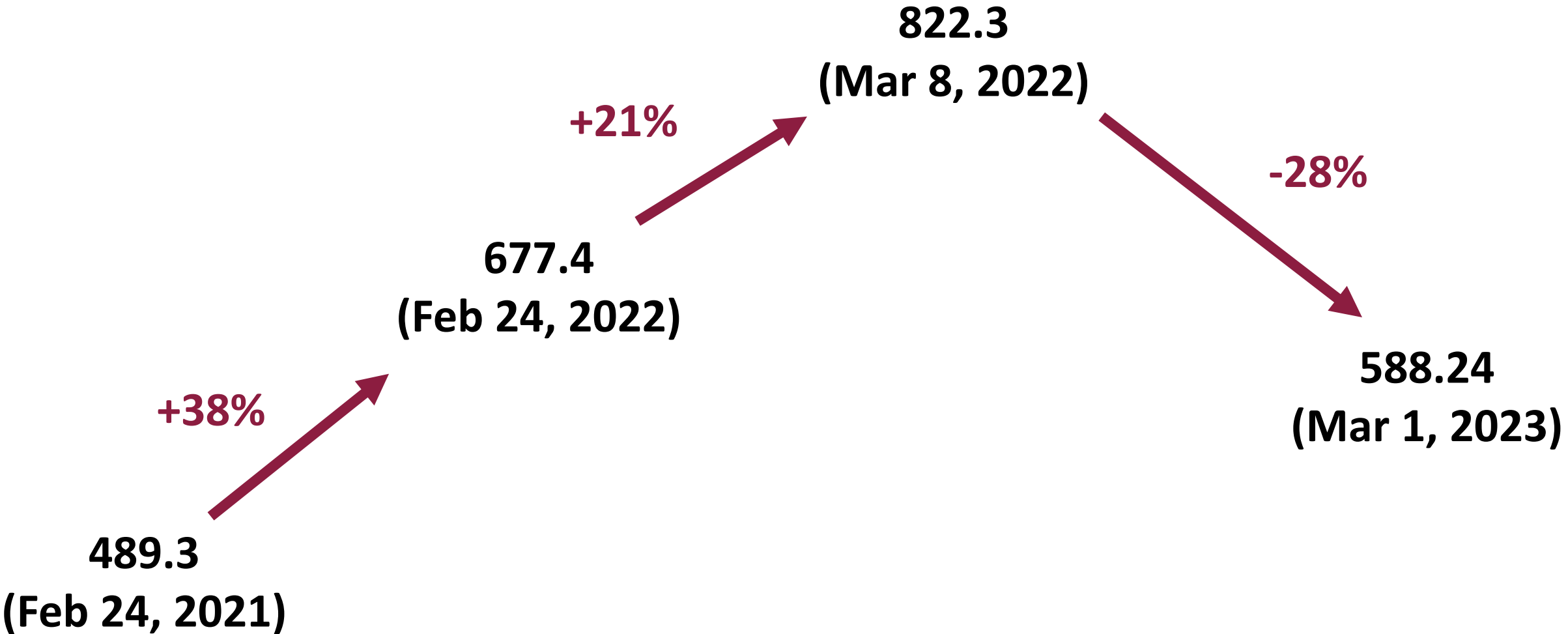


Data Source: USDA-ERS

Total Cash Receipts



S&P GSCI (FKA - Goldman Sachs Commodity Index)



Commodity	WASDE Annual Price Forecast (as of 2/7/23)	% Change from 2022 WASDE Estimate
Corn	\$6.70 / bu.	+ 11.7%
Wheat (All)	\$9.00 / bu.	+ 18.0%
Soybean Meal	\$450.00 / st.	+ 2.3%
Steers	\$159 / cwt.	+ 10.1%
Milk (All)	\$20.70 / cwt.	- 19.1%
Cotton (Upland)	\$0.83 / lb.	- 9.2%

Source: USDA World Agricultural Supply and Demand Estimates (WASDE)

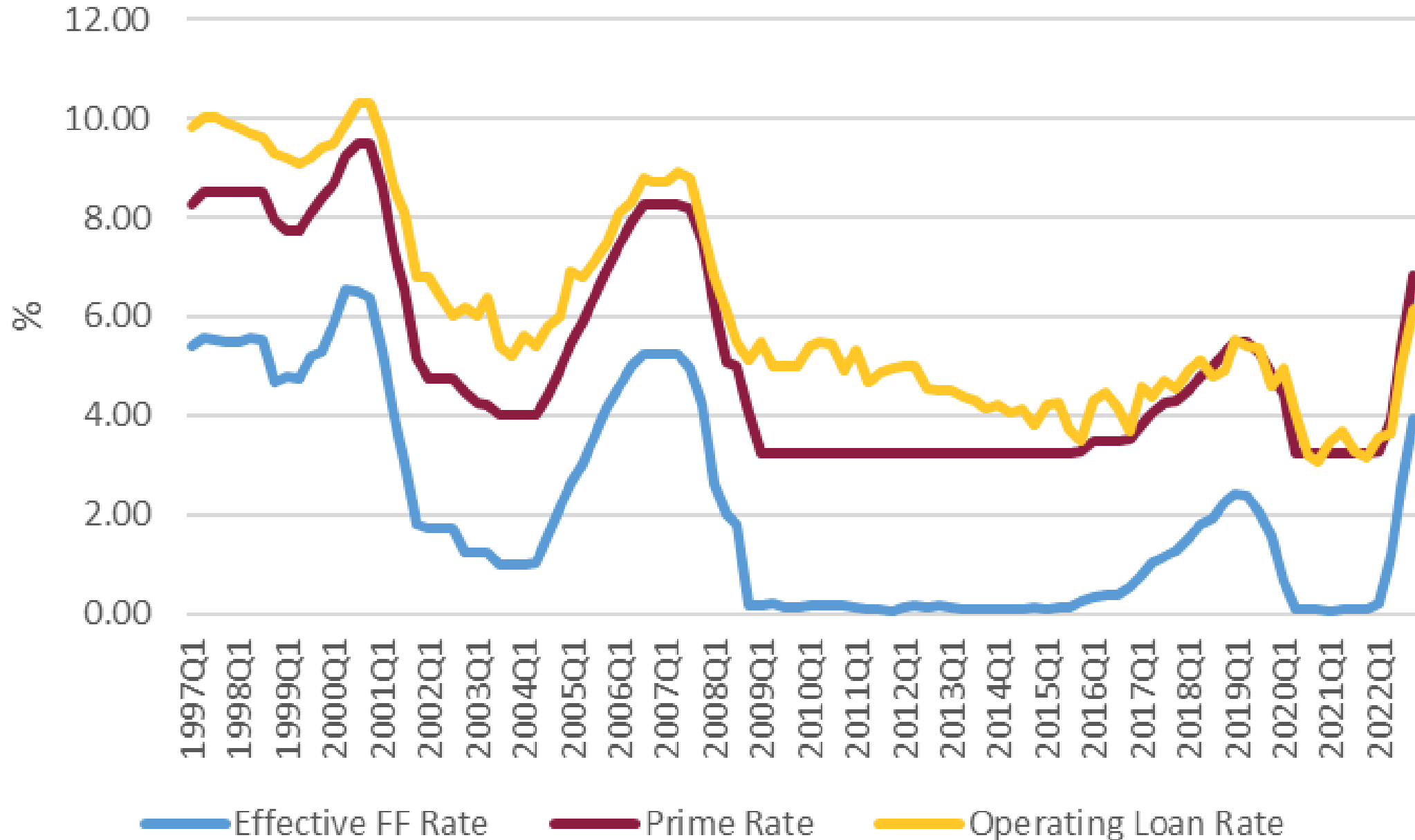
Inverted Futures Contract Prices (as of 3.1.23)

Corn Mar 23	645-2
Corn May 23	639-2
Corn Jul 23	628-6
Corn Sep 23	584-2
Corn Dec 23	571-4
Corn Dec 23	571-4

- Corn
- Soybeans
- Soybean Meal
- Soybean Oil
- Oats
- HRW Wheat
- WTI Crude
- ULSD – Diesel
- RBOB Gasoline

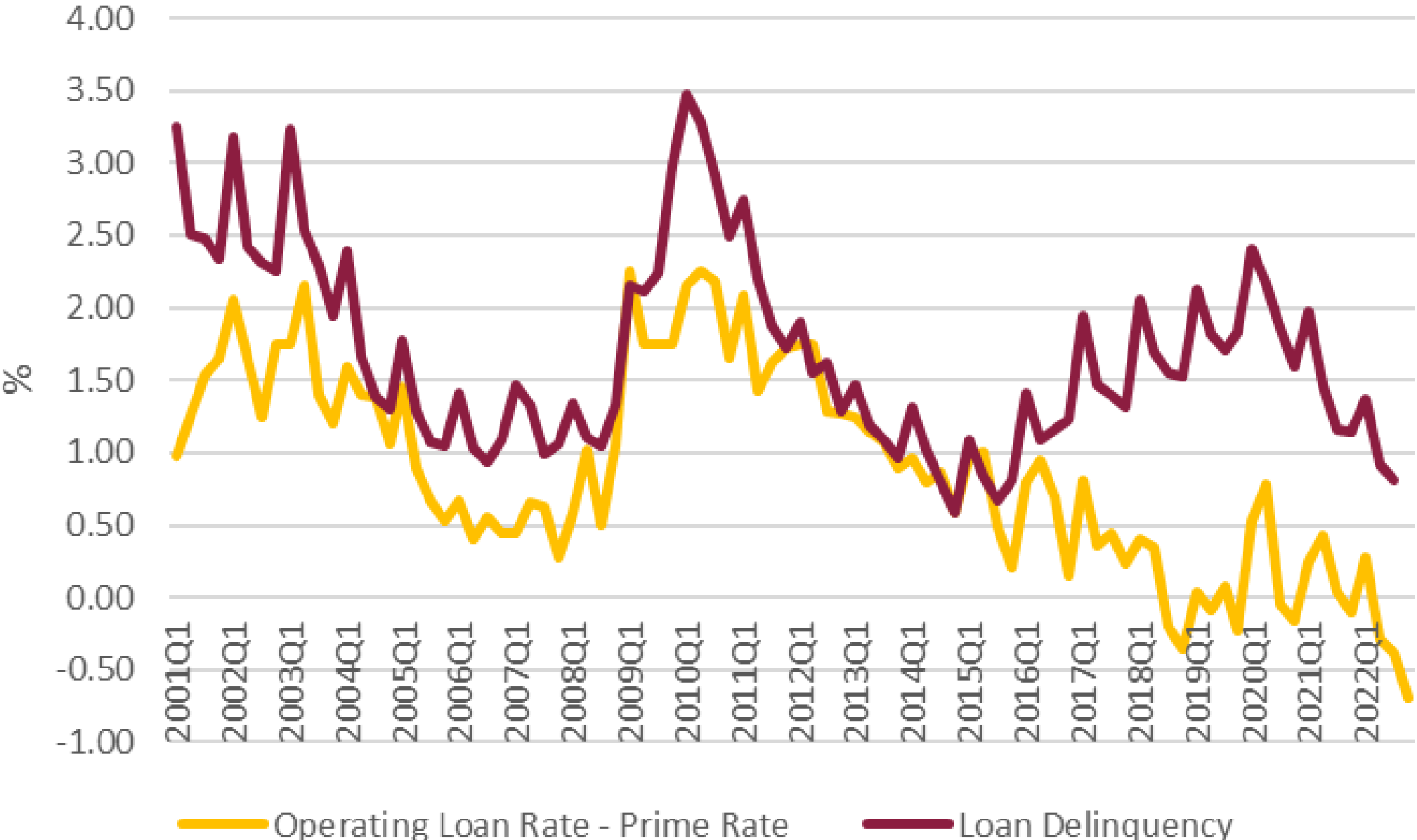
Source: *cmdtyView* by *Barchart.com*

Operating Loan Spreads



*Data Source:
Federal
Reserve
Bank of
Kansas City
and FRED
database*

Operating Loan Spreads vs. Loan Delinquency



thoughts on farm income and commodity price outlook finance

- Prices are off their highs...but still high
- Margin squeeze?
- When and how much will risk be priced into loans?



MA

Can you provide me your outlook on the farm economy for 2023?

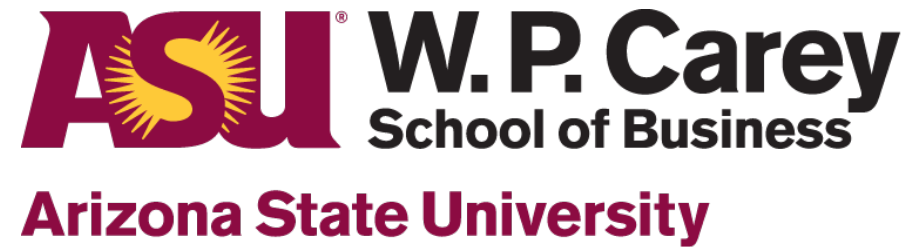


As an AI language model, I don't have personal opinions or outlooks on the economy. However, I can provide you with some information about the current trends and projections for the farm economy in 2023.



Overall, the outlook for the farm economy in 2023 is dependent on a variety of factors, many of which are outside of the control of farmers and industry stakeholders. However, there are some positive signs for the industry, such as the projected increase in commodity prices and the ongoing government support programs.

Thank you!



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