

Macroeconomic Outlook

Risk and Profit Conference

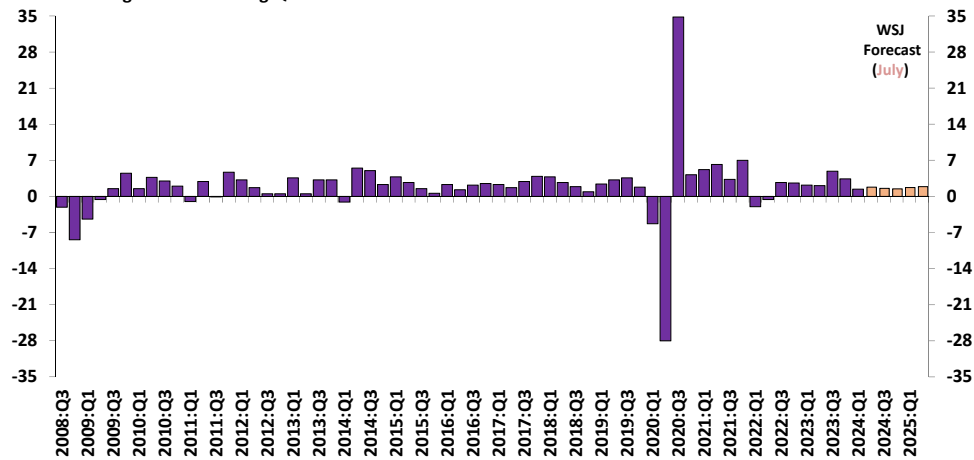
Brian C. Briggeman, Ph.D.
Professor and Director

August 15th & 16th 2024

KANSAS STATE
AGRICULTURAL ECONOMICS
Arthur Capper Cooperative Center

U.S. economic growth has remained resilient amid rising interest rates and higher inflation.

Real GDP Percent Change from Preceding Quarter



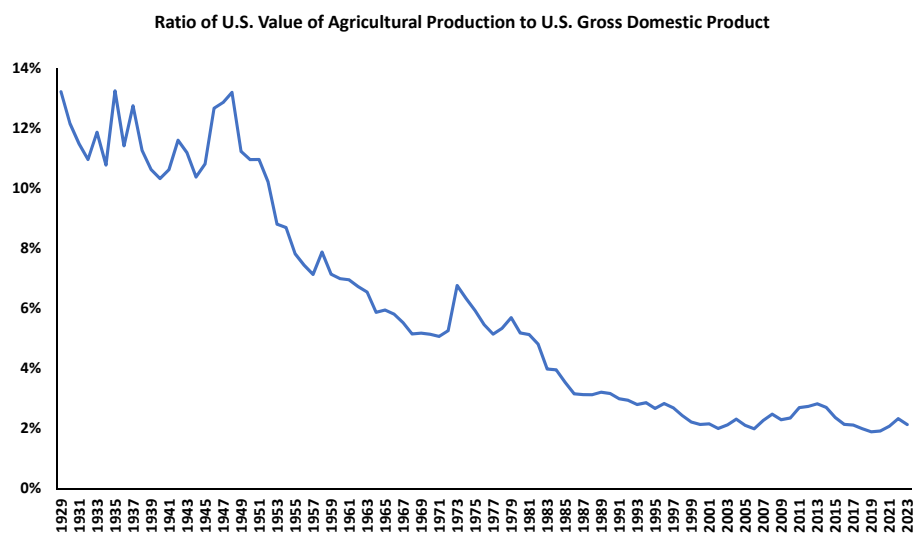
Source: Bureau of Economic Analysis and Wall Street Journal (WSJ) July 2024 Forecast Survey (Average)

KANSAS STATE
AGRICULTURAL ECONOMICS
Arthur Capper Cooperative Center

What is the relationship of the agricultural industry to the broader U.S. economy?

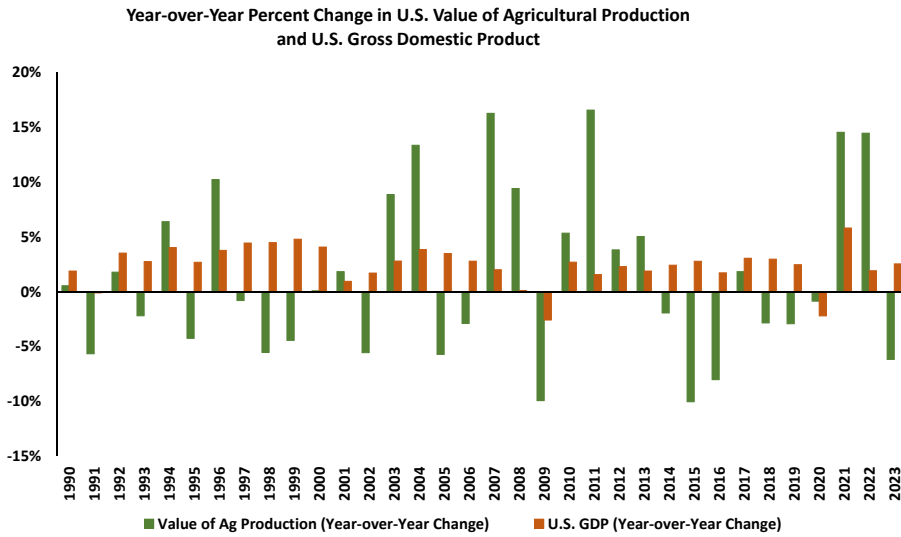
3

Over time, the ratio of the value of U.S. agricultural production to U.S. GDP has fallen.



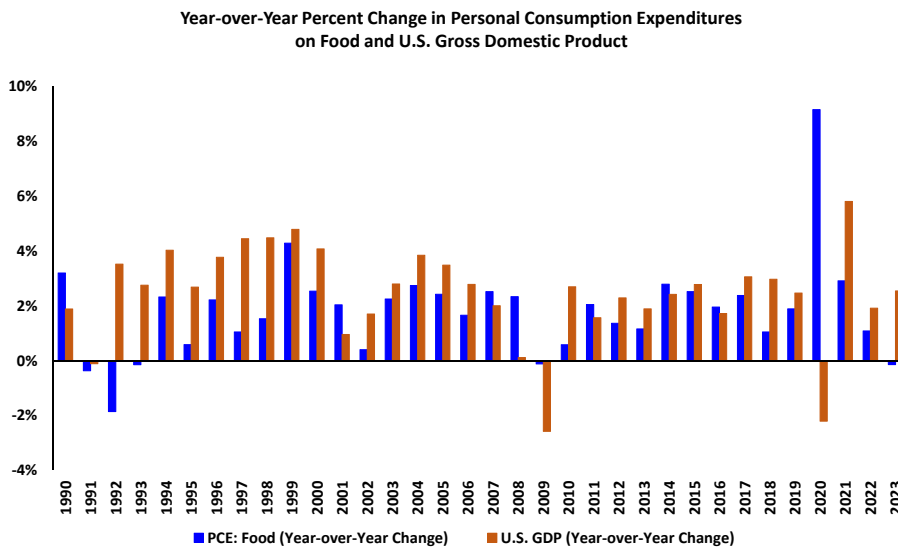
Source: Bureau of Economic Analysis and USDA...all data are adjusted for inflation using the GDP implicit price deflator

Since 1990, there is very little correlation between the value of U.S. agricultural production and U.S. GDP



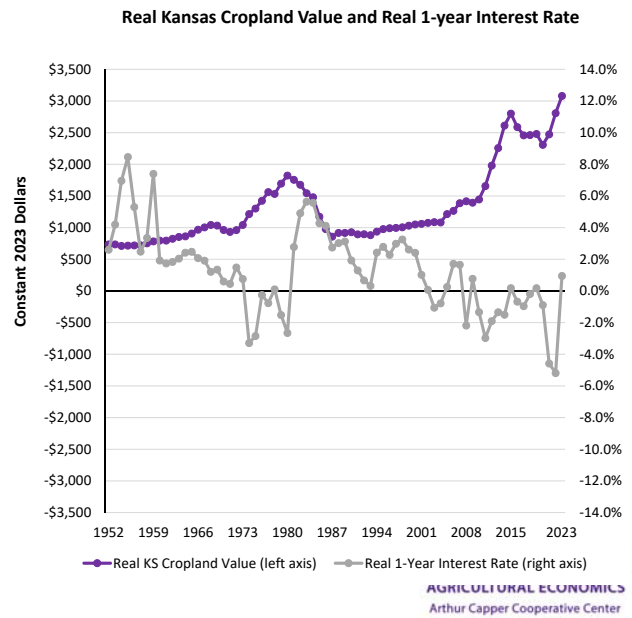
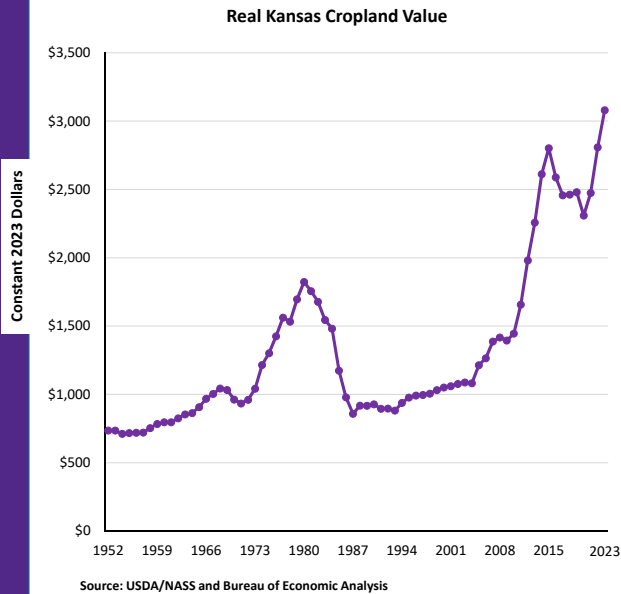
Source: Bureau of Economic Analysis and USDA...all data are adjusted for inflation using the GDP implicit price deflator

Excluding 2020, there is some positive correlation between U.S. food consumption and U.S. GDP.



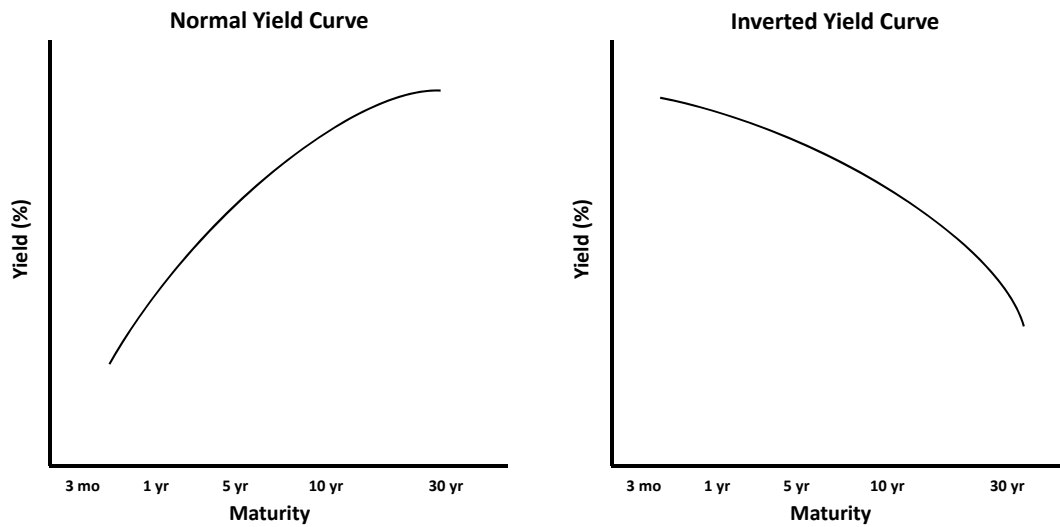
Source: Bureau of Economic Analysis...all data are adjusted for inflation using the GDP implicit price deflator

Real interest rates have a relationship to farmland values.



When will the U.S. officially enter a recession?

A leading indicator of the U.S. entering a recession tends to be an inverted yield curve.



KANSAS STATE
AGRICULTURAL ECONOMICS
Arthur Capper Cooperative Center

An inverted yield curve suggests a U.S. recession is on the horizon.



Source: U.S. Treasury Department

KANSAS STATE
AGRICULTURAL ECONOMICS
Arthur Capper Cooperative Center

What does the recent yield curve data suggest about future economic developments and interest rates?

Could another banking crisis occur?

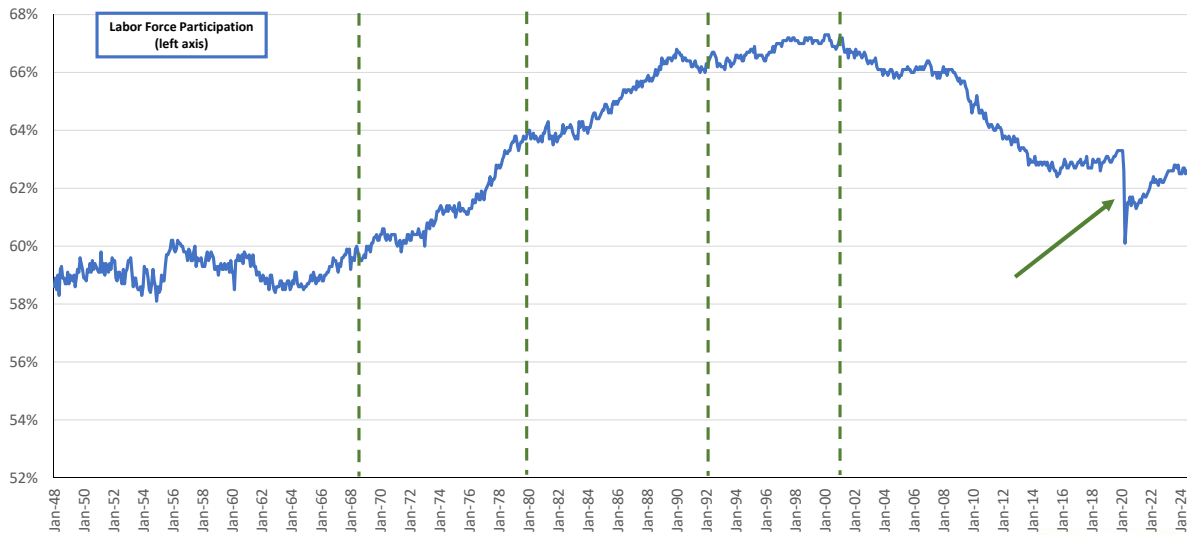


When will the era of cheap money actually end?

Daily Collected Balance	APY
Less than \$10,000	0.05 %
\$10,000 to \$24,999.99	0.10 %
\$25,000 to \$49,999.99	0.10 %
\$50,000 to \$99,999.99	1.00 %
\$100,000 to \$249,999.99	1.10 %
\$250,000 to \$499,999.99	1.20 %
\$500,000 to \$999,999.99	1.60 %
\$1,000,000 and over	1.60 %



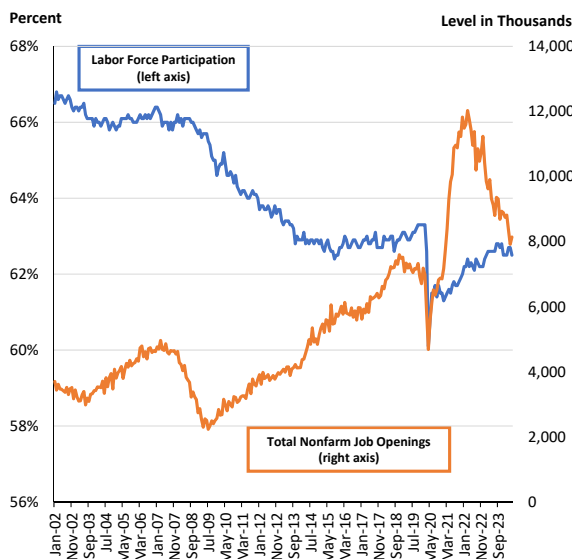
Labor force participation has evolved over time, which has implications for future U.S. economic growth.



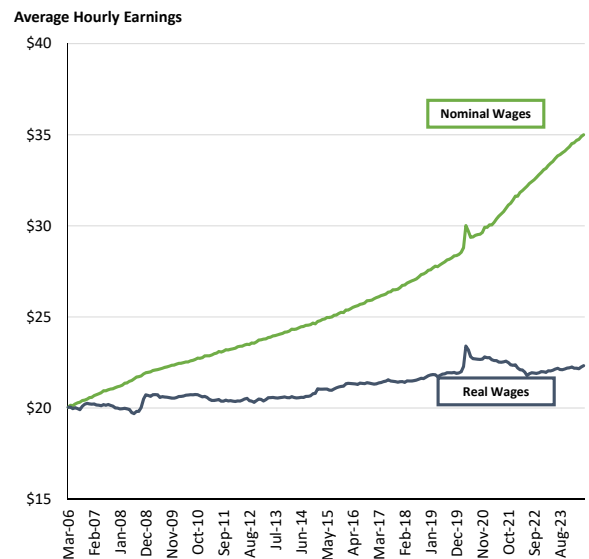
Source: U.S. Bureau of Labor Statistics

KANSAS STATE
AGRICULTURAL ECONOMICS
 Arthur Capper Cooperative Center

The labor market is shifting from an increase in labor supply to a decrease in labor demand. Lower inflation? Recession?



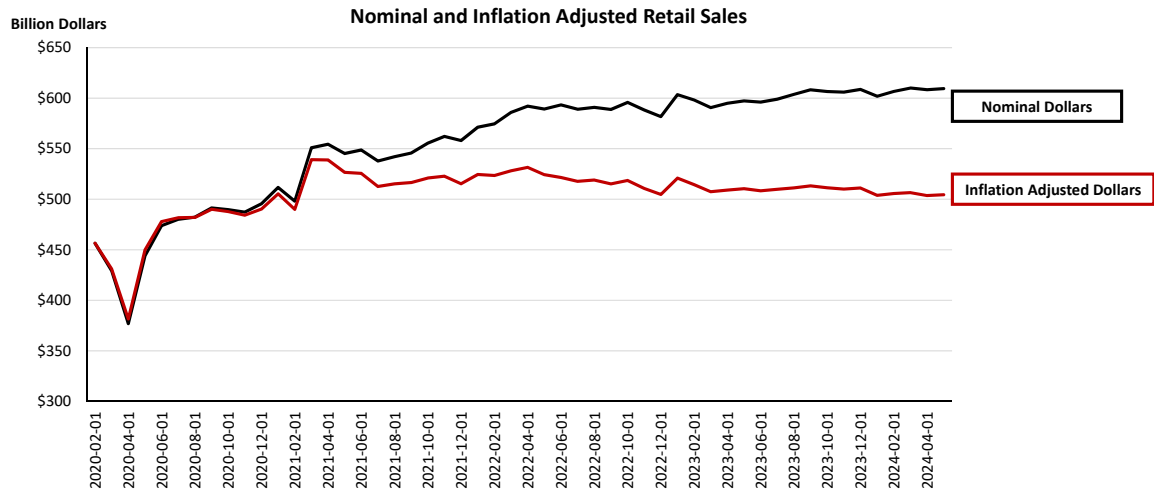
Source: U.S. Bureau of Labor Statistics



Source: U.S. Bureau of Labor Statistics and Consumer Price Index

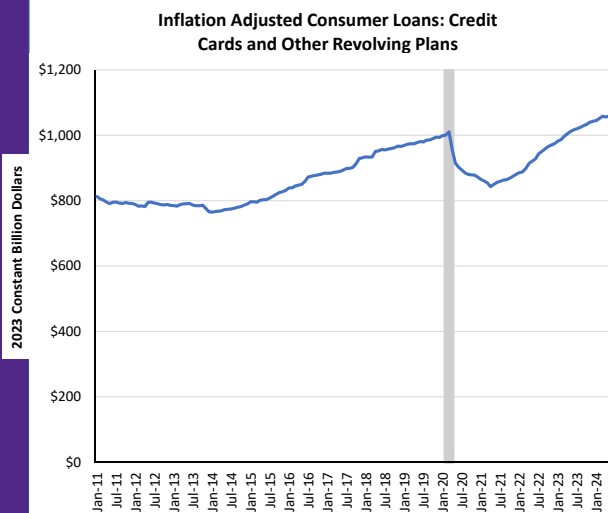
AGRICULTURAL ECONOMICS
 Arthur Capper Cooperative Center

Retail sales are rising, but in nominal terms. Inflation adjusted retail sales indicates consumer demand is flat.

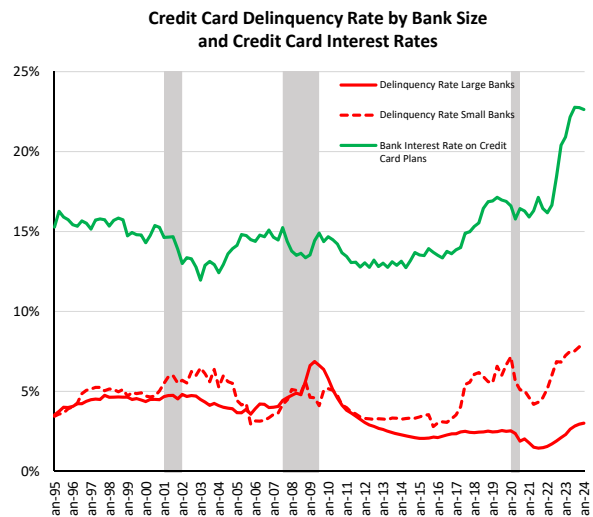


Source: U.S. Census Bureau and Consumer Price Index

Credit card debt and delinquency rates are back to pre-Pandemic levels, and credit card interest rates are surging.

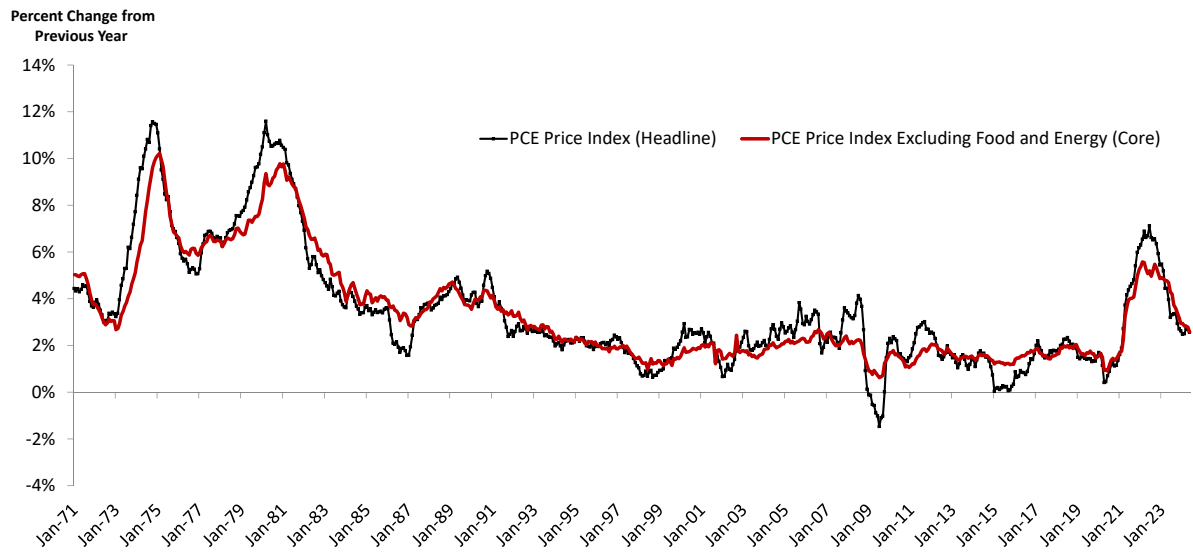


Source: Board of Governors and PCE Index



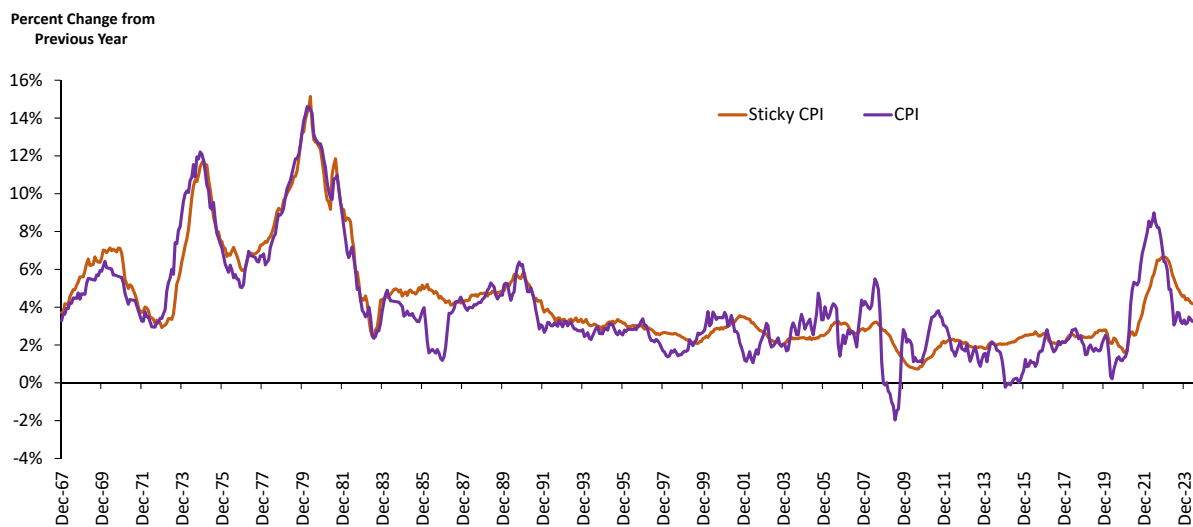
Source: Board of Governors and PCE Index

Personal consumption expenditures price indices are coming off of recent highs...will they continue to fall?



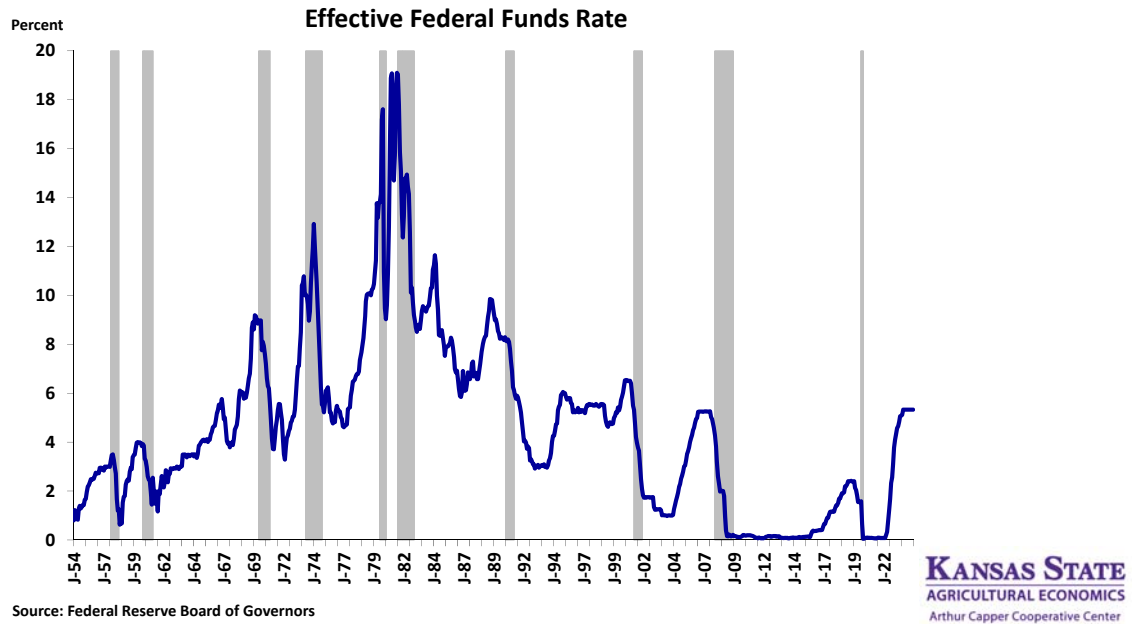
KANSAS STATE
AGRICULTURAL ECONOMICS
Arthur Capper Cooperative Center

“Sticky” inflation continues to be stubbornly high.



KANSAS STATE
AGRICULTURAL ECONOMICS
Arthur Capper Cooperative Center

After a protracted period of exceptionally low interest rates, the Fed quickly raised interest rates.



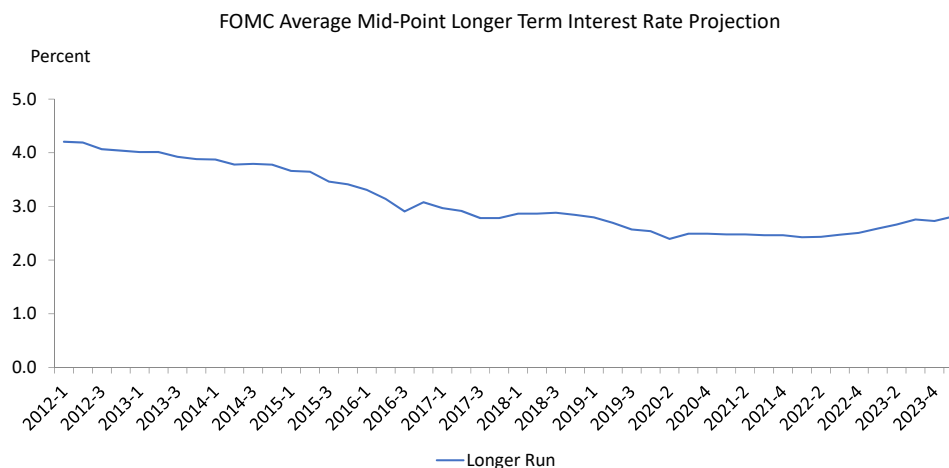
What about stagflation of the 1970s? Could it rear its ugly head?

What led up to the stagflation of the 1970s? Why the drop in interest rates and then massive increase?

- Government budget deficits
 - Today: Yes
- Repeal of Bretton Woods (“gold standard”)
 - Today: Zero bound interest rates and quantitative easing?
- Crude oil prices surged
 - Today: Not really
- US embargoed oil from Iran
 - Today: Trade wars?
- Confidence in the Fed waned and inflation expectations were no longer well anchored
 - Today: Not at the moment
- Wage-cost spiral
 - Today: No spiral but saw the beginning

21

However, will the Federal Open Market Committee (FOMC) maintain higher interest rates into the future?

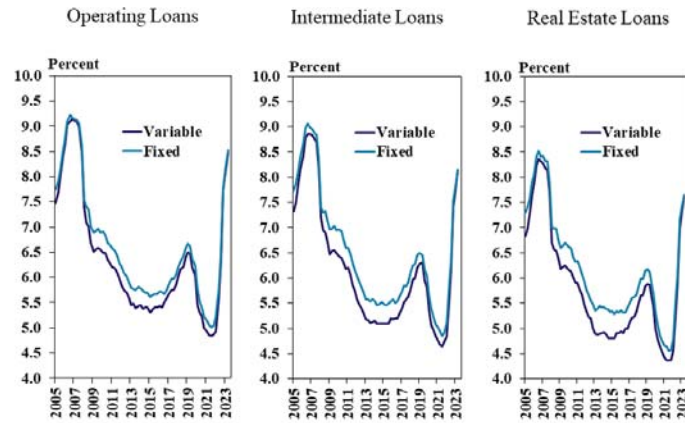


Source: Federal Open Market Committee (FOMC) Projections materials

22

All interest rates are rising for US agricultural producers.

Chart 9: Average Tenth District Interest Rates

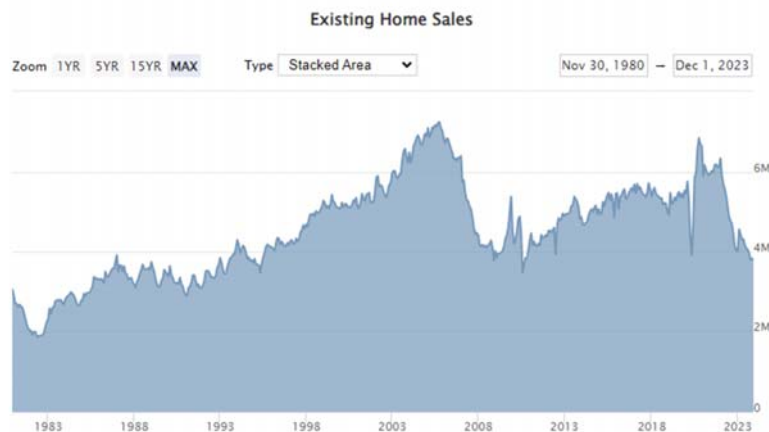


23

Source: Federal Reserve Bank of Kansas City's Ag Credit Survey
Article: <https://www.kansascityfed.org/agriculture/ag-credit-survey/tenth-district-ag-credit-conditions-moderate/>

KANSAS STATE
AGRICULTURAL ECONOMICS
Arthur Capper Cooperative Center

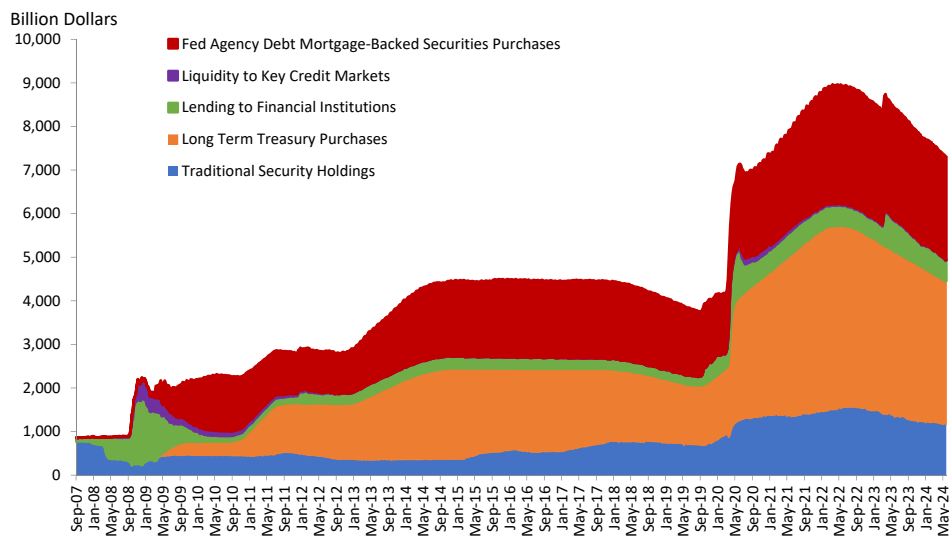
With slipping housing demand and high mortgage interest rates, questions surround the housing market.



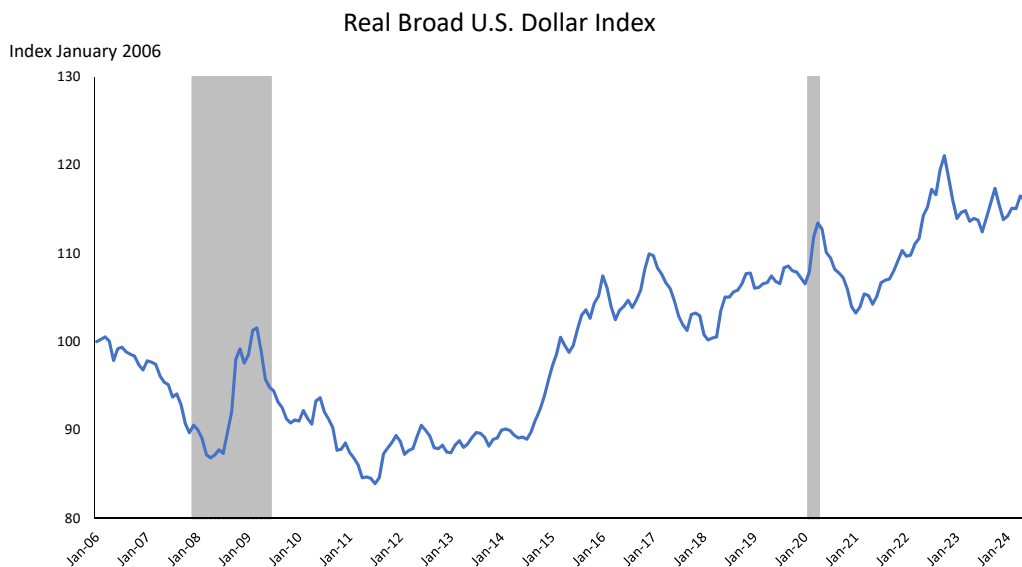
Source: www.mortgagebusiness.com

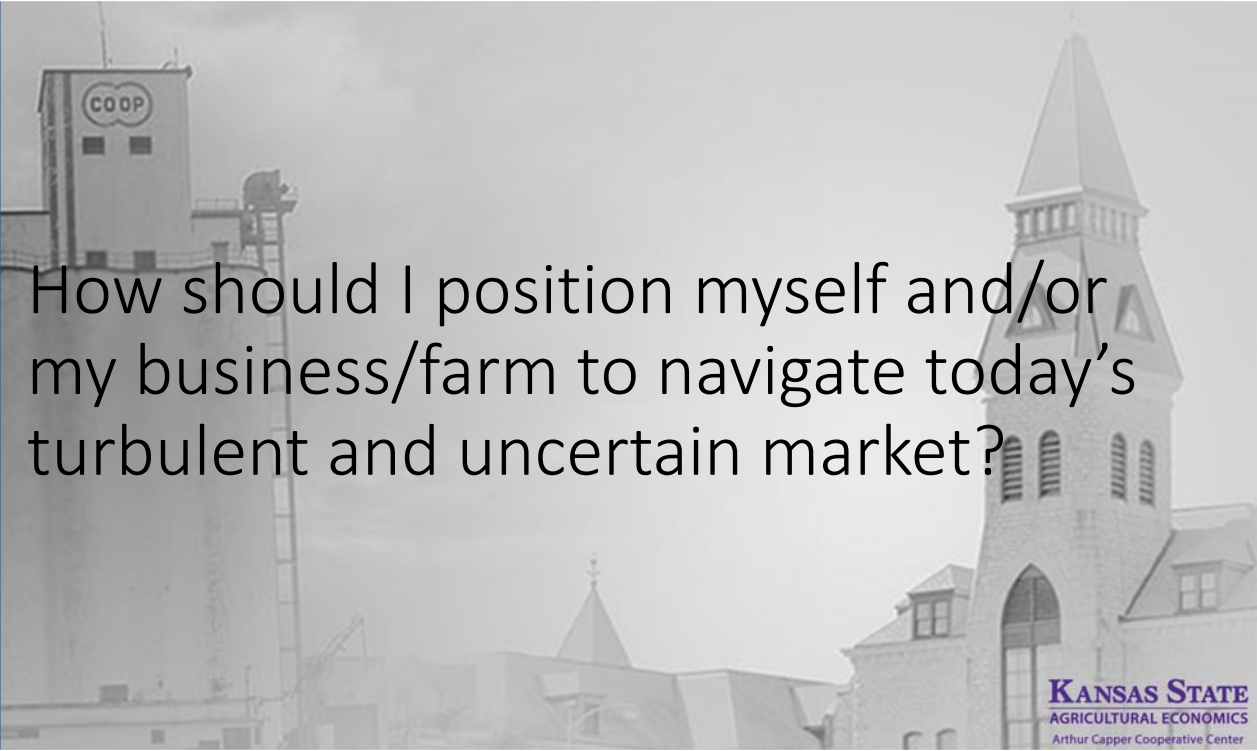
KANSAS STATE
AGRICULTURAL ECONOMICS
Arthur Capper Cooperative Center

The Federal Reserve's balance sheet is shrinking...what does that mean for the economy?



Will U.S. net farm incomes hold up with a stronger value of the U.S. dollar?





How should I position myself and/or my business/farm to navigate today's turbulent and uncertain market?

27

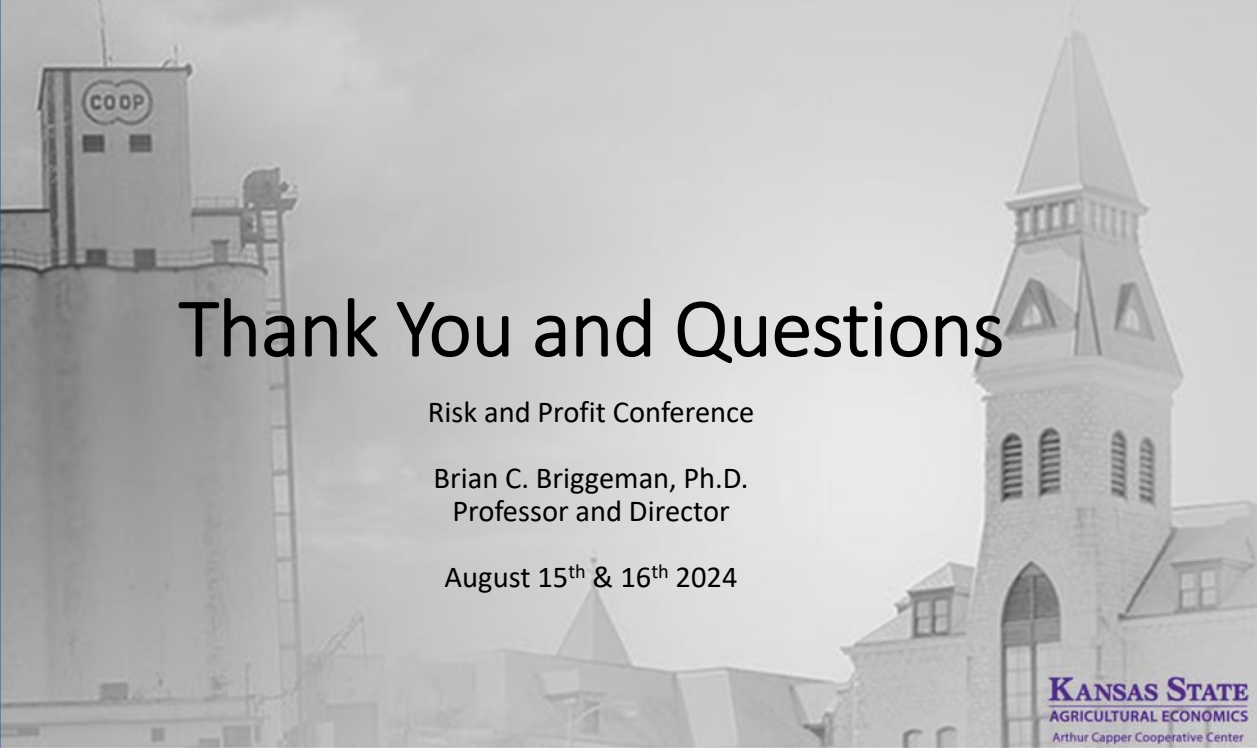
KANSAS STATE
AGRICULTURAL ECONOMICS
Arthur Capper Cooperative Center

How should farms and agribusinesses respond?

- Create a budget and stress test it
- Build your balance sheet
 - Increase liquidity
 - Use debt wisely
- Be extremely efficient
 - Pore over your operation to increase efficiency
 - Control costs
 - Know your breakevens
- Still look for opportunities to expand or improve your operation
 - Opportunities will emerge

28

KANSAS STATE
AGRICULTURAL ECONOMICS
Arthur Capper Cooperative Center



Thank You and Questions

Risk and Profit Conference

Brian C. Briggeman, Ph.D.
Professor and Director

August 15th & 16th 2024

KANSAS STATE
AGRICULTURAL ECONOMICS
Arthur Capper Cooperative Center