

3. Interest Rate Outlook

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Abstract/Summary

With an improving U.S. economy, many are expecting the Federal Open Market Committee to continue to raise interests. However, when will it happen? Will it be a rapid rise? How might higher rates impact U.S. agriculture? In this presentation, Dr. Briggeman will discuss the current and future path of interest rates, and the ramifications of interest rates on agriculture.

Interest Rate Outlook

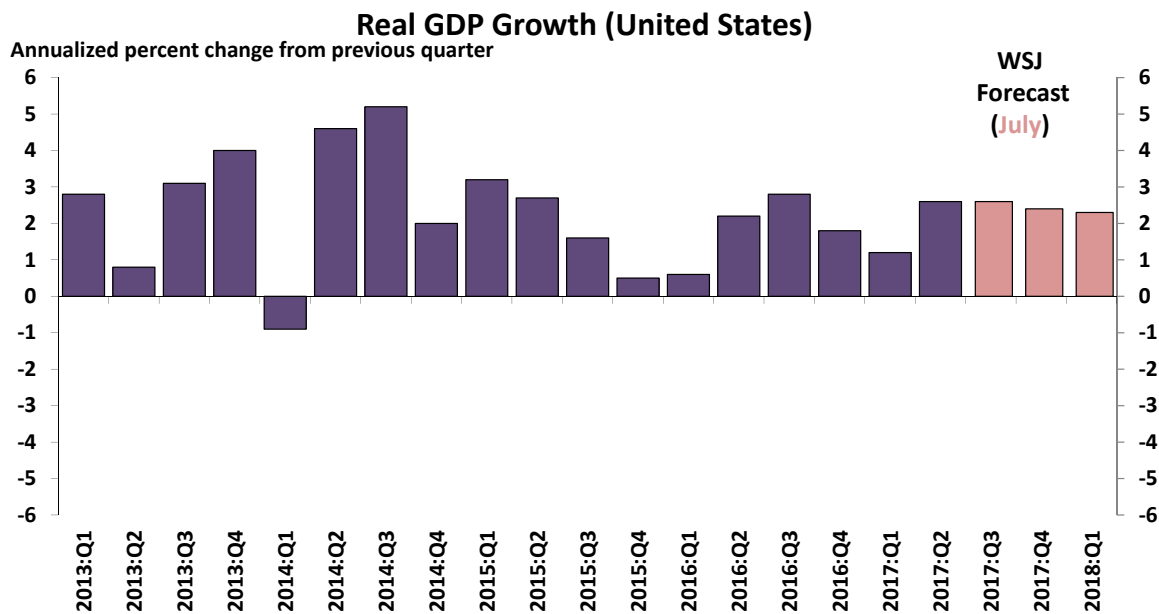
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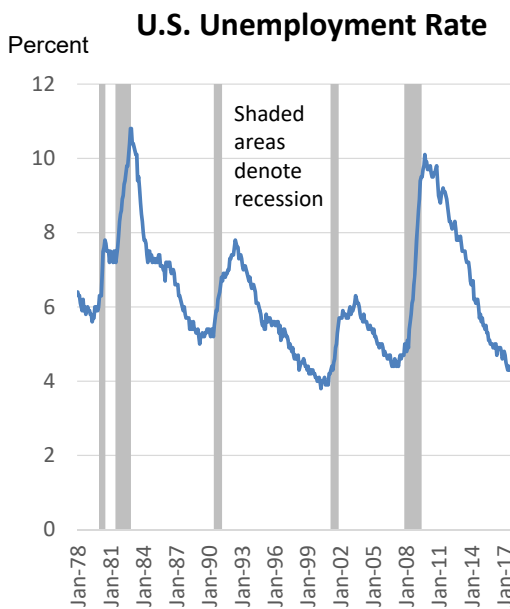


The economic recovery appears to be finding its footing and stabilizing above 2% annualized growth.

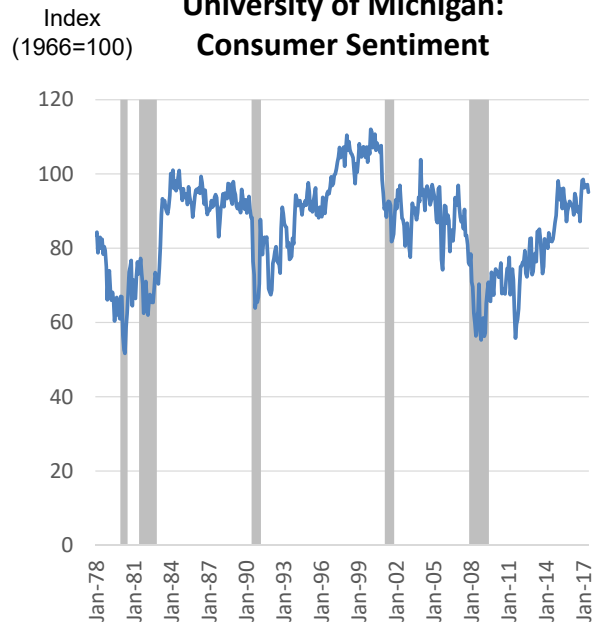


Source: Bureau of Economic Analysis and Wall Street Journal (WSJ) September 2016 Forecast Survey (Average)

The labor market has improved.

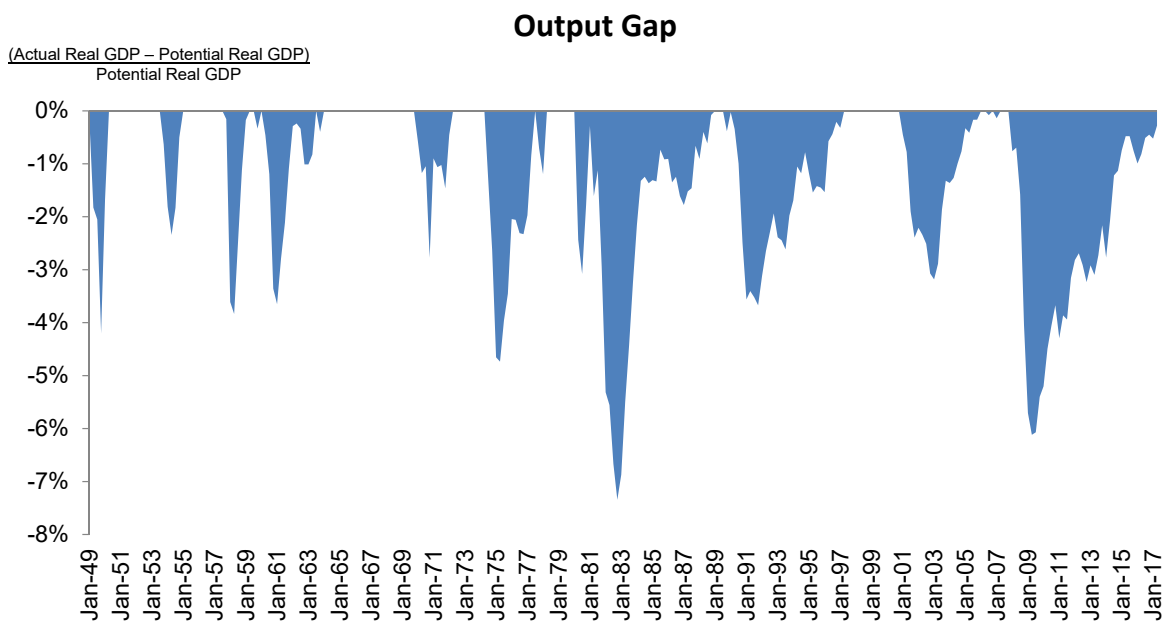


Source: Bureau of Labor Statistics



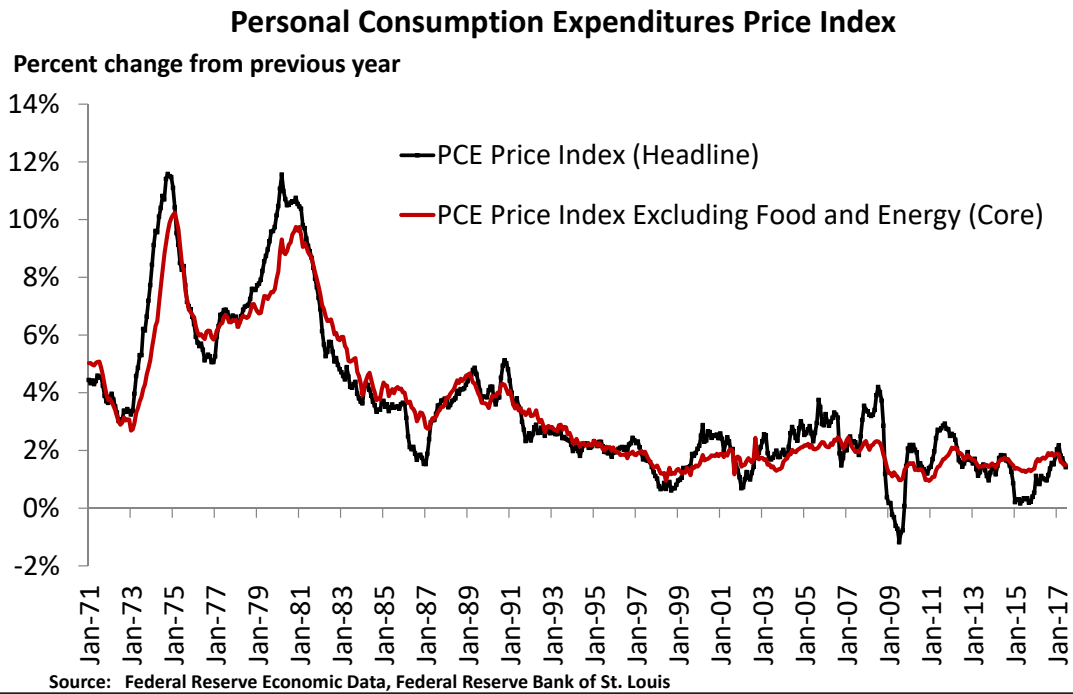
Source: University of Michigan Consumer Sentiment Index

Improvements in the overall U.S. economy are finally reducing a historically deep and wide output gap.

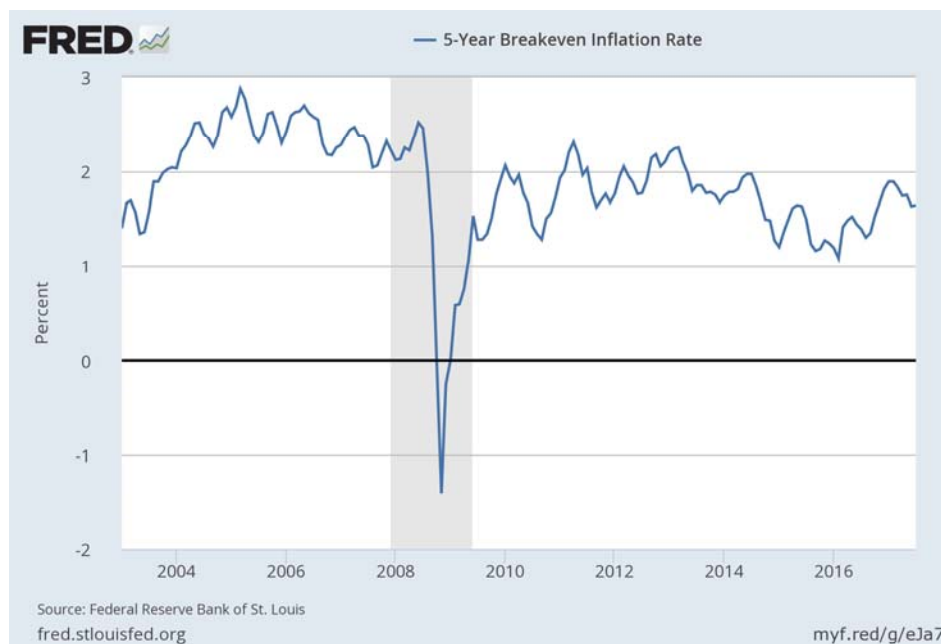


Source: Congressional Budget Office

Today's inflation is well below 1970s levels...



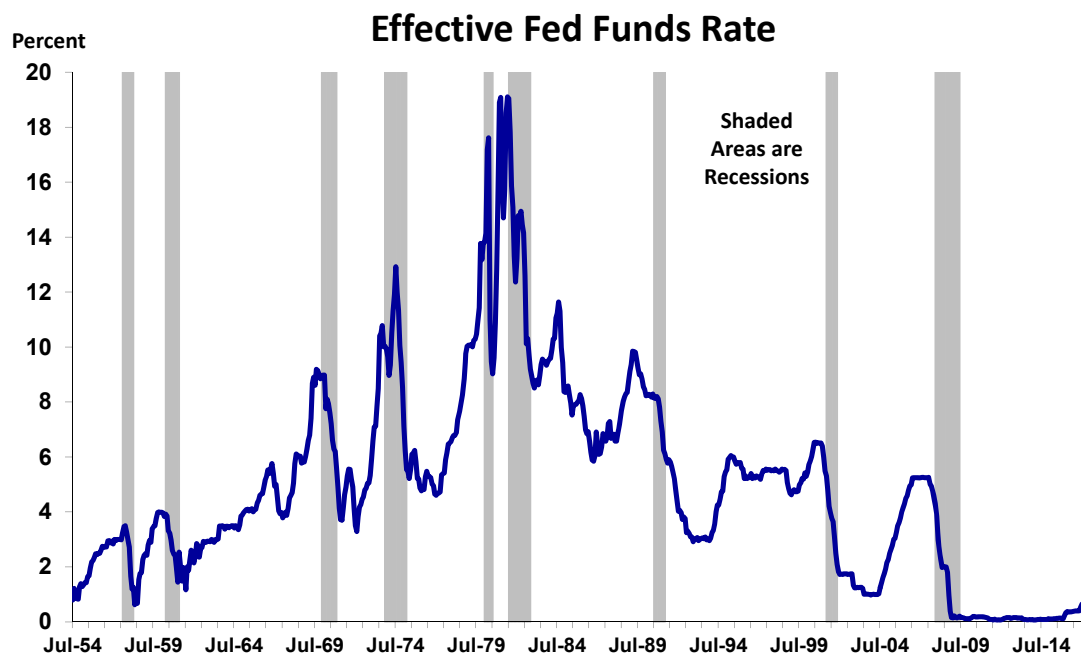
...and inflation expectations are low and continue to remain below the “2% target.”



Today's exceptional accommodative monetary policy has created quite the dialogue within the Fed.

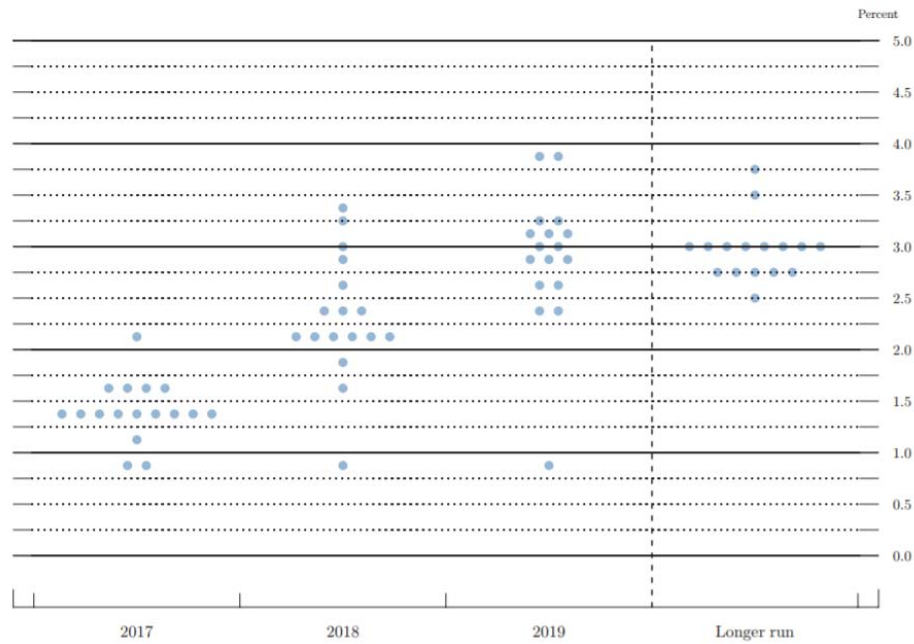
- In the Fed, it is a debate between:
 - Doves: Benefits of continued accommodative monetary policy to the economy outweigh the risk (international turmoil and deflation)
 - Hawks: The economy continues to improve and extraordinary accommodative policies may be promoting excessive risk taking behavior
- The market continues to prepare for a Fed Funds rate increase
 - June 2015

With an improving economy, the FOMC did
raise rates in December 2015.



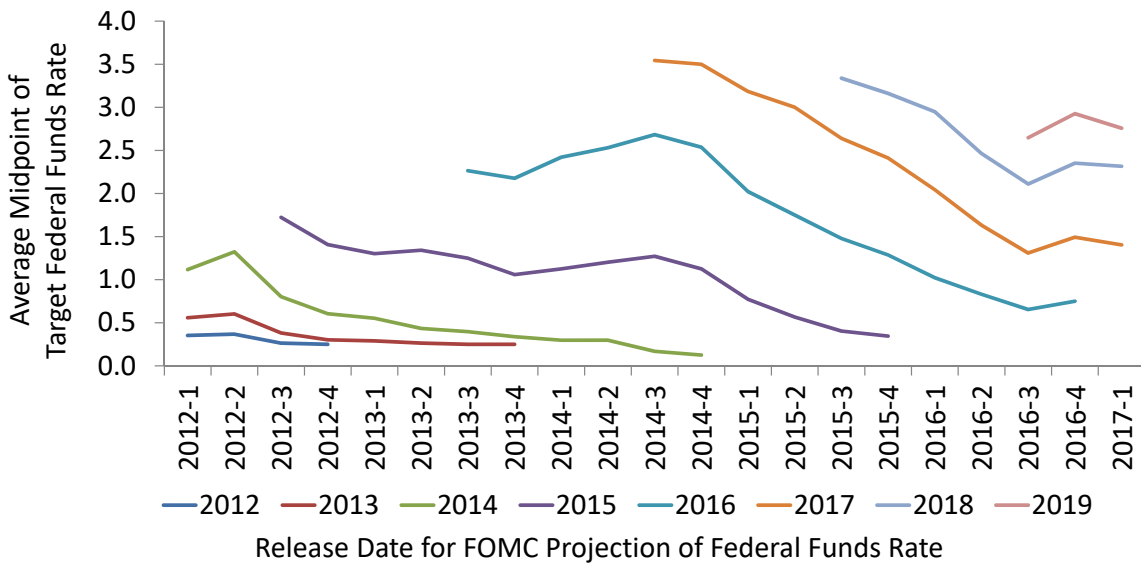
Source: Federal Reserve Board of Governors

The March 2017 FOMC dot plot shows future interest rates rising significantly...but will they?



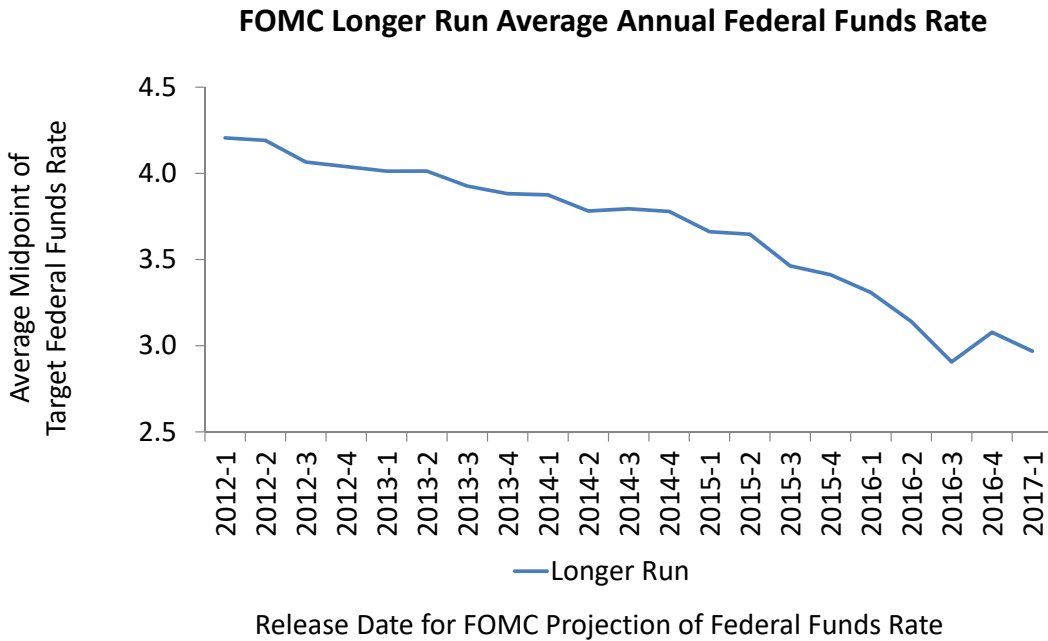
How accurate has the FOMC been in predicting the effective fed funds rate?

FOMC "Dot Plot" Average Annual Federal Funds Rates



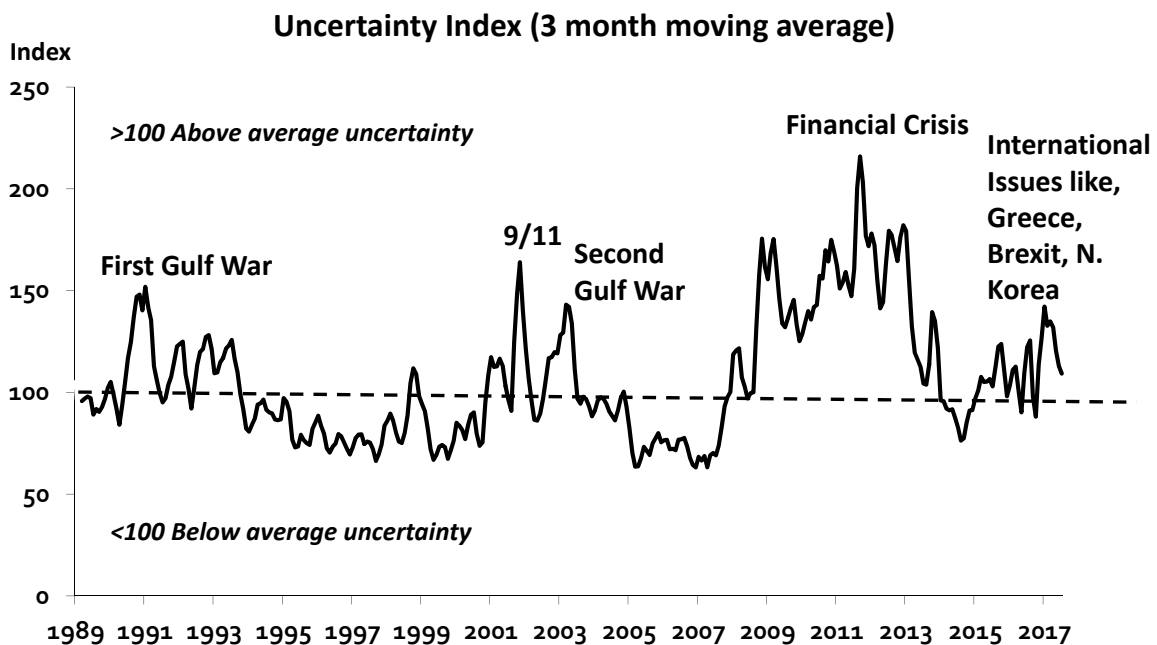
Source: Federal Reserve Board of Governors

Projected longer run Federal Funds Rate has steadily declined.



Source: Federal Reserve Board of Governors

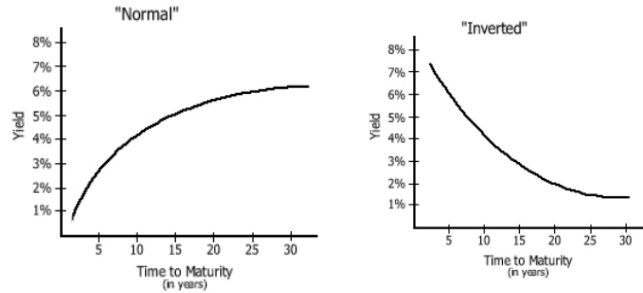
Uncertainty is likely weighing on the decision to raise interest rates.



Source: Baker, Bloom and Davis, accessed at www.policyuncertainty.com

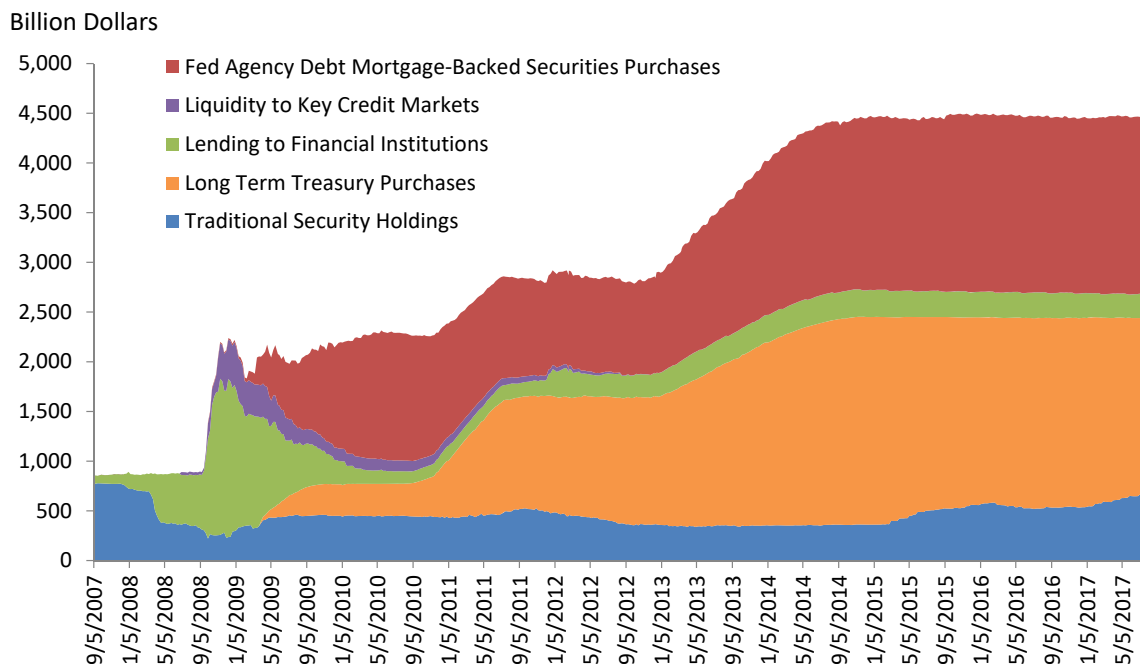
What are the implications of a “Fed created” positive spread?

- Shorter end of the yield curve is being held down by accommodative policy...so:
 - Why not reach for yield?
 - Why not use cheap short term funds to lower longer term loan rates?
 - Why lock in longer-term rates?
 - Why should I miss out on the party?



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Through quantitative easing, the Fed has pumped massive amounts of liquidity into the marketplace.



Source: Federal Reserve Bank of Cleveland

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What do low, long term interest rates mean for U.S. agriculture?

- The decline in farmland values should be slow and measured...more of a leveling off
- Should help lower the value of the US dollar, which would generally help exports...but that is not happening...why?
- Keep debt costs low...but who cares?
- With depressed net farm incomes and the prospects of a rise seemingly bleak, could low, long term interest rates stave off a “1980s” type bust?

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Thank you. Questions?

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