

Macroeconomic Outlook and Interest Rates

Risk and Profit Conference

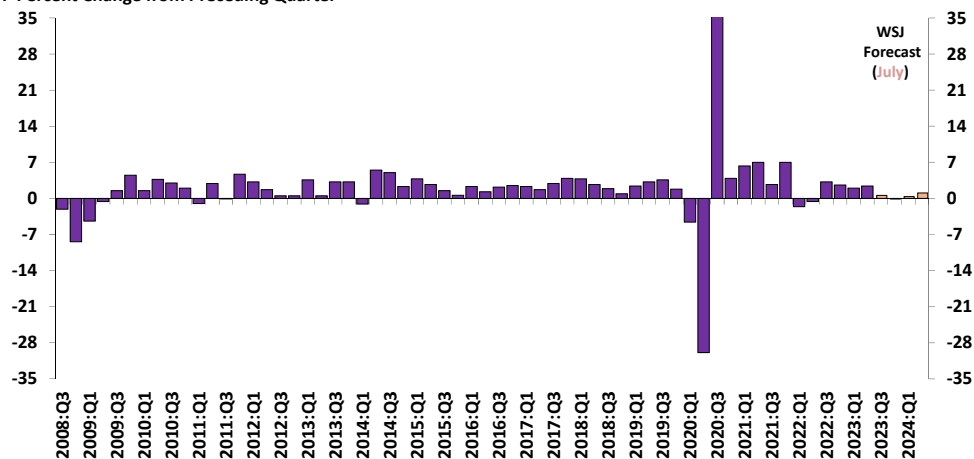
Brian C. Briggeman, Ph.D.
Professor and Director

August 17th – 18th, 2023

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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)

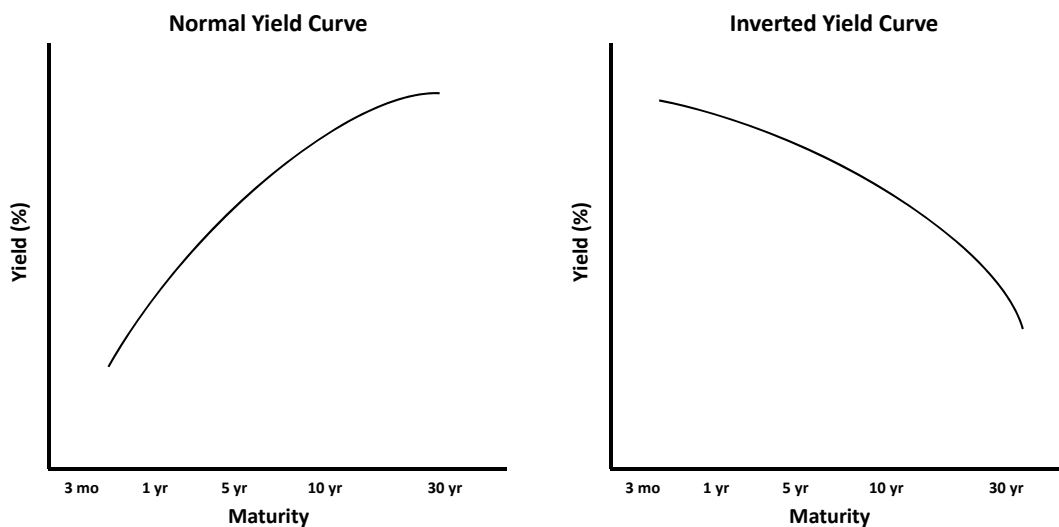
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When will the U.S. officially enter a recession?

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



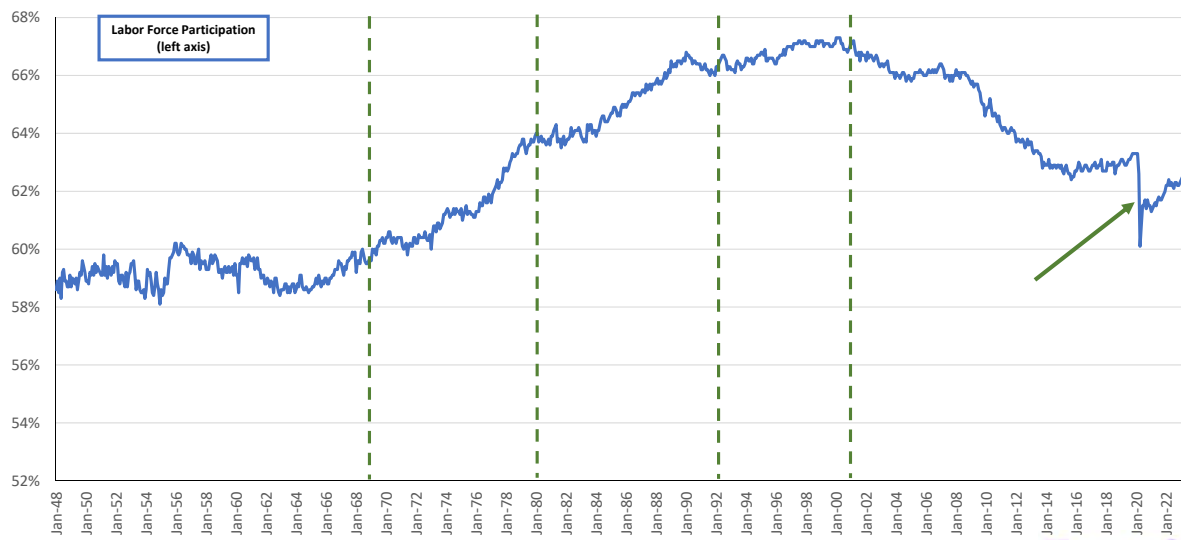
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An inverted yield curve suggests a U.S. recession is on the horizon.



Why has the U.S., at least to this point, avoided a recession?

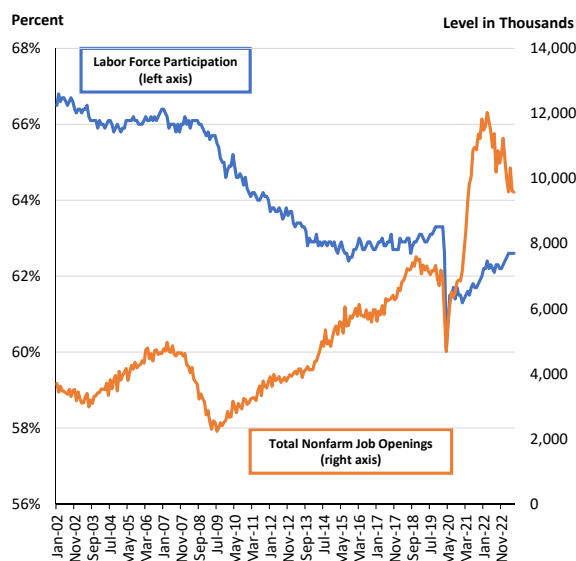
Labor force participation has evolved over time, which has implications for future U.S. economic growth.



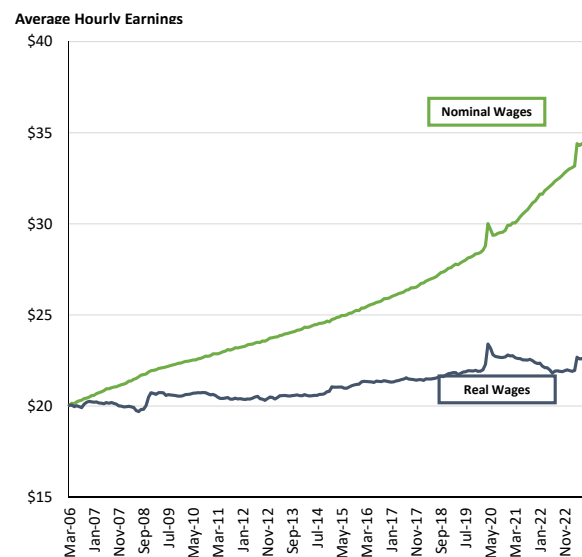
Source: U.S. Bureau of Labor Statistics

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The labor market remains tight, and wages are not keeping up with inflation.



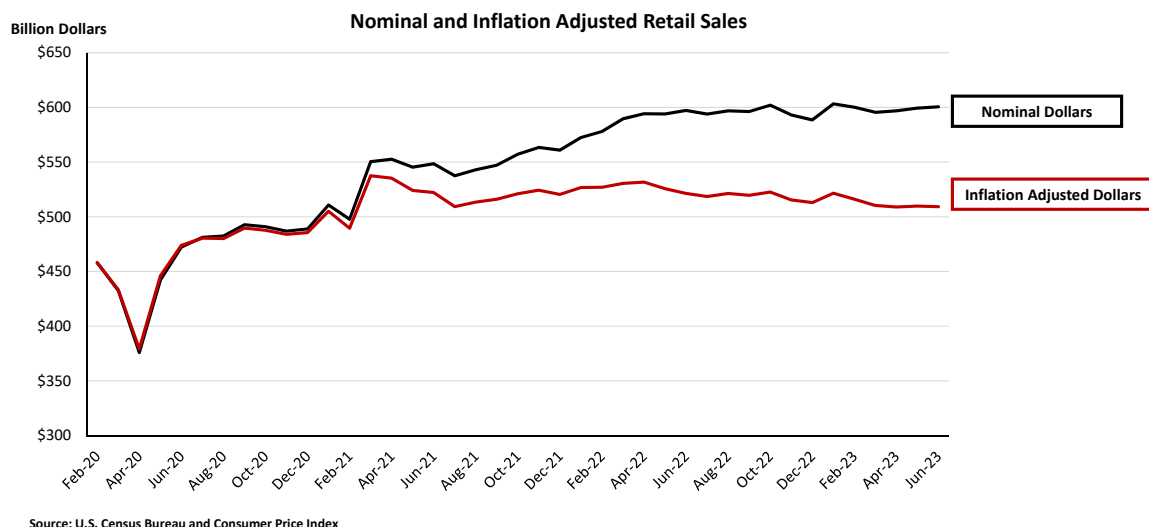
Source: U.S. Bureau of Labor Statistics



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

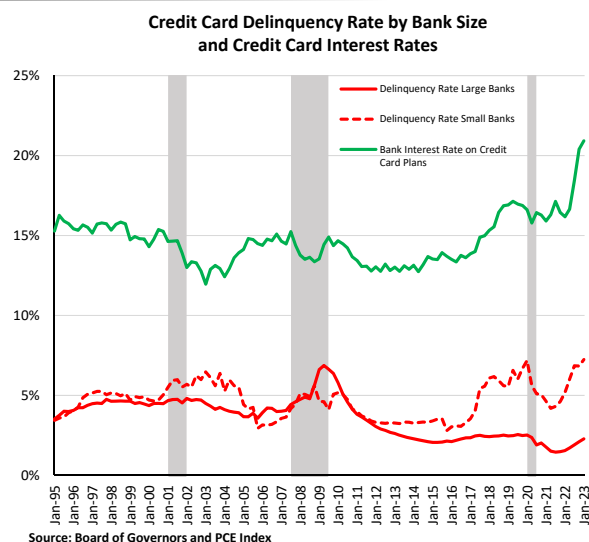
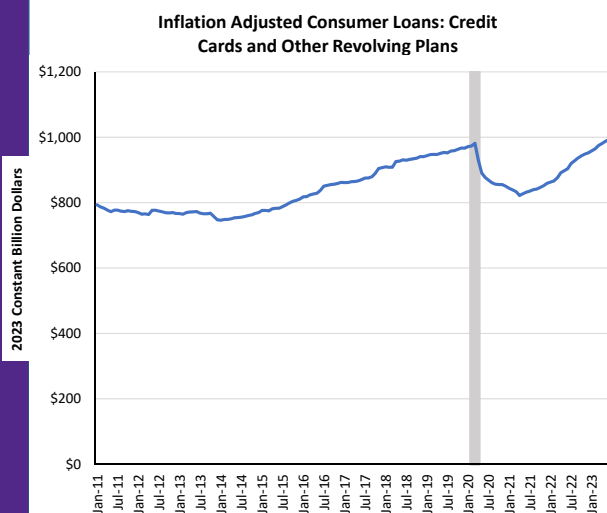
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Retail sales are rising, but in nominal terms. Inflation adjusted retail sales indicates consumer demand is flat.



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



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Could another banking crisis occur?



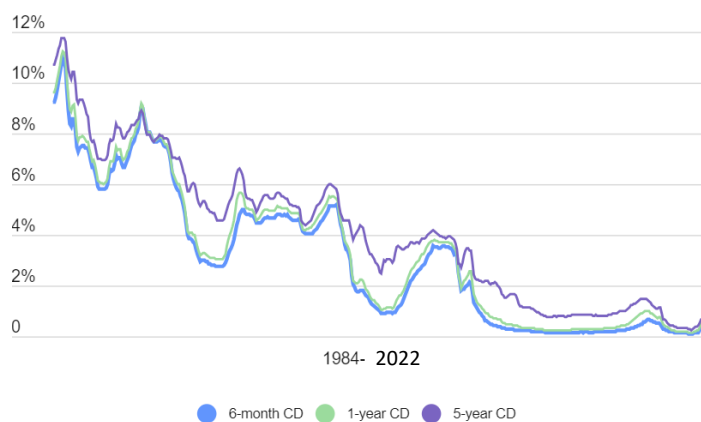
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bankrate.com/banking/cds/historical-cd-interest-rates/

Average CD rates: 1984- 2022

Average CD yields have fallen markedly since the 1980s



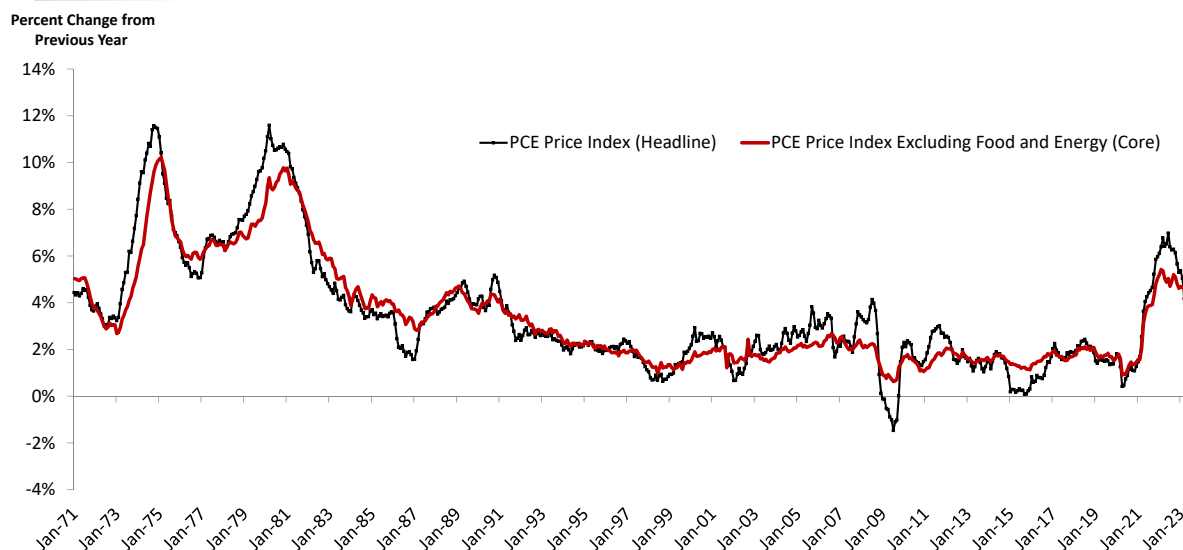
● Aug. 2023 CD rates
≈4.5%

Source: Bankrate national survey

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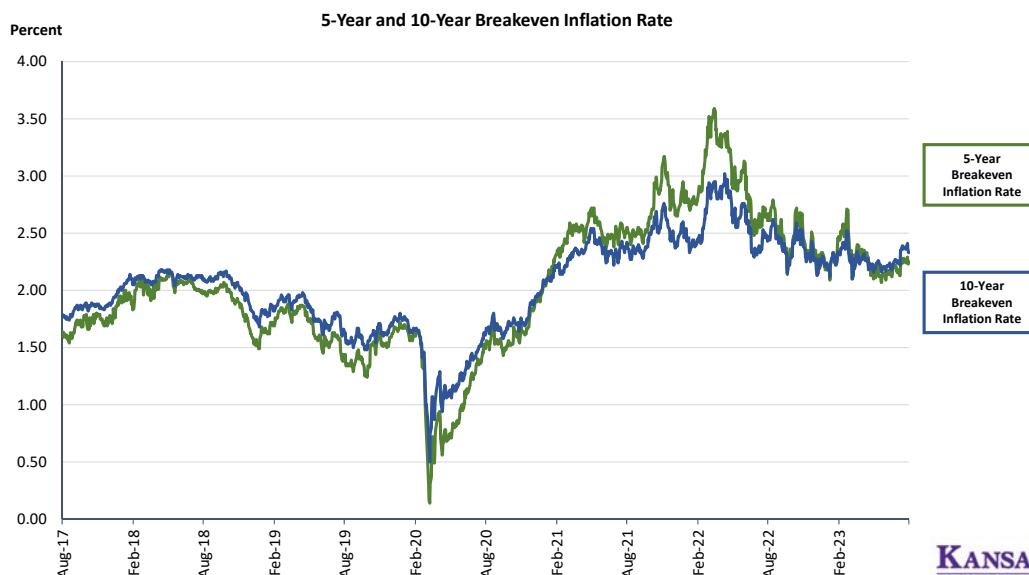
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Personal consumption expenditures price indices are coming off of recent highs...will they continue to fall?



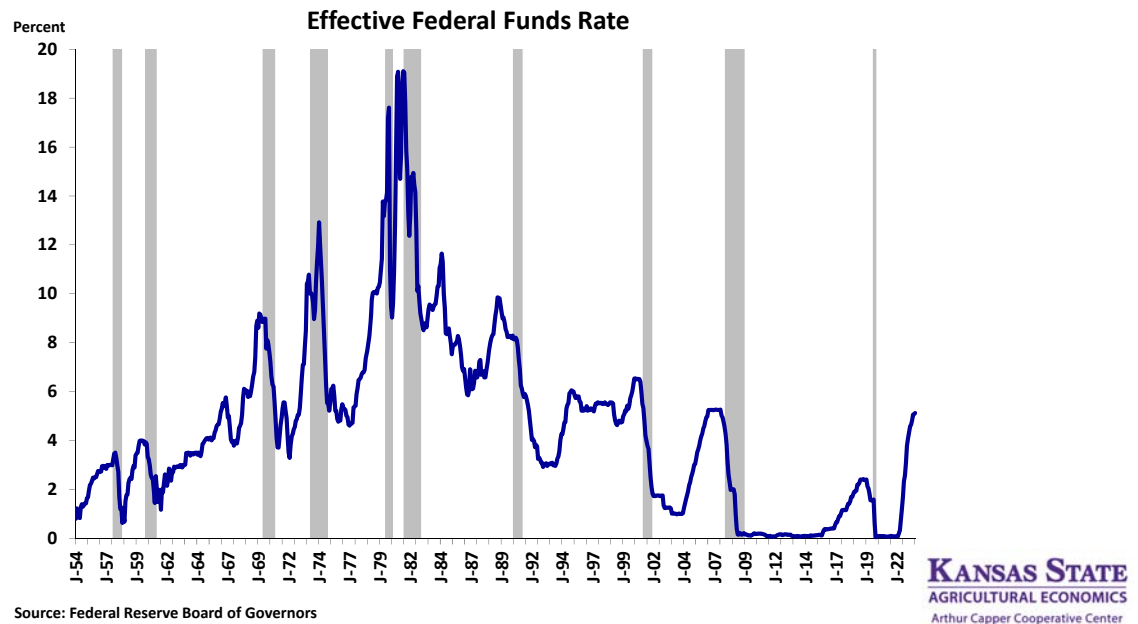
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Longer term inflation expectations are higher than near term expectations, and both are down from recent highs.

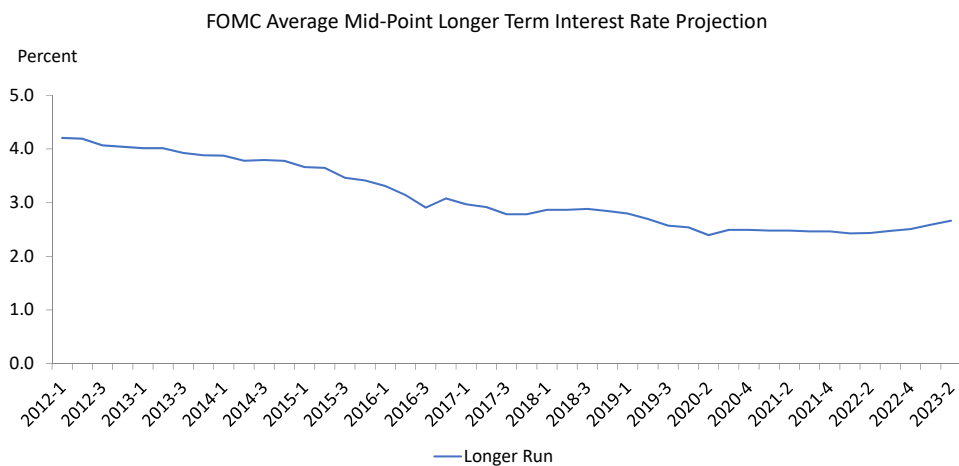


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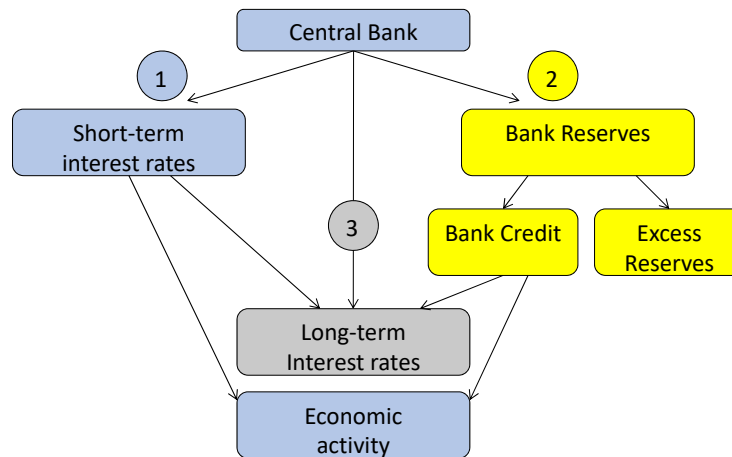
After a protracted period of exceptionally low interest rates, the Fed quickly raised interest rates.



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



Monetary policy transmission mechanisms

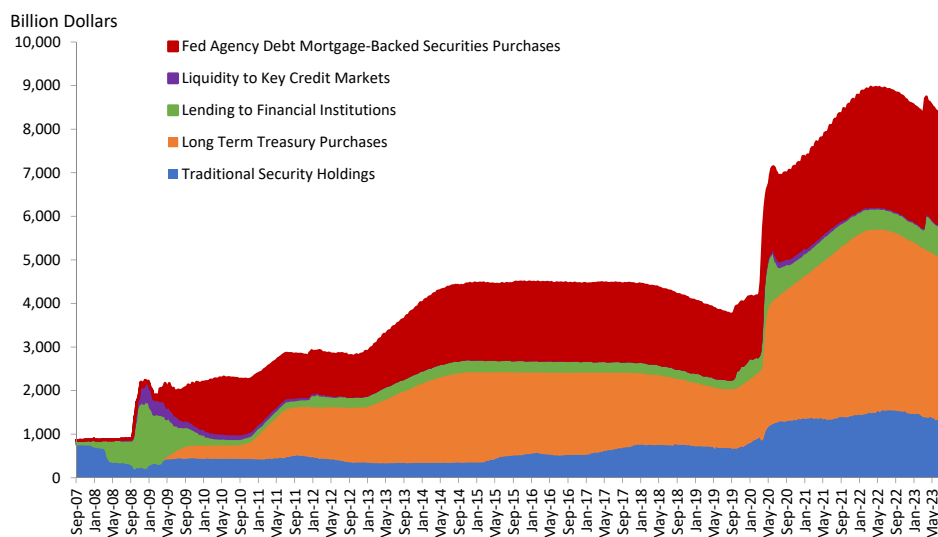


Source: Gordon Sellon (2003) "Monetary Policy and the Zero Bound: Policy Options When Short-Term Rates Reach Zero"
Economic Review <http://www.kansascityfed.org/Publicat/ECONREV/PDF/4q03sell.pdf>

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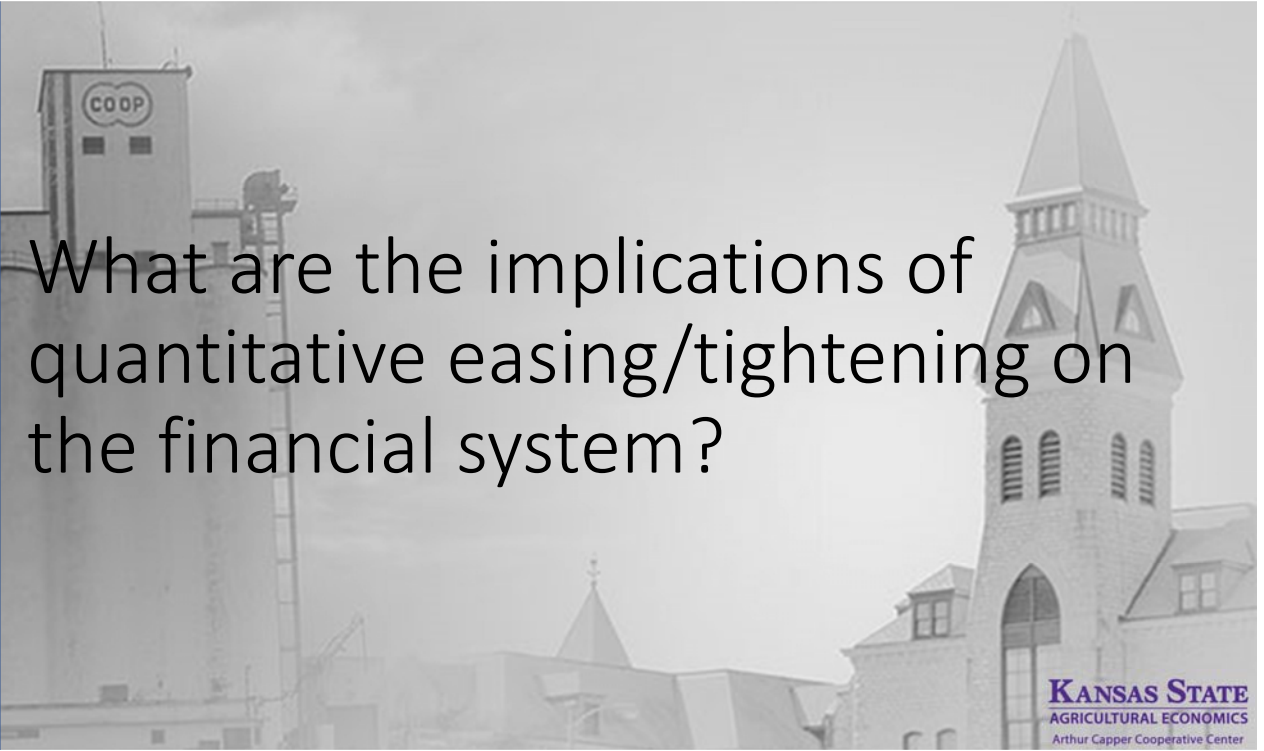
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The Federal Reserve's balance sheet is shrinking...what does that mean for the economy?



Source: Federal Reserve Bank of Cleveland

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What are the implications of quantitative easing/tightening on the financial system?

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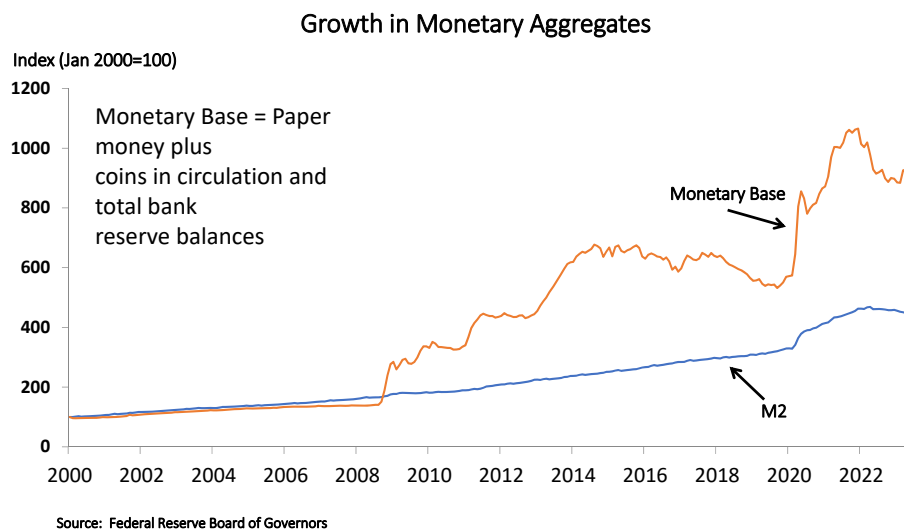
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How does the banking system create money?

- The key is fractional reserve banking
- Total reserves
 - Vault cash or reserves held at the Fed
- Required reserves (RR)
 - Reserves banks must hold; Ratio = $RR / \text{Total Deposits}$
- Excess reserves
 - Voluntarily held
- Total Reserves = Required Reserves + Excess Reserves

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There is a disconnect between M2 money stock and the monetary base

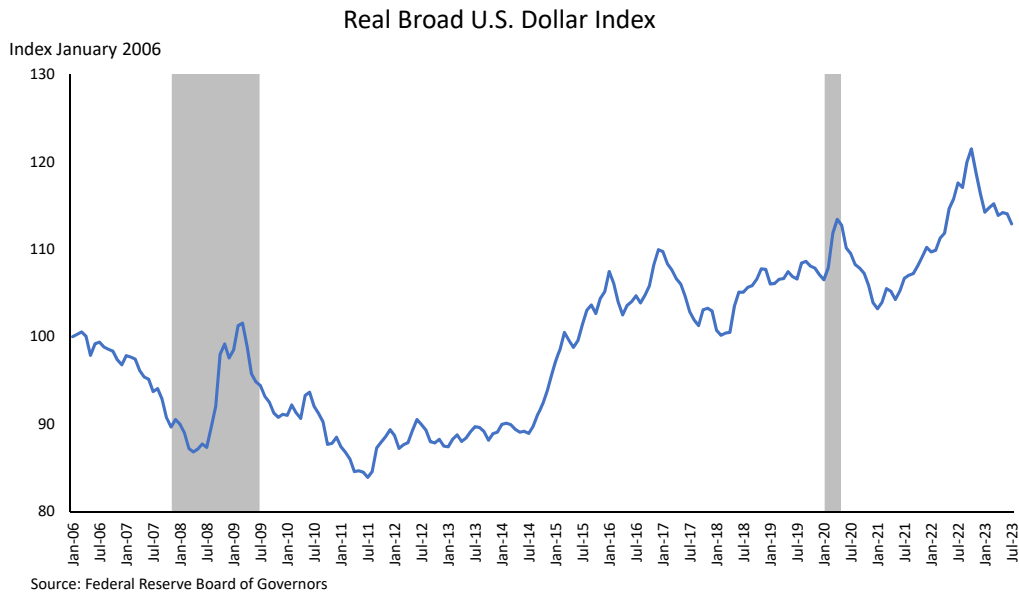


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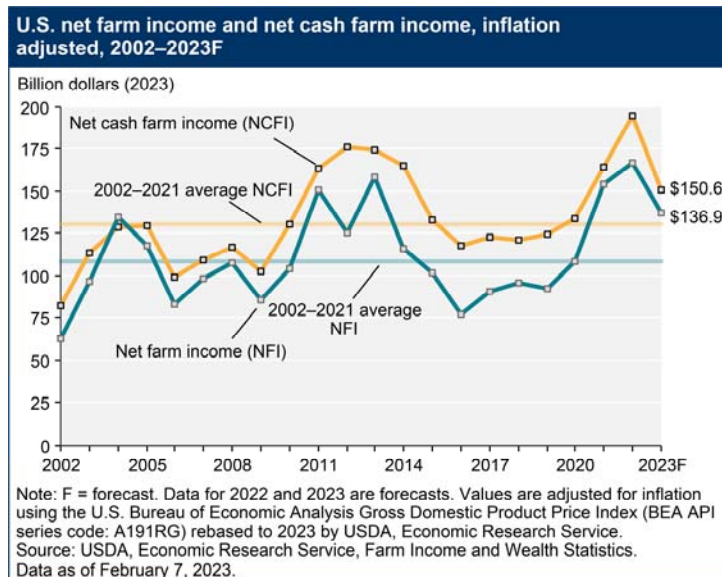
What does this mean for U.S. agriculture?

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



Even though 2023 U.S. net farm incomes are expected to decline, they remain above historical averages.



Projected Kansas Farm Incomes

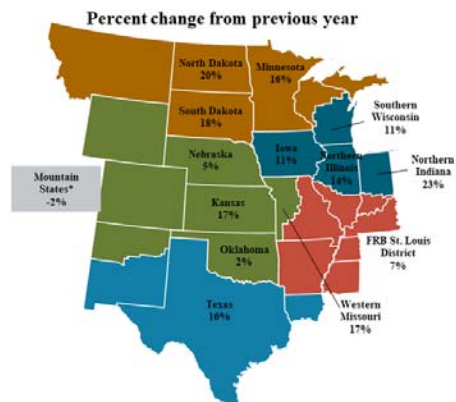
- According to a February 2023 fact sheet by Drs. Gregg Ibendahl and Dan O'Brien, farm incomes for Kansas Farm Management Association grain farms only is:
- 2020: Net Farm Income = \$190,966
- 2021: Net Farm Income = \$355,467
- 2022: Net Farm Income (projected) = \$156,767
- 2023: Net Farm Income (forecast) = \$40,566
- 20-year average = \$106,000

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Farmland values continue to rise year-over-year, but will they level off?

Map: Nonirrigated Cropland Values, Fourth Quarter 2022



*Mountain States include Colorado, northern New Mexico and Wyoming, which are grouped because of limited survey responses from each state.
Sources: Federal Reserve District Surveys of Agricultural Credit Conditions

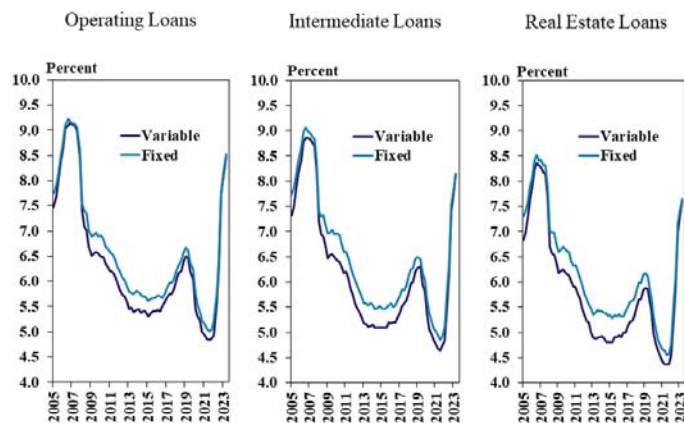
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Article: <https://www.kansascityfed.org/agriculture/agfinance-updates/farm-loan-interest-rates-rise-sharply/>

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All debt costs are going up.

Chart 9: Average Tenth District Interest Rates



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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/>

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How should I position myself and/or my business/farm to navigate higher interest rates?

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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

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Thank You and Questions

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