Macroeconomic Implications for Kansas Landowners

Kansas Landowner Conference

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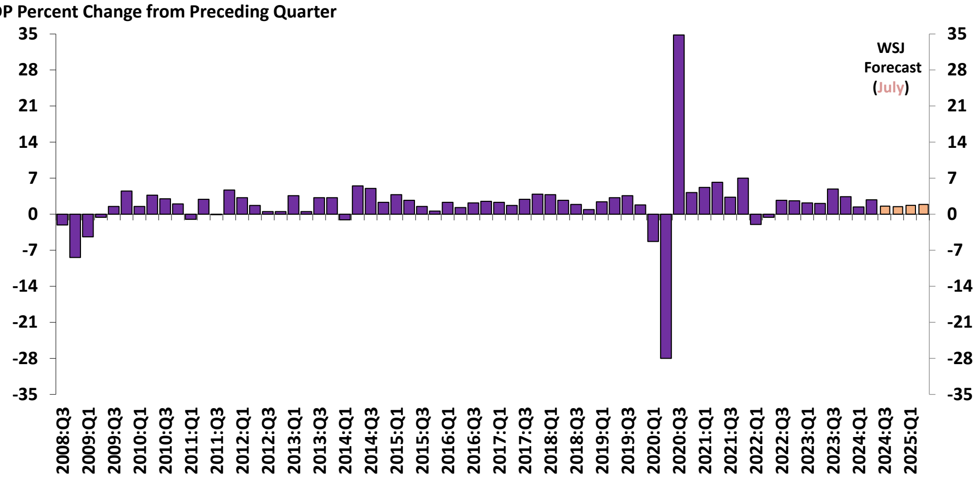
U.S. economic growth has remained resilient amid rising interest rates and higher inflation.

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

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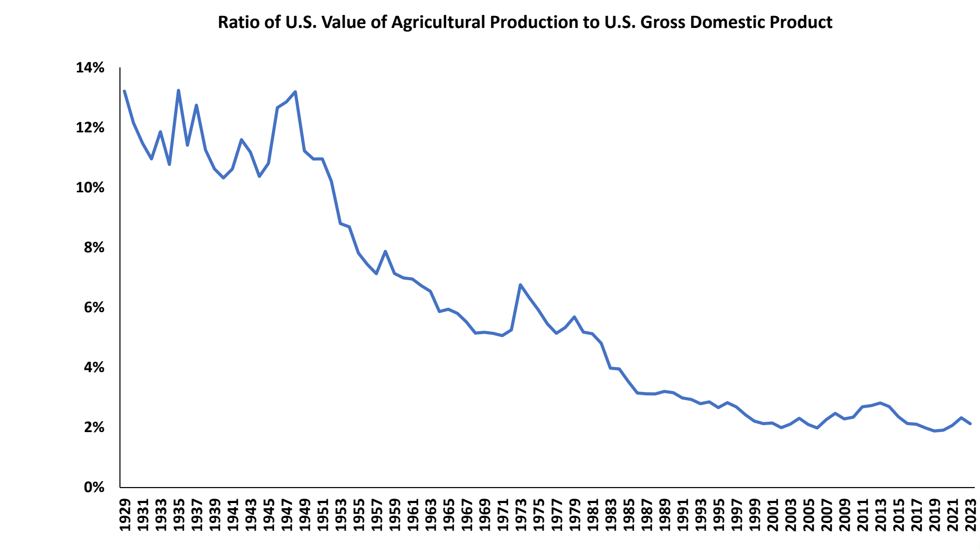
Over time, the ratio of the value of U.S. agricultural production to U.S. GDP has fallen.



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

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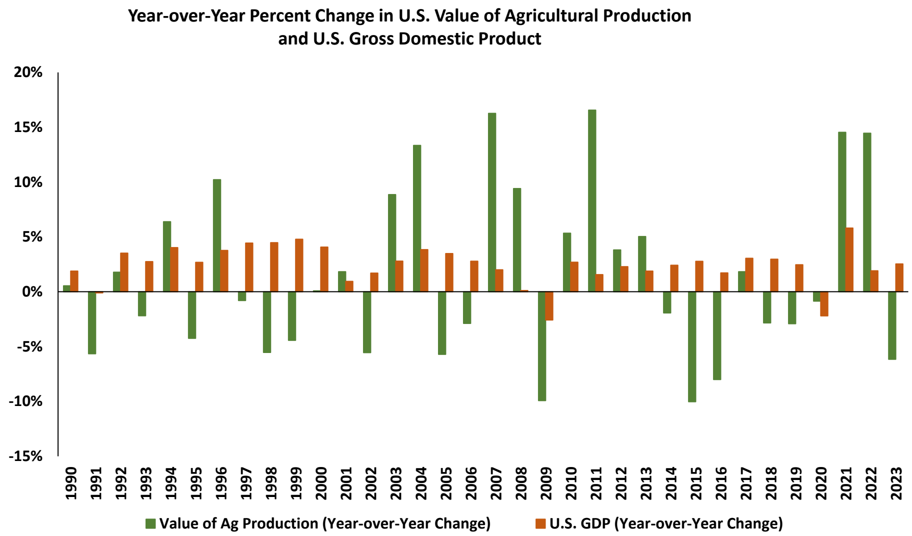
Since 1990, there is very little correlation between the value of U.S. agricultural production and U.S. GDP



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

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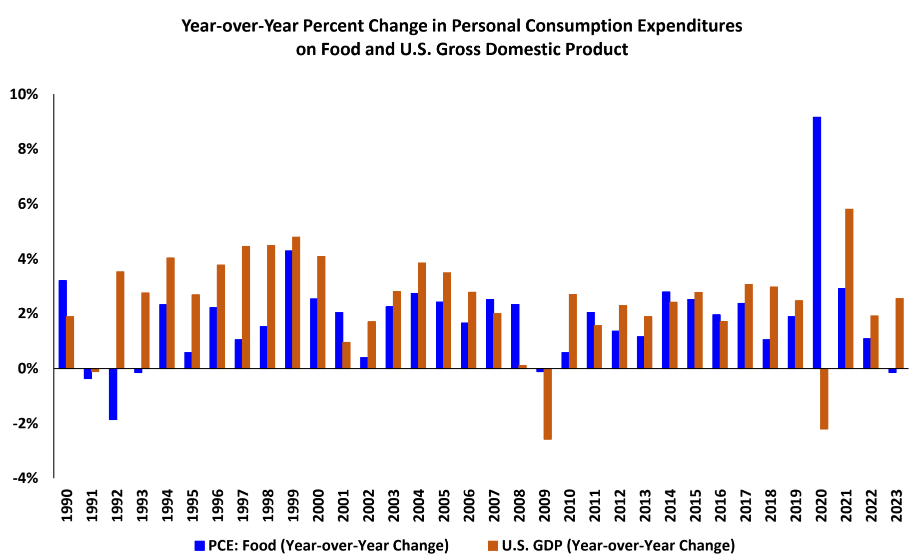
Excluding 2020, there is some positive correlation between U.S. food consumption and U.S. GDP.



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

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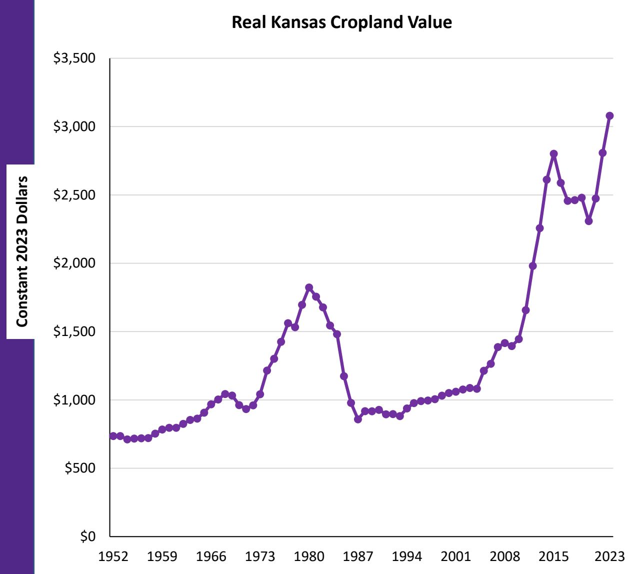
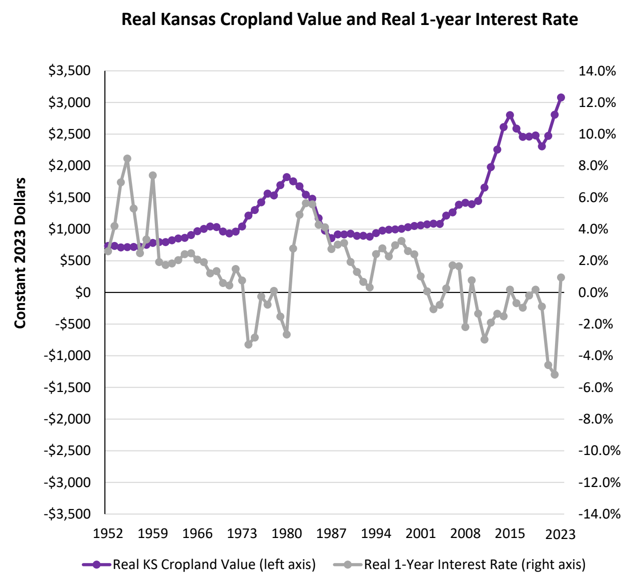
Real interest rates have a relationship to farmland values.



Source: USDA/NASS and Bureau of Economic Analysis



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What is the future path of interest rates?

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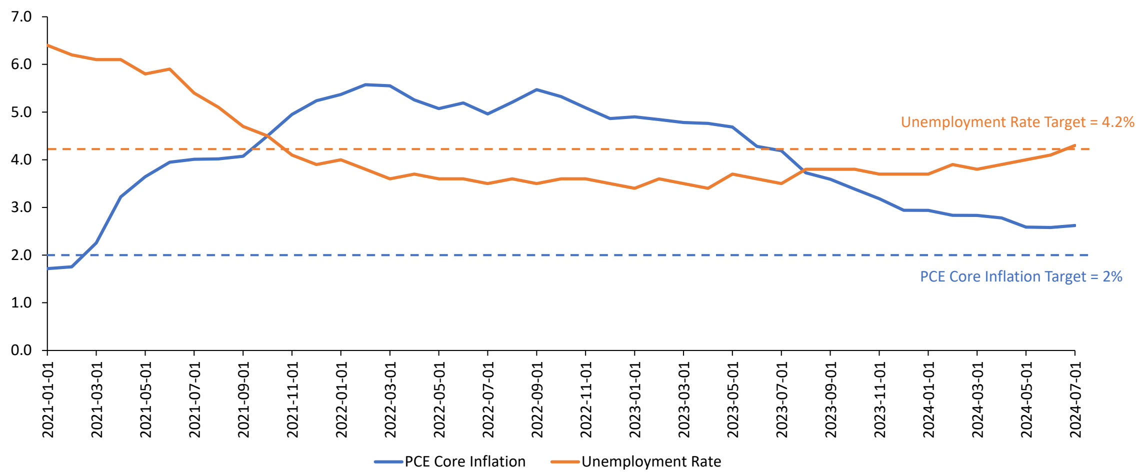
The Federal Reserve's dual mandate is approaching target levels for stable prices and full employment.



Source: Bureau of Economic Analysis and Bureau of Labor Statistics

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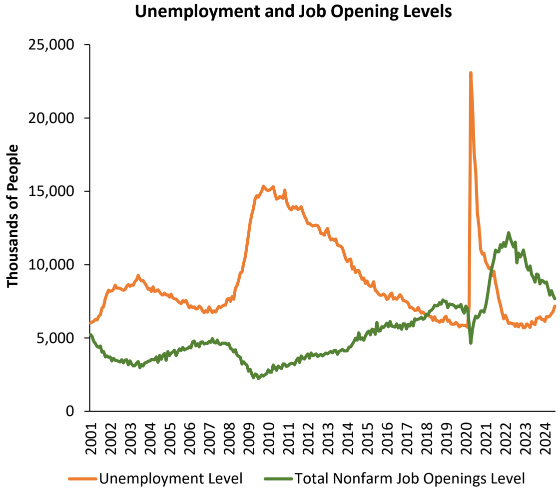
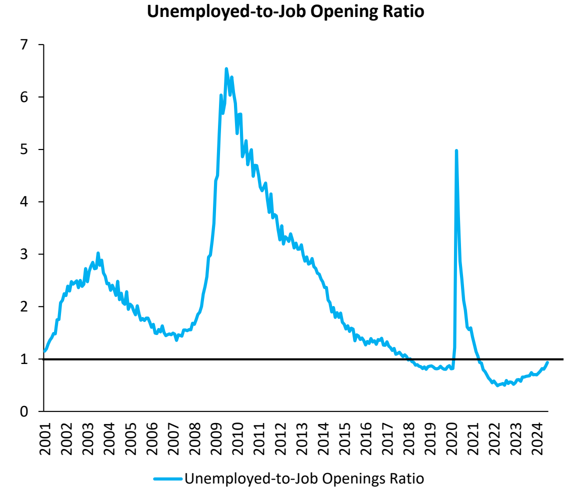
The labor market is becoming more balanced.





Source: Bureau of Labor Statistics

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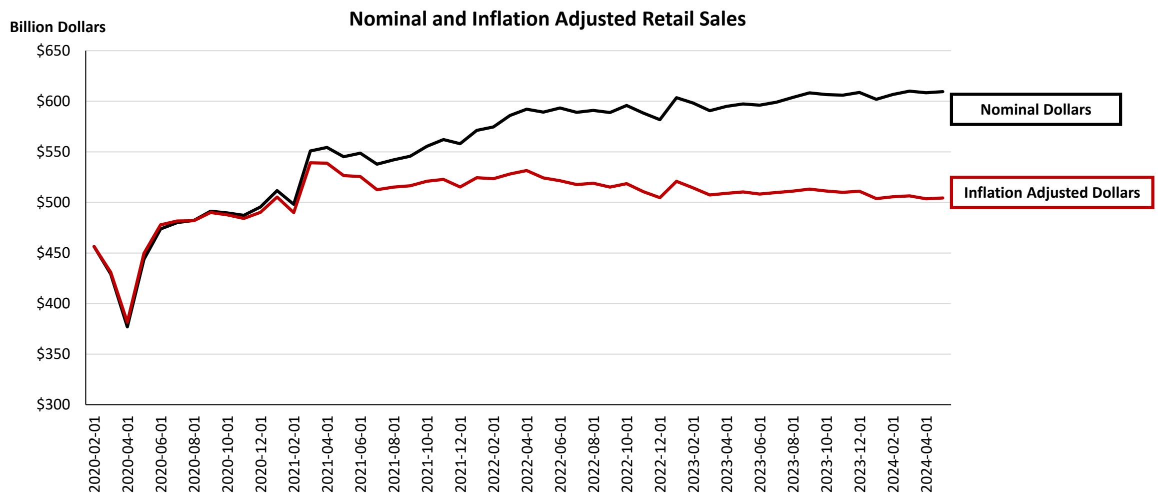
Retail sales are rising, but in nominal terms. Inflation adjusted retail sales indicates consumer demand is flat.



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

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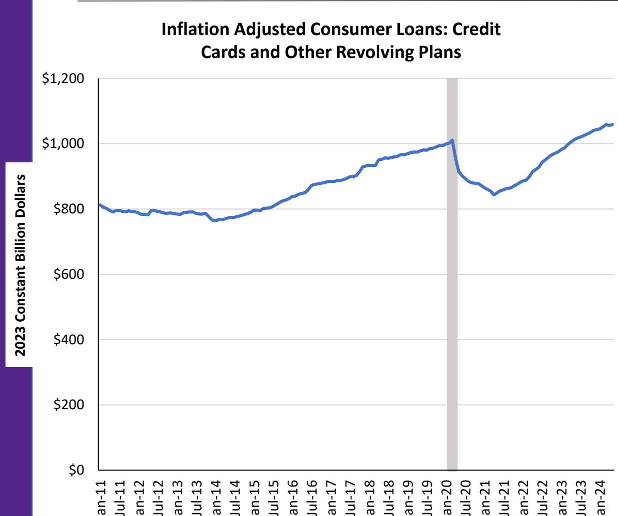
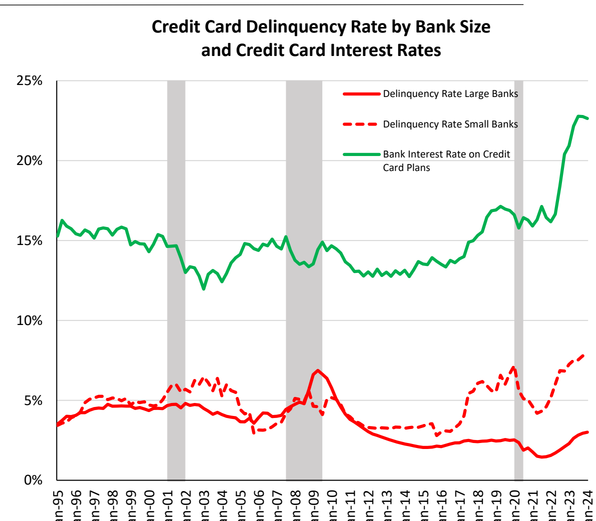
Credit card debt and delinquency rates are back to pre-Pandemic levels, and credit card interest rates are surging.



Source: Board of Governors and PCE Index



Source: Board of Governors and PCE Index

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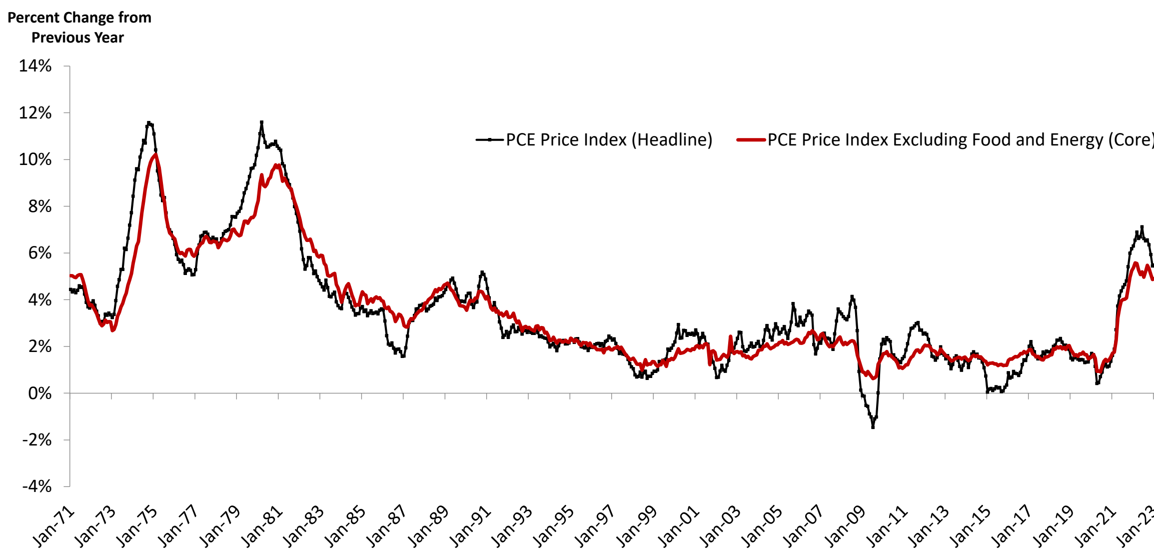
Personal consumption expenditures price indices are coming off of recent highs…will they continue to fall?



Source: U.S. Bureau of Economic Analysis

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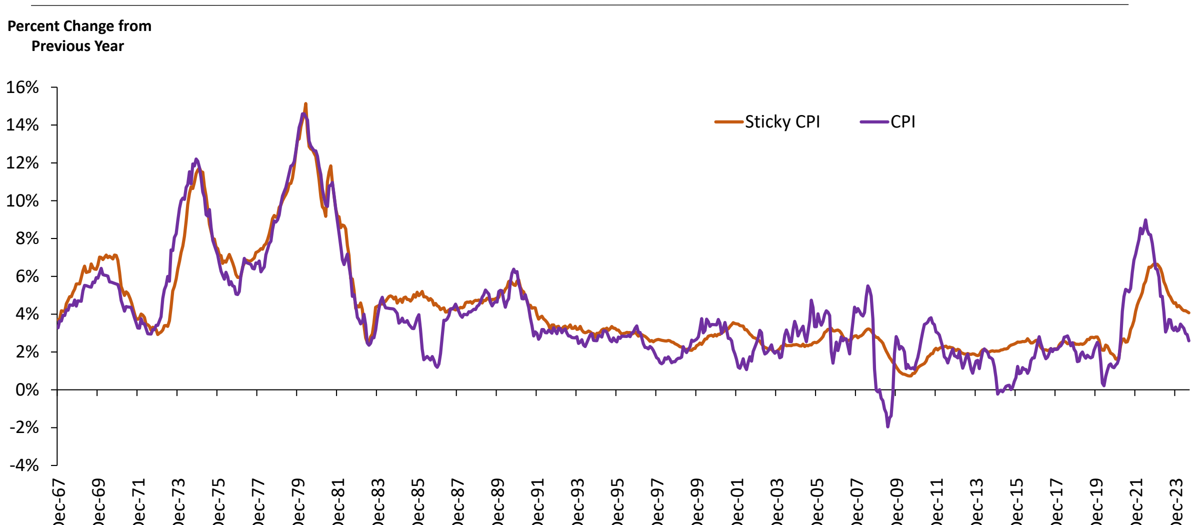
"Sticky" inflation continues to be stubbornly high.



Source: U.S. Bureau of Economic Analysis

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

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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

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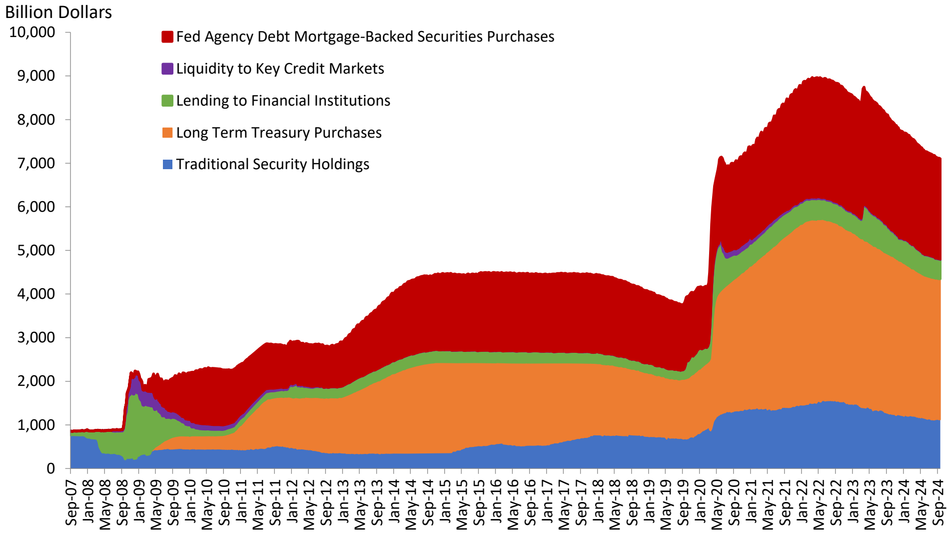
The Federal Reserve's balance sheet is shrinking…what does that mean for the economy?



Source: Federal Reserve Bank of Cleveland

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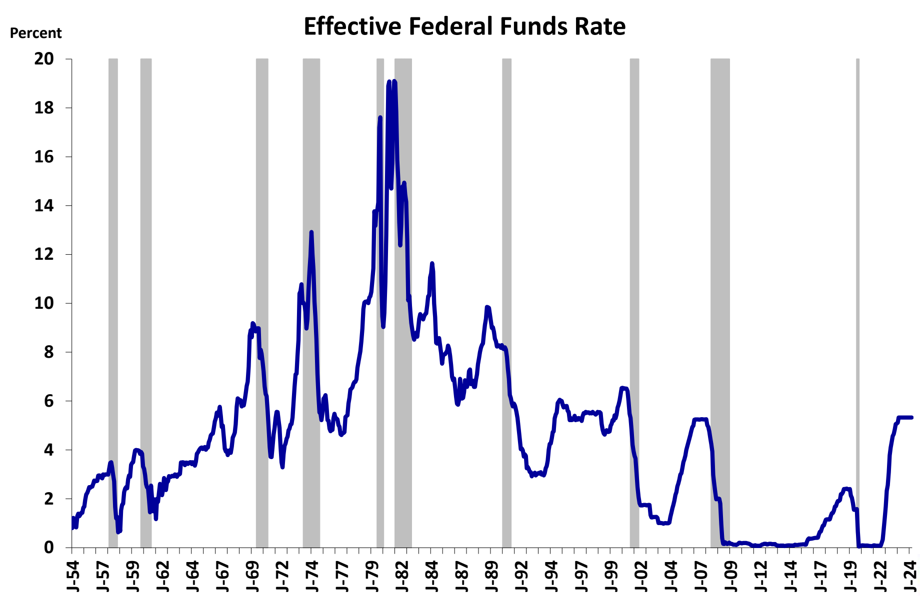
After a protracted period of exceptionally low interest rates, the Fed quickly raised interest rates and are now lowering rates.



Source: Federal Reserve Board of Governors

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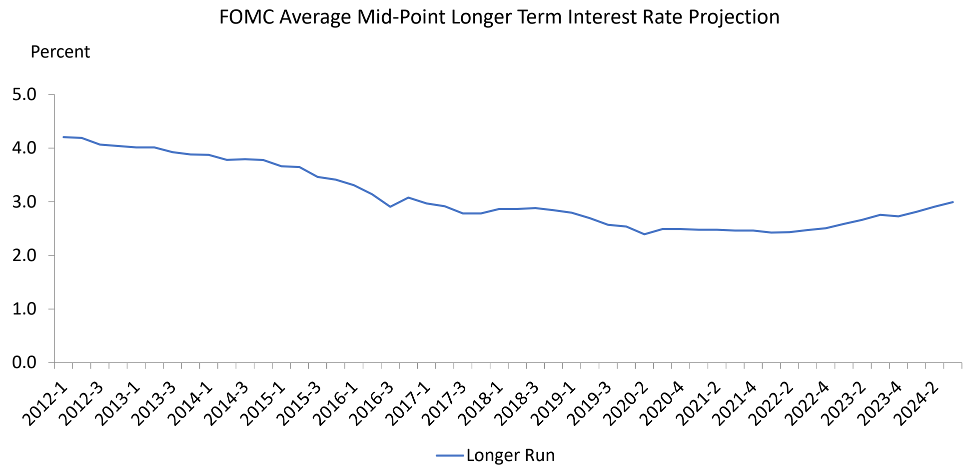
However, will the Federal Open Market Committee (FOMC) maintain higher interest rates into the future?



Source: Federal Open Market Committee (FOMC) Projections materials

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10-year treasury yields are correlated with farm real estate interest rates

Source: Federal Reserve Bank of Kansas City, Board of Governors, Econforecasting.com, and author's calculations

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When will the U.S. enter a recession?

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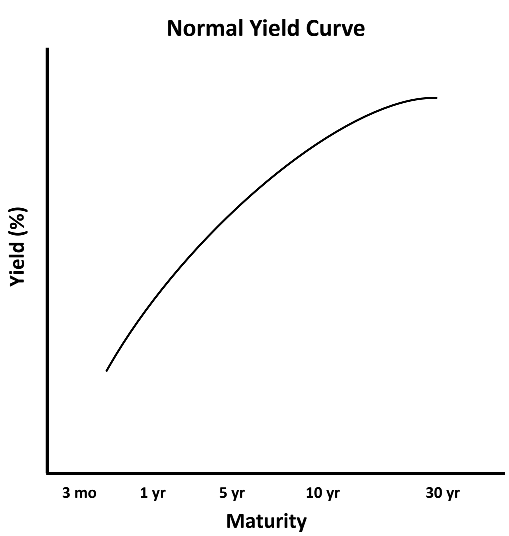
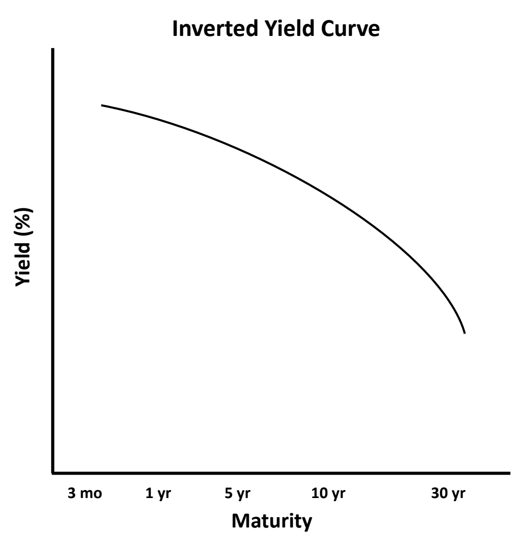
A leading indicator of the U.S. entering a recession tends to be an inverted yield curve.





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

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Key takeaways

- While agriculture is a small component of GDP, interest rate movements have a relationship and connection to farmland values
  - Low to negative real interest rates tend to increase land values
  - High real interest rates tend to hold land values flat
- The Fed decreased interest rates to "normalize" them
  - The Fed was more aggressive than market expectations…implications?
- Farm real estate interest rates could approach 6.5% to 7% in 2025
  - Especially as 10-year treasury yields fall
- Interest rate movements are outside of your control. Maintain a good working relationship with your tenant is under your control.

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