

# *MACROECONOMIC CONDITIONS AND IMPLICATIONS FOR AGRICULTURE*

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## Today's Outline

- Macroeconomic Conditions
- Implications for Agriculture

# STAGFLATION

Economic stagnation and inflation at the same time

## Stagflation of the 1970s

**Real GDP Growth**  
(annualized percent change)


Period	Real GDP Growth (annualized percent change)
1950-1973	4.1
1974-1981	2.5

**Consumer Price Inflation**  
(average annual percent growth)

Period	Consumer Price Inflation (average annual percent growth)
1950-1973	2.7
1974-1981	9.4

Source: Congressional Budget Office

**Federal government spending was financed by accommodative monetary policy.**




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## Federal Reserve Assets

- Federal Agency Debt and Mortgage-Backed Securities Purchases
- Lending To Financial Institutions
- Long Term Treasury Purchases
- Providing Liquidity To Key Credit Markets
- Traditional Security Holdings

Source: Federal Reserve Bank of Cleveland calculations based on data from Federal Reserve Board and Haver Analytics.



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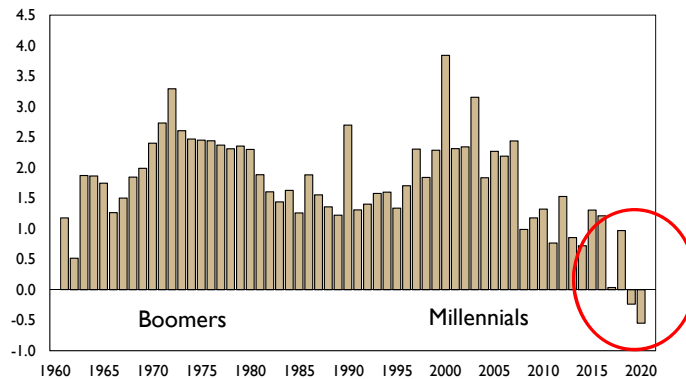
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Monetary Policy is Gasoline.  
You need a Spark to Start the Fire.



## A Demand Spark: Working Adult Populations

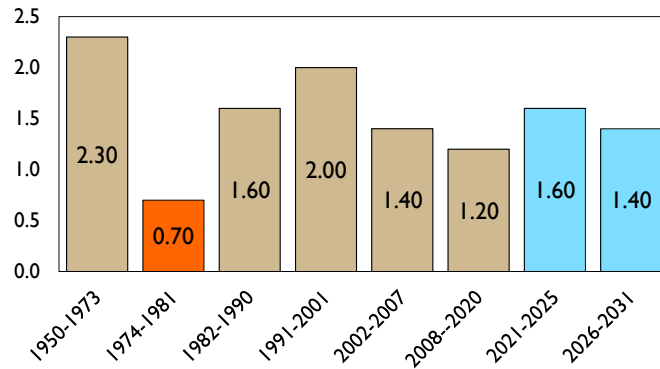
U.S. Working Age Populations, 15-64 years of Age  
(Change from the previous year, million of people)



Source: Federal Reserve Economic Data

## *Worker Productivity is expected to rise.*

Potential Labor Force Productivity  
(Average Annual Percent Change)



Source: Congressional Budget Office



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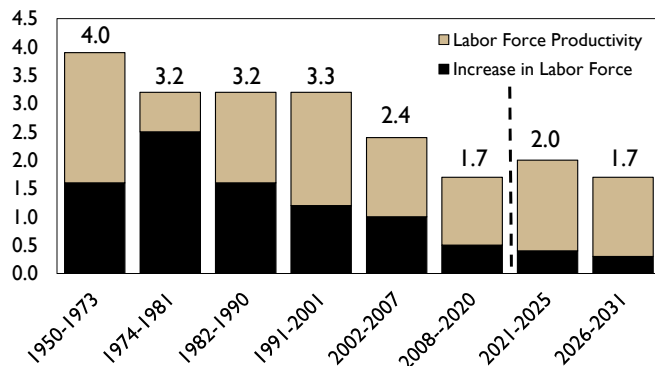
## **It's Not Your Father's Stagflation**



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## Real GDP outstrips potential GDP

U.S. Potential GDP Growth  
(Average Annual Percent Change)



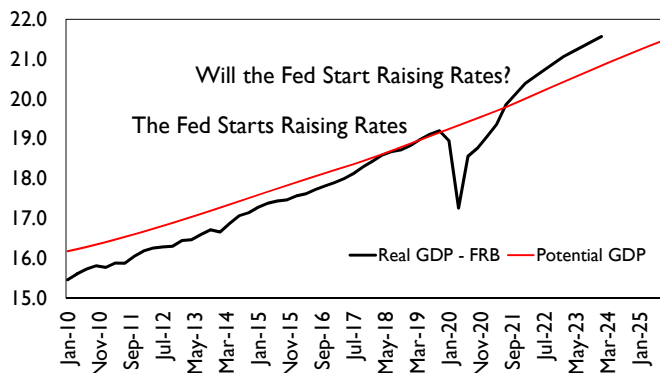
Source: Congressional Budget Office



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## Inflation rises if Real GDP outstrips Potential GDP

U.S. Potential GDP and Real GDP  
(Trillions of dollars)



Source: Calculations based Federal Reserve Economic Data and Federal Reserve growth projections



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# The Best Cure for High Prices is ... High Prices

## Will inflation and labor shortages trigger innovations in productivity?

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# What Does this Mean for Agriculture?

## Macro Economy and Monetary Policy


Farmers are asset rich and cash poor.

Initially, inflation is good for farmers, until input costs rise.  
Low interest rates underpin asset values and reduce debt service.  
A couple of good years for agriculture?

## Understand Food Trends

The future away consumers get from the farm,  
the more curious they are about how food is raised and grown.

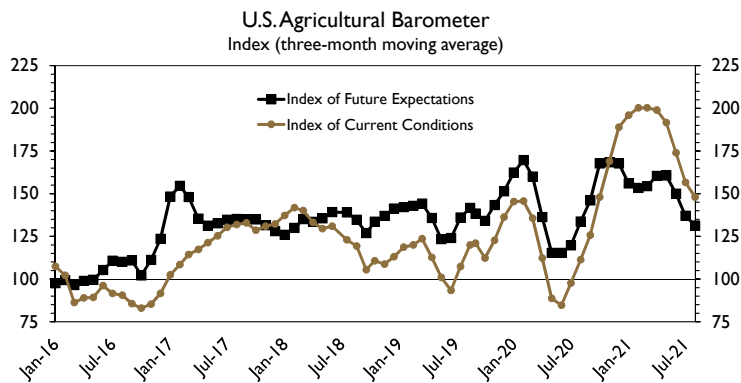
Commodity or value-added production?  
Will consumers pay for sustainability and other consumer fads?

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# Farmer Optimism

Farmer optimism rebounds with the recovery.



Source: Center for Commercial Agriculture, Purdue University and Chicago Mercantile Exchange (CME)

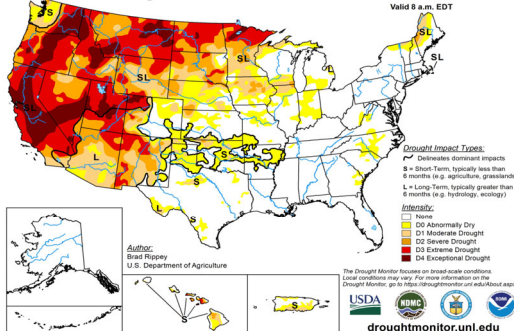


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# Weather is always a Risk

## U.S. Drought Monitor

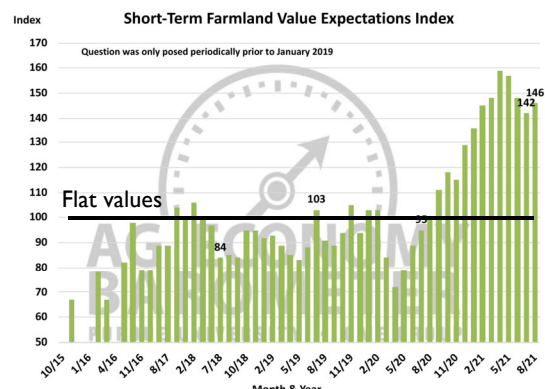
September 14, 2021  
(Released Thursday, Sep. 16, 2021)  
Valid 8 a.m. EDT



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## Investments are a mixed bag.



Source: Purdue University Center for Commercial Agriculture, Producer Survey, August 2021

Farmers Expect ...

- ❖ Strong land value gains
- ❖ Cash rents rise

But ...

- ❖ Equipment purchases fall
- ❖ Building activity declines

## *Fundamental Medium-Term Questions:*

*Will the U.S. leverage the house and farm?*

*How will the U.S. manage debt post-recovery?*

**Slow and Steady Wins the Race**

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### Trade Policy

Geopolitical risks – what will happen to US – China relations?

### Farm Policy - 2023

Will it offset bad trade outcomes for agriculture?

## What Does this Mean for Ag Bankers?

### Managing Risk

Volatility, volatility, volatility  
How will you manage risk in a rising interest rate environment?

### Technology

If you think technology has changed this past year,  
just wait until next year in agriculture.

### Individual Ag, Commodity Ag, or Both?

Consumer trends will impact food, agriculture and energy.  
What are you ready to finance?