

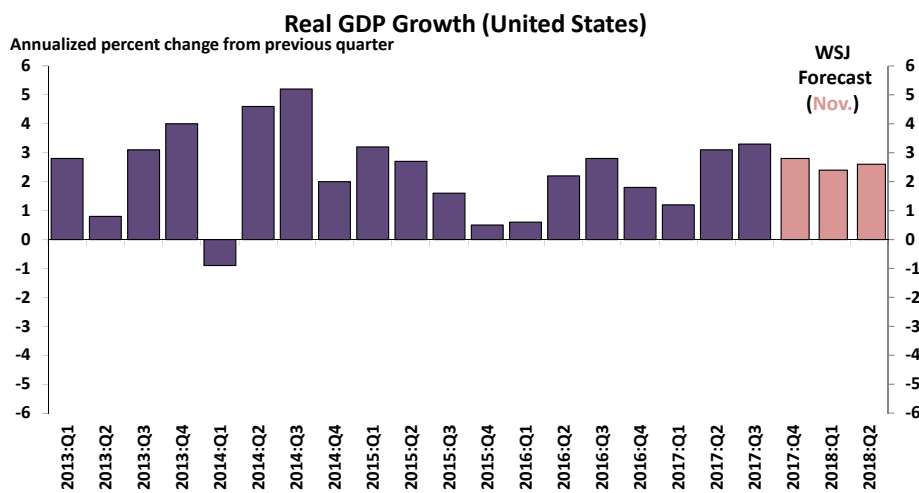
Macroeconomic and Interest Rate Outlook

Farming for the Future
Salina, KS
December 19th, 2017

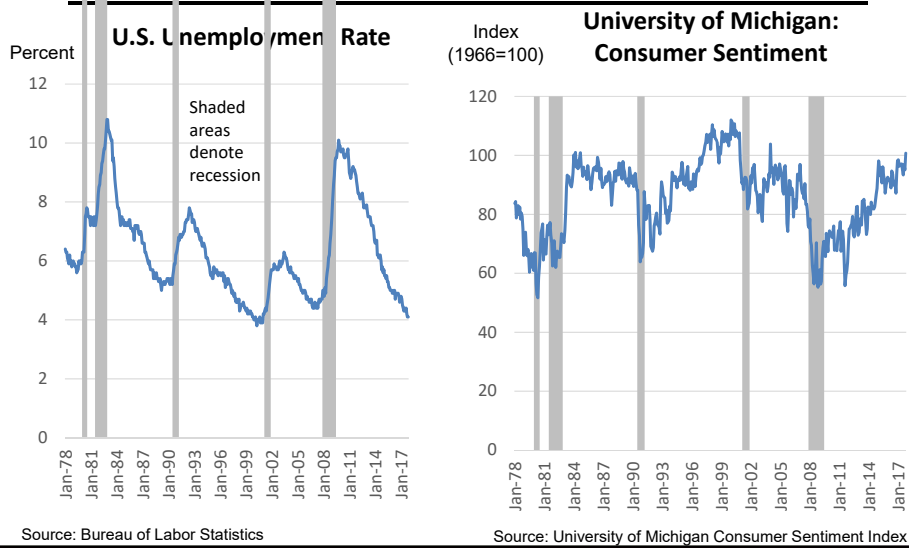
Brian C. Briggeman
Professor and
Director of the Arthur Capper Cooperative Center



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

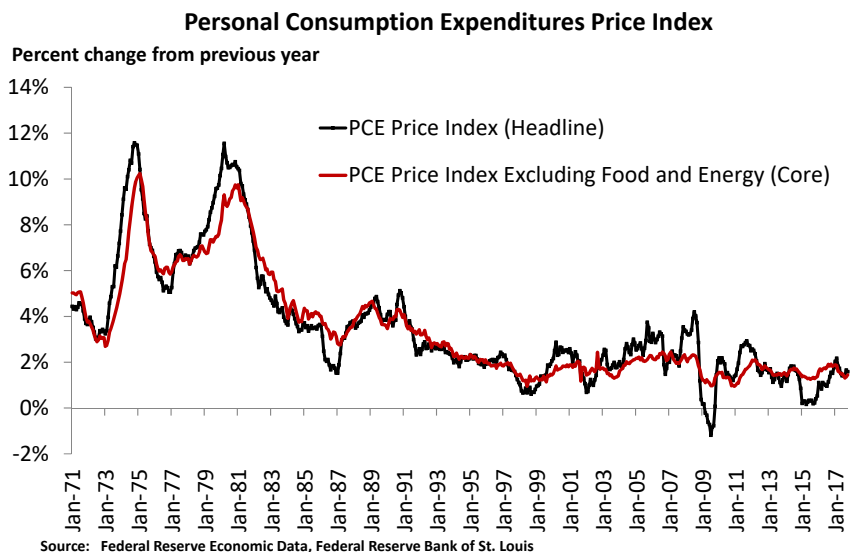


The labor market has improved.



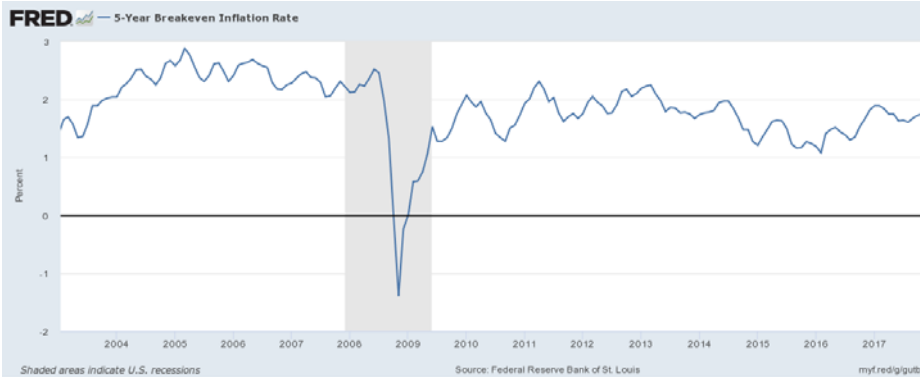
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Today's inflation is well below 1970s levels...



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



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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
 - Currently 1.25% to 1.5%...three more in 2018?

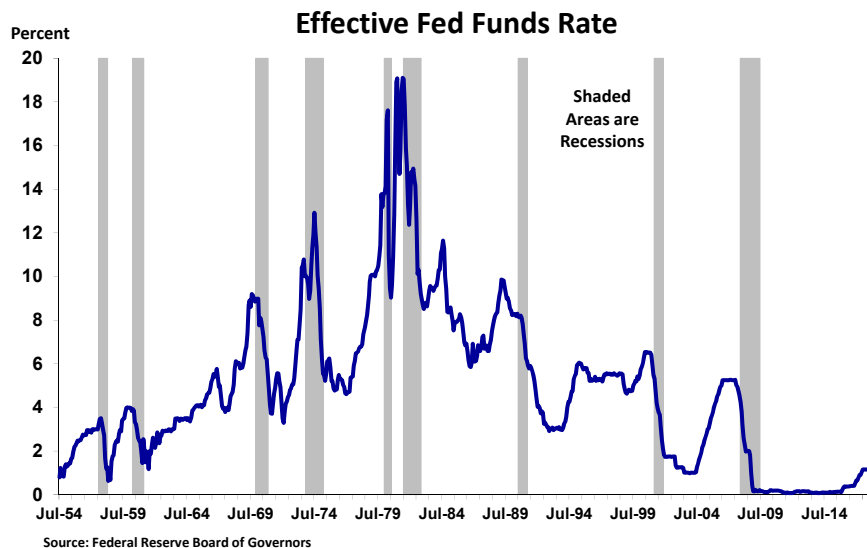
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Who is Jerome Powell?

- Before working in D.C., he was an executive at the Carlyle Group (a private equity Wall Street firm)
- In 2012, he was appointed as a Fed Governor by President Obama
- He is well respected, known to be even-tempered, and a consensus builder
- His voting record as a Fed Governor would indicate he is a dove but his speeches are hawkish
- My guess is he will continue a slow and steady rise of interest rates...why?
 - During his confirmation hearing, the stock market rallied
 - He expects moderate GDP growth of 2.5%

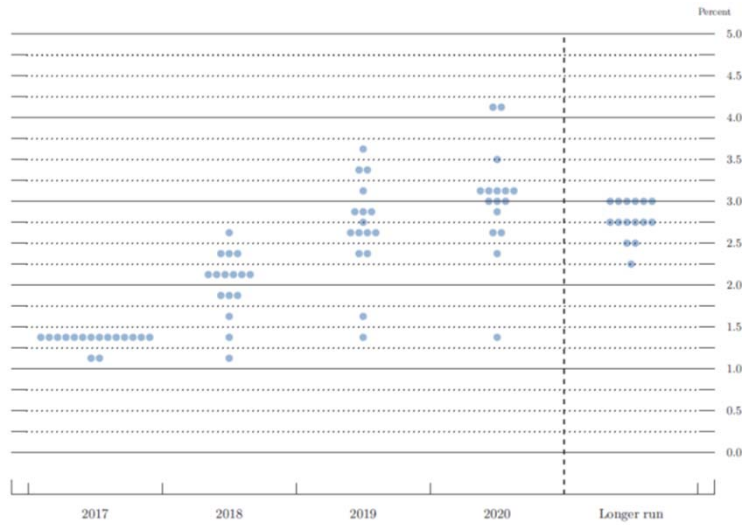
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With an improving economy, the FOMC did raise rates in December 2015.



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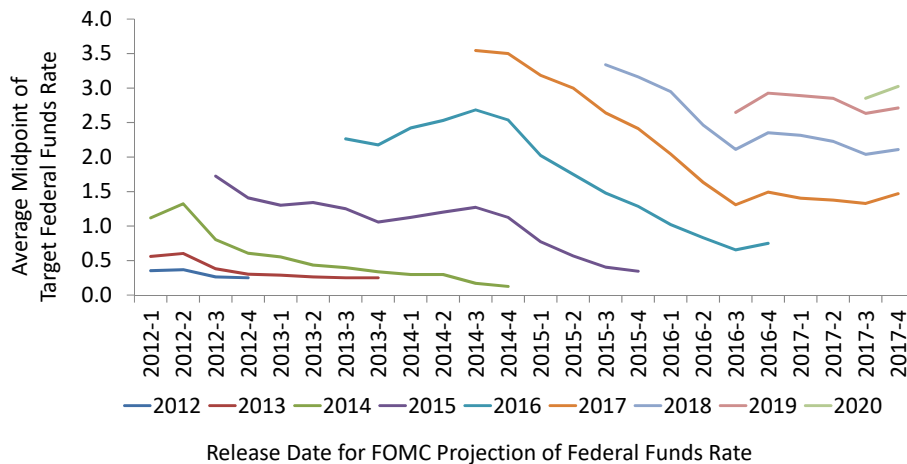
The December 2017 FOMC dot plot shows future interest rates rising significantly...but will they?



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

FOMC "Dot Plot" Average Annual Federal Funds Rates

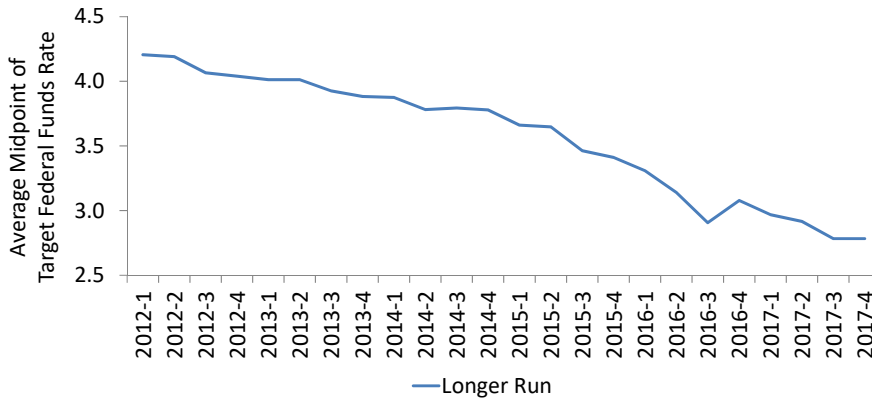


Source: Federal Reserve Board of Governors

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Projected longer run Federal Funds Rate has steadily declined.

FOMC Longer Run Average Annual Federal Funds Rate



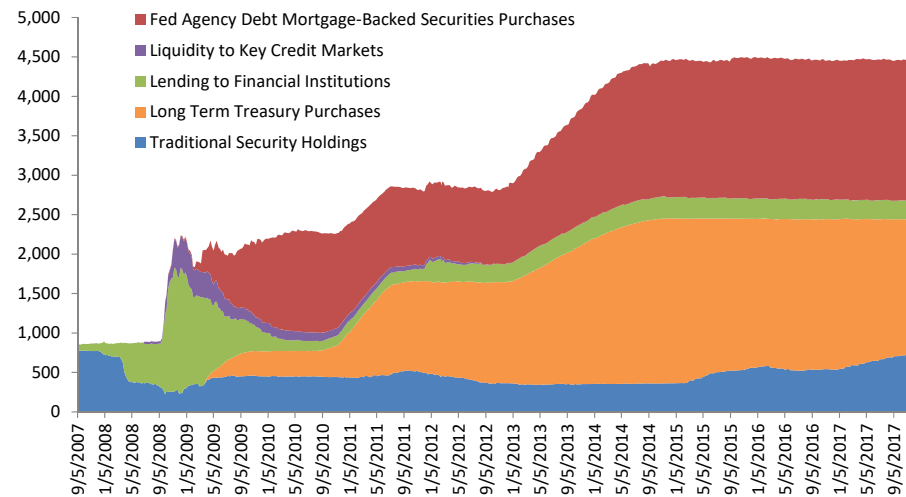
Release Date for FOMC Projection of Federal Funds Rate

Source: Federal Reserve Board of Governors



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

Billion Dollars

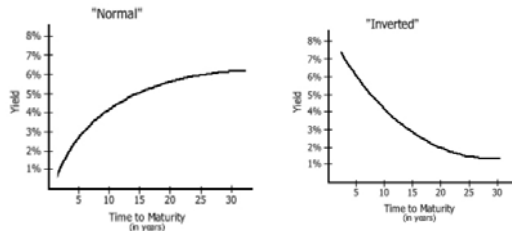


Source: Federal Reserve Bank of Cleveland



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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Is the stock market a bubble?

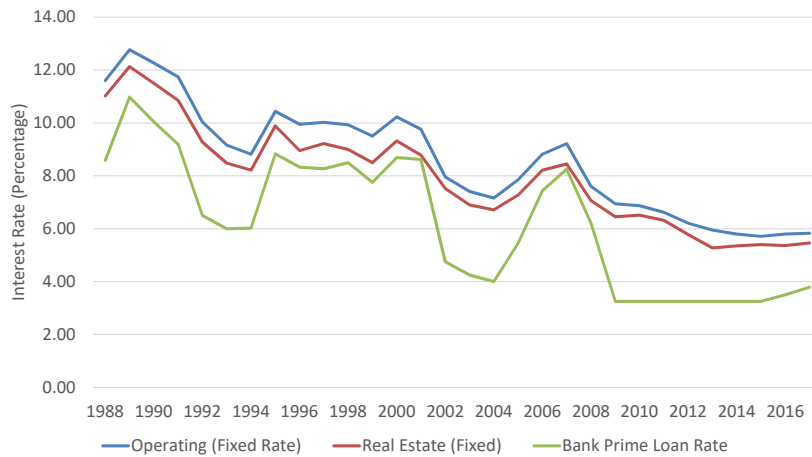
Shiller PE Ratio



NYSE Member Firms Debit
Balance in Margin Debt



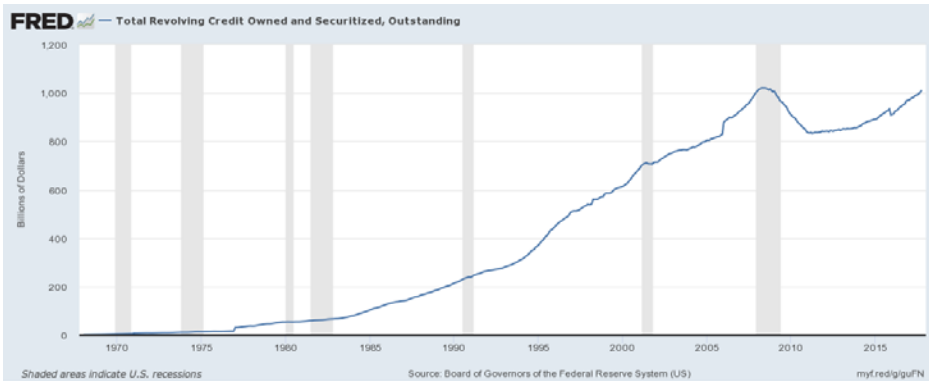
Agricultural interest rates are holding steady, but for how long?



Source: Federal Reserve Bank of Kansas City and the Federal Reserve Board of Governors



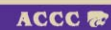
Credit card debt in the U.S. is at record high levels.



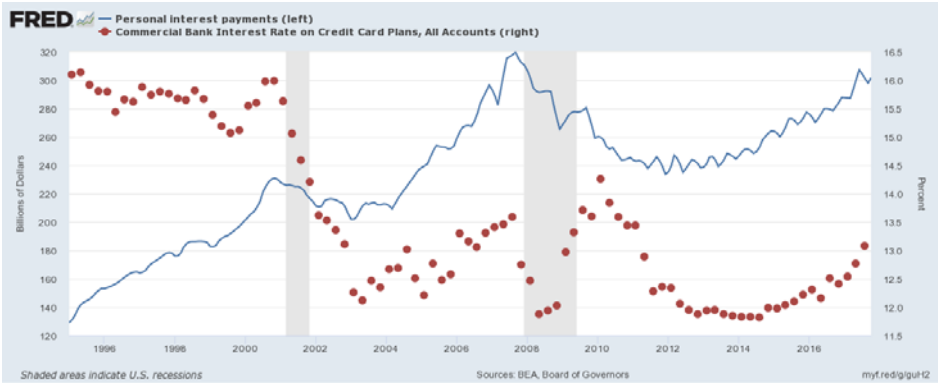
Shaded areas indicate U.S. recessions

Source: Board of Governors of the Federal Reserve System (US)

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Credit card interest rates and payments are rising.



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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...definitely more relevant in today's tight margin environment
- 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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