

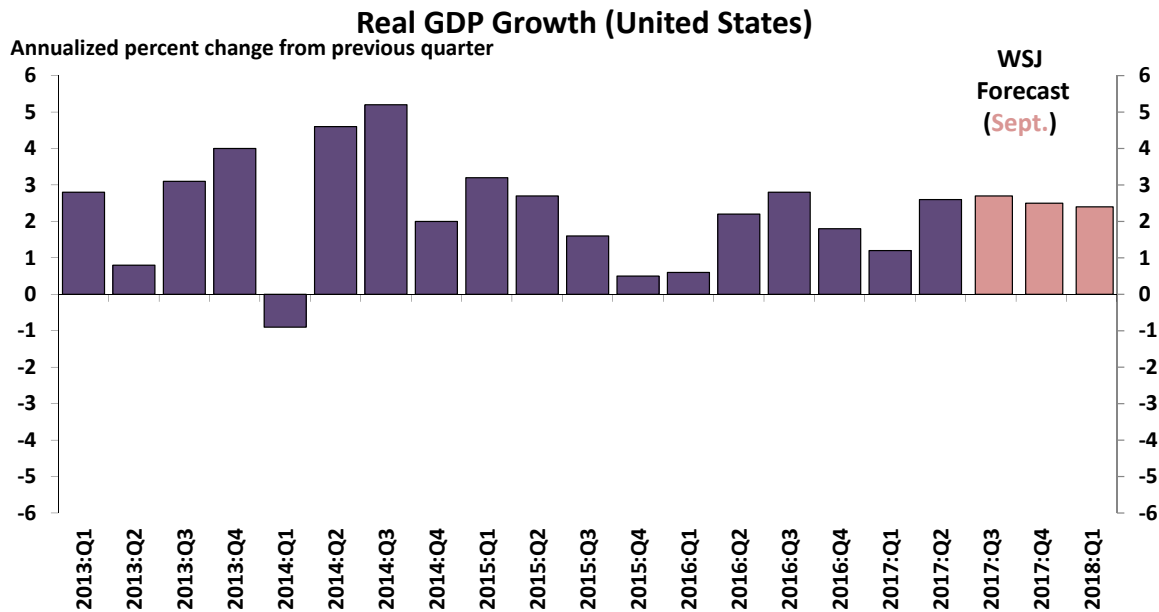
Macroeconomic and Interest Rate Outlook

2017 Agricultural Lenders Conference

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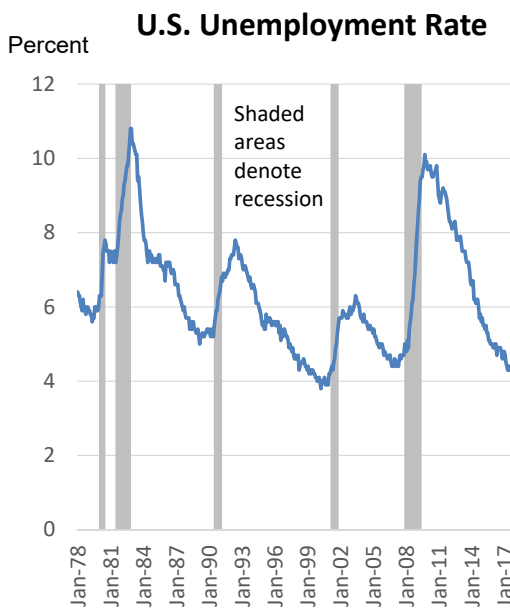


The economic recovery appears to be finding its footing and stabilizing above 2% annualized growth.

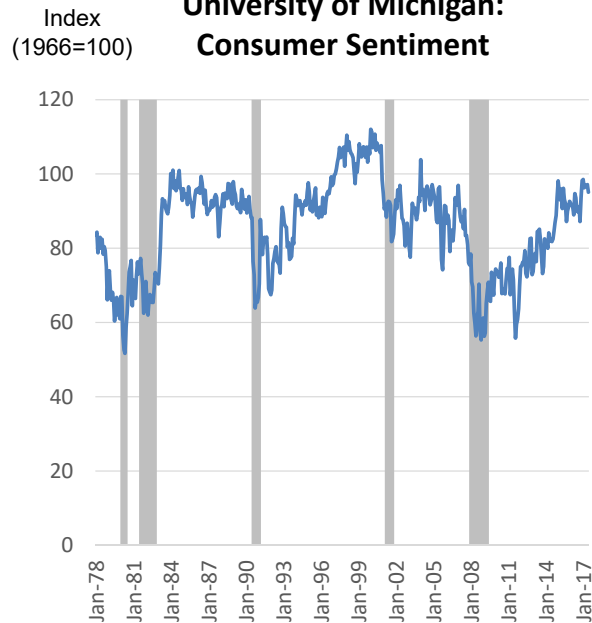


Source: Bureau of Economic Analysis and Wall Street Journal (WSJ) September 2016 Forecast Survey (Average)

The labor market has improved.

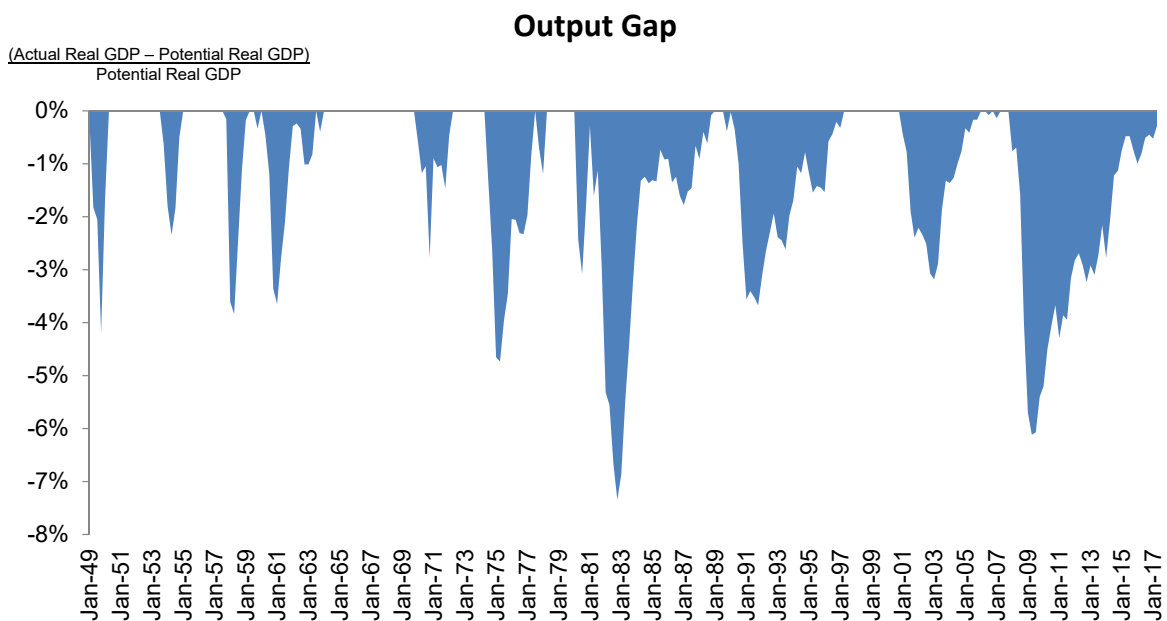


Source: Bureau of Labor Statistics



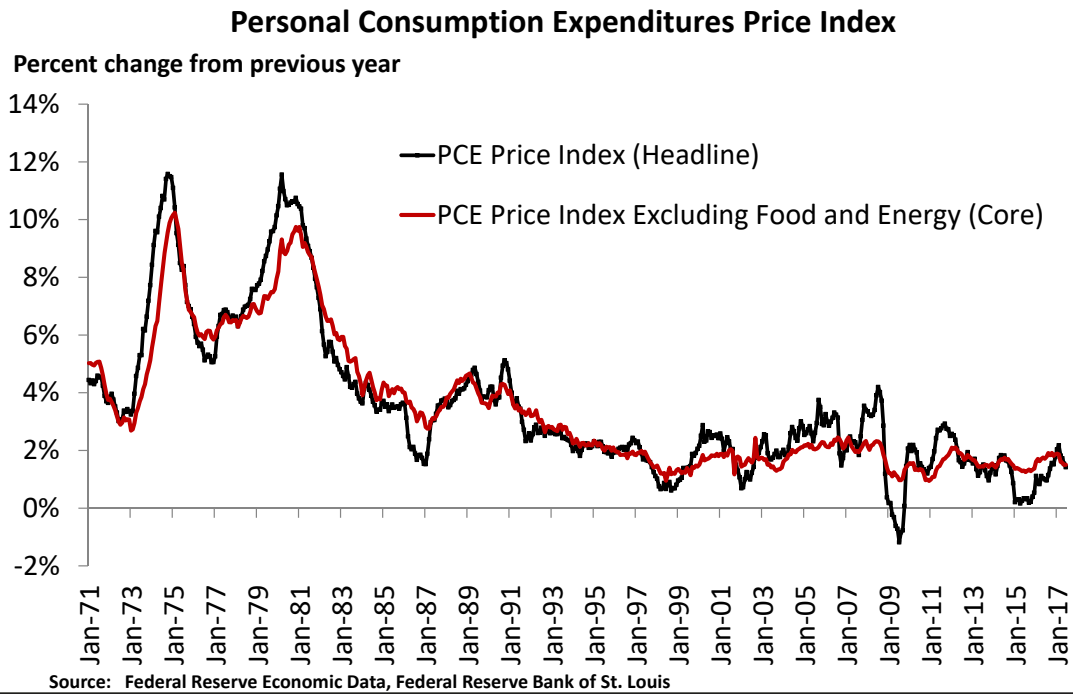
Source: University of Michigan Consumer Sentiment Index

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

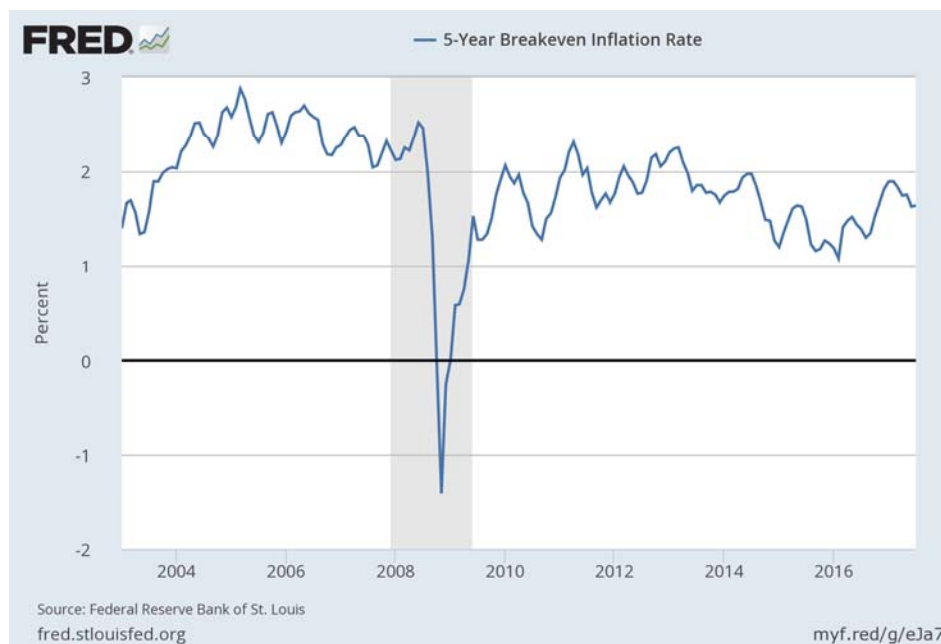


Source: Congressional Budget Office

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



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



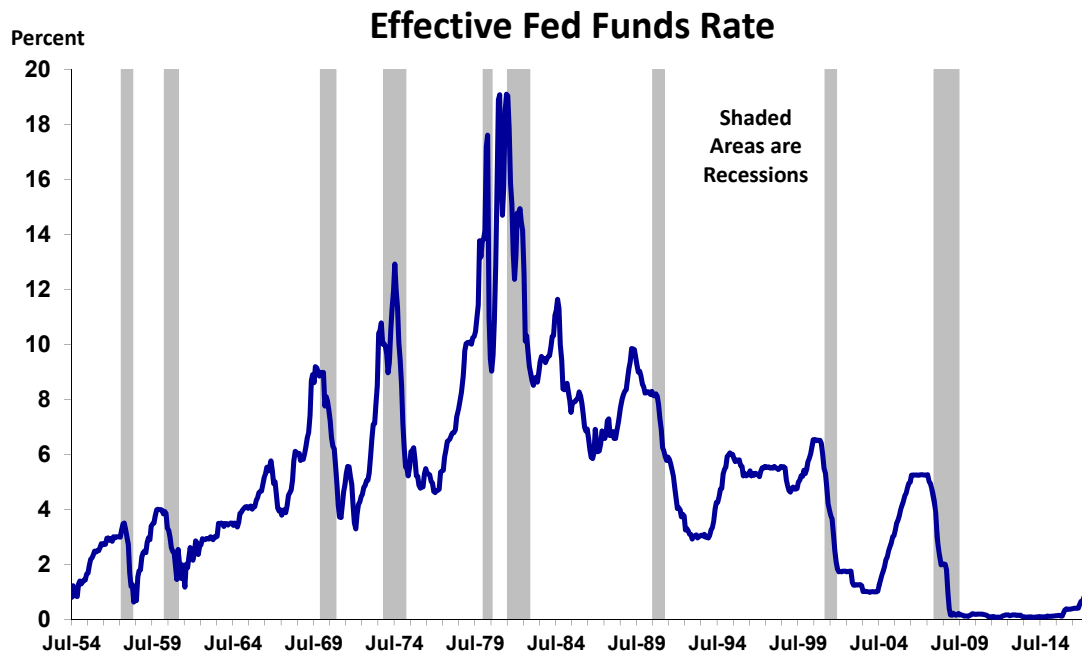
Today's exceptional accommodative monetary policy has created quite the dialogue within the Fed.

- 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

Who will be the next Fed Chairman?

- Janet Yellen
 - Current Fed Chair...dove
- Neel Kashkari
 - Minneapolis Fed President...dove
- Kevin Warsh
 - Former Fed Governor...dove as a governor but hawk by reputation
- Gary Cohn
 - Chief Economic Advisor to President Trump...investment banker (dove? hawk?)
- Someone else?

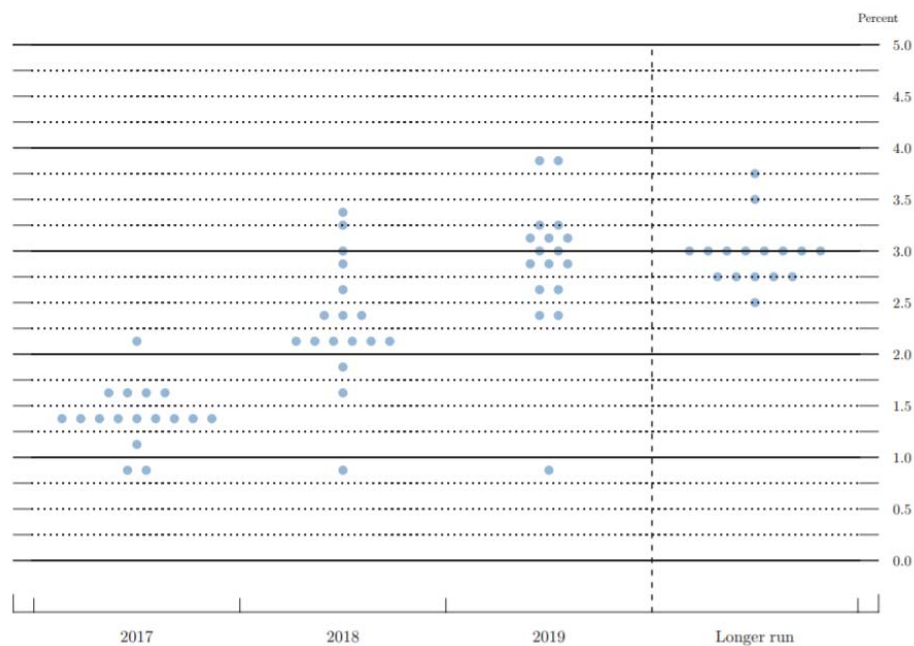
With an improving economy, the FOMC did raise rates in December 2015.



Source: Federal Reserve Board of Governors

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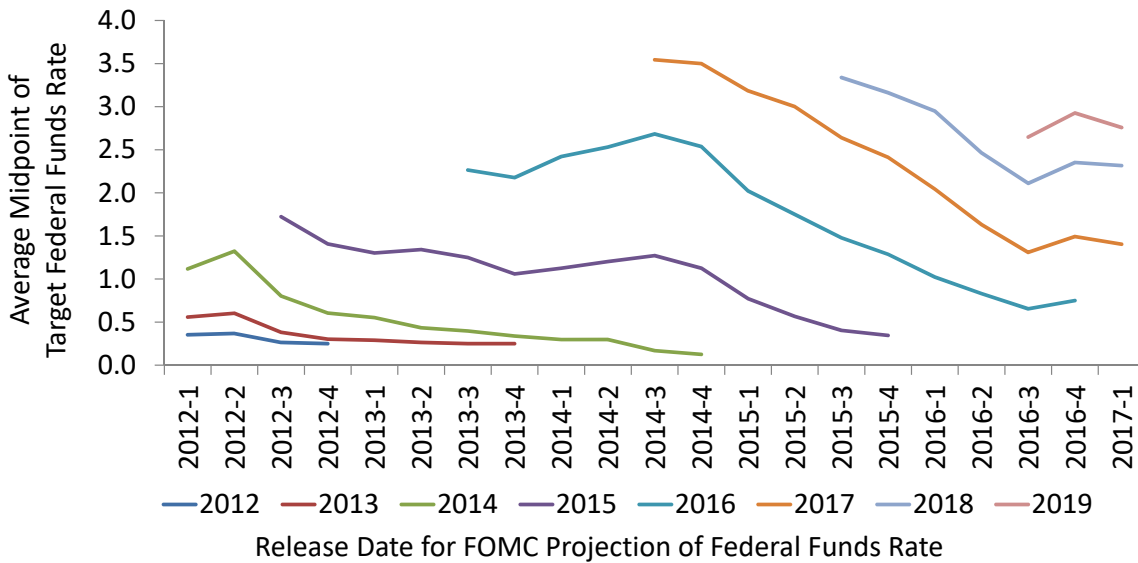
The March 2017 FOMC dot plot shows future interest rates rising significantly...but will they?



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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

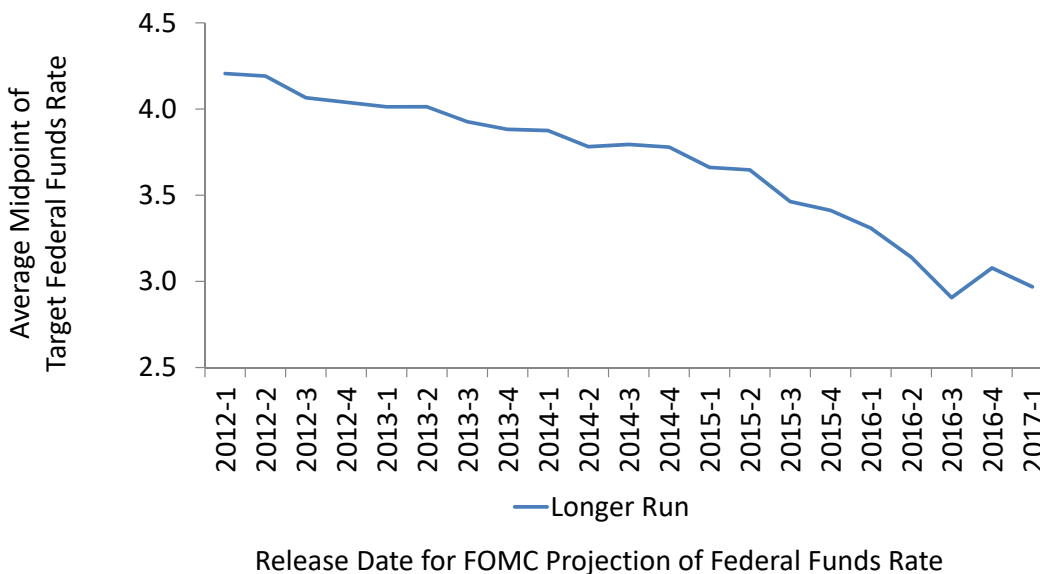


Source: Federal Reserve Board of Governors



Projected longer run Federal Funds Rate has steadily declined.

FOMC Longer Run Average Annual Federal Funds Rate

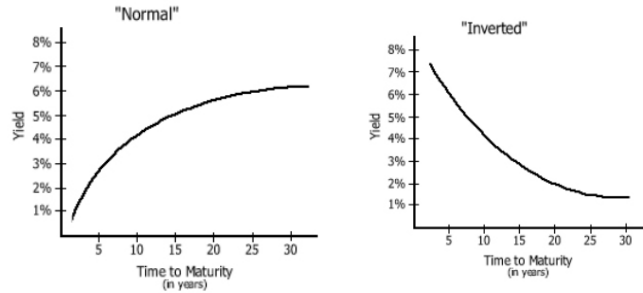


Source: Federal Reserve Board of Governors

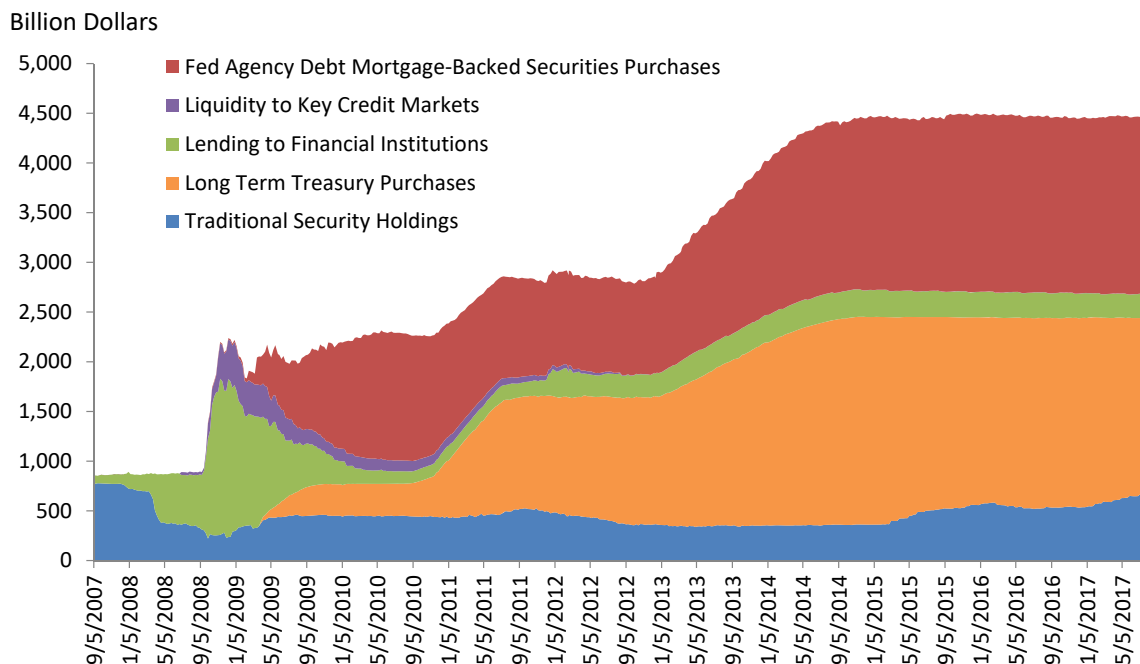


What are the implications of a “Fed created” positive spread?

- 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?



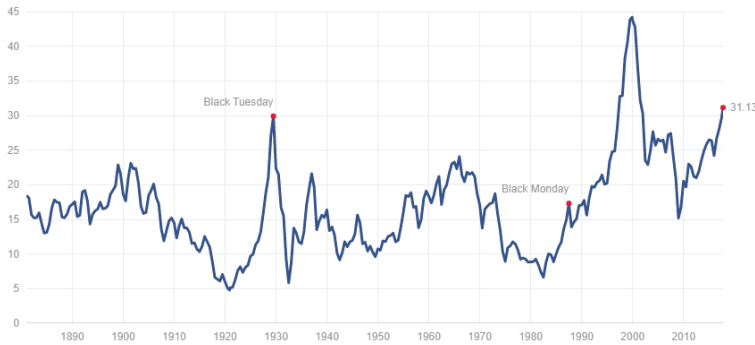
Through quantitative easing, the Fed has pumped massive amounts of liquidity into the marketplace.



Source: Federal Reserve Bank of Cleveland

Is the stock market a bubble?

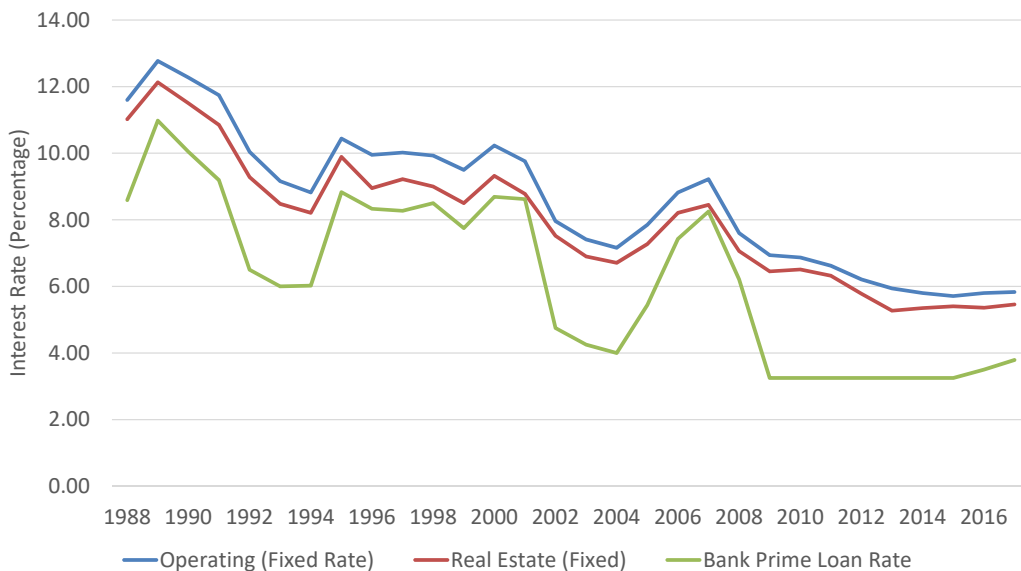
Shiller PE Ratio



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

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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