

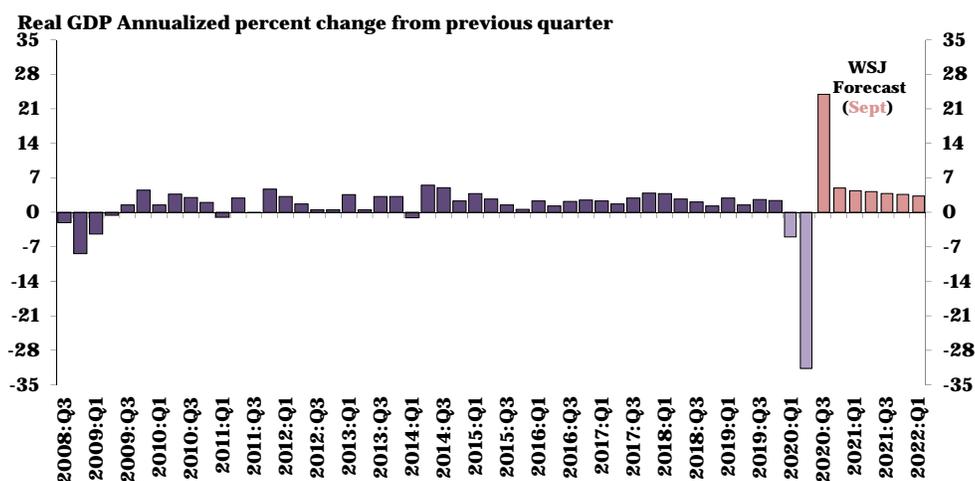
Macroeconomic Update

Agricultural Lenders Conference
Salina, KS
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DR. BRIAN C. BRIGGEMAN, PROFESSOR
AND DIRECTOR OF THE ARTHUR CAPPER COOPERATIVE CENTER



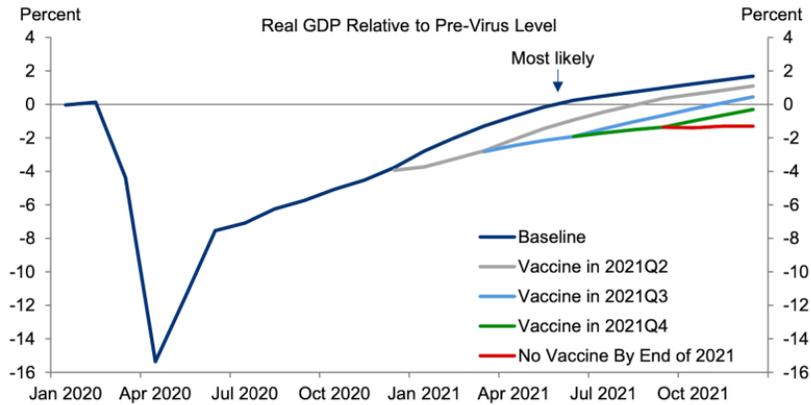
Shutting down the economy led to a historic drop in real GDP (-31.7%)...how quickly will the U.S. economy recover?



Source: Bureau of Economic Analysis and Wall Street Journal (WSJ) September 2020 Forecast Survey (Average)



A “swoosh” recovery is expected by many economists...Goldman Sachs expects a COVID-19 vaccine to be key to returning back to pre-virus Real GDP levels



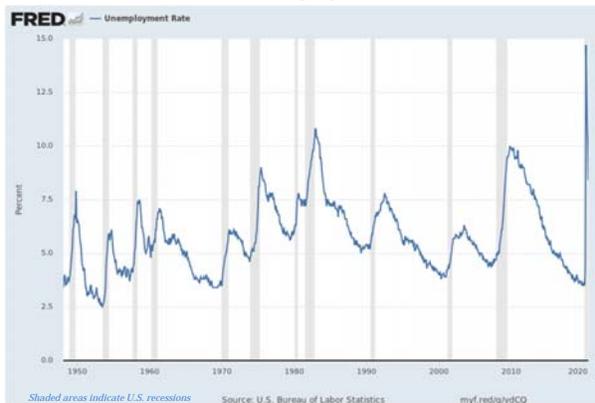
Source: Goldman Sachs Global Investment Research



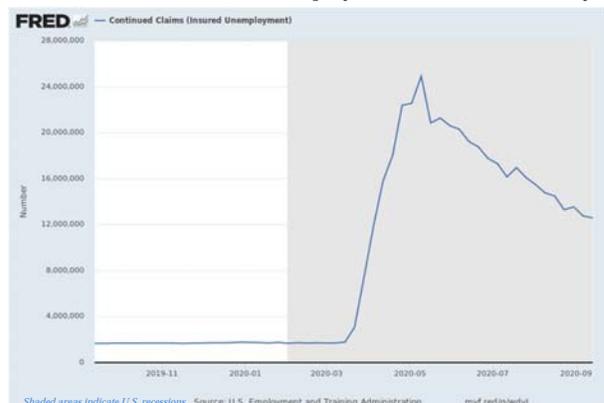
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Labor market is improving but some are concerned these gains could wane if there is no additional fiscal stimulus.

U.S. Unemployment Rate



Continued Claims: U.S. Unemployment Insurance (Weekly)

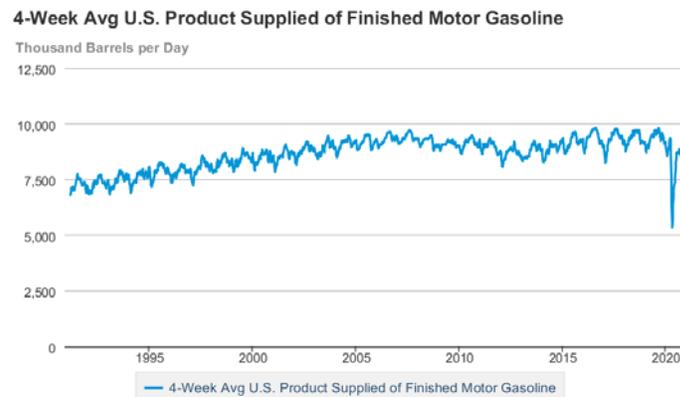


Graphs created using FRED, Federal Reserve Bank of St. Louis: <https://fred.stlouisfed.org>



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Implied consumption of gasoline is one indicator of how economic activity has fallen and continues to struggle.



Source: U.S. Energy Information Administration



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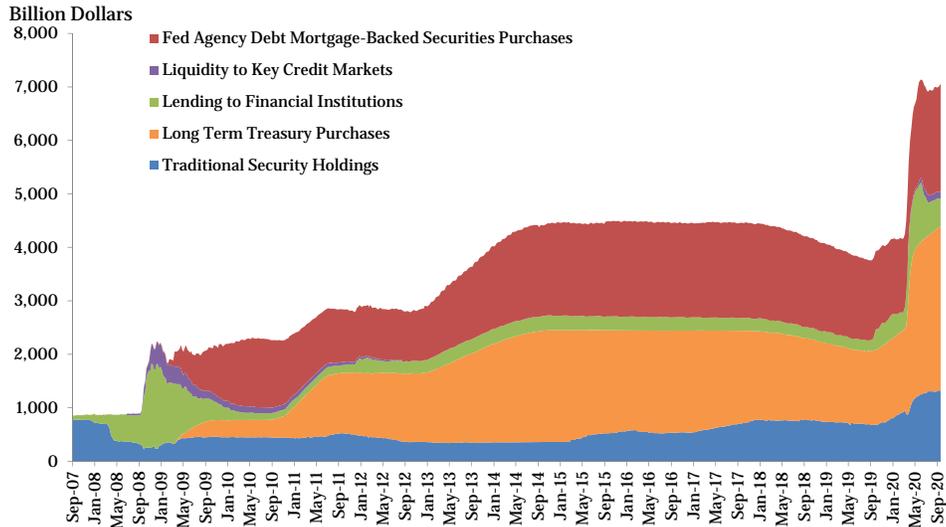
The U.S. Government and the Federal Reserve response have helped stabilize the U.S. economy

- CARES Act totaled \$1.8 trillion
- Loans, Direct Relief, Supplemental
- Total U.S. Public Debt as a share of U.S. GDP is projected to eclipse 100%
- CBO estimate FY20 is 101%...the record is 106.1% during WWII
- Federal Reserve is using and ramping up multiple monetary policy tools
- Dropped the Fed Funds rate to the zero bound
- Expanded the balance sheet
- Restored Term Asset-Back Securities Loan Facility (TALF), support consumer and business credit markets
- Took the unprecedented step to be a “direct” lender in the market
 - One facility aimed at providing new financing to the \$6 trillion corporate debt market
 - One facility aimed at providing financing to the existing financing corporate debt market
 - One facility aimed at Main Street (small and medium sized businesses)



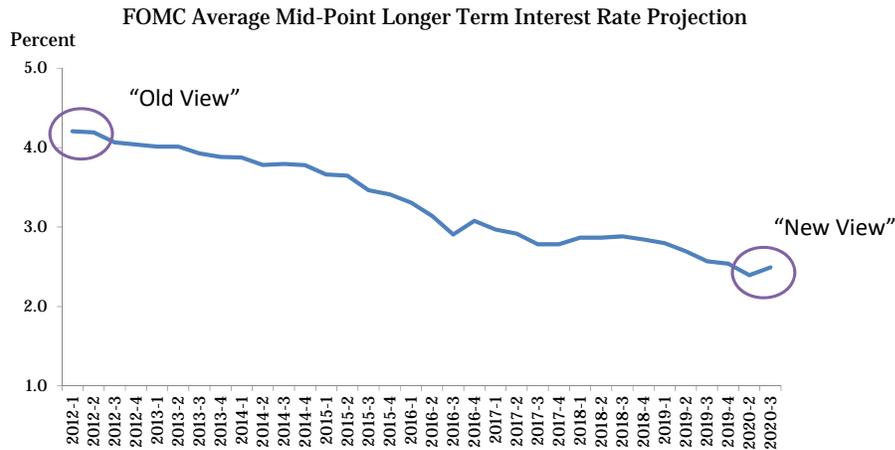
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The Federal Reserve has resumed quantitative easing by expanding its balance sheet to above \$7 trillion



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FOMC continues to project lower longer-term Fed Funds Rate



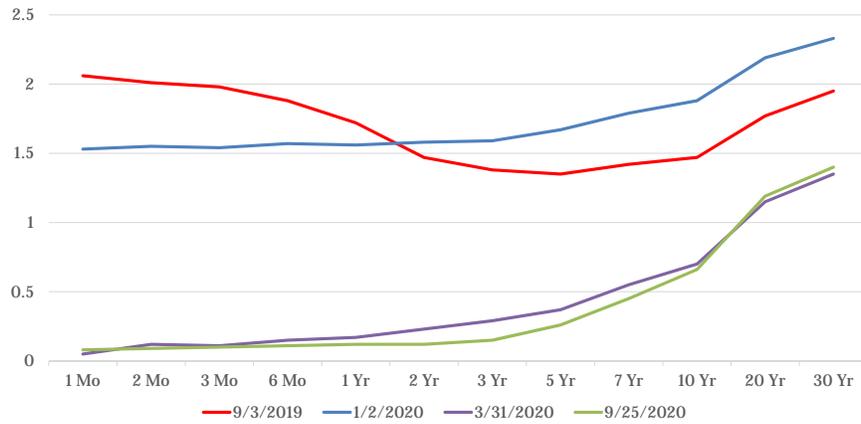
Source: Federal Open Market Committee (FOMC) Projections materials



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In 2019, the U.S. economy's strength was weakening and many feared a recession was pending...just not a pandemic induced recession.

U.S. Treasury Yield Curve



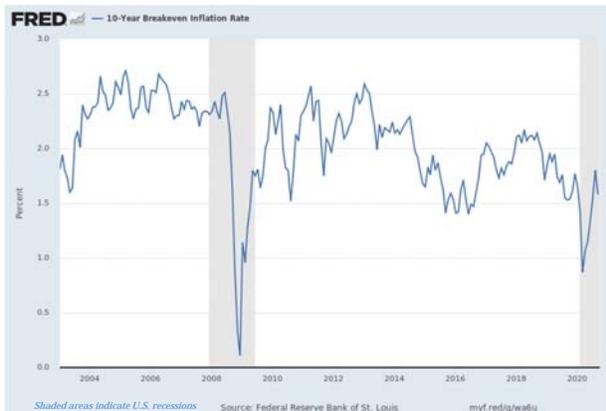
Source: U.S. Department of the Treasury



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Prospects for future inflation have crept up and TIPS rates have fallen into negative territory.

10-Year Breakeven Inflation Rate



10-Year TIPS Rate



Graphs created using FRED, Federal Reserve Bank of St. Louis: <https://fred.stlouisfed.org>



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What about future inflation?

- **Headwinds facing future inflation**
- Bigger concern now is lack of “core” inflation (i.e. very low real wage growth)
- Globalization...U.S. connection to other countries and global supply chain
- Economy is struggling
- The market has well anchored inflation expectations
- Right now, the market and the Fed puts a low probability on rapid inflation

- **Signals for possible future inflation**
- Very high U.S. government public debt and very large budget deficits
- Some prices of goods and services have risen but will they stay elevated?
- Potential dangers of protectionism trade policies
- Negative TIPS rates



Takeaways for agricultural lenders, producers, and businesses

- **High uncertainty**
- Build liquidity
- Reasonably manage costs
- Carefully evaluate each growth opportunity

- **Do not build a business plan assuming continued government subsidies**
- How will producers use government payments?

- **Low interest rates continue to put pressure on lending margins**

- **Interest rates are exceptionally low...refinance/restructure debt?**
- Have a plan!



Thank you! Questions?

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