

IMPLICATIONS OF A RECOVERING WORLD ECONOMY FOR AGRICULTURE

Top Farmer Conference 2021

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The COVID Collapse

The pandemic sparked one of the sharpest economic contractions in history.

The Rebound

By mid-summer, the rebound emerged.

But, a second wave and pandemic fatigue threatened to cut it short.

The Recovery

Despite major headwinds, solid economic fundamentals could spur an economic recovery.

But, slow and steady wins the race.

The Collapse ... and the Rebound

US GDP stalled and then collapsed in Q2 and improved to a deep recession in Q3.



The Rebound

Government stimulus sparks stronger than expected international and domestic growth.

(real GDP, annual percent change)	IMF June 2020 Forecast			IMF Oct. 2020 Forecast		
	2019	2020	2021	2019	2020	2021
World Output	2.9	-4.9	5.4	2.8	-4.4	5.2
Advanced Economies	1.7	-8.0	4.8	1.7	-5.8	3.9
United States	2.3	-8.0	4.5	2.2	-4.3	3.1
Euro Area	1.3	-10.2	6.0	1.3	-8.3	5.2
Emerging Markets and Developing Economies	3.7	-3.0	5.9	3.7	-3.3	6.0
Emerging and Developing Asia	5.5	-0.8	7.4	5.5	-1.7	8.0
China	6.1	1.0	8.2	6.1	1.9	8.2
India	4.2	-4.5	6.0	4.2	-10.3	8.8

Source: International Monetary Fund (IMF) Economic Outlook, June 2020 and October 2020

- China's growth forecast nearly doubled to 1.9% in 2020 – public investment.
- U.S. downturn almost cut in half to -4.3% in 2020 – government income transfers.

Food Consumption

Restaurant losses (\$10 billion per month) are partly offset by grocery store gains (\$5 billion per month).

Grocery Store Sales and Eating and Drinking Place Sales
(billions of current dollars)



Source: US Census Bureau

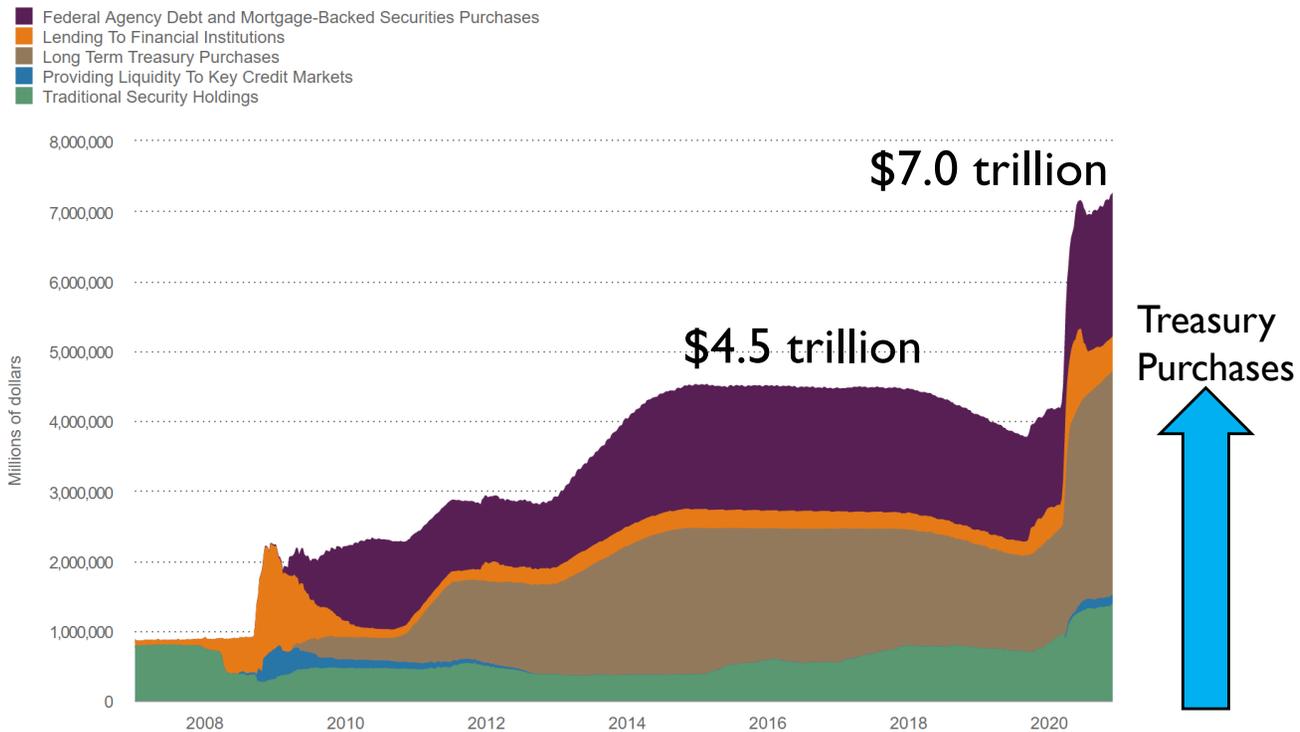


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The Recovery

The Federal Reserve projects low interest rates and recovery through 2023,

Federal Reserve Balance Sheet

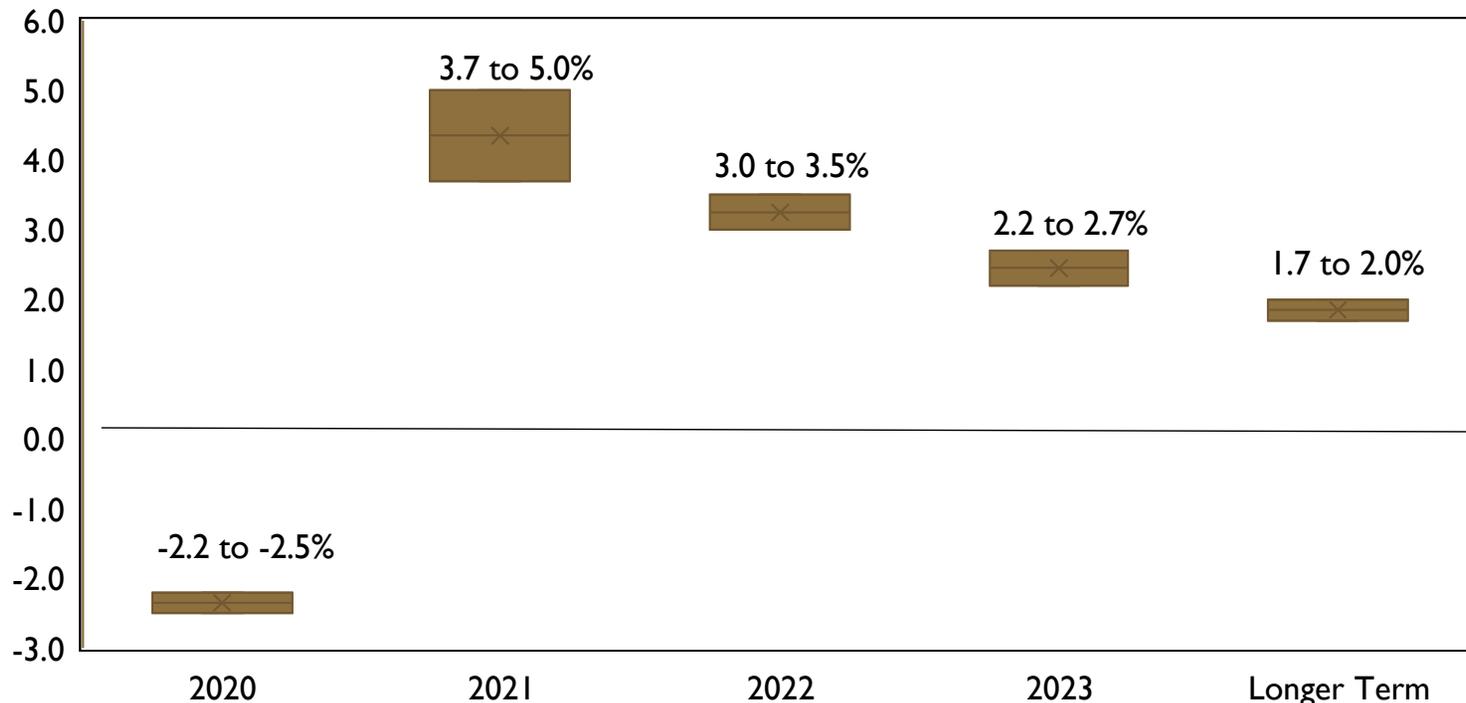


Source: Federal Reserve Bank of Cleveland calculations based on data from Federal Reserve Board and Haver Analytics.

The Recovery

The Federal Reserve projects stronger economic growth through 2023,

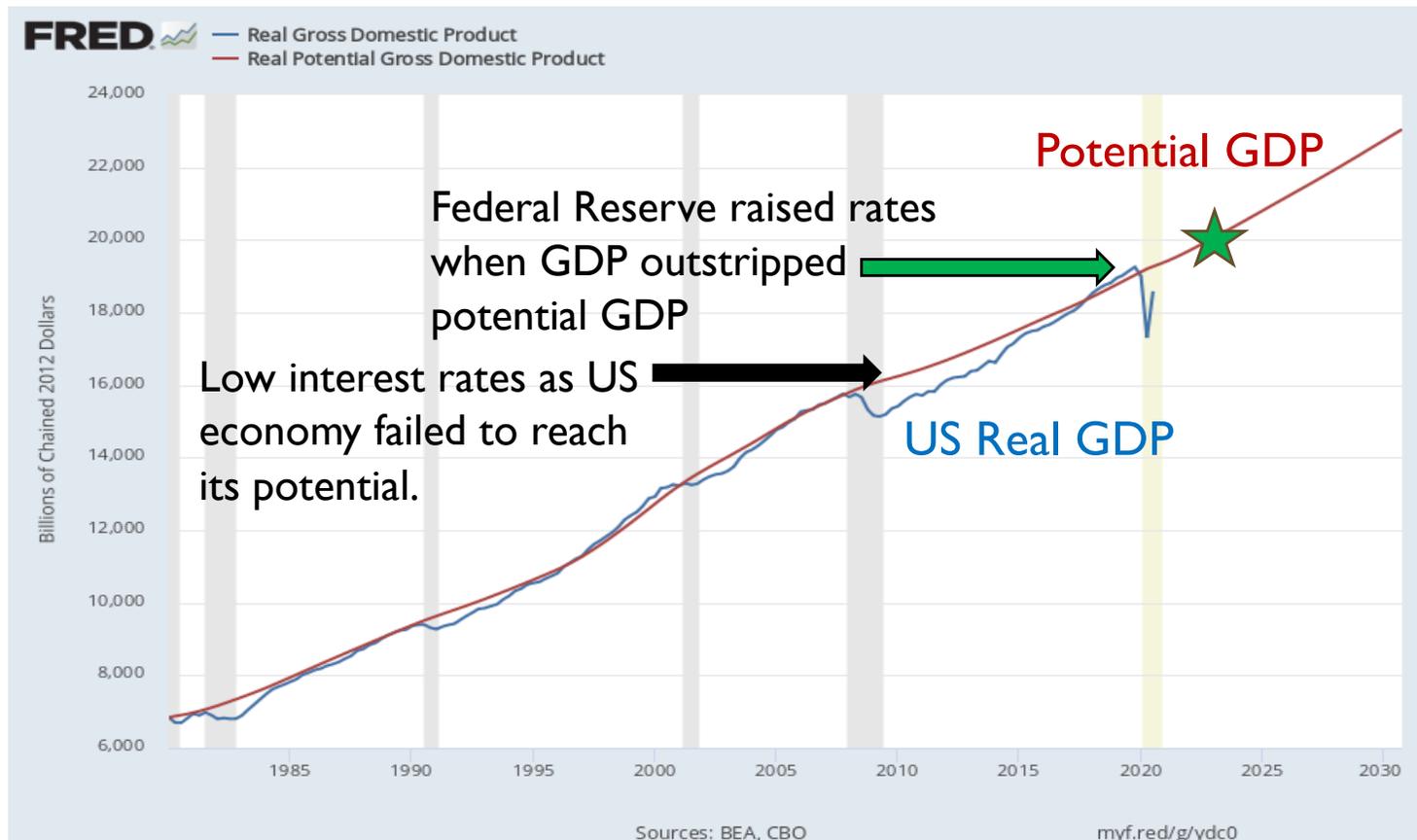
Federal Reserve US GDP Projections (Central Tendency)



Source: Federal Reserve Board of Governors

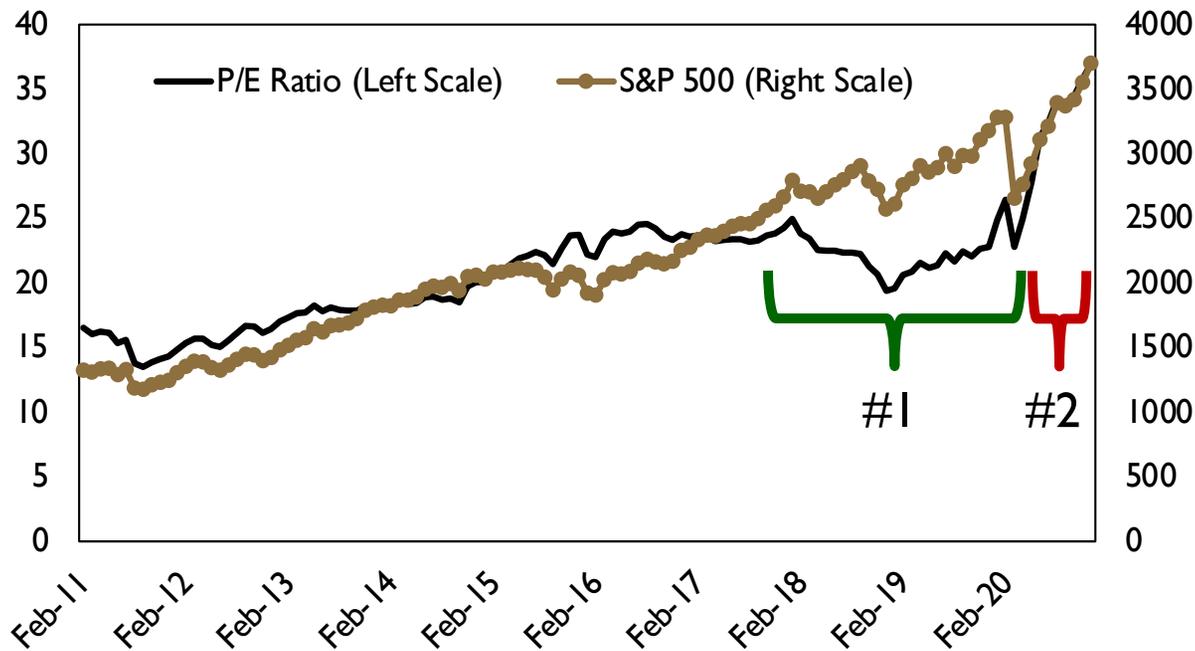
Inflation

Inflation emerges when US GDP outstrips its potential GDP Growth



Why is the Stock Market Surging?

S&P 500 and Price/Earnings Ratio

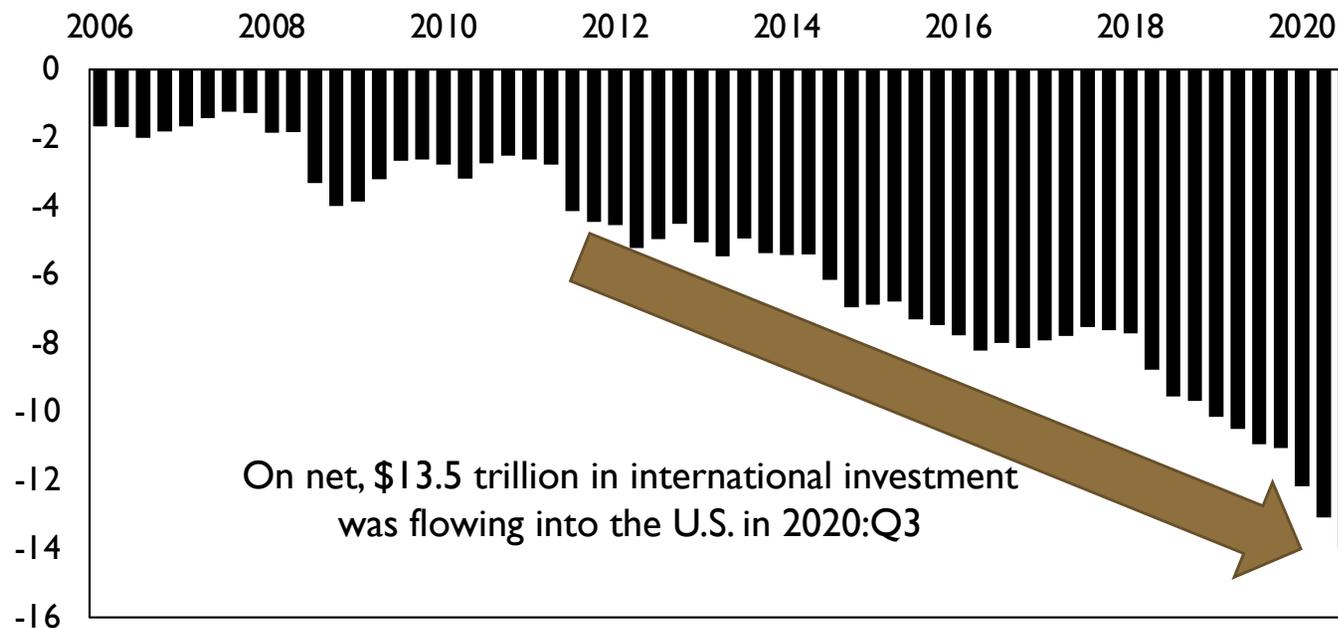


Source: FRED, Federal Reserve Bank of St. Louis and multpl.com

- Interpretation:
- 1) If S&P 500 rises faster than P/E ratio, then prices rising with earning.
 - 2) If S&P 500 rises at same pace as the P/E ratio, then prices rising faster then earning.

Why is the Stock Market Surging?

U.S. Net International Investment Position
(Trillions of U.S. dollars)



Source: Bureau of Economic Analysis

COVID-19

Will COVID Clip the Recovery?

Institute of Supply Managers report growth in manufacturing and services, but COVID driven softness reemerging in services

Manufacturing

New orders	- growing faster
Production	- growing faster
Backlog of orders	- growing faster
Employment	- now growing
Customer inventories	- too low

Services

New orders	- growing faster
Production	- growing faster
Backlog of orders	- contracting
Employment	- now contracting
Inventories	- now growing

Source: Institute of Supply Managers, December 2020 reports

***2021 will be shaped by COVID-19,
its transmission and consumer responses.***

The Risks

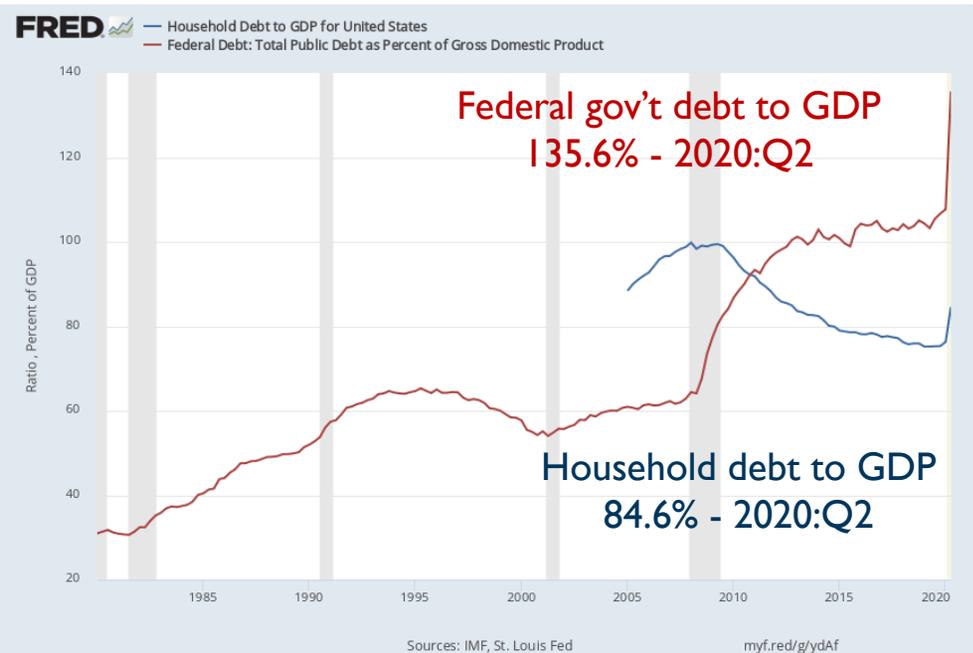
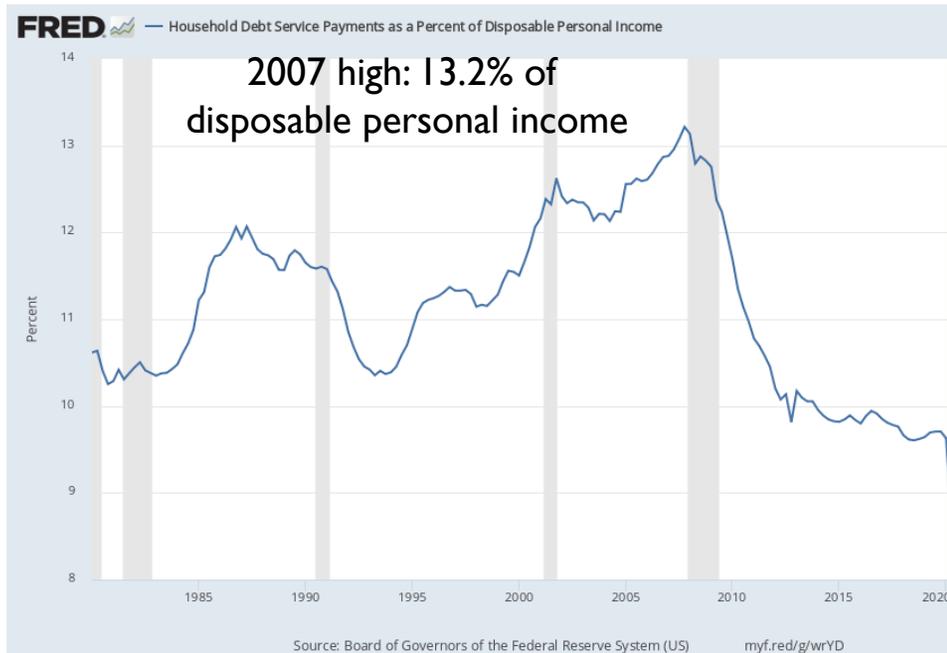
State and local governments account for 12% of the U.S. employment.



- Personal income taxes fell less than expected. Transfers and high-income households.
- Capital gains tax revenues holding up with stock markets.
- Property tax revenues holding with home and land prices.
- Sales and consumption taxes declined and shifted on-line. Christmas sales were up.

The Risks

Personal and government debt is a risk to the recovery.



Household debt service is at historical lows.
8.7% of disposable personal income

Federal government debt is at record highs.
Lots of discussion of sovereign debt in low-income nations, where China is the lender.

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

What Does this Mean for Agriculture?

Monetary Policy

Farmers are asset rich and cash poor.
Low interest rates underpin asset values and reduce debt service.
A couple of good years for agriculture?

Trade Policy

New rules to the game of trade?

Farm Policy

Will it offset bad trade outcomes for agriculture?

What Does this Mean for Agriculture?

Managing Risk

Volatility is low now, but it shifts on a dime or a whim.
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.
How will they shift with economic conditions in a COVID world?