

# What's Ahead for South Dakota Agriculture?

Governor's Agricultural Summit

Deadwood, SD

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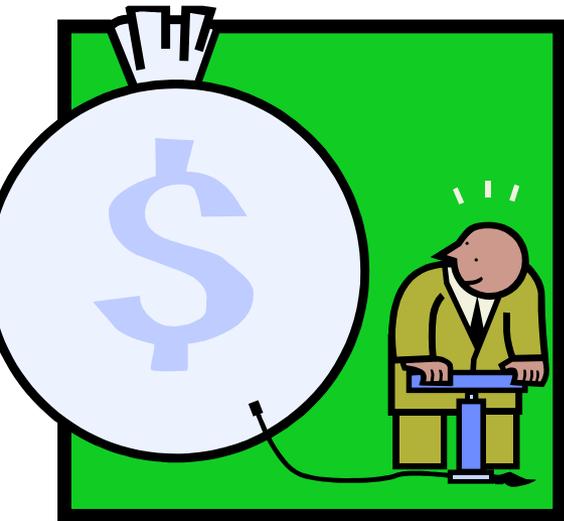
# The Economic Roundup



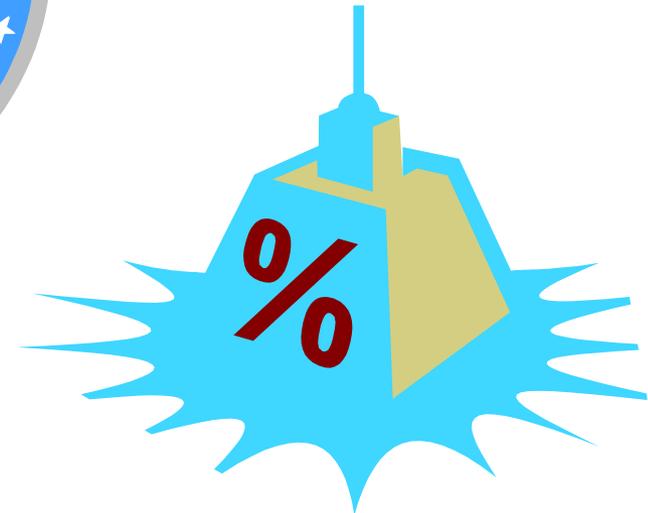
Economic Growth



Employment



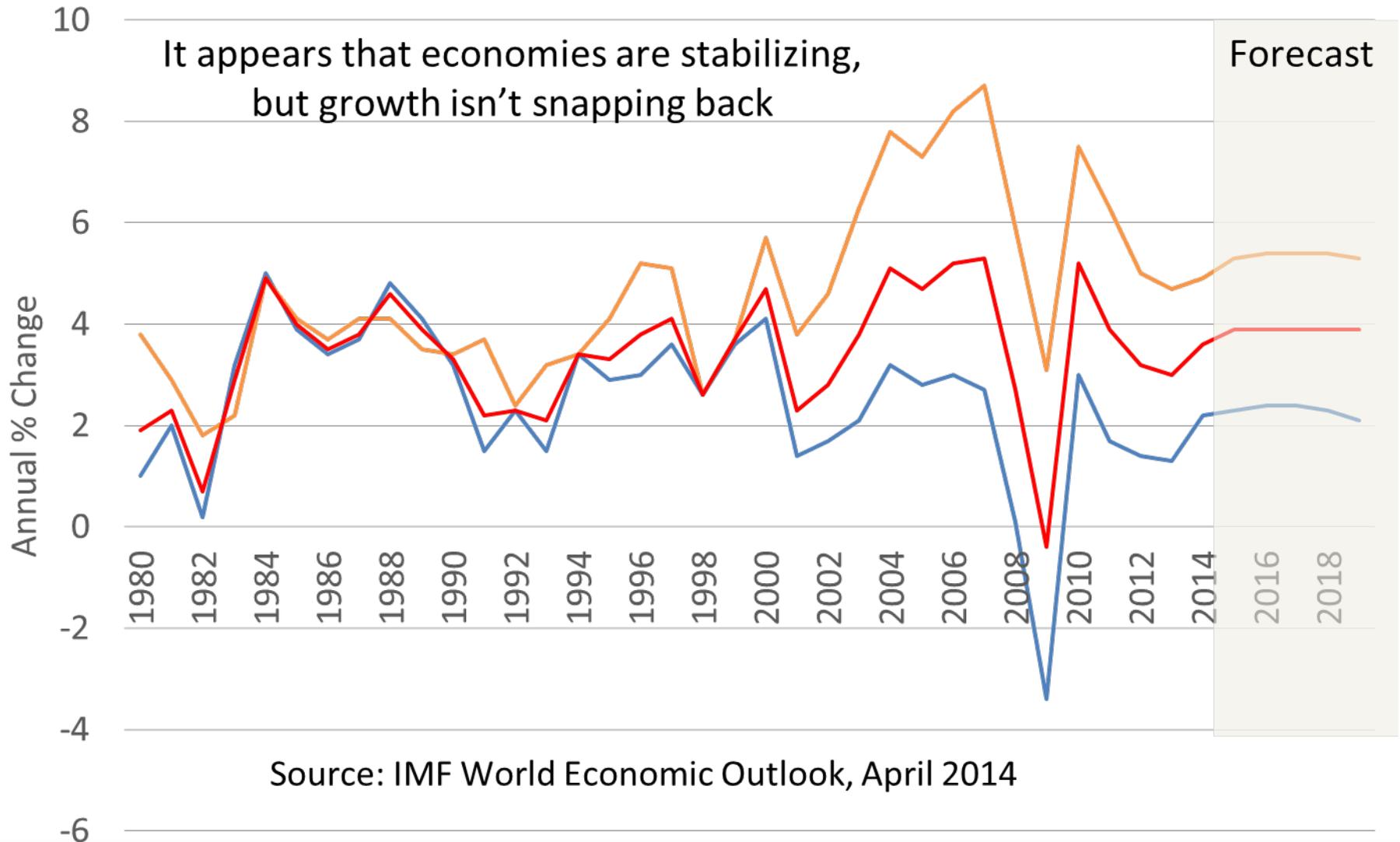
Inflation



Interest Rates

# Real GDP Growth Rate, Select Regions 1980 - 2019

— Adv. Economies — Emerging and Dev. — World



Where does GDP growth stabilize?

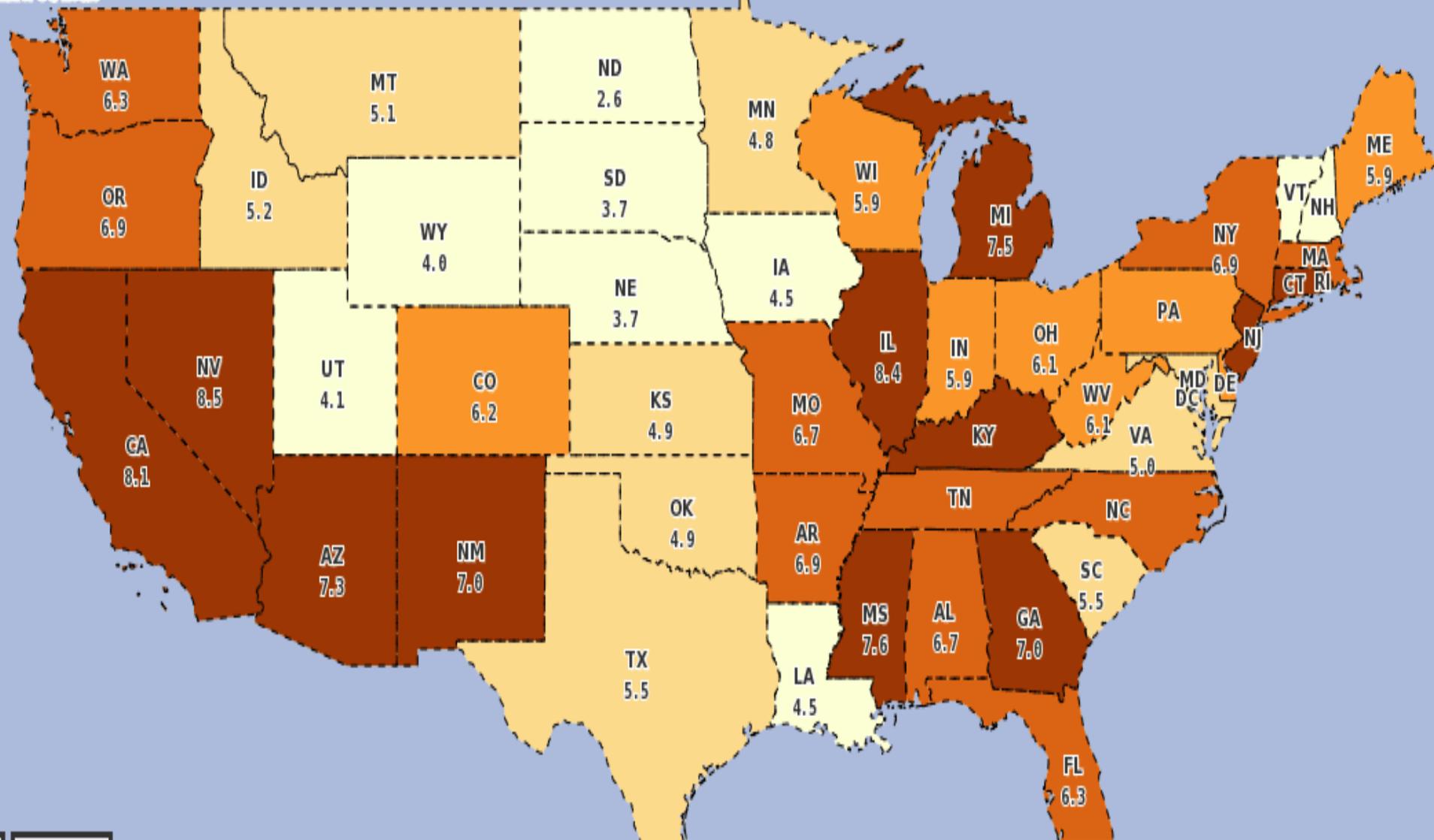


Source: U.S. Department of Commerce: Bureau of Economic Analysis

Shaded areas indicate US recessions - 2014 [research.stlouisfed.org](http://research.stlouisfed.org)



In the U.S. unemployment has fallen considerably, but still a ways to go!

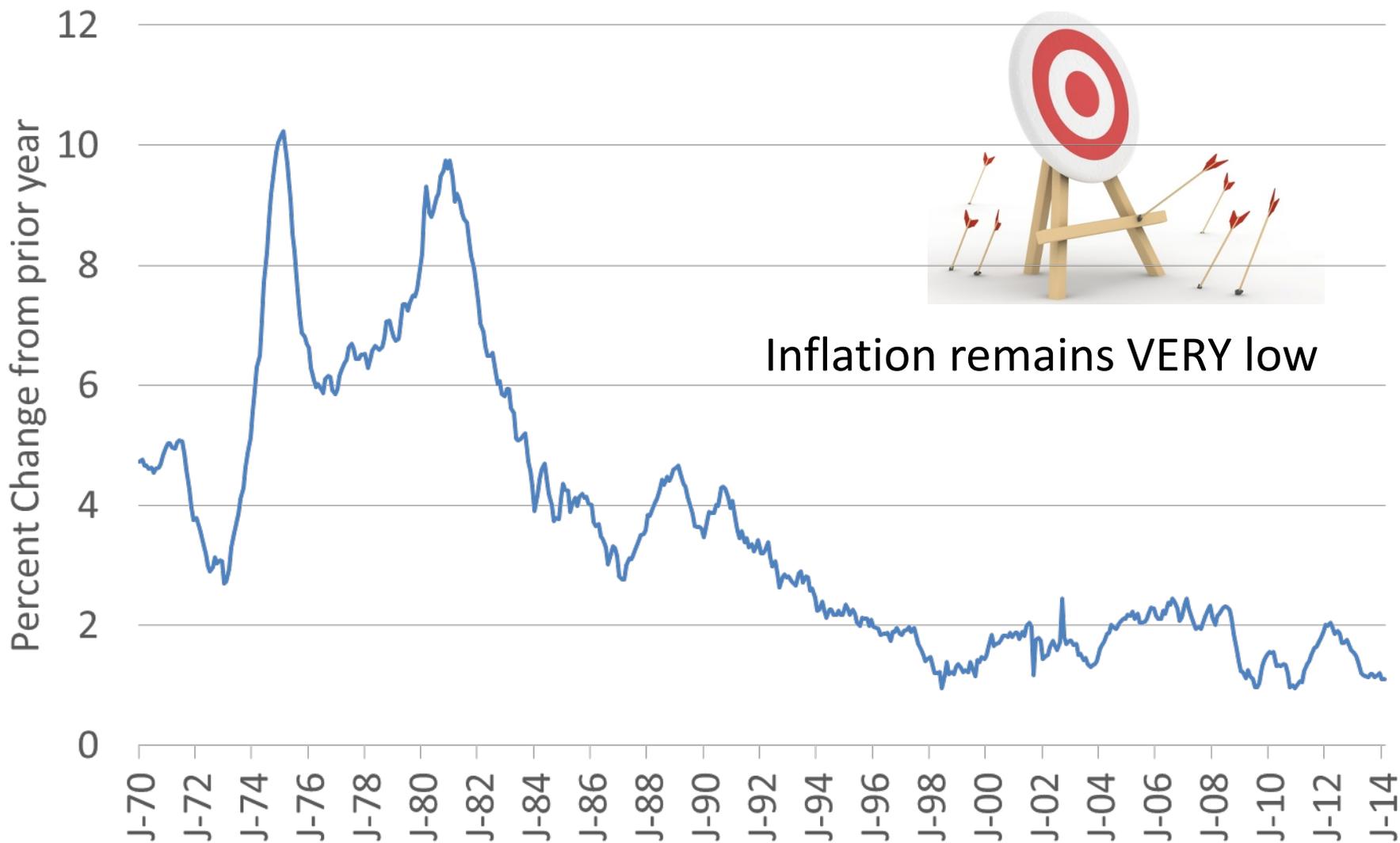


## 2014 March Unemployment Rate by State (Percent)

©2011 Federal Reserve Bank of St. Louis

Employment gains are not distributed equally across the country

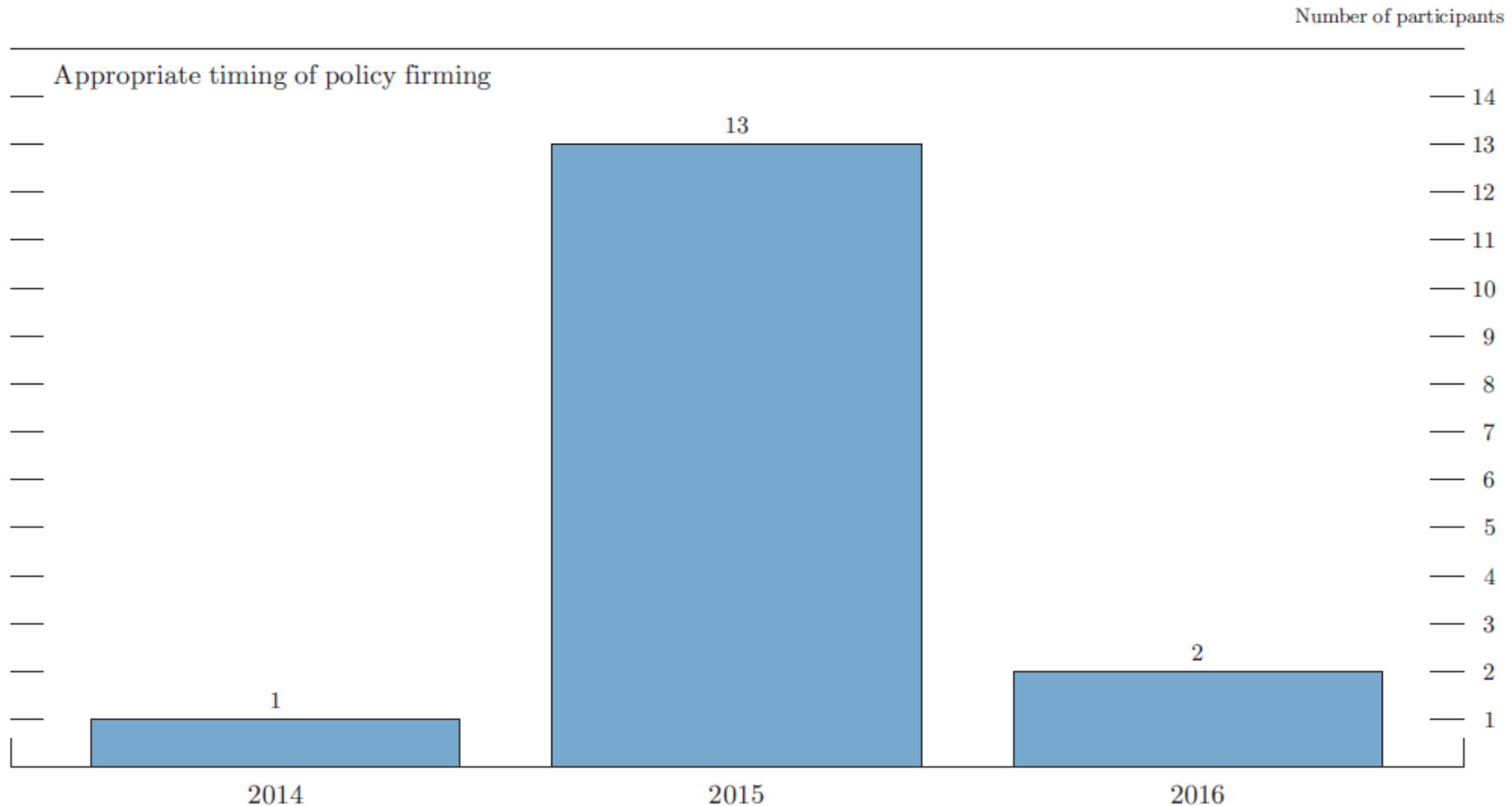
# Annual Change in the PCE Excluding Food and Energy, 1970-2014



Inflation remains VERY low

# Eventually 2015 will get here! Expect lots of gyrations and angst ahead of tightening!

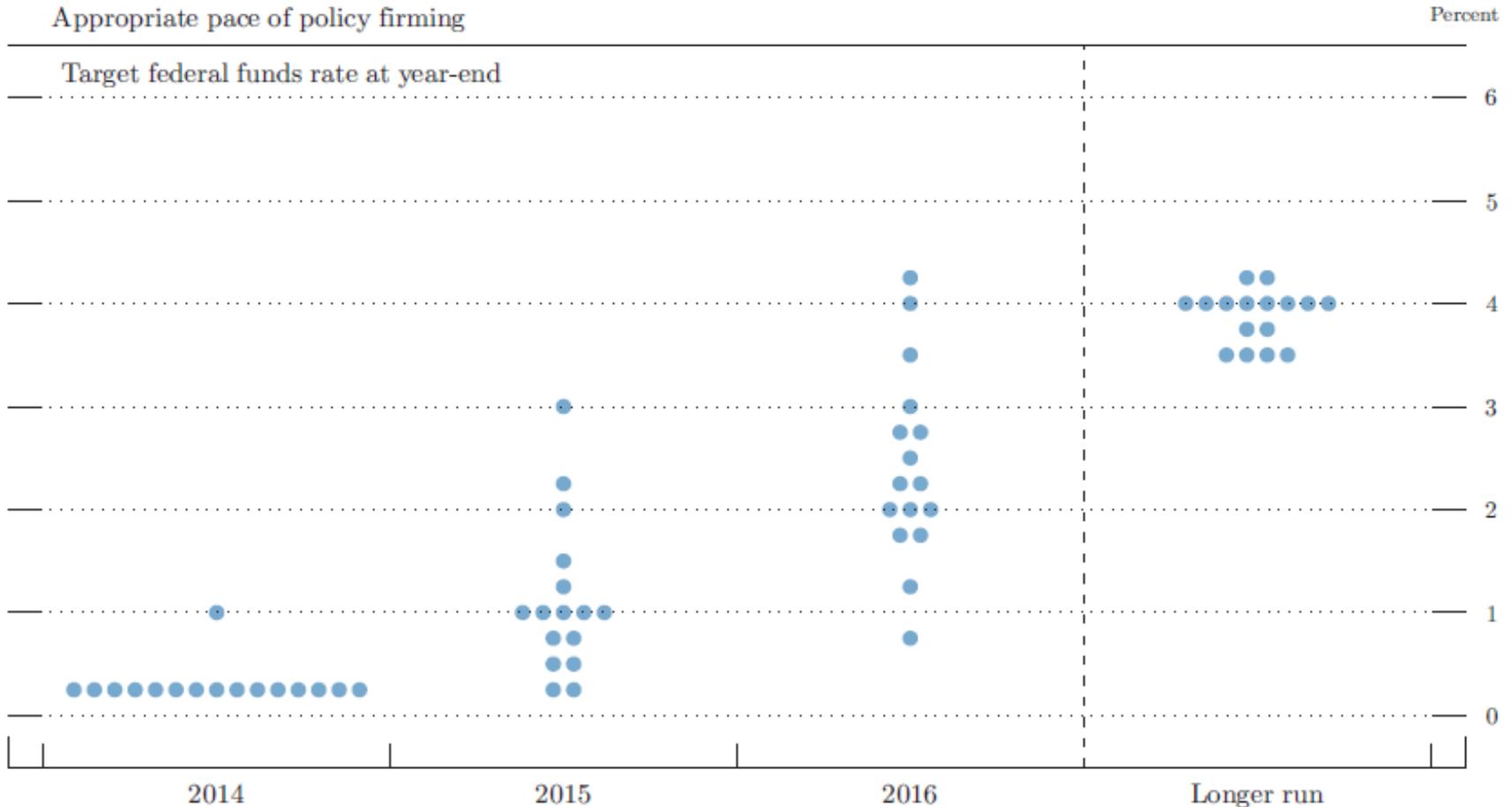
Figure 2. Overview of FOMC participants' assessments of appropriate monetary policy



Source: Board of Governors of the Federal Reserve System, March 19, 2014

<http://www.federalreserve.gov/monetarypolicy/files/fomcprojt20140319.pdf>

Most FOMC participants expect relatively modest tightening. Notice difference between long-run and 2015. Just when does longer run arrive? In most members view – not until at least 2017.

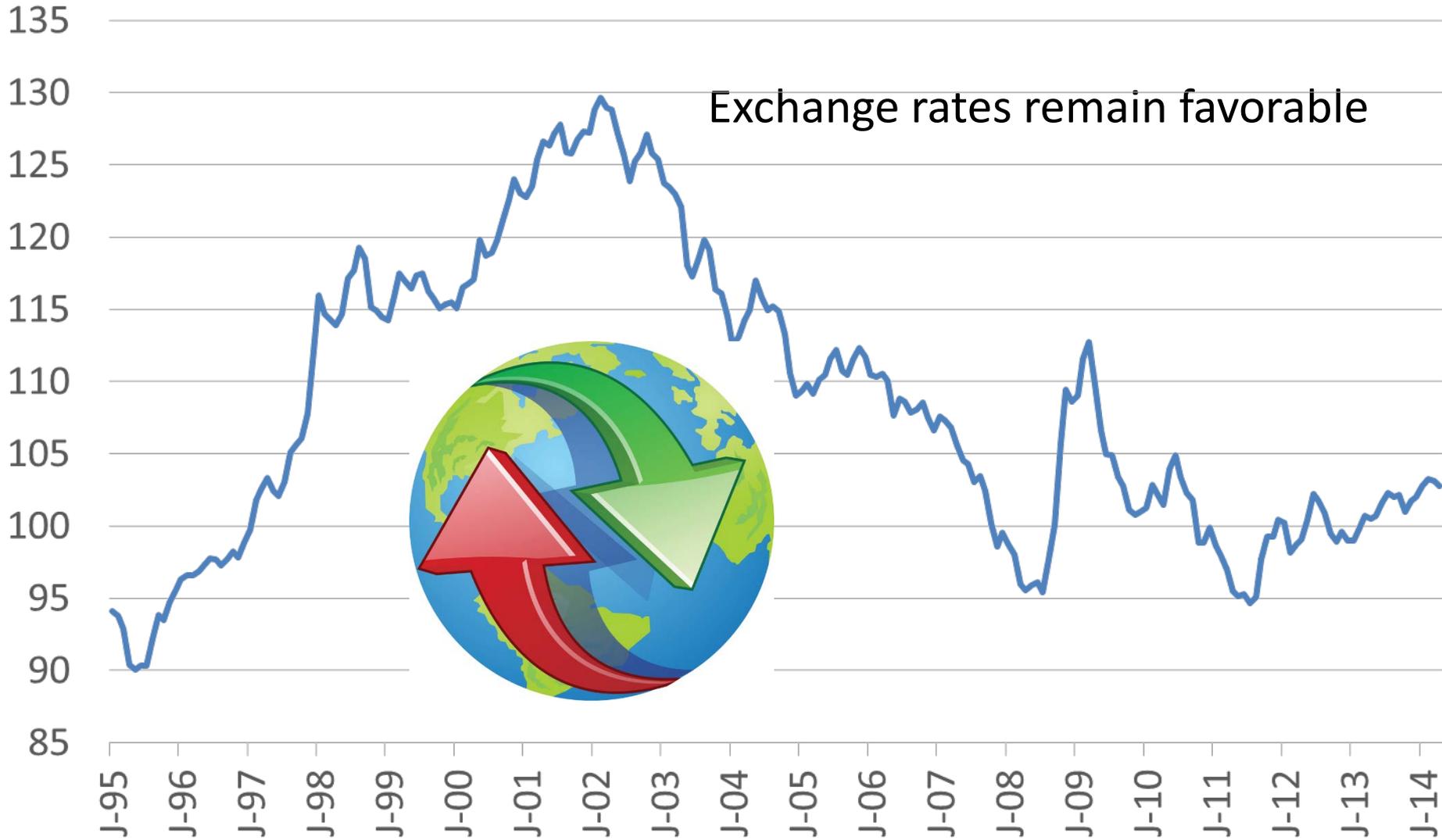


Source: Board of Governors of the Federal Reserve System, March 19, 2014  
<http://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20140319.pdf>

# Yield on 10-Year U.S. Treasury Bonds, 1970-2014



# Monthly Trade Weighted U.S. Dollar Index (Broad 1997=100), 1995-2014



Meanwhile in  
Agriculture These  
Times Haven't been  
Good They've Been  
SPECTACULAR!

# The Perfect Storm

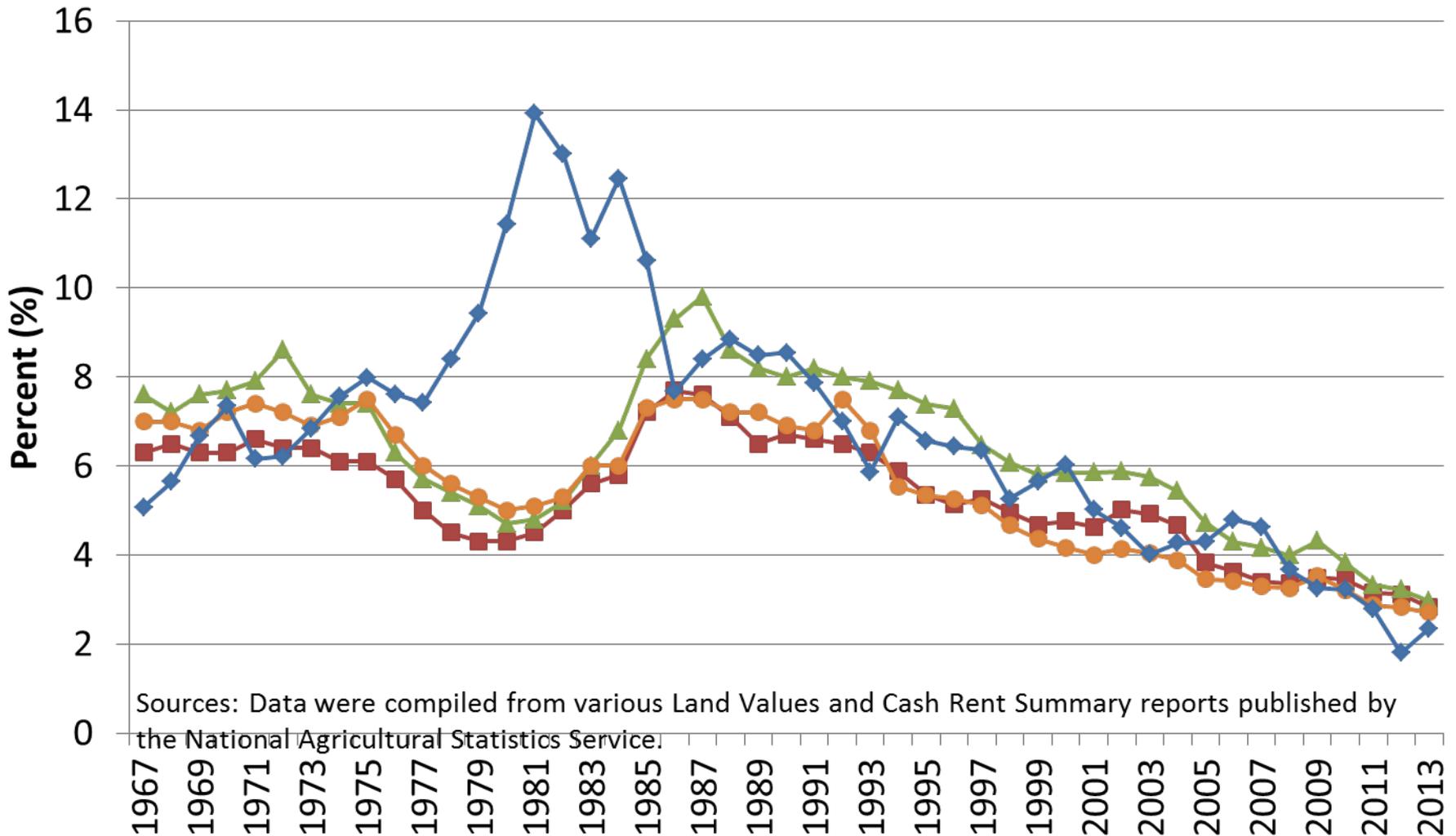
- Biofuels
- Emerging market demand
- Poor weather
- Low interest rates



Key question is now whether the future  
looks similar, better, or worse  
Could the Great Boom Be Coming to an End?

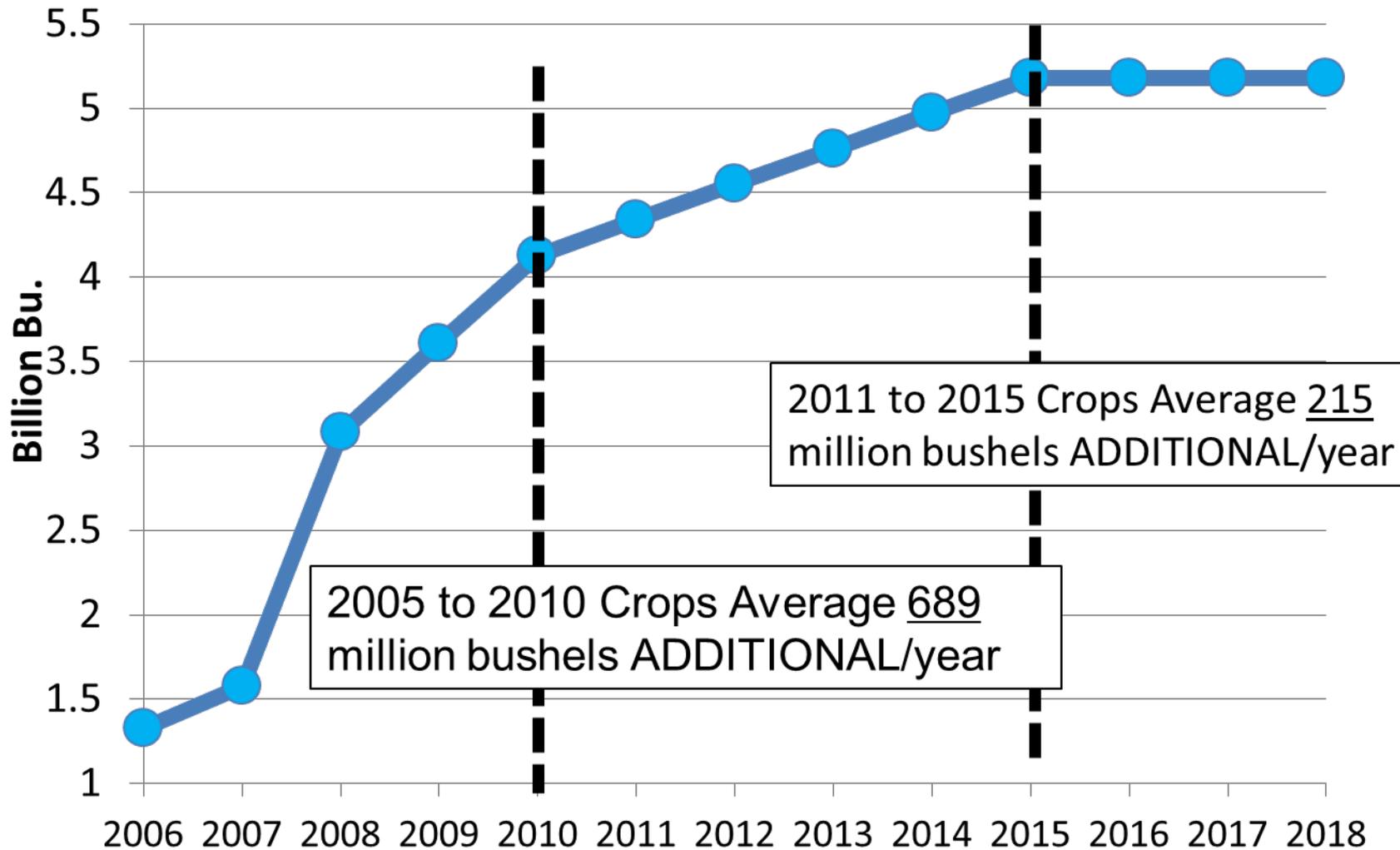
# Farmland Capitalization Rates and Interest Rates on 10 Year US Treasury Bonds, 1967-2013

■ IL   
 ▲ IA   
 ● IN   
 ◆ 10Y T-Bond



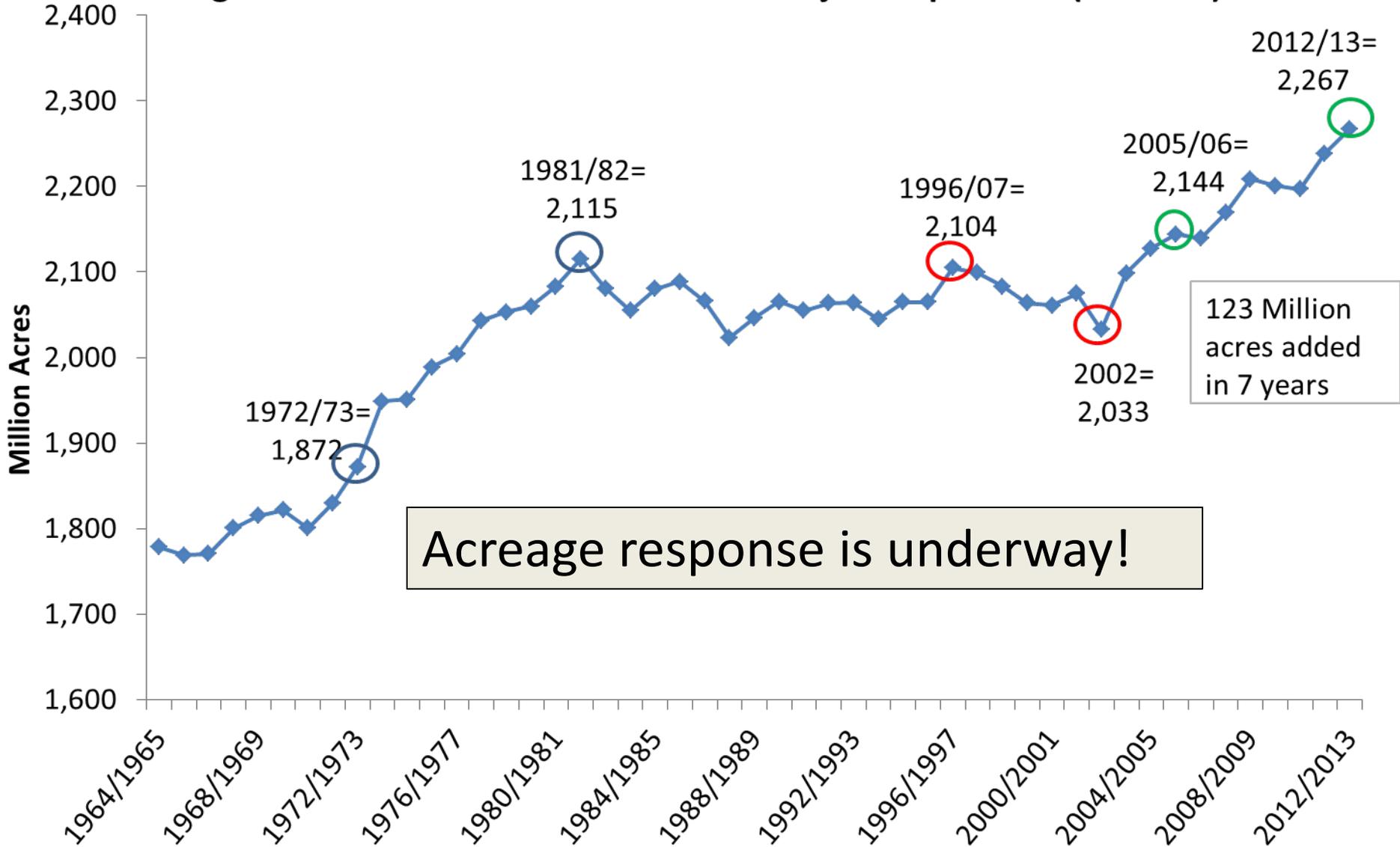
Sources: Data were compiled from various Land Values and Cash Rent Summary reports published by the National Agricultural Statistics Service.

# Big Demand Increases From Ethanol are Likely Over Corn to Meet RFS2



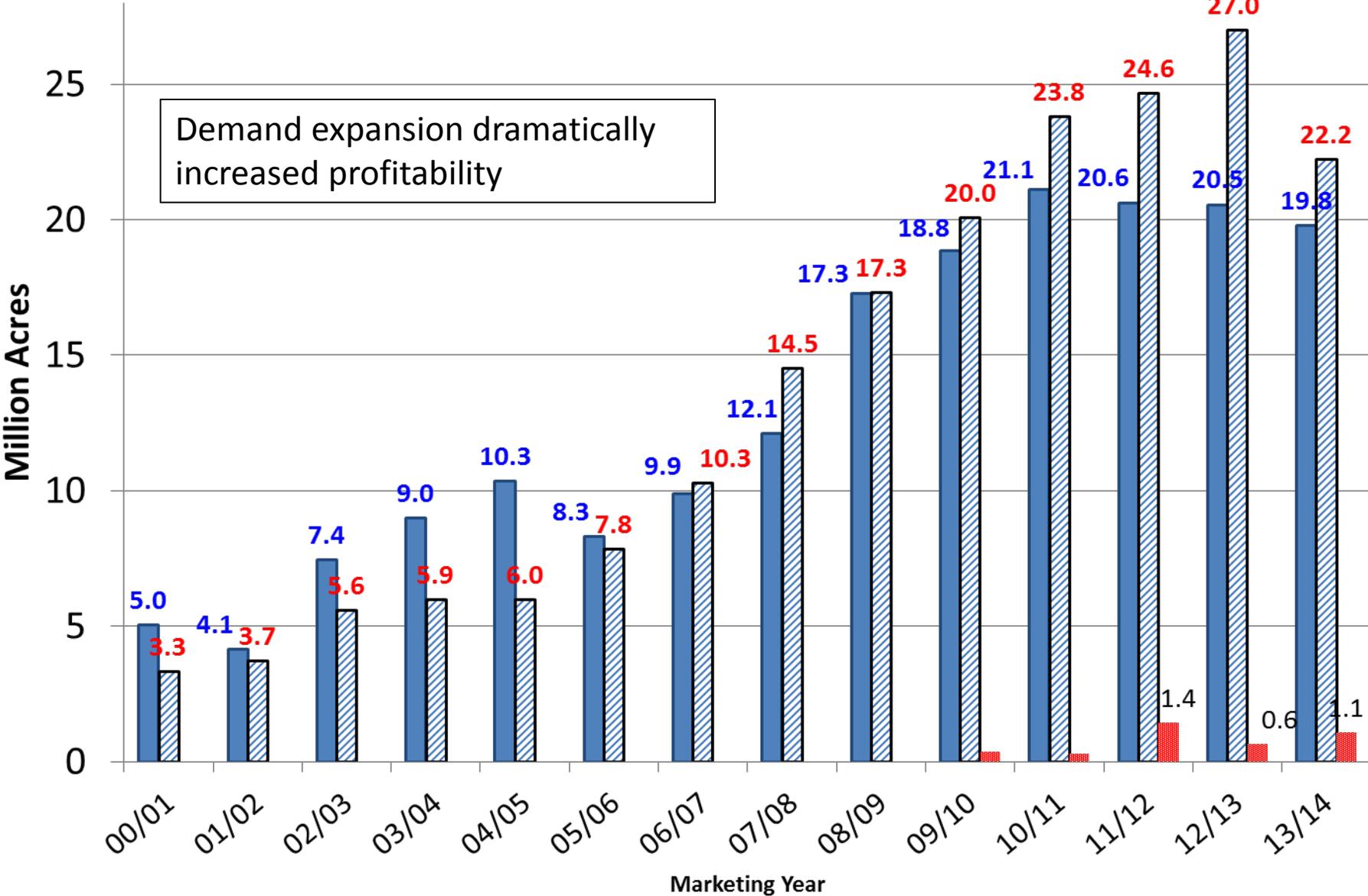
Source: Abbott, Hurt, and Tyner, "What's Driving Food Prices in 2011. Farm Foundation Report.

**Figure 6: World Harvested ACRES 13 Major Crops Total: (Millions)**

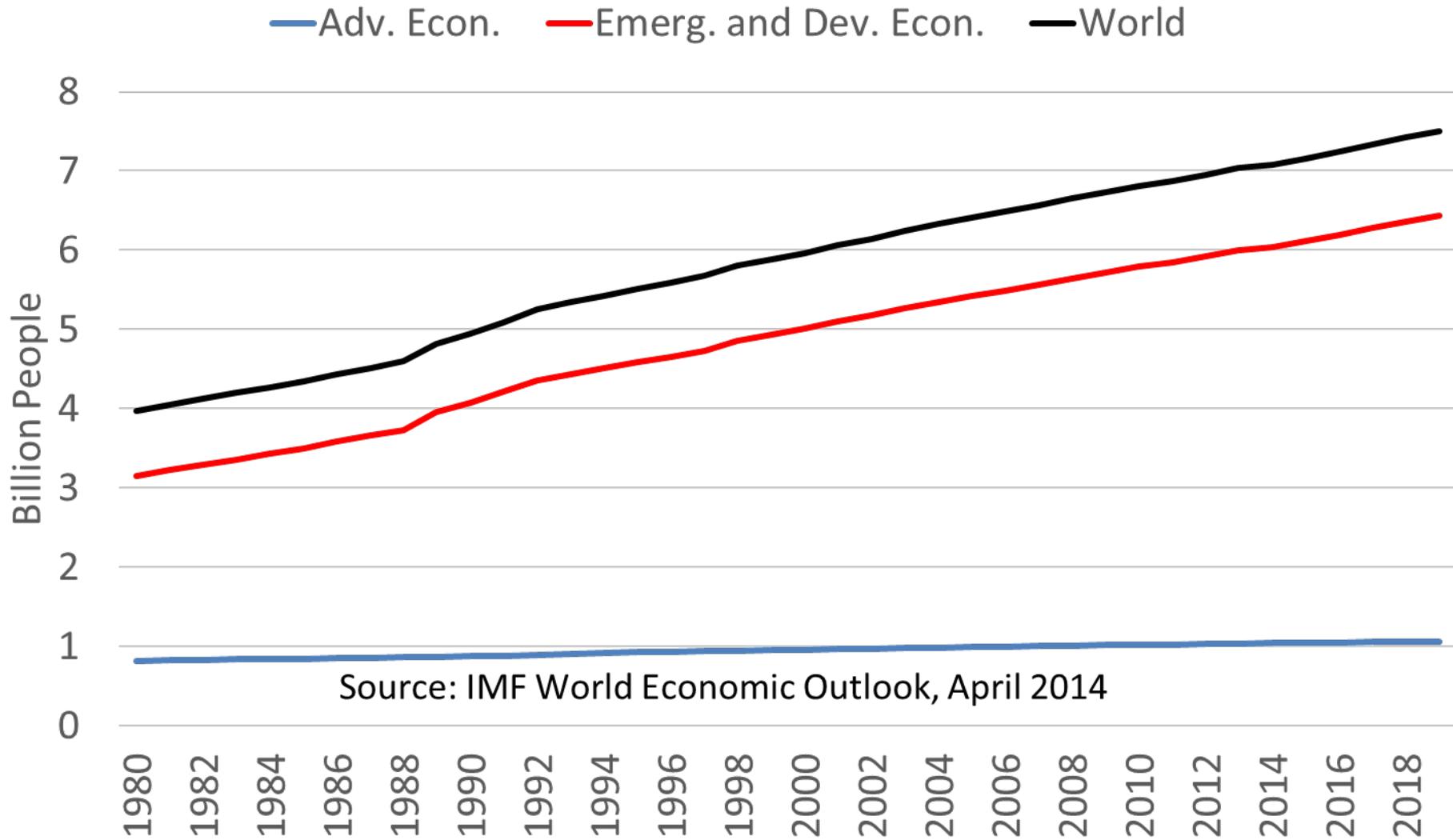


# Acres of U.S. Soybeans Exported to China; Acres of Corn to Ethanol (ddgs adjusted); Acres of Corn Exported to China

■ Bean Acres to China    
 ▨ Corn Acres to Ethanol    
 ■ Corn Acres to China

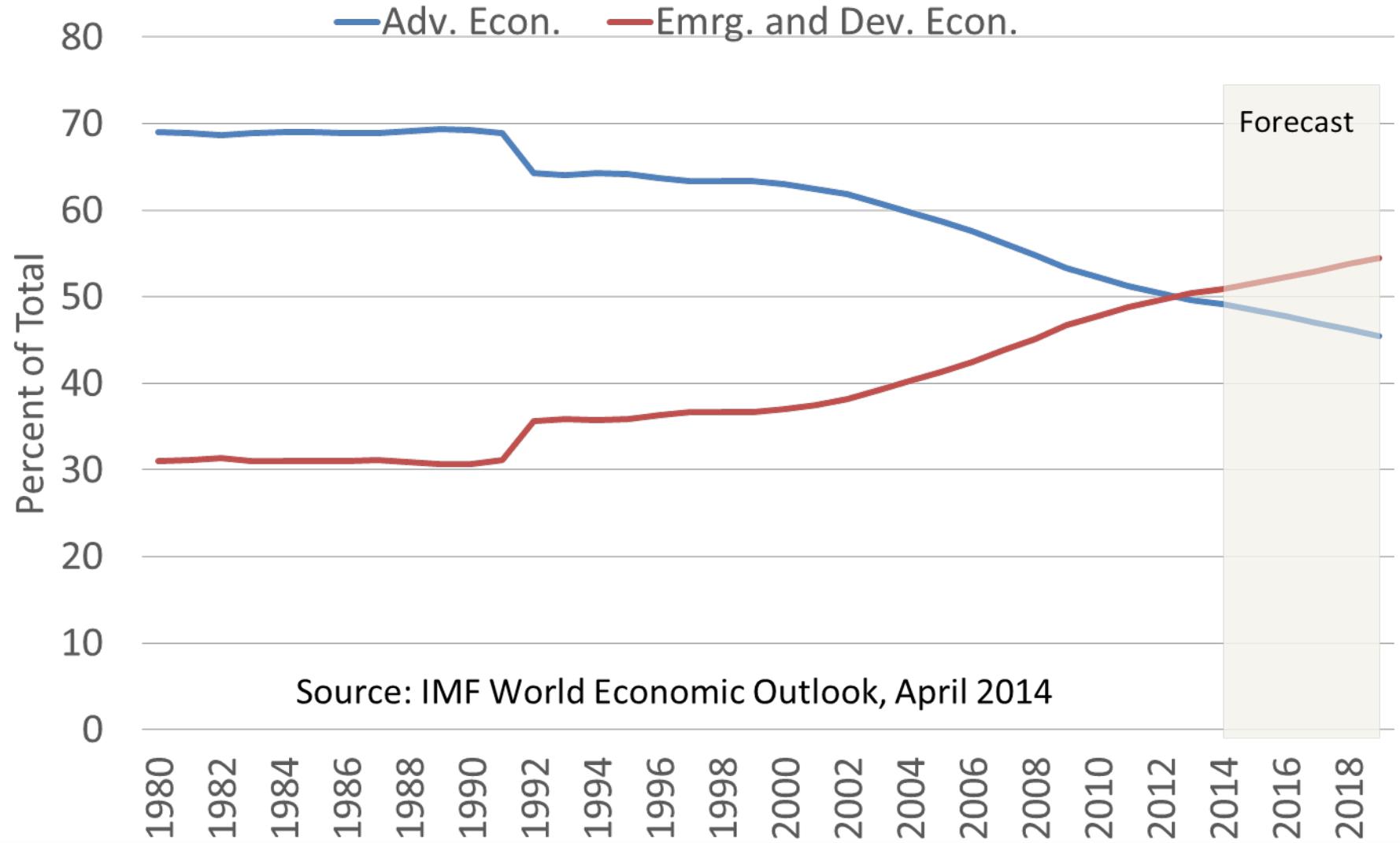


# Population in Advanced and Emerging Economies, 1980-2019



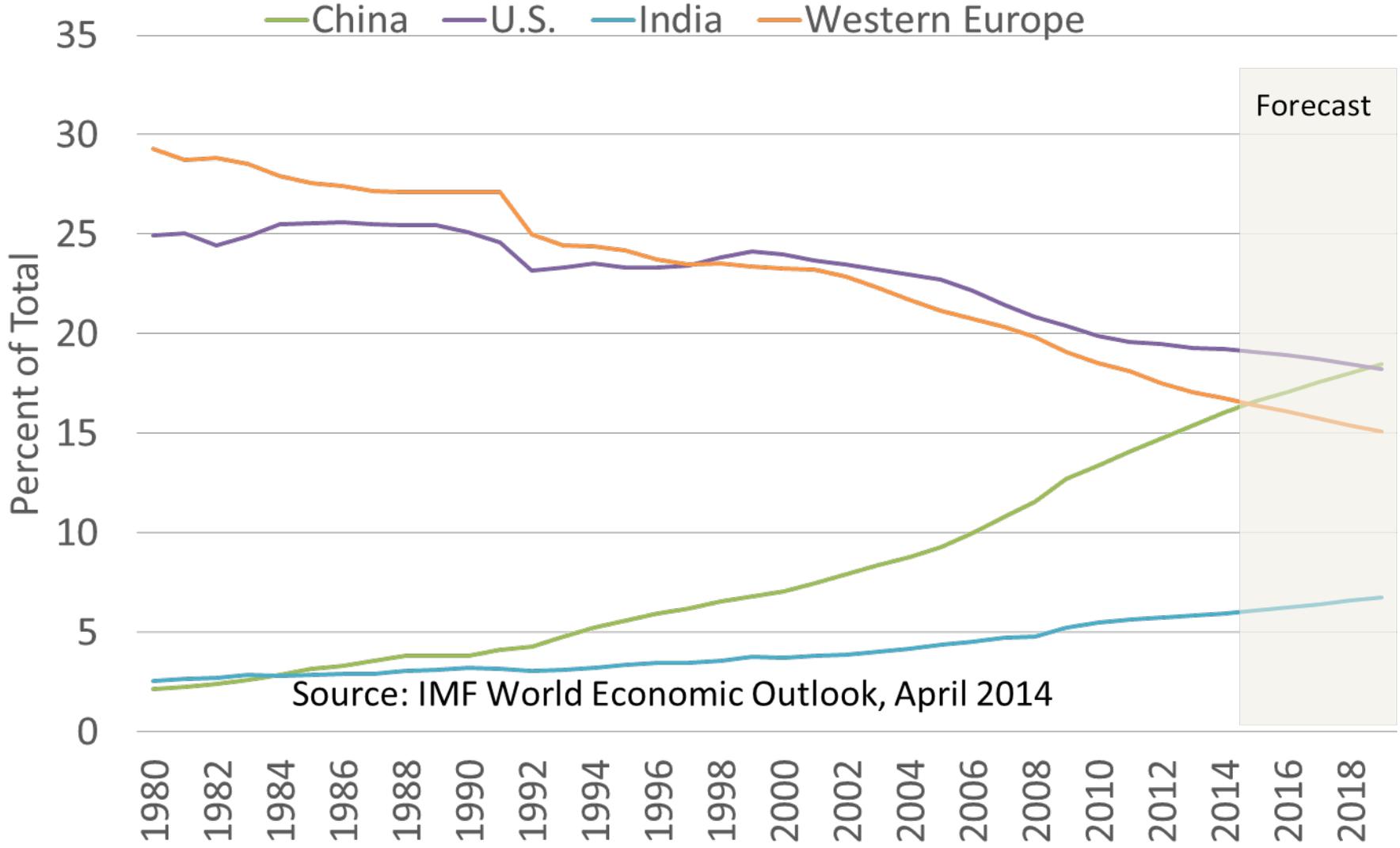
Source: IMF World Economic Outlook, April 2014

# Share World GDP based on Purchasing Power Parity, 1980-2019



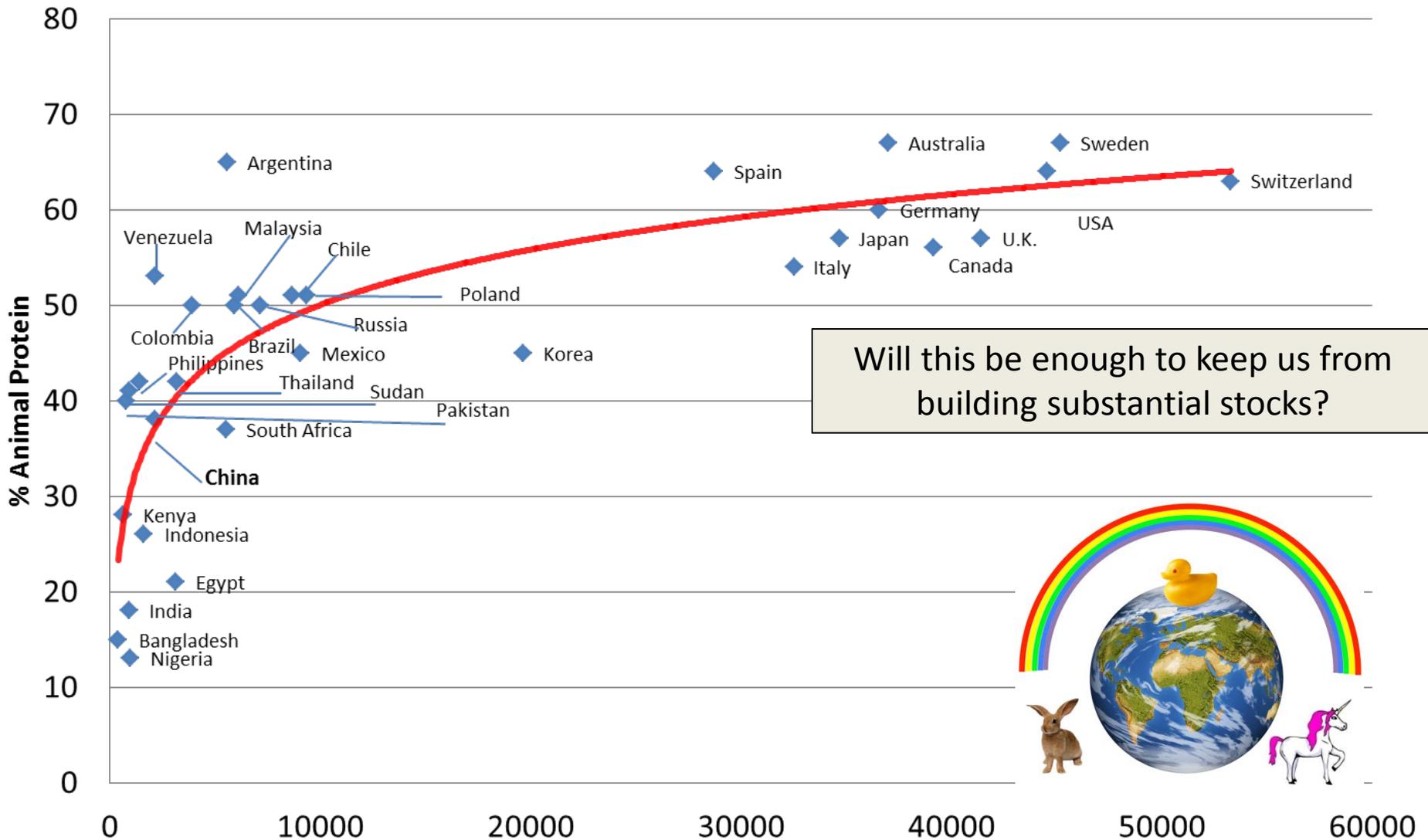
Source: IMF World Economic Outlook, April 2014

# Share World GDP based on Purchasing Power Parity, 1980-2019



Source: IMF World Economic Outlook, April 2014

# Animal Protein as a Percent of Total Protein by GDP, Selected Countries 2005-2007



Will this be enough to keep us from building substantial stocks?



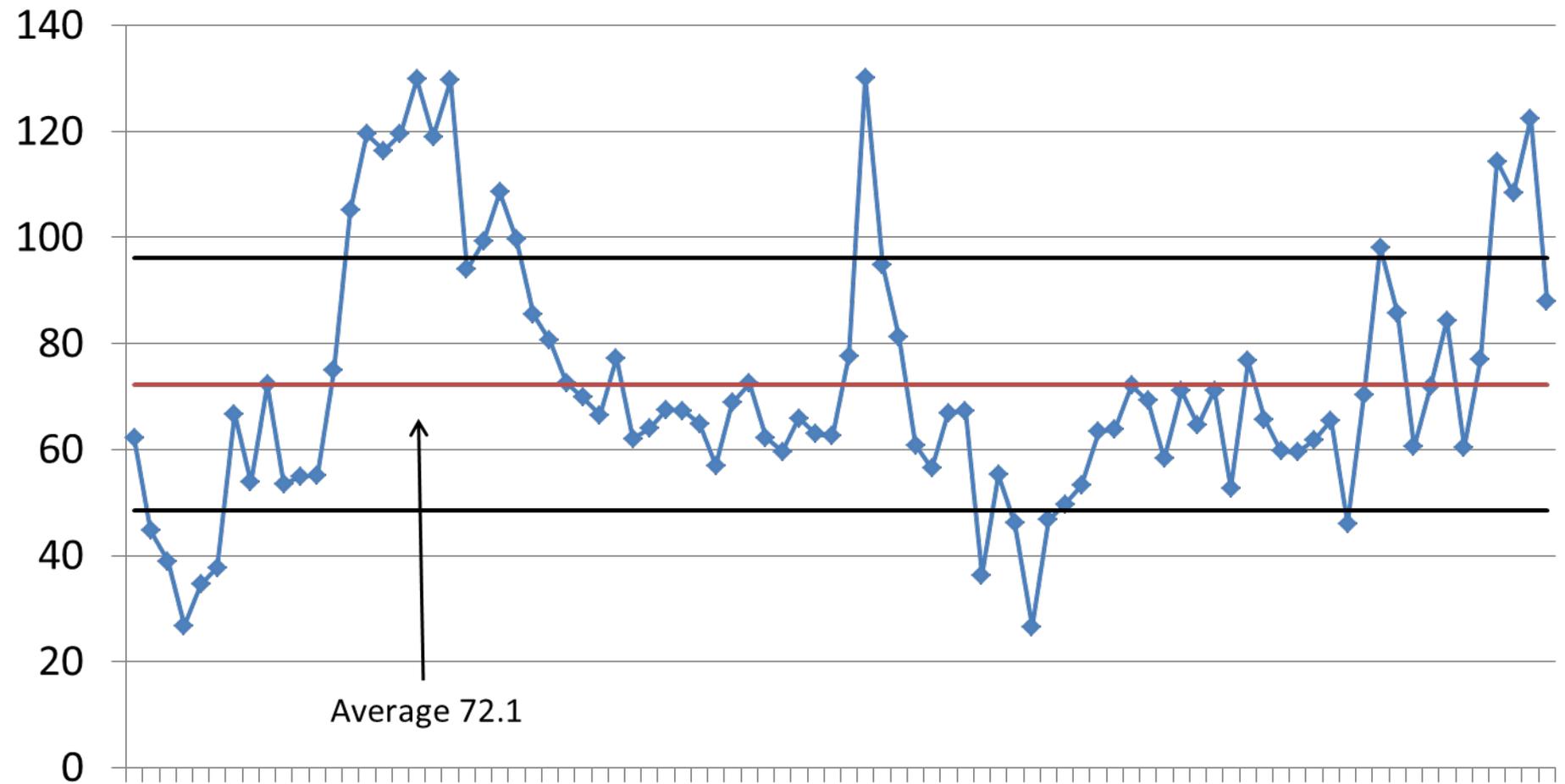
# New Farm Program Arrives Just in Time!

- Will likely provide substantial income support if prices follow USDA forecast
- For the some farms the payments could provide support at rates approaching \$90/acre
- In other words, we now have a decent idea about how bad prices can/could get
- Interest rates are the big unknown



# Farm Incomes Likely to Fall From Historic Highs but Not to Historic Lows

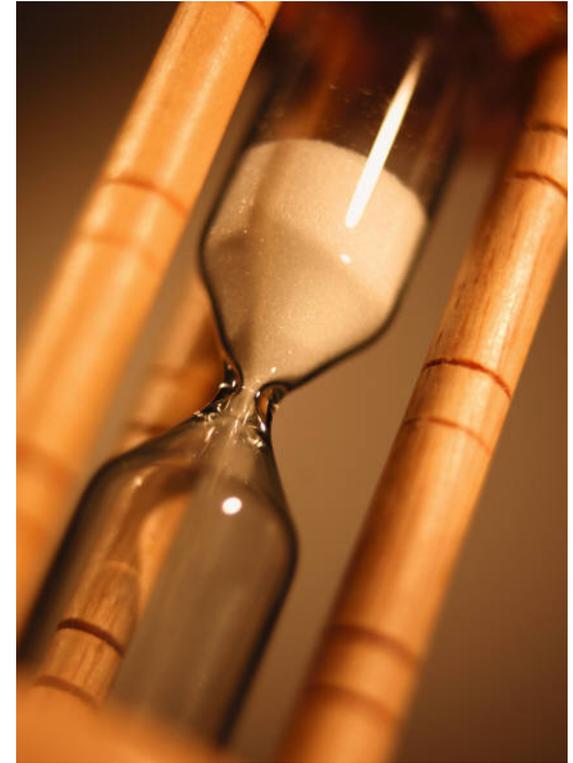
Real Net Farm Income (2009 USD), U.S. 1929-2014



# Could the great boom be coming to an end?

## The Headwinds

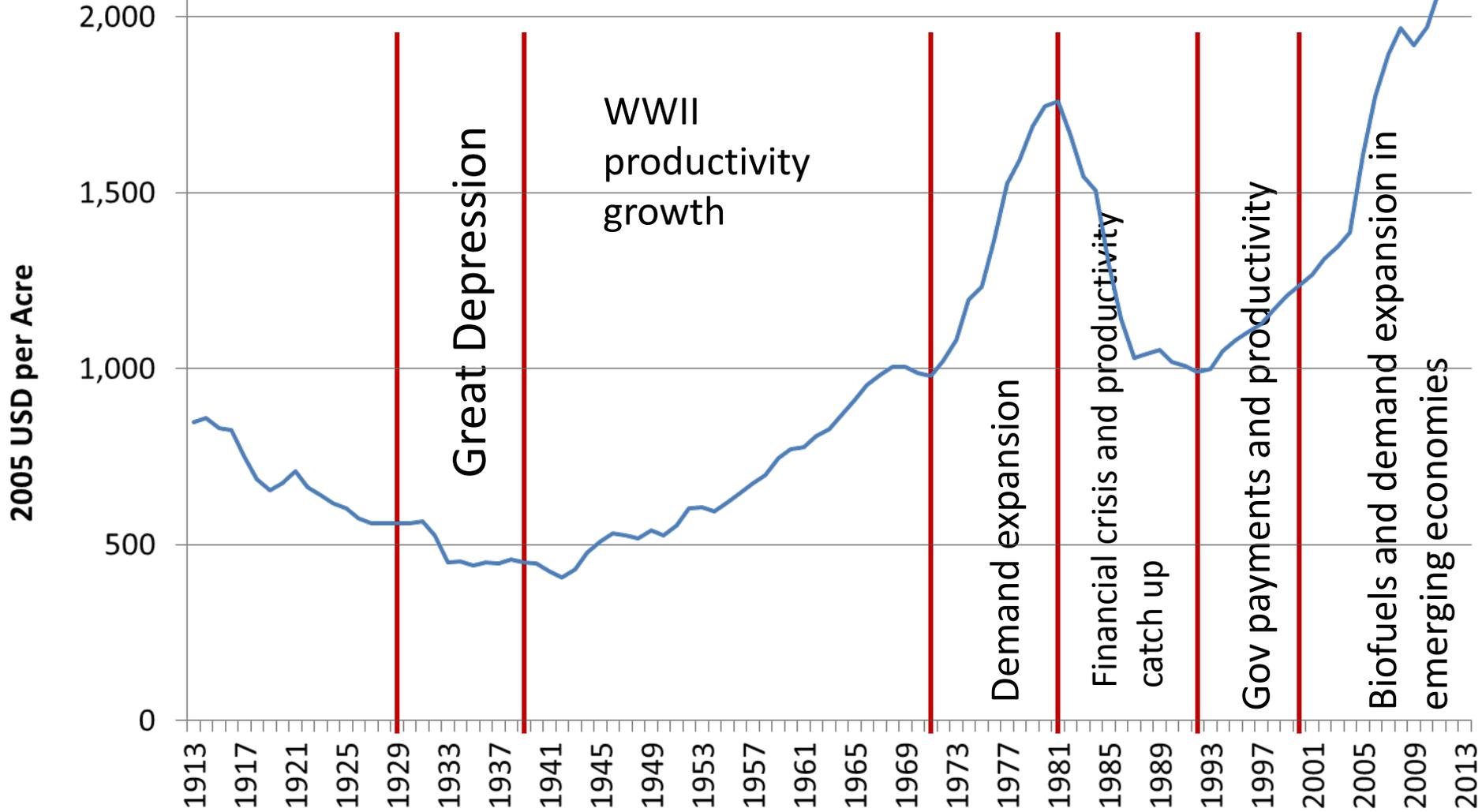
- Lower commodity prices and margin compression
- Biofuel growth ends
- Sluggish global economy – watch emerging markets
- Global supply response
- Overhang of potential for increased interest rates
- Slow cash rental adjustment



**Farm Booms Always End.**

***How* they end is the concern.**

# U.S. Agricultural Real Estate Values, 1913-2013, 2005 USD



# What Causes Booms to End Poorly?

1. Dramatic reduction in demand (1980s) particularly exports, but now watch out for RFS
2. Over response on the supply side coinciding with #1
3. Too much leverage
4. Turmoil in broader economy

If we can keep these from happening we likely can have a soft landing.

**Problem:** Of the 4 we only control #3 and can potentially influence #1 through policy

# Final Thoughts

- Times have been VERY good
  - It is conceivable they could get better
  - It is also conceivable they could be worse
  - It is very difficult to predict what takes us out of this cycle, but too much credit can magnify the outcome either way
- Most signs point to slowing
  - We wouldn't bank on the next 7 years being as good as the last 7, but I think they will be acceptable for good managers