

Macro and Micro Economic Issues in Agriculture

Darren Hudson

Larry Combest Chair of Agricultural Competitiveness

Dept. Agricultural & Applied Economics

Texas Tech University

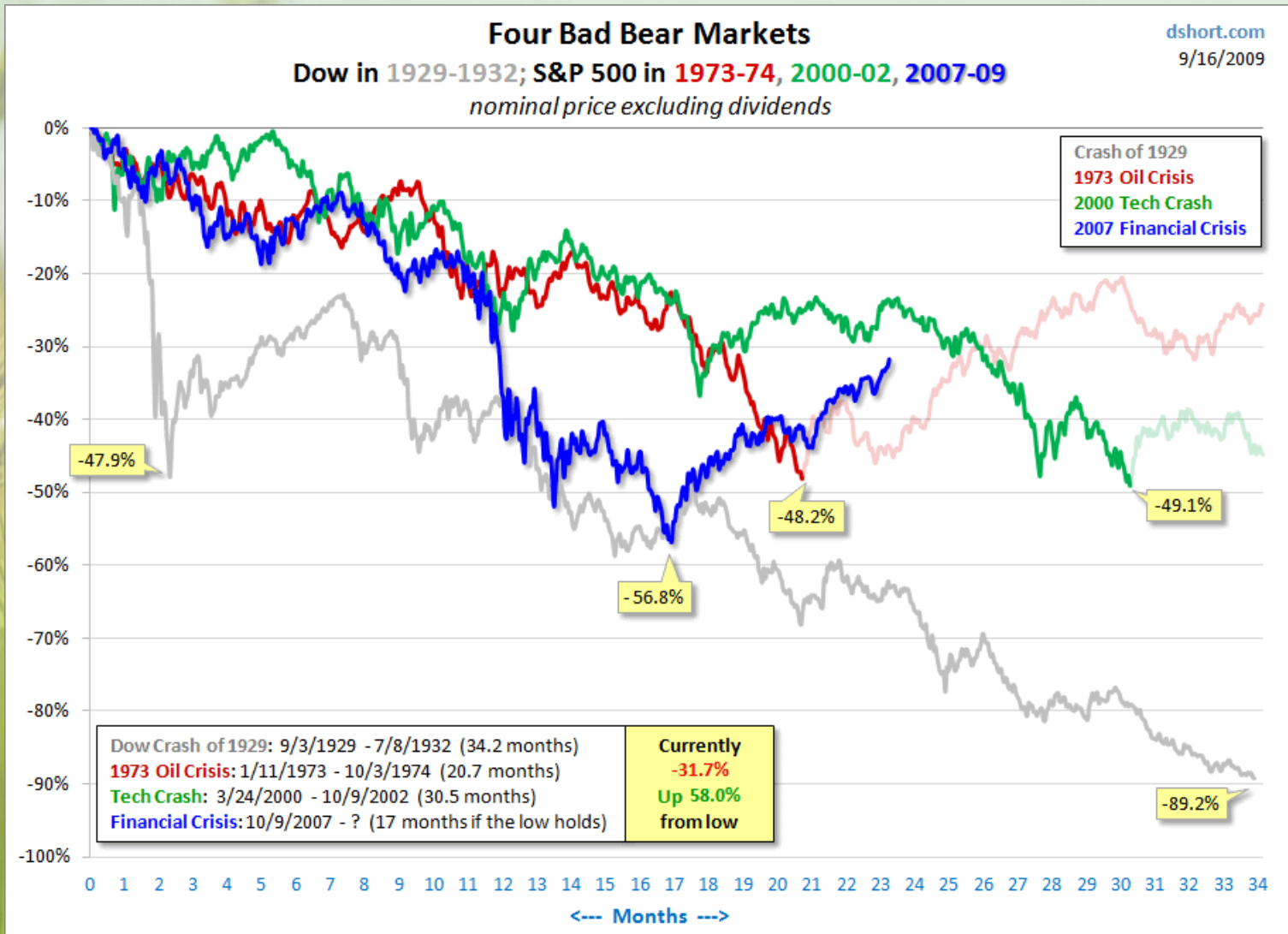
Presentation to the South Texas Cotton and Grain Association
September 23, 2009
Corpus Christi, TX



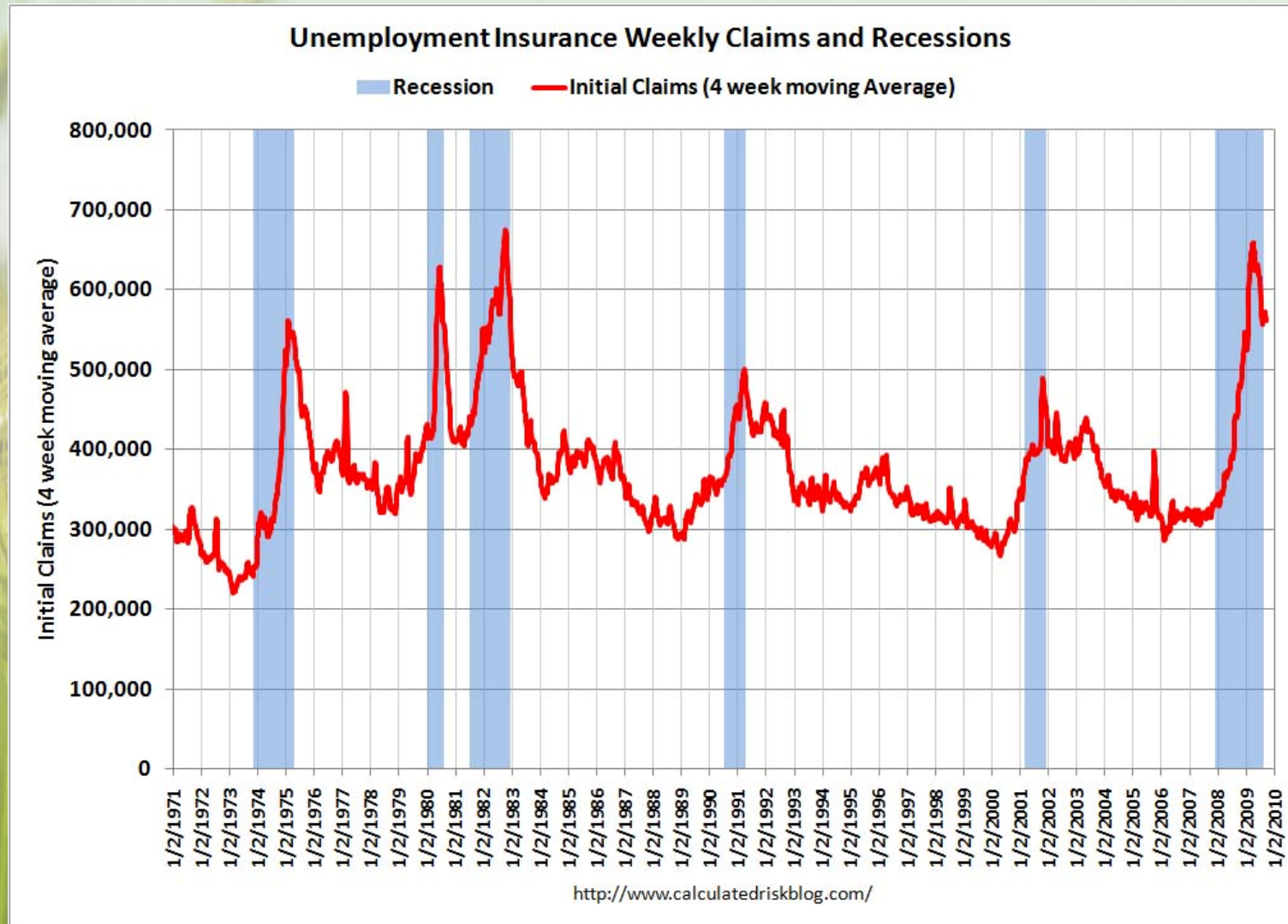
Objectives

- Look at some of macroeconomy issues of late
- Examine some current trends in agricultural markets

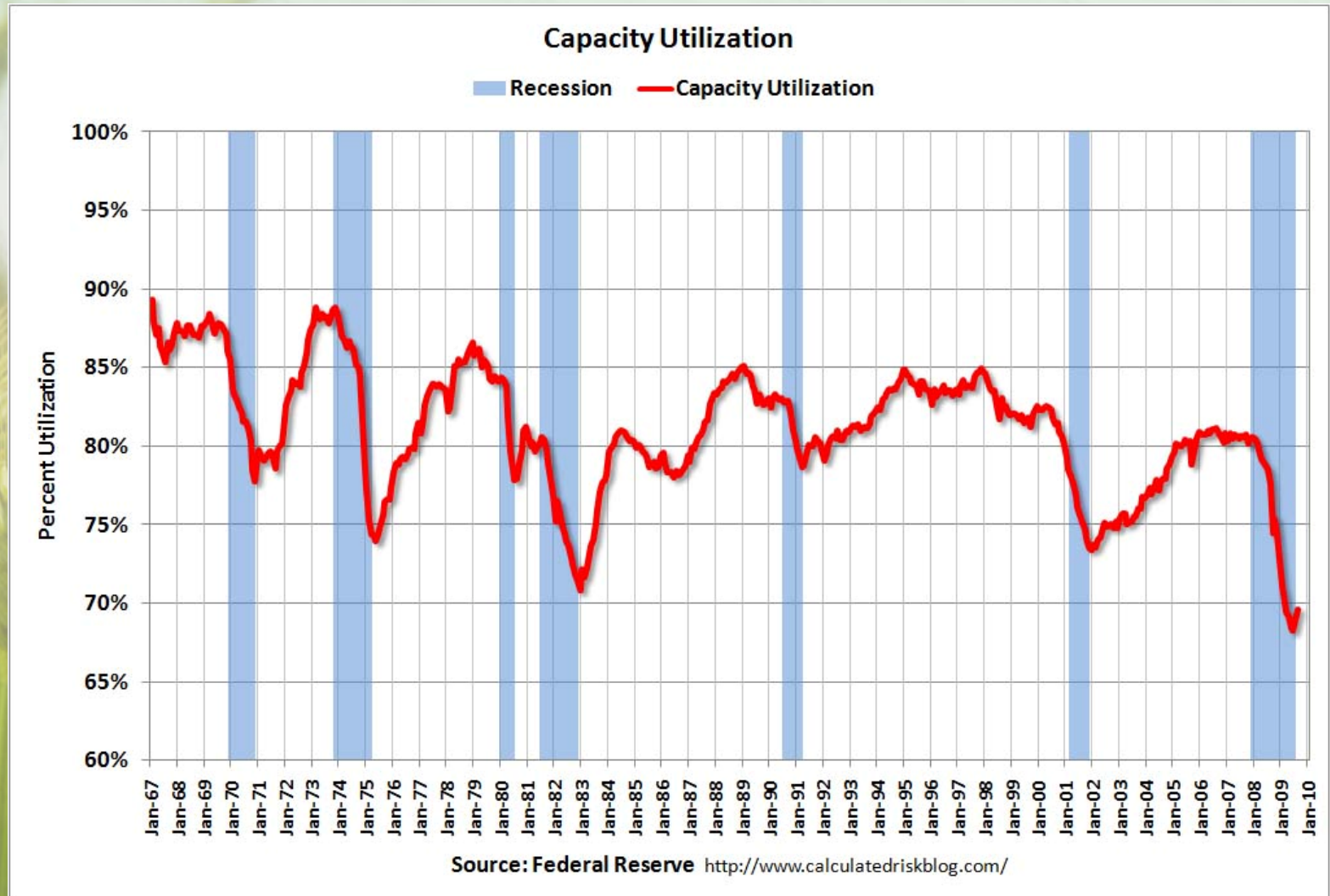
The Macro Economy--Stocks



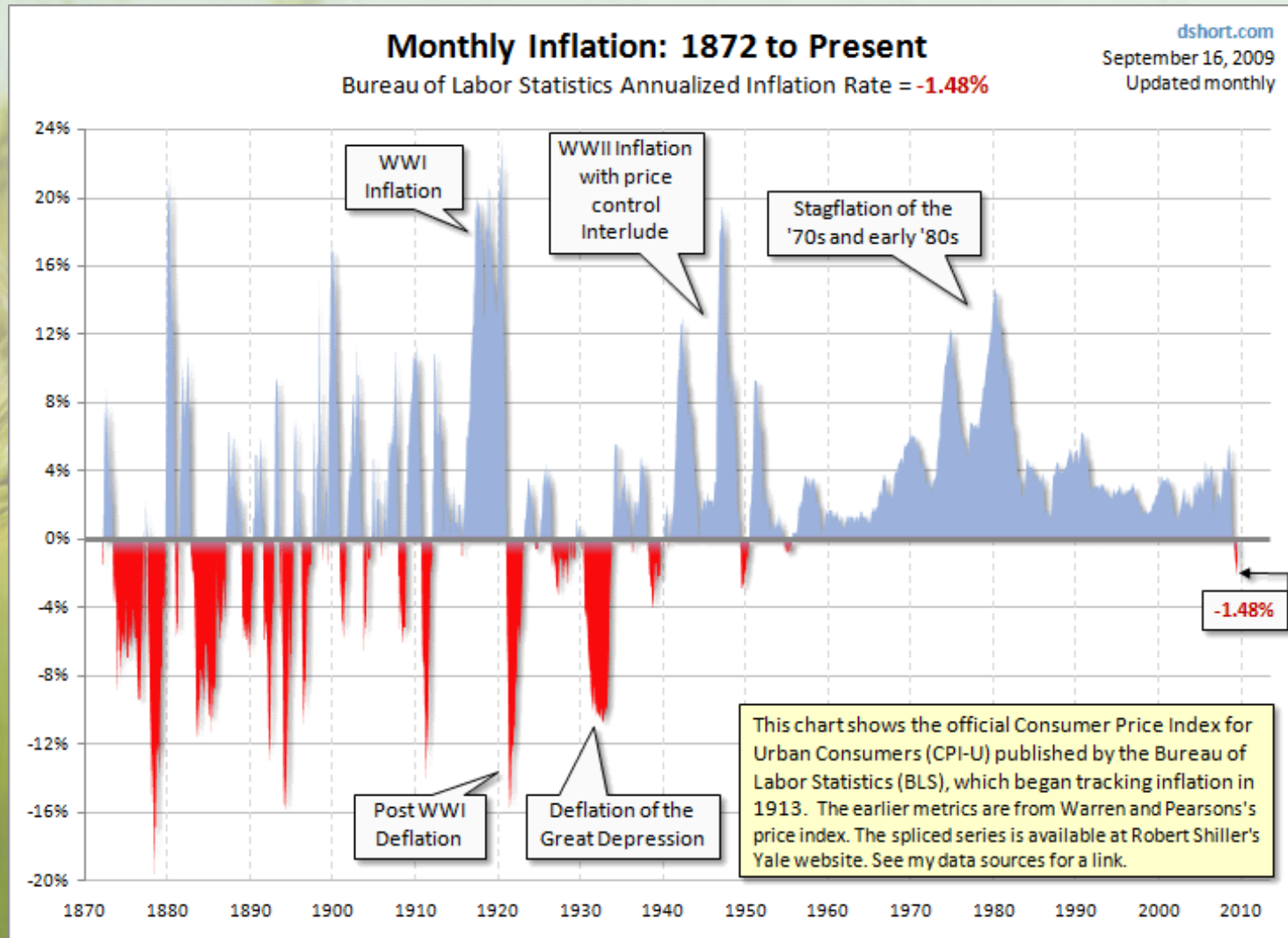
The Macro Economy--Employment



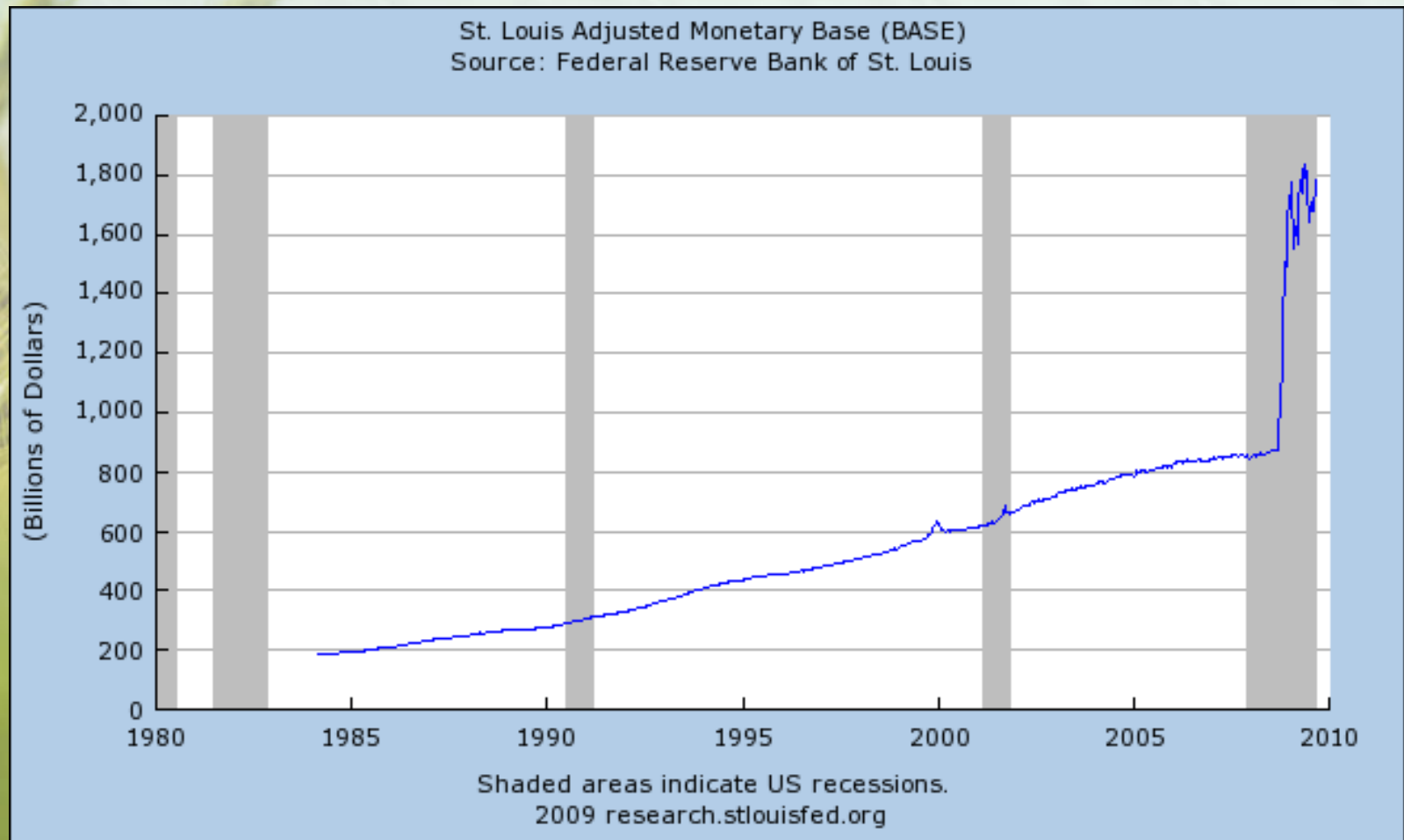
The Macro Economy—Capacity Utilization



The Macro Economy—Inflation



The Macro Economy—Money Supply



Oil/Exchange Rates



A View of the Markets



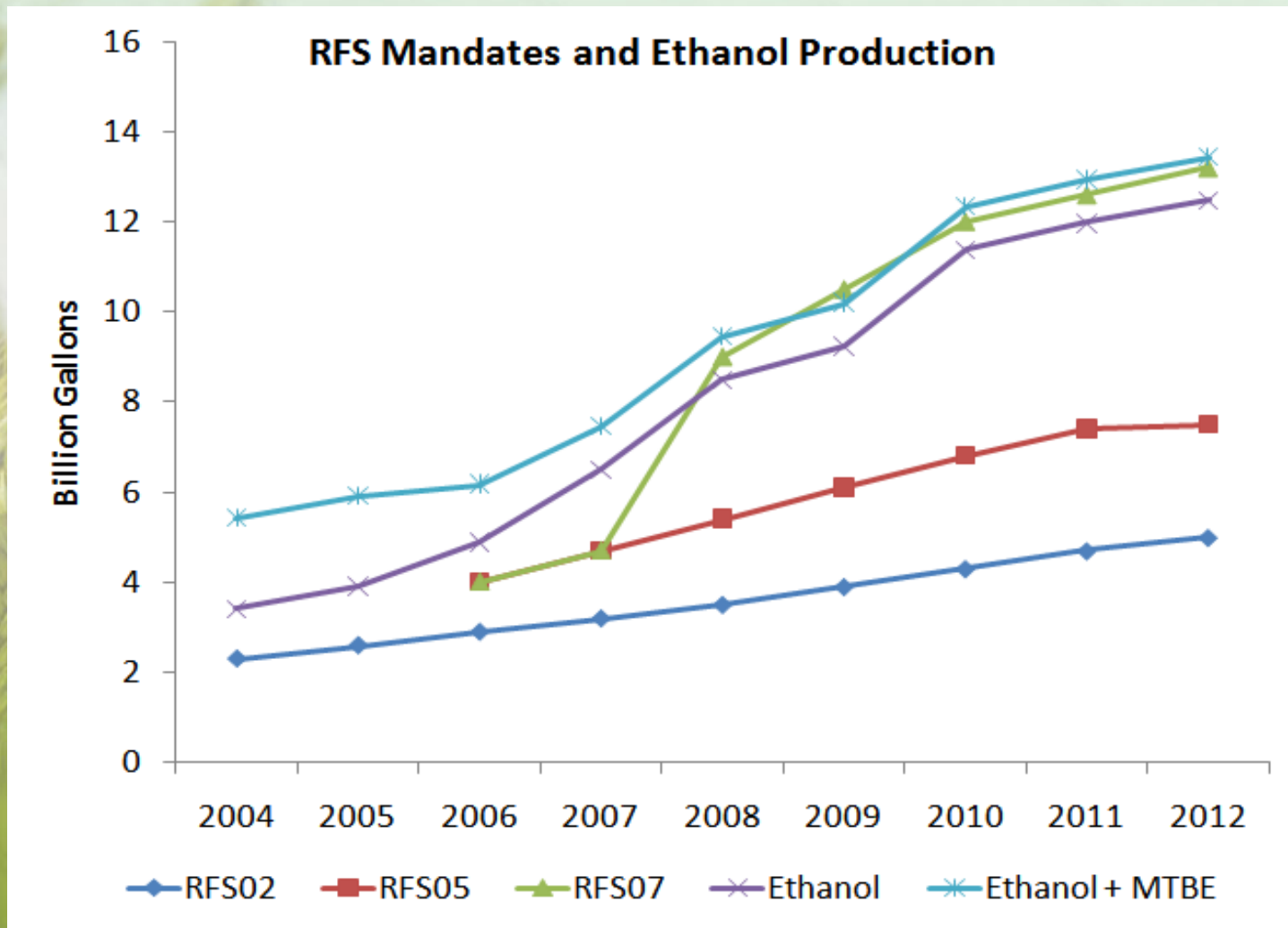
Relative Prices

Corn Price	Cotton Price		Ratio	Month
6.00	0.70	=	8.57	Sep
3.28	0.65	=	5.04	Dec

Although the absolute prices still favor corn, the relative price differences have moderated some.



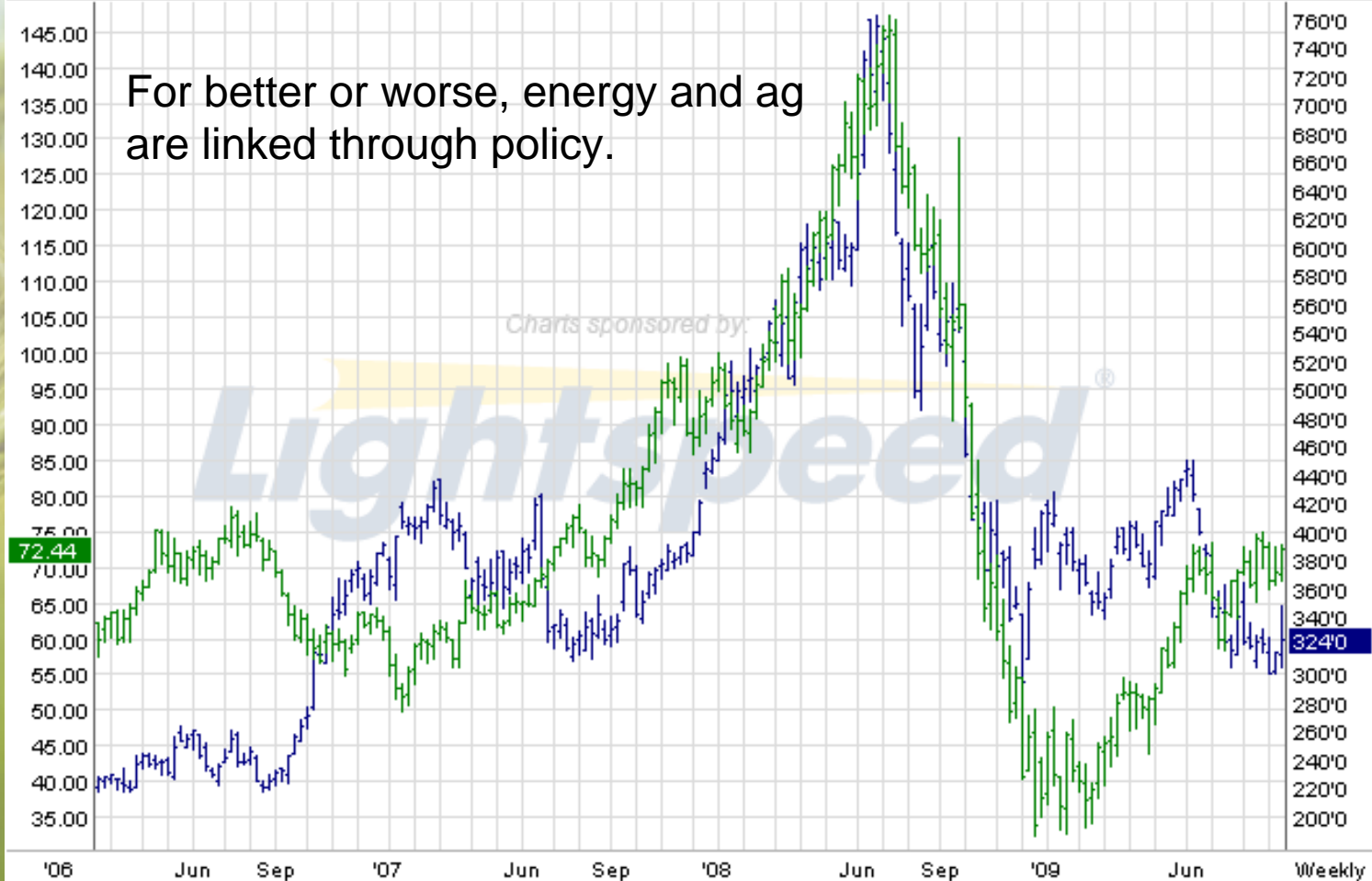
Ethanol



Ethanol

%C [10] - CORN (DAY)	LAST: 324'0	CHANGE: ▼ 12'2	HIGH: 341'4	LOW: 323'0	9/18/2009
%CL [10] - LIGHT CRUDE OIL	LAST: 72.44	CHANGE: ▼ 0.07	HIGH: 73.16	LOW: 71.66	9/18/2009

For better or worse, energy and ag are linked through policy.



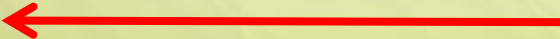
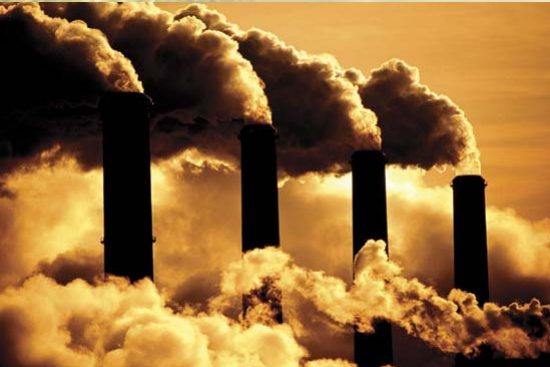
Cap-and-Trade

Carbon Emissions

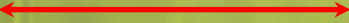
Carbon Offsets



Cap Carbon Output



Purchase offsets from outside industry to compensate for carbon output



Trade between firms from more to less efficient



Cap-and-Trade Necessary Assumptions

- CO₂/GHG emissions are a problem and should therefore be regulated
- Caps are binding for some, not for others, offering opportunities for trade (otherwise, we just have a regulated reduction)
- Technology exists to lower CO₂/GHG emissions such that adopting firms can remain under caps and trade to compensate for investment costs
- The cap-and-trade market can be effectively administered on a national scale
- Everyone else follows our lead and reduces carbon emissions as well



Conclusions

- Macro economy shows some signs of improvement, but still a very tenuous time
- RFS has created a structural shift in corn (and, by consequence, other markets), but we have about maxed out the impact of RFS without further expansion of mandate
- Cap-and-trade/energy legislation likely to have significant negative impacts on agriculture with limited ability to profit from offset markets

