

# Macro-Economic Considerations Going Forward

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- “If people do not like my health care plan (read any policy), that is what elections are for.” -- President Obama
- “We took a shellacking last night...” -  
- President Obama



# Challenges for Agriculture

- High prices beget low prices...and higher input costs
- Government budget is a mess...less money for agriculture
- Cheap money policy...weaker dollar good for exports, inflation may be next



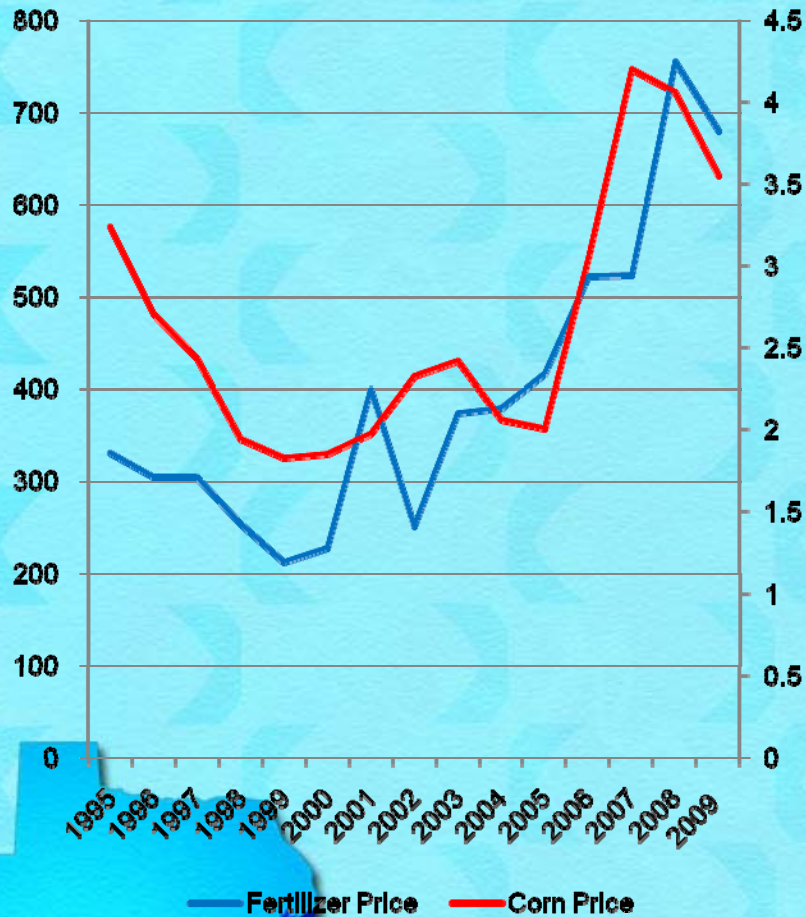
# High Prices Beget Low Prices

- Short-term, fundamentals suggest high prices continue
- Brings more acreage into production
- Brazil has 250 million acres of idle arable land



# And Higher Input Costs

- Input prices consistently follow crop prices



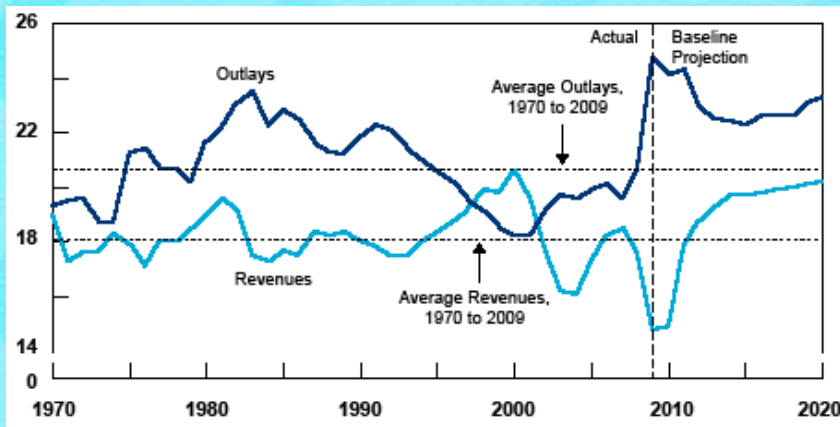
# Where to go???

- If you can lock in reasonable prices now for next year, do it for at least some of your crop
- BUT, do not forget to lock in some of your input costs as well
  - Pre-purchase can help with taxes if you have storage



# Messy Government Budget

- Large, structural budget deficits
  - Only entitlements and defense spending have sufficient size to affect change
  - Taxes and/or severe budget cuts are coming



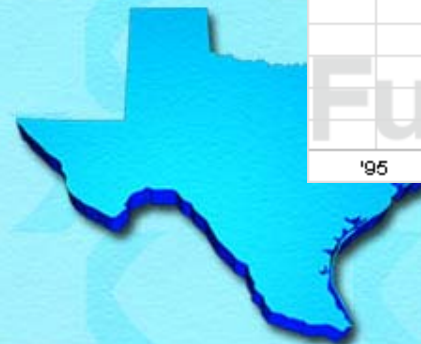
# Government Budgets and Policy

- Tremendous pressure to reduce government expenditures (yesterday)
- Agriculture is an easy target for reductions
  - WTO issues
  - Shrinking rural population and representation
- Shifting priorities even within agricultural policy



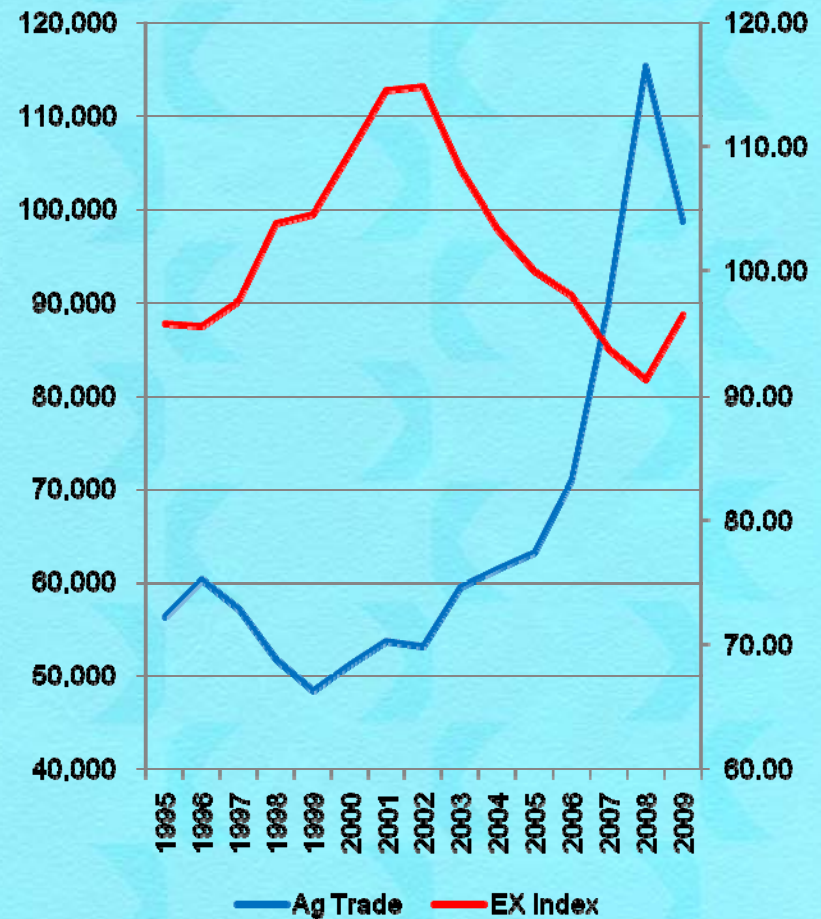


# Cheap Money—Exchange Rates



# Exchange Rates and Trade

- Stronger dollar leads to less exports, other things equal
- Weaker U.S. dollar this year; quickly approaching a record in U.S. ag exports



# TIPS Yields Go Negative

- TIPS are inflation protected
- Negative yield at auction
- Inflation coming??  
The market seems to think so...

## Tipping Over

Yield on five-year Treasury inflated-protected securities, or TIPS



Source: Thomson Reuters



# Conclusions

- Current high prices are good, but likely to see deterioration of gross margins either through price declines or input cost increases
  - Lock in some of next year if possible—both price and inputs



# Appearances

- Rapidly rising monetary base
- Rapidly rising basic commodity prices
- Signs of price increases in consumer goods (apparel already going up)
  - 1970s
- What happened in the late 1970s and early 1980s??



# Conclusions

- Budgets are creating serious uncertainty in both taxes and farm program future
- While the current weak dollar is helping U.S. exports, it is inflationary...we have to pay the piper at some point

