Macro-Economic Considerations Going Forward

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• “If people do not like my heath 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…

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
Appearsances

• 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