An Economic Report Card for the U.S. Economy and Agriculture
2017 Mid-Year Report
By
Dr. Edmond J. Seifried and Dr. David M. Kohl

Joining forces once again, Dr. Ed Seifried and Dr. Dave Kohl provide insights on domestic and global economies as well as that of general agriculture and rural America.

Professor Edmond J. Seifried

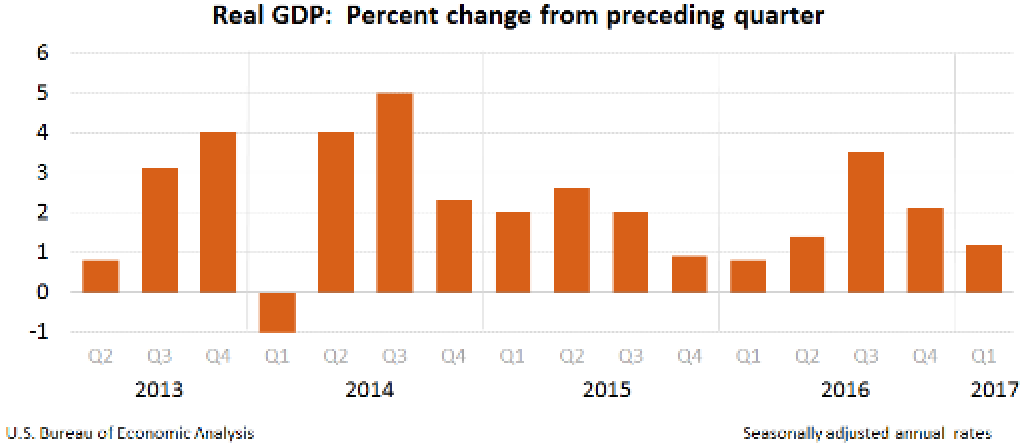
U.S. Midterm Grade = C+

Gross Domestic Product Grade = D-

As measured by real Gross Domestic Product (GDP), economic performance in the U.S. for the first quarter of 2017 was very poor. The advanced estimate (first of three estimates) of GDP for 2017(I) was a pathetic 0.7 percent growth rate. Fortunately, the second estimate for 2017(I) was a slightly improved, but still well below trend, 1.2 percent growth rate. As of this writing, we await the third and final release, but forecasts indicate it will not be significantly above the second estimate of 1.2 percent. In the fourth quarter of 2016, real GDP increased 2.1 percent. The Bureau of Economic Analysis (BEA) reported that the modest increase in real GDP was accounted for by increases in business investment, housing investment, consumer spending on services, and exports. These increases were partly offset by decreases in inventory investment and government spending. Imports, which are a subtraction from GDP, increased.

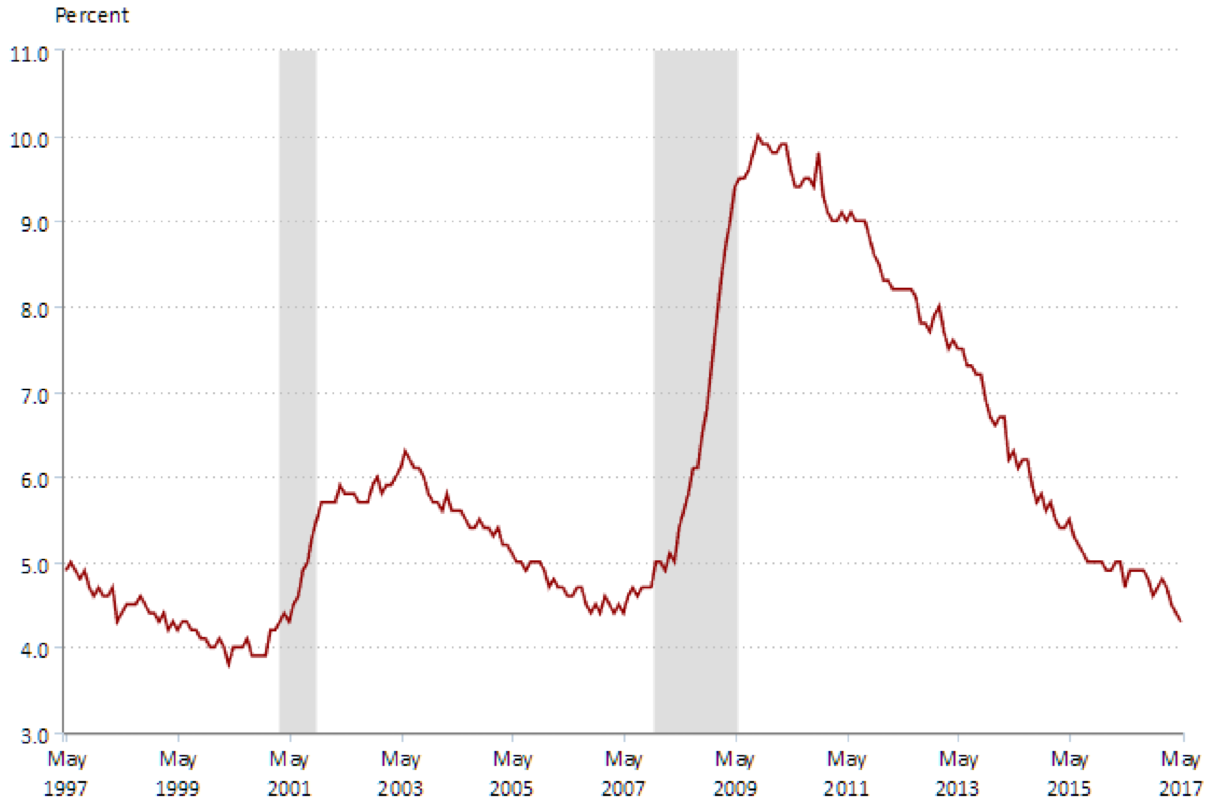
The major contributions to the drop in real GDP from 2.1 percent in the fourth quarter of 2016 to 1.2 percent in the first quarter of 2017 were decelerated personal consumption expenditures (PCE), a downturn in private inventory spending, and a downturn in state and local government spending. These changes were partially offset by an increase in exports, and an acceleration in both residential and nonresidential fixed investment.

The graph below shows the most recent quarterly GDP results from the Bureau of Economic Analysis.



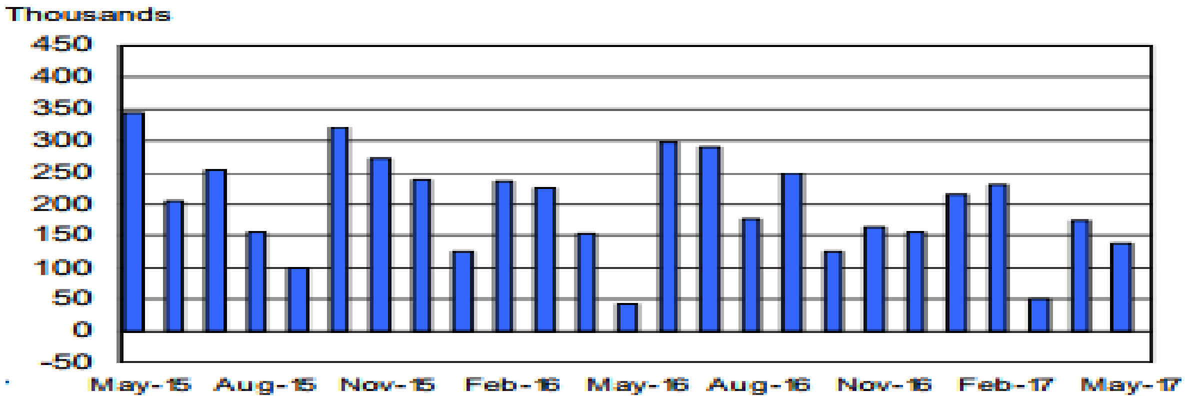
The Labor Market - Unemployment rate and Job Creation Grade = B-

The unemployment rate has been falling steadily the first two quarters of 2017. The unemployment rate declined from 4.8 percent in January 2017 to 4.3 percent in May 2017. News from the Bureau of Labor Statistics (BLS) indicates that the unemployment rate, at 4.3 percent, and the number of unemployed persons, at 6.9 million, changed little in May. Since January, the unemployment rate has declined by 0.5 percentage points, and the number of unemployed has decreased by 774,000. Among the major worker groups, the unemployment rate for Whites edged down to 3.7 percent in May. The jobless rates for Blacks (7.5 percent), Asians (3.6 percent), and Hispanics (5.2 percent), as well as those for adult men (3.8 percent), adult women (4.0 percent), and teenagers (14.3 percent), showed little or no change. The chart below illustrates the unemployment rate over a 20-year period.



Source: Bureau of Labor Statistics

The record on job creation is mixed. Job creation for the first four months of 2017 has been erratic. Most economists agreed that monthly job growth over 200,000 is required for a strong and vibrant economy. In 2017, three months met or exceeded that target and two months were woefully short. Of special notice was the month of March when the economy only generated 79,000 new jobs. The graph below provides the record of the economy's ability to generate jobs from May 2015 through May 2017.

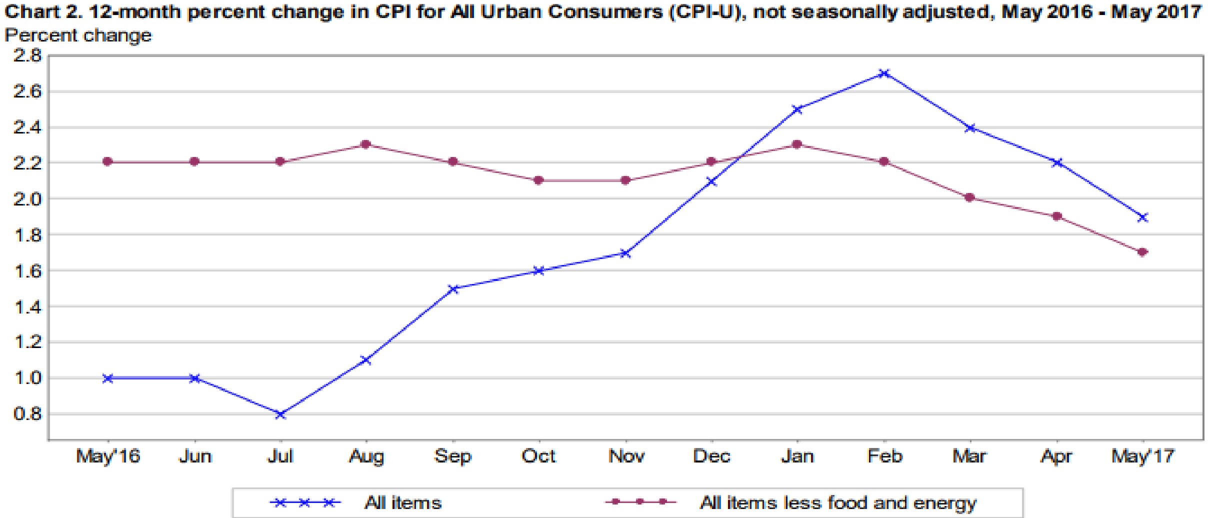


Source: Bureau of Labor Statistics

The Inflation Record Grade = A-

The record on inflation continues to be the one bright spot in the economy. The Consumer Price Index (CPI) for all products has ranged from a high of 2.7 percent measured over the last twelve months (LTM) in February 2017 to a low of 1.9 percent (LTM) in May 2017. Price increases in all items less food and energy (core inflation) have ranged from a high of 2.2 percent (LTM) in February 2017 to a low of 1.7 percent (LTM) in May 2017. The chart below shows the movement of the inflation indicators from the period of May 2016 to May 2017.

Chart 2. 12-month percent change in CPI for All Urban Consumers (CPI-U), not seasonally adjusted, May 2016 - May 2017



Source: Bureau of Labor Statistics

State of the State of Agriculture
Dr. David M. Kohl

Farming and Ranching Midterm Grade = Range of B+ to F

For most commodities in agriculture, there is a surplus in supply worldwide, which suppresses prices. This settles most agricultural enterprises into their fourth year of an elongated economic reset. Of course, each farm business feels the effects of this cyclical downturn differently.

Farms in the bottom 30 percent of profitability experienced deterioration in cash flow and working capital a few years ago. Without corrective action, continued losses and refinancing strategies continue to increase loan balances and burn through excess core equity in land, livestock, and machinery.

Next, the middle one-third of farms have made some adjustments and slowed losses. However, for most, they are burning through the reserved working capital they built up during the supercycle's record profits from 2006 to 2012.

The top one-third of farms and managers has implemented the necessary tweaks and adjustments to minimize losses and generate a profit. In fact, some of these businesses are examining selective growth or business adjustment strategies.

Overall, the lower and middle thirds grade out from C- to F. For both of these segments, it is only a matter of time before drastic action must be taken. On the other hand, the top percentage of farm businesses earns a B+ as they are proactively making adjustments in their business.

Trade Risk Midterm Grade = B- to C+

In general, international trade risk is the biggest variable to income statements and balance sheets of U.S. agricultural businesses. With $1 out of every $5 of net income generated through agricultural exports, the Administration's stance and action on trade are critical. On the positive side, some trade deals already struck with China have favored beef and poultry. It will be interesting to see how the adjustments in NAFTA will impact Canada, our number one trading partner; and Mexico, our third largest trading partner. In particular, grain, dairy, and beef could be dramatically impacted by trade deals with these two countries that amount to almost $40 billion in trade dollars, which is slightly larger than the Asian region combined. Both domestically and globally, producers must watch the shift in attitude from globalism to nationalism, and now to populism because of the potential impact on international trade.

Further, the Administration's policy on immigration is extremely important for beef, dairy, vegetables, and tree fruits. Of course, producers and small businesses, in general, could benefit from any relief in healthcare and taxation.

Land Values Midterm Grade = C

Farm land values are highly localized within a region. On the East and West Coasts, and part of the South, land values are resilient to slightly increasing. In the Midwest and Upper Midwest, some areas are facing a 10 to 20 percent decline in land values, while others are in a holding pattern with only a few areas increasing. Marginally productive land continues to experience the largest decline. Crop insurance, hedge funds, refinancing by lending institutions, and relatively low interest rates have each been contributing factors to land value resiliency. The good news is that land values are not crashing like the 1980s. The bad news is that today's elongated economic downturn is much like a small leak in a tire; if not fixed it could lead to a blowout.

Of course, one wildcard in agriculture is always weather. What's in store for July and August? The growing degree days and moisture reports will undoubtedly be critical.

Actually, cattle is experiencing a solid gain in prices with lower energy costs and some other variable cost reductions such as feed, and some cash rents.   Their margin for profit may be returning to slightly balance cattle economics.