An Economic Report Card for the U.S. Economy and Agriculture
2016 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 United States and global economies as well as that of general agriculture and rural America.

The US Economy: Final Grade Report for 2017

By

Dr. Edmond J Seifried

The academic year of 2017 has produced one of the strongest economies in many years. This final report card for 2017 will review two of the more important areas of the economy: the growth in the Gross Domestic Product (GDP), and the overall health of the labor market, as measured by the unemployment rate and monthly job creation.

GDP growth

Grade A-

The Bureau of Economic Analysis (BEA) defines Real Gross Domestic Product (GDP) as the value of the goods and services produced by the nation's economy less the value of the goods and services used up in production, adjusted for inflation. GDP is also equal to the sum of personal consumption expenditures, gross private domestic investment, net exports of goods and services, and government consumption expenditures and gross investment.

The GDP performance for the first quarter of 2017 was relatively weak. The economy grew at a rate of only 1.2 percent in the first quarter. This was a significant drop compared to the 2.1 percent from the prior quarter (2016 IV). But GDP growth from that point forward became much higher. The second quarter growth rate clocked in at 3.1 percent. The third quarter (2nd of three estimates) was 3.3 percent. Please note the Bureau of economic Analysis (BEA) releases three vintages of the current quarterly estimate for GDP: The first estimate is called the "Advance" estimate and is released approximately a month after the end of the quarter. The "second" and "third" estimates of the GDP are released near the end of the second and third months after the end of the quarter respectively, and are based on more detailed and more comprehensive data.

According to the BEA, the 3.3 percent GDP growth rate for the 3rd quarter of 2017 was caused primarily by increases in consumer spending. The increase in consumer spending reflected increases in spending on both goods and services. The increase in goods was primarily attributable to motor vehicles. The increase in services primarily reflected increases in health care, financial services and insurance, and recreation services.

The Labor Market

Final Grade = A-

The unemployment rate in January of 2017 stood at 4.8 percent. At this writing, the latest unemployment data release indicates the November 2017 rate is 4.1 percent. While it is certainly possible, in subsequent months, for the national unemployment rate to fall below the current level, most experts would argue that the current unemployment rate is very close to what is frequently called the full-employment rate or natural rate.

The policy making body of the Federal Reserve, the Federal Open Market Committee (FOMC), does not announce an unemployment rate goal for full employment or the natural rate. However, the FOMC does provide quarterly forecast for the longer-run normal levels of unemployment, or the natural rate. The latest FOMC forecast from December 2017 indicates that the natural rate is 4.6 percent. Therefore, the current rate is already below what is thought to be a normal level. While anything is possible, it is difficult to imagine that this rate could fall much lower in 2018.

Job growth in 2017 was slightly lower than in 2016; however, massive hurricanes that hit the U.S. in September may have skewed the 2017 numbers. Employment growth has averaged 174,000 new jobs per month thus far this year, compared with an average monthly gain of 187,000 new jobs in 2016. However, September 2017 job growth was a hurricane restricted 25,000 new jobs. The latest jobs report indicates that total nonfarm payroll employment increased by 228,000 in November of 2017. New jobs for November were created mostly in the professional and business services, manufacturing, and health care sectors.

The charts shown below show the overall health of the labor market in 2017. The graph on the left displays the path of unemployment for 2017, and the graph on the right shows monthly job growth. Note the sharp decline in job creation in September 2017 due to hurricane activity.

Chart 1. Unemployment rate, seasonally adjusted, November 2015 – November 2017

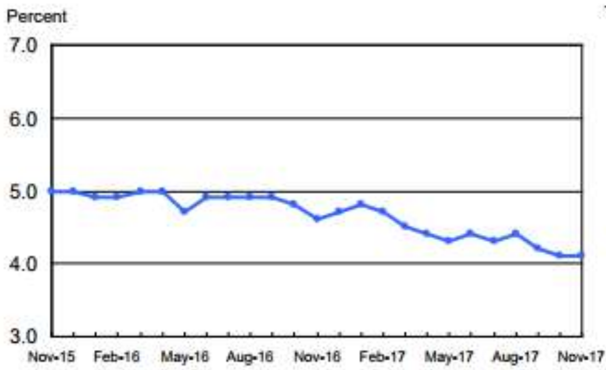
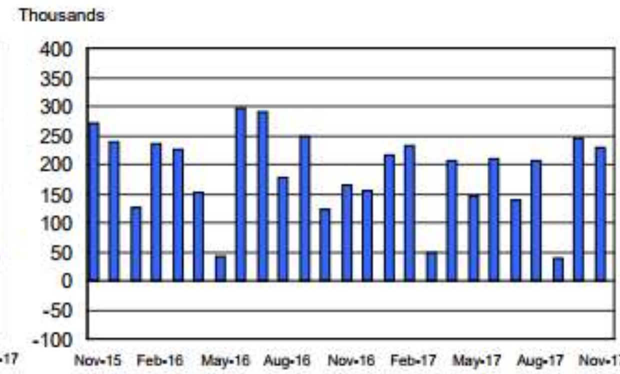


Chart 2. Nonfarm payroll employment over-the-month change, seasonally adjusted, November 2015 – November 2017



Final Grades and Year Review
By
Dr. David M. Kohl

Year in Review

The fourth year of the economic reset in agriculture is drawing to a close. The fast and abrupt downturn of the 1980's proved a slow return to profitability, even with government programs. Yet, this economic downturn has a different nature. Termed by some as a "grinder," this reset is elongated by the global surplus of commodities, which suppressed prices. This combined with the elevated cost structure (variable and fixed) from the recent economic super cycle initially absorbed profits. Now, working capital reserves are being depleted, and refinancing requests have become commonplace for agricultural lenders and businesses. Others are pulling reserve from land equity to survive. However, in some areas, land values are declining; especially on land with marginal resources in fertility, water issues, or layouts not conducive for advanced technology use.

The agriculture industry has benefited from low interest rates which may be about to change. Of course, any move in interest rates will impact those with variable rate debt structure. This may be particularly challenging for those with longer-term loans that are up for renewal. Professional farm record data continues to show a widening gap of financial and economic performance in the agriculture industry. Among those businesses with the highest losses, many are larger operators that expanded quickly during to the supercycle and neglected management habits and systems adjustments to match the growth. For example, analysis of the farms in the FINBIN database with above $2 million in revenue shows an $800,000 difference between the businesses in the top one-third and the bottom one-third of profitability. When combined with declining land values, this trend is eroding equity quickly in many of the larger businesses.

Yet, even with the economic reset, there is still growth. Most of the astute managers that built working capital during the supercycle due to record profits now find themselves able to selectively choose grow opportunities. As their discipline in marketing, financial and business practices continue, they are maintaining profit and cash flows, even if at small levels.

The farm, agribusiness, and agricultural lending fields are all engaged in transition. Suppressed economic times, combined with red-hot equity markets are powerful forces for individuals to move onto the next chapter of life in retirement or another endeavor.

Final Grades

Because of current trends observed with today's farm businesses, I am giving agriculture a bifurcated grade.

Those operating their businesses in denial of economic realities earn a grade of D-.
To those managers still squeezing out a profit or even minimizing losses, I give a B.

Those managers that are proactively planning, executing and monitoring earn an A and a place on the honor roll.

Additionally, deliberations on NAFTA, crop insurance, and immigration will significantly impact the grades for 2018. If small and subtle changes are made to the current agreements, the economic outcome may be similar to levels for 2017. However, major changes in agreements with our trading partners north and south of the U.S. Border, along with the possibilities of limited immigration and reductions in crop insurance could produce outcomes difficult for even the best of managers to overcome. Nevertheless, the fate of agriculture's economic performance will continue to be dependent on geopolitical events, which requires managers to adapt to both micro and macro changes in the industry next year and beyond.