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An Economic Report Card for the U.S. Economy and Agriculture 2018 Final 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.

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U.S. Economic Performance Final Grade = A

As the year ends, it is time to assess the performance of the U.S. economy in 2018. The final grade report for last year declared that the 2017 overall economic performance was “one of the strongest economies in many years.” In many ways, the 2018 results surpass the performance of 2017. This final report card for 2018 will focus on the same criteria that were evaluated in 2017: 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 the 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 2018 was relatively strong at a 2.2 percent growth rate. The U.S. economy rarely grows at a constant pace from quarter to quarter. Normally, the first quarter of any given year has the lowest growth rate of the four quarters. For example, the illustration below shows the relative weakness of the first quarter compared to the other three quarters.

The second quarter growth rate was a number most Americans have not seen for many years, 4.2 percent. The third quarter (2nd of three estimates) was 3.5 percent. Please note that 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 one 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 2nd estimate of the 3rd quarter GDP growth was unchanged at 3.5 percent, "…the increase in real GDP was also 3.5 percent. With this second estimate for the third quarter, the general picture of economic growth remains the same; upward revisions to nonresidential fixed investment and private inventory investment were offset by downward revisions to personal consumption expenditures (PCE) and state and local government spending."

The Labor Market: Final Grade = A

The unemployment rate in January 2018 stood at 4.1 percent. As of this writing, the latest unemployment data released indicates the November 2018 rate was 3.7 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.

Job growth in 2018 was very strong. Average monthly new job creation has averaged 212,500 jobs for the first ten months of the year. The highest monthly job creation occurred in February when 324,000 new jobs were created. The lowest job creation month occurred in September with only 118,000 new jobs. However, it is believed that unusually severe weather in certain parts of the country in September may have contributed to that low number. The 2018 results compare very favorably to the 2017 results. In 2017, employment growth averaged 182,000 new jobs per month. To put these results in perspective, in 2016 the average monthly gain was 187,000 new jobs.

The chart shown below presents the unemployment rate over time. Note that the present unemployment rate is far below the levels experienced during the recession from 2007 to 2009.

U.S. Unemployment Rate 2008 - 2018

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2008	5.0	4.9	5.1	5.0	5.4	5.6	5.8	6.1	6.1	6.5	6.8	7.3
2009	7.8	8.3	8.7	9.0	9.4	9.5	9.5	9.6	9.8	10.0	9.9	9.9
2010	9.8	9.8	9.9	9.9	9.6	9.4	9.4	9.5	9.5	9.4	9.8	9.3
2011	9.1	9.0	9.0	9.1	9.0	9.1	9.0	9.0	9.0	8.8	8.6	8.5
2012	8.3	8.3	8.2	8.2	8.2	8.2	8.2	8.1	7.8	7.8	7.7	7.9
2013	8.0	7.7	7.5	7.6	7.5	7.5	7.3	7.2	7.2	7.2	6.9	6.7
2014	6.6	6.7	6.7	6.3	6.3	6.1	6.2	6.2	5.9	5.7	5.8	5.6
2015	5.7	5.5	5.5	5.4	5.5	5.3	5.2	5.1	5.0	5.0	5.0	5.0
2016	4.9	4.9	5.0	5.0	4.7	4.9	4.9	4.9	5.0	4.9	4.6	4.7
2017	4.8	4.7	4.5	4.4	4.3	4.3	4.3	4.4	4.2	4.1	4.1	4.1
2018	4.1	4.1	4.1	3.9	3.8	4.0	3.9	3.9	3.7	3.7	3.7	

State of the State of Agriculture
The Final Grade
Dr. David M. Kohl

The commodity price challenges continued in 2018 with increased uncertainty regarding trade agreements with leading U.S. trading partners such as Canada, Mexico, Brazil, China, and Europe. Higher interest rates have resulted in a stronger dollar, which has inhibited the ability to export U.S. agricultural products. Higher interest rates have also increased the overall cost of production for those that have borrowed funds on variable interest rates.

The slowing of the global economy, in countries such as China and Japan, has started to accelerate in 2018. Is this slower global economic growth the result of trade disruptions or the latter stages of the economic cycle? The bottom line is that these economies continue to provide stimulus through central bank actions. These monetary policy actions in other countries result in a stronger U.S. dollar, which again is detrimental to U.S. agriculture.

Many agriculture producers and economists are not expecting a large price rally in commodities, unless there is a major weather anomaly. There is an abundant supply of un-marketed grain in storage as a result of good crop conditions in many regions of the country. The prudent manager that has developed and executed a marketing plan based upon cost and production metrics has found small profit windows throughout 2018. While 2018 has been a year of storing commodities, in the coming year the quickness to cash of these inventories will be increasingly important. The ability to convert grain inventories and other resources into cash to meet cash flow demands, service debt, and cover expenses will dictate many grain producers' marketing plans.

Ample grain inventories should provide an advantage to the livestock sector by lowering feed and input costs. 2018 was a reasonable year for livestock, except for the dairy industry which is in the midst of a three-year economic depression. The lower feed and input costs have provided opportunities for positive margins for stronger managers in the livestock industry. However, 2018 was a period of growth, both in the hog and poultry sectors. Many dairy producers are breeding their less productive cows to beef bulls, which is creating more beef supply. Argentina is also expanding their beef herd. Together, these elements are creating a buildup of inventory on U.S. livestock farms known as the "Great Wall of Protein." As a result of the strong U.S. economy, beef consumption has increased for the first time in many years; however, one will need to closely observe whether this trend and the possibility of free trade will be able to absorb all the production increases.

Farmland values have remained steady despite low commodity prices and higher interest rates. With farm real estate comprising about 83 percent of the total U.S. farm balance sheet, this is a strong factor for keeping agriculture from experiencing a farm crisis similar to the 1980s.

Trends to watch:
One will need to maintain a close eye on third-party risk. Cooperatives, other closely held businesses, and agribusinesses are all facing financial stress as well. Many of these third-party businesses rely on the health of the agriculture economy for their revenue stream.

While farmland is a financial bridge through the economic reset, those that do not have corrective action plans moving forward might be taking their business to "the end of the pier." At the end of the pier, the water is deeper in terms of the business' ability to generate enough cash flow to service debt.

A diversion path is being observed in 2018. The larger commodity producers have focused on efficiency and capital management with solid production and marketing plans. The other producer group is involved with value-added agriculture and are aligning with the rapidly changing consumer base that are discovering premiums and profits. Sound marketing plans with strong working capital reserves are necessary for flexibility if one is involved in agriculture.

Thinner margins and higher volatility are the choice words of the economic environment. One group of producers sweat the small stuff and make incremental profits. The other group of producers are in the “refinance bucket” depending on land equity to carry them through the economic cycle.

Overall, the final grade for the agriculture industry ranges from a C- to D+ for the owner and manager with a low business IQ. However, I would rate the agriculture economy a B to B- for those that are adaptive, innovative, and have a high business IQ.

It has been a pleasure working with Dr. Ed on these columns over the years. He has been one of the top five educators that I have been blessed to have in my life. He makes economics come to life for the everyday practitioner.