An Economic Report Card for the U.S. Economy and Agriculture
2015 End of Year Report
By
Dr. Edmond J. Seifried and Dr. David M. Kohl

Joining forces once again, Dr. Seifried and Dr. Kohl provide insights on both the United States economy as well as that of general agriculture and rural America.

Grading the Macro Economy

As the year 2015 draws to a close, it is time for this vintage economics professor to review the entire year's economic performance and assign year-ending grades to a number of the economy's major sectors. Below I will review the economy's progress in lowering the unemployment rate, job creation, improving the overall health of the labor market. In addition, I will judge the performance of the economy to produce, goods and services for its citizens by grading our growth in the total output of goods and services, the GDP.

Unemployment and Job Growth Grade: B+

The unemployment rate in January of 2015 stood at 5.7 percent; however, the latest data release for November 2015 reports the rate to be 5.0 percent. This, by all accounts, is a significant reduction in joblessness. In fact, I suspect the rate is low enough to satisfy the stringent goal of the Federal Reserve's mandate to maximize employment.

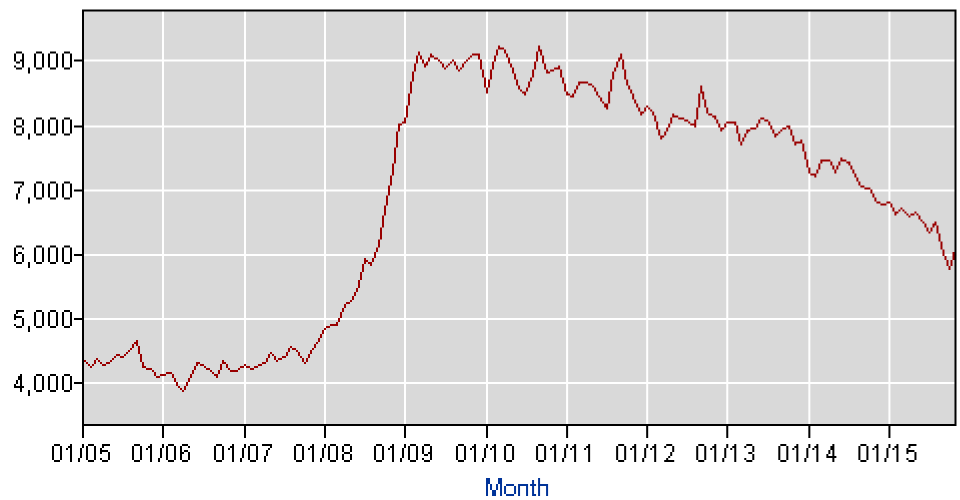
In her December 2015 report to Congress, Janet Yellen, Chair of the Federal Reserve remarked, "The U.S. economy has recovered substantially since the Great Recession. The unemployment rate, which peaked at 10 percent in October 2009, declined to 5 percent in October of this year. At that level, the unemployment rate is near the median of FOMC participants' most recent estimates of its longer-run normal level."

The record on job growth is also quite good. Total non-farm payroll employment rose by 211,000 jobs in November of 2015. This growth in new jobs is very close to the average monthly gain of 237,000 over the prior 12 months. Plus, the job growth throughout the year was widespread with gains in construction, professional, and health care sectors.

Why not give this sector the highest grade? I believe the "A" grade would be a case of grade inflation, because the labor market still suffers from a number of deficiencies. For example, the labor force participation rate was 66.3 percent in November 2006, a year before the 2007-09 Great Recession began, and it has steadily declined to a rate of 62.5 percent in November of 2015.

Another problem area in the labor market deals with the biased nature of the official unemployment rate. In the calculation of the official unemployment rate, part-time workers are given equal status with full-time workers, even if some of the part time workers are working reduced hours for economic reasons. The graph below captures the economy's failure to produce sufficient, full time jobs.

Number of Part time Workers due to Economic Conditions



Source: Bureau of Labor Statistics

Gross Domestic Product (GDP) Grade: C

The most important macroeconomic indicator, Real Gross Domestic Product, is defined 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 price changes. The GDP is reported every three months. These quarterly releases measure the change in production over three months, and are annualized to show the growth in output compared to the previous three months. The quarterly growth rates for the first three quarters of 2015 are +0.6 percent, 3.9 percent, and 2.1 percent respectively. These growth rates are by and large, very average, except for the second quarter's 3.9 percent growth. The graph below shows the GDP for the last few years. It looks as if the results for 2015 fit the pattern for the 2011-14 GDP performance. This period was characterized by relatively low growth rates and uneven growth. As the chart indicates, the U.S. economy is having difficulty stringing together a series of strong quarters. It appears as if any run of strong economic growth does not last very long, and quickly fades. This professor is confident a grade of "C" is fair and just.

Source: Bureau of Economic Analysis

2015 Year End Global Agricultural Economic Report Card

State of the State of Agriculture and Rural Areas

What a difference 12 months makes! The great commodity super cycle is most definitely over and gone. Record profits first materialized in the grain sector and then, in the livestock sector from 2007 to 2014. Profits in both sectors are now in steep decline.

University of Minnesota's FINBIN data includes approximately 4,000 grain farms in eight states. Examination of this data illustrates the dramatic decline. The median net farm income from 2007 to 2012 was approximately $170,000. In 2013 and 2014, these numbers dropped to approximately $35,000 with similar results expected for 2015. The grain industry is now in a classic economic reset with an uncertain duration. Strategically, one must examine the economic health of emerging nations with close attention to China, the second largest economy in the world. Currently, nearly half of the BRICS and KIMT nations (Brazil, Russia, India, China, and South Africa, South Korea, Indonesia, Mexico and Turkey) are in recession. This in turn slows the demand for food, fiber, and fuel which is important to agricultural economies and rural communities in the United States.

Second, duration of the strength of the dollar must be monitored, particularly, as it impacts other global currencies. The strong dollar inhibits agricultural exports, as well as the manufacturing and energy sectors. Central banking policy in other sectors of the world such as, Europe, Japan and China, will act as a headwind or tailwind to middle America or what is often called, the flyover states. The specific impact is yet to be determined.

The biggest risks to both the grain and livestock sectors will be geopolitical, military and trade risks. Sanctions and counter sanctions by major economic players can cause extreme volatility in agricultural profits. Scenario tested planning will be crucial for sustainability.

The livestock sector now faces a period of economic reset as well. After three years of stellar profits, prices are correcting. Starting in the dairy and pork sectors, the price correction now extends into the beef industry. Producers must reduce expenses, increase efficiency and place special emphasis on marketing and risk management programs. If the United States economy moves toward recession, sectors such as, beef, dairy and others tied to the general economy, could be dramatically impacted to the downside.

As a result of the reset period, new equipment sales have declined up to 30 percent along with the value and availability of used farm equipment. Difficult decisions and negotiations will be required in farmland leases and rents in order to turn negative profits and cash flow around***.***

Overall, the state of agriculture and rural sectors currently rate a C grade.