AgCountry Farm Credit Services
Q3 2021 ECONOMIC REVIEW
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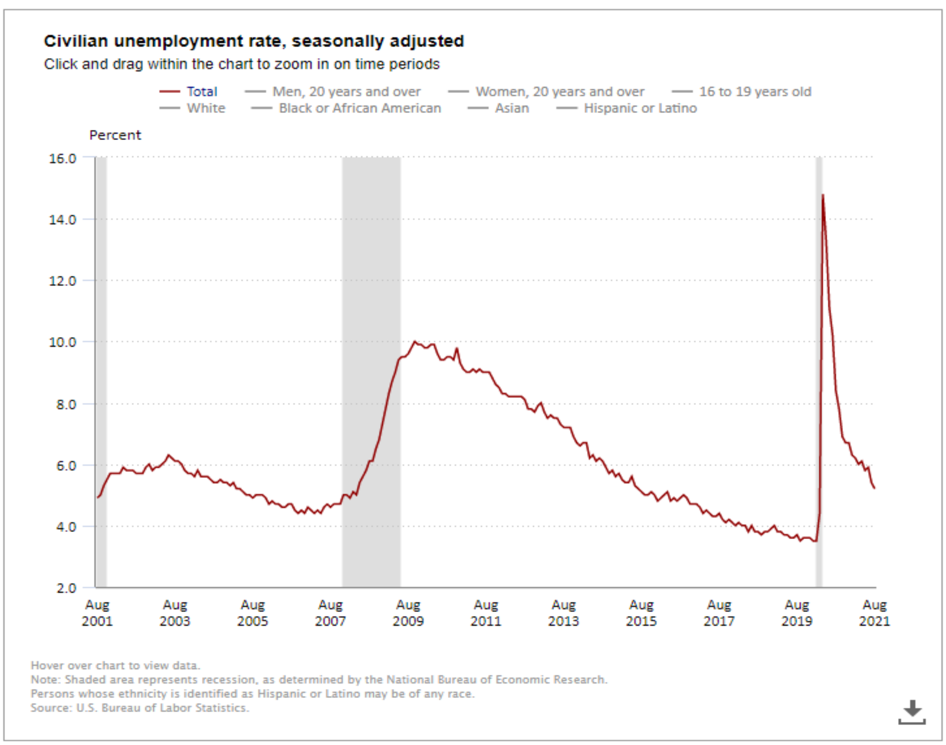
The nation's economic condition continued to improve during the third quarter of 2021, attributable to fiscal stimulus as well as normalizing of economic activity. The COVID-19 pandemic and subsequent impacts on the workforce, trade, and fiscal and monetary policy continue to drive the direction of the economy. As of October 4th, 2021, the Centers for Disease Control and Prevention (CDC) reports 43.5 million COVID-19 cases and 723,955 deaths in the United States. Per the CDC, the number of administered vaccines has increased throughout 2021 with 64.8% of the U.S. population having at least one dose and 55.9% fully vaccinated. The virus continues to be a global issue due to lower vaccination rates in the developing world.

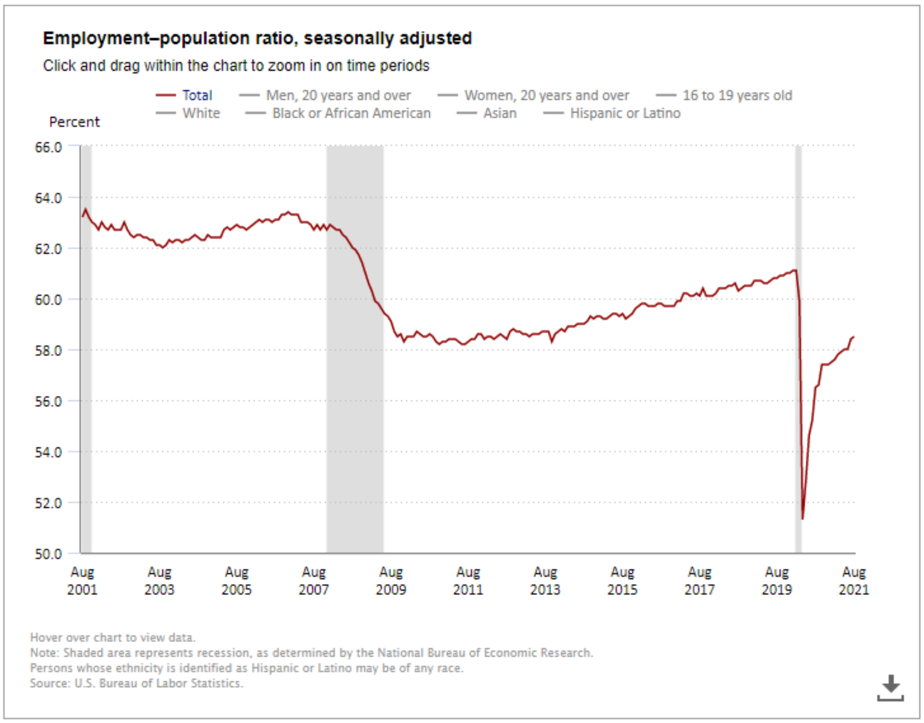
EMPLOYMENT:

Total nonfarm employment rose by 235,000 in August, and the unemployment rate declined to 5.2%. Monthly job growth has averaged 586,000 during the first eight months of 2021. Members of the Federal Open Market Committee have suggested that the U.S. labor market would return to a 3.5% unemployment rate by the end of 2023. Moody's Analytics forecasts the unemployment rate to average 4.5% by the fourth quarter of 2021 and 3.6% in 2022. A 3.5% unemployment rate and an 80% employment-to-population ratio are consistent with an economy at full employment.



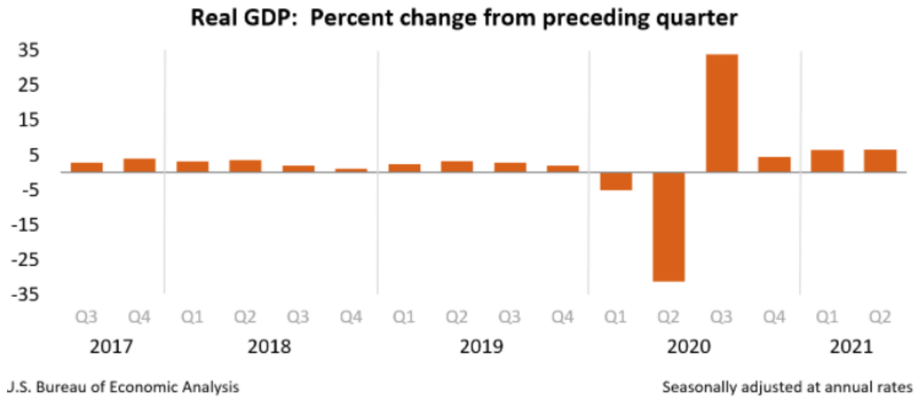
As of the end of August, employment remains over 5 million below pre-COVID levels and nearly 8.5 million below where it would have been in the absence of COVID. Approximately one-third of the gap to pre-COVID employment levels is concentrated in the frontline leisure and hospitality sector.

While the headline unemployment rate declined to 5.2% in August, the unemployment rate adjusted for COVID-related nonparticipation remained elevated at 7.5%. The chart below demonstrates the impact of the pandemic on the total number of employed as a ratio to the population, highlighting that employment still has not reached pre-pandemic levels.



GROSS DOMESTIC PRODUCT:

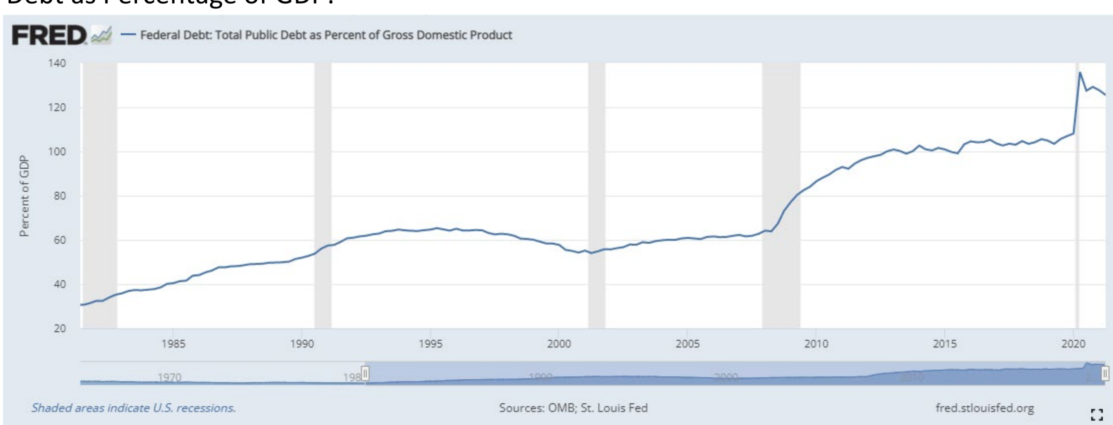
In 2020, the U.S. Gross Domestic Product (GDP) rebounded sharply in the third quarter and grew modestly in the fourth quarter. In their September update Moody's Analytics lowered their 2021 GDP forecast to 6%, which is slightly lower than their August baseline of 6.3% and slightly under the Bloomberg consensus of 6.1%. Moody's expects GDP growth of 4.3% in 2022, which is identical to the Bloomberg consensus. The chart below displays the trend in quarterly GDP growth. GDP increased at an annual rate of 6.6% in the second quarter of 2021.



<u>**FISCAL POLICY:**</u>

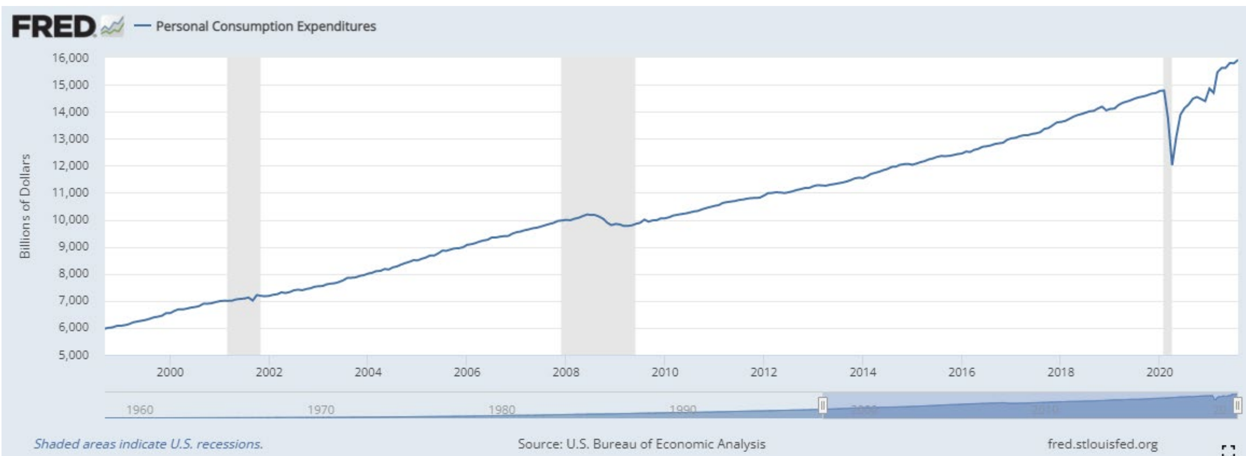
Fiscal support since the beginning of the pandemic will ultimately total more than $5 trillion, equivalent to nearly 25% of 2019 GDP and approximately three times the support provided during the global financial crisis. The highly expansionary, deficit-financed discretionary fiscal policy will continue to provide a boost to the economy this year. The American Rescue Plan, which became law in March 2021, combined with the COVID-19 relief fiscal package, will add nearly $1.9 trillion in fiscal support to the economy in 2021 and an additional $800 billion in 2022. The federal government will have a deficit of well over $3 trillion this fiscal year, and more than $2 trillion next year. Moody's Analytics expects that President Biden and Congress will pass another fiscal package this fall. The package, which is expected to include approximately $2.5 trillion in new spending on infrastructure, social programs, and various tax law changes, will add several hundred billion dollars to the deficit over the next decade. The publicly traded debt-to-GDP ratio has surged and recently breached the all-time high set briefly after World War II.

Total Debt as Percentage of GDP:



INFLATION:

Consumer prices are expected to increase this year due to the fiscal stimulus resulting in higher personal spending. The Federal Reserve is watching inflation closely, and in a September 27, 2021 speech entitled *Navigating Delta Headwinds on the Path to a Full Recovery*, Federal Reserve Governor Lael Brainerd recognized that inflation is elevated due to COVID-related disruptions. In the speech Governor Brainerd notes continued monitoring of incoming data for indications of inflation pressures. The twenty-four-month core personal consumption expenditures (PCE) inflation is estimated to have been 2.5% in August, above the 2% target, but well below the 12-month measure. Moody's Analytics forecasts the PCE to increase 3.9% in 2021, which is an upward revision from 3.5% in their previously issued estimate. Moody's looks for inflation to moderate in 2022, with the core PCE up 2.2% over 2021.



FOMC September 22, 2021 Statement:

"The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. With inflation having run persistently below this longer-run goal, the Committee will aim to achieve inflation moderately above 2 percent for some time so that inflation averages 2 percent over time and longer-term inflation expectations remain well anchored at 2 percent. The Committee expects to maintain an accommodative stance of monetary policy until these outcomes are achieved."

MONETARY POLICY:

The Federal Reserve continues to maintain highly accommodative monetary policy. Short-term rates remain firmly at the zero-lower bound, and the Fed remains engaged in quantitative easing to keep long-term interest rates down. As the economy improves, economic forecast firms are making predictions about when the Federal Reserve will move off of a zero-lower bound. Moody's expects the Federal Reserve to keep the target range for the fed funds rate at 0% to 0.25% until early 2023. Moody's also expects the Federal Reserve to taper its $120 billion in monthly asset purchases in December of 2021.

FOMC September 22, 2021 Statement:

"The Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time."

U.S. 10 Year Treasury Yield:

- The closely watched 10 year treasury yield has declined slightly from the large increases made in the 4th quarter of 2020. The 10 year serves as a barometer for the economy and is watched by investors.

CONCLUSION:

As the economy continues to rebound from the disruptions caused by the COVID-19 pandemic, full recovery will continue to hinge upon controlling the impact of the virus and minimizing related economic impacts. The government's fiscal and monetary response has supported the rebound of the economy to date. As growth continues to return and the inflation rises the question is: when will fiscal support be withdrawn, and how will the Federal Reserve Governors satisfy their dual mandate?

SOURCES:

1. Moody's Analytics September 2021 US Macroeconomic Outlook
2. https://covid.cdc.gov/covid-data-tracker/#cases_totalcases
3. https://covid.cdc.gov/covid-data-tracker/#vaccinations_vacc-total-admin-rate-total
4. https://www.bls.gov/news.release/empsit.nr0.htm
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