Inside Look at Policies and Politics
Driving Ag’s Future:
Trump takes on world, Democrats

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Trump unleashed and Trump tweets: OMG times 4
How long will Washington be dysfunctional?
U.S. trade policy: Key market and Washington focus
Trump trade aid package #2 and disaster aid package
Outlook for ag sector
Congressional retirements big loss for ag
2020 elections
Growing deficits and debt now but deal with it later
TRUMP TWEETS
TRUMP: THE DISRUPTER
Farm Sector Continues to Reduce Working Capital on the Balance Sheet

Working Capital

Working Capital to gross revenue

Farm Sector Continues to Reduce Working Capital on the Balance Sheet
Debt to Income Ratio is Increasing With Debt Service Burden Higher

Ratio of debt to net farm income
Share of production value to service debt

Debt to income ratio
Debt service ratio

Debt to Income Ratio is Increasing With Debt Service Burden Higher
Interest Rate and Economic Environment
Dramatically Different in 1980s

Percent

Very different Environments

Federal Funds rate

10-year Treasury

Recessions

72 74 76 78 80 82 84 86 88 90 92 94 96 98 00 02 04 06 08 10 12 14 16 18
2019 Pivotal Year for Farm Sector Transitioning From Record High Experience

From 2010 to 2015 net cash income averaged nearly 70% higher than the average for the previous decade. Income is now 31% below the record high peak in 2013.

* Source: USDA
Ag Markets & Ag Sector

- Aug. 12 Crop Production and WASDE reports
- Prevent plant
- Weather ahead... but where would prices be if no wx market?
- Commodity Outlook
  - Sugar | Corn | Soybeans | Wheat | Hogs | Cattle | Dairy
- ASF impacts on pork, protein and reduced soybean/meal needs
- RFS and ethanol/biodiesel waivers ... RIN reform
- Farmland prices
Farmland Keys Going Forward

- Has been a “manageable” correction
- Expect stabilizing values, assuming current trends
- Corn, soybean prices stabilize
- Correction accelerates, extends if…
  - Incomes fall further than expected
  - Interest rates spike unexpectedly
Issues Galore for Congress… White House
At least until Trump is no longer president, likely longer
Elections: When one party is a true minority
Next crisis: But even then?
Lengthy time to get disaster aid: Proof Congress isn’t working
House Dems/Senate GOP will go solo in passing 2020 focus bills
Will House Dems impeach Trump?
Will Congress do anything major this year?
What will Dems’ agenda be if they capture Senate and White House and keep control of the House?
What will GOP & Trump do if they win White House and Congress?
Will Trump have opportunity to appoint Supreme Court justice before his term expires? If re-elected, how many Justices might he name?
Key Congressional Issues

- 2018 Farm Bill implementation
- Disaster aid bill details coming
- WOTUS Rule
- Crop Insurance
- Transportation
- Immigration
Trade Policy

Trump and Navarro take on historical strategy

- USMCA odds improving
- Section 232 tariffs removed
- Auto tariffs delayed
- U.S./EU
- U.S./Japan
- U.S./China
TRUMP LOVES TARIFFS

In a Year, U.S. Tariffs Surge Far Past Advanced Economies

Applied tariff rates on all products by country

- Brazil: 8.6%
- United States*: 7.5%
- India: 5.8%
- Saudi Arabia: 4.9%
- China: 3.8%
- Russia: 3.6%
- Turkey: 3.5%
- Japan: 2.5%
- Italy: 1.8%
- UK: 1.8%
- Germany: 1.8%
- France: 1.8%
- Canada: 1.5%

* The 7.5 percent rate takes into account an additional 25 percent tariffs on $325 billion in Chinese goods proposed by President Trump in a tweet on May 5th.

Source: Deutsche Bank
TRADE POLICY: Some things are changing

*Metal tariffs lifted, but…*

- **Metal tariffs**: Agreements announced w/Canada & Mexico, but quickly threatened new tariffs on Mexico, then held off
TRADE POLICY: Crunch time ahead

If auto tariffs official announced, big impacts

• **Auto tariffs?** Six-month delay on decision
## IMPACT OF AUTO TARIFFS

### Who Would Be Hit Hardest by U.S. Car Tariffs?

New passenger car/light vehicle imports to the United States in 2018:

<table>
<thead>
<tr>
<th>Country</th>
<th>Import Value (billion USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico</td>
<td>$42.8b</td>
</tr>
<tr>
<td>Japan</td>
<td>$32.7b</td>
</tr>
<tr>
<td>Canada</td>
<td>$32.0b</td>
</tr>
<tr>
<td>Germany</td>
<td>$14.7b</td>
</tr>
<tr>
<td>Korea</td>
<td>$11.0b</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>$7.7b</td>
</tr>
<tr>
<td>Italy</td>
<td>$3.7b</td>
</tr>
<tr>
<td>Slovakia</td>
<td>$2.1b</td>
</tr>
<tr>
<td>Sweden</td>
<td>$1.7b</td>
</tr>
<tr>
<td>Finland</td>
<td>$1.5b</td>
</tr>
<tr>
<td>Rest of the world</td>
<td>$6.4b</td>
</tr>
</tbody>
</table>

*U.S. light vehicle trade in 2018*

- **Imports**: $156.3b
- **Exports**: $45.5b

*January through October*  
Source: U.S. Department of Commerce
Trade Policy: Rising odds for USMCA

Vote on USMCA up to House Dem leader

- **USMCA**: Pelosi is key on vote outcome, timing
- **Vote**: October or November… this year
USMCA/NAFTA 2.0

- Will USMCA be ratified this year? If not, why?
- What does USMCA do for ag?
- What does USMCA do for other sectors & labor?
- If USMCA is not ratified, will U.S. exit from NAFTA?
- If U.S. withdraws, what would be impact on U.S. ag?
- What do the Dems demand for their USMCA support?
TRADE POLICY: China a long and winding road

**Thorny issues remain**

- **China**: Shanghai train wreck… More talks ahead
- **Trump threatens more tariffs** on $300 bil. China products
- **China reaction**
- **Is trade war the status quo… the new normal?**
- **Any Trump linkage to 2020 elections and Fed Reserve?**
U.S./CHINA TRADE TALK ISSUES

- **Lighthizer, Mnuchin**: Key players, but Trump is final say
- **Timeline**: If there is an agreement, later rather than sooner
- **Draft document**: 150 pages; executive agreement
- **Tariffs**: China wants all lifted, but…
- **Enforcement**: ‘Court of appeal’ | Both sides want
- **Currency language**: Template for future agreements
- **Intellectual Property**: Depends on enforcement
- **Commodity, energy purchases**: How much & over what time period? And when?
- **Long-term impacts** of the U.S./China war
China Policy Questions

- Is China finding other markets?
- How much of market decline is due to U.S./China war?
- If trade resumes, how long to recover market shares?
- Biggest sticking points in a U.S./Sino accord?
### MFP 1

#### 2018 effort

- Around $8.5 billion paid out of $9.6 billion projected
- Commodity purchases still underway, to total $1.2 billion
- Market promotion total $200 million
**MFP 2**

*Details finally released*

- Based on 2019 planted area
- Expanded eligible commodities
- Payments on county basis, varies by county  
  $15 minimum… $150 maximum
- $14.5 billion in farmer payments
- More commodity purchases, trade promotion
  Second tranche Nov. | Third tranche Jan.
Election Questions

- Who will be Democratic candidate for president?
- Who will win White House in 2020?
- What states are key and which way do they lean?
- Which party will...
  - Win the House... by what margin?
  - Win the Senate... by what margin and key races?
• Six states to decide presidency in 2020
• Trump has a foil: Dems pushing ‘Democratic Socialism’
• Voting numbers present hurdle for GOP?
• Who will Dems pick for presidential candidate?
2020 ELECTIONS: Senate

• **GOP Senate more cushion** but more seats up in 2020
  GOP: 22 seats to defend; Dems 12
  GOP: Just 2 in states Hillary won… Colo. & Maine

• Dems need net gain of 4 if GOP wins WH; 3 if Dems win

• Dems need to win 5 states that supported Trump
  Ariz. | Ga. | Iowa | N.C. | Texas
  Will lose Ala. where Doug Jones won special election LY
• Wasserman predicts Dems to hold, but still early
  — Dems must defend 31 House districts Trump won 2016…
    22 with freshman reps
  — 3 Republicans in districts carried by Hillary Clinton
  — GOP needs net gain of 18 seats
  — GOP in Nov. won 23 House districts by 5 points or less
  — GOP House retirement announcements accelerating
2020 ELECTIONS: House

• History *suggests* Dem will keep control of House
  — House majority hasn't flipped twice in a row since 1954
  — Hasn't flipped during presidential cycle since 1952
  — Wasserman: "Tough to see Republicans winning House back unless President Trump's approval rating is significantly higher come 2020."
Regardless of Which Party is in Control
There is a Budget Challenge

Deficit in billion dollars

Reagan  G. H. Bush  Clinton  G.W. Bush  Obama  Trump

Debt ceiling is $22 trillion. Treasury taking measures to ensure ceiling is not exceeded before action is taken.
Assumes sequestration takes effect in October 2019 and personal tax cuts expire 2025.

Source: Congressional Budget Office (January 2019), BEA and Treasury Department
Social Security, Medicare, Medicaid and Net Interest Consuming Budget

**FY 2018**

- Medicare / Medicaid: 27%
- Social Security: 24%
- Defense: 15%
- Discretionary and other mandatory: 26%
- Net Interest: 8%

58% of Spending

**FY 2028**

- Medicare / Medicaid: 32%
- Social Security: 26%
- Defense: 13%
- Net Interest: 19%
- Discretionary and other mandatory: 11%

70% of Spending

Data source: CBO January 2019
National Debt Increases by Over $10 Trillion over Next Decade With Current Policies

Debt held by public in dollars

Debt ceiling is $22 trillion until Congress takes action

Data source: CBO January 2019
“Budget Deal is phenomenal for our Great Military, our Vets, and Jobs, Jobs, Jobs! Two-year deal gets us past the Election. Go for it Republicans, there is always plenty of time to CUT!”
Jim Wiesemeyer
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