Volatility to Continue
Jim Wiesemeyer
Senior VP, Farm & Trade Policy
Informa Economics
Economy

- European crisis: Progress, but...
- China and India: Slower growth
- U.S.: Markets think economy needs help
Protein and dairy sectors must take a cautious approach. Weak U.S. and global economy combined with continued low grain inventories make impacts of black swan events severe.

**Lame-Duck Session Issues**

- Farm bill?
- Debt ceiling hike?
- Alternative to sequestration/ATB cuts
- Tax extenders
- Taxes
  - 2001 and 2003 tax cuts
  - Payroll tax holiday
  - Estate tax
  - AMT fix
  - Doc fix
**Fiscal Cliff Would Remove $528 Billion from U.S. Economy in Fiscal 2013**

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost (billion dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expiration of: certain income tax cuts, reduced rates for estate and gift tax provisions, and the indexing of the AMT for inflation.</td>
<td>$221</td>
</tr>
<tr>
<td>Expiration of the payroll tax holiday.</td>
<td>$95</td>
</tr>
<tr>
<td>Defense cuts mandated by sequester</td>
<td>$55</td>
</tr>
<tr>
<td>Non-defense spending cuts mandated by sequester</td>
<td>$55</td>
</tr>
<tr>
<td>Expiration of emergency unemployment insurance benefits.</td>
<td>$26</td>
</tr>
<tr>
<td>Doc fix</td>
<td>$11</td>
</tr>
<tr>
<td>Expiring tax extenders</td>
<td>$65</td>
</tr>
</tbody>
</table>

$528 billion = 3.3% of U.S. economy in 2013

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**Weather and Policy**

- **White House**: Vilsack briefs Obama, Cabinet

- **Congress**: Livestock disaster programs, but blame it on 2008 Farm Bill...

- **Farm Bill**: Obama, Dems use drought to urge House farm bill vote, but House GOP balks

- **Food price impact**: Delayed, but...
Weather Impacts

- **Food prices**: Higher ahead
  - 2012: 2.5% to 3.5% increase
  - 2013: 3% to 4% rise
  - Food prices in 2007 rose 4.0% from 2006
  - Food prices in 2008 rose 5.5% from 2007
    - But focus in 2007 and 2008 was more on world prices, especially wheat, rice and vegoil

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Weather Impacts

- **Crop insurance**: Huge payouts ahead
  - $10.8 billion for 2011 crops
  - $1.4 billion for 2012 and rising...

- **Energy policy**: RFS mandate | Biodiesel
Futures Regulation

- MF Global: Was not the only one...
- PFGBest/Peregrine: “It was easy”
- CFTC: Gensler admits faults; 2013 CEA gets reauthorized
- NFA: Self policing under focus – push for direct access to funds to ensure customer accounts are segregated

Farm Bill

- Senate passes: Vote of 64-35
- House Ag passes: Vote of 35-11
- Now what? House GOP leaders cautious
- Timing: Lame-duck session best chance
- Biggest issue – Food Stamp funding cuts
  - Senate: $4 billion
  - House: $16.1 billion
Farm Groups’ Focus

Focus: Revenue assurance, SCO, crop insurance, food stamps, target prices

Key: Move from base to planted acres

Direct payments: Eliminated

Pay cap changes won by Sen. Grassley
- AGI at $750,000 in Senate; House at $950,000
- Pay cap $50,000 Senate; House $125,000
- Actively engaged definition change in Senate, not House

Dairy: Supply management
CBO Scores Senate Bill

Estimated total spending: $970 billion over 10 years

Trade Policy

- U.S. and Russia’s WTO accession
- TPP
Policy Errors

- Export bans main “policy error” used
- Shrinking supplies, food security, inflation main catalysts for export restrictions
- They distort markets --
  - Short run: Increase domestic supplies, lower prices
  - Long run: Negative impact on domestic production
- Used in 2008, 2010/11. Will they be again?
- Also negatively impact foreign investment due to unpredictable gov’t policies

Elections:
The Factors That Matter Most

Watch with a Critical Eye – Not Every Campaign Twist and Turn Is Important
But… The LIKEABILITY Factor…

Which Is It?:
- Retrospective referendum?
  - (or)
- Prospective choice?

Economic Trajectory:
- Historical growth rate
- Future economic expectations

Swing-State Analysis:
- Swing-state economic fortunes
- Swing-state demographics

U.S. Elections: President

Key states... Obama immigration change key
- Nevada (Hispanics 17% of voters)
- Iowa
- Ohio
- Virginia
- Colorado (Hispanics 13% of voters)
- New Hampshire
- North Carolina
- Wisconsin
- Florida (Hispanics 19% of voters)

U.S. Elections: President

Biggest of battleground states – ‘Big 6’
- Big Three: Romney must win Fla. | Ohio | Va.
- Obama can win with one victory in Fla., Ohio or Va., and one of the other three
- Caveat: Major economic or other surprise ... such as Romney possibly taking Wisconsin
Mitt Romney’s Image Problem

Mitt Romney Favorable Rating

Pollster Estimate
- Unfavorable: 45.0%
- Favorable: 40.0%
- Undecided
- Neutral
- Not Heard Enough
- Refused

Source: HuffPollster

Voter Enthusiasm Vs. 2008

<table>
<thead>
<tr>
<th>Demographic</th>
<th>Current Obama%</th>
<th>2008 Likelihood to Vote</th>
<th>2012 Likelihood to Vote</th>
<th>Net Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-29 Year Olds</td>
<td>60%</td>
<td>78%</td>
<td>60%</td>
<td>-18%</td>
</tr>
<tr>
<td>Over 65 Years</td>
<td>41%</td>
<td>83%</td>
<td>84%</td>
<td>+1%</td>
</tr>
<tr>
<td>Democrats</td>
<td>90%</td>
<td>85%</td>
<td>82%</td>
<td>-3%</td>
</tr>
<tr>
<td>Republicans</td>
<td>6%</td>
<td>83%</td>
<td>87%</td>
<td>+4%</td>
</tr>
<tr>
<td>Whites</td>
<td>38%</td>
<td>87%</td>
<td>82%</td>
<td>-5%</td>
</tr>
<tr>
<td>African-Americans</td>
<td>89%</td>
<td>87%</td>
<td>79%</td>
<td>-8%</td>
</tr>
<tr>
<td>Hispanics/Latinos</td>
<td>59%</td>
<td>77%</td>
<td>68%</td>
<td>-9%</td>
</tr>
</tbody>
</table>

Source: Gallup
## The “Disaffected” Undecideds

<table>
<thead>
<tr>
<th>Candidate Image</th>
<th>All Voters</th>
<th>Undecided Voters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barack Obama</td>
<td>48% Positive, 40% Negative</td>
<td>27% Positive, 49% Negative</td>
</tr>
<tr>
<td>Mitt Romney</td>
<td>40% Positive, 45% Negative</td>
<td>9% Positive, 49% Negative</td>
</tr>
<tr>
<td>Ron Paul</td>
<td>26% Positive, 32% Negative</td>
<td>34% Positive, 26% Negative</td>
</tr>
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## Bottom Line: Who Will Win?

*Predictions*

<table>
<thead>
<tr>
<th>President Obama Wins Re-Election</th>
<th>Republicans Retain Control of the House</th>
<th>Senate in 50/50 Split??</th>
</tr>
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<tbody>
<tr>
<td>55%, but...</td>
<td>75%</td>
<td>???</td>
</tr>
<tr>
<td><strong>Presidential election key</strong></td>
<td></td>
<td></td>
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After the Elections

- **Economy:** Growth ahead
- **Dealing with Congress:** Obama – Romney
- **Cabinet changes**
- **Longer-term issues**
  - Supreme Court
  - Federal Reserve

A Look Ahead

**GLOBAL MIDDLE CLASS**

- Middle-class spending worldwide (trillions of dollars)
- 2010: $4.8, $5.5, $1.1, $1.5, $8.0
- 2030: $32.6, $11.3, $5.8, $3.2

Sources: OECD, Kiplinger