

The Agriculture Letter

Insight and Analysis for Agribusiness Leaders

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Dear Client:

Washington, Nov. 19, 2021

Inflation is surging with lots of impacts...
Inflation at 6.2% is highest in 30 years.
Big price boosts for many products...
Could impact what Fed does on policy...
Political implications, too, as Biden can't do much.

INFLATION

Name the product and it's gone up in price... as the box at the right shows. "Everything from a gallon of gas to a loaf of bread costs more, and it's worrisome," President Joe Biden said. He said his infrastructure bill would help ease supply-chain issues... but that will take time.

The U.S. economy's challenge isn't a lack of jobs but shortages, inflation and daily disruptions wrought by Covid-19. Biden's agenda wasn't designed to address that sort of problem, and in some ways may have made it worse, writes chief *WSJ* economics commentator Greg Ip.

Federal Reserve gets some advice. Glenn Hubbard, the former top economic adviser to President George W. Bush, thinks the Fed risks losing control of inflation if it doesn't pivot soon. "It doesn't add up," Hubbard told *CNN Business*. "You don't have to pour gasoline on a fire." Jason Furman, a Harvard economist who advised President Barack Obama, also believes the duty to act lies with the Fed. "The Fed is charged with a dual mandate of maximum employment and price stability. They should be processing the monthly data on jobs, prices, and figuring out whether or not to adjust accordingly," he tweeted. "Fiscal policy has bigger issues to worry about, like our long-term future."

Not whether Fed will raise rates next year but how much and how quickly. Senior central bank leaders now say tempering inflation may take longer than they expected earlier this year, extending into 2022. That is in part because the spread of the Delta variant of Covid has extended a series of disruptions in the economy. This means the Fed is more likely to raise interest rates next year, possibly as soon as next summer.

"The Fed will be accelerating its tapering of asset purchases when it meets next in December," says analyst Diane Swonk. "They will want some cushion to raise rates sooner & faster in 2022 to deal with the inflation we are seeing. Inflation is not expected to crest until spring 2022 and could get worse."

Impacts on ag and food sector:

Input costs are higher...some a lot higher like fertilizer.

Inflation usually gives further boosts to land prices.

Surging meat prices are cutting into demand as producers buy "cheaper" products like chicken and pork.

Food costs continue to rise, with fewer people eating out.

CONSUMER PAIN INDEX

Prices for furniture and bedding costs had their biggest jump since 1951.

Prices for new cars and trucks had their biggest jump ever. Price increases for some other products:

Item	Price rise
Gas	+49.6%
Fuel oil	+59.1%
Utility natural gas	+28.1%
Beef prices	+20.1%
Pork prices	+14.1%
Bacon	+15.4%
Chicken	+8.8%
Eggs`	+11.6%
Milk	+4.3%
Apples	+6.7%
Coffee	+4.7%
Peanut butter	+6%
Baby food	+7.9%

Source: Dept. of Labor

TAXES

IRS: Tax brackets will be higher in 2022 due to faster inflation. The Internal Revenue Service recently announced new inflation adjustments for tax year 2022, for which taxpayers will file tax returns in early 2023.

Inflation is main reason for changes. Due to increases in consumer prices, all of the tax bracket thresholds and other key tax-code parameters are rising faster than usual. This would be the largest increase in four years. Congress reset the brackets and changed the tax code's inflation formulas in 2017. The brackets apply to taxable income, or income after deductions. Democrats are still considering surtaxes that would apply only on adjusted gross income above \$10 million.

Standard deduction for married couples will be \$25,900, up from \$25,100. The maximum amount that can be set aside in a healthcare flexible spending account will be \$2,850, up from \$2,750.

2022 TAX BRACKETS		
2022 tax rate	Single filers	Married filing jointly
10%	\$0 to \$10,275	\$0 to \$20,550
12%	\$10,276 to \$41,775	\$20,550 to \$83,550
22%	\$41,776 to \$89,075	\$83,550 to \$178,150
24%	\$89,076 to \$170,050	\$178,150 to \$340,100
32%	\$170,051 to \$215,950	\$340,100 to \$431,900
35%	\$215,951 to \$539,900	\$431,900 to \$647,850
37%	over \$539,900	over \$647,850

Exclusion from estate and gift taxes will be \$12.06 million per person, up from \$11.7 million. Democrats had discussed cutting that exclusion to about \$6 million but have since dropped that provision from their legislation.

Annual exclusion for gifts will be \$16,000, up from \$15,000... the amount each person can give another person without using up any of the lifetime exclusion from estate and gift taxes.

Some numbers in the tax code aren't automatically tied to inflation and won't adjust unless Congress changes them. Those include the \$3,000 deduction for capital losses against ordinary income, the \$2,000 base level for the child tax credit and the \$10,000 cap on the state and local tax deduction.

BEYOND MEAT

Beyond Meat's shares plunged after the plant-based meat company reported lower-than-expected earnings. In the most recent quarter, Beyond Meat posted sales growth of 12.7%, ending the three months with \$106.4 mil. in net revenues, but the company missed its earlier stated target of \$120 mil. to \$140 mil., which it had warned about three weeks ago.

CEO Ethan Brown noted the challenges the company faced in the previous quarter. Labor shortages, supply-chain disruptions and changes in expected consumer behavior due to the Delta variant of Covid impacted domestic growth, he said. But Brown also touted milestones in international expansions... especially in the European Union and China... and new innovations as highlights of the quarter.

Plant-based meat was previously a category that only saw growth, but the last quarter has shown slowdowns for several top brands owned by publicly traded companies.

PORK PLANTS

USDA to test faster pork line speeds. USDA will allow nine U.S. pork plants to apply to operate faster processing-line speeds under a one-year trial program. Plants will implement worker safety measures under agreements with labor unions or worker safety committees. Data collected will be shared with OSHA and could be used to make future rules for the industry. In March, a federal judge struck down a Trump-era rule that removed line speed limits.

Shifting chairs at the Federal Reserve with the resignation of Fed Governor Randal Quarles. For terms as governors, there is one vacancy right now on the board for the term ending Jan. 31, 2024. At the end of December 2021, there will be another opening for the term ending Jan. 31, 2032, when Quarles departs. Many fully anticipate a third vacancy when Vice Chair Richard Clarida's term ends on Jan. 31, 2022.

Fed Chair Jerome Powell's term ends Feb. 4, 2022. His term as governor runs through Jan. 31, 2028, but he likely wouldn't stay on if not renominated as chair. That decision will be made soon... no later than early next year. There's speculation that if Lael Brainard is not offered the position of chair, she might leave the Fed. She is also in the running for vice chair or vice chair of supervision.

President Biden could place as few as three, or as many as five Fed governors in the near term. The only remaining governors would be Christopher Waller and Michelle Bowman, with terms ending on Jan. 31, 2030 and Jan. 31, 2034, respectively."

Corn: Strong ethanol production is providing support as U.S. corn harvest winds down. Support is also being seen for prices from the overall inflation situation being seen for commodities. With no other fresh supply updates from USDA until January, fund activity and demand are the major focal points along with 2022 acreage prospects.

Soybeans: USDA surprised markets with a lower-than-expected soybean national average yield, boosting market optimism on prices. Additional money flow into commodities as inflationary pressures mount is also supportive. Daily export sales activity continues to be seen along with strong weekly inspections figures.

Wheat: Food commodities continue to see buying, with U.S. wheat futures climbing. Global influences are also at play, with attention on Russia and its export plans for the months ahead. A restrictive approach by Russia could steer business to the United States. Condition ratings for the U.S. winter wheat crop ahead of dormancy remain as a supportive factor given dryness in the Plains.

Rice: Futures are seeing some of the buying linked to inflation in food commodities, despite a rather bearish supply situation for the U.S. and the world from USDA. Additional gains could be seen and may pick up steam if demand shows for U.S. supplies.

Cotton: China continues to auction off supplies from its state reserves and continues as a buyer on the global market. With December cotton soon to be in delivery, that is shifting volume to deferred months.

Hogs/pork: Mexico maintained its position as a key destination for U.S. pork, taking 8.5% of U.S. production in both August and September. But outside of Mexico, demand is not likely to build in 2022. Domestically, pork cutouts are expected to trend lower the balance of the year but some volatility coming out of Thanksgiving is possible.

Cattle/beef: Cash cattle prices are gaining while futures chopped sideways. Attention ahead will be on the monthly feedlot update from USDA. Beef supplies also remain an attention point, with average steer weights rising, but still below year-ago levels.

Poultry/broilers: Mexico continues to be the most important global destination for U.S. broiler meat... the September share of total exports for Mexico was 21%. Demand from China is not consistent, but U.S. poultry exports for the quarter ending in September were up 2% versus levels seen in 2019.

Dairy: Milk production in major countries remains under expectations, keeping some upside potential present for prices. From a policy perspective, Sen. Pat Leahy (D-Vt.) will not seek re-election in 2022... the industry is losing a powerful advocate in Washington.

Transportation: Ocean freight rates continue to decline for grain carrying vessels, with levels out of the Gulf and PNW both declining in the week ended Nov. 10. As for rail-related export demand, grain carloadings to export positions fell 7%, or 1,121 carloads, for the most recent week to 15,047... still above the five-year average by about 2,600 carloads.

WHIP+

USDA is issuing the remaining 10% of 2019 WHIP+ payments. Because of budget constraints, 2019 WHIP+ payments were initially subject to a 50% factor. In June 2021, FSA authorized a second payment equal to 40% of the calculated payment. At that time, it was also announced that a third round of payments may be issued if sufficient funds become available. Sufficient funds are now available, and FSA has authorized a final payment equal to the remaining 10% of 2019 calculated payments.

Quality losses were already paid in total for 2019 crops.

A special note: In a notice, USDA indicates it would 2019 and 2020 on the WHIP+ payments, but that only means a crop planted in 2019 and harvested in 2020 is covered.

USDA still has not announced the authorized WHIP+ program for 2020 and 2021 ag disasters, including the livestock sector. That will come later this year and payments will likely be made in early 2022. USDA is working on regulations for the program... some of the details could vary from the way WHIP+ has been handled before. Lawmakers want USDA to simplify and accelerate the program ahead.

CATTLE
PRICING

New bipartisan bill fuses previous cattle market reform proposals...

But a consensus is still lacking.

The reform measure is dubbed the Cattle Price Discovery and Transparency Act.

A key objective of the bill is to ensure continued robust price discovery amid a long-term trend in the sector away from spot market sales and towards alternative marketing agreements (AMAs) between individual packers and producers.

Declining cash trade a focus of legislation. The bill aims to address “the resulting thinness of accurate price information” resulting from the decline in cash negotiated trades, saying “a regional approach is needed” as “the shift from cash sales to AMAs has been more dramatic in certain regions.” To that end, the new bill would establish regional mandatory minimum levels of negotiated cash and negotiated grid trades “based on each region’s 18-month average trade to enable price discovery in cattle marketing regions.” USDA would be tasked with proposing, setting, and implementing the minimums... including soliciting public comment on the levels.

Certain rules would apply for the cash trade minimums set by USDA. The highest regional minimum threshold could not be more than three times the lowest and none could be lower than the 18-month average trade at the time the bill is enacted. And USDA would be allowed to “periodically modify regional minimums after a public notice and comment period,” the summary said. The measure would require that a cost-benefit analysis be conducted two years after implementation to “ensure the program is working as intended.”

Measure also includes reporting changes. The bill requires USDA to establish a publicly available library of marketing contracts between packers and producers “in a manner that ensures confidentiality.” The bill would also prohibit USDA from using confidentiality as a reason for not reporting all Livestock Mandatory Reporting (LMR) information, again requiring the disclosures in a way that maintains confidentiality.

The bill would require “more timely reporting of cattle carcass weights as well as requiring a packer to report the number of cattle scheduled to be delivered for slaughter each day for the next 14 days,” a release detailed.

Many groups back the proposal, but key players not on board. The bill has the support of the Iowa Cattlemen’s Association, Iowa Farm Bureau, American Farm Bureau Federation (AFBF), National Farmers Union (NFU) and U.S. Cattlemen’s Association (USCA). Meanwhile, the nation’s largest cattle industry group, the National Cattlemen’s Beef Association (NCBA), supports some aspects of the bill, but it has not formally backed the measure.

Best regards,

The Ag Letter Editors
THE AGRICULTURE LETTER EDITORS

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