



**WELLS
FARGO**

Global Economic Outlook and Ag Risk

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Economic and Agricultural Risk

Everything is connected.

We just can't see how.

Is Economic Risk Rising?

■ Yes

- ◆ Quantifiably
- ◆ Emotionally

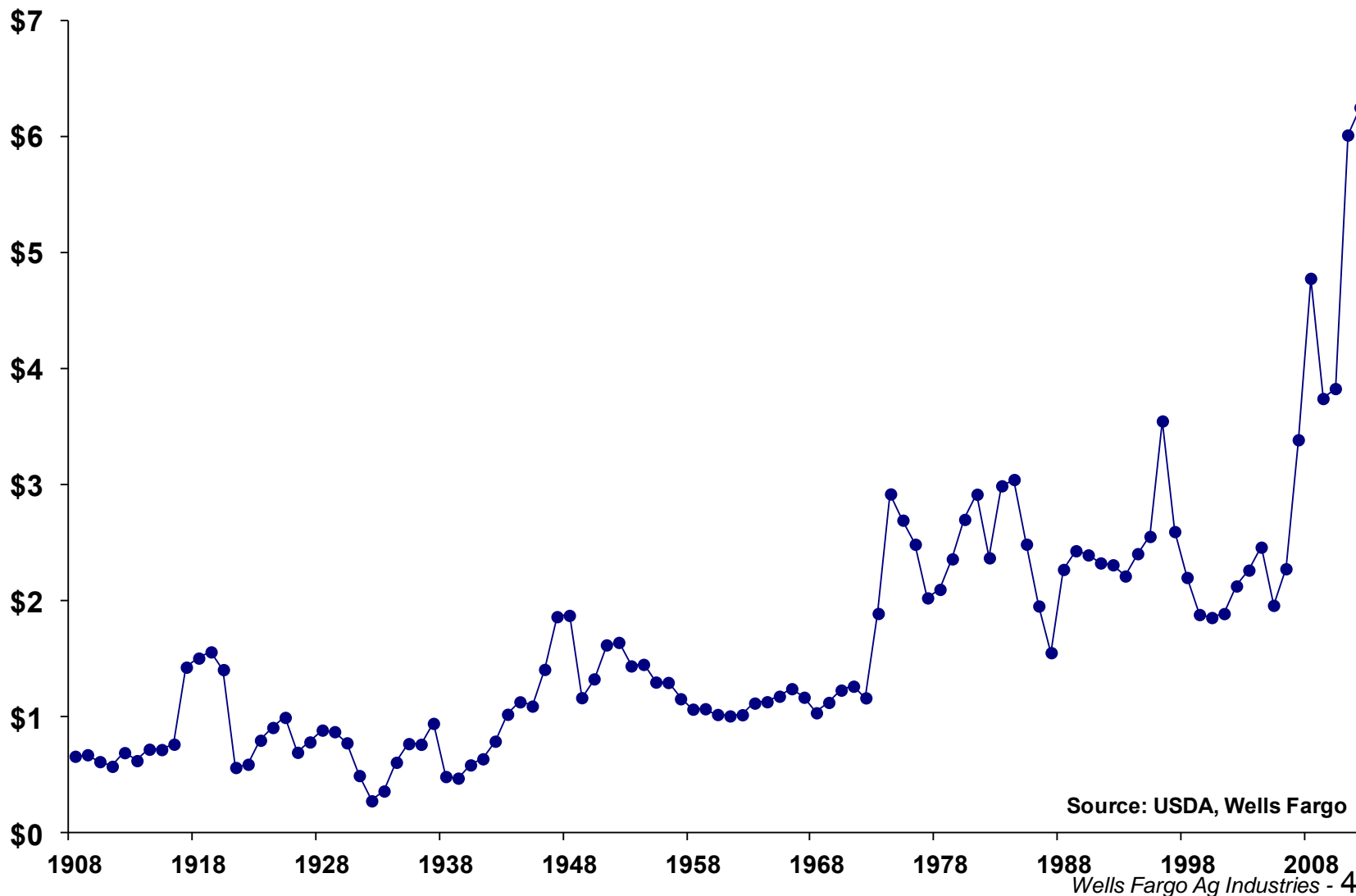
■ Drivers

- ◆ Interconnected global markets
- ◆ Policies
 - Domestic
 - Global

■ Implications

How can \$4 corn be a “crisis”

Annual Corn Prices



We underestimate randomness

**What the market gave you,
it will take away**

Global factors – specific implications

■ Growth drivers

- ◆ Population – minor
- ◆ Income – major
- ◆ Policy – wildcard

■ Suppliers

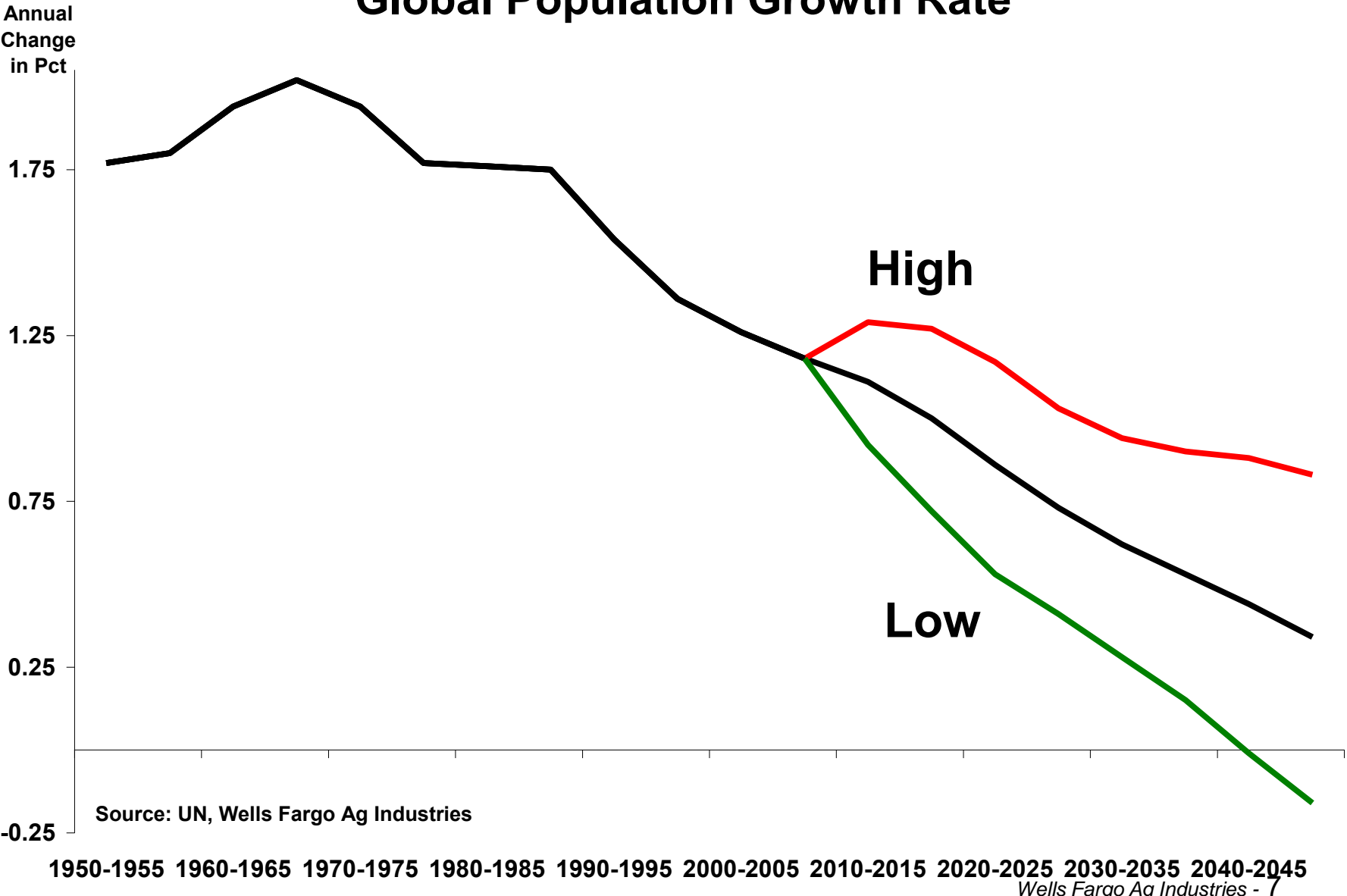
- ◆ Interconnected markets
- ◆ Opportunity costs

■ Currency exchange rates

The most “predictable” factor



Global Population Growth Rate



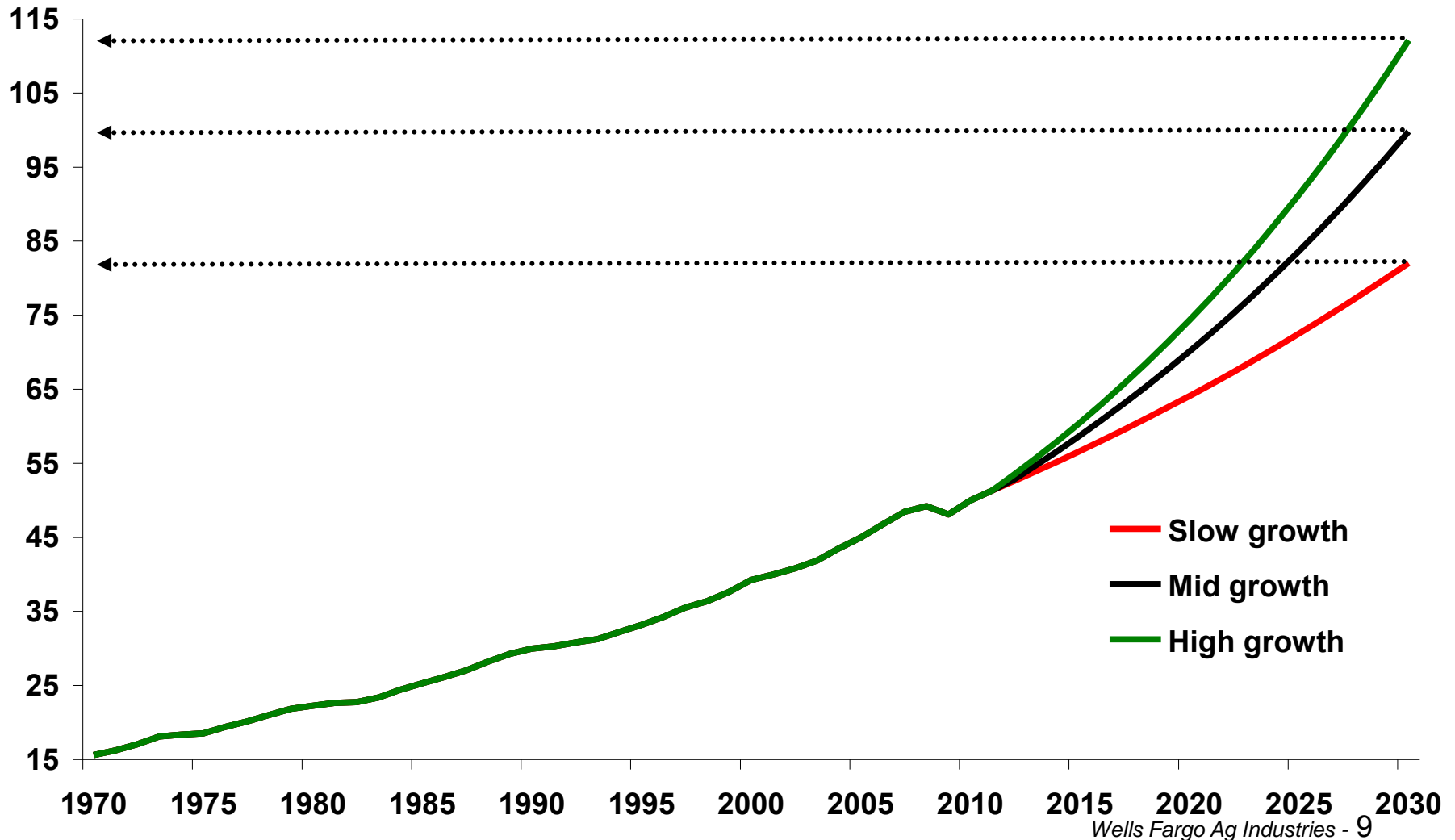
Income growth is the key

**Income growth and globalization
are the drivers to watch**

The income components – TBD

Global GDP Growth Projection

With Variance



Dramatic growth – High Risk

Trade policies are political

Trade by Category

Exports Values in Billions of dollars

Product	2007	2008	2009	2010	2011	Jan - Apr 2011	Jan - Apr 2012	% Change
Bulk	37.9	51.6	39.6	47.2	56.9	23.9	18.7	-22%
Intermediate	17.2	21.1	19.2	23.2	25.4	9.1	8.8	-3%
Consumer Oriented	35.0	42.0	39.7	45.4	54.1	16.3	18.4	13%
Forest Products	6.6	6.6	5.3	6.9	7.8	2.6	2.6	0%
Fish Products	4.0	4.0	3.7	4.2	5.2	1.5	1.5	4%
	100.6	125.4	107.5	126.9	149.3	53.4	50.1	-6%

Imports Consumption Values in Billions of dollars

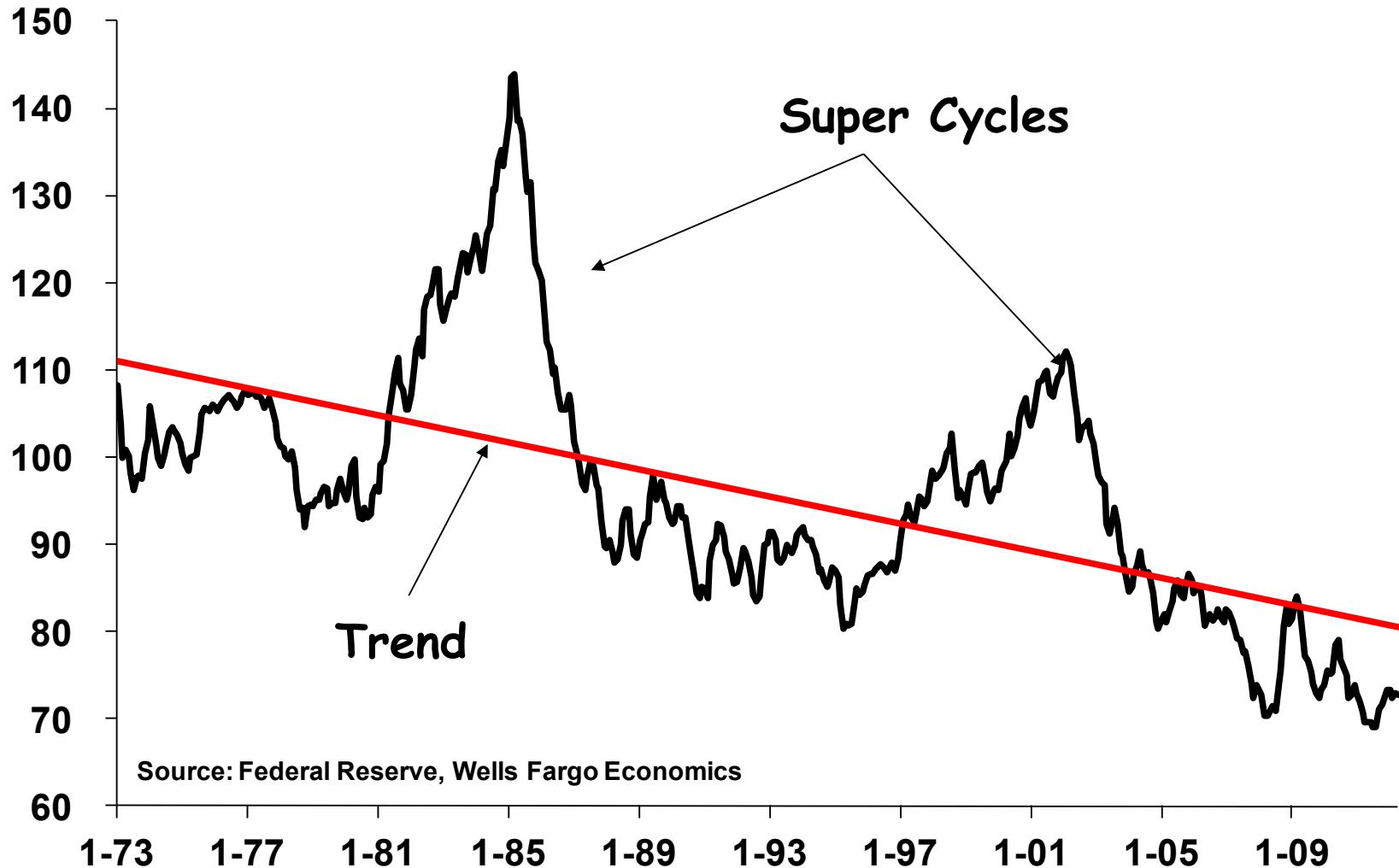
Product	2007	2008	2009	2010	2011	Jan - Apr 2011	Jan - Apr 2012	% Change
Bulk	10.2	13.3	10.8	13.2	19.3	4.6	4.9	6%
Intermediate	14.3	17.6	14.4	16.7	21.2	5.0	6.0	21%
Consumer Oriented	47.3	49.6	46.5	51.9	58.4	14.5	15.8	9%
Forest Products	18.7	14.2	9.8	11.4	10.8	2.5	2.6	5%
Fish Products	13.5	14.0	13.0	14.6	16.5	3.6	3.9	10%
	104.1	108.6	94.5	107.8	126.2	30.2	33.3	10%

Net Trade by Category

US Ag Net Trade in Billions of dollars

Product	2007	2008	2009	2010	2011	Jan - Apr 2011	Jan - Apr 2012	% Change
Bulk	27.6	38.4	28.8	34.0	37.6	19.3	13.8	-29%
Intermediate	2.9	3.5	4.8	6.5	4.1	4.1	2.9	-31%
Consumer Oriented	(12.4)	(7.6)	(6.9)	(6.5)	(4.3)	1.8	2.7	46%
Forest Products	(12.1)	(7.5)	(4.5)	(4.5)	(3.0)	0.1	(0.1)	-253%
Fish Products	(9.5)	(10.0)	(9.2)	(10.4)	(11.3)	(2.1)	(2.4)	14%
	(3.5)	16.8	13.0	19.1	19.0	23.2	16.8	-27%

US Trade Weighted Dollar



Source: Federal Reserve, Wells Fargo Economics

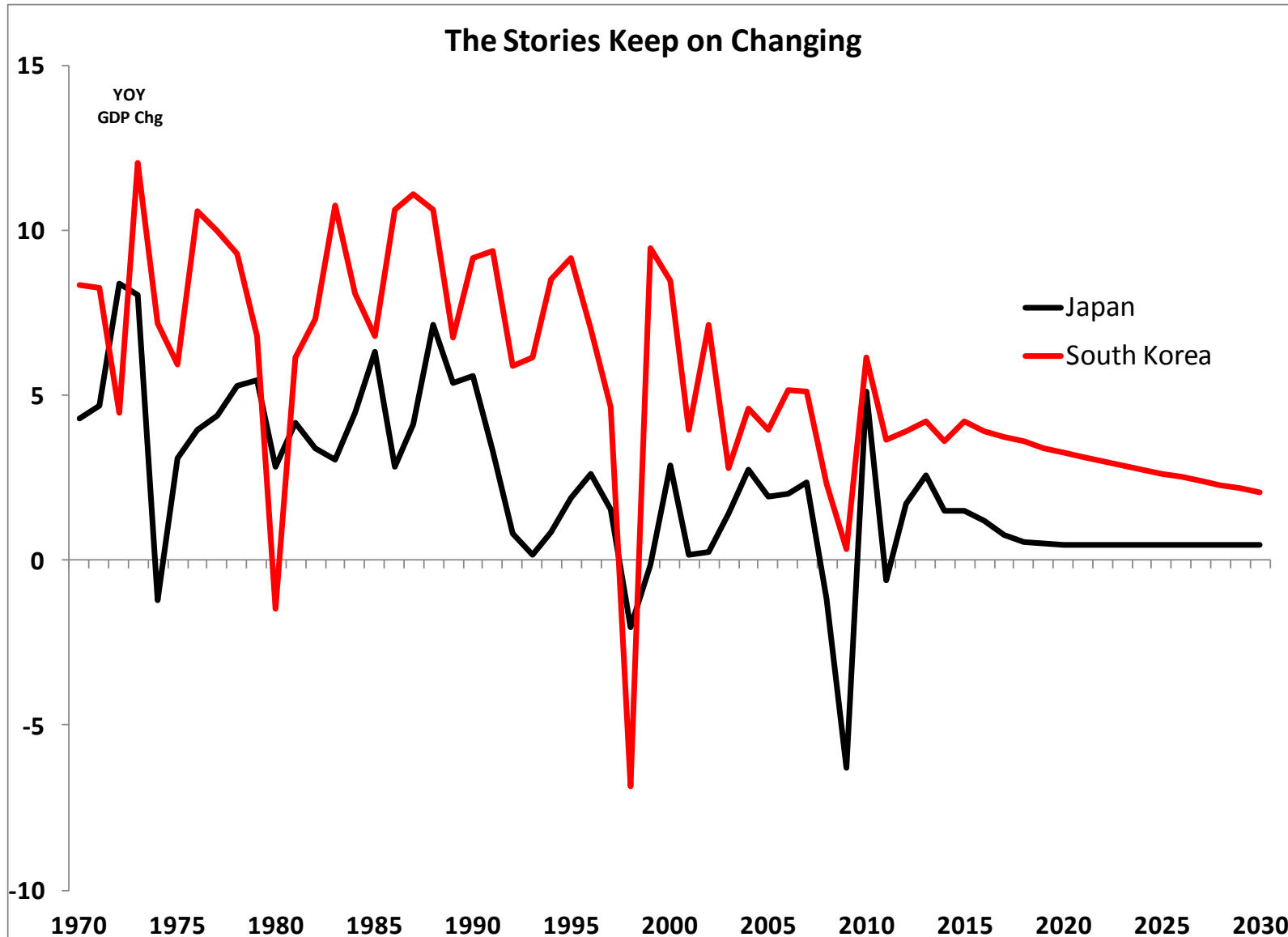
Focus on China: Uncertainty

Net Trade Growth

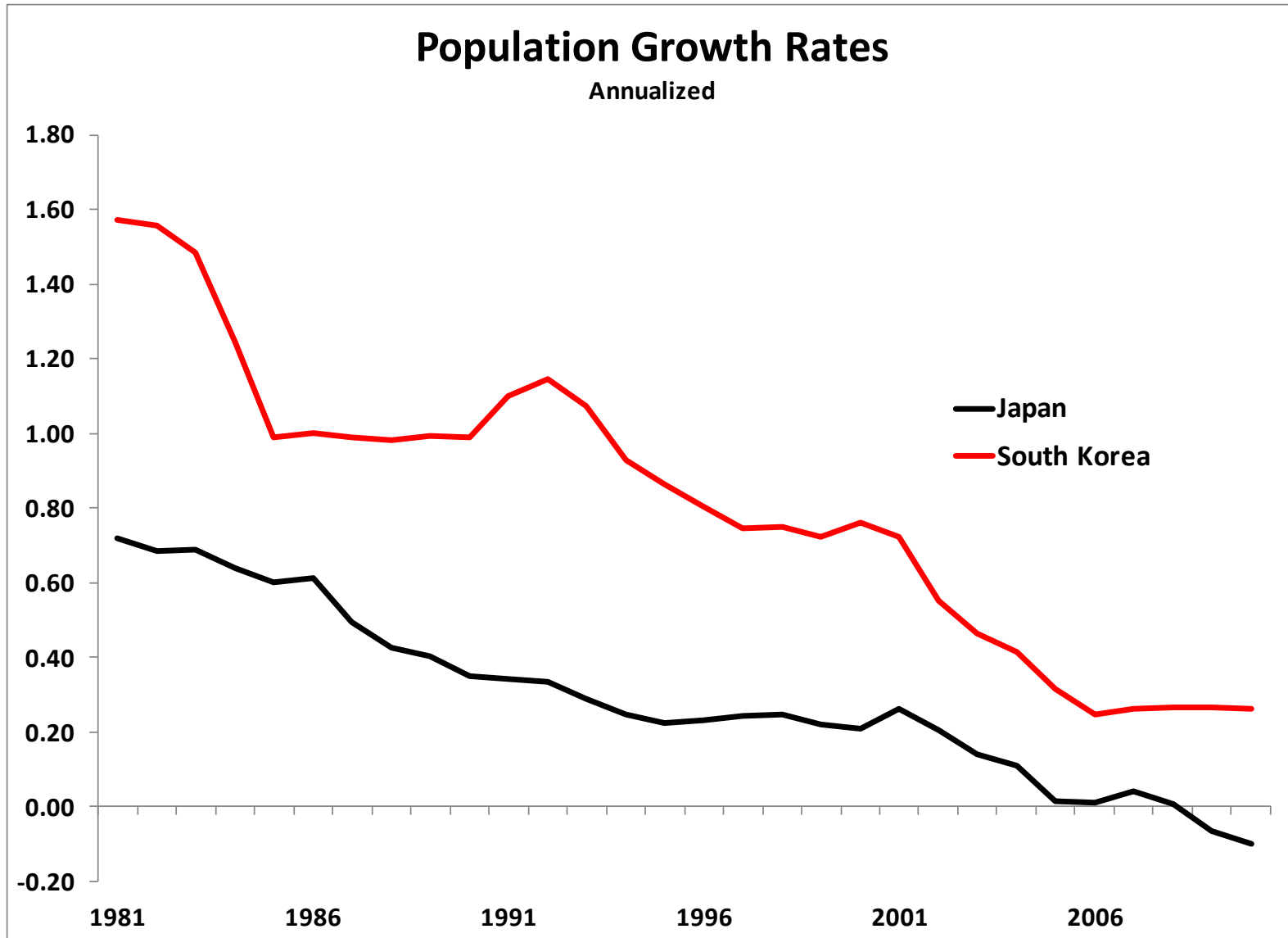
Net Trade to China/Hong Kong -- Billions of Dollars

	2006	2007	2008	2009	2010	2011	Pct Chg
Exports To	\$ 7.7	\$ 9.5	\$ 13.8	\$ 15.1	\$ 20.3	\$ 22.2	9%
Imports From	\$ 2.3	\$ 3.0	\$ 3.5	\$ 2.9	\$ 3.4	\$ 4.1	18%
Net Trade	\$ 5.4	\$ 6.5	\$ 10.3	\$ 12.2	\$ 16.9	\$ 18.1	7%

Does China's size make them different?



Expect China to follow this path



They're not making anymore...

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The feedback loop of supply response

Grains: Corn, sorghum, wheat, rye ...

Country	Attribute	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012
United States	Area Harvested	60,530	59,484	56,514	55,795	55,456
	Production	405,682	393,883	409,121	390,298	378,110
	Yield	6.7	6.6	7.2	7.0	6.8
Rest of World	Area Harvested	437,684	440,866	443,049	438,172	443,250
	Production	1,239,922	1,350,961	1,346,536	1,310,627	1,410,616
	Yield	2.8	3.1	3.0	3.0	3.2

Focusing on the US economy

US economic key policy distortions

■ Fiscal spending

■ Monetary

- ◆ Low interest rates
- ◆ High money supply growth

■ Exchange rate

- ◆ Weak dollar – strong exports?
- ◆ Trade is a fickle source of demand

■ (Mis)management

- ◆ Regulatory uncertainty
- ◆ Tax uncertainty

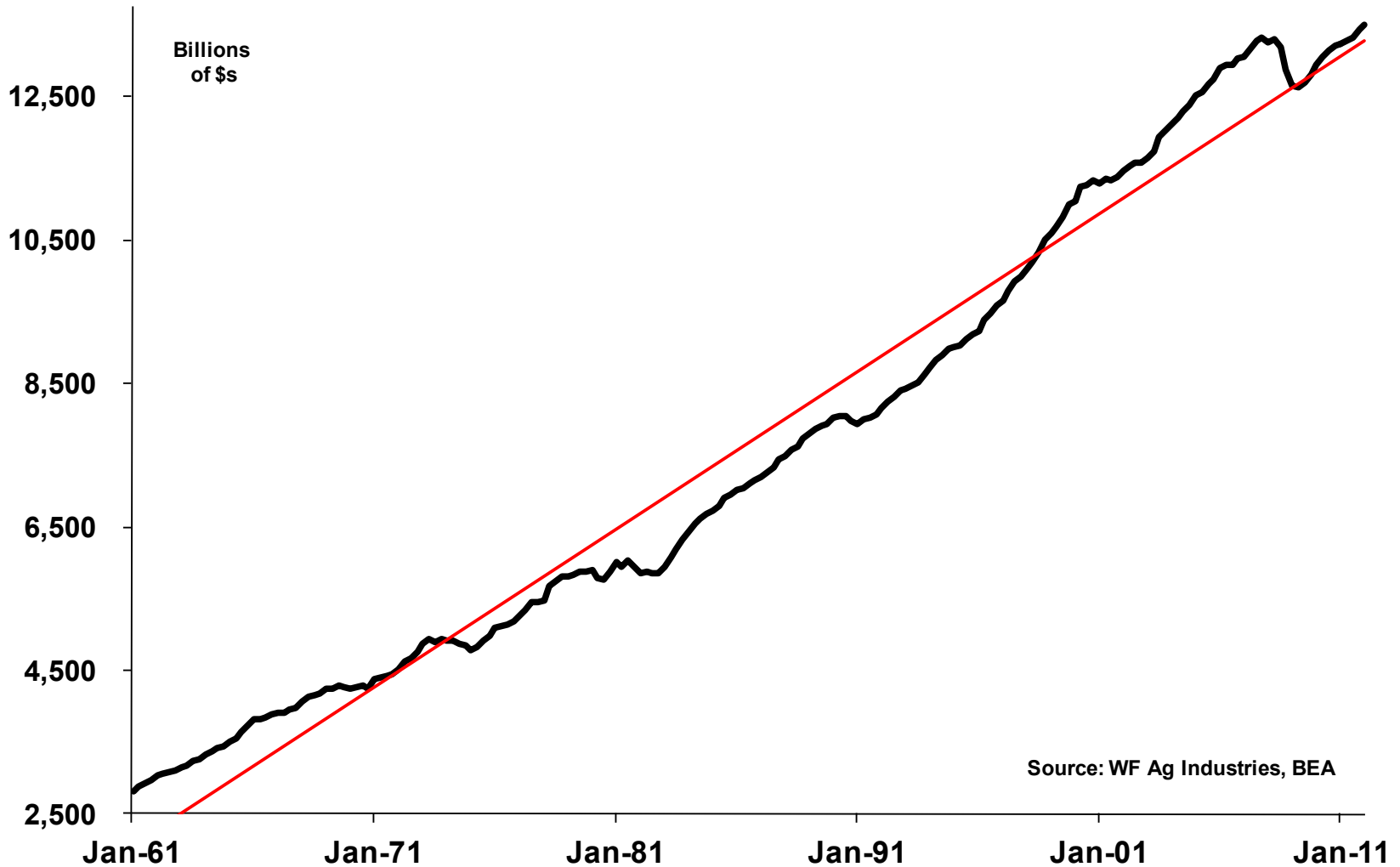
We are not good indicators

Sensitive to change.

Indifferent to levels.

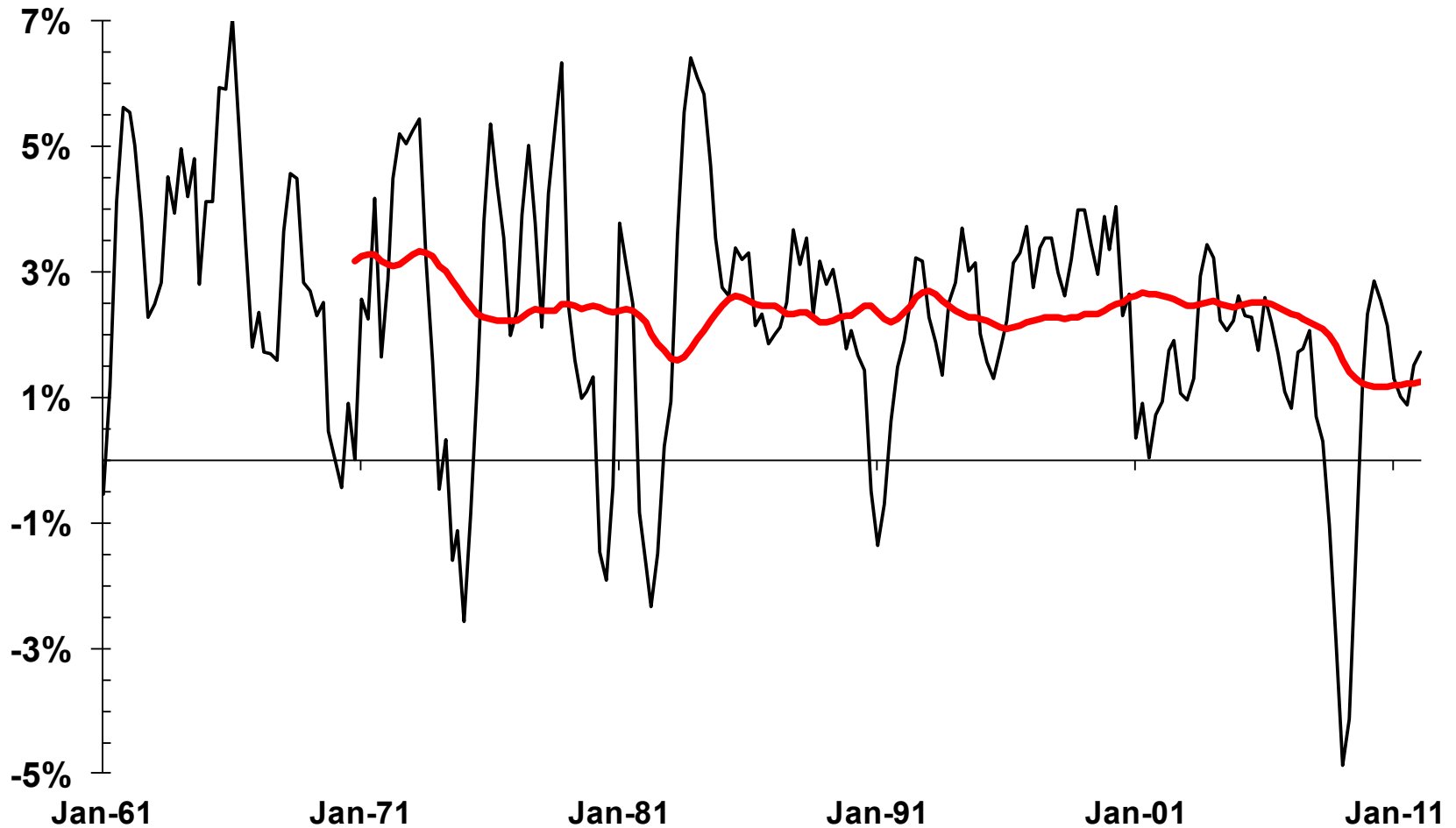
41° in Fargo ND

Real GDP



Average versus volatility

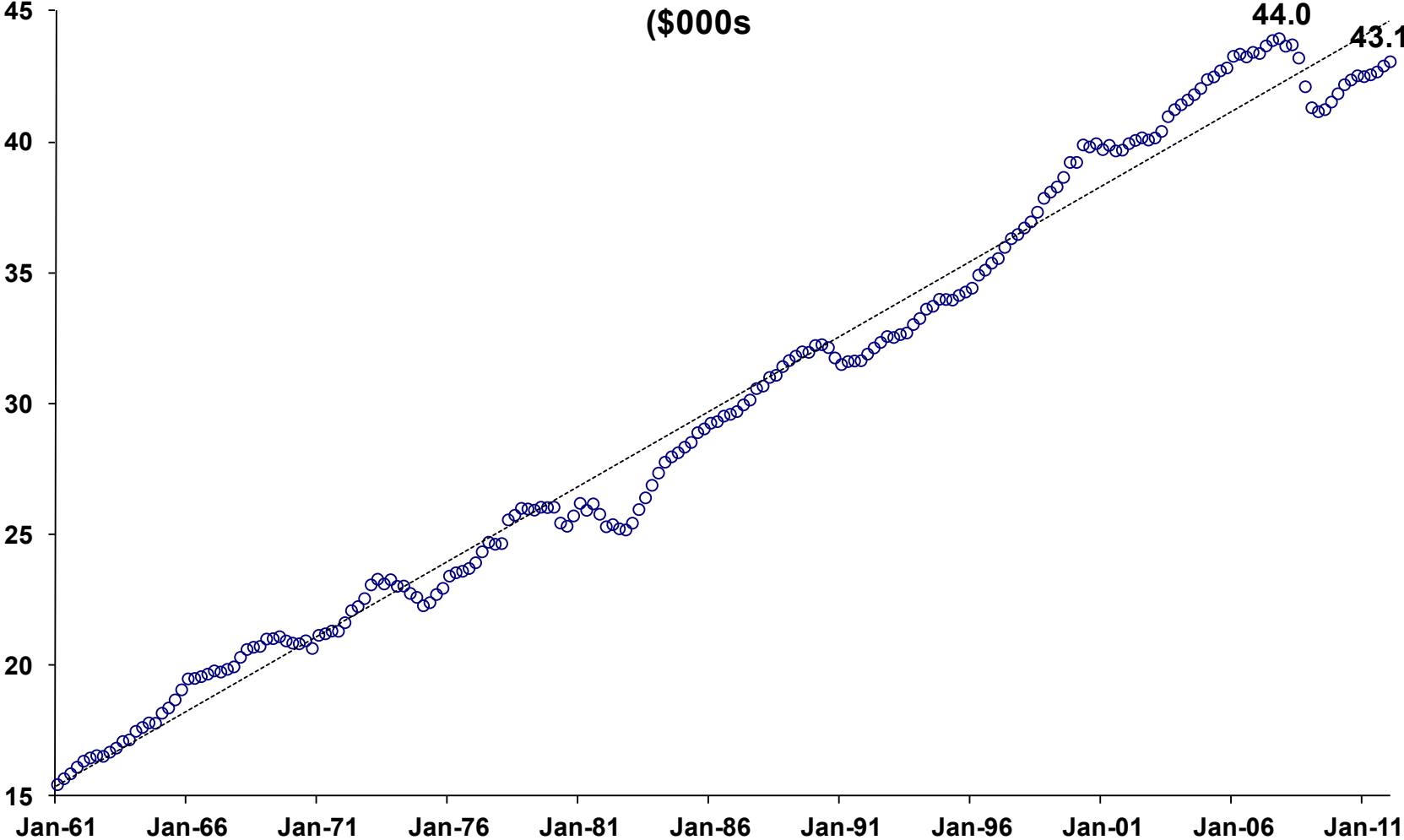
GDP Change Year over Year



Source: FRED, Wells Fargo Ag Industries

What's in it for me?

Real GDP per Capita



The impossible won't happen

Crisis management

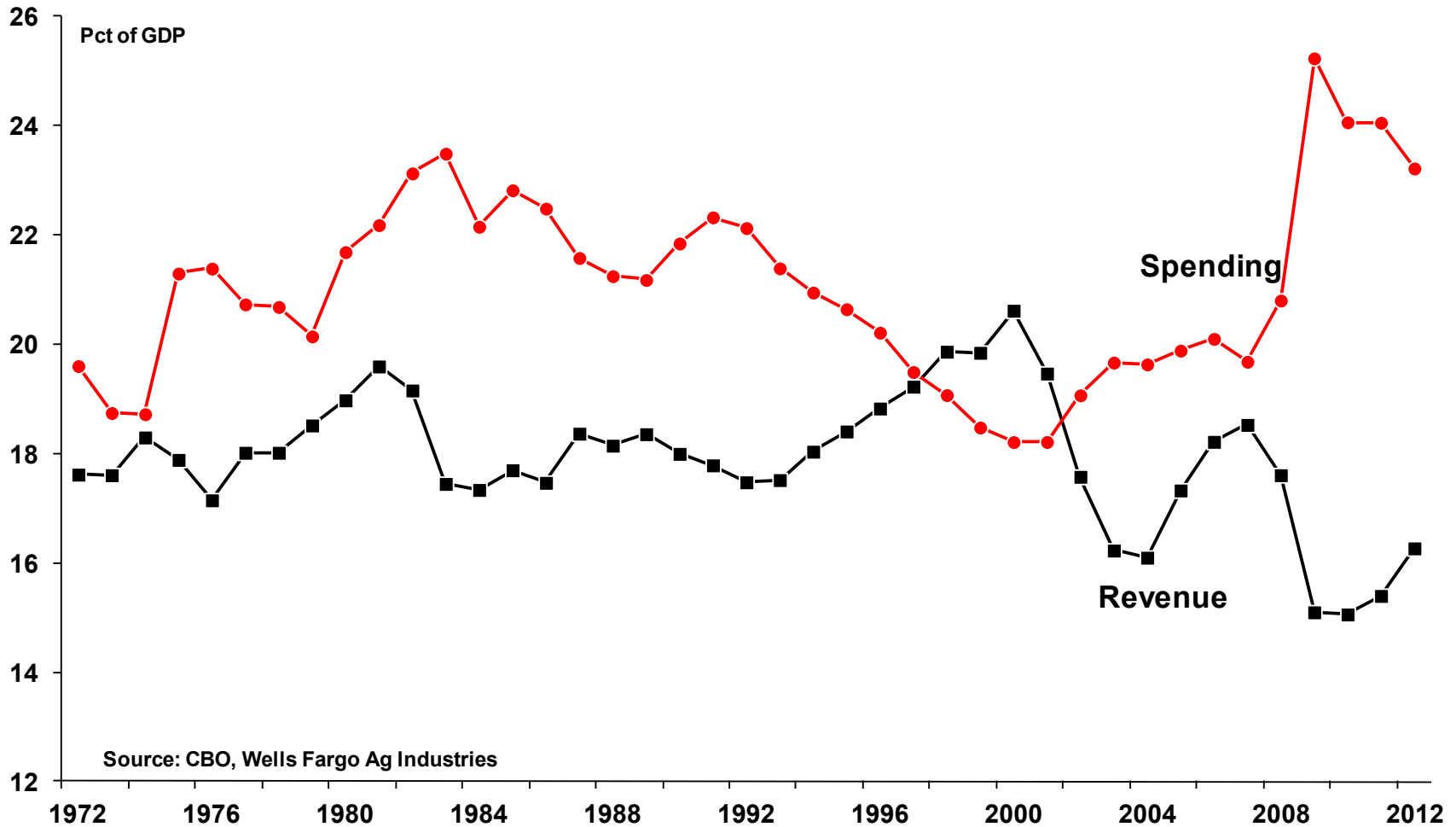
or

Management by crisis

Deliberately bad choices

Federal Revenues and Spending

As a percent of GDP



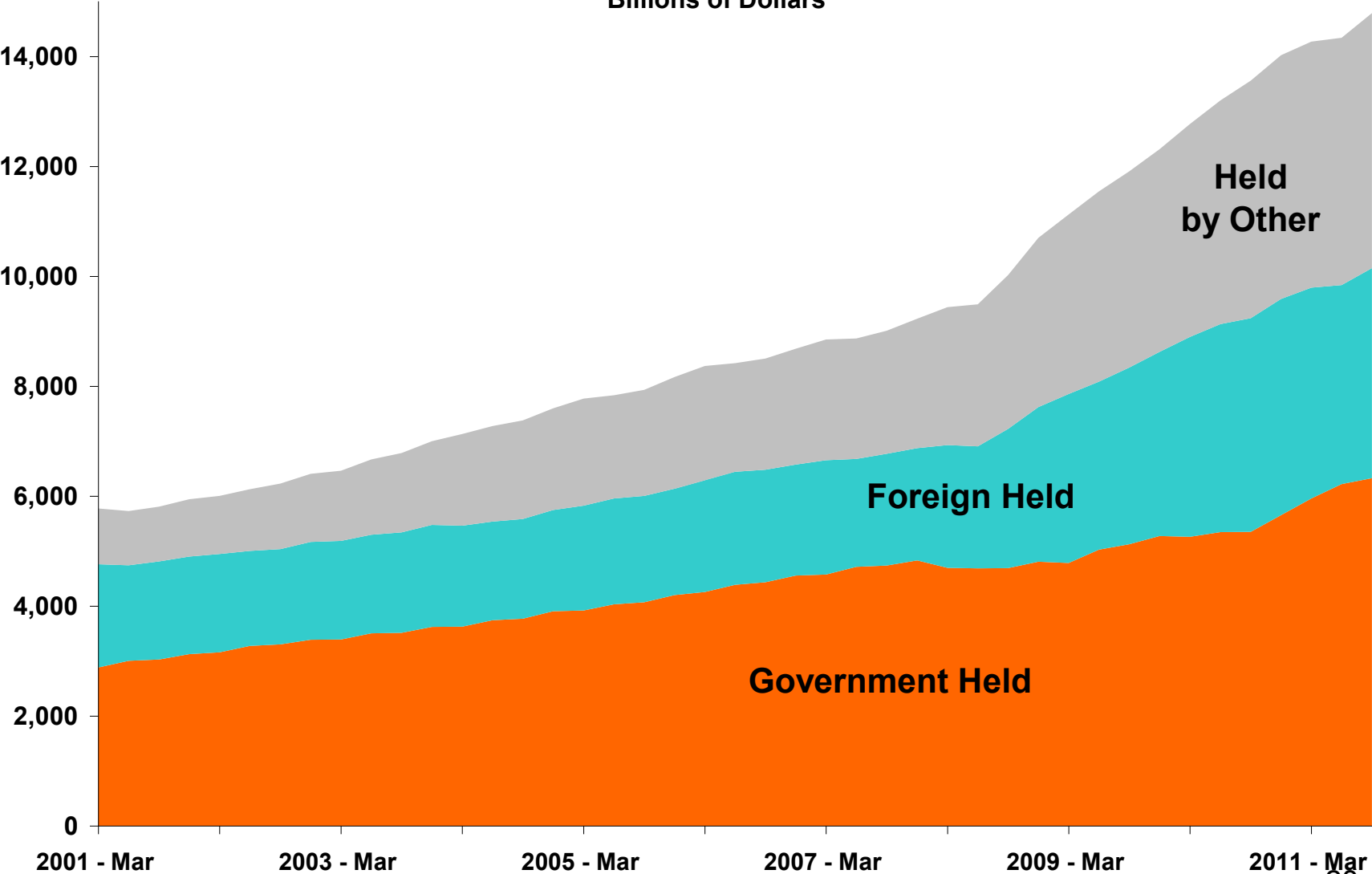
Source: CBO, Wells Fargo Ag Industries

They don't buy because they love us



Treasury Debt Outstanding

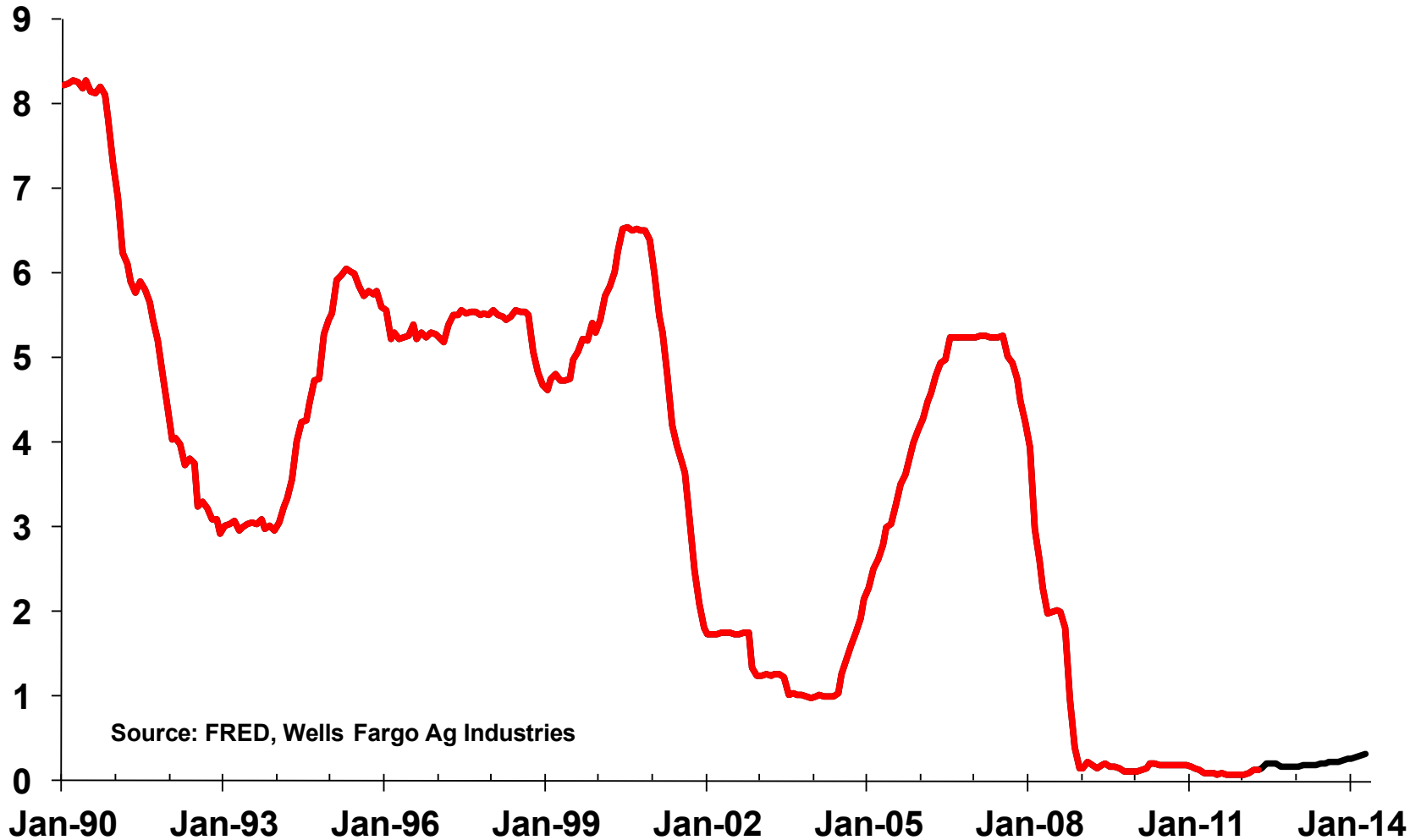
Billions of Dollars



**The Federal Reserve is off the
tracks**

Is the economy really that weak?

History + futures Fed Funds



Relative prices matter most

■ Labor

- ◆ Increasing cost
- ◆ Quality?

■ Capital

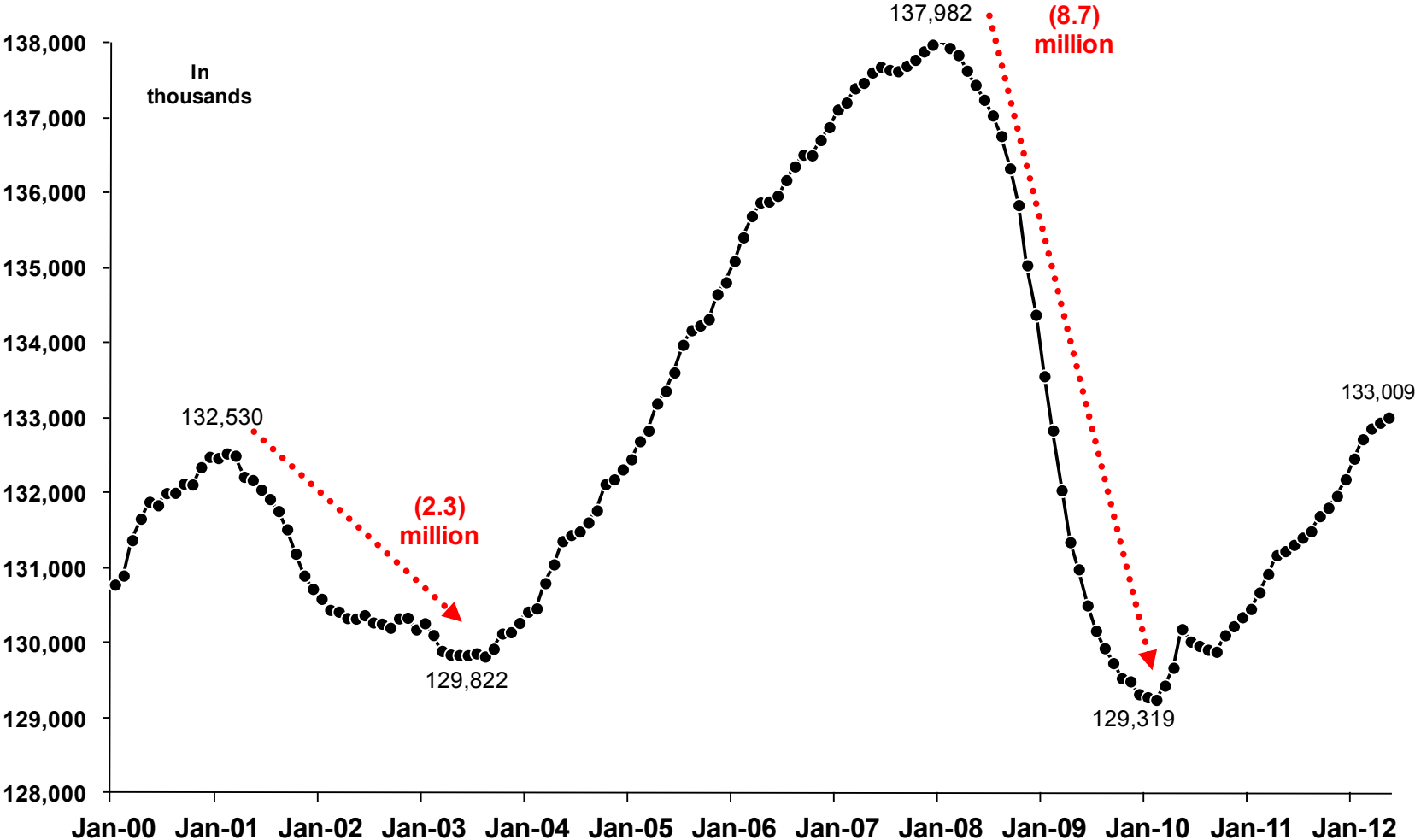
- ◆ Falling cost
- ◆ Increasing quality
 - Automation
 - Information processing

■ Add capital not labor

Jobs ...We're missing a decade of them



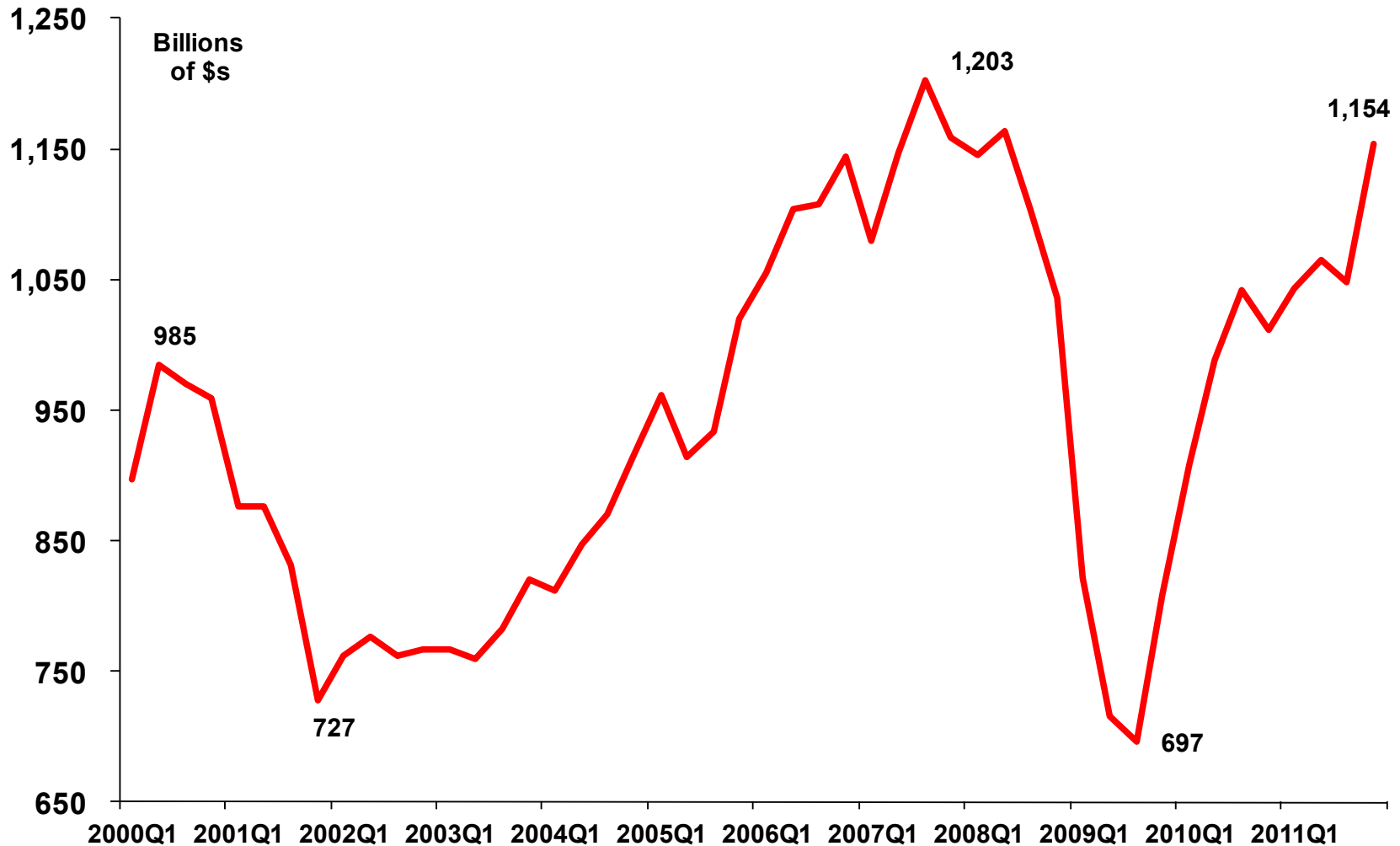
US Payroll



Business investment has recovered

US Business Investments

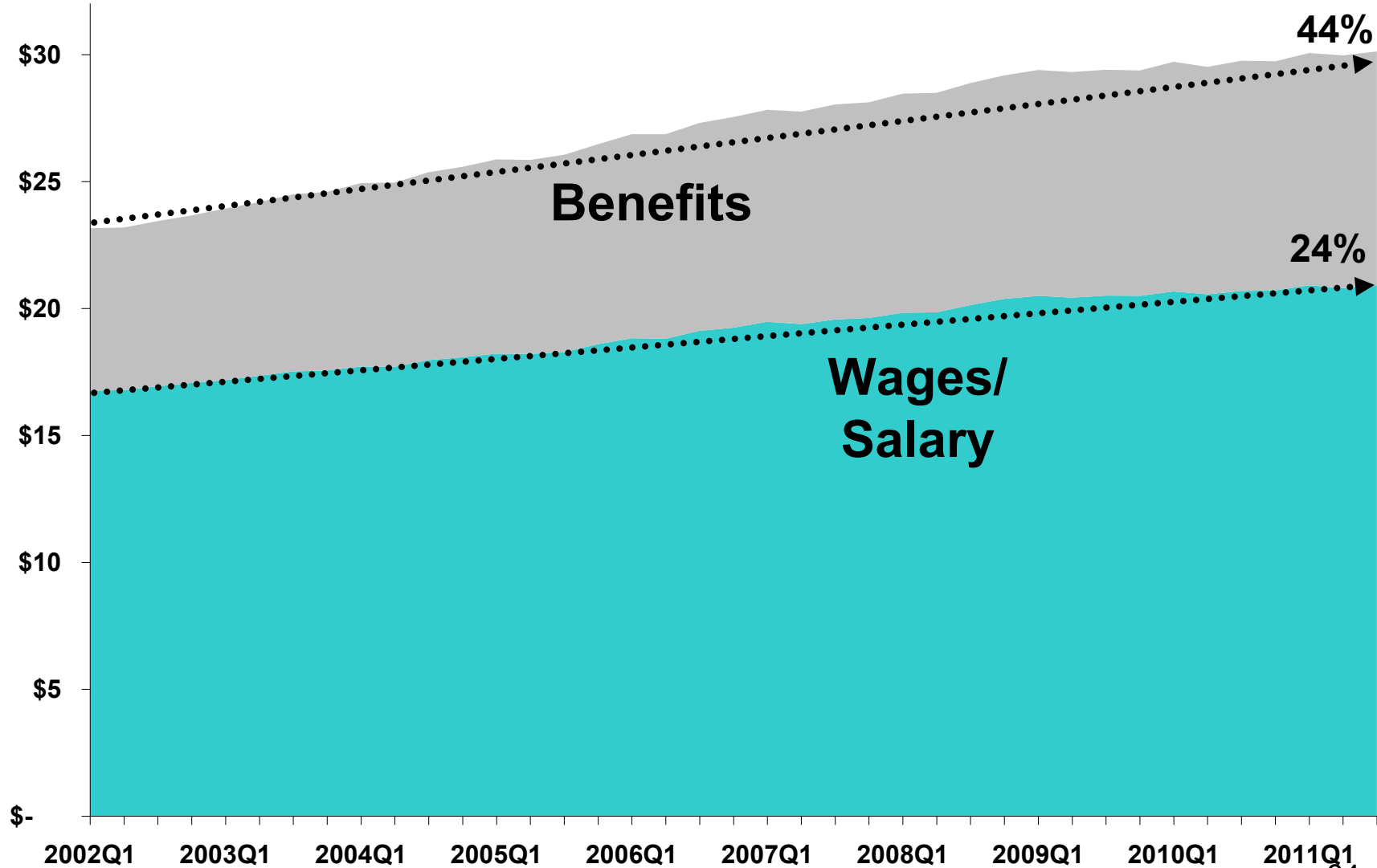
Capital Spending US Businesses



Why they love their automation



Wages plus Benefits Per Hour



Which will improve faster?

Labor quality (adjusted for price)

or

Technology (adjusted for price)

Managing the increasing volatility

■ Leverage

- ◆ Less debt more equity
- ◆ More working capital
- ◆ More cash flow analysis

■ Margin management

- ◆ Paired “buy/sell” decisions
- ◆ Limiting “upside” to limit “downside”
- ◆ Targeted returns based on long-term historical data

■ Controlling what you can