



## NEWS RELEASE

### **CoBank 2018 Year Ahead Report: Forces That Will Shape the Rural Economy**

*Ten key factors point to a mixed, but improving outlook for rural America*

**DENVER (January 18, 2018)** — Expect an expanding global economy, strong U.S. consumer confidence and persistent economic recovery in many rural areas, but temper that optimism with another year of on-farm belt tightening due to lingering financial stress from low commodity prices, says a wide-ranging 2018 outlook report from CoBank’s Knowledge Exchange Division.

“The rural economy is uniquely impacted by what happens in Washington, the broader U.S. economy and around the world,” says Dan Kowalski, vice president of CoBank’s Knowledge Exchange Division. “In the coming year, rural America will rise with the broader economic tide, but it will also contend with persistent barriers to prosperity.”

The report offers a look at the following 10 key factors that will shape rural communities and the market sectors that support them:

- 1. The global economy: Gaining momentum**  
The challenge for the world’s economies will be how to properly manage the expansion at hand. 2018 will offer a prime opportunity for governments to address structural impediments that have been ignored during the decade-long recovery.
- 2. Monetary policy: Rising interest rates**  
Central banks around the world will strategize around the primary question of whether wage and consumer prices will accelerate. Foreign central banks sound more hawkish in early 2018, but Europe and Japan will continue to provide a form of quantitative easing through much of the year. In contrast, the Federal Reserve will continue to raise interest rates amidst larger fiscal deficits and an extensive leadership transition.
- 3. The U.S. economy: Consumers have that wealthy feeling**  
Consumer confidence and the unemployment rates are at their best levels since 2000 and inflation-adjusted wages have been growing faster than the historical average since 2014. Add in the major gains in housing prices and the stock market, and you get a wealth effect that is causing consumers to save less and spend more. Business investment will rise in 2018 to keep up with the strengthening demand.
- 4. The Rural economy: Trending in the right direction**  
Rural America has lagged urban America in recovering from the 2008 economic crisis. Rural jobs and incomes have been slower to rebound, and the long-term decline of American manufacturing has hit rural communities the hardest. But the rural population, jobs and incomes are all trending in the right direction. And current efforts to improve rural access to broadband will offer the greatest opportunity to make a significant dent in the rural/urban economic divide.
- 5. Federal policy: An active election year**

Tax reform has brought changes to individual and corporate tax rates. It has also ushered in the 199A deduction which benefits agriculture co-ops and their members. The deduction, however, has led to controversy over its unintended impact on private agriculture businesses, and is currently being reviewed by the Senate. Congress will also attempt to pass an infrastructure package with a 25 percent rural set aside, and the Farm Bill before the mid-term election.

#### **6. Rural infrastructure: Brave new world**

The power and energy industry faces an environment of uncertainty due to tax reform, possible import tariffs on wind and solar equipment, and oversupply in power markets. These factors have stalled investment decisions across the electric utility industry, said Taylor Gunn, CoBank Knowledge Exchange Division lead industry analyst. "Ultimately, the rapidly expanding renewables sector will catch its breath in the first half of 2018, and recommence on its growth trajectory."

Meanwhile, weak sales and rising costs are contributing to financial strain across water utilities. Roughly one-third of water utilities struggle to cover the full cost of providing service. Revenue stability will play a huge role in reversing the trend that suggests the health of the U.S. water industry is in decline.

In communications, the competition is heating up over who controls the infrastructure that distributes the data that Americans consume through broadband. The increased competition for market share could reduce rates even as speeds improve. Rural communities can expect further investment in broadband and towers in 2018 as the mission to extend broadband access continues.

#### **7. Agricultural economy: Another year of belt tightening**

The surplus of agricultural commodities will continue to depress prices and shrink farmer working capital. Farm debt loads will continue to climb as prices fall short of persistently high production costs. Market conditions have also resulted in a sharp, unsustainable divergence between farm income and farm asset values. The timing and extent of the market's correction will be determined by much more than commodity prices and cash flow. The prevailing economic environment, interest rate levels, investor appetite, trade, changes to the tax code, the 2018 Farm Bill, and the changing regulatory environment will all play a role.

#### **8. Agricultural trade: Mission critical**

NAFTA will be the primary focus for agriculture in the first half of 2018. And all three countries involved will be incentivized to come to an agreement before the Mexican presidential election in July. But more trade deals are in flux that could also greatly affect U.S. agriculture exporters. The rebooted TPP (CPTPP) is being negotiated between all of the original member-countries except the U.S. And the U.S. trade agreement with Korea is also being re-evaluated. U.S. agriculture has a lot at stake as these negotiations unfold, and the rhetoric is likely to get worse before it gets better.

#### **9. Grain, farm supply and biofuels: Full bins, lean margins**

The grain, farm supply and biofuels sectors face a turbulent year ahead, as the industry further adjusts to a protracted cyclical downturn. Abundant supplies, low market volatility and rising interest rates will constrain farm finances and accelerate the forces of consolidation across the supply chain. This environment will reward scale, and therefore incentivize well positioned producers to keep growing. Retailers and co-ops will be contending with market disruptors that have shaken up other industries and are now gaining a foothold in the farm supply and grain marketing sectors.

#### **10. Dairy and animal protein: Trade dependency in changing times**

The same abundant grain supplies that have harmed crop farmers have boosted profitability and spurred expansion in the U.S. dairy, livestock and poultry sectors. And more good news is expected in 2018. But as with any expansion, dairy and protein producers face the risk of

overplaying their hand and boosting output too much, too fast. Price pressure will be an issue as the expansion continues. And trade uncertainties will loom large as the animal industry continues to grow.

The report, "The Year Ahead: Forces that will Shape the U.S. Rural Economy in 2018" is available at [CoBank.com](http://CoBank.com).

### **About CoBank**

CoBank is a \$124 billion cooperative bank serving vital industries across rural America. The bank provides loans, leases, export financing and other financial services to agribusinesses and rural power, water and communications providers in all 50 states. The bank also provides wholesale loans and other financial services to affiliated Farm Credit associations serving more than 70,000 farmers, ranchers and other rural borrowers in 23 states around the country.

CoBank is a member of the Farm Credit System, a nationwide network of banks and retail lending associations chartered to support the borrowing needs of U.S. agriculture, rural infrastructure and rural communities. Headquartered outside Denver, Colorado, CoBank serves customers from regional banking centers across the U.S. and also maintains an international representative office in Singapore.

For more information about CoBank, visit the bank's web site at [www.cobank.com](http://www.cobank.com).

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