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Shock, Cycles & Structural Shifts –
From commodity markets to a macroeconomic perspective

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Overview

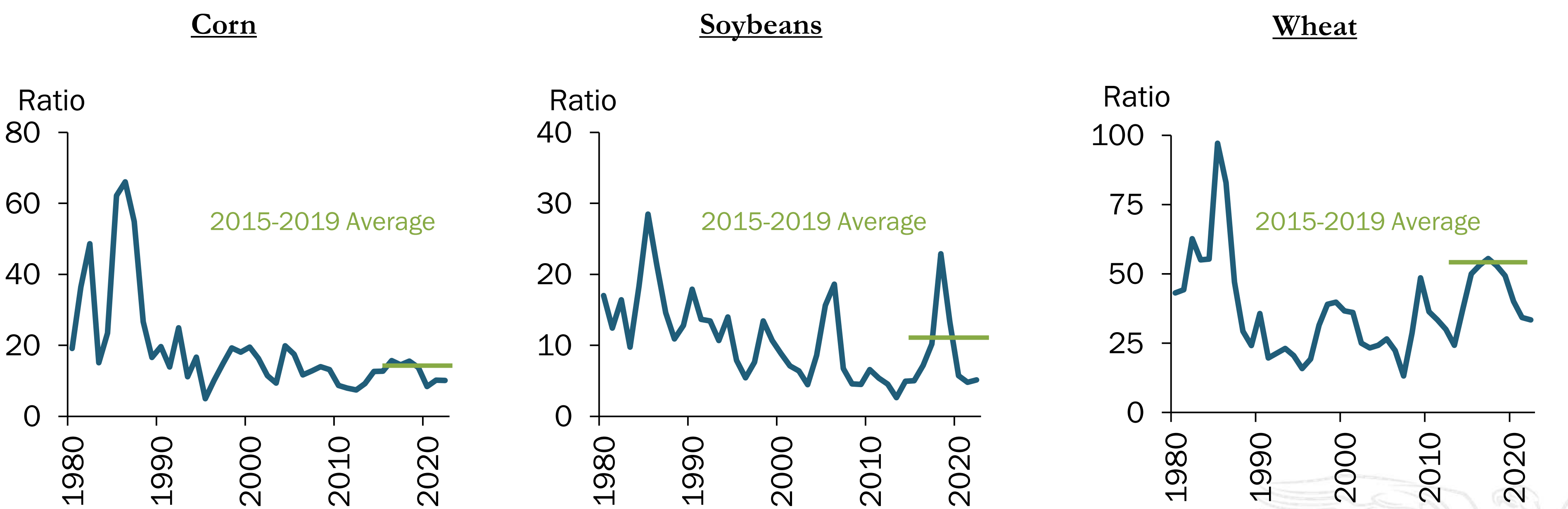
- The recent adverse shocks to inventories of several commodities are unprecedented, but annual growth and recoveries of stocks of similar magnitudes are relatively more common

- Investments in commodity production/extraction to restore stocks, alongside elevated corporate profit levels, will likely lead to some capital deepening at an aggregate level

- If so, labor's share of income will likely decline from current levels as capital owners' share of income rises over the medium term

U.S. crop inventories have declined substantially from their recent levels, but such volatility is not necessarily unprecedented

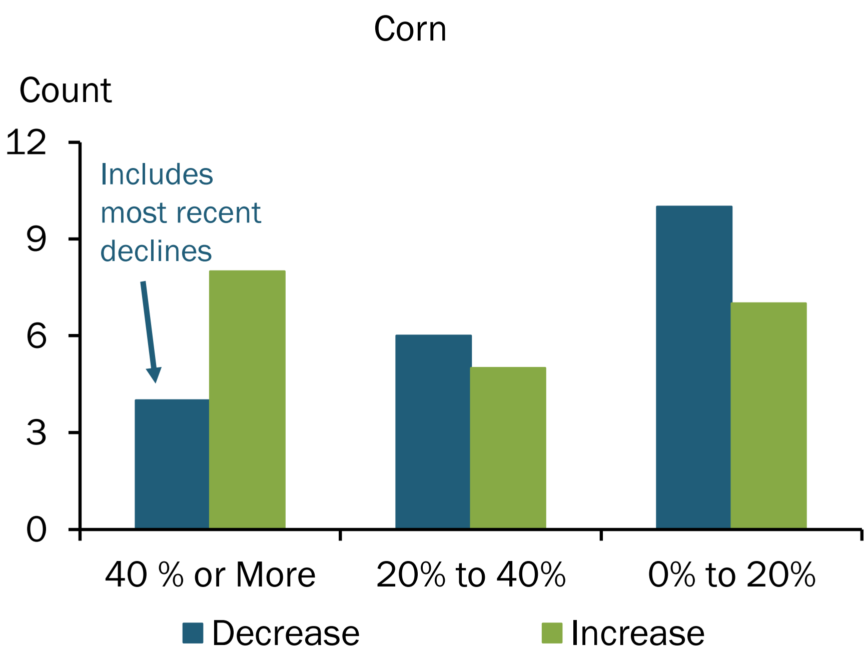
U.S. Crop Inventories: Stocks-to-Use Ratios

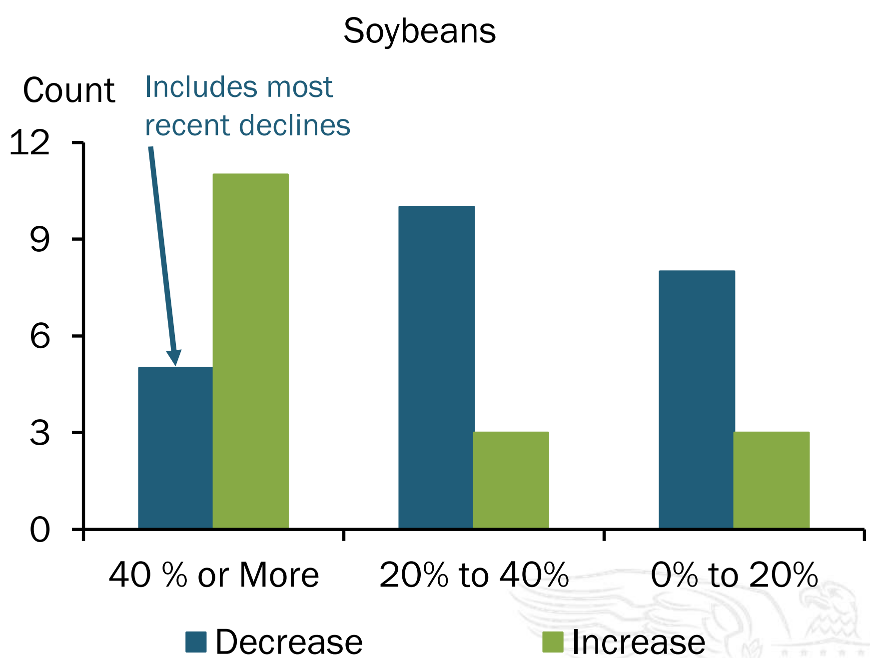


Sources: USDA and staff calculations.

The sharp declines in stocks seen recently are exceedingly rare, but annual growth in stocks needed to restore levels are more common

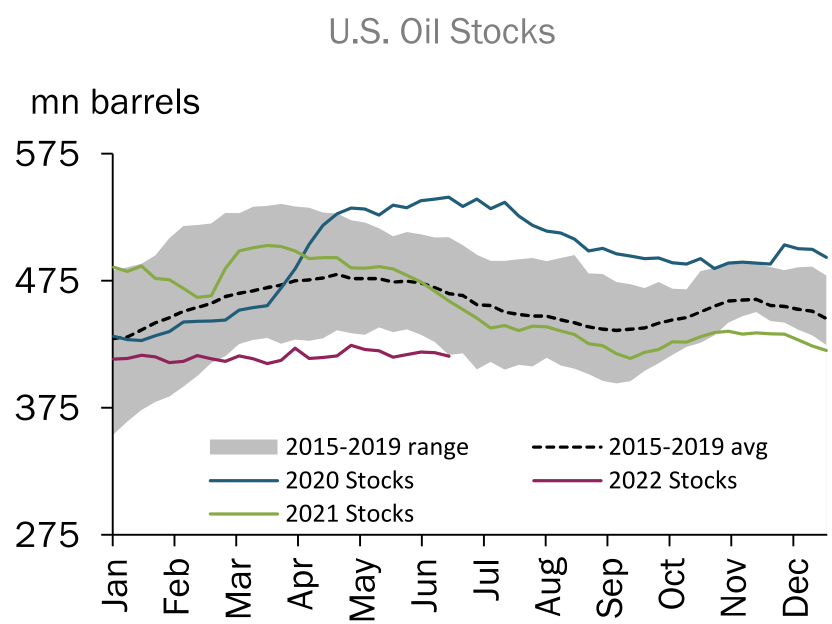
Number of Years with Annual Changes in Stock/Use Ratio of Different Magnitudes

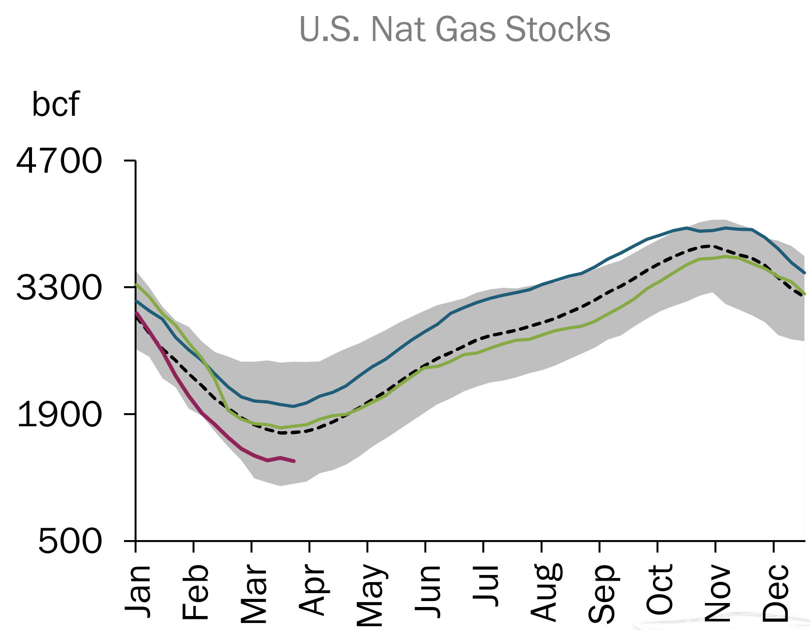




Sources: USDA and staff calculations.

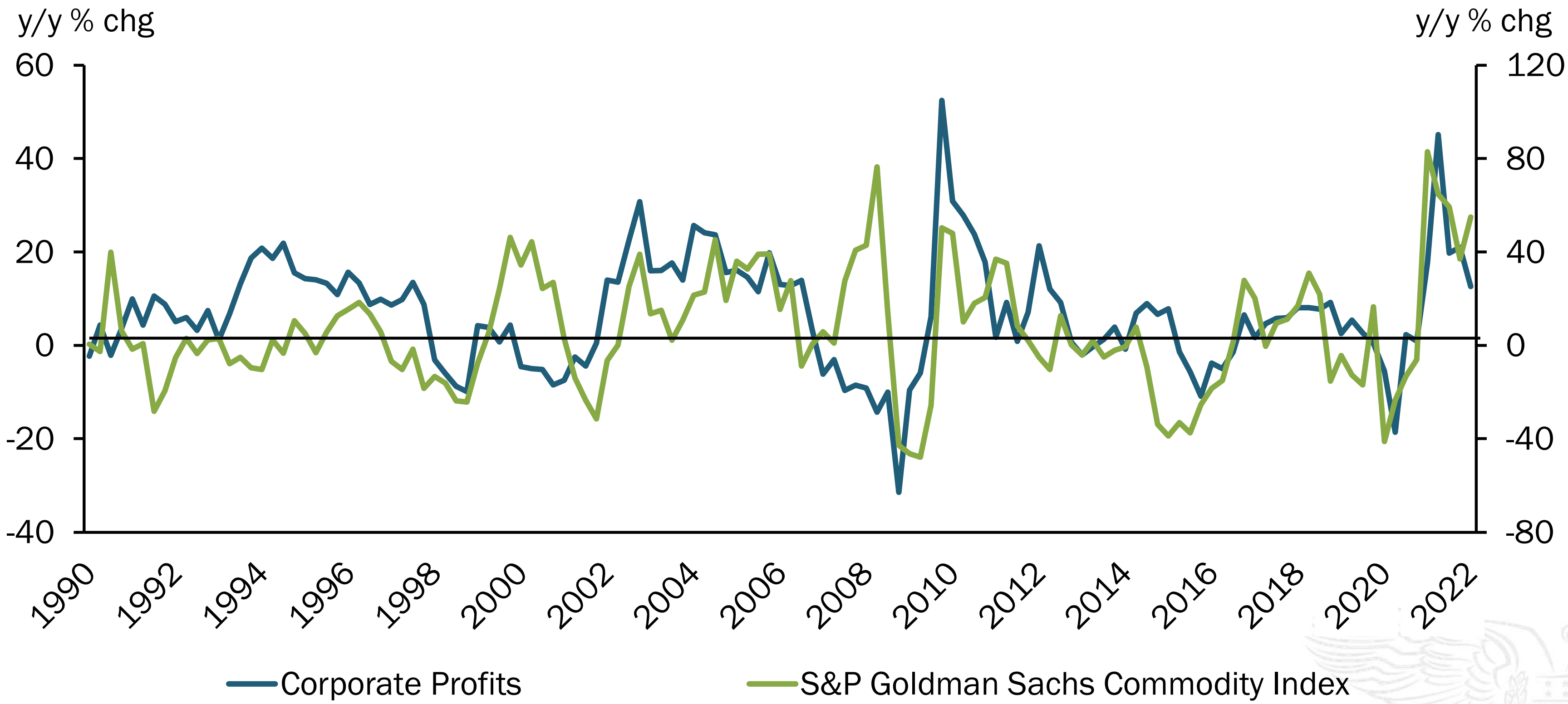
Similarly, U.S. oil and gas stocks are subdued, but tend to rebound quickly





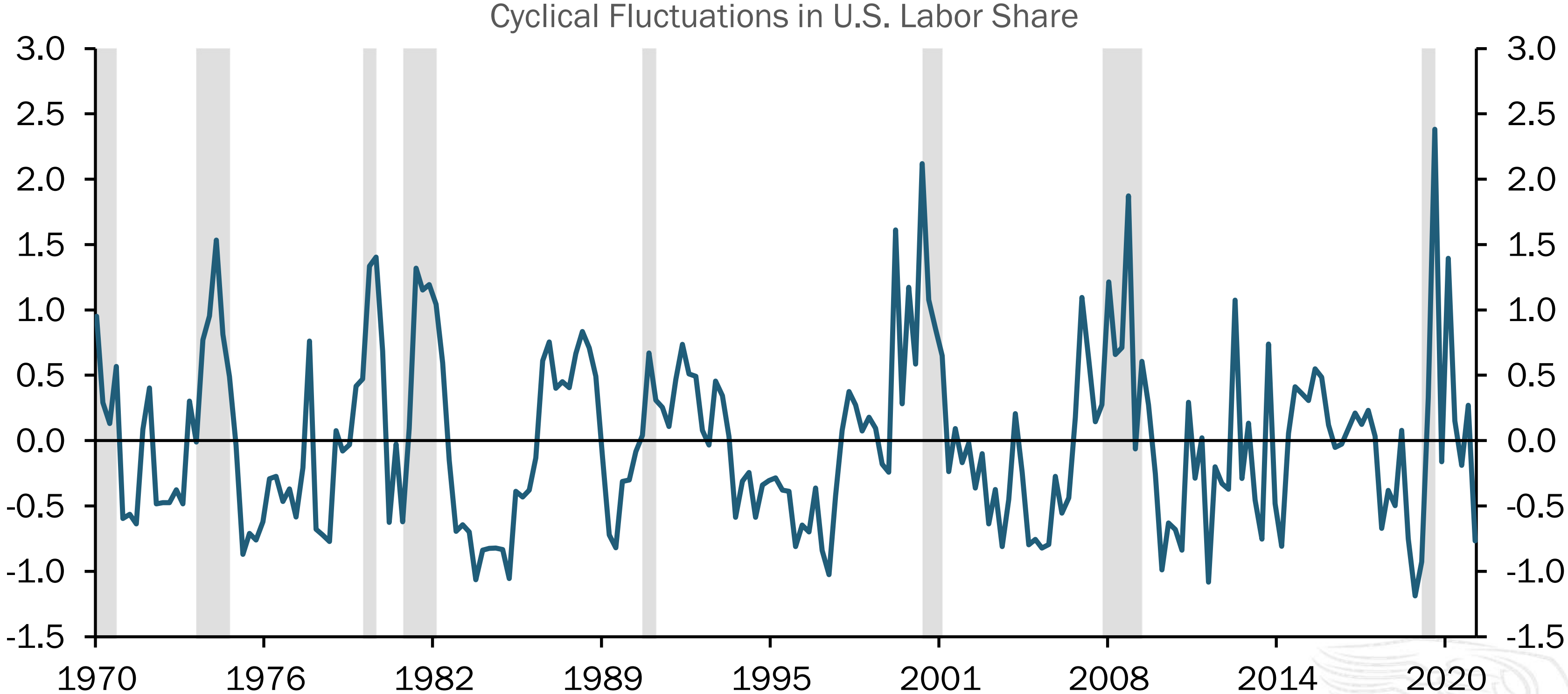
Source: U.S. Department of Energy, Energy Information Administration, Haver Analytics and author's calculations.

Strength in corporate profits will support investment in U.S. commodity production and additional capital investment



Source: BEA, S&P Global and Haver Analytics

Capital deepening in commodity markets alongside economic recovery will likely increase the share of income returned to capital owners



Source: Sly and Greene (2022), BEA and Haver Analytics
Note: Grey bars indicate recession shading

In sum

Shocks

- Inventories of many commodities continue to be volatile, but that volatility tends to be asymmetric

Cycles

- Strength in commodity production and corporate profits would likely to support growth in capex at an aggregate level over the medium term, absent shifts in macroeconomic conditions
  - i.e., monetary policy
- Cyclical factors are likely to generate a relative increase in capital owners' share of total income

Structural Changes

- Headwinds to capital deployment in oil & gas production from investor preferences or policy could lean against quick recoveries in stocks and real fixed investment activity at an aggregate level