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