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The North American Agricultural Bankers Conference

By: Dr. David M. Kohl

The GPS locator beamed me down for my 33rd consecutive year addressing the National Agricultural Bankers conference in Omaha, Nebraska. This year was a special combined United States and Canadian conference. Through the vision and insight of John Blanchfield of the American Bankers Association, this joint educational experience "between friends" occurs every five years. This year had the largest amount of exhibitors and over 650 people in attendance to hear leading experts address various issues during panels, concurrent, and general sessions.

The Buzz

As I networked at the conference, there was a definite buzz concerning land values in the upper Midwest and in Canada. Recent sales in the Midwest above $10,000 per acre had more than one attendee thinking about the pre-1980s farm crisis.

The long and short of it is that the low value of the dollar which encourages exports of grains and cotton in particular, along with the ethanol industry's use of corn, and low interest rates, with never-ending demand for commodities in Asia, are being capitalized into land values. Prime farmland with access to water and markets is garnering nearly a double premium compared to soils of lower quality.

Who are the buyers of this land? One concurrent session indicated that 70 percent of the purchases were made by aggressive, growth oriented producers. Traditional farmland investors, i.e. the neighbors next door ranging from 60 to 90 years of age, are acquiring 15 percent of the land. The remainder was purchased by outside "big block" investors. Their targets are in the Delta states, West Tennessee, and Kentucky, where one can grow multiple crops and have diversified enterprises.

New Paradigm

The founder of Whole Foods Market provided traditional bankers with a thought provoking examination of the future of agriculture. Walter Robb's main message was that consumers and special interest groups will shape the future agricultural marketplace in the U.S., Canada, and around the globe. Whole Foods Market is providing up to $10 million of financing seed money for startup agricultural businesses in the local, natural, and organic marketplace, through their Local Producer Loan Program, which raised the eyebrows of some in attendance. However, he was quick to note this movement will not feed the world, so many diverse business models in size and scope are necessary.

Government Trumps Economics

The economists addressing the conference were concerned that many of the United States' government initiatives may be trumping sound economic policy. Dr. Barry Flinchbaugh from Kansas State University indicated that farm subsidies will be cut because of the public's perception that agriculture is doing well. However, he was quick to note that subsidies have already been reduced substantially in recent years.

Others were concerned about the Federal Reserve's quantitative easing initiatives and their impact on global trade, the future of interest rates, and the possibility of inflation.

The majority of the lenders in attendance were concerned about the new financial regulations' impact on efficient and effective delivery of credit and financial services to the agriculture sector.

The producer panel from the United States and Canada stated it best when asked what they needed from a banker. Yes, they want a lender who is large enough to serve them, but they also want a balance of technology and face-to-face interaction that provides support at the local level.

Get your GPS programmed towards Indianapolis in early November for next year's conference for agricultural lenders who are lifelong learners.

A quick global economic review finds financial difficulty in the European sector and in Ireland, along with potential issues in Spain, has weakened the euro, and strengthened the U.S. dollar to counter the impact of quantitative easing on lowering the value of the dollar. Asia, and China in particular, is experiencing robust growth, encouraging demand in commodities, oil and fertilizer.

The dashboard indicators find the Conference Board Leading Economic Index® is very strong, jumping one percent, while the diffusion index shows 90 percent of the factors are registering positive, which moves it into the "green light" category. This may have been the result of the stimulus and the recent passing of the tax bill. The PMI is slightly receding which may indicate that inventory building plans of manufacturers may be subsiding.

Long-term, the news is not as favorable. Housing starts are 555,000 on an annual basis, which is a red light. Factory utilization is 5 percent below optimum. The recent job report and increase in unemployment rate during the holiday period shows long-term structural flaws in the economy.

With core and headline inflation low, the economy growing at an anemic 2 percent and oil prices nearing $100 a barrel, the overall economy is in a very guarded recovery, only one trigger point from an adverse direction.

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Indicator	Green	Yellow	Red
The Conference Board Leading Economic Index® - LEI	✓		
LEI Diffusion	✓		
Purchasing Manager Index - PMI	✓		
Housing Starts (millions)			✓
Factory Capacity Utilization		✓	
Unemployment Rate			✓
Core Inflation	✓		
Headline Inflation	✓		
Oil Price ($/barrel)		✓	
Yield Curve		✓	

Lender and Business Dashboard Economic Indicator Benchmarks

Indicator	Green	Yellow	Red
The Conference Board Leading Economic Index® - LEI	Increasing	Flat to Decline	Decline 0.3% for 3 consecutive months AND >1% over the period
LEI Diffusion[1]	>60%	40%-60%	<40%
Purchasing Manager Index - PMI	>50	41.7-50	<41.7
Housing Starts (millions)	>1.5	1.0-1.5	<1.0
Factory Capacity Utilization	>80%	70%-80%	<70%
Unemployment Rate	5%-6%	6%-8%	>8% or <5%
Core Inflation	0%-2%	3%-4%	>4% or <0%
Headline Inflation[2]	0%-3%	3%-5%	>5% or <0%
Oil Price[3] ($/barrel)	<$50	$50-$100	>$100
Yield Curve[4]	Steep	Flattening	Inverted

[1]Ten indicators make up the LEI - measures % that are increasing; [2]Includes food & energy; [3]Consumer's perspective; [4]3-Month Treasury Bill rate to 10-Year Bond rate