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<u>Aligning with the Next Generation of Agricultural Producers: Characteristics, Challenges, and Opportunities</u>

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Engagement with producers, lenders, and agribusinesses post-pandemic finds business transition as one of the top challenges. Aligning with the next generation that will play an important role in shaping the agricultural landscape for decades to come is laden with challenges but also opportunities. Let’s explore the future of this segment for any institution or business serving these future players.

In recent years, there has been much discussion about what defines a young or beginning farmer or rancher. Under 35 years of age and less than 10 years in business is often used to define this segment. Drawing on my four decades of facilitating at educational venues across the country with many agriculture organizations, I would suggest it is difficult to put this segment of producers in a box. In recent years, participants are coming to these venues with a wide range of demographics and skill sets.

Family businesses

The family business model is still predominant in the agriculture industry. However, the characteristics of the family are changing. Many multiple generation farms, some four to seven generations, find more cousins partnering with cousins rather than brothers and sisters. In some cases, non-family members are hired into ownership and management positions within the business. An interesting trend that is accelerating is that over 20 percent of farms and ranches have no next generation. Often these producers will participate in educational venues to identify possible “draft picks" to carry on the legacy by a non-family member.

A common trend in the agriculture family business is offering apprenticeships. Whether it is a family or non-family member, arrangements are made for the next generation to manage specific enterprises using common assets such as equipment, land, and facilities. The younger generation builds their management mindset and is responsible for production, marketing, risk management, finance, and operational management of the specific enterprise. The most successful situations are those where the younger generation does not borrow funds from family members and is accountable to a lender.

Agri-entrepreneur

The next model that is accelerating in numbers is the agri-entrepreneur. These individuals are successful at multitasking with outside "gig" income to supplement the farm and ranch business. While this business model often has very little collateral, they often boast diversified sources of income. The benefit beyond the income is building a community and networking to generate new ideas and markets. This is very appealing as technology has allowed many agri-entrepreneurs to expand their reach through social media and integration of innovation and technology observed in the side venues.

Boomeranger
The next model throws a curveball to the age characteristics of "traditional young farmers." These individuals are called the boomerangers and are previous blue collar and white-collar workers. They use their experiences and skill sets developed in another occupation in their agriculture business model. For example, two individuals in their late 50s started an organic grain operation after a career at a major automaker. Their experience with protocols, documentation, and overall transparency provided the competitive edge in their organic grain operation.

Vertical and Urban Agriculture
A group that is underserved by traditional agricultural lenders is the vertical and urban farming segment. This group of entrepreneurs is very adept at taking facilities in the city and converting them into successful business models while providing services to the community and the public.

The future of young and beginning farmer and rancher programs can be modeled after trends in FFA, 4-H, and MANRRS programs. More women and minority membership in these organizations and on leadership teams are being observed as I engage with these youth groups. Approximately 20 percent of FFA chapters are urban based as youth are attracted to learning skill sets such as teamwork and communications while making a difference in life rather than the standardized test model used in curriculum assessments.

Needs assessment
A challenge to the young and beginning farmer and rancher programs is the diversity in needs. Some farmers and ranchers want the basics. In some cases, they may have inherited a land base and they do not know what to do with it. The basics of production, crop and livestock management, and building infrastructure like fences, roads, and structures is a high priority. For some producers, information on organization, record-keeping, budgeting, legal issues, and financing is often needed. Skill-based assessments, time management, and work life balance are also a high priority.

The traditional family model, agri-entrepreneur, and boomeranger all need to conduct both an internal and external resource assessment. Marketing assessments, both for commodity or value-added production, are often needed along with business planning and personal finance budgeting. The challenge is this could be for a small, urban operation with less than $10,000 of annual revenue or a large business with over $1 million of revenue.

In terms of the family business model, continuing the family legacy with a focus on the transfer of wealth and management is an area that will always need to be addressed. Changing roles and the integration of generations is often a marathon of multiple years rather than a sprint. Governance, business organization, taxes, and communications are often the difference makers with this model. The key is to center on continuing the legacy of the family business and the founders of the business.

Defining success
My years of experience interacting with young and beginning farmers and ranchers finds a wide spectrum of how they define success. Some are focused on profits and wealth building, while others want to maximize their entrepreneurial spirit. As previously mentioned, success can be carrying on the family legacy or a legacy for a non-family member. Some beginning farmers and ranchers are focused on community and society through educational venues or providing an experience or service to give back to society and the community. Whether it is traditional, urban, or vertical farming, there is a definite movement towards sustainable and regenerative agriculture in collaboration with new, innovative agriculture segments and technology. Many will often list success as raising the family or non-family members with the appreciation of life skills and business management skills.

Successful young and beginning farmer and rancher programs
It is difficult to put young and beginning farmers and ranchers in a box. Most successful programs have flexible boundaries with a wide range of criteria and demographics of attendees. These programs are creative and entrepreneurial to meet the needs of the footprint of the sponsoring organizations.

Successful programs integrate team members of the sponsoring organizations in the educational venues rather than having them sit in the back of the room. These team members are instrumental in the selection process of the participants and the integration into the educational venue. They also provide follow-up and accountability on assignments designed to bring the education to life for the participants.

The flexibility to customize subject matter and link the programs to financial incentives both support creative, cutting-edge programs. Commitment and accountability of the participants is critical. Completing assigned tasks, meeting criteria for incentives, and participants providing some “skin in the game,” which could be financial or time, are all critical for accountability. This is analogous to a Division I scholarship that requires a total commitment from the athlete.

Supporting these programs consistently with necessary technical, capital, and human resources is critical. Historically, political agendas inside and outside the sponsoring organizations send a message to the participants regarding the organization’s commitment. Programs that are inconsistent from year to year on a local, state, regional, or national level, establish a negative perception within the agriculture industry.
Pitfalls in strategy and execution

Definitions of young and beginning farmers and ranchers in terms of age, years in business, and scope of the program need to be as flexible as possible to include all interested producers; however, a one-size-fits-all approach will often be too generic for many programs and educational efforts.

Institutional inconsistency at local, state, regional, and national levels is a detractor. Misalignment of the "vintage" or experienced lenders who lack passion for this segment and who think inside the box can also deter the young, beginning, and small segment of producers.

In my experience, it is best to stay away from commodity specific programs as it creates the "silo syndrome." Chasing the next big thing such as hemp, llamas, emus, catfish, or broccoli can be dangerous from an economic and image perspective. While some have been successful in these industries, success is never guaranteed. In terms of financial education, trying to cover everything at once, rather than following a process, can be overwhelming. The numbers game is not a sprint, but a marathon.

Traditional risk rating systems do not fit this segment well. More emphasis needs to be placed on cash flow, working capital, liquidity, business planning and IQ, and execution rather than hard collateral, which is often lacking because of the tenure of this demographic.

The following are suggestions for innovations for the future of young and beginning farmer and rancher programs.

- Engagement of the institution's team members, board of directors, and management is vital.
- Whether it is in person or through technology, face-to-face time and a focus on building a return on relationships should be a priority.
- Trips and visits to outside the box industries like urban agriculture or successful agribusinesses have been a successful standard.
- Why go it alone? Some of the most successful programs are a result of collaboration with other institutions or industry groups with similar core values. This is a new trend being observed nationwide.
- A portfolio of risk capital backed by government guarantees or other industry incentives could be the mode of the future that needs to be expanded.
- Maintaining a network of expertise and presenters across various crosscutting subject matter topics that is constantly updated could be very useful.

Changes in agriculture through demographics, innovation, technology, and marketplace shifts will require constant vigilance in setting the expectations for this segment that is vital for the future of the agriculture industry.

U.S. Economy

In my 15 weeks of intense travel from coast-to-coast in the United States this year, the economy seems to be motoring on. Airports, hotels, and resort areas are bustling with people that appear to be opening their pocketbooks. However, if one examines the leading economic indicators there appear to be mixed signals. Are the stimulus savings from the pandemic and an increase in credit card debt maintaining the resilience in the U.S. economy, or are there storm clouds on the horizon? It certainly feels like the U.S. economy is in a transitional phase. Let's examine some of the leading economic indicators.

The Leading Economic Index (LEI) and the diffusion index both indicate a recession is around the corner. The LEI continues to be down over three-tenths of one percent month over month for the past year and the diffusion index continues to be 25 and below in recent months, which is in bearish territory.

Oil prices have increased as a result of OPEC curbing oil production, despite China's economy sputtering in its recovery. Higher demand for fuel in the spring and summer may push oil prices near $100 per barrel if the U.S. economy continues to be resilient.

The real dark side of potential economic issues is the Purchasing Manager Index (PMI). This number has been below 50, a sign of a contracting economy, for five consecutive months. In many sectors, inventories are building up and discounts are occurring that are linked to manufactured goods.

The job market is softening, particularly in the technology sector and at the executive levels in many larger firms. However, demand for workers in the services sector is maintaining overall low unemployment numbers in the mid-three percent and mid-six percent range for U-3 and U-6 unemployment rates, respectively.

Housing starts are fairly resilient, but still under the ideal range of 1.5 million units annually. It will be interesting to see if the tightening of credit, as a result of the regional bank failures in the U.S. and the large European bank, has an impact on housing starts over the summer.

The factory utilization metric still remains on solid footing. Will the weakness in the PMI eventually filter down to the factory sector?

The inflation rate continues to be stubborn in the mid-five to six percent range. An increase in headline inflation, which includes food and energy, could occur with the increase in oil prices. Core inflation remains high as housing costs are a big component of this metric.

The Index of Consumer Sentiment, measured by the University of Michigan, is still in the mid-60s, which is a sign that the U.S. consumer is not confident.

While the gross domestic product (GDP) was positive in the first quarter, geopolitical tensions, banking issues, and general uncertainty in the economic environment post pandemic show a resilient, but fragile economy that could change directions very quickly.

The yield curve, which inverted a year ago, has shown little improvement. Historically when the yield curve inverts, a recession occurs 12 to 18 months later.

Global Economy

The global economy is very similar to the U.S. economy, but less resilient and more fragile.

China

The latest news out of China is that their citizens, who saved $2.4 trillion during the three-year COVID-19 lockdowns, are very reluctant to spend money. Instead, they are paying down mortgage debt, despite declining mortgage interest rates. Mortgage debt in China is structured on variable interest rates. Similar to the United States, the Chinese citizens are very concerned about the future direction of their economy and the uncertainty in the stock market. As a result, they have prioritized paying down debt on homes, which totals between $5 and $6 trillion. The Chinese continue to forge ties with the other BRICS nations (Brazil, Russia, India, China, and Saudi Arabia) for commodities and competition with the U.S. and Europe.

European sector

The war in Europe is still the number one concern. However, stubbornly high inflation in the Euro sector and particularly in Great Britain is taking a toll on consumers and the economy. Russia's goal of wearing down NATO and the Western nations' support for Ukraine will need to be closely monitored during the spring and summer months.

Food inflation is very much an issue globally. The inflation appears to be beyond what is received at the farm gate, and in the food processing and distribution structure. Shortages of commodities, particularly rice – a staple for 3.5 billion people worldwide, are taking a toll on developing nations' economies and will need to be closely monitored for these countries' economic and social stability.

Overall, the global watch list includes weather in major food producing areas. Trade policy shifts and the rise of an alternative currency to the U.S. dollar could result in a slowing of the global economy due to the uncertainty.

Lender and Business Dashboard Economic Indicators (for the month of March)

Indicator	Current	Green	Yellow	Red
Leading Economic Index - LEI	108.4			✓
LEI Diffusion Index	25%			✓
Purchasing Manager Index - PMI	46.3		✓	
Housing Starts (millions)	1.420		✓	
Factory Capacity Utilization	79.8%		✓	
Unemployment Rate	3.5%	✓		
Core Inflation	5.6%			✓
Headline Inflation	5.0%		✓	
Oil Price ($/barrel)	$77.72		✓	
Yield Curve	-1.27			✓

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	<6%	6%-8%	>8%
Core Inflation	0%-2%	2%-4%	>4% or <0%
Headline Inflation[2]	0%-4%	4%-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