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Cyberville: A Special Educational Venue

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As an educator, I have been involved with many agricultural banking schools and conferences over the decades. One of my favorites has been the Southeast Ag Lenders School (SEALS) held at Clemson University. Historically, this venue is different from many other schools as lenders from a wide range of institutions including Farm Credit Associations, Farm Service Agency (FSA), banks, and agribusinesses are in attendance. The diversity of the participants creates outstanding discussion, interaction, and engagement.

This year the 37th annual school was originally scheduled to be held in May 2020; however, the COVID-19 pandemic caused a temporary delay with the possibility of a cancellation. Fast-forward to the first week of October when the school's director, Scott Mickey, and other faculty who have been involved over the years decided to move SEALS online to "cyberville" with a shortened three-day timeline. The move to an online format and some creativity allowed this event to be opened up to past graduates as well as new attendees. Registration was also open to Extension professionals, consultants, and producers who wanted to sharpen their skills. A reduced price for the three-day event in November made this year's school very appealing to a wide range of people.

The event was sponsored by Farmer Mac. Patrick Kerrigan, Vice President of Business Development at Farmer Mac, did an excellent job at facilitating an instructor panel. A series of speakers including Scott Mickey of Clemson University, Dr. Steve Isaacs from the University of Kentucky, Dr. Joe Outlaw from Texas A&M, Eric Snodgrass also known as "Eric the Weather Guy," and I provided content, case study applications, and facilitation throughout the three days.

Comments from the evaluations may spur thoughts on future lending schools. The producers indicated that it was very educational to hear how lenders analyze information in the case studies. These perspectives will be useful for their working relationships in the future. The participants from Extension reported that the venue provided an invaluable experience, particularly because they are often a third party working with both producers and lenders.

With a wide range of participation, the engagement and interaction required the lenders and others to get outside of their institutional silos and hear other points of view. Granted, some participants admitted that a face-to-face event would be better for these activities; however, over 88 percent of pre-registrations for over 90 individuals were in attendance for all three days. A couple of lenders indicated that the modified event was a great way to tune up their skill set, update trends, and gain new information without spending two days traveling for three full days of a school. One producer was able to engage with the school while being in the combine with advanced technology. This concept would have been impossible a decade ago! The diverse group generated a wide range of questions which would not have occurred in a normal school. The following are a sample of these questions.

What is the greatest hurdle for a family farm? Is it price, production, or marketing?

The answer is none of the above! A major challenge will be to develop a business mentality mindset. Production, prices, and economic cycles will be important; however, the ability to manage the extremes in volatility, not just the cycles, are what is important. This will require focus through goal setting, following a process, and continuous monitoring and tweaking with input from a team of informal or formal advisors. Lenders will be challenged to identify this management mindset which can be even more important than analyzing some of the financial ratios.

How stable are the new niche markets? How does a lender analyze these types of businesses?

The decade of the 2020s will be defined by nontraditional agricultural businesses. Lenders, producers, and Extension educators will focus on three phases of the business: startup, growth, and exit. More women, minorities, and “boomerangers” or those shifting careers will be involved in these enterprises. Collateral is often a personal guarantee rather than land. Working capital should be a high priority for businesses serving niche markets. Success is often dependent on the execution of a sound well-thought-out business plan. The COVID-19 pandemic has accelerated the growth of niche markets. However, businesses serving niche markets must be ahead of the marketing curve as the big-box stores or other big businesses will often attempt to commoditize niche markets. This can create concentration cannibalization. Expect to see more “gig” revenue, which is derived from nonfarm complementary businesses that support the skill sets of the stakeholders and provide valuable cash flow for the growth of the business.

What is your advice for a new lender, producer, Extension agent, or consultant?

Make sure you surround yourself with good mentors that have the right set of institutional memory. Be a sponge seeking information, knowledge, and advice that can accelerate the learning curve. For example, the school was a great venue for each segment of agriculture to see how different approaches are discussed to provide the framework to customize the decision-making process to fit your skill set, situation, or responsibilities. Remember, it takes three to five years to develop your brand. A personal brand is often built through experiences and these experiences build confidence.

When should I address financial and emotional stress with a customer?

The old rule of thumb is the earlier, the better. Remember, the longer you wait, the fewer your options. The building pressure can cause the pipeline of business or life to burst! Do not go it alone. As Dr. Steve Isaacs stated, “There are many financial, mental health, and family business dynamics resources available.” Attempt to tag team the situation and have an agenda and minutes with incremental action plans that are monitored. Remember the rule of three, sometimes known as the “Babe Ruth Rule.” Do not give more than three recommendations at a given time to reduce the pressure of being overwhelmed.

To conclude, online schools will not replace good old-fashioned face-to-face educational events. However, they are another tool in the tool kit to bring lenders, producers, and educators together that can provide value for all involved.

A Legend and his Legacy

On a final note, I recently received one of those phone calls and emails that I dread. Dr. Barry Flinchbaugh, Professor Emeritus at Kansas State University passed away on Election Day eve. My last conversation with him was two weeks prior as we were both preparing to teach at the “cyberville” SEALS school. He died doing what he enjoyed: teaching and being an educator. In January 2020, Farm Futures interviewed both of us for an article. The last line of this article sums up his career and his life, “In the end, my legacy really is my former students and the young farmers that I helped. All I want on my headstone is ‘He cared.’” The lending community will miss him, his cigars, canes and lollipops, and his dry and wry sense of humor. Rest in peace, Professor!

Domestic Economy

The U.S. economy has been full of surprises! During the lockdowns in March and April, no one could have believed that the Dow would exceed 30,000. There is an old saying, “If it grows too fast, it is a weed.” This saying is applicable to the equity markets. Much of the recent growth is a result of a few high-tech firms coupled with institutional and everyday investors going further out on the risk curve. Some investors may have a general perception that the government’s fiscal and monetary backing will always be there. This, in turn, could result in a bubble in the stock market. The following analysis of economic data may be relevant to this discussion.

The Leading Economic Index (LEI) is full steam ahead increasing over one full point per month, which bodes well for good economic times ahead. The LEI diffusion index, which measures whether the factors comprising the LEI are trending positive or negative, is also very strong with the past six months in the 70% to 80% range.

Oil prices have taken a dip as a result of slowing demand, specifically in the airline industry. The Purchasing Manager Index (PMI) has been strong for the last six months at over 50, which is indicative of a growing economy.

The housing market is strong with over 1.5 million units started annually in November. Population shifts from urban to rural areas, people downsizing, and low, stable interest rates have created strong demand for homes. The strong housing market coupled with low core and headline inflation in the 1.5 to 2 percent range is a recipe for economic recovery.

Potential issues for the U.S. economy are in three areas. First, U-3 and U-6 unemployment is 6.9 and 12.1 percent, respectively. More layoffs and reduced salaries need to be heeded. Historically, unemployment has been a lagging economic indicator. However, the COVID-19 pandemic has increased change in automation and how productive people apply their job skill sets.

Second, factory utilization is still not stellar at 72.8 percent. How will trade agreements, competition, and automation challenge this segment of the economy?

Finally, consumer sentiment, which is a behavioral factor behind 70 percent of the U.S. economy, is still much behind pre-pandemic numbers. In recent months, the Index of Consumer Sentiment has been registering in the low 80s to high 70s, which is reflective of an uncertain consumer. These three factors bear watching for economic recovery and the future direction of the Dow Jones and S&P 500.

Global Economy

While the elections were occurring here in the United States, changes with world trade partners may have more of an impact on the U.S. agriculture industry and overall economy. While not garnering much attention by the U.S. media, an important trade agreement was reached in the Asian region. The Regional Comprehensive Economic

Partnership (RCEP) between 15 Asian countries, including China, was signed recently. To put this in perspective, this trade agreement represents 30 percent of the world economy, 2.7 billion people, and a cumulative gross domestic product (GDP) of $25.8 trillion. When compared to the Comprehensive Progressive Agreement for Trans-Pacific Partnership (CPTPP), which comprises 11 countries, 508 million people, and a total GDP of $11.1 trillion, the RCEP is almost double. If the RCEP is compared to the USMCA, which is a trade agreement between the United States, Mexico, and Canada that represents 500 million people and $24.4 trillion of GDP, one can see how important the RCEP is on the world stage. The global trade value of the RCEP is $12.5 trillion when compared to the CPTPP of $7.6 trillion and the USMCA of $7.8 trillion.

The RCEP agreement reduces tariffs between the participating countries and increases China's influence in the Asian region. This agreement has the potential of representing over 50 percent of the global purchasing power by 2035. In 2021, it will be interesting to observe the United States' stance on joining the CPTPP as a blocking strategy to China's influence on global trade. Other possible trade deals between the U.S., Great Britain, and Europe may also be a counter to China as they desire to be the world's leading economy by 2040.

A warning to all agricultural lenders and producers regarding the recent increase in corn, soybean, cotton, and pork prices: After China rebuilds its hog industry and has sufficient inventory of these commodities, will this be enough to create a possible bear market? Only time and global weather will tell the story.

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

Indicator	Current	Green	Yellow	Red
Leading Economic Index - LEI	108.2	✓		
LEI Diffusion Index	80%	✓		
Purchasing Manager Index - PMI	57.5 (Nov)	✓		
Housing Starts (millions)	1.530	✓		
Factory Capacity Utilization	72.8		✓	
Unemployment Rate	6.9%		✓	
Core Inflation	1.6%	✓		
Headline Inflation	1.2%	✓		
Oil Price ($/barrel)	$46.79 (Nov)	✓		
Yield Curve	0.52		✓	

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