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DAVE'S GPS

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Oklahoma City Educational Special

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The American Bankers Association’s 71st Agricultural Bankers Conference was held in Oklahoma City and an informal survey of attendees indicated that the event exceeded expectations. It was a special treat being at the new convention center, which was adjacent to a new hotel and the Paycom Center where the Oklahoma City Thunder play. Many bankers tasted great steaks down at the stockyard which sells over 10,000 head of cattle per week and over 102 million since it first opened. Those that visited the National Memorial and Museum by the federal building and participated in the subsequent tour spent some time reflecting on the tragic day and how people's world can be turned upside down in a matter of a few minutes.

This year's venue had many outstanding speakers and panels which provided information, networking, and challenging sessions that made one critically think. For 20 percent of the bankers, this was their first conference. However, a roll call found a lender from every decade back to the 1970s. Congratulations to Leonard Wolfe, a Kansas banker from the largest agricultural bank in Kansas, winner of the Bruning Award which recognizes the lifetime achievement of agricultural bankers. My good friend, Bob Craven, was well deserving of the Blanchfield Award given to those who exhibit outstanding service to agricultural banking and the financial fields. His work as Associate Director of the Center for Farm Financial Management at the University of Minnesota has been pivotal to the financial success of many producers and lenders nationwide. Attendees at the conference came from over 25 states, Canada, and Europe, which provided a diverse mix of people and institutions. Over 40 exhibitors and sponsors who provide support and a variety of products and services for everyday bankers were also in attendance.

After reviewing 14 pages of notes, the following are some of the nuggets that provided some thoughts and perspectives during this trip. Oklahoma City is one of the waypoints along Route 66. Just as travelers made their way across the country, these remarks bring us one step closer to the quarter-century mark. The following are some of my favorites that you may be able to incorporate at your bank, institution, or with your customers.

"I like boring"

A banker and a producer who were in attendance indicated that they liked boring marketing and risk management plans. What they meant by boring is knowing your cost of production and break-even points and selling crops and livestock periodically in a positive mode knowing that you may leave some money, or the "proverbial homerun," on the table. Many at the conference commented that planning and executing a marketing and risk management program with the various tools available can keep the business and loan portfolio out of a 1980s financial situation.

Losing the community bank can kill the rural community

The loss of a community bank can be detrimental to a rural community. I can attest to this as my rental car travels on the backroads of America. This is troublesome as we are observing bank consolidation and the next generation of some family-owned banks giving up their ownership. The economic vitality of a rural area can be linked directly to the bank that provides support to the community, schools, social functions, and financing to farmers, ranchers, and businesses in the community. It will be interesting to observe the consolidation trend in both agriculture and banking and its impact on rural population dynamics.

"Stay in your lane"

LaVar Ball, father of three sons now playing in the NBA, made this phrase famous. More bank closings and financial issues can be directly linked to diversifying the loan portfolio outside the area and scope of expertise. Yes, regulators often scrutinize portfolio concentrations. However, the financial institutions that diversify their loan portfolios need to have the management capabilities and expertise to broaden the scope of lending. Discussion at the conference indicated that there are more agriculture and rural bank issues coming in 2024 as a result of banks not staying in their lane.

Convergence of variables

Many of the economic speakers were of the opinion that it will require more than one factor to impact the financial health of an individual customer and the agriculture loan portfolio. It will not be just about increasing interest rates or producers taking on more debt. It will be both of these variables combined with an extended decline in commodity prices and management not being "up to snuff." A 1980s economic scenario would combine all of these factors and a substantial decline in land values.

Technology of the future

Considerable time at the conference was devoted to technology of the future, including artificial intelligence (AI) and green energy. Each of these new technologies will go through a diffusion stage where there is initially a peak of inflated expectations followed by a time of disillusionment. The next phase is the enlightenment stage where productivity plateaus. It appears both AI and green energy are in phase one. Terms such as “greenlash,” or a resistance to green energy initiatives, are becoming more common in Europe and China because the economic viability of green energies are not being considered. If the globe and the United States both go into a recession, consumers and businesses may prioritize economic survival, moving us quicker to the trough of disillusionment and making it deeper. Before businesses will adopt green energy practices, they must have a framework and a scorecard that can be evaluated for economic stability. When it comes to AI, determining who owns the information and the data will be important. AI’s ability to solve difficult problems and circumvent issues by following the rules and rationale will be a challenge and require critical thinking.

“Being aware is more important than being smart”

Sherri Coale, former women’s head basketball coach for the Oklahoma Sooners, gave advice to the bankers. Sometimes I cringe when I hear people indicate that an individual was hired because they were smart. The ability to be aware and connect the dots with a human touch is just as critical, if not more important, than being smart, particularly in the agriculture industry.

“How do you respond?”

This is another quote from Coach Coale’s nuggets of advice. Life is fluid with a rapidly changing environment. How one responds is a choice. Life does not happen in a vacuum. You must figure out and manage around the uncontrollable variables and focus on the controllable ones.

Other quotable quotes

Water is not just a Western United States issue. It is actually a nationwide and global issue. Future wars and conflicts will be fought over local, regional, national, and international *water* issues - not oil, but *water*.

Save the date

Next year, the Agricultural Bankers Conference will be a midweek event rather than over a weekend. Save the date for November 12-15, 2024, in Milwaukee, Wisconsin. This will be the third time at this location; the last two conferences were great events.

Global Economy

The global economic health and movement towards de-globalization will impact the fortunes of agriculture exports, which are very important to the bottom-line of many agricultural producers. Will Brazil's rise in production activities, specifically in corn and soybeans, bump the U.S. agriculture economy to second position? In other words, if South America and other parts of the southern hemisphere have supply, China and the Asian region will source products there first and then utilize the U.S. and Europe as a fallback. The pork and dairy industries are experiencing this shift in priorities with lower prices and an increase in market volatility.

China and the Asian region

The Chinese economy's credit rating outlook has been downgraded by Moody's from A1 stable to A1 negative. This is a result of a downturn in the real estate market and a decrease in exports, which are down 14.4 percent overall from a year ago and down 40 and 44 percent to the United States and Europe, respectively. Youth unemployment for 20- to 30-year-olds is above 20 percent. In addition, increased government spending for adult care and high levels of debt are all combining for a period of slow economic growth for China and the Asian region, including India.

Europe

Europe as a whole is in a zero-growth mode with the economic powers, such as Germany and France, struggling more than others in the region. Italy's economy has been boosted by tourism and their leaders' focus on entrepreneurship and small business success. There is a movement toward "greenlash," or a push back on some of the green energy initiatives, as economic standings decline throughout the region.

As we move closer to the quarter-century mark, a major question will be whether the economic issues in Europe and around the globe spread to the North American economies of the United States, Canada, and Mexico.

Domestic Economy

In this column last year, I predicted a recession which did not occur. High interest rates were not enough to overcome the government stimulus checks and low unemployment rates. Real estate and stocks were enough to bolster individual and business confidence, investment, and spending. This is all happening while many of the leading and lagging economic indicators are blinking red.

The Leading Economic Index (LEI) has been down three-tenths of one percent for each month this year. The annual decline was over six points, which is unprecedented. The diffusion index has been 50 or less a majority of the time, another leading indicator of economic issues on the horizon.

On a positive note, oil prices have declined as a result of lower Chinese demand. Closely watch the weather, wars, and the willpower of the green energy movement for this important element in the cost structure of agriculture.

Another indicator blinking red is the Purchasing Manager Index (PMI). This number has also been under 50 for all of 2023, which is a sign of a contracting economy.

A strong labor market with the U-3 and U-6 unemployment rates at 3.7 and 7.0 percent, respectively, has historically been a lagging indicator impacting economic strength.

Housing starts have been above 1.3 million units annually for most of 2023, which is solid, but not stellar in the marketplace. The higher median home price along with increased interest rates and down payment requirements of 20 percent squeezes the household income for payment. On average, 44 percent of earnings is needed to make payments on financed homes, which is beyond the modest risk level of many lenders.

Factory capacity utilization is at acceptable levels, another offsetting factor to the negative variables.

The Index of Consumer Sentiment, reported by the University of Michigan, is improving, but is still below 75 which indicates a tepid consumer. This is being reflected in holiday retail sales, auto purchases, and other capital investments.

Core and headline inflation rates have continued to decline, but not fast enough. Core inflation is influenced by housing costs, which comprise over 30 percent of this metric. Inflation will stay stubbornly high as rents and leases are negotiated on an annual basis and housing prices have been slow to decline.

In summary, a mild recession could be in the future for the United States if one examines the balance of negative and positive leading and lagging indicators.

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

Indicator	Current	Green	Yellow	Red
Leading Economic Index - LEI	103.9			✓
LEI Diffusion Index	30%			✓
Purchasing Manager Index - PMI	46.7		✓	
Housing Starts (millions)	1.560		✓	
Factory Capacity Utilization	79.3%	✓		
Unemployment Rate	3.7%	✓		
Core Inflation	4.0%		✓	
Headline Inflation	3.1%	✓		
Oil Price ($/barrel)	$83.89		✓	
Yield Curve	-1.06			✓

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