FARMER MAC

DAVE'S GPS

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Zoomcast Zingers

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The world of face-to-face educational experiences has gone underground for the time being. Online meetings and presentations are the mode of delivery in a world of accelerated change where information and knowledge are components of success. Engagement with participants in "cyberville" often requires creativity through polling and answering questions submitted by the audience. These strategies were employed with over 500 graduates of the Graduate School of Banking at Colorado who participated in a panel discussion with three faculty members moderated by yours truly. In addition to the panel discussion, I was also engaged by Royal Bank of Canada (RBC) for the Ag in Motion event covering all of Canada. The following are some of the polling results and questions from these powerful venues.

Bubbles

Many of the participant questions centered on financial bubbles that have been created by governments' fiscal stimulus and central banks' monetary policy both here in the United States and abroad. The bank school faculty stated that there were probably very few farmland and residential real estate bubbles. If present, these real estate bubbles would be in certain regions or areas. However, the faculty was concerned that commercial real estate, particularly in urban areas, may see severe valuation corrections. The migration of the urban population coupled with the demand destruction and social distancing created by the COVID-19 pandemic may create long-term devaluation in many urban areas.

Next, all of the faculty member panelists agreed that the stock market valuations are being influenced by both fiscal and monetary policy. These programs have resulted in risk-taking by both institutional and retail investors attempting to post gains on stock market investments versus alternative investments. Investors choosing stocks because other asset classes offer even worse returns can result in the "TINA Effect." This situation and the subsequent decisions of investors can cause the stock market to rise only because **t**here **i**s **n**o **a**lternative for investors. These risk takers are also active in the bond market as well as moving towards gold and silver investments.

In a survey of participants, 86 percent indicated that the Dow Jones Industrial Average would be between 20,000 and 28,000 points by year-end. However, they were also optimistic for the future with 70 percent predicting that the Dow Jones Industrial Average would be between 25,000 and 30,000 points at year-end 2021. It will be interesting to see how these results play out.

Recession

Moving to the U.S. and global economy, the panelists and participants were both asked about the expected length of the recession. Both groups felt that the recovery would begin sometime in 2021. However, 11 percent of the participants and one faculty member expressed that the recession could extend into 2022 and possibly 2023. Global recession forecasts were much more dire with 57 percent of the participants indicating that the recession would end in 2021. However, 35 percent stated that it would be 2022 and beyond.

This recession may have a disjointed impact on certain regions and segments of the economy both in the United States and abroad. Consumer service sectors may be in for an extended recession. Basic goods such as food, health, and modes of distribution aligned with convenience and favorable customer experiences may rebound quickly as they appeal to the consumer. As one faculty member stated, lenders must assess their largest accounts to determine how vulnerable they are to certain segments of the economy. Do these companies have the business and financial strength and management skill set to navigate the new economic environment?

Consolidation: USA and Canada

Participants from both sides of the border inquired whether COVID-19 would further accelerate the consolidation trend for farms, ranches, and agribusinesses or whether the pandemic would reverse the trend.

The answer is yes and no. The movement toward consolidation will accelerate with the business objectives of efficiency and optimization. However, a movement towards smaller, entrepreneurial operations that will serve certain local, regional, national, or international niche markets will emerge. In some cases, the hybrid model will be interspersed both here and abroad.

Local, state, and national government, societal trends, and the consumer will be the drivers of the change concerning all of these business models. The niche market model will require managers to adjust their strategy every four to six months as trends, opportunities, and challenges occur. Regardless of the model or market served, more businesses will be owned and managed by women, minorities, and others who aspire to be involved in agriculture and live in rural areas.

Speaking of rural areas, the importance of broadband internet access can either create a renaissance, if available, or demise, if not available. Technology, with a balance of natural amenities such as a lake, river, mountain, or viewshed will be talent magnets in this decade.

Customer paradigms: Work culture shifts

One of the survey questions centered on changes in bank delivery options and possible shifts in work culture.

Improvement of mobile banking products and improvement of online banking was at the top of the list with 50 to 65 percent of participants reporting modifications and ongoing changes. Curbside service and user-friendly technology, particularly for the baby boomer customers, is being instituted. Of the participants polled, 16 percent were closing branches, while 35 percent were reducing staff, specifically at the branch level. Surprisingly, 23 percent have seen very little sustained impact as a result of COVID-19.

More participants indicated that working remotely was more than a temporary shift. This was perceived to be a challenge for many banks as Generation Y and Z are pushing for more remote work opportunities. However, senior management and board members are often Generation X, baby boomers, or members of the veteran generation who are reluctant to change. The aversion to change positions on this issue could create recruitment and retention problems moving forward.

On a final note, the agricultural lenders were specifically asked about their opinions on the future of young people in the agriculture industry, regardless of the level. Wow! Nearly 40 percent of respondents were optimistic or very optimistic. As a matter of fact, it was almost a two to one ratio of positive to negative responses, which is encouraging for the agriculture industry. These zoomcast zingers are just the tip of the iceberg of some of the perspectives and foresight from virtual interactions. In future columns, we will continue to take the pulse of the industry based on some of the responses from polls and participant engagement.

Domestic Economy

The economic indicators are not reflective of the first and, specifically, the second quarter results for the U.S. economy. The overall economy in the second quarter declined by approximately 32%, which is the largest contraction since the Great Depression. Within quarterly results, consumption declined 34.6%, investments fell 49%, exports fell 64%, and imports were down 58%. However, government spending was up 2.7%.

A bright spot for the U.S. economy was that the personal savings rate was 25.7%. However, this is lower than the 33% savings rate reported earlier in the pandemic. These saved funds represent approximately 15% of the U.S. economy or over $3 trillion with the potential to be utilized for pent-up demand, if consumer confidence returns.

Related to the agriculture sector, food service was down 34%, clothing fell 21%, and gasoline and diesel fuel purchases declined 39%. On a side note, healthcare spending was down 21%.

Moving to the economic indicators, the Leading Economic Index (LEI) increased over four points since the last article, a significant rebound. The diffusion index, which measures the direction of the ten variables included in the LEI, was positive in recent months at the 60% level.

Oil prices have rebounded from recent lows and are now in the $40 per barrel range as demand has increased and some supply production has gone off-line.

Copper prices are strong at $2.90 per pound as China ramps up production. Gold prices are rapidly increasing as a result of uncertainty and also some short supplies.

The Purchasing Manager Index (PMI) has been above 50 for two months, illustrating growth in this sector of the economy. The question then becomes, will the PMI be sustained if demand is slow to return?

The U-3 unemployment rate is now down to 10.2% and in the mid-teens for the U-6 unemployment rate. It will be interesting to see if unemployment numbers remain at this level as more furloughs are turned into layoffs as companies automate and staffing levels are trimmed.

Housing is a strong economic sector with housing starts bouncing back to February 2020 levels. Low interest rates combined with relocations from urban areas and millennials moving into the home buying phase of their life are the drivers of change.

Factory utilization is at 70.6%, which is not stellar, but quite acceptable given the uncertainty in both the U.S. and global economies.

A metric being closely observed is the Index of Consumer Sentiment, which has been in the low 70s for the past four out of five months. Consumer behavior post-stimulus checks and unemployment benefits will influence this metric moving forward.

Inflation is still quite tame, despite the Federal Reserve strategy to create some inflation. Consumer psychology will be a major factor influencing inflation rates moving forward.

The stock market is disconnected from the reality of the general economy. Institutional and retail investor confidence is the result of monetary and fiscal support, which has boosted the stock market to pre-COVID levels. “Danger, danger, danger” will be the call sign for this segment of the economy.

Global Economy

Let's take an economic trek around the globe. Great Britain's quarterly GDP was down over 20 percent. However, other parts of the European sector such as Germany, France, and The Netherlands experienced declines of approximately 10 to 13 percent. Some of the differences can be related to the duration and depth of economic lockdowns. There was a unified approach from many European countries, excluding Great Britain, on a stimulus package. This stimulus should reduce some of the declines, particularly in the third and fourth quarters of 2020.

Japan, the third largest economy in the world, continues to struggle despite government stimulus. This, coupled with the aging population, is creating challenges for Japan’s economic growth.

Reports out of China indicate a V-shaped recovery. Economic growth is in the manufacturing segment, which is moving towards pre-COVID levels, but will other nations continue to purchase outputs from China? President Xi and the Central Party are strategically moving the Chinese economy to consume more of what they produce. One question moving forward are the impacts of heavy rain and flooding playing havoc not only on the farmland, but urban centers throughout China. This could be a challenge to the central government moving forward. China's new plan for the Belt and Road Initiative is to expand influence in other countries through assistance and guidance in medical and health innovation. This is an interesting strategic tactic and outcome from the pandemic that will have to be watched very closely.

On the watchlist are Brazil, Mexico, and some areas of Africa, which are seeing rapid increases in COVID-19 cases and deaths. This will be an influence on their economies, their ability to be sustainable, and their competitive status, particularly in the agricultural arena.

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

Indicator	Current	Green	Yellow	Red
Leading Economic Index - LEI	104.4		✓	
LEI Diffusion Index	60%	✓		
Purchasing Manager Index - PMI	54.2	✓		
Housing Starts (millions)	1.496		✓	
Factory Capacity Utilization	70.6%		✓	
Unemployment Rate	10.2%			✓
Core Inflation	1.6%	✓		
Headline Inflation	1.0%	✓		
Oil Price ($/barrel)	$43.40	✓		
Yield Curve	0.44		✓	

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