

POSITIONING FOR SUCCESS IN CYCLICAL ECONOMICS

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Macro Clinic Video Blog: www.compeer.com/education

Road Warrior of Agriculture: www.cornandsoybeandigest.com

Ag Globe Trotter: www.northwestfcs.com

Dave's GPS & Dashboard Indicators: www.farmermac.com

Risks for U.S. Economy- International Trade

- NAFTA
- CPTPP
- agriculture and manufacturing
- technology/other
- Canada and Mexico- \$1 Trillion in trade
- Mexico, Canada, China- \$70 billion trade exports in agriculture
- income volatility, thin margins

NAFTA's Trading Partners

<u>Country</u>	Size of Economy in 2017 (Trillion Dollars)
U.S.	\$19.4
Canada	\$1.64
Mexico	<u>\$1.14</u>
Total	\$22.18

- 28% of world's economy
- 47% of Mexico's population- under 25 years old
- 400 million people with money

TPP Trading Partners

<u>Country</u>	Size of Economy in 2017 (Trillion Dollars)
U.S.	\$19.4
Japan	\$4.08
Canada	\$1.64
Australia	\$1.39
Mexico	\$1.14
Malaysia	\$0.31
Singapore	\$0.31
Chile	\$0.25
Vietnam	\$0.22
Peru	\$0.21
New Zealand	\$0.20
Brunei	\$0.01



Global Walk Around: North America

Global Competitiveness: Rank and Challenges

- # 2 United States
 - Tax Rates, Government Bureaucracy, Labor Regulations, Education of Workforce
- #14 Canada
 - Government Bureaucracy, Tax Rates, Capacity to Innovate, Infrastructure
- #51 Mexico
 - Corruption, Policy/Government Instability, Access to Financing, Government Bureaucracy



Global Walk Around: China/Asian Rim

- natural resource issues
- more two term leadership
- silk road strategy
- infrastructure inefficiency
- one child policy - demographics
- Asian Rim
- future: Japan & India



Banker Views: Economic Expansion

<u>Number of Months</u>	<u>Percent</u>
106-115	18%
116-125	36%
126-135	33%
126-150	10%
>150	<u>3%</u>
	100%

- Record 120 months



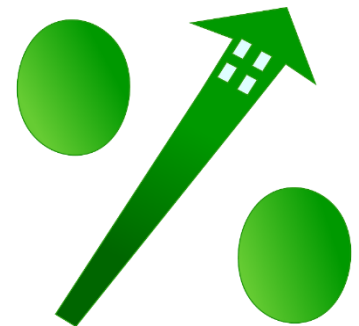
Killers of Economic Expansion

- trade issues
- expansions don't die/killed off
- Central Bank tightening strategies
- oil prices
- stock market decline
- bubbles



Banker Views: One Year Outlook – Federal Reserve Interest Rate Change

<u>Basis Points</u>	<u>Percent</u>
50	27%
75	41%
100	24%
125	<u>6%</u>
	100%

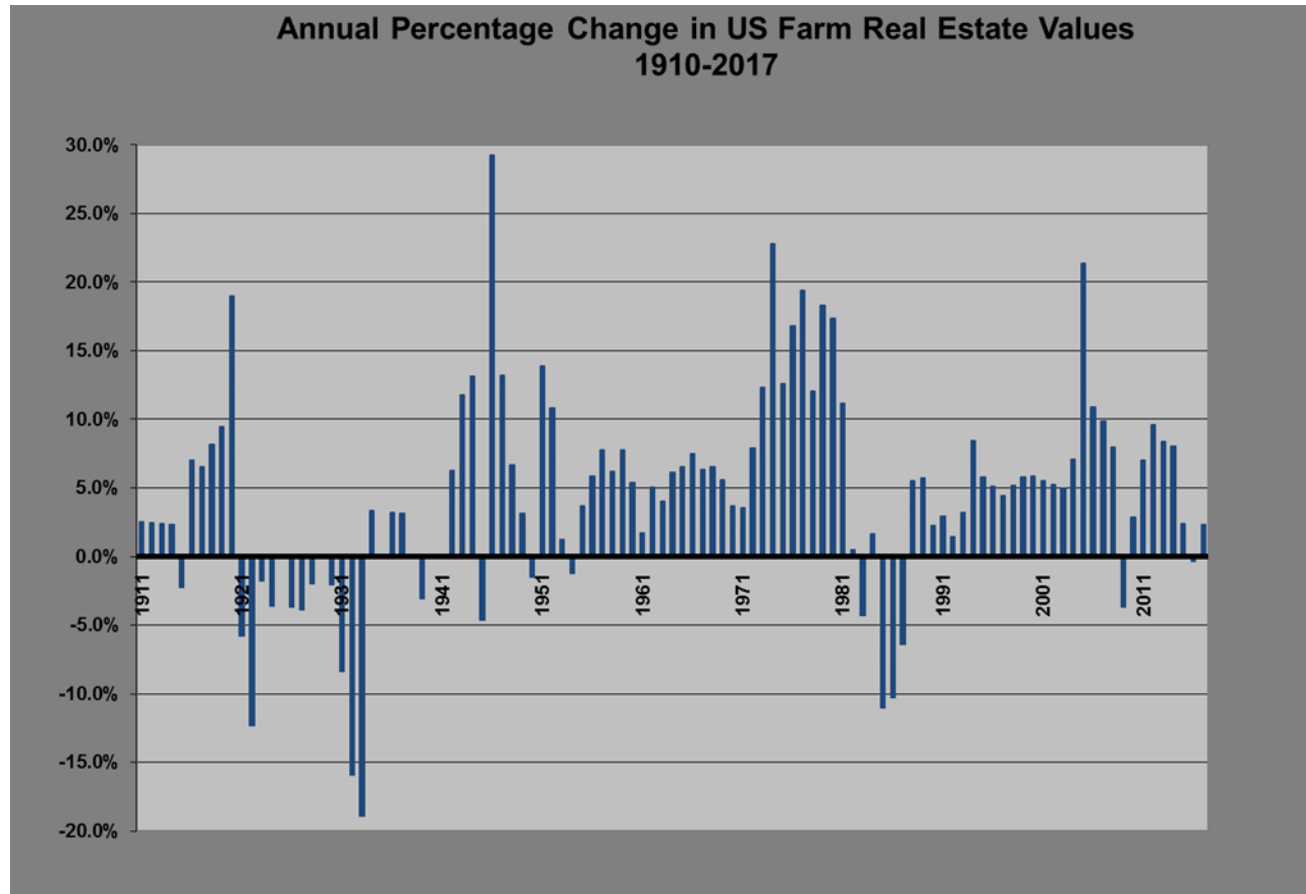


Federal Reserve's Interest Rate Barometer

Indicator	Current Estimated “Flag” Levels
Unemployment	Below 5.0% or Above 6.0%
GDP Growth	Above 3.0% or Below 2.0%
Inflation	Above 2.5% or Below 1.0%
Consumer Sentiment	Above 90 or Below 80

- trends matter
- stock market/real estate wealth effect
- copper prices

U.S. Farm Real Estate Values



Farm/Ranch Land



- farm land values
“resilience”
- 1980’s & 2020
perspectives
- baby boomer
farm/ranch
- regional & local
pockets
- valuation of land
 - productivity
 - water & minerals
 - old money
 - land in transition
 - technology compatibility
 - organic, local, natural
markets
 - operating money &
refinancing

IMPACT: complacent- you’ve got the dirt, you can’t get hurt

Factors Contributing to Dramatic Discount in Land Values

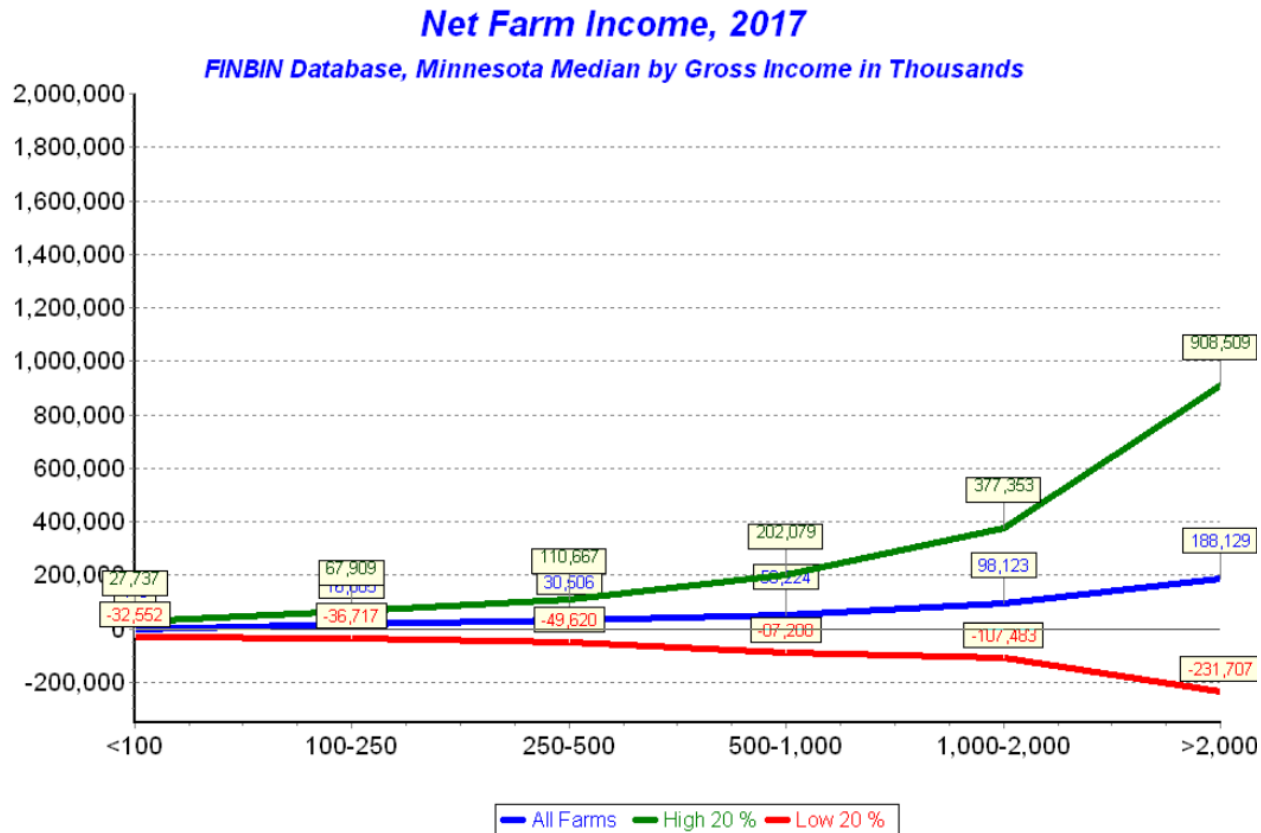
- 100 to 200 basis point increase in long term interest rates
- more conservative refinance cycle
- outside investors seeking alternative investments
- supply and demand in a given area
- strong value of dollar, higher rates, less export potential
- crash of the U.S. or global economy

Banker Views:

Agricultural Banker Perspectives

- 93% of customers were profitable from 2007-2012
- 93% had high margins
- 63% of customers are profitable
- 63% of customers had razor thin margins
- 37% negative profits

Net Farm Income, 2017



Data Sources: Minnesota Farm Business Management Education
SW Minnesota Farm Business Management Association, U of M
Copyright 2018, Center For Farm Financial Management, University of Minnesota

2007 - 2017 Family Living Summary

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
No. of Families Included	47	48	38	49	39	25	40	48	43	37	41
Average Family Size	2.9	3	3.3	3.3	3.3	3.7	3.7	3.4	3.4	3.6	3.4
Expense Item											
Food & Meals	\$7,063	\$7,007	\$8,386	\$8,688	\$9,167	\$10,037	\$10,069	\$9,927	\$8,322	\$9,708	\$10,149
Medical Care	5,306	5,068	5,037	6,728	5,966	7,060	6,699	5,066	5,275	5,354	6,068
Health Insurance	3,364	4,860	5,283	6,966	6,628	7,506	6,996	6,634	7,530	7,594	9,879
Cash Donations	2,781	3,392	3,592	4,360	6,259	5,545	5,130	5,401	5,431	3,636	5,740
Household Supplies	3,015	2,756	3,189	3,763	6,376	8,789	7,078	6,304	5,456	5,023	6,570
Clothing	2,130	2,272	2,616	2,893	2,803	3,706	4,119	3,979	2,440	2,722	3,122
Personal Care	1,286	1,969	1,555	3,234	7,137	11,792	7,471	7,711	8,414	5,953	6,978
Child/Dependent Care	820	1,081	1,055	981	1,023	958	1,293	1,577	1,045	653	1,396
Alimony and Child Support	0	528	421	1,147	235	0	0	103	0	0	77
Gifts	2,418	3,480	2,185	5,753	4,839	3,690	4,674	4,138	4,097	3,839	4,628
Education	852	1,183	1,986	1,861	2,836	2,439	3,237	1,892	2,441	1,930	2,277
Recreation	2,759	4,313	3,579	5,155	5,308	7,151	9,081	8,126	7,860	5,187	8,302
Utilities (household share)	2,305	2,767	3,347	2,854	2,721	2,576	2,952	3,129	2,935	2,952	2,867
Personal Auto	2,822	3,327	2,629	3,010	3,264	3,627	4,185	4,382	3,456	3,832	2,570
Household Real Estate Taxes	384	603	1,238	1,093	1,113	1,151	1,372	1,489	925	1,196	2,132
Dwelling Rent	224	60	234	367	856	1,273	514	224	212	101	173
Household Repairs	2,109	4,692	3,022	4,340	5,457	4,040	3,529	7,086	3,648	2,403	2,153
Personal Interest	2,043	1,972	1,668	2,204	1,638	2,125	1,909	2,187	2,513	3,167	3,078
Disability/Long Term Care Ins.	196	679	461	676	394	382	612	779	0	0	601
Life Insurance Payments	2,126	3,483	4,324	3,981	4,672	6,662	5,606	5,444	5,486	6,005	6,774
Personal Property Insurance	99	210	229	183	47	68	175	83	143	0	195
Miscellaneous	7,590	9,924	8,927	8,691	6,260	9,429	9,979	10,956	13,666	11,225	13,591
Total Family Living Expense	\$51,692	\$65,626	\$64,963	\$78,928	\$84,999	\$100,006	\$96,680	\$96,617	\$91,295	\$82,480	\$99,320
Furnishing & Appliance Purchases	\$72	\$500	\$250	\$322	\$734	\$0	\$523	\$649	\$1,121	\$1,791	\$0
Nonfarm Vehicle Purchases	2,536	4,650	5,639	2,606	3,860	6,521	5,170	2,266	4,402	2,183	1,436
Nonfarm Real Estate Purchases	14,937	16,599	12,188	735	25,719	33,551	27,932	9,152	17,772	18,116	8,883
Other Nonfarm Capital Purchases	1,293	6,688	627	6,887	9,799	120,159	9,847	3,321	2,767	12,412	2,597
Nonfarm Savings & Investments	9,933	14,974	13,269	19,205	14,247	16,728	11,357	6,992	15,166	-3,207	4,966
Total Non Farm Costs	\$80,463	\$109,037	\$96,936	\$108,683	\$139,358	\$276,965	\$151,509	\$118,997	\$132,523	\$116,982	\$117,202
Income, Soc. Sec. Taxes	\$12,887	\$26,078	\$27,844	\$30,059	\$40,354	\$43,740	\$56,269	\$48,855	\$30,727	\$33,212	\$30,185
Total Taxes & Family Living	\$93,350	\$135,115	\$124,780	\$138,742	\$179,712	\$320,705	\$207,778	\$167,852	\$163,250	\$150,194	\$147,387

Source: Nebraska Farm Business, Inc. www.nfbi.net

2017 Family Living

Household and Personal Expenses Nebraska Farm Business, Inc. (Farms Sorted By Net Farm Income)

	<u>Avg. Of All Farms</u>	<u>Low 33%</u>	<u>33 - 66%</u>	<u>High 34%</u>
Number of farms	41	10	10	21
Average family size	3.4	2.6	3.2	3.9
Family Living Expenses				
Food and meals expense	10,149	8,838	8,173	11,713
Medical care	6,068	5,859	3,057	7,602
Health insurance	9,879	11,181	8,127	10,094
Cash donations	5,740	5,388	2,896	7,262
Household supplies	6,570	6,203	5,952	7,039
Clothing	3,122	1,983	1,412	4,479
Personal care	6,978	5,780	3,922	9,004
Child / Dependent care	1,396	2,102	1,030	1,235
Alimony and child support	77	315	-	-
Gifts	4,628	6,919	1,968	4,803
Education	2,277	805	593	3,780
Recreation	8,302	8,987	2,448	10,762
Utilities (household share)	2,867	3,063	2,312	3,038
Personal vehicle operating exp	2,570	3,095	2,559	2,325
Household real estate taxes	2,132	819	1,450	3,082
Dwelling rent	173	430	240	19
Household repairs	2,153	869	1,727	2,967
Personal interest	3,078	4,392	1,358	3,271
Disability / Long term care ins	601	705	530	586
Life insurance payments	6,774	7,104	4,183	7,851
Personal property insurance	195	172	390	113
Miscellaneous	13,591	15,388	12,681	13,168
Total cash family living expense	99,320	100,398	67,006	114,194
Family living from the farm	-	-	-	-
Total family living	99,320	100,398	67,006	114,194
Other Nonfarm Expenditures				
Income taxes	30,185	13,289	12,833	46,494
Furnishing & appliance purchases	-	-	-	-
Nonfarm vehicle purchases	1,436	524	3,965	667
Nonfarm real estate purchases	8,883	-	7,895	13,584
Other nonfarm capital purchases	2,597	280	-347	5,103
Nonfarm savings & investments	4,966	23,190	-13,161	4,920
Total other nonfarm expenditures	48,069	37,283	11,185	70,769
Total cash family living investment & nonfarm capital purch	147,389	137,681	78,191	184,963

Source: Nebraska Farm Business, Inc. www.nfbi.net

Management Factors

Critical Questions for Crucial Conversations

Customer Checklist	Green (3-4 points*)	Yellow (2 points)	Red (1 point)
1. Knows cost of production	Written	In head	No idea
2. Knows cost of production by enterprise	Written	In head	No idea
3. Goals- business, family & personal	Written	In head	No idea
4. Record keeping system	Accrual	Schedule F (one & done)	No idea
5. Projected cash flow	Written	In head	No idea
6. Sensitivity analysis	Written	In head	No idea
7. Understand financial ratios, break evens	Written	In head	No idea
8. Work with advisory team and lender	Yes	Sometimes	Never
9. Marketing plan written and executed	Yes	Sometimes	Never
10. Risk management plan executed	Yes	Sometimes	Never
11. Modest lifestyle habits, family living budget	Yes	Sometimes	Non existent
12. Written plan for improvement executed	Yes	Sometimes	Non existent
13. Transition plan/Business Owner plan	Yes	Working on plan	Non existent/controversy
14. Educational seminars/courses	Yes	Sometimes	Never attend
15. Attitude	Proactive	Reactive	Indifferent

*Extra Points:

- **Progressive Business** may receive 4 points for #2,6,7,8,14
- **Struggling Business attempting turnaround** may receive 4 points for #3,5,8,11,12

Score	Overall Analysis
35-50	Strong management rating & viability
20-34	Moderate risk & viability; will most likely show previous refinancing
<20	High risk & lack of long term viability

Management Factors

Progressive Businesses

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Management Factors

Struggling Businesses

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Banker Views: Challenges in Ag Banking Today

<u>Challenges</u>	<u>Percent</u>
Competition	17%
Regulation & compliance	16%
Attracting & retaining talent	16%
Cybersecurity	14%
Financial & technical capabilities	14%
Non-bank competition	6%
Lack of Leadership	5%



Banker Views: Reasons for Working in Ag Banking

<u>Reasons For Working in Ag Banking</u>	<u>Percent</u>
Making a difference in people's lives	22%
Salary & benefits	15%
Opportunity for advancement	12%
Working with customers	11%
Work culture	11%
Challenging work	10%
Training & development	6%



Defining Moments in Ag Lending

<u>Yesterday</u>	<u>Today/Tomorrow</u>
1980's Farm Crisis	Farm Financial Standards
26 Agricultural finance economists in U.S.	Less than five agricultural finance economists in U.S.
Majority of lenders had agricultural backgrounds	More lenders with non-agricultural backgrounds
13,000 Banks 1,500 Farm Credit Associations	Under 6,000 Banks <70 associations
Collateral Collateral Collateral	Working capital Sensitivity analysis Collateral
Production oriented	Intellectual capital Management skills
Technology driven	Technology driven Consumer driven