

BANKING OUTLOOK: A REGIONAL PERSPECTIVE

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February 23, 2017

Pulse of the Global Economy

The View from 30,000 Miles Up



NASA Photo

Globalism

1945 to 2015 drivers of change

- reconstruction Europe & Japan
- China, BRICS & KIMT's
- baby boomers
- technology
- European Union- Euro

Nationalism & Populism

Drivers of change:

- unravel of European union/euro
- bifurcated earnings and wealth rich nations
- protection trade
- millennial demographics globally
- immigration and youth
- China to India and others
- temporary or long term?

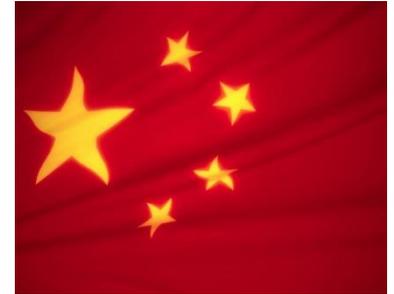
Global Economics: Europe

- Brexit
- immigration issues
- next year's elections
- break up of euro
- other



Global Economics: China

- TPP: China's role
- water, soil, & air issues
- asset bubbles:
 - stock
 - real estate
 - other
- military buildup
- South China Sea



New Administration

- international trade
- banking regulations
- health care
- immigration
- taxation
- trillion dollar infrastructure spending

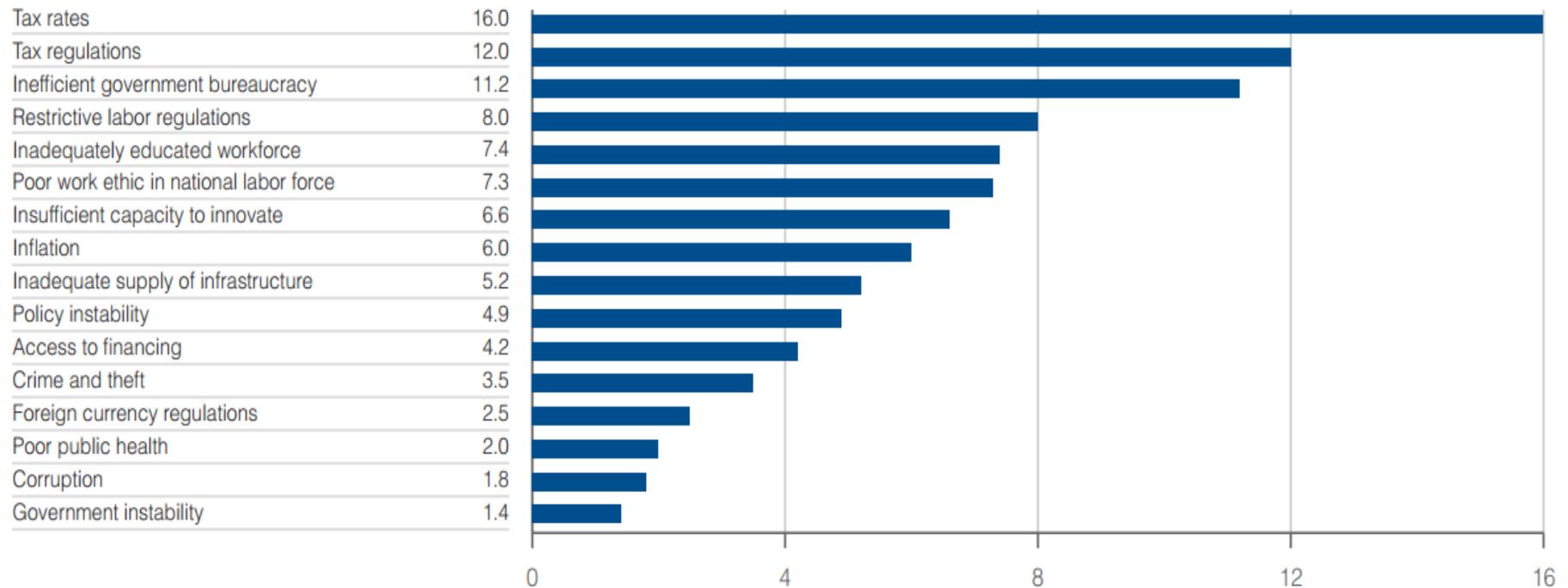
Laffer's Curve and Hauser's Law

- law of diminishing returns and taxes: 0 v. 100%
- tax rate and policy changes since 1950
- tax revenues - percentage of GDP
- implications for tax policy – growing the pie

U.S. – Global Competitiveness

Most problematic factors for doing business

Source: World Economic Forum, Executive Opinion Survey 2016



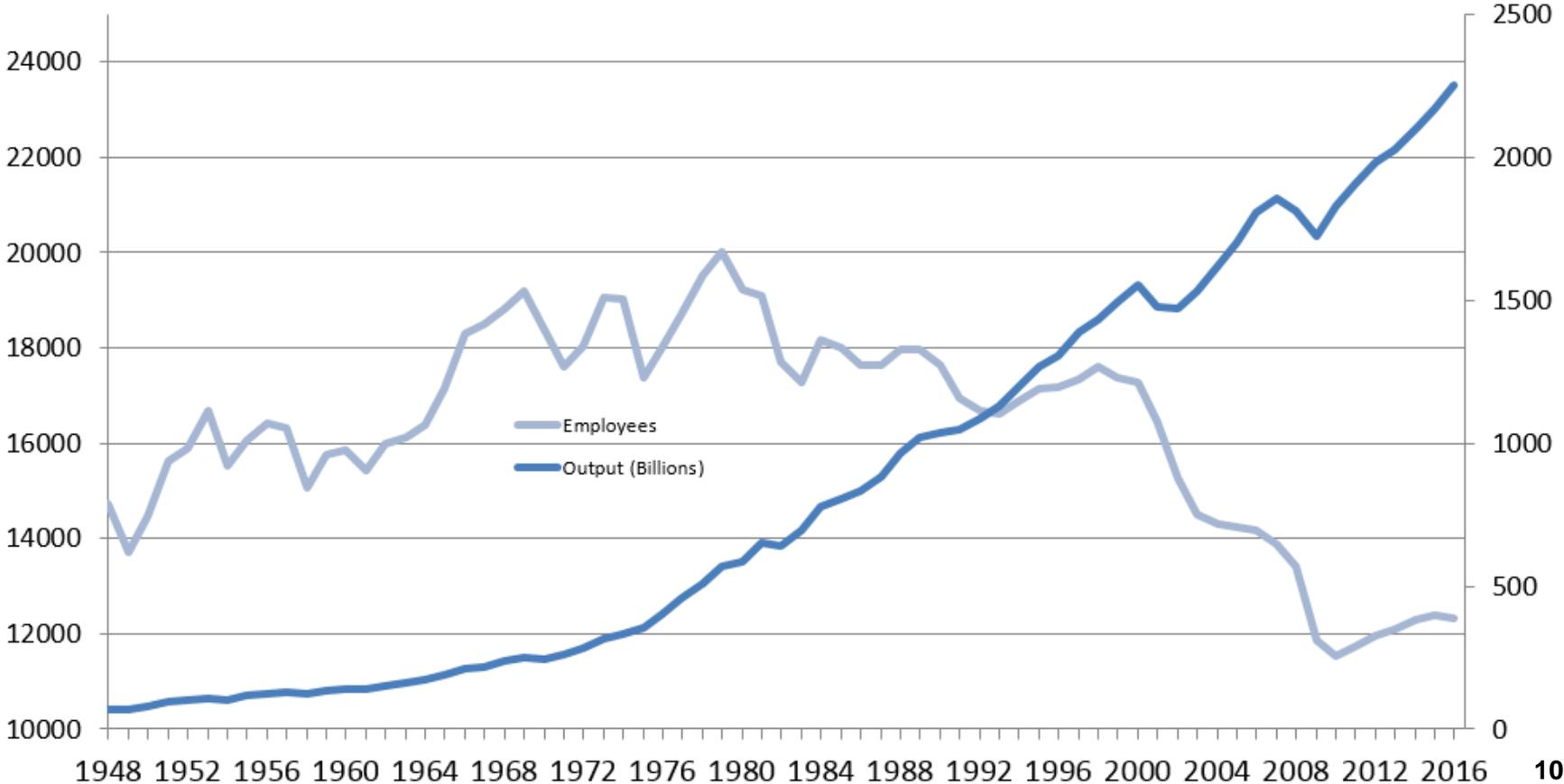
Note: From the list of factors, respondents to the World Economic Forum's Executive Opinion Survey were asked to select the five most problematic factors for doing business in their country and to rank them between 1 (most problematic) and 5. The score corresponds to the responses weighted according to their rankings.

Automation's Impact

Manufacturing - Jobs and Output

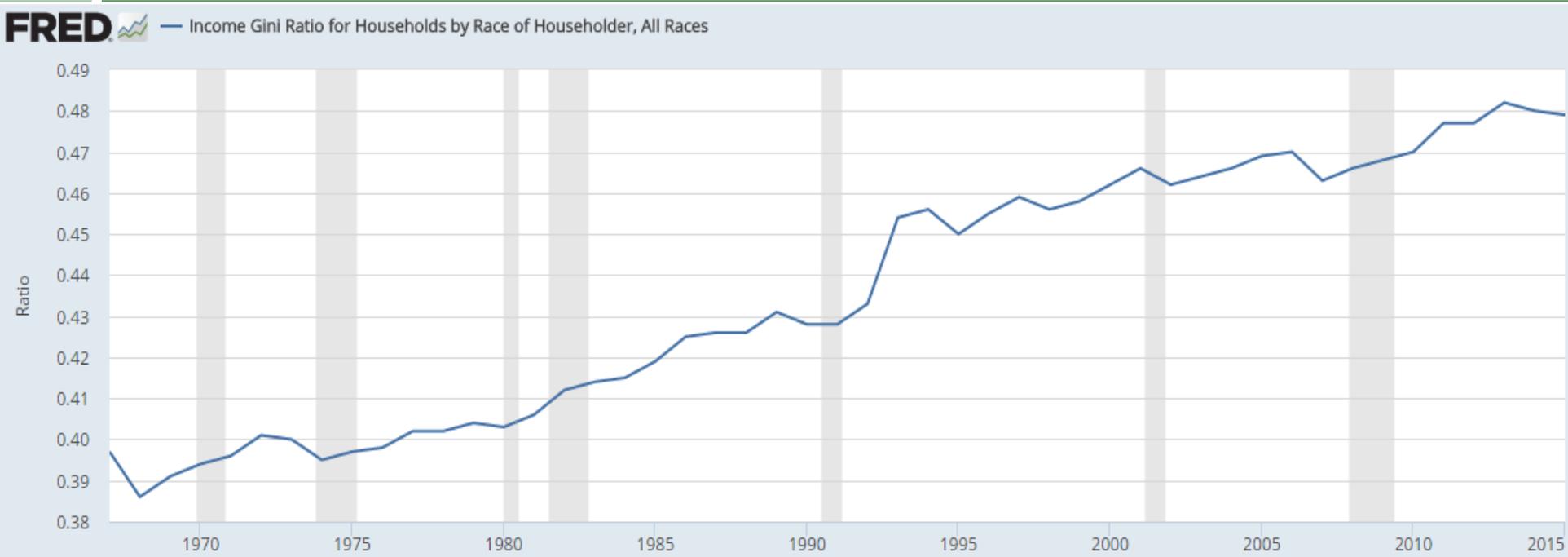
Employees (Thousands)

Constant \$ Value Output (Billions)



Data on manufacturing output and jobs from the Bureau of Economic Analysis www.bea.gov

Increasing Income Inequality – Not a New Phenomenon



The **Gini** index is a measurement of income disparity. Ranging between 0 and 1 it describes the income gap with 0 = perfect equality and 1 = complete inequality.

Trend lines of income inequality

The Skills Gap -- Why Education Matters

Educational Level	Total Labor Force (thousands)	Unemployment Rate	Labor Force Participation Rate	Median Annual Income
No High School Diploma	10,533	7.7%	45.3%	\$25,686
High School Graduate, no college	35,443	5.3%	57.9%	\$35,256
Some College or Associate Degree	38,007	3.8%	65.7%	\$38,376 \$41,496
Bachelor's	54,271	2.5%	73.8%	\$59,124
Master's				\$69,732
Professional				\$89,960
PH.D.				\$84,396

Source: U.S. Bureau of Labor Statistics (January 2017); median income data from 2015

Wage and Productivity Growth

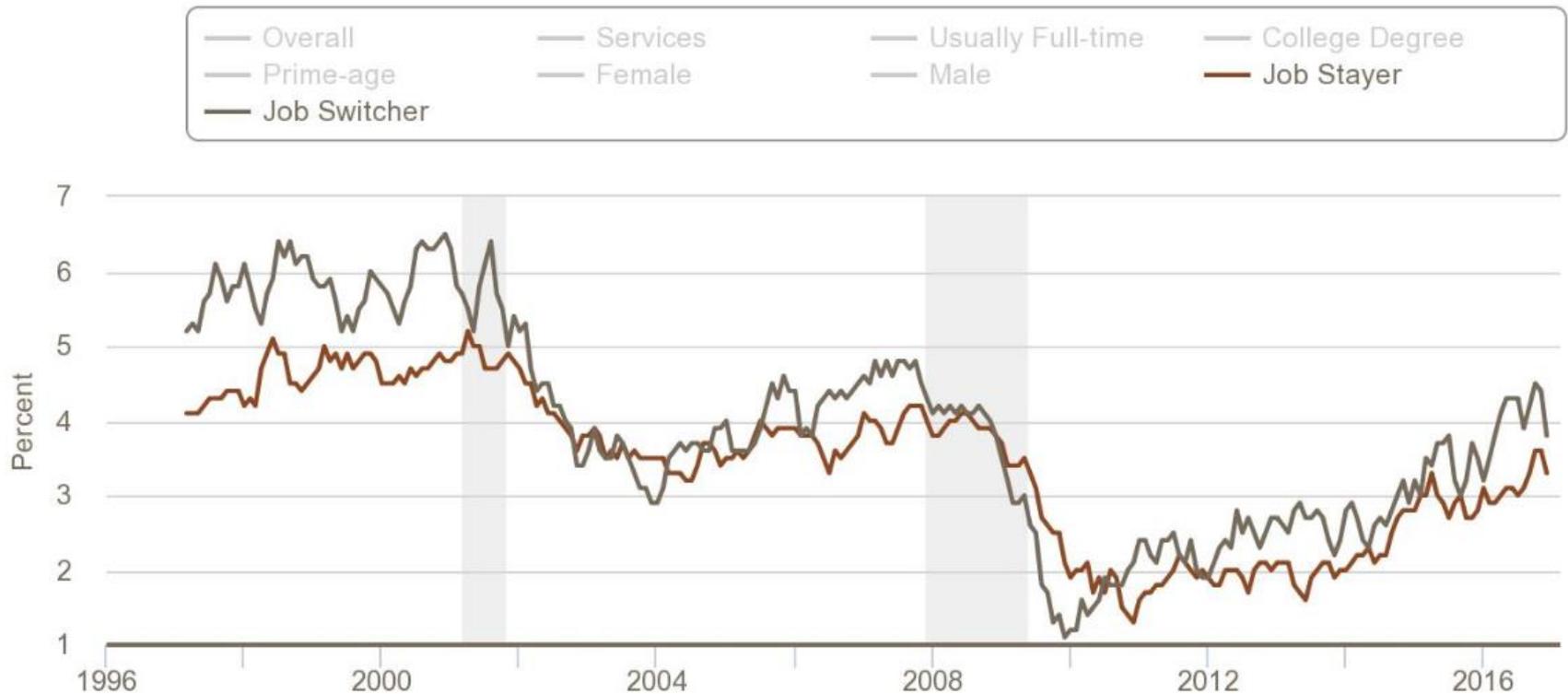


Slow wage and productivity growth since 2011; and, until recently, the red line - providing a measure of the growth in productivity generally resides above the blue wage growth line. This is consistent with income disparity and has contributed to low inflation. The recent “blue line” increase supports labor market tightening and is consistent with coming increases in inflation and **interest rates**.

Wage Growth – Switchers and Stayers

Hourly Wage Tracker

three-month moving average of median wage growth

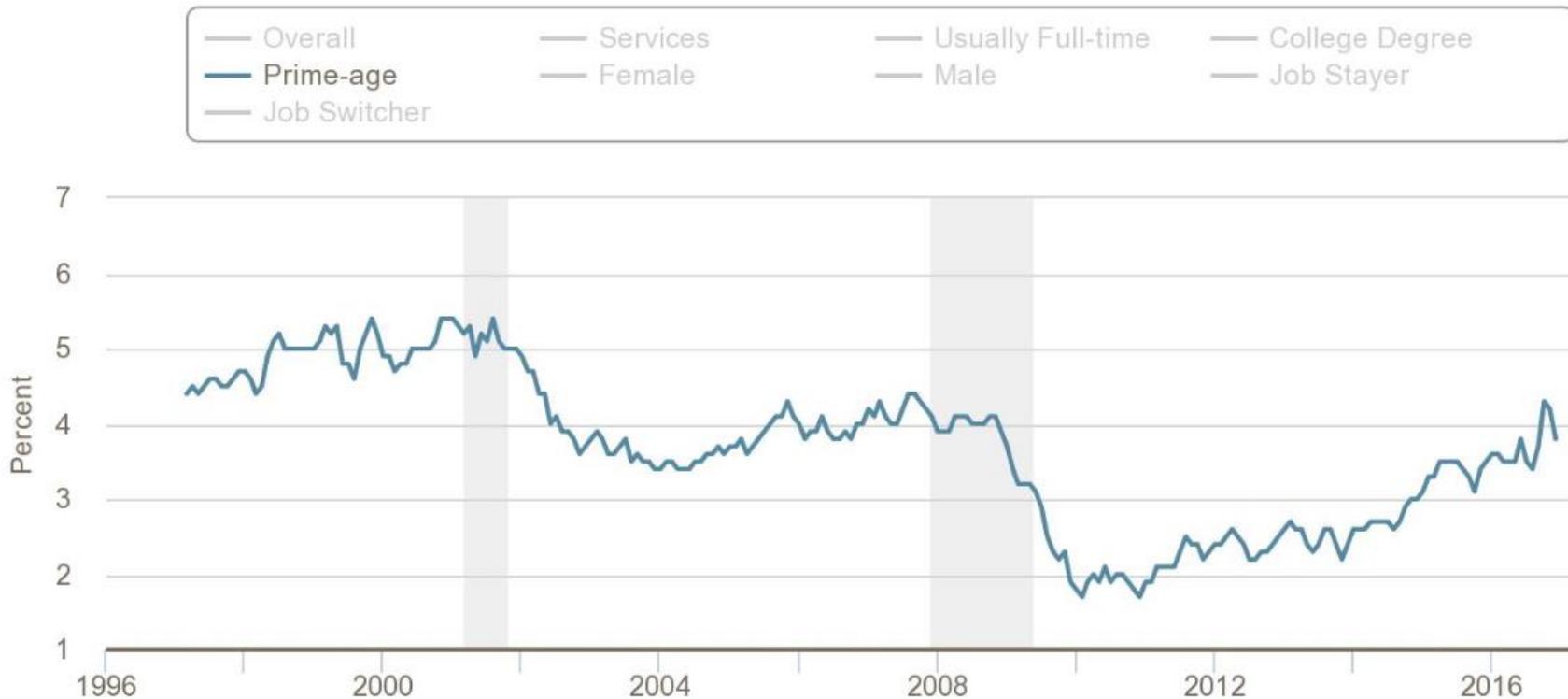


Source: Federal Reserve Bank of Atlanta, Center for Human Capital Studies, February 2017– Wage Tracker (<https://www.frbatlanta.org/chcs/wage-growth-tracker.aspx?panel=1>); BLS Data

Wage Growth – Prime Age (25-54)

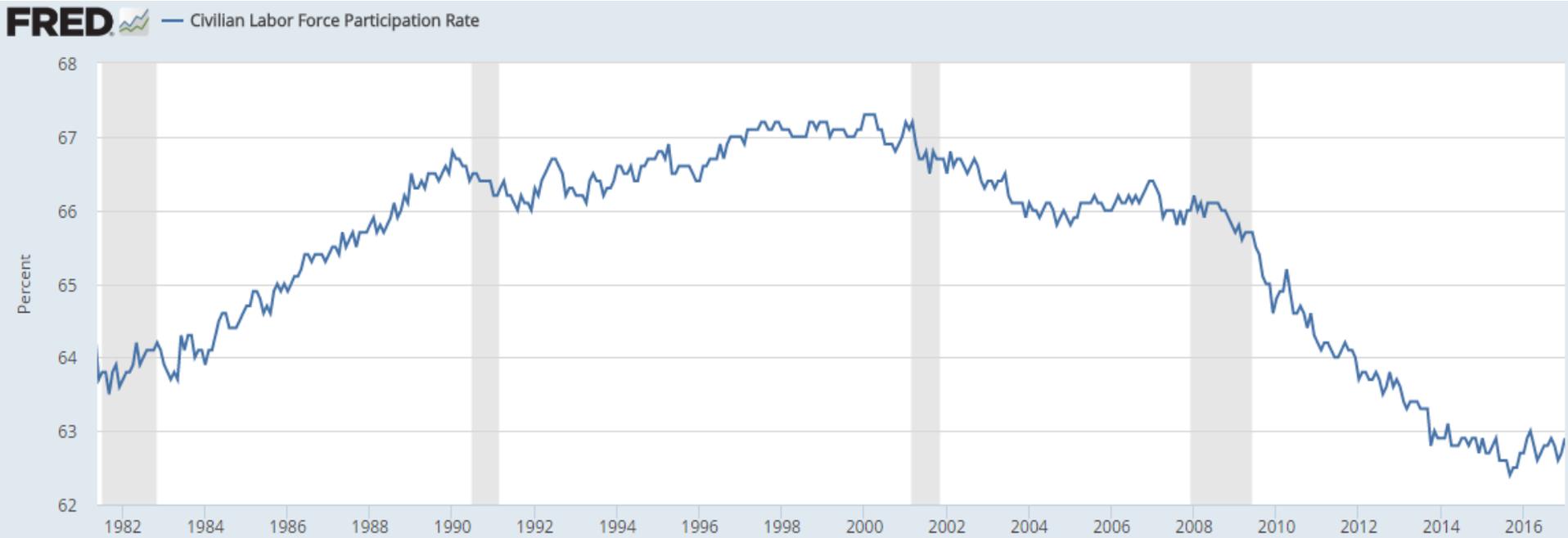
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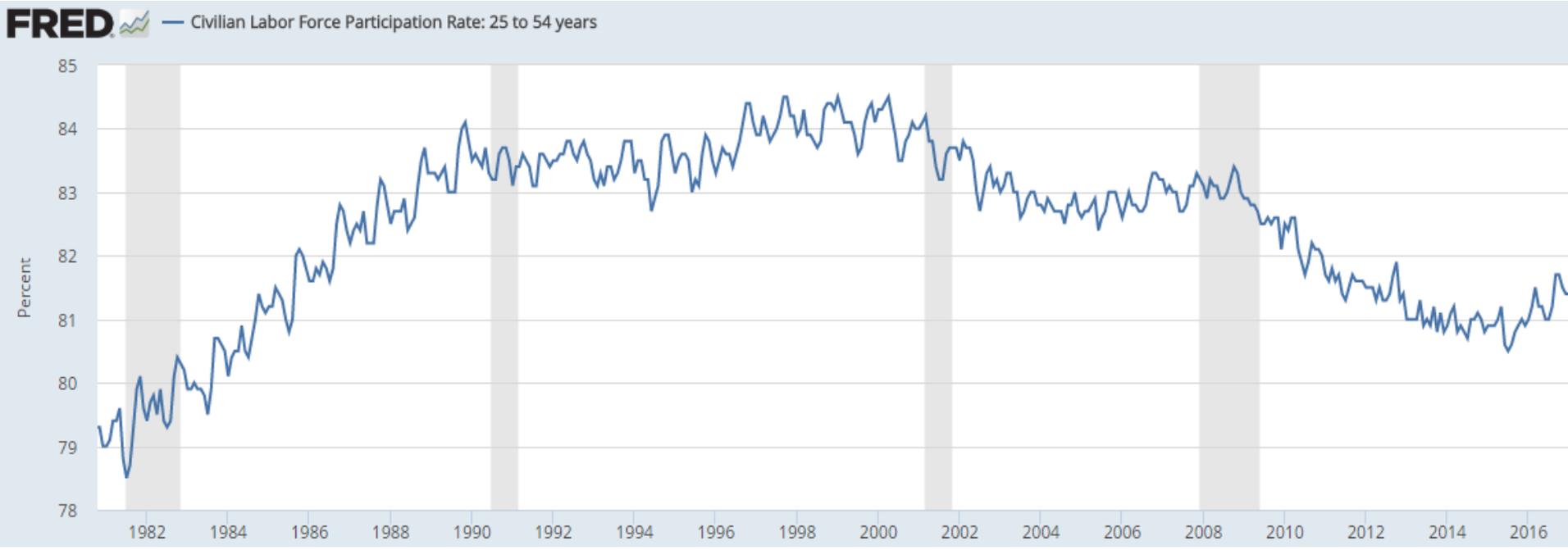
Source: Federal Reserve Bank of Atlanta, Center for Human Capital Studies, February 2017– Wage Tracker (<https://www.frbatlanta.org/chcs/wage-growth-tracker.aspx?panel=1>); BLS Data

Labor Force Participation Rate



At its lowest overall levels (62.9%) since 1978 the Labor Force Participation Rate is showing signs of improvement.....

Prime Age Labor Force Participation Rate (Ages 25-54)



Source: Federal Reserve Bank of St. Louis (FRED); Bureau of Labor Statistics – (February 2017)

The Participation Rate Conundrum

- **Unemployment Rate Increases Good News for Labor Force Participation!**
- **Aging Baby Boomers** – note that retirees are classified as “not working and not looking for work”;
- **Later Retirement** – while this adds to workforce participation, it does not offset the aging of the large baby boom population;
- **Increased Disability;**
- **Extended Education and Training** – while this will pay dividends in the future - many “twenty somethings” are out of the labor force;
- **Increased Number of People Who Do Not Want a Job**

Top U.S. Ag Exports

Percentage exports of total production 2011-2013

<u>Crop</u>	<u>Percentage (rounded)</u>
Cotton	77%
Tree Nuts	72%
Rice	52%
Wheat	51%
Soybeans	46%
Fresh Fruit	28%
Processed Vegetables	25%
Pork	22%

Top Destinations of U.S. Ag Exports

<u>Country</u>	<u>Billion Dollars Rounded</u>
Canada	\$21
China	\$20
Mexico	\$18
EU-28	\$12
Japan	\$11
South Korea	\$6.0
Hong Kong	\$3.6
Taiwan	\$3.0
Colombia	\$2.4
Philippines	\$2.3
Vietnam	\$2.2

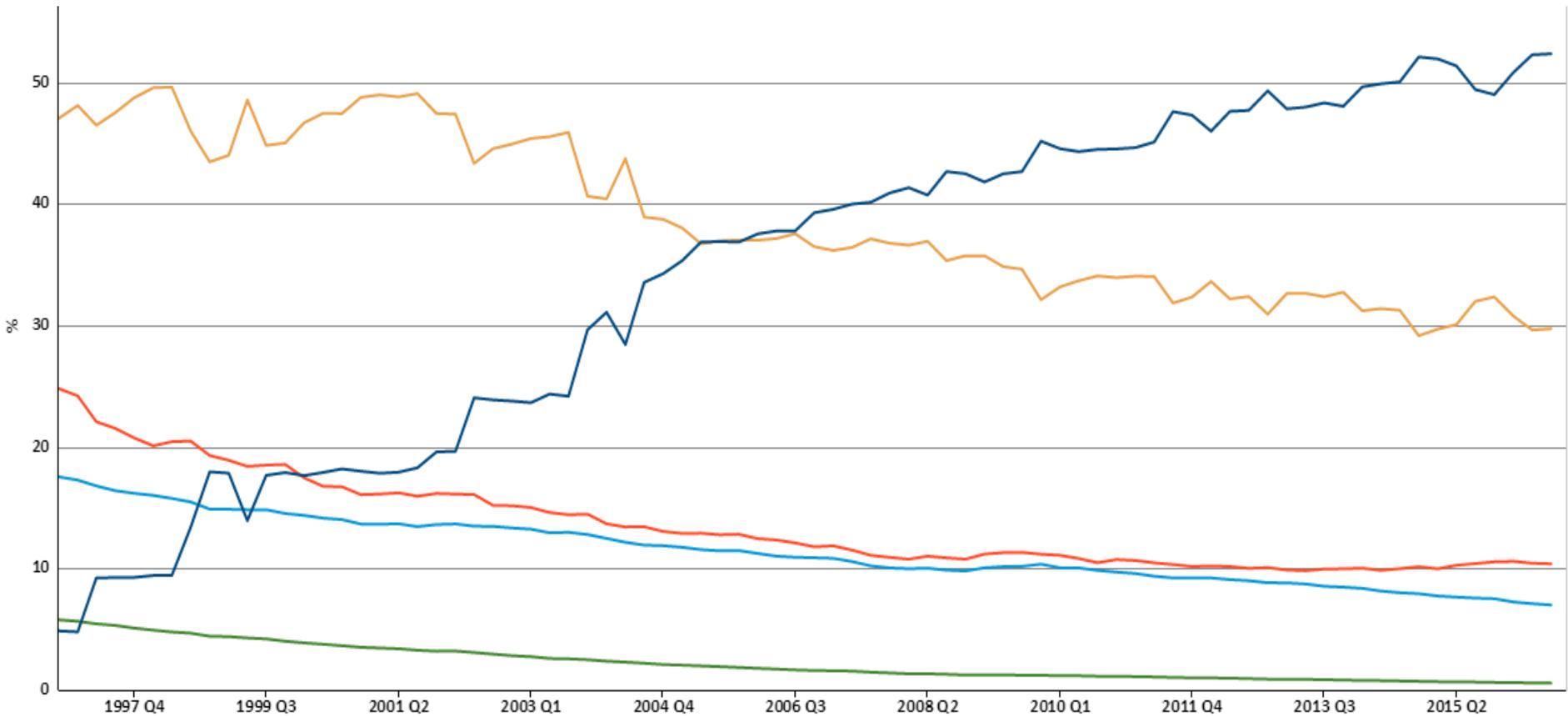
Agricultural & Rural Areas Southeast

- international trade
- strong dollar
- transformative trends
 - consumer
 - technology
 - millennials
 - urban rural disconnect
 - rural areas
- 20% agricultural net income from exports

Pulse of Banking

The Share of Total Assets by Size

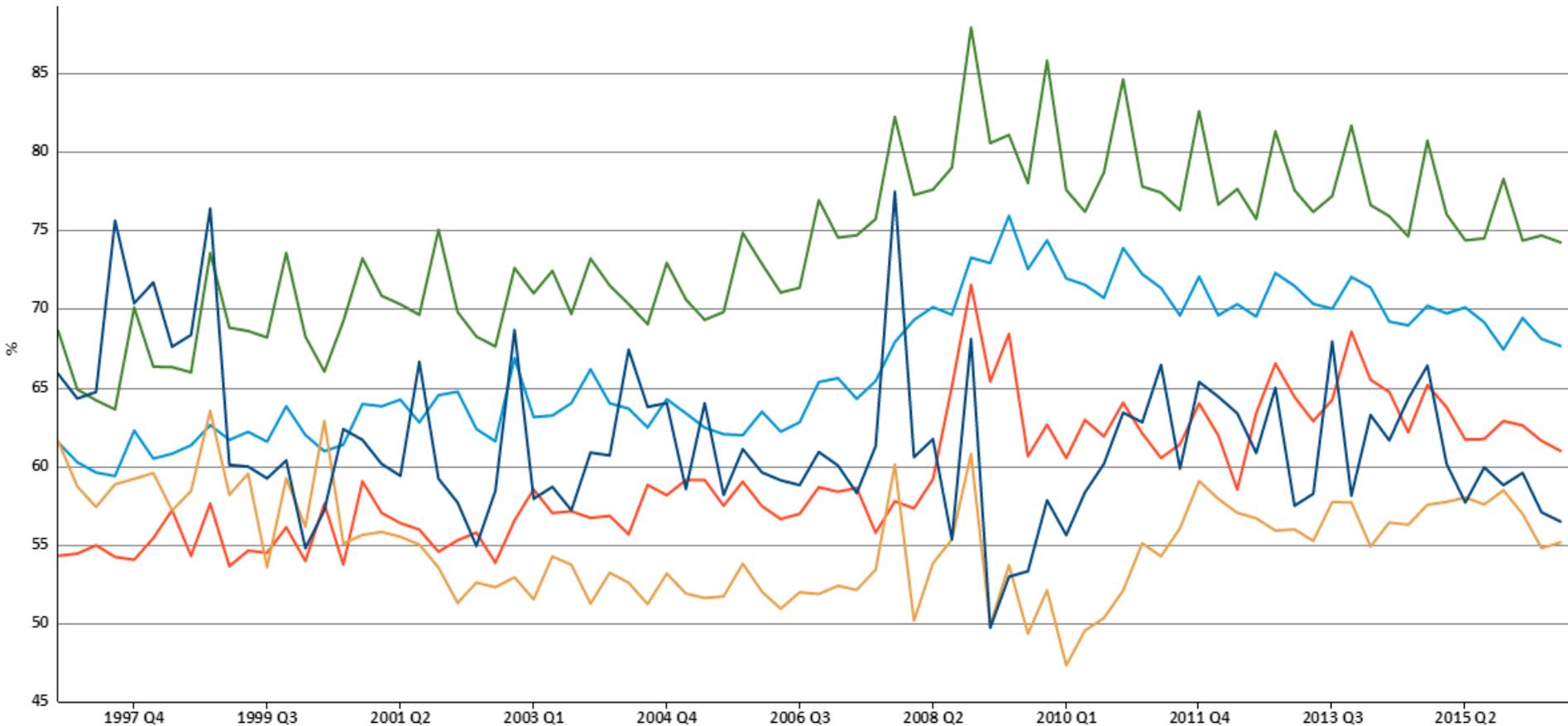
— Assets < \$100 Million — Assets \$100 Million - \$1 Billion — Assets \$1 Billion - \$10 Billion — Assets \$10 Billion - \$250 Billion — Assets > \$250 Billion



Pulse of Banking

Efficiency Ratio

— Assets < \$100 Million — Assets \$100 Million - \$1 Billion — Assets \$1 Billion - \$10 Billion — Assets \$10 Billion - \$250 Billion — Assets > \$250 Billion



The State of Banking – Across the Region and Beyond

- scale matters
- asset quality and growth
- profitability
- regional and locational economic disparity
- workforce development



U.S. Economic Dashboard

- LEI/Diffusion Index
 - positive
 -  three months rule
 - diffusion index
- PMI
 - > 50 expansion
 - <50 contraction
 - <41 recession
- Housing Starts
 - >1.5 million green light
 - 800,000 to 1.5 million yellow light
 - <800,000 red light
- Consumer Confidence
 - >90 green light
 - 80-90 yellow light
 - <80 red light
- GDP
 - 3-4% green light
 - 1-2% yellow light
 - negative = real recession

Federal Reserve's Interest Rate Barometer

- Three increases in 2017!

Indicator	Status
Unemployment/Job Growth/Wage Growth	4.8%/180K/2.5%
GDP Growth	1.9%
Inflation	2.5%
Consumer Sentiment	>90%

- stock market/real estate wealth effect
- copper prices

THANK YOU!

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