Banking Outlook: A Regional Perspective

Dr. David Kohl
Professor Emeritus, Small Business Management & Agricultural Finance
Department of Agricultural & Applied Economics
VirginiaTech

Dr. Thomas Payne
Dean and Professor of Finance, College of Business
Tennessee Tech

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
### Most problematic factors for doing business

<table>
<thead>
<tr>
<th>Factor</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax rates</td>
<td>16.0</td>
</tr>
<tr>
<td>Tax regulations</td>
<td>12.0</td>
</tr>
<tr>
<td>Inefficient government bureaucracy</td>
<td>11.2</td>
</tr>
<tr>
<td>Restrictive labor regulations</td>
<td>8.0</td>
</tr>
<tr>
<td>Inadequately educated workforce</td>
<td>7.4</td>
</tr>
<tr>
<td>Poor work ethic in national labor force</td>
<td>7.3</td>
</tr>
<tr>
<td>Insufficient capacity to innovate</td>
<td>6.6</td>
</tr>
<tr>
<td>Inflation</td>
<td>6.0</td>
</tr>
<tr>
<td>Inadequate supply of infrastructure</td>
<td>5.2</td>
</tr>
<tr>
<td>Policy instability</td>
<td>4.9</td>
</tr>
<tr>
<td>Access to financing</td>
<td>4.2</td>
</tr>
<tr>
<td>Crime and theft</td>
<td>3.5</td>
</tr>
<tr>
<td>Foreign currency regulations</td>
<td>2.5</td>
</tr>
<tr>
<td>Poor public health</td>
<td>2.0</td>
</tr>
<tr>
<td>Corruption</td>
<td>1.8</td>
</tr>
<tr>
<td>Government instability</td>
<td>1.4</td>
</tr>
</tbody>
</table>

**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

Data on manufacturing output and jobs from the Bureau of Economic Analysis [www.bea.gov](http://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

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

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

Wage Growth – Prime Age (25-54)

Hourly Wage Tracker
three-month moving average of median wage growth

Labor Force Participation Rate

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

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

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

Source: USDA Economic Research Service
## Top Destinations of U.S. Ag Exports

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

Source: USDA Economic Research Service
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

Source: FDIC (Knoema.com chart - 2017)
Pulse of Banking
Efficiency Ratio

Source: FDIC (Knoema.com chart - 2017)
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!

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment/Job Growth/Wage Growth</td>
<td>4.8%/180K/2.5%</td>
</tr>
<tr>
<td>GDP Growth</td>
<td>1.9%</td>
</tr>
<tr>
<td>Inflation</td>
<td>2.5%</td>
</tr>
<tr>
<td>Consumer Sentiment</td>
<td>&gt;90%</td>
</tr>
</tbody>
</table>

- stock market/real estate wealth effect
- copper prices
Thank You!

Dr. David Kohl
Professor Emeritus, Small Business Management & Agricultural Finance
Department of Agricultural & Applied Economics
Virginia Tech

Dr. Thomas Payne
Dean and Professor of Finance, College of Business
Tennessee Tech