

The Economy in Perspective

Taking stock ... Luckey, Castalia, Delphos, Ada. Just back from a road trip to northwest Ohio, talking with community bankers about economic conditions and the banking business. Something to be said for seeing the fields, the housing stock, the truck traffic. Holiday Inn, Lima, Ohio: Breakfast is eggs, hash browns, bacon, coffee, coffee, coffee.

Concern about agriculture. In March, all was well. Corn prices high, Ohio farmers feeling good. Some contracted to sell their corn before they even planted it, to lock in that good price. April and May, very wet. Many farmers couldn't get into their fields to plant at all. By June, finally dry. Too late for corn in some places. Sugar beets? Forget about it. Some farmers switched to soybeans just to be sure of getting a crop in. Amazing thing is the variance in conditions. Even within the same county, depending on soil and exact precipitation, some farmers have seeded 95% of their fields, others only 10%. Those who contracted to sell corn they didn't plant are in a bind. Good thing so many have a few good years under their belts, otherwise they'd be in a world of hurt.

Consequences. High crop prices are driving up land prices. Bankers remember (so do seasoned farmers) when 1980s' speculation in acreage ruined so many. Bankers and seasoned farmers also know that \$3,000 an acre won't price out when crop prices settle back down. They won't get involved in these deals. Yet acreage prices are still going north. Seems like some buyers either don't remember, or won't listen to reason. Probably the young, college-educated ones. The other consequence is beef. Expensive to feed cattle when corn is \$4 a bushel. Liquidate your herds to drive beef prices down. Next year, small herds will push beef prices up. (CPI, fasten your seat belt.)

Productivity. Used to be, a farmer had to let the fields dry out, then till and plant. Get in too early, you compact the soil under those tractor wheels and nothing grows. Stays wet too late into the season, no crop at all. Now, farmer has a "no-till" technology. Uses new seed insertion method (without tilling first) and chemical sprays. You rig lights on your tractor, plant all night long if you have to. Listen to music in the cab. With no-till and late shift, farmer can get crop in pronto. (Question for the Bureau of Economic Analysis: Does no-till ability, versus not planting at all, show up in the productivity statistics?)

Breakfast again, Perrysburg. Eggs again, bacon again, hash browns again, coffee, coffee, coffee. Businesses keep expanding, labor markets tight as a drum. New plant here, new plant

there, here a plant, there a plant ... you know the tune. Easy to find people to hire, hard to find the ones who want to work. Got to know how to use computer-controlled machines; got to know about TQM. Skilled wages keep edging up; unskilled wages follow. Engine pulls the ca-boose. More plants, stronger incomes, more housing. Construction hopping everywhere, putting more pressure on land prices. Consumers getting lulled into security—hope it's not false. People think nothing of filing for bankruptcy anymore. Sometimes send in Chapter 11 papers before the loans are even delinquent; no chance for a workout. Credit card debt all over the place, people just use one card to pay off another. When the music stops, POP goes the weasel!

Banking. Commercial lending's very strong. Customers shop their deals all over town. No such thing as loyalty anymore; they'll jump on an eighth of a point. Especially those young, college-educated ones. Looks like credit quality's holding up real well, but there are clouds on that horizon. Bankers have learned to lend on cash flows, not asset appreciation, but their borrowers are getting more leverage. That debt will bite you if you don't watch out. Heads, they win; tails you lose.

More banking. How to fund the loans when cheap deposits are hard to come by? Old customers may stick with the bank, but the new generation has other ideas. They've seen the bright lights of the big city, and its name is Stocks and Mutual Funds. The depositor has hit the road, Jack. Oh, sure, there's a financial disaster and it's back to the passbook account, but who wants to cut off their nose to spite their face? Face it, cheap deposits are history. Pretty soon small business loans will be packaged up and securitized like mortgages. Someone will figure it out, make it look easy. Then bankers will assess the credits, make the loans, and sell them off. But you don't need to be a bank to do that. What's banking coming to anymore?

Lunch, Huron County. Pork chops, spiced apples, iced tea. Bankers see monetary policy in different ways. Crop prices, wage pressures, land speculation, overextended consumers, stock market bubble. Bankers who've seen it all before say inflation may be gathering steam. Hard to quantify—something in the air. Another view is that monetary policy seems about right. Prices blip up, then down. Too early to tell. Some say, wait 'til you see the whites of their eyes. Maybe ask a few more bankers what they think. Especially those young, college-educated ones.