

July 2025

WHAT DOES YOUR BALANCE SHEET SAY WHEN YOU'RE NOT LISTENING?

I recently experienced something historic in Omaha, Nebraska: being in the presence of Warren Buffett when he announced his retirement from Berkshire Hathaway. Listening to his wisdom felt like sitting on the back porch with the wisest old-timer you know, discussing everything under the sun without a single ping from your phone.

Among my 14 pages of scribbled notes, one stood out to me:

If Buffett could analyze just one financial statement, it would be the balance sheet — because it “talks.”

Let that sink in. This comes from someone who, according to The Wall Street Journal, has examined over 100,000 financial statements in his lifetime. And yet, of all the reports he could choose, he'd pick the balance sheet.

Here's why that matters: The balance sheet is a snapshot of assets, liabilities, and net worth frozen in time. But according to Buffett, it's more than just numbers. It's also a conversation starter. It invites you to ask the tough questions before you invest or lend money.

The questions Buffett asks:

- What are the owners really worried about?
- What's not being reported?
- What does this reveal about management's mindset and character?

In both business and personal finance, he emphasized, it's not just about what is being said—it's about what is left unsaid. The balance sheet forces you to dig deeper and think critically about the story behind the numbers.

WHEN A BALANCE SHEET CHANGES EVERYTHING

Buffett's insight took me back to my freshman year vocational agriculture class in high school. My FFA teacher, Mr. Greene, had everyone complete a personal balance sheet—and mine told quite a story.

I listed \$1,038 in assets with zero liabilities. Not bad for a teenager, right? I will admit, I chuckled a bit because I had overvalued my three registered Holstein cows to feed my ego. But Mr. Greene saw something I didn't.

Instead of calling me out on the inflated cow values, he called me aside after class. What I expected to be criticism became vision-casting. Looking at my balance sheet, he saw potential for a State or American FFA

Degree, maybe even a State FFA Officer position. But there was a catch: I'd need to accumulate \$10,000 within six years.

That balance sheet became my roadmap. It wasn't just numbers on paper. It was a conversation about my future.

By graduation, I had over \$12,000 in net worth and hit the target Mr. Greene set; mission accomplished. More importantly, I learned what Buffett meant about balance sheets "talking." Mine had revealed not just what I owned, but what I was capable of becoming.

Mr. Greene's vision extended far beyond my individual success. Recently, he was one of the first to be inducted into the New York State FFA Hall of Fame. As further proof of Mr. Greene's impact, our chapter made history by producing the first female FFA member in New York State—and the entire United States.

The lesson? Just like Buffett said, the balance sheet tells a story. In my case, it told the story of a teenager with potential that even he could not see yet. Sometimes you need someone else to read between the lines.

READING RISK IN REAL TIME

Buffett's emphasis on critical analysis hits home when you are trying to assess risk tolerance and investment priorities. In today's economic chaos—tariffs, trade wars, unpredictable weather—the top half of the balance sheet becomes your best friend.

Cash is king, and Buffett proves it. Berkshire Hathaway's cash position jumped from \$138 billion in 2024 to over \$325 billion today. That is not idle money; that is dry powder, ready to weather storms or pounce on discounted opportunities.

THE LIQUIDITY TEST

Can your farm and ranch borrowers' current assets be converted to cash quickly enough to meet their obligations? This means asking them the tough questions:

- What is the real quality of the corn and beans in their grain bin?
- How market-ready is their livestock?
- Most importantly: Do they have a risk management program for the downside and the upside?

This is what Buffett calls the behavioral advantage—managing cycles instead of being managed by them.

WHAT YOUR RECEIVABLES REALLY SAY

Take a hard look at your borrowers' accounts receivable and prepaid assets. Since most farms and ranches carry little cash, these numbers reveal their management philosophy. The peak performers I work with are prioritizing cash now more than ever. **Cash equals resilience, agility, and options.**

WHEN LIABILITIES START TALKING

Your borrowers' current liabilities tell stories you might not want to hear:

- **Rising accounts payable?** That is financial stress talking. Make sure your borrowers are reporting everything—accrued interest, taxes, wages payable. Unpaid wages are often the canary in the coal mine.
- **Lines of credit trending up?** The trend on the balances of lines of credit throughout the year and over the years is often a measure of profits/losses, capital expenditure priorities, and, to some degree, growth management strategies. In down cycles, refinancing operating losses through credit lines becomes the quick fix. If that's your client, get a corrective action plan in writing.

THE HIDDEN DEBT TRAP

Don't forget the stuff that's easy to overlook, like:

- Business and personal credit card balances (often underestimated).
- Lease obligations on machinery, equipment, and buildings.
- Rental agreements that aren't properly reported.

These “forgotten” liabilities can flip a financial position overnight.

Bottom line: Match the asset conversion timing with the liability payment schedule. The balance sheet is not just talking—it is having a full conversation about the financial future.

THE LONG GAME: WHAT ASSETS REALLY TELL YOU

Digging into long-term assets and liabilities, machinery and equipment—and their depreciation schedules—can reveal future needs and buying patterns. Match those assets with their corresponding debt, and you will see the real payback timeline and asset life expectancy. The same analysis can be applied to livestock and other intermediate assets.

Here is the reality check: Over 80% of farm and ranch assets sit in land and facilities. These have generally held or increased (sometimes inflated) in value over time, creating a financial cushion that many producers use to weather storms, economic downturns and management adversity by refinancing to term debt when times get tough.

But ask yourself: *How often are your producers refinancing? How much have they leaned on this tool?*

THE NET WORTH REALITY CHECK

This is where things get interesting. What percentage of net worth is actually earned versus inflated paper wealth?

For those who are part of a multi-generational operation, dig deeper:

- How much is legacy wealth passed down?
- How much has the current generation actually created?

These aren't just numbers—they're a report card on operational performance versus inherited advantage.

THE TAX TIME BOMB NOBODY TALKS ABOUT

Here's the question that keeps financial advisors up at night: If your producer had to liquidate partially or completely, what would the deferred tax liability look like?

The brutal truth: Current assets hit hardest because they are often already expensed out. But those capital assets with high values that have been depreciated down to small tax bases? They can trigger massive, deferred tax obligations that blindside families.

BUFFETT WAS RIGHT ALL ALONG

The balance sheet doesn't just talk—it tells epic stories. Not just snapshots of where a farmer or rancher is today, but the entire arc of a business' or a person's financial journey.

From my overvalued Holstein cows as a high school freshman to Buffett's \$325 billion cash position, balance sheets reveal character, vision, risk tolerance, and destiny. The question is not whether your borrowers' balance sheets are talking. **The question is: Are you listening?**

**While I wrote this article primarily for agricultural lenders, I encourage you to share it with your farm and ranch customers.*



LENDER AND BUSINESS DASHBOARD ECONOMIC INDICATOR ASSESSMENT

July 2025

GLOBAL AND DOMESTIC ECONOMIC PERSPECTIVES

As an educator, I reached another milestone as an instructor at the Graduate School of Banking at LSU. This marked the school's 75th anniversary—and my 35th year teaching there. Only 12 faculty and staff members belonged to the 50/75 club, a distinction for those who've been part of both the golden and diamond anniversaries.

I teach Agricultural and Rural Lending and team-teach Interpreting Economic Change with Dr. Thomas Payne, Dean and Professor of Finance, at Tennessee Tech's College of Business. This year, our students represented 22 states and Mexico. Their outlook was mildly bearish on both the agricultural and domestic economy. Those involved with livestock were cautiously bullish, while grain and row crop producers were very bearish due to uncertainty in export markets, tariffs, capital markets, wars, and overall commodity prices.

Approximately 140 students in the senior-level Interpreting Economic Change class shared their views about the U.S. economy through automated surveys. I'm sharing their "boots on the ground" perspective because these banking professionals bring real-world insights from their communities across the country. Their firsthand observations often reveal economic trends that don't yet appear in traditional data, making their collective viewpoint valuable for understanding what's actually happening in local markets.

- **Recession Outlook:** 63% of the students expect a recession by the first half of 2026, with 25% specifically selecting 2026. Only 10% predicted no recession in the next 24 months—down from 25% in last year's class, showing growing uncertainty.
- **Interest Rates:** 75% anticipate interest rate declines of up to 50 basis points in 2025. Nearly 2-to-1 favored a 25-basis point cut. 16% expect rates to remain unchanged, while 0% predict increases.
- **Asset Value Declines:** When asked which asset would see the largest decline, 37% chose the dollar, which would benefit agriculture but increase import costs for consumers. Commercial real estate came second at 25%, followed by residential real estate and cryptocurrency.
- **Stock Market:** Only 16% expect the Dow Jones Industrial Average (DJIA) to reach 45,000 by May 2026. Over 40% believe it will remain in the 40,000-45,000 range, while 27% see a drop to 35,000-40,000 by this time next year. 14% are very bearish, forecasting 30,000-35,000.
- **Unemployment:** 57% expect higher unemployment rates by next year, with major concerns about white-collar layoffs as companies cut costs and increase their adoption of artificial intelligence.

These insights offer a real-time glimpse into how future banking leaders view the economic landscape ahead.

GLOBAL ECONOMY

To borrow a concept from my elective undergraduate courses in geology and oceanography, economics today is undergoing what experts call a **tectonic shift** in economic power. Agriculture, being heavily export-driven in many commodities, is at the forefront of many of these economic mega shifts.

The devaluation of the U.S. dollar and upward pressure on long-term interest rates—driven by federal debt refinancing—need close observation. Dollar devaluation makes U.S. agricultural exports more attractive, but this could be countered by tariffs and the economic health of the major trading partners. Mexico, Canada, and China make up over 50% of agricultural trade, and all three economies are struggling. The deficit spending surge and growing federal debt are forcing countries to either reduce their holdings of maturing U.S. debt or demand higher interest rates due to increased risk.

Major economies such as China and the European sector are lowering interest rates as inflation becomes less of an issue. Throughout the summer and the fall, watch for more collaboration between the BRICS nations (i.e., Brazil, Russia, India, China, and South Africa). Canada, Mexico, and Europe may deepen their economic ties in response to U.S. tariffs and overall economic strategy. The results will be volatility and uncertainty in market prices, costs, and possible valuation changes in assets like stocks, real estate, and cryptocurrency.

U.S. ECONOMY

The **Leading Economic Index** (LEI) and its diffusion index are both showing a negative trend. This, combined with the **Purchasing Manager Index** (PMI) of less than 50, would suggest a contracting economy.

Oil prices have stabilized or declined, benefiting consumers and businesses. However, tail risks (risks with a small probability and large impact) like regional warfare could change this important variable quickly. **Copper prices** remain high likely due to demand from AI infrastructure buildout worldwide.

Housing starts are in the yellow zone, but watch closely for value corrections in Florida, Texas, Arizona, and southern California. This could hurt not only housing but the broader economy, as one in seven jobs are connected to the housing market.

Unemployment and job numbers are lagging indicators but need close observation. The job market is tightening, particularly for the white-collar workforce.










Inflation is moving back toward the preferred rate of 2% for core inflation and 4% for headline inflation. Housing and medical costs, which comprise a significant portion of core inflation, could be altered by tariffs and government policy.

Finally, watch **consumer sentiment**. The government indicator of consumer confidence jumped dramatically in recent readings, and the University of Michigan's Consumer Sentiment Index moved to 60.5, still in the bearish zone under 75.

LENDER AND BUSINESS DASHBOARD

ECONOMIC INDICATORS

For the month of May

Indicator	Current	Green	Yellow	Red
Leading Economic Index – LEI	99.0			
LEI Diffusion Index	55			
Purchasing Manager Index – PMI	48.5			
Housing Starts (millions)	1.256			
Factory Capacity Utilization	77.4%			
Unemployment Rate	4.2%			
Core Inflation	2.8%			
Headline Inflation	2.4%			
Oil Price (\$/barrel)	\$63.78			
Yield Curve	0.07			

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 increasing² Includes food and energy³ Consumer's perspective⁴ 3-Month Treasury Bill rate to 10-Year Bond rate