



Credit Risk Ready Podcast

Host Linda Keith CPA with Mary C. Kelly

Futurenomics: The Snapshot You Need to See Today

Hi, this is Linda Keith CPA with Credit Risk Ready, a podcast where we interview senior credit and lending professionals from community financial institutions across the United States, their regulators, and banking advisors to better understand and mitigate credit risk.

So, the economy is in freefall, or chugging right along, or recovering depending on who you listen to, who you are, and what business you are in. Perhaps today's news headlines have your stomach in knots. Well, in this episode, we'll focus on what the changes in the current economy mean for your clients, their families, and their businesses.

Our guest today is Dr. Mary Kelly. Her doctorate is in economics and her real-world experience comes from experience as a commander in the Coast Guard and a consultant on leadership and business to government organizations and businesses around the country.

Welcome back, Mary.

Mary C. Kelly:

Linda, it's always so much fun to be with you and your audience on your podcast.

Linda Keith:

Well, we have a new terminology for what's keeping us up at night: 'doom scrolling.' It is hard to watch and listen to the news with all the challenges facing us on every front. Political, weather, health, and the economic fallout from all of that. And yet you encourage a facts-and-data approach to chart our course forward.

So, I'm asking for a listener personally, but I also believe that a listener has a role to play in helping borrowers make the shift as well. Why is it important to shift from feelings to facts and data and how can we make that shift?

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Mary C. Kelly:

I always ask people, "Have you ever had an argument with somebody you cared about when you were both at a heightened emotional level? Hmm, how did that go for you?" We tend to make decisions on an emotional level at a high level that sometimes are not the best decisions. So, as an economist, as a card-carrying crystal-ball-toting economist, I like to give people facts and data they can use.

You can watch the news that is designed to get you emotional, and all excited, and all brought up, and all, all that. But at the end of it, you kind of go, "Well, what facts do I have to work from?" That's when you realize, "Maybe I didn't get the facts I needed." So, my job as an economist is to help people get the facts they need to take those facts and apply them to their business and help them improve profit growth so that they make the best possible decisions moving forward. We all know one bad decision can cost billions. My job is to make sure that my clients make the decisions that are going to help them make money, not lose money.

Linda Keith:

So where does a lending or credit professional go with all the stuff that's out there? Where do you recommend they go to either get the facts or even to choose which facts are relevant?

Mary C. Kelly:

Oh gosh. I go to a variety of different sites pretty much every single day. You know, I wake up every single morning and I look at economic data. I don't expect anybody else to do that.

Linda Keith:

My husband does it.

Mary C. Kelly:

Does he? See, we're so weird, aren't we? We're so weird.

Linda Keith:

Who knows. I don't know why because he's a general contractor and a horticulturist. But in his retirement he spends two hours a day on economics in the morning.

Mary C. Kelly:

Wow! Oh, gosh.

Linda Keith:

You guys should meet.

Mary C. Kelly:

That's a whole 'nother other topic. Oh, my goodness. That's so exciting to me.

For example, I look at the jobs reports. Of course, the thing that affects the jobs is not so much the number of unemployed people. The labor force, to me, is more telling than the unemployment numbers.

Linda Keith:

Okay.

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Mary C. Kelly:

The labor force participation rate. Labor force is everybody in the United States ages 16 to 65. They're not in jail. They're not in the military. They're not a full-time student. They're not a full-time homemaker. They are either working or actively seeking work. That's labor force participation rate. Where we get people from. What concerns me are the numbers of people who should be working, should be looking for a job, who have not.

Linda Keith:

Yeah.

Mary C. Kelly:

Now, there are some people who are called discouraged workers. They have looked for a job. They have decided, "Nobody wants me. I'm too..." Fill in the blank. "I'm too old." "I'm too experienced." "I'm too young." "I'm too inexperienced." "I'm too..." Fill in the blank. It doesn't matter. They become discouraged workers and they stop looking for a job.

I have had relatives fall into that category. They're like, "Oh, they're unemployed." I'm like, "No, they're not." "They're bums," they'll harshly say. I'm like, "The technical term is a discouraged worker." But they are not unemployed because they have stopped looking for work. Now they're just lying on the couch watching cartoons. That does not an unemployed person make. It sounds a little harsh, but that's what the term is.

My concern there is in the participation rate of the labor force that the baby boomers are still overrepresented in the labor force for their numbers. The Gen Xers are in the labor force as a participation rate where they should be. The millennials are lagging behind in the numbers and the millennials need to be in the labor force in greater numbers.

Linda Keith:

A bunch of those millennials, the women who now have children in their home who aren't going to school and have sort-of given up on the idea that, for the short-term, they actually could work out of the home.

Mary C. Kelly:

Well, if you watch the news, you would conclude that. Except the numbers would be wrong.

Linda Keith:

Oh!

Mary C. Kelly:

Uh huh. The numbers actually bear out that 55% of the young people ages 18 to 29 who have moved back home with mom and dad, or mom, or dad, are actually male, not female. And that before all this started, it was millennial men who were the most underrepresented in the workplace. Harvard came out with the study and said that the average person who was not working who should be was a 26-year-old college-educated male who moved back home with mom and dad and was deriving more satisfaction playing video games than either having a career or having sex. There, I just said sex.

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Linda Keith:

On my podcast you can say sex.

Mary C. Kelly:

Yeah, and that was the numbers. To which I said after Harvard came out... I was asked what I thought about that. I said, "It seems to me that they're doing at least two out of three wrong, but these are the numbers that concern me." So, I look at the Bureau of Labor Statistics. I look at the Congressional Budget Office.

The other thing that concerns me, well, a lot of things concern me as an economist. I stay awake at night and just think about things. The national debt is a big problem. So, the good news. There's the good, the bad, and the ugly. This is for 2021. People can feel cheerful and very bullish about this year. Bulls have horns. Horns go up, so things are going to go up this year. Bears have claws. Claws go down. Next year is going to be a little rougher.

Linda Keith:

Right.

Mary C. Kelly:

Because the way we calculate our GDP, our gross domestic product, is our consumer expenditures, which is about 70% of our GDP, plus our business investment. This is where your folks come in. Plus our government expenditures, which is usually about 16%, plus our exports, minus our imports. Now, the issue here is right now our government expenditures are higher than they would normally be.

Here's the problem. Every time you hear the term 'stimulus,' I want you to add \$16,000 to what you owe in taxes. That's not including interest, and lenders understand how interest works. So, every single time they come out with that... You have to understand that the average American taxpayer — Taxpayer. Not everybody pays taxes. Babies, while cute, are not considered taxpayers — owes about \$223,000 to our national debt. Every time they pass another stimulus, you just add another \$16,000 to that.

Then some people say, "Well, what does it matter anyway? It's so high it's never going to matter. We're never going to pay it off." Well, if your business said, "You know what I've just got so many debts, I'm just not going to worry about any of them. I'm just not going to worry about paying off. I'm just going to keep all your money." Yeah, you would never let that happen. You just never would.

This year, because of the government stimulus, we are going to see an increase in investment. The Federal Reserve has already said that rates will remain low for this year. This will be a great year for people to borrow money. It will be a harder year to make money on loans, but it will be a great year for people to borrow money. Then, next year hits. Because the IRS came out on the 28th of October of 2020 with the tax rates for 2021, so we're pretty steady. As you know. CPAs know these things. We're pretty set for 2021, but for 2022 tax rates will most assuredly increase. That is where a lot of people are going to be surprised. It's great business for CPAs, because of all the changes. But a lot of people are going to be very, very surprised.

What businesses have to understand are those other external shocks that might get in the way of them making profit. The tax implications are a big one and hopefully your CPAs and other smart people are

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telling you about that. You have to plan for that. You have to plan for more taxes in 2022, and 2023, and 2024, and beyond.

Linda Keith:

Right.

Mary C. Kelly:

That means you've got to make even better decisions about your business. You've got to be more profitable. We've got to have a very clear vision as to what you're providing and to whom. You've got to have a solid business plan. You've got to make sure that you understand where wages are going to be. That if minimum wage goes up to nationally \$15 an hour, what that's going to do to your market. Now, keep in mind, that whole discussion is mostly a red herring, because very few people actually do get minimum wage in this country. But, oh, politicians just love it as a topic.

Linda Keith:

Right.

Mary C. Kelly:

The issue there isn't, of course, the people getting paid minimum wage. It's those first-line supervisors who are currently getting \$15 or \$16 an hour. Well, if the people you supervise are getting paid \$15 an hour, we've got to pay you \$20. Then we've got to pay their supervisors \$25. That's where the problem comes in.

Linda Keith:

Sure.

Mary C. Kelly:

Again, I saw this when I was just back in Texas, where Amazon has set up these... They're like souped-up vending machines, but you can walk through them. It's automatic checkout and it does not require people. There's an entire store that is staffed by nobody.

Linda Keith:

Yeah.

Mary C. Kelly:

That is what's going to happen next.

That's some of the planning things that businesses are looking at and we have to stop saying, "But people can do that. We absolutely have to have a person there." Do we? Do we really have to have a person there? You know, in the old days, they said elevator operators were the same way. If there's not that person standing there pressing those buttons, that elevator is not going to move. Well, now we would think it's ridiculous if somebody stood there and press the buttons for us.

So I look at jobs I look at numbers. I look at unemployment. Our unemployment rate right now is a little bit over 6%. That will get better in 2021. It might go back up again in 2022 when people start to wonder if their employees are providing the ROI that they need. Right now if you're a businessperson, this is the year you want to be re-evaluating your entire workforce to make sure that the people you have are

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delivering what you need them to deliver. You've got to be setting yourself up well for 2022 and beyond. Now is a good time to find new talent. A year ago, these people weren't available. Now, there's people available. There are more people for you to hire now.

71% of millennials, just as a fun fact, say that they will leave a job within two years if they are not personally and professionally developed. This is an aspect of the job upskilling that many organizations forget. That is people need to be constantly developed throughout their careers. They need to have conversations with people about where they want to go, what they want to do. "What skill sets are you ready for now?" In the book that you were kind enough to mention earlier, the *Five Minutes Per Week: 52 Weeks to a Better Business*, there is a leadership promotion plan. How you can sit down with somebody and say, "How well do you feel you are ready for that next level of responsibility? Are you ready for your next role? If not, how do we get you there?" It's not a boss telling somebody, "You've got to go do this," or "I'm going to send you to this course." It is very much a two-way dialogue on how to help your people be their best. At the same token, we know that there's some folks who say, "You know what, I'm good where I am. I do not need to worry about my next level of role or responsibility because I'm very happy where I am. I'm set." But we have to have the conversations to know that.

Part of what we do as economists, again, and what I do, is not just say, "Well, this is what the interest rate is. This is what the numbers look like. Here's the graph." It's "What does this mean for my businesses?" From my farmers, for example... We love our farmers. For my farmers, they're saying, "Well, what about this? When do I get a loan?" I'm telling him, "Get loans now. Get the loans this year. Get the loans while money is little easier to get because we don't know what it's going to look like next year. At least get secure that line of credit. Talk to your lenders now and see what it is you might need."

Linda Keith:

Let me jump in on that one, Mary.

Mary C. Kelly:

Yeah. Please.

Linda Keith:

We, as lenders, one of things you can help your borrowers do is really look and be sure that their loans are properly configured for their assets. So, as an example, if a business borrower or a farming operation use more liquid assets to buy some longer-term assets at a time when they were flush, maybe this is the time to refinance some of that equipment or other things that could have been long-term debt in the first place to free up that short-term liquid money. So that they can be more nimble or take advantage of opportunities. That's absolutely a step that a lender could take that would give them a great reason to have a conversation with their borrowers and provide an incredible service to get things aligned a little bit better.

Mary C. Kelly:

This is where lenders are so important. Your folks need to understand that they provide really the lifeblood that people need at a time when they most need it. Reaching out is such good advice.

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Linda Keith:

So, I'm going to wrap this one up by giving three ideas. The first is I would suggest to the listener that you develop your own snapshot list. You could listen to one of the things that Mary has shared with us. Maybe ask your manager what do they pay attention to, what do they look at, so that you can start being independent in maintaining that thought process of where is this economy now? How does it affect me personally and also my customers?

Then, secondly, in conversation with their borrowers. Ask them what they're watching, and particularly what external shocks they're concerned about that might impact their business. Whether it's global issues, health turnover, and staffing, the whole-work-from-home thing. What is not in their control, but that they think might impact their business.

Then, based on those conversations, you further modify your own snapshot so that you are paying attention to the things that make the most difference for you, for your borrowers, and for your financial institution.

Mary C. Kelly:

I love those recommendations.

Linda Keith:

I think it's going to be helpful. Every time we do a podcast, I like to have people be able to quit listening and say, "All right. Here's what I'm going to do. Because I just listened to Mary Kelly and Linda Keith talk about how to get a snapshot so that I can better do my job and help my borrowers."

I do want to recommend the book that you mentioned. We've linked in the show notes. It's a good business book. It's called *Five Minutes Per Week: 52 Weeks to a Better Business*. It comes with an online vault with forms the business owners can use. It will help your business borrowers make it through the recession we are in, come out more successful, and frankly build up even better once we're out from under the pandemic or recession.

Mary is a wealth of practical knowledge in economics and business, so I also want you to use the link to her website www.productiveleaders.com for more from Mary Kelly.

Thanks, Mary.

Mary C. Kelly:

Linda, thank you so, so much. Hope to talk to you again soon.

Linda Keith:

Sounds great!

Thanks for joining us on the Credit Risk Ready podcast. Subscribe, comment or share on social media to stay connected and spread the word. Join me next time as we bring our bank, our customers and our communities through the recession safe and sound. Take care.

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Resources

- Book: *Five Minutes Per Week: 52 Weeks to a Better Business*
<https://productiveleaders.com/product/5-minutes-per-week-52-weeks-to-a-better-business/>
- Website:
www.ProductiveLeaders.com/2021Success

About Mary C. Kelly

From her days as a naval intelligence officer to her role as one of today's most influential economists, Commander/Dr. Mary C. Kelly has carved out an unforgettable career in leadership. Former chief of police, professor, realtor, and HR Director, Mary has spent over 25 years teaching and training more than 40,000 military and civilian personnel.

Mary is the author of 13 books on business growth, leadership, and today's economy. She is a speaker, coach, and trainer who has worked with hundreds of organizations and companies across the globe.

About Linda Keith

Linda Keith, CPA, draws on her 30-plus years of experience consulting with and training lending institutions; background in public accounting; 15-plus years as CFO of the family residential construction company; and experience as an examiner with the Washington State Auditor's Office and as adjunct faculty in Accounting Principles and Managerial Accounting to help lending and credit professionals say "yes" to good loans.

Of course, you know those are not consecutive years or she'd be over 100 by now!

Linda is known by her clients to be both practical and funny. In fact, there is a movement afoot to change the 'P' in CPA to stand for 'Playful'. The fact is, people absorb ideas and learn better when they

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are having a little bit of fun. So, Linda brings the fun along with her practical knowledge and depth of understanding to provide credit analysis training and presentations that make a difference.

She is the founder of [Lenders Online Training](http://www.LendersOnlineTraining.com), a virtual classroom approach to improving tax return and financial statement analysis capabilities; the host of the [Credit Risk Ready Podcast](http://www.CreditRiskReady.com); and a [consultant/trainer on credit risk](http://www.LindaKeithCPA.com) to banks and credit unions across the country.

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Podcast: Assessing, Managing and Mitigating Credit Risk and download of the *Credit Risk Readiness 2018 Study*