

AGRICULTURE TODAY: NEW ERA OF PROSPERITY OR TEMPORARY OPPORTUNITY?

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Macro Clinic Video Blog: www.compeer.com/education

Road Warrior of Agriculture: www.cornandsoybeandigest.com

Ag Globe Trotter: <https://www.northwestfcs.com/ag-industries/economic-updates/ag-economy-articles>

Dave's GPS & Dashboard Indicators: www.farmermac.com

2020s- The Decade of Economic & Financial Divide

- economic volatility in extremes
- manage the controllables & manage around the uncontrollables
- adapt, innovate, focus & follow the process
- decade of management transition
- decade of the high business IQ



Ten Global Macro Economic Mega Trend Disruptors

1. global economic trade transition: globalization/deglobalization
2. ESG: environmental, social, & governance
3. oil & energy complex: transition from fossil fuels to green energy
4. labor shortage/automation: creates job shortage later in the decade
5. technology: bio, engineering, and information

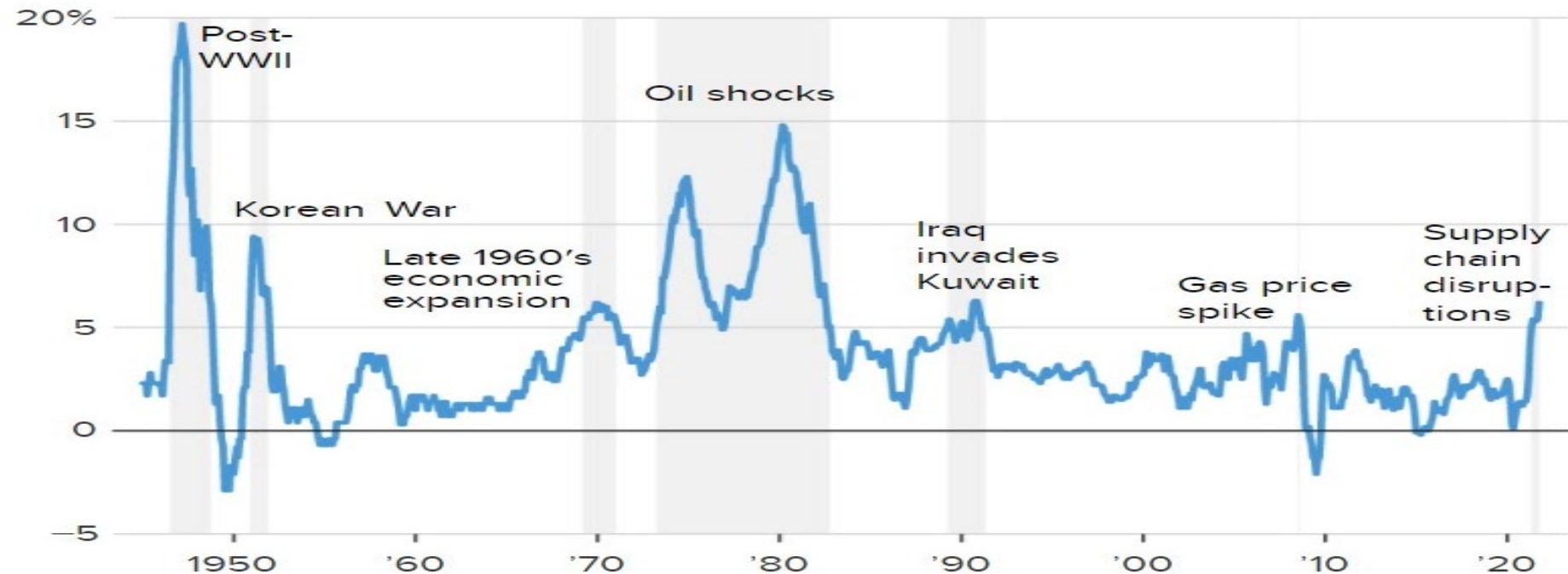
Ten Global Macro Economic Mega Trend Disruptors

6. government stimulus: 14% of \$85 trillion economy
7. weather in extremes, climate change, carbon footprint
8. China's real estate challenges
9. Russia & China's political & military strategies
10. supply chain challenges: ports & trucking

Episodes of U.S. Inflation

Episodes of U.S. inflation

Consumer price index, percent change from a year ago



Note: Periods of heightened inflation are shaded.

Source: Bureau of Labor Statistics (CPI), White House (inflationary periods through '08). Data is seasonally adjusted and as of Oct. '21.



Inflation in the 1970s & 1980s

- post World War II globalization
- oil & energy shortages & tensions in the Middle East
- baby boomers were in buying mode (cars, houses, etc.)
- accommodative central bank: M2 velocity of money
- behavioral economics- buy now, before the price goes up

Inflation in the 2020s

- transition from fossil fuels to green energy
- shift from globalization to deglobalization
- supply & marketing chain issues, labor shortages
- accommodative central bank: M2 velocity of money
- record fiscal stimulus: 14% of \$85 trillion economy
- savings \$2.5 trillion
- baby boomers are in later stages of life & spending habits

Watch List For Inflation Duration

Short term

- energy supply & demand
- supply & marketing chains
- central banks' tightrope:
rate increase, price stability
& unemployment

Long term

- U.S. & global consumer confidence
- automation replaces labor
- baby boomers/additional black swans
- government debt & geopolitics



Global Walk Around- China/Asia

- trade agreements
 - CPTPP
 - RCEP
 - Belt & Road Initiative
- President Xi
 - new term
 - regulation of businesses
 - high income/wealth people
- Taiwan/nationalism
- Chinese real estate
 - 29% of the economy
 - 90% of households own real estate
- Japan & India- slow growth



Global Walk Around- Europe/Russia

- pipeline/energy
- military aggression
- German leadership
- stagnant growth
- pandemic issues
- other



Agricultural Down Cycle- Phase I Economic Downturn 2022-2025

- margin compression/negative margins
- land values- stabilize or slight decline
- government payments supplement income
 - green vs. traditional
- regulations & lender underwriting
 - allow refinancing for liquidity
- supply/demand for land in balance
- strong outside revenue sources/streams
- high business financial IQ for continued growth



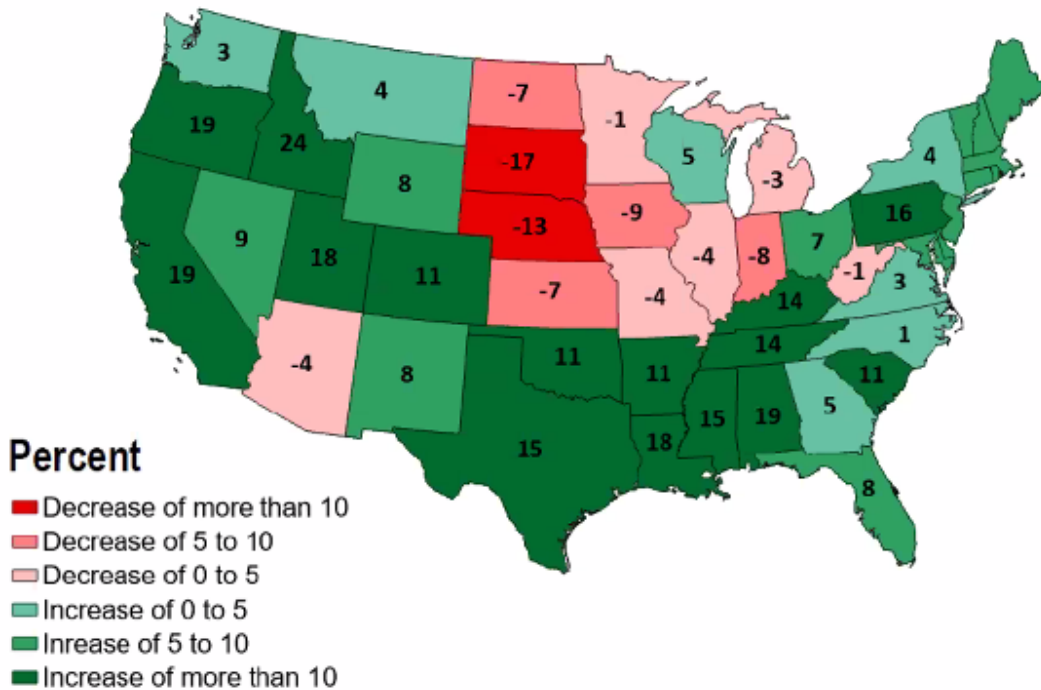
Agricultural Down Cycle- Phase II Economic Downturn 2022-2025

- deep margin compression
- regulators and lenders
 - tighten credit standards rapidly
- large market collapse
 - integration
 - industry
 - international trade
- numerous natural disasters
- supply exceeds demand
- machinery/livestock lose 50% of value
- land in certain areas lose 20-40% value
- high business financial IQ
producers on sidelines with very selective growth

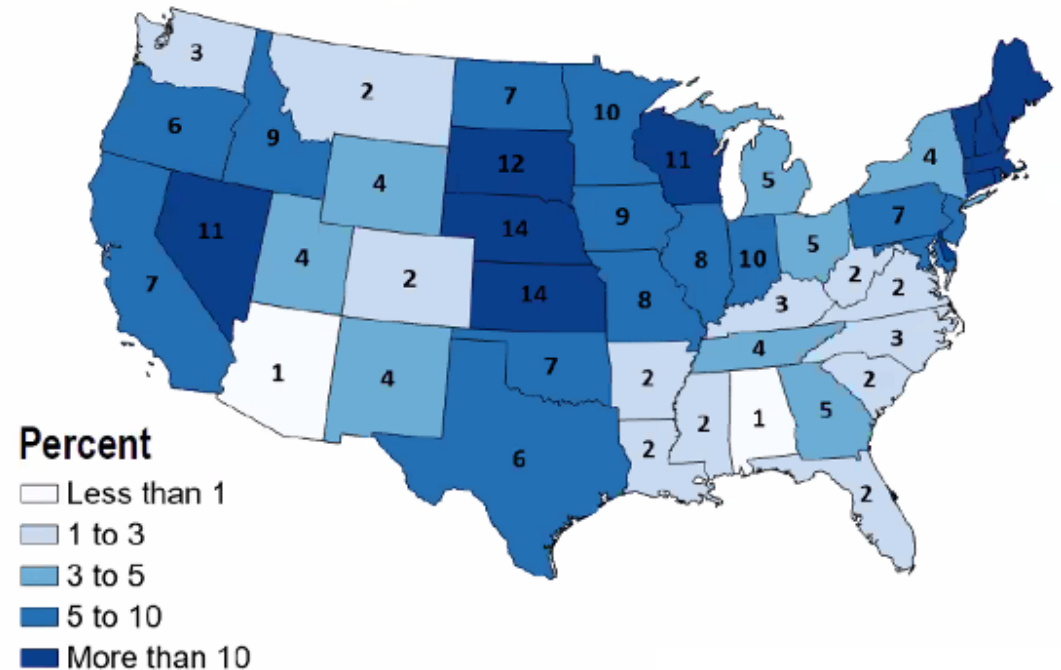


Farmland Values: Recent Observations

U.S. Farmland Values
Change from 2015 to 2020



U.S. Farmland Values
Change from 2020 to 2021



Source: USDA & Federal Reserve Bank of Kansas City

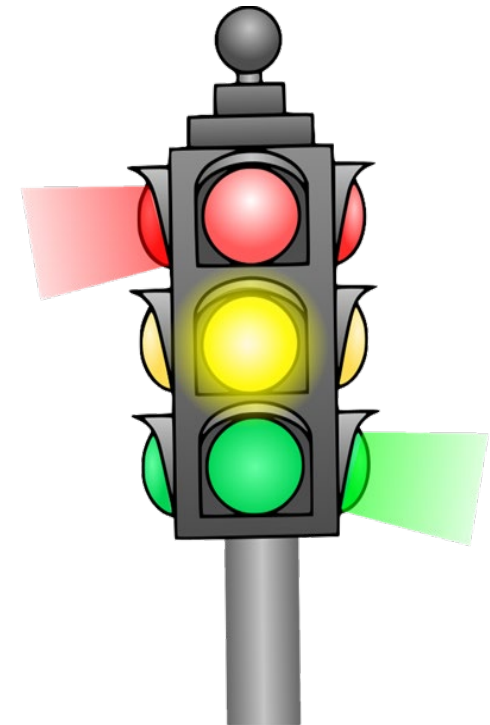
Why Are Land Values in the 2020s Resilient?

- baby boomer producers and land owners are in later stages of ownership with equity
- interest rates have been stable
- government payments to agricultural sector have been generous
- rural renaissance
- outside investors
 - solar/wind green payments
 - water & mineral resources
 - development for housing industry is strong
 - diversification of investments



Lender & Business Dashboard Watch List

<u>Indicator</u>	<u>Range</u>	<u>Light</u>
Copper Prices	\$4.00 to \$4.50/Pound	Green
Consumer Sentiment	67.4 to 72.8	Red
LEI Diffusion Index	Positive month over month	Green
Purchasing Managers Index	High 50's	Green
Housing Starts	>1.5 Million	Green
Unemployment	3.9% U-3/7.3% U-6	Green
Factory Utilization	75% - 76%	Yellow
Federal Debt	Approximately \$30 Trillion	Red
Oil Prices	\$65 to \$80/Barrel	Yellow
Yield Curve	Steep	Green



Economic & Financial Bubbles

- stock market
- cryptocurrency
- commercial real estate
- housing market
- farmland
- other



Ten Questions for the Renewal Season Pilot Checklist

(1)

1. What percent of net income resulted from government payments in the last four years?
 - ☐ >50%
 - ☐ 25-50%
 - ☐ <25%
2. What percent of the government payments are reoccurring vs. nonrecurring?
 - ☐ >50%
 - ☐ 25-50%
 - ☐ <25%
3. What portion of net income is the result of export markets?
 - ☐ High
 - ☐ Average
 - ☐ Low

Ten Questions for the Renewal Season Pilot Checklist

(2)

4. If the farm/ranch was profitable, how were the profits generated?

- ☐ Government payments
- ☐ Following a marketing/risk management plan
- ☐ Speculative
- ☐ Production, marketing, & financial operational efficiency
- ☐ Outside revenues

5. How were the profits distributed?

- ☐ Family living dividends
- ☐ Build working capital
- ☐ Investment in intermediate & long term assets
- ☐ Taxes- state & federal
- ☐ Investments off the farm/ranch

Ten Questions for the Renewal Season

Pilot Checklist

(3)

6. How vulnerable is the farm/ranch to supply and marketing chain issues, vertical integrators, processing, contract issues?
 - ☐ Highly
 - ☐ Average
 - ☐ Low
7. Over the past five years, what portion of net income gain was earned vs. appreciated?
 - ☐ High: >75% earned, <25% appreciated
 - ☐ Average: 25-75% earned, 25-75% appreciated
 - ☐ Low: <25% earned, >75% appreciated
8. Working capital lines of credit used:
 - ☐ Increased
 - ☐ Stayed the same
 - ☐ Decreased

Ten Questions for the Renewal Season

Pilot Checklist

(4)

9. If you are in the senior generation and purchased land, is a transition and estate plan in existence, being executed and monitored?
 - ☐ Definitely yes
 - ☐ In progress
 - ☐ Definitely No
10. Have you filled out the Business IQ scorecard and developed a plan for improvement?
 - ☐ Yes
 - ☐ In progress
 - ☐ No

Business IQ: Management Factors

Critical Questions for Crucial Conversations

Farmer Checklist	Your Score	Green (3 points or 4*)	Yellow (2 points)	Red (1 point)
1. Knows cost of production		Written	In head	No idea
2. Knows cost of production by enterprise		Written*	In head	No idea
3. Goals - business, family, & personal		Written*	In head	No idea
4. Record keeping system		Accrual	Schedule F (one & done)	No idea
5. Projected cash flow		Written*	In head	No idea
6. Financial sensitivity analysis		Written*	In head	No idea
7. Understand financial ratios, break evens		Written*	In head	No idea
8. Work with advisory team and lender		Yes*	Sometimes	Never
9. Marketing plan written and executed		Yes	Sometimes	Never
10. Risk management plan executed		Yes	Sometimes	Never
11. Modest lifestyle habits, family living budget		Yes*	Sometimes	Non existent
12. Written plan for improvement executed & strong people management		Yes*	Sometimes	Non existent
13. Transition plan/Business Owner plan		Yes	Working on plan	Non existent/controversy
14. Educational seminars/courses		Yes*	Sometimes	Never attend
15. Attitude		Proactive	Reactive	Indifferent

*Extra Points:

- **Progressive Business** may receive 4 points for #2,6,7,8,14
- **Struggling Business Attempting Turnaround** may receive 4 points for #3,5,8,11,12
(See pg. 2 for Progressive and Attempting Turnaround)

Score	Overall Analysis
35-50	Strong management rating, strong potential for resiliency & agility
24-34	Moderate management rating, potential issues in resiliency & agility
<24	Weak management rating, potential major issues in resiliency & agility

Business IQ Exercise

After completing the Business IQ: Management Factors Scorecard, what are three areas/points in your business that you will continue and three areas/points for improvement?

Three areas/points to continue:

- _____
- _____
- _____

Three areas/points to improve:

- _____
- _____
- _____

How Can Team Members Use Business IQ as a Tool for Producers?

- screener for attitude to improve
- each family member, business partner, spouse complete the Business IQ separately
- assists in prioritizing improvements
- communication tool- internal and external to team of advisors
- customer develops plan for improvement to improve or buy in
- objective way to measure management
- monitoring tool, year over year

Recent Business IQ Scores

<u>Group</u>	<u>Score</u>
TEPAP	38.5
Crop Insurance	29.5
Farm Credit Associations	36.5
Median Score	32
FSA	22
Bank Sponsored Events	36

Business IQ: Top Third Vs. Low Third

<u>Ratio</u>	<u>Top 1/3*</u>	<u>Bottom 1/3*</u>
Debt/Total Asset	20.52%	50.08%
Return on Assets	3.16%	0.173%
Net Farm Income	\$202,120	\$53,406
Coverage Ratio	114%	10%
Operating Expense to Revenue Ratio (excluding interest & depreciation)	68%	90%

*** Mean**

Preliminary Study of Kentucky Farm Business Management Association data - Ben Isaacs, Undergraduate Research Study at University of Kentucky

Best Practices to Improve Your Business' Odds of Success (1)

- strong working capital
 - helps navigate volatility
 - helps face adversity
 - positions for opportunity
 - 20-25% of expenses
 - is three times non-operating debt service



Best Practices to Improve Your Business' Odds of Success (2)

- debt management
 - term debt to EBITDA (3 to 5 year trend)
 - <3:1 green light
 - 3:1 to 6:1 yellow light
 - >6:1 red light
- using a relationship lender who knows your goals, business & industry
 - more than just interest rates



Best Practices to Improve Your Business' Odds of Success

(3)

- operational efficiency
 - production, marketing, finances, and operations
 - 60-30-10 profit rule
 - get efficient before growth
 - operating expenses to revenue ratio (excluding interest & depreciation) <75%
 - earns & turns = ROA



Best Practices to Improve Your Business' Odds of Success

(4)

- cash flow planning is 80% of the business plan
- variance analysis- projected vs. actual
- inflation compounds good & bad decisions
- wider parameters to stay within the financial guardrails
- three point emphasis on marketing & risk management:
 - price
 - cost
 - interest rates



Game Plan Actions for 2022



<u>Game Plan Action- Check Status</u>	<u>Yes</u>	<u>In Progress</u>	<u>No</u>
Develop your goals- business, family, & personal	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Short run	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Long run	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Complete the Business IQ	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Develop a business & personal balance sheet	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Develop projected cash flow	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Develop a written yearly operational plan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

