

ECONOMIC THUNDER & LIGHTNING ON THE HORIZON

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January 12, 2015

Macro Clinic Video Blog: <http://agstar.com/edge/>

Road Warrior of Agriculture: www.cornandsoybeandigest.com

Ag Globe Trotter: www.northwestfcs.com

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

Commodity Super Cycle Burnout

- slowing of emerging nations' economies
- ethanol & biofuel mandate softening
- central bank stimulus
- inefficient infrastructure in emerging nations
- weather – northern southern hemisphere



Grain Industry- “Margin Flipping”

- easy money has been made
- top flight managers still earn profit
- high overhead/fixed cost structure
- game of chicken with land rents
- duration of cycle
- four strategic factors



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Managing Thru the Cycles

<u>Cycle Duration</u>	<u>Credit Issues</u>
One Year Cycle	Repayment Ability
Two to Three Year Cycle	Repayment Ability/Liquidity
Three to Five Year Cycle	Repayment Ability/Liquidity/Equity

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Livestock Industry “Margin Flipping”

- strategic resource changes over past decade
- 50 to 65 year olds will not return
- price, early cycle margins
- cost, late cycle margins
- young people migration
- mistakes made in the best of times
- duration of the cycle



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Horticulture, Vegetable, & Retail/Entrepreneurial

- growth of the economy
- housing starts
- lower unemployment
- growth of local, natural, and organic
- population dynamics



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Global Economy Update

Country	Code
Europe	Red
China	Yellow
Russia	Red
Japan	Red
Middle East	Red
Argentina	Red
Brazil	Red
Portugal	Red
U.S.	Green

Risk Ranking

- Geopolitical
- Trade tensions
- Natural resource
- Economic reform

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Global Economics: Europe

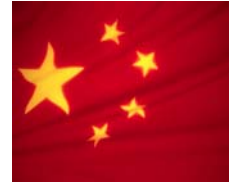
- Germany & France
- Southern Europe
- central bank stimulus
- China – largest customer
- code red
- Ukraine – wild card



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Global Economics: China

- bifurcated economy
- natural resource issues
 - water, land, air
- trade negotiations
- China exceeds U.S. in purchasing power parity
- shadow banking – wild card



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Global Economics: Other

- Russia
 - oil
 - Mr. Putin
- Brazil
 - slow economic growth
 - socialist agenda
- Argentina
 - leadership issues
 - agricultural infrastructure



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Global Economics: Japan

- third largest economy in the world
- demographic issues
- debt issues
- central bank stimulus
- deflation



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U.S. Economy Update

<u>Indicator</u>	<u>Code</u>
Employment <ul style="list-style-type: none"> • Numbers • Wages • Participation 	Yellow/Red
Factory Utilization	Green
Housing	Yellow
Oil/Interest Rates	Yellow
LEI & PMI	Green

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Federal Reserve's Interest Rate Barometer

Indicator	Possible Change	Definite Change	Current Status
Unemployment	7.0%	6.5%	5.6%
GDP Growth	2.0%	2.5%	5.0%
Core Inflation	2.0%	2.5%	1.7%
Headline Inflation	4.0%	5.0%	1.3%

Watch List:

- Dr. Yellen
- FOMC voting
- FOMC minutes
- Rail traffic
- Shoe shiners
- Copper prices
- Overland trucking
- Baltic Sea index

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Current Observations in Analyzing Ag Credit

- numbers are bigger
- volatility is greater
- concentration of debt is greater
- interconnectedness of debt is greater
- trade & global risk
- repayment & liquidity vs. complacency/collateral
- issues will start outside of the numbers
- problems start in the “go, go” cycle
- education starts in the “whoa, whoa” cycle
- 96-4-50 Rule
- 1 to 1.5% Rule

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Perspectives for Working Through Turbulent Times

- focus on efficiency first, growth second
- progress with mini victories
- use other resources
- know personality styles
- tag team challenging accounts
- spouse/partners
- document/paper trail
- time element
- variance or plain fact analysis
- positive set of people

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Burn Rate - Working Capital

Current Assets	\$1,000,000
Current Liabilities	<u>\$ 500,000</u>
Net Working Capital	\$ 500,000
Total Revenue	\$2,000,000
Net Income Loss	\$200,000

Net working capital $\frac{\$500,000}{\$200,000} = 2.5$ years burn rate

Net Income Loss \$200,000

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Top Credit Questions From the Road

- How do you manage an alpha dog/alpha pup credit in a financial tailspin?
- Which key financial metrics should lenders focus on?
- Which financial sensitivity shocks should a lender use?
- How often should lenders and borrowers communicate?
- How do we get better financial records?

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