**ECONOMIC THUNDER & LIGHTNING ON THE HORIZON**

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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**

<table>
<thead>
<tr>
<th>Cycle Duration</th>
<th>Credit Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>One Year Cycle</td>
<td>Repayment Ability</td>
</tr>
<tr>
<td>Two to Three Year Cycle</td>
<td>Repayment Ability/Liquidity</td>
</tr>
<tr>
<td>Three to Five Year Cycle</td>
<td>Repayment Ability/Liquidity/Equity</td>
</tr>
</tbody>
</table>
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

Horticulture, Vegetable, & Retail/Entrepreneurial

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

<table>
<thead>
<tr>
<th>Country</th>
<th>Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>Red</td>
</tr>
<tr>
<td>China</td>
<td>Yellow</td>
</tr>
<tr>
<td>Russia</td>
<td>Red</td>
</tr>
<tr>
<td>Japan</td>
<td>Red</td>
</tr>
<tr>
<td>Middle East</td>
<td>Red</td>
</tr>
<tr>
<td>Argentina</td>
<td>Red</td>
</tr>
<tr>
<td>Brazil</td>
<td>Red</td>
</tr>
<tr>
<td>Portugal</td>
<td>Red</td>
</tr>
<tr>
<td>U.S.</td>
<td>Green</td>
</tr>
</tbody>
</table>

Risk Ranking
- Geopolitical
- Trade tensions
- Natural resource
- Economic reform

Global Economics: Europe

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

Global Economics: Other

- Russia
  - oil
  - Mr. Putin
- Brazil
  - slow economic growth
  - socialist agenda
- Argentina
  - leadership issues
  - agricultural infrastructure
**Global Economics: Japan**

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

**U.S. Economy Update**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Code</th>
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</thead>
<tbody>
<tr>
<td>Employment</td>
<td>Yellow/Red</td>
</tr>
<tr>
<td>• Numbers</td>
<td></td>
</tr>
<tr>
<td>• Wages</td>
<td></td>
</tr>
<tr>
<td>• Participation</td>
<td></td>
</tr>
<tr>
<td>Factory Utilization</td>
<td>Green</td>
</tr>
<tr>
<td>Housing</td>
<td>Yellow</td>
</tr>
<tr>
<td>Oil/Interest Rates</td>
<td>Yellow</td>
</tr>
<tr>
<td>LEI &amp; PMI</td>
<td>Green</td>
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</tbody>
</table>
Federal Reserve’s Interest Rate Barometer

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Possible Change</th>
<th>Definite Change</th>
<th>Current Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment</td>
<td>7.0%</td>
<td>6.5%</td>
<td>5.6%</td>
</tr>
<tr>
<td>GDP Growth</td>
<td>2.0%</td>
<td>2.5%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Core Inflation</td>
<td>2.0%</td>
<td>2.5%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Headline Inflation</td>
<td>4.0%</td>
<td>5.0%</td>
<td>1.3%</td>
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</tbody>
</table>

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

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
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

Burn Rate - Working Capital

- Current Assets $1,000,000
- Current Liabilities $500,000
- Net Working Capital $500,000
- Total Revenue $2,000,000
- Net Income Loss $200,000

Net working capital $500,000 = 2.5 years burn rate
Net Income Loss $200,000
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(195,278),(741,304)