

POSITIONING FOR SUCCESS IN THE ECONOMIC RESET

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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

2016 – 2020 Economic Reset 1

- BRICS & KIMT's – 58% of world economic growth
- growth 8-10% during super cycle
- current growth under 4%
- China's growth officially 6.9%, but most likely 2-3%
- one half of emerging nations are in recession
- period of economic moderation impacting America's core



2

2016 – 2020 Economic Reset 2

- ethanol, biofuels, alternative energy
- oil “recession effect”
- oil- extreme volatility
- commodity deflation
- the road trip



3

2016 – 2020 Economic Reset 3

- 40% of commodity prices & asset values due to super cycle
- U.S. Central Bank’s strategy moving forward
- European Central Bank’s unlimited stimulus
- Bank of Japan’s stimulus
- China’s devaluation of currency
- China’s IMF



4

2016 – 2020 Economic Reset 4

- weather wild card
- political & military sanctions, social unrest worldwide
- consumer trust
- quality standards



5

Global Snapshot

- BRICS & KIMT'S under 4% growth rate
- one half nations in a recession
- oil in the \$50-\$70/barrel range
- post Brexit vote
- Brazil impeachment
- China's economic slowdown



6

Lending Economic Dashboard

- LEI/Diffusion Index
 - positive
 - ↓ three months rule
 - diffusion index
- PMI
 - > 50 expansion
 - <50 contraction
 - <41 recession
- Housing Starts
 - >1.5 million green light
 - 800,000 to 1.5 million yellow light
 - <800,000 red light
- Consumer Confidence
 - >90 green light
 - 80-90 yellow light
 - <80 red light
- GDP
 - 3-4% green light
 - 1-2% yellow light
 - negative = real recession

7

Federal Reserve's Interest Rate Barometer

Indicator	Possible Change	Definite Change	Current Status
Unemployment	7.0%	6.5%	4.9%
GDP Growth	2.0%	2.5%	1.2%
Core Inflation	2.0%	2.5%	2.3%
Headline Inflation	4.0%	5.0%	1.0%

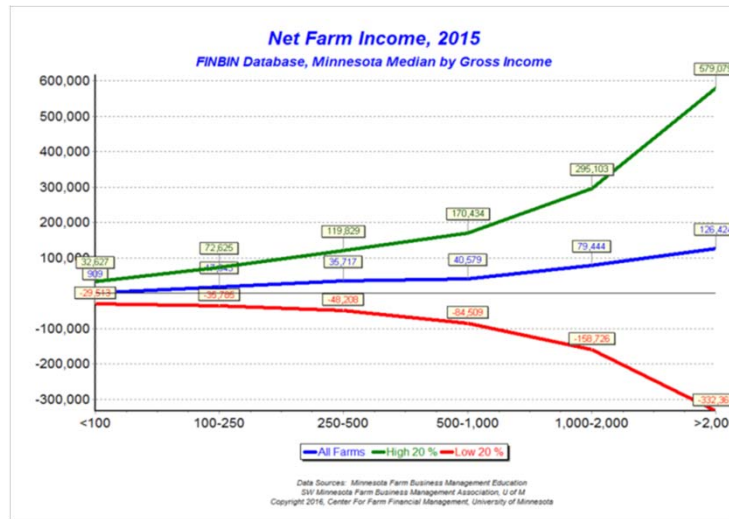
Watch List:

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

Updated 8/12/16

8

Net Farm Income, 2015



9

The Sixth C Difference Maker 2016-2020

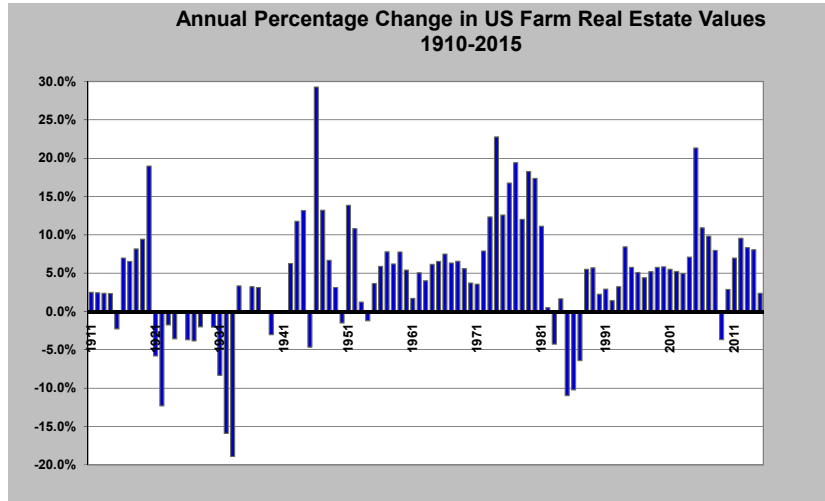
Management (Sixth C: Cranium) 1 point for each action	Points Allowed	Points Received
Enterprise Cost of Production	1	
Written Marketing Plan	1	
Written Business Plan Utilized	1	
Goals & Executing of Goals	1	
Management Succession Plan	1	
Advisor Team & Use	1	
Risk Management Plan	1	
Training Programs for Management & Employees	1	
Environment/Conservation Management Plan	1	
Long Term Written Lease Arrangements or Ownership of 75% of Land/Assets	1	
Total	10	



Objective:
 >7 points Green
 3-6 points Yellow
 <3 points Red

10

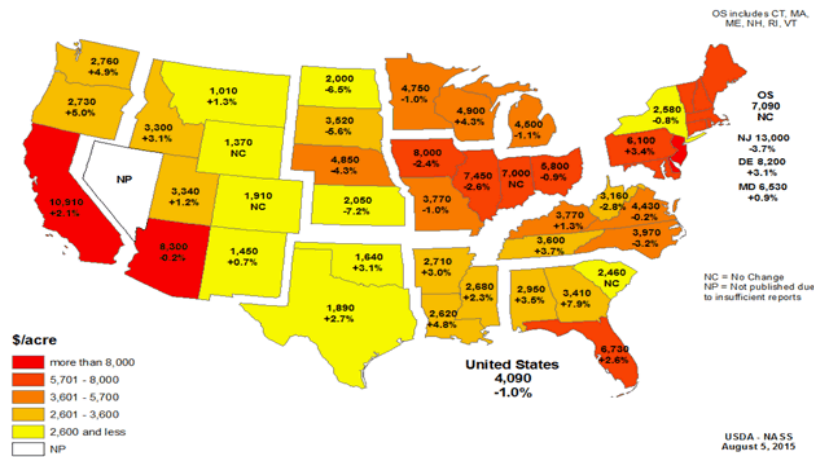
U.S. Farm Real Estate Values



Source: Dr. Steve Isaacs, University of Kentucky

2016 Cropland Value by State

Dollars per Acre and Percent Change from 2015



Why Land Values Have Not Declined

- asset bubble vs. credit bubble
- profits, cash, equity
- outside investors
- crop insurance
- energy, water, & minerals
- liquidity burn vs. equity burn in 2017!!
- refinances spigot turnoff



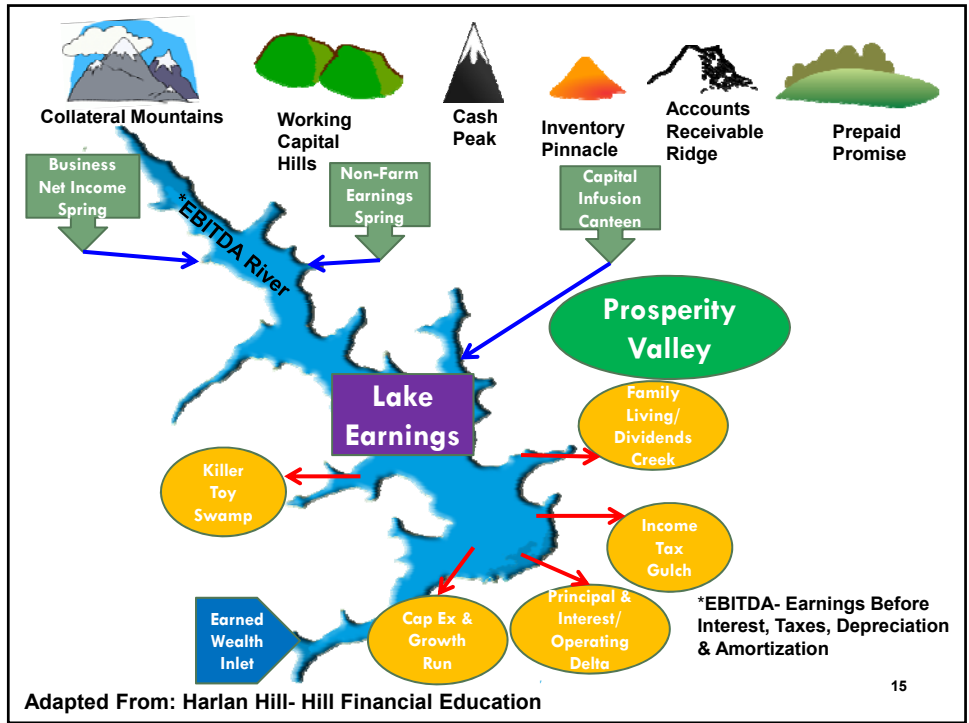
13

Percentage of Customers/Portfolio Refinanced in 2016

Percentage Range	Percent of Customers
<10%	23%
10-25%	48%
26-50%	18%
>50%	9%
Total	100%



14



The Burn Rate – Working Capital

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

Net Working Capital \$500,000 = 2.5 Years
 Projected Loss \$200,000

Green >3.0 Years
 Yellow 1.0-3.0 Years
 Red <1.0 Year

16

The Burn Rate – Debt Service Payments

Revenue \$2,000,000 Current Assets \$1,000,000
 Expenses 1,800,000 Current Liabilities 500,000
 Profit \$200,000 Net Working Capital \$500,000
 Debt Service Payments = \$100,000

Net Working Capital \$500,000 = 5.0 Years
 Debt Service Payments \$100,000

Green >5.0 Years
 Yellow 2.5-5.0 Years
 Red <2.5 Years

17

Collateral Analysis – Burn Rate (Assume \$150,000 Earnings Loss)

Assets-Market Value	Estimated Value	Loan Maximum	Collateral Position	Remaining Principal	Equity Excess Reserves
1. Long Term	\$2,000,000	X 70%	=\$1,400,000	- \$700,000	= \$700,000
2. Intermediate	\$1,000,000	X 60%	=\$600,000	- \$300,000	= \$300,000
3. Current	\$1,650,000	X 80%	=\$1,320,000	- \$860,000	= \$460,000

Burn Rate: Land & Long Term Equity Reserves = $\frac{\text{Excess Reserves} = \$700,000}{\text{Earnings Loss}^1 = \$150,000} = 4.67 \text{ Years}$

Burn Rate: Intermediate Term Equity Reserves = $\frac{\text{Excess Reserves} = \$300,000}{\text{Earnings Loss}^1 = \$150,000} = 2.0 \text{ Years}$

¹ Assume Earnings Loss of \$150,000

18

Collateral Analysis – Burn Rate

(Assume \$150,000 Earnings Loss & 20% land value decline)

Assets- Market Value	Estimated Value	Loan Maximum	Collateral Position	Remaining Principal	Equity Excess Reserves
1. Long Term (20% Decline on Land)	\$2,000,000	X 70%	= \$1,400,000	- \$700,000	= \$700,000
	\$1,600,000	X 70%	= \$1,120,000	- \$700,000	= \$420,000
2. Intermediate	\$1,000,000	X 60%	= \$600,000	- \$300,000	= \$300,000
3. Current	\$1,650,000	X 80%	= \$1,320,000	- \$860,000	= \$460,000

Burn Rate: Land & Long Term Equity Reserves = $\frac{\text{Excess Reserves}}{\text{Earnings Loss}^1} = \frac{\$420,000}{\$150,000} = 2.8 \text{ Years}$

¹ Assume Earnings Loss of \$150,000

Ten Best Management Practices

- S.M.A.R.T goals- short and long run
- up to date balance sheet
- up to date cash flow projection
- variance analysis- projected vs. actual
- $P=O+C+L+M^2$
- no silver bullet- “sweat the small stuff”
- invest in productive assets
- modest family living
- the best crop you ever raised will be....
- bus rule