

STRAIGHT TALK ON THE AGRICULTURAL ECONOMY

Dr. David M. Kohl

Professor Emeritus, Agricultural and Applied Economics
Member of Academic Hall of Fame, College of Agriculture & Life Sciences
Virginia Tech, Blacksburg, VA



(540) 961-2094 (Alicia Morris) | (540) 719-0752 (Angela Meadows) | sullylab@vt.edu

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

Road Warrior of Agriculture: www.comandsoybeandigest.com

Ag Globe Trotter: www.northwestfcs.com

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

Banker Views: Agricultural Banker Perspectives

- 93% of customers were profitable from 2007-2012
- 93% had high margins
- 63% of customers are profitable
- 63% of customers had razor thin margins
- 37% negative profits

International Trade Economics

- NAFTA
- CPTPP
- 20% of net farm income is export driven
- Canada- \$20 billion of agricultural export trade
- Mexico- \$18 billion of agricultural export trade
- 47% of Mexico's population- under 25 years old
- tariffs prompt retaliation toward agriculture
- China- \$30 billion in agricultural trade potential
- China's Belt and Road Initiative/Marshall Plan
- in innings one or two, volatility in extremes



IMPACT: increased volatility

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NAFTA's Trading Partners

Country	Size of Economy in 2017 (Trillion Dollars)
U.S.	\$19.4
Canada	\$1.64
Mexico	<u>\$1.14</u>
Total	\$22.18

- 28% of world's economy
- 47% of Mexico's population- under 25 years old
- 400 million people with money

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TPP Trading Partners

Country	Size of Economy in 2017 (Trillion Dollars)
U.S.	\$19.4
Japan	\$4.08
Canada	\$1.64
Australia	\$1.39
Mexico	\$1.14
Malaysia	\$0.31
Singapore	\$0.31
Chile	\$0.25
Vietnam	\$0.22
Peru	\$0.21
New Zealand	\$0.20
Brunei	\$0.01



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Oil & Energy Economics

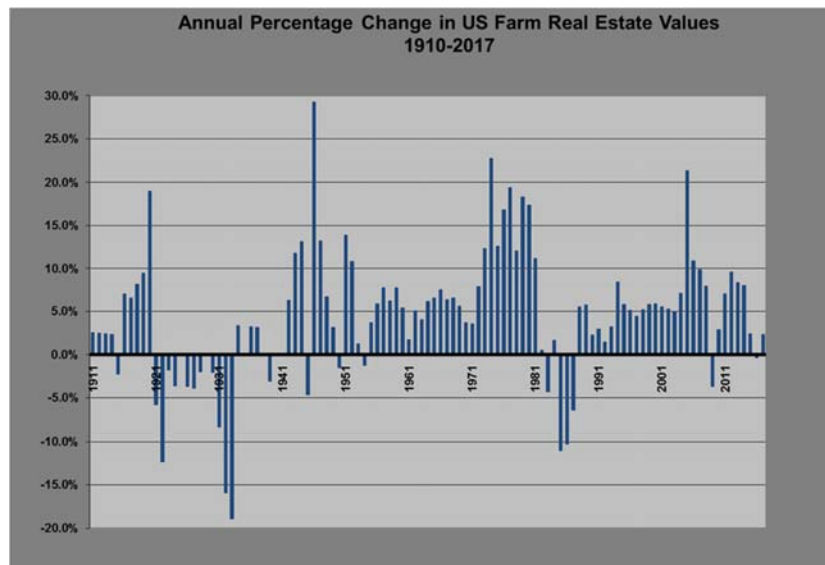
- 911 tragedy
- U.S. is globe's major energy producer
- drive towards efficiency
- solar, wind, and electric
- 2040 Germany & France
- electric vehicles
- 2025- one fourth of cars in China will be electric
- Central Africa will become the new Saudi Arabia



IMPACT: 80% of ag expenses are energy related

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U.S. Farm Real Estate Values



Source: Dr. Steve Isaacs, University of Kentucky

Farm Real Estate Perspectives

- farm real estate appreciated or stayed level 79% of years from 1910-2017
- since WWII (1941) farm real estate appreciated or stayed level 88% of the years
- 1910-WWII (1940) farm real estate appreciated 57% of the years
- farm real estate was flat or declined for 13 years from 1920-1933
- farm real estate declined for four years in the 1980's

Land Value Resilience

- local or regional vs. state or national
- marginal land values
- crop insurance
- hedge funds
- low interest rates
- cycle of refinancing



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Factors Contributing to Dramatic Discount in Land Values

- 100 to 200 basis point increase in long term interest rates
- more conservative refinance cycle
- outside investors seeking alternative investments
- supply and demand in a given area
- strong value of dollar, higher rates, less export potential
- crash of the U.S. or global economy

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State of U.S. Economy

- 100-plus months
- 106 & 120 months
- urban and coastal economies and the fly over states
- central bank driven- U.S. and abroad
- wealth effect
 - consumer investing
 - consumer spending



IMPACT: killers of economic expansions

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Killers of Economic Expansion

- expansions don't die/killed off
- Central Bank tightening strategies
- oil prices
- stock market decline
- bubbles
- trade issues



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Federal Reserve's Interest Rate Barometer

Indicator	Current Estimated "Flag" Levels
Unemployment	Below 5.0% or Above 6.0%
GDP Growth	Above 3.0% or Below 2.0%
Inflation	Above 2.5% or Below 1.0%
Consumer Sentiment	Above 90 or Below 80

- trends matter
- stock market/real estate wealth effect
- copper prices

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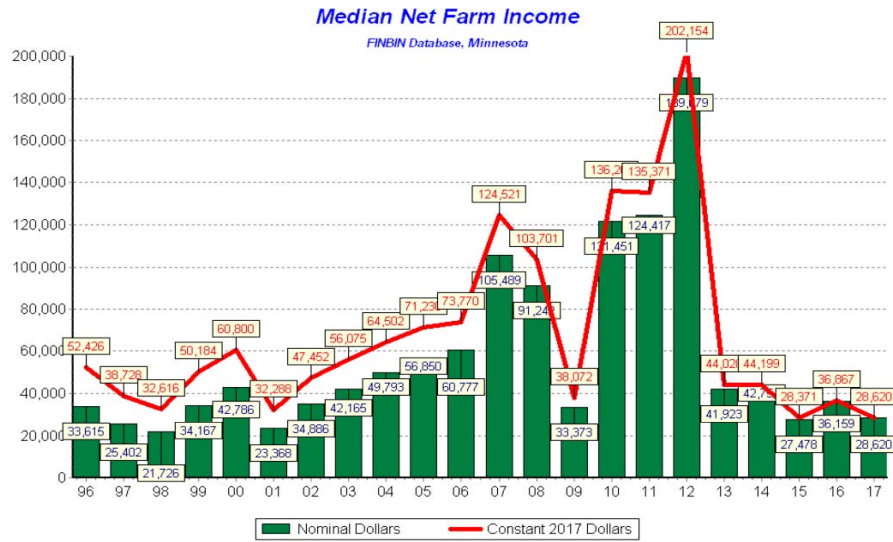
Top Mega Trends 2018-2030

- dietary trends
- Millennials
- Gen Z
- innovation and technology
- technology and productivity
- the disconnect
- NGO's



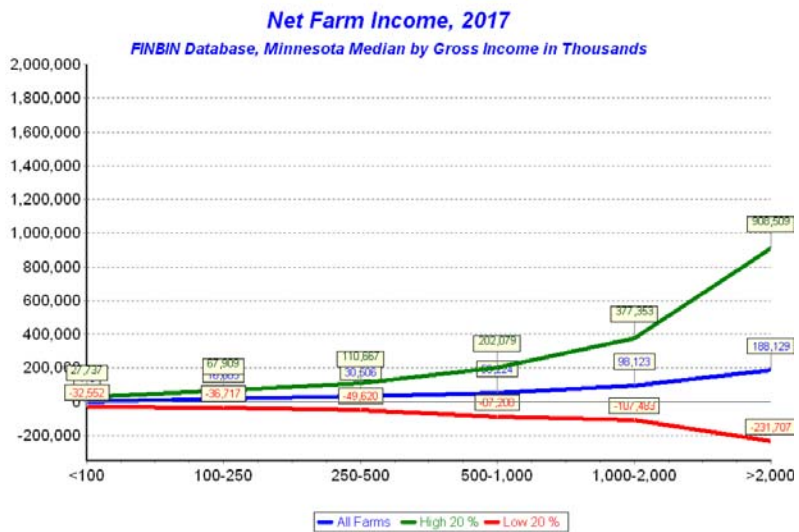
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Median Net Farm Income



Data Sources: Minnesota Farm Business Management Education, Minnesota State Southwestern Minnesota Farm Business Management Associations, U of M Copyright 2018, Center For Farm Financial Management, University of Minnesota

Net Farm Income, 2017



Data Sources: Minnesota Farm Business Management Education SW Minnesota Farm Business Management Association, U of M Copyright 2018, Center For Farm Financial Management, University of Minnesota

Management Factors

Progressive Businesses

Customer Checklist	Green (3-4 points*)	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. 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	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

Score	Overall Analysis
35-50	Strong management rating & viability
20-34	Moderate risk & viability; will most likely show previous refinancing
<20	High risk & lack of long term viability

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Critical Financial Performance Index for Debt & Risk

Criteria	Vulnerable	Resilient	Agile	Customer Ranking Code
Debt/Asset Ratio	>70%	40-70%	<40%	
Term Debt/EBITDA	>6:1	3:1-6:1	<3:1	
Working Capital/Expenses	<10%	10-33%	>33%	
¹ Operating Expenses/Revenue	>85%	75-85%	<75%	
Coverage Ratio	<110%	110-150%	>150%	

¹ Operating Expenses (excluding interest & depreciation)