

AGRICULTURAL ECONOMICS & WEATHER- THE SEQUEL

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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

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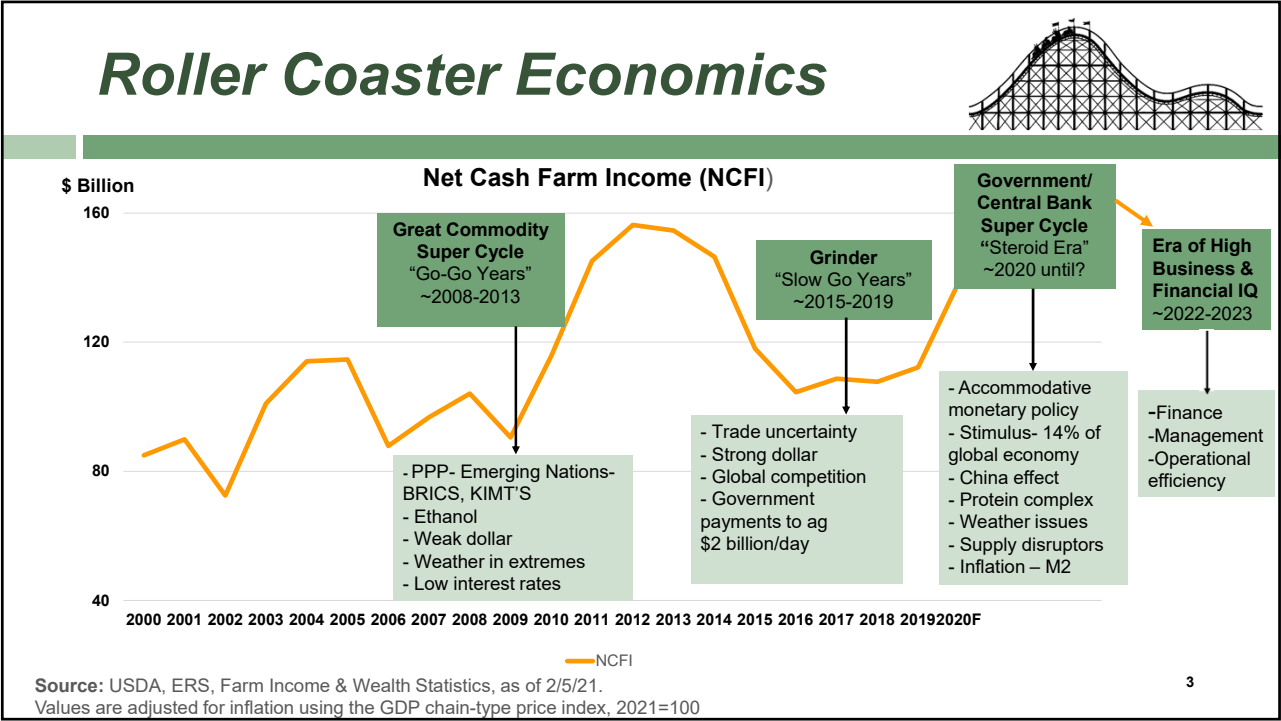
2020s- The Decade of Economic & Financial Divide

- 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



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Lenders View of Greatest Threat to Net Farm Income in 2021 & Beyond

Survey average from 1,000 plus ag lenders

Threat	Percentage
Inflating expenses	75%
Supply & marketing chain issues	48%
Reduction of government supports	46%
Trade issues impacting export potential	41%
Producers' management ability	32%

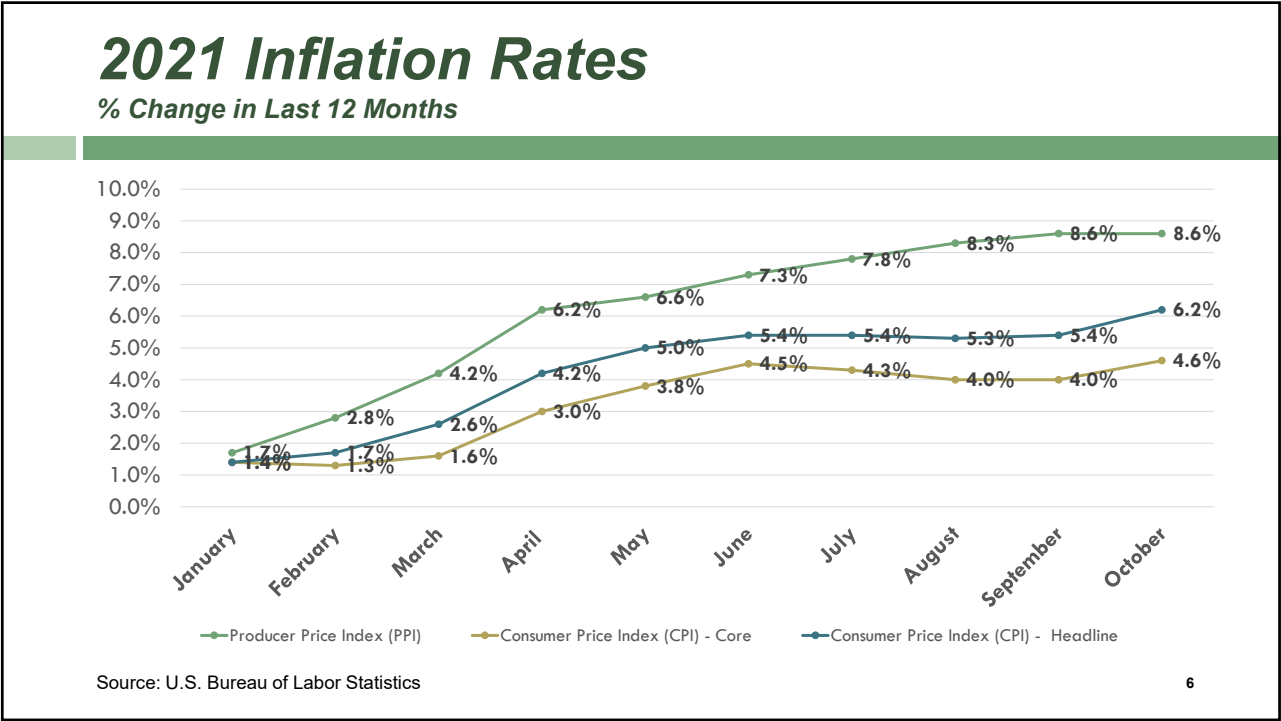
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2021 Inflation Rates			
Month	PPI	CPI Core	CPI Headline
January	1.7	1.4	1.4
February	2.8	1.3	1.7
March	4.2	1.6	2.6
April	6.2	3.0	4.2
May	6.6	3.8	5.0
June	7.3	4.5	5.4
July	7.8	4.3	5.4
August	8.3	4.0	5.3
September	8.6	4.0	5.4
October	8.6	4.6	6.2

*Last 12 months % change

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Temporary/Permanent Inflation

- M2 velocity of money
- regional & economic segments of inflation
- spot shortages created by black swans
- U.S. & worldwide consumer confidence
- central banks' interest rate policy
- government budgets & tax strategies
- wages, automation & unemployment



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Macro Dashboard for Business Decision Making for Lenders– 2020-2021

Variable	Green	Yellow	Red
Oil & Energy	X		
Global Competition	X		
Government Payments	X		
Agricultural Trade Challenges	X		
Supply & Marketing Chain Bottlenecks	X		
Health of U.S. & Global Economy	X		
Interest Rates	X		
Weather in Extremes			X
Inflation	X		
Labor		X	
Totals:	8	1	1

Impact on Your Portfolio- Risk Ranges:

1-3 Red/Yellow Range = cash flow & profitability issues

4-6 Red/Yellow Range = cash flow, profitability, & liquidity issues

7-10 Red Range = equity deterioration in machinery & livestock first, land equity second

Impact on Your Portfolio- Business Development Ranges:

7-10 Green/Yellow Range = strong growth environment

4-6 Green/Yellow Range = modest growth environment

1-3 Green/Yellow Range = selective growth environment

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Supply & Marketing Chain Bottlenecks			X
Health of U.S. & Global Economy		X	
Interest Rates		X	
Weather in Extremes			X
Inflation			X
Labor			X
Totals:		5	5

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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



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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



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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



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Management Mindsets for the 2020s



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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

2021 Version - Developed by: Dr. David M. Kohl, Professor Emeritus, Ag & Applied Economics, in cooperation with Dr. Alex White, Dairy Science, Virginia Tech

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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:

- _____
- _____
- _____

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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

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Recent Business IQ Scores	
Group	Score
TEPAP	38.5
Crop Insurance	29.5
Farm Credit Associations	36.5
Median Score	32
FSA	22
Bank Sponsored Events	36

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Business IQ: Management Factors					
Critical Questions for Crucial Conversations					
Farmer Checklist	HUSBAND	WIFE	DAUGHTER	CFO	LENDER
1. Knows cost of production	3	3	2	3	3
2. Knows cost of production by enterprise	4	2	2	3	3
3. Goals - business, family, & personal	4	3	3	3	2
4. Record keeping system	3	3	3	3	3
5. Projected cash flow	4	3	2	2	3
6. Financial sensitivity analysis	4	3	2	3	3
7. Understand financial ratios, break evens	4	1	2	2	3
8. Work with advisory team and lender	4	3	2	2	3
9. Marketing plan written and executed	2	2	2	2	1
10. Risk management plan executed	3	3	2	2	1
11. Modest lifestyle habits, family living budget	4	3	4	3	1
12. Written plan for improvement executed & strong people management	4	2	3	3	1
13. Transition plan/Business Owner plan	3	3	3	3	3
14. Educational seminars/courses	3	2	3	3	3
15. Attitude	4	3	3	3	2
Business IQ Scores	53	39	38	40	35
2021 Version - Developed by: Dr. David M. Kohl, Professor Emeritus, Ag & Applied Economics, in cooperation with Dr. Alex White, Dairy Science, Virginia Tech					

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Business IQ Summary: Areas to Continue/Improve

HUSBAND – BUS IQ: 53

3 Areas to Continue

- 1Irrigation/manure mgt
- 2Intense office management
- 3Improve crop/livestock efficiency

3 Areas for Improvement

- 1Office management using CFO's talent
- 2More efficient labor
- 3Executing the marketing plan

WIFE – BUS IQ: 39

3 Areas to Continue

- 1Record keeping - ratios, B/E
- 2Cost of production (livestock)
- 3Productivity of crops & livestock

3 Areas for Improvement

- 1Financing without high interest rate
- 2More seminars on ratios/break-even
- 3Communications & employees' knowledge of how the business works

DAUGHTER – BUS IQ: 38

3 Areas to Continue

- 1Researching cost effective crop/livestock mgt practices
- 2Diversifying the farm in livestock
- 3Searching for a new ag lender with better rates

3 Areas for Improvement

- 1Employee handbook with written rules and guidelines
- 2Lease equipment to avoid high repair bills and subscription fees
- 3Crop/livestock KPIs

CFO – BUS IQ: 40

3 Areas to Continue

- 1Crop Production
- 2Custom Hire
- 3Diversifying in livestock

3 Areas for Improvement

- 1Debt restructuring-reduce interest expense-improve cash flow
- 2Lease versus buy equipment
- 3Pay invoices within terms to avoid finance charges


LENDER – BUS IQ: 35

3 Areas to Continue

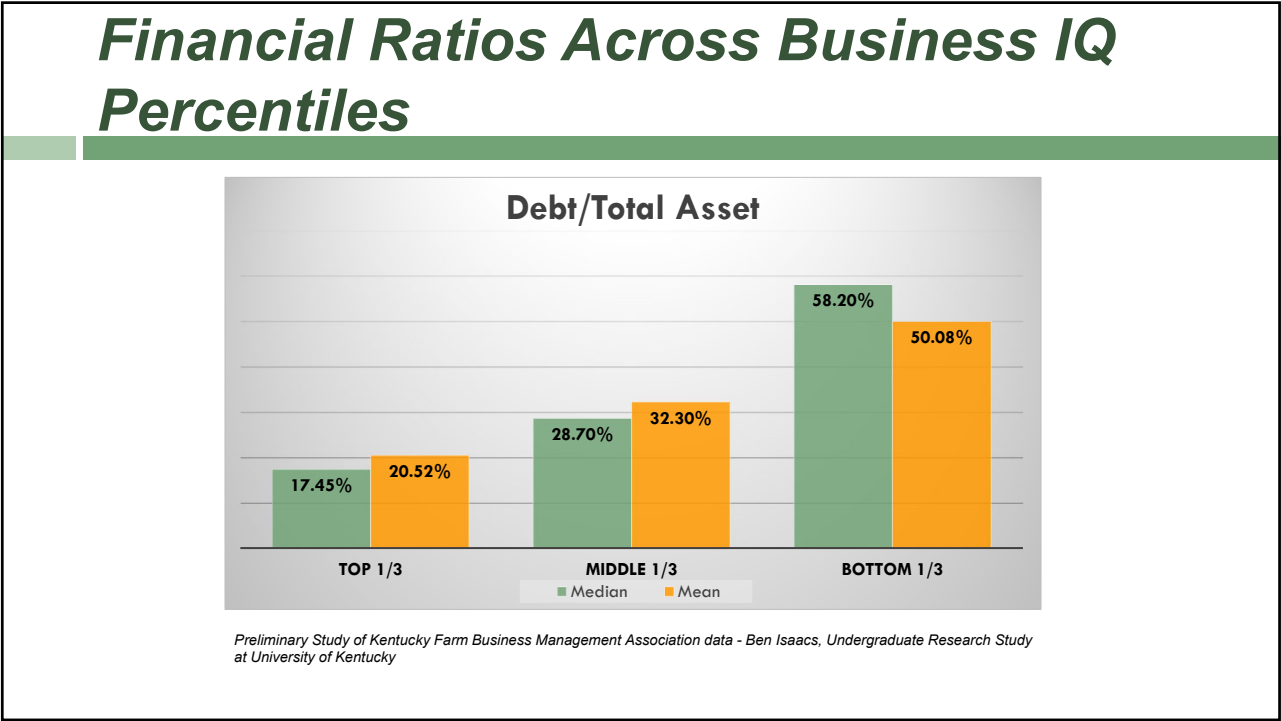
- 1Crop production KPIs
- 2Using equipment longer before trading
- 3Getting outside advice

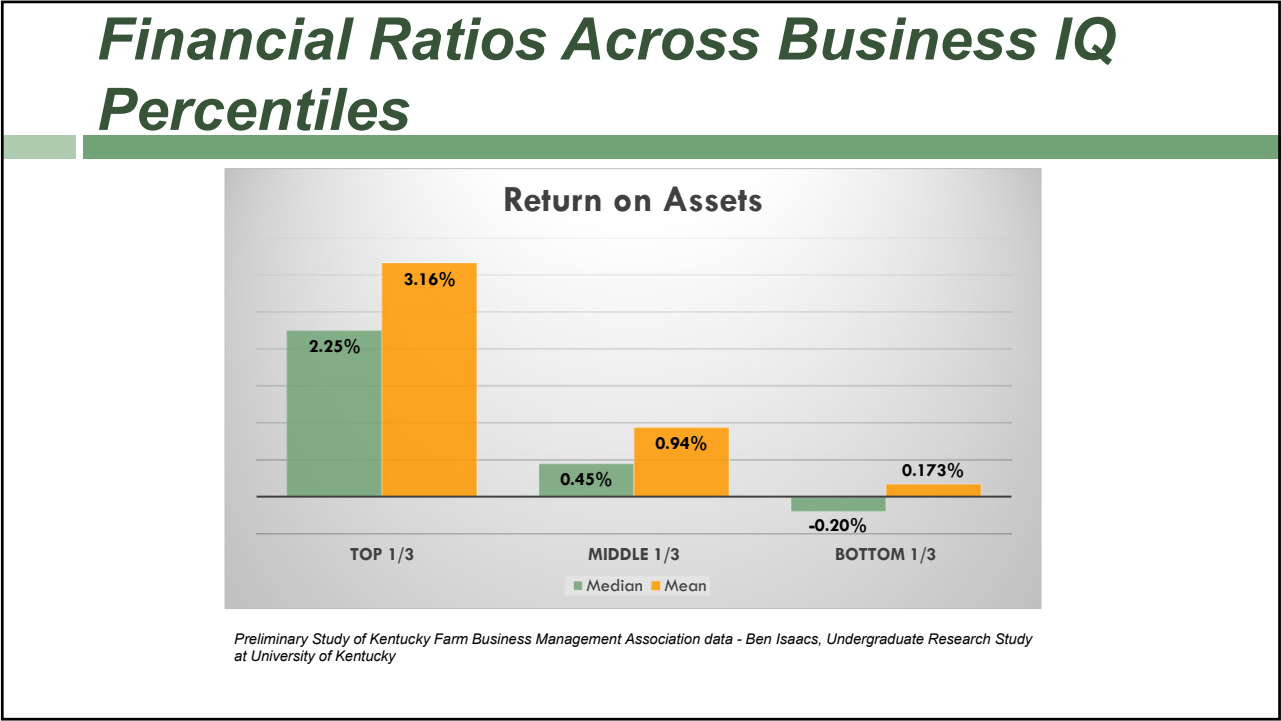
3 Areas for Improvement

- 1Cash flow - extending current loan terms
- 2Comparison of budget to actual
- 3Crop/livestock inventory

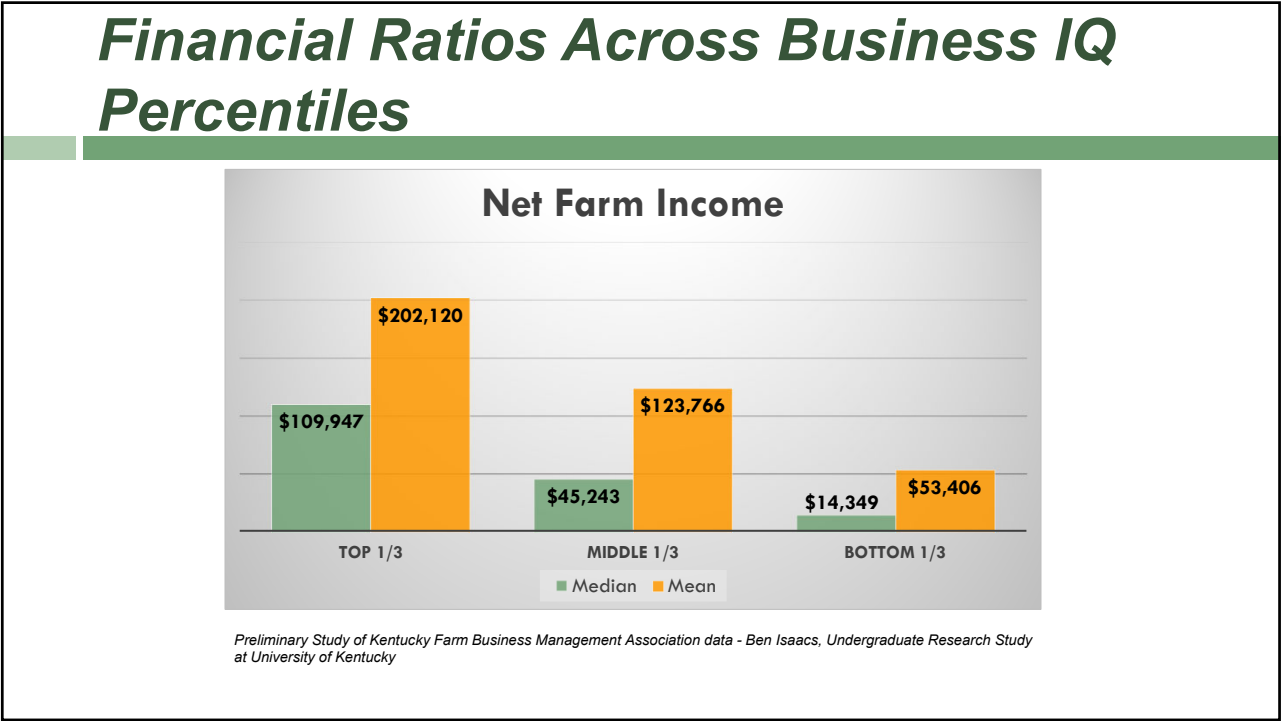


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Other Key Ratios

- coverage ratio
 - top third - 114%
 - bottom third - 10%
- operating expense to revenue ratio¹
 - top third 68%
 - bottom third 90%

¹ excluding interest and depreciation

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Ten Questions for the Renewal Season Pilot Checklist (1)

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

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(2)

- 25

25

(3)

- 26

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Favorable Odds for Business Success (2)

- a good defense is a business' best offense
 - profits is your defensive line
 - liquidity is your linebackers
 - collateral is your safeties & cornerbacks
- more zeros and commas on the financial statement requires more focus and intensity
 - ownership of numbers
 - line by line management
 - 5% rule
- family living budgets are just as important as business budgets
 - number of families
 - Corvette Rule

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Favorable Odds for Business Success (3)

- transition plan is more important than an estate plan
 - transitioning the right skill sets
 - 1% Rule
- advisory team is trend of the 2020s
 - your network of people will be equal to your self worth & financial net worth
- **DAIRY** for life:
 - **D**iscipline
 - **A**ttitude and Accountability
 - **I**nitiative, passion and zest
 - **R**espectful, **R**eliable and open to **R**eason
 - **Y**ou - It's all up to **Y**ou. "Look in the mirror."

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Championship DNA – Lenders/Producers (1)

Quotes, Perspectives & Wisdom

- Small business makes small banks which make small rural communities.
- I left \$500,000 of net profit on the table this year by following a marketing plan, however ten of my twelve years in farming have been profitable by following a market plan & the process.
- There is a worker shortage in 2021 but an employment shortage in 2025-30.
- Worry is part of the lender's DNA.
- People lose their way when they lose their why.
- Good economic times are never as great as touted or bad times as bad as they think they are going to be.



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Championship DNA – Lenders/Producers (2)

Quotes, Perspectives & Wisdom


- Manage the controllables and manage around the uncontrollables.
- Credit starts in the top of the economic cycle & business development starts in the bottom of the economic cycle.
- Championship lenders have an education in their DNA.
- The vision is way you see your business, the brand is the way your customer sees the business.
- If it grows to fast, it is a weed.
- There is no magic silver bullet, next big thing & A,B,C student.



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Game Plan Actions for Year End



	Actions: Check when Completed
<input type="checkbox"/>	Develop your goals- business, family & personal
<input type="checkbox"/>	Short run
<input type="checkbox"/>	Long run
<input type="checkbox"/>	Business & family complete the Business IQ
<input type="checkbox"/>	Develop year end balance sheet
<input type="checkbox"/>	Develop projected cash flow with three financial sensitivity tests
<input type="checkbox"/>	Personal thank you note to someone who has assisted you in your business or life journey

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