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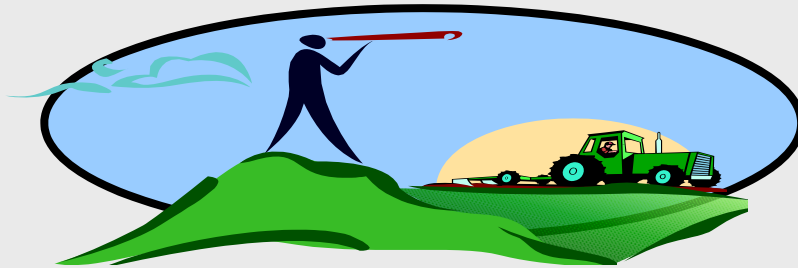
**Virginia Tech,
Blacksburg, Virginia**

Today's Speaker

**What's Around the
Corner &
Down the Road?**



What's Around the Corner & Down the Road?



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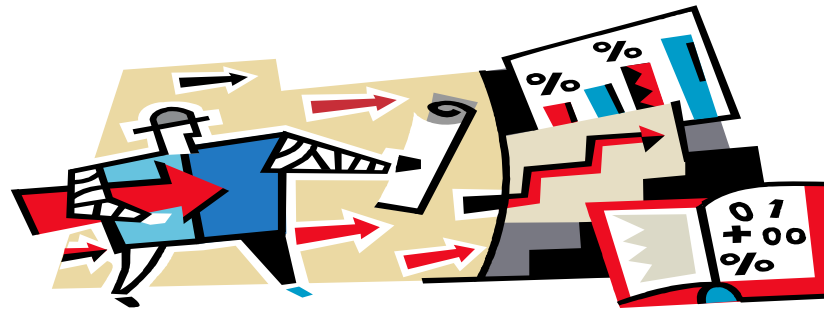
Weekly Website Columns:

Ag Globe Trotter: www.farm-credit.com

Road Warrior of Agriculture: www.cornandsoybeandigest.com

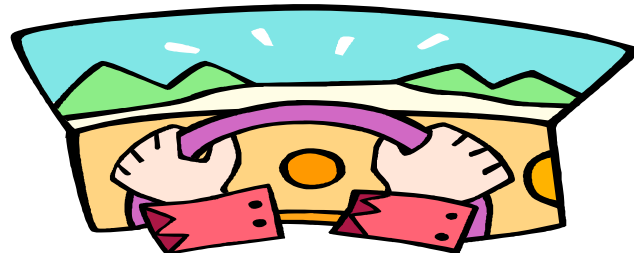
Lender Economic Planning Environment

- economic change- rapid & abrupt
- quick historical view since WWII
- economic moderation
- volatility at extremes
- dead cat bounces /false recoveries
- reprioritization and focus



2009 Views from the Road

- **livestock / protein industry**
- **dependent on real estate**
- **third party / counter party risk**
- **non-farm income**
- **lenders rationing credit**
- **forestry**
- **housing & export markets**

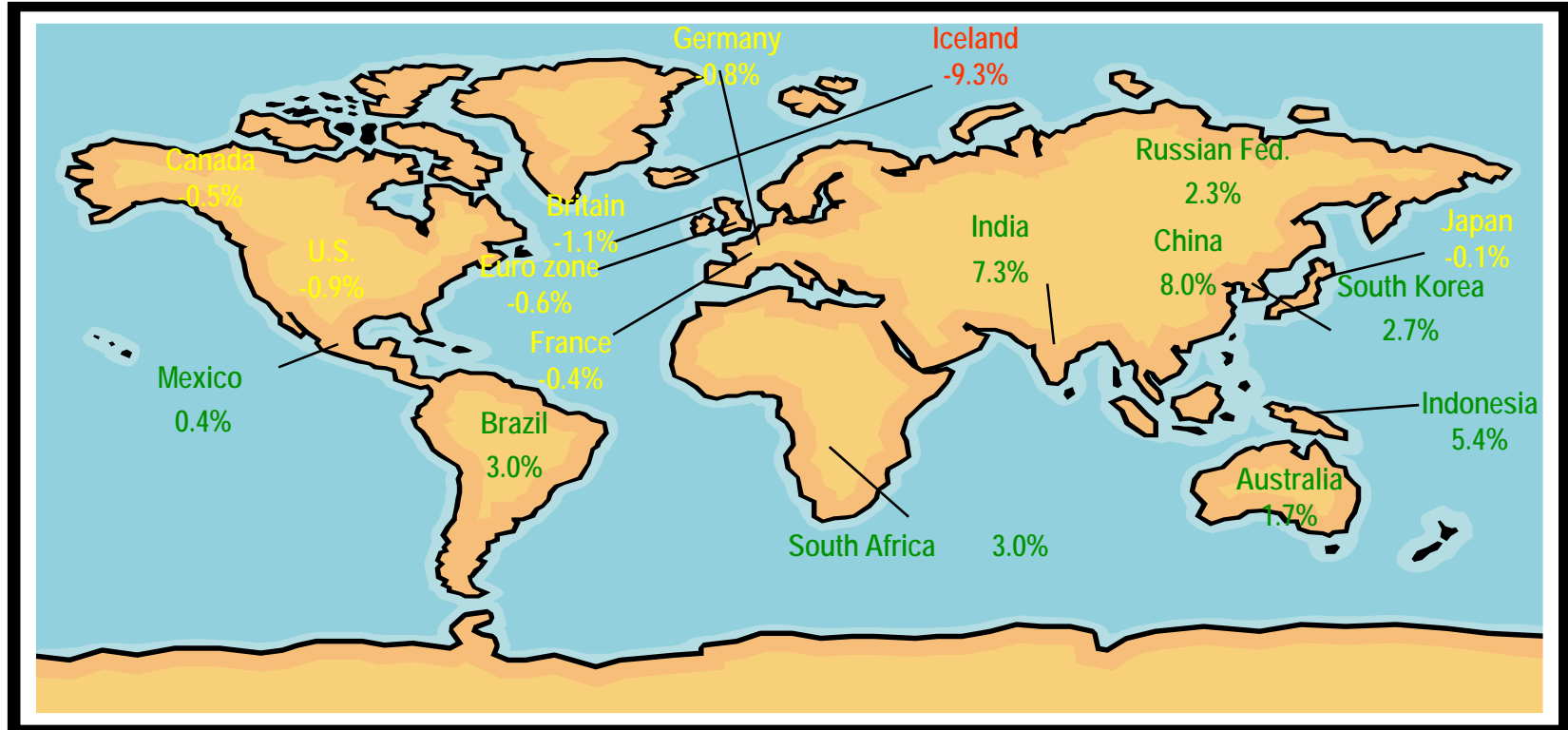


Century of Super Cycles

Common Characteristics:

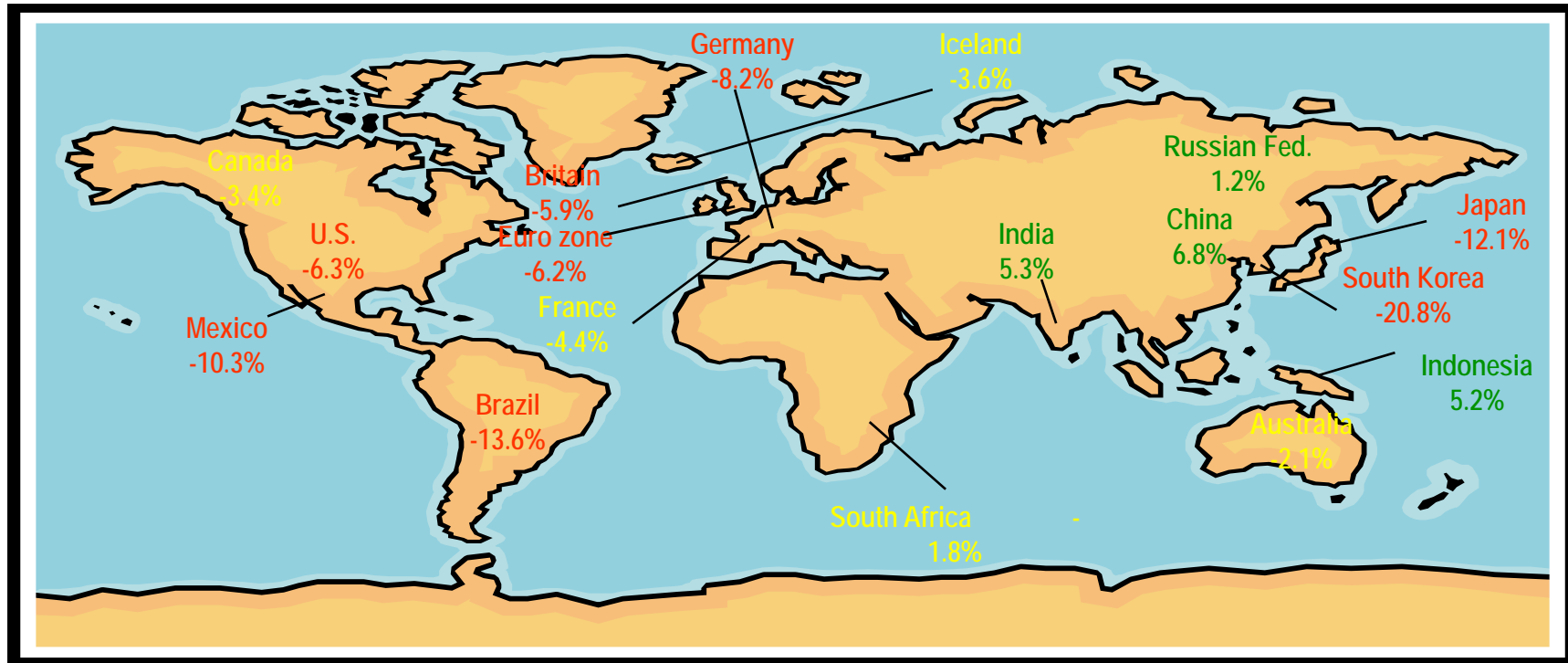
Commodities Boom	1915-17	1950-57	1973-74	2003-08
Rapid Global Real Growth (average annual % change)	N/A	4.8%	4.0%	3.5%
Conflict & Geopolitical Uncertainty	First World war	Korean war	Yom Kippur & Vietnam wars	Iraq conflict
Inflation	Widespread	Limited	Widespread	Limited
Significant Infrastructure Investment	First World war	Postwar reconstruction	None	China
Centered on	Metals, agriculture	Metals, agriculture	Oil, agriculture	Oil, metals, agriculture
% Increase in Prices (previous trough to peak)	34%	47%	59%	131%
Years of Rising Prices Prior to Peak	4	3	2	5

Projected World Growth



GDP Growth %
2009 Forecast

World Growth



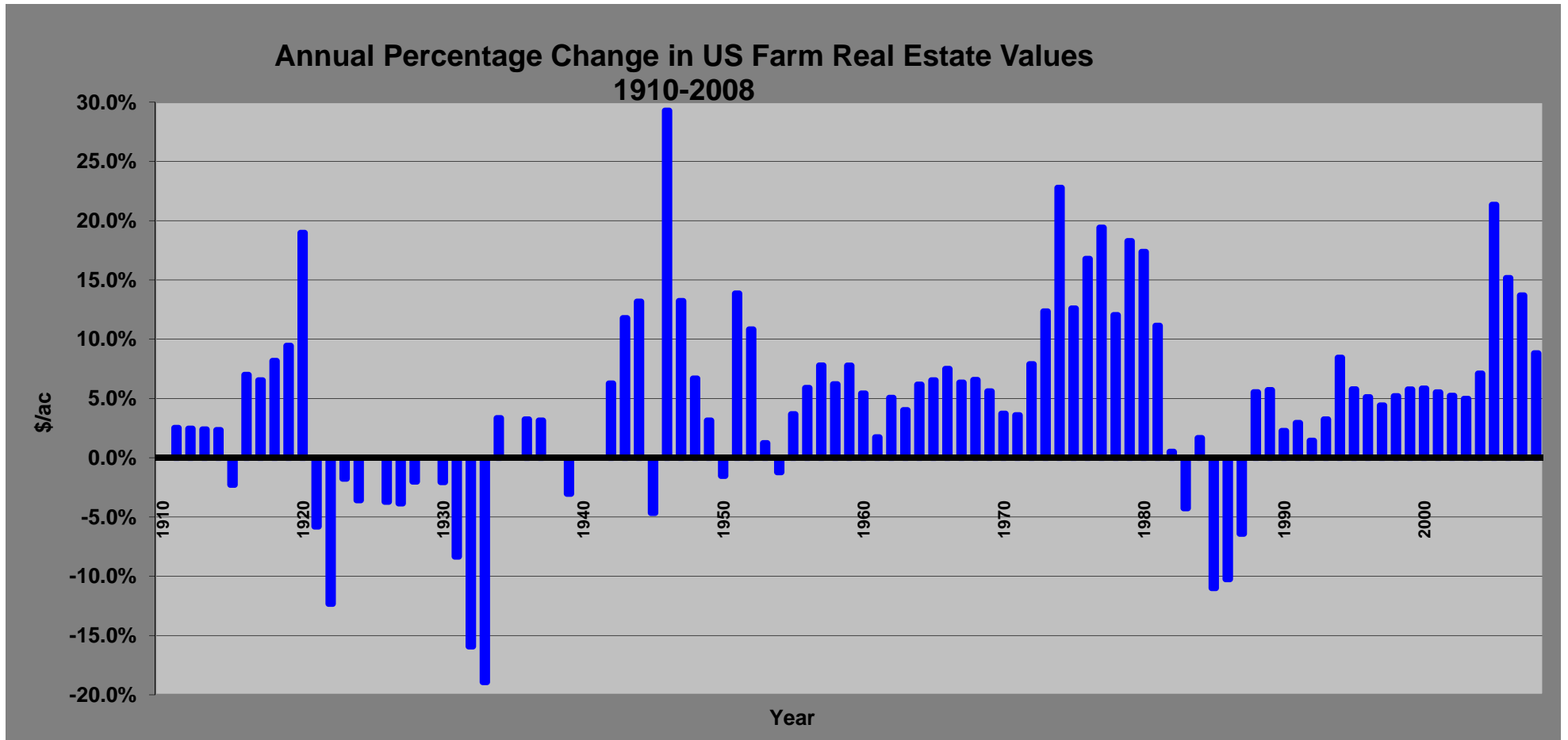
GDP Growth %
2009 Quarter Figures
April 9, 2009

Alternative Energy

- **\$60 to \$100 swings in oil prices**
- **\$3.50 to \$4.00 gasoline- consumer chicken point**
- **oil prices and direction**
 - ✓ weather
 - ✓ geopolitical & military risk
 - ✓ currency exchange rate
 - ✓ developing & emerging countries economic status
- **technology and supply side of equation**
- **demand side globally in agriculture**



U.S. Farm Real Estate Values



Source: Dr. Steve Isaacs, University of Kentucky

Business Cycles by the Numbers

Months

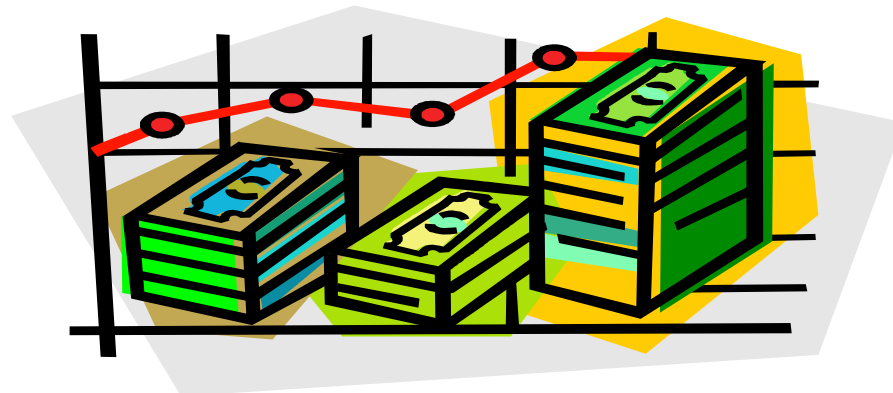
11	economic recessions
58	business expansions
86	Great Moderation Theory expansions
7	Great Moderation Theory recessions
106	record expansion-- Paul Volcker
120	all time record expansion -- Alan Greenspan

- Kondratieff Wave Theory
- Rolling recessions of Post War



Signs & Issues of an Economic Turnaround

- housing
- copper prices
- government debt
- deflation / inflation
- interest rates
- other



Disconnect Between Borrower & Lender Views on Ag Economy

- I have equity. Why can't I get a loan?
- all banks received TARP funds
- more borrowed money will fix the problem
- borrowers often recognize the problem too late
- lenders delay taking action because they are "too busy"
- farmers & ranchers feel they are "different"
- producers use the economy as an excuse
- producers are too busy
- lenders think globally, but producers think "one track"
- borrowers say, "Why should I have to provide detailed information?"
- pricing- why can't I get the low rates?

How Lenders Contributed to the Crisis

- couldn't make a bad loan
- too growth-oriented
- deals became more leveraged and complex
- underwriting was thinner
 - ✓ covenant "lite"
- over-reliance on non-recurring income
- false sense of security built on real estate
- lending to new industries with no expertise
- over-reliance on statistical models
- got away from knowing the customers
- outside entities with contingent liabilities



Famous Quotes in Business & Lending From the Road



- **“If it grows too fast, it’s a weed.”**
- **“If you got the dirt, you can’t get hurt.”**
- **“Land- they aren’t making any more of it.”**
- **“Money is cheap, borrow and expand.”**
- **“Go with this lender, they have cheaper rates.”**
- **“I left a lot of money on the table because of a marketing plan.”**
- **“Prices and cost are too volatile to plan.”**
- **“It’s a new plateau or a new normal.”**
- **“Millionaire on paper but never earned a dollar.”**
- **“But, I have a lot of equity in land.”**
- **“Got to minimize taxes.”**
- **“Be careful of people in silk suits.”**

Counter Stress Cracks

- trend analysis
- earned net worth / appreciated net worth
- communications
- selective on new business
- business financial plans with variance analysis
- marketing risk management progress
- personal family living budget
- sensitivity on profits, liquidity, & collateral
- sell-sell-sell
- other



Educational Needs

“Micro”

- **working capital education**
- **cash flow budgeting & variance analysis**
- **profit rule (60-30-10)**
- **marketing & risk management (three levels)**
- **management succession / estate planning**
- **expansion planning in a volatile environment**
- **business plan development**
- **strategy & execution of business plans**
- **cash to accrual in business monitoring**
- **deferred tax consequences in sale situations**
- **personal finance & investing**

Educational Needs

“Macro”

- **understanding government programs & environmental policy**
- **interest rates**
 - ✓ deflation / inflation
 - ✓ currency valuation
- **business cycles & the economy**
- **general mega trends**
- **impact of global economics on agricultural industry**

