

# ECONOMIC MEGA TRENDS OF AGRICULTURE AND AG LENDING



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## Eras of Agriculture & Rural America 1950s - 2040

Decade	Era	Characterized by:
1950s & 1960s	Post War, Go-Go Production Era	Mechanical, chemical & genetic revolution
1970s	Go-Go Economics Era	Globalization, outsourcing industry, export markets to Russia & others
1980s	No-Go Economics Era	Farm economic crisis, Japan's rise as economic power, start of computer technology
1990s	Slow-Go Economics Era	Government program payouts, decline in manufacturing outsourcing, rise of technology
2000s	Go-Go Commodity Supercycle Economics Era	Agriculture has record profits, growth of ethanol, China's growth economically, Great Recession, housing crisis
2010s-2025	Grinder Pre-Pandemic Economics Era	Government programs, conservation payments, pandemic payments, growth of high tech industries
2025-2040	Transition Economics & Management Era	Disruptors, rapid revolution, growth of high tech, innovation, Business Management IQ is the difference maker in success

## Offensive Domain Cycle: *Spring & Summer*



- Aggressive behavior: marketing & risk management
- Use of profits & liquidity for growth
- Lenders focus on growth incentive for compensation
- Imbalance in equity & growth
- Inflation, paper wealth
- Fraud & credit issues start

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## Defensive Domain Cycle: *Fall & Winter*



- Caution, fear behavior management & growth
- Lender tightens credit & underwriting standards
- Advance rates on collateral are reduced
- Reviewers & regulators require more information & documentation
- Fraud & credit issues exposed

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## Regenerative Domain Cycle:

### *Spring*

- Business strong, business IQ, position for growth by profits & liquidity
- Business IQ accelerates growth
- Transition of assets and management accelerate
- Strategic events accelerate profits – producer, lender



## The Top of the Agricultural Economic Cycle is When Business Issues & Problem Credits are Initiated

- Purchase of equipment & facilities to reduce income tax obligations
- Use of liquidity reserves for fixed asset purchases (land)
- Living costs & withdrawal increases
- Non-productive assets – “killer toys”
- Complacency in finances, marketing & risk management
- Competitive pressures (rent or land purchases)
- Loosening of credit underwriting standards

## Risks in the Agricultural Portfolio: Circa 2024

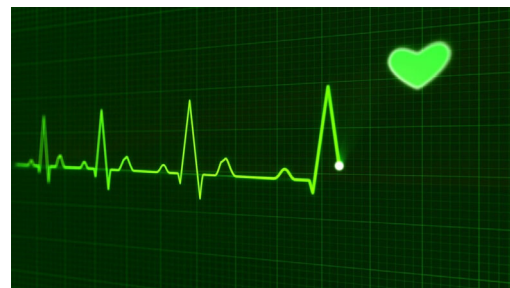
- Large agricultural credits, annual payments, low business acumen
- Operating lines of credit, non-traditional lenders, split lines of credit, 5 - 7 Rule
- Third party counter party risk “loss of marketplace”
- Agricultural loan “balloon reset notes”
- Non-financial factors: As a class, name the top five.
- Lender exiting the agricultural lending marketplace
- Credit scoring, risk rating systems tied to default
- Waiting for a government bailout



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## Economic Realities in Agricultural Industry: The Pulse

- Negative triple play
  - Margin compression acceleration
  - Price/cost, interest rate lag
  - Shrinkage of working capital
- Beef/livestock bright spots
- Asset value decline?
  - Machinery & equipment
  - Commodities in storage
  - Farm & ranch land
- Concentration of ag industry
  - 000's, commas, multipliers
- Lenders tightening credit



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## Duration of the Economic Down Cycle in Agriculture

- Export markets – trade bill sanctions, tariffs & “counter tariffs”
- Economic health of the Big Three Trading Partners
- Economic health of U.S. economy
- Weather globally
- Strength of U.S. dollar
- Monetary/fiscal policy
- Competition from Global South



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## What's Different from 2013-2020

- More bigger numbers & commas as ag consolidates
- Inflated cost, it takes two years to decrease
- Interest rates are double
- Next Gen first economic downturn: borrowers, lenders, regulators, board of directors
- Vintage generation motivated to cash it in!
- More competition from Global South
- Heirs who are “waiters”: fragmented farms/ranches

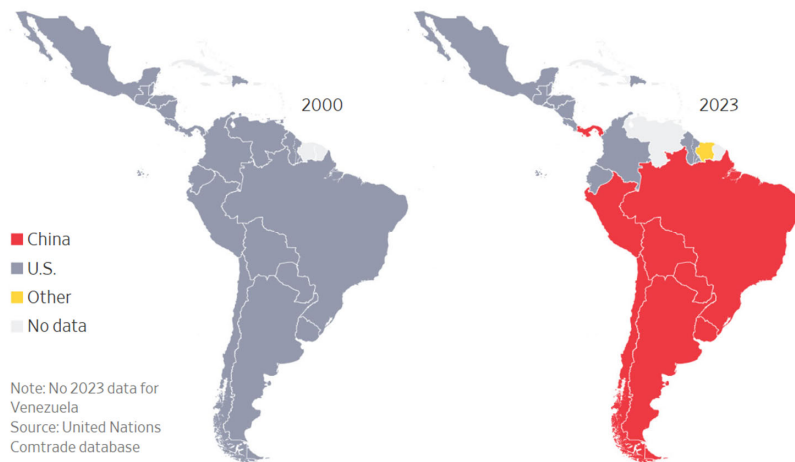
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# Quick Global Economic Assessment

- **China**
  - Demographic
    - 1980 19% of population urban
    - 2024 65% of population urban
  - Housing value decline
  - Stock market value decline
  - Sanction/tariffs/trade
- **India**
  - Farm policy protectionism
- **Europe**
  - Tourism
  - Greenwave/backlash
- **Mexico/Canada**
  - New leader, same policy
  - Downgraded economy to negative
  - Canada: slow economy
- **Southern Hemisphere**
  - Belt & Road Initiative
  - Currency challenges



## Largest Extraregional Trading Partners, by Total Value of Goods Traded



<https://www.wsj.com/world/china-xi-jinping-latin-america-acf6dbc1?page=1>

# U.S.A. Economy Snapshot

- ALICE (asset-limited, income-constrained, employed)
- Government debt \$1 Trillion increase every 100 days
- Credit card debt = \$1.3 Trillion
- LEI, PMI, Consumer Sentiment, Inverted Yield Curve
- Delinquency on credit card debt & auto loans highest level since 2012
- Government money driving A.I. (artificial intelligence) & green energy
- In 2000: 73% of population urban
- In 2024: 84% of population urban



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# Watch List for Potential Recession

- High income earners
- Paper wealth devalues:
  - Stocks, investments
  - Homes, real estate
  - Other
- A.I. (Artificial Intelligence) vulnerability, geographic, mobility constrained
- Corporate restructuring
- Curtailed discretionary spending
- Noise in government & Federal Reserve data
- HENRY (High, Earnings, Not Rich Yet)
- HERMAN (High C Earnings, Rich, Mobile, Appreciated Net Worth)



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# Fiscal and Monetary Trainwreck?

▪ Government revenues	\$4.4 Trillion
▪ Government outlays	\$6.3 Trillion
▪ Govt. Deficit '24 (Projected)	≈ \$2.0 Trillion
▪ Net Interest on Public Debt	\$870 Billion
▪ Military spending	\$753 Billion
▪ Deficit in 2023	\$2.0 Trillion

**Sources:** Congressional Budget Office, see link below.

[https://www.wsj.com/opinion/u-s-budget-deficit-government-spending-congressional-budget-office-report-d2c07021?mod=Searchresults\\_pos1&page=1](https://www.wsj.com/opinion/u-s-budget-deficit-government-spending-congressional-budget-office-report-d2c07021?mod=Searchresults_pos1&page=1)

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## Global Indebtedness Tsunami

- \$307.4 trillion global debt Q4 2023
- Average debt GDP risen to 336% in 2024
- Average debt GDP was 110% in 2012
- Debt globally increased \$100 trillion in one decade
- 80% of global debt increase in U.S., Great Britain, Canada & Japan
- Brazil, China, India had the largest increases in debt



Economist, Arthur Laffer Jr. says "A slow fiscal death awaits some countries in this decade of debt".

<https://www.cnbc.com/2024/02/07/debt-crisis-is-in-the-making-and-it-wont-end-well-for-the-world-economist-warns.html>

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# Long Term Interest Rates

- Federal Reserve Rate 2.25% - 3.25%
- Prime Rate 5.25% - 6.25%
- Business/individual interest rates generally 1 - 4% above Prime
  - Size of the loan
  - Risk
  - Market perception of risk
- Other



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## Ten Mega Trends Impacting the Agricultural Industry (1)

- Regenerative ag, soil & water health: healthy soil & water equals healthy plants, animals, human beings and environment.
- Data to organized information is the competitive edge.
- A.I. (artificial intelligence) will define & accelerate your brand.
- Alignment with the Next Gen of agriculture.
- Women in agriculture will own or manage over 60% of assets in the future.

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# Ten Mega Trends Impacting the Agricultural Industry (2)

- The Southern Hemisphere will provide intense competition to agriculture.
- U.S.A.'s agriculture competitive edge is research, education & side by side relationships.
- The medical field & agriculture will be collaborative in preventive & proactive health.
- Transparency to the future consumers. 75% of consumers purchase for an experience.
- Black swans & grey rhinos create challenges but also present opportunities.

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## The Good, Bad & Ugly Balance Sheet

### Good

- Generates earned net worth
- Assets that appreciate
- Investments for improvement, human skillsets
- Debt levels leaves liquidity reserves
- Boundaries of EBITDA debt loads

### Bad

- Financing others through receivables/delinquent payments
- CapEx out of operating monies
- Not requiring accounts payables, accrued expenses
- Co-signing debt for friends, relatives
- Financing negative years of business or personal financial losses

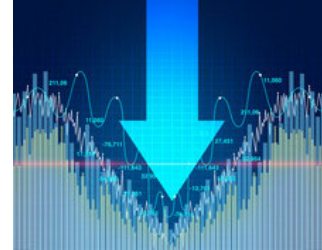
### Ugly

- Credit cards for business & lifestyle excess
- Multiple refinances of losses
- Multiple refinances for lifestyle issues & excesses
- Fraudulent activities

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## Phrases that are Applicable for the Economic Downturn

- Let the numbers talk for themselves
- Let's make cash flow relevant again
- Non-financial factors move the negative credit quality twice as fast as financial factors
- R.E.M. Strategy:
  - Responsive
  - Execute
  - Monitor
- Quick money builds ego- steady & discipline builds character & resiliency



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# Q&A with Dr. Kohl

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## Online Articles:



- Farm Progress Weekly Article:  
<https://www.farmprogress.com/author/david-kohl>
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