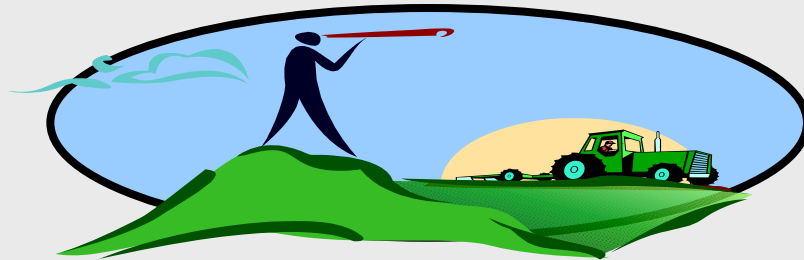


# What's Around the Corner & Down the Road?



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## Weekly Website Columns:

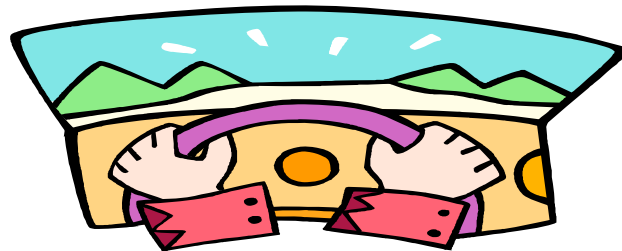
Ag Globe Trotter: [www.farm-credit.com](http://www.farm-credit.com)

Road Warrior of Agriculture: [www.cornandsoybeandigest.com](http://www.cornandsoybeandigest.com)

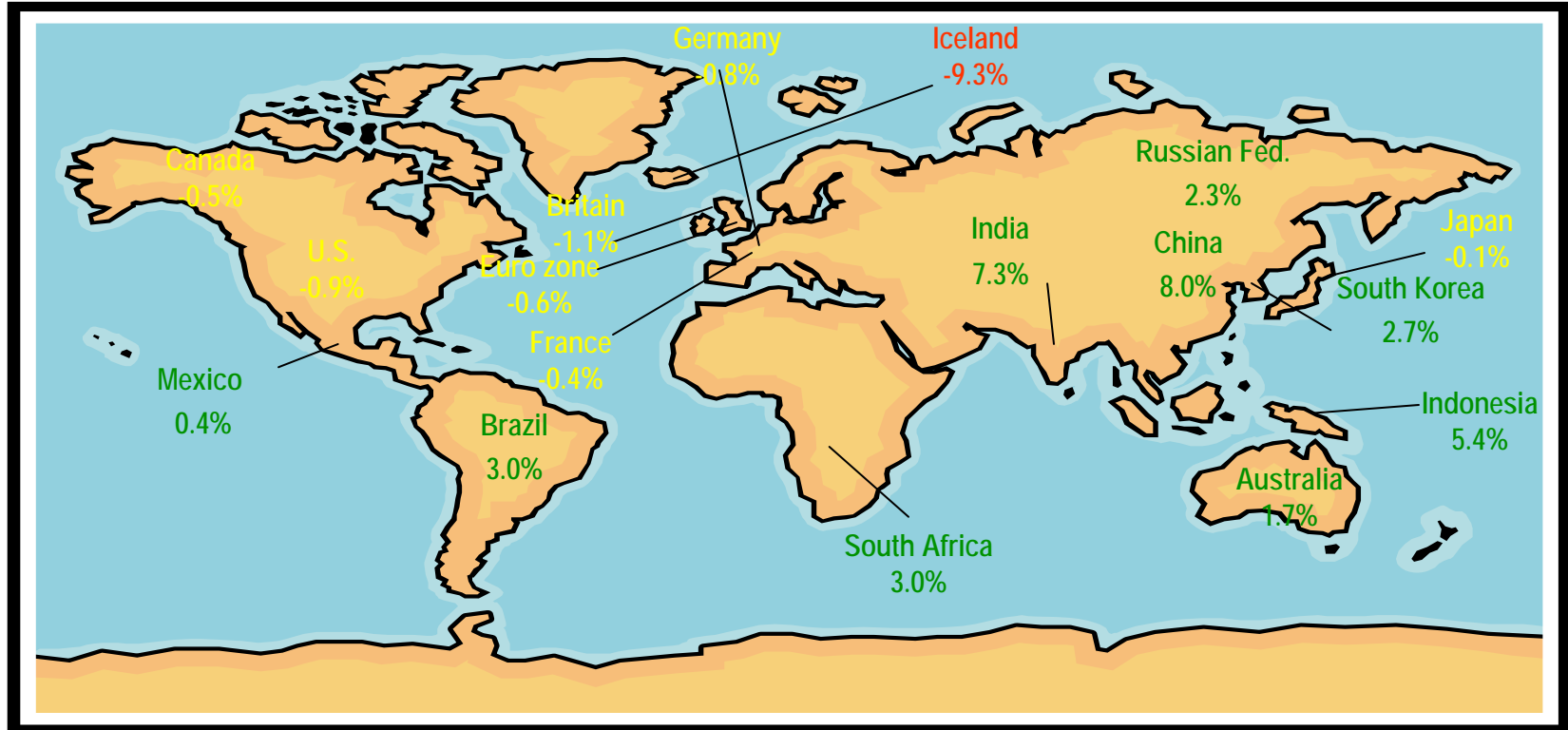
# *2009 Views from the Road*

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- **livestock / protein industry**
- **grain industry**
- **dependent on real estate**
- **third party / counter party risk**
- **regulators / government oversight**
- **lenders rationing credit**
- **imbalance of input costs / commodity prices**
- **export markets, technology, economy**

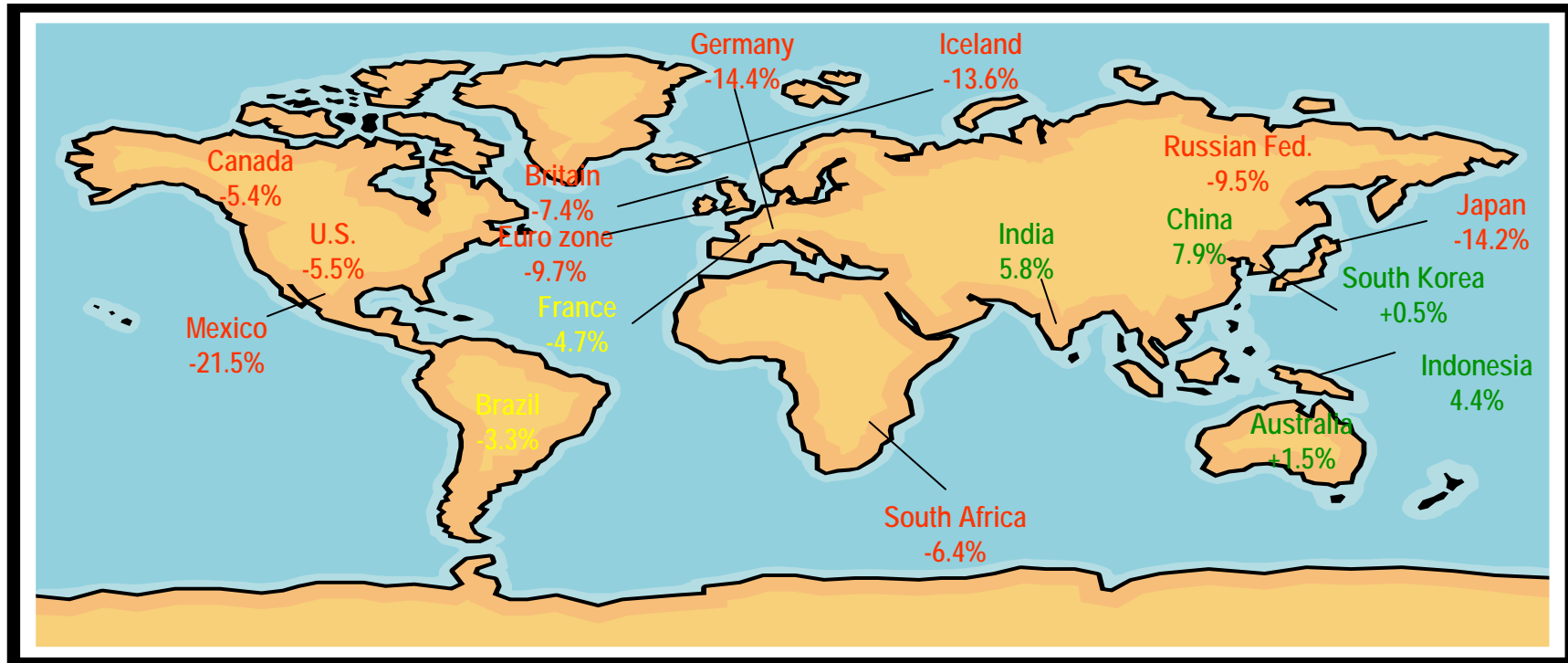


# Projected World Growth



**GDP Growth %**  
**2009 Forecast**

# World Growth



**GDP Growth %**  
**2009 Quarter Figures**  
**July, 2009**

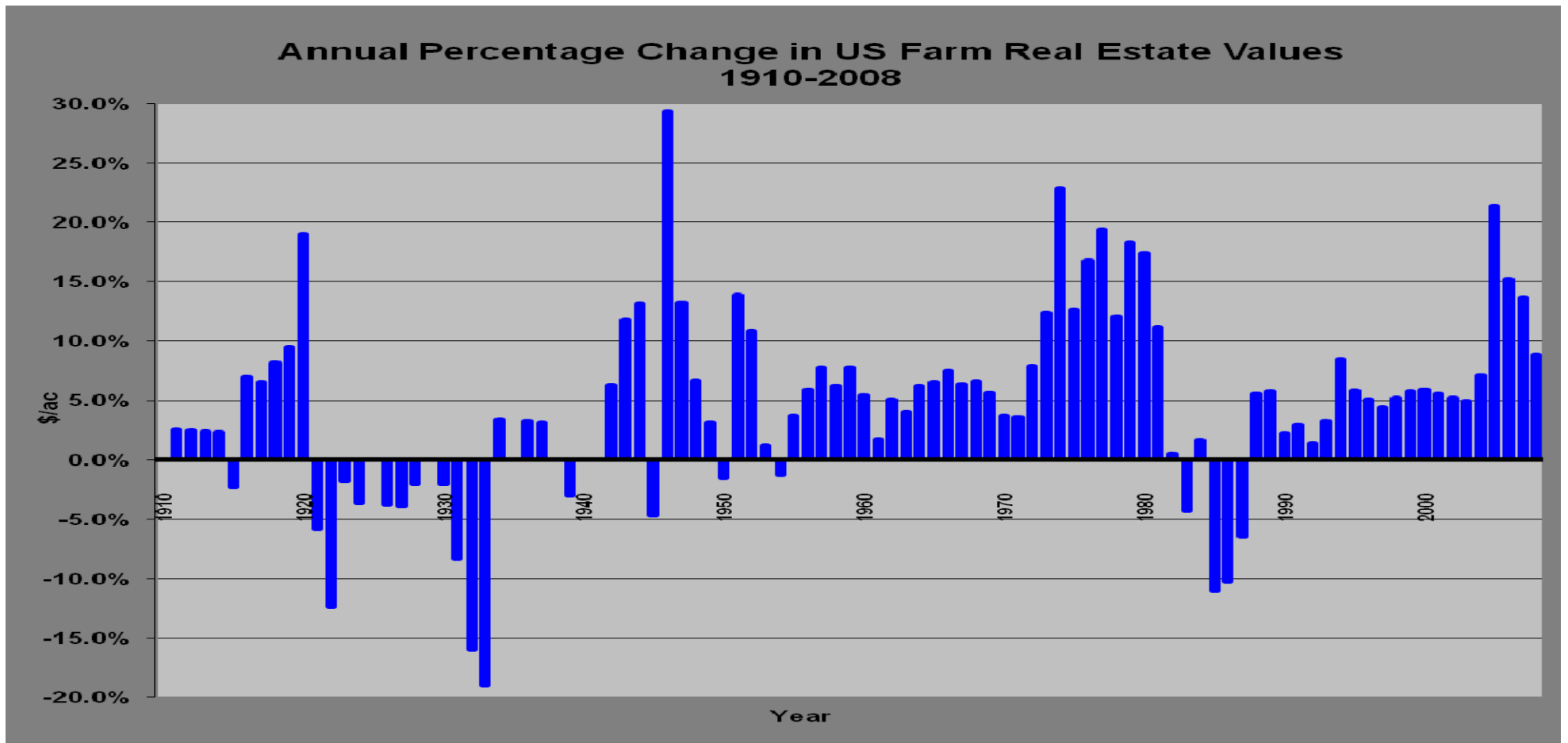
# Alternative Energy

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- **\$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

# *2009 Land Values & Current Status of Ag Economy*

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2009 Land Values	<b>March</b>	<b>40%↑</b>	<b>50% N</b>	<b>10%↓</b>
	<b>August</b>	<b>15% ↑</b>	<b>35% N</b>	<b>50% ↓</b>
Current Status of Ag Economy	<b>March</b>	<b>40% ↑</b>	<b>40% N</b>	<b>20% ↓</b>
	<b>August</b>	<b>21% ↑</b>	<b>16% N</b>	<b>63% ↓</b>

# *Business Cycles by the Numbers*

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## 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



# *Short Run Economic Issues*

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- **lowering of oil prices**
- **stock market**
- **earnings report**
- **CLI**
- **PMI**
- **copper prices**
- **unemployment**
- **consumer and business confidence**

# *Long Run Economic Issues*

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- **government debt**
  - ✓ foreign financed
- **risk position of USA government**
- **3 ½ year rule for inflation**
- **age- productivity**
- **long term interest rates**
- **devaluation of USA dollar**
- **other**

# ***“Big Credit” Conditions***

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- **Impacts for lenders and producers are a result of bigger economic picture outside agriculture**
- **Today’s agricultural credit reality is much more conservative**
- **Credit is more expensive**
  - ✓ Foundation for increased spreads in future are being built into credit lines
- **Leverage is a killer to any operation currently facing drastically reduced prices (e.g. dairy, all proteins, nursery, and timber)**

# *Last Year*

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- **every deal included two to three competing lenders**
- **interest rate pricing was very competitive**
  - ✓ spreads were tight, providing agricultural producers great rates
- **most agricultural commodities were coming off good to very good years, showing excellent repayment capacity**

# *Last Year*

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- **all commodities, except timber and nursery, were doing very well**
- **almost all lenders were considered very well capitalized**
  - ✓ credit quality, delinquencies, and repayment capacity were at all time record levels
  - ✓ debt markets were very easy to access
  - ✓ risk management tools (e.g. credit default sways) were available to manage loan growth and risk

# Today

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- **stressed agricultural markets**

- ✓ downturns in timber, nursery, poultry, hogs, dairy, and cattle, industries
- ✓ higher costs and significantly reduced prices

- **ethanol**

- ✓ facing economic downturn and lower oil prices
  - gas dropped from more than \$4 to less than \$2.50 per gallon
  - feed (e.g. corn) prices fall
  - ethanol industry in crisis (e.g. bankruptcies)

- **housing bubble burst; prices drop off table**

- **credit markets are much tighter**

- **commercial banking industry in financial turmoil**

# *Impact: Changing Lender Focus*

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- **changed perceptions and attitudes surrounding the finance industry**
  - ✓ “anything goes to nothing goes” significantly reduces credit availability
  - ✓ credit quality, delinquencies, and repayment capacity are moving in the wrong direction quickly
  - ✓ capital availability is the bigger question
    - followed by which borrowers get approval and the dollars they need
- **interest rates are stable or a little lower**
  - ✓ but, lenders are requiring spreads that are 100 or more basis points higher than a year ago on the same quality deals

# *Knowledge and Successful Management*

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- **in dynamic and uncertain markets, knowledge is key**
  - ✓ more than information
  - ✓ information with context, interpretation, impact, and execution
    - execution (i.e. knowing what to do) is a function of knowledge, experience, positioning, and insight (i.e. “gut” instinct)

# ***Knowledge and Successful Management*** *(Continued)*

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- **key sources for understanding industries include peer and professional networks**
- **lender can be a key a ‘trusted advisor’ in producers’ networks**
- **agricultural producers should demand their lenders be relationship managers (more than loan officers)**

# *Lenders as a Strategic Advantage*

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- **Relationship managers provide more than capital**
  - ✓ Understand industries, business models, and businesses' unique positions within industries
  - ✓ Grasp interconnectedness of agricultural value chains
  - ✓ Understand people and ask questions
    - Where have producers been?
    - Where are producers today?
    - Where are producers headed?
  - ✓ Provide context to information, adding meaning and relevance to 'numbers and noise'
  - ✓ Focus on what makes long-term sense