Market Roller Coaster Continues

Economic outlook for 2019 is a mixed bag that will require business IQ.

by ***Kindra Gordon***

Animated, opinionated and articulate, when ag economist David Kohl speaks, ag producers are well advised to listen. Speaking candidly while in South Dakota in late August, Kohl said that while the economy in the metropolitan areas is on a high, the ag economy is in a "continuing reset that started in 2013." After addressing an ag audience in New York earlier this summer, Kohl was told he sounded like "gloom and doom," to which he responded, "It is what it is, so what are we going to do about it?"

David Kohl

With interest rates being inched up by the Federal Reserve, trade negotiations making headlines — and, fortunately, some headway — and President Trump's actions remaining as volatile as the marketplace, the economic outlook for 2019 truly remains a mixed bag for all sectors. As a recent *Fortune* magazine article notes, "Economic warning signs are everywhere," and, "The current economic expansion is much nearer its end than its beginning."

It seems appropriate to say, "Truer words were never spoken." The reality of a down-trending economy can especially be seen in the dairy market. Kohl, who is professor emeritus in economics from Virginia Tech and also a co-owner of a dairy farm and creamery on the East Coast, shares milk sales are down 24 percent nationally, Wisconsin has lost more than 500 producers in the business since Jan. 1, 2018, and across the country, the dairy industry is losing about seven dairy farms a day.

While the situation has been less severe in the grain and cattle markets, those markets have seen price fluctuations as trade wars and supply and demand wax and wane.

Kohl predicts the volatility will continue. He advises ag producers across all sectors: "In this part of the cycle, business and financial IQ is going to be the difference maker."

Employ business basics

Kohl sees four cornerstones to business IQ, which include:

1. **Take time to plan.** He suggests cash flow planning, production, marketing and schedules. "Do scenario planning and ask some what ifs. I know there is hay to put up and cattle to work, but planning is one of our most important tools."

2. **Strategize.** Kohl notes producers often spend more time on $100 per day decisions than they do on $1,000 or $100,000 decisions. He advises being cognizant of this tendency and developing short- and long-run strategies to help stay on track during the lean times.

3. **Execute.** "This is the one we often fail on. Producers have got to have the ability to execute and pull the trigger on making decisions," he says.

4. **Monitor.** Kohl advises regular analysis so you are aware of what is happening in the business and the market. He shares, "The best tool in our [dairy] business is comparing our cash flow projection to actual. We do this monthly so we don't get off track." Kohl says through this monitoring process unexpected costs are more predictable, making it possible to adjust plans and decisions to minimize losses and to capture more profits.

As producers enhance these business steps, Kohl says they can operate "just like a successful sports team." He expands upon the sports analogy saying that in an economic time like this, "It's not about home runs, but base hits." He adds, "We got away from needing business IQ in the good times, but we've got to get back to it."

Watch the big picture

Concerning all of this, Kohl underscores that ag producers must continue to watch the larger picture, particularly trade. Kohl says trade talks "needed to be looked at absolutely," and he is in agreement with President Trump's process of reviewing trade agreements country by country, using the analogy, "You eat an elephant one piece at a time."

That said, while many are focused on China, Kohl is more concerned about NAFTA (North American Free Trade Agreement). He notes Canada and Mexico comprise $40 billion in ag trade with the U.S., whereas China's market is still largely in the "potential" column.

On the global scale, Kohl says he is also watching Argentina and Australia — two beef competitors — and how much beef they are exporting, which will have an impact on U.S. beef trade. The value of the U.S. dollar abroad will also impact trade. A stronger U.S. dollar can suppress trade.

Lastly, Kohl is watching land values and suggests landowners do so as well. While history shows land values have remained flat or appreciated from 1910-2017, Kohl says several factors at play could take land values backward. He cites rising interest rates, declining ag exports and/or a collapse of the U.S. or global economy. With some producers already in their second or third round of refinancing debt, he cautions if regulators and lenders tighten loan restructuring, this scenario may pinch finances even more for ag producers.

On a positive note, the recent trade agreements made in late September with Korea, Mexico and Canada should be beneficial for American agriculture. However, Kohl says there will continue to be extreme volatility in prices based on headlines. To this situation, he reminds producers to use their business IQ.

"If you know your profit window and get there, market some of it. [Otherwise] extreme volatility will put you on an emotional roller coaster," he concludes. HW

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