Think Like an Ag Economist

As an ag producer himself, ag economist David Kohl offers a real-world perspective.

by ***Kindra Gordon***

"I think success in business today is managing the things you can manage, and then managing around the noise." That is the advice of ag industry economist David Kohl, who has become one of the industry's most sought-after speakers on the topics of ag business management and forecasting future trends within industries.

For 25 years Kohl was a professor of agricultural finance and small business management and entrepreneurship in the Department of Agricultural and Applied Economics at Virginia Tech, Blacksburg, Va. Today, he has traveled 9 million miles throughout his professional career, conducting more than 6,000 workshops and seminars for agricultural groups of bankers, regulators, producers and agribusinesses. For nearly two decades, he has also been a partner in Homestead Creamery, a value-added dairy business in Virginia.

Kohl has a passion for the ag industry, and here are snippets of some of the things on his economist-trained mind:

Find focus. Kohl credits success to the ability to find clarity. He notes, "We are in a world that can get very unfocused, so it's important to focus." To that point, he shares a story about Bill Gates and Warren Buffett meeting and being asked what was the single most important factor in their success. The two gave the same one-word answer: "Focus."

Monitor trends. Kohl says there are four things he keeps an eye on to monitor the status of the economy. These are the status of the global economy, especially in emerging nations like Brazil, Russia, India and South Africa; oil prices; the US Central Bank; and the status of international trade agreements. Dramatic changes within any one of these four areas can really affect agriculture.

For example, the pace of global ag markets will dwindle if global economies are sluggish and the middle class ceases to expand. Ahead, he is particularly concerned about international trade policies but is hopeful now that trade talks with Canada and Mexico have resulted in an agreement.

"Canada and Mexico together are bigger [for U.S. exports] than all of the Asian markets," Kohl says.

Concerns. "I'm worried about healthcare costs," Kohl says. "The number one reason businesses are going broke is tied to medical expenses." He says immigration issues and the tax code are also on his worry radar, as is the stock market.

What's the holdup? According to Kohl, economic expansion has been occurring in the past few years, but the rate of growth has been slow. Why? "To be blunt, there's been too much regulation and it's dragged us down," Kohl says, adding, "The tax code is also too cumbersome."

He blames Baby Boomers for being conservative and not investing and not taking risks. "As their runway [life] gets shorter, they are thinking about their mental and physical health and running out of money. That is one of their biggest fears." To which Kohl, who is a Baby Boomer himself, says, "You gotta live until you die."

He shares a story of a 70-year-old veterinarian who pulled his money out of the stock market. The veterinarian believed there would not be enough time to recover if the market went down. Kohl surmises, "So Boomers have all this money sitting on the side, and they are becoming extremely conservative. That's a major reason for our slow-growth economy."

Interest rates. The most common question Kohl gets is about the future of interest rates. There are four factors he watches to gauge interest rate trends. These factors include the unemployment rate, consumer spending, inflation and the economic growth rate. For now the Federal Reserve is inching rates up slowly, but Kohl notes the Fed "doesn't want to stall the economy out."

His advice to producers in running their projected financials for the coming year is: "Do a shock test and see what an increase in interest rates does to your operation's profitability."

40-30-30 split. To gauge how producers are doing financially, Kohl follows data on FINPACK®, a financial planning tool which compiles real data from across 13 states. The data show 40 percent of producers are doing well and considering expansion opportunities. In the middle, 30 percent of producers likely lost money three of the last four years. Then, the bottom 30 percent have losses so high Kohl says, "I'm wondering how they are making it. They are burning through their land equity."

Kohl expresses concern over credit that is continuing to be approved to this bottom 30 percent. He feels credit may keep them in business for a couple more years "so they can lose more money" before they ultimately go out of business.

Sweat the small stuff. Kohl reminds producers to be judicious in their financial management and record keeping, as well as to keep family living expenses modest. He notes "sweating the small stuff" is often what sifts successful producers to the top. He also encourages producers to work "side by side" with their lender and accountant or financial planner. "That's important in any economic cycle, but especially this one."

Using a sports analogy and coaching advice from a former coach, Kohl notes in basketball 95 percent of the time the ball is not in a player's hands. "It's about what you do away from the ball, so when it is in your hands you can do something with it," he says. "In farming and ranching, spend time on financial management." HW