

# Inside the Mind of an Ag Economist: Part 1

*As an ag producer himself, David Kohl offers a real-world perspective on succeeding in ag business.*

*by Kindra Gordon, field editor*

“I think success in business today is managing the things you can manage — and then manage around the noise [of the media, etc.]” That’s the advice of ag industry economist David Kohl, who has become one of the industry’s most sought-after speakers on the topic 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 ranging from bankers and regulators to producers and agribusiness. For 16 years he has also been a partner in Homestead Creamery, a value-added dairy business in Virginia.

All total, Kohl has a passion for the ag industry and is an engaging — and sharp-witted — presenter. He covers a gamut of ag and global topics. Here are snippets of some of the things on his mind.

## Find focus

Kohl credits success to the ability to find clarity.

“We are in a world that can get very unfocused, so it’s important to focus,” he notes.

He shares the story of reading 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 these things

Kohl says there are four things he keeps an eye on to monitor the status of the economy:

1. status of the global economy, especially in emerging nations like Brazil, Russia, India and South Africa;
2. oil prices;
3. the U.S. central bank; and
4. the status of international trade agreements.

Dramatic changes within any one of these four areas can really impact agriculture, Kohl underscores. Currently, he notes that the global economies are sluggish — and without their middle class expanding, he says that slows the pace of global ag markets.

As a result, he says, “We are in a modest price cycle.”

Regarding the golden years of \$8 corn, he says, “I don’t see it coming back.” Looking ahead, he says he is particularly concerned about international trade policy.

“Canada and Mexico together are bigger [for U.S. exports] than all of the Asian markets,” he points out, so they are equally important.

## His worries

“I’m worried about health-care costs,” says Kohl. “The number one reason businesses are going broke is tied to medical expense.”

Immigration issues and the tax code are also on his worry radar, as is the stock market. Kohl queried

four colleagues about where the Dow Jones Industrial Average might be in July 2018. Three of the four predicted it will be running at 23,000-24,000. However, one (the same one who predicted the financial crisis six months before it occurred) predicted it will be at 12,000 in July 2018.

“Watch the stock market,” Kohl advises.

## Aren’t we expanding?

Why doesn’t it feel like we’ve been in economic expansion? Economic expansion has been occurring in the past few years, according to Kohl, 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. “The tax code is also too cumbersome.”

Third, he blames Baby Boomers for being conservative.

“As their runway (life) gets shorter, they are thinking about their mental and physical health and think about running out of money [as opposed to investing and taking risks],” he observes. “That is one of their biggest fears.”

Kohl, himself a Baby Boomer, 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. Kohl asked him why he did that, to which the veterinarian answered that there wouldn’t be enough time to recover if the market went down.

“So Boomers have all this money sitting on the side, and they are becoming extremely conservative,”

Kohl surmises. “That’s a major reason for our slow-growth economy.”

## Interest rates

The most common question Kohl says he is asked is, “What is going to happen to interest rates?” To gauge this, he says he watches four factors: the unemployment rate, consumer spending, inflation and the economic growth rate.

For now, Kohl says he doesn’t anticipate interest rates increasing more than 1%-2% in 2018, due to the slow economic growth and low inflation rate. The Federal Reserve doesn’t want to stall the economy, he explains.

It is worth noting that Janet Yellen’s term as Federal Reserve chairman will end Feb. 3, 2018, with President Donald Trump naming Jay Powell as his choice for her successor. Kohl, who favored Yellen for her sense of stability and ability to remain numbers-oriented, says this change in leadership may prompt changes in what the Federal Reserve does to interest rates in 2018.

His advice to producers in running financial projections for the coming year: “Do a shock test and see what an increase in interest rates does to your operation’s profitability.”

## The 40-30-30 split

To gauge how producers are doing financially, Kohl follows data on FINPACK, which compiles real data from across 13 states. Kohl says he’s seeing 40% of producers doing well and considering expansion opportunities. In the middle, 30% likely lost money three of the last four years. The bottom 30% have losses so high Kohl says: “I’m wondering how

## A word on weather

Economist David Kohl believes the future of agriculture will include using weather apps more and more to gain efficiencies on the farm. As an example, Kohl sought advice from a weather forecaster to ask about the best temperature and humidity window to synchronize cattle for a fall-calving program. The herd subsequently achieved an 87% conception rate.

Kohl indicated that the weather guru he has enjoyed consulting with is Eric Snodgrass, director of undergraduate studies for the Department of Atmospheric Sciences at the University of Illinois at Urbana-Champaign (find him on Twitter @snodgrss).


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%. He feels it may extend them in business for a couple more years “so they can lose more money” before they ultimately go out of business.

management and recordkeeping, as well as to keep family living expenses modest. He notes that “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 his

former coach, Kohl noted that in basketball, 95% 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.” 

## Sweat the small stuff

Kohl reminds producers to be judicious in their financial

*Editor’s Note: Kohl shared comments with South Dakota ag producers in September 2017. Kindra Gordon is a freelance writer and cattlewoman from Whitewood, S.D.*



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