

FUTURE ECONOMIC & BUSINESS TRENDS CIRCA 2025



Dr. David M. Kohl

Professor Emeritus, Agricultural and Applied Economics

Member of Academic Hall of Fame, College of Agriculture & Life Sciences

Virginia Tech, Blacksburg, VA

Email: sullylabvt@gmail.com

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

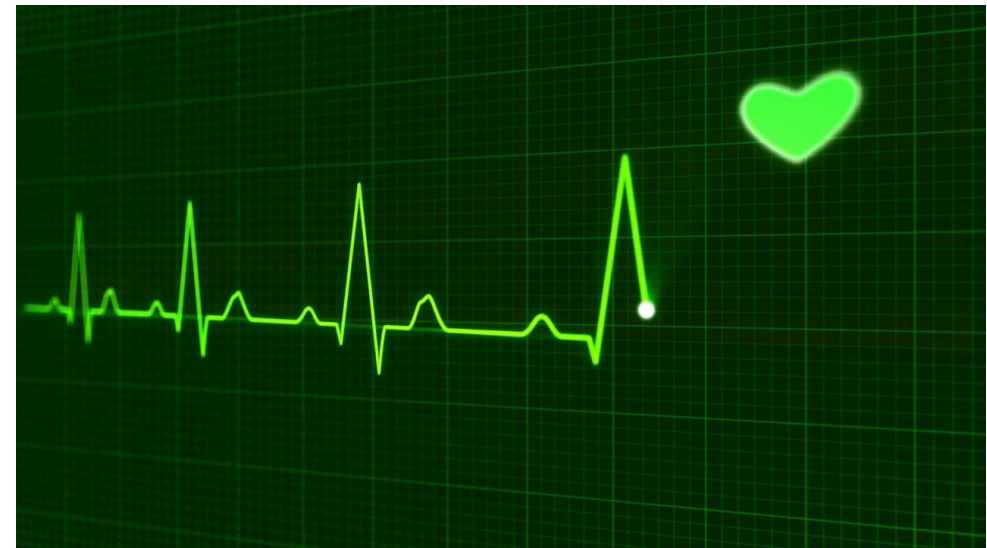
Super Global Trend Disruptors: Evolution Accelerators

- Geopolitical environment
 - Global elections results
 - Trade sanctions & tariffs
 - Counter tariffs
 - Globalization, deglobalization
- Stages of diffusion of innovation for fossil fuels, green energy & AI
 - Infatuation: 2022-2024
 - Disillusionment: 2024-2027
 - Reorientation: 2027 & beyond
- \$84 trillion of wealth will transfer from 2025 to 2040
- Black swans vs. grey rhinos
- Dollar dominance
- BRICS, new currency



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



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

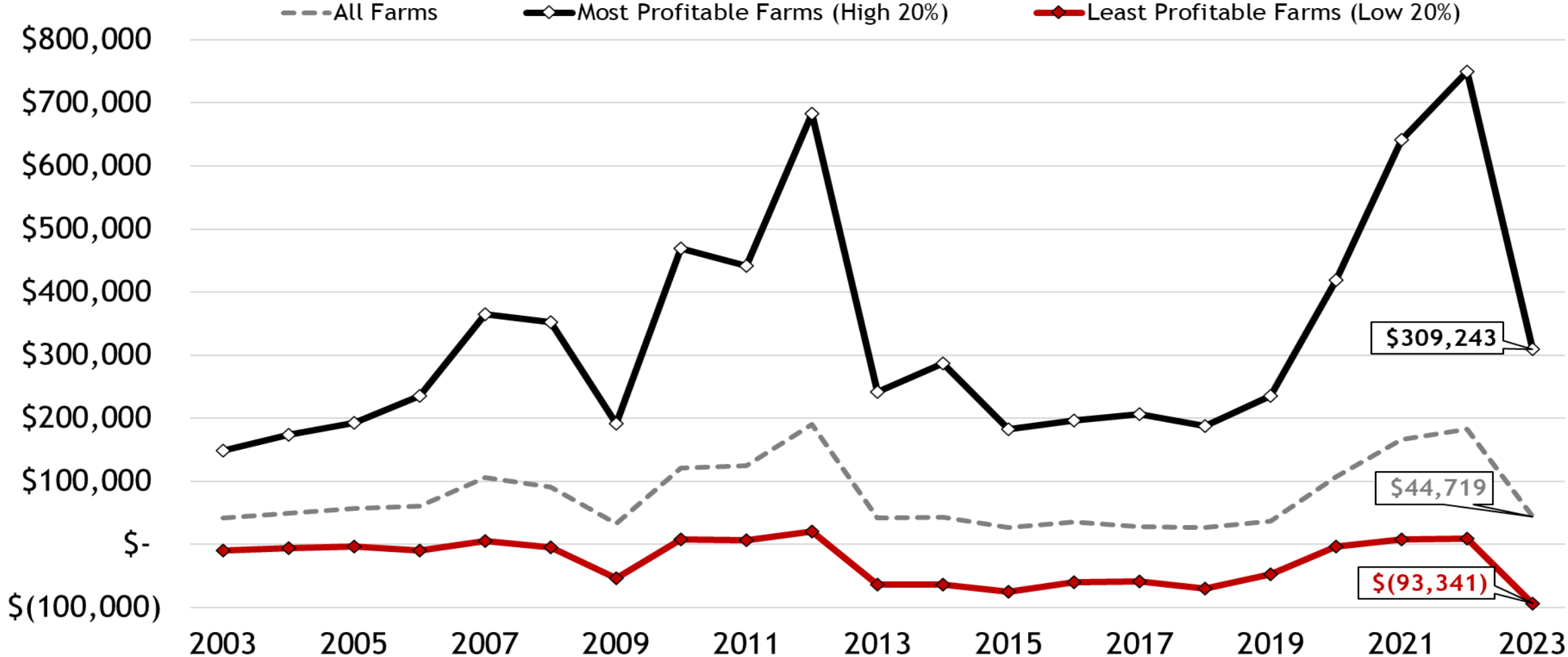


What's Different from 2013-2020

- 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

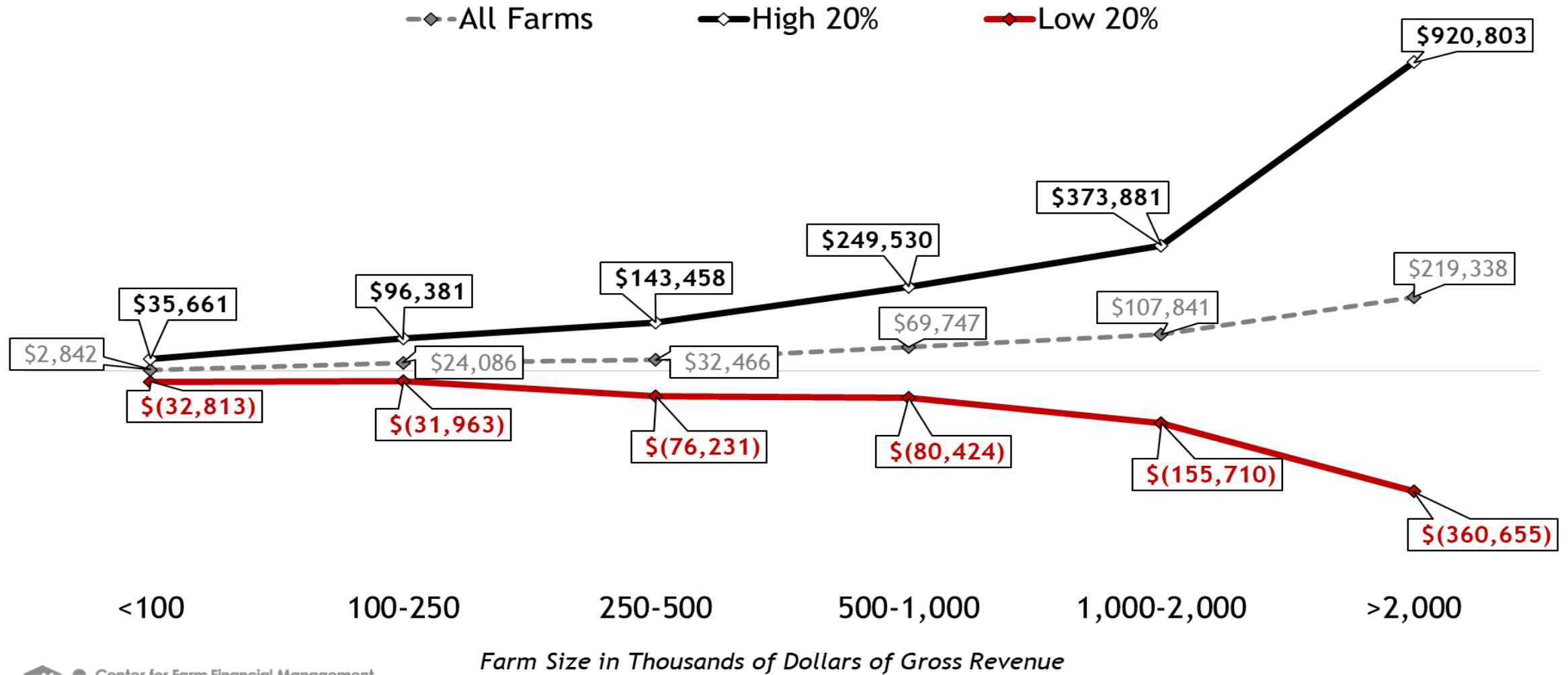
Median Net Farm Income by Profit Group

Data: Minnesota, Sorted by Profitability Group



2023 Median Net Farm Income by Farm Size

Data: Minnesota, All farms, Farm size measured by gross revenue in thousands of dollars



Quote for the Quarter Century Part 1

“The opportunity for business and personal prosperity is not about the size, the enterprise or the next big thing.”



There Is No Such Thing as the Next Big Thing!

- Hemp
- Llamas
- Catfish
- Broccoli
- Emus
- Green energy payments
- Government bailout payments



Quote for the Quarter Century Part 2

“It is about being a ‘five-percenter,’ meaning being a little better in many components of production, operational efficiency, marketing, risk management, finance, human resources and in the focus on your values and goals.”



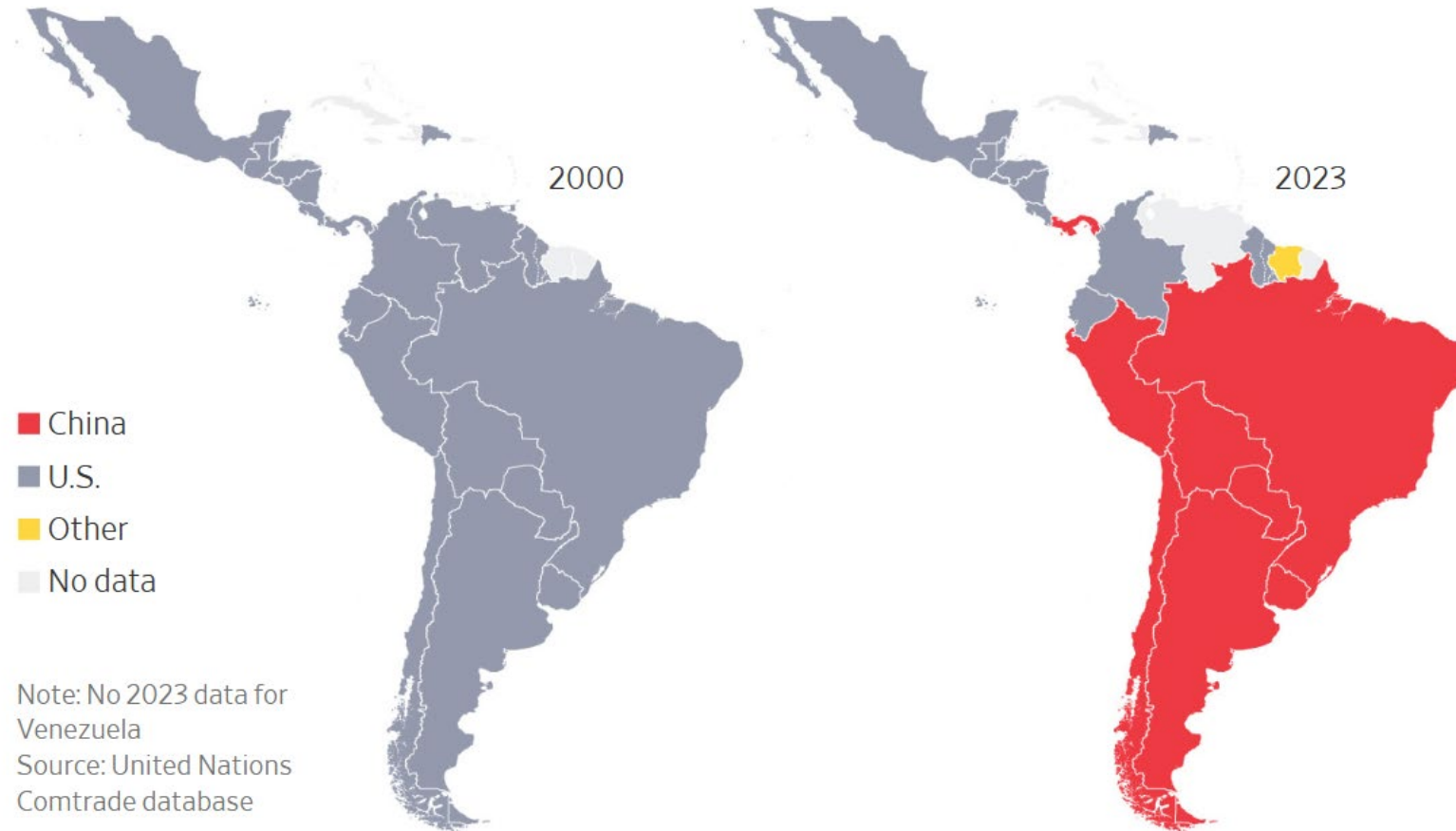
Quick Global Economic Assessment

- 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>

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>

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

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



Watch List for Potential Recession



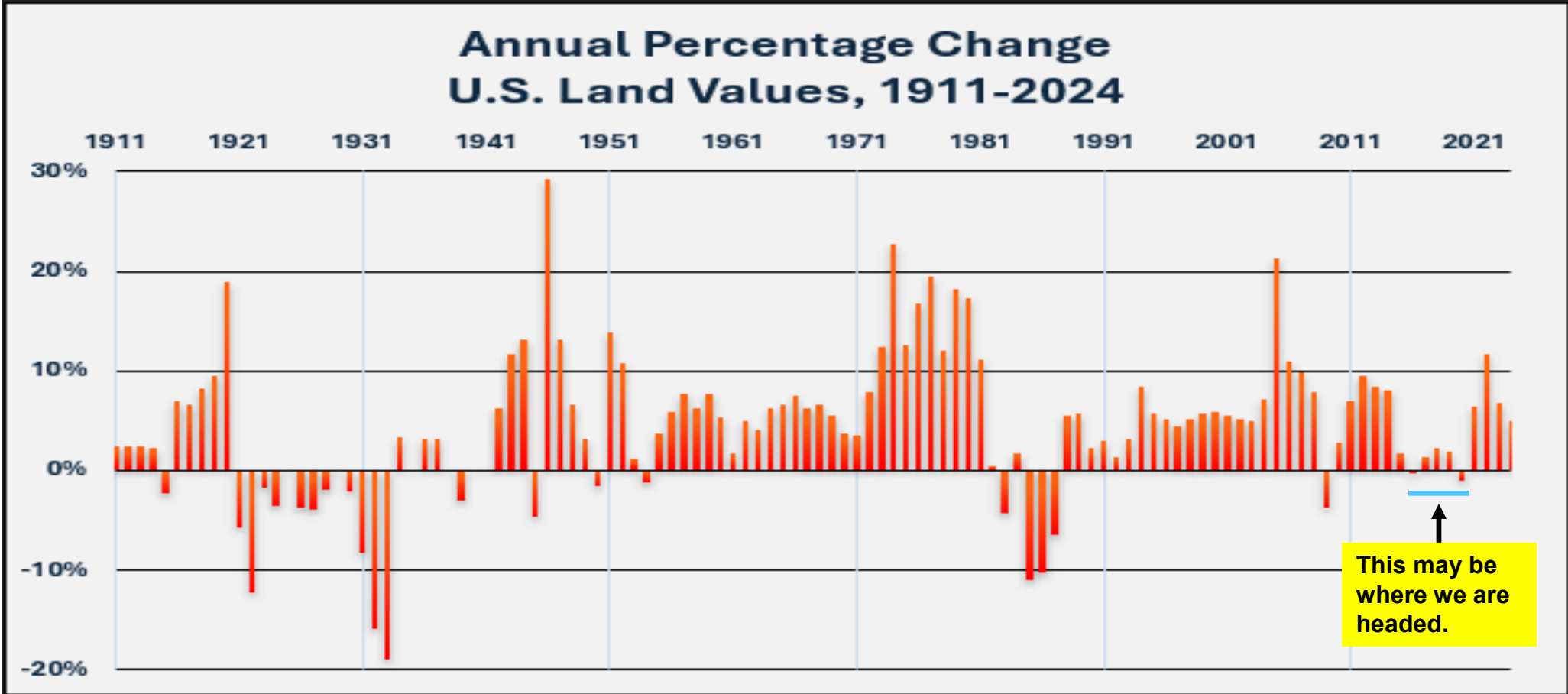
- High income earners
- Paper wealth devalues:
 - Stocks, investments
 - Homes, real estate
 - Other
- A.I. (Artificial Intelligence) vulnerability, geographic, mobility constrained
- Corporate restructuring
- Curtailed discretionary spending
- Noise in government & Federal Reserve data
- HENRY (High,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

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

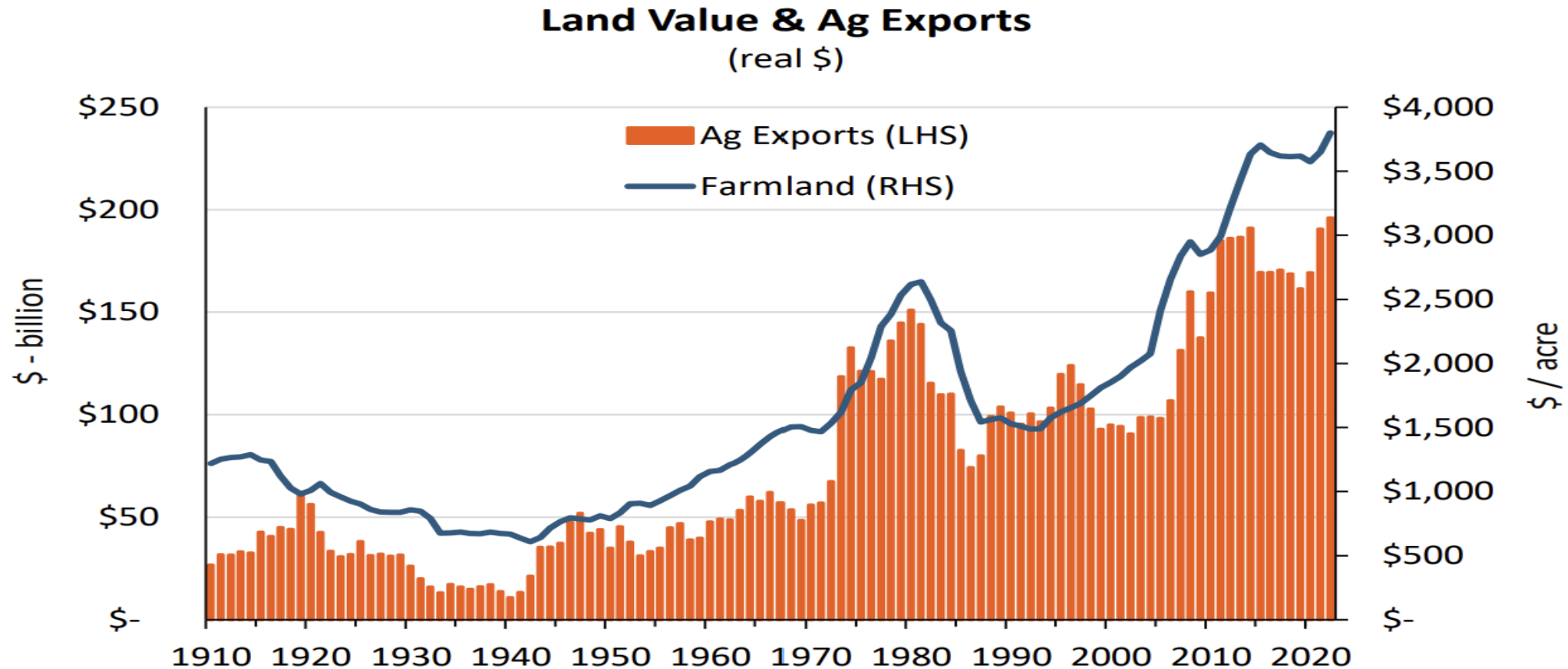


U.S. Farm Real Estate Values



Source: Dr. Steve Isaacs, University of Kentucky

Tied at the hip?



Source: Farmer Mac 2024

Eight Habits of Parents/Grandparents

Rule of 78: Quality of Life

PHYSICAL

- Drink water
- Exercise regularly
- Healthy diet
- Sleep



MENTAL

- Support network
- Life purpose
- Mental activities: read, meditate
- Faith & spiritual



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.

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.

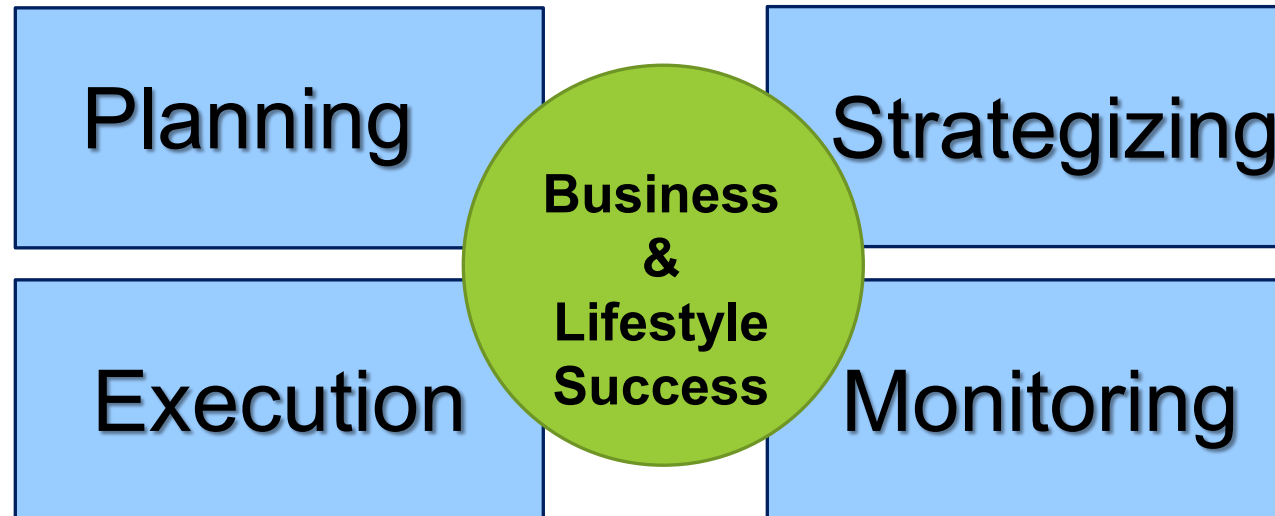
Future Business Models

- Family business
 - Cousins partnering with cousins
 - Non-family members
 - Separate enterprises/use common assets
- Agri-entrepreneur
 - Multi-tasker
 - Gigs
 - Diversified sources of income
- Boomeranger professional
 - “Outside the box” mindset
 - New skill sets
- Women, minorities, veterans
 - Demographics of FFA, 4-H, MANRRS
- Vertical & urban farming



Management Mindset: 2025 & Beyond

Four Cornerstones of Success



R.E.M. Strategy:

Respond

Execute

Monitor

Economic Down Cycle Focus

Focus on the Controllables, Manage Around the Uncontrollables

■ Controllables

- Monitoring with financial shock testing
- Servicing of debt
- Risk management risk
- Cash flow plan
- Profit plan
- Articulate how you got here
- How are you going to get there?
- Mental health

■ Uncontrollables

- Weather
- Geopolitics
- Trade tariffs & sanctions
- Other



Management Mindset 2025

R.E.M. Gameplan

Respond = Development of strategy, tactics, metrics

Execute = Action executed with defined outcomes

Monitor = System or processes for ongoing monitoring

Check the appropriate boxes.

Management Mindset Checklist		Respond	Execute	Monitor
1.	Establish written goals: business, family & personal			
2.	Know cost of production by enterprise			
3.	Know breakevens on major revenue sources with operational plan in place to achieve outcomes			
4.	Develop a monthly or quarterly cash flow			
5.	Financial sensitivity & scenario analysis in production, cost, prices, etc.			
6.	Utilize key financial ratios & business metrics in management			
7.	Written marketing plan: commodity and/or value added			
8.	Written risk management plan: insurances, SOPs, compliance, will, estate plan			
9.	Informal or formal advisory team that meets periodically			
10.	Development of a transition management plan			
11.	Separate family living budget with investment plan or compensation plan			
12.	Deliberate educational plan for owners, management & employees			

R.E.M. Gameplan Key		
Score	Color	Mindset Level
31-36	Super Green	Mindset Master
26-30	Green	Advanced
20-25	Orange	Above Average
15-19	Yellow	Below Average
0-15	Red	Need Focus & Mentoring

Total # of Check Marks			
Your Overall Score			

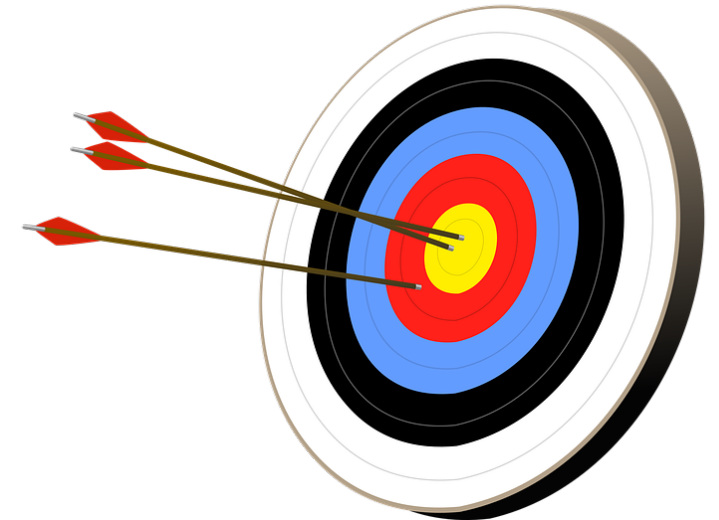
2025 Version - Developed by: Dr. David M. Kohl, Professor Emeritus,

Ag & Applied Economics, Virginia Tech

Goal Setting

- 80-16-4 Rule
- Six degrees of goal setting
- Short term- 1 year or less
- Long term- 3-5 years
- Goals should be S.M.A.R.T.
- Business, family & personal
- Mental, physical & spiritual
- 20% of top producers have written goals
- Developing written goals: earn 4 times as much in lifetime

GOAL SETTING



“Goals provide focus in a cluttered world.”

Profitability

- 60-30-10 profit plan
- Term debt to EBITDA
 - <3:1 **Green** (moderate agility/resiliency)
 - 3:1 to 6:1 **Yellow** (some resiliency, little agility)
 - >6:1 **Red** (low agility/resiliency)
- Earns & turns
 - $\text{Margin} \times \text{capital turnover} = \text{ROA}$

“Profit is the oxygen of the business.”



[This Photo](#) by Unknown Author is licensed under [CC BY-SA](#)

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

Financial Liquidity & Cash: The Bridge

- Shock absorber- cash flow, profits
- Preserve wealth or liquidity fallback
- Proactive positioning – opportunity capital



“Cash is queen on a chessboard”.

This Photo by Unknown Author is licensed under [CC BY-NC](#)

Liquidity Trap Practices

- Failure to follow 60-30-10
- Tax minimization blinders: Spend \$1, save 20 cents!
- One year tax saving/3-7 years debt service commitment
- Failure to execute a marketing and risk management program
- Cap Ex out of operating money
- Multiple years of losses/accounts payable buildup

Financial Liquidity & Cash as a Bridge

- Cash is trash - ☹️ Wall Street Journal perspective
- Financial liquidity is choke point
 - Nation- “Russian example”
 - Business- “financial & farm crisis”
 - Personal household- “Dave Ramsey rule”
- Financial liquidity- buffer to preserve wealth- sale of discounted assets
- Financial liquidity- opportunity positioning- purchase discounted assets



Bridge & Pier Concept

- Are you building a bridge or a pier?

The more you go down the pier, the deeper the water. This increases the need for a higher level of expertise, and there are fewer options.



Conditions that Drive the Customer to End of Pier

- Non-responsive customer/lender
- Lack of execution
- Got the equity, give me the refinance without a written plan that's monitored
- Unreasonable expectations to breakeven
- Focus on swamp issues
- Surprises, hidden debt, timing of processes



Conditions that Build the Bridge to Success

- Plan in writing by the customer/consultant not the lender
- Mini victories by monitoring, monitoring & monitoring
- Frequent communications: relationship officer/credit analyst & loan committee/customer
- Willingness to develop cash flow, balance sheet & Business IQ
- Transparent no surprises by borrower & lender



Debt Load Trap Practices

- Term debt/EBITDA greater than 6:1
- Cost overruns on expansion projects
- Debt service (principal & interest) greater than 20%
- Debt to asset ratio >60%; REM score <28
- Working capital <10% of expenses



Working Capital by the Numbers

- Working capital to expenses
- >25% green light
- 10-25% yellow light
- <10% red light

“44/11: where do you stand?”



This Photo by Unknown Author is licensed under [CC BY-SA](#)

Liquidity Trap Practices

- Failure to follow 60-30-10
- Tax minimization blinders: Spend \$1, save 20 cents!
- One year tax saving/3-7 years debt service commitment
- Failure to execute a marketing and risk management program
- Cap Ex out of operating money
- Multiple years of losses/accounts payable buildup

Debt Load Trap Practices

- Term debt/EBITDA greater than 6:1
- Cost overruns on expansion projects
- Debt service (principal & interest) greater than 20%
- Debt to asset ratio >60%; REM score <28
- Working capital <10% of expenses



Perspectives on Transition Planning

- Marathon, not a sprint
- Investment, not a cost
- Third party coach facilitator
 - Agendas
 - Minutes
 - Questions/listeners
- Maintain control – give up control
- Basics covered:
 - Will
 - Fair vs. equal \$100,000 Rule
- Power of goal setting
- History, legacy & purpose
- Business profit – not tax statements, accrual adjusted
- 50% of retiring generation income outside sale & lease of business
- Business IQ 32 & above

Pitfalls of Buying A Business

- Are you purchasing a discounted asset? Why?
- What funds are needed for capital upgrades of production facilities, equipment or land?
- Is the purchase price based on accurate or flawed financial information?
- Lack of forensics or due diligence on financials.
- Cash flow/profit needed to acquire appreciated paper wealth assets
- Operational plan and S.O.P. for generating positive numbers
- Inheriting an existing non-productive work culture

Income Statement & Cash Flow Indicators to Observe

- Gross Profit Margin
- EBITDA Margin
- Net Margin
- Term Debt/EBITDA
- Coverage Ratio = $\text{Repayment Capacity} / \text{Interest \& Principal Payments}$



Balance Sheet Areas to Observe

- Build up or paydowns on Accounts Payable/Accrued Expenses
 - Cash flow profit positive or loss negative?
 - Will refinance improve situation
- Inventory increasing or decreasing?
 - Marketing program
 - Risk management program
 - Quality of inventory
- Accounts Receivable
 - Collectible?
 - Aging of receivables
- Working Capital to Expenses
 - <10% approximately 30 days
 - 25% approximately 90 days
 - 33% approximately 120 days



Perspectives From Warren Buffett's Meeting (1)

- In business decisions, conduct a premortem assessment.
- Over-allocation & over-capitalization in any industry creates asset bubbles.
- It is not the one who is the fastest, but the one who finishes the race that is successful, since the fastest one takes the most risk.
- In strategic planning, read the headlines & newspapers of 80 years ago for perspective.
- Success in business and life is choosing the right partner.

Perspectives From Warren Buffett's Meeting (2)

- While you are thinking of the future, write your obituary and work backwards.
- Gen Z still wants human interaction.
- Green energy movement requires 5 times more energy, particularly natural gas.
- Marshall Plan of post World War II to reconstruct Europe & Japan was 5% of GDP, while the pandemic stimulus payments were 20% of GDP.
- Make time for yourself. Consider the opportunity cost.



Reflections

Never Forget Where You Came From



“Remember your financial perspectives for life are formulated between 4-16 years of age and peak at 9.”

“Teach Your Children” – Song by Crosby, Stills, Nash & Young

1975 - 1978 Cornell University – Teaching & Research Assistant & Instructor

1978 - 1999 Virginia Tech – Asst. Professor, Associate Professor, Professor

1978 – Present – Catawba Valley Farms, LLC – Part Owner

1999 - Present – AgriVisions, LLC – President & Owner

2003 – 2024 – Homestead Creamery

Reflection Through the Journey: Most Impactful Memory

**Farm Financial Standards Taskforce-
Super Bowl Sunday 1989**



“Check your egos at the door and any recommendation must be practiced and useful to forward the agricultural industry.”

“Never Forget Where You Came From & the People That Got You Here.”



Mr. Greene

First Female FFA Member



Coach Murphy

104-0 Modern Day High School
Basketball Win Streak

Future-Proofing Your Business & Life for Success

- There is no culture without success in agriculture.
- If it grows too fast, it's a weed.
- You are no better than the people you know and interact with.
- Net worth in financials & quality of life is = to your network of people.
- There are no traffic jams in the extra mile!
- Success is often measured by dollar signs. Significance is giving back and making a difference in people's lives.
- Write a handwritten letter to three people annually that are important in your journey of business and life.





Q&A with Dr. Kohl

Dr. David Kohl's Contact Information:

Office:

(540) 961-2094

Alicia Morris

Scheduling:

(540) 493-2724

Angela Meadows

Email:

sullylabvt@gmail.com

Online Articles:



- Farm Progress Weekly Article:
<https://www.farmprogress.com/author/david-kohl>
- Ag Trends & Insights Videos
<https://agwestfc.com/education-and-resources/industry-and-economic-insights/economic-updates/agricultural-trends>
- Dave's GPS & Dashboard Indicators
<https://www.farmermac.com/news-events/daves-gps/>