

What every farmer needs to know in 2019.

Cultivating the Future
FCS Financial Ag Symposium

Matthew C. Roberts, PhD | matt@kernmantlegroup.com |  @YourEconProf



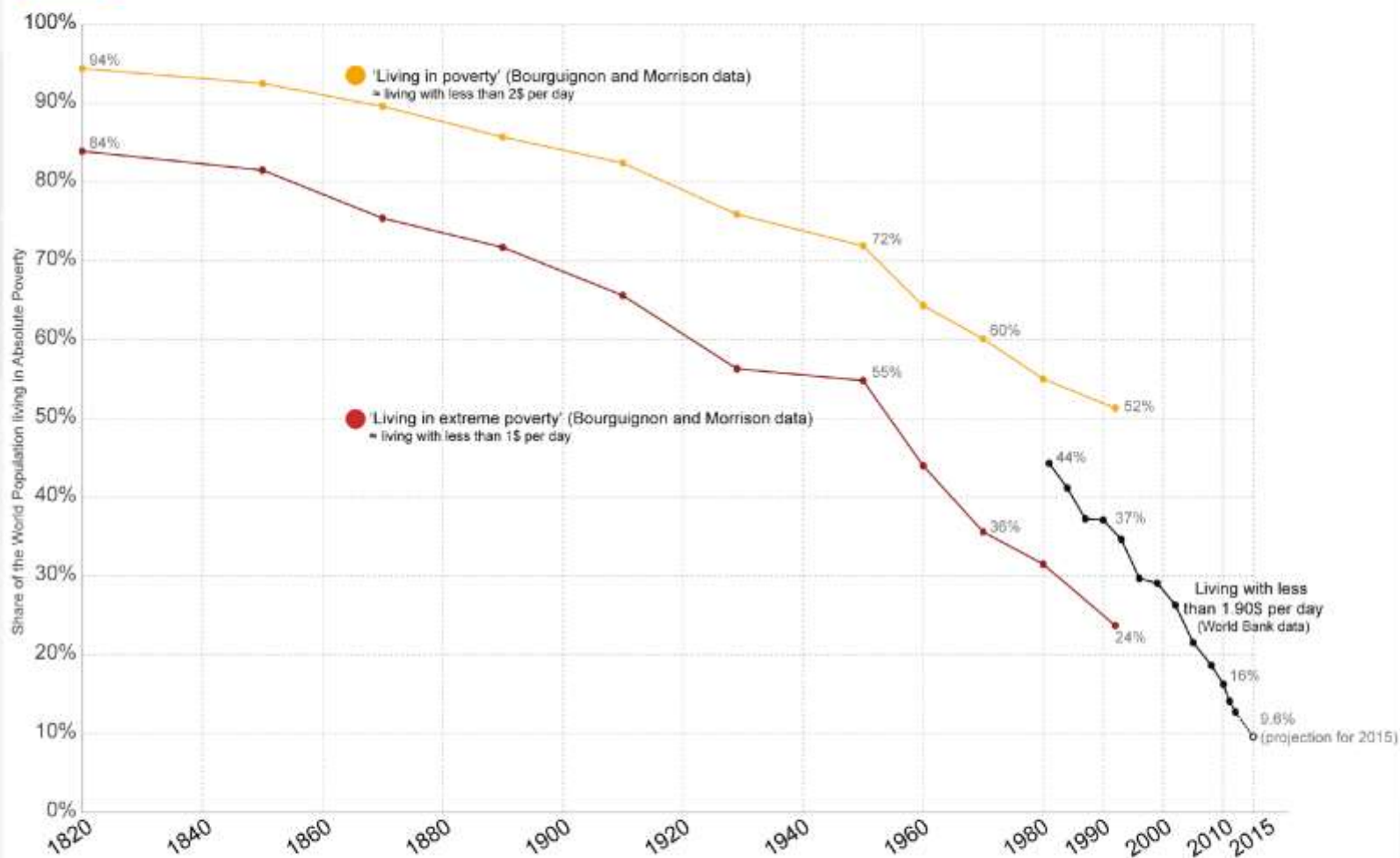
KERNMANTLE
GROUP

Global Poverty Has Radically Declined Since 1970:

Our World
in Data

Share of the World Population living in Absolute Poverty, 1820-2015

All data are adjusted for inflation over time and for price differences between countries (PPP adjustment).



Data sources: 1820-1992 Bourguignon and Morrison (2002) - Inequality among World Citizens, In The American Economic Review; 1981-2015 World Bank (PovcalNet)

The interactive data visualisation is available at OurWorldinData.org. There you find the raw data and more visualisations on this topic.

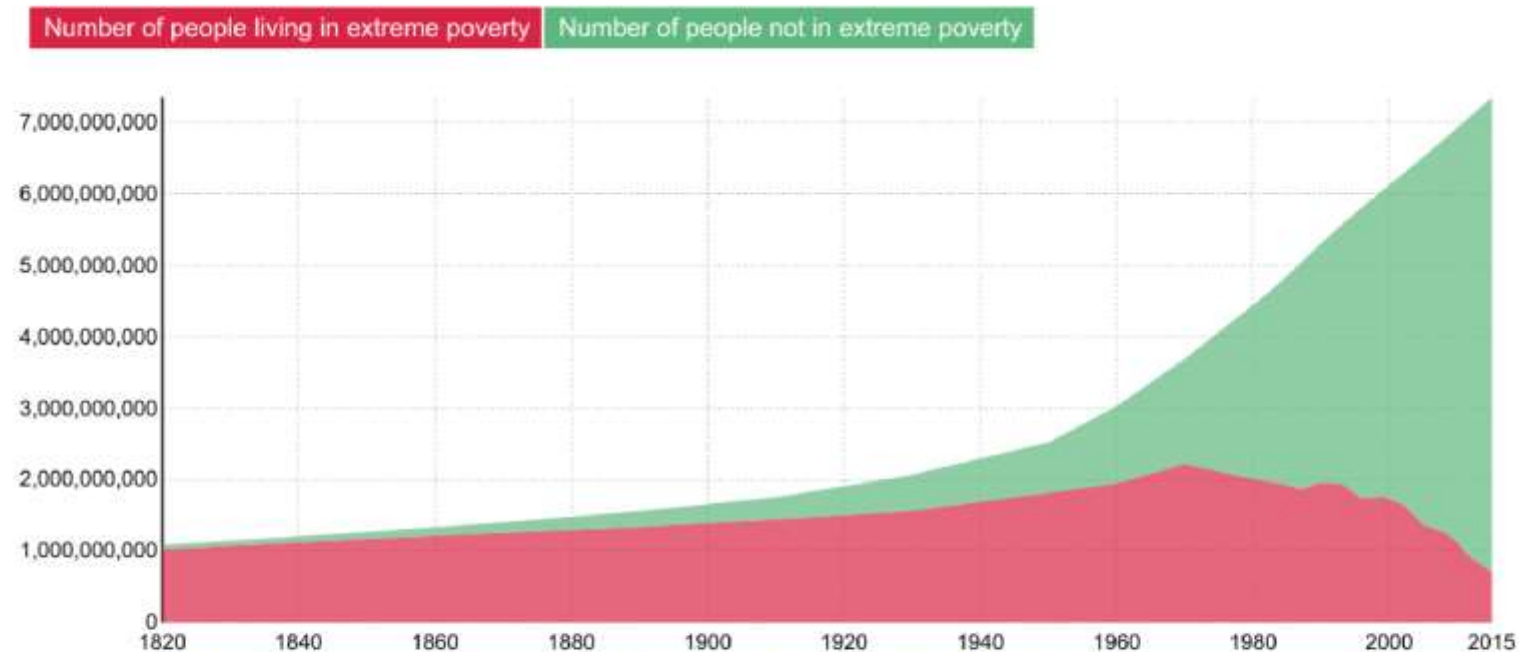
Licensed under CC-BY-SA by the author Max Roser.

Meanwhile, the Number of People Living Above the Poverty Line Has Exploded:

World population living in extreme poverty, 1820-2015

Our World
in Data

Extreme poverty is defined as living at a consumption (or income) level below 1.90 "international \$" per day. International \$ are adjusted for price differences between countries and for price changes over time (inflation).



Data source: World Poverty in absolute numbers (Max Roser based on World Bank and Bourguignon and Morrisson (2002))

OurWorldInData.org/world-poverty/ • CC BY-SA

Land is the Ultimate Scarce Resource in Agriculture:

- Chinese soybean imports in 2015/16 were 3.05bn bushels, or 65m acres.
- But in 2001, about 600m bu, or 15m acres.
- US Ethanol usage is 5bn bu, net of DGS is about 3.4bn bu, or 22m acres
- Compared to 2002, about 500m bu, or 2m acres.
- A total of 70m acres of additional land just to meet the #1 and #2 sources of demand.
- There is **massive** soy demand globally...these numbers don't count Chinese oilmeal or feedgrain demand, or Korea, Mexico, Japan, Brazilian domestic demand, etc.

The best cure for high prices is...

- Global soybean production has increased by 4.7bn bushels
- Global corn production has increased by 16.7bn bushels
- Global wheat production has increased by 5.8bn bushels

Where are we going from here?

- Global Grain Stocks are ample.
 - But not crazy large...
 - S. Am is looking for another huge crop
- Domestically:
 - Corn prices are being pressured by soybean acreage shift fears.
 - Soybean demand, outside of exports, is okay.
 - Soy exports, obviously, have been crushed.
- Macro
 - US Economy appears to be slowing
 - Trade uncertainty continues to haunt

World Corn Stocks



corn-w1-stocksuse, Source: USDA PSD

The Three-Legged Stool of Corn Demand...

- Feed Use:
 - Has been growing based on strong animal number growth
 - But profits in all species are now weak
 - Cattle herd not shrinking, but not much growth
- Ethanol
 - Continue to see some growth, but slow
- Exports
 - Bright spot in 18/19
 - Less wheat competition around the world.

US Corn Stocks



com-us-stocksuse, Source: USDA PSD

World Soybean Stocks/Use



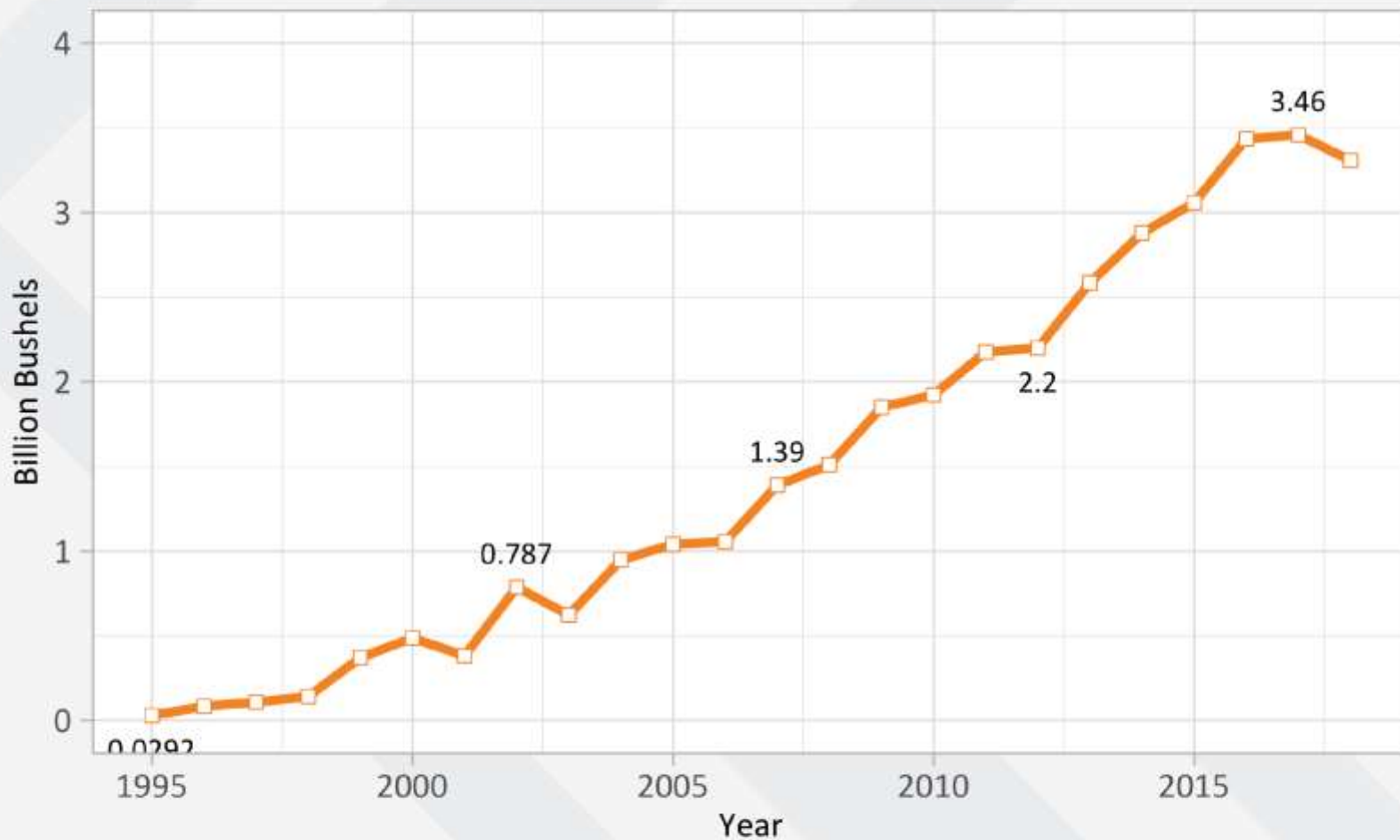
soybean-w1-stocksuse, Source: USDA PSD

US Soybean Exports



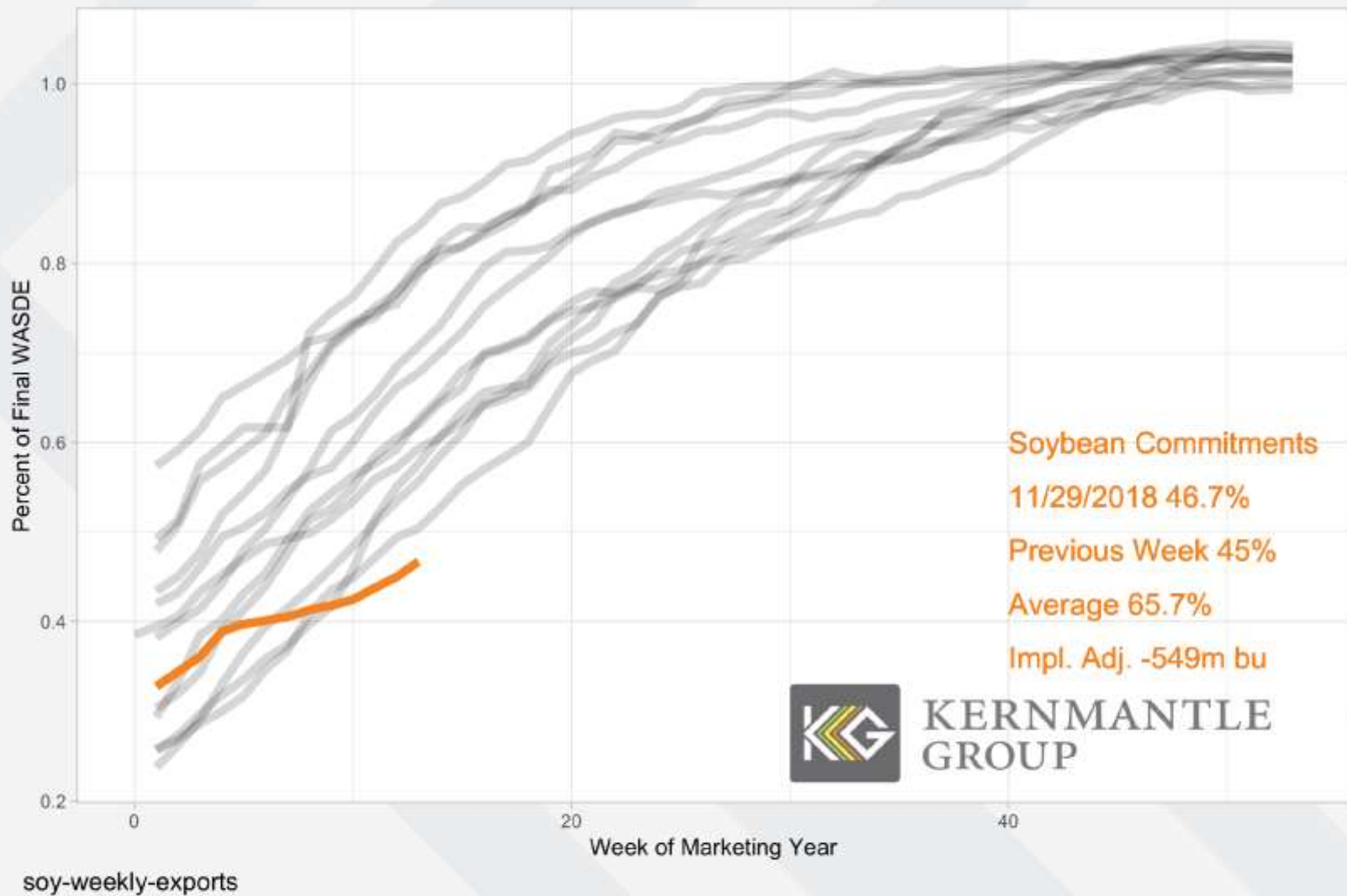
soybean-us-exports, Source: USDA PSD

Chinese Soybean Imports



soybean-ch-imports, Source: USDA PSD

US Soybean Exports



Soybean Market Summary

- Domestic demand:
 - Solid
- That's it...
- Tariffs are not lifted until President Xi or Xinhua announce it
 - Until then, be opportunistic.

The Long Term Outlook is Great...

How do you get there?

Get Your Marketing in Order

- Worry more about strategy, less about tactics
- Realign your marketing:
 - Weak balance sheets need less risk, not more.

So how to be a better marketer?

- With Economics...

Economic Truth #1: Futures markets are *really* efficient

- The only way to get meaningfully higher prices is to take more risk.
- There is simply no free lunch

So what to do with that?

- Reduce the risk of utter failure by spreading out crop sales:
 - Pre-plant
 - Pre-harvest
 - Post-harvest
- Each period you should have a set of price targets set, and a MINIMUM amount to market.

What does a marketing plan look like?

- A marketing plan is a set of written instructions **to protect you from yourself.**
- It has an ordered process:
 1. Calculate total equity, working capital per acre, cost of production per acre, and historical profitability.
 2. Use those to calculate quantity/profit targets
 3. Place those targets in time windows
 4. Consider how insurance interacts & update targets.
 5. STICK TO THE PLAN.

Economic Truth #2: In commodity production, the low cost producer always wins.

- The lowest cost producer earns a profit first and continues the longest.
- YOU CANNOT BE A LOW COST PRODUCER WITHOUT GOOD RECORDS.
 - Each 'economic unit' should have a cost report:
 - All land that you own can be one 'unit'
 - Each landlord's properties should be a 'unit'

Many other options:

- HarvestProfit has many really helpful management tools and courses.
- Nearly all accounting software can drive costs to the field or landlord level.
- Main requirements: time.

What should you be doing?

- Be financially conservative.
 - Stop buying stuff!
 - Equipment, trucks, etc.

Lets talk about deductions:



- If you have revenues of \$500,000
 - If you have expenses of \$300,000
 - If you have a tax rate of 50%...
-
- You pay \$100,000 in taxes.
 - Your after-tax income is \$100,000.

Lets talk about deductions:



- If you have revenues of \$500,000
- If you have expenses of \$300,000
 - And you increase your deductions with a \$50,000 pickup.
 - Expenses are now \$350,000.

with a tax rate of 50%...

- You pay only 75,000 in taxes! (saving \$25k!)
- But your after-tax income is \$75,000.

What else should you be doing?

- Be financially conservative.
 - Stop buying stuff!
 - Equipment, trucks, etc.
 - Consolidate suppliers
 - It's time to place survival ahead of 'relationships'
 - Build working capital
 - Paying taxes is better than accumulating toys.
- Work through rents with landlord
 - Move toward flex leases...
 - November 27th articles in most papers about farm bankruptcies.

Get your household finances in order.

- Fastest-growing (as %age) portion of income statement.
- This is a highly-variable income industry.
 - Both intra-annual (seasonally) and
 - Inter-annually (over years)
- Can your family finances handle this?
 - YNAB.com, an excellent app to implement Dave Ramsey

Radio Shack

AMERICA'S TECHNOLOGY STORE™

PRESIDENTS' BIRTHDAY SALE!

DON'T DELAY!

3-DAY SPECIALS ABOVE GOOD SATURDAY THRU MONDAY ONLY!



All-Weather Stereo
Cut 34% 1188
Realistic STEREO-MATE® AM/FM personal receiver shrugs off rain, water, and ice. Includes two speakers, two antennas, and a carrying case.



AM/FM Clock Radio
30% OFF 1388
Chromalite® 281 clock radio's compact size cuts right-sized clutter. Includes a carrying case.



In-Ear Stereo Phones
HALF PRICE! 788
Realistic® in-ear phones weigh just 0.6 ounces. With carry pouch, fits in your pocket.



Micro-Thin® Calculator
39% OFF 498
Radio Shack EC-412 is almost the size of a credit card. Solar powered, no batteries.

0% INTEREST!
NO PAYMENTS UNTIL MAY!
NO DOWN PAYMENT!

HURRY! OFFER ENDS TUESDAY FEBRUARY 19

COME IN AND TAKE ADVANTAGE OF THESE OTHER FANTASTIC VALUES!

INTRODUCTORY SPECIAL!

Save \$670
\$1599

TANDY® 1000 TL/3 Computer System

- 286-Based PC Compatible
- Color Monitor
- 20MB SmartDrive® Hard Drive
- Easy-to-Use 10-in-1 DeskMate® Software

BONUS PACKAGE

- Lotus Spreadsheet For DeskMate
- DeskMate G&A Works
- QuickWin
- 2-Button Mouse



Mobile Cellular Telephone
Save \$100
\$199
Look At It For Yourself... Reg. 299.95



Deluxe Portable CD Player
Save \$40
159.95
Look At It For Yourself... Reg. 199.95



Tiny Dual-Superhet Radar Detector
Save \$60
79.95
Reg. 139.95



Compact 10-Channel Desktop Scanner
Save \$30
99.95
Reg. 129.95



VHS Camcorder
Save \$100
\$799
Look At It For Yourself... Reg. 899.95



Mobile CB With Channel Controls on Mike
HALF PRICE! 49.95
Reg. 99.95



Our Easiest-to-Use Phone Answerer
Cut 17%
49.95
Reg. 59.95



20-Memory Speed-Dial Phone
Cut 33%
29.95
Reg. 44.95



Handheld Voice-Activated Cassette Tape Recorder
40% OFF
29.95
Reg. 49.95

Look for the Radio Shack Store or Dealer Nearest You

matt@kernmantlegroup.com

“The Art of Grain Merchandising”

www.HarvestProfit.com

@YourEconProf

Questions?

Matthew C. Roberts, PhD | www.kernmantlegroup.com | @YourEconProf