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Economic Megatrends: 2022 and Beyond

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The fall harvest season is winding down across the country. As I write this article, we are harvesting the last field of hay for square bales; they are a bit freeze-dried! The farm is nestled in the scenic Blue Ridge Mountains near the site of an airplane crash that took the life of World War II hero Audie Murphy. A beautiful monument has been erected in his honor. In honor of Veteran's Day, let's say thanks to all those who have served our country to secure the freedoms that we enjoy today.

A candid assessment of the economic megatrends would rate the overall environment as challenging, but optimistic for those who will step up their management game plan. Coming off two years of low costs, generous prices, and government stimulus checks, balance sheets and income statements in many segments of the agriculture industry are the strongest since the economic super cycle over one decade ago. However, there are gathering storm clouds that managers and agribusiness professionals must heed in their short and long run decision-making.

Inflation

The last seven months have seen inflation rise from its dormancy of the past decade. Fueled by accommodative worldwide central bank policies and generous government stimulus checks, which now comprise 14 percent of the \$85 trillion global economy, the "inflation genie" is now out of the bottle.

An inflationary environment will require extra scrutiny of various financial projections, cash flows, and cost of production. This period of inflation appears to be leaning more towards permanent than temporary, with the agriculture industry taking the brunt of the increases.

Energy

Closely watch the energy complex as global economics adjust from fossil fuel dependency to green energy. Disinvestment in fossil fuel infrastructure by energy companies along with



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supply chain and distribution issues will result in costs associated with energy becoming volatile and trending higher. It appears that governments are out ahead of their skis and the movement is playing into the hands of OPEC and Russia to control supply.

Consumer confidence

Another factor to examine in the inflation equation is consumer confidence in the U.S. and abroad. The stimulus check savings are available; however, in recent months, indexes of consumer confidence in the United States, China, Europe, and Japan would suggest that spenders are worried concerning political and economic outlooks.

Interest rates

Central banks around the globe will be in a juggling act trying to tame inflation while maintaining economic growth and averting a possible global recession. Thus, expect the Federal Reserve to raise interest rates 25 to 50 basis points as a “tap the brake” type of strategy in 2022.

Trade deals

Export markets are critical for many farmers and ranchers including producers of soybeans, wheat, milk, pork, beef, and, to some extent, corn. Marginal price changes, both positive and negative, can be associated with trade policies and the value of the dollar compared to other major currencies around the world.

The United States’ trade deal with China ends shortly. China, the second-largest economy in the world, has rebuilt their protein complex with more efficiency. Carefully watch weather reports out of South America and the entire Southern Hemisphere over the next few months. If there are abundant supplies, China will diversify their import strategies, resulting in commodity price adjustments. This is a result of China’s \$1 trillion investment in the Belt and Road Initiative over the past nine years in 68 countries.

China also applied to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which the U.S. generally ignored. This potential trade agreement, along with being a member of the Regional Comprehensive Economic Partnership (RCEP), would give China a strong trade stance in a growing area of the global economy. Trade competitiveness could be a long-term economic factor influencing profits and balance sheets of agriculture producers here in the U.S.



China's economy

China's economy is exhibiting some growing pains. Growth rates have declined from 7.9 percent to an expected rate between three and four percent. Real estate, which drives 29 percent of the Chinese economy, has seen a 20 percent decline as government policies stifle growth. The theme of common prosperity, where the rich give back to their mother country, is now in full bloom. Weather issues have hindered both agriculture and manufacturing. Lost investments in housing, which over 90 percent of Chinese adults have some form of investment in, is hurting consumer confidence.

President Xi is up for reelection for his third term. If unrest occurs in China due to the economy, expect military aggression toward Taiwan to increase nationalism. This could result in a whole new paradigm in global economics.

Labor

While labor shortages are the headlines of today, we may experience job shortages mid-decade around 2025 to 2030. Globally, large corporations are in high gear to replace labor with automation. For example, Walmart now has driverless trucks. Kroger has a robotic distribution center, which not only reduces labor needs, but increases efficiency. The goal for these firms is to reduce labor by 30 percent. To prepare for the future, schools need to stress training in these technical areas with a balance of emotional and human interface skills through a series of certificates rather than degrees. Examine your operations, simplify, and attempt to reduce labor as much as possible. Balance any changes with your access and dependency on technology.

Supply chains

A blunt assessment of the manufacturing supply chain and processors is that there is too much power in the hands of the few, which is being abused. This is why small niche markets will grow and why older farm equipment is at a premium. These companies, which have deep pockets and skillful legal and public relations staff, will be tough opponents to counter. Just-in-time inventory and global U.S. distribution networks will be in every manager's risk management plan.

Optimism

While the aforementioned writing points to a cup half-empty scenario, there is still optimism. Each year I conduct approximately 20 multi-day beginning farm and ranch conferences. These producers think outside the box, have a high business IQ, and are very entrepreneurial, which bodes well for the agriculture industry.



Niche markets are alive and well, as long as regulators and governments encourage, rather than stifle, growth. This can be a counter to the mass consolidation that is occurring in the agriculture industry. The rural renaissance is bringing a new mindset to rural America. If you have broadband internet services and rural lifestyle amenities, expect to get new neighbors. They will bring both positive and negative aspects and interaction.

The next era of high business IQ is now in full gear. Discipline and focus versus speculation and greed will be the direction to the finish line. Managing and focusing on the controllable variables and managing around the uncontrollable ones will be a high priority.

Economics, business, weather, and life in general are full of cycles. The cycles will be extreme and wreak havoc on the emotions of decision-makers. In our next set of articles, we will develop strategies that will place the odds in your favor for business success.

P.S.

The temperature on this November day is in the low 70s. One of the customers picking up hay said, "It is green and beautiful!" Now, that is what you like to hear from a satisfied customer.

