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Views from the Road: Looking to 2027

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This issue kicks off a new series of farm management newsletters featuring economic and financial discussions drawn from my travels to 32 states this year. Conversations with producers, lenders, agribusiness owners, and thought leaders from all facets of the industry sparked many ideas. Together, those conversations offered a broad perspective on the economic, business, consumer, and societal trends shaping decisions in business and life. Let us look at some of the most pressing issues facing agriculture today and the longer-term forces shaping its future.

Elevated, Stubborn Inflation

The days of low interest rates and modest inflation are in the rearview mirror. Whether you are making purchases for a business or household, or considering an investment, sticker shock has become the norm.

During the COVID era, a massive influx of government money in the United States and abroad led to too much money chasing too few goods. Supply chain disruptions compounded the problem, driving up costs for businesses and households alike. Prolonged wars, conflicts, and geopolitical volatility have added pressure to oil markets. Oil directly or indirectly influences 80 percent of farm and ranch expenses and 60 percent of expenses in the broader economy.

Heading into 2027, keep an eye on tail risks. Damage to infrastructure and repeated breakdowns in peace agreements could affect input costs and commodity prices long after the initial disruption. Also watch how many acres producers plant in the Southern Hemisphere, particularly in Brazil and Argentina. Higher fertilizer and chemical costs are squeezing their margins and could influence planting decisions in these two countries, which compete with U.S. producers in global commodity markets.

Closer to Home: California
Closer to home, watch California, currently the world's fifth-largest economy. The state imports over one million barrels of oil each day, and roughly 30 percent of that comes from the Middle East. By comparison, the United States as a whole imports only about 10 percent of its oil from that region. This makes California more dependent on maritime trade routes, so a disruption to shipping lanes would likely show up there first. That makes California a market to watch for clues about where fuel prices may be headed.

Just-in-Case Management Mindset
Since World War II, efficiency has driven changes in how businesses of all sizes operate. Today, the emphasis is shifting from just-in-time efficiency toward just-in-case management, an approach that helps businesses stay nimble and resilient when conditions change. What does that look like in practice?

Plan with Scenarios
First, as you plan for 2027, your spreadsheets will be among your best management tools. Run financial scenarios to see how changes in prices, costs, production levels, and interest rates could affect your bottom line. Those scenarios can give you guardrails for making objective decisions under pressure.

Manage Risk
Second, a solid marketing and risk management program is essential to support these planning assumptions. Put the program into practice and monitor it throughout the year.

Build Your Advisory Team
Third, a good advisory team, whether formal or informal, can provide valuable input and help you check your progress throughout the year. Draw on your farm management team, your lender, and your crop and livestock consultants. The value of these meetings comes from 360-degree feedback. Everyone needs to be willing to give and receive feedback and to be coachable.

Protect Your Liquidity
Fourth, financial liquidity is a priority in just-in-case management, whether for a business or a household. Work with your lender to establish and monitor lines of credit. If your business is profitable, build working capital by retaining some of those profits, and plan for the income taxes you will owe.

If Refinancing Is on the Table
Some of you may need to refinance operating debt into longer-term debt. Keep in mind that interest rates have doubled in recent years, affecting your cost of production and breakeven levels. If financial losses led to the refinancing, what corrective actions have you taken? If

losses continue, how long will it take to burn through your working capital? Finally, how will continued losses affect your overall equity position?

Interest Rates
The direction of interest rates will be a pivotal topic into 2027.

Short-Term Rates
The Federal Reserve, which influences the cost of short-term operating loans, will be caught between a rock and a hard place. Persistent inflation would make the case for raising rates. However, rising unemployment, slower economic growth, and possible political pressure could argue for lowering them. For planning purposes, the most likely move is about half a percentage point in either direction.

Long-Term Rates
The other issue is the direction of long-term interest rates. A lack of fiscal discipline in the U.S., combined with high levels of government debt here and abroad, could put upward pressure on rates. Competition for capital to fund the AI buildout and questions about AI's productivity gains could add to that pressure. Watch for yields climbing into the 5 to 6 percent range on 10-year Treasury notes and into the 7 to 8 percent range on 30-year Treasury bonds.

The Government Payment and Land Value Façade
Complacency is a danger creeping into American agriculture. It can take hold when producers assume that government payments will continue to inflate net farm income and cover up management mistakes.

Be proactive. For each of the past three years, determine what percentage of net farm income came from government payments. Of these payments, how much involved no production costs?

Next, examine what drove the change in net worth over those same three years. What percentage came from profits retained in the business, and what percentage came from increases in land and other asset values?

This analysis will help you determine what structural adjustments your business may need to make to remain competitive.

The Business Pulse
As I crisscross the country and take the pulse of American agriculture, a few observations come to mind:

- **Aim for base hits.** Outside the beef industry and some value-added sectors, steady, modest profitability is a reasonable goal for the game plan moving forward.

- **Own your numbers.** Sharing them with your lender is part of the job. Using them to make strategic and day-to-day decisions is what makes a difference.

- **Plan, then follow the plan.** Develop a credible operating plan as the foundation for your cash flow projections and enterprise budgets. Have the discipline to carry out the plan, monitor your progress, and hold yourself accountable. Make those practices a habit.

- **Invest in yourself. Care for your mind, body, and spirit.** Spend time with people who lift you up, and make room for activities that do the same. Turn off the technology once in a while, take a walk, and make time to read and reflect.

Back in the Classroom

Family circumstances gave me the opportunity to spend time this past month back in the classroom at Virginia Tech, working with students in an applied production management class. It has been a humbling and rewarding experience connecting with the next generation.

I must say, for the most part, the students in the College of Agriculture and Life Sciences have been positive and responsive, with a little encouragement, of course. And no, I did not pull a Bobby Knight on them!

What the NextGen Is Saying About Peer Pressure in the Classroom

- "Social Suicide": Students who ask questions in class risk being looked down on by their peers.
- "Try Harders": Students who speak up may be shunned or labeled "try harders," what we used to call "teacher's pets."
- A Professor's View: Class is much more fun when students are engaged and the discussion goes both ways.

The habits of asking questions, giving feedback, and being coachable start early, and the next generation will carry them into the decisions we have been discussing.