



Ron Dvergsten

2022 Conference and Seminar Take Aways



"I CAN MAKE IT IN ONE TRIP"

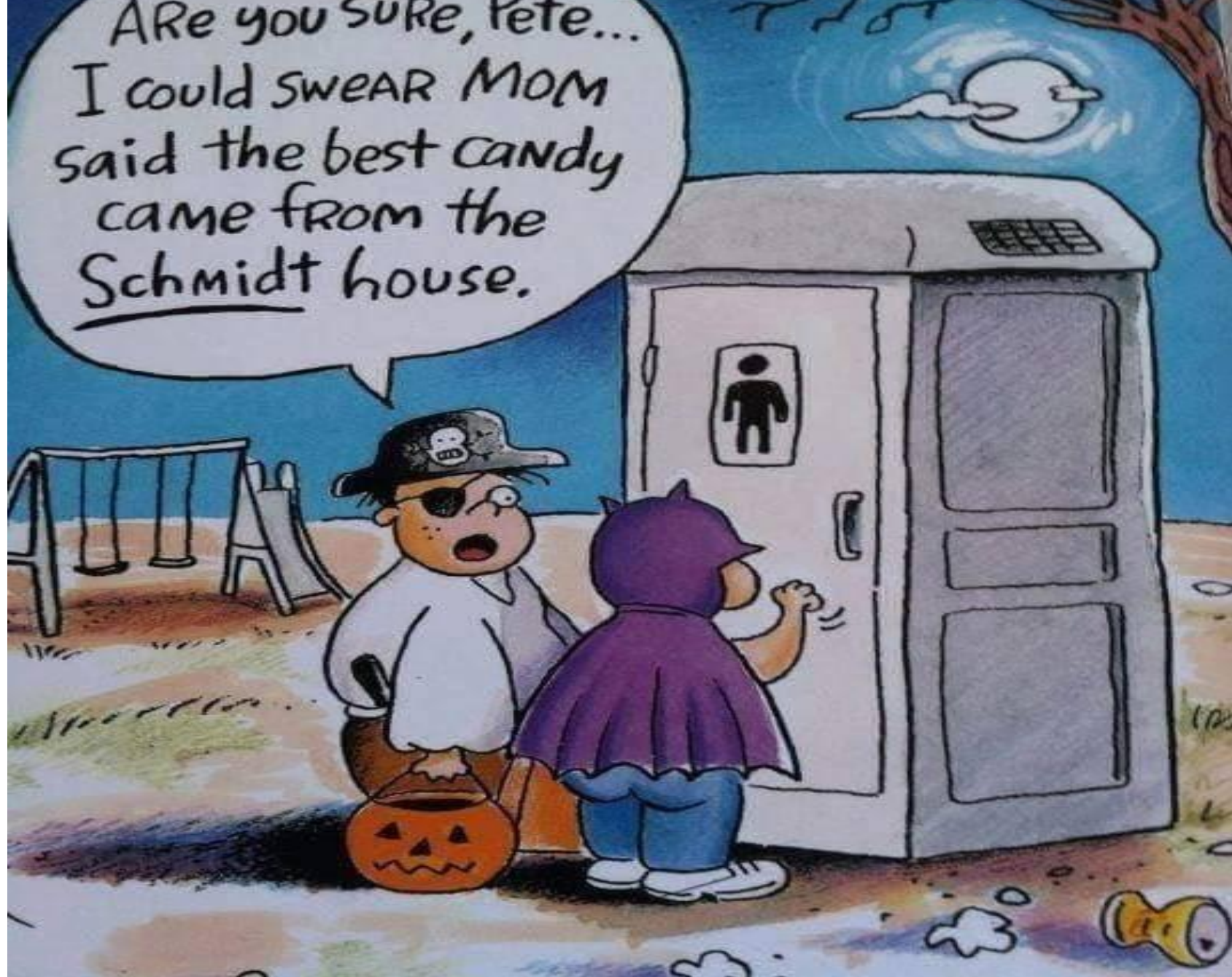
NORTHLAND



NORTHLAND



Beginner Ghosts



NORTHLAND

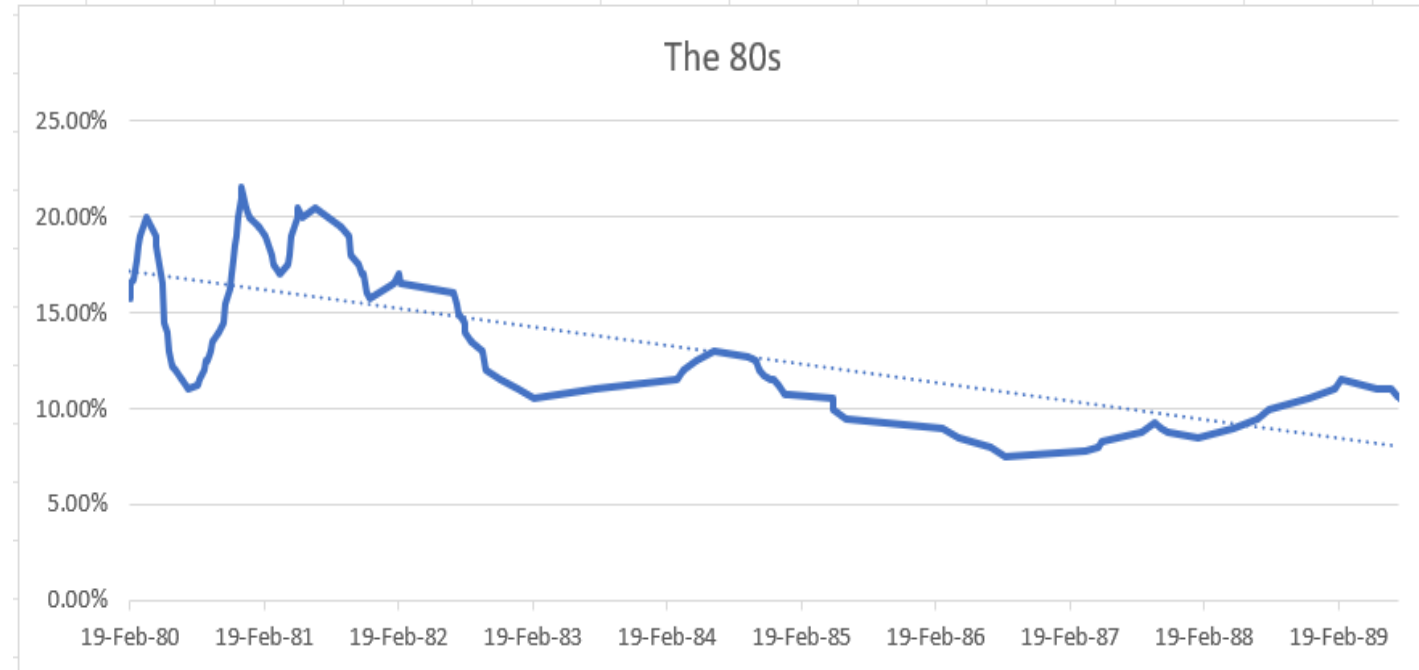
He Bought Anoth Tractor



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Prime rate in the 80s

- Rollercoaster from 1980-1983
- Peak of the decade in 1981 @ 21%
- Ended decade @ 10.5%
- Lowest point 1986 @ 7.5%
- Average 14.3%



What were the drivers of rates in the 80s?

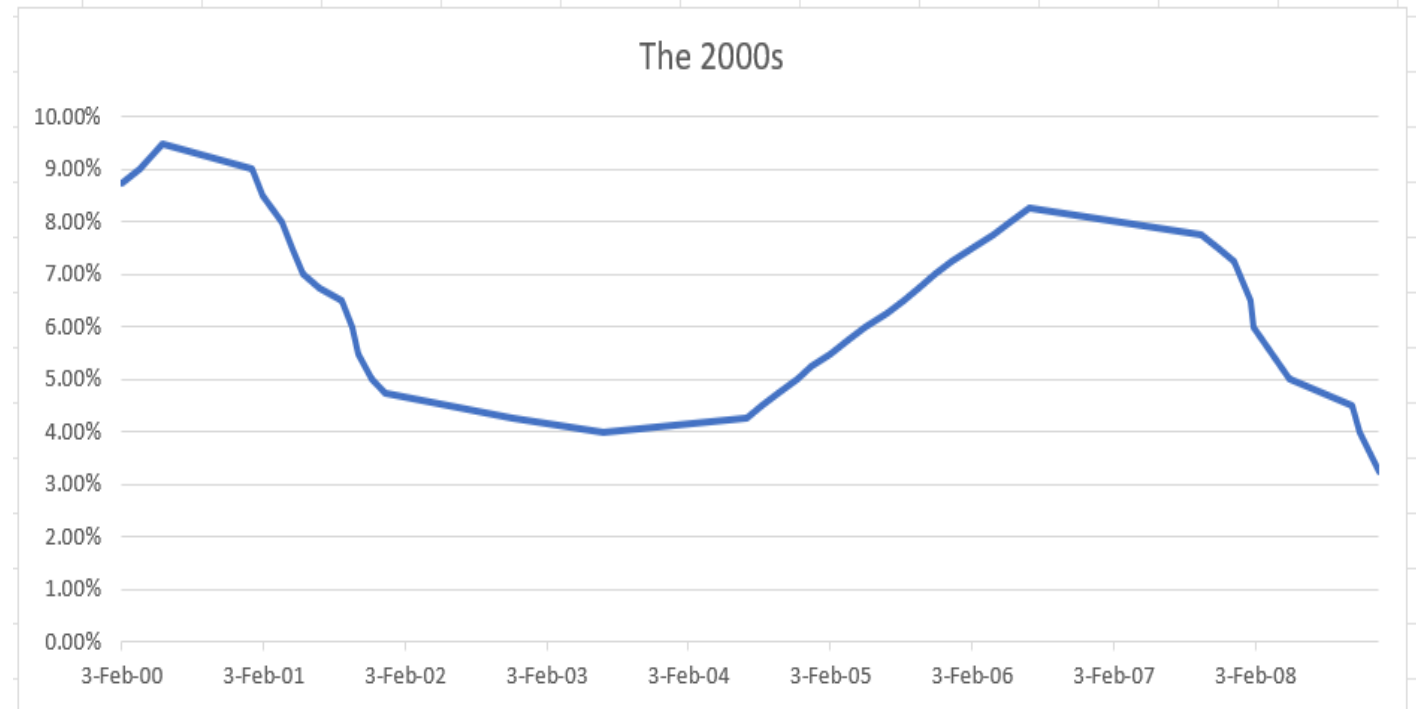
Did rates fix the problems?

- Driver – Inflation 13.91% in Jan 1980
- Fixed? – Inflation of 4.65% Dec 1989
- Driver – Unemployment 6.3% Jan 1980
- Fixed? – Unemployment 5.4% Dec 1989



Prime rate in the 2000s

- Steady decline from 00-02
- Peak of the decade in 2000 @ 9.5%
- Ended decade @ 3.25%
- Would remain @ 3.25% for 9 years
- Average 6.38%



What were the drivers of rates in the 2000s?

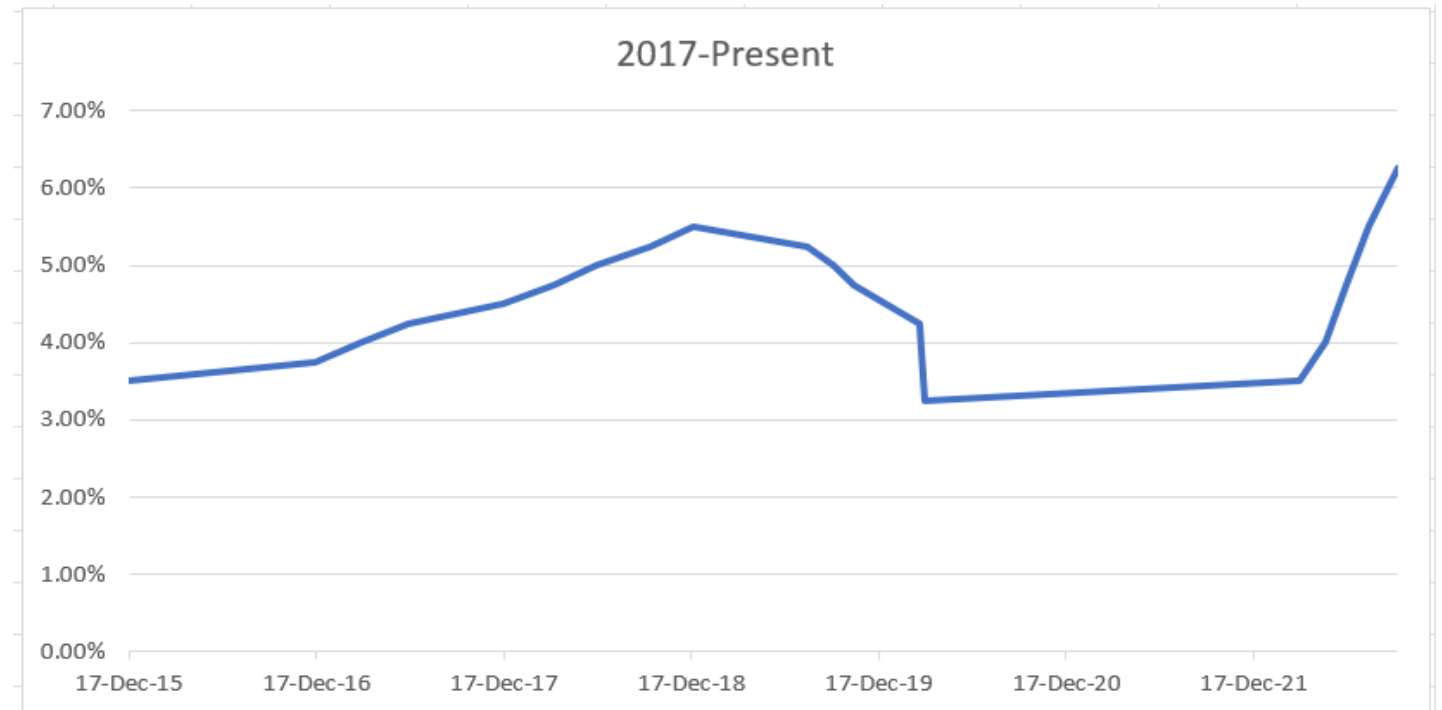
Did rates fix the problems?

- Driver – Coming off dot com bubble of late 90s
- Fixed? – Cooled down the stock market and after a dip, rates began to climb again in late 04
- Driver – Bubble of the 08 financial crisis forming
- Fixed? – Rates dropped to 3.25% and remained there until 2017



Prime rate 2017-Present

- Coming off 9 years of stagnation at 3.25%
- Peak is present day
- First increase during economic “boom”
- 2020 decrease - Covid
- 2021 Increased inflation after Covid
- Current average 4.58%



What are the current drivers of rates?

- Driver – Inflation
- Driver – Jobs market
- Driver – “Covid Bubble”



What was similar to past cycles?

- Driver – Inflation – 1980s and 2000s
- Driver – Jobs market – 1980s and 2000s
- Driver – “Covid Bubble” – Dot com & Housing Bubbles

Takeaways from the Comparisons

- Upward rate cycles are usually not just a year or 2, historically they take multiple years to resolve
- UNLESS there is a bubble or catastrophic event.
- Covid (event) killed the 2017-2019 climb and Covid (the bubble) is what lead into the current climb.
- What next? Looking at the past charts the steep trajectory upward of the current climb, leads many to believe a correction will occur more quickly.
- However; history tells us a quick fix is usually not a fun one (bubble or catastrophe)



What to Expect for 2023

- Bank Regulatory Pressure/Questions
 - Covid disaster payments
 - Interest expense line items
- Rate Shock Analysis
 - At what interest rate level is debt service coverage below standard
- More Rate Hikes
- Maybe....hopefully....possibly....some deflation
- Recession?



Typical Signs of a Pending Recession

- Increasing Unemployment
- The price of copper declines
- Home and Vehicle Purchases (large ticket items) decline
- GDP contraction occurs
- Consumer Spending declines sharply
- Inverted Yield Curve (3 month T-Bill yield higher than 10 year T-Bill)

Why Current Situation is Different from Previous Potential Recessions

- Yes- there has been 2 quarters of negative GDP growth
- Yes- new housing and vehicle sales have slowed recently
- Yes- a prolonged and pronounced yield curve inversion
- Yes- consumer sentiment is low
- Yes- the cost of copper has dropped considerably
- No- there is not the expected increase in unemployment
- No- consumer spending has not declined
- No- Balance sheets of most S&P companies remain strong
- No-GDP contraction for Q1 and Q2 of 2022 were small

Dr. Kohl Lender & Business Dashboard Watch List

<u>Indicator</u>	<u>Range</u>	<u>Light</u>
Copper Prices	\$3.75-\$5/pound	Red
Consumer Sentiment	50 to 72.8	Red
LEI/Diffusion Index	Downtrend	Yellow
Purchasing Managers	Low 50's	Yellow
Housing Starts	>1.5 Million	Green
Unemployment	3.6%- 7%	Green
Factory Utilization	75%-80%	Green
Federal Debt	approx. \$30 Trillion	Red
Oil Prices	\$65 to \$125/barrel	Yellow
Yield Curve	Flat to inverted	Red

Key Issues to Follow in 2023

- Global Economic Growth
 - U.S. Recession
 - European recession is almost guaranteed
 - China's growth rate projected at 2.8% by World Bank; down from 8.1% in 2021 and double digit for past many years
 - Brazilian and Argentine Economies are experiencing extreme inflation;
 - Economists are projecting 100% inflation for 2023, Argentina government budgeted for 60%; Brazil economy slightly better
- Increasing energy Prices (Crude, natural gas, electricity)
- Rising Interest Rates, both in U.S. and globally
- Increasing value of the dollar (has ranged from 105-114 this year)

Key Issues Continued

- U.S. Transportation Issues
 - Railroad Union Contract Talks: September 15, 2022 tentative agreement reached but must be ratified by union members
 - As of Nov. 8; two unions have voted the contract down and six union have approved with several others in approval process
 - Mississippi River Impacting Barge traffic and cost
 - Barges are currently being loaded to 40-50% capacity of normal
 - Barges rates 3 yr. Ave was around \$300 (\$.42/bu.) and Nov.1 was \$1925 (\$2.68/b
 - Secondary rail markets have increased rates
- World Conflicts
 - Ukraine-Russia War
 - China-Taiwan tensions
 - North Korea-Japan tensions- Missile testing

2022 Cropland Value by State

<u>State</u>	<u>Average Price per Acre</u>	<u>Percent Change from 2021</u>
• Iowa	\$9300	19.7%
• Minnesota	\$6200	17.6%
• North Dakota	\$2350	14.1%
• South Dakota	\$4030	18.9%
• Wisconsin	\$6000	13.6%
• California	\$15,410	11.2%
• US Average	\$5050	14.3%
• Largest % increase since 2012-13 when cropland increased 13.7%		

Land Values and Rent Expectations in 2023

- Land Values likely to continue to increase into 2023
 - Unlikely to see as big of an increase as last year, but upward pressure still exists
 - Lots of cash paid out in 2021 and 2022
 - Large increases in equipment costs may weigh on producers' thoughts

Land Rents increased 3.1% statewide in 2022 and are expected to increase into 2023 by a similar rate

Uncertainty about production costs and securing inputs in 2022 helped mute the increase in rents compared to increase in land sales
Increased interest rates will put upward pressure on rents

North Dakota Top 10 Ag Products in 2021

• Commodity	State Receipts	Share of State	Share of US
• Soybeans	\$1.943 Billion	22.7%	4.0%
• Wheat	\$1.767 Billion	20.7%	15.0%
• Corn	\$1.296 Billion	15.2%	1.8%
• Cattle&Calves	\$1.149 Billion	13.4%	1.6%
• Canola	\$689.1 Million	8.1%	86.0%
• Edible Beans	\$321.5 Million	3.8%	27.6%
• Sunflowers	\$282.6 Million	3.3%	44.8%
• Potatoes	\$241.7 Million	2.8%	6.6%
• Sugar Beets	\$178.4 Million	2.1%	15.8%
• Barley	\$123.2 Million	1.4%	18.1%

2022 Tax and Transition Update

- \$16,000 is the current annual gift tax exemption
 - A person can gift as many individuals each year as they desire without having it go against your lifetime exemption and no tax forms are required
 - Minnesota Gift tax has been repealed
- \$12.3 million is the current (federal) lifetime gift and estate exemption per person (Set to roll back to 5-6 million in 2026)
- Minnesota's Inheritance tax exemption level is much lower at \$3 million
- C Corp conversion to S Corp status
 - Takes 5 years
 - Helps reduce the double taxation of selling Real Estate held in a C Corp

Generalities of Successful Business/Farms

- Are good managers; have a strong Business IQ, have a positive attitude
- Consistently are above average in yields in their area
- Keep educated- informed – willing to make business adjustments from what they learn
- Realize the importance of having good business records that are accrual adjusted
- Knowing “Cost of Production” is a must
- Prepare detailed annual Cashflow Plan and Monitor throughout the year
- Understand Commodity Markets
- Own their business decisions- are accountable for outcomes- not a victim
- Quotes:
 - I am not a product of my circumstances. I am a product of my decisions.
 - I am not only using precision agriculture, I am doing decision agriculture.

Lenders Perspective of Successful Business/Farms

- Character of the owners very important: Honest-trustworthy, good community reputation
- Have experience in their production area- history of good production
- Quality of financial information provided; do they report all assets and liabilities on balance sheet
- They use borrowed funds as agreed to: no making major purchases without discussing with lender
- Have a marketing plan
- They utilize business profits or windfalls to enhance or grow the business
- Have a strong business advisory team: lender, FBM instructors, crop consultant, accountant, attorney, transition plan

Who's doing well?

- Isn't afraid to pay income taxes
- Wisdom combined with knowledge
- Modest family living/ off farm income/benefits
- Not having too many families taking a draw from the farm
- Have very adequate working capital
- Take recent years of profit to get ready for next downturn and/or take advantage of opportunities
- Equally proficient in production, financial and marketing

Lenders Perspective of Most at Risk Business/Farms

- Young producers that do not have much financial family support
- Established producers that expanded at the end of the super cycle and have high levels of debt
- High percentage of land being rented
- Family draws from the farm that exceed farm profitability
- High-cost producers: land, equipment, inputs
- Non-earning assets that have debt
- Below average marketing and management skill sets
 - **Hope** is not a marketing plan

Dr. Kohl Wisdom & Golden Rules & Financial IQ

Goal setting

Financial Liquidity & Cash “The Bridge”

Working Capital

Cashflow Projections/ Monitoring/ Sensitivity Analysis

Profitability/ Enterprise analysis

Attitude

Dr. Kohl Quote's and Comments

Cash is the Queen; **Equity** is your King; **Profit** is your kingdom

Cash and Equity are your bridge through down cycles
Invest in **productive assets** and that includes yourself

Ag Views Live: Top 10 Take Aways

- 1) Most producers are doing well, so be wary
- 2) Food shortages could lead to food nationalism and social unrest
- 3) Input shortages will have a big impact on 2023 cashflows
- 4) Rising interest and inflation rates will squeeze profitability
- 5) Higher fuel prices have led to consumers spending and traveling less
- 6) Signs of recession are looming
- 7) Labor shortages will likely lead to job shortages
- 8) Equipment shortages are likely to continue
- 9) Technology Advancement in Equipment will improve productivity
- 10) Maintain or improve your liquidity to preserve wealth and position yourself for opportunity

Ag Economy Barometer- Purdue University and CME Group

- 400 Midwest farms are surveyed each month regarding ag economic issues such as crop input prices, farmland values, commodity prices, availability of machinery, parts and other inputs.
- 53% of those surveyed are corn and soybean producers, 14% wheat producers, beef 19%, hogs 6%, dairy 5%, cotton 3%
- Last 2 years the indexed score has varied greatly:

		• Overall	Current	Future	
• May 2020	Score	101	74	110	Covid restrictions
• May 2021	Score	178	202	169	Increased Commodity Prices
• May 2022	Score	99	94	110	Concerns about high input costs
• Oct 2022	Score	102	101	102	High input costs and increasing interest

May survey indicated that 40% of those surveyed feel crop inputs will be 40% higher in 2022 compared to 2021

LLC and Liability Risk-Robert Moore- Ohio State Attorney-Research Specialist

- LLC's get promoted has being able to provide blanket liability protection to the owner/ owner's assets
- That is a misnomer. Liability insurance is a must for all businesses.
- Moore recommends 3-5 million in liability coverage especially tied to entities with trucks on the road.
 - Example: If you personally would be driving on behalf of your LLC entity and found at fault, the party not at fault not only would sue your LLC but yourself personally.

West Central Indiana Corn Profitability

- \$140 per acre Net Return average from 2007-2021
 - \$350 per acre Net Return in 2021
 - \$320 per acre Net Return projected for 2022
 - \$240 per acre Net Return in 2012
 - \$-25 per acre Net Return in 2015
-
- 2022 Corn Budgets show Breakeven Cost of Production Ranging from \$5.13 on the high producing land and \$6.13 on the low producing land with an average of \$5.60

Projected Break-Even Prices for 2022

Crop	5Yr Yield Ave.	Expense/Acre	Break-Even
Corn	170	\$821	\$4.83/bu
Soybean	39	\$429	\$11.00/bu
Wheat	63	\$550	\$8.73/bu
Sugarbeets	26.5	\$1416	\$53.43/T

RRV 5 Year Expense Averages for Corn

Expense	5yr Ave(16-20)	Adjustment	22 Budget
Seed	92	10%	101
Fertilizer	118	225%	265
Chemical	26	25%	32
Crop Ins.	20	15%	23
Fuel	24	33%	32
Repairs	50	33%	66
Land Rent	135	5%	142
Other Dir	35	15%	40
Overhead	105	15%	120
Total/Acre	605	36%	821

RRV 5 Year Expense Averages for Corn

Expense	5yr Ave(16-20)	Adjustment	22 Budget	23 Adjustment	23 Budget
Seed	92	10%	101	10	111
Fertilizer	118	225%	265	9	288
Chemical	26	25%	32	8	35
Crop Ins.	20	15%	23	8	25
Fuel	24	33%	32	8	35
Repairs	50	33%	66	8	71
Land Rent	135	5%	142	5	150
Other Dir	35	15%	40	8	43
Overhead	105	15%	120	8	130
Total/Acre	605	36%	821	8.16	888

Projected Break-Even Prices for 2023

Crop	2023 Projected Yield	Expense/Acre	Break-Even Price
Corn	175	\$838	\$5.07/bu
Soybean	40	\$473	\$11.83/bu
Wheat	65	\$624	\$9.60/bu
Sugarbeets	27	\$1512	\$56.00/T

Alex,

Will it work for you to schedule a tax planning and balance sheet updating meeting for 9 a.m. on Thursday December 1 at my Moorhead office?

Let me know if that works for you.

Ron

Carbon Credits for Farmers

- A good website to check out is:
 - [Indigoag.com/carbon/for farmers](https://indigoag.com/carbon/for-farmers)

HOW TO COOK A TURKEY

- Step 1. Buy a turkey
- Step 2. Have a glass of wine
- Step 3. Stuff turkey
- Step 4. Have a glass of wine
- Step 5. Put turkey in oven
- Step 6. Relax and have a glass of wine
- Step 7. Turk the bastey
- Step 8. Wine of glass another get
- Step 9. Hunt for meat thermometer
- Step 10. Glass yourself another pour of wine
- Step 11. Bake the wine for 4 hours
- Step 12. Take the oven out of the turkey
- Step 13. Tet the sable
- Step 14. Grab another wottle of bine
- Step 15. Turk the carvey!