

# A resilient agricultural lending community

*Dr. David Kohl is a keynote speaker at Moody's Analytics Commercial & Ag Lending Conference 2022. He shares his thoughts on the big topics for the ag industry.*



"It seems like we've had a decade of change in a couple of weeks," says Dr. Kohl. Inflation, interest rates, and margin are the top trends to tackle in the next few years. "We've not had to face anything like this in the past 30 years, and it's not going away."

As US fertilizer costs are expected to double this year, inflation will be on many producers' minds. Government support during the pandemic – in the US, as much as 50% of producers' income – is unsustainable, and producers need to manage without it.

The pandemic has also changed the workforce. Remote working is common, and staff turnover has accelerated. Managers need to meet new expectations or risk losing employees to competitors.

Dr. Kohl sees training and development as good ways to build employee loyalty. Most bankers are proficient in the "science" of lending, but also value the "art" – relationships and social skills. Networking at in-person conferences improves these skills.

## Big disruptors

Along with these trends, Dr. Kohl lists three big "disruptors" to the ag industry: deglobalization, the green transition, and changing consumer trends.

The pandemic accelerated a trend away from globalization evident since 2010. With the military conflict in Ukraine that started this year, the pandemic has shown a vulnerability in global supply chains, which is leading many countries to curb food exports.

While governments are deprioritizing fossil fuels, energy prices are rising. Energy is connected to 80% of farming spend, but the move to green energy and "green inflation" is also affecting the wider economy.

Meat and dairy production have become vulnerable as consumers demand more plant-based options. This is the fastest-growing trend among people aged 20–35 in China, and such changes could accelerate as meat and dairy imports become dearer.

## How to build resilience

The next few years will be challenging for ag lenders, which makes resilience all the more important. What does this look like in practice? Dr. Kohl sums up resilience as "getting comfortable with the uncomfortable" and outlines four building blocks: technology, education, benchmarking, and relationships.

Banks can build resilience with the right technology. CALC delegates can visit Moody's Analytics demo stations to get familiar with software that models how financial performance changes with input prices or interest rates.

Education is important because producers want to stay abreast of technology to gain a competitive edge. They appreciate education during marketing – but to educate, bankers need the latest industry knowledge.

Progressive lenders are benchmarking their customers to a database of producers. Metrics comparing performance with previous years form a powerful tool for building resilience, and the right database is crucial.

"We measure return on the asset; we need to measure return on relationship," says Dr. Kohl. Retaining staff and customers is essential to resilience. Conferences offer the best opportunities to network and build the skills for good relationships.

CALC 2022 will take place on September 26–28, 2022, at the CHI Health Center Omaha.

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