

Dairies must look beyond government help, economist says

By MATEUSZ PERKOWSKI

Capital Press

SALEM — Dairies need to sharpen their business skills because they can't count on income from the government anymore, according to economist Dave Kohl.

Federal support has helped the agricultural economy weather the turbulence of the past few years, but that time is ending, he said.

"Basically, the government put us on steroids. Now we're going to have to cut our teeth as we move forward," Kohl said last week at the Oregon Dairy Farmers Association's convention in Salem.

Federal cash represented about 72% of dairy farmers' net income in 2020, the year the coronavirus pandemic broke out, he said.

"There are still going to be some checks but they're not going to be as generous as in the past," Kohl said.

To thrive in spite of the uncertainty, dairies should focus on incremental improvements to their planning, goal-setting and record-keeping, he said.

"People who do well, do a lot of little things 5% better. A lot of the 5% is the boring stuff," Kohl said. "It's called sweating the small stuff."

A thorough understanding of a dairy's cost of production is key to financial health, but too few farmers heed that advice, he said.

"Less than half of ag businesses know their cost of production," Kohl said.

The upcoming decade is going to see a major generational transfer of capital — how that's managed will also determine whether businesses thrive, he said.

"If you don't do that properly, you know who wins? Uncle Sam and a bunch of high-priced lawyers," he said.

The challenges facing farms will likely mark the 2020s as "the decade of economic and financial divide," between those who adapt to the changes and those who don't, Kohl said.

"Volatility can be challenging but it can also be opportunistic," he said.

Oil prices will be worth watching: Current high levels are undermining consumer confidence, and 80% of farm inputs track those fluctuations, Kohl said.

"Our economy is very enmeshed with oil," he said.

The general economy can expect to face headwinds from the aging of the Baby Boomer generation, since many are likely to see declining health this decade, he said.

"Watch us get more conservative in our spending," Kohl said.

Labor expenses are a major consideration for farms and other businesses, which will have to invest in robotics, he said.

Until self-driving trucks become a reality, though, the U.S. is likely to continue enduring supply chain problems due to the trucker shortage, Kohl said.

Dairies will need to compete with milk alternatives and the farm industry should generally expect impacts from a greater focus on environmental, social



MATEUSZ PERKOWSKI/CAPITAL PRESS

Economist Dave Kohl speaks at the Oregon Dairy Farmers Association's convention in Salem.

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and governance values, he said.

Activist investors are leading the charge to improve company scorecards on these criteria, which is bound to affect farmers and cause controversy, he said.

Kohl said his creamery business was evaluated on these "ESG" values by a major buyer.

Its reliance on recyclable glass and minority and female employees helped the creamery pass the test, he said. "You checked these boxes, you can still sell to us."

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