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CAST Commentary 2020-3
June 2020
Material excerpted from original CAST document

Economic Impacts of COVID-19 on Food and Agricultural Markets

The challenge is to restore as much economic activity as possible while maintaining some measure of control and mitigation of the novel coronavirus. Federal economic policy will have to shift from sending families money to maintain social distancing to helping businesses maintain employment.

The World Trade Organization gives three scenarios for recovery: V-shaped, U-shaped, and L-shaped. Relative to the pre-pandemic baseline, real global GDP is forecast to decline in 2020 by -4.8%, 9.2%, and -11.1%, respectively. Forecast rates of recovery in 2021 are 4.2%, 8.1%, and 2.8%, respectively.

COVID-19 created an environment where there was a significant supply chain shift of food consumption. This demand shock and supply inflexibility created stress in the supply chain. Manufacturers adjusted variety to enable higher demand items to be produced in larger volumes. Hoarding behavior can result if large groups of consumers face similar information or face similar incentives. Consumers may have reasonability anticipated reduced mobility, leading consumers to "move forward" buying behavior and fill pantries. Moreover, if consumers anticipate higher prices or limited availability in the future, they have an incentive to buy more today.

Arguably, the most dramatic effect of the COVID-19 pandemic has been the near-complete loss of an entire distribution channel for food producers, and shippers tend to commit to either the food service or the retail channel. COVID-19 has seemingly impacted every stage in the meat supply chain. Initial shocks mainly corresponded with stay-at-home-order-induced changes in meat product flow, including large declines in food service activity and swift swings toward grocery stores as the predominant venue for meat and poultry purchases. COVID-19 has already created major disruptions in the forestry and wood products sector. COVID-19-related problems have originated from aggregate demand collapses in the manufacturing sector (wood using mills).

COVID-19 has led consumers to become increasingly interested in producing their own food, leading to stock-outs of backyard chickens and garden supplies. As food consumption shifted to home-cooked meals, some local food producers also experienced a boom in sales.

At least four factors could affect consumer food waste during the pandemic: (1) stockpiling behavior, (2) management of food stocks, (3) negative income shocks, and (4) rising food prices. Demand from large institutional buyers has fallen; producers have dumped 3.7 million gallons of milk and destroyed more than 107,000 eggs daily during the pandemic. The COVID-19 pandemic has drawn attention to the problem of food insecurity in the United States. Feeding America projects that there will be more than 54 million food insecure Americans in 2020. This is approximately 17 million higher than in 2018. For children, the food insecurity rates are projected to increase to 18 million, up nearly 7 million from 2018.

The impacts of the massive demand shock associated with the COVID-19 pandemic on crop markets looks to continue over the next couple of years. Implications for major field crops tend toward growing global ending stock levels, lower prices, and tighter margins. FAPRI estimates a decrease of $4.72, $2.05, $0.40, $0.61, and $4.08 billion in receipts in 2020 for the crop, soybean, wheat, cotton, and other crop sectors, respectively. Receipts are expected to fall by $9.57, $2.24, $0.05, $3.97, and $0.40 billion for the cattle, hog, poultry, milk, and other livestock sectors, respectively. Farm bankruptcies could spike over the next year or two due to a relatively weak liquidity position for many farm operations.

Agricultural activities expose workers to increased risk of contracting COVID-19 and spreading it to others. Layoffs in the service sectors and high unemployment rates may increase the local farm labor supply. However, workers do not generally return to the farm sector once they find jobs in the non-farm sector.

COVID-19 rates in rural communities are smaller than those in their urban counterparts. However, rural hotspots have emerged in communities with prisons, nursing homes, meat packing plants, persistently poor African-American communities, and tribal nations.

The pandemic has demonstrated the crucial importance of the agri-food supply chain and identified specific challenges facing agri-food supply chains that require better understanding and research. There is a need to reassess the regulation of new technologies in the United States and globally.

As a result of the COVID-19 pandemic, decision makers are currently operating in an exceptionally uncertain environment. The agricultural and applied economics profession exists to render conceptually sound, data-driven, actionable intelligence from a confusing swirl of information.

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