



## AGRICULTURAL FINANCE

# Life After COVID-19

## Agricultural Impacts

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Sustained changes in behavior as a result of COVID-19 could impact food value chain configurations, where and what we eat, how we produce food, and the cost of farm financing. COVID-19 has highlighted the “essential” nature of the food value chain from farm input supplier to grocery retail worker. The additional attention might cause consumers to demand a shorter value chain and a closer relationship with their farmer. If consumers choose to avoid dining out, diets could become healthier and fuller of fruits

and vegetables. Farmers and food processors may accelerate automation to reduce human exposure and find low interest rates to finance farmland and equipment.

MetLife Investment Management (MIM) recently released an [analysis](#) of how COVID-19 may impact the broader economy for years to come. MIM Agriculture (MAG) recognizes that the virus will also have long-term implications for the farm economy.

## Supply Chain: Consolidation May be on the Horizon

Despite nearly all food purchases shifting to grocery and online purchase, it should be noted that the food supply chain emerged resilient with brief shortages and interruptions for U.S. consumers. Still, the continuing impact of COVID-19 on daily life and how consumers purchase food will likely force a shift in the supply chain.

One potential impact may be further growth in local food movements, which have been building momentum since at least the 1970s. There is no widely accepted definition of “local”, but it is generally defined by the number of miles between the producer and the consumer or retail outlet within the same state boundary. While COVID-19 could encourage more local food consumption, it remains relatively impractical by the conventional definition. It would be particularly hard for any U.S. resident outside of Florida, California, and Texas to consume “local” citrus. Local production is also generally more expensive for the consumer, which may be particularly cost-prohibitive for some in a recessionary environment.

Rather, it is more likely the case that the movement towards “local” is less about geographic proximity of producer and consumer, and more driven towards minimizing the number of supply chain steps between the two. Might we consider an Indiana family buying a Community Sponsored Agriculture (CSA) box directly from a Florida grower for winter vegetables “local”? When the same Indiana family purchases ground hamburger at a grocery store, is it considered local if the calf was initially born in Indiana? Is the beef still “local” if the calf snaked across the Midwest as part of finishing and slaughter?

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A version of “local” consumption that draws farmer and consumer closer together appears more likely given the uncertainty of restaurant and dining-out demand. This uncertainty could encourage a supply chain shift towards food co-ops and distributors who supply both grocery chains and restaurants. One potential downside of prioritizing U.S. consumers would be reduced higher-value exports for U.S. agriculture. However, export demand could likely be integrated into this new supply chain structure in our view.

## Living Online: How Increasing At-Home Dining Could Impact Food Demand

During the Great Financial Crisis (GFC), consumers spent less on food away from home and largely substituted that with grocery store purchases. This pullback in food purchases away from home during current stay-at-home orders has been an order of magnitude larger than during the GFC. Food purchases away from home rebounded following the GFC but could recover more slowly this time around as consumers may initially be cautious to fill restaurants. This extended period of people primarily consuming food at home will likely shift purchasing and consumption patterns in our view.

The USDA concludes that people tend to eat healthier diets when eating at home as opposed to dining out.<sup>1</sup> Therefore, there may be increased consumption of typical items in home-prepared meals (fresh fruits, vegetables, and chicken) and softening demand for products generally consumed at restaurants like red meat and bacon. These items experienced the largest wholesale price drops at the onset of the stay-at-home orders.

However, healthier options are not the only food benefitting from more at-home dining. Several consumer staples food companies have seen their stock prices jump since the virus as consumers shift some spending normally reserved for dining out into packaged goods.<sup>2</sup> Before the stay-at-home orders, these companies struggled to follow consumer preferences moving towards fresher foods and away from products like cereal, canned soup, and snacks. During stay-at-home orders, these food companies have capitalized on the shift to eating at home as

some consumers replace a take-out pizza for a frozen one. For consumers venturing back into packaged foods, some believe they could be pleasantly surprised by the improved offerings.<sup>3</sup> A sustained recession and improved offerings could lead to longer-term sales support for packaged food companies.

A potential headwind for these companies could be the increasing use of grocery delivery services. Online orders currently account for approximately 10-15% percent of total grocery sales, up from 3-5% prior to the virus.<sup>4</sup> It is also unclear how consumers spend money on groceries online versus in-person. In industries that have moved more significantly to online retail such as clothing, electronics, and entertainment, consumers tend to purchase less shopping online compared to in-person.<sup>5</sup> Reduced spending in grocery may impact the packaged food space, as many people impulsively buy chips, not celery.



### Working Online: A Move to Mechanization

From a supply perspective, working from home and social distancing restrictions may further encourage mechanization in the agricultural sector. Much energy has been exerted to digitize agriculture, principally in row crop production. Precision agriculture and technology have helped improve decision making and automate significant portions of production. The actual planting, growing, and harvesting of food cannot be digitized nor completely remote. Row crop production, however,

has been significantly mechanized while some portions of the agriculture sector remain highly labor intensive such as fruit production and livestock processing.

Some food processing plants have temporarily closed in the wake of outbreaks among their workers.<sup>6</sup> These firms have grappled with balancing the necessity of food production with adjusting to maintain worker safety and health. It may be the case these plants will now be incentivized to further accelerate the efforts to automate portions of their production to reduce human interaction and comply with social distancing measures.

### Interest Rates: Impact of Lower Rates for Longer

A period of sustained low interest rates in the recent past and into the future will provide support for agricultural land values. The value of land as an inflation hedge has been muted in periods of sustained low inflation. If low interest and inflation continue for the near term, the evidence suggests it is unlikely land values will move dramatically in either direction. This current period of historically low interest rates also offers producers more affordable long-term financing options. This should help producers navigate this sustained period of low commodity prices.

### Final Considerations

The pandemic has emphasized the essential nature of agriculture and the food value chain. It has also exposed weaknesses that arise from a highly concentrated industry that has aggressively eliminated redundancies to squeeze the final pennies out of the cost of food. There will likely be consumer driven changes in the food value chain that arise from how and where we consume food. There might also be government driven changes if ensuring a safe and abundant food supply moves up the policy priority list. While there will be changes after this pandemic ends, history suggests agriculture and food value chains will continue to lead with resilience and innovation.



## Endnotes

<sup>1</sup> USDA Economic Research Service, [America's Eating Habits: Food Away From Home](#), September 2018

<sup>2</sup> The New York Times, ['I Just Need the Comfort': Processed Foods Make a Pandemic Comeback](#), April 7, 2020

<sup>3</sup> The Wall Street Journal, [Companies' Next Coronavirus Challenge: Getting Cash-Strapped Shoppers to Spend](#), May 13, 2020

<sup>4</sup> CNBC, [As coronavirus pandemic pushes more grocery shoppers online, stores struggle to keep up with demand](#), May 1, 2020

<sup>5</sup> First Insight, [The State of Consumer Spending: In-Store Impulse Shopping Stands The Test of Time](#), March 2019

<sup>6</sup> The Wall Street Journal, [Meat Companies Want to Reopen, but Officials Fear New Wave of Coronavirus Infections](#), April 30, 2020

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