COVID-19 Economic Developments and U.S. Agriculture

Nate Kauffman – Omaha Branch Executive

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Outlook Themes

• A sharp economic pullback tied to COVID-19 began in late February, with varying industry-level and regional effects.
• Recent data show a sharp increase in unemployment both in the nation, and regionally.
• Actions undertaken by the Federal Reserve are intended to ensure financial markets continue to function smoothly.
• While some industries were affected very directly, agriculture likely will also face additional pressure in the coming months.
The number of COVID-19 cases accelerated in March, but the increase has slowed recently.

Sources: The COVID Tracking Project, Johns Hopkins University.
The economic shock has been severe, but there are key differences when compared to the last recession.

**Commercial Banks:**
Risk-Based Capital to Risk-Weighted Assets

**Personal Savings**
% of Disposable Income

**Housing Inventory**
Months of Supply

Sources: FDIC, BEA, National Assoc. of Realtors & Haver Analytics.
Prior to the crisis, the U.S. and regional economy appeared to be on solid footing.

Sources: BLS, Department of Labor, Haver Analytics.
Market turmoil began to accelerate in late February as a “global shutdown” took hold.

Sources: Yahoo Finance, TSA, Open Table.
As March progressed, scores of U.S. businesses began to announce layoffs.

Sources: Department of Labor, BLS, Haver Analytics.

Note: Calculations based on data from BLS.
Alongside the sharp economic contraction, ag and energy prices have dropped.

Commodity Prices

Source: barchart.com
Notably, ag had been in the midst of a prolonged downturn before COVID-19.

U.S. Net Farm Income

Billion, 2020 $

Net Farm Income
Direct Government Payments

KC Fed District Ag Credit Conditions

Diffusion Index

Farm Income
Farm Loan Repayment Rates

*April 13th University of Missouri FAPRI Estimate. All others USDA.
Sources: USDA, Federal Reserve Bank of Kansas City.
At the beginning of 2020, financial pressure in ag remained, but farmland values have provided support.

U.S. Farm Sector Finances

Farmland Values

Sources: USDA, Federal Reserve Bank of Kansas City.

* 2020 Forecast
Looking ahead, both demand and supply factors are likely to weigh on ag commodity prices.

**U.S. Ethanol Production & Ag Exports**

- **y/y % chg**
- **y/y % chg, sa**

- Ethanol Production (Left)
- Ag Exports (Right)

**U.S. Corn & Soybean Production**

- Billion bu

- Corn (Left)
- Soybeans (Right)

Sources: EIA, USDA.
There are also significant risks in the cattle market and supply chain disruptions.

**Beef & Cattle Prices**

Index, (Jan. 2019 = 100)

- Boxed Beef Cutout Price
- Live Cattle Cash Price

**Retail & Farm Milk Prices**

Index, (Jan. 2019 = 100)

- Retail - All Conventional Milk
- Farm Price

Sources: USDA, WSJ, Haver Analytics.
The severity of the economic contraction will depend heavily on the virus, and the associated response.

U.S. GDP Growth and 2020 Forecasts

Sources: BEA, Wolters Kluwer, Haver Analytics
A number of programs have been implemented in response to COVID-19.

**Monetary Policy Actions**
- March 3: emergency rate cut
- March 15: Fed Funds rate cut to zero, enhances currency swap lines, eliminates reserve requirements
- March 17: commercial paper credit facility and primary dealer credit facility created
- March 18: money market mutual fund liquidity facility created
- March 23: asset purchases, primary market and secondary market corporate credit facilities, term asset-backed securities loan facility
- April 6: small business lending facility via the PPP
- April 9: PPP liquidity facility, main street lending program, and municipal lending facility

**Fiscal Policy (CARES Act Provisions)**
- Cash payments - $1,200 to individuals and $500 per child. (Phase outs apply.)
- Unemployment payments increased by $600 per week
- Paycheck Protection Program (PPP) for businesses with 500 or fewer employees – offered through SBA
- Assistance to airlines
- Public health provisions
- Aid to state and local governments

Sources: Board of Governors, NPR.
As a result of Fed actions, the balance sheet has begun to grow again.

Federal Reserve Balance Sheet

Current Balance Sheet Allocations

Source: Federal Reserve Bank of St. Louis.
Concluding Thoughts

• Much of the near-term economic outlook is dependent on the trajectory of COVID-19.
• The economic shock is likely to have some persistence, but uncertainty about timing is extremely high.
• No economic sector has been unaffected, but some more than others.
• Agriculture had been in a prolonged downturn prior to the crisis. The effects of COVID-19 are likely to pressure further, with key areas of risk:
  • Ethanol
  • Livestock Industry
Questions?

Nate Kauffman  
Omaha Branch Executive 
Federal Reserve Bank of Kansas City – Omaha Branch  
Email: Nathan.Kauffman@kc.frb.org 
Twitter: @N_Kauffman  
Website: http://www.kansascityfed.org/omaha/