Impacts To The Agricultural Markets As a Result Of COVID-19

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Christa Hartsook 00:15
Hello, and welcome to the small farms podcast, a production of the small farms program at Iowa State University Extension and Outreach. Our podcast covers the opportunities and challenges associated with rural life. In this episode, I interviewed Dr. Chad Hart, associate professor of economics at Iowa State University, and talk about impacts to the agricultural markets as a result of COVID 19 outbreak. I'm Christa Hartsook, small farms program coordinator. And we hope you enjoy the show. Chad, welcome. Thanks for being on.

Dr. Chad Hart 00:47
It's my pleasure to be with you today.

Christa Hartsook 00:49
So Chad, impacts from the virus are obviously being felt throughout the entire ag industry. What broad effects are you seeing as a result of COVID-19

Dr. Chad Hart 00:59
Ohh, there are many biggest one I think most farmers face right off the bat, or the pricing impact. And what we've seen are dramatic drops in prices, whether you're doing crops or livestock, whether you're doing let's call them conventional crops or specialty crops. The idea is we have seen that anywhere from say a 10 to a 50%, pullback in prices over the last couple of months. So farmers definitely one recognize revenues aren't going to be nearly as strong as they were over the past few years. We're also seeing increased costs, it's just harder to do business in the COVID-19 environment. And so they're feeling squeezed on both ends as we look here. We've also got production issues within ag right now. You know, I think one of the
biggest things we're staring at and lots of folks are is what's happening, for example, with the meat industry, as we look at COVID-19 not only restricting sort of how we have access to foods, but how we process those foods and move those foods from the farmer to the process and to the end consumer.

Christa Hartsook 02:09
Chad, you recently co-authored a study on the impacts of COVID-19 on corn, soybean, ethanol, pork and beef sectors, kind of those major commodities. Can you talk to us a little bit about potential losses that you saw for each sector?

02:23
Sure. Now, we did this study, it would have been two, three weeks ago. The idea is that we estimated at that time that the losses and projected losses to Iowa's major ag industries would be close to $6 billion. Given what COVID-19 had done at that time, arguably, in the events since then, you can probably add to that cost. And like say it's a combination of the price loss, some production cuts, there. The biggest hits, that we saw were in the pork and ethanol industries. Those continue to be the two that if you will, that are having the strongest problems with COVID-19 right now. And again, it's slightly different reasons why, on the pork side, it's the processing plants and their capacity to run with COVID-19 in place here. With ethanol, it's more just a straight demand problem. In that, you know, with COVID-19, and this need this, you know, physically distance ourselves. We saw travel fall dramatically. In fact, you know, I think, what was it I saw one department of energy study that said basically, travel got reset back 50 years, we were traveling like it was the 1960s again, which meant a lot less miles being driven fuel usage. And that has really hammered not only the ethanol market, but the biodiesel market and the conventional fuels market. So the oil market, why did oil prices drop? So, you know, the negative for a while, it's because of the demand problems we're having right now.

Christa Hartsook 04:02
Chad, are we going to see this turn to potential closures for ethanol plants? You know, long term? How's this going to affect our industry here?

04:11
Okay, so we've already seen it short term, we've got at least 10 ethanol plants across the state. And we've got 42 of them now that have closed for sure. The vast majority of the ones that are still running aren't running at full capacity. In fact, when looking at the weekly data, ethanol production nationwide, it's about half what it was four weeks ago. So you can figure the industry right now is running at 50% capacity. Some of those plant closures will likely be permanent, just because these tend to be your older plants less efficient plants. And so they were probably on the chopping block even before COVID-19 hit. We'll also likely see some consolidation within the industry in that some of these plants may reopen. They're going to have a new owner when they do.
Sure, Chad, it's springtime, you know, we're seeing a lot of tractors running in the field, what kind of concerns do farmers have out there putting this corn crop in right now knowing they may be facing the loss of an ethanol market?

It's both good news and bad news for them. I describe it as farming is therapeutic, especially planting. And so yeah, one of the best things that, you know, farmers needed at this point was that good stretch of weather we had, especially last week, where we did get a tremendous amount of crop planted. That's good for the individual farmer. But it's not good news for the market in the industry. Just because we are suffering from this problem and have been for the past several years, we have been able to produce more than our markets really needed. And so you get good planting we plant a lot means that the potential is there for us to get over produce for another year. And so that's another reason why we continue to see the market sort of work their way down. Back, the numbers that came out on Monday basically showed that here in the state of Iowa, we're 80% done with corn planting every set first week in May. And we're almost done. When you look at soybeans, we are well ahead of basically any recorded pace in terms of our soybean planting. So it's been a great planting year, which is problematic when you have low prices.

Yes, yes, agree. Chad, in addition to you know, the production of ethanol as the fuel itself, we got a lot of livestock farmers out there that are utilizing those distiller greens in their rations too, I'm assuming we're seeing a lot of shift there in building those rations.

Yeah, we've definitely watched it, it's because of a few things you mentioned with ethanol going down. That has certainly curtailed distillers grains production. So we watched our livestock industry change their ration to account for the lack of a key ingredient. But then we've also seen the livestock industry adjust the ration. to slow the animals down. Given the problems that we're having at the packing plants. Now, we're looking to put our animals on what I'll call like maintenance diet, as opposed to a growth diet, we want to slow their weight gaining process down that way, we can try to lessen the burden of how many animals need to move through the processing plant at a given time. And so there has been a tremendous reworking of if you will animal nutrition over the course of the past month to match what sort of COVID-19 is doing to us not only in terms of the processing plants and moving the animals through, but in slowing the entire animal production line down to match what we can process.

Sure, sure. If we look at that livestock side, then Chad plant closures are obviously, you know, affecting producers ability to deliver those animals. We've got a lot of supply sitting out there
ready to go right now. What does that look like?

08:15
Well, what you’re seeing happening right now is the big plants are handling as many animals as they possibly can we have seen a shift, not only from the livestock producers, but also from some consumers who have reached out directly to farmers and ranchers saying, Hey, I know you've got some animals, I know you can't get them processed. Can I buy some from you. And so we've seen a surge in work at our let's call them small mom and pop processing plants. This is something near and dear to my heart. That's what I grew up in. My parents ran a processing plant in southwest Missouri. And so, you know, I know what that sort of business can be like. But I also know that given the sheer volumes of animals we're talking about here, there’s no way that all of our small locker plants can handle the surge of animals that are facing

Christa Hartsook 09:10
Yeah, we don't have the capacity.

Dr. Chad Hart 09:12
No, in fact, I've talked to a few folks who have been working with, you know, local locker plants in their area. And I've heard waiting times anywhere from the earliest I've heard was August. I've heard a few folks that are booked up through the end of the year already. And so you've seen the animals already tried to move that way. You're seeing efforts like here in the state of Iowa with the pass the pork initiative, of trying to donate some of those animals to process them and get them into the food banks. Again, that will handle a small number of them but just won't handle the surge of what we're seeing here. And so that's why you're seeing the industry look at like say how do you slow these animals down? And we have so been some limited removal of animals that just can't be processed.

Christa Hartsook 10:06
And I've also seen some reports and some concerns out there that maybe some of these higher prices in the grocery store are not indicative of what farmers are seeing, you know, for their prices, whether or not there has been some retailers and suppliers kind of taking advantage of the situation. Anything we'll speculate on that.

Dr. Chad Hart 10:24
Everybody wants to blame somebody for higher prices. And in a lot of cases, no, you can go back to it's a supply and demand issue. In with the, especially in the meat market, I want, I want to point out that what we're seeing right now, doesn't seem fair. But it is likely accurate. As far as balancing out the supply and demand. What we've got right now happening is, yeah, the press prices for farmers, for our animals and for our crops. But what we're seeing are higher prices, starting to appear at the grocery store or limits in terms of the amount of product that
we can get. What's happening here is there's this pinch point in the middle the processing plants is whether it's, you know, canning and processing on the crop side, or whether it's the meat harvesting on the Meat and Livestock side, you've got to think of those as sort of two separate markets, there's the market to get the animals to the processing plant. And then there's the market that goes from the processing plant to the retailer, or to the grocery store. Well, what we've got right now is an oversupply in the farmer market. Because we've got more animals than we've got processing capacity right now. So if you will, too much supply, yep, overwhelming demand drives down the price to the farmer. Now looking at the other side, we've got this limited processing capacity. So we can't create a lot of supply coming out of the processing plants. But we've got very strong demand at the retail level that drives that retail price up. And so you can see anytime where you've got this pinch point happening at the processing plant, you get this breakdown where farmer prices fall and retail prices rise. No one likes to see that. And in this case, you can definitely point to there's a good reason why processing is having a problem right now. It's not them controlling the price necessarily it's that no, they can't run some of these plans due to this outbreak. And that's what creates these divergent price moves within.

Christa Hartsook  12:26
Yep, Chad, if we talk, in addition to our own farmers and our own commodity producers out there, this is also going to affect our friends in ag retail. Talk to me a little bit about what impacts for them look like,

12:39
oh, the impacts for them, or when they recognize that their former clients are going to struggle with cash flow, we're going to have some revenue problems. And so you know, they're working with farmers to say, Okay, what sort of help can we provide you in terms of timing your input supplies that we can create there, you know, as planting is going on? Luckily, we've seen that, let's call it the farmer input. And you know, supply chain has been working fairly well, we had a lot of the seed the fertilizer already up here and in place, so that we could begin planting and get moving that way. And so we're doing fairly well, as far as that is concerned. But what you're seeing, I'd say on the input supply side, are concerns that okay, as we get through the year, and if we continue to see depressed prices, that, you know, farmers will have to cut back on their input usage, they will have trouble meeting their lines of credit. And so there's definitely concern that yeah, farmers are going to need help. And that's going to help the input suppliers. And I think a lot of that hinges upon the efforts for government support that are likely coming down the line from USDA over the next couple of weeks to months.

Christa Hartsook  13:59
Sure, Sure. Chad, if we look back a little bit further here, agriculture in general was a little disrupted this last year, right as a result of some trade negotiations and trade interruptions. How does that play into the current scenario we're facing with COVID-19?
Well, if you think about ag, I would argue the ag economy has been struggling for the past five or six years. Yes, I mean, it was struggling, you know, coming out of the drought of 2012-13. Because right after that we had those very high prices back then, we saw this surge in production and if you will, that hangover. From those high prices created a series of years where we overproduced for a market we still continue to do that today. Then you get to situation 2018. As you mentioned, the trade fights started. And so you know here we sit with these large supplies and weakening demand because of those trade fights so that keeps us down as far as the ag economy is concerned. And then we get to this year, and you throw COVID-19 on top of that mix. And so that's one of the reasons you know, your earlier question about against input suppliers, why are they worried? Well, it's because they've been watching their farmer clients struggle financially now, for the past few years. And while you can do that for a while, you know, eventually you do need finances to turn around. And so, we have seen, you know, a slow erosion of the form balance sheet, we have seen few more farm mediations and bankruptcies. And the fear is that COVID-19 will push even more folks into severe financial distress.

Christa Hartsook  15:49
Sad, but unfortunately, probably a reality we will be looking at.

15:53
It's something we're going to be looking at. And it's something that's why you see, for example, USDA frantically trying to figure out how to provide support to agricultural producers right now, in in short order. You know, Secretary Perdue announced that he would like to provide some of the Coronavirus support by the end of May here, recognizing that farmers cash flow is desperately really low right now.

Christa Hartsook  16:22
Yes, yes. Chad, given everything that we've talked about today, and outlook for the entire industry, doesn't maybe necessarily look super rosy right now. What are your thoughts for the rest of 2020?

16:34
Well, let me split this into two. Okay, I think one of the biggest keys for us may be out this reopening of the economy goes, right now we're running a, let's call it a grand public health experiment. We have many states across the nation, trying to reopen some being more open about than others, but basically trying to get the economy back up and running again, in the face of this virus. If that goes as hoped, and we can restart the economy, it should mean some improvement for agricultural markets as we move through the rest of 2020. So, you know, one of the things I've been talking to farmers about is that we typically see a rally in prices for example, in the late spring, early summer, when you get in here into May and June. That's when we tend to see our seasonal price bump. And hopefully, we'll get to take advantage of that. And if we can get the economy started. Again, that means people maybe start driving
more, okay, that could help the ethanol industry. If we're able to reopen, that means reopening those restaurants and creating more opportunities for people to consume our agricultural products, which would mean higher prices as we're going forward. But again, the big key to that will be how well are we able to manage with the virus. If we reopen too quickly, and we have to pull back in reinstate some of those physical distancing practices, that adds additional damage to the economy, mutes whatever price impacts, we could see building back up, and deepens the financial hole that our farmers find themselves in. So this is a critical point right now, especially given the timing of this. Because if you think about it, we're reopening here at the beginning of May. If the virus does come roaring back, that means cases will probably spike here towards the end of May, early June. Exactly at the period of time when I would be looking for that price improvement. If, you know, one of those offsets the other if that happens.

Christa Hartsook 19:00
Right, right. Chad, can you talk to us a little bit about some of the the tools or the programs that are in place with the farm management team, through Iowa State University Extension and Outreach to kind of maybe help farmers take a look at those overall balance sheets, those cash flows, maybe any financial tools that they might need during this time?

19:22
So Well, luckily, I would say with our farm management team, and this, you know, a lot of the structure goes back to the farm crisis in the 1980s. When you think about, for example, like our ag decision maker website, which has been around for a long, long time, we have over 400 fact sheets and tools on that site to help farmers with a variety of of topics as they consider you know, their production choices, their financial choices. We have a course a team of farm management specialists throughout the state team of eight that helped farmers you know, on one on one calls like that you We also have a team, right now six, farm financial associates. These are folks that are specifically trained to run financial analysis on farms to look at enterprises within a farm, and to really look at farms that are struggling financially, and sort of sort of sit down with him and say, Okay, let's look at where the farm business currently stands, sort of break it apart into each enterprise, look at each enterprise and figure out, is that profitable, or not? Can you change these enterprises to make them profitable or not, and then the reconstitute the farm, to try to improve the financial standing there. Again, that was a program that started back with the farm crisis of the 80s and continued on to this point. And then we've also been adding, I'll call it COVID-19 related information on farms, as we recognize now that, you know, for a lot of farmers, it's hard to think about, but we need to have backup plans as to how do we manage our farms, if we become ill. And that's something that, you know, we don't often like to think about is what happens to your farm business. If you the key labor person go down? I will relate it to like we were talking about the meat processing before you don't realize that critical linchpin until it till it breaks. Yes. So we're trying to get people to look at and plan for, what do you need to do if you do become ill? Who are your backup folks that you can call on in order to help you maintain and run your farm.

Christa Hartsook 21:36
It makes sense, Chad, anything else that we should cover today?
Dr. Chad Hart  21:39
Well, I think the biggest thing here is that as we're looking forward in the marketplace, the markets will follow what's happening with the virus. And so if we're successful in managing the virus, we can expect to see some recovery in our markets. Because what's interesting to me is, is that when I'm looking in most of our markets, what we actually have is fairly good demand for a lot of our products, you know, if anything, for example, right now we've seen, you know, the runs of the grocery store that's indicating no people want the product, we continue to see export sales. So international sales are actually doing fairly well even with this global pandemic going on. So the underlying demand structure bodes well for our markets, but we have to get control of the virus first.

Christa Hartsook  22:30
Makes sense. Chad, thanks so much for being on today. I know you will keep watch on all of this market situation and we can have you back for an update.

Dr. Chad Hart  22:39
Thank you very much.

22:40
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