AgCountry Economy Review
Second Quarter 2020
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The economy continues to be in a precarious position at end of the second quarter, albeit less so than just three months prior. The impact of the COVID-19 pandemic in March resulted in stay-at-home orders, nervous equity markets and economic uncertainty. The pandemic had an immediate impact on operations and employment within many industries such as food service, hospitality and travel, which caused a rise in unemployment to unprecedented levels. According to the Bureau of Labor Statistics and the Bureau of Economic Analysis, the national unemployment rate reached a peak of 14.7% in April of 2020 and the national Gross Domestic Product (GDP) growth rate fell from a positive 2.1% in the fourth quarter of 2019 to negative 5.0% in the first quarter of 2020. The outlook for second quarter 2020 GDP is negative with annualized GDP estimates ranging from negative 31% to negative 40% with a consensus average of negative 35%. These estimates will likely be revised once GDP results for the second quarter are announced.

By the third month of the pandemic measures to reduce the spread showed some benefits with positive cases in many highly impacted areas coming under control and a May jobs report surprising the market by adding 2.5 million jobs. A constant throughout 2020 has been volatility evidenced by the fact that as more states and industries began reopening, which improved the economic outlook, the recent increases in COVID-19 cases have reemerged particularly in the Southern and Western United States. The employment uncertainty in many sectors may be easing as the June 12th job report was positive news showing that as many as one-third of the jobs that were lost in the pandemic have been restored, mostly in the leisure and hospitality industries. However, the weekly employment reports are muted by continued unemployment insurance claims (longer-term unemployed) that remains high (18 million as of the July 8th report) relative to pre-COVID levels.

Amidst the outbreak break of COVID-19, the oil market witnessed immediate termination of demand, and a supply war between two major oil producing countries, which resulted in oil inventories building to a level where West Texas Intermediate (WTI) oil futures traded negative on April 20th. Due to the decline in demand from shelter-in-place requirements, the U.S. and world found itself with excess oil inventories, which unfortunately spilled over into significantly lower demand for ethanol and corn used for ethanol production. As markets found themselves in disorder around the world, the U.S. proved to be a safe haven causing the U.S. Dollar to strengthen (approximately nine percent above pre-COVID levels) and thus weakening agriculture’s competitiveness in the export market.

As the nation faces unprecedented economic and societal changes, national and state governments have taken swift and broad reaching monetary and fiscal actions. The Federal Reserve has reacted aggressively by lowering short-term interest rates to the zero bound, lowering capital requirements for banks, adding trillions of liquidity to short-term funding markets and increasing quantitative easing measures via purchases of treasuries and agencies mortgage back securities. The market consensus is that the Federal Reserve will continue to target a zero percent Fed Funds rate until economic evidence, such as full employment, supports increasing rates.

An estimated $2.4 trillion in fiscal measures were rapidly implemented to cushion the blow of COVID-19. This is approximately 13% of pre-COVID GDP. Included within the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) is a program aimed at benefitting agriculture named the Coronavirus Food Assistance Program (CFAP). CFAP provides a total of $16 billion (CARES and CCC funding sources) to multiple agricultural industries including but not limited to corn, soybeans, and dairy. Within the $16 billion CFAP program, $3.76 billion has been designated to non-specialty crops, which includes corn and soybeans amongst many others, as well as $3.47 billion to dairy producers. In addition to CFAP, lawmakers issued the Paycheck Protection Program (PPP) where the Small Business Administration (SBA) issued forgivable loans that help businesses keep their workforce employed during the pandemic. The fiscal measures were robust and enacted quickly, which has helped cushion the financial blow to both business and consumers, but ultimately the programs are a short-term benefit.

The much-anticipated economic recovery and the 'shape' at which it takes has been thoroughly debated. Economic outlooks range from the most optimistic 'V' shape recovery where the economy returns to pre-COVID levels quickly, all the way to a 'check mark' shaped recovery that suggests it will be a slow return to both normalcy and stronger economic times. Much of the economic forecasting will remain conjecture and uncertainty will remain to some degree until the virus dissipates to a level where normal economic activities can resume.