



Market Commentary – Commercial Lending

Community lenders partner to feed the world as the pandemic continues

While few experts argue that agribusiness has been impacted by the Covid-19 pandemic, the outcome is a hotly contested topic.

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According to analysis conducted by the Food and Agriculture Organization of the United Nations, a recession stemming from the crisis could swell the ranks of the hungry by as much as 80.3 million people.¹ David Beasley of the UN World Food Program concurs, predicting a "hunger pandemic" in the aftermath of Covid-19.²

However, the nonprofit organization International Food Policy Research Institute (IFPRI) doubts that Covid-19 will have a widespread impact on food supplies any time soon.

For one thing, food storage of staple items is considered adequate, and with agriculture considered an essential industry in the U.S., farmers have been permitted to continue operations during the pandemic.

But meeting future food needs as the virus continues to threaten world populations will require changes across the agriculture and food industry to ensure the safety of labor forces while adapting to changing product demands. In this environment, agribusiness will rely on the local support of community banks and credit unions to continue feeding the world.

About the author



Brandi Meredith
Solution Marketing Lead, Lending Specialist

Brandi brings more than 18 years of financial services and technology background to Finastra. With her valuable banking experience, Brandi serves as the marketing lending specialist for all of Finastra's Community Markets lending solutions.

The agriculture industry is always at the mercy of changing environmental and economic conditions

Adapting to a virulent future

In the face of the pandemic, consumer panic-buying and hoarding was common in locations where closures were most severe. Empty grocery store shelves became an everyday sight as consumers braced for the long-term impacts of the pandemic.

Several countries also followed the course of the American consumer, stockpiling food supplies to feed populations in the event of long-term shortages. Egypt, for example, accelerated imports of wheat by 30 percent during the 2020 harvest season to offset the risk of the pandemic to current supplies.³

Yet, in the midst of panic buying and stockpiling, many food products were going to waste.

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"We have seen Class III milk prices drop 36 percent at a time when dairy farmers were just starting to see a recovery."

Much of the immediate decline in demand was attributed to restaurant and school closings, and with storage facilities at maximum capacity, farmers were forced to dump milk that had nowhere to go. However, as the Covid-19 crisis extended, demand began to shift.

By early April, consumers were buying refrigerated dairy milk at a 34 percent higher rate year-over-year as stay-at-home orders increased family purchasing.⁴ Demand for other dairy products was up as well. Natural cheese purchases shot up 66 percent while consumer buying of butter rose 105 percent.⁵ By May, the USDA's World Agricultural Outlook Board was predicting that 2020 demand for dairy products would rise by 0.2 billion pounds year over year.⁶

Dairy consumption as stay-at-home orders increased in April

34%

higher rate year-over-year of dairy milk purchases

66%

increase in natural cheese purchases

105%

increase in butter purchases

Unfortunately, livestock farmers have not fared as well in the wake of Covid-19. Closures at processing plants disrupted beef, pork, broiler and turkey production across the board.

In April, pork production fell an estimated 11 percent year-over-year as workforce shortages at processing plants reduced throughput.⁷ Beef saw bigger projected declines of 21 percent, while labor shortages in poultry processing plants forced a year-over-year reduction of 2 percent.⁸

Forecasts call for a rebound, with demand projected to accelerate 4 percent throughout 2021, but farmers must first survive the here and now. With health officials predicting a second wave of Covid-19 related cases to swell this fall, many agricultural experts expect disruptions at meatpacking and processing facilities to continue throughout 2020.⁹

The agricultural industry prepares for the second wave of Covid-19

In the absence of a vaccine or proven treatment, social distancing remains the best way to avoid cross-contamination, but it takes a toll on farm productivity.

Farmers of fruits and vegetables, for example, will need to maintain space between workers in the field and provide face mask coverings. Implementing frequent handwashing procedures is another means of containing the spread but will require oversight if rules are to be enforced.

Food processing plants, a hotspot of Covid-19 activity in some areas, have also been forced to make changes to critical operational procedures to ensure worker safety. Federal guidelines require facilities to allow employees to work, even after exposure to the disease, provided that individuals are not showing symptoms.

This may increase the risk of exposure and puts added pressure on processing plants to both protect workers and prepare for continued disruptions to operations in the event of widespread illness across the workforce.

Many experts predict that the Covid-19 virus will remain with us for months, if not years to come, and continuous changes are likely to be part and parcel of agribusiness operations in the future, as adaptations are mandated to ensure worker and public safety. This may require businesses across the sector to continuously reimagine workflows to meet changing government guidelines and related impacts on product demand.

If restaurants and schools close again, how can processing plants quickly modify operations to meet rising demands in other areas? How can farmers get food to the markets that need it most in a rapidly changing environment?

In the new Covid-19 reality, agribusiness will continue to rely on community banks and credit unions for the critical support they need to meet rapidly evolving market changes.

How financial institutions can shore up agribusiness during Covid-19

According to the American Bankers Association, America's banks entered the Covid-19 crisis in a position of strength "thanks to record capital and liquidity levels as well as prudent planning and risk management." As a result, many community banks and credit unions have taken unprecedented actions, with a broad scale initiative designed to help struggling agribusinesses. Efforts include fee waivers, deferred payments, and loan modifications, as well as other innovative solutions.

However, looking forward, the agribusiness industry is being asked to make multiple changes to business operations and processes. Often, these approaches may need to be adjusted quickly and with little warning. Many will be costly to implement, so access to capital is critical for agribusinesses during this time.

In addition to providing lending solutions, credit unions and community banks can make it easier for businesses to apply for and receive financing. During social distancing or stay-at-home mandates, farmers and agribusiness leaders will need to access bank services, including lending, via online or remote channels, putting a higher emphasis on digital solutions than ever before.

Of course, keeping track of an increasing volume of new loans, coupled with the many mitigating actions financial institutions are taking to help local farmers and other companies in the sector, can wreak havoc on a community bank or credit union loan portfolio. Digital solutions can assist here as well, providing analytics and reporting tools to help financial institutions assess loan portfolios for risk and stay on top of changing accounts and processes.

Until there is a vaccine for Covid-19, community banks and credit unions will remain on the frontline of the current coronavirus conflict, supporting agribusiness through one of the toughest battles the industry has yet to confront.

11%

decrease in pork production
year-over-year

21%

projected decline in beef sales



For more information
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Learn more in our e-book [Commercial Banking: What comes next or contact us to speak to an expert about Finastra's digital solutions.](#)

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Finastra is building an open platform that accelerates collaboration and innovation in financial services, creating better experiences for people, businesses and communities. Supported by the broadest and deepest portfolio of financial services software, Finastra delivers this vitally important technology to financial institutions of all sizes across the globe, including 90 of the world's top100 banks. Our open architecture approach brings together a number of partners and innovators. Together we are leading the way in which applications are written, deployed and consumed in financial services to evolve with the changing needs of customers. Learn more at finastra.com

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North American Headquarters

744 Primera Boulevard
Suite 2000
Lake Mary, FL 32746
United States
T: +1 800 989 9009

