

COVID-19 and Canadian Agriculture - Update: Virus Progression and Implications for Harvest

July 21, 2020

As we enter the second half of 2020, agricultural producers continue to adapt to a world impacted by COVID-19. Since the beginning of widespread lockdowns in mid-March, disease outbreaks and social distancing measures have changed global supply and consumption patterns, creating both winners and losers in Canadian agriculture.

Impact of COVID-19 on Canadian Agriculture

Selected Relative Winners

- Fresh and frozen vegetables & produce
- Fresh and chip potatoes
- Wheat growers & processors

Selected Relative Losers

- Corn
- Frozen & food service potatoes
- Livestock

Some Canadian producers have experienced greater demand for their goods. For others, the virus posed substantial threats to their supply chains, particularly those that rely heavily on manual labour and processing in close quarters. At the same time, prices for some major agricultural commodities declined after lockdowns were enforced, as the food service and energy sectors, which consume the majority of agricultural commodities, saw demand collapse as a result of these changes in consumption. These changes emerged very quickly following lockdowns, and while significant uncertainty remains as we move through the summer months, there are emerging patterns that provide some clarity to producers and farmland investors.

We have seen substantial optimism regarding the success of social distancing measures. Adaptations to reduce the risk of transmission have allowed many economies to begin reopening, albeit with global consumption levels well below that of the pre-lock down economy. On the other hand, global virus trends suggest some of the disruptions experienced due to COVID-19 may prove persistent especially in the USA, with the risk of resurgence proving very real as evidenced by sporadic outbreaks in other regions that were previously thought to have had the virus largely contained.

Virus Trends

COVID-19 has taken drastically divergent paths across much of the world. Globally, the virus continues to spread rapidly with a continuation of sequential highs of new cases, led primarily by countries with large populations and uneven approaches to disease containment¹. At the same time, certain regions including Europe, Australia, New Zealand and Canada, are seeing the lowest rates of disease spread since widespread lockdowns began in March.

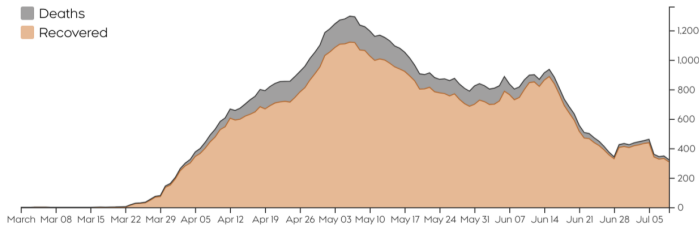


Figure 1 - Coronavirus cases and deaths in Canada - Seven-Day Average
Source: CTV News

While the total global trends are concerning, the success of containment locally is clearly good news for Canadian producers. Canadian farmers manage substantial risks under normal circumstances, yet they have found the level of uncertainty is compounded further by COVID-19. In addition to elevated economic uncertainty, the realities of harvesting and processing agricultural products and managing substantial labour forces working in close contact are challenging. Farmers now hope these positive trends will lead to an increase in consumption and ideally a strengthening in prices for major commodities. Positive trends in the virus' spread have reduced the risk of harvest disruptions caused by disease outbreaks in processing facilities and among farm labour forces.

While these positive trends are encouraging, the harvest season will ultimately prove to be the true test of Canada's farm producers' ability to successfully manage and mitigate COVID risks.

Produce Sector Impacts

Produce farms and food processors have made headlines in recent months as hot spots for outbreaks of the coronavirus, raising concern for worker safety and the sustainability of affected businesses². Produce farms, which often rely on substantial labour forces compared to major agricultural commodities, have seen pockets of outbreaks despite regulation and fiscal policy measures designed to mitigate risks and subsidize operators for the cost of implementing new safety protocols³. While these incidents have remained relatively contained, the harvest season typically sees peak labour numbers on farms and in processing facilities, and the consequences of a virus outbreak could be catastrophic to business revenue. Harvesting also represents only part of the risk, as downstream produce processors have also seen sporadic outbreaks⁴. Sectors with highly perishable goods such as tender fruits and vegetables are especially at risk, as there are few options for inventory storage beyond immediate processing.

Many growers are watching the harvest seasons in the southern US with great interest, hoping to identify the successes of their US peers in managing harvesting and processing. The evidence so far offers cause for optimism, as most regions have avoided widespread issues and have successfully adapted processes to

prevent COVID outbreaks⁵.

Produce consumption also benefitted from lockdowns and recessionary fears as consumers have shifted to greater food retail consumption⁶. Shifts toward greater consumption at home have seen persistently low inventories at supermarkets, with many produce producers benefitting from the uptick in demand⁷. Bonnefield's farm partners in the food retail sector have certainly benefitted, and those with inventory to sell have found increasing demand a boon for their businesses. Despite the immediate benefits from this spike in demand, these same growers remain focused on managing the risks of a harvest season with the added complexity of managing substantial labour forces and ensuring living conditions and safety protocols are as robust as possible. These growers are optimistic and remain firmly focused on managing risk through the coming months.

Agriculture Commodity Prices

COVID-19's impacts on energy and livestock demand sent prices for some major agricultural commodities plummeting. As energy markets have begun to stabilize and loosening lockdown restrictions have allowed parts of the food service sector to resume, some commodity prices have seen a substantial recovery

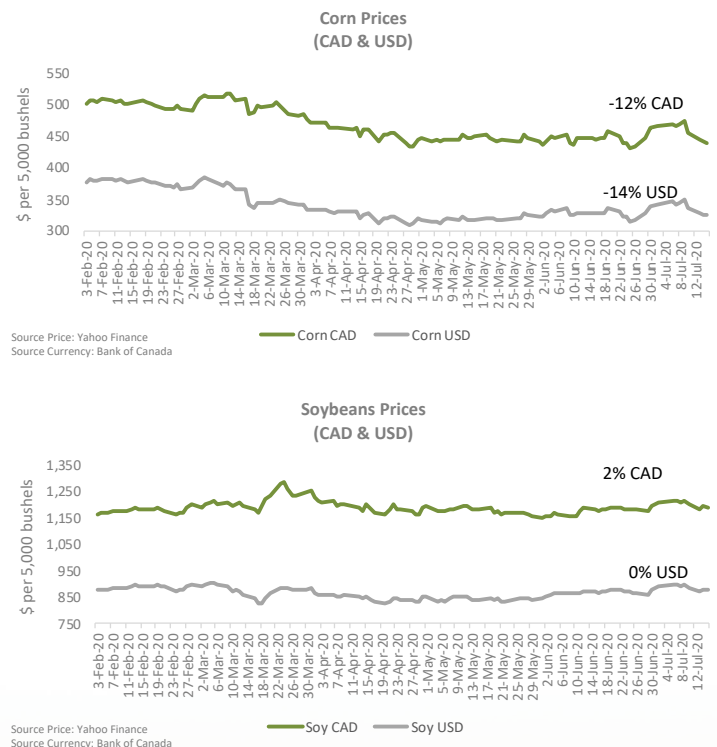


Figure 2 US Corn and Soybeans front-month futures prices
Source Commodity: Yahoo Finance CBOT data
Source Currency: BOC

Substantial risks still threaten these positive trends, as the potential for a renewed wave of lockdowns in parts of the United States remain a real threat. Virus numbers in much of the southern US continue to move higher. Should another lockdown occur, or should consumers continue to avoid food service channels such as hotels and restaurants, the demand for major commodities could remain weak.

As we have previously noted, the lower demand for food services has been exacerbated by supply chain bottlenecks at meat

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packing plants. In the US, the CDC reported that as many as nine-percent of all workers at US meat processing facilities had been infected with COVID-19⁸, revealing just how conducive these environments have been for virus spread. Canada too has not been spared, with outbreaks occurring at similar facilities and for similar reasons. The resulting bottlenecks lead to reduced inventories at livestock farms, and subsequently lower demand for feedstocks from crop farmers. Recent weeks have seen fewer such outbreaks, as processors have improved their testing and worker safety protocols to manage these risks, however, as virus numbers continue to climb, the risk of further outbreaks could continue to curb demand for agricultural commodities from the livestock sector.

Canadian farmers have responded quickly to deal with these challenges, and many were able to adjust their planting strategies before seeding. Many farmers had time to react to the coronavirus-induced price plunge in March, and many rotated into less costly small grains and cereal crops, leading to a major reduction in acres planted to major commodities such as corn, relative to earlier expectations, and consequently prices for some crops have strengthened⁹. As always, weather will play an important role in farm profits, and already there are concerns over hot and dry conditions in much of the US and parts of eastern Canada potentially impacting production levels during the fall

harvest. While the recovery in commodity prices are a welcome respite for farmers, the financial fortunes for most depend not just on weather, but on an exceptionally uncertain economic climate.

Prospects for Harvest

With the growing season in full swing, farmers are firmly focused on production, while hoping for developments that will bolster demand for their products. Growers in the food retail sector have cause for optimism, but acknowledge challenges in ensuring a successful harvest that will allow them to benefit from increasing demand for their products. For most producers, profitability hinges on not just their skill as a grower but demand from global consumers. As the world looks to manage the effects of COVID-19, it appears that global food supply chains will continue to face intermittent shocks at every step from production to consumption. Producers with sustainable businesses in regions less impacted by the virus may be net beneficiaries of this disruption, as their products may become more scarce in the face of rolling virus outbreaks.

In Canada, the growers that Bonnefield works with remain optimistic. With the good fortune of living in a country where the virus has thus far been managed relatively well, most believe they can and will have a successful harvest.

1 - BBC (<https://www.bbc.com/news/health-53210553>)

2 - Toronto Star ([thestar.com/politics/provincial/2020/06/10/covid-19-continues-to-spread-among-migrant-workers-in-southwestern-ontario.html](https://www.thestar.com/politics/provincial/2020/06/10/covid-19-continues-to-spread-among-migrant-workers-in-southwestern-ontario.html))

3 - CTV (<https://www.ctvnews.ca/health/coronavirus/at-least-164-migrant-workers-at-one-ontario-farm-have-tested-positive-for-covid-19-1.4964690>)

4 - CBC (<https://www.cbc.ca/news/canada/british-columbia/5-workers-test-positive-for-covid-19-at-frozen-fruit-processing-plant-in-abbotsford-b-c-1.5581809>)

5 - WebMD (<https://www.webmd.com/lung/news/20200618/how-covid-is-affecting-us-food-supply-chain>)

6 - Fresh Fruit Portal - (<https://www.freshfruitportal.com/news/2020/06/25/fresh-produce-growth-slows-at-u-s-retail-as-foodservice-sector-reactivates/>)

7 - The Wall Street Journal (<https://www.wsj.com/articles/coronavirus-surge-challenges-struggling-food-supply-chains-11594546200>)

8 - CNBC (<https://www.cnbc.com/2020/07/07/cdc-says-9percent-of-meatpacking-plant-workers-have-been-diagnosed-with-covid-19.html>)

9 - Progressive Farmer (<https://www.dtnpf.com/agriculture/web/ag/blogs/fundamentally-speaking/blog-post/2020/07/01/shocking-usda-june-corn-acreage>)