



**AGRICULTURE: HOW DID THE SECTOR FARE DURING THE GREAT LOCKDOWN?**

## INTRODUCTION

Historical evidence suggests that the performance of agricultural sector assets are uncorrelated with traditional markets and at times have shown to be less sensitive to periods of economic contraction.<sup>1</sup> The recent COVID-19 pandemic or “Great Lockdown” has reinforced agriculture’s position as a resilient asset class.

This paper is part of a series of discussion papers published by Riparian following the global spread of COVID-19. Our objective is to share insights on the impact of COVID-19 on the food and agriculture sector. Rather than solely focus on the relative performance of private market agriculture assets (for example farmland), we seek to analyze the impact of one of the most disruptive and unpredictable economic events in recent memory using a range of publicly available data sets.

## THE GREAT LOCKDOWN HAD DEEP ECONOMIC IMPLICATIONS

COVID-19 has had far reaching impacts on everyday life, economies and markets. Available data, and particularly ‘high-frequency’ data inclusive mobility and transaction data sets, provide a detailed historical footprint of the extent of the disruption caused by COVID-19 (see chart 1).

We expect many people were happy to see the end of 2020 and rightfully so. It was a year of massive disruption that resulted in economic growth falling further than that seen during the Global Financial Crisis. World GDP fell -3.3% in 2020 versus -0.1% in 2009.<sup>15</sup> Economies globally, in the developed and developing world, reported quarterly falls in GDP outpacing levels recorded during 2009.<sup>16</sup> Australia may have escaped the devastating death toll from COVID-19 seen elsewhere in the world and to a degree the worst of the market impacts of the Global Financial Crisis but the impressive economic engine that had hummed without a major hitch since 1991, recorded its first recession in almost 30 years in mid-2020.<sup>17</sup>

The food and agriculture sector did not entirely escape the impact of COVID-19, restaurants and by implication supply chains and commodities reliant on restaurant trade have seen a sharp and dramatic fall in sales. Products relying on air freight (particularly seafood) have experienced similar challenges while trade and labor shortages have been ongoing features globally. However, economic indicators suggest household food expenditure, agricultural commodity prices and agricultural product trade performed well during 2020 providing a foundation for the resilience of the food and agriculture sector.

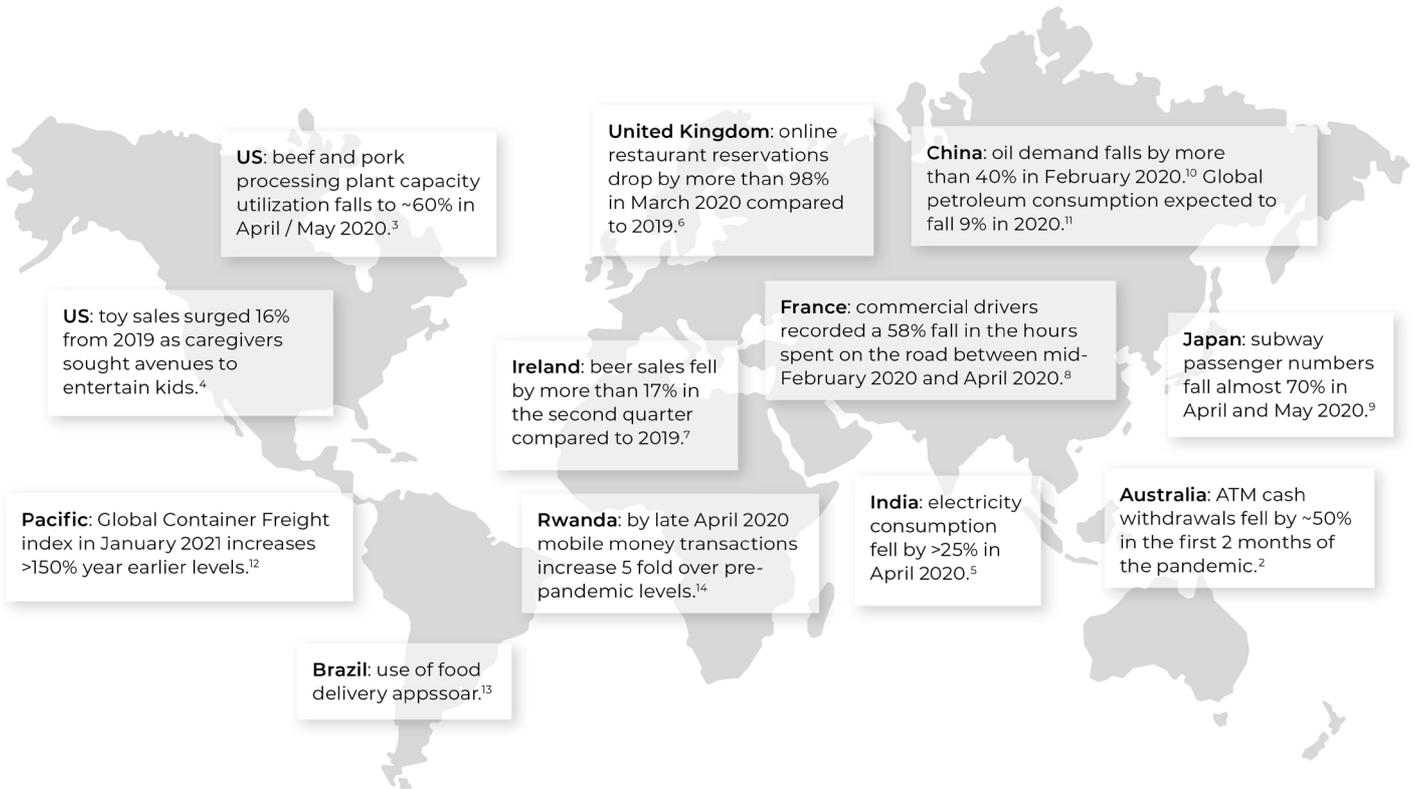
## WORLD TRADE OF AGRICULTURAL PRODUCTS FALLS MUCH LESS THAN TOTAL MERCHANDISE TRADE

Global trade of agricultural products was unchanged in Q1 of 2020 and fell 5% in Q2 2020. This compares to falls in world merchandise trade of 6% and 21% respectively.<sup>18</sup>

The resiliency of agricultural trade relative to merchandise trade, as the Food and Agriculture Organization of the United Nations reported, is considered the result of, amongst other things, food being an essential good, its relative inelastic demand, the constraints to replacing food imports through domestic production and the high degree to which agricultural trade takes place in bulk shipments.<sup>19</sup>

For Australia, despite trade tensions total exports of goods to China in 2019-2020 surpassed 2018-2019 levels.<sup>20</sup> Total 2020-2021 exports will be watched closely. That said, China is still expected to remain Australia’s most significant agricultural trading partner. However, agricultural exports to China vary widely by commodity. Barley export volumes to China have fallen from 2019 levels (there

CHART 1: The Great Lockdown disrupts life and business activity globally



is evidence China is relying on French and Canadian barley to meet demand) while record volumes of wheat were exported to China in late 2020.<sup>21, 22</sup> Importantly for Australian agricultural exports to Asia, despite contraction in incomes in key economies over 2020 (as reported in Nov 2020 the forces of population growth and income growth significantly influence total food consumption), incomes of most major trading partners remain above 10-year average levels.<sup>23</sup>

CHART 2: Year-on-year growth in world merchandise trade, 2019 Q4-2020 Q2

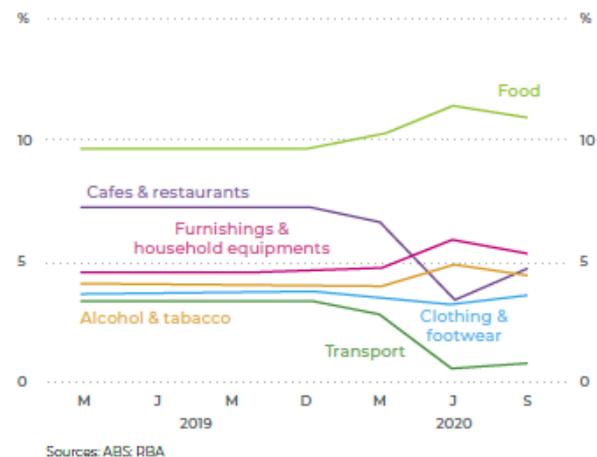


Source: WTO Secretariat estimates.

### HIGHER AT HOME FOOD EXPENDITURE

As we'd expect and as we now well know, household spending on food for consumption at home increased during COVID-19. However, durable (generally defined as goods that have utility over a long period of time and range from toasters to cars) and non-durable goods (essential products including food) consumption during 2020 was not entirely consistent with trends during past recessions. The RBA previously identified that "during deep recessions, spending on consumer durables and capital goods in Australia has fallen sharply. In contrast, growth in household spending on non-durables and services slows on average but remained positive. The experience in the United States has been similar".<sup>24</sup> While food spending (non-durable good) in Australia increased in 2020 so did spending on furnishings & household equipment (durable good) breaking from historical precedent.<sup>25</sup>

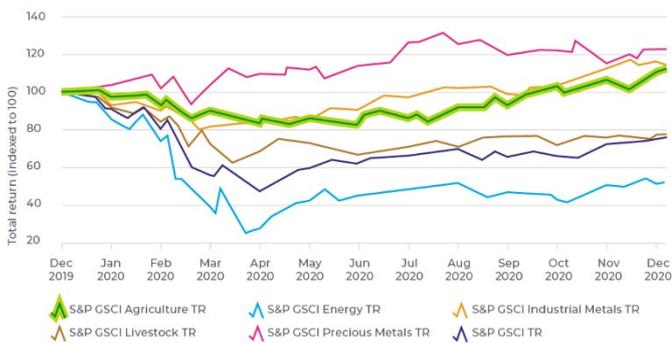
CHART 3: Share of household expenditure on select items



## AGRICULTURAL COMMODITY PRICES OUTPERFORM

Given the historical resilience of non-durable goods during periods of economic contraction, it is not a surprise that agricultural commodity index returns outperformed the global commodity benchmark index (per S&P GSCI) returns across 2020.<sup>26</sup> Closer to home, Rabobank's Australian Rural Commodity Index, a measure of local farmgate prices, finished 2020 above year earlier levels but below peak levels reached in March 2020.<sup>27</sup>

CHART 4: 2020 performance of the S&P GSCI Commodities<sup>28</sup>



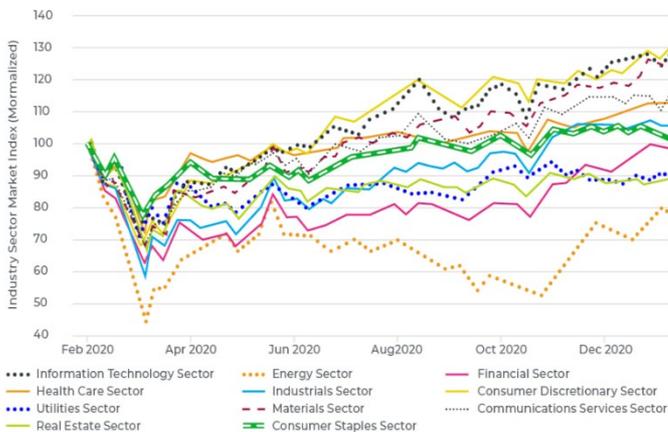
Source: S&P Dow Jones Indices

## CONSUMER STAPLES FARE BETTER THAN MOST DURING EARLY STAGES OF COVID-19 LOCKDOWNS

As long-term investors in real assets we are not overly concerned by short term trends and daily movements in equity markets. That said, we recognize they provide a barometer of trends and sentiment in the market and at times the general economy.

As highlighted by the Federal Reserve, health care and consumer staples stocks (which includes Archer Daniels Midland, Hormel Foods, Hershey Foods, Kraft Heinz, Tyson Foods, General Mills amongst others) fared well during COVID-19 and were much more resilient than the hardest hit sectors of energy, financials and industrials. However, while the consumer staples sector was resilient, the sectors recovery clearly lagged the strong performance of technology and consumer discretionary stocks.<sup>29</sup>

CHART 5: Stock market performance by industry

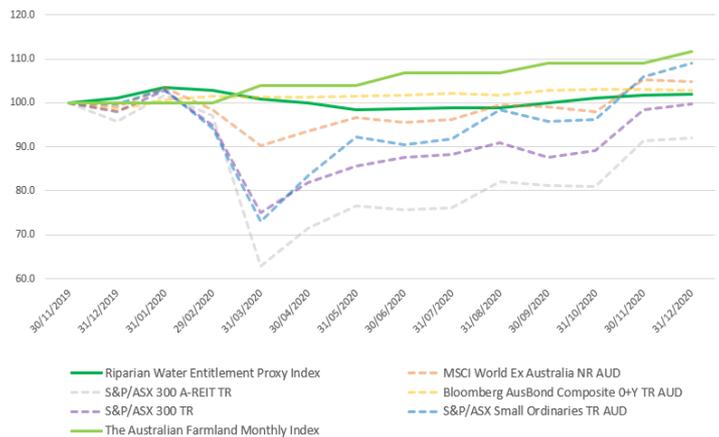


Source: Federal Reserve Bank of St. Louis

## PRIVATE MARKET AGRICULTURAL ASSET VALUES RESILIENT

The improvement in climatic conditions across vast areas of Australia during 2020, the resilience of agricultural trade and commodity prices formed a strong foundation for private market agricultural asset performance. Similar to consumer staples, agricultural assets were more resilient and less sensitive to the economic implications of the Great Lockdown than most asset classes.<sup>30</sup>

CHART 6: Asset class performance – December 2019 to December 2020<sup>31</sup>



Source: Moringstar Direct

## CONCLUSION

The agriculture sector has not escaped the impacts of COVID-19 unscathed. However, to date private market asset values, household food consumption, global trade, commodity prices and public market consumer staples index demonstrate the resilience of the sector in the face of one of the deepest economic recessions in recent times. In fact, the greatest influence on Australia's agricultural prospects during 2020 was not COVID-19 so much as the return of more favorable climatic conditions.

We are well aware that COVID-19 continues to create challenges across the globe. It therefore still represents a source of risk and opportunity for agriculture sector participants, and it may do for some time yet.



## NOTES

1. RCP analysis, 2020. Past performance is not indicative of future results which may vary. Risk and return of each asset class varies.
2. Reserve Bank of Australia, 2021, Cash Demand during COVID-19
3. University of Illinois, 2020, A Closer Look at US Meat Production from USDA's Economic Research Service
4. CNBC, 2021, US Toy sales surged 16% in 2020 as parents looked to entertain kids during pandemic
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6. Open Table, The restaurant industry in recovery
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8. TTI, 2020, COVID-19 Pandemic sees commercial vehicle traffic halve on European roads
9. Tokyo Metropolitan Government, COVID-19 The Information Website
10. Reuters, 2020, China drives global oil demand recovery out of coronavirus collapse
11. EIA, 2021, EIA estimates that global petroleum liquids consumption dropped 9% in 2020
12. FBX, Global Container Freight Index
13. FSCI, 2020, Food delivery sees large-scale growth in Brazil
14. The Economist, 2020, The covid-19 crisis is boosting mobile money
15. IMF, Real GDP Growth. Annual percentage change.
16. OECD, Quarterly GDP. Total percentage change same period to prior year.
17. BBC, 2020, Australia in first recession for nearly 30 year
18. WTO, 2020, Trade Shows Signs of Rebound From COVID-19, Recovery Still Uncertain
19. FAO, 2020, Comparing Crises: Great Lockdown versus Great Recession
20. Australian Bureau of Statistics, 2020, Australia's trade in goods with China in 2020
21. Reuters, 2021, China's appetite for barley sucks in French and Canadian new crop
22. S&P Global Platts, Australia exports 2.5 mil mt of wheat in Dec, record volume to China
23. Department of Agriculture, Water and the Environment, Economic Overview March Quarter 2021
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25. Reserve Bank of Australia, 2021, Consumption Patterns and Consumer Price Index Weights
26. S&P Dow Jones Indices, 2021, Reflecting on the Inflection Points of 2020
27. Rabobank, 2021, Australian Agribusiness Monthly April 2021
28. Past performance is not indicative of future results which may vary. Risk and return of each asset class varies.
29. Federal Reserve Bank of St. Louis, 2021, How COVID-19 Has Impacted Stock Performance by Industry
30. RCP analysis, 2021. Past performance is not indicative of future results which may vary. Risk and return of each asset class varies.
31. Data normalized to 100 starting 30 Nov 2019. The Riparian Water Proxy data is based on the Modified Aither Water Entitlement Index Data which is calculated based on the 15<sup>th</sup> day of each month. The Australian Farmland Monthly Index is an adjusted index based on the ANREV Australian Farmland Index which is a quarterly index calculated based on the last day of the quarter. Past performance is not indicative of future results which may vary. Risk and return of each asset class varies.

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**"Riparian zone"** refers to a broad zone  
spanning from the riverbank to the floodplains;  
it occasionally includes hill slopes that may  
influence the stream ecosystem.

Oxford Dictionary 2018

