EXTENSION

COVID-19 RESPONSE

THE COVID-19 IMPACT ON OKLAHOMA CROP PRODUCERS

Learn about key economic sectors in rural Oklahoma and the resulting impacts of the COVID-19 virus.

THE COVID-19 IMPACT ON OKLAHOMA CROP MARKET PRICES

To say COVID-19 has not impacted Oklahoma crop market prices would be a misstatement. To say how much impact would be misleading. At any given time, many market factors are influencing prices.

One interpretation of price movements implies events occurring in spring 2020 may have had a short-term positive impact on wheat prices and a negative impact on corn and cotton prices. A major market force that has impacted all crop prices is China and Phase 1 of the U.S./China trade agreement. During the COVID-19 time period, China has bought U.S. wheat, corn and soybeans.

Cotton and corn prices have been negatively impacted by a drop in oil prices, which was caused by a reduction in gasoline demand and a price war between Saudi Arabia and Russia.

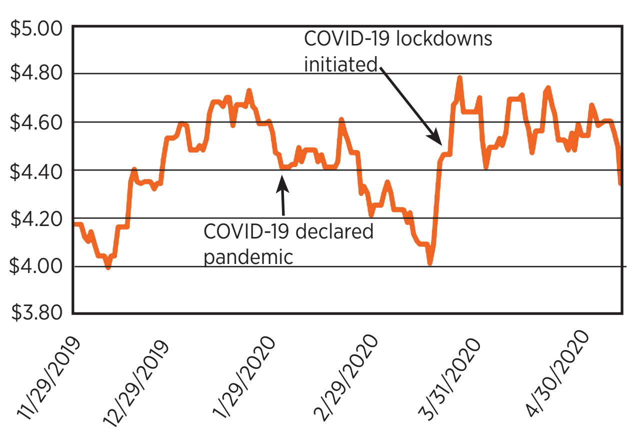

Figure 1. Medford Oklahoma daily cash price.

Around the world, COVID-19 has disrupted transportation and handling. Products have been delayed from the interior suppliers to the ocean ports. There also have been disruptions at the docks when loading crops on the ships.

The world market situation could be described as "controlled chaos." Consumers—from individuals to government entities—have stockpiled food and food products. Importers have stepped up purchases, and exporters have tended to reduce exports. These actions occurred mostly with wheat and rice.

Except for cotton, the impact on most Oklahoma crop producers, to date, may have been minimal. By Feb. 1 of each year, 84% of Oklahoma's wheat has been sold. Most corn, grain sorghum and soybeans were sold at harvest.

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The point is: when COVID-19 became a market problem, about 85% of Oklahoma grain crops had been sold. The winter crops had been planted, and the summer crops were in the planning stages.

There have been no apparent input disruptions for crop producers to date since many inputs already were on hand prior to COVID-19. Other challenges, like agricultural lending and labor, will be addressed in other sections of this series. Logistical challenges may arise for 2020 summer crops or 2020 wheat crop harvest as the situation evolves.

COVID-19 has disrupted markets and lives, added uncertainty to the market and made production and market decisions more difficult. A number of events have occurred at the same time, making the market situation even more complex. Wheat prices, for a short period, may have been slightly higher. Corn and cotton prices have been lower.

The final thing that must be considered is when COVID-19 first occurred, the market had record world wheat ending stocks and near record corn, soybean and cotton ending stocks. There was an excess of major crops in storage, and prices already were relatively low.

COVID-19's impact on Oklahoma's crop producers is yet to be determined.

AGRICULTURAL PROGRAMS AIDING CROP PRODUCERS IN 2020

Price and yield risk management options for crop producers have been available for some time, and are not specific to COVID-19 with the exception of the anticipated Coronavirus Food Assistance Program (CFAP). Producers may choose to use any combination of insurance, futures and options, forward contracts and federal programs to manage yield and price risk. The best combination of risk management alternatives will depend on the individual operation.

There are several federal programs that may offset some of the risk from negative market events, COVID-19 related or otherwise. After several successive years of weather challenges and lower market prices, producers may look to take advantage of any programs for which they are eligible. The 2018-2019 Expanded Wildfire and Hurricanes Indemnity Program (WHIP+) has been open for applications in many western Oklahoma counties. WHIP+ was expanded to include drought and flooding events in 2018 and 2019.

The third tranche of the 2019 Market Facilitation Program (MFP) was announced in January 2020. The MFP was designed to offset trade dispute price declines. In 2019, an expanded number of commodities were eligible for MFP as compared to 2018. However, the payment rates varied widely by county for Oklahoma crop producers, ranging from $15 per acre to $115 per acre.

The CFAP is a highly anticipated program for some agricultural sectors in 2020. Across all crops and livestock, $16 billion will be distributed in direct payments and $3 billion in direct food purchases. A commodity's eligibility was based on observed losses due to COVID-19. Specifically, commodities eligible for CFAP must have had an observed loss in futures prices (or cash prices where futures are unavailable) when comparing the weekly average of January 13 to 17, 2020 to the weekly average of April 6 to 9, 2020. Further, crop producers are only paid based on 'unpriced' inventory as of January 15, 2020. That limited the impact of CFAP to crop producers in the state since many crops that are eligible based on losses (e.g. corn and soybeans) were likely already sold by January 15, 2020.

The producers' safety net programs—Price Loss Coverage (PLC) and Agricultural Risk Coverage (ARC)—resulted in record enrollments for 2019 and 2020. Oklahoma numbers on ARC/PLC enrollment have not been released by USDA to date, but nationally more than 90% of crop producers elected to PLC in 16 of the 23 commodities including wheat (93%), cotton (99%) and peanuts (99.9%). PLC triggers a payment when the national marketing year average price falls below the reference price, which is $5.50 for wheat from 2019-2023. Forecasted PLC payments for the 2019 wheat crop are $1.9 billion nationally. Corn producers primarily sought price protection (75% PLC enrollment), but not to the same extent as other commodities.

The ARC program is a revenue protection program based on a national marketing year average price and a county or individual farm yield. Soybean producers primarily sought revenue protection (83% ARC-CO enrollment) for 2019 and 2020, although soybean producers have not generally received payments under ARC or PLC in 2014-2018 except in areas where yield was impacted by weather events. Crop producers will have an opportunity to see how ARC and PLC perform in these challenging market conditions before choosing to keep or change their safety net program choice for the 2021 crop year in the fall.

Crop producers are faced with a variety of risk management options, as well as opportunities to take advantage of federal assistance programs as they become available. Stress on agricultural lenders and multiple years of draw down on operating capital may have many crop producers looking to federal emergency assistance programs until such a time as markets stabilize.

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