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Special Report: COVID-19: The Disruptor

Wow, what a difference a few weeks makes in the wild world of U.S. and global economics! The 2020 outlook was bullish with the comfort of the trade deals being passed and the economy humming along with a record 129-month expansion.

The arrival of the proverbial “black swan” has resulted in a game changing disruptor. The worldwide spread of COVID-19 will require everyone including households, small businesses, and international leaders to pause, take stock, alter their game plans, and focus on what is truly important.

As of the date of this writing in March 2020, what are some of the possible implications of this major disruptor? COVID-19 will create the next recession in the U.S. and globally. The question is how long and how deep.

While the trade sanctions and tariffs were disruptors to global supply chains in agriculture and manufacturing, COVID-19 has put stress on the technology and service sectors in the rich nations of the world. Suddenly, supply and demand issues are front and center. With the world’s largest and second largest economies, along with South Korea and Italy, implementing draconian measures and strategies, supply disruptions are impacting both revenues and expenses. Some sectors of the economy will see shortage of goods, causing inflation, while others will experience deflation because of lack of demand.

Behavioral economics is now being demonstrated. Dusting off Maslow's hierarchy of needs is a good way to examine human behavior and how quickly it has changed through social media, artificial intelligence, and algorithms. Much of consumer spending represents the top of the hierarchy known as self-actualization and comprises 70 percent of the economy in many rich nations. Now, consumers have retreated to a conservative risk position of basic needs and emotional support. A classic example of the flight toward safety and liquidity is demonstrated by the 10-year Treasury being down 30 basis points. The run on basics such as toilet paper and products linked to everyday health is amazing. Our creamery saw a 50 percent increase in orders for milk by major stores.



Expect extreme volatility in prices and costs over the next few months. A few examples are demonstrated by the price of basic hand sanitizers, face masks, and even hockey sticks that were made in China for collegiate and National Hockey League teams. By the way, decades ago, they were made in western Minnesota!

Will this black swan create discussion toward the movement from globalization to decoupling? Decoupling is described as a nation's or a region's economy taking priority over global strategies. The sanctions and tariffs were phase one and this disruptor could be phase two. Much political debate will center around COVID-19. However, discussions will also occur in boardrooms, mom-and-pop shops, and households. Discussion will center on efficiency versus resiliency, from medical supplies to food, fiber, and fuel.

The 2009 recession was V-shaped, centered around the real estate collapse, and impacted human behavior in economics. COVID-19 will result in an elongated downturn or economic adjustment as global economies figure out how to move forward.

The 401(k)s that became 801(k)s with the stock market buildup are finding a burn rate on paper equity not seen in the past decade. While COVID-19 could result in a \$2 to \$4 trillion impact on the global GDP of \$80 to \$90 trillion at the time of this writing, the question becomes, are we in the first inning? Will there be other shocks such as biotech, cyber, or grid shocks that will impact wealth, earnings, and overall strategies?

I will be watching consumer sentiment indicators in the U.S. and globally along with the Purchasing Manager Index (PMI) as leading indicators. Equity markets and oil selloffs will also be analyzed both for the short and long run. Watch the unemployment rate increase quickly from 4 percent to 8 percent. As we move forward, there are three F's that are critical for businesses and households. Stay **f**ocused on your plan, budget, and your cost of production with strategic adjustments. Follow sound **f**undamentals of business and economics and **f**ollow through, execute, and monitor your performance.

What are some of the positive factors for agriculture resulting from this black swan event? A group of young farmers contributed to the following list:

- More appreciation for farms and what they produce
- The importance of contingency plans and biosecurity
- Niche markets, diversification, and the balance between efficiency and resiliency
- Opportunity to have conversations with consumers, which could create greater overall demand for locally sourced foods
- A sense of community and confirmation of the importance of self-reliance and having a trusted source of food

