

AGRICULTURE LANDSCAPE

August 2023

Agricultural operators continue to be resilient despite facing continued challenges from higher input and labor costs. Market activity remains stable, with demand for high-value food products slowing down as inflationary pressures continue to affect consumers. In our latest commentary, we explore some of the latest developments within the sector.

Food and Alcohol Expenditures

According to the U.S. Department of Agriculture's (USDA's) latest **food expenditure report**, expenditures for food-at-home (FAH) consumption of food and alcohol were estimated at \$423.4 billion in 2022, down 1.6% from the prior year and the first decline in more than a decade. FAH includes grocery stores, convenience stores, other food stores, warehouse clubs and supercenters, other stores and foodservice, mail order and home delivery, direct selling by farmers, manufacturers and wholesalers, and home production and donations. The last time FAH expenditures declined took place during the great financial recession of 2007–09. On the other hand, consumption of food away from home (FAFH) reached a record \$494 billion in sales for 2022, up 8% from the prior year. FAFH food establishments, which include full-service restaurants, limited-service restaurants, drinking places, hotels and motels, retail stores and vending, recreational places, schools and colleges, and donated food, experienced strong sales as consumers continue to adapt to higher food prices, which are becoming sticky—meaning the kinds of prices that are inflexible or slow to change. Sales of both FAH and FAFH alcohol are experiencing new records by being up 5.2% and 17%, respectively, in 2022 compared with the prior year.¹

Trade, Legislation and Labor Costs

Indian prime minister Narendra Modi's recent visit to the United States brought good news to several agricultural industries. According to the Office of the United States Trade Representative, the United States and India have agreed to remove **retaliatory tariffs** on several agricultural products, including walnuts, almonds, apples, chickpeas, lentils, boric acid and diagnostic reagents. For example, removal of the 20% retaliatory tariff on walnuts could help support higher prices for growers who have struggled for years against higher global supplies, trade barriers, logistics issues and currency exchange fluctuations.²

U.S. representatives from Alabama, California, Florida and Michigan have introduced a bill that seeks to include phosphate and potash on the **Final List of Critical Minerals** of the U.S. Department of the Interior. The American Critical Mineral Independence Act of 2021 provides support to increase domestic supplies of minerals. Even though fertilizer prices have declined in past months, the war in Ukraine and the disruption of supply chains continue to keep the costs of these inputs above historical averages, thereby affecting margins for farmers, agribusinesses and, ultimately, final consumers.³

The current **farm bill**, which is set to expire on September 30 of this year may have to be extended for a short period of time, according to top lawmakers, due to delays in the drafting of a new agreement. The farm bill seeks to set policies to support, enhance and protect domestic agriculture, nutrition, conservation and forestry.⁴

A new piece of **labor legislation** recently signed by Florida's governor Ron DeSantis has created more challenges for companies and organizations that rely on migrant labor in the agricultural, hospitality and other service industries. The implementation of the mandatory e-verify system for employers with 25 or more employees, which became effective July 1, 2023, has resulted in reports of employees' leaving their jobs and moving to other states. The e-verify program permits employers to confirm whether an individual has legal status to work in the United States. The bill invalidates driver's licenses for undocumented people, gives law enforcement official power to act as immigration officials, and requires that hospitals that get Medicaid funding ask for patients' immigration status. The governor's office news release stated that the purpose of the newly signed Senate Bill 1718 is "to combat the dangerous effects of illegal immigration caused by the federal government's reckless border policies."

Labor costs of agricultural operations continue to rise. Petition fees for temporary nonimmigrant agricultural work visas, known as the H-2A program, which serves farming operations to fill temporary agricultural jobs, increased in June 2023 by 7.9% from \$190 to \$205. The U.S. Department of State (DOS) had initially proposed a 63% fee increase to \$310; however, several agricultural groups asked the DOS to reevaluate the proposed rule and methodology.

The **Block Grant Assistance Act** was passed by the U.S. House of Representatives and contains a program to assist Florida citrus growers in mitigating some of the financial impact as a result of damages from Hurricanes Ian and Nicole in 2022. The program would be administered by the U.S. Department of Agriculture, but the Senate still has to approve the program. Losses from those hurricanes were estimated at as much as \$675 million, as more than 90% of the citrus crop was affected for the 2022/23 season.⁵

Mergers and Acquisitions

Bunge, one of the largest agribusinesses in the world, recently announced its acquisition of Viterro, a logistics and trading company specializing in the sourcing, storing, processing, refining, shipping and marketing of agricultural commodities. The combined company, whose closing is expected by mid-2024, will create the second-largest agribusiness company in the world, with more than \$110 billion in revenue. **Consolidation in these grain-trading and -processing industries** is set to spark strong debate among agricultural industry groups, antitrust officials and legislators.⁶

Two of the largest **berry companies** headquartered in California — Well-Pict and Gem-Pack — have combined in an effort to bring higher supplies to their existing buyers and complement their innovation efforts. The demand fundamentals for berries continue to grow in the domestic market. And consolidations of companies are expected to continue in the food and agribusiness sectors.

Weather Conditions

Drought conditions in portions of the corn belt continue to cause a decline in crop conditions, according to the USDA's National Drought Mitigation Center in its June report. An estimated 64% of U.S. sorghum, 57% of corn, 51% of soybeans and 50% of winter wheat were under drought conditions at the end of the second quarter.⁷

Rainfall and a melting snowpack in California during 2023 continue to raise challenges for many farmers in the state.

Devastating flood conditions in such areas as Tulare County,

the third-largest agricultural producing county in California, may limit the planting of crops for a few years if El Niño conditions remain into 2024 and beyond, potentially helping drive food prices for some produce.

Agtech Conditions

Venture capital activity in the global agriculture technology space reached an estimated \$10.8 billion in 2022, according to research company PitchBook. And even though total investment in technological advancements in the agricultural sector was down by 12% from 2021, that figure is still 2.5x higher than just five years ago. Deal volume has focused on companies in late and growth stages compared with the early-stage and seed phases. Investments in agriculture biotechnology took the majority of the venture capital (30.7%), with indoor farming receiving more than 22% of capital commitments. North America continues to be the largest recipient of capital in agtech, but a surge in investments in Asia was notable because it doubled funding from the prior year to more than 22%. Investments in agtech for 2023 are expected to continue growing in the areas of innovation, digitization and sustainability.

A recent wave of bankruptcy proceedings in the **agricultural greenhouse space** is expected to challenge the rapid pace of growth in alternative food production in controlled-environment structures. Companies like AeroFarms, AppHarvest and Kalera have been negatively affected by changes in the cost of capital for the financing of growth opportunities as well as by higher-cost structures for building such facilities, which have run overbudget and encountered production and operational issues.

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JAMIE SHEN

CIO and Head of Agricultural
Equity Investments
jamie.shen@pgim.com



JUAN DAVID CASTRO-ANZOLA

Director of Agriculture Underwriting
And Research
juan.castroanzola@pgim.com