Bumper Crop and Lower Feed Prices point to optimistic outlook for Canadian agriculture sector, TD Economics

TORONTO – The outlook is positive for Canada's agriculture sector thanks to its ability to capitalize on opportunities and overcome challenges reports TD Economics in its annual forecast. Crop volumes are on track to record strong increases on the back of co-operative weather. And, even declines in grain prices, which have been taking some of the shine off financial performances, have helped boost margins for livestock producers from coast to coast due to lower feed costs.

"A period of relative calm appears to be in store for pricing and cost conditions over the next two years as most major commodities will hold close to their current levels," said Derek Burleton, deputy chief economist, TD Bank Group. "In addition, borrowing costs, the prices of fertilizer and energy are likely to remain reasonably steady, all contributing to a favourable near-term outlook."

Positive harvest gains hampered by challenges
Canadian farmers anticipate higher output of most crops, led by a gain of 21% in wheat, particularly in the western provinces – to its best level in more than two decades. Overall, of the major crops, corn production is estimated to be flat and only soybeans appear to be headed for a significant decline relative to last year.

Regionally, barley production is likely to increase by as much as 42% in Saskatchewan alone. In Ontario, performance has been mixed. As wheat (+26%) recorded large gains, harvests of corn (-1.6%) and canola (-24%) are expected to decline. A similar pattern was observed in Québec, where strength in wheat is being offset by reductions in other crops.

There are three key factors that have somewhat dampened the parade on this year's good harvest. The first is weaker pricing conditions across commodities due to high global yield volumes. Secondly, concerns about the quality of this year's crop will lower its attractiveness to a number of global buyers. Lastly, the growing volume of production and exports this year has been raising some logistical challenges, such as finding adequate storage and heightened competition for railcar availability.

Despite some of these challenges, TD Economics believes that the benefits from increased production will outweigh the impact of lower prices, and in turn, anticipates a solid year for growth and above-average incomes.

Lower grain prices a plus for livestock
While weaker prices are a challenge for grain farmers, they have been a helping hand to livestock producers, who have benefitted from this year's decline as feed costs are their number one operating expense. This development has contributed to a positive year evidenced by growing cash receipts for livestock producers. And, after about 5-6 years of shrinking herds, the number of hogs and cattle on farms in Canada has managed to stabilize, with both up slightly on a year-over-year basis. Perhaps more importantly, cattle and hog prices have bucked the trend observed across the agricultural sector, strengthening in recent months. Meanwhile, a growing emerging market appetite for livestock, particularly beef, has contributed to the improved price backdrop and cattle exports to Asian markets have almost doubled in value terms so far this year.

On the flip side, one major risk surrounding the outlook for the livestock sector are changes to U.S. country-of-origin labeling (COOL) legislation, which could threaten to shut out more Canadian-sourced shipments of non-processed meat and poultry products from the U.S. marketplace. Efforts are underway by the federal government to reach a resolution that addresses Canadian concerns in the coming months.

Future outlook
Looking forward, prospects for a sustained long-term expansion in Canada's food supply system are increasingly turning global, reflecting a tilting balance in world growth towards emerging markets.

"In addition, opportunities are on the horizon to expand exports to large countries with the federal government's recent Canada-EU trade pact announcement and Canada's inclusion in the Trans Pacific Partnership (TPP) multi-lateral discussions," added Mr. Burleton. "To fully take advantage of the benefits these trade agreements offer, productivity performance becomes even more vital to ensuring the future success of Canada's agriculture industry."

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