Growth Opportunities Abound in Canada's Agriculture Sector: TD Economics

TORONTO, November 28, 2007 – Canada's agriculture sector is well-positioned to grow due to emerging trends and tastes in the global marketplace according to a report released by TD Economics (www.td.com/economics).

The report's author, Derek Burleton, notes the sector is often overlooked or undervalued and largely associated with adversity and hardship. However a careful analysis reveals it is a major economic driver and, in key areas such as productivity, the sector is a leading area within the overall economy.

"Agriculture, and in particular crops, has entered a new era of high prices, supported by rising food consumption from emerging markets and the prospects of competing demand for crops as a source of bio-fuels," said Derek Burleton, author of the report and head of economic studies at TD Bank Financial Group. "For Canadian farmers, it is about time."

Powerhouse

Canada is the world's fifth largest agriculture and agri-food exporter after the European Union, the United States, Brazil and Australia. Grains and oilseed products, live animals and red meats account for more than half of Canada's export sales. And while it is also the world's fifth largest importer of agricultural products, the sector still makes a disproportionately high contribution to Canada's overall merchandise trade surplus ($6 billion or roughly 9 percent of the total).

Activities in agriculture and agri-food also provide direct benefits to other areas of Canada's economy. For example, primary agriculture is a major user of energy products, machinery and maintenance and repair services, while food processing is a heavy consumer of paper, fabricated metal products, plastics, glass and glass products. On the supply side, agriculture and agri-foods are key suppliers of products such as fuel wood and cork, raw animal hides and animal and vegetable fertilizers.

Leader in Productivity

Raising productivity levels is a key objective for Canadian business. The agriculture sector has been at the forefront of improving efficiencies, raising economies of scale and lowering costs. For instance, the average size, value of assets and net worth of the average farm continued to rise during the first half of this decade. There was also a shift in commodity export sales away from wheat and course grains towards oil seeds, red meats and special crops, which reflected further efforts to diversify and take advantage of areas offering greater revenue potential.

Equally important, the farming community has been busy implementing new technologies and processes to ramp up productivity. The ability of the industry to take advantage of the new equipment has been made more viable by declining prices of U.S. made capital goods. Since 2002, annual productivity growth has averaged two percent per year for primary activities – double the average pace of the overall economy.

Market Recognition

The market now reflects the prospects of the agriculture sector. This year to date, agricultural prices as measured by the U.S.-dollar *TD Commodity Price Index* have jumped by almost 40 percent on a year-over-year basis, outperforming changes registered in the other sub-indices and outstripping the 25 percent gain in the Canadian dollar. Temporary factors, such as the decline in greenback, have helped drive prices higher, but it is telling that many forecasters have upgraded their long-term estimates for agriculture prices. This is a reflection of a number market factors including those outlined below.

Trends and Tastes

A number of trends bode well for Canada's agriculture sector. Growing demand in China, India and other emerging markets is likely to keep overall global consumption of key agricultural commodities running at a brisk pace over the next 5-10 years, fuelled by rising populations and incomes. In some cases – such as wheat and course grains – consumption is projected to exceed global production.

Efforts to derive energy from agricultural products will continue, due in part to forecasts in crude oil prices and the United States' determination to become energy independent. By 2009, the OECD estimates that bio-fuel output will surpass 40 billion litres per year, up from the current level of about 20 billion.

Canada's bio-fuel production is small in absolute terms, but growing quickly, supported by the federal government's announced intention to mandate a 5 percent ethanol blend in gasoline by 2010 and a 2 percent bio-diesel blend in on-road diesel and heating oil by 2012. Other incentives programs at the federal and provincial levels will also encourage production.

Consumer tastes are also evolving, which could represent new growth opportunities in the agriculture sector. For instance, the organic business is booming as a growing number of individuals in Canada and abroad are taking an active interest in tracking their food from field to dinner table. Since 2001, the number of certified organic producers in Canada has jumped by 60 percent, while a growing number of retailers are joining the bandwagon.

Rising costs

The report notes the loonie could rise even further against the US dollar in the next few months, though it should return to about 95 U.S. cent range by 2009; energy and fertilizer prices will remain high by historic standards; wage pressures will not ease to due fierce competition for labour; and strong international trade will drive up ocean freight rates for dry bulk cargoes by an annual average of 5 percent through 2010. Moreover border issues, including a likely move by the U.S. to implement inspection fees on food imports, will remain a concern on the cost side.

Mr. Burleton said: "There has been no shortage of challenges facing the agricultural community over the past half decade. Not only have crop farmers been hit by difficult growing conditions but the livestock industry has faced a barrage of surprises, including avian flu and BSE. Yet through ongoing efforts to adapt and adjust, many agricultural producers have emerged from this period in a position of strength. There is every reason to believe the sector will respond with the same kind of resiliency to address future challenges, and retain its status as an important driver of productivity and prosperity in this country."

- 30 -

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