2009 should be a good year for Canadian farmers, says TD Economics

Above average crop prices, a weaker currency and easing cost pressures are main reasons

Despite the growing likelihood of a global economic recession next year, a combination of still relatively high crop prices, a weaker Canadian dollar and an easing in cost pressures are expected to lead to another good year for Canada's overall farm sector in 2009 according to TD Economics in a new report entitled "2009 Prospects for Canadian Agriculture." While some simmering down in cost pressures will be welcome news for livestock producers, next year will continue to prove challenging for that area in light of the recent imposition of country-of-origin labeling (COOL) for beef and pork products by the U.S. government.

Recovery from rollercoaster ride

2008 has been a rollercoaster year for agriculture prices, with prices surging to the moon during the first half of the year only to retrace those gains in subsequent months. An unexpected surge in global crop supplies has been a key dampening influence. And while agriculture markets are not as vulnerable to a global recession as other commodity areas, they have not been immune to the general flight out of commodities and other perceived riskier assets. TD Economics believes that the further downside risk to prices is limited and that a recovery should be in place by mid-2009. As well, the Canadian dollar, which is expected to trade in a lower range of 80-90 US cents in 2009 compared to nearly parity through much of this year, should continue to prop up prices in Canadian-dollar terms.

Emerging markets and ethanol mandates creating demand

Though the speculative element is unlikely to return to the same extent in the foreseeable future, crop prices should remain above their 2002-07 average level. For one, firm demand in China and India and a number of other emerging markets is expected to remain in place both in 2009 and beyond. Total global imports of food and live animals to China alone have more than doubled since the start of the decade. Second, while lower oil prices will likely curb the push for alternative energy sources, existing ethanol mandates in place in the U.S., Canada and abroad will continue to create incremental crop demand. We'll likely also see U.S. livestock prices rise, fuelled by lower inventories of cattle and hogs. Unfortunately for Canadian livestock farmers, the benefits of higher U.S. prices are likely to be muted by falling demand for Canadian imports due to the newly-implemented U.S. country-of-origin labeling (COOL) legislation, which has increased the cost to U.S. packers of segregating products from outside the country.

Farm incomes boosted by lower costs

While U.S.-dollar agricultural prices overall should end 2009 on a firmer note compared to the start of the year, the average level of prices forecast – which is expected to be well below that of 2008 – should be a drag on farmers' net incomes next year. However, a number of other factors will help to provide an offsetting boost to bottom lines in 2009, including a softer Canadian dollar, falling energy prices, anticipated lower transportation and fertilizer prices, and a gradual easing in credit conditions. A simmering down in cost pressures facing farmers will be the number one factor supporting net farm incomes over the near term.

Future looks bright

TD Economics released a positive report last year, entitled "A New Era for Agriculture." The thesis of the report was that even though agriculture markets would always be prone to short-term swings, the sector's overall longer-term fortunes, especially for crops, had brightened in the wake of rising incomes in emerging markets, government mandates for ethanol and other opportunities in areas such as organics. Despite this year's flurry of developments and ongoing challenges in the livestock sector, TD Economics stands by that assessment. While significant challenges remain, the pendulum will continue to swing to the sector's unprecedented opportunities in the global marketplace.

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