Canadian farm income to decline moderately in 2010 and improve significantly in 2011

TD Economics Fourth Annual Outlook Report on Canadian Agriculture

TORONTO, ON, November 5, 2010 – Dragged down in part by the squeeze from higher input prices, farm incomes will likely decrease across Canada this year, according to the latest report on agriculture from TD Economics issued today. The 2011 outlook is brighter as TD Economics expects a significant improvement in net farm incomes, with farm cash receipts rebounding largely as a result of a rebound in yields from the 2010 depressed level and to a lesser extent, higher prices. This year's report provides a review and outlook across regions and agricultural sectors.

"Production and income performances have varied widely from coast to coast this year, driven by factors such as differing industry mixes and growing conditions. While floods have hurt the wheat crop in the Saskatchewan, favourable weather conditions have been supporting a good year for soybeans and other crops in Ontario and Québec" says Derek Burleton, Vice President and Deputy Chief Economist, TD Bank Financial Group, and author of the report. "On average, Canadian farm income is likely to decline moderately. However, the diversity of the Canadian agriculture sector will be reflected in differing income prospects across the nation in 2010 and 2011."

Highlights of the report include:

Incomes to decrease due to increased input costs:

In 2010, net farm incomes will take a hit from increases in input costs. Energy prices are estimated to be about 20% higher this year than last. Similarly, fertilizer prices – with the exception of potash – have also risen above last year's levels as inventories were depleted. Other costs, including wages and transportation, have also risen off their recessionary lows. In addition, the livestock sector is facing higher feed costs and is still coping with uncertainty associated with U.S. country-of-origin labeling (COOL) regulations.

While the squeeze from higher prices is expected to remain a challenge for Canadian farmers in 2011, pressures from higher input costs could lose a step compared to this year as the pace of growth globally stabilizes in a moderate range. Another piece of good news for farmers on the cost side is that interest rates are likely to remain low. In the face of a slowing economy, the Bank of Canada (BoC) rate is expected to raise its overnight rate from its current level of 1% to only 2% by the end of 2011, which is equivalent to zero in real (after-inflation) terms.

Adding it all up, net Canadian farm incomes in 2010 will likely fall from 2009 levels. For 2011, significant improvement in net farm incomes appears likely as farm cash receipts rebound largely as a result of a rebound in yields from this year's depressed level and to a lesser extent, higher prices.

Weather creating different outcomes across Canada:

The big story in Saskatchewan this year was excessive moisture conditions and below seasonal-average temperatures that are likely to hit both quantity and quality of wheat and barley, offset to some extent by increased cattle and calf receipts and government program payments. While Alberta, Manitoba and to a lesser extent British Columbia have also been hit by the excessive moisture conditions, the impact on farm cash receipts is likely to be less substantial due to their stronger orientation towards livestock and – in the case of B.C. – supply managed industries, where cash receipts are projected to have grown this year. And in Manitoba, 2010 is projected to be a record year for soybean production.

Elsewhere, Ontario and Québec will benefit from respectable turnouts in soybeans, corn, certain fruits and vegetables and livestock receipts, which together will keep farm cash receipts growing at a respectable 5-7% clip this year. In Atlantic Canada, healthy rainfalls during the summer will help boost 2010 production levels for several commodities, including small fruits and vegetables. Potato cash receipts in Atlantic Canada are also expected to fall moderately this year – despite production gains in PEI.

In 2011, look for provinces hit by this year's flooding to enjoy a return to more normal levels of production, lifting cash receipts and farm incomes accordingly. Expected changes are included in a table accompanying the full report. Net incomes in the west are set to improve but remain below their recent peaks in 2008. On the plus side, net income in Québec is expected to reach a new high next year.

National numbers don't reveal the story on the regional front:

Provinces' agriculture sectors can differ significantly due to growing conditions, average moisture levels and proximity to export markets, among other factors. A closer look at agricultural sectors from coast to coast is available in the full TD Economics report at: http://www.td.com/economics/index.jsp.

About the TD Canada Trust sponsorship of the Royal Agricultural Winter Fair:

As part of its ongoing commitment to Canada's agricultural community, TD Canada Trust is the title sponsor of the Agriculture Services Youth Leadership Congress during the Royal Agricultural Winter Fair, which runs from November 5-14, 2010. More information is available here: http://www.royalfair.org/.

About the TD Canada Trust sponsorship of 4-H:

In cooperation with 4-H, one of Canada's longest running youth organizations, TD is proud to sponsor the TD 4-H Agriculture Scholarships, ten awards with a value of $2,500 each, applicable towards a post-secondary education in agriculture or agricultural related field of study. Information about this year's recipients is available here http://www.4-h-canada.ca/english/media/media_release_46.php.

About TD Bank Financial Group

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