Western Canadian grain and oilseed farm cash receipts were a record-high $20.5 billion in 2016, pushed up by strong canola and pulse crop (lentils and dry pea) receipts and supported by the US$0.75 dollar. FCC Ag Economics projects 2017 and 2018 revenues for grain and oilseed producers in Western Canada will fall 1.0% annually. Weather challenges in 2016 that led to poorer quality marketings will weaken 2017 revenues. Weather is expected to also impact 2017’s production and 2018 revenues.

At a projected $20.2 billion in 2017 and $20.0 billion in 2018, these crop revenues would represent the second- and third-highest farm cash receipts on record for Western Canadian grain and oilseed producers.

Large world stock-to-use ratios will pressure prices

The global supply of oilseeds and grains will remain high in 2017-18, continuing to put downward pressure on U.S. and Canadian prices.

Sector highlights: next 12 months

1. Grain and oilseed revenues expected to be relatively unchanged from 2016 highs
2. High world stocks will pressure prices lower
3. Canola area to expand; pulses decline
4. Canadian dollar will support sector profitability
5. Profitability remains above break-even levels for most crops

Premiums for good quality wheat; overall wheat markets remain bearish

World wheat supplies continue to increase due to strong production, most notably in Russia. Total available supply of wheat reached an estimated 997.15 million metric tons (MMT) in 2016-17, 4.4% larger than the 2015-16 supply.

2017-18’s total usage of wheat is projected to be 735.28 MMT, representing a drop of less than 1.0% from last year’s usage. With large beginning stocks, and despite a 2.2% forecasted decline in global production, the projected global
wheat stocks-to-use ratio will rise from 34.9% to 35.4% at the end of the 2017-18 marketing year.

In the U.S., high stocks-to-use ratios and weak prices led to an estimated 8.0% decline in 2017’s U.S. wheat-planted area, the lowest planted area on record. With this move, the U.S. wheat stocks-to-use ratio is projected from 53.4% to 43.7%. The USDA projects wheat prices to average US$4.80 per bushel in 2017-18, US$0.90 per bushel higher than the 2016 mid-point price. Saskatchewan wheat prices have averaged over CA$6.60 per bushel in 2017.

Bad weather in Canada during the 2016 harvest resulted in large stocks of poor-quality wheat and durum. As these stocks coincide with the currently held, large world wheat stocks, Canada will achieve premiums only by producing high-quality wheat and durum harvests in the 2017-18 crop year.

Strong canola demand will absorb likely increases in production

Canola demand remains strong domestically and abroad as the market for vegetable oil continues to expand. With Canadian canola prices averaging near $11.1 per bushel in 2017, Agriculture and Agri-Food Canada estimates canola acres increased 12.1% in 2017 to 22.8 million acres, exceeding total wheat acres for the first time.

Global oilseed markets were strong as of June 2017. The USDA’s July 2017 WASDE projects a 3.3% increase to 94 MMT in Chinese imports of soybeans in 2017-18. Prices will remain sensitive to weather conditions affecting the 2017 U.S. soybean crop and future South American soybean acreage.

Lentil area to decline due to poor crop quality and tighter margins

Excessive precipitation during 2016’s harvest deteriorated the quality of Canada’s pulse crops. At the same time, India’s record 2016-17 pulse crop pressured prices. The combination of poor quality and softer prices resulted in weaker revenues for many Canadian producers.

2017’s lentil acres are projected to decline 24.8% and pea acres are expected to decline just over 3.4% due to a combination of rotation pressures and lower profitability expectations. Overall demand for pulses should remain strong, and unless India sustains their large pulse production of 2016-17, prices should strengthen with a tightening world supply.

Profit margins should remain positive into 2018

Western Canadian grain and oilseed margins, expected to remain positive in 2017 and 2018, will nonetheless drop from the levels seen most recently. As of June 2017, margins for the next marketing year are projected to be strong for canola and wheat but trending near break-even for pulses and feed grains.

The weak Canadian dollar – with the average in the second half of 2017 expected to remain below US$0.78 – should support profit margins. A weaker loonie also usually increases the price of machinery, fertilizer, and crop protection, yet producers benefit overall from a weaker Canadian dollar.

On the radar for 2017-18

- Market access in export markets:
  - Implementation of the Comprehensive Economic and Trade Agreement with the European Union (CETA).
  - Renegotiation of the North American Free Trade Agreement (NAFTA).
  - Possible renewal of the Trans-Pacific Partnership (TPP) agreement, or new negotiations around market access in Asia.
- Patterns in the USD/CAD exchange rate. Trends in oil prices and interest rates in Canada and the U.S. will determine the value of both currencies.
- Drought conditions in Western Canada and U.S. Northern Plains, an area important for high-quality spring wheat and durum. The markets will remain sensitive to changes in moisture conditions, especially wheat.
- Potential impacts of weather patterns on South American and Indian crop conditions.
- Export opportunities arising from any changes in world demand for pulses and canola.

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