FCC Ag Economics

2018 Outlook for the Canadian farm inputs sector

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Farm Credit Canada
Advancing the business of agriculture

Canada

FCC Ag Economics helps you make sense of the top economic trends likely to affect your operation in 2018. In this outlook for the Canadian farm inputs sector, we look at:

- Strength of the world economy, demand for commodities and Canadian agriculture
- Energy markets
- Interest rates and the loonie

2018 should be good for the Canadian farm inputs sector.

Canada's crop input market is forecast to expand between 2.0% and 3.0% in 2018 due to a shift in planting intentions. Fertilizer and feed prices are forecast to be relatively stable early in the year, while fuel prices are expected to increase only slightly in 2018.

Farm input prices were mixed in 2017. Feed prices declined 5.0 – 15.0% as world supplies of corn increased, although Western feed barley traded at a premium after dry conditions in parts of Alberta and Saskatchewan. Large world corn supplies in 2018 should keep feed prices steady. Western feed-barley prices may decline once lower-priced corn moves into southern Alberta.

Fertilizer prices also declined 2.0 – 10.0%, as world supplies of natural gas and oil remained abundant. But pesticides, fuel and energy, which comprise the majority of farm input costs, all increased.

How will this affect your bottom line?

Despite softer agricultural commodity prices recently, farm income has grown enough that producers will still buy the fertilizer needed to generate profits. But there's an opportunity for suppliers to educate customers about the proper use of technology and inputs. Studies show larger farms typically take advantage of volume rebates on inputs, but without always realizing higher yields, providing that service won't just add value. It can also help input suppliers fight margin pressures.

Trends to watch in 2018

Global economic growth to remain steady

Projections show world economic growth of 3.7% in 2018. Demand for food, feed and non-food uses of agriculture commodities will remain strong in 2018, helping to absorb current elevated supplies. It won't be enough to increase commodity prices substantially, however, thereby limiting new demand for fertilizer and pest control products. It may also inhibit investments in new equipment.

Energy markets have adjusted to greater supply

Global economic growth, combined with steady fuel efficiency gains in developed countries, are expected to keep oil demand healthy. The West Texas Intermediate (WTI) oil benchmark is currently forecast to trade around US$55/barrel in 2018, with some volatility around this range. Oil production commitments of Russia and OPEC (Organization of the Petroleum Exporting Countries) as well as U.S. drilling activity may change this forecast.

In Canada, fuel represents about 5.0% of total Canadian farm expenses. Oil stabilized at US$55/barrel should have minimal impact on crop input prices in 2018. We forecast farm gasoline to average around CA$0.95/ litre in Alberta. Farm diesel is forecast to also average around CA$0.95/ litre, fluctuating throughout the year with seasonal consumption patterns. Fuel price trends in each province are projected to climb 5.0 – 10.0%, on average.

Historically, fertilizer represents roughly 10.0% of total farm expenses. Prices for urea and anhydrous ammonia are expected to be stable to slightly lower in 2018. Potash prices are forecast to decline about 8.0% in 2018 after a decline of nearly 20.0% in 2017. Ammonium phosphate is forecast to increase 2.0% after a decline of almost 9.0% in 2017.

Interest rates to remain low while loonie to stay under US$0.80

The Bank of Canada projects economic growth in Canada to be slightly weaker in 2018 relative to 2017. They also expect inflation will trend around 2.0%, the Bank's mid-point target. Financial markets suggest there will be two or three hikes of 25 basis points in the overnight rate for 2018.

Businesses should take note: although interest rate increases will likely be muted, borrowing costs are projected to climb off historical lows reached in 2016 and 2017. Financial markets currently expect bond yields to climb moderately. This would mean that a 5-year, fixed-rate mortgage would be priced around 75 basis points higher at the end of 2018 than it was at the end of 2017.

The Canadian dollar is expected to average US$0.78 for 2018. In 2016, Canada imported CA$3.4 billion worth of pesticide, fertilizer and other chemical products. CA$2.7 billion, or nearly 80.0% of that total was from the U.S. A weaker Canadian dollar raises the price of these imported products. But, Canadian businesses relying on export markets really gain from a US$0.78 loonie. In 2016, Canada exported nearly CA$1.9 billion worth of pesticide, fertilizer and other chemical products. Of that, 98.0% went to the U.S.

Canadian agriculture strong and resilient

We project 1.0% growth in Canadian farm cash receipts in 2018, following 3.0% growth in 2017.

- We expect grain and oilseed production to remain profitable in 2018 while pulses should record losses.
- We expect favourable hog sector profitability in 2018 as farrow-to-finish operations may record profits as large as $20 per head on average. The dairy sector is expected to record strong growth based on near-record expansion in milk production. Expect more pressure on profitability in the cattle sector compared to 2017. Cow-calf margins should be positive throughout 2018, but we expect feedlots will feel pressure.

On the radar

- The outcome of the renegotiations of the North American Free Trade Agreement (NAFTA) will have possible implications for:
  - the value of the Canadian dollar
  - trade taxes and market access rules that apply to Canadian exports as well as foreign sales into Canada
  - dispute settlement procedures

  Changes in any of these could impact prices of ag commodities in Canada.
- The impact of Canadian and U.S. planting intentions on demand for farm inputs.

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