FCC Ag Economics helps you make sense of the top economic trends likely to affect your operation in 2019:

- China’s oversized influence on global oilseed markets
- Expansion opportunities for Canadian crops
- Rising input costs
- A weaker Canadian dollar and higher interest rates

Profitability throughout Canada’s grains, oilseeds and pulses sectors will vary in 2019. Production challenges, trade tensions and higher input costs generally dampen this outlook, while expanding potential in export markets and a lower Canadian dollar will support sector profits.

Grains

Spring wheat margins are expected to be at break-even or slightly above this year, while winter wheat margins will be pressured. They may find relief if U.S. 2019 acres fall, as early reports suggest. U.S. wheat prices for the 2018-19 crop are forecast to increase, on average, from 2017-18, with the season-average farm price ranging from US$5.05 to US$5.25. Lower yields resulted in an estimated 1.0% year-over-year increase in Canadian wheat production in 2018 despite an 8.0% increase in seeded area.

We also expect corn profitability to be slightly above break-even in the coming year, but deoxynivalenol contamination in Ontario is a threat to profitability. The 2018 Canadian corn yield is expected, on average, to be the second-highest on record. Prices should improve, despite unexpected global growth in production of 1.4 billion tons in 2018, given that estimates of U.S. current-crop yields are adjusted lower, their exports pick up and supplies decline.

Oilseeds

Both soy and canola should see break-even to positive margins on the 2018-19 crop. Canola prices are forecasted to average just over C$500 per tonne as a response to lower world soy prices. Any loss would be limited by the lower Canadian dollar. A 4.7% decline in 2018 production due to a difficult harvest and generally lower yields will support prices.

A 13.5% year-over-year reduction in overall 2018 acres and an average 8.7% increase in yields combined to cut Canadian soybean production by 5.1% to 7.3 million tonnes. Prices are expected to range between US$7.85 and US$9.35 in 2019 and exports to grow with support from a US$0.75 loonie.

Pulses

Canada’s 2018 production fell significantly for both dry peas and lentils in response to a late-2017 tariff on Indian imports. This lowered prices for lentils (37.1%) and dry peas (18%). Available supply is higher due to the large carry-in stocks, making the 2019 outlook dependent on the demand from India and domestic opportunities. While India’s 2019 pulse production could be challenged, any upside for Canadian crops will meet stiff competition from producers in the Black Sea region. Expect margins to be pressured this year.

How will this affect your bottom line?

With the crop sector’s expected tight profit margins in 2019, seek efficiency gains by working to reduce the ratio of operating costs relative to revenues, i.e., accounting for the impact on yields.

Proper evaluation of financial risks will be especially important on loans due for renewal in 2019, as periods of rising interest rates may require greater shares of revenues to cover interest payments. Watch your debt repayment capacity, given the slowdown in income – especially for operations with recent, significant investments.
If strength in the Canadian economy continues to produce interest rate increases throughout 2019, its effect, combined with expected stability in 2019 crop receipts, may result in dampened growth in farmland values.

**Trends to watch in 2019**

**China’s oversized influence on global oilseed markets**

The U.S.-China December trade truce may support demand for U.S. soybeans and lift Canadian prices, but China has reportedly already bought much of Brazil’s crop, widely expected to be huge. The truce could also work in corn’s favour, if U.S. soybean production picks up at the expense of corn acres in 2019. As of late December, the corn-soybean price differential wasn’t enough to prompt significantly more corn acres. However, even with warming relations, the prevalence of African Swine Fever in the Chinese pig herd could grow enough to result in China lowering all soy imports in 2019.

**Canadian crop producers can find access amid shifting trade flows**

Canada holds a key to global crop market access the U.S. lacks: recent trade inroads via the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) and Comprehensive and Economic Trade Agreement (CETA). Canada’s preferential access to Asian markets and Europe should foster opportunities for Canadian grains, oilseeds and pulses.

Strong wheat export demand and reduced competition from Australia, Russia and Ukraine will also contribute to an expected 3.0% gain in Canadian wheat exports in the coming year.

While the price fell 8% from May to August, Canadian soybean receipts increased 20.2% through the first three quarters of 2018 compared to 2017, on the strength of increased 2017 Prairie production and a 16.0% increase in exports between January and October. That’s expected to continue with record shipments in 2019.

**Growth in demand for feed, food and fuel will continue to strengthen**

Ethanol production in the U.S. is expected to maintain 2018 levels (of 1.04 million barrels a day) in 2019, as consumption reaches a new high of 950,000 barrels a day. In late 2018, supplies remained well above 2017 levels, despite cuts in production, but the U.S. administration’s proposal to lift the summer ban on the use of E15 (gasoline with 15.0% ethanol) could, if enacted in 2019, help erode stocks.

The poor weather that delayed the 2018 harvest and added to existing supplies of feed grain will likely help suppress growth in those prices this year. The good news is that demand for feed is projected to be strong, as North American livestock production responds to growing demand for animal proteins. A note of caution though: profitability challenges may reduce U.S. pork and beef production, currently forecasted to be 5.3% and 3.3%, respectively, in 2019.

The global economy should hold steady at 3.7% growth in real GDP, allowing for further growth in global food demand.

**Costs of inputs likely to rise in 2019**

Farm input prices increased year-over-year in 2018, and they’re likely to rise again. Higher labour costs and interest rates are expected to pressure production costs. The global fertilizer demand remains strong but is slowing. Global supply faces a few challenges resulting in potentially higher 2019 prices. Farm equipment prices are likely to remain elevated if U.S. steel tariffs are not removed. The 2018 rising trend in fuel prices (an average increase of 20.0%) may come to an end in 2019 as the world’s oil market finds ways to balance a large supply with demand.

**Weaker loonie will help offset pressures on net farm income**

The loonie declined steadily in 2018. We forecast it to average US$0.75 for 2019 – a good news story for field crop producers.

Helping to depress the Canadian dollar this year:

- Challenged 2019 oil prices, as production increases and demand slows.
- Rate increases on both sides of the border. Enjoying its second-longest economic expansion period ever, the U.S. will break the record if that growth extends into summer. Watch for the Federal Reserve to hike interest rates possibly three times in 2019. Here at home, the Bank of Canada expects inflation to hit its 2.0% mid-point target, with an economy near full-capacity. Financial markets currently expect no more than two overnight rate increases of 25 basis points this year, with the first rate hike coming in the second half of the year.
On the radar

- The next chapter in U.S.-China trade tensions.

- Potential for weaker growth for the global economy in 2019, driven in part by uncertainty around China's ability to sustain its debt-fuelled economic expansion without triggering inflation. Chinese debt is a growing financial risk for the health of the world economy. A restricted trade environment that continues to suppress emerging economies could easily add to a slowdown. The stability of the global economy matters to Canada's field crop sectors, which export as much as 90% of their production each year to diverse markets.

- Elevated probability of an El Nino event disrupting 2019 production with more rainfall in the southern part of the U.S. and drier conditions in the northern part of the U.S. and Canada. Drier conditions are expected to prevail as well in Asia and Africa.

- South American soybean production this marketing year, forecasted to be huge and priced more competitively than U.S. soybeans. While originally a short-term response to the U.S.-China trade fallout, Chinese imports of Brazilian soybeans could become a long-term pattern.

Curious about the 2019 outlooks for other Canadian sectors? Here's what is available:

- Agribusiness
- Broilers
- Dairy
- Food processing
- Horticulture (new for 2019)
- Red meat

Learn more about economic events that could impact our industry and your bottom line. Our team of economists and researchers share their unique perspectives in reports, videos, blogs and articles available on our website.

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