



DREAM. GROW. THRIVE.

ANNUAL REPORT
2019-20

FARM CREDIT CANADA

Agriculture industry overview

FCC advances the business of agriculture by providing capital to all agriculture sectors, including primary producers, agribusinesses and food processors. We monitor several important factors that influence the short and long-term prospects, profitability and financial health of each sector.

Farm revenues declined on lower prices and production challenges

Weather challenges across the country have resulted in quality issues and as much as four million acres was left unharvested in 2019. Overall production of principal field crops is estimated at 93.4 million tonnes, relatively unchanged from the last crop year. Weather at harvest created major challenges for potato and vegetable producers. Offsetting the challenges in the crop sector, higher commodity prices for livestock and the expansion of cannabis receipts will support overall farm cash receipts in 2019.

Overall crop receipts increased 3.9% and overall livestock receipts increased 5.1%.

Farm input prices were, on average, 2.0% higher in 2019 compared to 2018. Average input prices for crop production increased 4.2%, as higher commercial seed and fertilizer prices were offset by lower fuel prices. This has contributed to an overall softening of crop margins. Average input prices for animal production increased 0.2% as higher feed costs were offset by lower livestock prices. This slow growth in livestock input cost is expected to contribute to improved margins for the sector in 2019.

For more information, refer to FCC's sector outlooks at fcc.ca/AgEconomics.

Farmland values continue to trend higher

Strong farm cash receipts and low interest rates supported continued investment in Canadian farm operations. As a result, farmland values increased an average of 5.2% in 2019. Strength in farmland values continues to support the balance sheet of producers. More information regarding farmland values, including regional analyses, is available in the FCC Farmland Values Report at fcc.ca/FarmlandValues.

Investment in farms pushing debt higher

Farm debt increased at an average annual rate of 6.2% over the past 10 years as producers continued to make strategic investments to improve the productivity and efficiency of their farm operations. More information is available on the [Statistics Canada website](#).

Opportunities and challenges for Canadian agriculture and agri-food in global markets

Exports are key to Canada's success as an agricultural producer. With a small population and vast amount of arable land, we must export the production we can't consume. Canada is the fifth-largest exporter of agriculture products and the 11th-largest exporter of agri-food products in the world.

The landscape for world trade presented several different challenges for the agriculture and agri-food sectors in 2019. U.S.-China trade tensions continued to disrupt world trade flows of agriculture commodities, while U.S. tariffs on steel and aluminum caused trade disruptions for Canadian manufacturing companies. Tariffs on Canadian steel and aluminum were removed in May 2019. Import restrictions on Canadian canola exports to China have caused canola prices to decline. China historically accounts for 40% of Canada's canola exports. In addition to canola, there have been market access concerns raised on pork, peas and soybeans because of strained relations. Import tariffs on Canadian exports of pulses to India are also contributing to lower Canadian prices of peas and lentils. Market access for Canadian durum exports to Italy remains a concern for producers.

African swine fever has been detected in 11 countries across Asia and has created increased export opportunities for proteins. It was discovered in the Chinese hog herd in 2018 and spread quickly, wiping out an estimated 40% of the Chinese herd and increasing demand for proteins, including beef, pork and poultry products. Increased market opportunities have resulted in higher prices for cattle and hogs.

Canadian food preferences continue to evolve

Canadian consumers have an increasing influence on the agri-food supply chain. Preferences of Canadian households have evolved toward healthy, convenient and sustainably produced foods, leading producers and processors to develop food products with specific nutritional values and other attributes. This creates new supply chains and profit opportunities for the entire sector. Producers in all sectors also continue to evolve their practices to meet consumer expectations around food safety and sustainability.

Current and potential impacts for FCC

Canadian agriculture and agri-food sectors remained financially healthy at the end of 2019. New trade agreements, historically low interest rates, a favourable Canadian dollar and robust food demand at home and abroad were all supportive of opportunities for Canadian agriculture, agribusiness and agri-food.

Conversely, the combination of lower commodity prices, increased competition for supply-managed industries, production challenges, trade concerns, transportation disruptions and higher input prices created numerous challenges for Canadian agriculture, agribusiness and agri-food industries. This, combined with the spreading of COVID-19 in Canada and around the globe, is resulting in a tightening of balance sheets and increased market uncertainty.

Small to medium-sized food processors are delivering innovative food products to Canadians, and larger processing firms are capitalizing on the growing demand for safe, high-quality food in foreign markets. COVID-19 has forced governments around the world to take drastic action to reduce the spread of the virus. This has resulted in people limiting physical interactions and spending more time at home. Transportation has also been significantly disrupted, especially for commercial flights, resulting in higher costs and reduced access to markets. This is leading to a shift in food consumption away from restaurants to home. COVID-19 has also resulted in many consumers stockpiling food. This has created short-term sales opportunities as consumers fill freezers and pantries with non-perishable food.

COVID-19 is expected to create significant market disruptions and increased costs throughout the Canadian food value stream. Despite these challenges, we expect food manufacturing will remain a significant driver of the Canadian economy.

Technology and an emphasis on raising productivity at the farm level are two of the most important drivers for agribusiness. Tighter profit margins at the farm level slowed the demand for new farm equipment and other farm inputs, but farm operations continue to adopt technology to lower their cost structure and alleviate the impact of a tight labour market.

Agriculture, agribusiness and agri-food industries are continually adapting to the changing market environment, labour challenges and transportation disruptions caused by COVID-19. These challenges are creating major disruptions to the supply chain, adding significant costs and generating many market uncertainties. Despite these major challenges, Canada's agriculture and agri-food sectors are generally well-positioned to absorb headwinds while capitalizing on current and future market opportunities.



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