



Annual Report
2020-21

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.

The Canadian agriculture and agri-food industry experienced several disruptions in 2020 due to COVID-19, resulting in economic stress. Processing plant closures, limited labour availability and food service and hospitality industry shutdowns are just a few of the disruptions introduced by the global pandemic. Despite the market turmoil, the agriculture and agri-food industry has performed better than the Canadian economy. Food and beverage manufacturing GDP declined 1.0% as compared to a 5.4% decline for the overall economy.

Farm cash receipts increased 8.3% in 2020 as strong demand for grains, oilseeds and pulses offset revenue declines in other areas of primary production. Food and beverage manufacturing sales also expanded, increasing 3.5%. New variants of COVID-19 continue to increase caseloads across the country, causing economic uncertainty and introducing risks of further disruptions in agri-food supply chains.

Farm revenues increased on production and strong crop prices

Production of primary crops increased 4.5% to an estimated 99.0 million tonnes. Conversely, labour supply created harvest challenges for some fruit, vegetable and potato producers. Processing plant disruptions and closure of food services reduced marketing opportunities for livestock and supply-managed sectors.

Overall crop receipts increased 14.8% and livestock receipts decreased 1.1%.

Farm input prices were, on average, 1.0% lower in 2020 compared to 2019. Average input prices for crop production decreased 2.4% as prices for commercial seed, fertilizer, pesticide and fuel all declined. This has contributed to an improvement in crop margins. Average input prices for animal production increased 1.2%. Higher input costs are contributing to weaker margins for the sector in 2020.

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

Farmland values continue to trend higher

Strong farm revenues and low interest rates supported investment in Canadian farm operations. Farmland values increased an average of 5.4% in 2020. 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 pushes debt higher

Farm debt increased 5.9% in 2020 with an average annual rate of 6.5% over the past 10 years as producers continued to make strategic investments to improve the productivity and efficiency of their farm operations. Shifts in consumption patterns, processing plant closures, and market uncertainty all contributed to liquidity pressures or expectation of liquidity pressures, increasing demand for capital in 2020. More information is available on the Statistics Canada website.

Strong demand for Canadian agriculture and agri-food product offsets market access challenges

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 2020. Initially, temporary closure of port facilities and a large-scale cancellation of global flights due to the global spread of COVID-19 disrupted trade for all agriculture and agri-food sectors, especially seafood exports. Re-opening has significantly improved trade and food manufacturing sales, although it remains a challenge to access containers for pulse exports.

Processing plant disruptions in Canada and the United States created a backlog of cattle and hogs,

reducing Canadian export opportunities and causing producer prices to decline. Investments to protect employees have allowed food processing facilities to re-open and work through the backlog of cattle and hogs.

Shifts in food purchasing patterns

Shutdown of food service businesses across the country led to higher food expenditures at grocery stores. Consumers relied more on online channels, creating some new opportunities for food processors and producers to sell direct to consumers. Demand for local and Canadian food products also expanded considerably.

Canadian household preferences continue to evolve toward healthy, convenient, sustainable and environmentally responsible 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 industries remain financially healthy at the end of 2020. Record low interest rates, a supportive Canadian dollar and robust food demand at home and abroad created opportunities for Canadian agriculture, agribusiness and agri-food. Demand for grains, oilseeds and pulses have been extremely strong in 2020, resulting in improved prices and producer returns. Strong prices in this sector have supported demand for farmland, farm equipment and improvements of balance sheets for this sector.

Conversely, increased market access for supply-managed industries, production challenges, trade concerns, transportation disruptions and higher input prices created numerous challenges for other sectors, notably for livestock and horticulture. Disruptions initially resulted in a tightening of balance sheets and strong demand for FCC's COVID-19 support products. These sectors have since improved as the Canadian economy recovers.

COVID-19 continues to create market uncertainty throughout the Canadian agri-food supply chain. We expect food manufacturing will remain a significant driver of the Canadian economy and the economic recovery. 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.

Agriculture, agribusiness and agri-food industries are continually adapting to the changing market environment. COVID-19 has caused significant labour and transportation challenges, adding significant costs and generating many market uncertainties. Despite these major challenges, Canada's agriculture and agri-food sectors have adapted and are well positioned to capitalize on the economic recovery.



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