

2022-23 ANNUAL REPORT

Economic environment

Global economic trends impact the business environment in which the Canadian agriculture and food sectors operate. As the Canadian economy ascended from pandemic disruptions, new challenges emerged. The war in Ukraine, extreme weather, supply chain disruptions and labour availability led to increases in prices, wages and interest rates. Global gross domestic product (GDP) increased 3.6% in 2022, following a 7.1% increase in 2021.⁵ Global growth is expected to slow further in 2023 to 1.9% as higher prices and borrowing costs contribute to declines in consumer spending.

Despite these economic challenges, the resiliency of Canadian businesses and consumers supported economic growth as Canada's GDP increased in line with the global rate of 3.6% in 2022. Strong consumer demand and exports led the increase. GDP growth started to slow at the end of 2022, and FCC Economics predicts Canadian GDP growth will decline in the middle quarters before picking up towards the end of the year.

Higher economic activity from pent-up consumer demand, combined with a reduced labour force – a result of increased retirements and reduced immigration during the pandemic – have contributed to a historically tight Canadian labour market. The unemployment rate declined to a record low 4.9% in June 2022 from 7.6% a year prior and finished the year at 5.0%.⁶ Improvement in the labour market, while positive overall, created hiring challenges for businesses and pushed labour costs higher. A tight labour market combined with supply chain disruptions in Canada and around the world resulted in higher than expected inflation. Canadian inflation averaged 6.8% in 2022, well above the Bank of Canada's target rate of 2%. Inflation moderated from a high of 8.1% in June to 6.3% in December. Historically high household savings and increasing wages supported strong demand for goods and services throughout the Canadian economy in 2022.

To address inflation, the Bank of Canada implemented quantitative tightening in 2022, and increased its policy interest rate from 0.25% to 4.25% during the year.

Record prices and robust demand for food and agriculture commodities have created investment opportunities across the agriculture and agri-food value chain.

Demand for agriculture commodities and food remains strong

Global economic growth in 2022 supported strong demand for food and agricultural commodities, resulting in increased export opportunities. The impact was particularly noticeable in various crop markets that recorded significantly higher prices in 2022 than the five-year average. Higher input prices for energy and raw materials led to higher food prices. Reopening of the restaurant industry shifted food consumption towards pre-pandemic levels, but tighter consumer wallets in the face of higher inflation have limited the upside potential for that industry.

The United States remains Canada's largest export market, accounting for over 35% of our agriculture exports and more than 75% of our food and beverage manufacturing exports.⁷ The U.S. economy contracted in the first half of 2022 before quickly rebounding in the second half of the year,⁸ dragging down the Canadian dollar. The decline in the dollar was a result of the Federal Reserve aggressively increasing its policy rate and global oil price declines due to growth concerns. The Canadian dollar averaged slightly below US\$0.77 in 2022 from just under US\$0.80 in 2021. Overall, Canadian agriculture benefits from a low dollar as it supports farm revenues by lifting prices paid to Canadian producers and making Canadian products competitive in the world market.

⁵ <https://www.bankofcanada.ca/2023/01/mpr-2023-01-25/>

⁶ <https://www150.statcan.gc.ca/n1/daily-quotidien/230106/dq230106a-eng.htm>

⁷ <http://www.ic.gc.ca/eic/site/tdo-dcd.nsf/eng/Home>

⁸ <https://www.bea.gov/data/gdp/gross-domestic-product>



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