

FCC Ag Economics 2019 Outlook

Canada's agribusiness sector



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

- Depressed U.S. farm income
- Limited growth prospects for Canadian farm cash receipts
- Fluctuations in energy markets
- A weaker Canadian dollar and higher interest rates

The outlook for Canada's agribusiness sectors rests on agricultural producers' profitability outlooks. Tighter margins for crop and livestock producers and higher borrowing costs will likely curtail sales of new equipment to Canadian farms and slow demand for crop inputs. A Canadian dollar that should average lower this year than last should support more exports of farm equipment, especially if policy developments ease trade tensions and produce a rebound in the U.S. farm economy.

Farm inputs

Overall, farm input prices increased year-over-year in 2018. Fertilizer prices were mixed: anhydrous prices declined 6%; phosphate prices increased 4%. Herbicide prices also rose, increasing approximately 5% year-over-year. That rising trend in input prices is likely to be repeated this year along with expected higher labour and borrowing costs and further trade disruptions.

Fertilizer prices are forecast to increase 1% overall in 2019, possibly pushed higher if demand rises in response to an increase in U.S. corn acres. But growth rates in the global fertilizer supply are more likely to drive 2019 prices. Forecasts call for greater potash production capacity although it may take a while to come fully online. While nitrogen production

is also expected to expand this year, environmental pressures in both India and China are more likely to curb overall global capacity.

Fuel prices increased a significant 20% last year. They're unlikely to see that growth in 2019, although continued strength in the North American economy may push prices higher than they are at the beginning of the year. Something to watch in 2019: rates for global shipping, air travel and trucking are expected to rise, as changes in marine fuel standards may result in significantly higher demand and higher prices for diesel this year. That will also help drive up farm costs: fuel for heating and machinery typically represent 6% of total farm expenses.

Farm equipment

Farm equipment prices in 2018 were generally 1 to 2% higher than 2017. With U.S. steel tariffs increasing the costs of both parts and new equipment, those higher prices helped deflate Canadian sales of farm equipment. Four-wheel-drive tractors sales were down 9% year-over-year and combines were down 6.3% year-over-year, as of October 2018.

Pressured commodity prices and the production challenges that producers across the country faced in 2018 have led to an estimated 1% decline in 2018 Canadian farm cash receipts. They also lower the probability the sector will see significant income growth in 2019; that, along with expected higher borrowing costs in 2019 should continue the trend of falling combine and four-wheel-drive tractor sales this year.

A resilient Canadian economy helped boost overall sales of smaller tractors, most typically used on non-agricultural properties, in 2018. Year-over-year sales of the smallest tractors (less than 40 horsepower) were up 5.9%, and sales of tractors of 100-plus horsepower also increased, by a more modest 3.2%. Sales of mid-size tractors (40 to 100 horsepower) fell 1.7% in the same period. Overall sales of tractors are forecast to increase slightly in 2019 due to continued strength of the Canadian economy.

How will this affect your bottom line?

Any trend in demand for farm inputs and equipment will ride on the strength of demand for agricultural commodities. That demand is largely influenced by trade negotiations between the U.S. and its various partners and robustness of the world economy. Higher farm input costs continue to pressure producer margins. Producers increasingly seeking efficiency gains to maintain profitability will lead to an expansion of a service-based economy in agriculture.

Trends to watch in 2019

One of the world's ag giants threatened on many fronts

2018 was one of the poorest years in the last decade for [profitability](#) of the U.S. ag sector, and 2019 may not be much better. Trade tensions between the U.S. and China could be a source of real problems. U.S. [soybean ending stocks are projected at a record 955 million bushels](#). Failure to resolve the current U.S.-China disputes and permanently remove tariffs on U.S. soybean exports could trigger a significant shift in 2019 U.S. seeded acres – towards corn and away from soybeans. That may support demand for fertilizers. A larger outbreak of African Swine Fever in China could result in significant shifts in global trade flows, impacting the demand for North American livestock and feed grains.

Add to this a worrying slowdown in U.S. farm sector [credit availability and flattened farmland values](#), and you end up with a year that could be troubling for many U.S. producers. After hitting its high in 2013 (at US\$123.8 billion), U.S. net farm income has fallen dramatically since, helping deflate exports of Canadian equipment by 6.7% on average each year between 2013 and 2017. The most recent fall of the loonie may be the ticket needed to lift Canadian exports in 2019. As of October 2018, it looks to have done that: the slide in exports was reversed (with year-over-year 34% growth). Despite the downturn in the U.S., prospects for Canadian equipment exports look good for the coming year, with the Canadian dollar likely to average even lower in 2019 than it did in 2018.

2019 energy markets in flux

The 2018 rising trend in fuel prices (an average increase of 20%) may come to an end in 2019 as the world's oil market finds ways to balance a large supply with demand. A realized commitment from OPEC to cut production will support oil prices this year, but it's not certain that will happen. Perhaps the largest threat, though, is a potential slowing of the global economy this year.

As of December, [real GDP was forecasted to grow 3.7%](#) in 2019, but several forces will challenge that growth. China's ability to sustain its debt-fuelled economic expansion without triggering inflation is anything but certain, especially in light of ongoing trade disputes. 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.

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 Canadian exporters.

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% 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
- 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.

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

- Broilers
- Dairy
- Food processing
- Grains, oilseeds and pulses
- Horticulture (new for 2019)
- Red meat

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