

# Farm Management Consulting



## MNP Canadian Agriculture Industry Outlook Fall 2023

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# Industry Outlook 2023

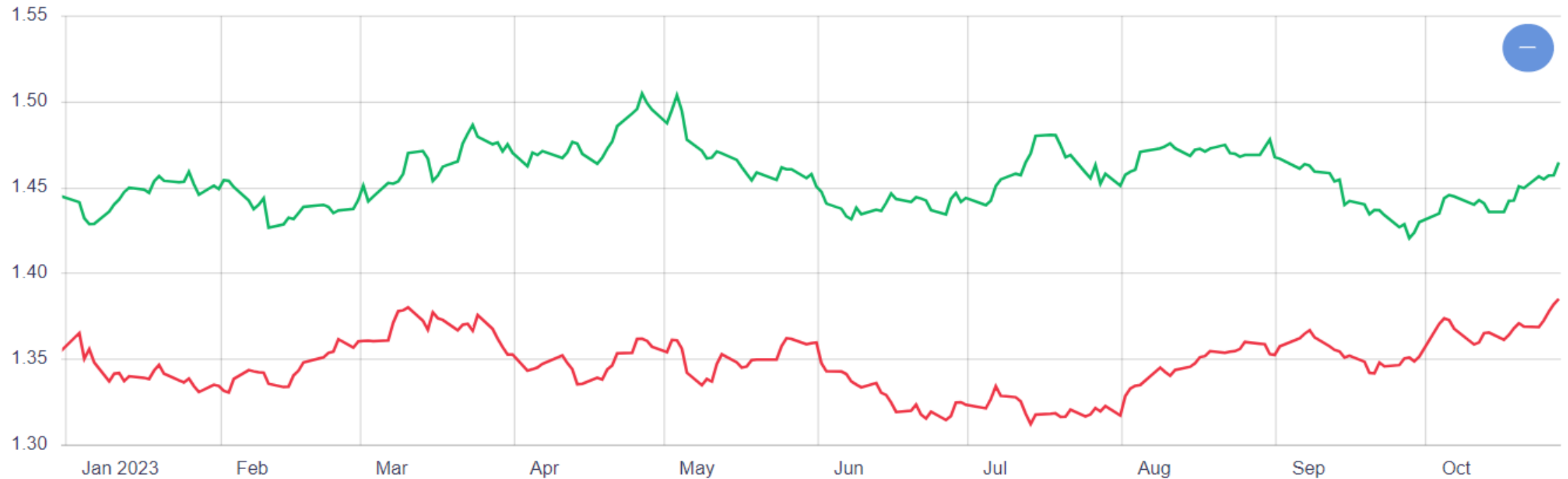


## The Market Fundamentals

- Supply - Demand
- Trade
- Supply Management

# Exchange Rates

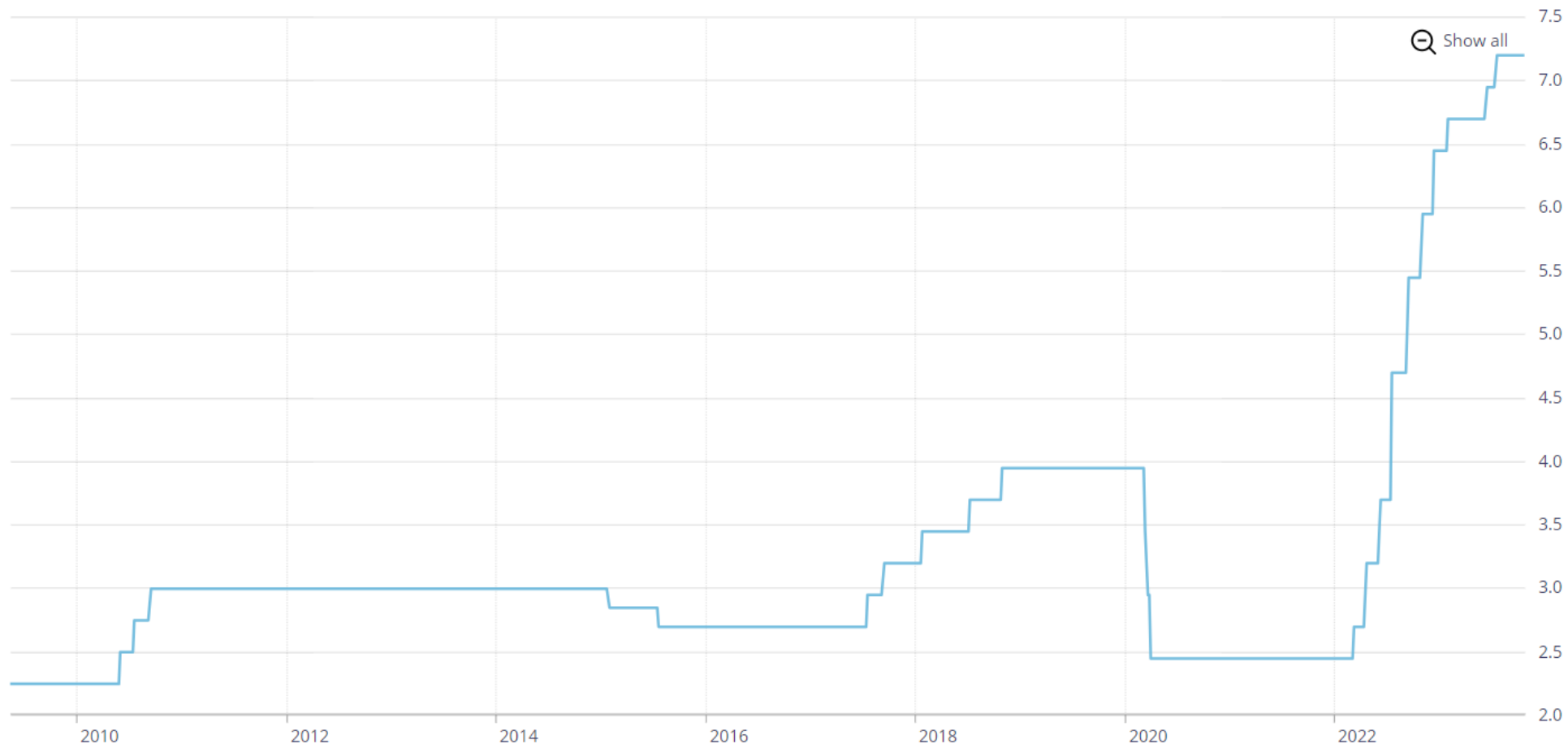
Daily Exchange Rates



Green – Euro    Red - USD

Source: Bank of Canada

# Interest Rates

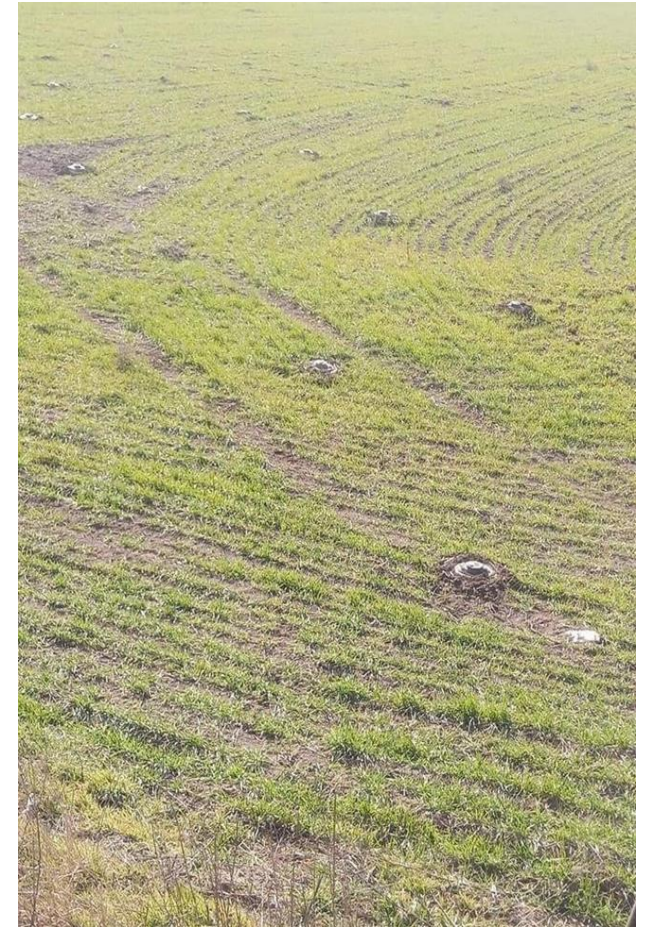


Source: Bank of Canada

# Industry Outlook - 2023

## Trade – Ukraine Conflict

- September:
  - Unsuccessful talks between Russia and Turkey to revive the Black Sea grain deal / exporting of Ukrainian grains, as Russia demands its export restrictions to be lifted
  - Leading to volatility in global prices, especially wheat prices, and concerns about food security
  - A separate agreement was negotiated: Russia to send 1 million tonnes of grain to African nations via Turkey
  - Despite Russian attacks on ports along the Danube River, Ukrainian exports using this route have been unaffected, also due to “humanitarian corridor”
    - With increased production of Ukrainian wheat (+9%), barley (+12%), corn (+4%), and sunflowers (+25%), Ukraine is expecting to export around 50 million tonnes of grains and oilseeds
  - Cargill to sell its 25% stake in a Russian grain terminal



# Industry Outlook - 2023

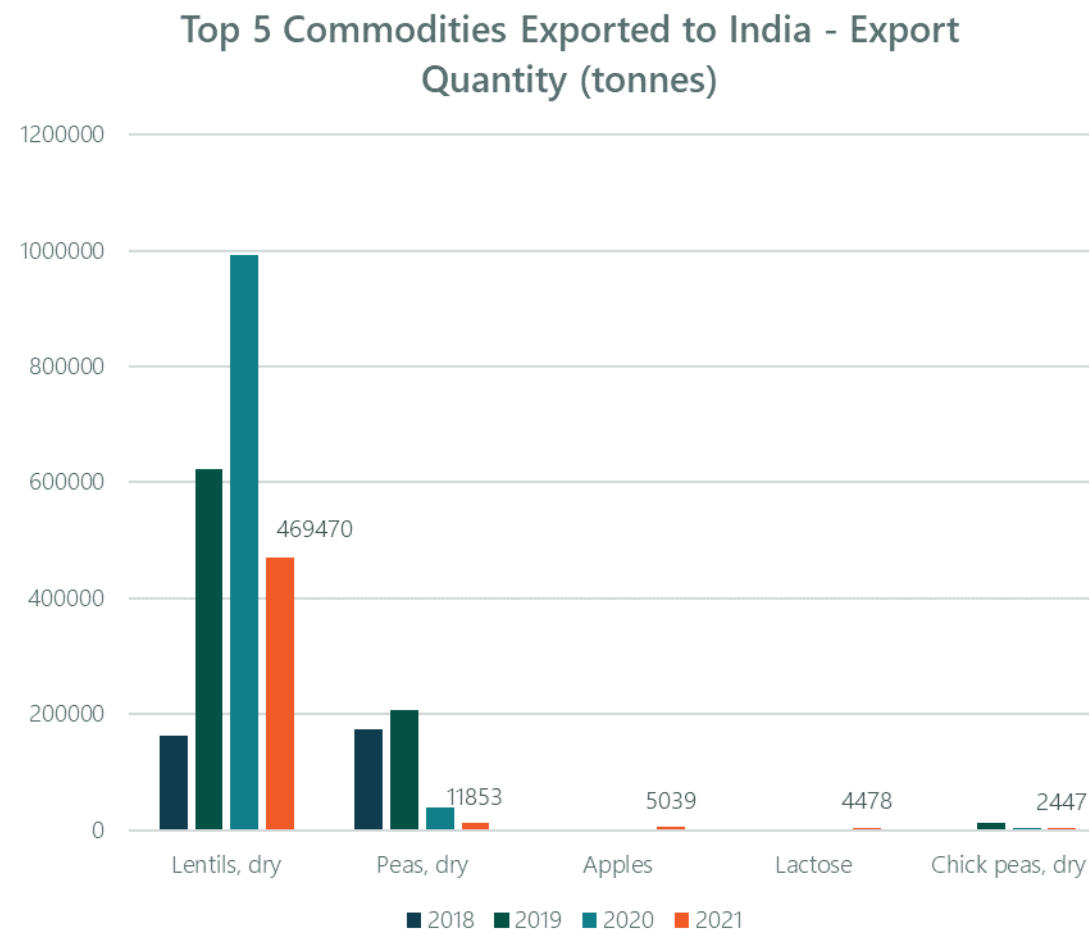
## Trade – Ukraine Conflict

- Ukraine filed complaints at the WTO against 3 countries
  - Retaliatory import restrictions on certain imports from Poland and Hungary
- “Compromise Scenario”: exports of corn, canola, sunflower seed, and wheat must be licensed
  - Product and volume determined by Ukraine and receiving country
  - Expected to become operational mid-October
- Expectation for the coming weeks:
  - Russia’s position to weaken as less ships are trapped in humanitarian corridor and risk of increasing insurance rates
  - Revival of grain deal after all?

# Industry Outlook - 2023

## Canada – India Conflict

- Canada indicates they have evidence of Indian involvement in the assassination of a Canadian Sikh within Canada
  - Leading to strained relationships at the G20 meeting in New Delhi early September
  - Concerns for impact on (ag) trade with India
- Other significant exports:
  - Crude rapeseed or canola oil
  - Dry beans
  - Coal
  - Potash fertilizer
  - Newsprint paper





# Industry Outlook - 2023

## Bill C-234

- The Bill would remove federal carbon tax from propane and natural gas used on farm for necessary farm practices (heating barns, drying grain etc)
- Fuel for on-farm use already exempt
- Passed 2<sup>nd</sup> Senate reading in June, referred to Standing Agriculture & Forestry Committee and Standing Committee on National Finance
- Delayed due to “difficulty justifying claims additional costs to grain farmers” – Pierre Dalphond
- Bill C-8 provides rebates for carbon pricing on natural gas and propane
  - Some argue this bill should be adjusted if not sufficient, instead of implementing Bill C-234
- The Bill still needs to be approved by the Senate before it becomes law

# Industry Outlook 2023



## Poultry

- Avian Influenza Continues
- Outlook for moderate growth in 2023
- Challenges for new entrants

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## Safe Guards

- *Understand the quota:*
  - *Provincial legislation re: transferability.*
  - *Debtor's utilization and options to lease out quota.*
  - *Understanding compensation rules will have bearing on security.*
- *High land values may support security position*

# Industry Outlook - 2023

## Poultry

- After a rocky spring, AI seems to have stabilized in Canada
  - Number of infected premises detected:
    - April: 14 in Quebec, 2 in Ontario, 1 in Alberta, and 1 in BC
    - May: 1 in Quebec
    - September: 2 in Alberta and 1 in Saskatchewan
- However, with migratory bird season coming up, the number of infections might rise again
  - The disease is not fatal to (wild) geese, but they can be carriers and therefore contribute to more infections
  - Vaccine for ducks to be administered in France starting October 1

# Industry Outlook 2023



## Dairy

- Profitability challenges
- Trade disputes
- Support price increase?

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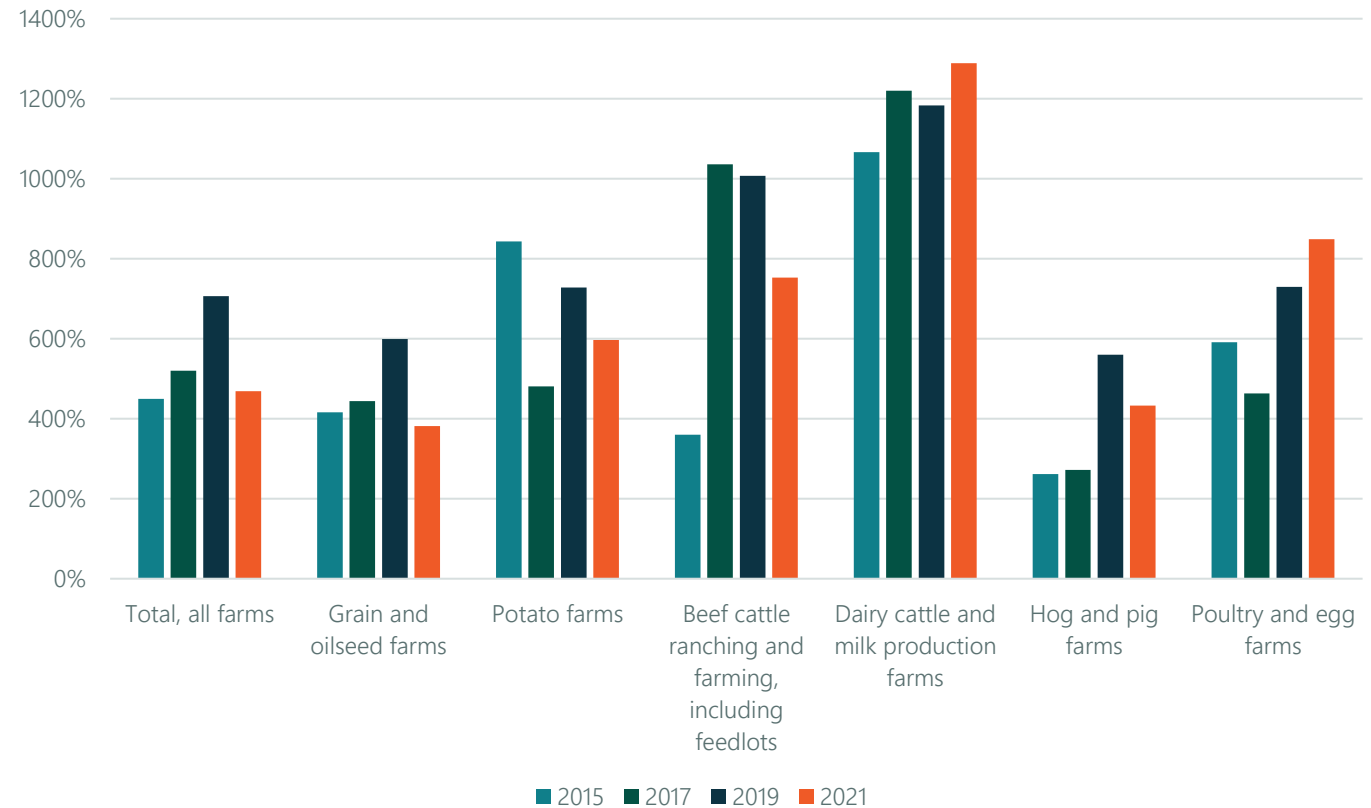
## Safe Guards

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# Industry Outlook 2023

- Dairy farms carry the most debt compared to their annual net cash farm income
  - Up to almost 13x their net farm cash income

Share of Average Debt in Net Cash Income in Manitoba, 2015-2021



# Industry Outlook 2023

- Working capital challenges
  - Inflation is increasing faster than milk prices
- Feed Costs
  - 30%+ of milk cheque is going towards feed
- Finance
  - Typically 30% of milk cheque is going towards debt
  - Now seeing some farms at >40%

# Industry Outlook 2023

- New Zealand disputed Canada's allocation of imports under CPTPP
  - 80-85% of TRQs are reserved for Canadian processors with priority access, thereby blocking other countries' chance to increase exports
  - A ruling in September 2023 determined that Canada has to change its TRQ administration to be consistent with the trade agreement
- US disputed Canada's dairy import quotas under CUSMA – January 2023
  - Canada had prohibited Canadian retailers, food service operators, and other importers to use import quota allocations
- More disputes as part of CETA to follow?

# Industry Outlook 2023



## Crops

- 2023 Harvest
- Farm Equipment
- Farmland Values

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### Safe Guards

- *Equipment ratio on grain farms is important.*
- *Ensure all property of creditor included on debt security*
- *Verify proper registration on land and related farm equipment*
- *Verify crop insurance & AgriStability status*



# Industry Outlook 2023

## Corn

The 2023 USDA forecast from February of 16.516 billion bushels has been downgraded to 15.13 billion bushels due to lower yields

- 173.8 bushels/acre
- 94.1 million seeded acres
- Losses in yields are more than offset by gains in acreage  
August report: estimate of 86.3 million harvested acres

## Soybeans

The 2023 USDA forecast from February of 4.55 billion bushels has been downgraded to 4.15 billion bushels due to lower yields

- 50.1 bushels/acre
- 83.5 million seeded acres
- Estimated harvested acres of 82.79 million acres



# Grain Production - Canada

## Soybeans

- 5.63 million seeded acres
- Estimated harvested acres of 5.59 million acres
- Yield expectation of 44.2 bu./acre – flat compared to the Spring estimate

## Canola

- 22.1 million seeded acres
- Estimated harvested acres of 21.9 million acres
- Estimated yield of 35 bu./acre
- Drought in SW Saskatchewan and Southern AB

## Wheat (excl. Durum)

- 21.0 million seeded acres
- Estimated harvested acres of 20.5 million acres
- Estimated yield of 46.2 bu./acre – down from spring estimate of 52.46 bu./acre



# Industry Outlook 2023

## Machinery purchases surging

- 2WD farm tractors down 14.9% YTD
- 4WD farm tractors up 16% YTD
- Combine sales up 33.2% YTD

Source: Association of Equipment Manufacturers

## Canadian farmers concerned about consolidation of equipment dealers

- Difficulty to get competitive quotes
- Service availability and service quality
- Convenience of part pick-ups



# Industry Outlook 2023

## Canadian Farmland Values

<i>PROVINCES</i>	<i>AVERAGE % CHANGE JAN 2023 - JUNE 2023 (6 MONTHS)</i>	<i>AVERAGE % CHANGE JULY 2022 - JUNE 2023 (12 MONTHS)</i>	<i>AVERAGE % CHANGE JAN 2022 – DEC 2022 (12 MONTHS)</i>
B.C.	0.0	1.8	8.0
Alta.	3.0	6.0	10.0
Sask.	11.4	17.0	14.2
Man.	6.4	12.8	11.2
Ont.	6.9	10.8	19.4
Que.	10.6	11.3	11.0
N.B.	N/A	N/A	17.1
N.S.	N/A	N/A	11.6
P.E.I.	N/A	N/A	18.7
N.L.	N/A	N/A	N/A
<b>Canada</b>	<b>7.7</b>	<b>12.2</b>	<b>12.8</b>

Source: FCC calculations

# Industry Outlook 2023



## Hogs

- Low margins this year
  - Weaker prices coupled with high costs
- Packer turmoil in Canada
  - Supply outpaces demand

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### Safe Guards

- *Perform walk-through on short notice and assess condition of herd and barn operations*
- *Verify proper registration on land and related farm equipment*
- *Verify AgriStability status.*

# Industry Outlook - 2023

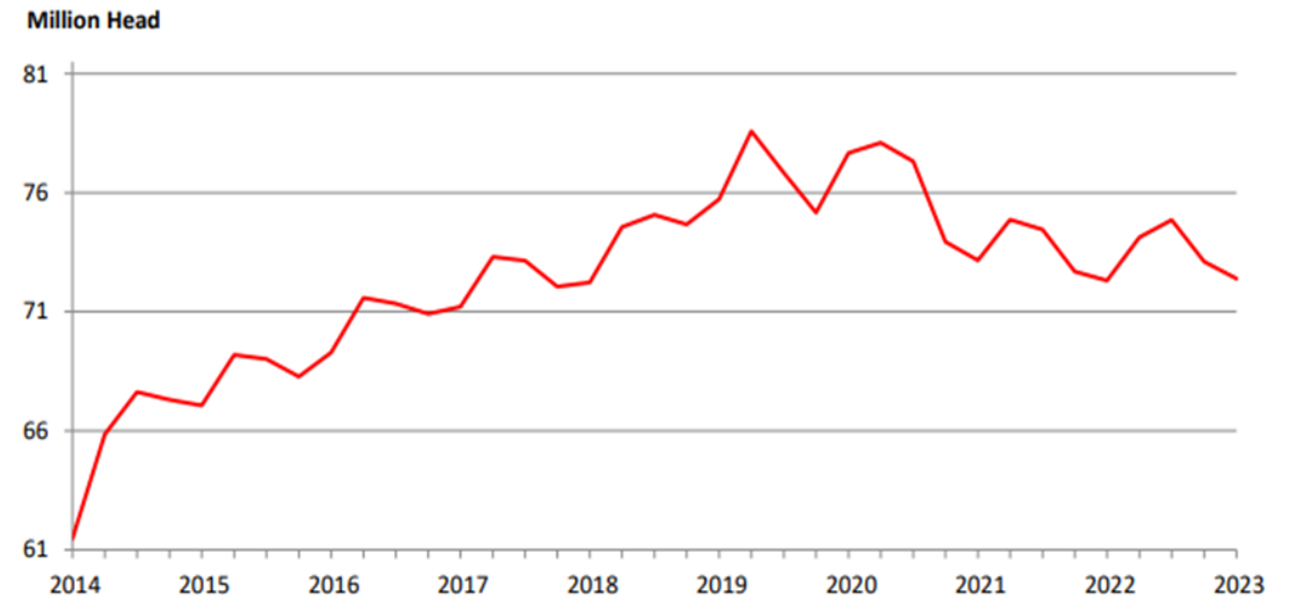
## 5 Year MB Farrow to Finish Hog Margins (Per Head)

	2019	2020	2021	2022	2023
<b>Total Revenue Per Pig Sold</b>	<b>177.30</b>	<b>172.87</b>	<b>223.45</b>	<b>253.00</b>	<b>213.47</b>
<b>Total Production Expenses</b>	<b>119.71</b>	<b>126.68</b>	<b>171.68</b>	<b>199.97</b>	<b>199.46</b>
<b>Gross Margin</b>	<b>57.60</b>	<b>46.19</b>	<b>51.78</b>	<b>53.03</b>	<b>14.01</b>

# Industry Outlook - 2023

- U.S. Hog Inventory 72.4 million head – June 1, 2023
  - -1% from March 2023
  - Up slightly from June 2022
- Likely a sign that the processing industry has been working through any earlier backed-up hog situations

**Quarterly Hogs and Pigs Inventory - United States:  
June 1**



# Industry Outlook 2023

- Olymel plant closure in Quebec will mean 1.5 million head annually are looking for a new 'home'
- Closing barns in AB/SK leads to 200,000 head annually less to Red Deer plant
- Multiple other plant closures in Quebec





# Industry Outlook 2023



## Cattle

- Strong outlook for overall sector moving forward
- Lower inventories in industry
- Feedlot margins improving

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### Safe Guards

- Perform walk-through on short notice
- Verify inventory and require manifests and/or proof of purchase or sale. Look closely at inventory values.
- Verify AgriStability and risk management practices.

# Industry Outlook 2023

Geography		Canada ( <a href="#">map</a> )				
Livestock		Total cattle				
Survey date	Farm type	2019	2020	2021	2022	2023
At July 1		<b>Head</b>				
	On all cattle operations	12,510.0	12,575.0	12,645.0	12,335.0	12,155.0
	On beef operations	10,670.2	10,737.3	10,777.4	10,470.4	10,301.7
	On cow calf operations	6,804.1	6,865.3	6,860.2	6,715.0	6,590.3
	On feeder and stocker operations	2,277.4	2,423.6	2,454.0	2,300.9	2,333.2
	On feeding operations	1,588.7	1,448.4	1,463.2	1,454.5	1,378.4

Source: Statistics Canada

# Industry Outlook 2023

- Likely no expansion of beef herds due to limited feed supplies, high feed prices, and high (record) calf prices
  - Drought assistance announced for Saskatchewan and Alberta
  - Some areas southwest of Winnipeg also eligible for tax deferral
    - Producers can defer income if their breeding herd has been reduced by at least 15%
- Producers are selling their fall crop earlier than usual – fall run from June-December
  - Increased cow slaughter reducing space for young cattle at slaughter plants
  - Internet sales +46% YOY
  - AB auction mart volumes +51% YOY but -5% from the 2021 drought
- High summer demand, but sustainability is questionable due to higher interest rates and inflation

# Industry Outlook 2023



## Wineries

- Wildfires in Okanagan impacting profitability
- Sales coming off of pandemic high levels
- Re-introduced legislation to remove 6.1% tax on Ontario produced wine

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### Safe Guards

- *Verify Inventory (and value in-use).- sample to ensure quality.*
- *Confirm terms of licences to produce and sell are being met.*
- *Seek rolling 5 year plans/third-party input – primary downfall is cash and inventory management.*

# Industry Outlook 2023



## Cannabis

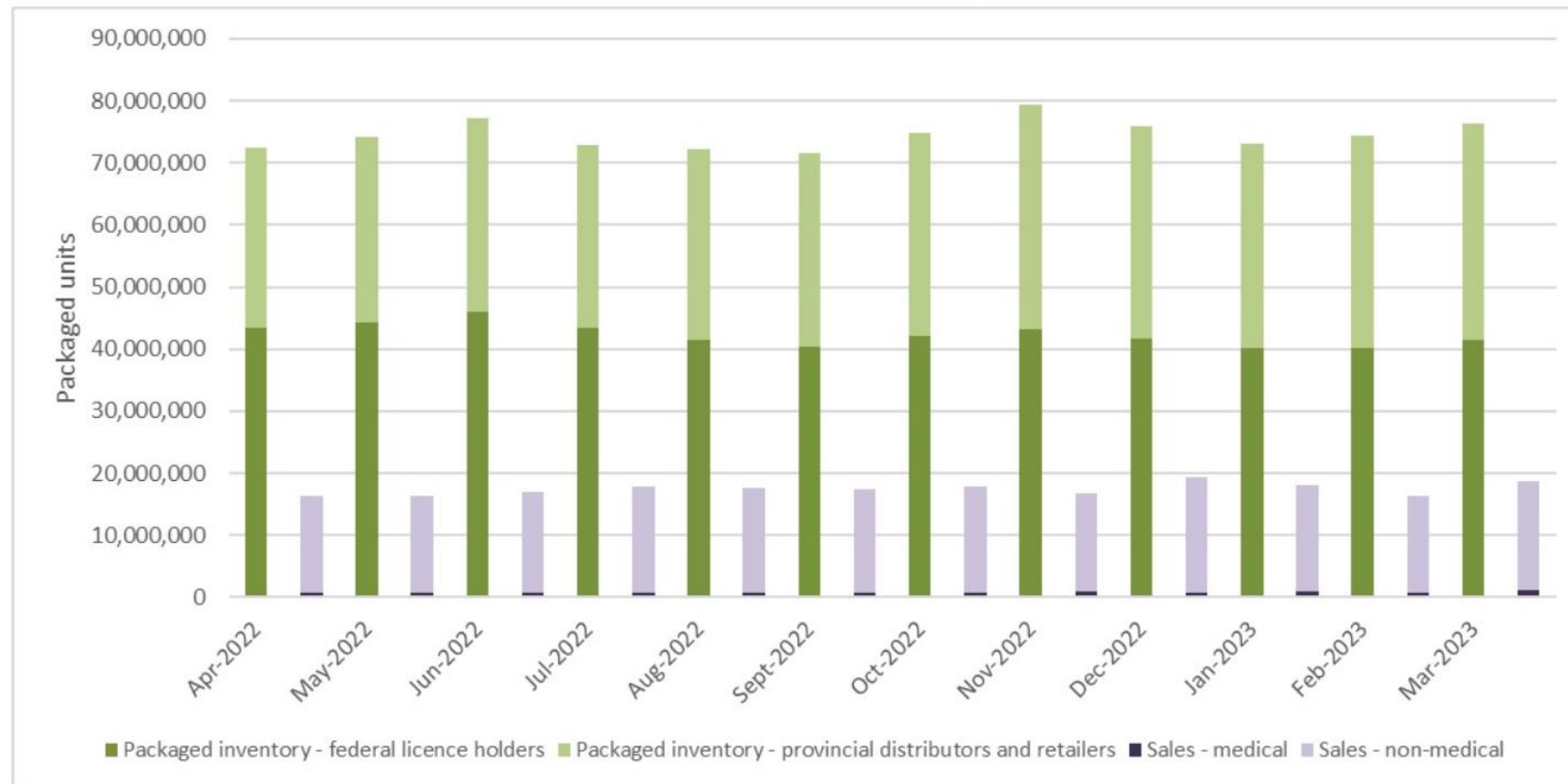
- Sales are stabilizing
- Inventories increasing
- 5 year anniversary since legalization for non-medical use
  - GDP for Cannabis grew from 2018-2022 and declined in 2023

### Safe Guards

- *Ensure all property of creditor included on debt security.*
- *Confirm terms of licences to produce and sell are being met.*
- *Confirm key individuals named in licences are tied to the company.*

# Industry Outlook 2023

Figure 5: Total cannabis packaged inventory and sales by product type



Source: Statistics Canada

# Industry Outlook 2023



## Food and Beverage

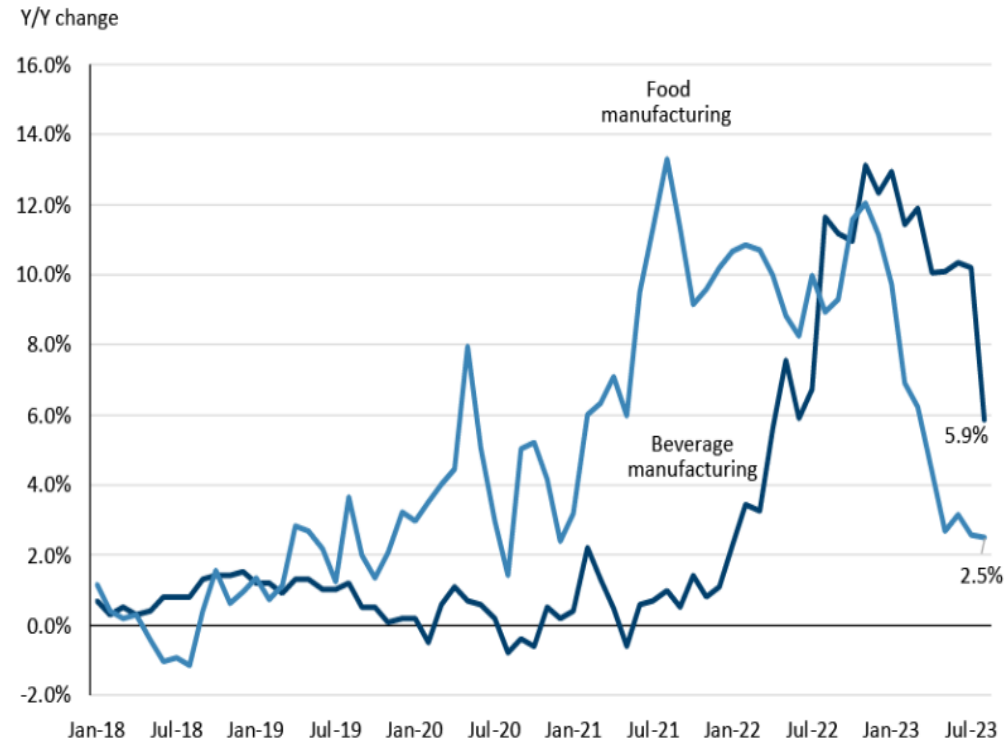
- Food inflation narrowing gap to overall inflation
  - Inflation of 3.8% in September vs 5.9% for food
- Rising costs impacting industry
  - Maintaining margins problematic as consumers choosing lower margin products
- Grocers called to Ottawa to submit plan by Nov 2<sup>nd</sup> to stabilize food prices

### Safe Guards

- *Ensure all property of creditor included on debt security.*
- *Confirm terms of licences to produce and sell are being met.*
- *Confirm key individuals named in licences are tied to the company.*

# Industry Outlook 2023

- Sales prices are cooling for both food and beverage manufacturing



Source: Statistics Canada, FCC Economics



# Contacts

## Farm Management Consulting

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Direct: 403.298.8479 Cell: 403.870.1827

[vic.kroeger@mnp.ca](mailto:vic.kroeger@mnp.ca)

# Appendices – Our People

## The MNP Advantage:

- Offices in strategic urban and rural locations from coast-to-coast
- Experience with 18,000 commercial and 300 Hutterite Colony farm clients
- Over 60 years service to agriculture has given us unparalleled and unrivalled access to the industry from the producer level all the way up to industry associations and government.

*Nobody does it better.*

# Appendices – Our People

## “Think Global, Act Local”

- 130 offices from coast-to-coast.
- Member of Praxity Global Alliance of Independent Firms giving us worldwide presence
- The only professional accounting firm with a dedicated Farm Management Consulting group
- We have specialists located in the areas necessary to meet the needs of our agricultural clients

# Appendices – Our People

Over 600 professionals focused on the agriculture industry with niche specialities in:

- Farm Management
- Crops
- Livestock
- Farm income stabilization programs
  - AgriStability and AgrilInvest
- Agriculture specific accounting & tax
- Food & Ag Processing
- Hutterite Colonies

# Appendices – Our People

## Farm Programs

Farm Programs are a complex and highly specialised service-line.

With several hundred file preparers preparing over 9,000 applications a year backed up by 100 internally certified specialists MNP is the only firm in Canada to:

- Take a full-service approach to Farm Programs.
- Develop a specialised team to maximise program-revenue for our clients.
- Prepare such a large volume of applications.

# Appendices – Our People

## Farm Programs

A Full-Service approach means that MNP does more than just complete the forms – we know what and how much we are applying for which means:

- We know when payments are wrong and when it is worth following up and/or appealing.
- We get what we claim 90% of the time.
- We have a robust track record of reviewing non-MNP prepared applications and collecting under-claimed amounts.
- Only firm in Canada with ability to analyse interaction between risk management programs enabling them to be truly used for risk management with our ARMP tool.

# Appendices – Our People

- The 25 professionals in MNP's Farm Management Consulting group bring to bear a combination of on-the-farm experience and formal education
- Education and experience include:

Bachelors of Science in  
Agriculture (B. Sc.)

Professional Agrologists  
(P. Ag)

Certified Agricultural  
Consultants (CAC)

Former and current farm  
managers and  
producers

# Appendices – Our People

Within the Farm Management Consulting team we have niche professionals in:

- Crop production and marketing (dryland and irrigated)
- Intensive livestock production and marketing
- Supply managed (dairy and poultry)
- Commodity and food processing
- Exotics
- Greenhouse and Market Gardening
- Orchard Fruit



# Appendices – Special Situations

Working closely with Corporate Recovery Services, the Farm Management Consulting team have assisted with the provision of:

- Initial assessment of a debtor
- Monitoring
- Restructuring
- Liquidation

# Appendices – Special Situations

The Farm Management Consulting team has provided the following services to Corporate Recovery Engagements:

- Assisting with taking possession of farm operations
- Determining and executing strategies for ongoing operations
- Providing executive management of day-to-day farm operations
- Consulting on key decision points in farm operations
- Preparation of risk analysis and mitigation strategies
- Providing input into realization plans