

# Farm Management Consulting



## MNP Canadian Agriculture Industry Outlook Spring 2023

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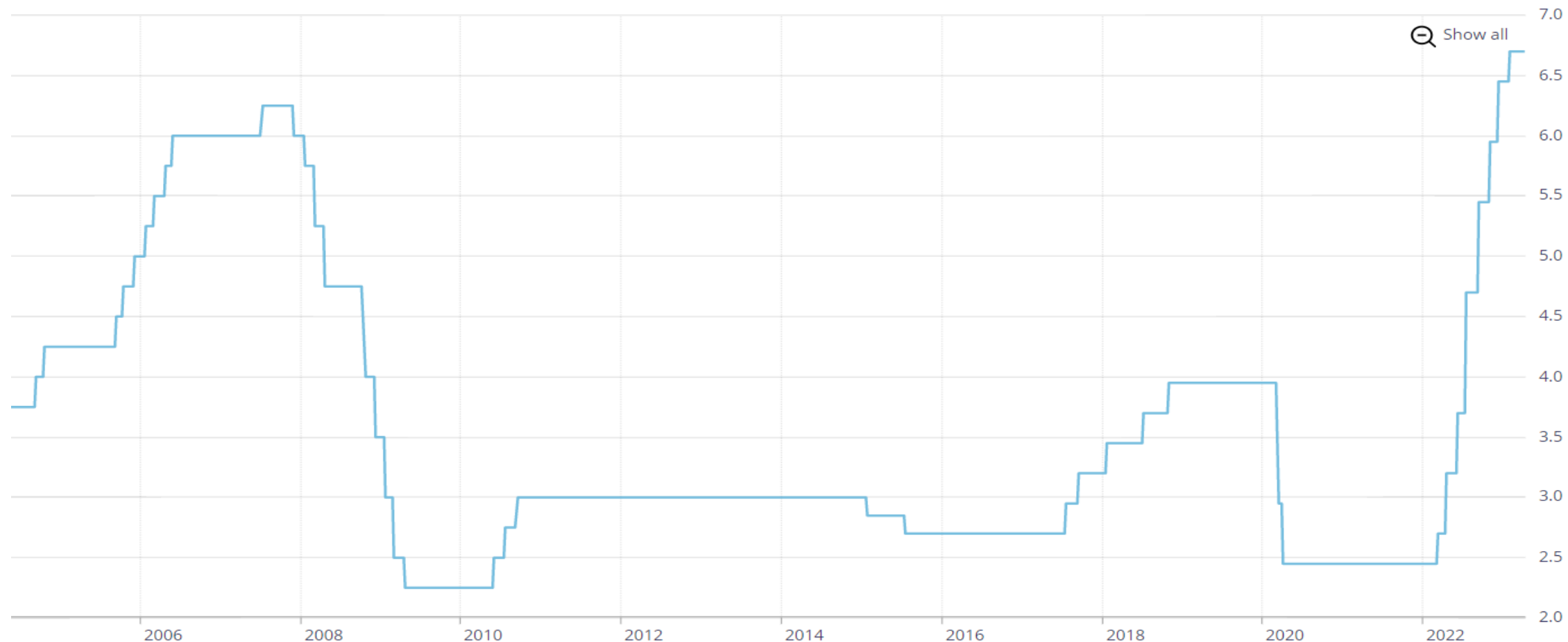
# Industry Outlook 2023



## The Market Fundamentals

- Supply - Demand
- Trade
- Supply Management

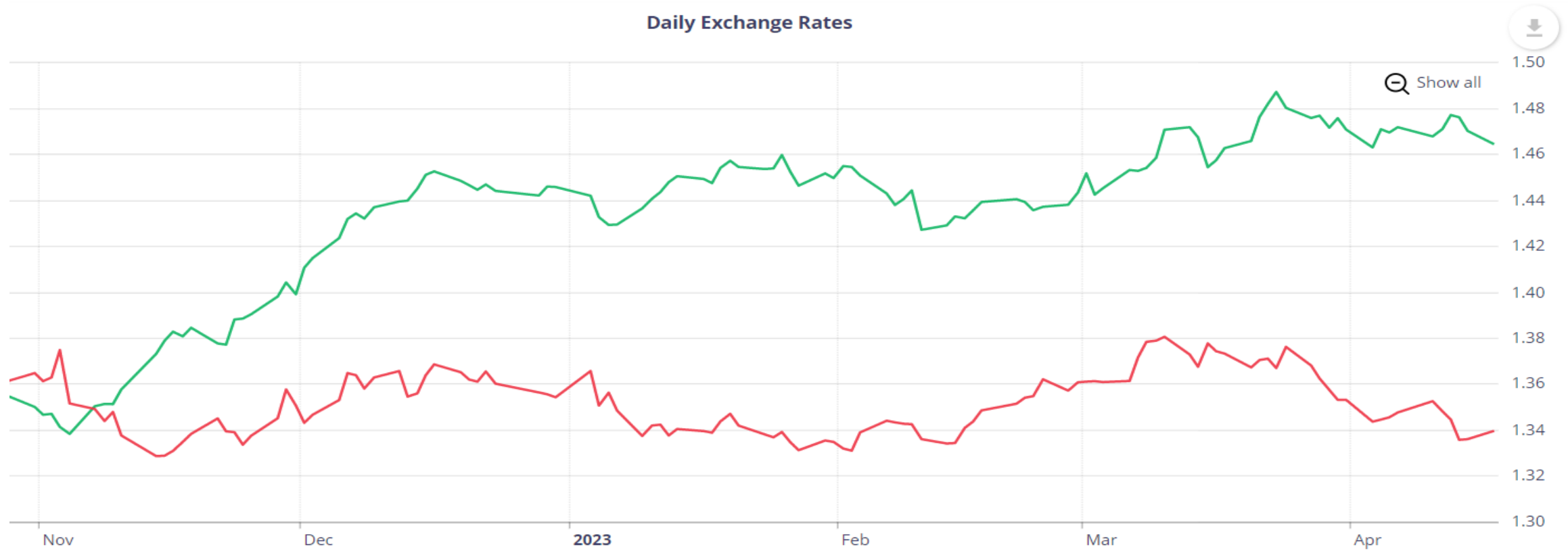
# Interest Rates



Source: Bank of Canada

# Exchange Rates

Daily Exchange Rates

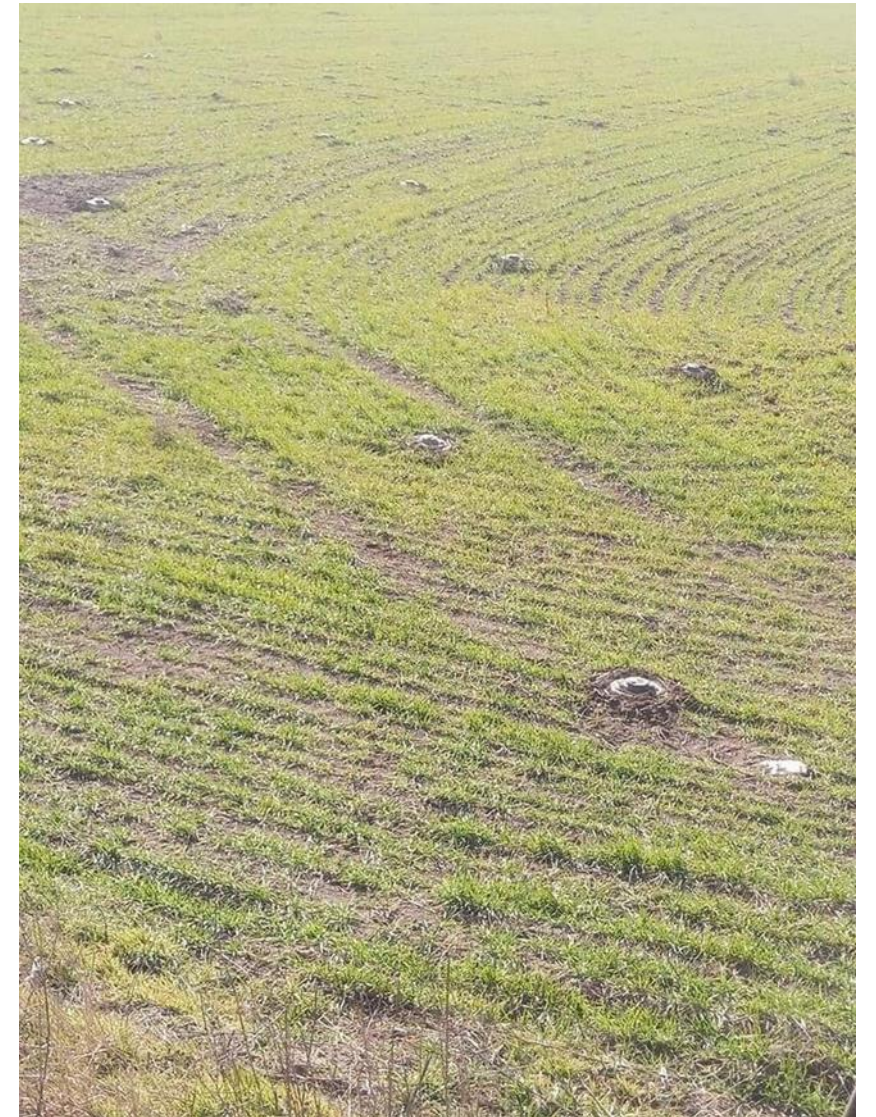


Source: Bank of Canada

# Industry Outlook - 2023

## Trade

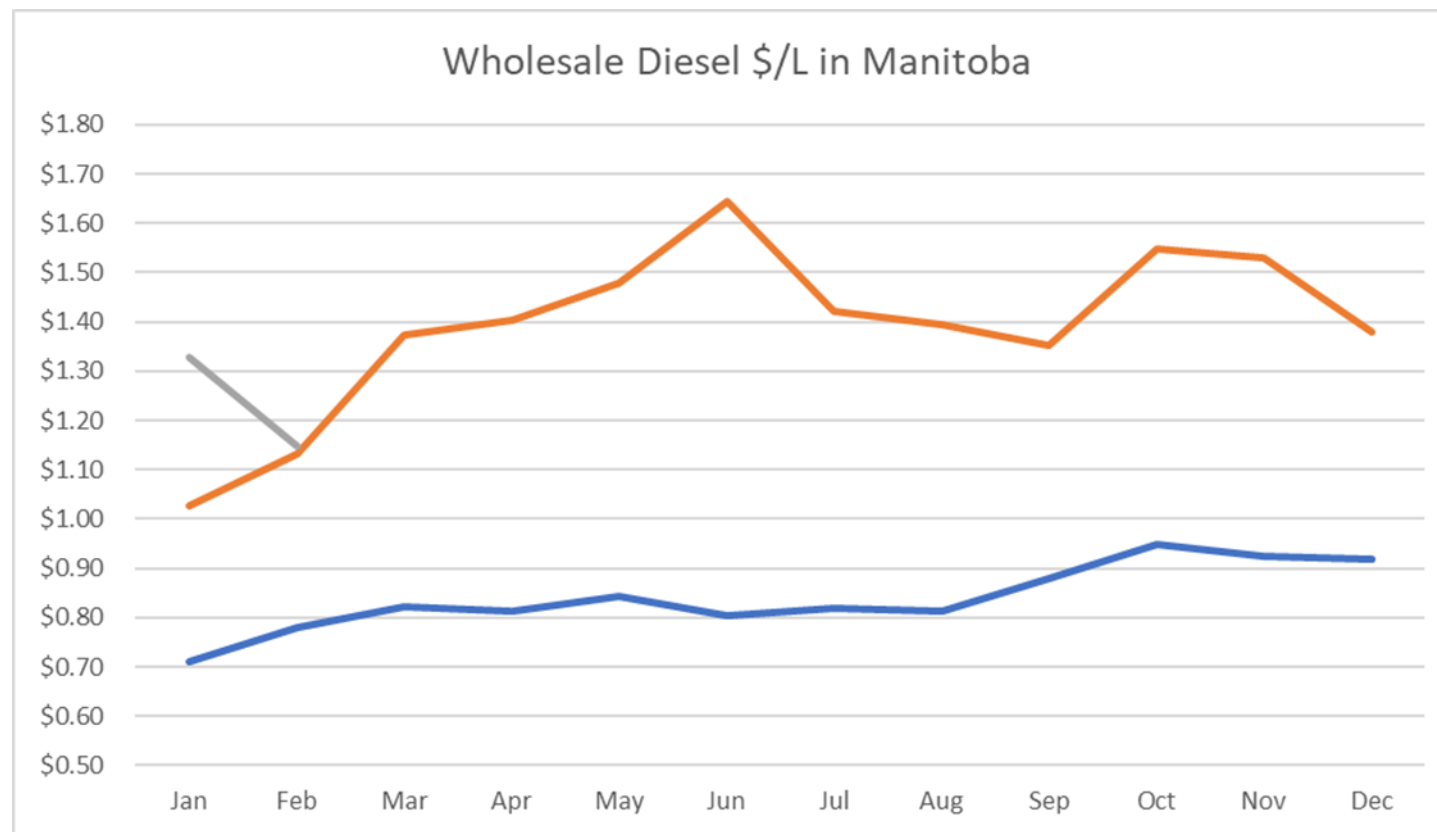
- Over a year since the invasion started (Feb 24<sup>th</sup>)
- Current Sanctions in Russia include:
  - Import-Export Bans on various goods:
    - Electronics
    - Specialized vehicles
    - Jet engine parts
    - Rare earth materials
    - Asphalt and synthetic rubber
  - Macroeconomic (EU + West):
    - Barring of transactions with largest state-owned banks
    - Energy – Crude oil, coal, jet fuel, diesel



# Industry Outlook - 2023

## Fuel Prices

- On average, year over year monthly wholesale diesel prices in MB have been **65.67%** higher



# 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)
- Went into its third and last vote in the House of Commons at the end of March and was passed
- Has been supported by nearly each party, with just one not showing all-in support
- The Bill still needs to be approved by the Senate before it becomes law



# Industry Outlook - 2023

## Country of Origin Labeling

- The USDA has been under consultation to allow voluntary “Product of USA” labels on meat, poultry and eggs only if the product was “derived from animals born, raised, slaughtered and processed” in the country
- The existing rules allow for the labels to be placed if the product was derived from another country but processed in the USA
- Canadian producers have concerns to how this could affect trade to US processors
- The policy will have to remain compliant with existing trade laws between the two countries, as the ruling could lead to segregation causing animals to be discounted
- Still very early in the process – hard to speculate on rulings and implications

# Industry Outlook 2023



## Poultry

- Avian Influenza Continues
- Outlook for moderate growth in 2023
- Profitability a mix of improving prices/consumption and lowering feed costs

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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*

# Avian Influenza

Province	Number of infected premises (current IPs)	Number of previously infected premises (released IPs)	Estimated number of birds impacted (as of 2023-04-11)
Alberta	11	49	1,400,000
British Columbia	20	83	3,657,000
Manitoba	0	21	287,000
New Brunswick	1	1	Under 100
Newfoundland and Labrador	0	2	400
Nova Scotia	2	4	12,000
Ontario	7	39	770,000
Quebec	14	23	679,000
Saskatchewan	4	28	495,000
<b>Total</b>	<b>59</b>	<b>250</b>	<b>7,300,000</b>

Total # of birds in Canada is ~ 152,299,000 (Nov 2022 was 3.4 million birds affected)

# Industry Outlook 2023



## Dairy

- Mixed profitability
- Trade compensation
- Support price increase lags inflation

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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

- CUSMA compensation - \$1.2 billion over 6 years
  - CETA and CPTPP payments ending in 2023
  - CUSMA payments starting in 2024
- From 2024 to 2029, the owner of a farm with 80 milking cows may receive compensation through a direct payment of about \$106,000 in six yearly instalments on a declining scale.
- 25% for 2024, 21% for 2025, 21% for 2026, 13% for 2027, 13% for 2028 and 8% for 2029

# Industry Outlook 2023

- Milk price increases starting to show from last 12 months
  - February 2022 - 8.5% increase
  - September 2022 - 2.5% increase
  - February 2023 - 2.2% increase

# Industry Outlook 2023



## Crops

- Ukraine Impacts
- 2023 Planting
- 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

## Ukraine Agricultural Production and Exports (2021/22 Marketing Year)

Product	Production			Exports		
	Volume (1,000 MT)	Rank Among Global Producers	% of Global Production	Volume (1,000 MT)	Rank Among Global Exporters	% of Global Exports
Corn	41,900	#6	3.5%	23,000	#4	12%
Wheat	33,000	#7	4.3%	19,000	#5	9%
Sunflower	17,500	#1	30.6%	75	#9	3%
Barley	9,900	#4	6.8%	5,800	#3	17%
Sunflower Oil	5,676	#2	30.6%	4,950	#1	46%
Sunflower Meal	5,452	#2	27.5%	4,100	#1	54%
Rapeseed	3,015	#6	4.2%	2,700	#3	20%

Source: USDA WASDE and PSD Database, updated March 9, 2022.



# Industry Outlook 2023

## What If?

- **Short Term Implications**

- If renewal period is shorter, shipping companies may need to re-examine the risk of sending shipments through corridor as there could be a higher chance of being stranded at port
- Expect volatility going forward

- **Long Term Implications**

- Currently inaccessible grain inventories can build, and flood market once export routes resume normal activity
- Many still have massive stocks from recent harvest
- At least 75 grain storage facilities in Ukraine have been damaged or destroyed – accounting for over 5% of their storage capacity. 80% of those facilities are near ports

# Industry Outlook 2023

## Planting intentions USA

- Corn: 92 million acres (up 4%)
- Soybeans: 87.5 million acres (unchanged)
- Wheat: 49.9 million acres (up 9%)



# Grain Production - Canada

- **Soybeans**

- Expecting a 6.8% increase of seeded acres
- Yield 44 bu/ac .. 3.5% lower.
- Implied 6.8 million metric tonnes, up 3.5%.

- **Canola**

- Expected a 1.63% to 21.75 million acres of seeded acres.
- Implied production of 18.5 million tonnes, up 1.79% - yields flat

- **Wheat (ex. Durum)**

- Increase of 4.1% to seeded acres
- Yield down 2% ... 52.5 bu/ac.
- Implied production 28.88 million tonnes, up 1.5%.



# Industry Outlook 2023

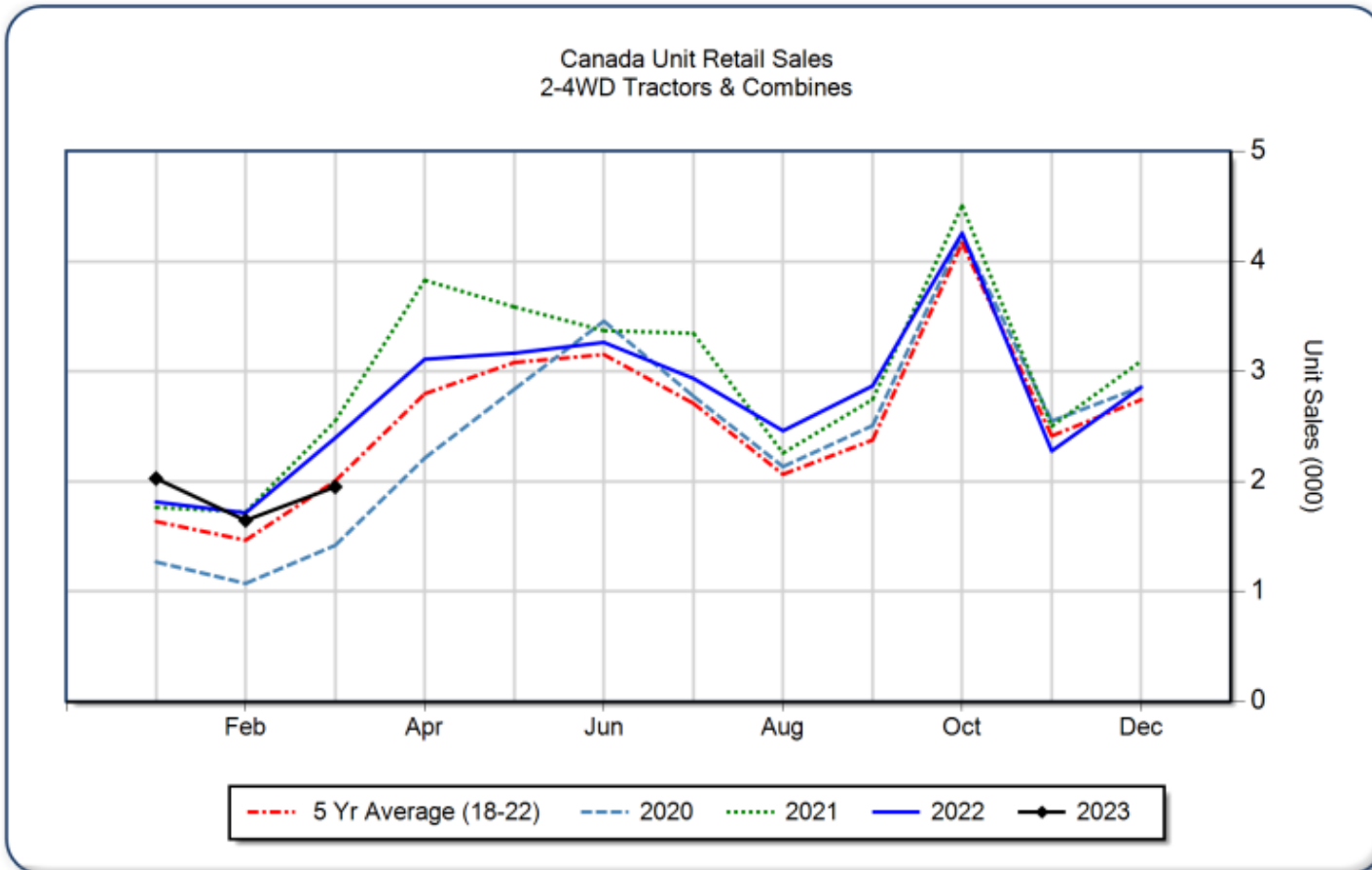
## Lower machinery purchases

- 2WD farm tractors down 25.4% YOY
- 4WD farm tractors up 57.1% YOY
- Combine sales up 189.5% YOY

Source: Association of Equipment Manufacturers



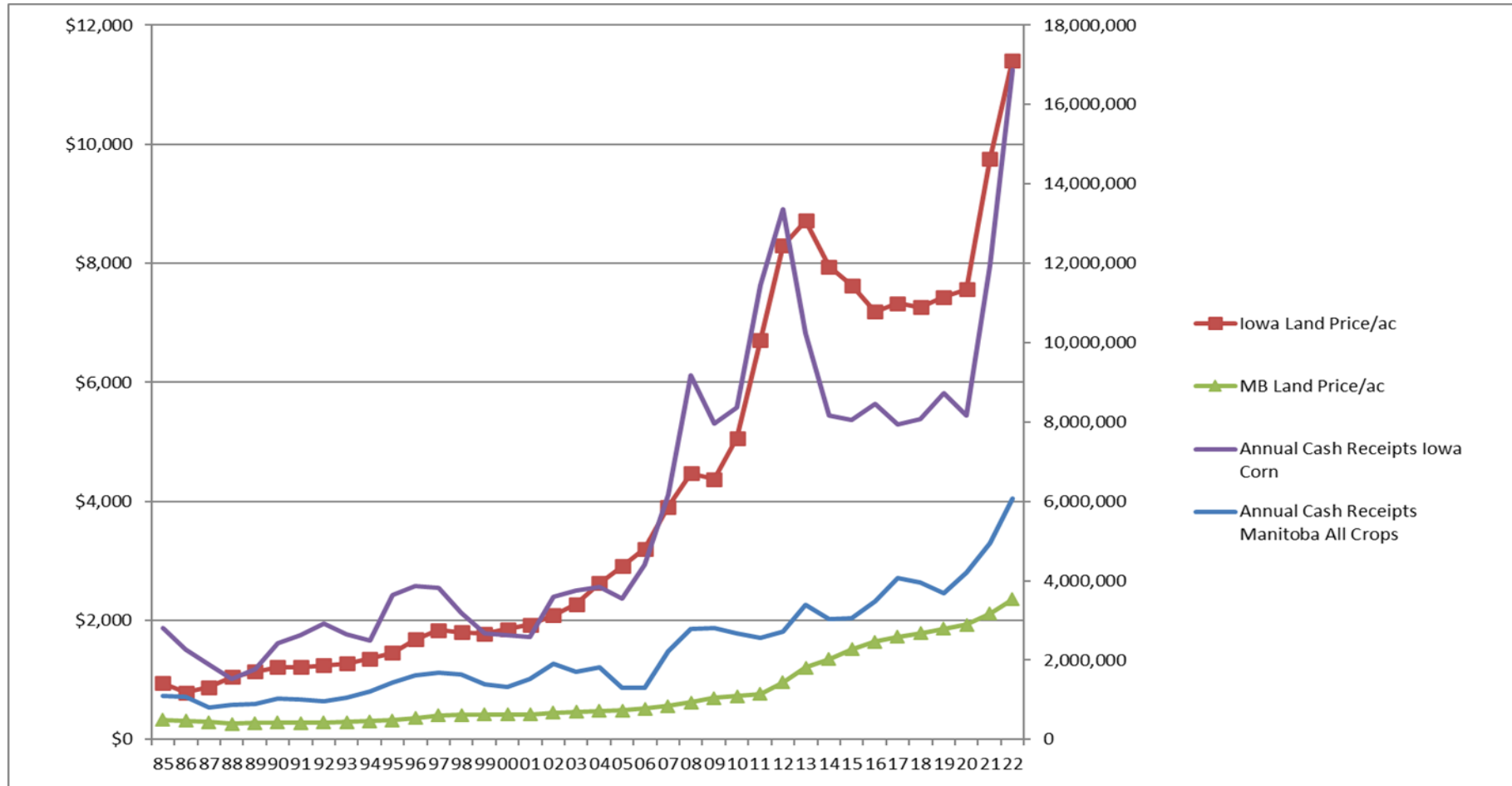
# Industry Outlook 2023



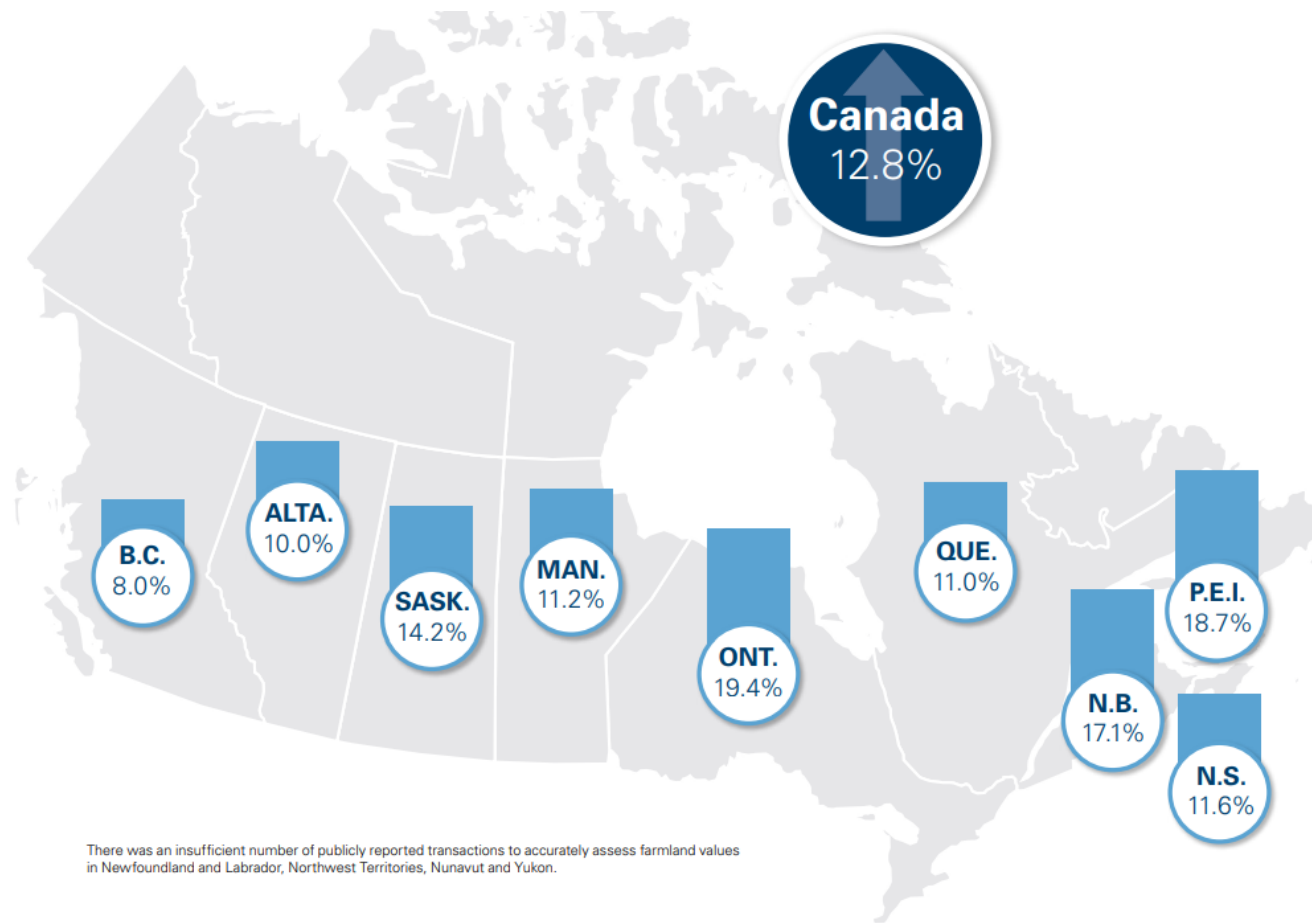
Source: Association of Equipment Manufacturers



# Industry Outlook 2023



# Industry Outlook 2023



Source : FCC

# Industry Outlook 2023



## Hogs

- Shrinking 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

## Manitoba Farrow to Finish Operation Gross Margin

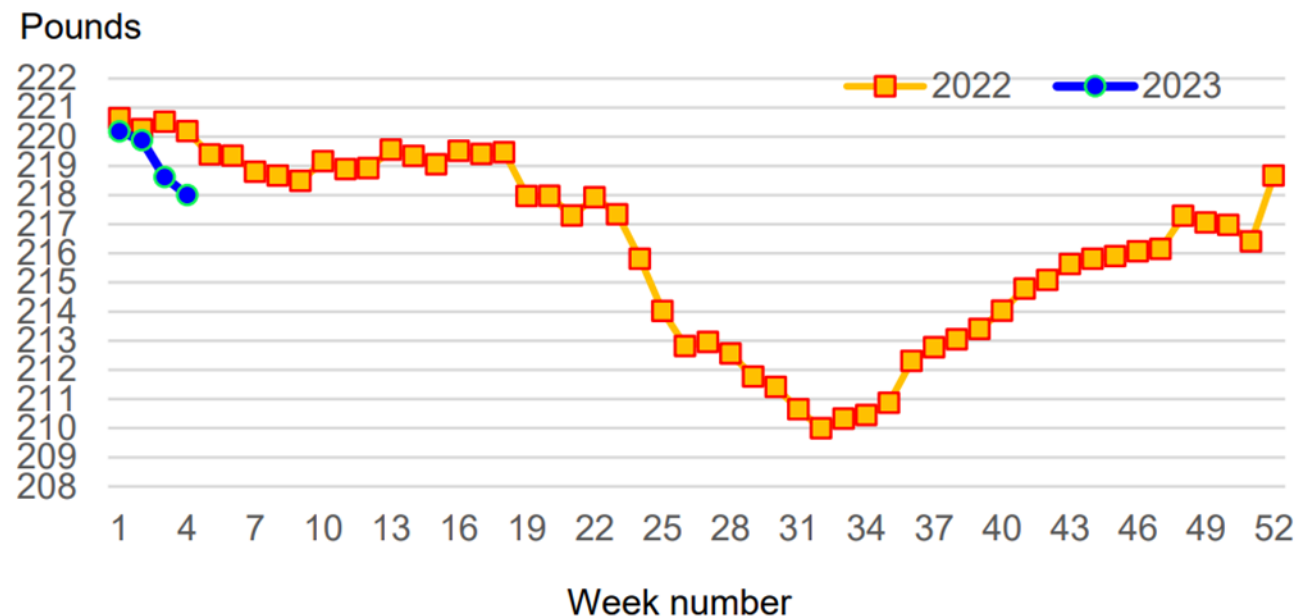
**5 Year MB Farrow to Finish Hog Margins (Per Head)**

	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>218.78</b>
<b>Total Production Expenses</b>	<b>119.71</b>	<b>126.68</b>	<b>171.68</b>	<b>199.97</b>	<b>195.05</b>
<b>Gross Margin</b>	<b>57.60</b>	<b>46.19</b>	<b>51.78</b>	<b>53.03</b>	<b>23.73</b>

# Industry Outlook - 2023

- January slaughter was 7% higher than in January 2022
- Dressed weights declining to start 2023
- January cutout prices averaged \$81.03, down 10.5% from last year

**Weekly hog carcass weights\***



\* Weighted average of packer-sold hogs + packer-owned hogs + producer-sold hogs

Source: USDA, Agricultural Marketing Service.

# Industry Outlook 2023

- Hylife looking to sell its under-performing assets.
  - Processing plant in Minneapolis and farmland in Manitoba
- Olymel plant closure in Quebec will mean 50,000 head/week are looking for a new 'home'



# Industry Outlook 2023



## Cattle

- Strong outlook for cow/calf producers
  - Based on strong prices going forward
- Lower inventories in industry
- Feedlot Margins
  - Pressured by ongoing higher feed costs

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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.

# Canadian Cattle Sales

- Seeing larger carcass weights
  - Steers are averaging 957lbs, 34lbs higher than this time last year
- Fed Steer prices continue to rise - reached \$194/cwt in February
  - Roughly \$34 higher than last February
- Feeder Steer prices are \$43 higher than last year
- Cash-to-cash Basis remains weak
  - Fed Steers: -\$18.04/cwt (\$12 wider than 5yr average)
  - Despite high prices and a wide basis, US demand has not been exciting to start 2023

# Cattle Production

- 2 + years of drought like conditions in major cattle producing areas in US have caused a liquidation on the herd.
- This trend will continue unless significant moisture is available to renew feed stocks.
- Extended lower numbers on feed has caused processing volume downturns. With packers running inefficiently their margins are at risk as well.
- Only upside is that short supply has caused increase in prices for live animals.

# Industry Outlook 2023



## Wineries

- Supply of grapes – cold snap this winter in Okanagan could lead to up to 50% less grape harvest this year in region
- Federal Budget announces 2% excise duty tax vs inflationary amount of 6.3%
- Demand weakening as wine sales by volume fell by 4% in 2022

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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 dipping
- Continued drive for lower cost of production hampered by overproduction driving layoffs and facility closures

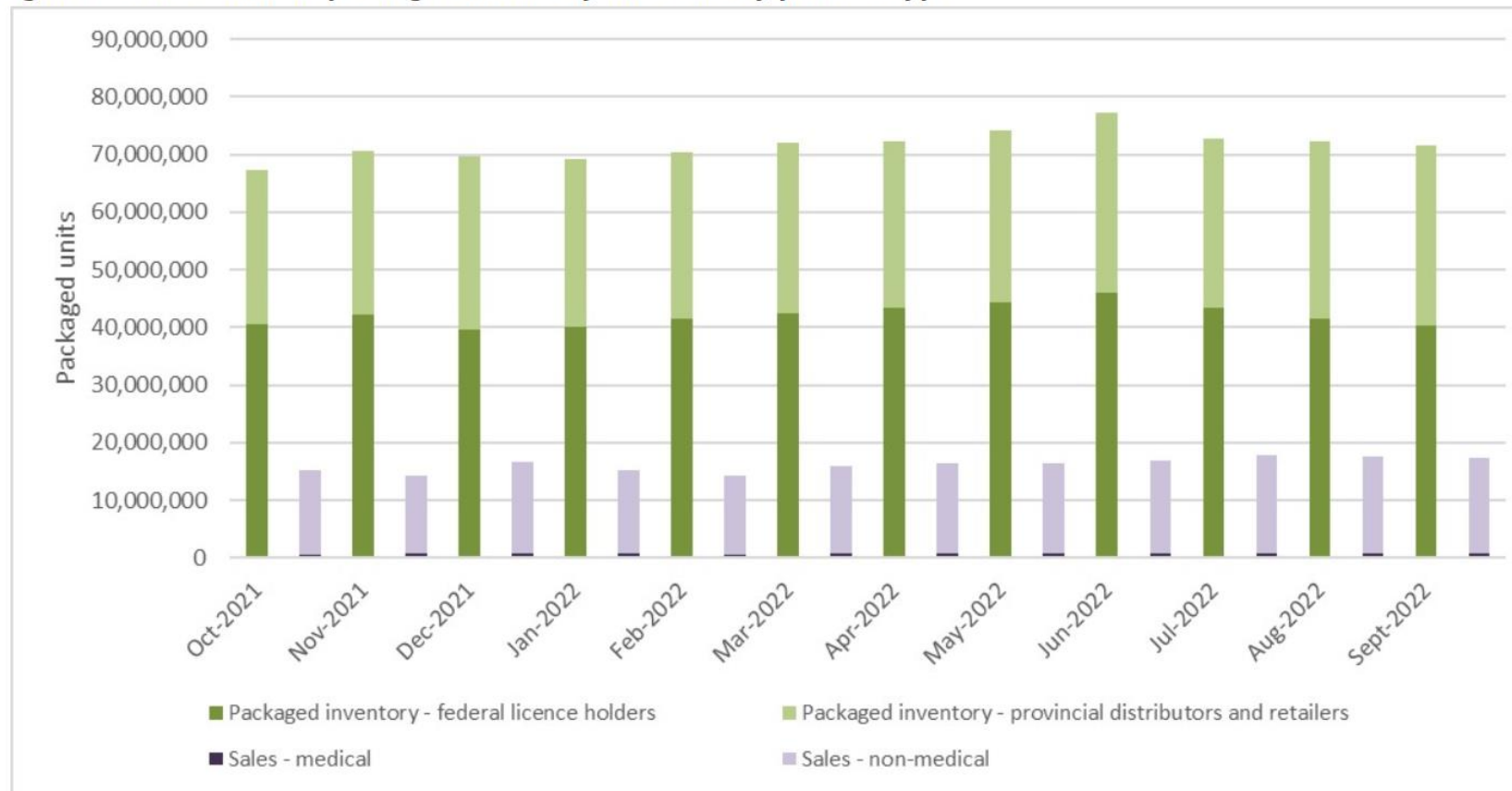
### Safe Guards

- *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



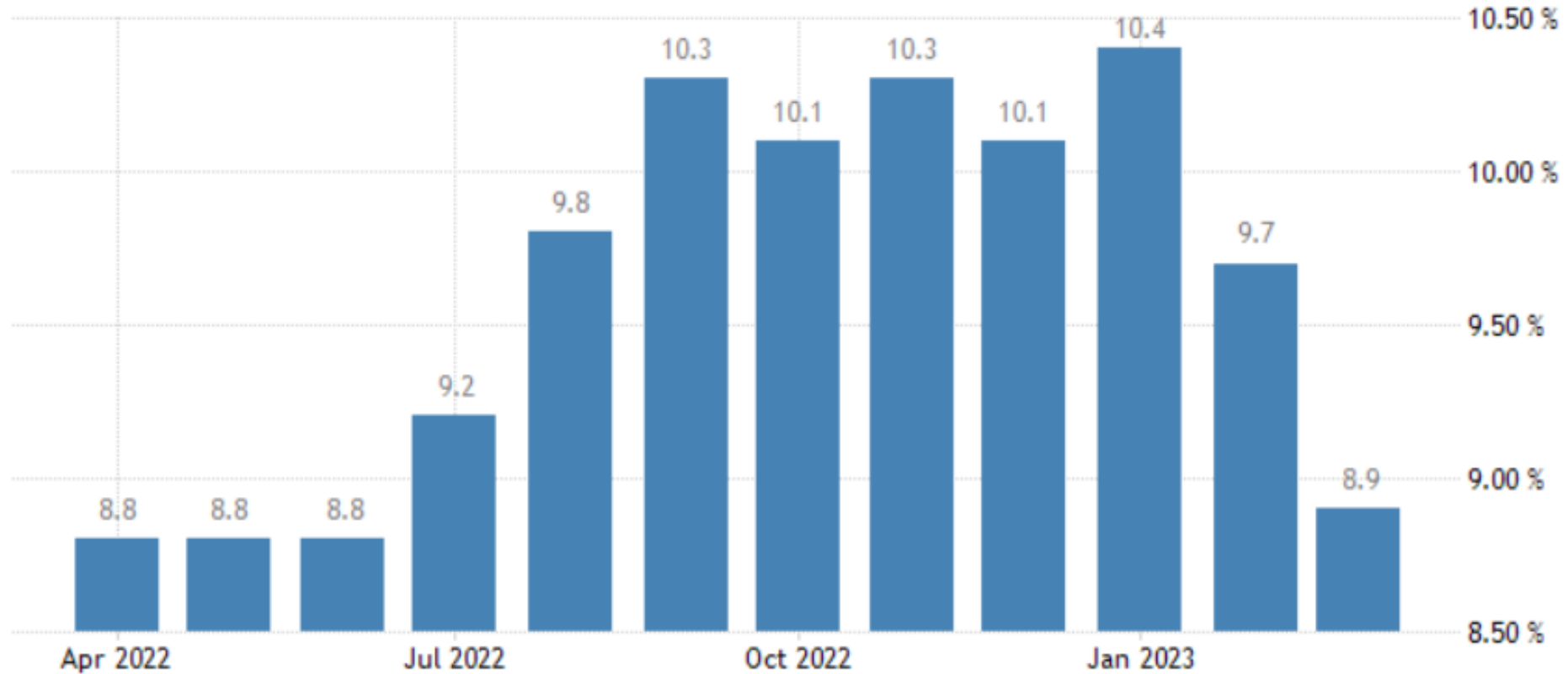
## Food and Beverage

- Food inflation outpaces non-food inflation
  - Inflation of 4.3% in March vs 8.9% for food
- Rising costs impacting industry due to inflation
  - Maintaining margins problematic as consumers choosing lower margin products
- Changes to the Temporary Foreign Worker Program to make it easier and faster for access to labour

### 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



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# 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