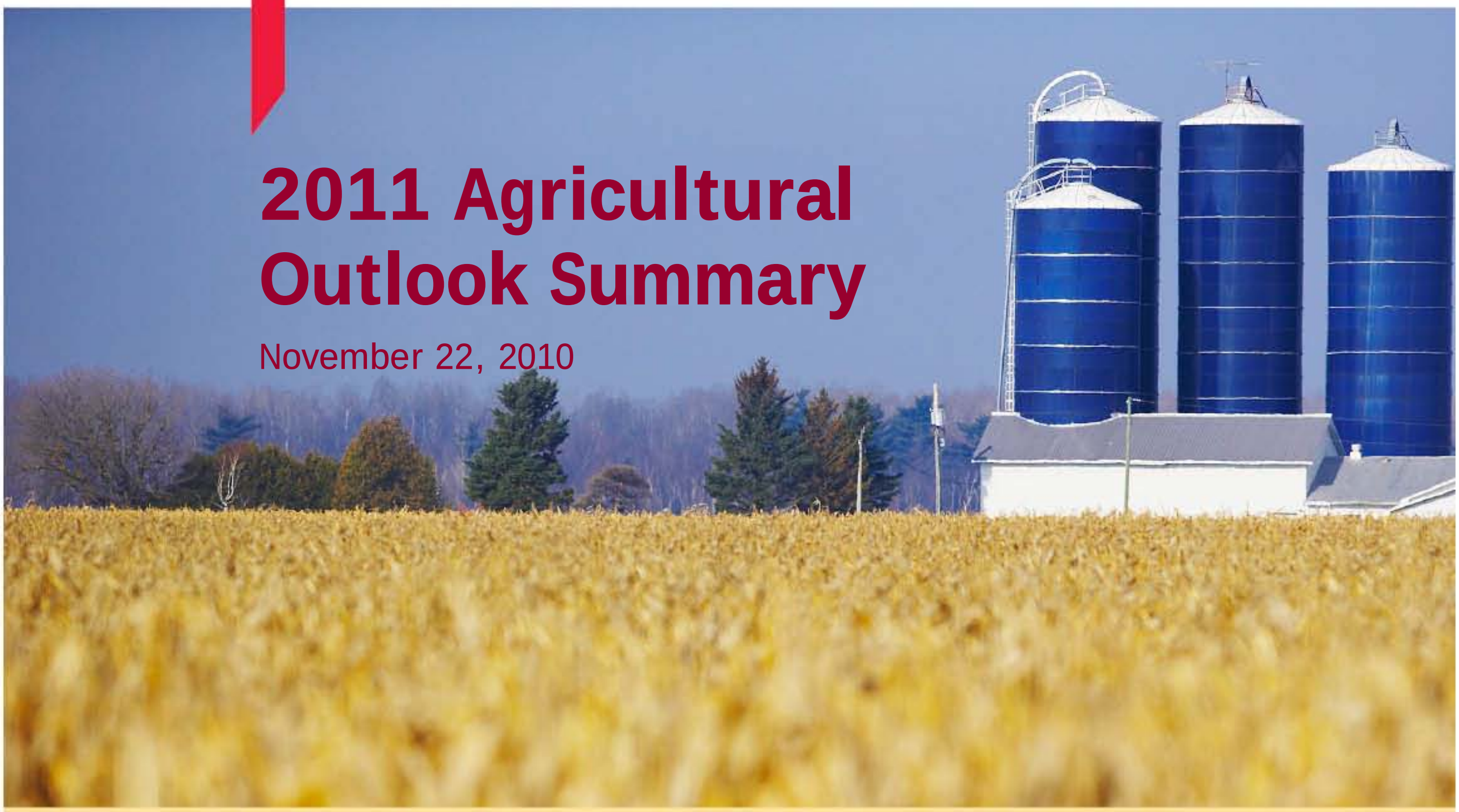

2011 Agricultural Outlook Summary

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Prepared by: **Randy Duffy & Ken McEwan**
University of Guelph, Ridgetown Campus

Danny LeRoy
University of Lethbridge

The following is an executive summary of the *2011 Agricultural Outlook* which, itself, focuses on beef, pork, and major grains, oilseeds and horticulture commodities in Canada based on farm cash receipts. For each commodity discussed in the outlook, a brief market outlook is provided along with important issues facing each sector. Below are the sector outlooks for 2011.

To access a down loadable version of the full 2011 Agricultural Outlook please visit: http://www.bdo.ca/library/publications/agriculture/index.cfm.

Industry outlook for 2011

Canada's total farm cash receipts in 2009 had a value of $44.2 billion. Beef and hog farms, as well as greenhouse, nursery and floriculture operations have experienced a decrease in their average net cash farm income during the 2005-2008 period compared to 2001-2004. Canada is very reliant on foreign export markets but saw exports drop while imports increased from 2008 to 2009. Some commodities have experienced decreases in per capita consumption but total Canadian consumption for all the commodities discussed has increased from 2008 to 2009.

Beef cattle outlook for 2011

Soft demand with a global economic recession has narrowed profit margins and encouraged liquidation of the national herd. A further moderate reduction in the national inventory of beef cattle and calves appears likely in 2011. Increased demand for corn and other grains in international markets will increase breakeven levels at all stages of livestock production. The rising and volatile price of C$ in terms of US$ makes cattle price forecasting very problematic, even in the short term. At the moment in Alberta, price forecasts into mid-2011 range from C$85-C$93/cwt for slaughter ready cattle and C$100-C$112/cwt for feeder cattle. Expect prices for feeders to rise steadily over the first six months of 2011 with negative implications for feedlot profitability.

As has been the case for a couple of years, the impact on the quantity of beef supplied from decreased fed cattle production in Canada has been offset by high levels of cow and heifer slaughter. However, smaller numbers of cows and calves are leading to: (1) smaller numbers of domestically produced feeder cattle, which will exasperate over capacity issues for feedlots and for packers, (2) lower levels of domestic beef production, and, eventually, (3) relatively higher beef prices for consumers. In 2011, forecasters at the United States Department of Agriculture expect annual beef production in the United States to fall two percent. They also predict that per capita beef supplies next year in the United States will be at their lowest level since 1952. At some point soon, the reduction in the supply of beef is going to result in higher prices throughout the beef marketing channel in North America.

Pork outlook for 2011

Cautious optimism and profits returned to the Canadian pork industry during the spring and summer of 2010. However, since then margins have turned negative again and if this continues for an extended period there will be more breeding herd contraction. US pork production for 2011 is projected to be up one percent but this may change if inventory reduction picks up. Tighter pork supplies and a recovery of foreign export markets due to a low US dollar should boost US hog prices in 2011.

Current futures market prices for 2011 are projecting losses for the first quarter of 2011 but profits should return in the second and third quarters depending on what feed prices do. The estimated cost for Ontario as of November 2010 was approximately $145-$155 per 100 kilograms dressed. US farrow-to-finish operations are projected to breakeven financially in 2011 which will probably result in not much liquidation or expansion in the US.

Durum wheat outlook for 2011

With reduced global availability of food grade durum, prices in 2011 are expected to be bullish. It appears there will be a sufficient quantity of durum produced in Canada to satisfy foreign buyers, but those wanting the highest quality likely will face much higher prices. As at October 28, 2010, the Canadian Wheat Board Pool Return Outlook for durum with 13 percent protein for the 2010/11 crop year is $7.40 per bushel. After deductions for freight and elevator charges, net prices to growers are just above $6.00 per bushel.

Like other grains and oilseeds, durum prices continue to be influenced by bullishness in the United States corn market. As higher corn prices ration the quantity demanded of corn, profitable opportunities may arise for expected larger domestic supply of feed grade durum. The C$/€ exchange rate also has a large impact in the durum price outlook. The price of C$ in terms of euros has been falling which makes Canadian durum appear less expensive to European importers.

Barley outlook for 2011

Export restrictions in Russia and the Ukraine have essentially eliminated what has until recently been the cheapest sources of supply. This interventionism combined with reduced barley production in the Northern Hemisphere will likely sustain barley prices at higher levels throughout the entire crop year. In response to high prices, importers and domestic users of feed barley may switch to less costly feed grains. Tempering this bullish outlook for barley prices is the prospect of a 363 million bushel bumper crop in Australia. This new, large supply of Australian barley may marginally reduce world prices. Indeed, Chinese importers of malting barley may withhold large purchases from the Canadian Wheat Board until after Australian harvest is complete. As of the first quarter of the 2010/11 crop year, barley exports from Canada are down 40 percent compared to the previous year.

Oats outlook for 2011

With global oats production forecast to decline by 9 percent in 2010/11, price forecasts are bullish. In North America, oats prices tend to be quite correlated with corn prices and in general track close to each other. Oat trade, like production, has been steady relative to other grains for the past ten years. Buyers in the United States, Mexico and Japan on average account for 81 percent, four percent and three percent, respectively, of world oat imports. Growers in Canada, the European Union and Australia on average account for 83 percent, six percent and six percent, respectively, of world oat exports. This is not likely to change notably if oats become slightly more expensive compared to other grains.

Canola outlook for 2011

Canola has been a consistently profitable crop for both growers and processors. In fact, The Canola Council of Canada has set an ambitious annual production target of 674 million bushels by 2015. This objective is to be realized by a 35 percent increase in yields and 30 percent increase in acreage. The price outlook for 2011 is somewhat positive because of the effects of rising prices in competing oilseed markets and access to markets in the United States and China which were jeopardized by government intervention in 2010. However, the level of accessibility must be interpreted as being somewhat tenuous relative to 2008/09.

Flaxseed outlook for 2011

Flaxseed exports in 2010-11 seem poised to absorb reduced domestic production. Current cash prices in Saskatchewan for No. 1 flaxseed ($13.82 per bushel) are now well above that for No. 1 canola ($10.77 per bushel). Prices for 2011 are expected to be considerably higher than last year because of reduced supply in Canada in the face of strong demand among importers. Buyers without alternatives to flaxseed could face prices of $15.25 per bushel or higher before the 2011 crop is harvested.

Corn outlook for 2011

World corn production for 2010/11 is forecast to be 818.52 million metric tons which is up one percent from last year and up three percent from 2008/09. Total world corn use is estimated at 837.31 million metric tonnes. This is a three percent increase from 2009/10 and will cause world corn ending stocks to drop 19 million metric tonnes or 13 percent. As a result of stronger US demand and lower world coarse grain supplies, the corn market is forecast to see higher prices in the 2010/11 crop year as compared to 2009/10. The USDA is forecasting a US average farm price of US$4.80-$5.60 per bushel. AAFC is estimating the Chatham, Ontario corn price to average from $3.94-$4.70 per bushel. University of Guelph, Ridgetown Campus projections using historical seasonality patterns, forecast the Chatham, Ontario corn price to average in the $4.30-$4.80 per bushel range.

Soybean outlook for 2011

World soybean production for 2010/11 is forecast to be 257.36 million metric tonnes which is down two percent from last year but up 21 percent from 2008/09. Total world soybean use is estimated at 254.67 million metric tonnes. This is a seven percent increase from 2009/10. World soybean ending stocks will be up slightly. Higher soybean prices are forecast in 2010/11 compared to 2009/10. The USDA is forecasting a US average farm price of US$10.70-$12.20 per bushel. AAFC is estimating the Chatham Ontario soybean price to average from $9.53-$10.61 per bushel. University of Guelph, Ridgetown Campus projections using historical seasonality patterns, estimate the Chatham Ontario soybean price to average in the $10.00-$11.30 per bushel range.

Potato outlook for 2011

The 2010 potato crop in the US is estimated to be down eight percent from 2009. 2010 production is estimated at 399 million cwt with 361 million cwt produced in the fall crop. Average yield per acre is pegged at 396 cwt, a decrease of four percent from 2009 yields. The world potato supply for 2010/11 is projected to be tight with production down in Canada, Europe and Russia, which experienced a 30 percent decrease from 2009 due to the severe summer drought.

US domestic per capita use in 2009 was 113.1 pounds, down four percent from 2008. Two-thirds of the 2009 US crop was used for processing, with half of these potatoes (138.4 million cwt) made into frozen french fries. Imports (Canada accounts for 87 percent of total import value) represent about 63 million cwt (farm weight) annually which is 14 percent of US utilization. The potato industry in Canada and the US has experienced lower potato prices in 2010 compared to 2009. Lower US and Canadian production and tight world supplies in 2010/11, should provide support for higher prices in 2011.

Greenhouse vegetables outlook for 2011

Canada has significant vegetable trade with the US and therefore Canadian prices are largely determined by US market prices. Canada's market share of US import volumes of all fresh market tomatoes is approximately 11 percent while Mexico's market share is 88 percent. All US fresh market tomato imports are up 36 percent from January to August 2010 compared to one year ago while imports of greenhouse tomatoes are up 19 percent. US fresh tomato prices in 2010 have been mostly higher than 2009. Both fresh and processed tomato prices in the US in 2011 are expected to be below the previous three year average. US processing tomato production in 2010 is estimated to be down seven percent from 2009 but will be the second or third highest on record. Fresh market supplies this fall are expected to increase and drop grower prices below last year's prices.

US fresh market bell pepper prices in 2010 have mostly been higher than a year ago with prices in September 2010 that were 11 percent higher than in September 2009. Prices for 2011 are forecast to be lower than 2010 prices as per capita consumption is forecast to drop slightly along with an 11 percent increase in 2010 fall bell pepper harvested acreage. US imports of fresh market peppers from January to August 2010 are up 33 percent compared to the same period in 2009. Canadian imports of bell peppers from the Netherlands will now be subject to a duty for the next five years. In October, 2010, the Canadian International Trade Tribunal (CITT) announced its' final determination on injurious dumping by the Netherlands of bell peppers into the Canadian market.

US fresh market cucumber prices in 2010 have mostly been higher than a year ago with prices nine percent higher in September 2010 than in September 2009. Prices in 2011 are expected to be higher than 2010 prices. Prices are expected to be up 26 percent in the fourth quarter of 2010 compared to the same period in 2009 while 2011 first quarter prices are projected to be up 28 percent over those of the fourth quarter of 2010. US imports of fresh market cucumbers from January to August 2010 are up 11 percent compared to the same period in 2009.

Fruit outlook for 2011

Prices in the US fruit market have an impact on Canadian prices as Canada is the largest customer of US fresh fruit export volumes.

The 2010 apple crop in the US is estimated to be 9.5 billion pounds which is down four percent from last year. Poor weather conditions affected the crop in the eastern and central US. The 2010/11 marketing season (August to July) is expected to have higher prices than a year ago due to increased demand, decreased production and lower carry in stocks. Higher US apple prices should provide some support to Canadian apple prices.

The 2010 US grape crop is estimated at 14.2 billion pounds which is three percent smaller than last year. This is the second year in a row for lower production and lower supplies should provide support for higher grape prices going forward. California's grape crop is 12.7 billion pounds which is down three percent from last year with 55 percent of the crop going to wine grapes, 31 percent going to raisin grapes and 14 percent for table grapes. The volume of grapes crushed for wine is also expected to be down in 2010/11 due to the six percent smaller

California wine grape crop. This will increase prices for producers selling grapes to wineries. The US has had two years of back-to-back record high producer prices for wine grapes.

The estimate for the 2010 US blueberry crop is 488 million pounds, up eight percent from the 2009 crop. US blueberry prices have seen lower prices since 2007 due to a buildup of supply. Total North American (US and Canadian) blueberry production has been increasing for several years. In 2009, Canada was the largest source for both wild and cultivated frozen US blueberry imports. US demand for Canadian imports should continue but US prices will experience downward pressure from increasing production and imports from other countries such as Argentina and Chile.

Summary

This document provides an overview of the major shocks that have impacted the commodities of beef, pork, major grains and oilseeds, and horticulture for the 2010 year. The manuscript also provides an outlook for 2011 and discusses in general terms the major issues likely to face each agricultural sector or commodity. From the review, it would appear the Canadian agricultural sector is performing as would be expected given that most commodities are traded globally and need to be cost competitive. While total farm cash receipts have continued to increase the last couple of years, net income has been prone to significant variability between years. Some sectors (e.g. pork and beef) are struggling for long run sustainability due to an extended period of poor profitability. Within Canada total food consumption has increased because of a growing population base but the commodities of fluid milk, beef, pork, poultry, eggs, and total fruits have all experienced a per capita decline.

When the issues facing each commodity are examined there are many common challenges facing each production type. These common issues can be listed as follows:

- Dependency on foreign markets which causes the potential for vulnerability to changes in government policy, exchange rates and trade protectionism.
- Rising farm input costs that drive up the cost of production making it difficult to remain cost competitive despite productivity increases due to improved technology.
- Increased competition from imported products from potentially lower cost countries due to less rigorous food safety, labour, and environmental regulations.
- Shifting consumer consumption patterns due to increased concern about buying local, healthier eating, and changing population demographics.
- Increased importance of domestic government programs despite shifting spending priorities.
- While interest rates are expected to remain low for the 2011 time period, low sector profit margins make the commodity groups vulnerable to possible rate increases caused by global inflation.

In conclusion, agriculture in Canada remains important with farm gate sales exceeding $44 billion in 2009 but most commodities experience low profitability and export dependency. The majority of commodity prices are set by the United States which typically represents Canada's most significant agri-food trading partner.