What’s driving change in agriculture and the impact on financial risks

Jean-Philippe Gervais
Senior Economist
January 13, 2010

Why focus on financial risks?

• Changing structure of agriculture
• Financing is an important component of farming and processing operations
• Design of farm programs
Market drivers in agriculture

- Economic / population growth in emerging markets
- Consumer food preferences
- Trade

Growth abroad scenario

- Economic / population growth
- Westernization of food preferences
- Supply shocks yield more volatility
Volatility in nominal grain prices

Source: Statistics Canada

Volatility in nominal hog prices

Source: Statistics Canada, compiled by FCC
Volatility in real grain prices

Source: Statistics Canada, compiled by FCC

Volatility in real hog prices

Source: Statistics Canada, compiled by FCC
Domestic growth scenario

“Below-normal” growth levels/ public debt

Inflation threat

Upward pressures on interest rates

Interest rates in Canada

Source: Bank of Canada
Canadian farm debt

Debt to asset ratio

Source: Statistics Canada
Total per farm liabilities based on revenue class for supply and non-supply managed enterprises (adjusted for inflation)

Source: Statistics Canada / Farm Financial Database

Average net cash income before interest and program payments

Source: Statistics Canada
Liabilities to net income ratio

Proportion of net income used to pay interest

Source: Statistics Canada / Farm Financial Survey

Source: USDA and Canadian farm financial database
Debt exposure (revenues / liabilities) based on revenue class

Source: Statistics Canada / Farm Financial Database

Consumers’ food preferences

- Food safety
- Health and nutrition
- Values-based purchasing
- Ethnic preferences
Marketing mechanisms for the agri-food supply chain

- Value chains
- Strategic alliances
- Horizontal / vertical integration

Trade

- Composition of trade is changing
- Competitiveness is impacted by financial variables
- Focus on bilateral deals
Exchange rate volatility

Source: Statistics Canada, compiled by FCC

Market access across regions

World agricultural tariff averages, by region

Source: ERS-USDA
Keys with regards to financial risk and design of farm policy