

COVID-19 and Canadian Agriculture - Update: Supply Chain Activities and Canadian Farmland Transactions

May 19, 2020

The COVID-19 pandemic has provoked supply and demand shocks across nearly every aspect of the economy, including the agri-food value chain¹. From operating difficulties in North American meat packing facilities, to an enduring surge in sales for grocery products, the pandemic is having varied impact on different parts of the Canadian agriculture sector. As provinces further their plans to begin lifting social isolation restrictions², uncertainty remains about the pace and extent to which demand dynamics will return to normal.

Bonnefield continues to monitor the current agricultural landscape through daily conversations with industry stakeholders. The update below reflects ongoing conversations with growers, processors, farmland brokers, input suppliers, appraisers, academics, agrologists and agricultural finance professionals.

Challenges and Opportunities Resulting from the COVID-19 Pandemic

A prevailing theme emerging from our conversations is that business decisions are being guided by vigilance and attentiveness rather than worry. While the current market environment has affected each stakeholder differently, many are taking a carefully planned approach to stabilizing and growing their operations. The pandemic's impact is expected to create both pockets of opportunity, as well as challenges for participants throughout the agri-food sector³. Already, some in the industry have benefited from new consumption habits and purchasing trends, while others have been negatively affected by restaurant closures, supply chain difficulties, and other external pressures.

Challenges

One of the most pressing topics relating to COVID-19's impact on Canadian agriculture are the worker health concerns and reduced production capacities of beef, hog, and to a lesser extent poultry, packing plants⁴. Bottlenecks at meat packing plants naturally cause issues both up and down the value chain. In Canada, three processing facilities account for approximately 85% of all beef processing in the country⁵. All three of these facilities have had at least one case of COVID-19, while two of these facilities, in High River and Brooks, Alberta, have been temporarily shut down as a result.

As a result, livestock farmers face a supply glut with industry groups estimating a current backlog of over 100,000 cattle⁶. The current circumstances have depressed lean hog and feeder cattle prices to their five-year lows in mid-April and this has caused federal cattle packing volumes to decline to their lowest level since the Mad Cow outbreak in 2003⁷. The impact on Canadian cattle farmers currently stands at \$500 million⁸, and Canadian pork producers expect to lose \$675 million by the end of the year⁹.

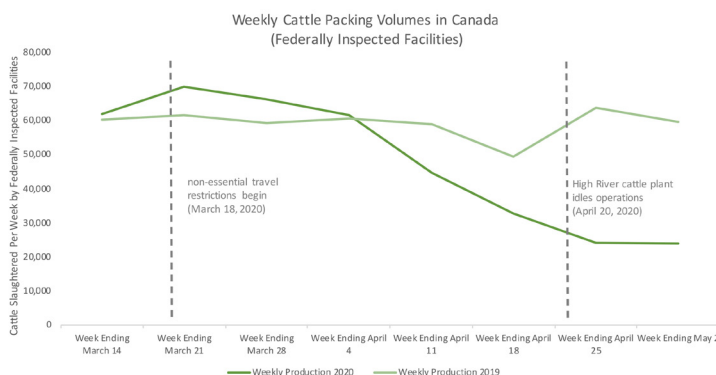


Figure 1: Weekly Cattle Packing Volumes in Canadian Federally Inspected Facilities
Source: Bonnefield Analysis, Agriculture and Agri-Food Canada, Animal Industry Division, 2020

However, the impact on Canada's full agri-food industry is yet to be seen. Retailers may have to raise prices due to supply shortages for finished meat products. Cash crop farmers producing crops such as corn, barley, canola, and soy (many of which sell to the livestock feed industry) may experience lower crop prices, and therefore revenue, in the short term.

To help mitigate the negative impacts of these dynamics, the Canadian government recently offered \$252 million in stimulus to help the agri-food industry. This was in addition to \$5 billion of increased lending capacity through Farm Credit Canada announced in March. Of the \$252 million, \$125 million is allocated to support livestock producers, \$77 million to address issues connected to temporary foreign workers, and \$50 million to purchase excess food that would otherwise go to waste due to changes in demand patterns¹⁰. While less than what the industry had hoped for, this does act to stabilize some of the tail risks associated with regional supply shocks.

Opportunities

Even though the COVID-19 pandemic's impact on meat production has placed stress on analogous supply chains over the past two months, other parts of the agri-food sector are seeing opportunities for growth. Flour sales in Canada rose by more than 200% in the second and third weeks of March, and have remained at almost double their normal levels since¹¹. A rally in wheat prices and a weak Canadian dollar have become welcome sights for many Canadian cash crop farmers as they begin planting for the coming season. Canadian lentils have also seen increased demand, after the government of India announced a monthly provision of 800 million kilograms for the country's citizens¹². Canadian red and green lentil prices have jumped by 59% YoY, and year-to-date exports have increased by 161% compared to the same time last year¹³.

The trend towards increased food spending at home has also continued as food service companies remain restricted to pick-up or delivery operations only. Fresh and frozen food grocery sales have increased by 10% and 16% respectively compared to the same time last year¹⁴. A significant cranberry producer and processor has told us that they have temporarily repurposed their packing plant in March as a response to the COVID-19 outbreak.

They are now packing frozen vegetables to fill a growing consumer demand, and their production has risen over 400% compared to the same time last year. They have also noted that the temporary foreign workers hired on the farm and in the facility have passed their 14-day quarantine period and are contributing immensely to the efforts. Since the COVID outbreak, they have ordered over \$1 million of new equipment, increased their hires, and stabilized their profit margins. Innovative and resilient stories such as these instill confidence in Canadian agriculture.

Canadian Farmland Transactions

While most North American real estate assets are facing greater operating risks, reduced earnings and drops in product demand, Canadian farmland values remain anchored as farmers maintain demand for the asset. Agricultural commodity price volatility is expected to continue for as long as the pandemic lasts, but land values tend to be driven by longer term, secular trends¹⁵.

Unlike commercial or residential real estate sales, farmland transactions have been relatively unaffected by social distancing measures. Drone technology, which is becoming ubiquitous in the industry, allows for the completion of many necessary tasks in a typical farmland acquisition and due diligence process.



ONTARIO | MLS FARM LISTING ACTIVITY | \$ 948,000 +

| PRE-COVID 19 | 6 Weeks Prior (Feb 3 - Mar 15)

LISTED*	BOARDS	SOLD*
20	TREB (TORONTO)	8
52	ORTIS*	25
42	OC*	12
4	WESC*	2
52	HAMILTON- BURLINGTON	25
1	OTTAWA	0
0	SUDBURY	0
171	TOTAL	72

| POST-COVID 19 | 6 Weeks+ Post (Since March 16)

LISTED*	BOARDS	SOLD*
12	TREB (TORONTO)	5
33	ORTIS*	17
27	OC*	12
5	WESC*	4
34	HAMILTON- BURLINGTON	15
2	OTTAWA	0
0	SUDBURY	0
113	TOTAL	53

Listed* - Includes those properties that we listed between those dates, but may also include properties that we sold conditional.
Sold* - Firm deals but not necessarily closed.

REAL ESTATE BOARDS

ORTIS*

Barrie, Brantford, Cambridge, Huron-Perth, Kitchener-Waterloo, Mississauga, Niagara, Oakville, Milton, Simcoe

OC*

Bancroft, Kawartha Lakes, London-St. Thomas, North Bay, Northumberland Hills, Peterborough, Quinte, Grey Bruce, Owen Sound, Southern Georgian Bay, The Lakelands, Tillsonburg, Woodstock

WESC*

Windsor-Essex, Sarnia-Lambton, Chatham-Kent

Farmland transactions tend to spike once post-harvest revenues are realized in November through to the end of February. As a result, the March-May timeframe that has coincided with the COVID-19 pandemic, tends to be a relatively slow time of year for farmland transactions. However, in speaking with real estate brokers across the country, the volume of farmland transactions does seem to have somewhat decreased in some regions (most notably Ontario) compared to this same time-period last year. The overall decrease in sales appears to be driven by farmers taking a “wait-and-see” approach to land acquisition and disposition. Many want to examine how the coming harvest and future commodity prices affect their balance sheets before selling or taking on additional land. Figure 2 shows farmland transactions in Ontario for the six weeks preceding the COVID-19 outbreak versus the six weeks since.

While the volume of farmland listings and sales in Ontario has slowed, appraisers are in agreement that values have largely remained stable. Transactions that have occurred, for the most part, have been in line with sales occurring prior to the lockdown.

In other regions, such as southern Alberta, transactions have been just as active as last year, and farmers there have not yet seen any evidence to suggest that land prices have decreased. Bonnefield believes that increased liquidity flowing from Farm Credit Canada’s enhanced lending program, as well as low interest rates and a limited supply of farmland have helped to support prices for recent transactions¹⁶.

Summary

At a time when most industries are clouded by uncertainty, agriculture is no different. However, while COVID-19 related difficulties are expected to continue for Canada’s meat processors, livestock farmers, and feed-grain suppliers, other areas of the agri-food value chain look more promising. It is reassuring to hear from farmers, brokers, and appraisers that farmland values have continued to remain stable through recent months and we will continue to monitor these trends.

- 1 - McKinsey & Company (<https://www.mckinsey.com/business-functions/risk/our-insights/covid-19-implications-for-business>)
- 2 - CBC (<https://www.cbc.ca/news/canada/coronavirus-covid19-canada-world-may8-1.5560946>)
- 3 - Farm Credit Canada (<https://www.fcc-fac.ca/en/knowledge/ag-economics/food-processing-outlook-clouded-by-uncertainty.html>)
- 4 - Reuters (<https://in.reuters.com/article/us-health-coronavirus-meatpacking-idINKBN22J1G9>)
- 5 - Financial Post (<https://business.financialpost.com/commodities/agriculture/why-only-three-meat-packing-plants-process-the-vast-majority-of-canadas-beef>)
- 6 - Globe and Mail (<https://www.theglobeandmail.com/canada/article-canadas-beef-and-pork-producers-forced-to-consider-culls-as-covid-1/>)
- 7 - Agriculture and Agri-Food Canada, Animal Industry Division, 2020
- 8 - Canadian Cattlemen’s Association (<https://www.cattle.ca/news-events/news/view/prime-minister-announces-initial-payment-to-beef-producers-and-commits-to-provide-more/>)
- 9 - Canadian Pork Council (<https://www.cpc-ccp.com/press-release/federal-commitment-not-enough-to-help-canadian-pork-producers>)
- 10 - Financial Post (<https://business.financialpost.com/commodities/agriculture/food-supply-concerns-are-bringing-the-multi-faceted-nature-of-canadian-agriculture-into-focus>)
- 11 - CBC (<https://www.cbc.ca/news/business/statistics-canada-grocery-shopping-1.5564426>)
- 12 - Financial Post (<https://business.financialpost.com/commodities/agriculture/people-are-ordering-pizza-like-crazy-pandemic-eating-sparks-explosion-in-demand-for-canadian-wheat>)
- 13 - Farm Lead (<https://farmlead.com/blog/breakfast-brief/strong-lentil-prices-may-2020/>)
- 14 - Origin Merchant Partners (https://mcusercontent.com/6688cd16d00b570c6531950b8/files/4001a411-10b9-4f66-ab72-3d3a36fe7b41/We_Need_to_Eat_Final.pdf)
- 15 - Western Producer (<https://www.producer.com/2020/04/farmland-values-still/>)
- 16 - Western Producer (<https://www.producer.com/2020/04/farmland-values-still/>)