



# FARMING FOR OUR FUTURE: CANADA'S 150<sup>TH</sup>

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@FMC\_GAC #AgExConf17



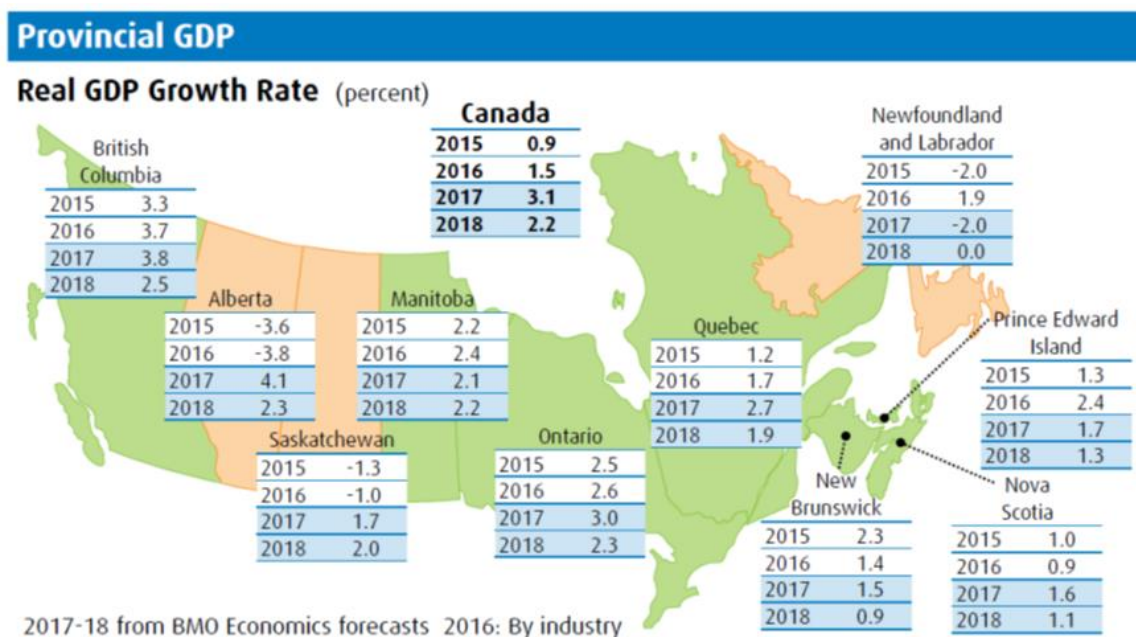
# Agriculture in today's economic environment



November 2017

# GDP: the good news story

- After a few years of sluggish growth, we now lead the G7 in GDP growth
- GDP growth and inflation will drive interest rates
- Growth is largely regional



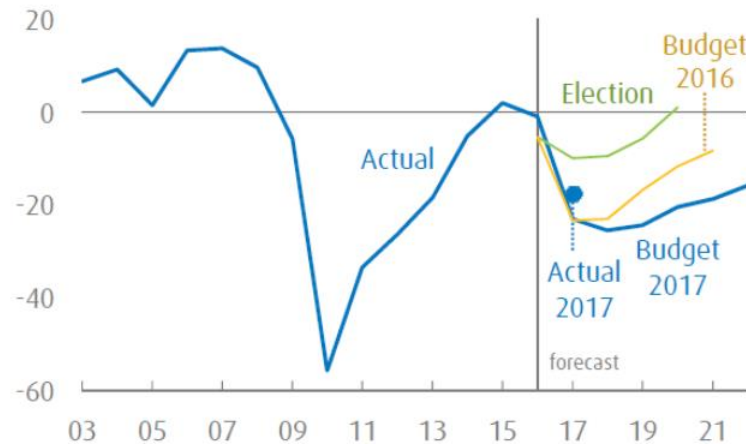
# Federal government deficit

- The federal government deficit is increasing to its highest point in 6 years
- This will impact the government's borrowing costs going forward – especially when interest rates increase

## Federal Deficit: Upside from Here

Federal Government — Canada (\$ blns : ex. contingency)

### Budget Balance



Source: federal budgets



# Interest rates and exchange

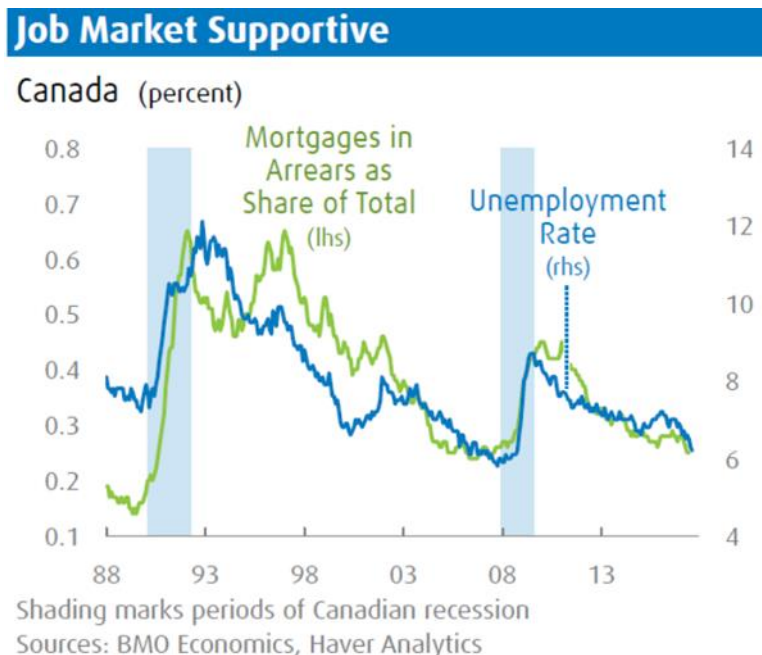
- Bank of Canada (BoC) rate is expected to reach 2.50% in 2019
  - High of 21.08% in August 1981
  - In the 5 years prior to the 2008 recession rates were between 2.25% and 4.75%
- Exchange rate will fluctuate, but overall is expected to stay

## Forecast Summary (averages)

	Actual 2017 Sep	Forecasts 2017		2017 Q4	2018 Q1	Q2	Q3	Q4	2019 Q1	Q2	Q3
BoC overnight	1.00	1.00	1.00	1.00	1.25	1.50	1.75	2.00	2.25	2.50	2.50
10-yr Canadas	2.05	2.10	2.20	2.20	2.30	2.40	2.50	2.65	2.80	3.00	3.05
Fed funds	1.13	1.13	1.13	1.38	1.38	1.63	1.88	2.13	2.38	2.63	2.63
10-yr Treasuries	2.20	2.35	2.35	2.35	2.45	2.50	2.65	2.80	3.00	3.15	3.25
C\$ per US\$	1.229	1.235	1.243	1.243	1.242	1.229	1.217	1.204	1.208	1.221	1.233
US\$/€	1.19	1.19	1.19	1.19	1.17	1.15	1.17	1.19	1.21	1.22	1.23
US\$/£	1.33	1.33	1.33	1.33	1.32	1.30	1.30	1.32	1.33	1.34	1.34
¥/US\$	111	112	113	113	115	116	116	117	117	116	116

# Interest rates: another reason to increase

- Strengthening job market indicates greater ability to absorb higher borrowing costs
- Mortgage portfolios are in their best shape since pre-2008 recession



# Agriculture: how will we manage?

- Overall, the crop sector is seeing pressure after a number of consecutive profitability
- Livestock sectors are finding stability after exceptional years
- On the **Agriculture** **es!**

	Wheat	Canola	Cattle	Hogs
	US\$/bushel	US\$/tonne	US\$/cwt	
2004	3.46	271	n.a.	n.a.
2005	3.19	224	87.34	68.58
2006	4.02	257	86.23	64.08
2007	6.38	378	93.92	65.56
2008	7.98	527	93.60	66.05
2009	5.30	371	83.85	58.11
2010	5.81	429	94.95	75.60
2011	7.10	566	114.54	90.34
2012	7.50	601	122.65	84.93
2013	6.84	545	126.40	89.33
2014	5.88	400	151.50	105.83
2015	5.08	371	146.49	69.40
2016	4.36	366	118.61	65.60
y-t-d 2017	4.40	392	117.58	71.21

# Lending 101

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- Interest rates
  - Variable rate – based on the bank's posted Prime rate
  - Fixed rate – based on the bank's cost of funds
- Term
  - The longer the term, the higher the interest rate
- Common loan types
  - Operating lines
    - Prime
  - Term loans with specified repayment terms (for financing long term assets)
    - Prime OR Fixed rate



# What it all means...

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- Over the last 5 years (at minimum)
  - Most long term financing has been Fixed rate loans
  - Most loans have had 1 year terms
    - Due to a stable, low interest rate environment
- Moving forward
  - BoC rate and one year term loan rates are projected to continue increasing
  - Uncertainty over rates 1, 2, 3, 4, 5 years from today
  - Locking in for longer terms today allows for interest rate risk management and ability to project the future more accurately
- **Still in a historically low interest rate environment**

# Other options: no interest!

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- Advance Payments Program
  - \$100,000 interest free
  - Next \$300,000 at Prime
  - Easy application process – 15 to 20 minutes over the phone
  - Financing for over 1,000 different commodities
- Commodity Loan Program (Ontario only)
  - Access up to \$750,000 at Prime

# A few wild cards in the deck...

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## Saudi Arabia



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# Questions and Comments

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