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WEEKLY ECONOMIC DIGEST

DROUGHT CONDITIONS DOMINATING 2021 CROP AND LIVESTOCK MARKETS

EXPECT REDUCED CANADIAN 2021/22 CROP PRODUCTION AND A REDUCED BEEF CATTLE HERD

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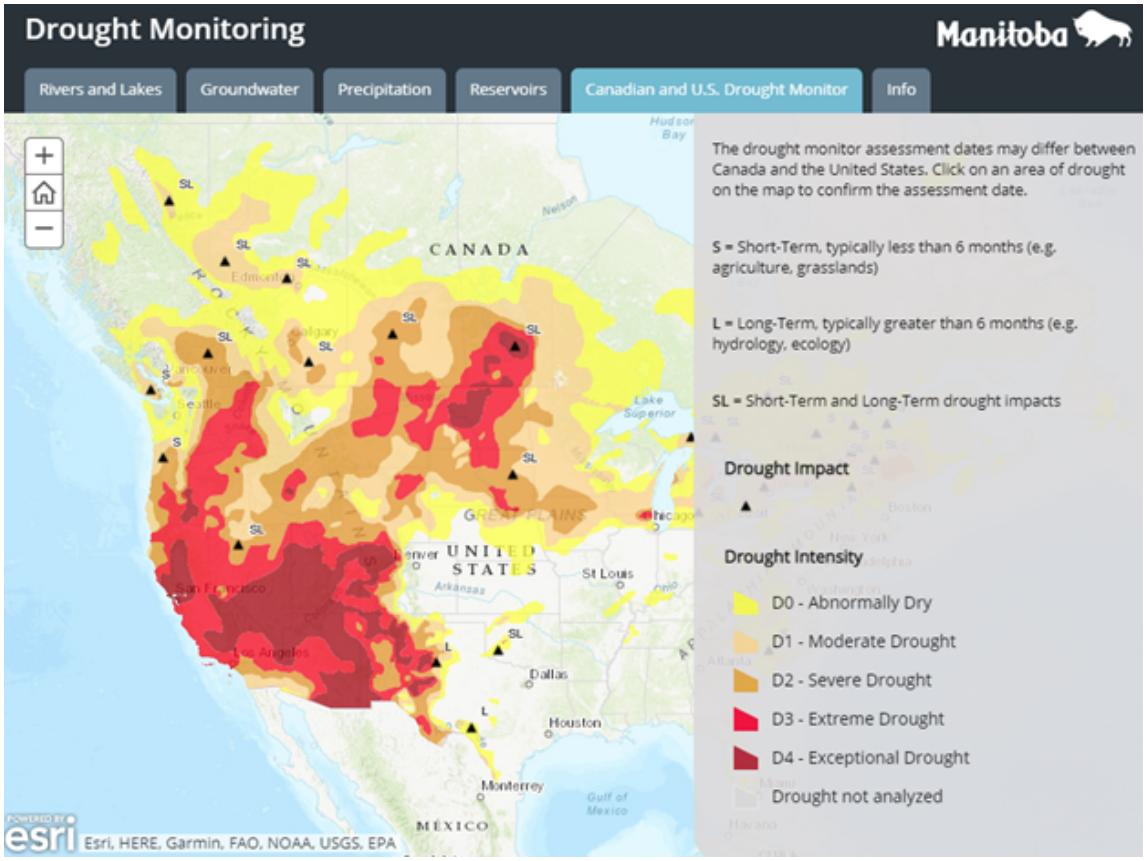
Bottom Line

Widespread drought on the western side of both Canada and the US is causing significant challenges for crop and livestock production in both countries.

In Alberta, Saskatchewan, and Manitoba, we can expect to see higher crop abandonment and lower yields across an array of crops for lower production. This will mean some combination of lower exports and crop domestic processing, along with higher prices.

For beef cattle, the drought has reduced available pasture, as well as the availability of feedstuff for over wintering cattle. This expected lack of feed will result in the repurposing of some abandoned crops for feed and herd reductions that will potentially take a few years to reverse. This is particularly pressing in Manitoba's interlake region.

DROUGHT CONDITIONS

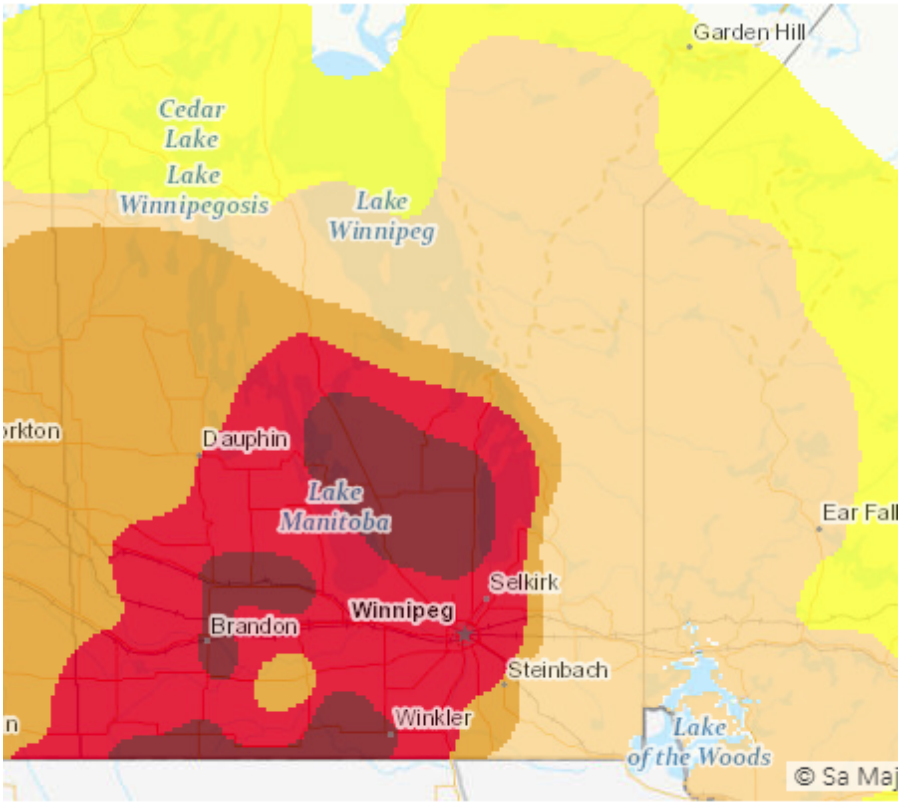


Western Canada and Western USA

A widespread drought is hitting Western Canada in particular. Agriculture Canada's drought monitor shows the results for Canada only, but this only gives part of the North American picture. When we widen the view to Canada and the USA, we see that a widespread and severe drought is hitting both Western Canada and the Western United States.

The above map shows the extent of the drought as of the end of June 2021, which predates an extremely dry July 2021. These drought areas are negatively affecting food and feed crops, and pastures for livestock, particularly cattle. Updated drought mapping should be available in the coming weeks and will likely show worsening conditions.

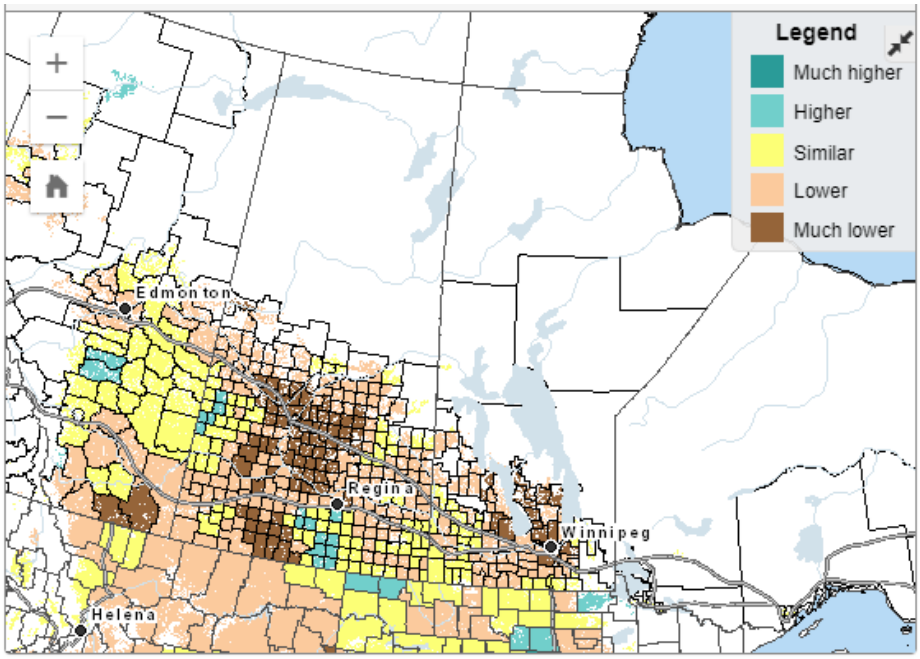
DROUGHT CONDITIONS



Manitoba

When we zoom in on Southern and Central Manitoba, we can see much of the south of the province is experiencing exceptional or extreme drought conditions.

DROUGHT CONDITIONS



Western Canada NDVI departure from average

Satellite modeling shows an ongoing negative situation. Consider the Crop Condition Assessment Program (CCAP) from Statistics Canada, which shows a normalized difference vegetation index (NDVI) departure from average. For July 25 – 31 the CCAP shows significant areas of Alberta, Saskatchewan and Manitoba have well below average vegetation – evidence of drought.

CROPS

Not surprisingly, provincial crop reports from Alberta, Saskatchewan and Manitoba all paint a negative outlook for current crop production.

The benchmark United States Department of Agriculture's (USDA) July 2021 World Agricultural Supply and Demand Estimates (WASDE) report, shows world soybean and canola supply and demand have narrowed after an already tight 2020/21, while the world wheat, corn supply and demand situation are tightening at least marginally.

(Western) Canada is a key export region for several crops, including wheat, canola, lentils (AB/SK), dried peas, and oats. Nov'21 canola futures (CDN$/metric tonne) are near record levels at CDN$878/MT, which is 83% higher than the level of the previous five November contracts (CDN$478.46/mt), according to barchart.com.

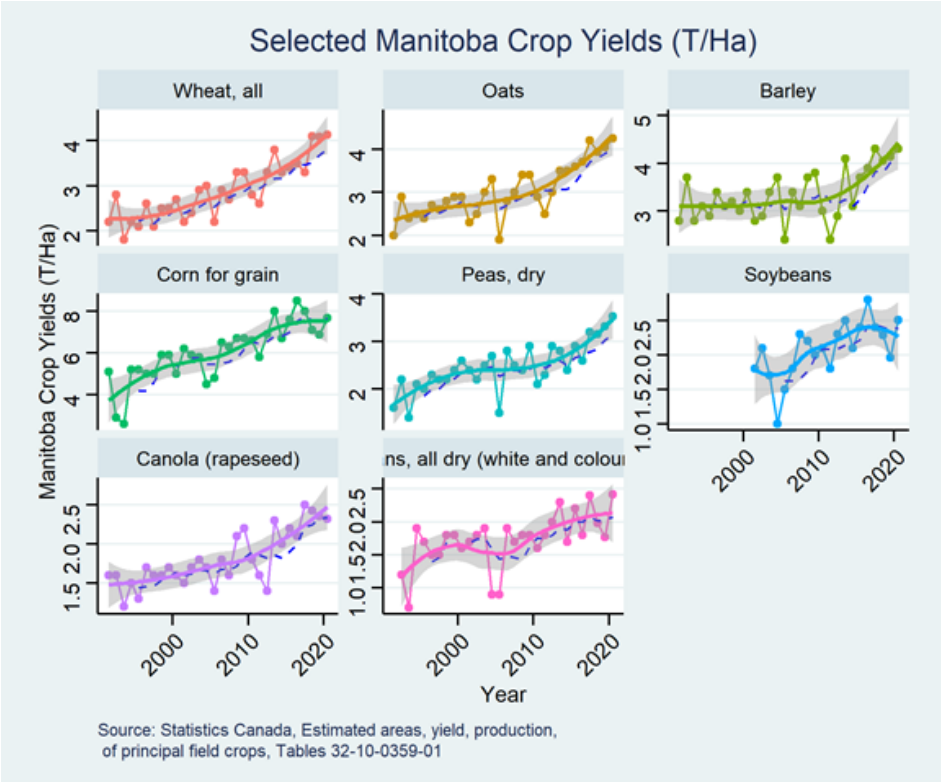
Farmer's net cash return at Winnipeg Elevator	Current Wk (CDN$/ tonne)	Year Ago (CDN$/ tonne)	y/y % chg.
Wheat – Western Red Spring	373.69	224.14	67%
Wheat – Northern Hard Red	373.32	216.05	73%
Wheat – Red Winter	349.07	203.19	72%
Wheat – Special Purpose	330.29	192.52	72%
Barley - #1CW	308.19	174.53	77%
Flaxseed - #1CW	800.75	550.76	45%
Canola - #1CR	857.15	461.64	86%
Peas - #2 Yellow	366.10	223.04	64%
Corn - #2	301.95	152.35	98%
Oats - #2CW	303.46	212.68	43%
Soybeans	551.53	372.58	48%
Canola Meal	355.00	314.00	13%

Closing Futures Prices (US$)	Current Wk (US$/tonne)	Year Ago (US$/tonne)	y/y % chg.
Wheat SRW - Sep 2021	258.59	195.2	32%
Wheat Kanas HRW - Sep 2021	247.38	162.59	52%
Wheat Minn HRS - Sep 2021	332.44	188.86	76%
Corn - Sep 2021	215.34	124.4	73%
Oats - Sep 2021	289.68	179.13	62%
Soybeans - Sep 2021	498.06	327.11	52%
Soyoil - Sep 2021	1420.46	671.86	111%
Soymeal - Sep 2021	387.13	320.9	21%
Closing Futures Prices (CDN$)	**Current Wk (CDN$/tonne)**	**Year Ago (CDN$/tonne)**	**y/y % chg.**
Canola	953.40	491.50	94%

Manitoba's crop prices in the July 30, 2021 grain and oilseed prices report are showing prices that are up on the year, in most cases more than 43% y/y.

In the same July 30, 2021 report, USD/tonne prices for related futures are also showing significant strength. These futures contracts benchmark futures for the US, Canada and much of the world. The canola contract is in CDN$/tonne.

CROP YIELDS



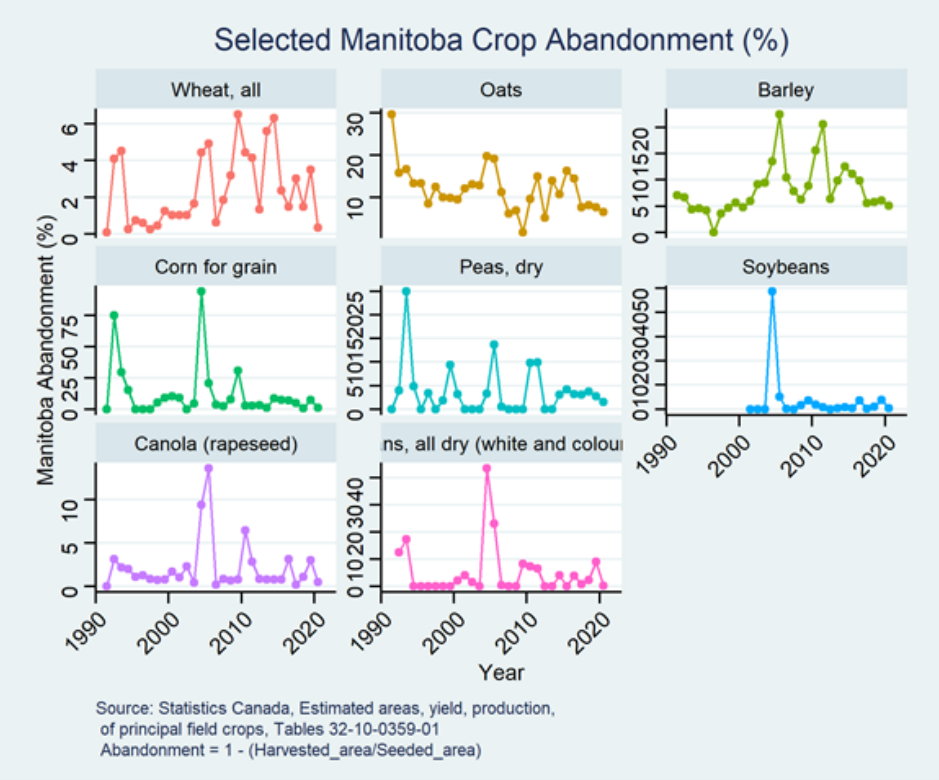
If we review Statistics Canada's yield data for selected Manitoba crops for 1991 – 2020, we can see crop yields have continued to trend up over the years.

Given drought conditions in 2021, we can expect to see crop yields fall below trend. Crops that are less drought and heat resistant will be particularly affected. Specific estimates can be found at Statistics Canada, Agriculture Canada, and provincial agriculture departments.

Early reports in the Western Producer this week predict that canola yields in Alberta, Saskatchewan and Manitoba will be down 10 to 20 bushels per acre (bu/ac) or more below trend yields. If we convert these imperial figures to metric - metric tonnes per hectare (T/Ha) this would translate to yields being down between 0.5 T/Ha to 1.1 T/Ha.

Sources:
Statistics Canada. Table 32-10-0359-01 Estimated area, yield and production of principal field crops.

CROP AREA ABANDONMENT AND PRODUCTION



Due to the drought, we can expect to see a higher than usual crop abandonment rates. Part of this will be due to shifting some crops to use as livestock feed (This could mean baling up for greenfeed or turning cattle loose on unharvested fields). Of those listed below, the more likely crops to be abandoned include corn for grain, barley, and oats.

These two factors – lower crop yield and lower harvested area - will combine to reduce overall crop production, with some crops doing much worse than normal.

Farm income will fall on reduced volumes, with sale price increases offsetting some of the volume reduction effect. Further up the value chain, we can expect less shipping by truck and rail, lower crop merchandising and processing/exporting.

Sources:
Statistics Canada. Table 32-10-0359-01 Estimated area, yield and production of principal field crops.

LIVESTOCK

Of Manitoba's livestock, beef cattle are expected to be most affected by the drought. This is because cow-calf pairs are typically on pasture during the warmer months, and eat hay and straw for much of their food over winter. The drought has caused pastures to be far less productive and this will reduce the availability of feed for wintering cattle.

Media including the **Manitoba Cooperator** (July 15, 2021), **Western Producer** (July 31, 2021), **CTV News** (July 21, 2021), and the **New York Times** (August 4, 2021) have made note of the severity of the effects on Manitoba beef cattle producers.

In particular, Alexis Stockford's July 15, 2021 Manitoba Cooperator article "**On the brink: Drought pushes Interlake beef producers to the edge of viability**," made the situation very clear. The Interlake had suffered from dryness in 2019 and still had not recovered fully before this year's drought hit. This year's disaster may test the viability of a number of these producers' operations.

Alexis' article lays bare why some beef cattle farmers are being forced to sell part or all their herds. For example, Marney Blunt of Global Winnipeg posted a tweet from Winnipeg Livestock Sales, where their Friday sale was 1,500 head (vs a more seasonable 200 – 300 head). Thus, we are likely to see a further reduction of beef cattle herds on the prairie for a period of 2 to 5 years, depending on how significant the herd reduction ends up being. Feeder cattle in feedlots typically have more grain and soy meal in their diet, in addition to hay and straw. This will mean higher feed costs until the next harvest in Aug/Sep 2022.

LIVESTOCK

With beef cattle reductions, we are likely to see increased early placements in feedlots for calves and/or increased slaughter of cows/bulls. It will be particularly important to ensure the key High River, AB and Brooks, AB plants are not taken offline by a COVID-19 outbreak. These plants represent more than 80 per cent of capacity in Canada.

Higher feed costs can be expected to affect the profitability of hogs, with some effect on supply managed dairy and poultry.

The federal and provincial relief packages and crop/livestock insurance will be particularly important in stabilizing our agriculture industry over the coming calendar year. On August 6, 2021, the Manitoba provincial government announced changes to the AgriStability program to offer more support to Manitoba's struggling farmers.

INQUIRIES AND CONTACTS

If you require help accessing government programs, contact our YES! Winnipeg team through the **Help us help you form**.
General inquires: **wpginfo@edwinnipeg.com**
Marketing & communications inquiries:
marketingandbranding@edwinnipeg.com

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