Harvest Swoon
North American Harvest Report

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It’s sometimes said that no good deed goes unpunished, but don’t expect that particular quip to get much of a laugh from crop producers these days. North American farmers are in the process of wrapping up an impressive fourth-straight bumper harvest, thanks to an improbable run of highly supportive growing conditions and the continued deployment of yield-boosting innovations across the industry. In return for their efforts, producers have seen stockpiles skyrocket and benchmark crop prices fall to their lowest levels since the mid-2000s. In the United States, the current marketing environment is weighing heavily on farm revenue and earnings, though in Canada, producers have been shielded by a remarkably well-timed plunge in the loonie, which has buttressed domestic crop prices. Downstream from the agricultural sector, today’s crop prices represent a boon for U.S. food processors, which are enjoying record margins and earnings, and for consumers, who are seeing their grocery bills ease on both sides of the border.

Blowout harvest in the United States; mediocre in Canada

This year’s global bumper crop has once again reflected exceptionally strong growing conditions in the United States (Chart 1). Composite U.S. crop yields, which include corn, soybeans, wheat, and canola, are estimated to have soared 14% above trend this year, with wheat, corn, and soybeans all posting their strongest yields ever. Crop yields outside the United States have turned out more middling, however. In Canada, composite yields improved modestly on last year’s subpar result, but remained on-trend as a near-record crop of canola on the prairies was offset by a step down in corn and soybean yields in Ontario. Overseas crop yields look similarly average this year. Of course, with the United States accounting for 35% of global soybean production and 38% of corn, the big upswing in stateside production has had a massive impact on crop markets the world over.

Without understating the importance of growing conditions, it’s worth recognizing that the current string of bumper crops has not arisen purely by chance. Global crop yields have trended upward for decades as producers in

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**Chart 1**

Another outsized U.S. harvest
Composite Crop Yields
per cent deviation from trend

<table>
<thead>
<tr>
<th>Canada</th>
<th>United States</th>
<th>Rest of the World</th>
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<tbody>
<tr>
<td>Canada</td>
<td>2%</td>
<td>0%</td>
</tr>
<tr>
<td>United States</td>
<td>-3%</td>
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<tr>
<td>Rest of the World</td>
<td>3%</td>
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Notes: Marketing years. Composite includes yields for corn, soybeans, wheat, and canola. Changes in individual crop yields are weighted by farm receipts for Canada and the United States and by acreage for the rest of the world. Trend taken from 2000 through 2012.
developing economies have adopted more modern agricultural practices and as farmers in advanced economies have pushed forward the industry’s technological frontier. In the corn space, for example—the world’s largest crop by weight—trend yields in North America have advanced an impressive 20% since 2000, while yields across the rest of the world have managed a dramatic 41% gain (Chart 2). While not entirely an apples-to-apples comparison, multifactor productivity in the broader U.S. economy has risen only 14% over the same period and has actually declined somewhat in Canada (as resource producers have turned to less accessible assets). The pace of innovation in the farm sector has shown few signs of abating. Technologies like autonomous equipment and satellite-informed planting and fertilizing still have lots of room to run in terms of adoption and refinement.

U.S. benchmark prices in the ditch, but currency is key

All of this has kept crop markets under unrelenting pressure. In the United States, the Department of Agriculture’s aggregate crop price index has edged down another 1.0% over the past year and is now nearly 30% below its 2012 peak (Chart 3). In fact, every component of the index is down sharply from recent highs, with the exception of fruits and nuts, which have been propped up by the troublingly persistent drought in California. Grains and oilseeds, whose longer storage life has resulted in an explosion of stockpiles over the past few years, have been the hardest hit by far, with prices almost 50% below 2012 highs.

From a cross-border perspective, however, foreign exchange developments have yielded very different experiences for producers in Canada and the United States. In the United States, the lofty greenback, which has gained 20% on a trade-weighted basis since the start of 2014, has been yet another bearish factor for crop prices and revenue. Canadian producers, in contrast, have benefitted from an exceptionally well-timed plunge in the loonie, which is down 17% against the U.S. dollar since the start of 2014 and has provided a like-sized lift to crop prices north of the border. As a result of the weaker loonie, domestic crop prices in Canada are a less-severe 18% below all-time highs and are up 5% from their recent low in mid-2014—a particularly fortunate development given the country’s mediocre crop yields over the past two years. Although the weaker loonie has also raised the cost of internationally-priced inputs like energy and fertilizer, most producers face a wide variety of Canadian dollar-denominated expenses as well (labour, interest, land, etc.), so margins have benefitted on balance.
Consumers and processors eating it up

Although today’s crop price environment poses a major challenge for U.S. farmers, it also represents a windfall to downstream buyers. Operating profit margins at U.S. food processors have risen from just over 6% at the start of 2014 to nearly 9% in the second quarter of this year, which has helped push that industry’s earnings to an all-time high. Not all of the gain has been absorbed into processor margins, however. At the consumer level, sharply lower crop and livestock prices have pulled U.S. consumer food prices down 2.3% over the past year—the largest drop in a half-century, outside the Great Recession (Chart 4). Consumer food prices may also have further to fall, as soaring processor margins leave plenty of room for price competition.

Unsurprisingly, the weaker Canadian dollar has resulted in considerably more buoyant food prices in Canada, with food inflation averaging nearly 4% per year between mid-2014 and the first quarter of this year. However, Canadian food prices have now turned downward thanks to the precipitous collapse in livestock prices and a partial bounce-back in the loonie from its low earlier in the year.

A look ahead

Absent a major crop failure in a key agricultural country, current stockpiles suggest little potential for a rapid near-term rebound in crop prices. The outlook for demand isn’t especially supportive either, with still-sluggish global growth likely to weigh on food demand over the next few years and anticipated herd reduction in the livestock industry expected to reduce feed demand. One hope, however, is that consumers will respond enthusiastically to lower food prices, which could provide a firmer floor for crops. Encouragingly, there are early signs that this is already occurring in the United States, where food spending is on the upswing. Overall, with key grain and oilseed prices now below the cost of production for a significant number of producers, there is little question that prices will eventually rise—either due to a normalization of growing conditions or, more painfully, producer exit.
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