

COVID-19: CANADA'S AGRI-FOOD SECTOR YIELDS STRONG RESULTS DESPITE PANDEMIC

EDC Economics

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SUMMARY

- The long-term outlook for Canada's agriculture sector is generally positive, due to growing global demand from middle-class consumers.
- Recent trade policy disruptions have propelled some market diversification efforts and provided new opportunities for Canadian producers such as seafood exporters.
- COVID-19 has caused significant economic disruptions for the sector, which include a rapid shift in consumption patterns to purchasing more groceries to eat at home (rather than dining out), temporary closures of meat-processing plants, challenges accessing temporary foreign workers to assist in production, and price volatility that has put agriculture firms at elevated financial risk.
- Canada's agriculture sector exports have been quite resilient, with shipments for processed food and crops, as well as labour market activity, significantly outperforming most sectors of the economy.
- Looking ahead, concerns about food security, excess trade reliance on sourcing from other countries, and supply chain vulnerabilities are likely to support domestic investment in Canada's agriculture sector.
- Shifting long-term trends also present significant opportunities in niche and non-traditional areas for Canadian companies, particularly organics and non-meat protein and dairy substitutes.

GLOBAL CONTEXT

Canada is a major player on the global agri-food stage. Since 2011, Canada has ranked as the world's fifth-largest exporter of agricultural commodities and the 11th-largest provider of agri-food globally, supplying the world with a diverse array of products. In 2017, our agri-food exports totalled \$63.9 billion. The outlook for the agriculture sector before COVID-19 was positive, especially over the longer term. Although the United States' trade policy in recent years had been uncertain—in some cases disruptive—it's also encouraged international companies to diversify their supply chains. This, in turn, has provided greater opportunities for Canadian agriculture producers to enter new or less-active markets such as Japan and the European Union.

Moreover, trade tensions between the U.S. and China have presented Canadian companies as a viable alternative to American producers. Global seafood demand has also been strong, driven by a growing middle-class demand for healthier proteins. With demand growth exceeding supply growth for most species, seafood prices have risen over the long term. While Canada benefitted for a short period, escalating challenges related to Canadian-China trade have negatively affected an increasing number of agriculture exporters, causing companies to diversify their shipment destinations.

COVID-19 has caused a massive global economic crisis and significant trade disruptions, which extend to all sectors of the economy. Due to the swift decline in economic activity and social distancing measures, supply and demand for agriculture and food products have been volatile, in some cases, affecting producers' financial viability and investment intentions.

Consumer spending and preferences have also shifted. Social distancing and lockdown measures led to closures of many restaurants, bars and food services. Consumers adjusted spending patterns to incorporate social limitations, resulting in a significant increase in spending on groceries to eat at home.

GLOBAL OUTLOOK

COVID-19 disruptions to economic and financial activity will, on net, negatively affect the sector worldwide. Three key issues impacting agriculture are:

1. In line with the economic downturn caused by COVID-19, demand has changed significantly. Among the most affected industries have been food services through the decline in tourism, retail and restaurant activity. With lower demand, some processing plants face reduced orders, limiting their purchases from upstream agriculture producers. Moreover, consumers shifting to almost entirely home cooking, has changed product demand such as smaller portions and different types of foods consumed.
2. Supply chains were severely impacted and may take time to ramp up to pre-COVID-19 levels. Upstream agriculture production depends heavily on labour and therefore, various containment measures, could restrain production. Labour shortages add to production challenges. Agriculture production in most developed markets uses temporary foreign workers ([TFW](#)) and travel restrictions limit the ability to bring in these workers during the latest harvest and production season.
3. Agriculture producers are vulnerable to price swings. Throughout this crisis, prices have oscillated significantly, but overall are generally down since the start of COVID-19, specifically for corn and other primary agriculture products such as sugar, soybean, cattle and hogs. These pressures put many agriculture firms at elevated financial risk.

Despite short-term challenges, the long-term outlook is stable to positive for many in the industry. Globally, the agriculture sector is highly diverse and major producing countries have developed comparatively advanced supply chains. In order to sustainably develop, however, the sector requires increased investment in R&D and infrastructure. Appropriate public policies are also needed to reduce costs, increase risk-management knowledge and enhance technological access, especially in rural areas, for underdeveloped markets and expanding into value-added food production.

DOMESTIC PERFORMANCE

In Canada, labour shortages are a major challenge for this sector right now, since it, too, depends heavily on TFWs. Food-processing plants face the added challenge of operating in close quarters, making health and safety difficult to manage and increasing the need for personal protective equipment. Several meat-processing plants suspended operations due to COVID-19 outbreaks. While many have ramped back up to normal levels, certain operators continue at lower capacity due to health and safety measures.

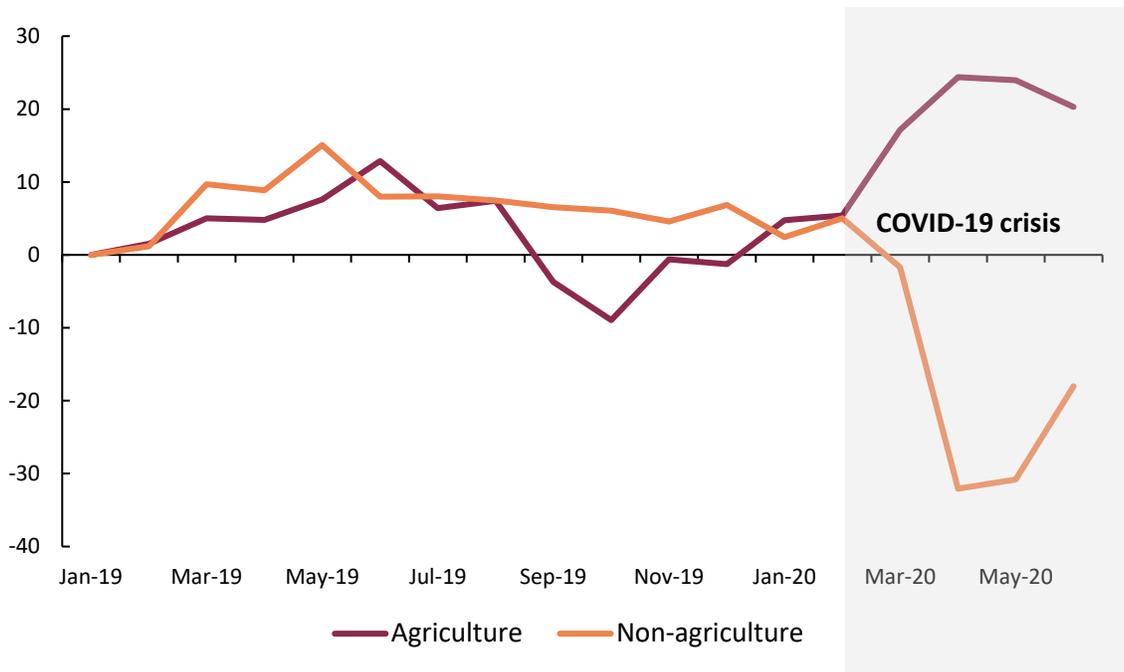
Except for wheat, most agriculture commodity prices are expected to remain subdued in the short term, given weak demand and logistical constraints. While international trade of food products is flowing again, the breadth and speed of the sector's recovery depends on the overall economic recovery. In the years ahead, discussions around food security (having reliable access to nutritious, affordable food), excess trade reliance on other countries and supply chain vulnerabilities could support domestic investment in Canada's agriculture sector.

RECENT SECTORAL RESILIENCE DURING COVID-19

Canada's agriculture exports have been quite resilient during the COVID-19 crisis. Since February, they have grown by 14%, at a time when non-agriculture exports have fallen by 22%. Some of the gains relate to higher prices relative to 2019 for wheat, canola, and to a lesser extent, soybeans, as supply concerns contributed to precautionary purchases.

CANADIAN AGRICULTURE AND NON-AGRICULTURE EXPORTS

Percent change since January 2019



Source: Statistics Canada

On the labour market side, although the number of hours worked fell across all sectors in Canada between February and June 2020, the agriculture sector had one of the smallest declines.

CHANGES IN HOURS WORKED SINCE COVID-19

Percent change June versus February 2020, by sector

Total economy -15

Goods		Services	
Agriculture	-9	Wholesale, retail trade	-11
Forest, fish, mining, oil, gas	-13	Transportation, warehousing	-20
Utilities	-2	Finance, insurance, real estate	-6
Construction	-18	Professional services	-13
Manufacturing	-9	Business support services	-19
		Education	-11
		Health care, social assistance	-11
		Information, culture, recreation	-25
		Accommodation, food services	-47
		Other personal services	-27
		Public administration	-3

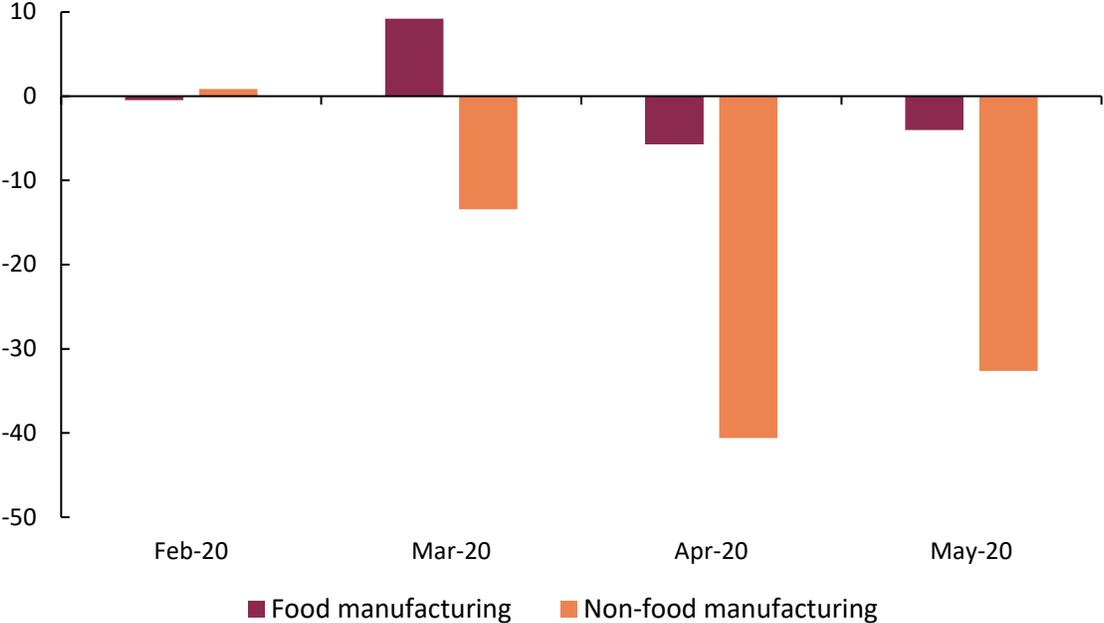
Source: Statistics Canada

Furthermore, while overall manufacturing suffered significant declines during the initial stages of the COVID-19 crisis, food processing surged noticeably in March during the start of the lockdowns. This reflected a rapid shift in consumer spending towards home-related purchases, as well as stockpiling due to concerns of supply shortages.

Since lockdown measures have eased, food manufacturing sales have slowed, but they continue to outperform the rest of Canada’s manufacturing sector by a wide margin.

CANADIAN MANUFACTURING SALES

Percent changes relative to January 2020 levels



Source: Statistics Canada

COVID-19 IMPACT ON FARM RECEIPTS

Canadian farm receipts have taken a hit so far this year due to COVID-19 disruptions. While prices are favourable for certain products such as processed beef and pork, supply chains have been hampered by a reduction in overall demand and lockdown measures. As a result, Farm Credit Canada (FCC) is forecasting a 2% decline in overall farm receipts this year, after a 6% gain in 2019.

CANADIAN FARM RECEIPTS

	BILLIONS OF DOLLARS		GROWTH	
	2019	2020F	2019	2020F
TOTAL	66.1	64.5	6%	-2%
GRAINS & OILSEEDS	24.2	24.3	-4%	0%
BEEF	9.4	8.9	3%	-5%
DAIRY	7.0	6.6	5%	-5%
HOGS	4.6	4.2	12%	-7%
POULTRY	3.3	3.1	4%	-4%
EGGS	1.2	1.2	6%	-4%

Sources: Statistics Canada and Farm Credit Canada (forecast)

KEY FUTURE OPPORTUNITIES

Reshoring considerations, particularly for food processing, may ultimately boost investment in Canada’s agriculture sector, but such an adjustment would take time and effort and ultimately needs to satisfy consumer expectations regarding prices and variety.

Exploring and developing long-term trends could present significant opportunities in niche and non-traditional areas for Canadian companies. The opportunities discussed below may yield positive results, which Export Development Canada (EDC) could support, to build partnerships, facilitate inward and outward foreign direct investment for new facilities, and mergers and acquisitions to realize cost savings.

Organics

- Rising global preferences for increased sustainability and environmental considerations make organic and natural products an ideal opportunity for Canadian manufacturers—an area where Canada currently excels. According to a 2019 [EDC report on the organic food industry](#), the total organic market in Canada was estimated at more than \$5 billion.
- Increasing global competition in agriculture production could present opportunities for Canadian companies by expanding into these markets with higher-value products.

Non-meat protein and dairy substitutes

- The global livestock market is worth US\$1.2 trillion. Sales of meat products in the U.S.—Canada’s largest meat buyer—amounted to US\$74 billion in 2018-2019. Sales in developed markets, particularly the U.S. and Europe, are experiencing a persistent slowdown as consumers become more health and environmentally conscious.
- The slowdown in developed markets will be in part compensated by emerging market growth, including in China. According to the [OECD-FAO’s Agricultural Outlook \(2017-2026\)](#), China’s meat

consumption is expected to peak before 2030. Moreover, meat-alternative companies are taking proactive steps to penetrate the Asian market.

- Supply will be constrained, in large part, by environmental considerations (e.g. land and water usage, crop inputs being diverted to other more sustainable uses). Changing trends won't mean the death of the livestock and processed meat industry, but consumers are expected to reduce their meat-protein consumption for both health and sustainability reasons by diversifying their protein options.
- While low in terms of global market demand relative to meat-protein, non-meat protein production is expanding rapidly to meet growing demand for meat and dairy alternatives.
- In the U.S., total sales of plant-based meat totalled US\$800 million in 2018-2019 and companies are investing heavily to expand their share of the growing plant-based protein and dairy-substitute market.
- Canada's pulse sector has a goal of "25 by 2025," whereby 25% of pulse production will go to alternative products such as pet food and non-meat protein. Companies are also investing in plant-based protein capacity, specifically for pea protein, which is one of the cheapest meat-protein substitutes and a main ingredient in popular products.

CANADA'S SECTORAL FOOTPRINT

SECTOR	GROSS DOMESTIC PRODUCT (Dec. 2019)	EMPLOYMENT (2019)	NUMBER OF COMPANIES (Dec. 2019)
Agriculture, forestry, fishing and hunting	\$40.8 billion (2% of total)	351,700 (2% of total)	Total: 49,570 Small: 49,253 Medium: 305 Large: 12

Note: These numbers under-estimate overall economic activity for the sector, since they cover only primary agricultural production, but don't include the significant economic contributions from food services and food manufacturing.

ABOUT THIS REPORT

This report is part of a publication series of concise reports written by EDC Economics staff on the impact of COVID-19 on Canadian international trade and investment. The views expressed in this report are those of the author and shouldn't be attributed to Export Development Canada or its Board of Directors.

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