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CANADIAN

2015 Agricultural Outlook Survey



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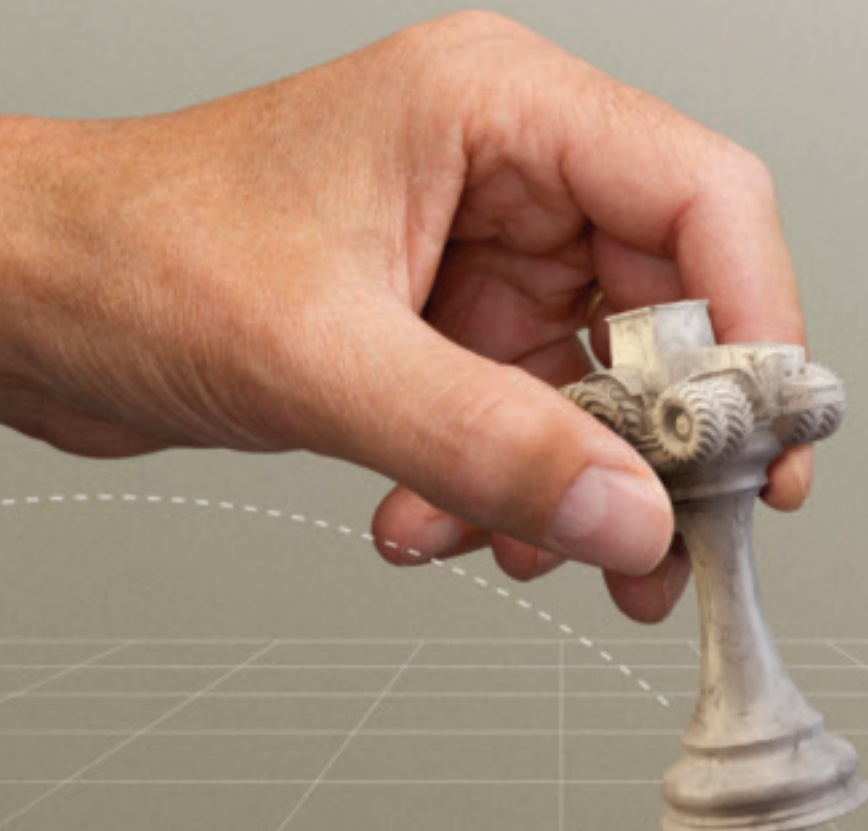
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INTRODUCTION

BY TOM BUTTON EDITOR, COUNTRY GUIDE



➤ This publication is an overview of some of the findings from the **2015 Canadian Agricultural Outlook Survey**. In total, 455 farmers participated in this survey, providing an in-depth overview of the current and future state of the agriculture industry.

The partners in this survey project recognized that there were few sources of information to help agribusinesses identify, update, or interpret farmers' attitudes and future plans. Without this critical information, agribusinesses can't easily plan for what products or services producer's might need — or when they might need them. We enlisted the services of Dr. Al Mussell, Research Lead, Agri-Food Economic Systems and Ipsos Agriculture and Animal Health to fashion the survey to best capture the attitudes shaping farmers' outlook.

For operations to not only survive but thrive in this ever changing climate, Canadian producers need the insight and strategies essential for mitigating risk and creating opportunity.

The information from the **2015 Agricultural Outlook Survey** helps us build a shared knowledge pool that will assist agribusiness in making effective decisions for their operations. Created by The Western Producer and Country Guide, in partnership with MNP, RBC Royal Bank and Miller Thomson, this survey puts more control into Canadian farmers' hands.

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2015 **Agricultural
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WELCOME

MIKE RAINE MANAGING EDITOR, WESTERN PRODUCER



➤ Gauging farmer opinion can pose challenges; ask any farm inputs dealer or equipment supplier.

Producers have learned there are good times, mediocre times and bad times on the farm, and to weather those cycles most farmers have adopted the longer-term view of their operations. Farms are built on several years of markets and production, and so are farmer attitudes.

Possessing insight into farmers' needs is critical to crop service providers, equipment dealers and others who depend on delivering products and services to the farm sector.

Farmers, too, need to know the opinions of their fellow producers for many reasons. For example, producers looking to buy or sell land and equipment can use other farmers' optimism or pessimism to gauge a good time to sell. They can use polling information from other producers as a benchmark for their own attitudes toward the industry and apply the data to help in a myriad other decisions.

But the information must be accurate, and obtaining a large enough sample to ensure it reflects the true moods of growers requires professional polling strategies. Proper and detailed analysis within the context of Canadian agriculture is critical in making it useful and reliable.

The 2015 Canadian Agricultural Outlook Survey provides key information about producer opinions, a short-term review of their major investments and some projections about what they are considering in the future.

It's the kind of information on which success is built.

MESSAGE FROM RBC

GWEN PADDOCK NATIONAL DIRECTOR, AGRICULTURE & RESOURCE INDUSTRIES, ROYAL BANK OF CANADA



At RBC Royal Bank we know that farming is not only a way of life, but also an essential contributor to Canada's high standard of living — playing a vital role in strengthening our economy. We salute the industry's resiliency in the face of present day challenges: volatile commodity markets, the fluctuating Canadian dollar, increasing globalization, demanding consumers and changing weather patterns. Running a successful farm business today requires more specialized knowledge about everything from agronomy to climate change to global markets — not to mention all the latest technology.

We are pleased to work with the Western Producer, Country Guide, MNP and Miller Thomson to give agricultural producers an opportunity to voice their views and experiences from the past year, as well as a forum for sharing their goals and expectations for the coming year. On behalf of RBC Royal Bank, I would like to thank those who participated in this survey.

At a time when crop prices are forecast to be lower and margins are squeezed, it's encouraging to see that farmers have confidence in themselves and the prospects for their operations. We hope the findings are of interest to you and give you confidence to move your farm business forward by addressing current market challenges and seizing on opportunities.

Whether you are seeking financing to invest in more efficient equipment, looking at ways to manage the risks in your operation or thinking about the future of your farm, RBC Royal Bank has advice and solutions to help you succeed both personally and professionally.



RBC Royal Bank

MESSAGE FROM MNP

BRUCE TAIT CFP, SENIOR VICE PRESIDENT OF AGRICULTURE



➤ Agriculture plays a fundamental role in the Canadian economy as one of the country's most prominent, complex industries with a range of constantly fluctuating factors that can determine your success. From changes in weather patterns to global economic shifts to transportation challenges, these factors are often beyond the control of Canadian farmers, yet they can all have a significant impact on your business.

The **2015 Canadian Agricultural Outlook Survey** was developed to provide a shared knowledge pool that will help farmers make effective decisions that lead to sound strategies for the future of their operations. Created by MNP, RBC Royal Bank, Miller Thomson in partnership with The Western Producer and Country Guide, this survey puts more control into Canadian farmers' hands. By fully understanding the challenges and complexities you face as farmers, we are better able to provide resources and strategies essential to the success of your agricultural business. This survey is an investment into all of our futures so that the Canadian agricultural industry can remain dynamic and strong not just next year, but well into the future.

MNP is a leading national accounting, tax and business consulting firm for Canada's agriculture industry. We have invested more time and resources into understanding agriculture than any other firm. With more than 15,000 agriculture clients and a team of over 600 agriculture specialists, MNP combines our experience with industry trends and the findings in this survey to develop customized strategies that ensure the Canadian agriculture industry remains current, competitive and profitable.

Contact Bruce Tait,
CFP, Senior Vice President of Agriculture at
1.800.661.8097 or bruce.tait@mnp.ca



MESSAGE FROM MILLER THOMSON

JEFF GRUBB NATIONAL CO-LEADER, REGINA

WENDY A. BAKER NATIONAL CO-LEADER, VANCOUVER



➤ Miller Thomson LLP is proud to be one of the sponsors of the **2015 Canadian Agricultural Outlook Survey**.

As legal advisors to a wide and diverse range of clients in the country's rapidly evolving agricultural and food sectors, we view the Survey as an invaluable information sharing experience that can benefit us all. Its findings shed light on some of the critical issues for Canada's primary producers, and in doing so, help to inform the advice and support that we provide to those producers and also upstream industry participants and stakeholders. Miller Thomson's Agribusiness and Food Group represents one of the firm's most dynamic, growing and well-integrated national practices. It is comprised of lawyers from various disciplines across Canada, many of whom are considered thought leaders on the legal impacts of industry developments that are shaping the future of Canadian agriculture and food production. All of our lawyers offer an in-depth understanding of the emerging legal issues and challenges faced by farmers and food processors. We work to help our clients address these challenges productively, strategically and cost-effectively. Our Group is also active and committed to information sharing through its blog, "The Food Web," which features timely commentary from contributors across the country and in all areas of law that are impacting the Agribusiness sector.

It is the hope of Miller Thomson, MNP and RBC Royal Bank that the information garnered from this jointly sponsored Survey will offer practical insights and guidance to Canadian farmers and all stakeholders in agribusiness and food.

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CANADIAN AGRICULTURAL BUSINESS OUTLOOK



BY AL MUSSELL

➤ In December 2014, subscribers to the **Western Producer** and **Country Guide** and their affiliate publications were invited to participate in an online survey of farmer attitudes and business outlook. The survey was conducted by Ipsos Agriculture and Animal Health and captured some remarkable insights regarding producer perceptions, attitudes, needs, and plans.

Thanks to key investments in their operations over the last two years, farmers are generally confident they can manage their farms well over the next 12 months — with a number even planning on expansion or acquiring land — regardless of the challenges presented by economic uncertainty.

Survey Respondents

A total of 455 responses were received. The survey respondents were dominated by grain and oilseeds producers (67%), and the bulk were from Alberta, Saskatchewan, and Manitoba (81%). The survey reflected farms in a broad range of economic sizes with sales of \$10,000-\$50,000 up to over \$2 million; farms with sales of \$250,000 or more made up about two-thirds of the survey. Farm operators between 55-74 years of age made up 55% of the sample. Farms in the sample were largely organized as sole proprietorships or corporations, in roughly equal proportions (38-39%), with a smaller number partnerships or other forms of business organization.

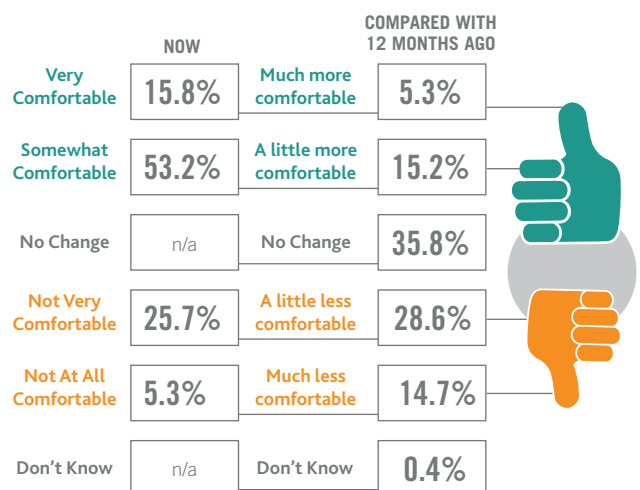
Compared with the baseline producer population for Alberta, Saskatchewan, and Manitoba established in the Census of Agriculture in 2011, the sample that completed the survey generally operated larger farms, were older, and organized more using a corporate structure than as sole proprietorships — this is illustrated in charts 1 to 3 on pages 13 and 14.

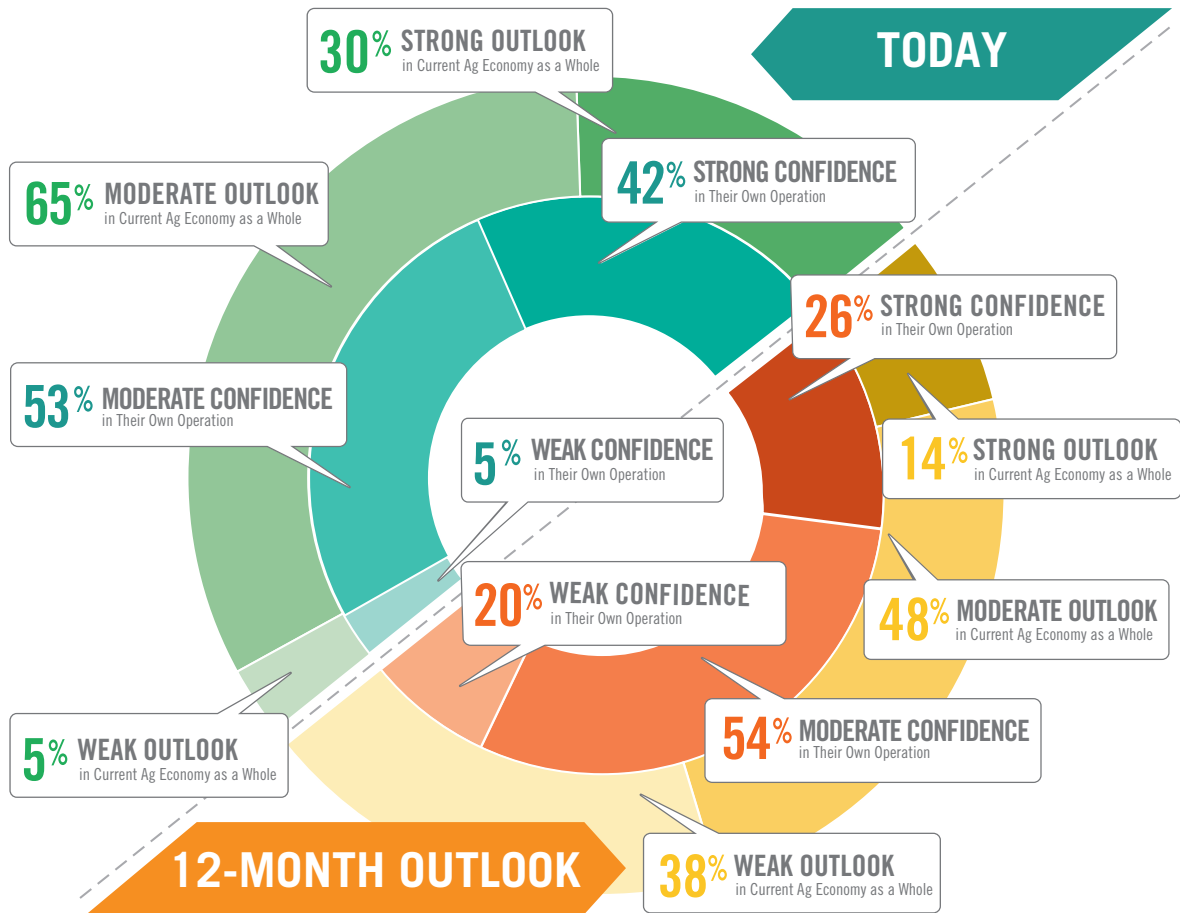
Perceptions of the Agricultural Economy — Positive Today; Less Positive Going Forward

The farms in the sample are weakly positive on the state of the agricultural economy — about 30% saw the current ag economy as quite strong, versus only about 5% who saw it as weak. This is the case despite the significant decline in grain prices in the last year (and the sample is largely grain producers). Interestingly, farmers' confidence in the economic state of their own operations appeared markedly higher, with 42% reporting strong confidence and about 6% reporting weak confidence. There was no apparent pattern to responses on the broader ag economy based on size or farm



HOW COMFORTABLE ARE YOU WITH MAKING A CAPITAL PURCHASE SUCH AS LAND, EQUIPMENT OR BUILDINGS?





type; however there appeared to be more confidence in own operations for the larger farms.

Farmers say they are less confident in the state of the ag economy 12 months out. In particular, only 14% say they have strong confidence in the broader ag economy a year from now, and 38% have weak confidence. But they are still much more confident in the economic state of their own operations than the ag economy as a whole — 26% have strong confidence in the economy of their own operations, and only 20% say that they have weak confidence. There was little association with farm size and state of confidence looking forward.

Prepared to Make Capital Investments

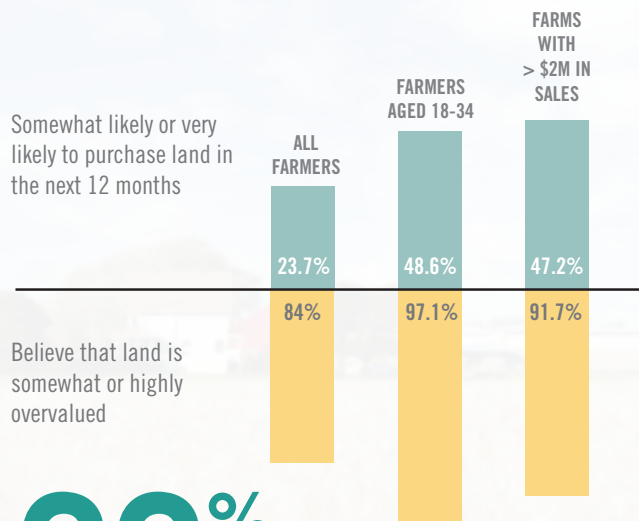
At the same time, farmers are comfortable making capital purchases — 69% said they were either very comfortable or somewhat comfortable making capital purchases, and the larger the farm the more comfortable they are — for farms with sales of over \$2 million, 83% were at least somewhat comfortable making capital purchases. And it would appear that this hasn't changed much — 56% of respondents said they were either as comfortable or even more comfortable making capital purchases today compared with last year.

Consistent with this, most responses showed little sensitivity to a one percentage point increase in interest rates over the coming 12 months. More than half of responses indicated that a one percentage point increase in interest rates would have a minor or manageable effect on their businesses. Only a small subset indicated major concerns with a one percentage point increase. This suggests that acute concerns about farm debt levels may be premature or overstated, or that these are not perceived by producers.

Land Purchase Attitudes

Land is a key capital item in agriculture, and land prices are one of the key bellwethers of the ag economy. 22% of survey respondents indicated that they had purchased land in the last 24 months; this increased to just over half of the farms with sales over \$1 million and 64% of farms with sales exceeding \$2 million. 24% of respondents were at least somewhat likely to purchase land in the next 12 months, and again the proportion at least somewhat likely to purchase was much higher for farms exceeding \$1 million in sales (34%) and higher again for the subset with sales in excess of \$2 million (47%). Younger respondents were also more likely to be planning land acquisition than those over the age of 35. →

WHO IS MOST LIKELY TO PURCHASE FARMLAND?



22% of respondents said they purchased land in the last 24 months.

Among those indicating that they were very or somewhat likely to purchase land, the leading motivations were that they expected a specific, sought after parcel would come up for sale (38%) or that land acquisition was part of planned farm expansion (34%).

Remarkably, most respondents (84%) reported that in their area they felt that farmland was overvalued. Respondents who were younger operators and/or from larger farms, especially those in excess of \$2 million in sales that have been active land purchasers, felt especially strongly that land was overvalued; 97% of those 34 years or younger and 92% of farms in excess of \$2 million in sales said they felt land in their area was overvalued.

In the overall sample, given that 22% bought land in the last 24 months, it suggests that some farmers must have bought land that they consciously thought was overvalued, or they later had buyer's remorse.

Investment in Farm Assets

Farmers in the survey have been making extensive investments in the last 12 months. 39% of respondents had invested in renovation or new construction of buildings, 70% had invested in machinery, and 24% had invested in transportation equipment (trucks). In each case, the likelihood that investments in each of these was higher for larger farms and for younger operators. Ongoing investments are planned as well. 51% of respondents said they were likely

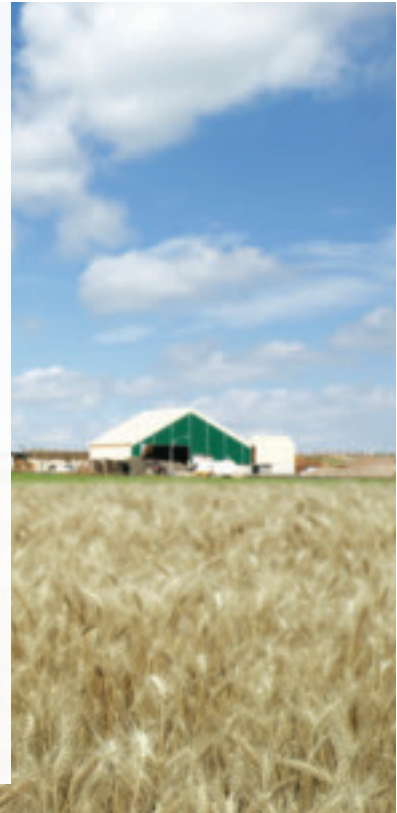
to purchase machinery in the coming year. 40% said that they expected to invest in buildings, and 23% expect to invest in transportation equipment. The likelihood of each of these purchases was higher for the large farms — especially for those with sales in excess of \$2 million, and higher for equipment purchase for the younger group.

Managing at Lower Crop Price Levels

The lower crop price environment versus the last several years has farmers thinking about cost management. For the most part the emphasis is on reducing costs per bushel/tonne, by using more intensive production techniques or by switching crops. Some plan to expand acreage in an attempt to drive down costs per acre. Only a small number (5%) mentioned reducing acreage as a means of adjustment to lower crop prices, and 25% plan no changes at all.

Changes in Farm Business Structure

While farmers are prepared to invest, they are also having to confront important changes in farm/asset ownership. 34% of respondents indicated that they will need to make ownership changes to their farms in the coming years. 62% of these indicated that ownership changes will occur by transferring the farm to a family member or a partner. Generally speaking, those who plan to transfer their farm to a family member or partner have not planned for it. Of those anticipating the need to transfer ownership to family or a partner, 71% either had no succession plan or had not gotten around to completing it.



Drawing it Together

Farmers are buffeted by a range of motivations in undertaking the decisions that they make. In part they are ardent free-enterprisers who make investments and adjust operations in pursuit of profit. Alternatively, farms have their own life cycle consisting of acquisition/growth, stabilization, and succession. Farmers are also investors with an asset base that is acquired, generates returns, and can be resold. In other cases farms are an aspect of family life and most household income comes from work off the farm.

Based on the respondents, the results obtained here appear to be most indicative of the crop sector and of well-established, older farmers, over a range of farm sizes; the subsets that differentiated the sample were farm size, and age. Given this sample, one would expect their thoughts to have been influenced by a year of softening crop prices which are expected to continue, structurally lower cost energy, a weaker Canadian dollar, and concerns over management of input costs for the coming season. For the subset that are in livestock, managing exceptional profitability with historically high livestock prices combined with significantly lower feed costs should be on their mind. This provides the external context to their perceptions and opinions.

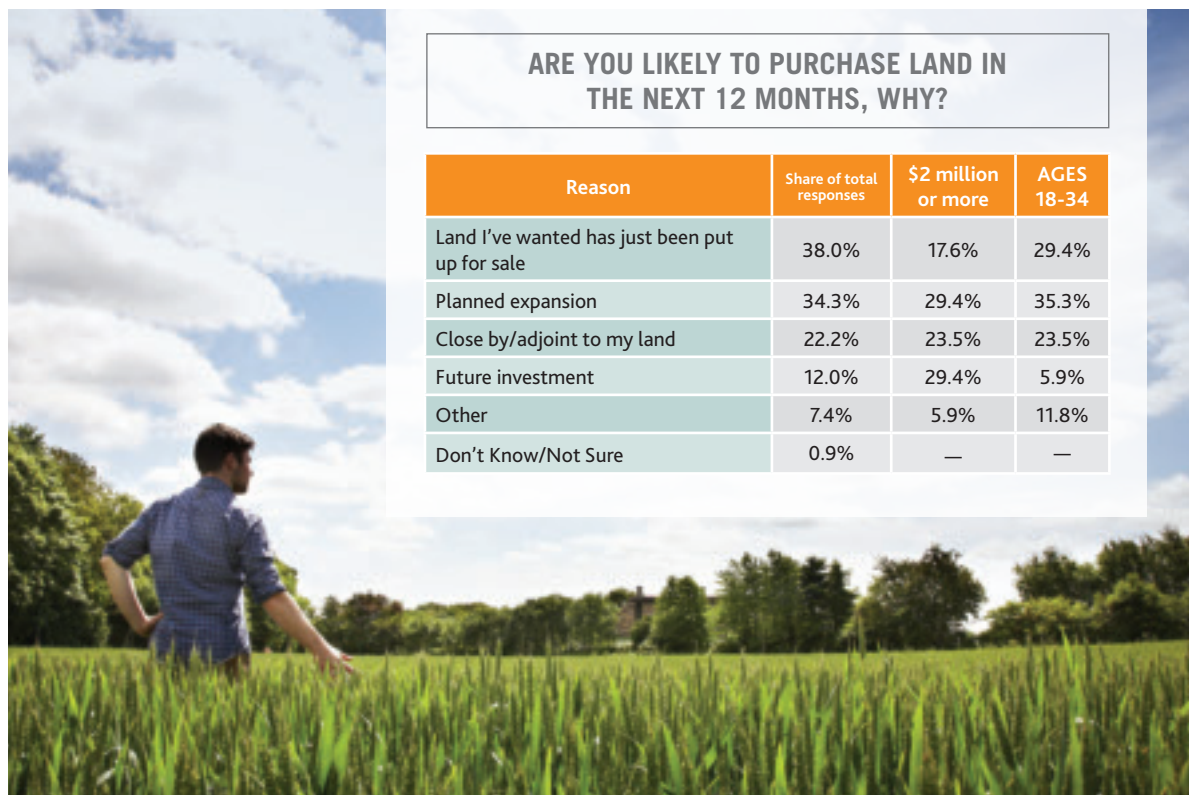
Farmers have a weakly positive view of the ag economy, and are somewhat less positive going forward 12 months. Given the crop price environment, that is understandable. What is perhaps more surprising is that farmers have a more positive

outlook for their own farms than they do for the ag economy as a whole. One version of this is that they are relatively confident in themselves, understanding that they are in what could be a challenging market/ag economy period.

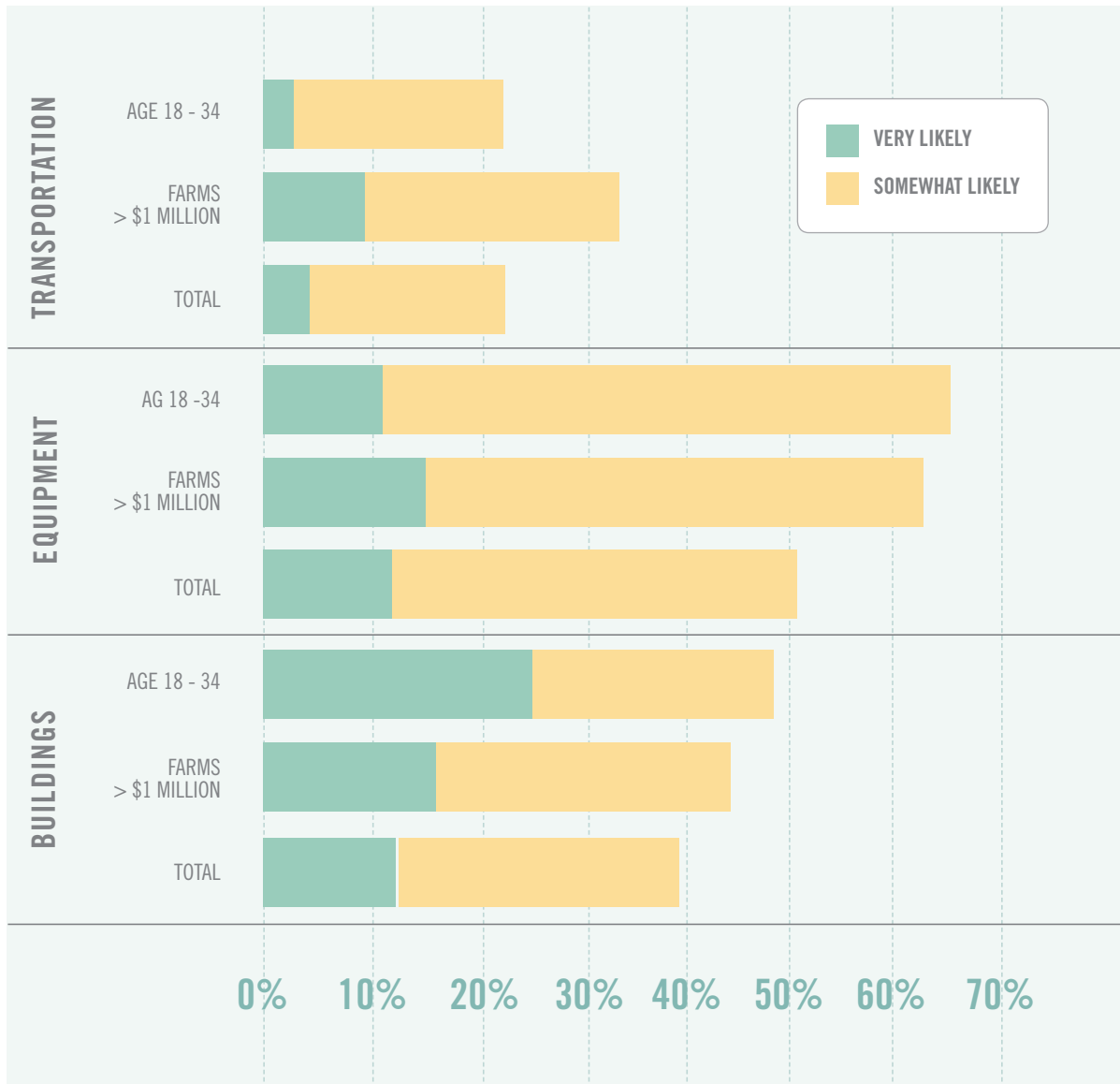
Perhaps part of the reason for farmers' confidence in themselves is that they have been retooling. This investment in buildings and equipment reported in the last 24 months builds on what seems to have been occurring, at least anecdotally, over the past five or six years through the boom in crop prices. There is an expectation that this will continue in the next 12 months. Many have also invested in land. There is broad confidence in making capital purchases.

These investments will need to carry farmers through into the lower crop price environment, and the finance and depreciation costs of investment will project well out into the future. But this does not seem to concern farmers overly. Increases in interest rates of one percentage point, which are significant given how low interest rates are now, are not seen as an imminent threat. While most see land as overvalued, many are still expecting to purchase land in the coming year.

A source of uncertainty that farmers seem to have less comfort with is forthcoming changes in business ownership structure. Most of these changes will occur within families or partnerships, and relatively few are prepared to address it with a formal plan. The bulk of respondents with pending farm succession say they haven't gotten around to it yet or have not pursued planning for it. →



NEW INVESTMENTS PLANNED – TRANSPORTATION, EQUIPMENT, BUILDINGS



These results provide new insights, but also validate some existing models of behaviour. A critical one is the ongoing evolution toward fewer, larger farms coexisting with smaller farms. The respondents that most frequently indicated that they had and plan to continue to purchase equipment and facilities were the larger farms — over 86% said they planned to invest. They are unabated by the risk of interest rate increases, and since the survey the prime rate has actually decreased. New investments, especially in new higher capacity machinery, tend to generate a renewed demand for land to utilize the newly acquired capacity and decrease average costs

per acre, bushel, or tonne. This supports the view that there is pressure to remain on a technology/investment treadmill that causes the big to continue to get bigger.

Yet there was relatively little indication in the survey of farmers — large or small, young or old — preparing to sell land, or sell their farms. And there are risks to ongoing investment, technology adoption, and expansion — more than one-third of respondents saw the broader agricultural sector weaker 12 months out than it is today, and this perception was generally shared across smaller and larger farms. ●

CHART 1: FARMS BY CASH RECEIPT CATEGORY IN SURVEY VS. 2011 AGRICULTURAL CENSUS – AB, SK, MB



CHART 2: FARM OPERATORS ACCORDING TO AGE – AB, SK, MB, FARMS WITH ONE OR MORE OPERATORS

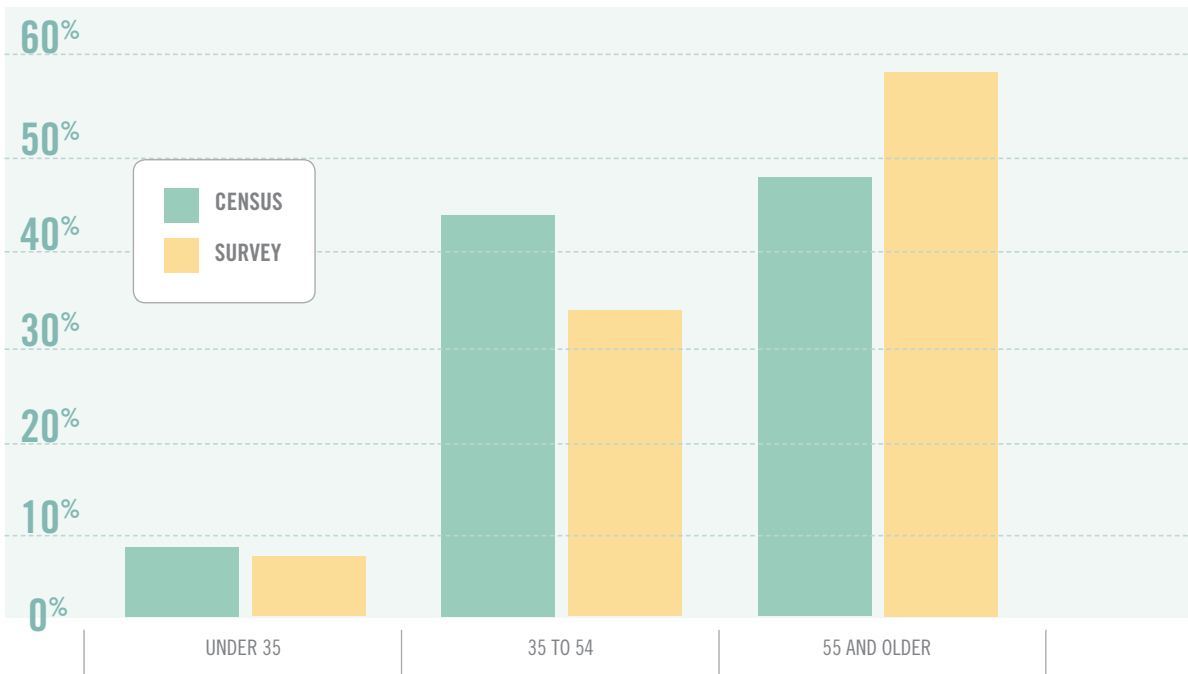
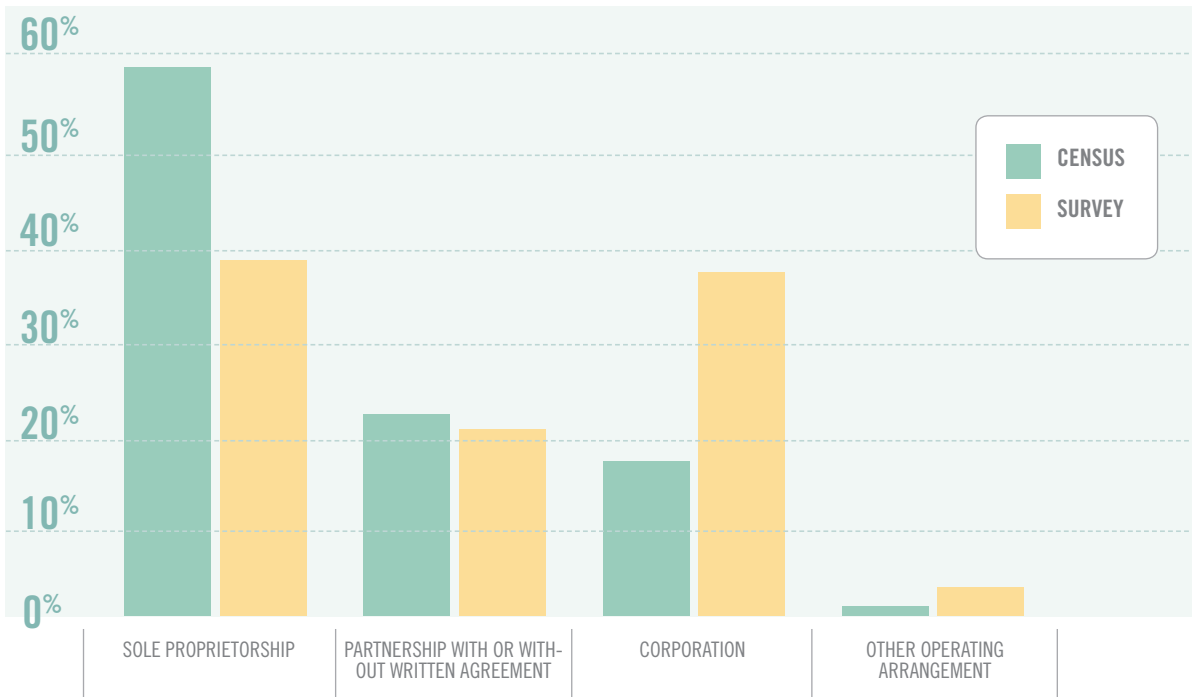


CHART 3: FARMS BY BUSINESS OPERATING ARRANGEMENT



Ipsos Agriculture and Animal Health fielded this study between December 3 and December 21, 2014. A total of 455 respondents were surveyed as part of this study. The maximum margin of error for this study is +/- 4.6%, at a 95% confidence level.





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