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This Week...

Seeding Intentions
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Seeding Intentions



By Doug Elliott, Editor

In the first of two surveys about seeding intentions for 2011, Statistics Canada is reporting that western Canadian farmers intend to plant a record number of acres this year – 81 million in total. When the survey was conducted in late March, farmers were expecting to leave only 5.1 million acres in summerfallow compared with 11.4 million in 2010. Saskatchewan accounted for the majority of the intended extra seeding.

The number of acres seeded to wheat and durum is forecast to be 23.4 million acres which is a 17% increase from the 20.0 million acres seeded in 2010. Canola is the next largest crop with 19.1 million acres – 14% more acres than in 2010. Among the more common crops, the only major decline will be among peas and lentils where seeded acreage is expected to decline by 20%.

The intended increase in seeded acres is unlikely to come to pass because of the flooding that is taking place in Manitoba and Saskatchewan. (The spring blizzard that blew through right before this issue went to press will not have helped.) This will force farmers to leave more fields fallow. There may also be a last minute switch to faster growing crops such as oats and barley.

Inflation Rates

Western consumers became used to higher rates of inflation in 2007 and 2008 when higher shelter and energy costs led to inflation rates in the 2.5% to 3.0% range across the West and, in

Alberta, as high as 4.9% in 2008. That changed in 2009 and 2010 when the inflation rate fell to 1.0% or lower as housing prices fell (or stopped increasing so quickly) and as energy prices fell.

The inflation rate for the first quarter of 2011 provides the first sign of higher inflation rates on the horizon. The inflation rate ranged from a low of 1.4% in Alberta to a high of 2.5% in Saskatchewan, averaging 2.1% over the four western provinces.¹

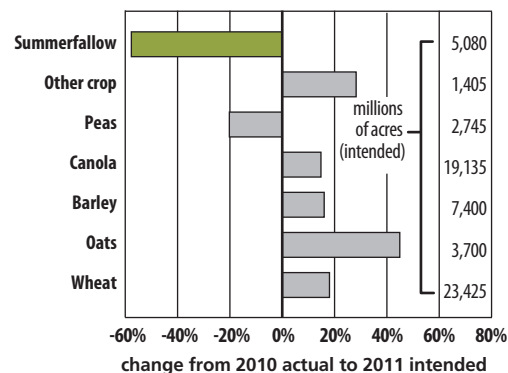
There are several factors that are affecting consumer prices right now. Firstly, the general increase in commodity prices is driving up consumer prices. For example, the price of crude oil is back over \$US100 for the first time since 2008 and grocery prices are increasing because of the increase in grain prices. Acting in the opposite direction is the appreciating Canadian dollar which lowers the cost of food, clothing, and other imports from the USA.

In the short term, the forces pushing prices higher will probably be stronger than those pushing them lower. In particular, the increase in basic energy prices has not yet worked its way into the prices for other goods and services. There are already signs that the Canadian dollar has peaked and will fall back in the coming months thereby removing the dampening effect of an increasing exchange rate.

Liquor Sales²

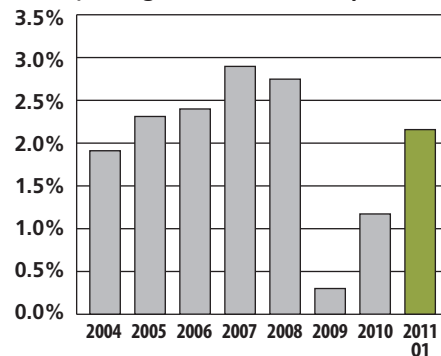
Revenue from the sale of alcoholic beverages and the associated permits and licenses is important to provincial governments. The four western provincial governments had net revenue of \$2.0 billion on sales of \$6.3 billion in

Figure 1: Change in Seeded Acreage, Western Provinces



The first sign of higher inflation rates to come is evident in the first quarter figures.

Figure 2: Consumer Price Inflation (average of four western provinces)



the 2009-10 fiscal year. This accounted for about 2% of provincial government revenues.

There are very few “recession-proof” businesses but the sale of alcoholic beverages surely comes close. Over the past ten years, the average annual increase in provincial government revenues has ranged from a low of 3.2% in B.C. to a high of 4.8% in Saskatchewan. Government revenues tend to increase when the economy is strong (e.g. 7.4% in 2006-07) but they still grow in poorer years (e.g. 1.5% in 2009-10).

Alcohol sales have been growing strongly in Saskatchewan, falling in Alberta, and stable in Manitoba and B.C.

Figure 3 shows sales of alcohol adjusted for price, alcohol content, and population. In the last few years, sales have been growing strongly in Saskatchewan, falling in Alberta, and stable in Manitoba and B.C. Beer sales account for about one half of the consumption and seem to be more sensitive to economic activity than the sale of wine or spirits. Changes in the sale of beer are responsible for the recent decline in Alberta and the bulk of the recent increase in Saskatchewan.

Commodity Prices

The Consumer Price Index, which measures price changes for consumer goods, is the best known price index published by Statistics Canada but not the only one. There are several other indices which measure different kinds of price inflation. With commodity prices surging, the one attracting the most attention is the Raw Materials Price Index or RMPI.

The RMPI reflects the prices paid, in Canadian dollars, by manufacturers and processors for raw materials. As the name suggests, it measures changes in the price of raw materials before they are processed – crude oil rather than gasoline, wheat rather than bread, logs rather than plywood. The RMPI is published only at the national level which means that it is heavily influenced by commodity prices from Ontario and Quebec. A “western RMPI” would be influenced more by grain and energy prices and less by iron ore. The index is, nevertheless, a useful indicator of overall commodity price movements and the outlook for the western economies.

Figure 4 shows the run-up in commodity prices from 2005 to mid-2008 and the subsequent 46% crash in the last half of 2008. The surge in the last two years has, to some extent, mimicked the previous one. The RMPI increased by 36% from March 2008 to March 2011

Figure 3: Per Capita Alcohol Sales (litres of equivalent alcohol)

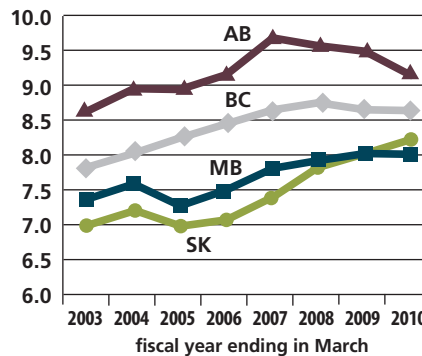
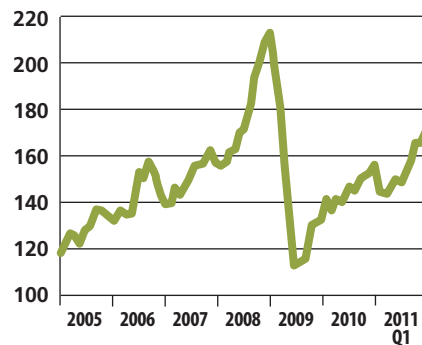


Figure 4: Raw Material Prices, Monthly from Jan 2005 to March 2011, Canada, 2002=100



which is remarkably similar to the 35% increase from March 2006 to March 2008. Will history repeat?

The 36% increase in the past 24 months was driven by a 50% increase in mineral fuel prices such as crude oil but there has also been a 63% increase in non-ferrous metal prices such as gold and copper. Grain and oilseed prices are up 15% and 23% respectively. The only important western commodity that isn't showing a substantial price increase is forest products.

Upcoming Releases

In the next two weeks Statistics Canada will be releasing data describing:

- March building permits on May 5;
- April labour force survey on May 6;
- Stock of grain on hand on May 6;
- March international trade data on May 11; and
- March motor vehicle sales on May 13.

Sources:

The figures are adapted from the following sources:

Seeding Intentions: Statistics Canada 22-002-X

Consumer Price Index: Statistics Canada 62-001-X

Control and Sale of Alcoholic Beverages: Statistics Canada CANSIM Tables 183-0017 and 183-0019

Commodity Prices: Statistics 62-0011-X

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¹ Strictly speaking, averaging the provinces is not a good statistical practise because Alberta and B.C. should have a higher weight.

² These figures include profits from liquor boards and revenues from fees, permits and fines. They do not include the revenues from sales taxes on sales.