

Food Boom

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Farmers are getting wealthy. Consumers are about to get hit. Investors are licking their chops. The story behind the agriculture boom and coming food inflation

Many times over the years, Gerrid Gust wondered if he'd made a mistake by going to work on the family farm with his father and brothers. This year, all trace of doubt has been blown away by the spectacular and unprecedented boom in crop prices, which is transforming the Prairies.

"I told my wife that when canola hit \$12, we'd remodel the kitchen, and it happened a lot sooner than I expected," he said with a laugh.

Thanks to soaring grain prices, the 32-year-old Mr. Gust is not only fixing up his house, he's also been able to pay down some bills and start setting aside some cash in case one of his neighbours decides to sell and he wants to make an offer.

For more than a century, Mr. Gust's family has been growing wheat in central Saskatchewan, but past decades have been tough. Growing up, he watched as other farming families gradually lost hope and moved away to the cities, leaving their houses to quietly fall into decay.

But since the grain boom took shape about 18 months ago, all that has changed. One by one, the abandoned farmsteads are being reoccupied, sometimes by returning farmers, but often as not by people from other provinces looking to own a piece of Saskatchewan's rising real estate. In nearby Davidson, a tiny farming community that has changed little over the years, there's a housing boom going on, the biggest in 30 years, Mr. Gust said.

Signs of better economic times are everywhere on the Prairies. Tractor dealerships can't keep up with demand. Land prices are skyrocketing, with acreages in sought-after regions doubling in value in less than two years. Ethanol plants are popping up everywhere. "There's a lot of optimism in the country," Mr. Gust said.

For decades, grains like wheat and barley were plentiful and affordable. But since mid-2006, some common wheat varieties have nearly tripled in value, with most of the gain taking place over the past eight months. Last week, wheat soared to a record high of just over US\$11 a bushel on the Chicago Board of Trade.

Corn, which averaged around US\$2.50 for years, has doubled. Soybeans used to trade for less than US\$7.50 a bushel, but have recently jumped to more than US\$13 in Chicago. Numerous other crops, from malting barley to lentils, are also close to record highs.

The main driver is new demand from China and India, where an emerging middle class is shifting to a higher-quality diet.

On top of that, the rise of the biofuel industry is creating additional demand for corn and canola, used in the production of biodiesel.

A third factor is a succession of droughts in Ukraine, Australia and other major crop-growing regions, which have put a crimp in global production.

At the same time, the world's inventories -- the cushion between supply and demand -- are at a 30-year low.

"We are consuming more than we are producing -- that's the fundamental situation," said Marlene Boersch, a partner at Mercantile Consulting Venture in Winnipeg. According to Ms. Boersch, the recent price moves, especially in wheat, are "extraordinary and unprecedented ... This has never happened before."

And it is not just farmers who are benefiting. Buhler Industries Inc. of Winnipeg makes giant four-wheel-drive tractors that are popular among grain growers.

About the size of a small house, they come with leather upholstery, climate control -- all the features you would expect in a luxury SUV -- plus something called "Auto-Steer," a GPS-based autopilot system that frees the farmer up for other tasks, such as checking out the latest grain prices on his BlackBerry.

Despite the \$300,000 price tag, Buhler can't make them fast enough. "We're back ordered until the middle of the year," said Adam Reid, the advertising manager. "Everything coming off the line is spoken for until the middle of summer."

Late last year, Buhler was snapped up by a rival manufacturer. Rostselmash of Russia forked out \$187-million for the company in a bid to secure the supply it needed to meet the demands of its own customers.

Over at Morris Industries Ltd. in Saskatoon, another farm-machinery manufacturer, owner Casey Davis won't disclose sales, but offers that demand has been "extremely positive."

Still, one of the biggest effects of stronger grain prices has been a rise in land prices. In Saskatchewan, especially, home to about half of Canada's arable land, the impact has been dramatic. For decades, cropland values were in the doldrums. With crop prices soaring and an active property market, prices in some sought-after regions are doubling in value.

Doug Emsley, a Regina-based entrepreneur, was one of the first to recognize the potential. In Canada, aside from the Saskatchewan Wheat Pool (which recently changed its name to Viterra) and a handful of fertilizer producers, there are few large public companies with direct links to agriculture. About 2½ years ago, Mr. Emsley set up Agricultural Development Corp., an investment company focused on agricultural real estate.

The plan is to buy land and manage it, providing investors with exposure to the profits from farming as well as land appreciation.

The company has just completed its third investment pool -- Assiniboia Farmland Limited Partnership 3 -- and Mr. Emsley has high hopes for a fourth.

"We were fortunate enough to be the first to get into this business and the opportunities are significant."

And the farmers themselves are also, finally, reaping some rewards. "You now see satellite dishes on farms because people need access to the Internet and international grain markets. Farmers are doing those things themselves, instead of relying on others, because the technology allows them to do that," Mr. Emsley said.