

# STATE OF THE INDUSTRY IN 2010

## STATE OF THE INDUSTRY IN 2010 ... HIGHLIGHTS

- The economic contribution from the horse industry exceeds \$19.6 billion annually, plus more than \$300 million annually in GST/HST and federal and provincial taxes and levies on horse racing wagering.
- In 2010, the inventory of horses available for sale to use markets was approximately 300,000 horses. Selling prices were down significantly in 2010, affected by increased imports of horses from the U.S. for processing and the economic recession.
- Expansion in horse ownership in the past decade has been driven by increased participation from the baby-boomer generation. The pool of horse owners is an aging demographic, with 24% of horse owners in the 60+ age group.
- Entry level participation in the industry is down by approximately 50%. A key priority for long-term industry sustainability and growth will be attracting new participation and revitalizing the customer base.

## 8. THE STATE OF THE INDUSTRY IN 2010

The 2010 Canadian Horse Industry Profile Study was based on a template initially developed by Strategic Equine in 1998, and repeated in 2003 and 2010. This report presents comparisons between the results of the three studies, and provides an opportunity to identify trends within the industry over a 10+ year period. What is clear from the research is that the horse industry in Canada makes a significant contribution to the national economy — more than \$19.6 billion in 2010.

In addition, the unique nature of the horse industry and activities with horses provides a significant contribution to government revenues at all three levels — federal, provincial and municipal.

- As the only livestock species subject to GST, the horse industry contributed more than \$177.5 million in GST revenues in 2010 for goods-and-services related to the production and care of horses. For a large portion of the industry this represents end-use contribution to GST. In provinces with blended HST, this triggered an additional contribution to provincial taxation. Additional GST/HST revenues are generated on the sale of horses under the current taxation model.
- The wagering component of the horse racing sector contributed more than \$11.6 million in federal levies on betting, and more than \$51.7 million in provincial taxes and levies in 2010.
- Revenue sharing agreements for racing jurisdictions with slots/casinos at racetracks involve the return of a percentage of non-racing revenues to local municipalities. In 2010 the Slots-at-Racetracks program in Ontario, for example, contributed in excess of \$60 million to local municipalities.

Horses are livestock, resident on more than 145,000 rural properties in Canada. The production, care and maintenance of horses is the most labour intensive sector of



livestock agriculture. There are more than 76,000 jobs in the *On-Farm* component of the industry (for the production and care of horses). The equivalent of 163,000 full-time jobs are contributed as unpaid labour by horse owners (or family members) for the production and care of horses. In total, the *On-Farm* component of the industry supports one job for every four horses in Canada.

The primary economic engine for the industry is horses in use for the entertainment/leisure sector of the economy. There are components of the industry that generate farm-gate-receipts — the breeding sector, horse meat production sector and PMU (pregnant mare urine) production sector for example. However the bulk of the economic benefit that is realized from *On-Farm* expenditures results from *Off-Farm* activities with horses in racing, sport competition and leisure activities.

Activities with horses in racing and sport, and the associations and companies that regulate and/or operate sporting events, support an additional 9,800 full-time jobs in Canada. The majority of sport competition events each year are supported by a large cadre of volunteers. The equivalent of another 238,000 jobs are provided through volunteer contribution of labour.

What is apparent from the analysis of industry trends, is that the industry is increasingly focused on the value-added benefits of the sport and racing sectors. Growth in participation in the racing and sport competition sectors during the 2003 – 2005 period saw the Canadian herd expand to a peak of 1.092 million horses in 2005. Growth was supported by significant expansion of sport participation in British Columbia, Alberta, Ontario, Quebec, Nova Scotia and Prince Edward Island. Growth was buoyed by a 36% increase in the number of horses active in racing between 2002 and 2004 (from 19,900 horses in 2002 to 26,073 in 2006), with the related increase in breeding production to serve an expanded racing sector.

Total herd size in Canada has decreased from 2005's 1.092 million to current levels of 963,500 horses in 2010. The pattern for increase or decrease in herd size varies between individual provincial markets — with herd size relatively stable in Quebec during the period, and growth in herd size for New Brunswick.

Breeding programs have been increasingly focused on breed-to-use in the racing and sport competition sectors, with a significant increase in the percentage of the herd that are pedigree registered stock (75% of the herd in 2010). The 2010 herd includes approximately 220,000 young horses not-yet in use for their intended markets. The majority of these young horses were bred for use in the racing and sport competition markets — 31% intended for FEI sport disciplines, 17% intended for western sport competition, and 9% intended for racing markets.

This focus on racing/sport competition markets has been the result of an increase in the number of new customers in the sport sector. One of the most significant changes in the 2010 industry profile is the addition of more than 79,000 horse-ownership units (horse-owning households) since 2003 — a 54% increase in the number of horse owners in Canada. The 2010 research also reports a corresponding increase in

participation in sport competition — with 43,500 more adult sport competitors reported in 2010 compared to 2003.

The typical new horse owner matches the demographic profile of the baby-boomer generation. For the first time since 1998, the ratio of adult participants to children participating has shifted in favour of adults. In 2003 the ratio of adults to children was 40% adult / 60% children. In 2010 the ratio has reversed, with current participation by adults representing 59% of total participation, and children, 41%.

The median age of horse owners nationally has moved into the 50-to-59 year age range (up from a median age 40-to-49 in 2003). Overall the pool of horse owners is aging. The 2010 research reports that 24% of the current pool of 226,500 horse owners are in the 60-year-plus age range. Reflecting this demographic shift, current horse owners reported that they expect to own fewer horses in the future. Of the current pool of horse owners, only 19% expect to own more horses in five years time. Fully 30% of owners expect to own fewer horses — 19% of current owners expect to own fewer horses within one year (2011).

Costs to keep horses have increased significantly over the past decade. The national average cost to keep a horse increased to \$2,700 per-horse-per-year in 2010, compared to \$1,500 in 2003. The increase was primarily driven by increased costs for hay and feed, and increased expenditures on equine service providers (veterinarian services, farrier services and horse therapy services).

Breeding production has been decreasing since 2003, with annual production in 2010 at 50% of the level of production in 2003. Annual production has decreased, despite an increase in 42,000 horses in the available pool of breeding stock. A continued decrease in production is expected for 2011. Mare owners reported an expectation that they would breed 15% fewer mares in 2011 compared to 2010.

Selling prices for horses have seen a significant drop in 2010, compared to prices for horses sold in 2008-2009. Both buyers and sellers reported an overall decrease in prices in all provinces and all market sectors.

Price reductions are most evident in the lower price-end of the market. Selling prices for horses to the pleasure-riding market were down 39% nationally in 2010. In key markets for the pleasure-riding sector — British Columbia, Alberta, Ontario and Quebec — reported prices were down 56%, 61%, 49% and 61% respectively.

Prices for horses sold to meat production have fallen below the \$300-per-horse value. Anecdotal comments collected during the telephone survey reported challenges with finding any market demand — or access to markets — for horse meat processing.

This radical decrease in the selling price for horses corresponds with two significant events affecting the industry:

- the economic recession experienced since 2008, and
- the closure of horse processing facilities in the U.S. (in 2008), with a corresponding increase in the number of horses imported from the U.S. to Canada for processing.

Weak sale prices for horses have resulted in an increased inventory of mature horses. When comparing the *Primary Use* of mature horses in 2010 compared to 2003, fully 13% of the herd (128,000 horses) are classified by their owners as *Companionship/Full Retirement* or *Other Uses* -- 70,000 more horses than similar use categories in 2003. This would suggest that there is a significant inventory of horses in Canada for which there is no clearly defined use market.

It is a reasonable assumption from the data, that prices for horses will not rebound in the short term unless there is a significant expansion in — or development of — new markets for horses in Canada. The combination of expectation by current owners to reduce the number of horses they own, and the large existing inventory of horses (220,000 young horses, plus a 70,000 increase in mature horses in the herd), would indicate stronger supply than demand.

It was identified in previous studies, and confirmed with the 2010 survey, that there is a distinct pattern for levels of participation and investment by an individual, based on the length of time they are involved in the industry. As was outlined in earlier studies, a new participant is usually introduced to participation in the horse industry through riding lessons, or tourist activities using horses belonging to other people. A certain percentage of those that try riding activities will make an initial investment in horse ownership.

Over the first five-year period of ownership, a certain percentage of horse owners will increase their investment in horses. Generally they will use the services of a boarding facility for their first horse, or first few horses. As they increase their experience with horse husbandry, they may invest in a horse-friendly property on which to keep their horses.

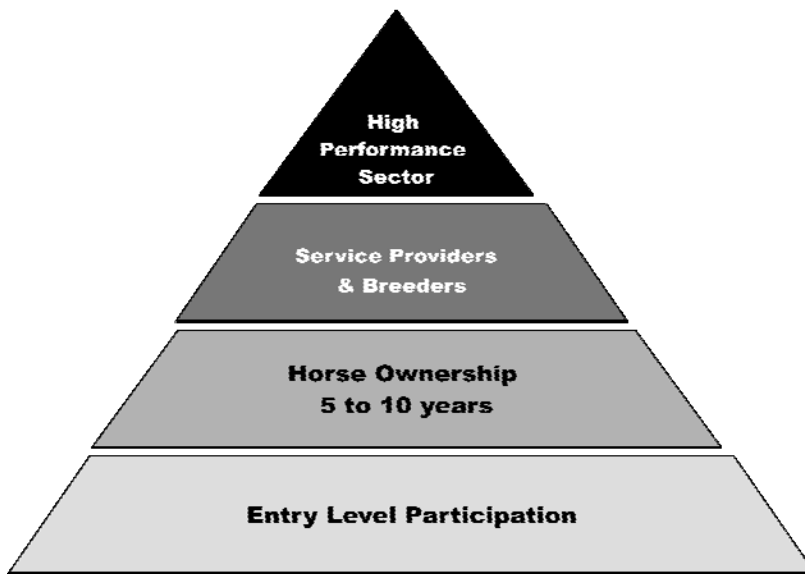
During the five-to-ten year period of horse ownership, a percentage of owners will expand their capacity to care for horses, and their skills in riding and horse training. This is the period of participation in which a new horse owner is most likely to invest in property on which to keep their horses. This is also the period of ownership during which the participant is most likely to increase their participation in sport competition.

Those that have owned horses for 10-or-more years provide the basic industry infrastructure for riding lessons, horse training services, and horse boarding services for new people entering the industry.

Those in the 10-plus-year ownership group also represent the majority of those involved in the breeding sector, and the majority of those involved in the high performance component of sport competition.

Figure 8.1 graphically represents the typical pyramid model for participation in the horse industry. In this model, continued growth and expansion in the industry is contingent on the ongoing entry of new participants into the industry — a percentage of whom are prepared to invest.

Figure 8.1: The Model For Participation in the Industry Over Time



The author has presented this illustration as a graphic representation of the traditional model for industry growth. It is not intended to be a mathematical representation of the relative proportions of the different sectors of the industry. There may be different opinions on the ideal relationship between the breadth of the base of the triangle and the size of the breeding sector or high performance sector. However, there is clear research support for the concept that this has been the model for growth in participation over the past decade.

Data from the 2010 study reveals some changes to this pattern of participation that would indicate that the typical growth cycle has been disrupted. While there has been an influx of more than 79,000 new horse owners since 2003, there are other trends of note that the author believes indicate a shift in the model for industry growth.

- During the 2003 through 2010 period there has been a decrease in the number of people participating in the *Invisible Sector* – those riding horses that belong to others. The number of people riding horses that belong to others has dropped from 647,000 in 2003 to 304,000 in 2010. There has been a 29% decrease in the number of owners making their horses available for entry level activities in the 2003 through 2010 period – from 38,000 owners in 2003 to 27,000 in 2010.
- While fewer horse owners are providing entry-level opportunities for new riders, those offering entry-level riding opportunities have more horses-in-use for such activities. They reported 68,000 horses in use, compared to 59,000 horses in 2003. Of the 9,000 additional horses available in 2010, 6,000 horses represent an increase in available horses in the Province of Quebec.
- There has also been a 29% decrease in available horse boarding services, from 23,000 sites (nationally) in 2003 to 16,000 sites in 2010. This would

indicate a reduced capacity to provide services to potential new owners that may be looking to move into horse ownership for the first time.

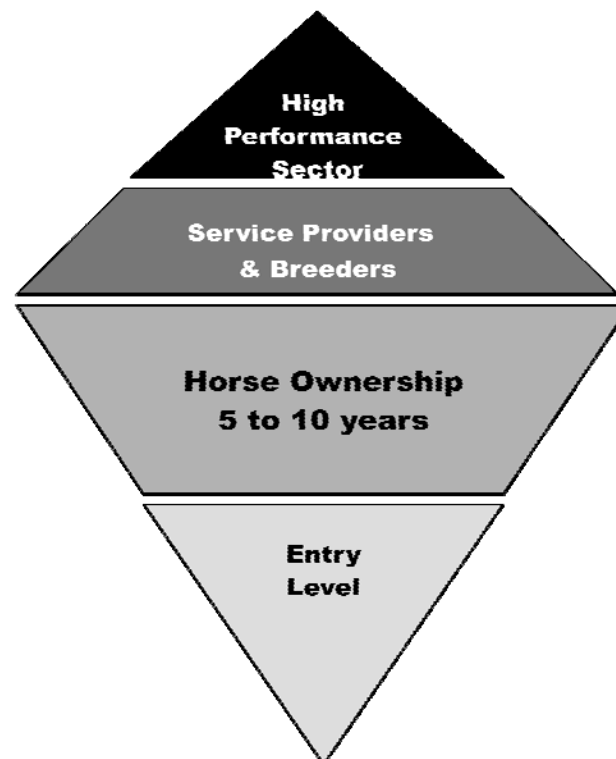
- As noted earlier, for the first time since 1998 there are fewer children participating in the industry than adults. The 2010 survey reported 500,000 adults active in the industry compared to 350,000 children.

It is the author's opinion that the industry has realized the benefit of the baby-boomer generation investing in horse ownership over the past decade. This investment has resulted in improved quality to breeding programs, as breeders targeted production to an expanding sport competition market. However, this growth in market size for adult sport competitors has potentially come at the price of reducing infrastructure that introduces new customers to entry-level experience with horses. The data would suggest that there has been a further reduction in the industry's capacity to provide first-time horse owners with boarding services and other support services.

Figure 8.2 shows a graphic representation of the author's view of the industry in 2010 industry. The graphic is intended to illustrate:

- fewer people now having an initial entry-level experience with horses,
- a bulge of horse owners in the five-to-ten year ownership group resulting from significant investment from the baby-boomer generation, and
- a decreased number of service providers and participants in the breeding sector.

Figure 8.2: *The Model for Participation in 2010*

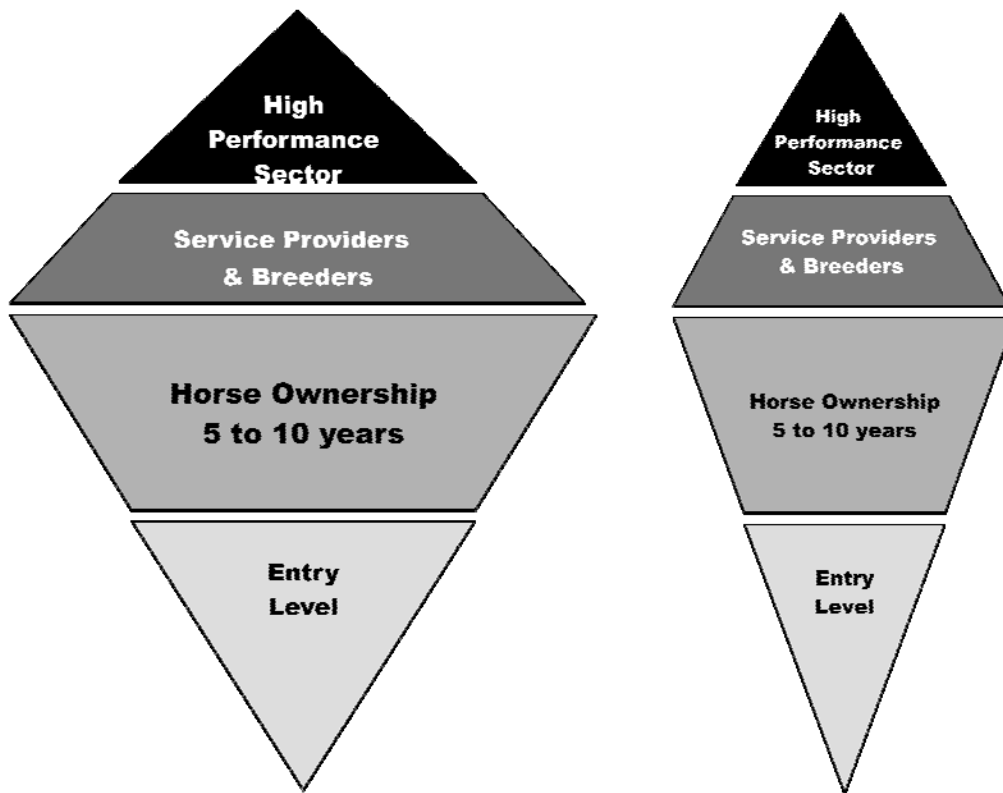


Again, the illustration is not intended to be a mathematical representation of relative industry sectors, but simply a visual representation of trends described from the 2010 data.

A continuation of this trend over a five-to-ten year period would result in an inevitable shrinkage in the size of the horse industry.

Specifically it would reduce the size of the breeding sector and sport competition sector, with a resulting reduction in the overall economic contribution from industry activities.

Figure 8.3: Potential Result of Continuing the 2010 Trend



This trend is not universal across the country. Analysis of data from Quebec presents key indicators that dispute the trends:

- Quebec has the highest percentage of horse owners in the Less-Than-Five-Year ownership group for the country (21% of owners)
- The median age for industry participants in Quebec is 40 to 49 years, compared to 50 to 59 for other provinces
- Quebec reports the lowest ratio of adult participants to children, with 53% adult participation and 47% children
- Quebec data indicates an increase in the size of the *Invisible Sector* in 2010 compared to 2003 -- an increase of more than 30,000 *Other Riders* in 2010, and an increase of more than 6,000 horses available for use by *Other Riders*
- Quebec data reports an increase of 37% in sites offering boarding services compared to 2003.

A further examination of the industry model for Quebec could perhaps lend insights into effective measures to buck-the-trend in other regions of the country.

It is the author's opinion that the demographic shift represented by the current horse ownership model will present significant challenges for selling horses over the short term. Aggressive marketing of the industry -- and specifically the sport competition



component of the industry -- should result in a rejuvenation of the ownership base, and support future industry growth.

The industry has proven itself adept at adjusting business models to target breeding-to-market-use over the past decade. Comparable success at building new markets – and in particular youth markets – would ensure the future sustainability and growth of this important component of the Canadian economy.