Agriculture and Agri-Food Canada
Agriculture et Agroalimentaire Canada

Farm Financial Indicators

June 2000

Economic and Policy Analysis Directorate

Introduction

Farm income measures are key indicators of the financial well-being of farm families and farm businesses. However, care must be taken when interpreting these measures as there can be significant volatility in both income forecasts and final income estimates. A number of additional indicators of financial well-being help to provide a more complete picture of the financial situation on Canadian farms.

An overview of the farm financial situation in Canada, as of January 2000, follows.

In brief….

Farm Income

- On a national level, 1999 farm incomes were marginally lower than the 1994-98 average.
- In 1999, realized net farm income is expected to be 7% lower than the 1994-98 average.
- Farmers in Saskatchewan and Alberta are expected to be the most severely affected in 1999, with Saskatchewan and Alberta realized net farm income running 87% and 45% below the 1994-98 average respectively.
- Net cash income in 1999 is expected to be above the 1994-98 average in all other provinces.
- Higher livestock prices and grain and oilseed marketings are forecast to support higher income into 2000, while the strengthening Canadian dollar is expected to exert downward pressure on the prices of domestic red meats and other internationally traded agricultural products in 2001-2002.

Farm Family Income

- Farm family incomes continue to increase, and at a more rapid rate than either urban or rural non-farm family incomes. In 1999 average farm family income is estimated at $64,126.
- Small farms represent two-thirds of farm families in Canada, but earn relatively little of their income (just 9%) from farming.
- Large farms (with sales of $100,000 or more) have much higher farm family income, approximately 57% of which comes from farming.

Other Farm Financial Indicators

- Both farm assets and liabilities continue to increase; debt-asset ratios remain unchanged for both large (0.19) and small (0.10) farms.
- Average farm net worth continues to increase, and currently exceeds $640,000; the net worth of large farms approaches $1 million.
- Currently, Canadian farmers have saved $3.1 billion in their NISA accounts.
- In Manitoba, farmers have $413 million in their NISA accounts, Saskatchewan farmers have over $1.2 billion and in PEI there is $41 million in NISA accounts.

Farm Income

Background

The farm income forecast was prepared by Agriculture and Agri-Food Canada (AAFC) in conjunction with provincial government representatives in December 1999 and released on the Internet on January 14, 2000.

Farm income forecasts are subject to change as market conditions or costs change.

Definitions

Net Cash Income (NCI) = *market receipts + direct payments - operating expenses*

NCI is a measure of the cash available to producers from the farming business for living expenses, principal repayment and reinvestment in the farm.

Realized Net Income (RNI) = *net cash income + income in kind - depreciation*

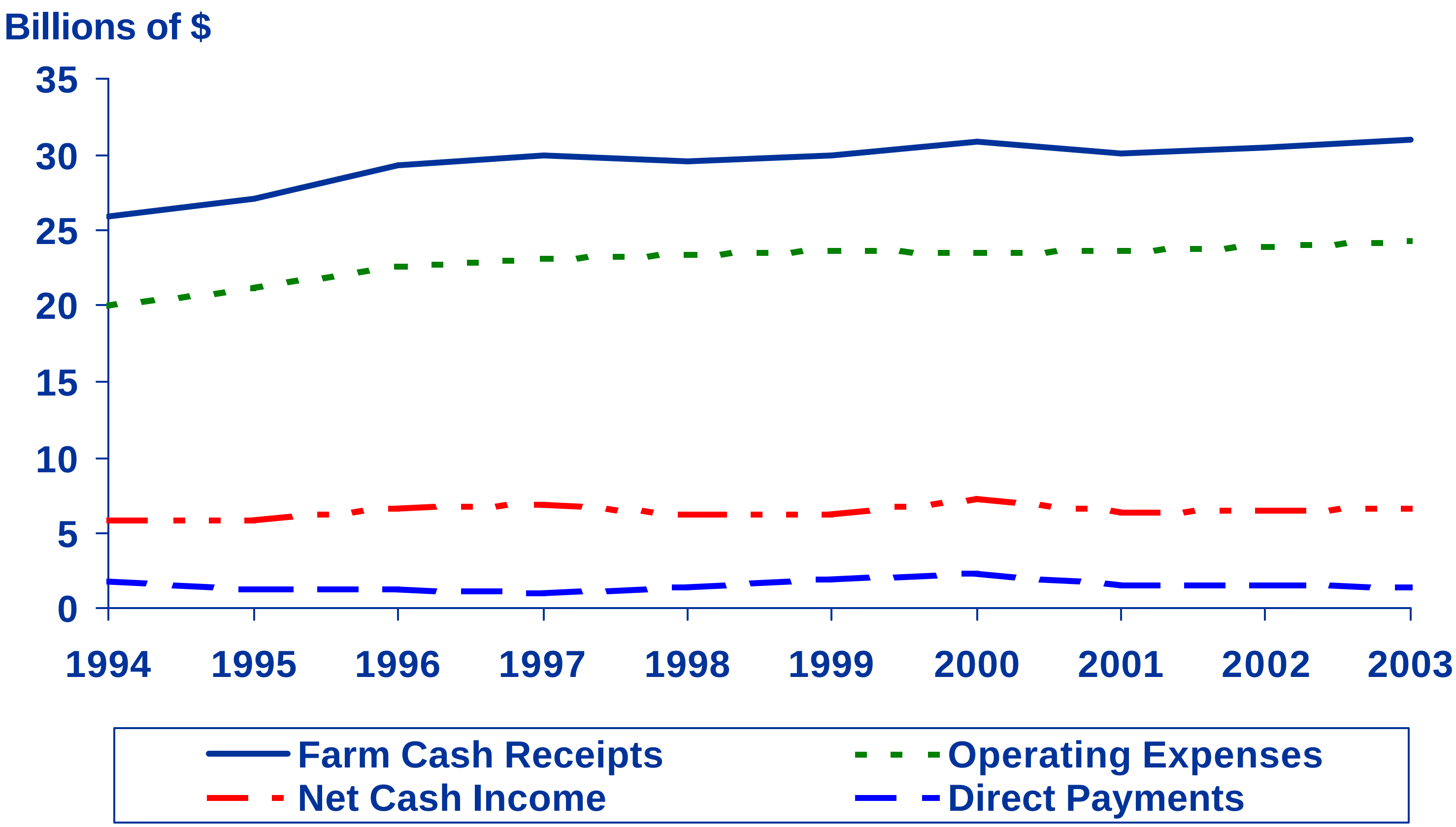
Depreciation is a non-cash cost reflecting an allowance for machinery, buildings and equipment which must be replaced over time. RNI is a measure of the profitability of the farming business.

Total Net Income (TNI) = *realized net income* + or - *value of change in on-farm inventories*

A commodity produced in one year can be sold in another year; accounting for the value of change in on-farm inventories provides an approximation of accrued net farm income.

Note: A minor change in cash receipts or expenses will have a significant impact on net income levels. For example, a 2% increase in farm cash receipts of $30 billion would result in a 30% increase in RNI of $2 billion.

Major Components of Farm Income, Canada, 1994-2003



Source: Agriculture and Agri-Food Canada, Policy Branch, for 1999 to 2003 forecast data.
Statistics Canada for historical data.

Net cash income in 1999 is expected to be slightly above the previous five-year average (1994-98). In 2000, net cash income is projected to rise to a level significantly higher than the 1994-98 average and remain above the 1994-98 average to the end of the forecast period.

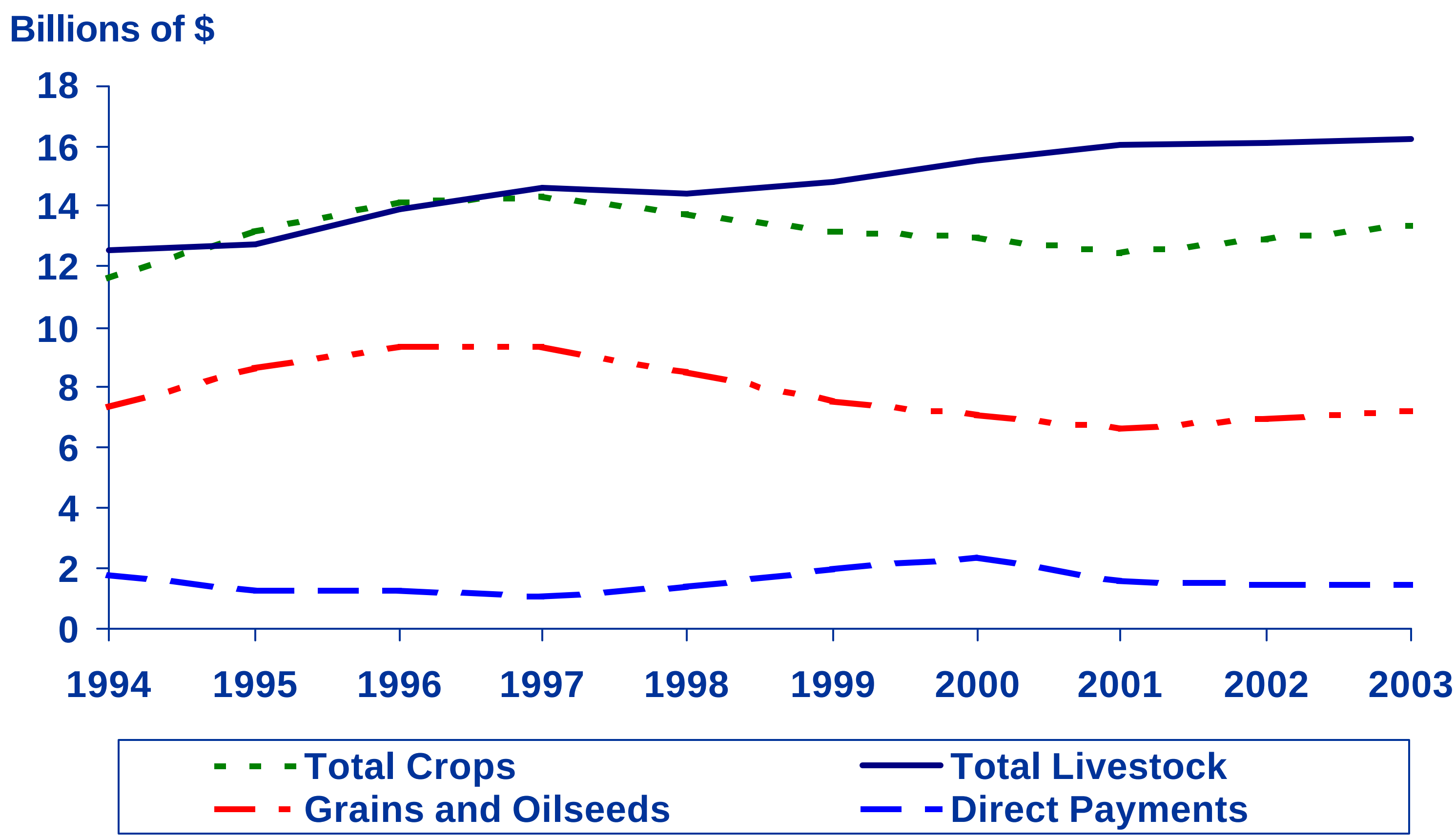
Operating expenses in 1999 are forecast to be up only slightly, remaining significantly above the 1994-98 average. In 2000-2003, expenses are expected to increase moderately primarily due to higher fuel prices and livestock purchases and higher feed consumption.

Direct payments by governments are expected to total $2 billion in 1999 which is 44% above the 1994-98 average. They are forecast to increase to $2.4 billion in 2000 which will be 71% above the 1994-98 average.

The forecast does not reflect the additional related disaster funding of $1 billion announced by the federal government on January 13, 2000. Also not included is the one-time federal-provincial payment of $400 million to Saskatchewan and Manitoba grain farmers announced on February 24, 2000.

Net cash income is expected to rise from 2% to 16% above the 1994-98 average between 1999 and 2000.

Major Components of Farm Cash Receipts, Canada, 1994-2003



Source: Agriculture and Agri-Food Canada, Policy Branch, for 1999 to 2003 forecast data. Statistics Canada for historical data.

Crop receipts are expected to be 2% below the 1994-98 average in 1999 at $13 billion due to lower grain and oilseed prices. In 2000-2002, total crop receipts are forecast to remain below the 1994-98 average, then improve to a level just above the 1994-98 average in 2003.

Grain prices are low due to reduced demand at a time of increasing supplies, the latter caused in part by U.S. and E.U. subsidies as well as strong world crops.

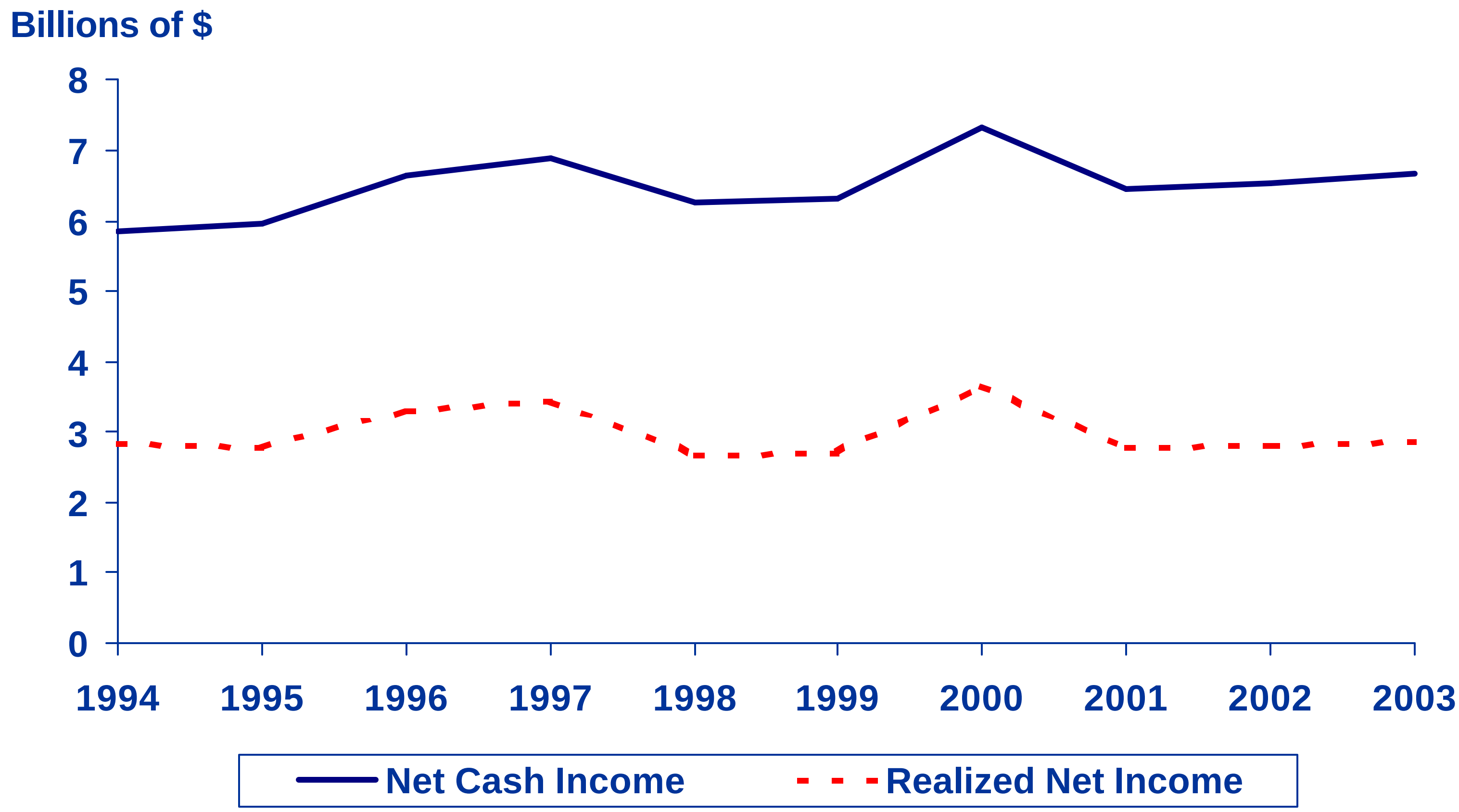
Oilseed prices are lower primarily due to recovering Asian palm oil production and record U.S. soybean production.

Livestock receipts are forecast to be 10% and 17% above the 1994-98 average in 1999 and 2000, respectively, then come under price pressure due to an improving Canadian dollar toward the end of the forecast period.

Falling hog prices and receipts in late 1998, primarily due to an oversupply of North American hogs and a shortage of U.S. and Canadian processing capacity, were exacerbated by weak international demand arising from the “Asian Crisis”. Prices recovered by mid 1999, and are expected to remain strong into 2000 and 2001. Beyond 2001, a strengthening Canadian dollar is expected to lead to weaker Canadian hog prices.

Overall, receipts in 1999 and 2000, excluding government payments, are forecast to be 6% and 10% above the 1994-98 average, respectively.

Net Farm Income, Canada, 1994-2003



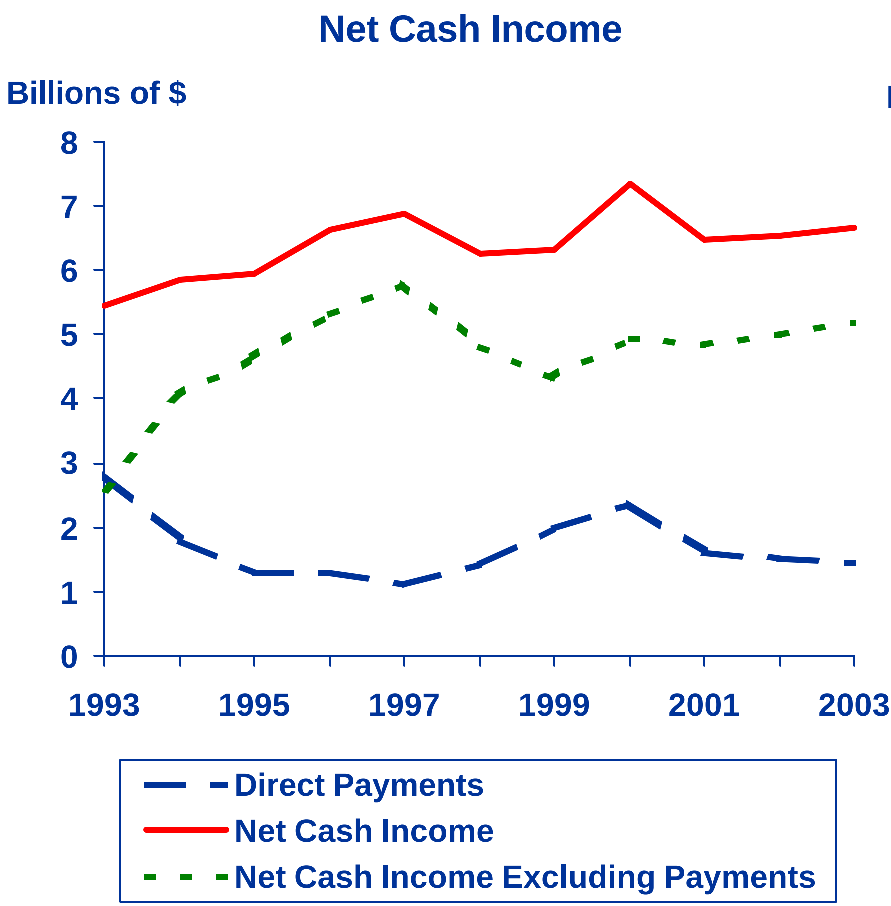
Source: Agriculture and Agri-Food Canada, Policy Branch, for 1999 to 2003 forecast data. Statistics Canada for historical data.

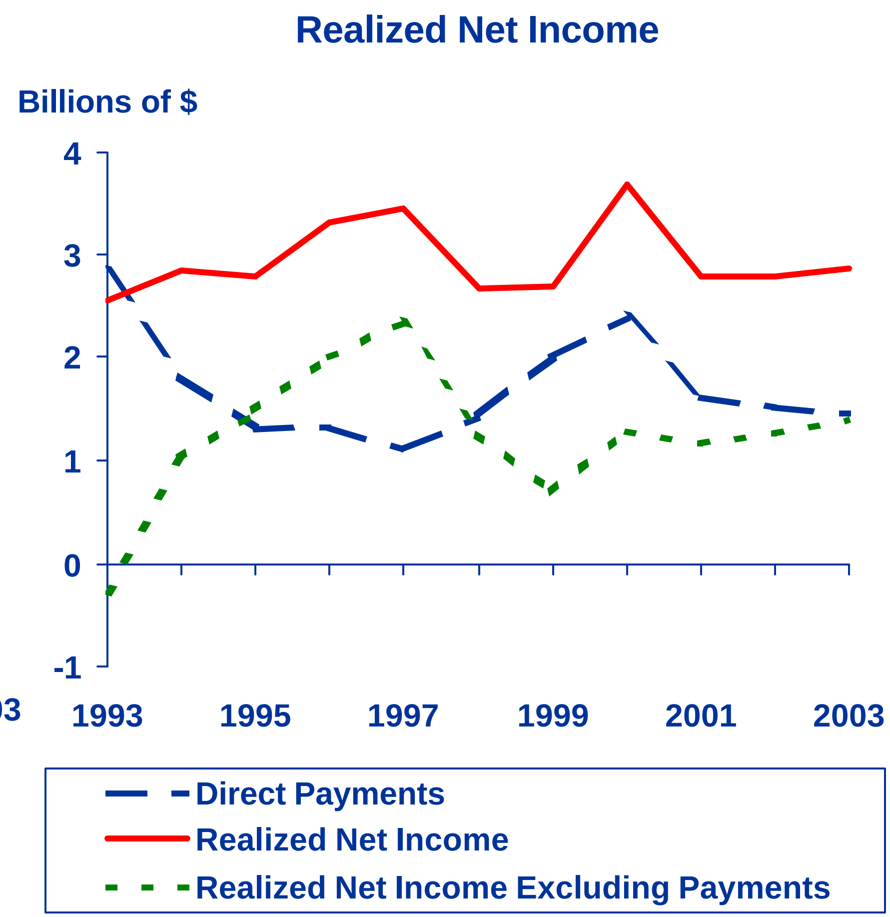
Net cash income in 1999 is expected to be 2% above the 1994-98 average. In 2000, net cash income is forecast to be 16% above the 1994-98 average mainly due to stronger prices in most sectors, falling in 2002-03 to just above the 1994-98 average.

Realized net income, which accounts for depreciation charges, will follow a similar pattern as net cash income during the forecast period. It is projected to be 6% below the 1994-98 average in 1999 and 23% above in 2000, falling to more than 10% below the 1994-98 average for the 2001-03 forecast period due to the factors mentioned above.

Overall, unless market conditions or costs change, some farmers are expected to face income pressure in 1999 with a temporary recovery in 2000. The 2001-03 period does not reflect new programs announced after December 1999.

Net Farm Income and Government Payments, Canada, 1993-2003





Source: Agriculture and Agri-Food Canada, Policy Branch, for 1999 to 2003 forecast data.
Statistics Canada for historical data.

Government payments exceeded realized net income in the early 1990s, and averaged about $3 billion.

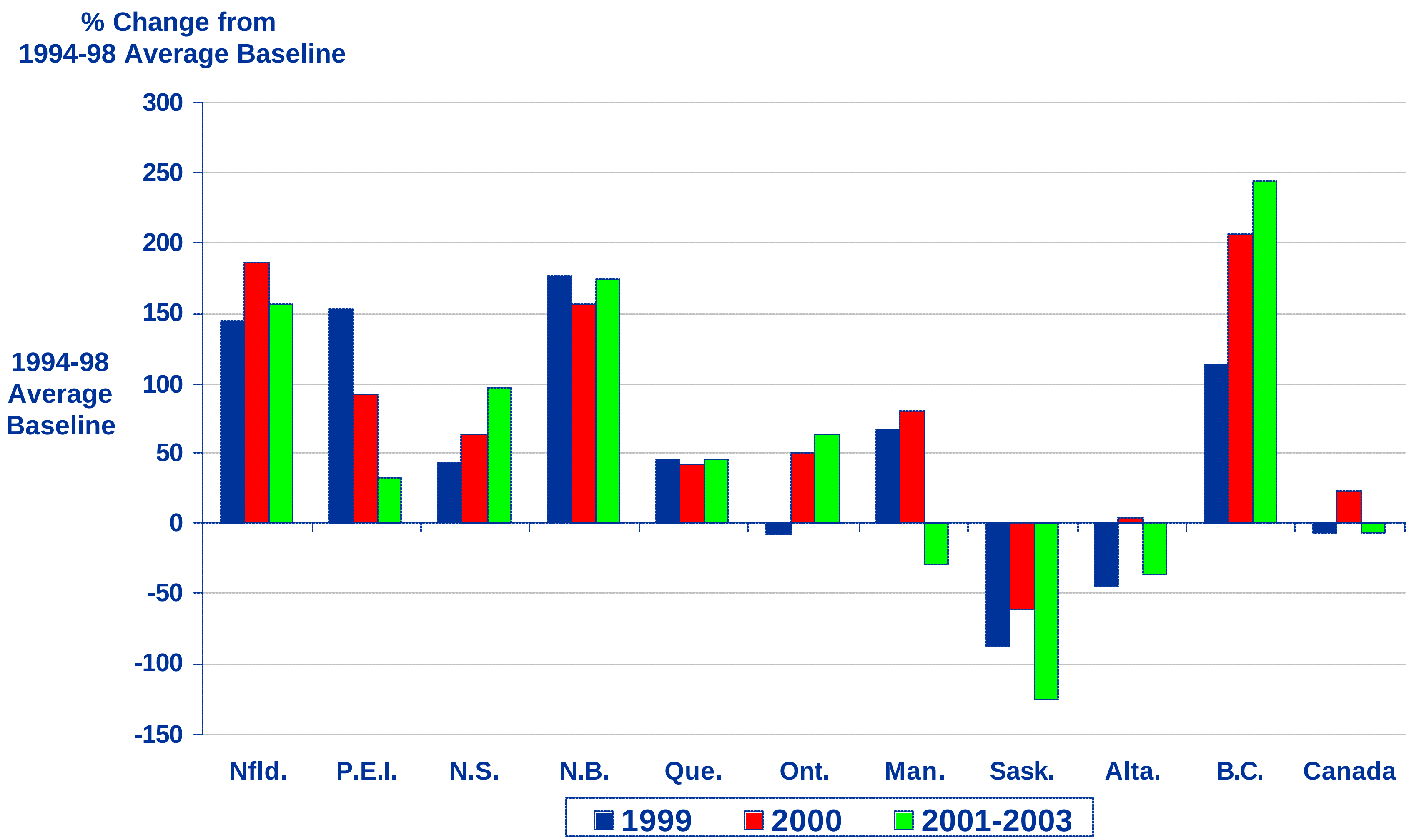
In 1999, government payments are expected to increase significantly because of higher payments from NISA, AIDA and crop insurance, to a level 44% above the 1994-98 average.

AIDA payments of $215 million and $553 million are anticipated for 1999 and 2000, respectively. The 2001-03 period does not reflect new programs announced after December 1999.

Because farm incomes have been strong in previous years, NISA fund balances have grown to about $3.1 billion. While this money is available to farmers, these balances, as well as withdrawals from Fund 1 (producer account) are not counted in farm income accounts. Only withdrawals from Fund 2 (governments' account) are included.

In addition to increasing government payments in 1999 and 2000, significant NISA balances are also available to farmers.

Realized Net Income, Canada and Provinces



Source: Agriculture and Agri-Food Canada, Policy Branch, for 1999 to 2003 forecast data.
Statistics Canada for historical data.

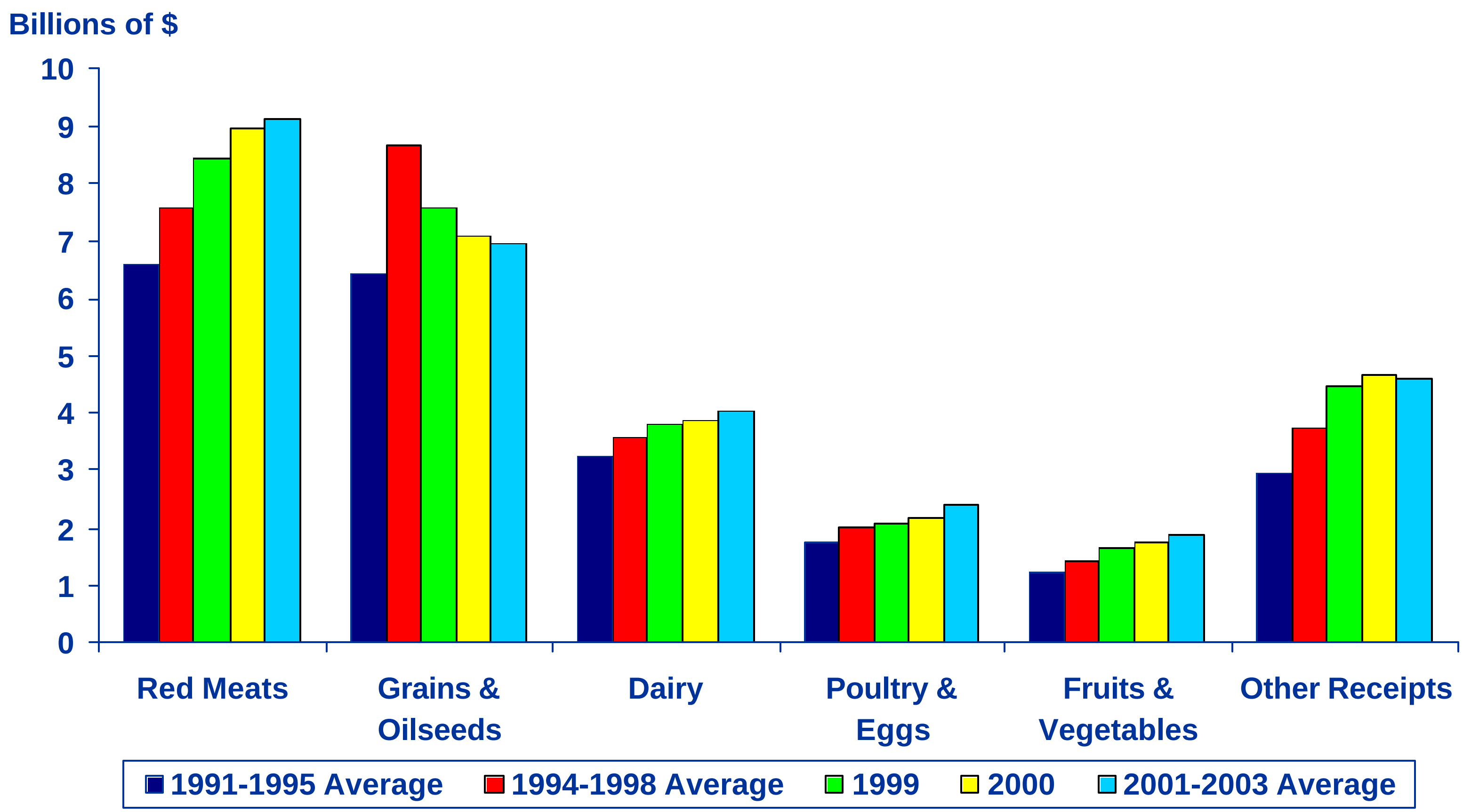
Provincially, in 1999, all but two provinces are projected to have higher net cash income relative to the 1994-98 average, namely, Saskatchewan and Alberta. Realized net income follows the same provincial pattern, except that Ontario is marginally below the 1994-98 average in 1999. In 2000, both measures for all provinces move to or remain above the 1994-98 average except for Saskatchewan. Beyond 2000, Ontario and each prairie province indicates below average income for some years, for some measures.

The other provinces are generally benefitting from a more diversified agriculture sector, which is mitigating the exposure to weak grain and oilseed prices. Saskatchewan and Alberta are most affected by low canola and wheat prices in 1999. Following 1999, crop prices are expected to gradually improve, but in some provinces, these improvements fail to overcome increases in input costs.

The increasing Manitoba hog herd is contributing to higher receipts in that province. Hog receipts in 2000 are supported by prices which have recovered from 1999 lows. The Canadian dollar is projected to become stronger over the balance of the forecast period, putting downward pressure on prices for red meats and other internationally traded agricultural products.

Overall, when considering realized net income, Saskatchewan, and to a lesser extent, Alberta, are the most severely affected provinces financially.

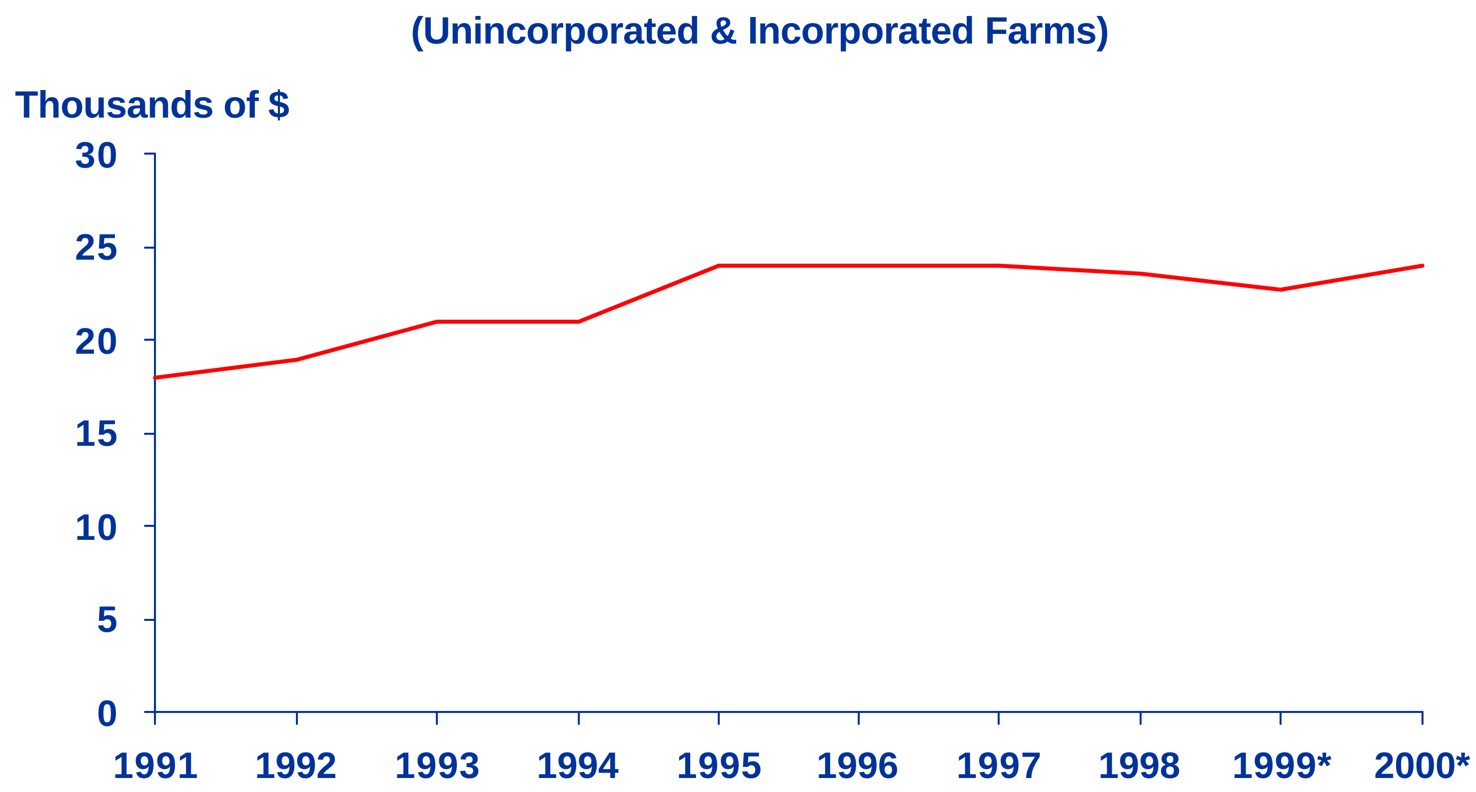
Canada
Farm Cash Receipts by Commodity Group



Source: Agriculture and Agri-Food Canada, Policy Branch, for 1999 to 2003 forecast data.
Statistics Canada for historical data.

- With the exception of grains and oilseeds, receipts are expected to be higher than the 1994-98 average throughout the forecast period.

Average Net Operating Income per Farm Canada, 1991-2000



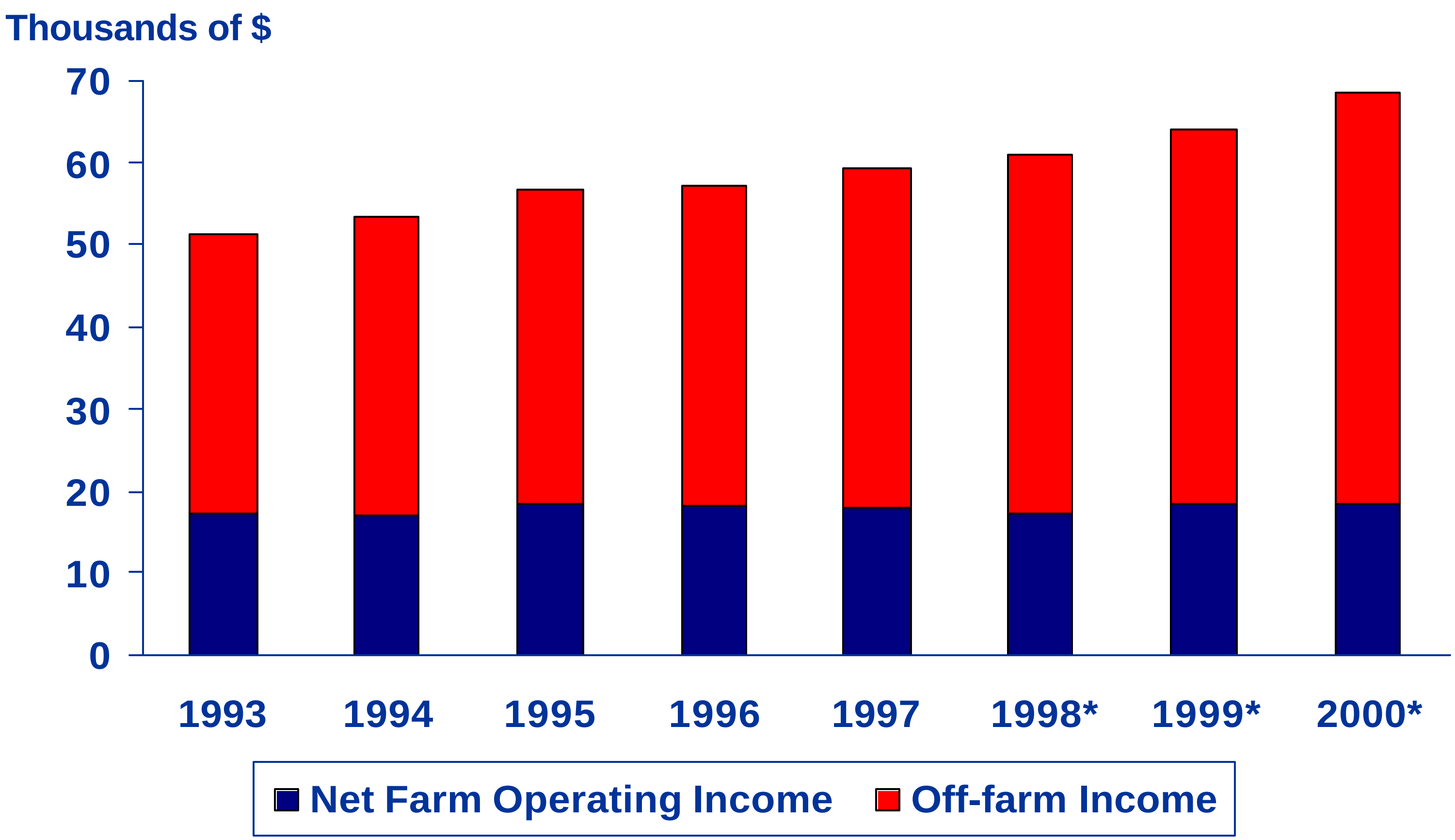
*1999 and 2000 are based on AAFC income forecast.

Source: Statistics Canada, Whole Farm Data Base.

- Net operating income is equal to total operating revenues minus total operating expenses, before depreciation. Inter-farm sales are included in revenues as are agriculture program payments, excluding NISA.
- Between 1991 and 1997, average net operating income increased due to improving crop prices and other favourable agricultural market conditions. Average net operating income in 1998 dropped due to a decline in commodity prices, particularly hogs and grains and oilseeds.
- In 1999, average net operating income is expected to decline to $22,632 as commodity prices fell further. In 2000, the average net operating income is expected to rise to $23,989 as cattle prices are expected to strengthen and higher crop marketings are expected to offset low prices.

Farm Family Income

Total Farm Family Income, 1993-2000

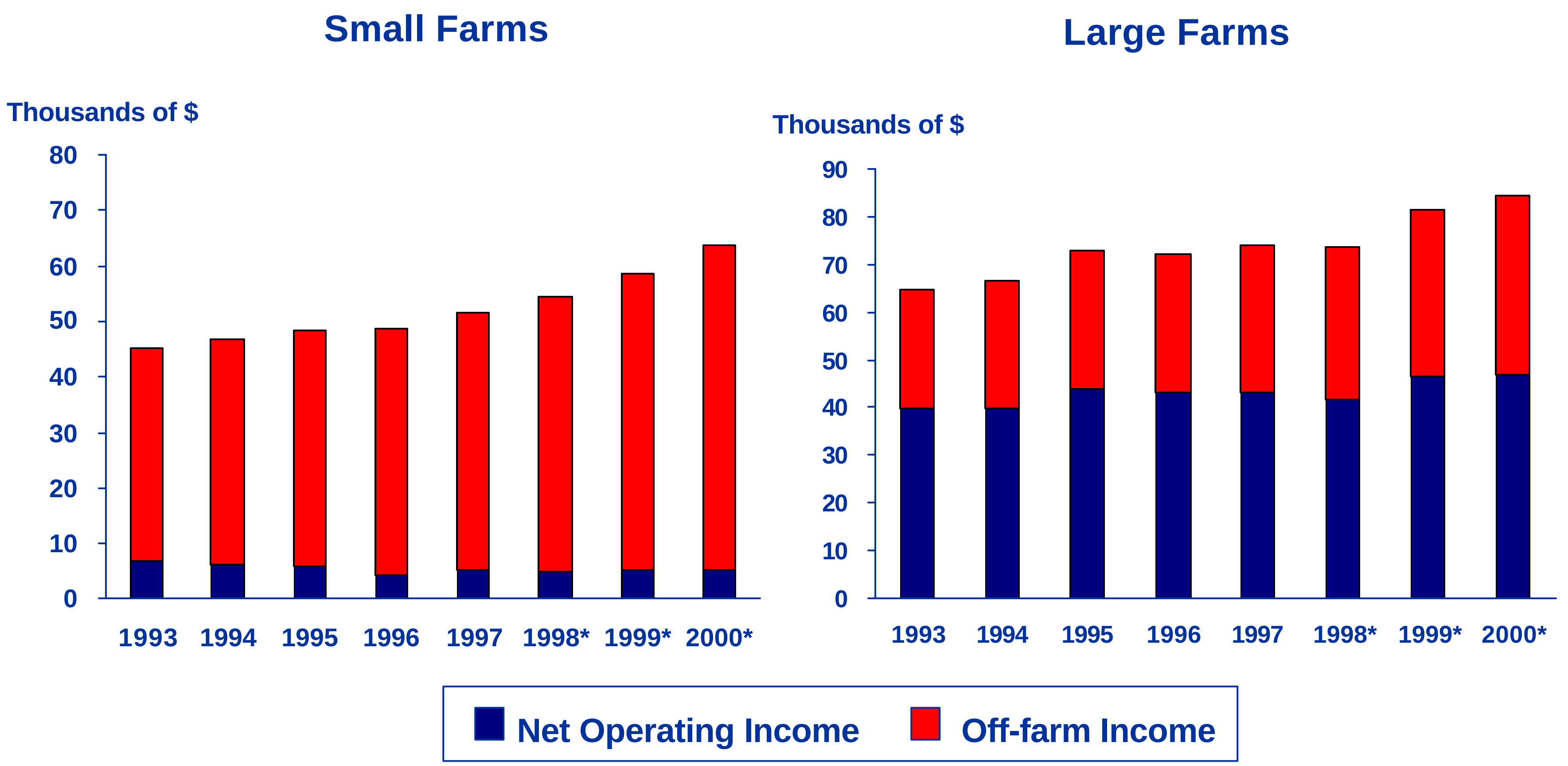


*Estimates based on AAFC income forecast.

Source: Statistics Canada, Whole Farm Data Base.

- Total farm family income is composed of net operating income (before depreciation) and off-farm income for members of the farm family. Off-farm income includes wages and salaries and net self-employment income from non-farm sources as well as income from investment, pensions, government social transfers and NISA withdrawals.
- Farm family income steadily increased since 1993 reaching an average total income of $59,194 in 1997. Farm families benefited not only from improved farm incomes but also from improved off-farm incomes, particularly wages and salaries and government social transfers over the period.
- In 1998, 1999 and 2000, total family income is expected to continue to rise due to higher off farm income.

Average Farm Family Income for Small and Large Farms

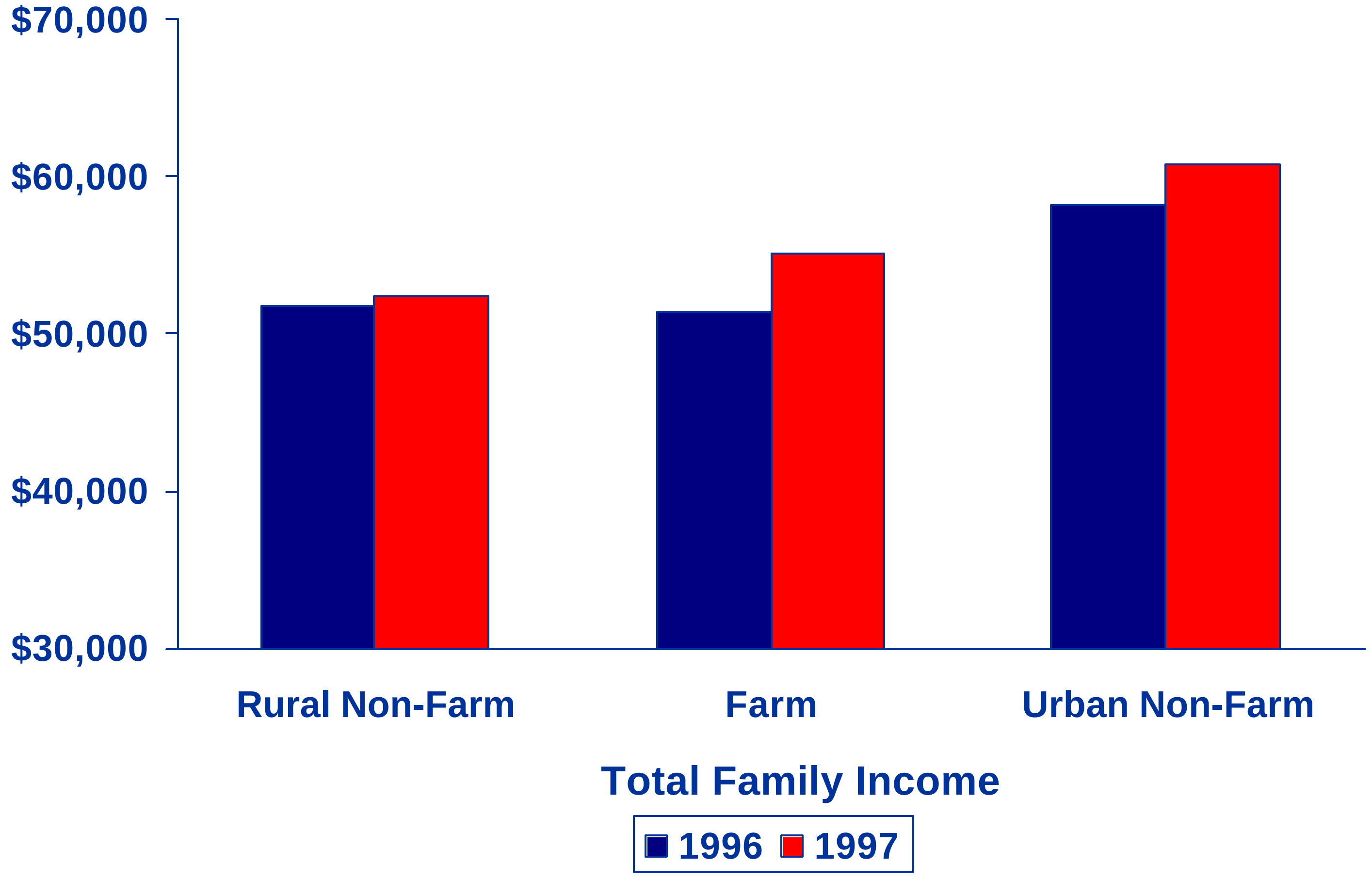


*Estimated.

Source: Statistics Canada, Whole Farm Database.

- Small farms are those farms with gross revenues under $100,000. In 1997, approximately two-thirds of farm families operated small farms.
- The estimated total family income for small farms in 2000 is expected to increase from 1998 and 1999 levels as off farm income is expected to increase significantly. Families on large farms, who rely more on farm income, may see their total family income decline in 1998.
- In 2000, the average family on a small farm should earn approximately 8% of total family income from farming while families on large farms should earn approximately 55% of their income from the farm.

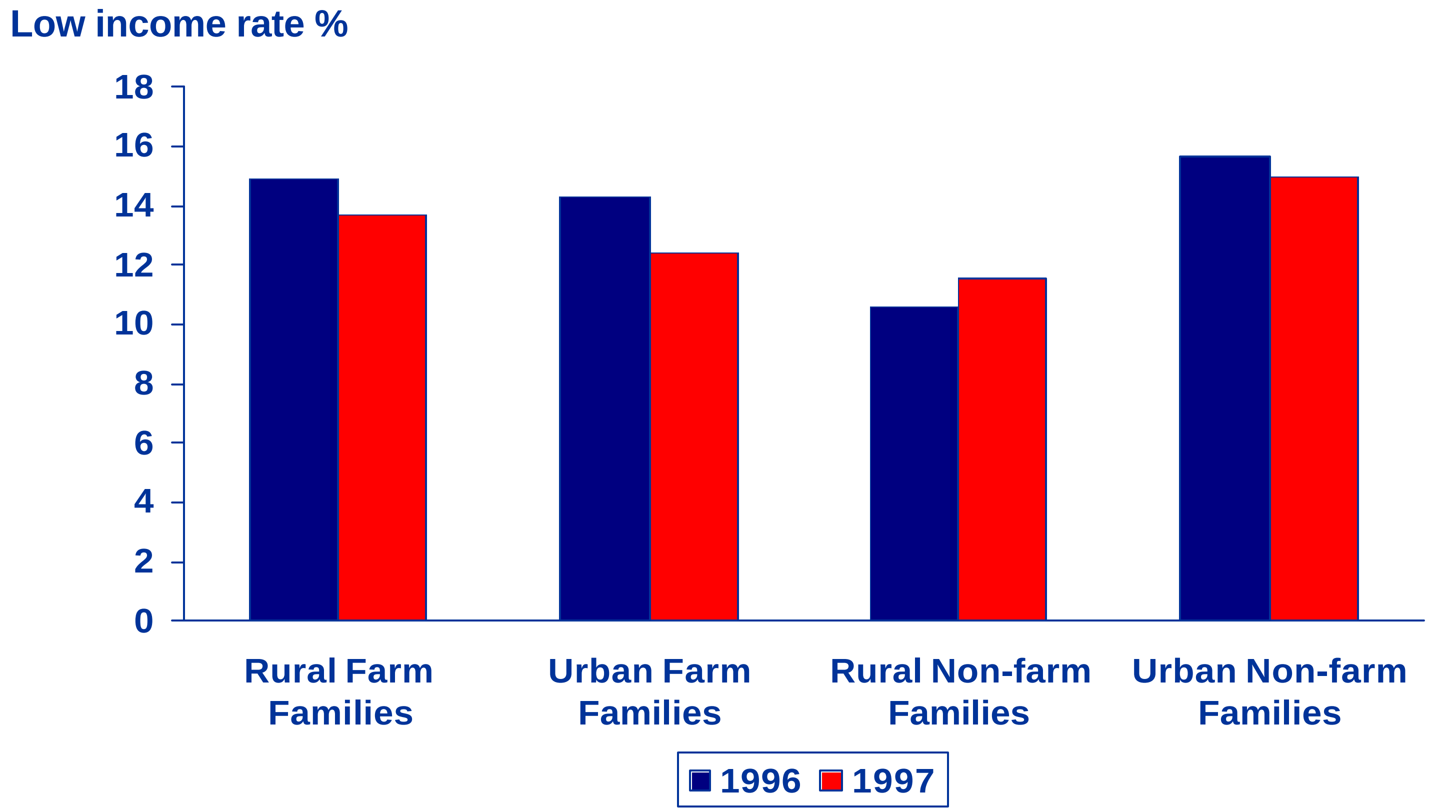
Average Income of Rural, Farm and Urban Families, 1996 and 1997



Source: Statistics Canada, Survey of Labour and Income Dynamics.

- Average farm family income was lower than urban non-farm family income in both 1996 and 1997, but above that of rural non-farm families in 1997.
- Although farm family incomes have been lower than urban non-farm family incomes, the cost of living in rural areas can be significantly lower.
- Between 1996 and 1997, average farm family incomes increased 7.2%, substantially more than the increase for urban (4.2%) and rural non-farm (1.3%) families.

Percentage of Families with Low Income 1996 and 1997



Notes: “Rural” families refers to families residing in towns or cities with population under 1000 and areas where population density is under 400 per sq. kilometer. “Urban” families are those in larger towns and cities and with higher population density. In the case of farm families, this would include those residing on the fringe of towns and cities.

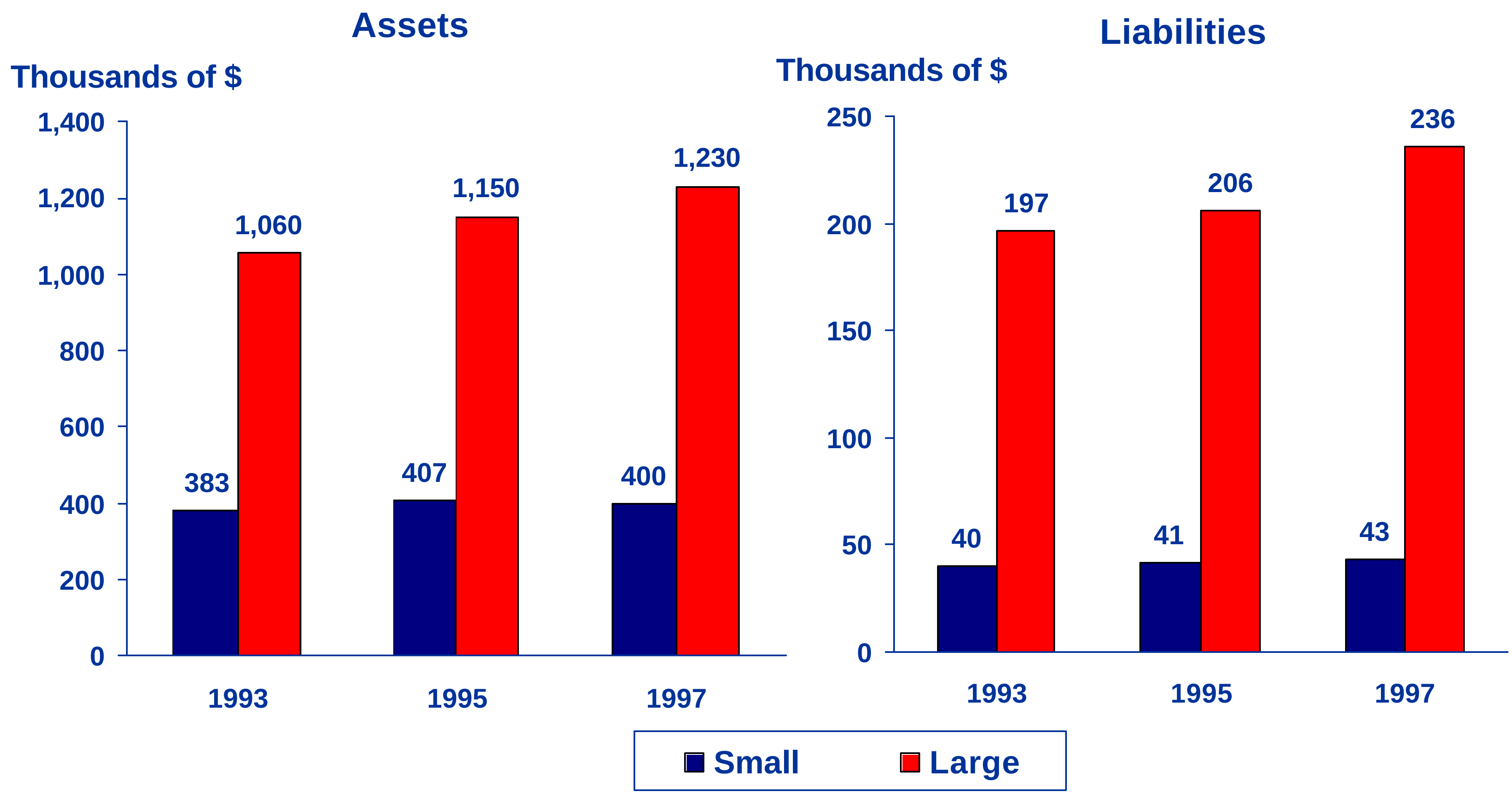
“Low income” refers to Statistics Canada’a Low Income Cut-Offs, which measure the income below which Canadian families spend 20 percentage points more than the average on basic necessities (food, shelter, clothing, etc.)

Source: Statistics Canada, Survey of Labour and Income Dynamics.

- Between 1996 and 1997, a decline was observed in the proportion of farm families with low income. A decline was experienced by both rural farm families and urban farm families.
- In 1996 and 1997, a larger percentage of urban non-farm families had low income when compared to others. Over 15% of these families were considered to have low income.
- Rural non-farm families saw an increase in the proportion of families with low income in 1997, however, when compared to other family groupings, they still maintained the lowest share.

Other Farm Financial Indicators

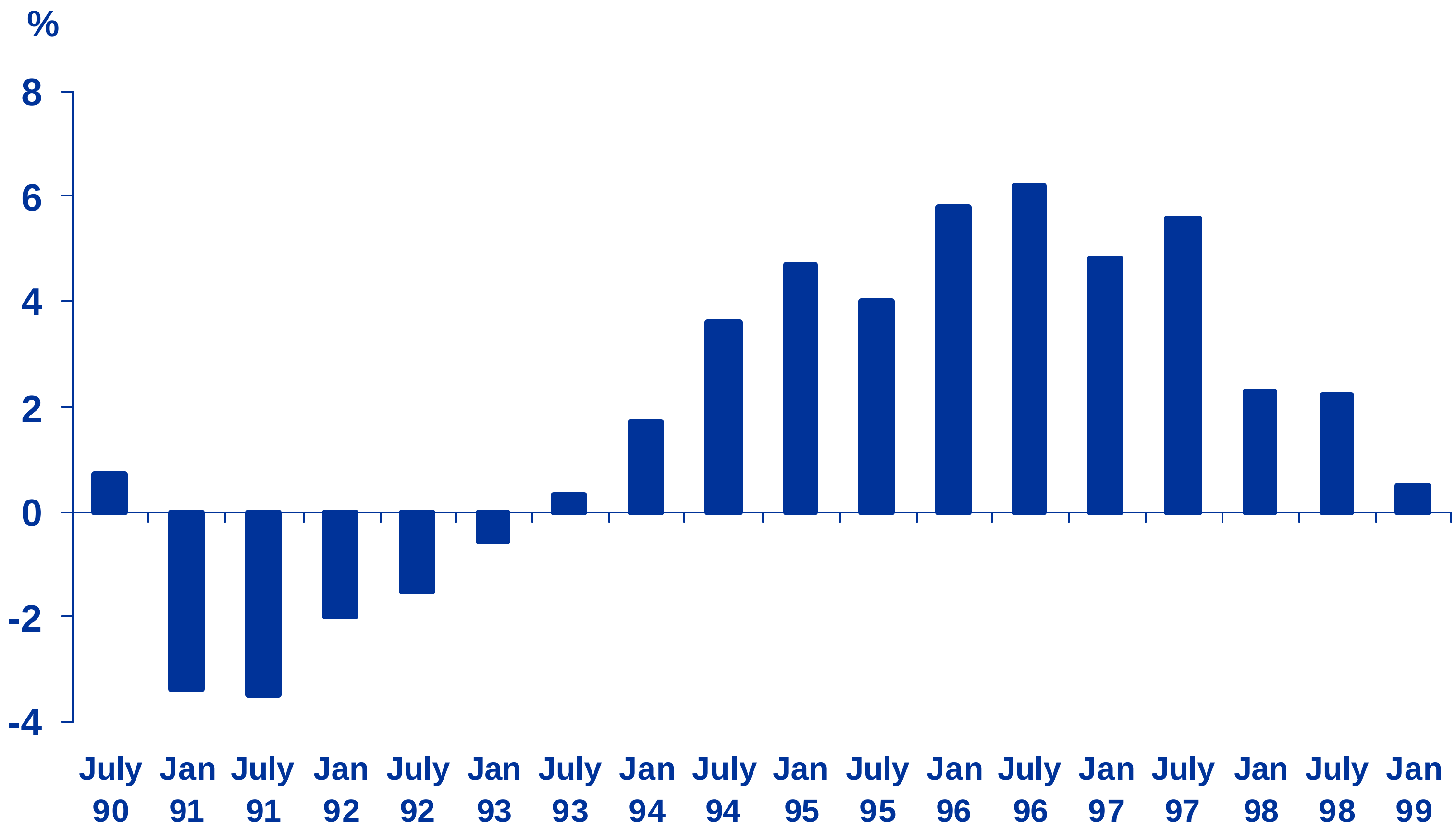
Average Assets and Liabilities per Farm for Small and Large Farms in Canada, 1993, 1995 and 1997



Source: Agriculture and Agri-Food Canada, Farm Financial Surveys.

- Average farm assets grew between 1993 and 1997 for large farms (greater than $100,000 in revenues), while small farms (less than $100,000 in revenues) increased slightly.
- The growth rate of average liabilities was higher than average assets between 1993 and 1997 for both small and large farms.
- Consequently, debt-asset ratios increased from 18.6% to 19.2% for large farms and from 10.4% to 10.8% for small farms between 1993 and 1997.

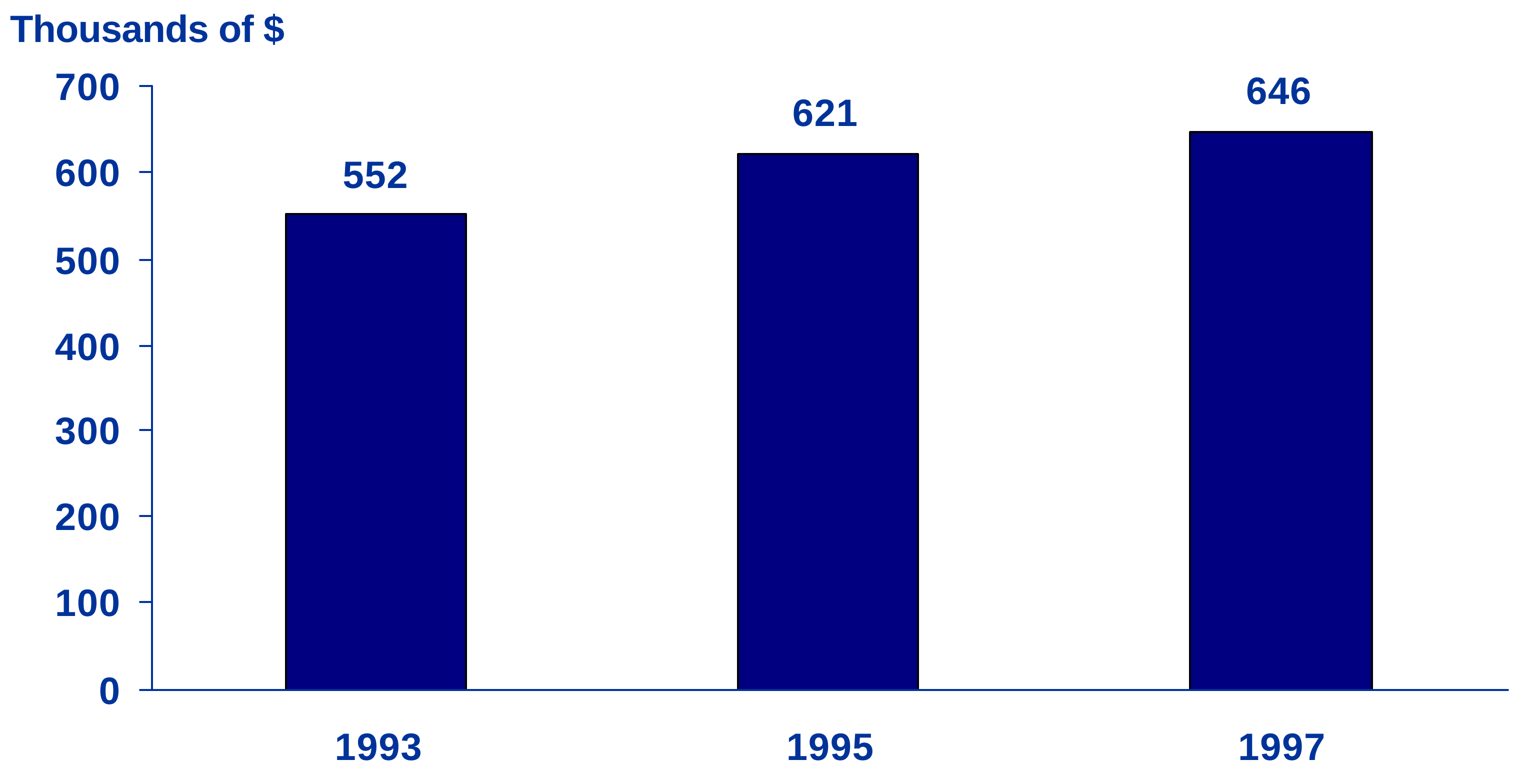
Semi-annual Percent Change in Farmland Values in Canada, January and July 1, 1990-1999



Source: Farm Credit Corporation, Farmland Values, Spring 1999.

- The upward trend in farmland values that occurred over the 1993 to 1997 period appears to be slowing in 1999 as lower commodity prices and less optimistic prospects for the future dampen land values in most provinces.
- Land values make up a large share of farm assets.

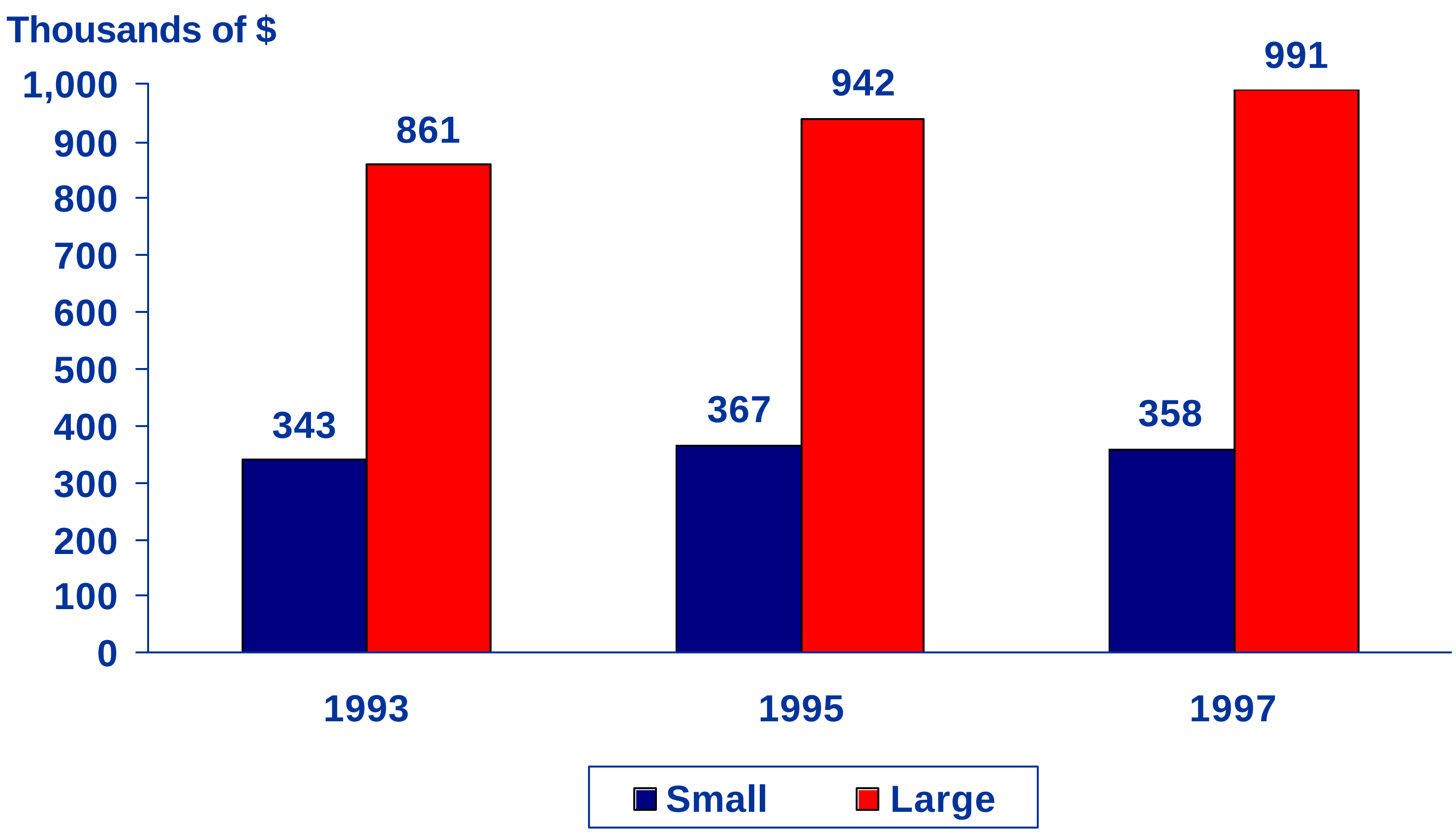
Average Net Worth per Farm, Canada, 1993, 1995 and 1997



Source: Agriculture and Agri-Food Canada, Farm Financial Surveys.

- Net worth equals total farm assets minus total farm liabilities.
- Average farm net worth increased by 17% from 1993 to 1997, and currently exceeds $646,000.

Average Net Worth per Farm for Small and Large Farms in Canada, 1993, 1995 and 1997

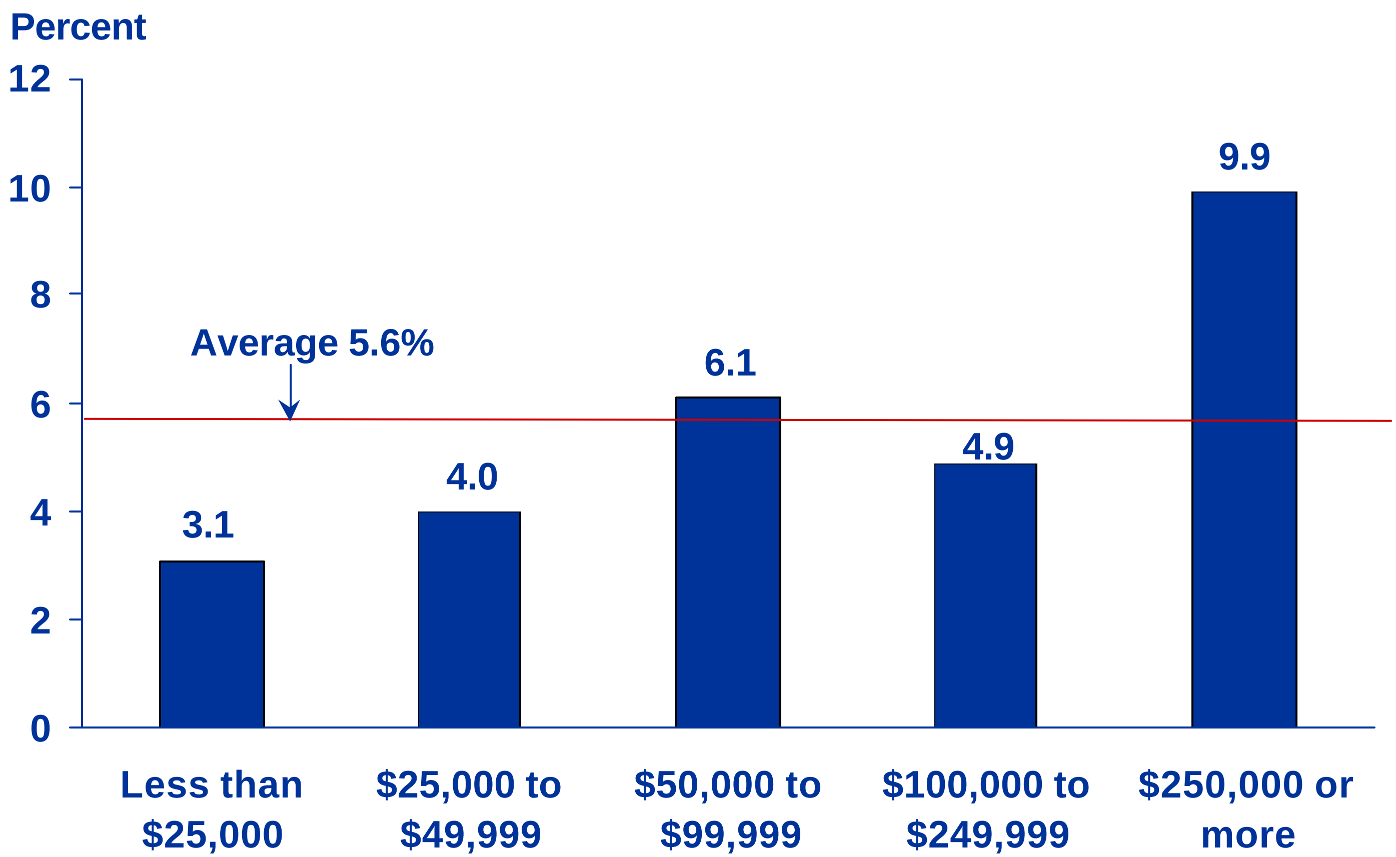


Source: Agriculture and Agri-Food Canada, Farm Financial Surveys.

- Despite a decrease for small farms from 1995 to 1997, the average net worth of Canadian farms rose between 1993 and 1997 to $357,604 for small farms and $991,207 for large farms.

- From 1993 to 1997, net worth rose 15% for large farms compared to only 4% for small farms.

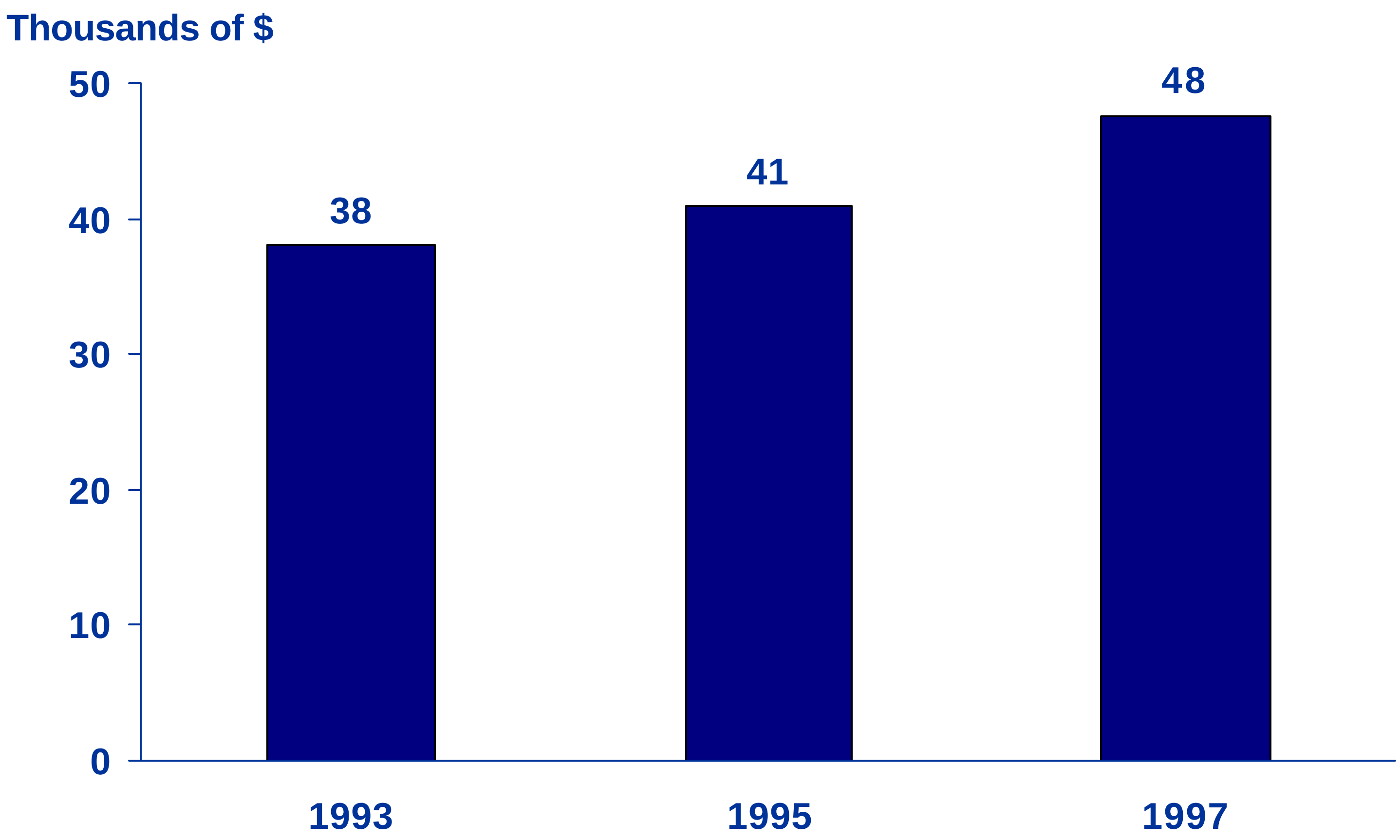
Percentage of Farms with High Debt by Revenue Class, 1997



Source: Agriculture and Agri-Food Canada, 1996 Farm Financial Survey.

- High debt refers to farms with a debt/asset ratio of greater than 0.5.
- Only a small percent of small and medium-sized farms have high debt.
- Even amongst the largest farms (revenues greater than $250,000), relatively few have high debt (9.9%).
- Many farms with higher debt are supply managed, with constant, stable cashflows to service the debt.

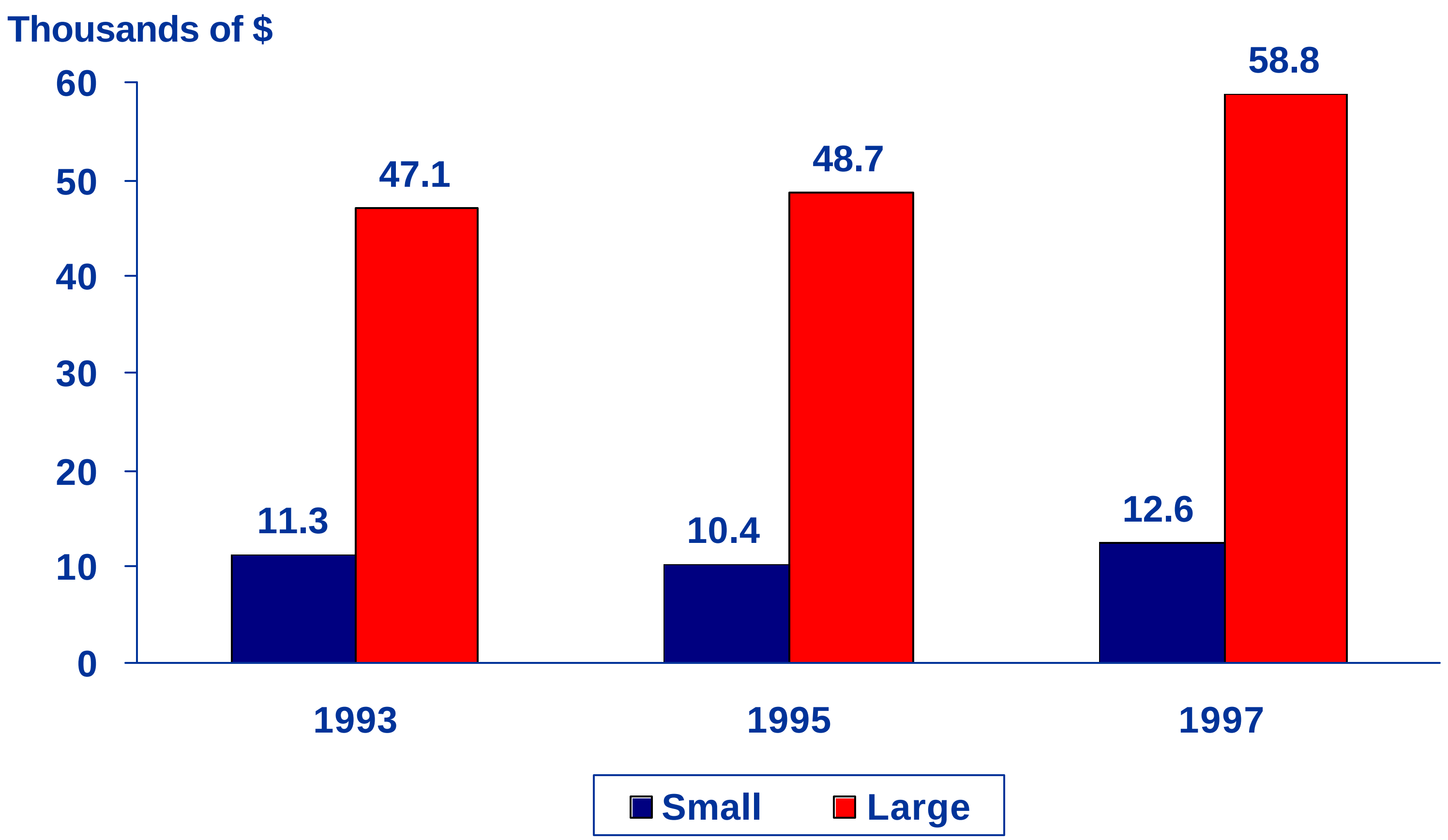
Gross Capital Investment per Farm
1993, 1995 and 1997



Source: Agriculture and Agri-Food Canada, Farm Financial Surveys.

- Gross capital investment, which refers to capital investments before capital sales, was up 16% in 1997 compared to 1995. Investment in 1997 was up considerably (25%) compared to the 1993 level.
- Investment in farm machinery and equipment, which was the most significant investment in all years, accounted for 50% of all investments in 1997.
- Capital borrowed for long term loans exceeded $23,000 per farm in 1997.

Average Net Capital Investment per Farm for Small and Large Farms, 1993, 1995 and 1997



Source: Agriculture and Agri-Food Canada, Farm Financial Surveys.

- Between 1993 and 1997, net investment, which is gross investment less capital sales, grew by 24.7% for large farms (greater than $100,000 in revenues) and 11% for small ones (less than $100,000 in revenues).
- The average net capital investment in 1997 was $12,560 for small farms and $58,755 for large farms.
- For small farms, net investment fell over the 1993 to 1995 period.

Current Assets of Canadian Farms

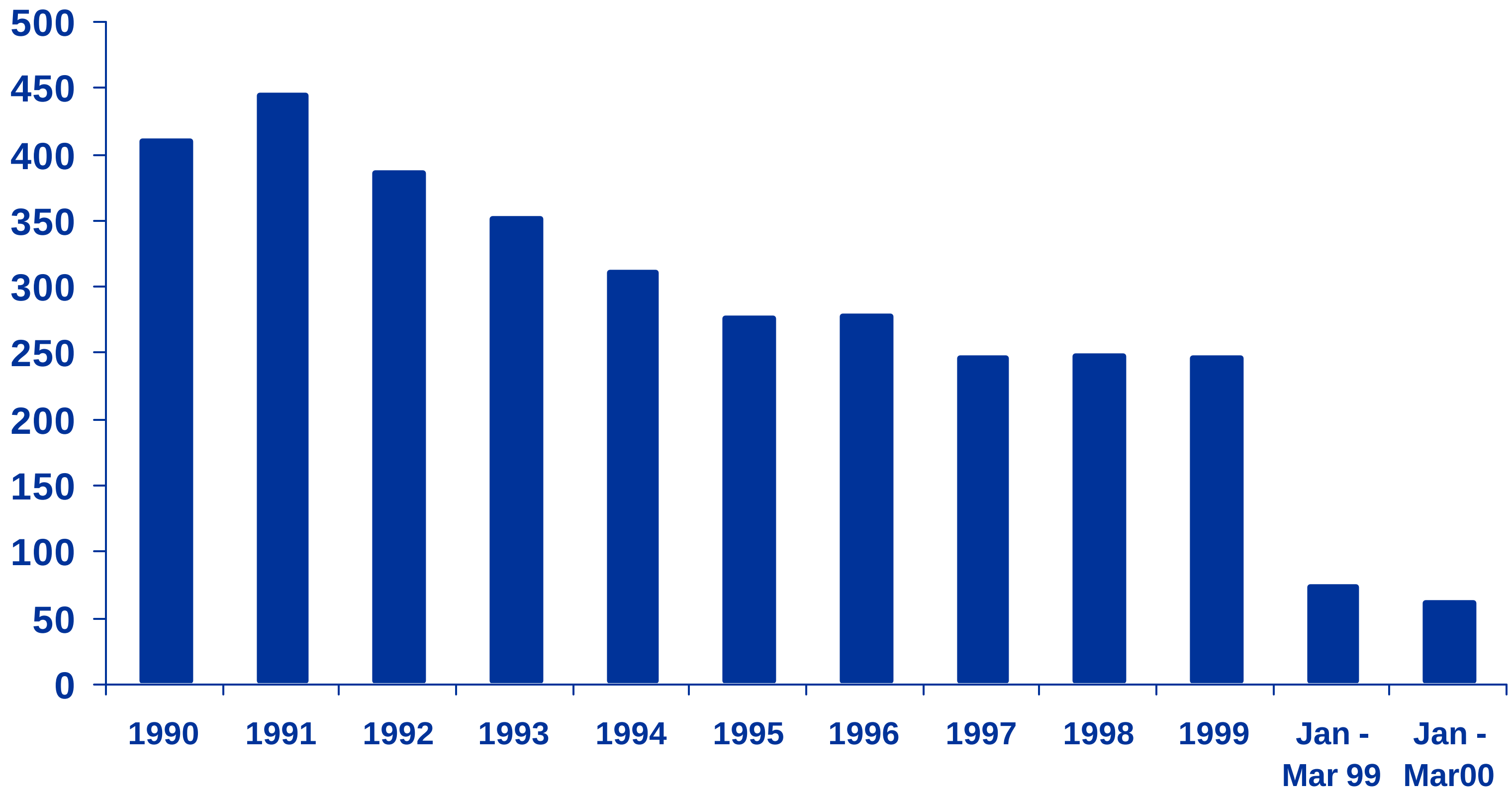
as of December 31, 1997

Current Assets	Total	Average
	Million $	($)
Market Livestock	5,454	29,828
Accounts Receivable	1,491	8,154
Inputs	2,604	14,241
Crop for Sale	5,657	30,938
Cash and Short-Term Investments	1,101	6,021
Other Current Assets	289	1,581
TOTAL	16,597	90,768

Source: Agriculture and Agri-Food Canada, 1998 Farm Financial Survey.

- Canadian farms had over $16 billion in current assets in 1997.
- The average farm had over $90,700 in current assets of which over $6,000 was in cash and short-term investments.

Number of Farm Bankruptcies, 1990 - 1999



Note: Farm bankruptcies should not be viewed as a strong measure of financial difficulty in the farm sector since it is a lagging indicator and bankruptcy is usually used as a last resort.

Source: Office of the Superintendent of Bankruptcy.

- Farm bankruptcies have been trending downward since 1991.
- The number of farm bankruptcies has remained virtually unchanged since 1997. There were 243 farm bankruptcies recorded in 1997, the same number as in 1999.
- Farm bankruptcies should not be viewed as a strong measure of financial hardship in the farm sector since it is a lagging indicator and bankruptcy is usually used as a last resort.

NISA Fund Balances, by Province

as of March 30, 2000

Province	Millions of $
Newfoundland	1
Prince Edward Island	41
Nova Scotia	16
New Brunswick	18
Quebec	42
Ontario	669
Manitoba	413
Saskatchewan	1,233
Alberta	572
British Columbia	59
Canada	3,065

NISA (Net Income Stabilization Account). N.W.T. and Yukon included in total.

- In total, farm operators had $3.1 billion in NISA accounts as of March 30, 2000.

NISA Participants and Balances

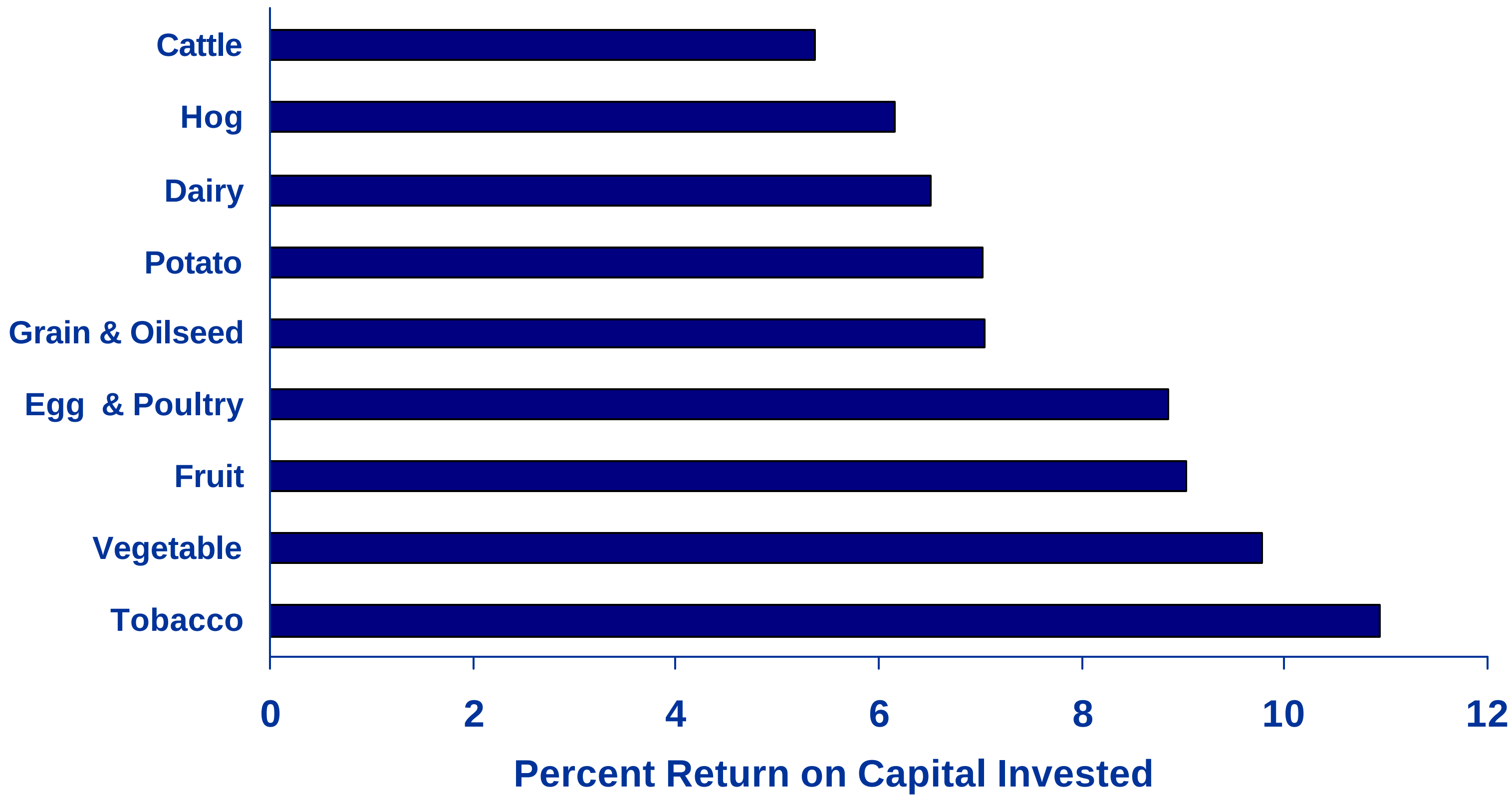
as of March 1, 2000[1]

Sales Class	Number of Participants[2]	Average Account Balances
$0 to $49,999	60,693	21,642
$50,000 to $99,999	30,237	16,676
$100,000 to $249,999	31,624	31,431
$250,000 to $499,999	9,302	53,766
$500,000 or more	4,968	110,114
TOTAL[3]	142,080	21,377

1. These data change daily, as new participants join NISA, deposits are made, withdrawals are taken, etc.
2. For larger farms, there can be more than one participant per farm.
3. Includes some unallocated accounts.

- On March 1, 2000, there were 142,080 participants in NISA with the average account balance being $21,377.
- NISA account balances are proportionate to farm size with small farms tending to have small account balances while larger farms have proportionately larger account balances.

Average Return on Investment per Incorporated Farm in Agriculture by Farm Type (1992-1995)



Source: Statistics Canada, Agriculture Division, Whole Farm Data Base.

- These figures are derived from a sample of income tax records, for incorporated farms only, with revenues of $50,000 or more per year.

- Agriculture generated an average return to capital investment of almost 7% between 1992 and 1995.

- The most profitable farm type over the four years was tobacco with a rate of return of almost 11%. At the other end of the scale, cattle farms had a rate of return of just under 6%. Rates of return for hog and dairy farms were slightly larger than for cattle farms.