Next Generation
of Agriculture and Agri-Food Policy

Economic Backgrounder:
Economic wellbeing of farm households

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The Next Generation of Agriculture and Agri-Food Policy –
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Economic wellbeing
of farm households

Introduction

This report presents information on the financial wellbeing of farm households in Canada. It examines four important areas:

(1) Farm family income

(2) The relationship between farm performance and family income

(3) Farm family wealth

(4) The incidence of low family income

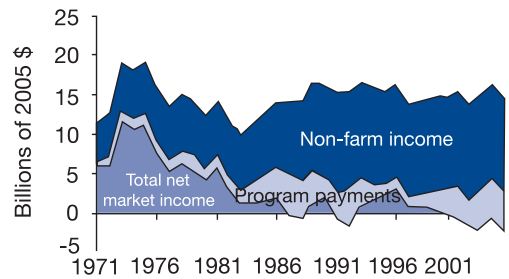
FARM FAMILY INCOME

Aggregate farm household income has remained relatively constant in real terms, hovering around the $15 billion mark, despite a significant decline in the number of farms in Canada.[1,2]

While net farm income has declined over time, the share of income derived from non-farm sources has increased substantially. Over the last few years, on average, approximately 20% of total income comes directly from net farm income[3]; the remainder comes from other sources namely: wages and salaries, non-farm self-employment income, pension income, investment income and other income.

The situation is similar in the U.S. where net farm income contributed 11% to total income of all farm households in 2003. The greatest share of farm households' income was derived from off-farm employment[4].

Figure 1: Total net income and estimated non-farm income in Canada, 1971-2005



Note: Total net market income plus program payments constitutes total net income

Source: Census of Agriculture, CANSIM tables (002-0001, 002-0009, 380-0056), AAFC calculations.

Economic performance differs among farm families and is dependant in part on the size of the farm operation

Families operating larger farms, with greater than $250,000 in gross revenues, earn most of their income from farming, receiving a relatively small share of total household income from non-farm sources of income. Larger farms also receive, on a per farm basis, the highest amount of program payments. Compared to all families in Canada, families operating larger farms earn on average significantly more in total family income (farm and non-farm).

[1] Income estimate includes: farms owned and operated by single individuals, families, non-family corporations and other operations.

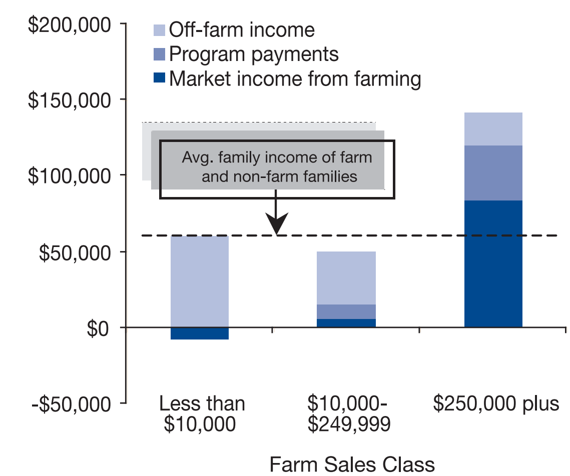
[2] See Economic Backgrounder "Changing structure of primary agriculture"

[3] Net farm income = net market income + program payments

[4] Hoppe, Robert A. and David E. Banker (2006). Structure and Finances of U.S. Farms: 2005 Family Farm Report/EIB-12. ERS/USDA. U.S. and Canadian data are not directly comparable due to differences in methodology.

In contrast, farms with revenues between $10,000 and $249,999, on average, are highly dependent on off-farm income. The level of income for farm families operating smaller farms is similar to the Canadian average for all families.

Figure 2: Average family income of farm families by source of income (2000 to 2002)



Source: AAFC, internal estimates.

The significance of farm and non-farm income varies across farm families by farm typology[5]

AAFC's farm typology highlights the differences that exist in the role of farm income to total family income. Off-farm income represents a larger share of total family income for families operating farms classified as either retirement or lifestyle farms with the lifestyle group reporting the highest average off-farm income of all typology groups.

Average net operating income is negative for farm families in the low income groups.[6] For families operating smaller farms with less than $250,000 in gross revenues, average total family income is positive, with non-farm income covering losses from the farm. For larger farm operations in the low income group, income earned from non-farm sources including wages and salaries paid for farm work was not sufficient to bring total family income to a positive position.

Farm families operating larger farms in the business-focussed group depend less on non-farm sources of income than their counterparts with smaller farms. The very large business-focussed group earns the highest amount in wages paid to the family for farm work, which when combined with non-farm income accounts for over 50% of this amount.

The importance of farm and non-farm income also varies by farm type and province

Some farm types tend to require the full time attention of the farm family, for example, dairy operations. Other farm types lend themselves easily to working more off the farm, such as smaller beef cattle operations and fruit farms. In addition, there is a heavier reliance on non-farm sources of income for farm families operating farms in some provinces compared to others. This may simply reflect that more off-farm employment opportunities exist in these provinces.

FARM PERFORMANCE AND FAMILY INCOME

Farm size is not a limiting factor in financial performance

The contribution of net farm income to farm family income varies among farms of all sizes. Even after controlling for size and location, there remain significant differences in performance.

An analysis of large Saskatchewan grain farms suggests that the most profitable producers have much higher net market incomes than the least profitable farms while receiving less than one-third as much in safety net payments.[7] This suggests that financial and production management skills are critical to performance, even more important than safety nets. It also suggests that

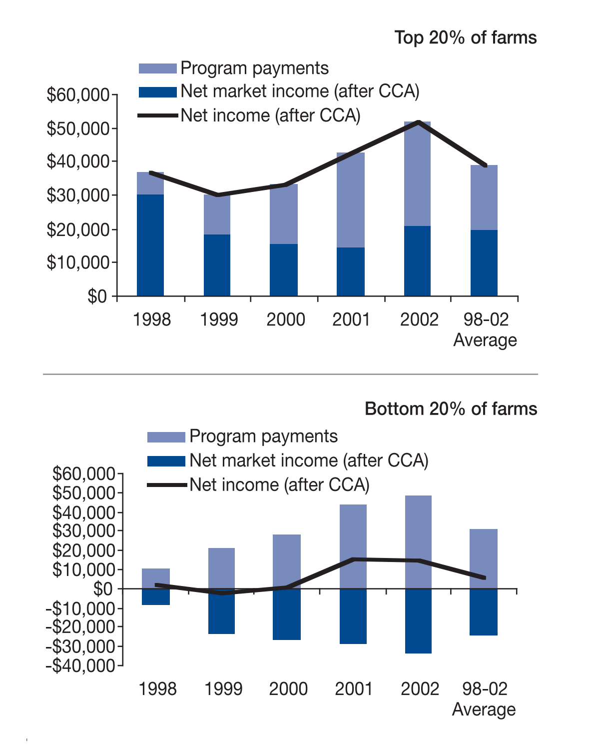
[5] For typology definitions, see Economic Backgrounder "Changing structure of primary agriculture."

[6] To qualify for the low income group, family income must be less than $35,000.

[7] The NISA database follows the same farms over time. Top and bottom performers are determined by ranking farms by average operating margins and taking the top and bottom quintiles (20%) The top 20% is defined as the group of farms with the highest average net operating margin over the period of 1998 to 2002. The bottom 20% is defined as the group of farms with the lowest average net cash income over the period of 1998 to 2002.

income instability is highly influenced by on-farm practices, and is not entirely the result of factors such as the weather and the farm's geographical location.

Figure 3: Net income of Saskatchewan – Grains and oilseeds farms, $100,000 to $249,999, (1998-2002)[8]

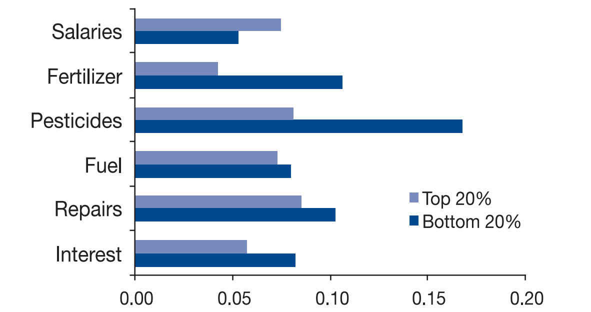


The top 20% of large grain and oilseed farms on the Prairies consistently show positive net market income even as market conditions varied considerably over this period. The bottom 20% of large grain and oilseed farms reported much lower net market income. For families operating farms in the top 20%, net farm income provides a large, positive contribution to overall family income. For those in the bottom 20%, the contribution is minimal and sometimes negative.

Cost control is critical for successful farm operations. Farms in the bottom 20% had higher expenses per dollar of revenue particularly for fertilizer and pesticides.

The results of the analysis of large Saskatchewan grain farms hold across different farm sizes, farm types and farms in different provinces.

Figure 4: Average expenses per dollar of revenue, Saskatchewan grain and oilseeds farms, $100,000 to $249,999, (1998-2002)



Source: Statistics Canada, Farm Financial Survey and AAFC, internal estimates

FARM FAMILY WEALTH

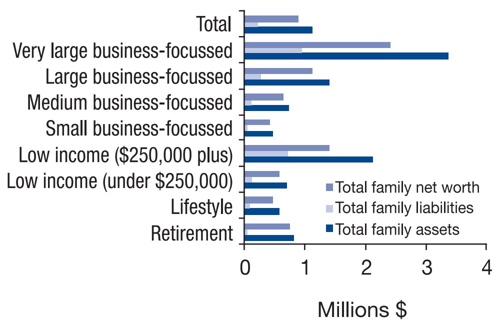
Another important measure of economic wellbeing is farm household wealth, measured as the difference between the current market value of assets and liabilities. In 2004, average farm household net worth in Canada was $900,000.

There is quite a bit of variation in the average net worth by farm typology group

On the whole, regardless of the typology group, average net worth is large and contributes greatly to overall family wellbeing.

[8] The calculation of top and bottom 20% of farms is based on the five year average (1998-2002) of the production margin less crop insurance and contract work over gross commodity sales

Figure 5: Average farm household assets, liabilities and net worth by typology, 2004

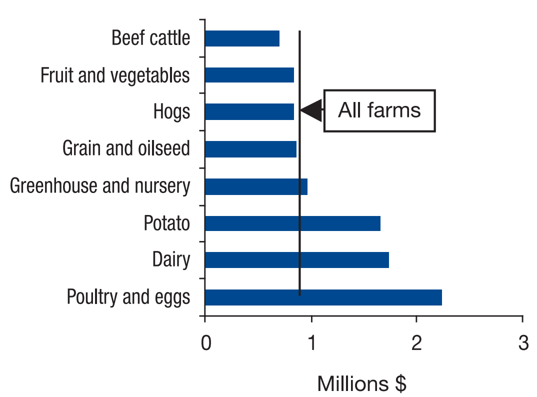


Source: Statistics Canada, Farm Financial Survey and AAFC, internal estimates

Average net worth varies by farm type and province

The higher average household net worth reflects the differences in productivity, as well as the average overall size of certain types of enterprises. In the supply managed sector, dairy and poultry, a greater share of farms are in the very large business-focussed group. The higher average net worth in some provinces may reflect differences in productivity, climate and urban pressures on land prices.

Figure 6: Average household net worth by farm type, 2004



Source: Statistics Canada, Farm Financial Survey and AAFC, internal estimates

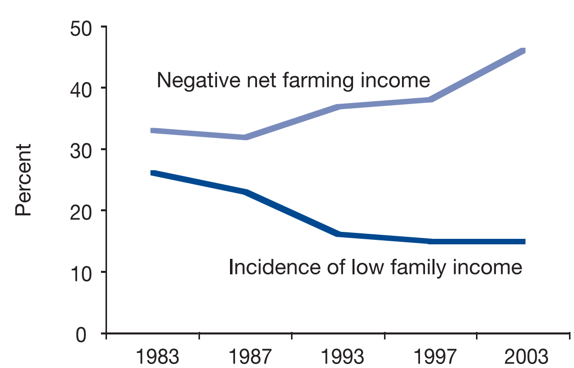
In a sector such as farming, economic wellbeing based on both income and wealth provides a broader signal of the overall household capacity to support a reliable living standard than family income measures alone.

INCIDENCE OF LOW FAMILY INCOME

The incidence of negative net farm income is not an effective measure of overall household wellbeing

The incidence of negative net farming income and low farm family income move in opposite directions.[9] Between 1983 and 2003, the incidence of negative net farm income has increased, while at the same time the incidence of low family income has decreased. This indicates that the upward trend in negative net farm income is not a good indicator by itself of the economic wellbeing of farm families. Wages and salaries and other income sources, which make up for the difference between net farm income and family income, should also be factored in.

Figure 7: Prevalence of negative net farming income and low family income, 1983-2003 (percent)



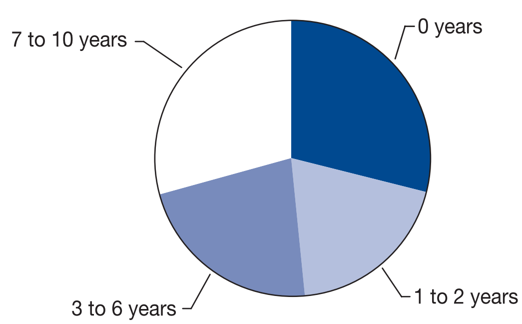
[9] The incidence of low family income is measured using Statistics Canada's Low Income Measure (LIM), which is half (50%) of median family income in Canada, adjusted for family size and composition. Note: The LIM has remained about constant from 1983 to 2003 in real terms.

The likelihood of households incurring losses from their farm operation is highest among smaller farms. These households acquire almost all of their family income from non-farm sources, so negative net farm income seldom converts into negative farm family income.

In the last 10 years, close to one-third of farm families experienced chronic negative net farm income

Between 1994 and 2003, close to one-third of farm families experienced chronic negative net farm income, where they had seven years or more of negative net farm income. Smaller farms are more likely to have chronic negative net farm income than larger farms. Many years of negative net farm income may indicate that there are deep rooted structural challenges. However, it also indicates that the financial goals of many farm families are quite varied.

Figure 8: Number of years farm families reported negative net farm income, 1994 to 2003 (percent of farm families)

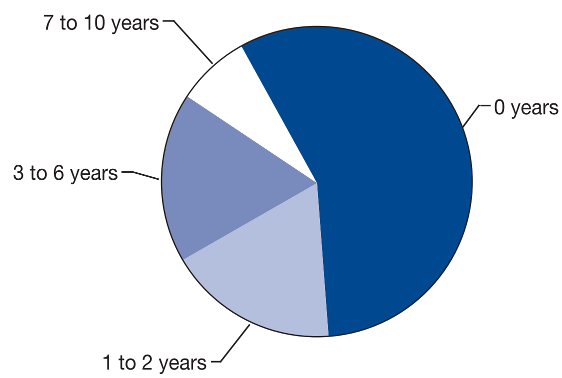


Source: Statistics Canada, Longitudinal Administrative Databank, 1994 to 2003

Over this same period, very few farm families experienced many years of low family income

In the last ten years, a relatively small share of farm families reported many years of low family income. Less than 10% of farm families reported seven or more years of low family income. The incidence of chronically low farm family income was similar for farms of all size categories. This again illustrates the importance of off-farm income in the total income of many farm families.

Figure 9: Number of years farm families reported low family income, 1994 to 2003 (percent of farm families)



Source: Statistics Canada, Longitudinal Administrative Databank, 1994 to 2003

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