

## Total Income of Canadian Farm Operators, 2003

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### Introduction

This bulletin provides an overview of the income situation of Canadian farm operators in 2003.

The information is based on a sample of tax records from the Net Income Stabilization Account (NISA)/ Taxation Data Program (TDP) (NISA/TDP) database. It includes information on operators of unincorporated farms reporting total operating revenues of \$10,000 and over or those operating an incorporated farm reporting total operating revenues of \$25,000 or more. Communal farming operations are excluded.

NISA/TDP is a major source of financial data for the Whole Farm Data Project (WFDP). The information from personal income tax records is valuable because it provides detailed revenue and expense data and allows estimates of off-farm income for farm operators<sup>1</sup>.

### KEY FINDINGS

- **The export ban on Canadian beef and cattle to the U.S. had a major impact on the average total income of farm operators in 2003.**
- **Average total income of farm operators dropped to \$46,764 in 2003; a decline of 4.6% from the previous year's level.**
- **Net market income of Canadian farm operators dropped 50% between 2002 and 2003.**
- **Program payments increased 34%.**
- **Overall, net operating income (net market income + program payments) declined 17% from the previous year, to \$18,364 in 2003.**
- **The off-farm income of farm operators increased 5.4% from the previous year to \$28,400.**
- **Off-farm income accounted for 61% of the total income of farm operators in 2003 up from 55% in 2002.**

1. Off-farm income is for the farm operator only and does not include off-farm income earned by other family members associated with the farm operation.

## Total income of farm operators fell in 2003

The total income of Canadian farm operators declined for the first time in 10 years in 2003 mainly as a result of the discovery of bovine spongiform encephalopathy (BSE) in a cow in northern Alberta and the subsequent ban on exports of Canadian beef and cattle to the U.S. in May of 2003.

Operators of beef cattle farms in 2003 saw their total income drop 14% from the previous year. This decline was a result of a decline in net farm operating income of 55% and despite an increase of 5% in off-farm income (Table 1).

In addition to the drop in income for operators of beef cattle farms, total income declined 21% for hog and pig farms; 10% for potato farms; and 5% for oilseed and grain farms.

The total income of operators of hog and pig farms dropped in 2003 from the previous year's level because of a 39% decline in farm net operating income. The drop in income was a result of increased expenses as tax records indicate that there was no change in revenue from the sale of hogs and pigs relative to the previous year. The increase in total expenses in 2003 can be attributed to a relatively large increase in expenses for feed, supplements, straw and bedding. This category of expenses accounted for a relatively large share of total operating expenses for this farm type in 2003.

**Table 1: Percentage change in income of farm operators, by source, by farm type, Canada, 2002-2003**

|                                             | <b>Net operating income</b>    | <b>Off-farm income</b> | <b>Total income</b> |
|---------------------------------------------|--------------------------------|------------------------|---------------------|
|                                             | Percentage change 2002 to 2003 |                        |                     |
| <b>Beef cattle ranching and farming</b>     | -55.4                          | 4.9                    | -13.9               |
| <b>Dairy cattle and milk production</b>     | 4.4                            | 9.8                    | 5.7                 |
| <b>Hog and pig farming</b>                  | -39                            | 2.2                    | -21.3               |
| <b>Poultry and egg</b>                      | -1                             | 6.4                    | 2.1                 |
| <b>Oilseed and grain</b>                    | -16.9                          | 5.1                    | -5.3                |
| <b>Potato</b>                               | -16.5                          | 3.5                    | -10.4               |
| <b>Fruit and tree nut</b>                   | 2.3                            | -1.8                   | 0.4                 |
| <b>Greenhouse, nursery and floriculture</b> | 2.3                            | -1.8                   | 0.4                 |
| <b>All farm types</b>                       | -16.8                          | 5.4                    | -4.6                |

*Source: Statistics Canada, Whole Farm Data Base*

The decline in income reported by operators of oilseed and grain farms also resulted from a larger overall increase in operating expenses (mainly fertilizer, lime and pesticides) compared to the increase in total operating revenues.

The 16.5% decline in farm net operating income for operators of potato farms can be attributed mainly to lower operating revenues. Lower revenues were the result of a decline in potato prices in 2003 compared to the previous year.

### Net operating income of farm operators declined for most farm types between 2002 and 2003

The net operating income of hog and pig farms declined by 39% between 2002 and 2003; by 22% for operators specializing in other crops; close to 17% for those operating an oilseed and grain or potato farm; 10% for those operating an “other animal production” farm; 4% for those operating a vegetable farm and 1% for poultry and egg production operations.

Not all farm operations experienced declines in net operating income in 2003. As shown in Table 1, for operators specialized in production of fruit and tree nuts net operating income increased 16.8%; for operators of dairy cattle and milk production farms it increased 4.4%; and greenhouse, nursery and floriculture production farms posted a gain in net operating income of 2.3%.

The decline in net farm operating income was moderated by increases in off-farm income for all farm types except for operators of greenhouse, nursery and floriculture production farms, which showed a slight decline in off-farm income of 1.8%.

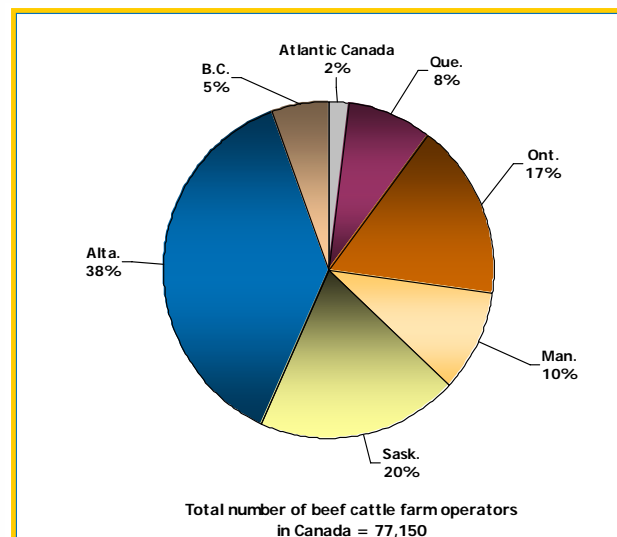
### The decline in income for operators of beef cattle ranches and farms was felt in most provinces

As Figure 1 shows, operators of beef cattle farms in 2003 accounted for close to one-third of all farm operations in Canada. Of this one-third, 38% were located in Alberta; 20% in Saskatchewan; 17% in Ontario; and 10% in Manitoba. These provinces together account for 85% of Canadian beef cattle farm operators.

The impact of the export ban on Canadian beef and cattle to the U.S. was felt in most provinces except Quebec where net operating income of beef cattle farms increased by 37% reaching \$10,844 in 2003.

Beef and cattle farm operators in all other provinces experienced a large decline in net operating income from the previous year's levels. In Ontario, it dropped 42% to \$2,570 per operator. In Manitoba it fell to \$3,692, a decline of 72%; in Saskatchewan by 57% to \$4,714; and in Alberta it declined 61% to \$7,107.

**Figure 1: Number of farm operators, beef cattle ranching and farming, by province, 2003**



Off-farm income was not enough to make up for the loss and the total income of these farm operators fell by 1.9% in Ontario and by 27%, 13% and 20% in Manitoba, Saskatchewan and Alberta respectively.

### Off-farm income accounted for 61% of the total income of the average Canadian farm operator in 2003

Off-farm income averaged \$28,400 per farm operator in 2003, an increase of 5.4% from the previous year.

A large share of off-farm income (62%) was off-farm employment income (mainly wages and salaries). Income from off-farm employment for the average Canadian farm operator in 2003 was \$17,619. Sources of off-farm income other than off-farm employment, included investment income, which averaged \$4,352; pension income at \$4,086; government social transfer income averaged \$624 and "other off-farm income" was \$1,719.

Off-farm income from all sources increased in 2003 from the previous year's level. Off-farm employment income increased 3.6%; investment income 7.9%; pension income 3.3%; government social transfers 19.8% and other off-farm income 21.1%.

**Table 2: Average total income of farm operators, by source, Canada, 2002 and 2003**

|                                                    | 2002                      | 2003    | 2002 to 2003 |
|----------------------------------------------------|---------------------------|---------|--------------|
|                                                    | Average per farm operator |         | % change     |
| <b>Total Income</b>                                | 49,004                    | 46,764  | (4.6)        |
| <b>Off-farm income</b>                             | 26,942                    | 28,400  | 5.4          |
| Off-farm employment income                         | 17,010                    | 17,619  | 3.6          |
| Wages and salaries                                 | 15,423                    | 15,981  | 3.6          |
| Net non-farm self-employment                       | 1,587                     | 1,638   | 3.2          |
| Investment income                                  | 4,035                     | 4,352   | 7.9          |
| Pension income                                     | 3,956                     | 4,086   | 3.3          |
| Government social transfers                        | 521                       | 624     | 19.8         |
| Other off-farm income                              | 1,419                     | 1,719   | 21.1         |
| <b>Net operating income</b>                        | 22,062                    | 18,364  | (16.8)       |
| Net program payments                               | 8,866                     | 11,834  | 33.5         |
| Net market income                                  | 13,196                    | 6,530   | (50.5)       |
| <b>Adjustment for capital cost allowance (CCA)</b> | 13,460                    | 14,123  | 4.9          |
| <b>Net market income adjusted for CCA</b>          | (265)                     | (7,594) | 2,765.7      |
| <b>Total income adjusted for CCA</b>               | 35,544                    | 32,640  | (8.2)        |

*Source: Statistics Canada, Whole Farm Data Project.*

## Accounting for the cost of capital is important

Individuals reporting income from farming on their income tax forms are able to claim a percentage of their capital as a depreciation expense (known as the Capital Cost Allowance (CCA)). This item provides an indication of the cost of capital for farm operators and plays an important role in the financial management of many farms.

In 2003, total income of farm operators in Canada, before the deduction of CCA averaged \$32,640, a decline from the previous year of 8.2%. (Table 2)

## Adjustment for CCA affects some farm types more than others

Farm types differ in the amount claimed for CCA and the difference among farm types in this respect shows the capital intensity of farm operations. The adjustment for CCA was relatively high for farm operators specializing in potato production (\$40,000), greenhouse, nursery and floriculture production and hog and pig farms (close to \$29,000). Dairy cattle and poultry and egg production farms reported slightly lower levels of \$24,000 and \$20,000 respectively. Oilseed and grain, beef cattle farming and ranching, vegetable production and other crop operations were somewhere in the range of \$9,000 to \$14,000. Fruit and nut and other animal production farms deducted the lowest amount at approximately \$7,000.

## Summary

The decline in net farm operating income for operators of beef cattle farms was a major contributing factor to the overall decline in farm income in 2003. Beef cattle ranches and farms represented 28% of all farm operations in Canada in 2003: 38% of these beef operations were located in Alberta where the net operating income dropped more than 60%. An additional 47% of all beef farms in Canada were located in Ontario, Manitoba or Saskatchewan where farm operators experienced a fall in net operating income of 42%, 72% and 57% respectively.

Net operating income of farm operators also declined for most other farm types in 2003. The exceptions were those operating fruit and tree nut farms, greenhouse, nursery and floriculture production farms and dairy cattle and milk production farms.

Although an increase in off-farm income moderated the loss in income from the farm, the total income of farm operators dropped by a relatively large percentage for several of the major farm types, including oilseed and grain (5.3%), potato (10.4%), beef cattle (13.9%) and hog and pig farms (21.3%).

Tax rules that allow farm operators to include a percentage of the value of capital as an expense on their income tax form also play an important role in the financial management of farm operations. Showing the adjustment for CCA as a separate item reveals the differences in capital intensity among different types of farm operations.

Figure 2: Average total income of farm operators, by farm type, 2003

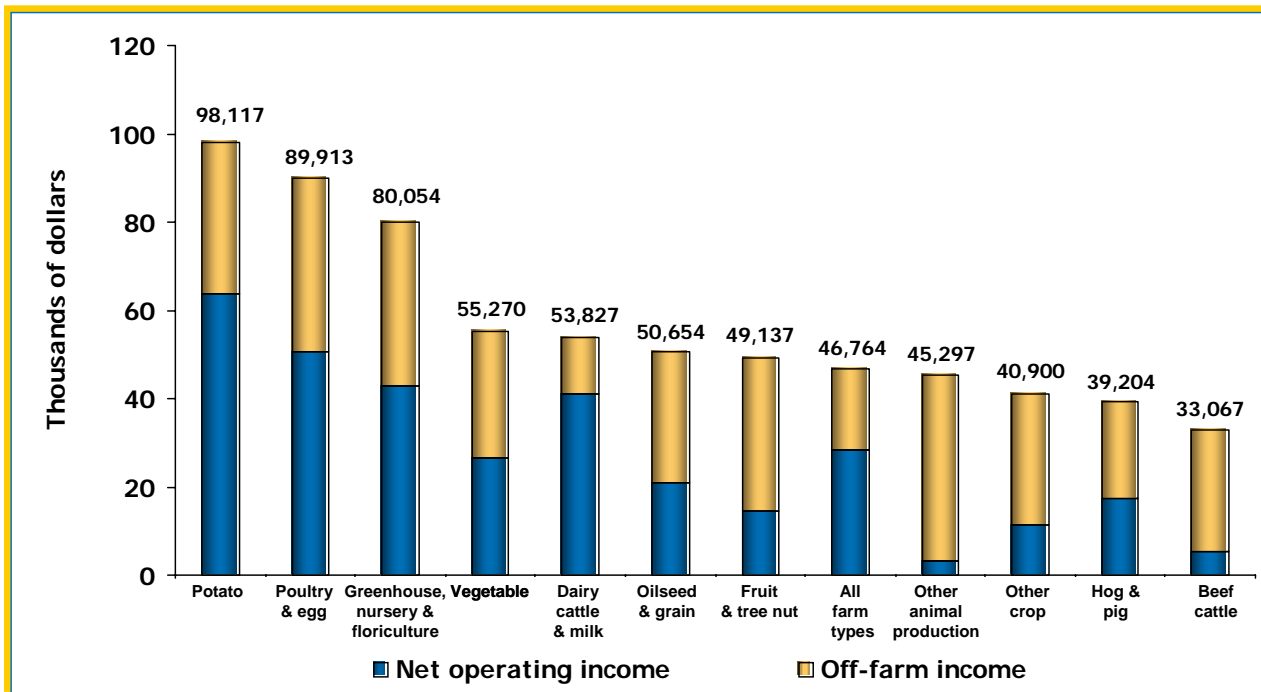


Figure 3: Average total income of farm operators, by province, 2003

