Agriculture and Agri-Food Canada
Agriculture et Agroalimentaire Canada

Characteristics of Canada's Diverse Farm Sector

January 2002

Canada

Introduction

Much of the research in the past on farm structure and economic well-being focused almost exclusively on farms based on their size, their contribution to total agricultural production, or national net farm income. These aggregate measures do not by themselves adequately explain how well the farm is functioning. Confidence in highly aggregated measures of financial performance in agriculture needs to be tempered with an understanding of the diversity that exists within the farm sector.

In 1998, Agriculture and Agri-Food Canada (AAFC) developed a farm typology, to better explain why particular groups respond differently. The definitions have evolved over the past few years. The AAFC farm typology is similar in many respects to the Economic Research Service (ERS) farm typology, developed to monitor the diverse needs of small farm businesses in the UnitedStates.[1] Factors such as age, experience, business intentions and sales class have been used to categorize farm operators and farm families into distinct groups. As with the ERS typology, the groups differ in their contributions to agricultural production, product specialization, program participation and dependence on farm income.

The AAFC typology classifies farms into more homogeneous groups based on five factors:

- organizational structure (non-family farms)
- age (retirement farms)
- dependence on off-farm income (lifestyle farms)
- total family income (low income farms)
- revenue class

By capturing the life cycle or different business intentions among farmers, it is possible to explain some of the problems facing particular groups and to develop policies that better target the needs of individual farms.

1. *Discussion of the ERS farm typology can be found in the brochure* America's Diverse Family Farms — Assorted Sizes, Types and Situations*, Bulletin Number 769, 2001.*

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Typology Definitions

Family Farms

- **Retirement:** Farms managed by an operator 60 years of age or older receiving pension income with no children involved in the day-to-day operation of the farm.

- **Lifestyle:** Small farms (revenues of $10,000 to $49,999) managed by families with off-farm income greater than $50,000. This category excludes the retirement category.

- **Low-income:** Small and medium farms (revenues of $10,000 to $99,999) managed by families with total income less than $28,000. This category excludes the retirement and lifestyle categories.

All other family farms are separated further, based on total revenues. These groups exclude family farms in the retirement, lifestyle and low-income categories.

- **Small business-focused:** Revenues of $10,000 to $49,999

- **Medium business-focused:** Revenues of $50,000 to $99,999

- **Large business-focused:** Revenues of $100,000 to $499,999

- **Very large business-focused:** Revenues of $500,000 and over

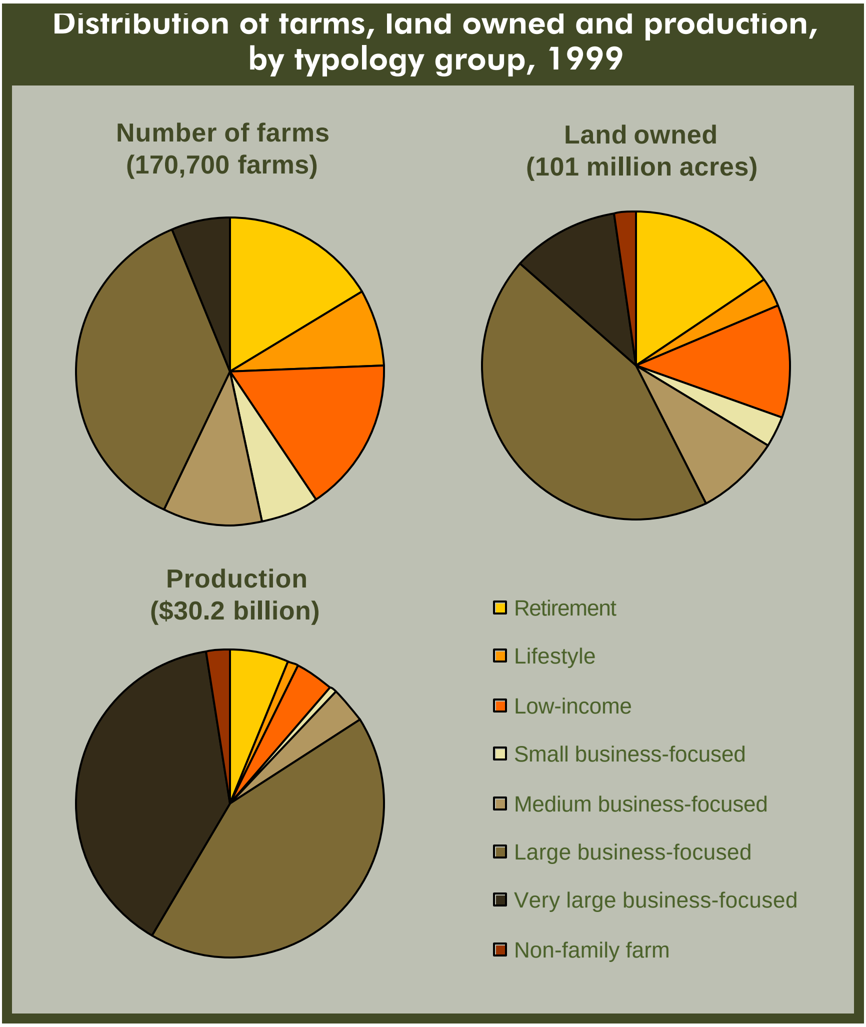
Non-Family Farms

Hutterite colonies and other communal operations as well as non-family corporations and co-operatives.

Farm Structure

Production is concentrated in Canada on large and very large business-focused farms:

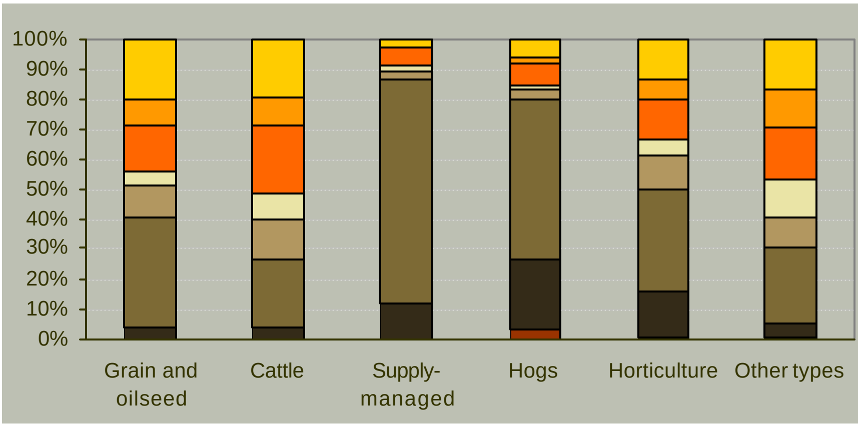
- While retirement, lifestyle, low-income, small and medium business-focused farms account for over half the farms in Canada and over one-third of farmland owned, they account for less than one-fifth of total production.
- Large and very large business-focused farms account for over 80 percent of production and over half of land owned.



Distribution of Farms by Farm Type

Considerable variation in the share of farms by typology group exists between farm types:

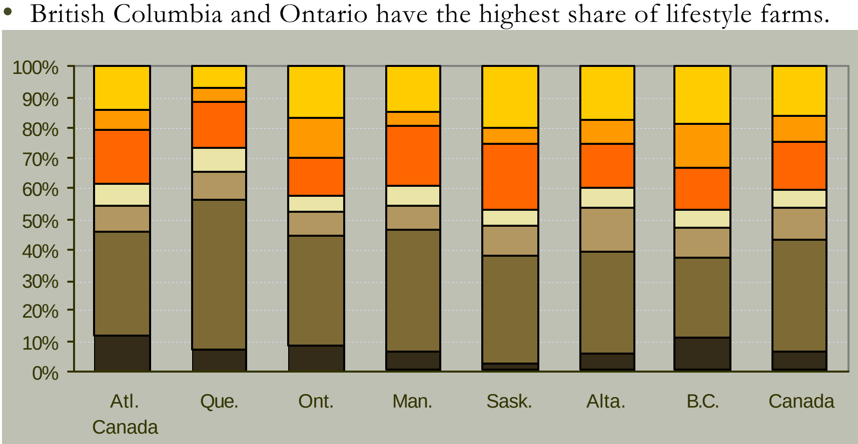
- Three-quarters of supply managed farms (specialized in dairy, or poultry and egg production) are large business-focused family farms.
- In contrast, only one-quarter of cattle farms are either large or very large business-focused farms.



Regional Patterns

Slight regional variations exist:

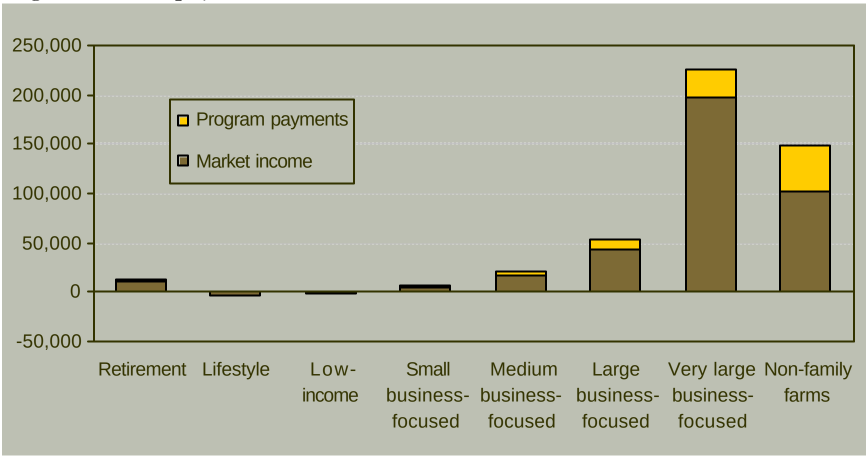
- Saskatchewan has the highest share of retirement and low-income farms and the lowest share of very large business-focused farms.
- Atlantic Canada and British Columbia have a high share of very large business-focused farms while Quebec has the highest share of large business-focused farms.
- British Columbia and Ontario have the highest share of lifestyle farms.



Farm Income

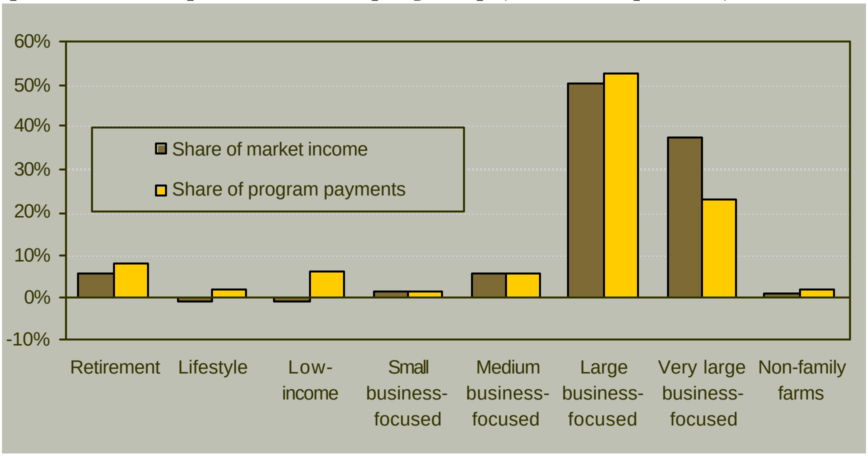
Lifestyle and low-income farms, on average, operate at a loss.

- Most lifestyle and low-income farms did not generate a profit in 1999. Families operating these farms relied almost completely on off-farm income.
- Non-family farms reported the highest average program payments and are more likely to specialize in swine production, a sector that received large government payments in 1999.



Program Payments

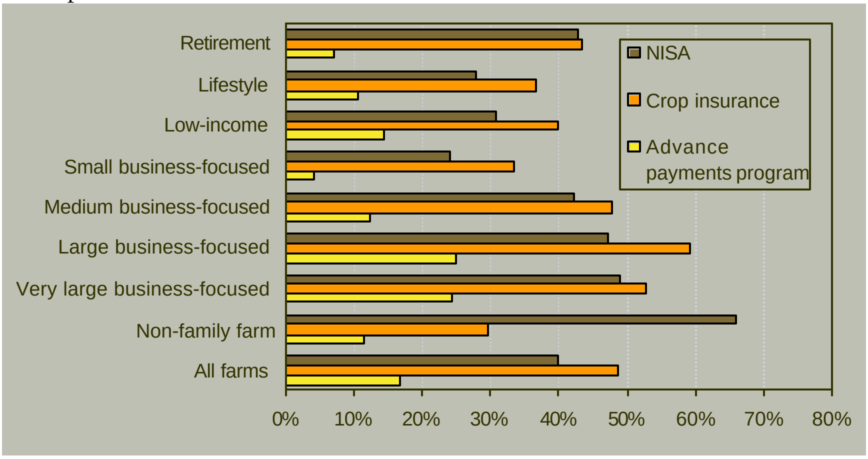
Government program payments are closely tied to production. Large and very large business-focused farms are the main beneficiaries of agricultural government programs. Large and very large business-focused farms received about 50percent and 25 percent of total program payments, respectively.



Participation in Government Programs

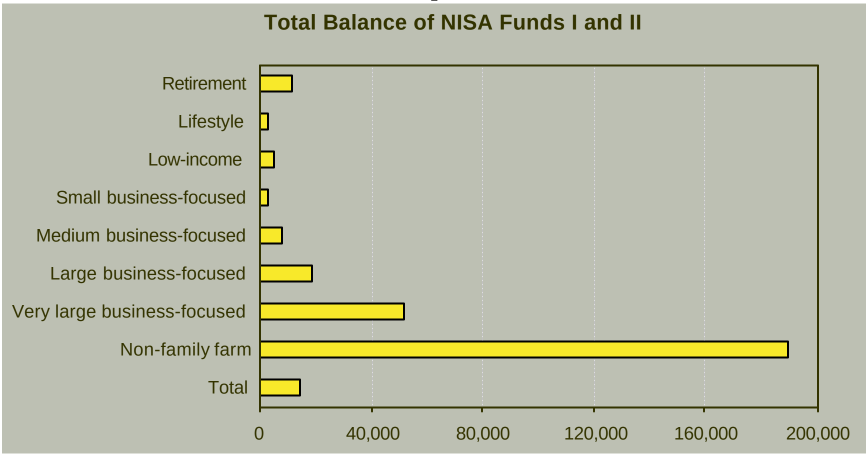
Around 40 percent of farms have active Net Income Stabilization Account Program (NISA) accounts, 50 percent sign up for Crop Insurance and about 15percent make use of the Advance Payment Program.

- Non-family farms are most likely to participate in NISA and least likely to participate in Crop Insurance.
- Large business-focused farms are the most likely to participate in Crop Insurance and the Advance Payment Program.
- Small business-focused farms are the least likely to participate in either the NISA, or the Advance Payment Program and are also less likely to use crop insurance.



Net Income Stabilization Account Balances

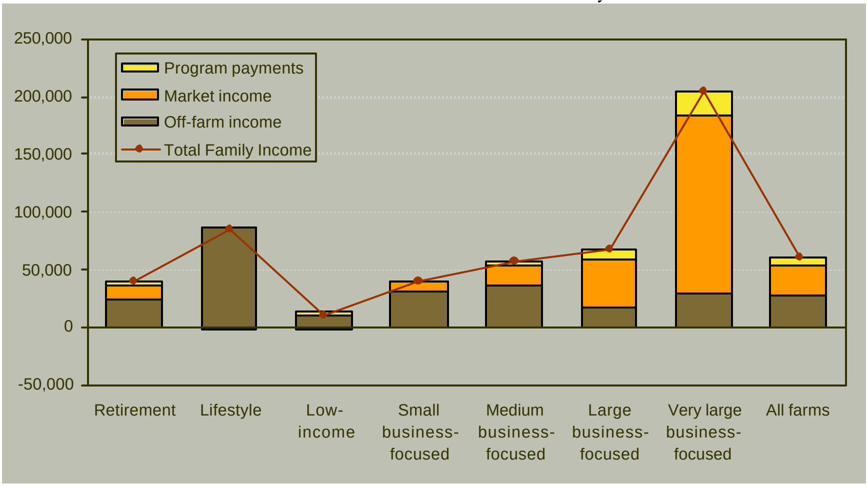
Very large business-focused farms and non-family farms have large NISA account balances from which to draw upon when the need arises.



Total Family Income

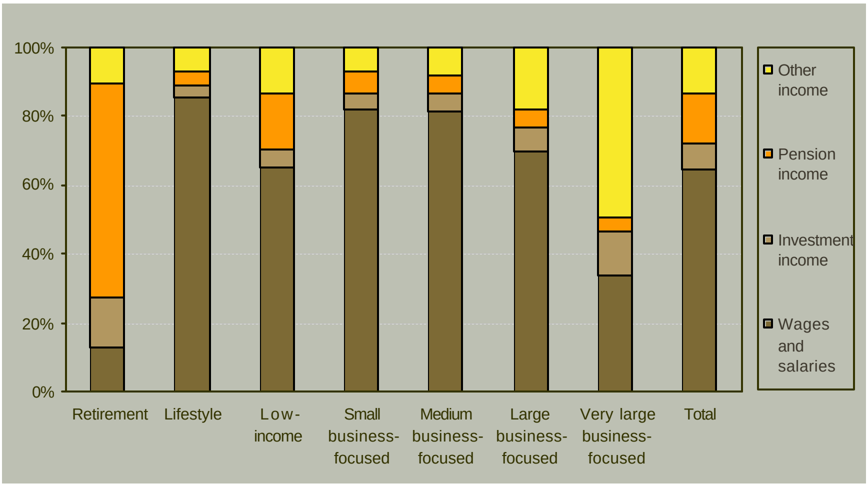
All farms reported off-farm income regardless of size.

- On average, off-farm income was particularly important for those farm families that reported a loss in total market income, namely lifestyle and low-income farms.
- With the exception of large and very large business-focused farms, off-farm income accounts for over half the total family income.



Sources of Off-Farm Income

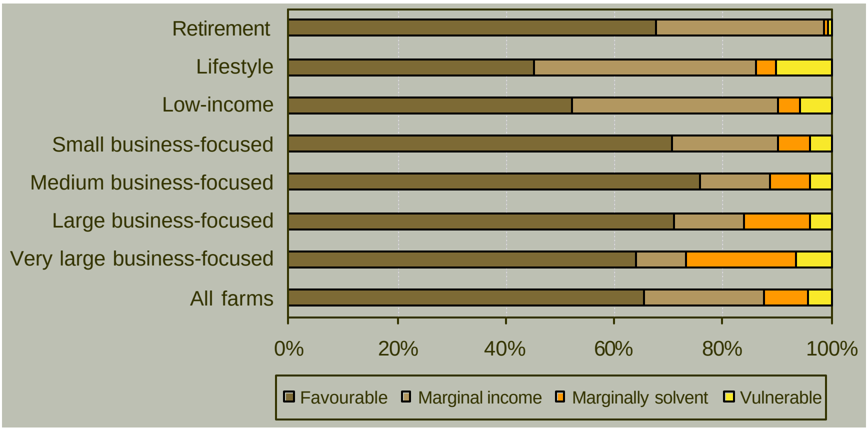
Off-farm income sources include wages and salaries, pension income, investment income and other off-farm income. Off-farm wages and salaries account for close to two-thirds of total off-farm income.



Overall Financial Performance

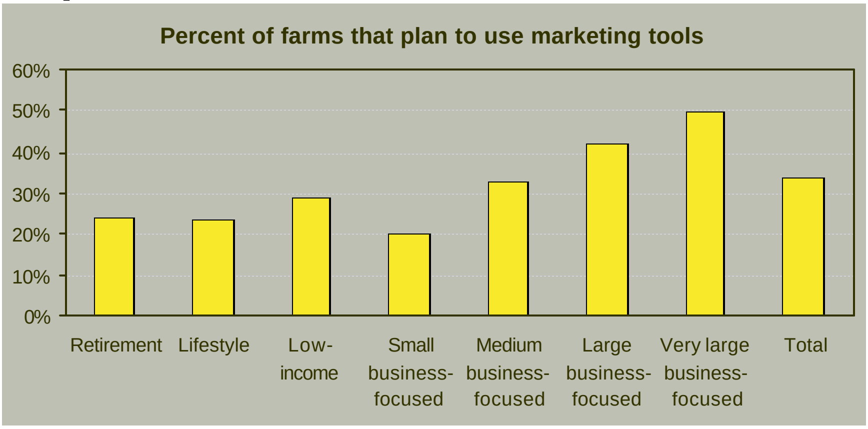
Even though most farm businesses are financially sound, each year some experience financial difficulty. As of January 1, 2000, only one out of every twenty farm businesses were in a vulnerable financial position.

- Lifestyle, low income and very large business-focused farms have the largest share of farms in the vulnerable category.
- Low-income farms are most vulnerable with little off-farm income to cover losses from the farm business.
- Although lifestyle farms reported the highest share of farms in a vulnerable position, these farms have substantial off-farm income to cover farm losses.



Use of Marketing Tools

In addition to the safety net programs available to producers, private risk management tools such as forward contracts, futures and options can help to manage price risks in volatile markets. Unfortunately, only one third of producers plan to make use of these tools.



Summary

Average statistics on farms and farm families tend to conceal the diverse characteristics exhibited in this sector. Farms and farm families differ in their financial characteristics, motives, and economic well being. By segmenting farm families into more homogeneous groups, it becomes easier to explain why certain groups behave differently from others.

For a more in-depth analysis of AAFC's farm typology groups, refer to *A New Approach to Examining Canada's Diverse Farm Sector, Characteristics of Canada's Farm Typology Groups* to be released soon.

We would like to express our thanks to farm producers across Canada for responding to the Farm Financial Survey. Without their cooperation, this brochure and analysis would not be possible.