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This Week...

Farm Income
Farm Debt
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Farm Income

By Doug Elliott, Editor

Statistics Canada has released the first estimates of farm income[1] for 2010 and they show that the agriculture sector had a good year. Aggregated across the four western provinces, net cash income was $5.8 billion in 2010, up 5.3% from 2009 and at an all-time high. Realized net income, which is a better measure of profitability, was $2.5 billion, which is 12% higher than in 2009 and just shy of the record set in 2008. Total net income was $1.4 billion compared with $2.0 billion in 2009 as farmers drew down grain and cattle inventories to keep revenues at record levels.

A closer look shows that the positive news applied to only some farmers and only some provinces. Figure 1 shows that the growth in realized net income was not widespread across the West and, in fact, only occured in Manitoba and Saskatchewan. A breakdown of gross receipts shows why. From 2005, when realized net income was near zero in all the provinces, to the record year in 2010, crop receipts have increased by 84% whereas livestock receipts have fallen by 3%. Manitoba and Saskatchewan, with their stronger emphasis on grain farming, are doing much better financially than the livestock-dominated farming of Alberta.

Receipts are up again in the first part of 2011 so even with the flooding and the higher input costs, 2011 promises to be another good year for prairie farmers.

Farm Debt

The low interest rates and high grain prices seem to have encouraged western farmers to increase their debt load.

At the end of 2010, total debt outstanding among farmers in the four western provinces was $36.1 billion. This represents an increase of 6% from 2009 and a 37% increase from five years ago. Figure 2 shows that 41% of the farm debt was held by Alberta farmers even though they represented only 22% of western net cash income in 2010.

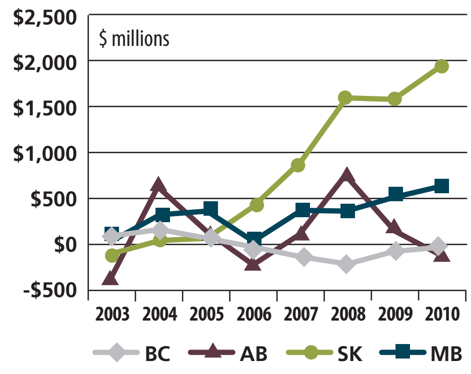
Of the approximately $36 billion outstanding at the end of 2010, 60% was held by the banking system – 35% by the chartered banks, 13% by credit unions, and 12% by individuals, supply companies, and equipment dealers. The remaining 40% was held by the federal government (28%), provincial governments (8%, almost exclusively in Alberta) and the Canadian Wheat Board (3%).

In spite of the increase in debt, there may be little cause for concern as long as land prices are still high. The debt-to-asset ratio in 2010 was 17% – the same as it was in 2005. While Alberta's farm debt seems to be out of line with receipts, the debt-to-asset ratio in Alberta was 15%, even lower than in the other provinces. The $5 billion debt load in B.C. may be of more concern given that realized net income (see previous article) has been negative for the past five years.

Labour Productivity

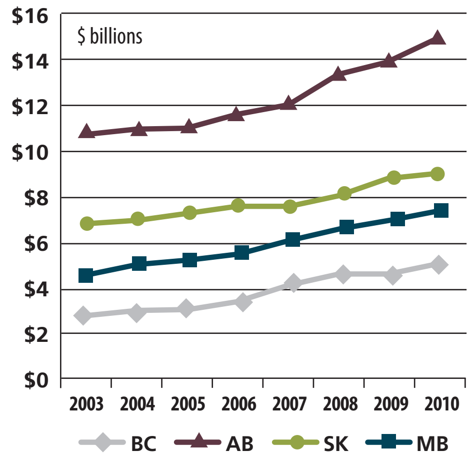
Many economists believe that our living standards are determined by the efficient use of labour and

Figure 1: Realized Net Income for Western Farmers



Farm debt grew by 6% in 2010 with higher debt loads relative to income in Alberta.

Figure 2: Total Farm Debt



[1] *There are three measures of farm income used by Statistics Canada.* ***Net cash income*** *is simply gross sales less expenses – it measures cash flow.* ***Realized net income*** *subtracts depreciation from net cash income and is the best measure of overall profitability.* ***Total net income*** *adjusts for changes in inventory and measures agriculture's contribution to the economy.*

capital – the very definition of productivity – so this is an important statistic.

The recently released data from Statistics Canada include only labour productivity and only for the "business sector". In other words, these figures do not take into account capital productivity or the productivity of the public sector. There has been a good deal of concern about Canada's productivity performance recently and these data suggest that the western economies are part of the problem.

Labour productivity is a measure of economic output, adjusted for price change, per hour of labour. Productivity is therefore typically higher in the capital-intensive industries such as oil/gas and mining that dominate in parts of the West. Measured in $2002, the average hour of work in 2010 generated economic output of:

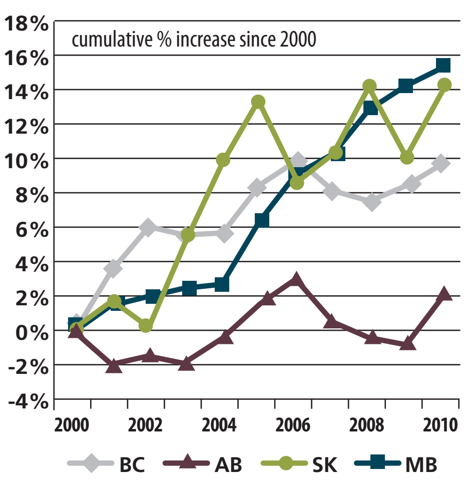
- $45.90 in Alberta;
- $41.80 in Saskatchewan;
- $35.10 in Manitoba; and
- $34.60 in B.C.

The national average was $38.40.

Since 2000, Manitoba and Saskatchewan have shown the highest level of productivity growth with average annual increases of 1.4% and 1.3% respectively. While not spectacular, these increases are above the national average of 0.8% and, given a particularly volatile period in the global economy, may be all that can be expected.

B.C.'s increase over the period was only 0.9%, which would normally be considered as poor, but actually looks quite good relative to the 0.2% average annual growth in Alberta.

Figure 3: Growth in Labour Productivity
(output per hour worked in chained $2002)



Employment Earnings and Wage Rates

The two main sources for wage and earnings data in the labour market provide different views on what is happening in 2011[2]. Earnings are affected by wage rates, of course, but also by hours of work, overtime and other premium pay.

The time series for average wage rates and average weekly earnings move in parallel over time but become disconnected when hours of work change dramatically, which seems to be happening this year. Figure 4 shows that in B.C. and Manitoba wage rates are increasing at roughly the same rate as earnings.

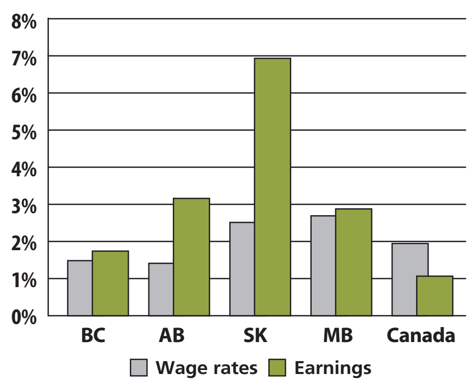
- In B.C. wage rates are growing at an annual rate of 1.5% and earnings at 1.8%.
- In Manitoba wage rates are growing at an annual rate of 2.7% and earnings at 2.9%.

The figures tell a different story for Alberta and (particularly) Saskatchewan; earnings are growing much more quickly than wage rates.

- In Alberta wage rates are growing at an annual rate of 1.4% and earnings at 3.1%.
- In Saskatchewan wage rates are growing at an annual rate of 2.5% and earnings at 6.9%.

The most likely explanation is that these two provinces are moving from part-time to more full-time employment and employers are choosing to pay overtime rather than hire new staff.

Figure 4: Earnings and Wage Rate Growth, 2011 Estimate



Upcoming Releases

In the next two weeks Statistics Canada will be releasing data describing:

- November labour force statistics on December 2;
- October building permit values on December 6; and
- October international merchandise trade data on December 8.

Sources:

The figures are adapted from the following sources:

Farm Income: *Statistics Canada, Agriculture Economic Statistics, 21-010-X*

Farm Debt: *Statistics Canada, Agriculture Economic Statistics, 21-004-XWE*

Labour Productivity: *Statistics Canada CANSIM Table 383-0011*

Employment Earnings and Wage Rates: *Statistics Canada, CANSIM Tables 282-0073 and 281-0026*

[2] ***Average wage rates****, from the monthly Labour Force Survey (LFS), measure hourly rates for paid workers at their main job. The LFS excludes the population living on Reserve.* ***Average weekly earnings****, from the monthly Survey of Employment, Payroll, and Hours (SEPH), are derived from administrative data, namely the forms submitted to Revenue Canada for income tax purposes. Both measures are before taxes and other deductions; neither measure non-wage benefits such as pension or health benefits.*

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