Farm Financial Health Report

2023-2024

CFA FCA

Canadian Federation of Agriculture

Fédération canadienne de l'agriculture

2023


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Executive Summary

Taking Stock of Farm Financial Health Amid Rising Costs of Production and a Rapidly Changing Climate

Farmers across Canada have demonstrated tremendous resilience in the face of several domestic and global events including the COVID-19 pandemic, the war in Ukraine, and extreme climate events at home and abroad. In 2022, primary agriculture contributed **$36.3 billion (1.8%)** of Canada's GDP and supported **249,900 jobs** across the country.

However, through this time, the cost of critical farm inputs such as fuel, fertilizer, feed, machinery, pesticides, land and labour increased dramatically. When coupled with high inflation, interest rates and a price on carbon for essential farming activities, for which farmers have no viable alternatives, Canadian producers are facing tremendous pressure on their farm financial and mental health.

While most Canadian farmers have managed to stay afloat, largely due to high commodity prices and farm cash receipts that increased **14.6% over 2021 levels,** the ongoing impact of high inflation, matched with increasing interest rates, is beginning to take a serious toll on the operating margins of Canadian producers. Recent numbers from Statistics Canada have shown that the net income for Canadian farmers fell **5.9% in 2022**, because the growth in expenses outpaced the rise in farm income; and total farm operating expenses (after rebates) increased by **19.9% in 2022,** the largest gain since 1979 **(+21.1%).**

Meanwhile, while the full weight of the Bank of Canada's string of interest rate hikes has yet to sink in, farmers across Canada are experiencing an increasing series of extreme weather events that are testing the limits and effectiveness of Canada's suite of risk management programs.

To help address many of these challenges, the Canadian Federation of Agriculture (CFA) has put forward recommendations in several areas aimed at not only helping farmers manage the increasing cost of production and navigate challenging regulatory barriers, but also to help them mitigate the effects of climate change and support the next generation of farmers.

Canadian farmers play a crucial role in sustaining our rural communities, as stewards of our natural environment and in meeting our national and international food security needs. The following recommendations are aimed at ensuring Canada's farmers have the flexibility and tools they need to weather the current financial climate and support the transition to a low emissions economy.

Recommendations for Action

Help manage the increased cost of production.

Recommendation #1: Extend the on-farm carbon pricing exemption for qualifying farming fuel to marketable natural gas and propane.

Recommendation #2: Consult on and develop a Critical Farm Input Strategy to ensure that Canadian producers have a long-term, stable source of supply for critical farm inputs, including fertilizer, needed to produce high quality agriculture and agri-food products.

Recommendation #3: Make the interest-free limit for advances under the Advance Payments Program (APP) permanent beyond the 2023 program, alongside other administrative program adjustments, to make the APP more accessible and responsive to higher production costs.

Recommendation #4: Make Accelerated Capital Cost Allowance permanent across all classes of farm equipment, allowing producers to depreciate 100% of their capital allocated to purchases of farm equipment in the first year.

Improve risk management programs and reduce regulatory and tax burdens that restrict competitiveness.

Recommendation #5: Implement a new national grant program modelled after the Canada Digital Adoption Program, that would support on-farm risk management planning and mitigation.

Recommendation #6: Improve resilience against extreme weather events for all agricultural commodities, including aquaculture, by ensuring business risk management programs are responsive, predictable, and accessible. An immediate example would be using Agriculture and Agri-Food Canada's Drought Monitor to trigger an AgriRecovery assessment.

Recommendation #7: Increase AgriStability program coverage to 85% of the reference margin to improve participation, predictability, and levels of support for producers.

Recommendation #8: Ensure that the Pest Management Regulatory Agency (PMRA) is appropriately resourced and improves internal processes in support of timely, transparent, and science-based decisions that will help Canadian producers remain competitive in a global market.

Recommendation #9: Exempt farms from filing the Underused Housing Tax (UHT) return which requires private corporations and partnerships (including farms) that own residential property to file a UHT return, adding an unnecessary financial burden, even if they do not have to pay the tax.

Recommendation #10: Implement measures to support a farmer's right to repair their farm machinery.

Recommendation #11: Build on the Budget 2023 extended interswitching pilot by further expanding the distance beyond 160km and extending the pilot past the current 18-month period.

Recommendation #12: Provide financial support for the creation of a Grocery Code Adjudication Office, which will be critical to advance the training, education, dispute resolution services, and oversight necessary to implement an industry-led Grocery Industry Code of Conduct.

Recommendations for Action

Promote stable and sustainable growth.

Recommendation #13: Ensure the launch of the Sustainable Agriculture Strategy is inclusive of all agricultural commodities and is accompanied with an ambitious funding envelope commensurate with the incentives, research, and knowledge transfer activities required to address the inter-related demands of environmental, economic and social sustainability.

Recommendation #14: Strengthen Canada's international presence in advocating for the elimination of non-tariff barriers to trade in international trade agreements which are limiting market access for Canadian products.

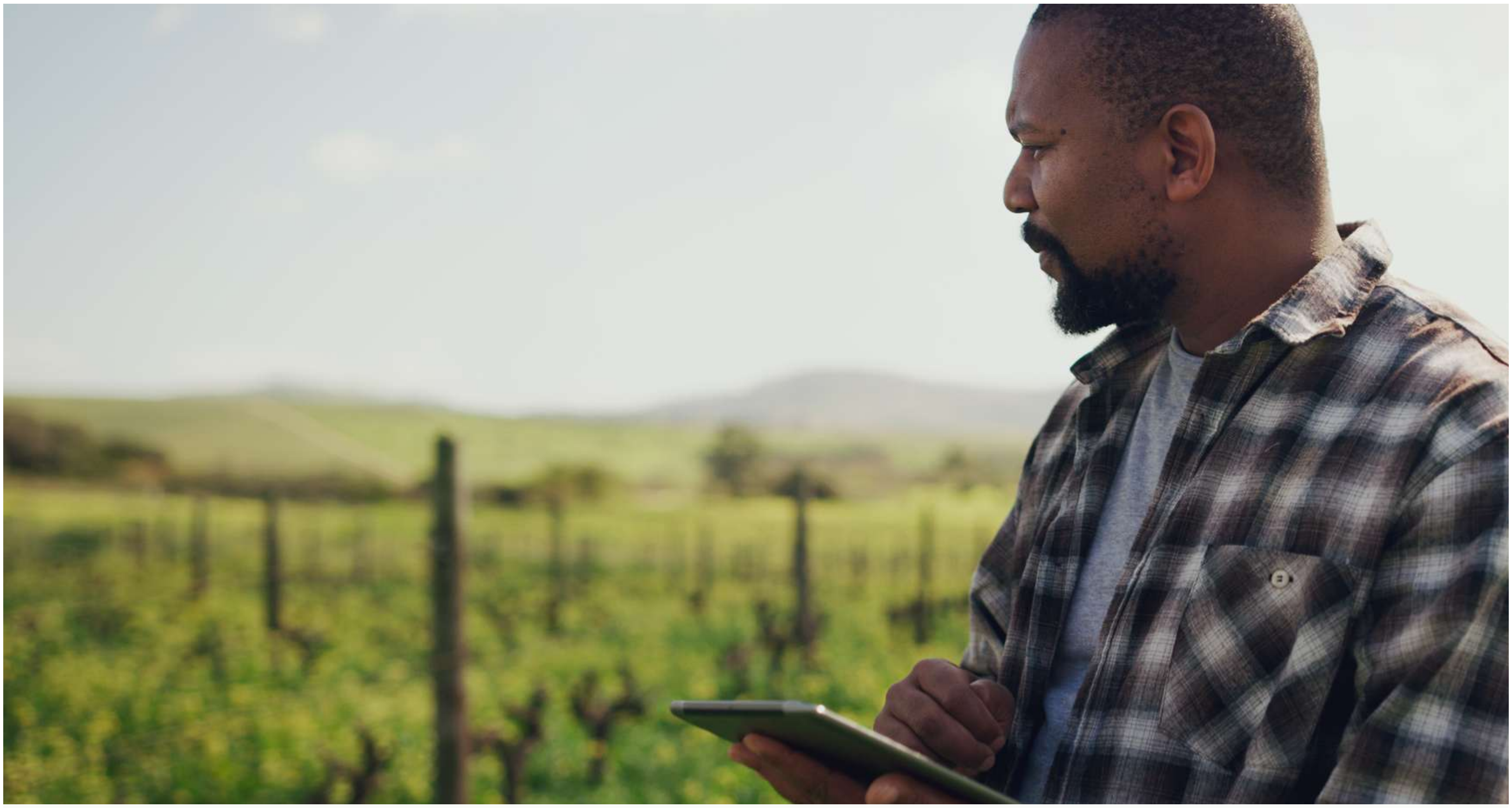
Recommendation #15: Underpinned by supporting legislation, ensure no additional access to supply-managed sectors in future trade agreements to support a resilient domestic agricultural sector that is vital to national food security and long-term sustainable growth.

Supporting new entrants and young farmers.

Recommendation #16: Provide financial support to establish a Secretariat that will support implementation of the National Workforce Strategy for Agriculture and Food and Beverage Manufacturing.

Recommendation #17: Increase the capital gains exemption threshold above $1M to be more in line with current market farmland values.

Recommendation #18: Build on the Budget 2023 legislative amendments to the Income Tax Act which expanded the definition of a "child" to also allow sibling shareholders to pass a non-controlling share of their ownership to the next generation.



FARM FINANCIAL LANDSCAPE

In 2022, Canadian farmers saw their total farm cash receipts increase by **14.6%** compared to 2021, because of higher prices for both crops **(+$7.1 billion)** and livestock (+$3.6 billion) (Statistics Canada, 2023). However, this increase is overshadowed by a **18.6%** increase in total expenses, pushing realized net income lower to **$11.8 billion** in 2022 from **$12.8 billion**, a **5.9%** decrease from 2021 levels (Statistics Canada, 2023).

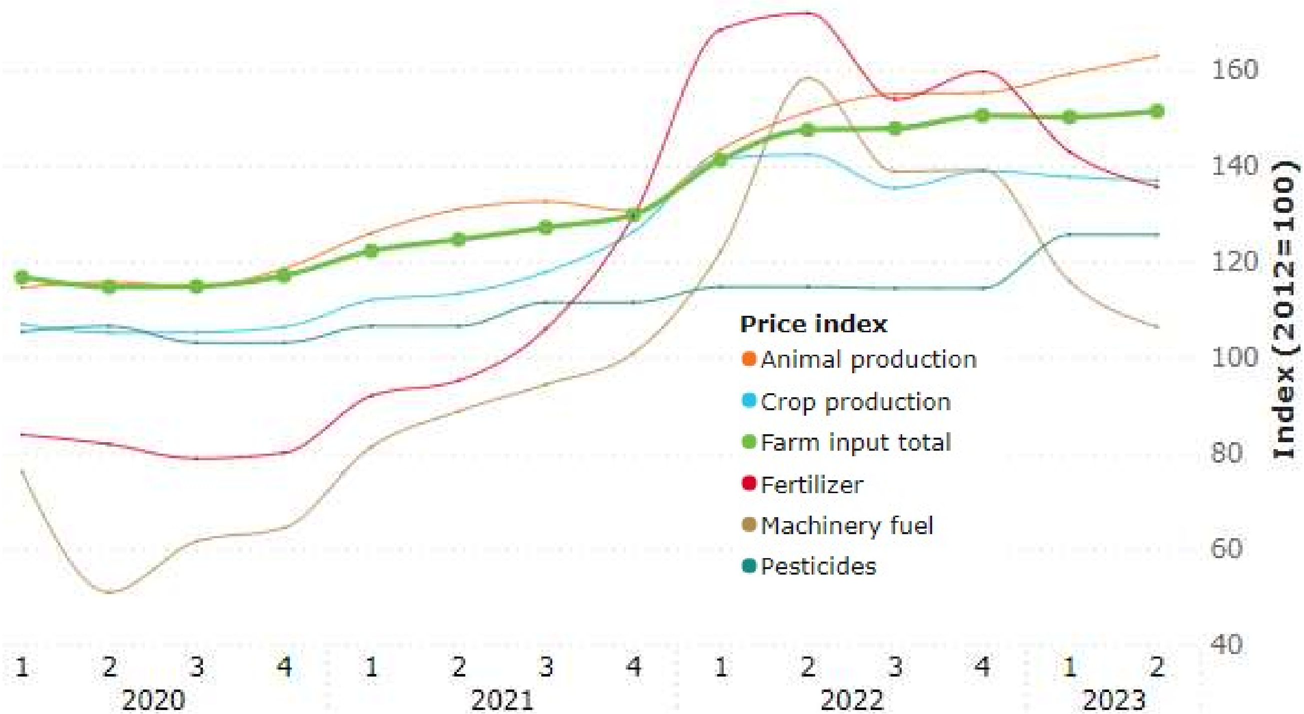
One of the most significant input costs for Canadian producers through 2021 and 2022 was fertilizer. According to Statistics Canada, fertilizer prices began rising rapidly in early 2021 due predominantly to high natural gas prices and Russia's invasion of Ukraine, resulting in a **54.4%** increase in 2022 (Statistics Canada, 2023).

In addition, successive droughts in Western Canada, beginning in 2021, limited the supply of hay and grain feed contributing to a **20.7%** increase in commercial feed expenses for livestock producers. Further, fuel expenses increased by **52.5% in 2022** as demand increased with economies opening post-COVID-19 and supply decreased because of sanctions on large fuel exporters such as Russia.

The cost of production is higher than it has ever been.

Figure 1: Total Farm Input Price Index

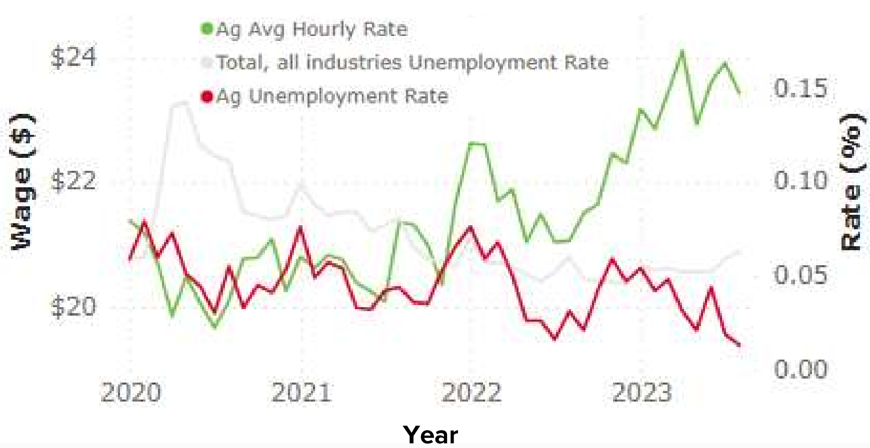
Source: Statistics Canada. Table 18-10-0258-01 | Farm input price index, quarterly



Farmers are grappling with rising labor costs as a result of inflation and a scarcity of available workers.

Figure 2: Average Hourly Wage Rate and Unemployment

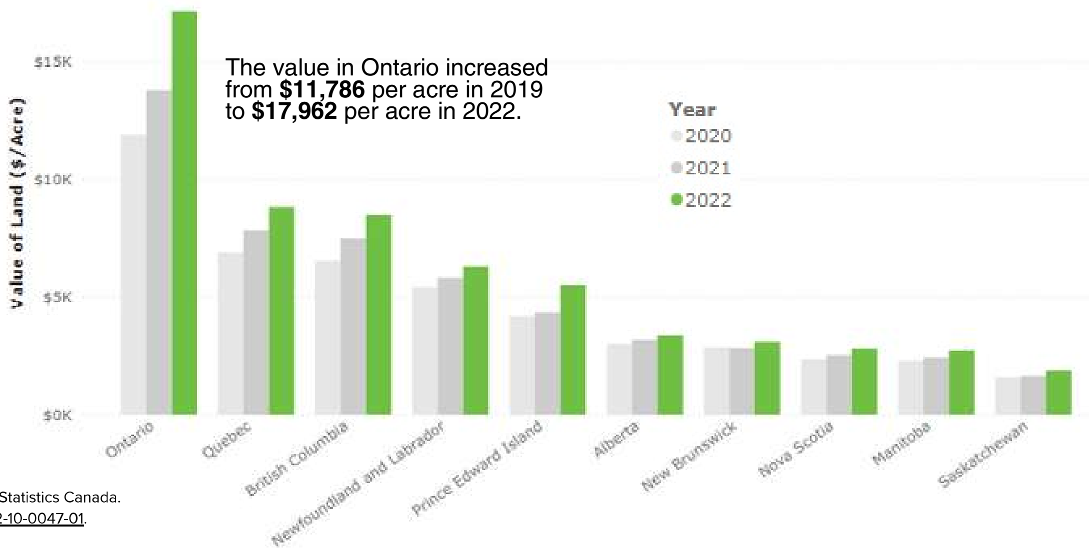
Source: Statistics Canada. Table 14-10-0063-01; 14-10-0022-01.



Furthermore, a lack of available workers, and rising inflation rates, are resulting in an increasingly tight labour market, placing upward pressure on labour costs. Since the beginning of 2019 to August 2023, wages also increased from $20.29 to $23.42, further indicating a tight labour market (Statistics Canada, 2023).

Canadian Farmland values have increased by an average of 10% annually over the last 10 years.

Figure 3: Farm Land Value ($/Acre)



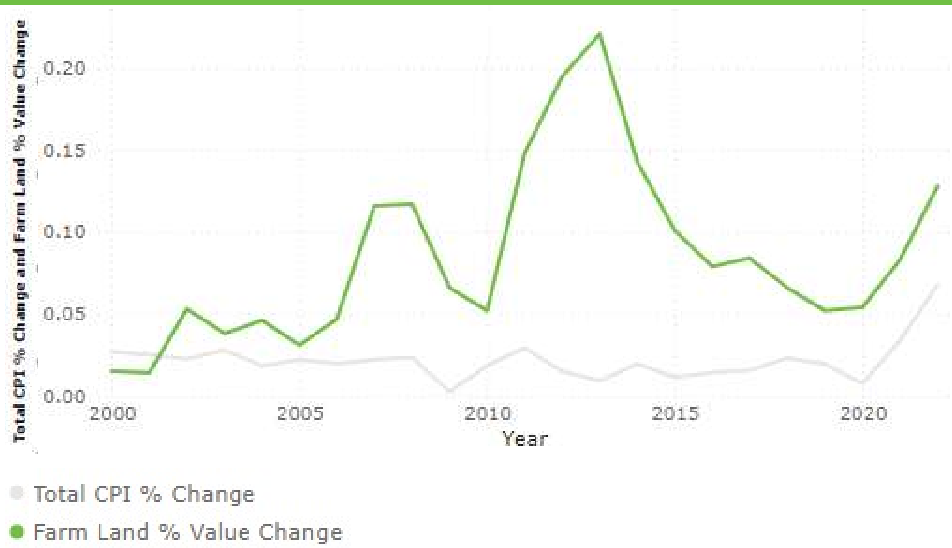
Source: Statistics Canada. Table 32-10-0047-01.

The value of farmland also saw a significant increase in 2022. The most prominent increase in land value were observed in Ontario, where the average value skyrocketed from **$11,786 per acre in 2019** to **$17,962 per acre in 2022** (Statistics Canada, 2023).

According to Farm Credit Canada (FCC), Canadian farmland values have increased on average **10% annually over the last 10 years.** In 2022, values rose 12.8%, the highest jump since 2013 (FCC, 2023). In addition, average annual mortgage payments increased 9.7% per year in the last decade, but 2022 recorded the large jump of 41% due to rising interest rates (FCC, 2023).

Figure 4: CPI and Farm Land Value

Source: FCC Calculations; Statistics Canada. Table 18-10-0004-03

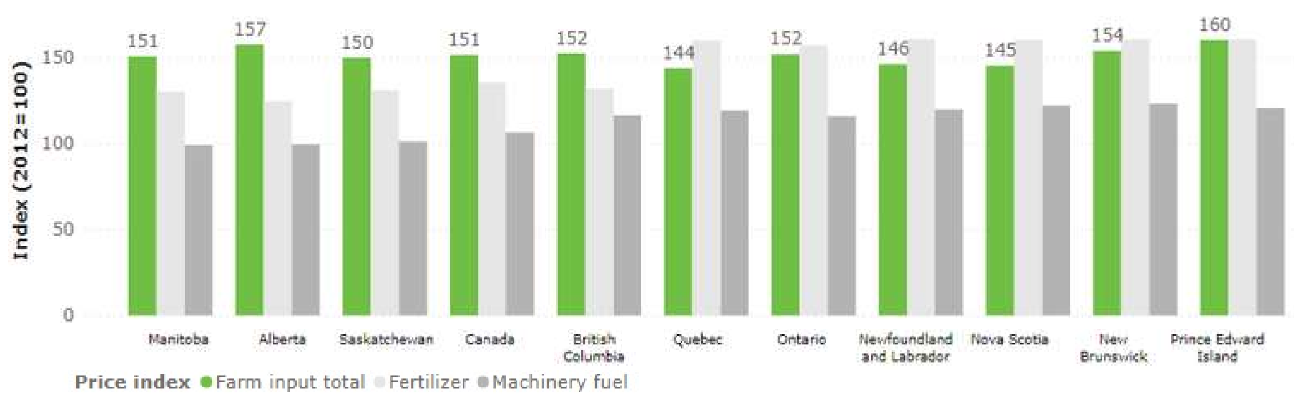


Production costs are impacting sectors and regions differently across Canada.

While expenses increased to record levels throughout Canada in 2022 (21.2% increase), the Farm Input Price Index (FIPI) revealed distinct regional variations. The FIPI is a measure of change in input costs faced by Canadian farmers and provides insights into the financial pressures on agricultural operations. For example, Western Canada **(MB, SK, AB, BC)** experienced a slightly higher increase in total farm input price rises from Q1 2019 to Q4 2022 (38%) vs. Eastern Canada **(NL, PEI, NS, NB, QC, ON)** (34%).[1] Furthermore, while the cost of fuel was higher in Eastern Canada (72% vs 43%), Western Canada experienced higher feed prices (63% vs 49%).

Figure 5: Regional Variance in Farm Input Price Index in Q2 2023 (Index, 2012=100)

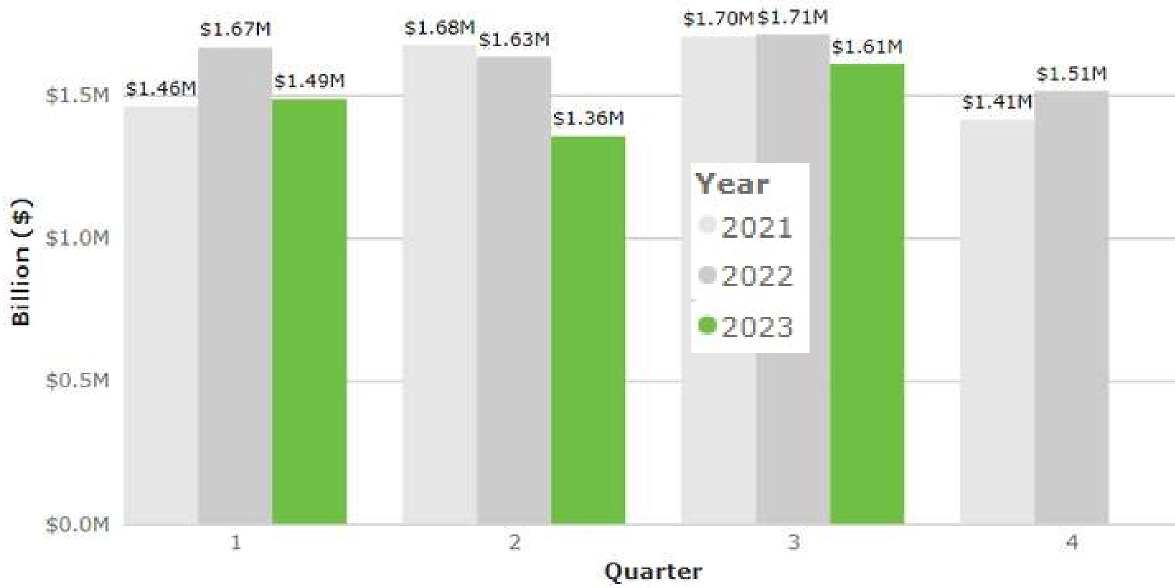
Source: Statistics Canada. Table 18-10-0258-01 | Farm input price index, quarterly



[1] "The indexes are available for 13 geographic areas: each of the 10 provinces, Eastern Canada (Newfoundland and Labrador, Prince Edward Island, Nova Scotia, New Brunswick, Quebec and Ontario), Western Canada (Manitoba, Saskatchewan, Alberta and British Columbia), and Canada as a whole (**excluding the territories**)."

Figure 6: Canadian Quarterly Hog Cash Receipts

Source: Statistics Canada. 32-10-0046-01 | Farm cash receipts, quarterly



Even within the agriculture sector, certain commodities are being disproportionately impacted by financial pressures. For example, Canada's fruit and vegetable sector reported a 40% increase in input costs with fertilizer leading the way (72% increase since 2020).

Labour costs have also increased by 20% and shipping by 42%. As a result, as of January 2023, 44% of fruit and vegetable producers reported that they were selling at a loss (Farmers Forum). In addition, Canada's pork industry is constrained by decreasing processor capacity and increasing non-tariff barriers to trade which means many producers are currently absorbing losses of $40 to $50 a head (RealAgriculture).