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Financial Performance of Agriculture Sector 2021

Manitoba's agriculture sector continues to evolve while farm businesses are becoming more sophisticated and capital-intensive with growing debt and asset values. As a result, financial analysis has become an important tool for farm business management more than ever before. The purpose of this report is to provide analysis of the key farm financial ratios at the sector level against which Manitoba producers could evaluate their own farm-level financial performance.

Balance Sheet of the Agriculture Sector in Manitoba as at December 31st, 2021 (Thousands of Dollars)

	2019	2020	2021	% 21/20
Total assets	**50,853,986**	**52,908,311**	**57,603,234**	**8.9**
Current assets	4,643,078	4,777,134	5,209,490	9.1
Quota	2,200,309	2,446,743	2,825,989	15.5
Breeding livestock	964,743	1,177,467	1,111,013	-5.6
Machinery	6,072,537	6,308,122	6,623,875	5.0
Farm real estate	36,385,408	37,658,659	41,247,087	9.5
Other long-term assets	587,910	540,186	585,781	8.4
Total liabilities	**10,024,524**	**10,056,870**	**10,455,161**	**4.0**
Current liabilities	1,992,010	1,977,468	2,030,851	2.7
Long-term liabilities	8,032,515	8,079,402	8,424,310	4.3
Equity	**40,829,462**	**42,851,442**	**47,148,073**	**10.0**

Source: Statistics Canada, Table 32-10-0056-01

Manitoba's total farm assets reached $57.6 billion in 2021, showing the second-largest annual increase of 8.9 per cent since 2014. In 2014, total farm assets grew by 10.3 per cent. Farm real estate (farmland and building), which accounted for 72 per cent of the total farm assets in 2021, also increased by 9.5 per cent in 2021 compared to 2020. Total farm liabilities in 2021 was $10.5 billion, an increase of 4.0 per cent from the 2020 level. Farm equity reached $47.1 billion in 2021, an increase of 10.0 per cent compared to the previous year. Between 2015 and 2019, total farm liabilities grew at higher rate than total farm assets; however, in 2020 and 2021 total farm assets grew at faster rate than total farm liabilities. The higher appreciation in farm real estate values in 2020 and 2021 may have contributed for the total farm assets and farm equity to grow at a higher rate than the total farm liabilities.

Financial Ratios

More and more farm operators and financial managers use financial ratios to assess, benchmark, and monitor farm profitability and overall farm financial performance. Creditors and investors use financial ratios to understand the profitability and risk of farming when they make lending or investment decisions.

Financial ratios commonly used to assess the strength of industry include:

- Liquidity: Current Ratio
- Solvency: Debt-to-Asset Ratio
- Profitability: Return-on-Asset Ratio
- Financial efficiency: Operating Expense-to-Revenue Ratio

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The validity and usefulness of financial ratios largely depend on the accuracy of financial data, from which the ratios are generated. As farm financial statements reflect all the production, operating and financial decisions, they often provide the most useful data about a farm operation.

Since no single ratio can give an absolute picture of farm business performance, it is important to monitor and analyze different financial ratios and their trends over time in order to identify areas of strength and weakness for a better farm business management.

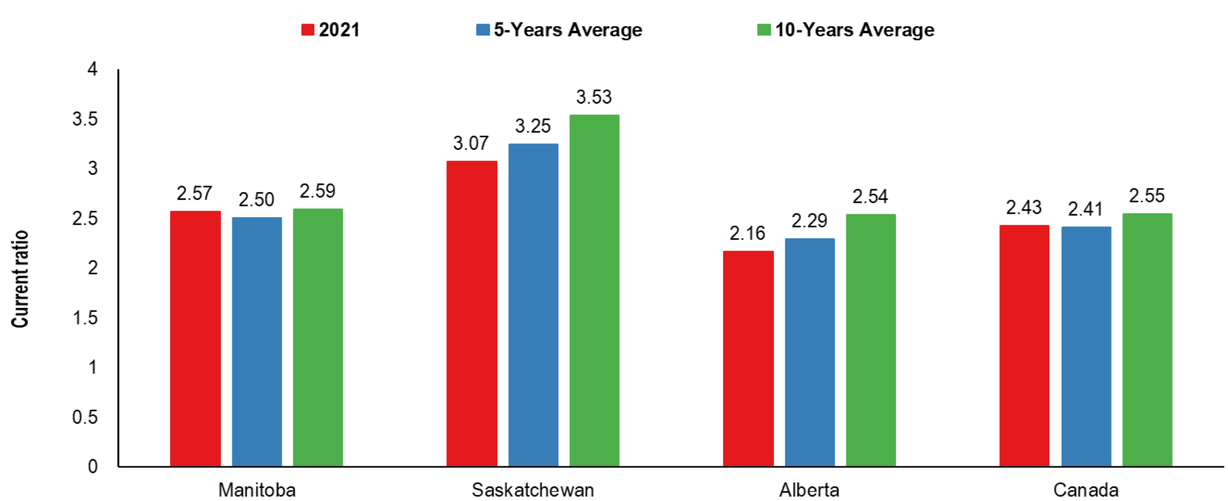
Trend analysis is commonly used to compare a farm's current performance to its past performances. In this analysis, the direction of the trend often carries more weight than the absolute values of financial ratios. Additionally, comparative analysis can be carried out to compare a farm's performance to other similar operations in the industry or to the industry average. A comparative analysis must be done with great care, as the degree of accuracy and consistency of financial data can vary considerably from one operation to another. Often, combining trend and comparative analyses gives a more complete understanding of a farm's financial position and overall performance.

Liquidity

Liquidity refers to the degree to which short-term debt obligations can be paid from cash or other assets. Current ratio is the most commonly used measure of liquidity. This ratio compares current assets (e.g., cash, accounts receivable, inventories) to current liabilities or debt (e.g., accounts payable). It indicates a farm's ability to meet its debt obligations coming due within the next year. A low current ratio (often below one) may indicate that a farm is developing a cash flow problem. On the other hand, a high current ratio (often greater than three) may indicate that a farm is not using cash efficiently, as a large portion of its assets is tied up in conservative investments with lower rates of return.

The overall current ratio of Manitoba farms in 2021 was 2.57, slightly higher than the last five-year average but lower than the ten-year average. This means, in 2021, for every dollar debt obligation in the next year, Manitoba farms had 2.57 dollars of assets (current assets) that they can cash out within the next year. Manitoba farms had the second-highest current ratio in the Prairie Provinces and higher than the national average in 2021.

It should be noted that these current ratios do not reflect those of individual subsectors (e.g. grains, dairy). Rather, these ratios provide relevant information about the financial health of the agriculture industry as a whole, as a higher current ratio indicates less risk of fulfilling short-term debt obligations.



Source: Statistics Canada, Table 32-10-0056-01

Manitoba Agriculture, Foresight and Analysis Section, 2023-02-28

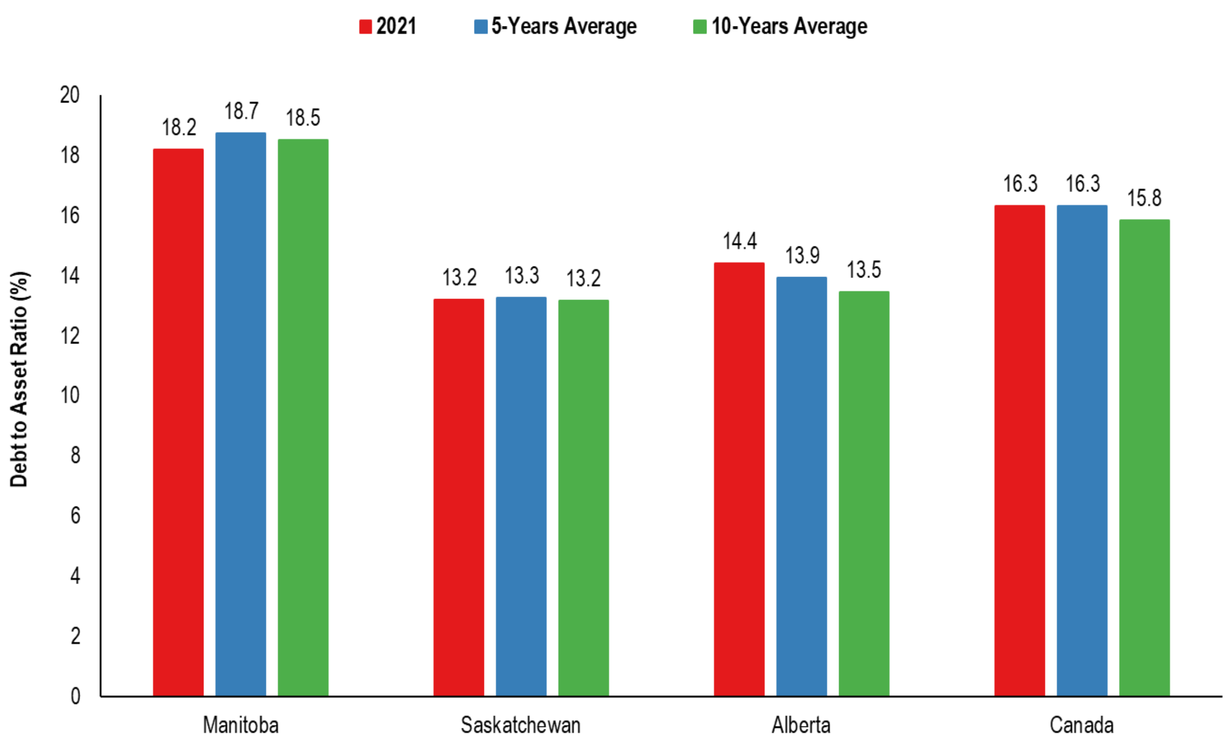
Solvency

Solvency indicates a farm's ability to meet long-term debt obligations. It is concerned with the level of equity and debt of the farm. The most common measure of solvency is debt-to-asset ratio, which indicates the portion of assets financed through debt rather than equity.

A higher debt-to-asset ratio indicates more risk. As the debt-to-asset ratio increases, farm management flexibility decreases and earnings are more stressed to service debt. Monitoring the debt-to-asset ratio is very important in agriculture, as a farm's cash flows are subject to seasonal fluctuation due to variation in prices and output level. On the other hand, a low debt-to-asset ratio indicates a farm's flexibility in paying back its long-term debt and being able to borrow more if a need arises.

Manitoba farms had a debt-to-asset ratio of 18.2 per cent in 2021, meaning that there was 18.2 cents of liability (debt) for every dollar of assets on the balance sheet of all Manitoba farms. This debt-to-asset ratio is slightly lower than both the five- and ten-year averages. Manitoba farms carry more debt than both Saskatchewan and Alberta and the national average. Saskatchewan farms have the lowest debt-to-asset ratio among the three Prairie Provinces.

Financial risks are relatively low when a debt-to-asset ratio is less than 30%. The fact that all provinces had a debt-to-asset ratio below that threshold in 2021 indicates that the agriculture sector in Canada is financially in a stable position.



Source: Statistics Canada, Table 32-10-0056-01

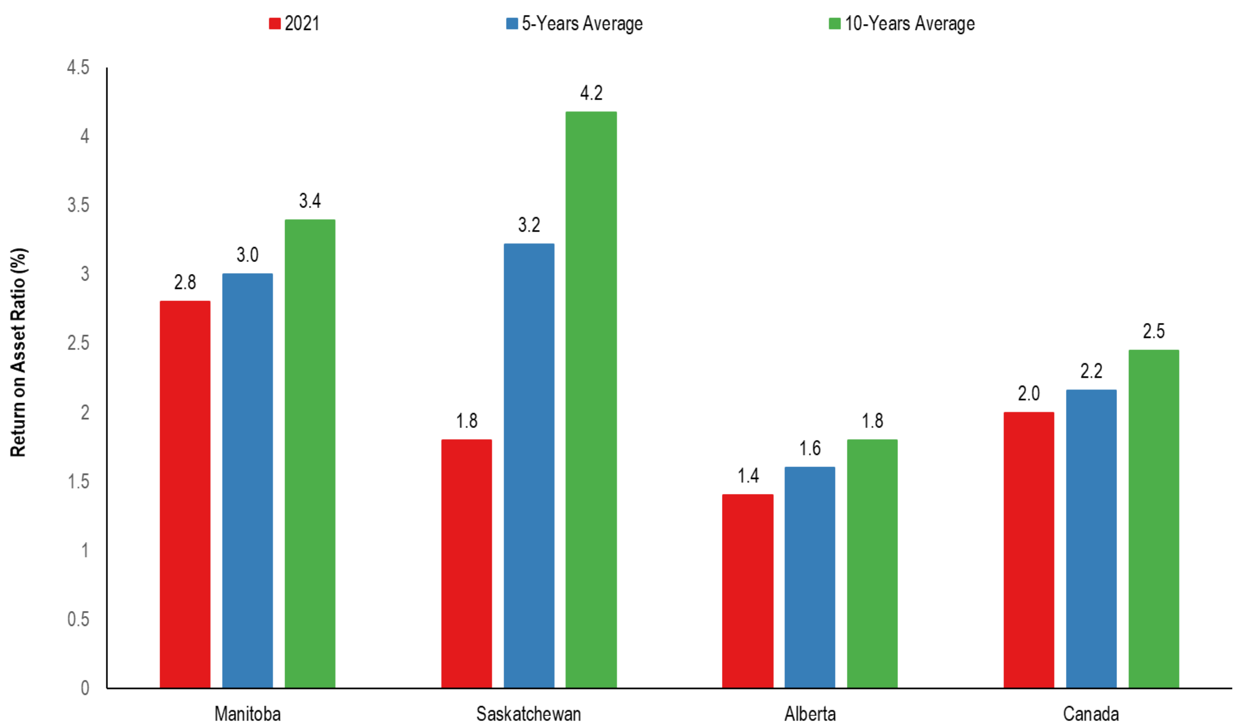
Manitoba Agriculture , Foresight and Analysis Section, 2023-03-01

Profitability

Profitability is one of the most important measures of farm financial performance. It measures the farm's ability to generate profit from its land, labour, and other capital resources. While a farm can operate on break-even or negative returns in the short run, it needs profits to sustain its business, service debt, build equity, and support a family in the long run.

A key financial ratio to measure profitability is a return on assets, which evaluates total farm income against total assets employed to generate this income. Unpaid family labour is deducted from the total farm income, as it represents a non-cash expense. This adjustment helps to compare farms that pay family wages to those that do not.

In 2021, the return on assets for Manitoba farms was 2.8 per cent, the highest among the Prairie Provinces. This ratio was lower than both the five-year and ten-year average. The national average return on farm assets in 2021 was 2.0 per cent. Alberta farms had the lowest average return on farm assets.



Source: Statistics Canada, Table 32-10-0056-01

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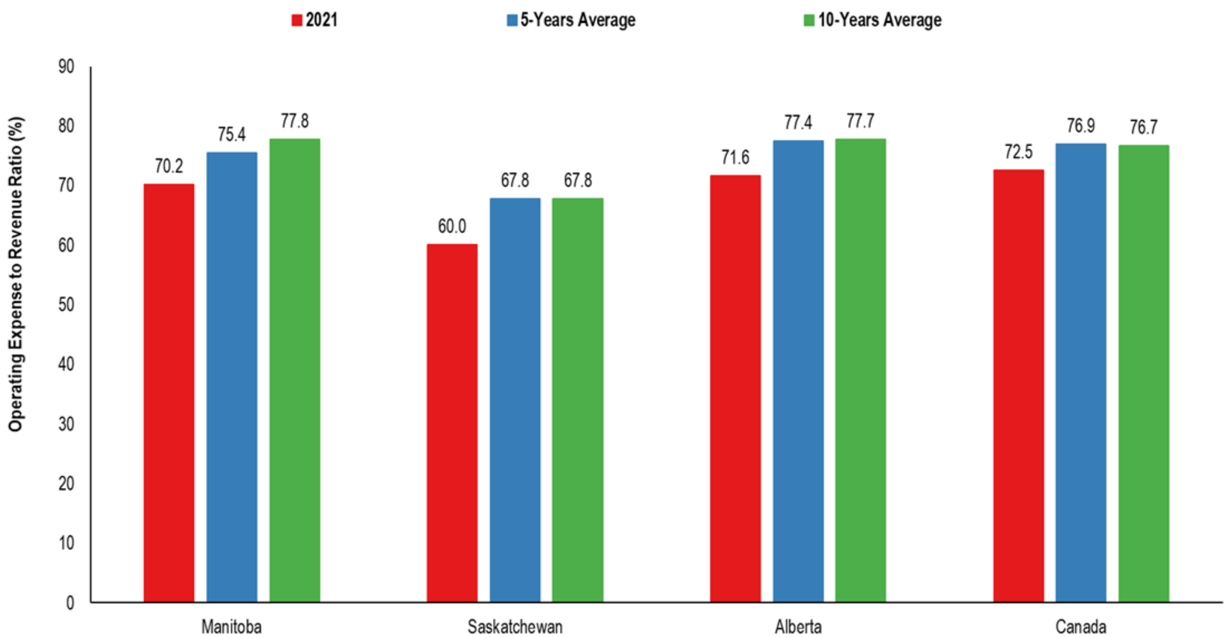
Financial Efficiency

Financial efficiency evaluates how efficiently a farm uses its productive capacities (e.g. fertilizer and machinery) to generate revenue. A key indicator of farm financial efficiency is the operating expense-to-revenue ratio. This ratio provides an answer to the question "how much does it cost a farm to generate $1.00 in revenue?" It is derived by dividing total operating expenses (excluding interest costs and depreciation) by gross revenue.

An efficient farm operation would have an operating expense-to-revenue ratio of less than 65 per cent, while an average operation would have a ratio between 65 per cent and 80 per cent. A farm operation with an operating expense-to-revenue ratio above 80 per cent is generally considered less efficient. However, when examining farm's financial efficiency using operating expense-to-revenue ratio other factors such as land ownership and farm size should be taken into consideration. For instance, larger farm operations can survive with higher operating expense-to-revenue ratios because of their larger volume of outputs.

In 2021, Manitoba farms had an operating expense-to-revenue ratio of 70.2 per cent, the second-lowest in the Prairie province and lower than the national average. Saskatchewan farms consistently had the lowest operating expense-to-revenue ratio over years. In all the Prairie Provinces and at the national level, the operating expense-to-revenue ratio in 2021 was lower than the five-year and ten-year average.



Source: Statistics Canada, Table 32-10-0052-01

Manitoba Agriculture, Foresight and Analysis Section, 2023-03-01

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