MANITOBA

Financial Performance of Agriculture Sector 2022

Manitoba's agriculture sector continues to adapt to the changing business environment. Drought, high input costs, and rising interest rates are some of the main issues the agriculture industry has faced in the last few years.

The purpose of this report is to provide analysis of key sector-level farm financial ratios, which could be used as baselines for producers to assess their financial performance.

Balance Sheet of the Agriculture Sector in Manitoba as at December 31, 2022 (Thousands of Dollars)

	2020	2021	2022	% 22/21
Total assets	**52,908,311**	**57,116,234**	**63,398,594**	**11.0**
Current assets	4,777,134	5,286,312	6,679,927	**26.4**
Quota	2,446,743	2,385,125	2,599,875	**9.0**
Breeding livestock	1,177,467	1,111,013	1,264,300	**13.8**
Machinery	6,308,122	6,522,790	6,663,681	**2.2**
Farm real estate	37,658,659	41,251,697	45,620,741	**10.6**
Other long-term assets	540,186	559,298	570,070	**1.9**
Total liabilities	**10,056,870**	**10,540,948**	**11,562,934**	**9.7**
Current liabilities	1,977,468	1,607,577	1,699,792	**5.7**
Long-term liabilities	8,079,402	8,933,371	9,863,141	**10.4**
Equity	**42,851,442**	**46,575,287**	**51,835,661**	**11.3**

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

Manitoba's total farm assets reached $63.4 billion in 2022, showing the largest annual increase of 11 per cent since 2014. Farm real estate (farmland and building), which accounted for 72 per cent of the total farm assets in 2022, also increased by 10.6 per cent in 2022, compared to 2021. Farmland values have increased by 9.5 per cent in 2021 and 10.6 per cent in 2022, the largest increase since 2014. Total farm liabilities in 2022 were $11.6 billion, an increase of 9.7 per cent from the 2021 level. Farm equity reached $51.8 billion in 2022, an increase of 11.3 per cent, compared to the previous year. Since 2020, total farm assets and farm equity grew at higher rates than total farm liabilities, largely driven by the high appreciation in farm real estate values.

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. 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.

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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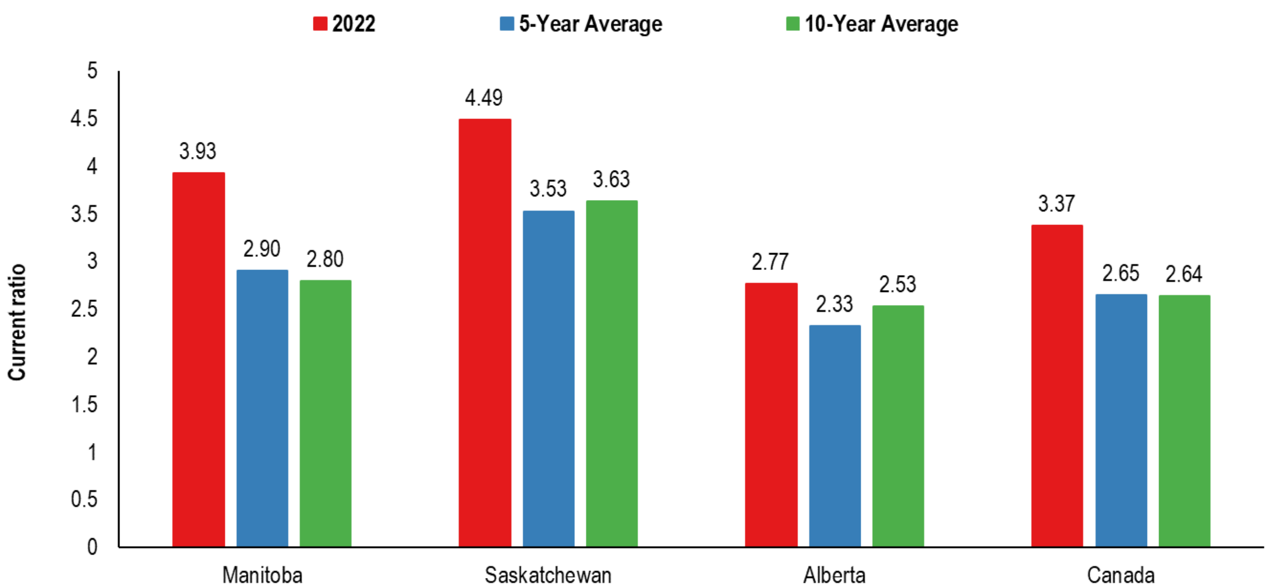
Liquidity

One of the closely watched financial performance indicators is 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 2022 was 3.93, much higher than both the last five- and 10-year ratios. This means, in 2022, for every dollar debt obligation in the next year, Manitoba farms had 3.93 dollars of 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 2022.

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, 2023-08-28

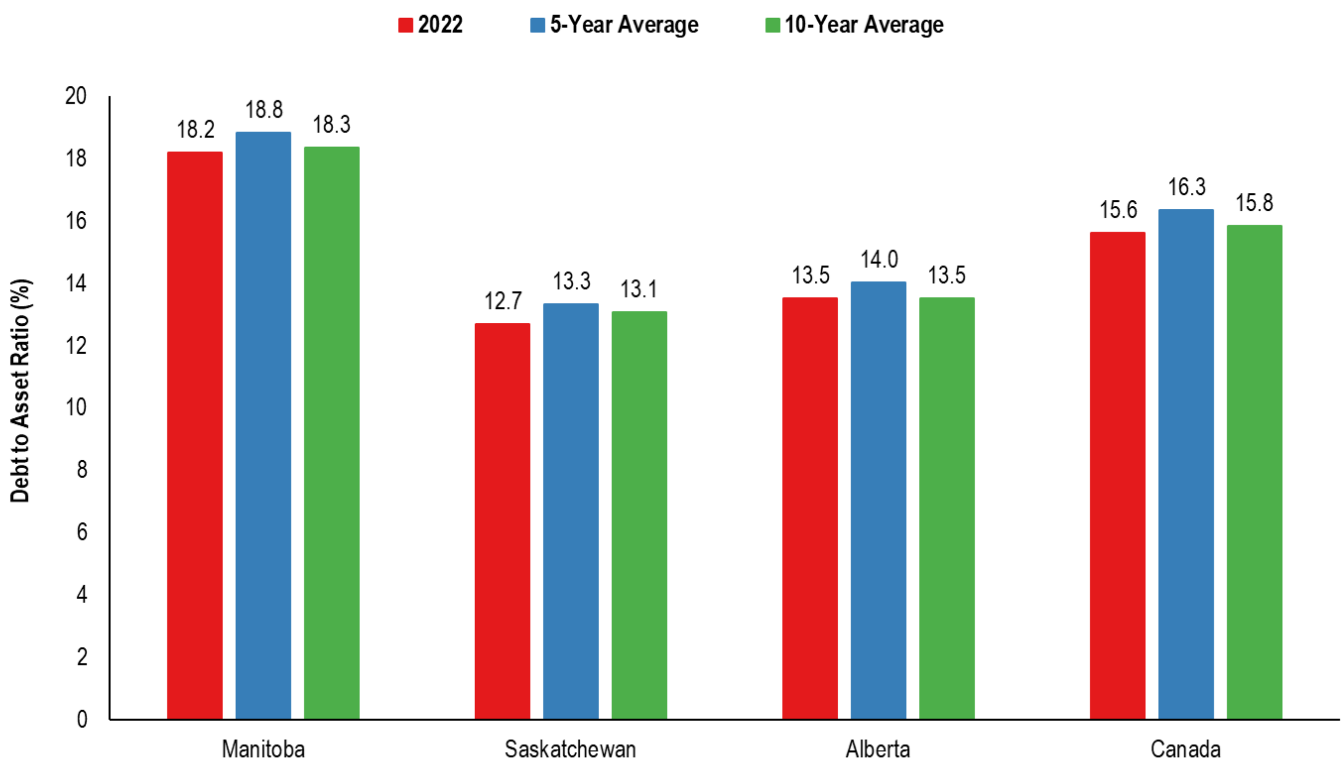
Solvency

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 2022, meaning that there were 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 10-year averages. Manitoba farms carry more debt than Saskatchewan, Alberta and Canada. 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 per cent. The fact that all provinces had a debt-to-asset ratio below that threshold in 2022 indicates that, overall, the agriculture sector in Canada is in a financially stable position.



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

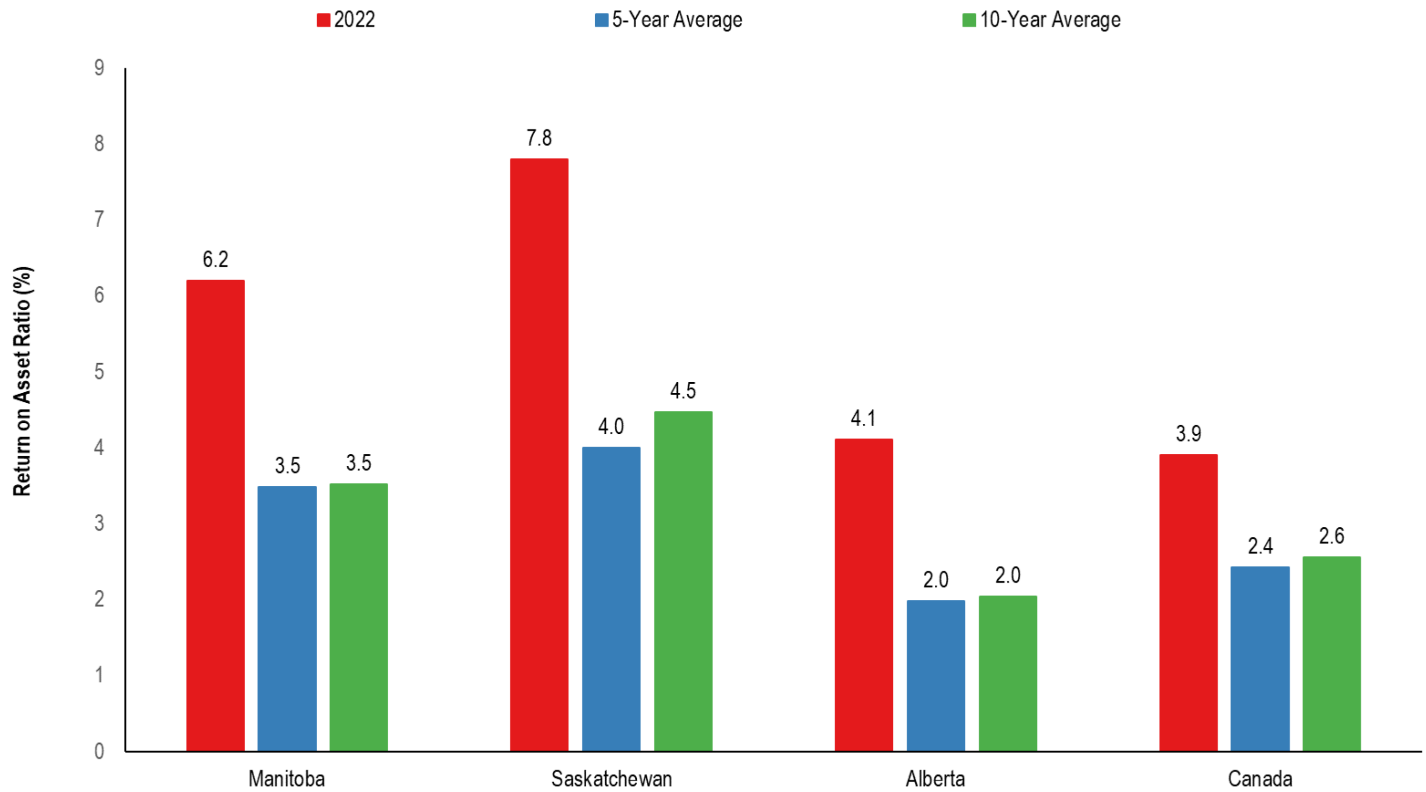
Manitoba Agriculture , Foresight and Analysis, 2023-08-28

Profitability

Profitability measures the ability of farms to generate profit from their 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, and build equity.

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 2022, the return on assets for Manitoba farms was 6.2 per cent, the second highest among the Prairie Provinces. The return on assets for Prairie Provinces, and at the national level, in 2022 were much higher than both the five-year and 10-year averages which indicates that farm income has recovered from the effects of the 2021 drought. The national average return on farm assets in 2022 was 3.9 per cent. Alberta farms had the lowest average return on farm assets among the Prairie Provinces in 2022.



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

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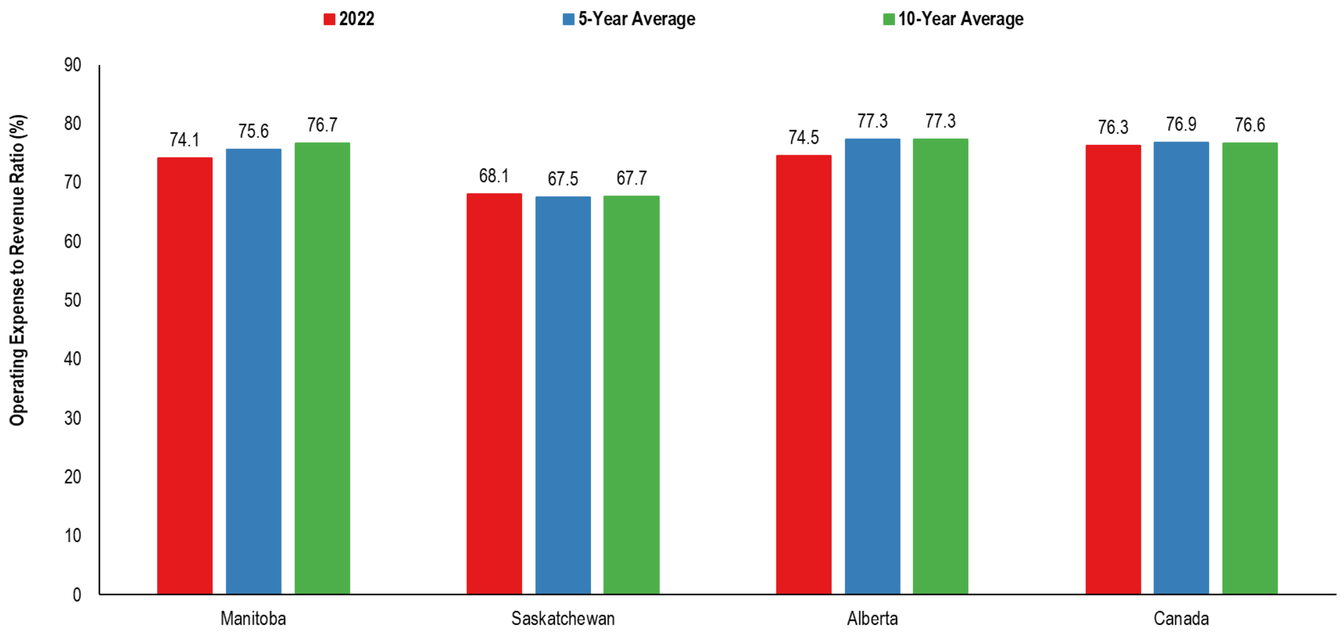
Financial Efficiency

Financial efficiency evaluates how efficiently a farm uses its productive capacities (e.g., land, labour, 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 a farm take in to generate one dollar 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 a 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 2022, Manitoba farms had an operating expense-to-revenue ratio of 74.1 per cent, the second lowest in the Prairie Provinces and lower than the national average. The operating expenses-to-revenue ratio was lower in 2022 as farm-operating expenses grew at a higher rate than farm cash receipts in all the Prairie Provinces and at the national level. In Manitoba, farm-operating expenses grew by 21.5 per cent, while farm cash receipt grew by 14.8 per cent.



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

Manitoba Agriculture, Foresight and Analysis, 2023-08-28

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- Email us at industryintelligence@gov.mb.ca.
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