

Alberta Farm Income in 2008.....

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**Measures of Net Farm Income (1) - Definitions**

The agriculture economic statistics program uses three aggregate measures of net farm income:

**Net cash income** measures farm business cash flow (gross revenue minus operating expenses) generated from the production of agricultural goods. Net cash income represents the amount of money available for debt repayment, investment or withdrawal by the owner.

**Realized net income (RNI)** measures the financial flows, both monetary (cash income) and non-monetary (depreciation and income-in-kind), of farm businesses. Similar to net cash income, realized net income represents the net farm income from transactions in a given year, regardless of the year the agricultural goods were produced.

**Total net income** measures the financial flows and stock changes of farm businesses. Total net income values agriculture economic production during the year that the agricultural goods were produced. It represents the return to owner's equity, unpaid labour, management and risk.

**Components of Net Farm Income Measures**

**Farm cash receipts** include revenues from the sale of agricultural commodities, program payments from government agencies, and payments from private crop and livestock insurance programs. Receipts are recorded in the calendar year (January-December) when the money is paid (cash basis) to farmers. Farm to farm sales are excluded. They are assumed to cancel each other out, and have no net impact.

**Farm operating expenses** represent business costs incurred by farm businesses for goods and services used in the production of agricultural commodities. Expenses, which are recorded when the money is disbursed by the farmer, include property taxes, custom work, livestock purchases, rent, fertilizer and lime, pesticides, machinery and building repairs, fuel for heating and machines, wages, interest and business share of insurance premiums.

**Income-in-kind** measures the value of the agricultural goods produced on farms and consumed by farm operator families. It is included to measure total farm production. There is no monetary disbursement related to income-in-kind. It is calculated using Statistics Canada estimates of per capita food consumption, coupled with Census (2) measurements of the farm population and the average prices that producers would have received in the marketplace.

**Depreciation charges** account for the economic depreciation or for the loss in fair market value of the capital assets of the farm business. There is no monetary disbursement associated with depreciation. Calculated on farm buildings, farm machinery, and the farm business share of autos, trucks and the farm home, depreciation is generally considered to be the result of aging, wear and tear, and obsolescence. It represents a decrease in the potential economic benefits that can be generated by the capital asset.

**Value of inventory change (VIC)** measures the dollar value of the physical change in producer-owned inventories. This concept is used to value total agricultural economic production. To calculate VIC, the change in producer-owned inventories (between the end and the beginning of a calendar year) is first derived and then multiplied by the average annual crop prices or value per animal. This calculation is different from the financial or accounting book value approach, which values the beginning and ending stocks, and then derives the change.

(1) Source: Adapted from Agriculture and Agri-Food Canada and Statistics Canada, *Understanding Measurements of Farm Income*, Publication No. 2060/B and Cat. No. 21-525-XIE, November 2000, Section 1 "Agriculture Economic Statistics Program Measures".

(2) Statistics Canada, Census of Population