

Net Income of Farm Operators from Farming Operations.—Two different estimates of net income from farming operations are prepared by the Agriculture Division. One is called *realized net income* and is obtained by adding together cash income from farming operations, supplementary payments and the value of income in kind, and deducting farm operating expenses and depreciation charges. This estimate of farm net income represents the amount of income from farming that operators have left for family living or investment after provision has been made for operating expenses and depreciation charges. The second estimate is referred to as *total net income* and is obtained by adjusting realized net income to take into account changes occurring in inventories of livestock and stocks of grains on farms between the beginning and the end of the year. The latter estimate is the one used to calculate the contribution of agriculture to national income.*

For the year 1963, it was estimated that *realized net income* of farmers from farming operations amounted to \$1,410,200,000. This estimate was 5.4 p.c. below the 1962 level of \$1,490,700,000 but 3.7 p.c. above the average of \$1,360,500,000 for the five-year period 1958-62. Although farm cash income reached a record high in 1963 and income in kind advanced, farm operating expenses and depreciation charges rose by nearly 5 p.c. and supplementary payments dropped from \$70,300,000 in 1962 to \$14,800,000.

Total net income, which takes into account changes in farm inventories of grains and livestock, amounted to \$1,717,000,000 in 1963, slightly more than 2 p.c. above the 1962 level of \$1,678,800,000 and nearly 30 p.c. above the average of \$1,326,200,000 for the five-year period 1958-62. Gains in farm cash income and income in kind contributed to the increase, but most of it was attributable to a significant build-up in farm inventories of grains in Western Canada as a result of larger crops, especially wheat. Although that part of farm net income represented by inventories is not readily available for spending, it forms the basis of cash advances on farm-stored grains in Western Canada and is part of total production for which estimated total expenses were incurred during the year.

Farm cash income, the most important component of farm net income, and supplementary payments are discussed on p. 462. Income in kind, which includes the value of agricultural production consumed in homes on farms where produced and the imputed rental value of farm dwellings, was estimated at \$356,500,000 for 1963, as against \$345,800,000 for 1962; the increase resulted mainly from a rise in the value of poultry products, fruits and vegetables consumed and an estimated higher rental value for farm homes. The value of dairy products consumed was down slightly as was that of meat and forest products.

The value of inventory change is obtained by calculating the change in the quantity of grain and the number of livestock on farms between the beginning and the end of the year and valuing the difference at annual average prices. The value of inventory change at the end of 1963 was estimated at \$306,800,000 as compared with \$188,000,000 at the end of 1962. The 1963 estimate reflects an increase in the farm number of cattle, calves, hogs and chickens, together with a substantial rise in the quantity of farm-stored grains, particularly wheat, resulting from the large production of that year.

Operating expenses and depreciation charges include farm business costs incurred by farmers regardless of whether they are paid for in cash or accumulated as new debt. As far as possible they exclude outlays for goods and services obtained directly from other farmers. All subsidy payments are taken into account so that the estimates represent only the net amounts paid by farmers. During 1963, these expenses and depreciation charges totalled \$2,180,200,000, nearly 5 p.c. above the previous record high of \$2,079,600,000 established a year earlier. Almost without exception, higher outlays were made by farmers for each of the items of goods and services used in the farm business. The greatest increase in expenditure in 1963, both on a percentage basis and in absolute terms, was for fertilizer; the increase from \$90,400,000 in 1962 to \$105,900,000 resulted from a combination of higher prices, purchases of larger quantities and the use of fertilizers with higher

* Information on the methods and concepts used to determine the contribution of agriculture to national income is available in DBS publication *Handbook of Agricultural Statistics, Part II*.