

Economic Contribution of the Ontario Farm Sector

Presentation to



Ontario Federation of Agriculture

Presented by

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Ontario Agriculture



What does this have to do with farming?

Ontario Agriculture



What does this have to do with farming?

Agricultural input suppliers depend on upstream industries

Ontario Farmers Spend Over \$11 billion on Inputs



Spending by farmers creates economic activity

Farm Sector Output of \$11.5 Billion Generates Economy Activity



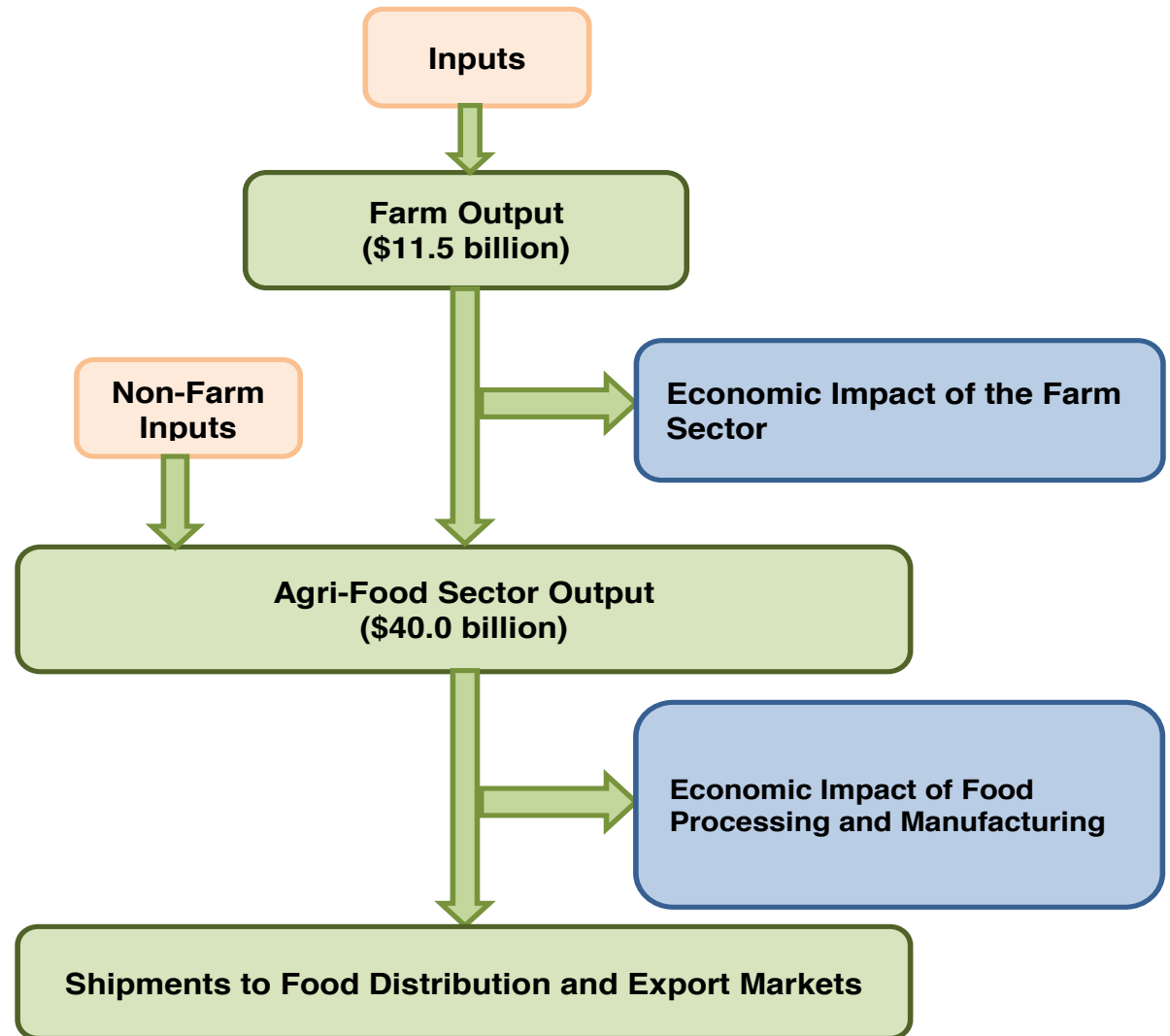
Farm output and expenditures by farmers are inseparable
– one causes the other

Economic Contribution of the Ontario Farm Sector

- ❖ Estimate the economic contribution of the Ontario farm sector to the Ontario economy in 2012, using measures such as valued added, employment, and taxes generated by the resulting economic activity generated by farm sector output;
- ❖ Estimate the portion of the Ontario farm sector's contribution that occurs within the rural economy and the overall importance of the farm economy to Ontario's rural economy.
- ❖ Estimate the economic contribution of the Ontario agri-food sector in 2012, which is measured as the output of Ontario's food and beverage manufacturers



The Farm Sector is Part of a Larger Supply Chain



Each part of the chain is dependent on other parts of the supply chain

One View of Importance of the Agri-Food Economy

Sectors	Share of Province Wide GDP	Share of Province Wide Employment
Farm	0.7%	1.4%
Food and beverage manufacturing	1.9%	1.4%
Other sectors linked to agriculture	3.3%	8.1%
Total agriculture and food	5.9%	10.9%

Other sectors include input suppliers, warehousing, food distribution, and food retail.

1. Farm sector employment was 94,200 in 2012 which is 1.4% of provincial employment of 6.8 million;
2. When all agri-food sectors are included, total employment is 10.9% of province wide employment;
3. Farm sector's province wide share of GDP is less than the employment value, reflecting lower value added per employee than in other business sectors.

An Overview of Farm Sector Performance, 2012

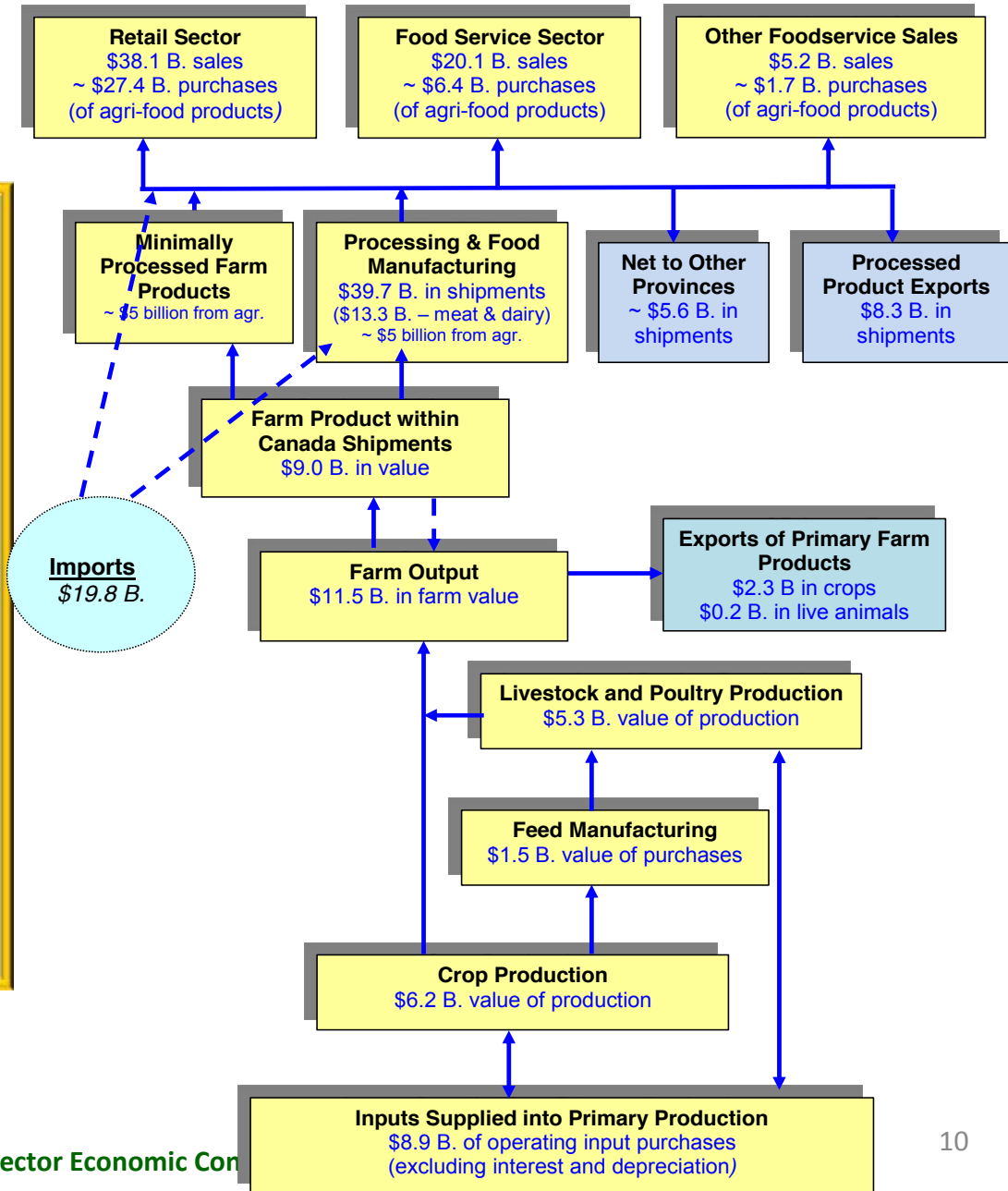
Item	\$ Million
Cash Receipts	\$11,794
Operating Expenses	\$8,943
EBITDA (Contribution)	\$2,851
Labour (part of value added)	\$1,527
Land Rent (part of value added)	\$474
Value Added	\$4,852

Value added (GDP) is a measure of the net contribution of an industry or sector to the economy.

- 1. Farm sector output was valued at \$11.8 billion in 2012, with receipts from the market place \$11.5 billion;**
- 2. Contribution (or EBITDA) was \$2.9 billion, which can be used for payment of interest, debt payments, investments, and savings;**
- 3. Valued added retained by the farm sector was an estimated \$4.8 billion in 2012**
- 4. Value added includes wages, rent, interest, depreciation on capital items, and profits.**

The Farm Sector Has Many Linkages into the Economy

1. The farm sector has many linkages to other business sectors;
2. Farm sector output sustains food processing activity with its \$40 billion in shipment value;
3. Ontario agri-food products are a major supply source to the \$63 billion in sales of food products to Ontario consumers;
4. Linkages with upstream suppliers are used to measure the economic contribution of the farm sector



Farming Has Many Linkages into the Economy

The **economic multiplier effect** resulting from the economic linkages with suppliers:

1. The initial expenditures on equipment, materials and labour are generally referred to as the direct costs of operation - **the initial (direct) effects**;
2. Subsequent purchases by suppliers of materials and services to sustain the original and derivative expenditures - **the indirect effects**; and
3. **The induced effects** that emerge when farm operators and workers in the sectors stimulated by initial and indirect expenditures spend their additional incomes on consumer goods and services.

A dollar spent on producing primary agricultural products circulates and re-circulates within the economy, multiplying the effects of the original expenditures on overall economic activity. This process is referred to as the economic multiplier effect.

Farm Sector Economic Contribution – Total Output

The \$11.8 billion output of the farm economy results in \$26.6 billion of economic activity throughout the province.

	Economic Impact
Initial Expenditure (<i>\$ billion</i>)	\$11.8
Gross Output (<i>\$ billion</i>)	
Direct	\$11.8
Indirect & Induced	\$14.8
Total	\$26.6
<i>Multiplier</i>	<i>2.25</i>

This economic impact is based on backward linkages – purchases by the farm sector on inputs and expenditures by the farm household. It does not include any economic impact associated with food processors adding value to farm products.

Farm Sector Economic Contribution – Value Added

Farm sector output contributed to \$13.7 billion in province wide value added (GDP), which is 2% of Ontario's GDP.

	Economic Impact
Initial Expenditure (<i>\$ billion</i>)	\$11.8
Value Added (<i>\$ billion</i>)	
Direct	\$5.2
Indirect & Induced	\$8.5
Total	\$13.7
<i>Multiplier</i>	<i>1.16</i>

Value Added– This figure represents net output generated by the initial expenditures in the province. It is typically the sum of wages, rent, interest, depreciation, and profits.

Farm Sector Economic Contribution – Employment

- ❖ Farm sector output contributed to an estimated 157,829 jobs throughout the Ontario economy, which is > 2.3% of provincial employment, (and much larger than employment on the farm).
- ❖ More jobs are generated beyond the farm gate than within the farm sector.

	Economic Impact
Initial Expenditure (<i>\$ billion</i>)	\$11.8
Wages & Salaries (<i>\$ billion</i>)	
Direct	\$4.1
Indirect & Induced	\$4.0
Total	\$8.1
Employment	
Direct	75,607
Indirect & Induced	82,222
Total	157,829
<i>Multiplier</i>	<i>2.09</i>

Employment – This refers to the total person years (full-time equivalent jobs) generated by an increase in output.

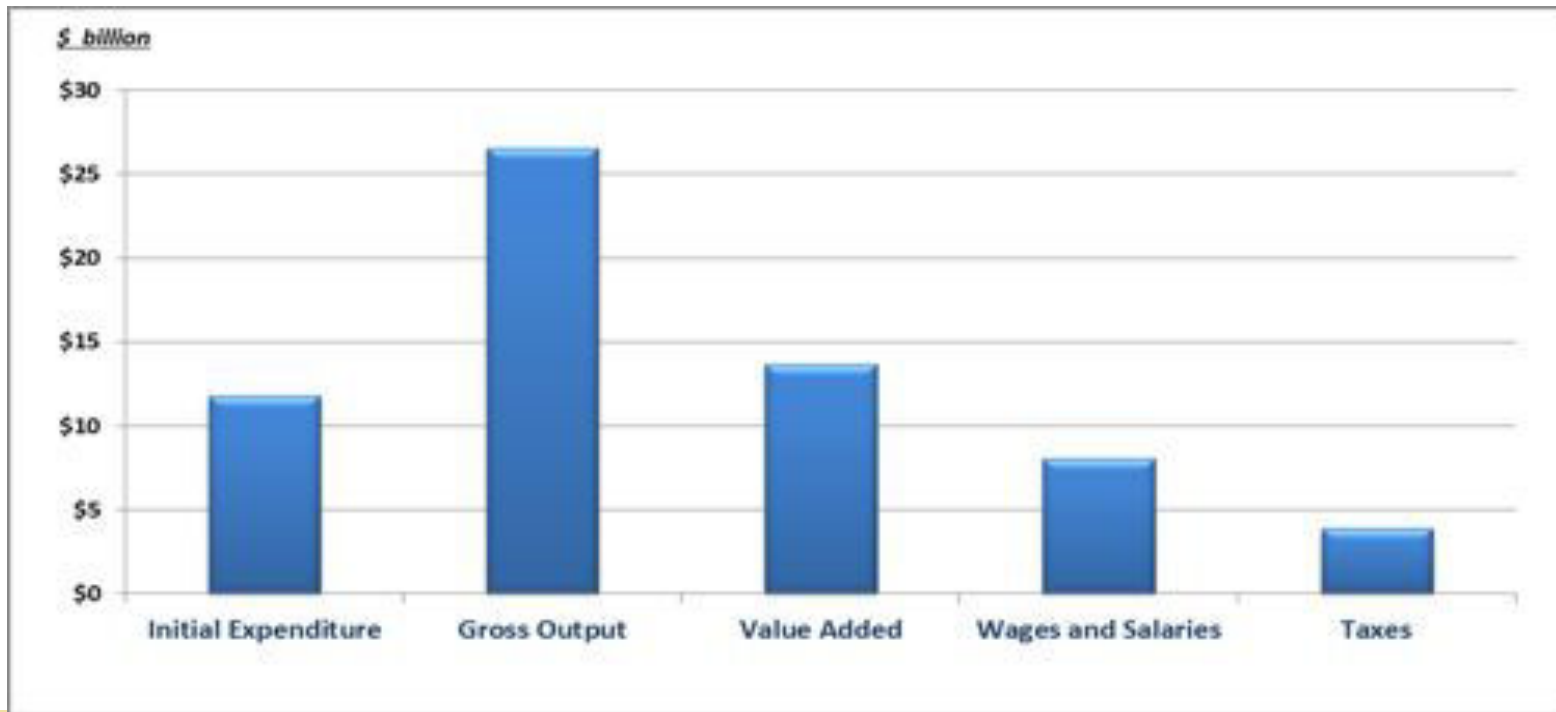
Farm Sector Economic Contribution – Tax Revenues

❖ Farm sector output and the associated economic activity in the province contributed to an estimated \$3.9 billion in collected tax revenues across the three levels of government

	Federal	Provincial	Local	Total
	<i>(\$ billion)</i>	<i>(\$ billion)</i>	<i>(\$ billion)</i>	<i>(\$ billion)</i>
Personal Income Tax	\$1.4	\$0.8		\$2.2
Corporate Profit Taxes	\$0.5	\$0.3		\$0.8
Property & Bus. Tax			\$0.4	\$0.4
Harmonized Sales Tax	\$0.2	\$0.3		\$0.4
Total	\$2.1	\$1.4	\$0.4	\$3.9

Total taxes of \$3.9 billion is 34% of the original output generated by the farm sector.

Farm Sector Economic Contribution – Summary



- ❖ Initial expenditures by Ontario farmers of \$11.8 billion generate \$26.6 billion in mostly upstream transactions throughout the province, which results in economy wide GDP of \$13.7 billion, of which \$8.1 billion are payments to labour (and 157,829 jobs).
- ❖ All levels of government receive \$3.9 billion in tax revenue due to this economic activity.

Economic Contribution of the Farm Sector in Rural Ontario

Region	Employment in Agriculture	
	no.	%
Rural Ontario	65,608	69.6%
Small town	4,475	4.7%
Urban fringe	2,509	2.7%
Urban core	21,708	23.0%
All Ontario	94,233	100%

Statistics Canada reports that 70% of farm sector employment is in rural Ontario

Economic Impact Area	All Ontario	Rural Ontario	Rural Share
Employment	157,829	92,063	58%
GDP (\$ billion)	\$13.7	\$7.7	56%

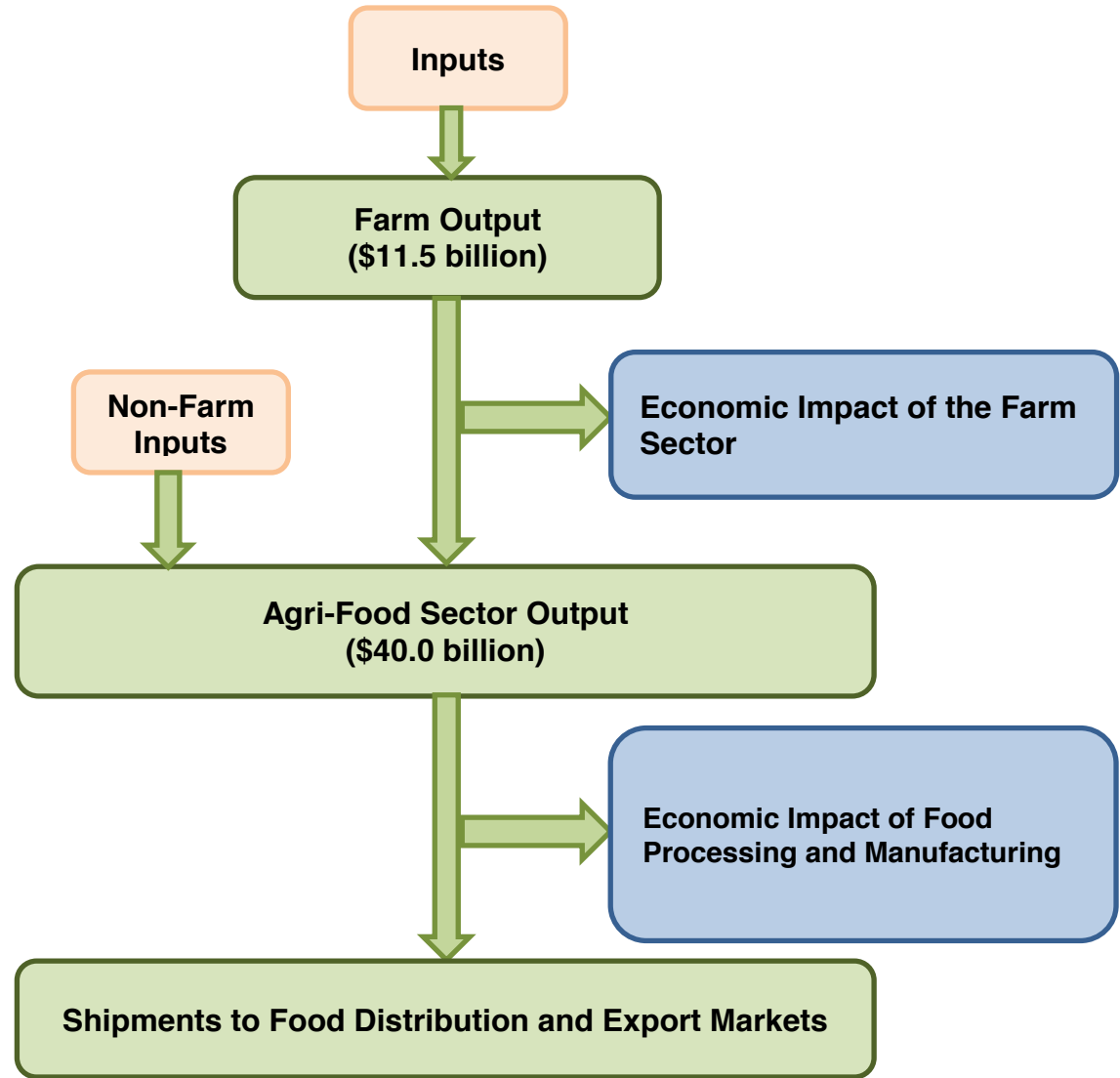
- ❖ Based on 70% of farm sector employment occurring in rural Ontario, and based on defensible assumptions, 58% of the measured employment impact (due to farm sector output) occurs in rural Ontario, and 56% of GDP that is retained in the province occurs in rural Ontario.
- ❖ Large towns and urban areas benefit from agricultural production (this is prior to any consideration of the impact of downstream activities such as food processing).

The Farm Sector and Rural Ontario

Item	All Rural	Rural Farm Sector Value	Rural Farm Share of Total	Economic Contribution of Farm Sector to Rural Economy	
				Estimated	Share of Rural Economy
Rural GDP (\$ billion)	\$62.7	\$3.3	5.3%	\$7.7	12.3%
Rural Employment	909,000	65,600	7.2%	92,063	10.1%

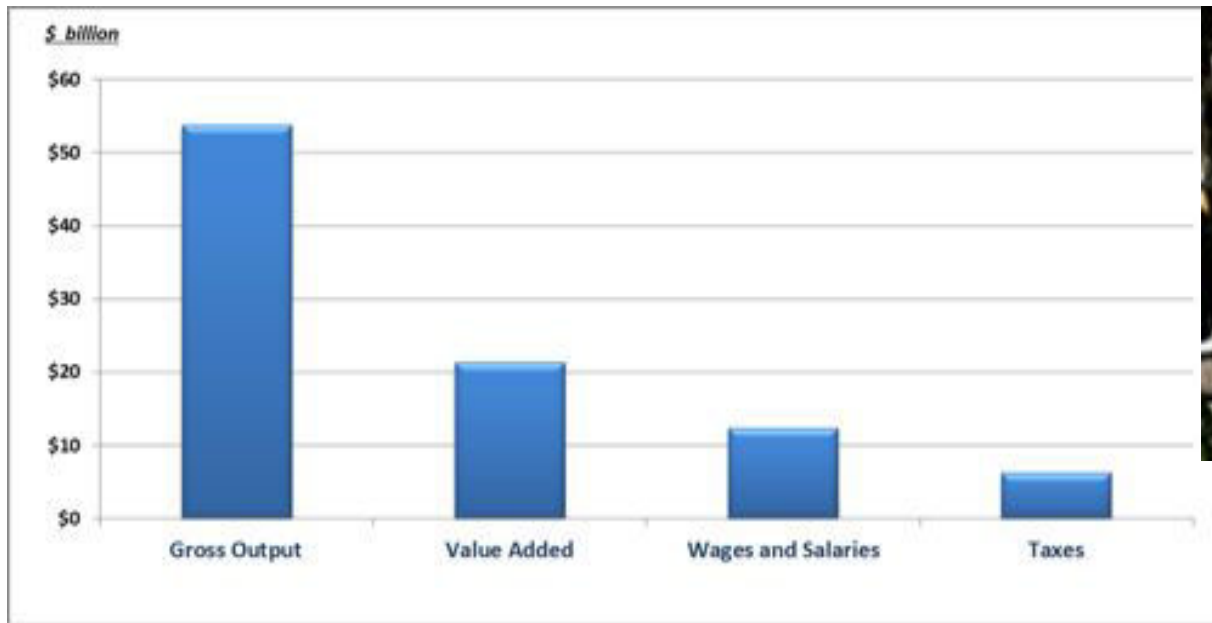
- ❖ After accounting for the economic contribution of the farm sector in rural Ontario, 12.3% of GDP that is retained with rural Ontario can be attributed to the farm economy (this compares to 2% for all of Ontario).
- ❖ Similarly, 10.1% of rural employment can be directly and indirectly attributed to the farm economy (versus 2.3% across the province).

Food Processing and Farming Are Interdependent



Each part of the chain is dependent on other parts of the supply chain

Food Manufacturing Sector Economic Contribution



- ❖ Expenditures by food manufacturers generate \$53.7 billion in upstream transactions throughout the province (including purchases from farmers), which results in economy wide GDP of \$21.3 billion, of which \$12.4 billion are payments to labour.
- ❖ Output in this level of the supply chain accounts for 3.2% of Ontario's GDP and 4.2% of employment
- ❖ All levels of government receive \$6.3 billion in tax revenue due to this economic activity.

Heinz to close Ontario plant, leaving 740 out of work



What is the economic impact of Heinz closing the plant doors?

Heinz to close Ontario plant, leaving 740 out of work

Potential impact of closure:

- ❖ ~ \$750 million in economic activity;
- ❖ ~ \$300 million of provincial GDP;
- ❖ ~ 2,300 direct and indirect jobs;
- ❖ ~ \$90 million in tax revenues.



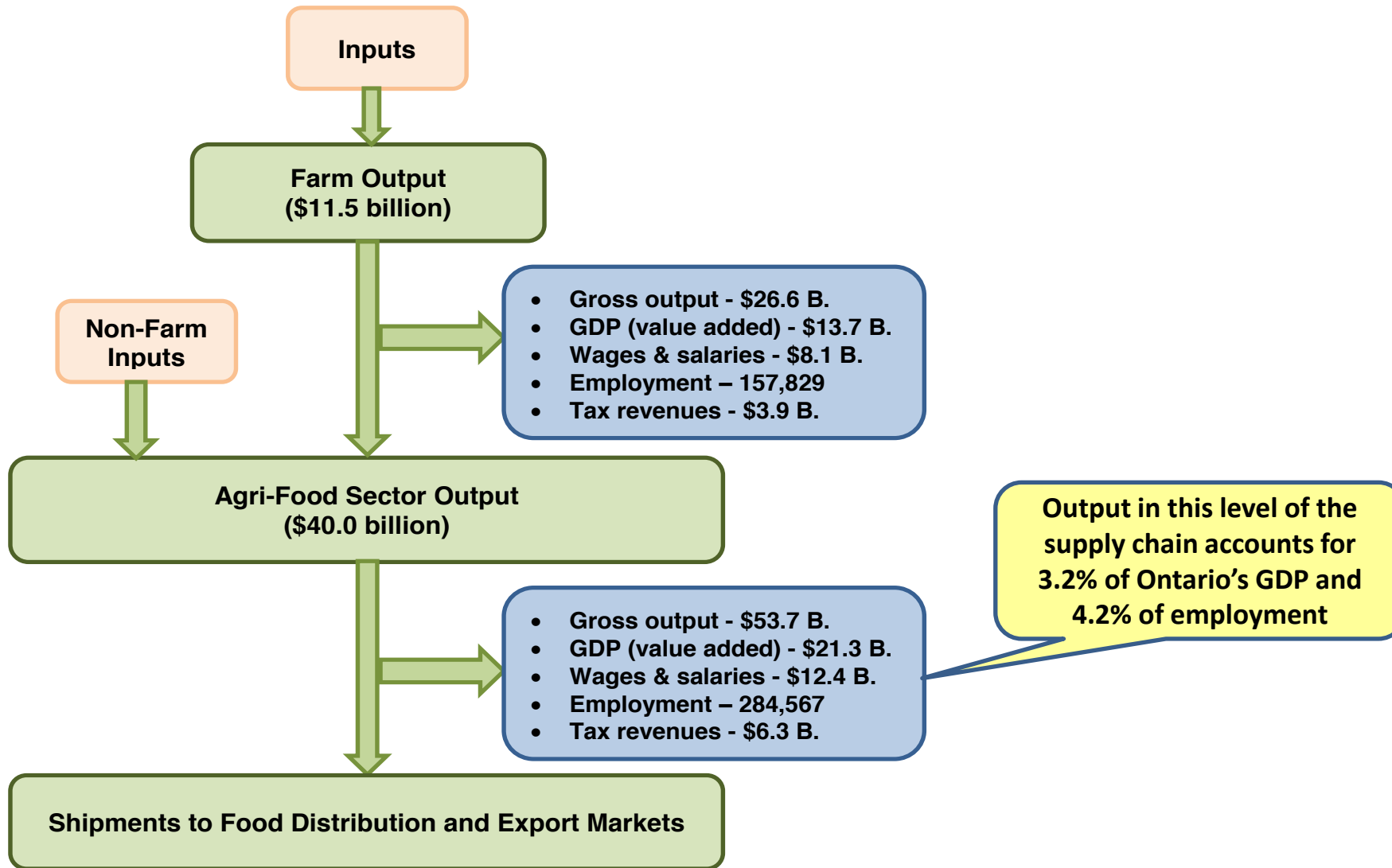
Impact based on the results of our analysis and Statistics Canada data on the value of shipments per employee in fruit and vegetable processing sector

Economic Contribution of Ontario Agriculture



JRG Consulting Group appreciates the opportunity to provide insight on the economic importance of farming in Ontario

Summary of Economic Contribution



The agri-food sector is an important contributor to the performance of the Ontario economy.