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Record High Farm Sector Income— What Does it Mean?

ERS is forecasting a new record high for net farm income in 2004. Increasing for the third consecutive year, net farm income is predicted to grow by 24.5 percent over 2003. Increases in crop and livestock receipts and small increases in production costs pushed farm incomes up, reducing the need for government support payments. Good news? Surely, but for whom?

U.S. agriculture is incredibly diverse and, as usual, statistics reporting averages (and in this case even the total) mask a lot of what is happening with incomes across the sector. To get a closer look at what is happening to the sector, one needs to consider the diversity of farms. For example, farms vary widely in terms of size and in their dependence on farming for household income. Very large family farms, which are relatively few in number but represent the bulk of production, depend primarily on farm income and, thus, fare quite well in this environment of steadily increasing farm income. But, what about everybody else?

The operators of small, medium, and large family farms—which represent about two-thirds of all U.S. farms—choose farming for a variety of reasons, including lifestyle, and do not typically depend on farming as their main source of income. In fact, most of these operators work full-time off the farm. Farming is not their principal occupation. Because most of their income depends on off-farm employment, their economic welfare depends more on the general economic trends driving the rest of the economy.

So, while the farm sector as a whole is seeing record growth in total net farm income, the growth in average income for all farm households is considerably more modest and more in line with U.S. households in general. To appreciate the economic well-being of farm households, we need to look beyond just the indicators for average farm income and consider the diversity of farms and their farm and nonfarm sources of income and wealth.

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