Agriculture Outlook Conference

United States Department of Agriculture
Washington, DC 20250-3900

Outlook '94 For Release: Wednesday, December 1, 1993

FARM HOUSEHOLD OUTLOOK: RELIANCE ON FARM INCOME DEPENDS ON SIZE OF FARM

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This summer, ERS extended the regularly published farm income tables to incorporate the average income of the households running farms, as well as net cash income to the business. These new data present a more complete picture of U.S. agriculture by adding a perspective of farm and non-farm income available to farm families.

Beginning with the 1988 Farm Costs and Returns Survey (FCRS), we began collecting data which focuses on the individuals who operate farms and members of their households. While this group is only a few of the 9 million individuals directly associated with farming, it comprises the major entrepreneurs and received most of the residual income from the agricultural production process.

Almost three-quarters of U.S. farms are very small businesses having less than $50,000 in gross sales. The households operating these small farms receive relatively little income from farming, but they heavily influence the average farm income to the household. The purpose here is to talk about the diversity of farming and to give an idea of how farm operator households rely on net income from the farm business for their economic well-being.

The official estimate of net farm income measures proprietary income and corporate profits generated by U.S. farms and ranches. Net farm income is a component of Gross Domestic Product and can be used to compare the financial contribution to the economy of farm businesses with other businesses or investments. Estimates of farm sector business income are inappropriate measures of the financial well-being of the people who run farms. To understand what is happening at the farm and household level, we must examine farm-level data.

The new household income series is a major addition to USDA's financial data series that addresses the structure of the sector. In the past, increases in farm revenues were assumed to be distributed evenly across all families. Farm income was also assumed to be their dominant source of income. However, we know that in 6 percent of farm businesses income is split among 2 or more households, and that income from farm production is also allocated to landlords and contractors as well as to operators. With the data collected by the FCRS, we can now measure the level of income generated by farming that goes to the senior farm operator household.

Our aim in measuring the well-being of farm operator households is to be able to compare them with other households in the United States. To make comparisons, our definitions of income to the household must match the definitions used to derive income for other households. So, we include cash income from all sources earned by all members of the household.

In the past, farmers have not been financially well-off relative to the rest of the economy. For the most part, the income gap between farm operator households and other U.S. households now has been eliminated. This is largely due to gains in off-farm income rather than in farm income. As indicated in the first figure, farming is no longer the dominant source of income for most farm operator households. Even for households operating the largest farms, off-farm income can be a significant potion of total household income. No longer is farm income as big a part of total household income of farm operators as it once was, and the level of U.S. average farm income bears little resemblance to how well individual families are doing financially.

Estimates of farm operator households' income from all sources averaged $40,068 in 1992, about the same as the average for all U.S. households ($39,020). Farm income was $4,337 or about 11 percent of household income. Most off-farm income comes from wages and salaries or from a non-farm business. In two-thirds of farm operator households, either the farm operator, the spouse, or both earned off-farm wage or salary income. Off-farm sources of income also includes interest, dividends, retirement benefits such as Social Security and other non-farm sources. Ninety-eight percent of farm operator households receive some type of off-farm income. Sixteen percent earned income from operating a non-farm business of some sort.

The structure of the farm industry partly explains the large role of off-farm income. Although concentration of agricultural activities among large-scale farms continues, the U.S. still has numerous small farms. The larger the farm, the less likely the farm operator is to have a major occupation off the farm, and less likely the household will depend on off-farm income.

Total cash income of individual households varied widely-- and 8 percent actually lost money at the household level. Another 42 percent received positive income of $28,846 or less. ($28,846 is the median, the point at which half of the households have more income and half have less). Thirty percent received more than the average of $40,068.

The U.S. average farm income figure masks the distribution of income across households. An average income figure combines the earnings of people who are full-time operators of large farms with those who farm part-time and depend mainly on off-farm income. Households running small farms depend heavily on off-farm income. Farms with sales between $50,000 and $100,00 contribute about half of the total household income. Larger farms also receive off-farm income, but the amounts are a smaller share of the total household income.

Farm types also differ in their ability to generate income. Average income combines the receipts of a household managing a small apple orchard in New York, for example, with one operating a large feedlot in Texas (see figures showing the distribution of income by commodity specialty and by size).

To account at least partially for the diversity of farming, three mutually exclusive groups of farm households have been identified (table 1). The first category--commercial farms--contains households whose operators identify farming as their major occupation and make at least $50,000 in gross farm sales. This definition of commercial farms is more restrictive than the usual definition that focuses only on sales and ignores the occupation of the operator. The remaining farm operator households are split into 2 categories, based on whether they have adequate household income. Adequate income is indicated by having income at or above the poverty threshold for a family of four of approximately $15,000 per year.

Commercial farms are important to U.S. agriculture. They provided most of U.S. farm production and in 1992 received 75 percent of Government payments. The majority of farms in this category are in a favorable financial position and have significant net worth. Small commercial farms (with gross sales under $250,000) contributed, on average, $17,373 in farm income to total income. Large commercial farms contributed over $63,000. Sixty-one percent of commercial farm households received more income from farming than from off-farm income. But even large commercial farm households draw considerable off-farm income. The kind of off-farm income that households receive is different across farm sizes. Households running larger farms tend to receive a larger share of income from running another non-farm business and from interest or dividends. Smaller farm operators tend to receive a larger share of income from wages or salaries.

In about 1/2 of commercial farm households, someone earned money from a job or business off the farm. Households operating small commercial farms earned about 1/2 of their total income from off-farm sources. And even the large commercial farms households received about 30 percent of their household income from off-farm sources.

The dominant group of farms, in terms of numbers of farms, is the viable non-commercial farm group. These farms are viable primarily because of the households' success in off-farm pursuits. Fifty-four percent of farms are in this group and their average loss from farming of

$817 heavily influences the U.S. average farm income. But their off-farm income brought average household income for the group to over $50,000 in 1992. Most of the operators running viable non-commercial farms spend the majority of their work time in occupations other than farming-- and as a group they contribute a minority of total U.S. farm production. Seventy percent do not consider farming as their major occupation. An average of 80 percent of their average household income comes from wages, salaries, or an off-farm business. Another 21 percent comes from unearned income such as interest, dividends, Social Security, and other off-farm sources. Off-farm sources can exceed total household income since they offset negative farm income for those households.

Some farm operator households have neither the farm assets to generate sufficient income for the family nor the opportunities to combine farm and off-farm sources of income. Twenty-two percent of households were in this low income category, with combined income below $15,000. Off-farm income was only $11,550 on average, not enough to make up for the average loss of $7,334 from farming. These farms are small whether measured by acreage, sales, or net worth. Operators in this category are generally older and have less formal education than other farm operators, limiting their off-farm opportunities.

The situation of these household raises the question of why they remain in farming if they are not making an adequate living. Since our data is a snap-shot in time, we don't know how many individual farms remain in this low income category year-to-year. Certainly, despite their low incomes in a given year, farmers have a store of wealth in their farms. The desire to "be your own boss" many serve to offset some years of low income. Some say they stay because they prefer a rural lifestyle. Cash requirements to pay off debt and cover living expenses are generally low for this group. Alternatively to farming, such as moving to an area with more off-farm jobs, may be even less financially rewarding, given their limited education and training.

Traditional farm commodity programs are most likely to have an impact on households running commercial farms and specializing in program commodities. Economic development in rural areas is probably most important to non-commercial farm households. However, while rural development may help some households improve their off-farm earnings, which in many cases make the difference between low and adequate household income, it is less likely to help elderly low-income farm operators.

The structure and composition of farming through the rest of the decade is expected to be similar to that of today. Average farm operator household income from farm sources is projected to be nearly flat (in real terms) at levels somewhat equivalent to 1991 and 1992 (see table 2).

The forecast of the farm portion of average farm operator household income is based on the short-term farm sector income forecasts, adjusted for the share of income received by operator households and the forecast number of farms. Off-farm sources will continue to provide the major portion of average farm operator household income. The forecast of off-farm income is based on the projections of the wage compensation index for non-farm employment. Approximately 3/4 of off-farm income comes from wages or salaries and this component of household income is expected to remain dominant.

Changes in household income will be reflected in the extent that the rural economy continues to expand and persons in farm households expand their job participation in it. As the general economy improves next year and more jobs are created, off-farm income should increase. If more farmers use production contracts to spread their risks, more of the gross income generated by farm production will accrue to others outside of senior farm operator households. USDA will continue to monitor any changes in farm structure and in rural communities so that we can accurately measure the economic well-being of the people who run farms.

Table 1—Selected characteristics of farm operator households, by household type, 1992

	Household type 1/			
	Full-time commercial farms		Viable	Low
	Large	Small	small farms	income
Number of households	99,651	397,916	1,125,969	448,412
Share of households (percent)	4.8	19.2	54.3	21.6
	Dollars			
Household farm-related income (average)	63,037	17,373	-817	-7,334
Negative farm-related income (percent)	21.7	25.9	63.4	71.2
Off-farm income (average)	27,179	17,198	52,667	11,550
Earned income (average)	18,995	11,620	41,535	27,022
Percent reporting earned income	50.4	53.3	81.0	42.7
Unearned income (average)	8,183	5,579	11,132	5,519
Total household income (average)	90,216	34,572	51,850	4,216
Average farm net worth	1,153,240	484,018	243,163	230,626
Average government payment	17,611	7,221	982	939
Percent share of government payments	28.5	46.7	18.0	6.8
	Percent			
Farm income compared with off-farm income:				
No off-farm income	23.6	17.1	2/	9.5
Farm income less than off-farm income	30.1	41.7	96.2 2/	84.8
Farm income greater than off-farm income	46.3	41.2	3.8	5.7
Type of commodity specialty:				
Cash grains	27.7	32.9	14.4	15.1
Other crops	22.7	16.4	25.3	24.4
Beef, hogs, sheep	23.8	24.9	50.2	50.5
Other livestock	9.2	3.8	8.3	6.5
Dairy	16.6	22.1	1.8	3.5
Share of value of production				
Region:				
Northeast	5.1	7.4	5.9	6.6
Midwest	48.8	57.3	36.0	35.0
South	27.1	22.7	45.5	45.7
West	19.0	12.6	12.6	12.7
Major occupation of operator:				
Farm/ranch work	100.0	100.0	29.4	65.4
Other	0.0	0.0	70.6	34.6
Average operator age	48	50	53	59
Education of operator:				
Less than high school	11.2	16.5	17.7	39.3
High school graduate	40.4	47.4	39.6	40.4
Some college	25.0	22.9	22.0	12.6
College and beyond	23.5	13.2	20.7	7.7

1/ Households operating commercial farms have an operator whose major occupation is farming. Large commercial farms have farm sales of at least $250,000 and small commercial farms have farm sales greater than $50,000 but less than $250,000. We divide the remaining households into two categories: households which have income at or above $15,000 (combining farm and off-farm income) and below $15,000 (low income households). 2/ Two cells were combined to avoid data disclosure.

Source: Preliminary estimates from the 1992 Farm Costs and Returns Survey, all versions.

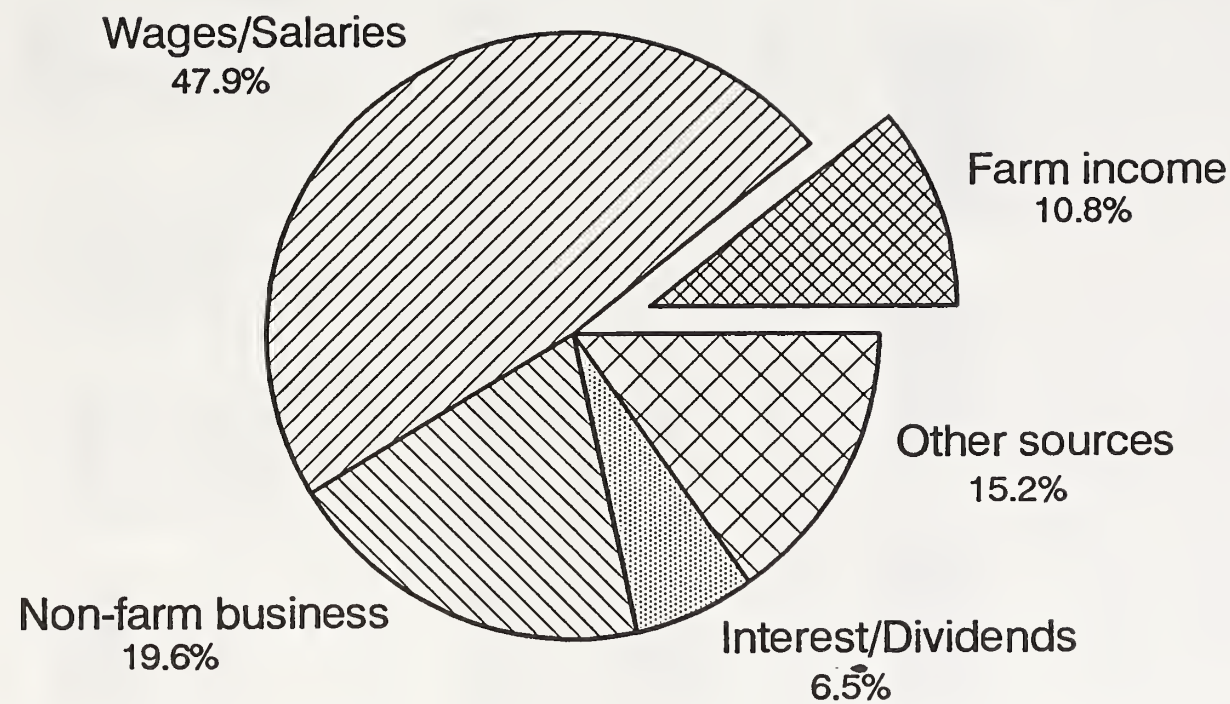
Table 2—Average income to farm operator households, 1988-93

Item	1988	1989	1990	1991	1992P	1993F	1994F
	Dollars per operator household						
Farm income to household 1/	4,201	5,796	5,742 2/	4,397	4,337	4,266 to 5,561	4,233 to 5,536
Self-employment farm income	3,386	4,723	4,973	2,283	2,829	n/a	n/a
Other farm income to household	364	1,073	768	2,114	2,010	n/a	n/a
Plus: Total off-farm income	28,829	26,223	33,265	31,638	35,731	34,954	36,457
Income from wages, salaries, and non-farm businesses	22,220	19,467	24,778	23,551	27,022	n/a	n/a
Income from interest, dividends, transfer payments, etc.	6,610	6,756	8,487	8,087	8,709	n/a	n/a
Equals:							
Farm operator household income	33,030	32,019	39,007	36,025	40,068	39,220 to 40,515	40,690 to 41,993

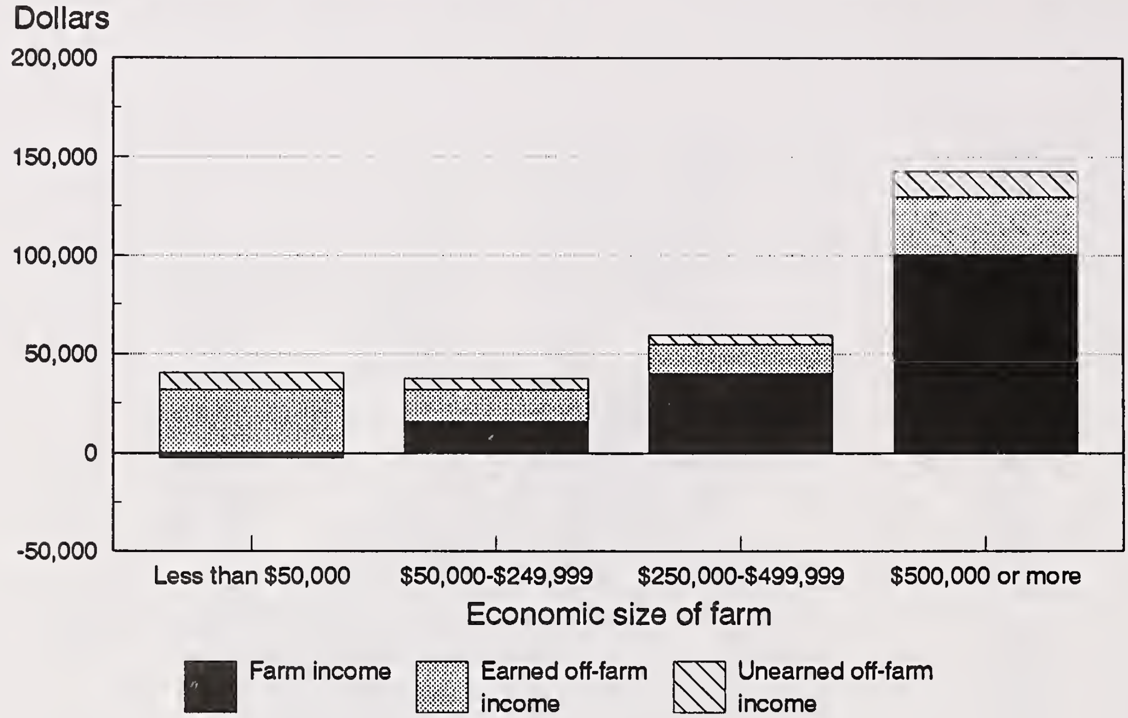
P = preliminary; F = forecast. n/a = not available. Data for 1988-90 are expanded to represent the farm operator households surveyed in USDA's Farm Costs and Returns Survey; data for 1991-92 are expanded to represent the total number of U.S. farms and ranches. Totals may not add due to rounding.

1/ Farm income to the household equals self-employment income plus amounts that operators pay themselves and family members to work on the farm, income from renting out acreage, and net income from a farm business other than the one being surveyed. 2/ If the additional 350,000 small farms included in the 1991 analysis were included in the 1990 analysis, farm income to the household in 1990 would be approximately $4,600.

Sources of Household Income, 1992



Household Income by Economic Size of Farm



Household Income by Commodity Specialty