An Analysis of Family Living by Non-Farm Income Group

Gregory Ibendahl *(ibendahl@ksu.edu)*

Kansas State University Department of Agricultural Economics - February 2018

http://www.agmanager.info

Introduction

As shown in AgManager publication 2018.2, family living tends to lag net farm income both when net farm income is increasing and when net farm income is decreasing. In real dollar terms, family living was around $50,000 per year prior to the record net farm incomes that started around 2007. These above average net farm incomes caused family living to increase to around $70,000. However, net farm income started declining in 2013 and have now declined below historical long term averages.

The current situation is that family living has started to decline but has not yet declined to levels before the record net farm incomes started. This could be because the lag effect for family living when net farm income declines has not fully been realized yet and it could reflect the difficulty of reducing certain expense categories like medical insurance.

One issue that was not explored in AgManager publication 2018.2 was the effect of non-farm income on family living. Many farms have other sources of income besides farming so these farms would not be effected as much by changes in net farm income and might not have to adjust their family living as much. This article examines family living by three groups of non-farm income to see if these non-farm income differences make a difference in family living.

For this study the farms with family living data are divided into three groups based on the level of non-farm income. The groups are divided so that each level contains the same number of farms. Figure 1 below shows the medium non-farm income for each of the three groupings in real dollar terms. Those third of farms with the least non-farm income earned $10,000 while those highest third of farms with the most non-farm income earned $70,000 in non-farm income.

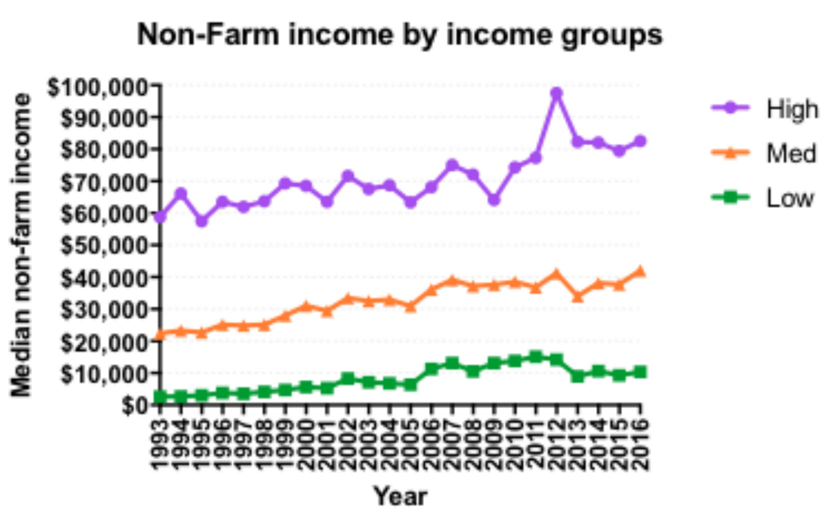

Figure 1. Medium Non-Farm Income by Level of Non-Farm Income

Differences in NFI

Figure 2 on the second page shows the average net farm income for each of these three non-farm income groups. While there is over a $60,000 difference between levels of non-farm income, the differences between net farm income are not as large.

As might be expected, those farms with the lowest non-farm income had the highest level of net farm income. Differences in net farm income average less

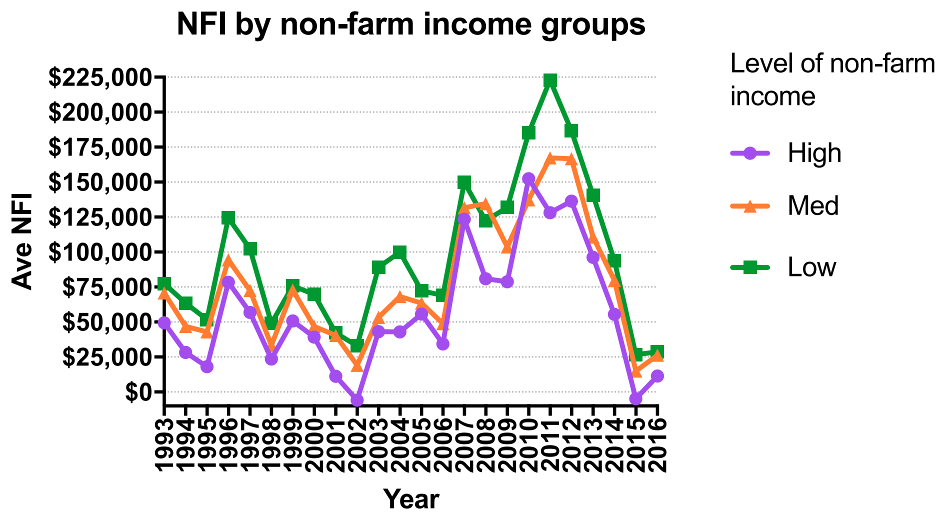

Figure 2. Average NFI by Level of Non-Farm Income

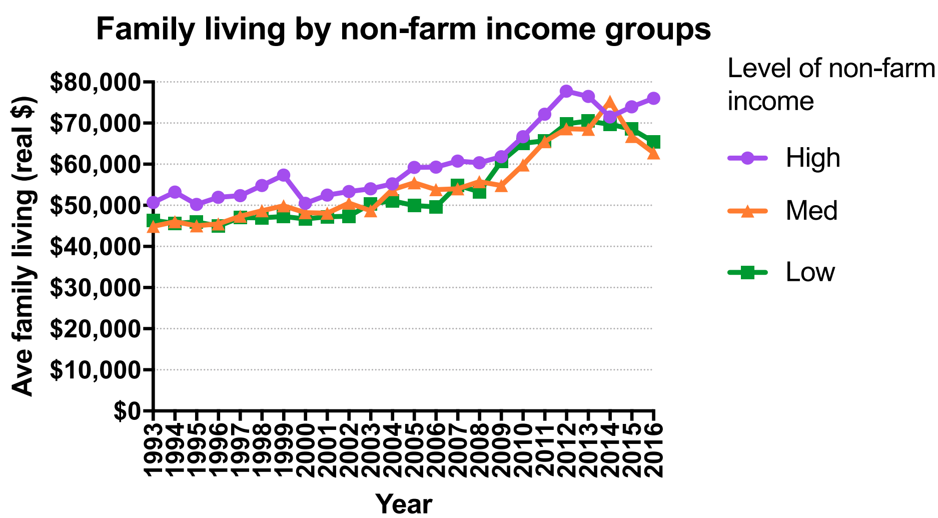

Figure 3. Average Family Living by Level of Non-Farm Income

than $40,000 per year between the high and low non-farm income groups. Thus, when dividing farms into three groups based on levels of non-farm income. Those with the highest level of non-farm income earn over $60,000 more in non-farm income compared to the lowest level of non-farm income farms but have net farm income less than $40,000 smaller. In effect, those with higher non-farm incomes have over $20,000 more in total income per year.

Family Living Differences

Given that those farms in the highest non-farm income group were earning over $20,000 more per year from the combination of net farm income and non-farm income, it might be expected that these farms would have the greatest amount of family living expenses.

An examination of Figure 3 does indicate that those farms with higher levels of non-farm income are spending more in family living. On average, those farms with the highest level of non-farm income are spending an average of nearly $6,000 more in family living each year.

However, the farms with the most non-farm income have an additional $20,000 more in net farm income and non-farm income. Thus, these farms, even with an extra $6,000 in family living, are still have more available funds than do those farms with the least amount of non-farm income.

Figure 3 also shows that the three groups have adjusted their family living differently in response to reduced net farm income. The two-thirds of farms with the lowest level of non-farm income have reduced their family living the most. The one-third of farms with the highest level of non-farm income started to adjust their family living downward but the last two two years has seen these farms actually increase their family living slightly. At the end of 2016, these farms at the top of the non-farm income list have family living expenses that are the same as they were back in 2012.

Summary

Those farms with the least amount of non-farm income also have the lowest total amount of net farm income and non-farm income. This group does have more net farm income but the advantage of higher net farm income is out weighed by lower non-farm income. Because the drop in net farm income is hitting these farmers the most, the bottom two-thirds of farms by non-farm income have made the biggest adjustments to family living.

The top third of farms with non-farm income have more flexibility since they have more total income than do the other two groups. This top group is also less affected by changes in net farm income. As a result, this group has made the least amount of family living adjustments.

Going forward, all farms will need to watch their family living. With family living still near $70,000 and net farm income below historical averages, many farms are still spending more than the combination of net farm income and non-farm income.