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## Farm Household Income and Employment Trends

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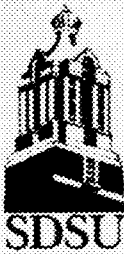
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# ECONOMICS COMMENTATOR

South Dakota State University

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## Farm Household Income and Employment Trends

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What do changes in corn prices, the stock market, and unemployment have in common? They can all impact farm household income. While the effect of corn prices is straightforward, the other effects are often downplayed. This is the last in a series of Commentators that looks at the structure of South Dakota Agriculture. The prevalence of off-farm income and how it influences farm household income are examined. Because wages are a major source of off-farm income, the hours worked on and off the farm by farm households are also examined.

### Off-Farm Income

Income received from nonfarm (off-farm) sources is a major component of net income earned by many farm families. Since 1964, a majority of net income earned by farm families in the U.S. has originated from off-farm sources. These sources of income include (in order of importance): wages and salaries, nonfarm business earnings, interest and dividends, pensions and social security, and nonfarm rental income. Almost three-fifths of off-farm income is earned as wages, salaries, and commissions.

The most recent statistics on off-farm income are only available at the national level from the USDA. In 1999, the average farm operator household had \$64,347 in income (ERS, 2000). Of that amount, however, only 10 percent came from farming activities. On average, households with farm sales volume below \$100,000 did not have positive income from farming. For households with sales between \$100,000 and \$250,000, off-farm income was about equal to farm income. Only for households with sales volumes above \$250,000 did farm income exceed off-farm income.

A regional breakdown of household income is only available as recently as 1995 (Sommer, et al., 1998). In the U.S. the average farm operator household income was \$44,392 of which 11 percent came from farming. The situation was quite different in the Northern Plains (North Dakota, South Dakota, Nebraska, and Kansas). Average farm operator household income was lower at \$39,148 and 26 percent came from farming. The percentage of income from farming in the Northern Plains was the highest among all regions in the U.S. Hence, farm operator households in the Northern Plains would be more sensitive to changes in farm income relative to other U.S. farm households.

### Occupation and Employment Trends

Farmers themselves account for a growing portion of the off-farm income earned by farm households. Farming is the principal occupation of only 73 percent of South Dakota farm operators. The number of operators claiming a different occupation has been increasing, and at a faster pace in the last ten years. The number and proportion of farm operators reporting full-time off-farm employment and/or reporting their principal occupation as "other than farming" has increased over time. In 1997, 25 percent of South Dakota farm operators worked 200 or more days in an off-farm job compared to 17 percent in 1978. The incidence of full-time, off-farm employment and principal occupation of "other than farming" are associated with very small farm operations with less than \$20,000 of gross farm sales.

Approximately two-thirds of farm operators in 1997 that worked off-farm more than 200 days, and/or did not consider farming to be their principal occupation, reported gross farm sales of less than \$20,000. Senior farmers, 55 years of age and older, were much more likely to list their principal occupation as farming compared to young and middle-aged farmers.

From 1978 to 1987 there was a noticeable shift from farmers working off-farm part-time, less

than 200 days, to farmers working closer to full-time off-farm, more than 200 days. The trend towards more full time off-farm work continued from 1987 to 1997. However, during this latter span there was a corresponding decrease in the percentage of farmers without off farm work. In 1997, only 55 percent of farmers reported no off-farm income while over 25 percent reported more than 200 days of off-farm work. This trend is consistent with the recent increase in operators claiming occupations other than farming. The Census in 1997 was also the first time that more than a quarter of operators reported working close to full-time off the farm.

A more complete analyses of farm household employment and income requires information on employment and income received (by type) by all family members, especially for the operator and spouse. Korb (1999) reports that farm operators and/or their spouses are employed in off-farm work in 62 percent of U.S. farm households. Both farm operator and spouse are employed off-farm in 26 percent of U.S. farm households (Table 1). Only 38 percent of U.S. farm households have neither operator nor spouse working off-farm and over half of these farm operators are over 65 years old. Furthermore, Korb (1999) reports that a drawback to consider is that most farm family members who work off the farm do so out of a "need" for additional income.

For Midwest farm households, it is more likely that either the spouse only or both operator and spouse are working off-farm, relative to the U.S. as a whole. Adding the "spouse only" and "neither works" categories one finds that 52 percent of Midwest farm operators do not work off the farm. This percentage is consistent with the 55 percent of South Dakota operators who reported no off farm work.

### **Hours Worked by Farm Households**

A more refined breakdown of the hours worked by operators, spouses, and other laborers on farms was also reported in Korb (1999). The time the operator worked on the farm was reported, as were the shares for different workers. Data in Table 2 show the estimated number of hours worked on the farm by the different categories of off-farm work by the operator and spouse.

Several patterns are consistent with what one would expect across the different categories. When both the operator and spouse work off the

farm the fewest total hours are worked on the farm. This category also has the highest percentage of "all other workers" contributing labor to the farm operation. When only the operator works off the farm the average number of hours worked on the farm by the operator is the lowest across the different categories. The amount of hours worked by the operators on the farm is slightly above 1000 hours or roughly 20 hours a week. The spouse's share of labor is highest for operations in this category.

The most on-farm work occurs when only the spouse works off the farm. This category is also representative of when the operator works the largest share and most absolute hours. The total worked by the operator is equivalent to about 50 hours a week on the operation. The share of spouse and all other workers is lowest for this category, but the total hours worked on such operations is the highest of the different categories at 3,300 hours a year. The lower number of on-farm hours worked by farm households where neither works off-farm is closely related to the fact that more than 50% of these farm operations are operated by senior farmers, 65 years of age and older.

### **Implications**

Farm household income levels continue to keep pace with regional and national trends of increasing household income levels. Because the nationwide economic prospects are good, a continued increase in income levels is anticipated for S.D. farm households. However, the source of household income will most likely come from continued off-farm income sources and labor force participation by a spouse, the operator, or both. While off-farm income provides a stable source of household income, it may come at the cost of running a smaller or more specialized operation, i.e., such a move may reduce the portfolio benefits of multiple farm enterprises.

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**Table 1. Household members that work off of the farm.**

	Only the Operator Works Off-Farm	Only the Spouse Works Off-Farm	Both Work Off-Farm	Neither Work Off-Farm
	percent of total			
U.S. Farm Households, 1994	22	14	25	38
Midwest Farm Households, 1994	20	17	28	35
S.D. Farm Households, 1997	12	19	33	36

Sources: Korb (1999) and Diersen, Janssen, and Loewe (2000).

**Table 2. Hours worked on the farm by household members.**

Item	Only the Operator Works Off-Farm	Only the Spouse Works Off-Farm	Both Work Off-Farm	Neither Work Off-Farm
Time Operator Worked on Farm (Hours/Year)	1,028	2,462	1,046	1,709
Share of Total Hours Worked on Farm (%):				
Operator	62	75	68	69
Spouse	22	13	15	16
All other workers	16	13	17	15
Total Hours Worked on Farm by All Workers (Hours/Year)	1,650	3,300	1,543	2,473

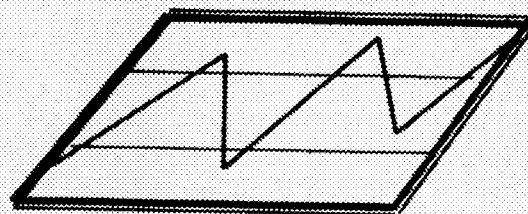
Sources: Korb (1999) and Diersen, Janssen, and Loewe (2000).

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