

Family Living and Nonfarm Income

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Introduction

As detailed in *An Analysis of Family Living in Kansas for 2020* (<https://www.agmanager.info/kfma/research-articles/analysis-family-living-kansas-2020>), family living expenses average nearly \$70,000 per year. Added to this, families still must pay taxes and meet principle payments so these families really need income above family living expenses to avoid drawing into farm or family equity.

Often net farm income is less than family living but fortunately, most farm families have some level of nonfarm income. The purpose of this article is to examine the combination of net farm income and nonfarm income to determine if this is enough to cover family living expenses. This is not a cash flow analysis but simply one measure of determining if family living expenses are being met.

Analysis

Figure 1 shows the average and median nonfarm income since 1993 for KFMA families. The average is higher than the median as some of the highest nonfarm incomes pull up the average. The median is the point where half the farms have higher nonfarm incomes and half have lower nonfarm incomes. Nonfarm income is important to farm families as it helps to mitigate the variability of net farm income.

Figure 2 shows the distribution of nonfarm income for 2020. Nearly every farm has some nonfarm income but as the graph shows, there is a large range of nonfarm income. The median value would be at the 50% relative frequency on the y-axis.

Figure 3 shows the ability of farm families to cover family living through a combination of net farm income and nonfarm income. Keep in mind taxes and principle payments are not included. The left axis is the sum of farm and nonfarm net income minus family living. The lines represent the average, the median (or 50th percentile), and the 25th and 75th percentiles. The 25th percentile can be interpreted, for example, at the point where 25% of farms have that particular value or lower.

Figure 3 illustrates at least two points. First, the bottom 25% of farms consistently struggle to cover all of family living in a given year. This bottom 25% of farms varies from year to year so it is not the same farms across time. In a poor net income year like 2015, 50% of farms could not cover family living.

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Second, the range between the bottom 25% and the top 25% of farms in covering family living expenses narrows in lower net income years. By contrast, the range widens in very profitable years like 2011 and 2020. 2020 and 2011 appear very similar and nearly every farm was able to cover family living expenses.

Conclusions

Nonfarm income helps to even out net farm income but it is no guarantee that farm families will have enough to support family living. Historical evidence suggests that in a typical year, the bottom 25% of farms will struggle to cover family living. In good net farm income years, most farms cover family living while in very poor net farm income years, up to 50% of farms may struggle to cover family living.

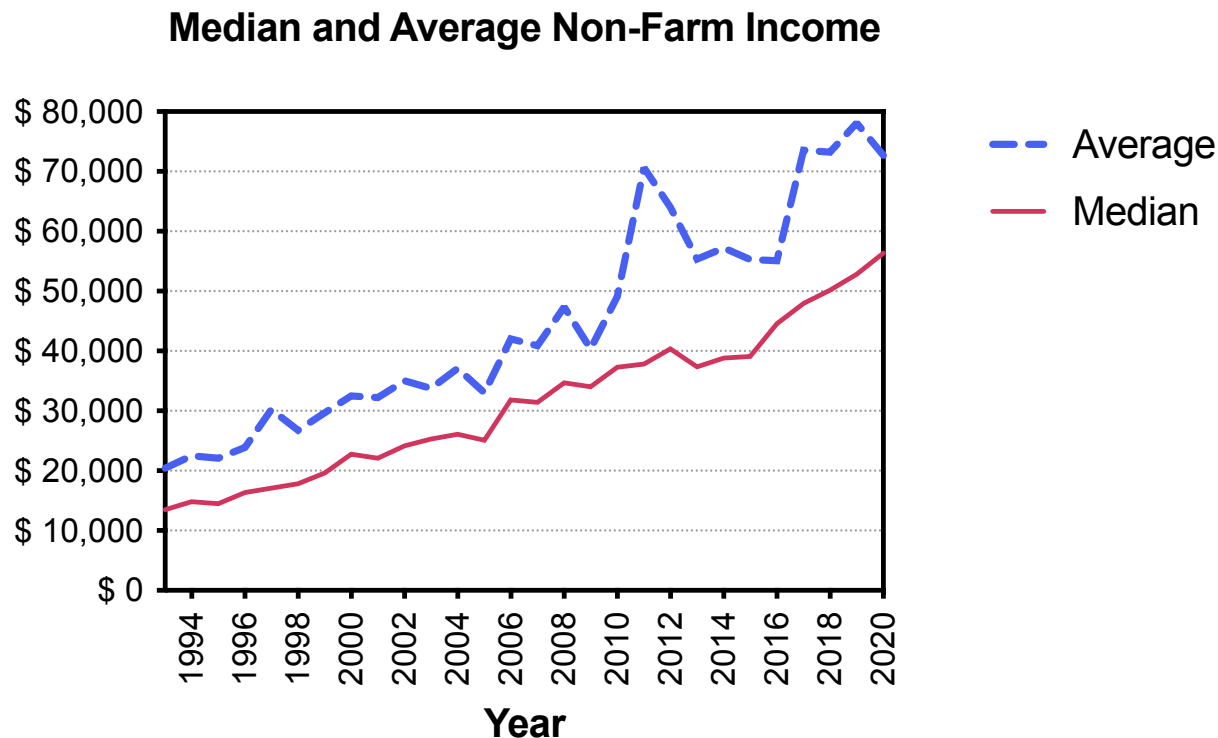


Figure 1. The Median and Average Nonfarm Income for KFMA Families Across Time

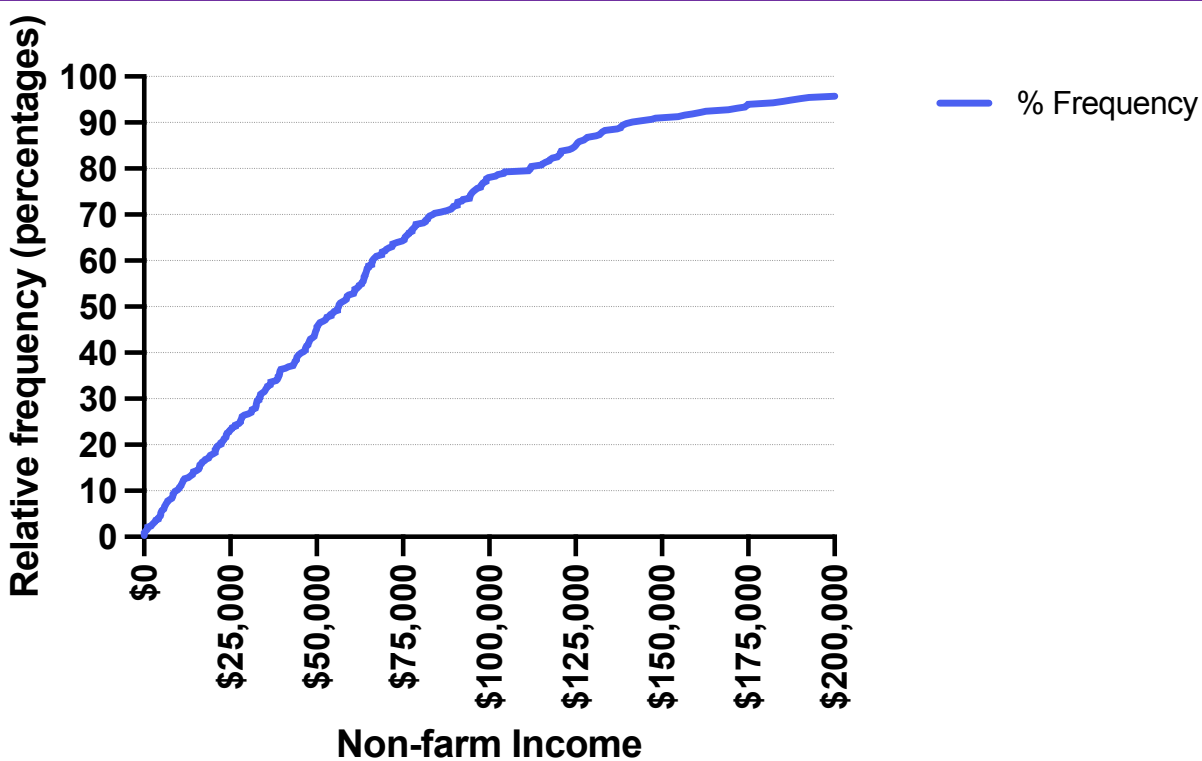


Figure 2. The Distribution of 2020 Nonfarm Income

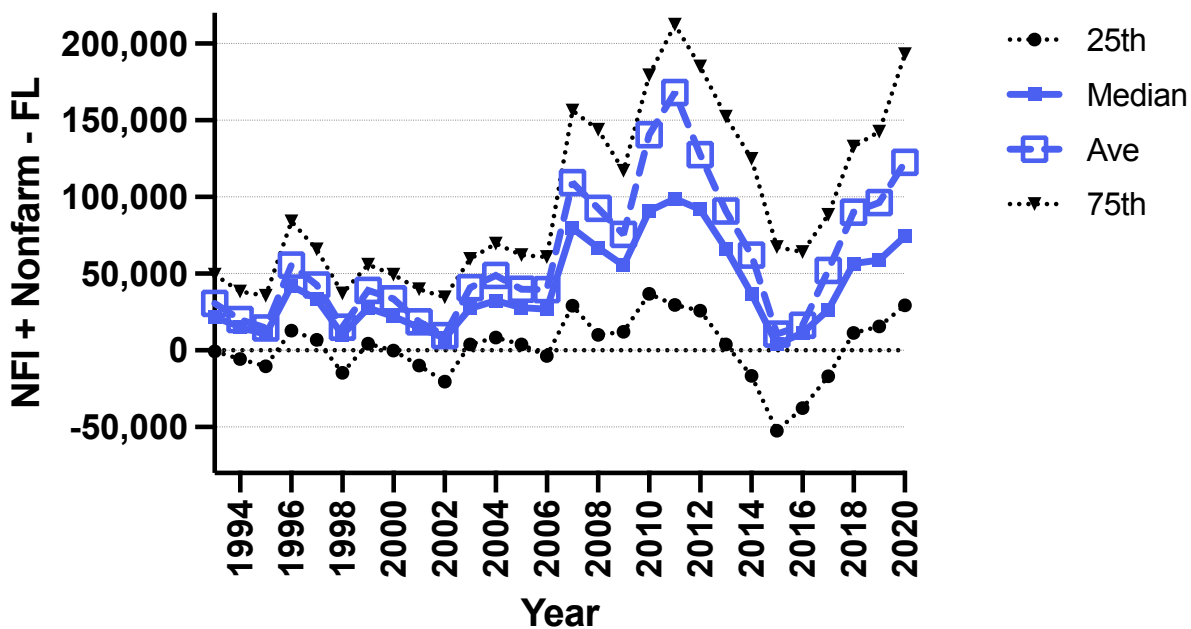


Figure 3. Net Farm Income Plus Nonfarm Income Minus Family Living by Percentile Across Time