

Structural and Financial Characteristics of U.S. Farms, 1995: 20th Annual Family Farm Report to the Congress. By Judith E. Sommer, Robert A. Hoppe, Robert C. Green, and Penelope J. Korb. Resource Economics Division, Economic Research Service, U.S. Department of Agriculture. Agriculture Information Bulletin No. 746.

Abstract

Farming in the United States is both diverse and complex, and national averages often mask the variation and interactions that are key to understanding the major participants in agricultural production, i.e., farm businesses, farm operators, and farm operator households. Farm businesses vary with respect to such characteristics as size (sales and acres), product mix, legal organization, land tenure, and financial performance. Farm operators show diversity in demographic characteristics, in the hours they spend working on and off the farm, and in their managerial practices. Farm operator households differ in their financial well-being and sources of income, particularly in their level of dependence on earnings generated from the farm operation. This report, based primarily on USDA's 1995 Agricultural Resource Management Study (formerly the Farm Costs and Returns Survey), brings together these components of farming to describe them and examine their roles in agricultural production.

Keywords: Farm structure, farm income, financial performance, farm management, farm business, government payments, farm loans, computer use, minority farmers, female farm operators, farm operator household, family farm, small farm.

Preface

This report is the 20th in a series of reports to the Congress on the status of family farms. These reports have been submitted annually by the U.S. Department of Agriculture in accordance with the Food and Agriculture Act of 1977 and subsequent farm legislation.

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Highlights

The 20th Family Farm Report to the Congress presents the most recent comprehensive information available on the structural and financial characteristics of U.S. farms. The report is based primarily on USDA's 1995 Agricultural Resource Management Study (ARMS), an annual survey of farm and ranch operators in the 48 contiguous States. The 1995 ARMS, conducted in the spring of 1996, collected information from nearly 8,800 operations across the Nation.

The report describes the characteristics of farm businesses, farm operators, and farm operator households, and assesses their financial performance. This edition also provides new information on sources of farm business loans, farm operators' use of computer technology, characteristics of minority farm operators, and a new typology of small farms developed in response to the report of the USDA National Commission on Small Farms.

In 1995, more than 98 percent of the Nation's 2,068,000 farms were classified as family operations. While 3 percent of farms were legally organized as corporations, 86 percent of corporations were closely held by the operators' families and therefore are classified as family farms. Other family farms were legally organized as sole proprietorships (91 percent of all farms) and partnerships (5 percent of all farms).

Overall, the Nation's farms generated an average \$80,621 per farm in sales of agricultural products, but commercial farms (farms with sales of \$50,000 or more) averaged \$281,978 in gross sales compared with an average \$10,130 for noncommercial farms (farms with sales under \$50,000). Although commercial farms accounted for just 26 percent of farms, they produced 91 percent of the total U.S. value of sales and generated 87 percent of gross cash farm income.

Gross cash farm income averaged \$73,474 per farm nationwide, but commercial farms averaged \$247,697 while noncommercial farms averaged \$12,482. Average gross cash farm income was made up of crop sales (39 percent), livestock sales (45 percent), government payments (4 percent), and other farm-related income (12 percent).

While one-third of U.S. farms received income from government payments in 1995, commercial farms participated in programs at twice the rate of noncommercial farms (59 percent v. 24 percent). Although payments to noncommercial farms participating in government programs were smaller than payments to commercial farms (\$4,453, on average, compared with \$12,614), government payments were a larger share of farm income for noncommercial farms (24 percent of gross cash farm income compared with 6 percent for commercial farms). Payments for the 4 percent of farms with the highest government payments averaged \$54,805 or 11 percent of average gross cash farm income, and their payments accounted for 25 percent of all government payments.

More than two-thirds of farms depended on a single commodity or commodity group for 50 percent or more of total sales. Nearly half of these highly specialized farms produced primarily beef cattle and their gross cash income averaged \$37,825, just over half the U.S. average. One in five of the highly specialized farms produced primarily a cash grain crop (corn, wheat, soybeans, sorghum, or rice), which generated income ranging from \$51,755 for soybean farms to \$172,391 for rice farms.

Farms with operators who rented all or part of the land they operated (45 percent of all farms) produced gross sales 2-3 times as high as the average \$47,708 for full-owner farms. Operators who rented other production assets (including buildings, equipment, machinery, vehicles, and livestock), as well as land, generated average sales more than three times the average \$89,331 for operators who rented land only.

Thirteen percent of farms managed risk through production or marketing contracts. Farms with contracts averaged gross sales (\$306,357) and gross cash farm income (\$237,682) approximately 5-6 times the average for farms using cash sales only (\$47,879 sales and \$49,657 income).

Farm assets averaged \$264,784 for noncommercial farms and \$809,641 for commercial farms. Since noncommercial farms carried little debt (\$19,923, on average, compared with \$148,067 for commercial farms), they had a relatively low debt-to-asset ratio (0.08 compared with 0.18 for commercial farms).

More than half of commercial farms (59 percent) and noncommercial farms (53 percent) were in a favorable financial position in 1995, with positive net farm income and a debt-to-asset ratio of 0.40 or less. However, 45 percent of noncommercial farms were in the marginal income or vulnerable category because of negative net farm income, compared with 29 percent of commercial farms that had negative net farm income.

Seventy-five percent of commercial farm operators reported lender debt outstanding at the end of 1995, compared with 41 percent of noncommercial farm operators. Half of commercial farms and one-fourth of noncommercial farms had loans from banks. One in 5 commercial farms had credit through the Farm Credit System and 1 in 10 had a loan through the Farm Service Agency. One in four marginal solvency farms (positive net farm income and debt-to-asset ratio over 0.40) reported debt outstanding to the Farm Credit System and/or the Farm Service Agency, while three out of five marginal solvency farms owed money to banks.

Nearly one-third of all commercial farm operators, but well over half of those with operations exceeding \$500,000 gross sales, used computers for bookkeeping and/or financial analysis. Computers were used for recordkeeping by one in five operators whose major occupation was farming and one in three operators who graduated from college used computers for recordkeeping. One in two farms with sales of \$1 million or more used computer software to make production decisions and one in five utilized computer-aided field operations.

Farms with operators who identified farming as their major occupation were four times as large in acreage (718 acres, on average) and generated income eight times as high (\$132,550) as farms with operators whose major occupation was "other" or "retired." Farms with operators 65 years of age and older outnumbered farms with operators younger than 35 years of age by three to one.

Of the 2 percent of farms with operators who identified themselves as nonwhite, 43 percent were operated by blacks. The 18,800 farms operated by blacks were small relative to the U.S. average, and fewer than half of black operators designated farming as their primary occupation (44 percent v. 55 percent).

Farms with Hispanic operators accounted for 1 percent of all farms, and average sales (\$115,200) were one-third higher than the average U.S. farm. About 72 percent of farms operated by Hispanics were located in five States: California, Colorado, Florida, New Mexico, and Texas.

About 8 percent of all farms were operated by females. Female-operated farms generated sales averaging \$35,281, less than half the U.S. average, and 36 percent of female operators were 65 or over, compared with 25 percent of operators who were 65 or over nationwide.

On average, farm households fared as well as all U.S. households in total household income, but 89 percent of their income came from off-farm sources. However, households associated with very large farms (sales \$500,000 or more) had income more than 4 times as high (\$195,825) as the average U.S. household and only 16 percent of their total household income came from off-farm sources.

In like manner, households that depended on earnings from the farm for 75 percent or more of their total income had higher income than less dependent households, and nearly twice the U.S. average for all households. Farm households with operators who were under 35 and 65 and over had income averaging about three-fourths the U.S. average household income, while other operator households (operators age 35-64) averaged more than 100 percent of the U.S. average.