

Farm & Rural Communities

ERS Farm Typology: Classifying a Diverse Ag Sector

Farms vary widely in size and other characteristics, ranging from very small retirement and residential farms to establishments with sales in the millions. A farm typology developed by the Economic Research Service (ERS) categorizes farms into more homogeneous groups than classifications based on sales volume alone, producing a more effective policy development tool.

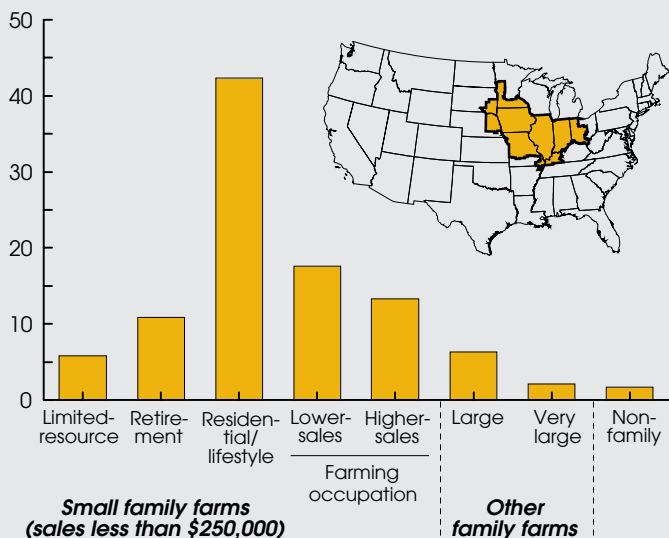
The typology is based on the occupation of operators and the sales class of farms. In the case of "limited-resource" farmers, the asset base and total household income—as well as sales—are low. Compared with classification by sales alone, the ERS typology is much more reflective of operators' expectations from farming, stage in the life cycle, and dependence on agriculture.

The typology identifies five groups of small family farms (sales less than \$250,000): limited-resource, retirement, residential/lifestyle, farming occupation/lower-sales, and farming occupation/higher-sales. To cover the remaining farms, the typology identifies large family farms, very large family farms, and non-family farms.

The groups differ in their contribution to agricultural production, their product specialization, program participation, and dependence on farm income.

The Heartland Illustrates Farm Diversity

Percent of region's farms



Defining the Farm Typology Groups

Small family farms (sales less than \$250,000)*

Limited-resource. Any small farm with gross sales less than \$100,000, total farm assets less than \$150,000, and total operator household income less than \$20,000. Limited-resource farmers may report farming, a nonfarm occupation, or retirement as their major occupation.

Retirement. Small farms whose operators report they are retired (excludes limited-resource farms operated by retired farmers).

Residential/lifestyle. Small farms whose operators report a major occupation other than farming (excludes limited-resource farms with operators reporting a nonfarm major occupation).

Farming occupation/lower-sales. Small farms with sales less than \$100,000 whose operators report farming as their major occupation (excludes limited-resource farms whose operators report farming as their major occupation).

Farming occupation/higher-sales. Small farms with sales between \$100,000 and \$249,999 whose operators report farming as their major occupation.

Other farms

Large family farms. Farms with sales between \$250,000 and \$499,999.

Very large family farms. Farms with sales of \$500,000 or more.

Nonfamily farms. Farms organized as nonfamily corporations or cooperatives, as well as farms operated by hired managers.

* The \$250,000 cutoff for small farms was suggested by the National Commission on Small Farms.

Differences among farm typology groups (e.g., product specialization, program participation) are illustrated in the following pages using 1997 data from the Agricultural Resource Management Study (ARMS). The ARMS is an annual survey conducted by ERS and by USDA's National Agricultural Statistics Service.

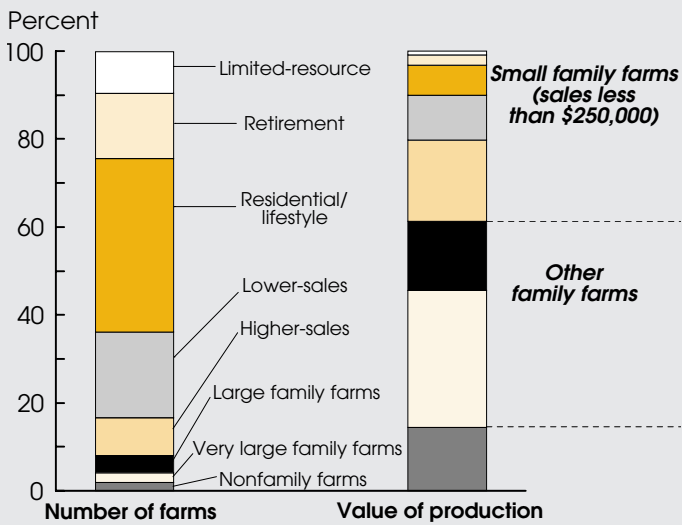
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Share of Farms, Assets, & Production

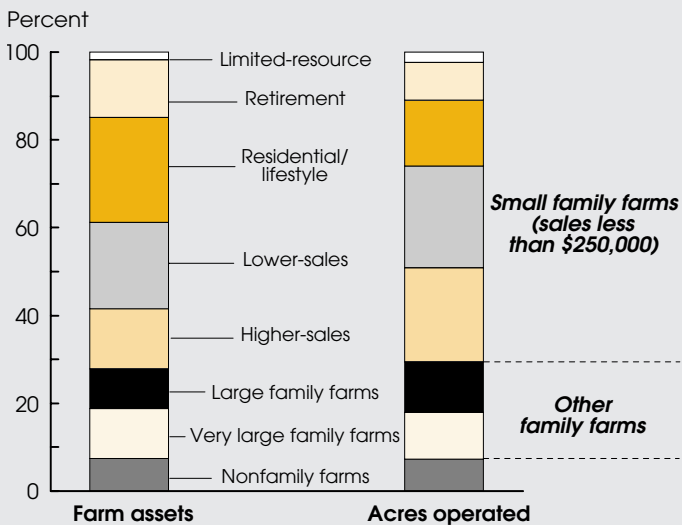
Most farms are small, but small farms account for a modest share of production.

- More than 90 percent of farms are small, and small farms account for about 70 percent of the assets and land involved in farming.
- Large family farms, very large family farms, and nonfamily farms account for 61 percent of production.

Share of Total Farms and of Production



Share of Farm Assets and Acres Operated

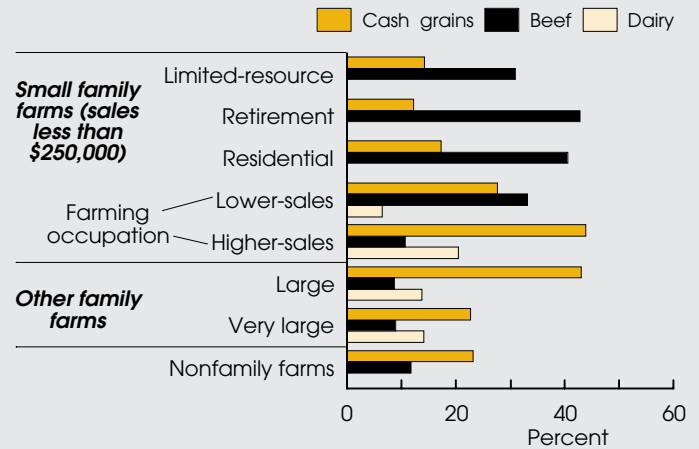


Specialization & Diversification

Specialization and diversification vary among the farm typology groups.

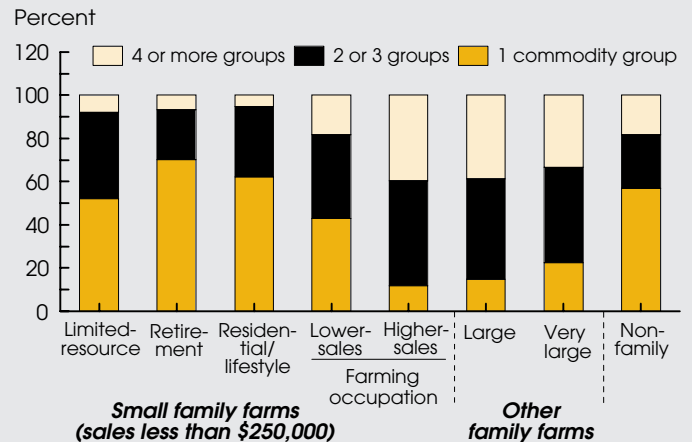
- Many small family farms specialize in beef cattle, an enterprise that often has low labor requirements compatible with off-farm work and retirement.
- In contrast, two commodity groups—cash grains and dairy—account for nearly two-thirds of all higher-sales small farms and over half of large family farms.
- Many small farms specialize in a single commodity, but higher-sales small farms, large family farms, and very large family farms tend to produce multiple commodities.

Share of Farms Specializing in Cash Grains, Beef, and Dairy



Commodity accounts for at least half of the farm's value of production. Estimates of dairy farms were suppressed for selected groups, due to insufficient number of observations.

Share of Farms, by Number of Commodities Produced



Based on 26 commodity groups.

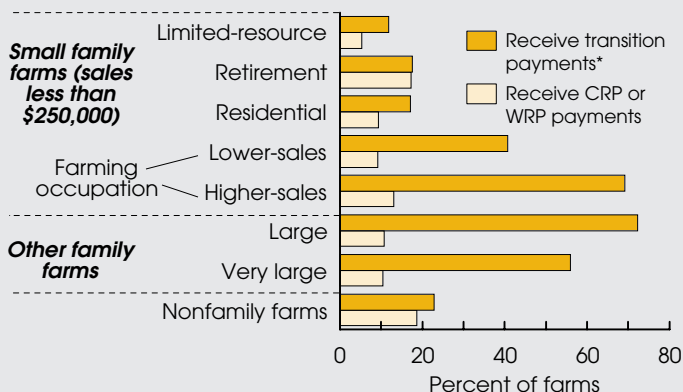
Farm & Rural Communities

Government Program Participation

All farm typology groups participate in government farm programs to some extent, but the participation rates and share of program payments vary.

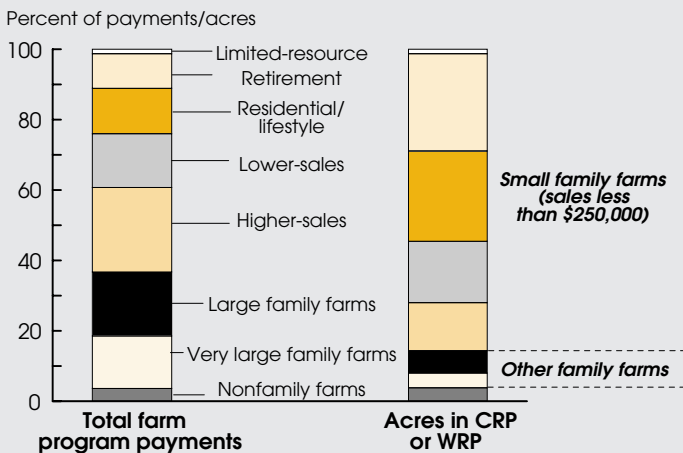
- Transition payments are most important to higher-sales small farms and large family farms.
- The largest portion of government payments goes to higher-sales small farms.
- Retirement and residential/lifestyle farms account for half of the acreage in the Conservation Reserve and Wetlands Reserve Programs (CRP and WRP).

Share of Farms Receiving Transition Payments and Payments from the CRP or WRP



* Payments to commodity-program participants under 1996 Farm Act.

Distribution of Total Farm Program Payments and of Conservation Program Acreage



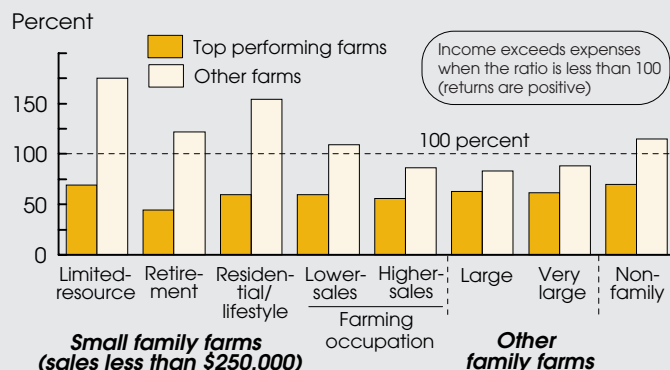
Farm program payments include payments from the Conservation Reserve and Wetlands Reserve Programs, transition payments, agricultural disaster payments, Environmental Quality Incentive Program payments, and state and local program payments.

Cost Control

"Top-performing" farms are defined as the top 25 percent of each typology group, ranked by returns to operators' labor and management.

- Top performers in each group control expenses, resulting in a 30- to 50-percent gross cash margin (the expense ratio subtracted from 100 percent).
- Each group includes farms earning positive returns.

Operating Expense Ratio for Top-Performing Farms



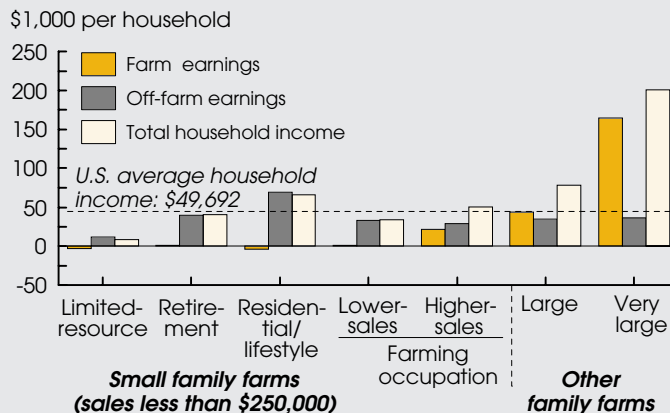
The operating expense ratio measures percentage of gross cash income absorbed by cash operating expense.

Household Income

Dependence on farm income varies by farm size.

- Households operating very large farms, large farms, and higher-sales small farms receive a substantial share of their income from farming.
- The remaining small farm households derive virtually all income from off-farm sources.

Average Operator Household Income, by Source



Robert A. Hoppe (202) 694-5572, Janet Perry, David Banker
 rhoppe@econ.ag.gov, jperry@econ.ag.gov,
 dbanker@econ.ag.gov