A comparative study of Australian agricultural household financial positions

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Definitions and explanations

• **Awkward household definitions**
  • Farm household or agricultural household
  • Non-agricultural households or all households

• **Permanent income:**
  • Long term/life time average
  • Physical and human assets

• **Transitory income:**
  • Income that may not persist
  • Deviates from average
Data and conceptual issues

- Agricultural households – is the reference person a farm owner/manager or a ‘rural employee’?
- Blurred boundary between the farm business and household
- The concept of well-being
  - Income
  - Wealth
  - Expenditure

Managerial employment in rural Australia

Sources: ABARES; Australian Bureau of Statistics (ABS), Agriculture, cat. no. 7113.0, Canberra; ABS, Agricultural Commodities, cat. no. 7121.0, Canberra; ABS, Characteristics of Australian Farms, cat. no. 7102.0, Canberra; ABS, Labour Force, Australia, Detailed - Electronic Delivery, cat. no. 6291.0.55.003, Canberra; ABS, Labour Statistics, Australia, cat. no. 6101.0, Canberra; ABS, The Labour Force, Australia, cat. no. 6203.0, Canberra; Lette (1979)
Motivation

We want to understand:

• The balance between permanent and transitory income.

• The effect of this balance on economic well-being.

• Income smoothing

• How agricultural households in Australia compare to those in the US.

• If average agricultural households are ‘disadvantaged’, according to our measure of economic wellbeing
Declining terms of trade (and 1960’s well-being studies)

Attention shifted to other issues (wool price collapse [1980-90s]; dairy deregulation; climate [1990-00s])

Further deterioration in farmers terms of trade has seen the economic well-being issue resurface [2000s - now]

Sources: ABARES
Australian household comparison

Sources: ABS custom datasets

Ag hh MPC: 16.84%
All hh MPC: 36.12%
Farm households in the US...

Average household weekly income and expenditure US$

US Farm household income (mean)
US Farm household expenditure

US farm HH MPC: 42.9%
Ag hh MPC: 16.84%

Source: Data primarily from USDA 2018. Several data points derived from Mishra et al. 2002 and Mishra and Cooper 2017.
Comparison to the USA (income)

Sources: Department of Agriculture and Water Resources (2018b), ABARES and United States Department of Agriculture (2018)
Comparison to the USA (income and wealth)

AU agricultural households

Ratio of wealth to income: 20.68 x

US farm households

Ratio of wealth to income: 6.94 x

Sources: Department of Agriculture and Water Resources (2018b), ABARES and United States Department of Agriculture (2018)
Household financial assets

Agricultural households

All households

Value of accounts held with financial institutions (excl. offset accounts)
Value of shares (excl. own incorporated business)
Total value of trusts (c)
Value of own incorporated business (net of liabilities)
Value of own unincorporated business (net of liabilities)
Total superannuation

Source: ABS (2017b), In 2013–14 dollars, adjusted using changes in the Consumer Price Index
Household income

Agricultural households

Average gross weekly income $:

- 2003-04
- 2005-06
- 2007-08
- 2009-10
- 2011-12
- 2013-14

All households

Source: ABS (2017b), In 2013–14 dollars, adjusted using changes in the Consumer Price Index
Household expenditure

Average weekly expenditure by household category (2015-16)

Source: ABS (2017c and 2017d)

Note: Solid bars indicate basic consumption categories and dotted bars indicate discretionary consumption categories.
Conclusion

- Average Australian agricultural household financial positions
- Low MPC and high asset position
- Focus on the farm business.
- Detailed data need to better understand this important issue