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Factors affecting variability in farm and off-farm income

[Kenneth Poon, Alfons Weersink](#) [Agricultural Finance Review](#)

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Abstract

Purpose

The purpose of this paper is to examine the factors affecting the relative variability in farm and off-farm income for Canadian farm operators.

Design/methodology/approach

Variability of farm and off-farm income is analyzed using a dataset of 17,000 farm operators from 2001 to 2006. Relative ranking of the coefficients of variation (CV) for farm and off-farm income are compared across farm types and are regressed against factors conditioning the variations.

Findings

Greater reliance on farm income results in lower (greater) relative variability in farm (off-farm) income. Larger commercial operations experience larger farm income volatility because they are less risk averse or they can manage more risk. Diversification and off-farm employment appear to be risk management strategies for commercial operations.

Research limitations/implications

Government payments have a small, positive effect on farm and off-farm income variability, indicating this support leads farmers to take on more risky activities and/or reduce the use of self-insurance activities. Results could also be due to the lag between the time of the income reduction and the time in which the aid is received. Further research is necessary to decipher the effects of government support on farm decisions.

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Originality/value

While income variation remains a focus of public policy, factors affecting its variability are not well-understood. Studies have examined the level of farm income and the decision to participate in off-farm employment but none has examined the variance in both income sources.

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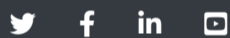
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