



How Much Should We Spend?

Debra Pankow
Family Economics Specialist



North Dakota State University
Fargo, North Dakota 58105

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Most families want to be more in control of their household spending. They wonder if what they spend for food or housing or clothing is in line with what others spend.

There is no “right” or “wrong” amount to spend on a given expense area, just as there is no “average” family to compare with your family. Average living expenditures are a composite from many individual families. Your own family’s goals, values and stage in its family life cycle greatly affect the way your resources are allocated.

American spending patterns have changed a lot over the last 35 years. Food expenditures used to consume nearly one-fourth of family income. Today that proportion is less than 15 percent of family living expenditures for most household types. Housing expenditures (rent or house payment) have increased from approximately 13 percent of the household income in 1960 to nearly 30 percent for most household types today. Transportation expenses have also gone up, from 15 percent of the family income in 1960 to over 20 percent today for many families.

In addition, the amount historically spent for family living varies significantly among urban, rural and farm families. Farm families, for example, spend a much greater percentage of their family expenditures on medical care and health insurance than do other families.

Regardless, it can be very beneficial to take a look at the average figures for family living that are available. Comparing your spending to the average can help you can determine reasonable limits for your family living expenses and what areas to look at if some trimming is necessary.



■ Urban/Rural/Farm Differences In Household Expenditures

Rural households accounted for about 12.4 percent of total U.S. consumer units in 1997-8, but this percentage varies greatly by region of the country. In 1998, urban households averaged higher incomes before taxes (\$42,965) than did rural households (\$32,427) and had higher levels of total expenditures. The average family living expenditure of North Dakota farm families participating in the North Dakota Farm Management program in 1998 was \$33,939.

Although farm and ranch family living levels have risen over the past decade, important differences exist among urban, rural and farm house-

holds and their expenditures. Urban consumers pay a greater proportion of their income in taxes. Urban households have slightly fewer members and are headed by persons considerably younger than their rural counterparts. Rural consumers own more vehicles and are more likely to own their own homes.

In 1998 urban households spent a higher portion of their incomes on education and housing. Rural consumers had significantly higher expenditures for food, transportation and health care.

Only 1.9 percent of U.S. households are considered rural, while 3.9 percent of households in the Midwest

are rural. Very little data exists to address the very specific situation of the farm family. Farm families, although similar to rural households, have their own very different situation.

Like many urban families, most farm families do not know exactly what is spent for family living expenses. Income is both uncertain and irregular, and many families do not keep a separate household checking account. In addition, the amount spent on family living is usually small when compared to that spent in the farm business, so that family living expenditures seem insignificant. Standard budget guidelines or budget breakdowns of urban or rural non-farm families usually do not apply to farm families.

The North Dakota Farm Business Management Education program has one of the few sources of data for North Dakota farm family living spending. Families in the program prepare detailed records of farm income and expense. The number of families participating in the program in the past 15 years that have also kept detailed family expense records has ranged from 93 to 343 families. Separate averages are maintained for the 20 percent least profitable farms/ranches, the 20 percent most profitable and the total families participating.

The following pie charts compare family living expenditures for consumer units (families, households or individuals) between the U.S. average (1998) and the 1998 average for the North Dakota Adult Farm Business Management Education program.

Table 1

	All	Midwest	Farm*
Item	-- Percent of Take-Home Pay* --		
Food	13.5	13.7	14.7
At Home	7.8	7.9	N.A.
Away	5.7	5.8	N.A.
Alcohol	.8	.8	N.A.
Housing	32.9	31.9	23.5
Shelter	18.8	17.5	4.7
Fuels/Utilities	6.8	6.9	4.7
Household Operations/Supplies	2.9	2.8	13.0
Home Furnishings/Equip	4.5	4.7	1.1
Apparel and Services	4.7	4.7	5.1
Transportation	18.6	18.2	8.8
Vehicles	8.3	8.0	4.2
Operating	10.3	10.2	4.6
Health Care	5.4	5.8	15.1
Entertainment	4.9	5.4	4.2
Personal Care	1.1	1.1	9.3
Reading	.4	.5	N.A.
Education	1.6	1.7	1.1
Tobacco	.8	.9	N.A.
Miscellaneous	2.4	2.4	7.1**
Cash Contributions	3.1	3.2	1.9
Personal Insurance/Pensions	9.5	9.5	6.2
Life/Other Personal Insurance	1.1	1.1	3.9
Retirement/Pensions/Soc. Sec./			
Investments	8.4	8.4	2.3
Income Before Taxes	\$41,622	\$40,920	\$ 37,784
Total Expenditures	35,535	34,513	33,939

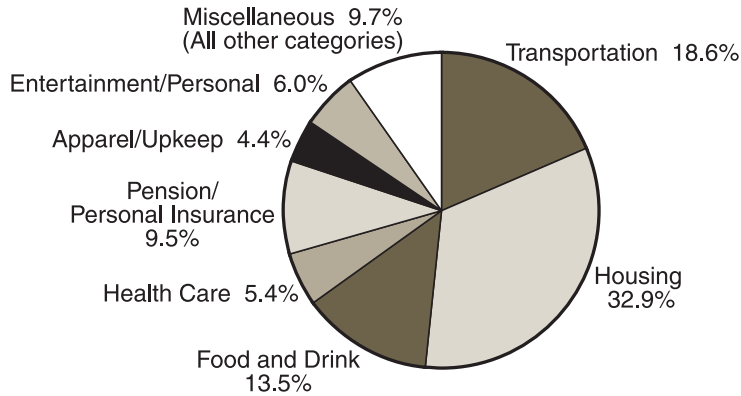
Data sources did not keep exactly the same expenditure categories, therefore, some liberty has been taken for the sake of comparison. For more precise budget category information, consult the original source.

*North Dakota Farm Business Management Education Program, 1998 annual report. Figures based on household and personal expense records.

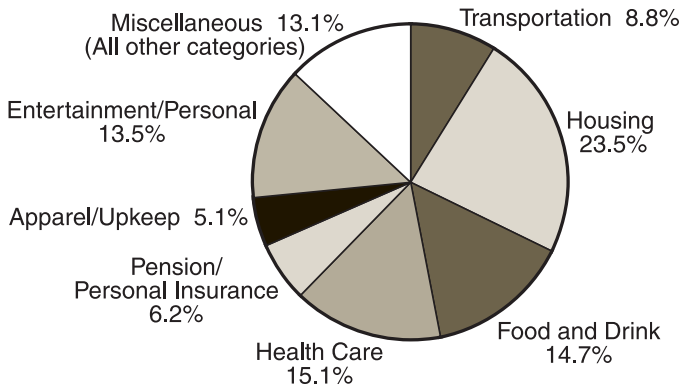
**includes day care, gifts, and non-farm interest.

Source: 1998 Consumer Expenditure Survey, Bureau of Labor Statistics, U.S. Department of Labor.

U.S. Average Family



N.D. Farm Family



Your Own Unique Situation

Note that the guidelines are based on take-home pay. That's the pay you actually bring home or, in the case of the farm family, the amount available for family living expenses. Most wage earners will have deductions as well as taxes taken out of their paychecks. It's always safest when looking at a budget to consider just the money you have direct control over. Often considerable confusion occurs when a budget plan is based on gross pay.

To Find Out Where You Stand

Write down your take-home pay on the "reasonable limits" chart. Using records such as receipts, your check book register, credit card statements, etc., jot down what your family usually spends each month for food, housing and the other categories listed. Finally, figure out the percentage of take-home pay you spend for each category. To do this, divide the amount in each category by the total amount of take-home pay and multiply by 100.

For example, consider a family with a take-home pay of \$3,000 per month. This family spent \$600 for food (at home and away), so the percentage spent for food is 20 percent. ($\$600 \div \$3,000 = .20 \times 100 = 20\%$)

Now compare your percentages with the typical household expenditures for the family type your family most closely resembles — urban (living in a city with a population of more than 50,000), rural or farm (from Table 1). There are also columns for all consumer units and the Midwest. There are going to be expense areas where you differ greatly from the guidelines.

Family Living Expense "Reasonable Limits"

Family Take Home Pay = \$ _____

Item	Percent of "Average" Take-Home Pay (% from Table 1)	Our Family
Food	_____ %	\$ _____ / FTHP = _____ %
Housing	_____ %	\$ _____ _____ %
Apparel & Services	_____ %	_____ %
Transportation	_____ %	_____ %
Medical	_____ %	_____ %
Entertainment	_____ %	_____ %
Personal Care	_____ %	_____ %
Reading	_____ %	_____ %
Education	_____ %	_____ %
Tobacco	_____ %	_____ %
Miscellaneous	_____ %	_____ %
Cash Contributions	_____ %	_____ %
Personal Insurance/Pensions	_____ %	_____ %

■ Why Do We Spend Different Amounts?

All families are different and have different spending patterns.

How you compare to urban, rural or farm family guidelines (or recent averages) will depend on several things. Let's consider some of them.

The amount and source of your income is important in determining how much of your paycheck goes for certain things. As income goes up, families spend a smaller portion of it on essentials, such as food and medical care, but may spend a larger portion for entertainment, clothing or personal items. Families who are self-employed, such as farmers, do not receive the employee sponsored benefits, such as medical care, that many other families receive.

Depending on what your job is and where it is, you may spend more for clothing, education and transportation than someone else.

Where you live also determines how much of your budget goes for certain items. Someone who lives in a city with public transportation may not need to spend as much on transportation as a rural resident. For the farm family, the percent of family income allocated for housing may seem extremely low. That's because the house investment is typically considered to be an integral part of the farm business. Your family's size, stage of development and number of wage earners help determine how the family paycheck pie is sliced. Employed families with small children may spend as much as 10 to 20 percent of the family take-home pay for child care. Elder care is a big portion of other family budgets.

Families have different spending priorities because they think differ-

ent things are important. The family who thinks it's important to give to the church or to give elaborate gifts to others will spend more for gifts and contributions than the family who places a low priority on these items. The amount spent for education varies widely from family to family, depending on the age of children and the priority placed on education.

All families are different. They all have different values. They spend money differently because of their values.

■ Any Unusual Circumstances?

Your family may have unusual circumstances which can make certain expense items very different from the average guidelines. Things like high medical expenses for a family member, children in college or a temporary job layoff are just a few examples.

You may find that you are spending 100 percent of your take-home pay before you are completely down the list. That means there is nothing left for the rest of the categories.

This is a warning signal for you to take a serious look at your money situation. More important than knowing how your spending compares to that of other families is that you know where your money is going and why. If you don't know, keep track for a month or so. Then sit down together as a family and look at your records. The longer the time period for which you have records, the more accurate this picture of your family's spending will be.

■ What To Do If You Have Problems

- Be sure all family members know the situation, agree something has to be done, and are willing to cooperate as you attempt to work out your financial problems.
- Look at the records you have of your family's spending. Decide what can be cut, at least temporarily, until the present financial crisis is over.
- Stop buying on credit until you get all your present credit debts paid. Notify creditors and try to arrange a payment schedule you can stick to.
- Consider ways to bring additional income into your household. Teenagers can do odd jobs around the neighborhood. Sometimes a second job may be necessary until you are back on your feet.
- If you need outside help, discuss your family's financial situation with a consumer credit counselor, a member of the clergy, your family banker, an attorney or a representative of a social service agency trained to help families with financial problems. If that professional does not have a financial management background, chances are he or she can refer you to someone in your area who can help.
- In some areas of the state, the NDSU Extension Service has trained volunteers who can help with family finances. Your county office of the NDSU Extension Service also has publications, videotapes and computer programs that can help you to get your finances on track.

Other publications in the "Taking Charge of Family Finances" series:

HE-452, Managing Farm Family Finances

HE-453, Farm Family Living Trends in North Dakota



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