Dairy outlook

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productivity is the pounds of milk sold per man equivalent; this combines the number of cows per man and how well the cows are handled. By this measure, labor productivity increased by 38 percent — 261,000 pounds of milk sold per man in 1967 increasing to 360,000 pounds in 1978.

This improvement in labor productivity reflected the 13 percent increase in pounds of milk sold per cow for the period, 11,341 pounds in 1967 and 12,795 pounds in 1978.

Because milk is the principal product sold from a dairy farm, the level of milk prices has a direct and major effect on dairy farm receipts.

Milk prices averaged $5.52 a hundredweight in 1967 and increased to $10.35 in 1978. This was a $4.83 increase or 88 percent. During the first five years (1967-1972) prices increased only 94 cents; then milk prices increased 90 cents in 1973; $1.09 in 1974; 25 cents in 1975; $1.22 in 1976; dropped 22 cents in 1977; and increased 65 cents in 1978.

In farm business analysis three measures of income are generally computed — net cash income, net farm income, and labor and management income. Each measure is the residual after adjustments or allowances for "costs" in operating the farm business are made.

Net cash income is what remains when the cash expenses are subtracted from cash receipts. Cash expenses include interest paid on borrowed money but not retirement of principal.

Net cash income is the amount which the operator has available to pay living expenses, to reduce outstanding loans, and other uses such as new investments and savings.

This measure is the best one to indicate the continued viability of a business because it shows cash flow and the ability to meet operating, living, and debt requirement obligations.

The overall increase in net cash income from 1967 to 1978 was $15,926 or 135 percent. There was a progressive increase each succeeding year except for 1972, when increased cash expenses more than offset increased cash receipts. The effects of Hurricane Agnes lowered crop yields and increased feed prices in 1972

Net farm income is a measure which takes into account changes in the inventory values of livestock, feed, production supplies, and an allowance for depreciation on buildings and equipment. It indicates the return to labor, management, and the owner's share of the total investment (net worth).

Because it is the residual after inventory adjustments and depreciation allowances are made to the net cash income, the effect of those values can produce considerable year-to-year variations in net farm income.

While the inventory adjustments were always a positive value, individual years varied from a low of $2,067 (1968) to a high of $11,873 (1973), a 475 percent variation.

Depreciation progressively increased each year from the starting value of $4483 for 1967 to a high of $12,073 for 1978. As a result of the effect of variation in inventory adjustments and the progressive increase in depreciation allowance, the net farm income varied from a low of $10,527 (1968) to a high of $21,512 (1978).

Labor and management income is the residual after a "charge" has been made for the owner's equity or net worth in the business.

The charge increased from 2701 for 1967 to 14,048 for 1978, a 420 percent increase. This was a reflection of the major increase in total value of assets per farm and increased net worth.

The labor and management income indicates what the operator and his family have for their labor and management after a charge has been made for his share of the total investment.

To represent more fully the total return for labor and management, a value for noncash farm perquisites should be added. This value was not available in the summaries.

Because labor and management income is a residual after inventory adjustments, it fluctuated widely from year to year. It reached a peak of $13,253 in 1973 when there was the highest inventory increase ($11,873) and it was the lowest in 1977 at $4.401 when the inventory change ($2,433) was at one of the lowest values.

Net worth is the amount by which total assets exceed the liabilities of a business.

The values for the farms summarized over the 12-year period showed a consistent and major increase — going from $65,468 in 1967 to $218,930 in 1978, 234 percent. This reflected a major appreciation in asset values during the period because the physical size of the farms summarized increased only 15 percent in crop acres and 20 percent in number of cows.

The appreciation in asset values of real estate and machinery was not reflected directly in the income because their year-to-year changes were not a part of the computations.

However, year-to-year changes in livestock and crop prices were reflected through the inventory changes.

The appreciation of real estate and machinery values ultimately had a negative effect on the labor and management income because an interest charge on net worth was subtracted from net farm income to obtain labor and management income.

The final question might be, "How well have Pennsylvania dairy farmers fared the past 12 years?"

Or stated another way, "Have they received adequate returns for their labor, management, and investment to maintain viable farms?"

If the answer to these questions is based upon labor and management income the answer would be no. Even based upon net farm income the answer would not be favorable.

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