What does '86 have in store for dairymen?

COLLEGE PARK, MD – The dairy farm industry continued to be affected by the broad regional and national market demand and supply forces together with federal government supply adjustment and price support programs in 1985.

Consolidation of the production sector into fewer but larger dairy herds has been accompanied by actual and potential mergers in the numbers of milk processing plants serving the whole Northeastern region.

Total production of milk in 1985 has increased in Maryland, New York, Pennsylvania and Vermont, the four leading Northeastern milk producing states. Increased production has resulted from higher average levels of output per cow as well as increased numbers of milk cows on farms.

The Maryland farms with herds of 50 or more dairy cows now account for 50 percent of the dairy farms but they report 86 percent of the milk cow inventory.

Dairy farms with 100 or more milk cows reported over 50 percent of the milk cow inventory on slightly less than 20 percent of the Maryland dairy farms or approximately 400 farms.

A typical 100-cow dairy farm with approximately 300 crop acres and 50 or more replacement heifers being grown out to freshing utilizes nearly three man-equivalent of farm labor. This results in average labor intensity ratios of over 33 cows per worker and nearly 100 crop acres per worker.

However, some Maryland dairy farmers with 100 or so milk cows are being operated with only two man-equivalent of farm labor. This results in average labor intensity ratios of 50 cows per worker and 150 crop acres per worker.

This type of adjustment has occurred in Maryland dairying since the 1950's as dairy farmers sought to increase their net farm incomes and restrain increases in average total costs of milk sold to dairy processing plants.

Economic and financial survival during the 1980's and into the 1990's will require a continued focus on cost reducing practices and adjustments as has been the case since average blend milk prices stopped increasing in 1981.

The labor costs per unit of dairy farm output have been lowered or restrained in recent years by increasing the amounts of digestible nutrients produced per worker from the cropping system and the amounts of milk sold per worker from the dairy enterprise system.

In the short-run, increased crop yields per acre and increased pounds of milk sold per cow have been the most profitable response for Maryland dairy farmers to make.

However, in the long-run, changes in farm plant and equipment with increased crop acreages rented or purchased and with increased numbers of milk cows have been major sources of dairy farm productivity and profitability gains.

High interest rates on loans available to dairymen have curtailed the trend toward herd consolidations which result in improved labor efficiency and capital efficiency.

Lower feed prices in 1985 and expected in 1986 will enable Maryland farmers to feed their milk cows more effectively and more profitably than would have occurred with high feed prices and values.

Nationally, an average 1984 commercial dairy enterprise with a herd of 60 dairy cows and 12,495 pounds of milk per cow generated a return above cash expenses and replacement costs of nearly $15,100. The deterioration in external economic conditions impacting on the dairy farm is demonstrated by a higher return of almost $23,000 in 1981 for a 53 cow herd producing an average 12,183 pounds of milk per cow.

Therefore, the rise in total enterprise output between 1981 and 1984 was not large enough to offset the price-cost squeeze dairymen found themselves in during 1985.

The continued financial squeeze is expected in 1986 and beyond as dairy production is brought into better adjustment with the existing and potential wants and needs of consumers with the abilities to purchase and satisfy those needs.

Maryland commercial dairy herds averaged larger in size and output per cow during this 1981-85 than the U.S. average. However, the price-cost squeeze has had a major impact on net reutrns above cash expenses and replacement costs. Farmers with excessively high debt to asset ratios will continue to be under financial pressure in terms of cash flow generation required to handle debt servicing requirements.

The federal milk diversion program was temporarily successful in reducing national milk output, but milk production rates are now higher than 1983 rates and milk price supports have declined by $1 per cwt. since March 1985.