Brockett's Ag Advice

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The gambler in a farmer

Last week I mentioned a statement made by a gambler. A few days later my youngest son was playing what he calls his favorite "exercise" song. It was a Kenny Rogers hit called "The Gambler".

Part of the lyrics go like this: You got to know what to keep and what to throw away — You got to know when to hold up, when to fold up — when to walk away and when to run.

The gambler in the song is telling a young man how to handle life and advertsities in the way he knew best, through cards.

There is a lot of the gambler in every farmer. Farming is one of the big gambles of the business world. That is why there is a sentence on the bottom of the Schedule F that says "Do you have amounts for which you are not at risk in this farm?" Risk means "the possibility of suffering harm or loss — involving uncertain danger — expose to possible loss."

A Major Decisioin

Sometimes a farmer will buy an asset that at the time appeared to be a reasonable purchase gamble. The difference between the successful and "in trouble" farmer may be the ability to recognize when a certain asset is no longer a feasible investment.

Sometimes the cost of keeping the asset is greater than the actual return from the asset. Then the farmer must make a decision to either keep the asset at the cost of reducing family living, selling the asset to maintain family living, or finding a way to reduce operating expenses in order to both keep the asset and maintain family living.

NO ONE likes to sell an asset for a price below the price he or she paid. However, there may be no choice.

In poker, the only way to get additional cards is to throw some (discard) cards away. In real life, the only way to keep a viable business may be to sell some assets even if they have to be sold at a loss.

Income has limits

There are three basic things that must be paid from income if a family is to remain viable. The first demand on income is usually "Family Living." Many farm families have trouble calculating the actual cost of family living.

Family living includes the usual items such as food and clothes. It also includes the personal share of such dual expenses as taxes, insurance, electricity, phone, and car.

Then do not forget personal taxes, contributions, insurance premiums, and any other expenses paid from the farm account that is a personal expense.

For many families the second most important cost is "Debt Payment". No one has trouble calculating it, because the lender won't let the borrower forget.

Third is operating expenses. In many situations this is the only flexible outgo. The service or supply dealer may have to wait (unpaid bills). Or a family may become more efficient and reduce operating expenses.

Once these three costs are satisfied, the balance of income (if there is any) becomes discretionary income. That means it can be spent in any way the family desires. It could be invested in something outside of the farm, saved, spent for capital items, or wasted.

It could even be used to improve family living. That could be a danger if income dropped in a future year after the family got used to the extra income.

If income drops

When we have an economic situation such as we have now, income will drop no matter what a farmer does. More cows or more acres or more units of anything may be the worst answer.

The additional units may increase gross income, but may increase costs even more than they increase income. There may be additional debt costs or additional labor costs or additional machine replacement costs.

If these additional costs are greater than the income they generate, they will hasten the loss of the farm. That is why some farms are in trouble now.

The manager never figured the cost-return relationship. I would hasten to add that some farmers did figure this relationship at the time such additional costs were incurred. Their problem has primarily happened due to a change in the farm commodity prices.

Now these particular farmers may be faced with the most difficult decision of all: sell hard-earned or acquired assets, reduce family living drastically, change direction, or go out of business.

State meat output up

HARRISBURG — Pennsylvania's January commercial red meat production, dressed weight basis, totaled 86.4 million pounds, up eight percent from January 1985, according to the Pennsylvania Crop and Livestock Reporting Service.

Beef slaughter, at 117.3 million pounds liveweight, was up 21 percent from January 1985. Total head slaughtered was 98,300, up 18 percent, and liveweight averaged 1,193, an increase of 31 pounds. Veal slaughter was 4.4 million pounds liveweight, three percent below last year. Calf slaughter of 25,900 head was down six percent. The average liveweight increased five pounds to 170 pounds.

Hog slaughter, at 30.6 million pounds liveweight, was down 14 percent from a year earlier. Total head slaughtered was 131,800 down 13 percent; average liveweight decreased four pounds to 232 pounds. Lamb and mutton slaughter was one million pounds liveweight, down 28 percent. The number slaughtered was 9,200, down 31 percent. However, the average liveweight increased four pounds to 110 pounds.

U.S. commercial red meat production in January totaled 3.48 billion pounds, up two percent from January 1985. Comparing January 1986 with January 1985, beef production at 2.14 billion pounds was up four percent. Cattle kill at 3.33 million head was up two percent, and average liveweight increased 20 pounds to 1,100. Veal production at 46 million pounds was up 10 percent from last year. Calf slaughter at 307,000 head was up seven percent, and average liveweight increased seven pounds to 249.

Pork production totaled 1.27 billion pounds, down one percent. Hog kill totaled 7.19 million head, declining two percent. Average liveweight increased one pound to 246 pounds. Lamb and mutton production, at 31 million pounds, was down three percent from last year. Slaughter totaled 518,000 head, down seven percent. Liveweight averaged 118 pounds, three pounds heavier than a year earlier.

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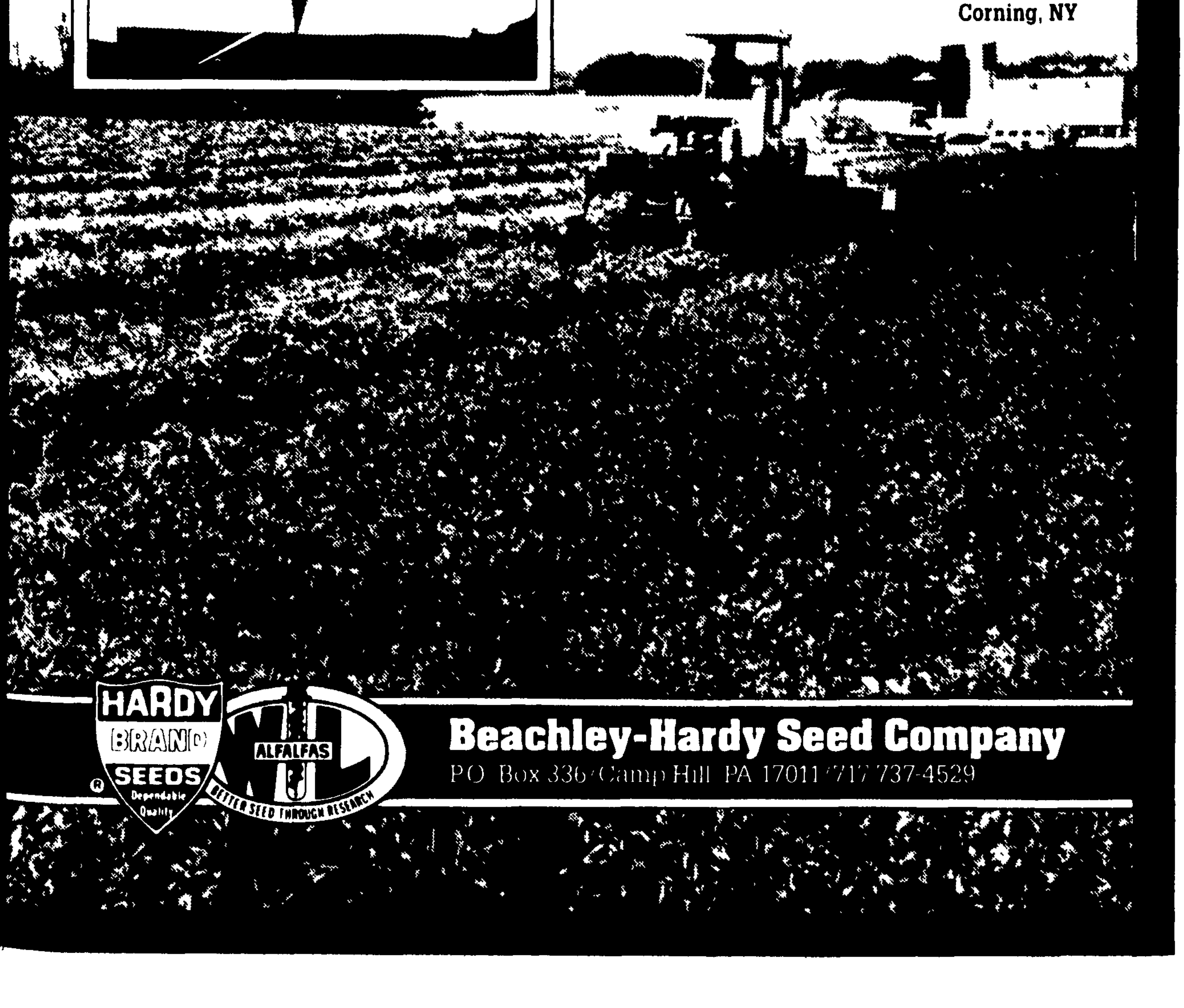

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