

## Changes Challenge Small Dairy Farms

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Changes in dairy production technology and rising production costs present some Pennsylvania dairy farmers with an ultimatum for the future: get bigger, or get out of the business, says an agricultural economist in Penn State's College of Agricultural Sciences. "Dairy farming is Pennsylvania's leading agricultural industry," says Milton Hallberg, professor of agricultural economics. "The state's 12,000 dairy farms have milk, dairy beef, and veal sales of \$1.5 to \$1.6 billion annually — that's 44 to 45 percent of total cash receipts of farmers in Pennsylvania. But developments in dairy technology and policy over the past several decades are continuing to put pressure on the state's producers.

"The push to get bigger or get out is by no means a new phenomenon — it's a process that began 20 years ago," he says. "But it does highlight a continuing challenge facing Pennsylvania dairy farmers."

Relatively small dairy farms,

like most in Pennsylvania, are fairly efficient, Hallberg says. "But declining milk prices, over-production, global agricultural trade liberalization and new technologies like bovine somatotropin may force farmers to expand their operations. As income per cow falls, many Pennsylvania dairy farms will need to get larger just to maintain enough income to support a family."

Forty-nine percent of the state's dairy farms have herds of 49 cows or less. "This small herd size enables farmers to save money on labor since they don't have to hire as many workers from off the farm," he says. "But rising production costs may overwhelm any savings in labor costs." In 1991, the average Pennsylvania cow produced 14,800 pounds of milk and generated \$1,954 of milk sales at the 1991 price of \$13.20 per cwt. Using those figures, the average 50 cow herd generated \$97,680 in gross sales annually.

"That may sound like a lot of

money," Hallberg says. "But annual cash costs of milk production total \$1,600 per cow. When you subtract those costs, it slashes net cash income from milk sales to just \$17,680. Even if the farm earns another \$10,000 to \$12,000 in dairy beef and veal sales, that's a modest income for a family of three or four."

Expansion, even when possible, is expensive. "Capital investment per cow has risen from near \$2,000 per cow in the 1960's and 1970's to over \$7,000 per cow today," Hallberg says. "That high investment cost suggests that increasing the size of the operation won't be easy, even if physical resources like land and labor are available. Some small producers will likely leave dairy farming."

Among other things, expansion requires more farm labor. "The relatively small size of Pennsylvania dairy farms allows the farm family to provide most labor," Hallberg says. "This can be an

advantage because the farm's production costs aren't greatly affected by off-farm wages and the farmer doesn't need to worry about hiring reliable labor from off the farm. That will change as dairy farms get larger."

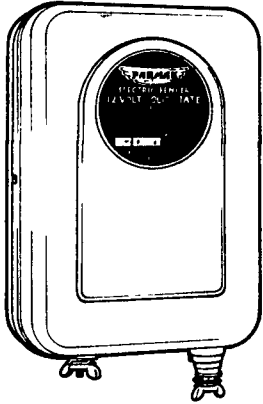
Some of the cows and perhaps some of the land from these smaller dairy farms will be purchased by those who stay in the business and expand their operations, Hallberg says. But some of the cows will not need to be kept in milk production as technological innovations lead to increased milk output per cow.

The economic importance of

Pennsylvania's dairy industry does not stop at the farm gate. "Farmers buy feed, seed, fertilizer, machines, buildings, milking equipment and veterinary services, which generates secondary economic activity," Hallberg says.

"Milk processors and bottlers also generate considerable value and employ a sizable workforce," he says. "In 1987, processors added \$600 million to the value of milk and other inputs and employed nearly 8,000 people who earned \$180 million in salaries and wages. If the local dairy industry fails, the processors, bottlers and other related businesses in that area soon will follow."

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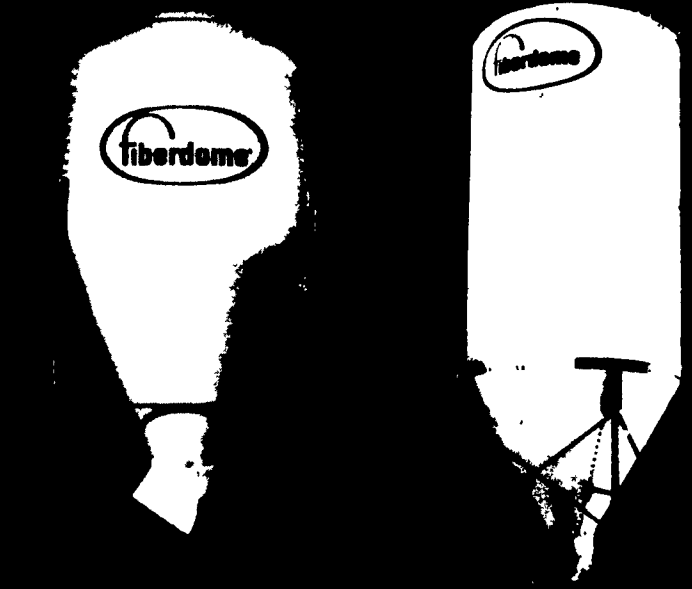
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