

Pennsylvania Ag Prognosis Good For 1994

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One reason for the recent jump in cheese prices was sluggish milk production, especially in the upper Midwest states.

Wisconsin milk production was 4 to 6 percent below last year in recent months. Meanwhile, milk production in many other states showed some growth — Southwestern states increased milk production more than 5 percent above last year's production levels.

Conditions around the country in general are favorable for milk production to show some increases this winter and into next spring.

Although milk prices may stabilize and may even increase due to a strong cheese market in late 1993, milk prices will start downward early in the new year. How far prices fall depends on milk production growth and consumer demand for dairy products.

Grain prices and the quantity and quality of forages later this winter are major factors in how much milk production will increase early in the new year.

On the consumer side, the strength of the U.S. economy is important, but even more mean-

ingful are consumer attitudes toward milk and dairy products.

Continued Belt Tightening
Pennsylvania agricultural prospects for the new year appear promising.

The key word is competition, of which there is more with the passage of each year. Increased competition adds risk to the farm income equation, and farmers react by specializing and producing more.

The changing weather patterns have also injected more risk into farming. Tightening the belt and moving forward will likely sum up the financial side of agriculture next year.

Getting behind on feed bills was a key problem in financial liquidity for dairy farmers during 1993. The decline in the 1993 corn crop could increase financial problems in 1994.

Interest And Investment Increase

The interest bill to commonwealth farmers has declined by more than 20 percent since 1988, a drop of \$50 million.

That trend will stabilize in 1994 and, as the economy slowly improves, farmers can expect

interest rates to inch up as much as 1 percentage point by the end of 1994.

The big ticket item in 1994 will likely be expansion and/or modernization of livestock facilities.

Farmers are increasingly facing an economic environment of tight profit margins. They have few alternatives. They can cut costs more, increase profit per unit produced, and/or produce more units of farm product.

Dairy farmers, for instance, probably will reason that a profit of \$500 per cow on 40 cows adds up to \$20,000 annual income. The same profit of \$500 per cow on 60 cows adds up to a more comfortable annual income of \$30,000.

Pennsylvania farmers will continue analyzing where the money is made in their operations and expanding the profitable parts.

Lenders are facing heavy regulatory pressures. Their inability to fund some farmer plans could hold back intended investment in the new year. They will tend to be fund investment plans that focus on high-profit centers.

Federal policies are simultaneously putting more risk on the shoulders of Pennsylvania far-

mers, and injecting more outside competition.

That is bad news for those who have a tough time controlling their costs.

Farmers can do virtually nothing to reverse these two important trends. The silver lining is that the present market orientation of federal farm policies is making farmers highly competitive on world markets.

On the competition front, GATT (the General Agreement on Tariffs and Trade) and NAFTA (the North American Free Trade Act) will eventually be enacted — in some form.

The long-run gains from "free-trade" will occur as markets become larger.

The problem for the individual farmer is survival until the long-run gains begin. One survival method is tight control of costs.

The five leading cost components in Pennsylvania during 1992, in millions of dollars, were feed (\$680); fertilizer-chemical-fuel (\$380); labor (\$350); repairs (\$230); and interest (\$180).

Labor and repairs will likely increase 2 to 3 percent in the year ahead, but the other leading expense categories will continue to decline and to keep Pennsylva-

nia farmers highly competitive.

Summary
Gross farm income could eclipse the old record of \$4 billion and reach \$4.1 to \$4.2 billion during 1994.

A strong performance is in store for farm production, given favorable growing conditions, high quality feed production, and stable to slightly higher commodity prices for dairy, swine, and specialty crops (vegetable and horticulture).

All-in-all, 1994 probably will be highly challenging to farmers facing tough competitive markets, and rewarding to those successfully meeting the cost-control imperative of 1990s agriculture.

The best news in the economic outlook for grain products is that inventories of most crops are not hanging over the markets. Farmers in Pennsylvania face an interest-rate environment that permits solid modernization plans to "pencil-out" in 1994. Off-farm income sources will be essential on most farms.

This forecast does not translate into an agricultural boom, but with continued tight cost-control, farmers in Pennsylvania will experience income gains during 1994.

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