

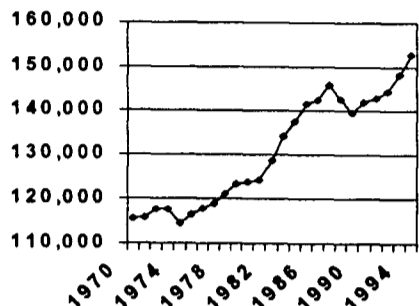
# Pennsylvania's Role In The Global Dairy Industry

(Continued from Page 2)

It is possible that strong demand will continue to underpin the price of milk during the last quarter of this year and first quarter of next year. The U.S. economy has responded robustly to lower interest rates despite poor economic performance in many Asian countries and Russia. The U.S. economy may grow 3 percent in the last quarter of 1998, resulting in strong Christmas sales. That will translate into solid demand for many dairy products as consumers eat out and entertain at home more often. Dairy farmers are finally reaping the benefits of a strong national economy.

The point is many dairy producers lose site of the fact that demand for milk continues to expand each year (see Figure). More and more consumers eat more cheese every year. And our population expands at the rate of just under one percent per year. Thus the dairy industry represents a growing industry.

Demand for Milk



The current expansion in milk prices, however, is not expected to last forever. Dairy farmers will likely expand milk production, especially next spring. This factor plus weather conditions and consumer demand will determine how far farm milk prices will fall by May 1999. They will also determine how fast milk prices will rebound thereafter.

### Structural Problems with Many Family Farmers

Despite the growing demand for milk and dairy products and opportunities in the dairy industry, family dairy farms will continue to leave the industry. This is an unfortunate trend in agriculture that has been in existence since the 1950s. Each farm continues to produce more milk, hence increasing farm-to-farm competition. This competition appears to be intensifying each year. This, however, is a fact of life in a market economy.

My own personal experience with on-farm planning is that many dairy farmers have not adjusted their farm investments and cost structure to the realities of milk production in

the 1990s. Investments per cow are still too high on many farms. Many families are operating diversified operations that yield low or in some cases negative returns on some enterprises. And most dairy producers today, even large-scale dairy operators, do not understand how to accurately measure cost of production.

What is unfortunate about this situation is that many of these family farmers are potentially offering themselves up as the next farms to be sacrificed in the marketplace of tomorrow. Whenever milk prices get too low, the marketplace cruelly searches for farmers that have poor financial health and performance.

The good news however is that there are many dairy farm families milking under 100 cows that are taking the necessary steps to improve their profitability and ensure their future position in the dairy industry. These family farmers are questioning expensive investments in machinery and equipment (i.e. harvesting equipment and fancy parlor equipment), limiting costly enterprises (i.e. row cropping), and focusing on where they make money—the dairy enterprise!

I am convinced that dairy farmers can benefit tremendously from basic business training. And many want to. We developed a web site for those farmers with computers to download free software. We have developed a manual (available in January) to instruct dairy farmers how to use QuickBooks<sup>2</sup>, and a computer file that can automatically set up QuickBooks for a dairy farm. Also on my web site is a Microsoft Excel spreadsheet you can use with your computer to calculate your cost of producing 100 pounds of milk. The address for this web site is

<http://www.ext.missouri.edu/agebb/commag/dairy/tools.htm>

### Current and Future Trends

The following represent current trends that are shaping the future of our industry.

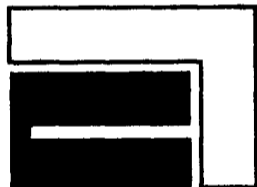
#### Shifting Milk Production

Milk production continues to shift from traditional milk producing states in the Midwest to non-traditional states like Idaho, New Mexico and Arizona. These states are

<sup>2</sup> QuickBooks is a computerized financial accounting package designed by Intuit, the makers of Quicken. QuickBooks was designed for small businesses.

expanding into large 2,000-3,000 cow dairy factories that keep investments per cow at just over \$3,000 per cow (land, cow, facilities, machinery and equipment), focus on the dairy enterprise, and keep operating expenses per cwt of milk shipped at very competitive levels. New operations of this type are also moving closer to the Midwest into places like western Kansas and Nebraska. Large-scale dairy operations are already prevalent in Michigan and will be moving into places like Illinois, Iowa and Ohio soon.

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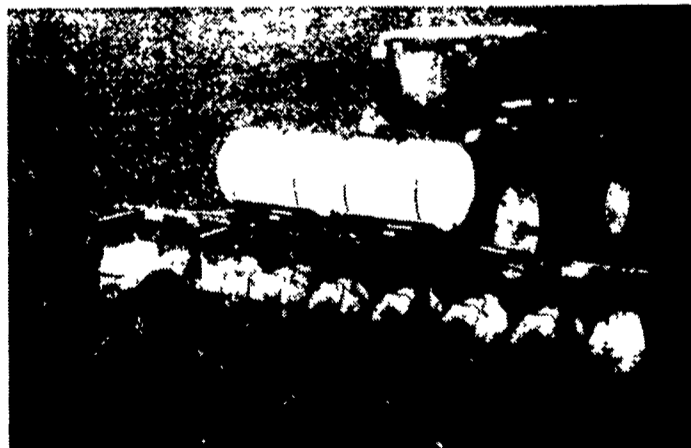


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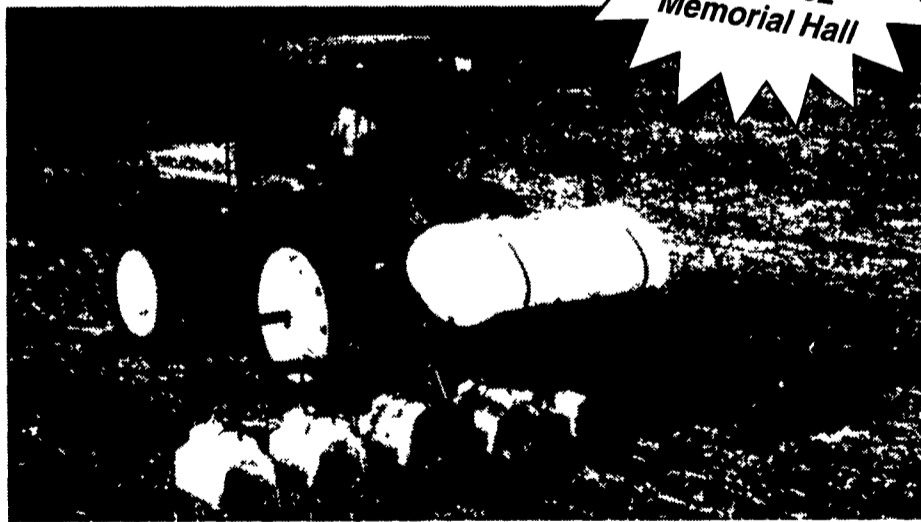


## INNOVATIVE PRODUCTS FOR SMART FARMERS

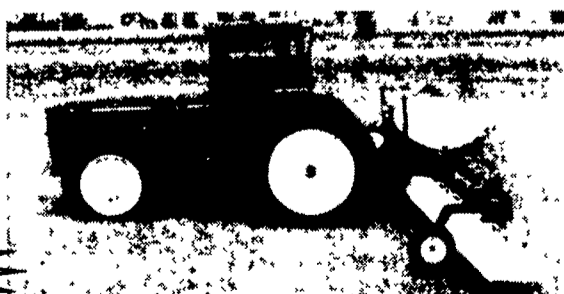
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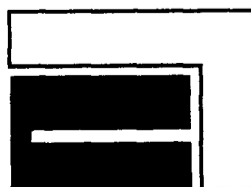
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