

Farm Management Minute

The World of Seven Billion

Gene Kuntz, Farm Business Management Instructor, Faribault, MN

I've been reading many articles in the past several months focusing on the world's population reaching seven billion. This has huge implications for agriculture. What I find interesting is that each article questions how we can feed the world with our limited amount of arable acres and water. The reality is that neither of these two resources will increase in the future. This is the underlying reason there is a fundamental bullish attitude supporting agriculture currently and in the long term.

This fundamental bullish attitude has caught the attention of outside investors and supporters of ag. We will pay more for our inputs to make food. Leading the way is equipment (power and machinery) with a projected 17 percent increase in cost for the year. Farmland is second with a projected increase of 15 percent. The cost of production for crops will increase. How much per acre, how much per bushel, how much per farm? Can you answer these questions? Are you prepared to make a reasonable bid on some farm land to purchase or rent?

I am sure you all have heard of the rapid rise in land costs in the past several months. Several pieces of farmland in Minnesota have sold for over \$8,000 per acre. We have also witnessed initial cash rents of over \$425 per acre for the 2012 crop. This is our reality. As a renter or prospective owner, you now have to contend with outside investors in the farmland market, not just your neighbor. Can you do it? Do you want to do it?

What about livestock producers? How are they fitting into this fundamental bullish attitude surrounding grain production? Hog producers are finally getting some breathing room in recent months with finishing hogs in the \$90 per hundredweight range. Dairy producers are operating on just a dollar per hundredweight margin for the past nine months. Poultry producers are struggling as well. What we must keep in mind is that \$7 corn and \$13 soybeans might be a bonanza for grain producers, but it's very challenging for the livestock industry. Hog and dairy producers have rapidly and efficiently changed rations to significantly reduce their corn and soybean meal needs. They are switching to dried distillers grain, corn gluten meal, canola meal, and beet pulp.

What skills will it take for a farmer to compete in the future? Certainly, identifying your cost of production is an important skill to have. What does it cost you to produce a bushel of corn or soybeans, a hundred pounds of milk, a hundred pounds of pork? Do you know? Can you accurately calculate it? These are skills that are developed through the farm business management program and will be increasingly vital in the years to come.