

# “WHAT DOES IT TAKE TO EARN A LIVING ON THE FARM?”

Gary A. Hachfeld, Extension Educator

## Introduction:

Agriculture is an integral part of Minnesota’s economy. Collectively the production, processing, marketing, and distribution of agricultural products accounts for billions of dollars of state revenue. Minnesota is the sixth largest agricultural producer overall in the US. Minnesota ranks 5<sup>th</sup> in crops sold and 7<sup>th</sup> in livestock products sold. Minnesota ranks 6<sup>th</sup> in farm exports accounting for 4.64% of the U.S. total. Agricultural employment in Minnesota is second only to that of manufacturing. Over 57,000 jobs are directly or indirectly associated with agriculture in Minnesota. Approximately only 19% of all agricultural employment is at the farm or production level. All other agricultural employment is in processing, marketing, ag services whole sale and retail trade.

The agricultural industry has changed drastically in the past several years, including the farms where raw agricultural products are produced. Land values are at historical highs. Subsequently, land rent has skyrocketed. Costs of inputs, especially energy based products such as fertilizer and chemicals, have increased in price. However, Minnesota crop farmers have experienced unprecedented crop prices and the associated higher net farm incomes.

As input costs increase and commodity prices farmers receive fluctuate, profit margins change over time. As these changes occur, farmers have had to change their businesses. Some farmers have gone out of business and are renting their land to someone else to operate. Some are farming part-time and work off the farm to supplement their income. Others have gone to alternative farming methods in order to remain in farming. Yet others still farm full-time and they have increased the size of their farms or looked to alternative enterprises in order to remain profitable. Whether we agree or disagree with these changes, the changes are a function of an ever adapting agricultural industry.

The following data is presented not to justify or support the changes occurring in agriculture. Rather, it is put forth as one approach to quantifying and explaining what is happening. The numbers presented are real numbers from several hundred real farm families throughout the southern one-third of Minnesota. These families have kept records on their farm business as well as their household and personal expenses. As you study the data, it becomes clear that agriculture is changing. Appearing in the data are negative returns for enterprises reflecting very slim or negative profits over the five year period reflected in the data.

## Data Sources:

The data used in the comparisons originates from the data recorded by farm families who are members of the University of Minnesota Extension Southwestern Minnesota Farm Business Management Program and the Minnesota State College and University (MnSCU) Adult Farm Business Management Program. These are real numbers from real farm families operating their farm businesses.

The introduction for each set of regional data gives an explanation of data size, average household and personal expense, family size, what the family living expenditures cover, which counties are involved in the comparison, and a short description of what the enterprise data calculation includes. The data includes the average numbers for the 2008-12 production years. All data is presented on a per acre or per head of livestock basis.

**Note:** The data listed is an average of all the farm families reporting. Keep in mind that there are farm families performing below as well as above the numbers shown here.

## **SOUTHWESTERN MINNESOTA FARM BUSINESS MANAGEMENT ASSN.**

In 2012, a total of 42 of the 110 farm families from the University of Minnesota Extension Southwestern Minnesota Farm Business Management Association kept household and personal expense records. Their average household and personal expense for the year was \$135,406 with an average family size of 2.9 persons. This family living expense includes: food, medical care, charitable donations, supplies, furnishings, clothing, educational costs, recreation expenses, gifts, utilities, child care, house rent and upkeep of the house. Also included are expenses for the purchase of non-farm vehicles, investments, savings, life insurance premiums, income/social security taxes, and non-farm capital purchases.

The Southwestern Minnesota Farm Business Management Association includes farm families from Brown, Cottonwood, Faribault, Jackson, Lincoln, Lyon, Martin, Murray, Nicollet, Nobles, Pipestone, Redwood, Renville, Rock, Watonwan, and Yellow Medicine counties. The following calculations include actual numbers reported by those farm families.

The chart below illustrates how many acres of crop or number of livestock units needed to earn the 2012 average family living amount of \$135,406. The calculations are based upon five year average net return values for the crop and livestock enterprises listed. The net return values are dollars remaining after all farm expenses are paid, **excluding** a charge for labor and management. The numbers are an average of all farm records included in the Southwestern Farm Business Management Association for the 2008-12 years. Also, there are three assumptions related to the calculations. The first assumption is that all income to earn the family living amount would come from one enterprise. For example, to earn \$135,406 from raising corn only, the farm family would have to have 436 acres of corn. To earn all family living expenses from contract finishing hogs only, the family would have to market 43,679 contract fed hogs annually. The second assumption is that all family living income would come from the farm and there is no off-farm income included in the calculation. The third assumption is that the net return values for corn, soybeans, and alfalfa hay are for cash rented land (most producers rent more land than they own) and the crop values include government payments where applicable but do not include a charge for labor and management.

\*\*\*\*\*

<b><u>Enterprise</u></b>	<b><u>5 Yr. Ave. Net Return</u></b>	<b><u>Units Required To Earn Living</u></b>
Corn/Ac. (incl. govt. pmts.)	\$ 310.47	436 Acres
Soybeans/Ac. (incl. govt. pmts.)	\$ 149.70	905 Acres

**Note:** If a farmer plants a strict 50/50 corn & soybean rotation, here is the approximate number of acres required to meet family living expenses. Using the net return numbers and the 2012 family living cost of \$135,406, a farmer would have to have approximately 295 acres of corn and 295 acres of soybeans or a total of 590 acres to earn the family living amount.

Alfalfa Hay/Acre	\$ 227.98	594 Acres
Hogs, Weaning to Finish /Head	-\$ 0.67	???
Contract Finish Hogs/Head	\$ 3.10	43,679 Head
Beef Finish Calves/Head	-\$ 16.63	???
Beef Cow-Calf/Cow	\$ 33.45	4,048 Cows

**MnSCU SOUTH CENTRAL/MINNESOTA WEST/RIVERLAND ADULT FARM BUSINESS MANAGEMENT PROGRAM**

In 2012, a total of 309 of the 1,167 farm families from the MnSCU South Central/Minnesota West/Riverland Adult Farm Business Management Program kept household and personal expense records. Their average household and personal expense for the year was \$108,746 with an average family size of 2.9 persons. This family living expense includes: food, medical care, charitable donations, supplies, furnishings, clothing, educational costs, recreation expenses, gifts, utilities, child care, house rent and upkeep of the house. Also included are expenses for the purchase of non-farm vehicles, investments, savings, life insurance premiums, income/social security taxes, and non-farm capital purchases.

This MnSCU Adult Farm Business Management Program data includes farm business numbers from farm families in 36 southern Minnesota counties. Calculations include actual numbers reported by farm families.

The chart below illustrates how many acres of crop or number of livestock units needed to earn the 2012 average family living amount of \$108,746. The calculations are based upon five year average net return values for the crop and livestock enterprises listed. The net return values are dollars remaining after all farm expenses are paid, **excluding** a charge for labor and management. The numbers are an average of all farm records included in the MnSCU South Central/Minnesota West Adult Farm Business Management Program for the 2008-12 years. Also, there are three assumptions related to the calculations. The first assumption is that all income to earn the family living amount would come from one enterprise. For example, to earn \$108,746 from raising corn only, the farm family would have to have 485 acres of corn. To earn all family living expenses from contract finishing pigs only, the family would have to market 16,834 contract fed hogs annually. The second assumption is that all family living income would come from the farm and there is no off-farm income included in the calculation. The third assumption is that the net return values for corn, soybeans, and alfalfa hay are for cash rented land (most producers rent more land than they own) and the crop values include government payments where applicable but do not include a charge for labor and management.

\*\*\*\*\*

<u>Enterprise</u>	<u>5 Yr. Ave. Net Return</u>	<u>Units Required To Earn Living</u>
Corn/Ac. (incl. govt. payments)	\$ 224.38	485 Acres
Soybeans/Ac. (incl. govt. pmts.)	\$ 151.66	717 Acres

**Note:** If a farmer plants a strict 50/50 corn & soybean rotation, here is the approximate number of acres required to meet family living expenses. Using the net return numbers and the 2012 family living cost of \$108,746, a farmer would have to have approximately 289 acres of corn and 289 acres of soybeans or a total of 578 acres to earn the family living amount.

Alfalfa Hay/Acre	\$ 278.62	390 Acres
Farrow to Finish Hogs/Head	-\$ 0.36	???
Hogs, Weaning to Finish/Head	-\$ 3.02	???
Finish Feeder Pigs/Head	-\$ 0.02	???
Contract Finish Hogs/Head	\$ 6.46	16,834 Head
Beef Finish Calves/Head.	\$ 90.30	1,204 Head
Dairy Steer Finishing	-\$ 5.48	???
Beef Cow-Calf/Cow	\$ 7.45	14,597 Cows
Dairy Cows/Cow	\$ 262.38	414 Cows

Information/Data Source:

University of Minnesota Extension Southwestern Minnesota Farm Business Management Association  
MnSCU South Central/Minnesota West/Riverland College, Farm Business Management Program