

AGRICULTURAL GUIDE

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So you want to farm What does it take? What can you make?

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Farming means different things to different people. To some, it is a business in which farm managers employ their talents in producing food and fiber, thereby earning a return for their labor and equity. To others, it is a way of life—a good place to raise a family and escape some of the frustrations of urban living. If a farm does not have to support a family, it can be a good investment and greatly add to the family's living and enjoyment.

Many people want to farm. They are attracted by the desire to be their own boss and to grow things. They enjoy sharing with their families the experience of working and living together on a farm.

Are these possibilities real or only a dream based on nostalgia? The answer to this question depends on the individual family. To be successful in farming, the family must: (1) want to farm, (2) have sufficient resources and, (3) possess or be able to acquire adequate knowledge to develop a practical long-range farm plan and progress towards its achievement.

If you want to buy a farm, think about it carefully and determine why you want to buy it.

Are you changing jobs and going into farming as a profession? Are you thinking about retiring with a small acreage for gardening and pasture? Do you want to be a part-time farmer? Do you want to be an absentee landowner and lease to an operator?

Decide which course you think you will take. They are different. They require different decisions. They require investments that vary in size from several thousand to nearly a million dollars.

Nature of farming

Farming today, whether commercial or part-time, has some exacting requirements. Numerous pitfalls are lurking for the unsuspecting person. Crop production varies widely because of weather conditions. Prices farmers receive for livestock and crops often drop to disastrously low levels. And, because farmers are now buying more of the inputs used in farming, farm costs have increased rapidly.

Some of the unique characteristics a potential farmer might encounter and should consider are:

- Farm land is expensive and values are unstable.
- Large annual cash outlays are required to grow crops or to raise livestock.
- Farm income varies widely from year to year.
- The knowledge, skills and time required to produce high yields of quality farm products are very exacting.
- Rural families must pay more for many products and services than urban dwellers must pay.
- Living and working on a farm requires hard work and determination. You must be able to bounce back from adversities of nature and economic conditions beyond your control.
- Historically, returns to farming have been below most other businesses.
- Once you start a farm business, you may find it difficult to liquidate without absorbing major losses.

Enterprise	Unit	Resources required per unit			Annual net returns per unit to pay for labor and investment	
		Annual land	Operating labor	Average capital	Expected returns	Range
Sow and feeder pigs	1 sow, 2 litters (14 pigs) sold at 60 lbs.	½ acre	22 hrs.	\$ 600	\$140	-\$ 40-\$330
Sow and market hogs	1 sow, 2 litters (14 pigs), hogs sold at 230 lbs.	1 acre	29 hrs.	1400	300	\$100-\$650
Beef cow	Cow, spring calf sold in fall	3-5 acres	8 hrs.	550	30	-\$ 20-\$150
Summer pasture steer	Add 200 lbs. gain	1-2 acres	2 hrs.	400	20	-\$ 80-\$120
Corn	1 acre, 90 bushel yield	1 acre	5 hrs.	150	100	0-\$200
Soybeans	1 acre, 25 bushel yield	1 acre	5 hrs.	100	50	0-\$200
Grass hay	1 acre, 3 tons	1 acre	7 hrs.	50	40	\$ 10-\$100

Table 1. Resources required and average returns for selected enterprises

Producing crops and livestock

Many different enterprises can be produced on a Missouri farm. Each enterprise uses a different amount of resources (land, labor, buildings, machinery) and gives a different return.

One of your most important jobs as a farm manager is to determine the best mix of enterprises for the farm. A practical way to determine which enterprises and how much of each enterprise to produce is to prepare example plans on paper and then select the most desirable plan.

Farm resources are limited on most farms. But some resources are more limited than others. The scarcest resources are the most important to consider.

List the farm resources available to you, and identify and rank the most limited ones. Examples of scarce resources are cropland acres; labor, especially during certain months; operating money; buildings; and equipment.

Each enterprise has specific resource requirements and you can calculate an expected return for each enterprise. Table 1 lists the amount of scarce resources required to produce a unit of some common Missouri farm enterprises. These enterprises are by no means the only enterprises you should consider. For similar information about additional farm enterprises, ask for "The Missouri Farm Planning Handbook," at your local University extension center.

By estimating the number of units of each enterprise that can be produced from the available quantity of scarce resources, you can determine the level of income to expect from the farm.

Example: This example illustrates how to use information in Table 1. A family is thinking about buying a 40-acre farm with about 15 acres in pasture and the rest in timber.

The father works in a nearby town. The mother is a busy housewife caring for four elementary school children. By selling their house in town, they can finance the purchase of the farm satisfactorily.

They want to know if the farm will add income or just increase their cost of living. By looking at the resource requirements of each enterprise, they decide feeder pig production is their opportunity. They would have adequate land and labor to care for several sows. The most limiting resources are capital to purchase sows, buildings and equipment, and the knowledge and skills to produce feeder pigs successfully.

They decide to purchase a few bred gilts and grow into the business as they become more skilled in hog raising. They plan to work up to 20 sows. This size enterprise would use about 10 acres of land, nine hours of labor each week and about \$12,000 operating capital. They could expect about \$2,800 added income each year for their labor and to pay for use of buildings, equipment and land.

Full-time commercial farming

Many people would like to be full-time commercial farmers but are unable to gain control of enough resources to provide adequate income for business and family expenses. It is difficult to give a meaningful estimate of the amount of resources a full-time

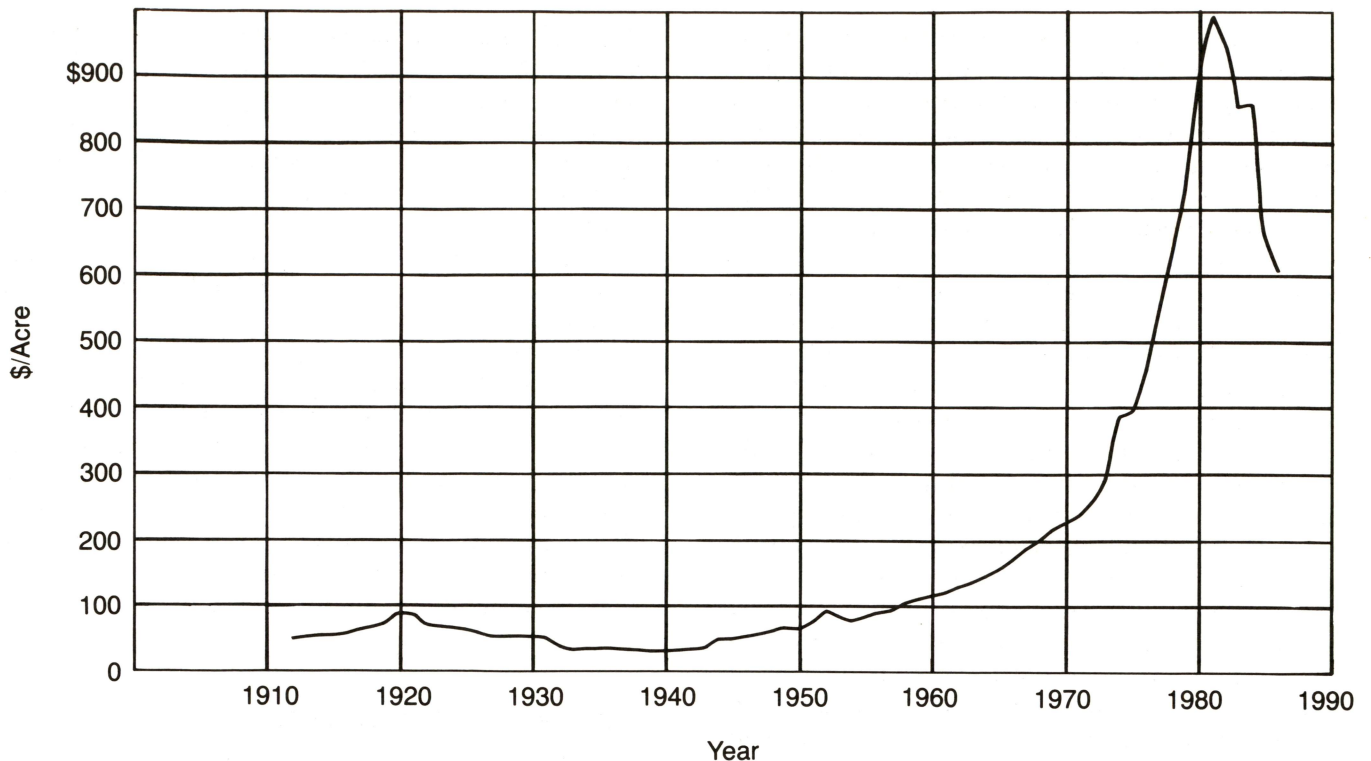


Figure 1. Average Missouri farm real estate values (\$ per acre)

farmer needs. Families differ in the amount of income they spend for family living, and some families own their resources debt-free while others have to borrow all they can.

A useful guide for a farm business that has no debt is as follows: each full-time worker needs to produce at least \$60,000 worth of farm production. Some examples of typical enterprises that will provide this level of production are:

- 400 acres of grain crops
- 50 sows and market hogs
- 100 sows and feeder pigs
- 30 dairy cows
- 200 beef cows.

If you use borrowed money for part of the farm investment, then the amount of production required per worker goes up. A general rule of thumb is to divide the above figures by the percent equity you have invested in the business.

Part-time farming

For many families, part-time farming offers the best compromise to full-time commercial farming. You can enjoy living in the rural area, and off-farm employment can provide the major source of income. You can select farm enterprises that will provide for your family's needs—whether they be added income, youth educational projects, hobbies or investments.

Absentee landlord

Many people want to own land and rent it to others to farm. This permits the landowner to be involved in farming while someone else does the actual farm work.

In recent years, certain factors have discouraged non-farmers from buying farm land. Farm land values are steadily declining as a result of slowing inflation and falling crop prices. Changes in income tax laws reduce the tax advantages of farmland investments.

As a prospective farm land investor, you should be certain the farm land is in a suitable unit for renting. While productive cropland can always be rented, poor cropland and pasture may be difficult to rent if it is in small tracts, is isolated or lacks certain improvements such as water or fences.

You should also seriously consider the potential earnings from alternative investments. Alternative investments may earn more, offer greater tax advantages, permit you to invest varying amounts of money when it is available and be easier to market when the time comes to sell.

Rural living and retirement

When planning for retirement and seeking an acreage in a rural area, you must keep your purpose in mind. You are retiring, not changing jobs.

The size of acreage has little to do with its purpose. It may vary from five acres to several hundred acres, depending on its location and productivity. A small acreage is more desirable in most instances. A retirement acreage doesn't necessarily mean it can't make some contribution to family living. A good garden contributes substantially to the food budget as well as to relaxation, recreation and exercise. You might want three or four head of livestock. From a dollar point of view, however, the farm enterprises will provide very little cash income for the family.

Retirement farming actually is not farming from a commercial point of view but rather is rural living. Other concerns are of equal or greater value than making money. The family, within its limitations of finances, health and knowledge, can enjoy privacy, aesthetic value and pleasant living without needing to earn a livelihood from the farm business.

Monetary return from the farm investment is of lesser importance. Risks and uncertainty become of less concern. Location, on the other hand, becomes much more important. Quality of roads, public and social services and nearness to urban centers take precedence in importance for the retiree.

If you truly want to retire in the country, you should give more attention to location and services than to soil productivity or monetary return.

Changing land values

Often the primary factor that determines whether buying a farm is a good financial investment is what happens to land values. For most farms, the value of

the land accounts for 60-75 percent of the total farm investment. If land prices rise after you purchase a farm, this appreciation in value can offset even large losses from the production enterprises. If land values decline, it may not be possible to be efficient enough at managing the farm to prevent a decline in net worth.

Figure 1 shows what has happened to the average value of an acre of Missouri farmland since 1912. The past decade has seen a rapid rise and an equally rapid decline in land values.

Movements in land prices are caused by economic factors that are mostly outside the control of individual land owners. Owning land during periods of rapidly rising land values (such as the 1970s) can make even inefficient farmers wealthy. Owning land during periods of falling land prices can threaten the survivability of even the most efficiently run farms if they have significant amounts of debt.

Additional information

For additional information, contact your local University extension center and ask for these publications:

Manual 75, "Missouri Farm Planning Handbook."

North Central Regional Publication 43, "Taxmanship in Buying or Selling a Farm."

UMC Guide G404, "Some farm land value statistics."

UMC Guide G405, "Farm real estate appraising."

UMC Guide G780, "A home buyer's guide for evaluating small acreages."