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Start-Up Strategies for Beginning Farmers

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Cornhusker Economics

Cooperative Extension

Institute of Agriculture & Natural Resources
Department of Agricultural Economics
University of Nebraska – Lincoln

Start-Up Strategies for Beginning Farmers

Market Report	Yr Ago	4 Wks Ago	10/1/04
<u>Livestock and Products,</u>			
<u>Average Prices for Week Ending</u>			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt	\$93.26	\$80.34	\$83.45
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt	112.10	134.40	126.03
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg	105.15	116.99	120.17
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt	159.18	134.20	136.74
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt	52.18	71.01	75.57
Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd	38.89	43.45	46.65
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt	62.73	72.24	74.54
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt	90.00	*	89.37
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt	215.03	216.23	220.40
<u>Crops,</u>			
<u>Cash Truck Prices for Date Shown</u>			
Wheat, No. 1, H.W. Omaha, bu	3.46	3.21	3.19
Corn, No. 2, Yellow Omaha, bu	2.05	2.23	1.78
Soybeans, No. 1, Yellow Omaha, bu	6.56	6.24	4.85
Grain Sorghum, No. 2, Yellow Kansas City, cwt	3.36	3.13	2.80
Oats, No. 2, Heavy Minneapolis, MN, bu	1.65	1.65	1.62
<u>Hay,</u>			
<u>First Day of Week Pile Prices</u>			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton	115.00	115.00	115.00
Alfalfa, Lg. Round, Good Northeast Nebraska, ton	65.00	62.50	62.50
Grass Hay, Sm. Square, Good Northeast Nebraska, ton	62.50	57.50	57.50
* No market.			

Preliminary information from the U.S. 2002 Agricultural Census has recently been released. The chart groups U.S. census data for Nebraska farmers into three categories: under 34 years of age, 35 to 64 and over 65. The data indicates a 20 year trend of fewer farmers, older farmers and very few beginning farmers. A farmer is defined, for purposes of this census, as anyone producing or selling at least \$1,000 of agricultural commodities annually. The average age of Nebraska farmers continues to rise. The average age in 1982 was 48.5 compared to 53.9 in 2002. The increase in average age is due to both an increase in the over 65 age group (8,777 in 1982 to 12,203* in 2002), as well as a decrease in the under 34 age group (13,436 in 1982 to 3,782* in 2002). Even with adjusting for the new calculation method adopted for the year 2002, which if applied to the 1997 census would have resulted in computing an additional 3,085 Nebraska farmers, the total number of farmers in the state also continues to decline. The adjusted number of younger farmers in the age group of 34 and under in the year 2002 is less than one-third the number in that category 20 years ago. There are obvious barriers to beginners such as high capital investment costs, narrowing profit margins and increased cost of family living. But are there strategies that can assist beginners that want to return to agriculture?

Successful Strategies to Begin Farming

Step #1 Family Living

The first question anyone entering farming must contemplate is what standard of living is desired and thus what will be the cost of living. The NFBI average for family living including taxes was \$54,893 for 2003. Does the cost of living require a non-farm job for a period of years? Living costs tend to increase if you work off the farm. Categories such as transportation, food, childcare and clothing typically are higher if one or more family members works off the farm. These increases may be off-set if there



is health insurance or other benefits associated with the job. Make a budget. Determine what the farm business must contribute toward the cost of living.

Step #2

Evaluate Farming Opportunities - Super Farm

Many beginning farmers get their start through family members or acquaintances. The super farm model simply brings in a junior member to the business to add labor and eventually gain some equity. A key question is whether the family farm is large enough to take another slice from the “profit pie” to satisfy the beginner’s needs. If not, are there additional enterprises that can be added to the operation that will bring in more net cash income? Are there ways that by adding labor the beginner can increase efficiency? Are there areas, such as providing the chemical spraying that was previously done by a custom operator, that can generate an increase in cash profit margin, therefore bringing benefit to the farm? Often beginners can offer ideas regarding new enterprises that may have higher cash profit margins. Although nontraditional skills are needed, direct marketing of production can increase cash profits and may prove to be a source of needed income. Becoming part of an existing farm has been the start-up method of many beginning farmers.

Spin Off

The spin off method of starting requires help from family members or an acquaintance. Under this method the beginner is actually on their own but often will trade labor for the use of machinery and other resources from the established farmer. Although the beginner may purchase inputs with the established farmer, the beginner has a separate and distinct operation, keeping track of both income and expenses. Many beginners like the autonomy of the spin off start-up, but cash flow is extremely important to success. Risk management is critical to beginners that don’t have a lot of equity to fall back on. Tools such as crop insurance and forward pricing can enhance risk management strategies. It is also important to take advantage of eligible beginning farmer programs to reduce the demand on term principal payments and reduce the interest cost.

Self Starter

Those farmers that do not have an established farmer to help them get started in many ways have the most difficulty getting established in farming. Many self starter beginners find focusing on high profit margin commodities, usually requiring higher labor and lower capital investment, has proven to be the most successful strategy for start up. Off-farm employment many times is the simplest way to generate the needed funds to help cover living costs. Utilization of beginning farmer programs has also been a key to overcoming start up costs.

Step #3

Take Advantage of Beginning Farmer Programs

There are both state and federal programs to help beginning farmers get started in Nebraska. Most programs have eligibility requirements that include criteria such as length of farming experience, net worth, previous land ownership and cash flow, to name a few. Loans are available for beginners with low interest rates and longer repayment terms. The University of Nebraska Cooperative Extension offers assistance to help beginners address the complex issues concerning program eligibility, financial feasibility, farm transition and generational transfer.

Getting started farming today is obviously more difficult than it was 20 years ago. There is however a number of young people that are considering returning to the farm. With the help of state and federal beginning farmer programs, a sound approach to risk management, a handle on family living costs, intelligence and creativity, they can create the opportunity to succeed.

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Age of Nebraska Farmers/Principal Operators

Age	1982	1987	1992	1997	1997*	2002*
Under 34	13,436	12,609	8,877	5,531	NA	3,782*
% of Total	22%	21%	17%	11%	NA	8%
35 to 64	38,030	37,056	32,735	33,532	NA	33,390*
% of Total	63%	61%	62%	65%	NA	68%
65 and Over	8,777	10,839	11,311	12,391	NA	12,203*
% of Total	15%	18%	21%	24%	NA	25%
Total Farms	60,243	60,502	52,923	51,454	54,539*	49,375*
Average Age	48.5	49.4	50.7	52.5	52.5	53.9*

* New Calculation Method