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RETURNS TO DAIRY PRODUCERS DROP IN 2000

Significantly lower milk prices resulted in total economic costs exceeding returns for Illinois dairy producers in 2000, according to figures summarized by University of Illinois agricultural economists in cooperation with the Illinois Farm Business Farm Management Association.

The average net price received per 100 pounds of milk was \$11.85 which was less than total costs of \$13.56. The average price received for milk in 1999 was \$14.58. On a per cow basis, total returns from milk were \$2,265 compared to the total cost to produce milk of \$2,589 per cow. This is the first year since 1997 when total costs exceeded total returns. Total returns have exceeded total economic costs four out of the last ten years.

MILK PRODUCTION PER COW INCREASES

Milk production per cow averaged 19,108 pounds. The average was 905 pounds more per cow than in 1999 and at its highest level ever. The previous high was in 1999 when milk production was 18,203 pounds per cow. Milk production per cow has increased 12 percent since 1996.

COSTS AND RETURNS

Trends in total costs and returns per cow are given from 1991 to 2000 in Figure 1. The profit margin (return above all cost) decreased from \$125 in 1999 to a negative \$324 per cow in 2000. The 2000 returns per cow were the lowest since 1980 when returns were a negative \$320 per cow. The last five year returns above all costs has averaged a negative \$61 per cow. During this period, returns above all costs per cow have varied from a negative \$324 in 2000 to \$174 in 1998. In figure 1, labor and interest charges are included in total costs only. Most dairy producers will incur some hired labor and cash interest expense and would include them as cash operating costs.

The 2000 returns were \$2.39 per 100 pounds produced lower than the 1999 returns due to lower milk prices. The average net price received for milk was \$11.85 per 100 pounds. This is \$2.73 per 100 pounds or 19 percent lower than the average price received in 1999. Based on 19,100 pounds of milk produced per cow, this decrease in price decreased total returns per cow by \$521. The average net price received for milk for the last five-year period is \$13.90 per hundred pounds

While the price received per 100 pounds of milk decreased, feed costs also decreased and non-feed costs remained about the same per 100 pounds of milk produced. Feed costs in 2000 averaged \$6.23 per 100 pounds of milk produced as compared to \$6.56 in 1999. Feed costs have decreased 28 percent since

1996. Feed costs of \$8.66 per 100 pounds of milk produced in 1996 were the highest on record. Feed costs were 46 percent of the total cost to produce milk. Non-feed costs per 100 pounds of milk produced were \$7.33 in 2000 compared to \$7.34 in 1999.

2001 PROJECTIONS

Profit margins for dairy producers in 2001 will increase compared to 2000 profit levels due to higher milk prices. Total returns are expected to exceed total economic costs due to a substantial increase in milk prices. While the average price received for milk in 2000 was 19 percent lower than the average in 1999, the average milk price for 2001 is projected to be about 24 percent above the average for 2000. The number of milk cows in the United States in 2001 is expected to be slightly lower than in 2000. With a slight decrease in milk production per cow, total milk production is projected to be about 1 percent lower in 2001 compared to 2000. This will result in higher milk prices.

While milk prices have increased, feed costs may also increase somewhat but are expected to remain at relatively low levels in 2001. Continued abundant grain supplies have kept grain prices low. Feed costs per 100 pounds of milk produced would average about \$6.45 using prices of \$1.90 per bushel for corn, \$.1275 a pound for protein and \$80 a ton for hay. If non-feed costs per 100 pounds of milk produced averaged \$7.25, total costs to produce 100 pounds of milk would be \$13.70. A 24 percent increase in milk prices in 2001 for Illinois producers would result in an annual price of about \$14.70 per 100 pounds. If total economic costs averaged \$13.70 per 100 pounds of milk produced, the average Illinois producer would have total returns exceed total economic costs by \$1.00 per 100 pounds of milk produced.

A more thorough report can be found at the University of Illinois *Farmdoc* website:
http://www.ace.uiuc.edu/farmdoc/manage/cost_dairy_production.html

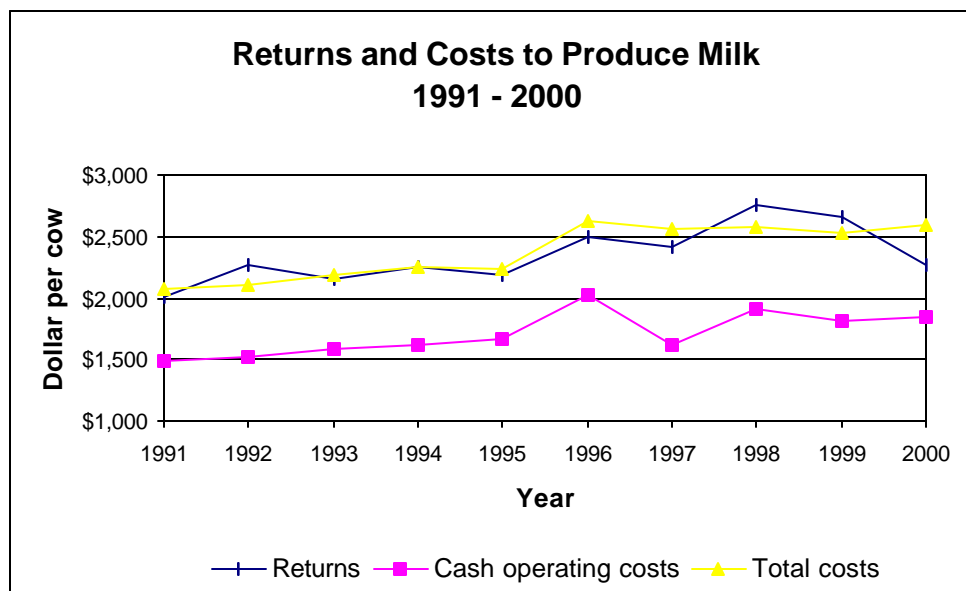


Figure 1. Returns and costs to produce milk, 1991 to 2000. Interest, depreciation, and labor charges included only in total costs.

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