

**July 31, 2003****FEFO 03-14****LOWER MILK PRICES REDUCE PROFITS FOR DAIRY PRODUCERS IN 2002**

Significantly lower milk prices resulted in total economic costs exceeding total returns for Illinois dairy producers in 2002, 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 \$12.22 which was less than total costs of \$13.88. The average price received for milk in 2001 was \$14.91. On a per cow basis, total returns from milk were \$2,477 compared to the total cost to produce milk of \$2,810 per cow. This is the second year in the last five years that total costs exceeded total returns. Total returns have exceeded total economic costs four out of the last ten years.

**MILK PRODUCTION PER COW DECREASES**

Milk production per cow averaged 20,272 pounds. The average was 443 pounds less per cow than in 2001. It still was the second highest level ever. The highest was in 2001 when milk production was 20,715 pounds per cow. Milk production per cow has increased 11 percent in the last five years.

**COSTS AND RETURNS**

Trends in total costs and returns per cow are given from 1993 to 2002 in Figure 1. The profit margin (return above all cost) decreased from \$279 in 2001 to a negative \$334 per cow in 2002. The 2002 returns per cow were the lowest since 1972 when this study began. The last five year returns above all costs has averaged a negative \$16 per cow. During this period, returns above all costs per cow have varied from a negative \$334 in 2002 to \$279 in 2001. 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 2002 returns were \$3.02 per 100 pounds produced lower than the 2001 returns due to lower milk prices and slightly higher costs. The average net price received for milk was \$12.22 per 100 pounds. This is \$2.69 per 100 pounds or 18 percent lower than the average price received in 2001. Based on 20,300 pounds of milk produced per cow, this decrease in price decreased total returns per cow by \$546. The average net price received for milk for the last five-year period is \$13.74 per hundred pounds. Dairy assistance payments from the Farm Service Agency and patronage returns related to the dairy enterprise were not included in returns. This would add about \$1.50 per 100 pounds of milk produced to returns.

While the price received per 100 pounds of milk decreased, feed and non-feed costs increased slightly per 100 pounds of milk produced. Feed costs in 2002 averaged \$6.49 per 100 pounds of milk produced as



compared to \$6.25 in 2001. Feed costs have averaged \$6.50 the last five years. Feed costs of \$8.66 per 100 pounds of milk produced in 1996 were the highest on record. Feed costs were 47 percent of the total cost to produce milk. Non-feed costs per 100 pounds of milk produced were \$7.39 in 2002 compared to \$7.30 in 2001.

### **NO IMPROVEMENT IN PROFITS PROJECTED FOR 2003**

Profit margins for dairy producers in 2003 will continue to be negative due to low milk prices. Total economic costs are again expected to exceed total returns. The average price received for milk in 2002 was 18 percent lower than the average in 2001. The average milk price for 2003 is projected to be about another 3 percent below the average for 2002. The number of milk cows in the United States in 2003 is expected to be slightly lower than in 2002. With an increase in milk production per cow, total milk production is projected to be slightly higher in 2003 compared to 2002. This will result in slightly lower milk prices.

While milk prices remain low, feed costs should be similar to the year before. Abundant grain production is expected but use will remain strong. Feed costs per 100 pounds of milk produced would average about \$6.50 using prices of \$2.20 per bushel for corn, \$.14 a pound for protein and \$90 a ton for hay. This is based on annual feed consumption per cow, including replacement animals, of 120 bushels of corn, 3,600 pounds of protein, and 8.0 tons of hay or hay equivalents. If non-feed costs per 100 pounds of milk produced averaged \$7.30, total costs to produce 100 pounds of milk would be \$13.80. A 3 percent decrease in milk prices in 2003 for Illinois producers would result in an annual price of about \$11.85 per 100 pounds. If total economic costs averaged \$13.80 per 100 pounds of milk produced, the average Illinois producer would have total economic costs exceed total returns by \$1.95 per 100 pounds of milk produced.

The author would like to acknowledge that data used in this study comes from the local Farm Business Farm Management (FBFM) Associations across the State of Illinois. Without their cooperation, information as comprehensive and accurate as this would not be available for educational purposes. FBFM, which consists of 6,000 plus farmers and 62 professional field staff, is a not-for-profit organization available to all farm operators in Illinois. FBFM field staff provide on-farm counsel with computerized recordkeeping, farm financial management, business entity planning and income tax management. For more information, please contact the State FBFM Office located at the University of Illinois Department of Agricultural and Consumer Economics at 217-333-5511 or visit the FBFM website at [www.fbfm.org](http://www.fbfm.org).

A more thorough report can be found at the University of Illinois *Farmdoc* website:  
[http://128.174.65.100/manage/enterprise\\_cost\\_index.html](http://128.174.65.100/manage/enterprise_cost_index.html)

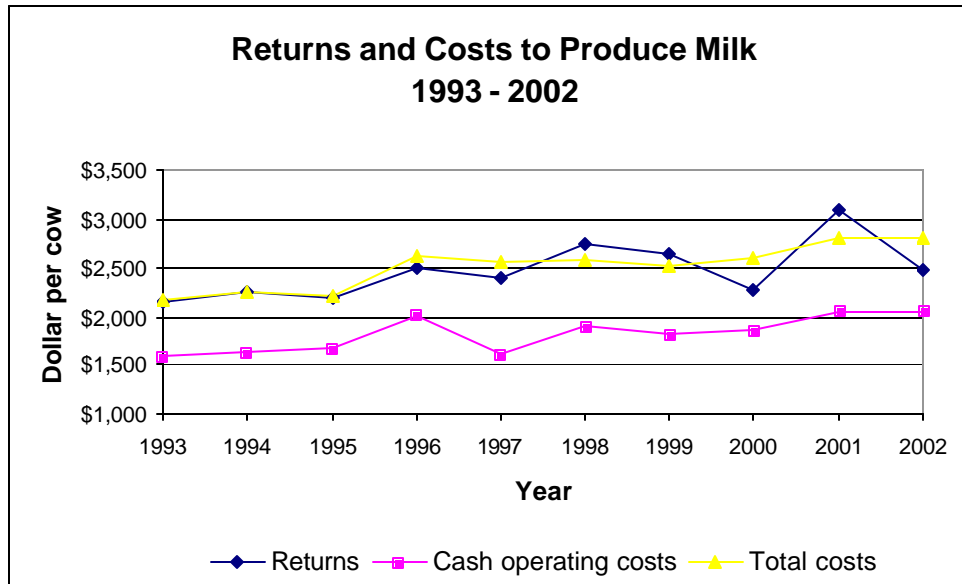


Figure 1. Returns and costs to produce milk, 1993 to 2002. Interest, depreciation, and labor charges are included in total costs only.

Issued by: Dale Lattz, Department of Agricultural and Consumer Economics