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RETURNS IMPROVE MARGINALLY FOR DAIRY PRODUCERS IN 2003, PROFITS SHOULD RETURN IN 2004

While there was some improvement in milk prices, total economic costs still exceeded total returns for Illinois dairy producers in 2003, 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 \$12.51 which was less than total costs of \$13.92. The average price received for milk in 2002 was \$12.22. On a per cow basis, total returns from milk were \$2,421 compared to the total cost to produce milk of \$2,696 per cow. Total costs have exceeded total returns in three of the last five years. Total returns have exceeded total economic costs four out of the last ten years.

MILK PRODUCTION PER COW

Milk production per cow averaged 19,353 pounds. The average was 919 pounds less per cow than in 2002. It still was the third highest level ever. The highest was in 2001 when milk production was 20,715 pounds per cow.

COSTS AND RETURNS

Trends in total costs and returns per cow for all herds is given from 1994 to 2003 in Figure 1. The profit margin (return above all cost) increased from a negative \$334 in 2002 to a negative \$275 per cow in 2003. The 2003 returns per cow were the third lowest for any year in the last ten years. The last five year returns above all costs has averaged a negative \$106 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 2003 returns were 25 cents per 100 pounds produced higher than the 2002 returns due to slightly higher milk prices. The average net price received for milk was \$12.51 per 100 pounds. This is 29 cents per 100 pounds or 2 percent higher than the average price received in 2002. Based on 19,400 pounds of milk produced per cow, this increase in price increased total returns per cow by \$56. The average net price received for milk for the last five-year period is \$13.21 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 increased, feed and non-feed costs also increased slightly per 100 pounds of milk produced. Feed costs in 2003 averaged \$6.95 per 100 pounds of milk produced as compared to \$6.49 in 2002. 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 50 percent of the total cost to produce milk. Non-feed costs per 100 pounds of milk produced were \$6.97 in 2003 compared to \$7.39 in 2002.

PROFITABLE YEAR PROJECTED FOR DAIRY PRODUCERS IN 2004

Profit margins for dairy producers in 2004 should return to the positive side due to higher milk prices. Total returns should exceed total economic costs. The average price received for milk in 2003 was 2 percent higher than the average in 2002. The average milk price for 2004 is projected to be about 25 percent above the average for 2003. The number of milk cows in the United States in 2004 is expected to be slightly lower than in 2003. Even with an increase in milk production per cow, total milk production is projected to be slightly lower in 2004 compared to 2003. This will result in significantly higher milk prices.

While milk prices should increase, feed costs will also be higher than the year before. Although corn and soybean production will be at high levels, the average price for the year for corn and supplement will be higher due to high grain prices this spring. Feed costs per 100 pounds of milk produced would average about \$7.40 using prices of \$2.50 per bushel for corn, \$.1625 a pound for protein and \$95 a ton for hay. This is based on annual feed consumption per cow, including replacement animals, of 128 bushels of corn, 3,550 pounds of protein, and 8.0 tons of hay or hay equivalents. If non-feed costs per 100 pounds of milk produced averaged \$7.00, total costs to produce 100 pounds of milk would be \$14.40. A 25 percent increase in milk prices in 2004 for Illinois producers would result in an annual price of about \$15.65 per 100 pounds. If total economic costs averaged \$14.40 per 100 pounds of milk produced, the average Illinois producer would have total returns exceed total economic costs by \$1.25 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 61 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.

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



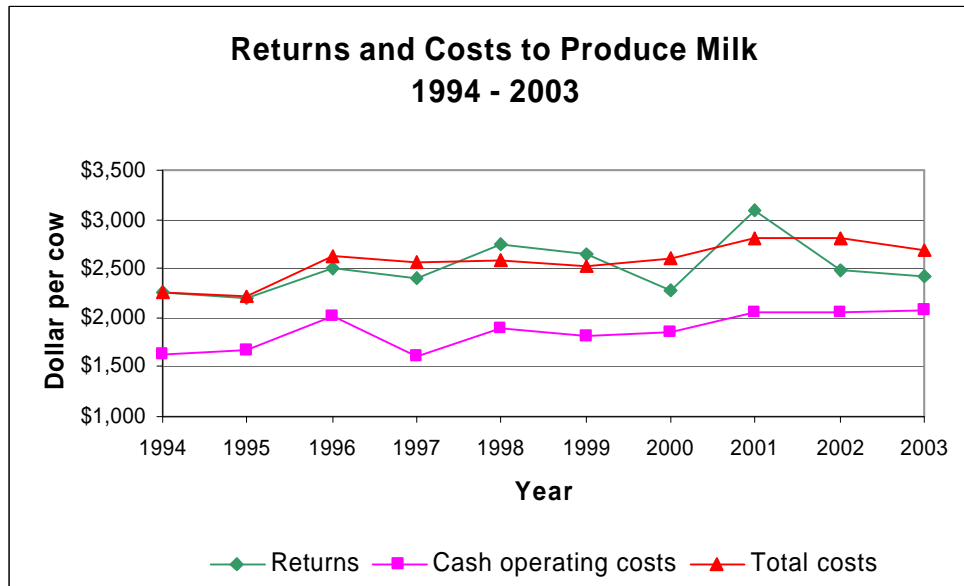


Figure 1. Returns and costs to produce milk, 1994 to 2003. Interest, depreciation, and labor charges are included in total costs only.

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