

October 17, 2005

FEFO 05-19

DAIRY PRODUCERS BENEFIT FROM RECORD HIGH MILK PRICES IN 2004, PROFITS SHOULD CONTINUE IN 2005

Record high milk prices more than offset increased costs resulting in total returns exceeding total economic costs for Illinois dairy producers in 2004, 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 \$16.37 which was more than total costs of \$15.30. The average price received for milk in 2003 was \$12.51. On a per cow basis, total returns from milk were \$3,189 compared to the total cost to produce milk of \$2,980 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 19,480 pounds. The average was 127 pounds more per cow than in 2003. It 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 are given from 1995 to 2004 in Figure 1. The profit margin (return above all cost) increased from a negative \$275 in 2003 to \$209 per cow in 2004. The 2004 returns per cow were the second highest for any year in the last twenty years. The last five year returns above all costs has averaged a negative \$89 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 2004 returns were \$2.48 per 100 pounds produced higher than the 2003 returns due to higher milk prices. The average net price received for milk was \$16.37 per 100 pounds. This is \$3.86 per 100 pounds or 31 percent higher than the average price received in 2003. Based on 19,500 pounds of milk produced per cow, this increase in price increased total returns per cow by \$753. The average net price received for milk for the last five-year period is \$13.57 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 55 cents 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 per 100 pounds of milk produced. Feed costs in 2004 averaged \$7.61 per 100 pounds of milk produced as compared to \$6.95 in 2003. Feed costs have averaged \$6.71 the last five years. The 2004 feed costs were the highest since 1997. Feed costs were 50 percent of the total cost to produce milk. Non-feed costs per 100 pounds of milk produced were \$7.69 in 2004 compared to \$6.97 in 2003.

PROFITABLE YEAR PROJECTED FOR DAIRY PRODUCERS IN 2005

Profit margins for dairy producers in 2005 should remain in the black. Lower milk prices should be offset by lower feed costs. The average price received for milk in 2004 was 31 percent higher than the average in 2003. The average milk price for 2005 is projected to be about 4 to 5 percent less, or a little under \$1 per hundredweight, than the average for 2004. The number of milk cows in the United States in 2005 is increasing as well as the production of milk per cow. Total milk production is projected to be about 3 to 4 percent higher in 2005 compared to 2004 resulting in the lower milk prices.

While milk prices should decrease, feed costs should also be lower than the year before. Good corn and soybean production in 2005 has lowered the average price for the year for corn and supplement. Feed costs per 100 pounds of milk produced would average about \$7.00 using prices of \$2.00 per bushel for corn, \$.14 a pound for protein and \$95 a ton for hay. This is based on annual feed consumption per cow, including replacement animals, of 129 bushels of corn, 3,900 pounds of protein, and 8.0 tons of hay or hay equivalents. If non-feed costs per 100 pounds of milk produced averaged \$7.50, total costs to produce 100 pounds of milk would be \$14.50. A 4 percent decrease in milk prices in 2005 for Illinois producers would result in an annual price of about \$15.75 per 100 pounds. If total economic costs averaged \$14.50 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 60 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

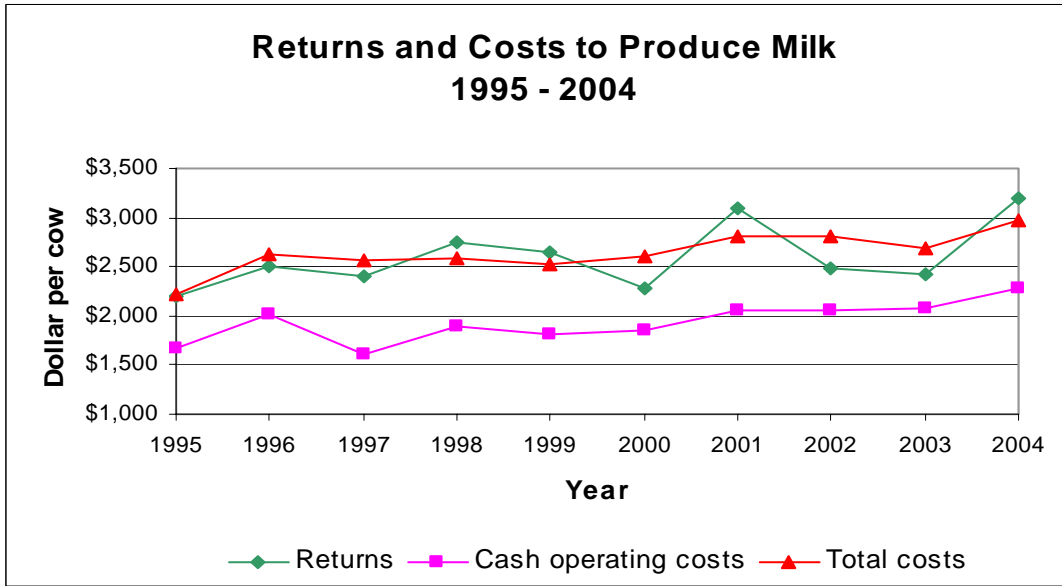


Figure 1. Returns and costs to produce milk, 1995 to 2004. Interest, depreciation, and labor charges are included in total costs only.

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