

**October 20, 2006****FEFO 06-17****RETURNS EXCEED COSTS FOR DAIRY PRODUCERS IN 2005, PROFIT MARGINS LIKELY TO TURN NEGATIVE IN 2006**

Lower feed costs helped offset lower milk prices resulting in total returns exceeding total economic costs for the second year in a row for Illinois dairy producers in 2005, 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 \$15.46 which was greater than total costs of \$14.79. The average price received for milk in 2004 was a record \$16.37. The 2005 price received for milk was the second highest on record. On a per cow basis, total returns from milk were \$3,161 compared to the total cost to produce milk of \$3,015 per cow. Total returns have exceeded total costs in three of the last five years. Total returns have exceeded total economic costs five out of the last ten years.

**MILK PRODUCTION PER COW**

Milk production per cow averaged 20,428 pounds. The average was 948 pounds more per cow than in 2004. It was the second 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 1996 to 2005 in Figure 1. The profit margin (return above all cost) decreased— \$209 in 2004 to \$146 per cow in 2005. The last five year returns above all costs has averaged \$5 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 2005 returns were 40 cents per 100 pounds produced lower than the 2004 returns due to lower milk prices. The average net price received for milk was \$15.46 per 100 pounds. This is 91 cents per 100 pounds or 6 percent lower than the average price received in 2004. Based on 20,400 pounds of milk produced per cow, this decrease in price decreased total returns per cow by \$186. The average net price received for milk for the last five-year period is \$14.29 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 35 cents per 100 pounds of milk produced to returns.

While the price received per 100 pounds of milk decreased, feed costs also decreased while non-feed

costs increased per 100 pounds of milk produced. Feed costs in 2005 averaged \$6.83 per 100 pounds of milk produced as compared to \$7.61 in 2004. Feed costs have averaged \$6.83 the last five years. The 2005 feed costs were the same as the last five year average. Feed costs were 46 percent of the total cost to produce milk. Non-feed costs per 100 pounds of milk produced were \$7.96 in 2005 compared to \$7.69 in 2004. Total non-feed costs were the highest ever.

## **LOWER MILK PRICES MOST LIKELY TO RESULT IN NEGATIVE PROFIT MARGINS FOR DAIRY PRODUCERS IN 2006**

Costs will likely exceed milk prices in 2006 resulting in negative profit margins for dairy producers. Lower milk prices will be the main reason for the decrease in returns. The average price received for milk in 2005 was 6 percent lower than the average in 2004. The average milk price for 2006 is projected to be about 15 percent less, or about \$2.30 per hundredweight, than the average for 2005. The number of milk cows in the United States in 2006 is increasing as well as the production of milk per cow. Total milk production is projected to be about 2 to 3 percent higher in 2006 compared to 2005 resulting in the lower milk prices.

While milk prices will decrease, feed and non feed costs should be similar to the year before. Good corn and soybean production in 2006 will provide ample feed supplies but demand continues to grow. Feed costs per 100 pounds of milk produced would average about \$7.00 using prices of \$2.30 per bushel for corn, \$.145 a pound for protein and \$90 a ton for hay. This is based on annual feed consumption per cow, including replacement animals, of 136 bushels of corn, 3,950 pounds of protein, and 8.3 tons of hay or hay equivalents. If non-feed costs per 100 pounds of milk produced averaged \$8.00, total costs to produce 100 pounds of milk would be \$15.00. A 15 percent decrease in milk prices in 2006 for Illinois producers would result in an annual price of about \$13.25 per 100 pounds. If total economic costs averaged \$15.00 per 100 pounds of milk produced, the average Illinois producer would have total economic costs exceed total returns by \$1.75 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](http://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/FBM-0160milkcost.pdf](http://www.farmdoc.uiuc.edu/manage/enterprise_cost/FBM-0160milkcost.pdf)

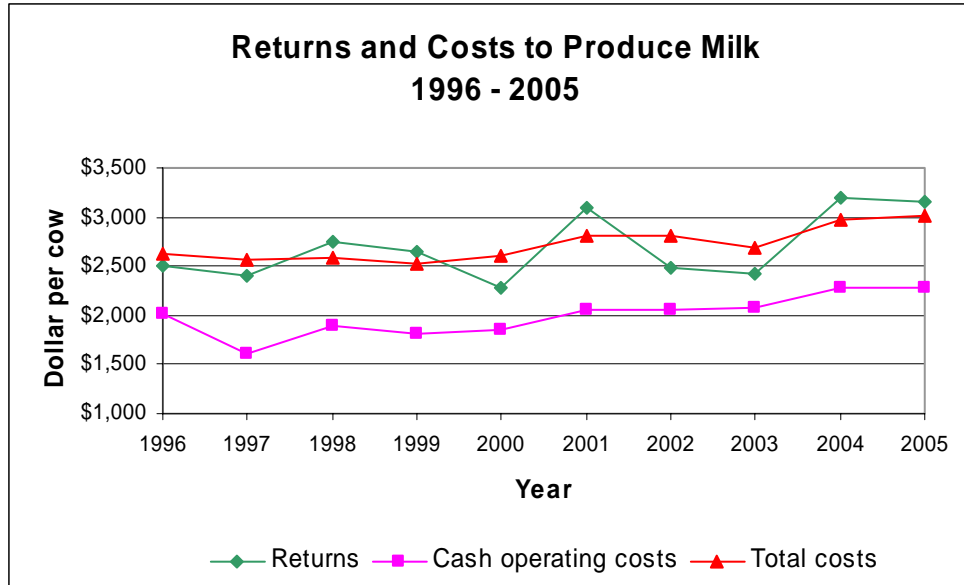


Figure 1. Returns and costs to produce milk, 1996 to 2005. Interest, depreciation, and labor charges are included in total costs only.

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