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## **COSTS EXCEED RETURNS FOR DAIRY PRODUCERS IN 2006, PROFIT MARGINS LIKELY TO TURN POSITIVE IN 2007**

Lower milk prices and higher costs resulted in total economic costs exceeding returns for the first time in three years for Illinois dairy producers in 2006, 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 \$12.88 which was less than total costs of \$16.77. The average price received for milk in 2005 was \$15.46. The 2006 price received for milk was the lowest since 2003. On a per cow basis, total returns from milk were \$2,508 compared to the total cost to produce milk of \$3,271 per cow. Total returns per cow were the lowest since 2003 while the total costs per cow were the highest on record. Total returns have exceeded total economic costs five out of the last ten years.

### **MILK PRODUCTION PER COW**

Milk production per cow for all herds averaged 19,475 pounds. The average was 953 pounds less per cow than in 2005. The highest level 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 1997 to 2006 in Figure 1. The profit margin (return above all cost) decreased— \$146 in 2005 to a negative \$763 per cow in 2006. The last five year returns above all costs has averaged a negative \$203 per cow. During this period, returns above all costs per cow have varied from a negative \$763 in 2006 to \$209 in 2004. 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 2006 returns were \$4.56 per 100 pounds produced lower than the 2005 returns due to lower milk prices and higher costs. The average net price received for milk was \$12.88 per 100 pounds. This is \$2.58 per 100 pounds or 17 percent lower than the average price received in 2005. Based on 19,500 pounds of milk produced per cow, this decrease in price decreased total returns per cow by \$503. The average net price received for milk for the last five-year period is \$13.89 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 76 cents per 100 pounds of milk produced to returns.

While the price received per 100 pounds of milk decreased, feed and nonfeed costs increased per 100 pounds of milk produced. Feed costs in 2006 averaged \$7.66 per 100 pounds of milk produced as

compared to \$6.83 in 2005. Feed costs were at their highest level since 1997. Feed costs have averaged \$7.11 the last five years. The 2006 feed costs were 55 cents above 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 \$9.11 in 2006 compared to \$7.96 in 2005. Labor and interest costs increased the most. Total non-feed costs were the highest ever.

### **HIGHER MILK PRICES MOST LIKELY TO RESULT IN POSITIVE PROFIT MARGINS FOR DAIRY PRODUCERS IN 2007**

Milk prices will likely exceed costs in 2007 resulting in positive profit margins for dairy producers. Higher milk prices will be the reason for the increase in returns. The average price received for milk in 2006 was 17 percent lower than the average in 2005. The average milk price for 2007 is projected to be about 50 percent more, or about \$6.35 per hundredweight, than the average for 2006. Strong domestic and international demand for dairy products and tight global supplies are the reasons for the strong milk prices. United States milk production is expected to increase about 1.7 percent in 2007 due to an increase in the number of milk cows and increased milk production per cow.

While milk prices will increase, feed costs are also expected to increase. Corn and soybean prices remain high due to strong demand led by the increase in bio fuel production. Feed costs per 100 pounds of milk produced would average about \$8.25 using prices of \$3.35 per bushel for corn, \$.165 a pound for protein and \$100 a ton for hay. This is based on annual feed consumption per cow, including replacement animals, of 132 bushels of corn, 3,225 pounds of protein, and 9.0 tons of hay or hay equivalents. If non-feed costs per 100 pounds of milk produced averaged \$9.25, total costs to produce 100 pounds of milk would be \$17.50. A 50 percent increase in milk prices in 2007 for Illinois producers would result in an annual price of about \$19.25 per 100 pounds. If total economic costs averaged \$17.50 per 100 pounds of milk produced, the average Illinois producer would have returns exceed total economic costs 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 5,500 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)

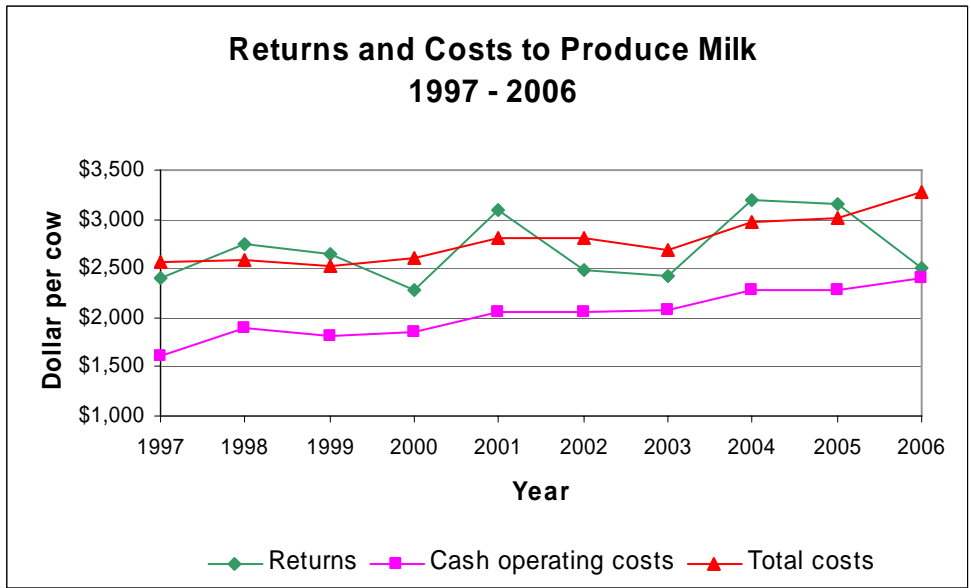


Figure 1. Returns and costs to produce milk, 1997 to 2006. Interest, depreciation, and labor charges are included in total costs only.

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