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PROFIT MARGINS TURN NEGATIVE IN 2008, LIKELY TO CONTINUE WITH PROJECTED LOW MILK PRICES IN 2009

Higher milk prices were not enough to offset higher costs resulting in total economic costs exceeding returns for Illinois dairy producers in 2008, according to figures summarized by University of Illinois agricultural economists in cooperation with the Illinois Farm Business Farm Management Association.

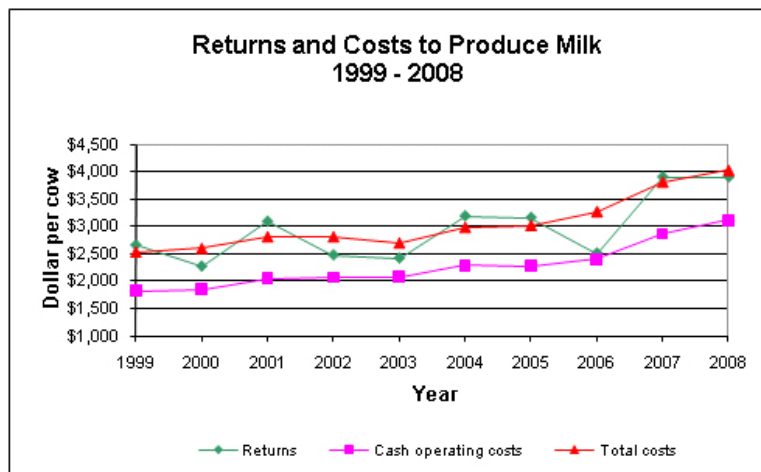
The average net price received per 100 pounds of milk was \$19.21, which was less than total costs of \$19.79. The price received for milk in 2008 was the highest ever. The average price received for milk in 2007 was \$18.83. On a per cow basis, total returns from milk were \$3,900 compared to the total cost to produce milk of \$4,021 per cow. Total returns from milk per cow were the second highest on record. The highest returns per cow, \$3,901, were recorded in 2007. 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 20,297 pounds. The average was 405 pounds more per cow than in 2007. 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 1999 to 2008 in Figure 1. The profit margin (return above all cost) decreased— from \$92 per cow in 2007 to a negative \$121 in 2008. The last five year returns above all costs has averaged a negative \$87 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 2008 returns were \$0.98 per 100 pounds produced lower than the 2007 returns due to higher feed prices and lower milk production per cow. The average net price received for milk was \$19.21 per 100 pounds. This is \$0.38 per 100 pounds or 2 percent higher than the average price received in 2007. Based on 20,297 pounds of milk produced per cow, this increase in price increased total returns per cow by \$77. The average net price received for milk for the last five-year period is \$16.55 per hundred pounds. Dairy assistance payments from the Farm Service

Agency and patronage returns related to the dairy enterprise would add about 15 cents per 100 pounds of milk produced to returns.

While the price received per 100 pounds of milk increased, feed and nonfeed costs also increased per 100 pounds of milk produced. Feed costs in 2008 averaged \$10.20 per 100 pounds of milk produced as compared to \$9.04 in 2007. Feed costs were at their highest level ever. Feed costs have averaged \$8.27 the last five years. The 2008 feed costs were \$1.93 above the last five year average. Feed costs were 52 percent of the total cost to produce milk. Non-feed costs per 100 pounds of milk produced were \$9.59 in 2008 compared to \$9.39 in 2007. Total non-feed costs were the highest ever.

Lower Milk Prices Most Likely to Result in Negative Profit Margins for Dairy Producers in 2009

Costs will likely exceed milk prices in 2009 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 2008 was 2 percent higher than the average in 2007. The average milk price for 2009 is projected to be about 32 percent less, or about \$6.21 cents per hundredweight, than the average for 2008. Increased supplies and weaker global demand due to the economic downturn in 2009 has led to lower prices. United States milk production is expected to decrease about .6 percent in 2009 due to an decrease in the number of milk cows and increased milk production per cow.

While milk prices will decrease significantly, feed costs are expected to decrease slightly. Corn and soybean prices remained lower than 2008 most of the year. Feed costs per 100 pounds of milk produced would average about \$9.30 using prices of \$3.80 per bushel for corn, \$.17 a pound for protein and \$115 a ton for hay. This is based on annual feed consumption per cow, including replacement animals, of 105 bushels of corn, 4,159 pounds of protein, and 8.5 tons of hay or hay equivalents. If non-feed costs per 100 pounds of milk produced averaged \$9.65, total costs to produce 100 pounds of milk would be \$18.95. A 32 percent decrease in milk prices in 2009 for Illinois producers would result in an annual price of about \$13.00 per 100 pounds. If total economic costs averaged \$18.95 per 100 pounds of milk produced, the average Illinois producer would have total economic costs exceed returns by \$5.95 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 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.

A more thorough report can be found at the University of Illinois *farmdoc* website:

http://www.farmdoc.illinois.edu/manage/enterprise_cost/FBM-0160milkcost.pdf

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