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Profit Margins for Dairy Producers Continue Negative Trend in 2013, Likely to Turn Positive in 2014

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Higher milk prices were not enough to offset higher costs resulting in total economic costs exceeding returns for Illinois dairy producers in 2013, according to figures summarized by University of Illinois agricultural economists in cooperation with the Illinois Farm Business Farm Management Association.

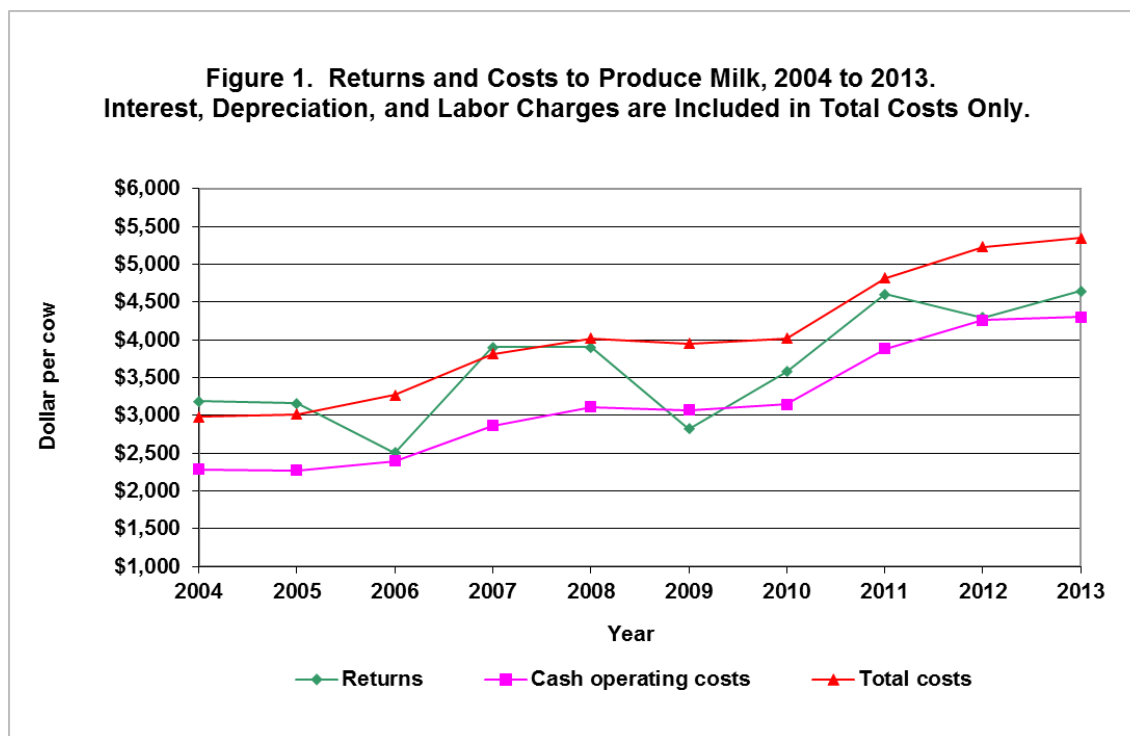
The average net price received per 100 pounds of milk was \$20.63, which was less than total costs of \$23.91. The price received for milk in 2013 was the second highest ever. The average price received for milk in 2012 was \$19.32. On a per cow basis, total returns from milk were \$4,642 compared to the total cost to produce milk of \$5,343 per cow. Total returns from milk per cow were the highest on record. Total returns have exceeded total economic costs three out of the last ten years.

Milk production per cow for all herds averaged 22,484 pounds. The average was 291 pounds more per cow than in 2012. This was the highest level in milk production per cow.

Costs and Returns

Trends in total costs and returns per cow for all herds are given from 2004 to 2013 in Figure 1. The profit margin (return above all cost) increased— from a negative \$935 per cow in 2012 to a negative \$701 in 2013. The last five- year returns above all costs has averaged a negative \$683 per cow. During this period, returns above all costs per cow have varied from a negative \$1,128 in 2009 to a negative \$214 in 2011. 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.

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The 2013 returns were \$1.25 per 100 pounds produced higher than the 2012 returns due to slightly lower feed prices and higher milk prices. The average net price received for milk was \$20.63 per 100 pounds. This is \$1.31 per 100 pounds or 7 percent higher than the average price received in 2012. Based on 22,484 pounds of milk produced per cow, this increase in price increased total returns per cow by \$295. The average net price received for milk for the last five-year period is \$18.09 per hundred pounds. Dairy assistance payments from the Farm Service Agency and patronage returns related to the dairy enterprise would add about 35 cents per 100 pounds of milk produced to returns.

While the price received and non-feed costs per 100 pounds of milk increased, feed costs decreased per 100 pounds of milk produced. Feed costs in 2013 averaged \$13.46 per 100 pounds of milk produced as compared to \$13.85 in 2012. Feed costs were at their highest level ever in 2012. Feed costs have averaged \$11.62 the last five years. The 2013 feed costs were \$1.84 above the last five-year average. Feed costs were 56 percent of the total cost to produce milk. Non-feed costs per 100 pounds of milk produced were \$10.45 in 2013 compared to \$10.00 in 2012. Total non-feed costs were the highest ever.

Positive Profit Margins Likely for Dairy Producers in 2014

Costs will likely not exceed milk prices in 2014 resulting in positive profit margins for dairy producers. Higher milk prices and lower feed costs will be the main reasons for the increase in returns. The average price received for milk in 2013 was 7 percent higher than the average in 2012. The average milk price for 2014 is projected to be about 121 percent more, or about \$4.15 per hundredweight higher than the average for 2013. Increased domestic demand has led to lower prices. United States milk production is expected to increase about 2.5 percent in 2014 due to an increase in the number of milk cows and lower feed costs.

While milk prices will increase significantly, feed costs are expected to decrease. Corn and soybean prices remained lower than 2013 most of the year. Feed costs per 100 pounds of milk produced would average about \$12.32 using prices of \$4.14 per bushel for corn, 22 cents a pound for protein and \$190 a ton for hay. This is based on annual feed consumption per cow, including replacement animals, of 101 bushels of corn,

4,628 pounds of protein, and 8.2 tons of hay or hay equivalents. If non-feed costs per 100 pounds of milk produced averaged \$10.35, total costs to produce 100 pounds of milk would be \$22.37. A 121 percent increase in milk prices in 2014 for Illinois producers would result in an annual price of about \$24.90 per 100 pounds. If total economic costs averaged \$22.37 per 100 pounds of milk produced, the average Illinois producer would have returns exceed total economic costs by \$2.53 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 5,700 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.

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