Dairy Producers Reach Mid-Point Of Challenging Year

URBANA, ILL.

June Dairy Month marks the mid-point of 2010, a year that continues to be an economic challenge to dairy producers, said Mike Hutjens, University of Illinois Extension dairy specialist.

"Dairy managers are recovering from huge financial losses in 2009 after losing $3 a day, or $800 to $1,000 per cow," Hutjens said. "Milk prices dropped nearly 40 percent in 2009 before returning to break-even prices this past December. Unfortunately, milk prices declined again in February below break-even milk prices of $16 per one hundred pounds."

Lower prices are continuing to drop due to large inventories of dairy products in storage (such as cheese), a slow increase in dairy product exports, high U.S. unemployment that limits food purchases such as cheese and dairy products, fewer people eating out, and more than 200,000 extra replacement dairy heifers ready to enter the U.S. dairy herd due to the use of sexed semen.

However, Hutjens said Illinois dairy managers started 2010 in better shape than most U.S. dairy farmers for a variety of reasons.

"Illinois managers raise most of their forages and corn grain, carry a smaller debt load due to less expansion, and use more family labor allowing them to lower wages in the short-term," he said. "Illinois also has smaller herd sizes that allow for government payment under the milk income loss contract or MILC (a government program to assist small dairy farm units). Milk cooperatives also assisted with additional milk patronage payments during the lower milk price months."

The average Illinois dairy farm produced 18,873 pounds of milk last year, which is below the national average of 20,576 pounds of milk. This lower milk yield reduces profit potential as higher producing herds make more money, Hutjens said.

Illinois has 102,000 dairy cows with an average herd size of 120 cows. Illinois produced $369 million in milk income on the sales of 1.93 billion pounds of milk in 2009; up 1.6 percent compared to a national decline of 1.23 percent. This increase in milk represents an increase in U.S. market share which is critical for the Illinois dairy industry that is currently ranked 20th in the United States.

"The future outlook for Illinois dairy managers remains financially tight," Hutjens said. "Milk prices are increasing slowly as exports are increasing due to stronger world economies and a shortage of milk caused by dry weather in New Zealand and Australia."

Feed costs represent 40 to 50 percent of the cost to produce milk. With an early spring, adequate legume forage quality, and excellent corn stands for silage and grain, Hutjens believes Illinois feeding programs and rations could be ideal. By-products, such as corn gluten feed, wet brewers grain, and distillers grain can reduce costs by replacing soybean meal and corn as nutrient sources in feed rations.

Other wild-card factors this year include growing conditions in the summer that will dictate forage amounts and quality, the price of corn and soybean meal in the fall, the impact of ethanol production, heat stress on dairy cattle which could reduce milk yield, world demand for dairy products and feed grains, and water status in the western United States where nearly 50 percent of U.S. milk is produced.

"Dairy farming is a business," Hutjens said. "Making smart business decisions, recovering lost equity from 2009, reducing debt load as milk prices recover, raising milk production per cow, and exploring milk marketing plans to reduce risk can be pluses as we look to a more favorable future." Δ