

Dealing With Dairy Downturn

URBANA, ILL.

Dairy producers need to maintain high milk production and avoid economically bad decisions, counsels a University of Illinois Extension dairy specialist in the wake of a predicted negative profit margin in 2008.

A recent U of I Extension study pointed to higher feed costs as the primary contributing factor to the sharp turnaround from profits in 2007 to an average of \$2.25 lost for every 100 pounds of milk produced in 2008.

"Milk prices at the farm gate have dropped to \$17.50 per hundredweight or nearly 20 percent in the last two months, but no price drops or changes have been seen by consumers," said Mike Hutjens.

"Milk futures prices in 2009 are scary with a potential additional drop of \$2 per hundredweight."

The dairy industry is taking a hit from the general economic downturn as well.

"With the drop in the stock market plus increasing concerns about employment, less money may be available for consumers to purchase cheese, butter, and other dairy products," Hutjens noted.

"And as the U.S. dollar gains strength, some export opportunities are reduced. Last year, 11 percent of U.S. milk equivalency was exported. That's a good-sized share of the market."

Echoing the recent Extension study, "Returns Exceed Costs for Dairy Producers in 2007, Profit

Margins Likely to Turn Negative in 2008" (http://www.farmdoc.uiuc.edu/manage/newsletters/fefo08_18fefo08_18.html), Hutjens said dairy producers face challenges.

"Similar to corn and swine producers, dairy managers may be producing milk below breakeven prices depending on their size, level of milk production, and investments," he said.

While the economic downturn may drive down feed prices that reduction is a mixed blessing for many dairy producers.

"Some Illinois dairy farmers raise corn and soybeans, so the decline in prices is a double-edged sword for them – feed is cheaper but income from corn and soybean sales declines," he said.

Hutjens said he expects some dairy producers to take advantage of the Co-ops Working Together (CWT) program. This dairy farm-funded program allows producers to sell their herd and leave the business.

For those who remain, Hutjens said the alternatives are clear.

"Look at by-product feeds to lower feed costs," he said. "Forage quality and supply will be key items. Dairy managers need to maintain high milk production which favors efficiency and profitability.

"It is important, too, to avoid making economically bad decisions such as pulling out minerals and purchased feeds from the herd's diet or feed less to the cows," he said. Δ