

Feed Costs Kill Dairy Profits

URBANA, ILL.

Illinois dairy producers likely face negative profit margins this year as feed costs exceed milk prices, according to a new University of Illinois Extension study.

"Higher feed costs will be the reason for the decrease in returns," said Dale Lattz, U of I Extension farm financial management specialist who prepared the 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_18/fefo08_18.html) which is available on Extension's farmdoc website.

"Milk prices are also expected to average slightly lower than in 2007."

Last year, however, was a good year for Illinois dairy producers, the study indicated.

"Higher milk prices in 2007 more than offset higher costs, resulting in returns exceeding total economic costs," Lattz said. "The average price received for milk in 2007 was 46 percent higher than the average in 2006.

"The average milk price for 2008 is projected to be about 3 percent less, or about 60 cents less per hundredweight, than the average for 2007."

Continued strong domestic and international demand for dairy products has helped keep milk prices strong even with increased supplies, Lattz noted. U.S. milk production is expected to increase about 2.2 percent in 2008 due to an increase in the number of milk cows and in-

creased milk production per cow.

In 2007, milk production per cow for all herds in Illinois averaged 20,702 pounds. The average was 1,227 pounds more per cow than in 2006. The highest level was in 2001 when milk production was 20,715 pounds per cow.

But while milk prices are expected to remain fairly constant through the rest of 2008, feed costs are expected to increase significantly.

"Corn and soybean prices remained high most of the year," Lattz said. "Feed costs per 100 pounds of milk produced would average about \$11 using prices of \$4.75 per bushel for corn, 21 cents a pound for protein, and \$130 a ton for hay. This is based on annual feed consumption per cow, including replacement animals of 123 bushels of corn, 4,362 pounds of protein, and 8.2 tons of hay or hay equivalents.

"If non-feed costs per 100 pounds of milk produced averaged \$9.50, total costs to produce 100 pounds of milk would be \$20.50. A 3 percent decrease in milk prices in 2008 for Illinois producers would result in an annual price of about \$18.25 per 100 pounds."

Combining total economic costs of \$20.50 per 100 pounds produced would leave the average Illinois producer with total economic costs exceeding returns in 2008 by \$2.25 per 100 pounds of milk produced.

Data for the study was taken from the Illinois Farm Business Farm Management Association, which draws data from 5,500-plus farmers whose numbers include about 100 dairy enterprises. Δ