



Negative Economic Profit Margins for Dairy Producers in 2015, Likely to Continue Negative Trend in 2016

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Lower milk prices resulted in negative economic returns for Illinois dairy producers in 2015, 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 \$17.35, which was less than total economic costs of \$19.17. The price received for milk in 2015 was the lowest since 2010. On a per cow basis, total returns from milk were \$4,053 compared to the total cost to produce milk of \$4,463 per cow. Total returns from milk per cow were the lowest since 2010 after 2014 being the highest on record at \$5,730. The net returns per cow in 2015 were a negative \$410. Total returns have exceeded total economic costs two out of the last ten years.

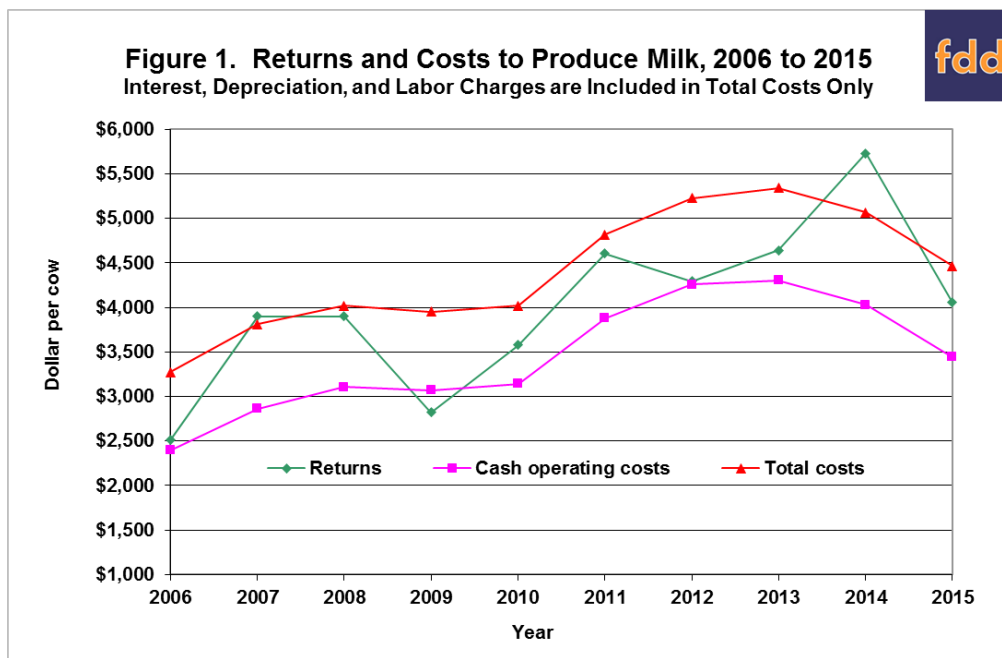
Milk production per cow for all herds averaged 23,355 pounds. The average was 627 pounds more per cow than in 2014. This is the highest level in milk production per cow.

Costs and Returns

Trends in total costs and returns per cow for all herds are given from 2006 to 2015 in Figure 1. The profit margin (return above all cost) decreased— from \$662 in 2014 to negative \$410 per cow in 2015. The last five-year returns above all costs has averaged a negative \$320 per cow. During this period, returns above all costs per cow have varied from a negative \$935 in 2012 to \$662 in 2014. In Figure 1, labor and interest charges are included in total costs only. Most dairy producers will incur hired labor and cash interest expense and would include them as cash operating costs.

The 2015 returns were \$4.67 per 100 pounds produced lower than the 2014 returns due to lower milk prices even with lower total costs. The average net price received for milk was \$17.35 per 100 pounds. This is \$7.84 per 100 pounds or 31 percent lower than the average price received in 2014. Based on 23,355 pounds of milk produced per cow, this decrease in price decreased total returns per cow by \$1,831. The average net price received for milk for the last five-year period is \$20.65 per hundred pounds. Dairy assistance payments from the Farm Service Agency and patronage returns related to the dairy enterprise would add about 5 cents per 100 pounds of milk produced to returns.

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While the price received and non-feed costs per 100 pounds of milk decreased, feed costs decreased as well per 100 pounds of milk produced. Feed costs in 2015 averaged \$9.40 per 100 pounds of milk produced as compared to \$11.48 in 2014. Feed costs were at their highest level ever in 2012. Feed costs have averaged \$12.02 the last five years. The 2015 feed costs were \$2.62 below the last five-year average. Feed costs were 49 percent of the total cost to produce milk. Non-feed costs per 100 pounds of milk produced were \$9.77 in 2015 compared to \$10.87 in 2014. Total non-feed costs were the highest recorded in 2014.

Negative Profit Margins Likely for Dairy Producers in 2016

Costs will likely exceed milk prices in 2016 resulting in negative profit margins for dairy producers. Lower milk prices will be the main reasons for the decrease in returns. The average price received for milk in 2015 was 31 percent lower than the average in 2014. The average milk price for 2016 is projected to be about 4 percent less, or about 75 cents per hundredweight lower than the average for 2015. Steady domestic demand and greater imports will lead to lower prices. United States milk production is expected to increase about 1.02 percent in 2016 due to low feed costs and increased milk production per cow.

While milk prices will decrease, feed costs are expected to decrease slightly as well. Corn and soybean prices will remain lower than 2015 most of the year. Feed costs per 100 pounds of milk produced would average about \$9.20 using prices of \$3.50 per bushel for corn, 20 cents a pound for protein and \$140 a ton for hay. This is based on annual feed consumption per cow, including replacement animals, of 97 bushels of corn, 4,528 pounds of protein, and 8.5 tons of hay or hay equivalents. If non-feed costs per 100 pounds of milk produced averaged \$10.00, total costs to produce 100 pounds of milk would be \$19.20. A 4 percent decrease in milk prices in 2016 for Illinois producers would result in an annual price of about \$16.60 per 100 pounds. If total economic costs averaged \$19.20 per 100 pounds of milk produced, the average Illinois producer would have returns below total economic costs by \$2.60 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 5,600 plus farmers and 62 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