

# A YEAR TO FORGET

We have completed our year-end cost study for what will go down in history as possibly the worst for the dairy industry. It has been well published by now the record numbers of dairy either in default, facing foreclosure or worst yet completely out of business. While cooperatives and manufacturers have been recording double-digit profits, dairymen have lost anywhere from \$2.00 per cow per day up to \$5.00 per cow per day.

The cost study (shown below) includes more than 14 billion pounds of milk produced from many of our western dairy clients. With the gross milk price received of \$12.40 per cwt, dairymen could not keep up with the total cost of producing milk at \$16.10 per cwt. The only positives to come out of 2009 were the fact that feed costs were down from an average cost of \$9.22 to \$8.26 per cwt and total expenses down from \$17.41 to \$16.10. With this being said, the milk price was down over \$5.00 per cwt from 2008. Thus dairymen found themselves eating though equity and getting their operations pushed to the brink of disaster.

## AVERAGE INCOME AND EXPENSES FOR GENSKE, MULDER & CO. DAIRY CLIENTS FOR THE YEAR ENDED DECEMBER 31, 2009

	AMOUNT	PER CWT	PER COW	PERCENT
<b>INCOME:</b>				
Milk	\$6,486,095	\$12.40	\$2,571	95.3 %
Milk futures	28,082	0.05	11	0.4
Calves and heifers	56,827	0.11	23	0.9
Patronage dividend	83,397	0.16	33	1.2
Other	149,585	0.29	59	2.2
<b>Total income</b>	<b>\$6,803,986</b>	<b>\$13.01</b>	<b>\$2,697</b>	<b>100.0 %</b>
<b>EXPENSES:</b>				
<b>Feed:</b>				
Hay and silage	\$2,615,086	\$5.00	\$1,036	38.5 %
Grain	2,919,481	5.58	1,157	42.9
Less cost of feeding heifers	(1,214,726)	(2.32)	(481)	(17.9)
<b>Total feed</b>	<b>\$4,319,841</b>	<b>\$8.26</b>	<b>\$1,712</b>	<b>63.5 %</b>
<b>Herd replacement cost:</b>				
Depreciation - dairy cows	\$550,241	\$1.05	\$218	8.1 %
Loss on sale of cows	435,306	0.83	173	6.4
<b>Total herd replacement cost</b>	<b>\$985,547</b>	<b>\$1.88</b>	<b>\$391</b>	<b>14.5 %</b>
<b>Other operating expenses:</b>				
Interest and rent	\$492,397	\$0.94	\$195	7.2 %
Labor	755,429	1.44	299	11.1
Depreciation - other	320,704	0.61	127	4.7
Milk hauling	285,460	0.55	113	4.2
Industry assessments	155,868	0.30	62	2.3
Supplies	320,621	0.61	127	4.7
BST	20,512	0.04	8	0.3
Corral cleaning	30,264	0.06	12	0.5
Repairs and maintenance	251,466	0.48	100	3.7
Utilities	161,271	0.31	64	2.4
Taxes and licenses	106,554	0.20	42	1.6
Insurance	73,521	0.14	29	1.1
Fuel and oil	100,278	0.19	40	1.5
Legal and accounting	30,870	0.06	12	0.5
Employee benefits	35,569	0.07	14	0.5
Veterinary and breeding	171,723	0.33	68	2.5
Testing and trimming	44,029	0.08	18	0.6
Hauling livestock	9,029	0.02	4	0.1
Miscellaneous	13,367	0.03	5	0.2
Less cost of raising heifers	(262,204)	(0.50)	(104)	(3.9)
<b>Total other expenses</b>	<b>\$3,116,728</b>	<b>\$5.96</b>	<b>\$1,235</b>	<b>45.8 %</b>
<b>Total expenses</b>	<b>\$8,422,116</b>	<b>\$16.10</b>	<b>\$3,338</b>	<b>123.8 %</b>
<b>NET INCOME</b>	<b>(\$1,618,130)</b>	<b>(\$3.09)</b>	<b>(\$641)</b>	<b>(23.8) %</b>

### AVERAGE DAIRY STATISTICAL DATA:

Average number of milking cows	2,110
Average daily production per cow	68
Average butterfat test	3.63 %
Average protein test	3.10 %
Herd turnover rate	37.01 %

Regionally, dairymen found similar results:

		2009	2008
California Southern Cal.	Milk price	\$11.89	\$17.13
	Operating expense	<u>16.08</u>	<u>18.03</u>
	Net loss	(3.72)	(0.51)
Central Cal.	Milk price	\$11.86	\$16.57
	Operating expense	<u>15.37</u>	<u>16.79</u>
	Net loss / Net income	(3.10)	0.25
Northern Cal.	Milk price	\$11.74	\$16.85
	Operating expense	<u>15.56</u>	<u>16.78</u>
	Net loss / Net income	(3.31)	0.61
Arizona	Milk price	\$12.37	\$17.67
	Operating expense	<u>16.64</u>	<u>18.06</u>
	Net loss / Net income	(3.53)	0.33
Idaho	Milk price	\$12.07	\$17.74
	Operating expense	<u>16.30</u>	<u>17.15</u>
	Net loss / Net income	(3.95)	0.92
Lower Mid-West	Milk price	\$13.07	\$17.92
	Operating expense	<u>17.89</u>	<u>18.20</u>
	Net loss / Net income	(3.88)	0.45
Upper Mid-West	Milk price	\$13.85	\$19.70
	Operating expense	<u>17.35</u>	<u>19.23</u>
	Net loss / Net income	(2.45)	0.67
New Mexico	Milk price	\$12.28	\$17.54
	Operating expense	<u>15.46</u>	<u>17.53</u>
	Net loss / Net income	(2.68)	0.31
Texas	Milk price	\$12.89	\$18.40
	Operating expense	<u>16.64</u>	<u>17.89</u>
	Net loss / Net income	(3.15)	0.96
Washington	Milk price	\$12.52	\$17.74
	Operating expense	<u>16.11</u>	<u>16.38</u>
	Net loss / Net income	(2.67)	2.58

So it's perfectly clear now, high prices in 2008 did not produce high incomes due to record high feed and production costs. So when milk prices fell in 2009 and feed costs came back down, dairymen felt the pinch. Not shown in any of these numbers is the \$1.50 per cwt needed for principal repayment and living expenses. So how did this happen? Why has it been allowed to go on for so long? Who is going to survive? Plenty of questions, but shouldn't our leaders have better answers than the ones they are giving you?