

2019 prices up – but not enough

Gary Genske for *Progressive Dairy*

Take the pulse on pulsation 24/7!

milc pulse™
A Pulsation Monitor

Let's prevent cow problems by identifying bad pulsators in real-time.



Notifications appear on your phone when a pulsator is acting up...so it can be fixed quickly.

AT A GLANCE

Recent producer pay price improvement over 2018 levels is welcomed by producers. These slightly higher prices will not, however, bring most dairy farms enough profitability for sustainability.

For decades, our accounting firm has produced quarterly dairy farm cost studies for our dairy clients and others to use for benchmarking and profitability improvement. The accompanying illustrated index is the preliminary report from about 50 of our national clients' average operating results, comparing the year 2018 with the first six months of 2019. Our usual, more comprehensive reports will be finalized in about a month.

The index reports the average milking herd size as 3,356 and 3,145 milking cows, per day, for the 2019 period and calendar year 2018 respectively. The production per-cow, per-day and component tests are nearly identical for both accounting periods. A notable observation with the "herd turnover rate" shows this year's cull rate is continuing to run higher than in previous years. The financial impact of this will be discussed later in this article.

Comparing the average total income for the two periods, the 2019 period shows an improved milk price over 2018 by \$1.03 per hundredweight (cwt) of milk shipped. This producer pay price increase is welcomed but defies the dairy industry market indicators. With

the U.S. and world milk production increasing, reduced U.S. trade with China and near-record-high Class 3 and Class 4 milk product inventories, one would expect lower milk prices to match those received in 2018.

Despite this year's improved milk price, the current and projected milk prices are still too low for the vast majority of dairy farmers to operate a sustained dairy business. Those dairy farmers who are still producing milk today have endured the last four years of below-breakeven milk prices. The \$1.03 improved milk price for 2019 is welcomed but still falls far short to return most dairy producers to modest profitability.

There is considerable speculation that when and if the China trade deficit/disputes are settled, U.S. agriculture will thrive, including dairy. If China will equalize trade with the U.S., dairy could prosper and, with higher demand, prices could improve considerably. And in anticipation of these events, producers should immediately insist upon their cooperative board members to implement "supply to match profitable demand" marketing restraints to avoid milk overproduction that will lead us back to unprofitable milk prices.

Dairy feed costs for the first six months of 2019 reflect only a small cost increase over 2018 feed costs. Dairy feed costs for the last half of 2019 could go up by as much as \$1 per cwt. The late planting of the 2019 corn crop throughout the country is likely to return low quantity and quality yields, requiring dairy farmers to seek costly off-farm feed supplements. Prices for quality hay has remained very high throughout many areas of the West.

One of the greatest feed cost

factors looming over our Western horizon is the potential negative impact of the settlement of the trade dispute with China. It is anticipated that considerable quantities of U.S. grain inventories will be sold to China and, if so, dairy farmer feed costs could rise dramatically, returning us to the \$7-per-bushel-corn era.

With these feed cost uncertainties, one should look really hard at either locking in long-term commodity prices or investigating into the USDA's Livestock Gross Margin (LGM) insurance program, which will protect not only milk price but also will protect against rising feed costs.

Dairy farm herd replacement costs continue to be higher for 2019 than what they have been in previous years. Many dairy farmers have produced far too many replacement heifers, and these excess numbers of animals are entering overcrowded dairy herds, thereby causing increased dairy cow culling to make room in the barns. This extra culling has caused an increase in operating costs and, with no reasonable market to sell these excess animals, the lower beef prices will continue to be churned through dairy herds.

Included in the other operating costs in the cost study are two notable expense categories: labor and interest expense. Labor availability and cost continue to challenge dairy farmers. The cost to find and retain qualified farm workers has become a major concern. Without an immigration policy farmers can work with, farm labor costs are very likely to rise. With interest costs easing somewhat recently, farm debt payments may go down by a small amount.

Recent producer pay price

Currently Interviewing Dealers



milcgroup.com
info@milcgroup.com
800 308 2178



THE WORLD LEADER IN SELF PROPELLED FEEDERS



- Reduce labor costs
- Reduce fuel costs
- Reduce shrink loss
- Reduce dry matter loss
- Reduce load error
- Reduce injuries
- Reduce loader hours



CALL TODAY! (609) 314-2228 • (800) 801-2082

Contact: Mike Brady • mike@jonesdairy.com
Bill Allen • 301-514-5334

Visit our website: rmhjonesequipment.com



<<< Protect Your Inventory and Increase Your Bottom Line >>>

National Dairy Financial Index

2018 – 2019

The \$1.03 improved milk price for 2019 is welcomed but still falls far short to return most dairy producers to modest profitability.

improvement over 2018 levels is welcomed by producers. These slightly higher prices will not, however, bring most dairy farms enough profitability for sustainability. While producers passively wait for the industry to correct itself, farm equity is eroding, and industry farm consolidation will continue. From 2009 to 2018 we have seen the average herd size increase approximately 49.4%. The number of dairies over this same period has dropped from 54,942 to 37,468.

With more than 80% of milk marketed through cooperatives, a collaborative effort among co-ops to “balance milk supply with profitable demand” is well within the realm of possibility at the co-op level as well as delivering this message to policymakers at the federal level and thereby permanently serving to protect farm sustainability. However, this change will not happen unless producers insist upon it through their co-op leadership. ↗

Gary Genske

CPA

Genske, Mulder & Co. LLP

Five-G Consulting
Dairy Design Professionals
fiveg.com • page@fiveg.com • 800.733.8895



Agpro

Innovative Cow Cooling and Waste Solutions

AgproUSA.com

info@agproUSA.com

WDE Booths EH-1813/1814
WAE Booths 6534/6531

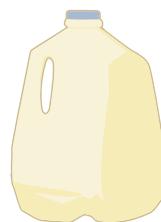
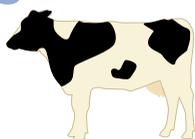
800.827.1000

	2019 6 months Per CWT	2018 12 months Per CWT	2019 6 months Per cow	2018 12 months Per cow
+ INCOME				
Milk	\$16.53	\$15.50	\$2,007	\$3,736
Milk futures	\$0.01	\$0.04	\$1	\$10
Calves and heifers	\$0.17	\$0.20	\$21	\$48
Patronage dividend	\$0.18	\$0.12	\$22	\$29
Other	\$0.24	\$0.20	\$29	\$48
Total income	\$17.13	\$16.06	\$2,080	\$3,871
- EXPENSES				
Feed				
Hay, silage and farming	\$5.09	\$4.88	\$618	\$1,176
Grain	\$6.16	\$6.11	\$748	\$1,474
Less cost of feeding heifers	(\$2.56)	(\$2.62)	(\$311)	(\$631)
Total feed	\$8.69	\$8.37	\$1,055	\$2,019
Herd replacement cost	\$1.65	\$1.67	\$201	\$403
Other operating expense				
Interest and rent	\$0.89	\$0.80	\$108	\$193
Labor	\$1.53	\$1.62	\$186	\$390
Other	\$3.83	\$3.83	\$464	\$922
Total other operating expenses	\$6.25	\$6.25	\$758	\$1,505
Total expenses	\$16.59	\$16.29	\$2,014	\$3,927
NET INCOME BEFORE DEBT AND DRAWS	\$0.54	(\$0.23)	\$66	(\$56)
<i>Current debt repayment and owners' draw</i>	\$1.21	\$0.67	\$147	\$161
= NET LOSS AFTER DEBT AND DRAWS	(\$0.67)	(\$0.90)	(\$81)	(\$217)

Average statistical data for dairies included in index

Average number of milking cows

3,145 2018
3,356 2019



Average daily production per cow

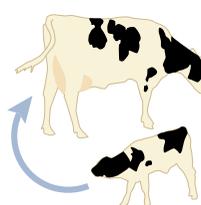
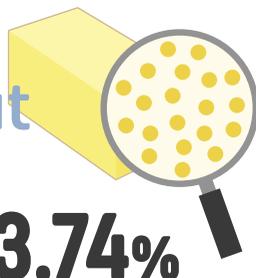
78 77
2018 2019

Average protein test

2018 3.16%
2019 3.15%

Average butterfat test

3.73% 3.74%
2018 2019



Herd turnover rate

39.45% 40.42%
2018 2019