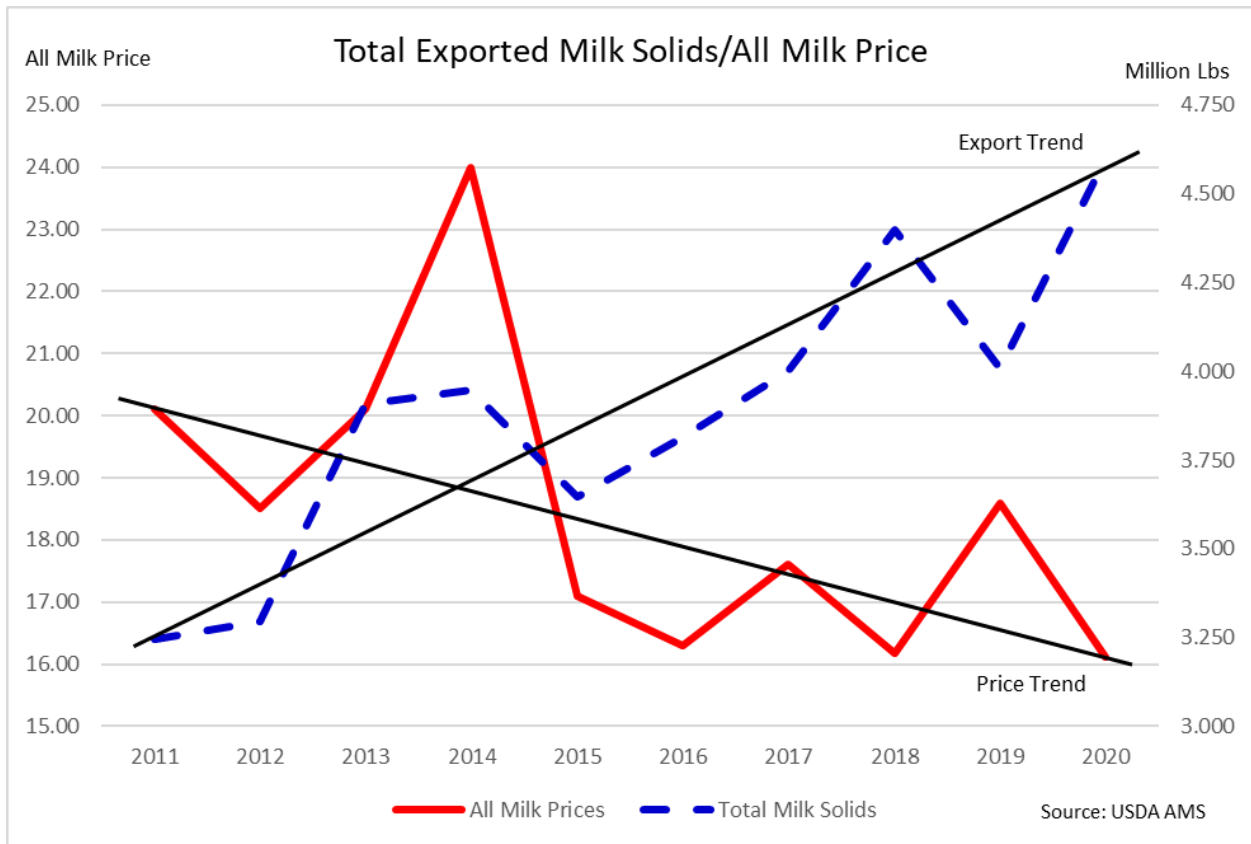


Silence = Consent

For over four decades, our accounting firm has produced quarterly dairy farm cost average reports for our dairy clients and others to use for benchmarking and profitability improvement. The accompanying illustrated average cost index is the preliminary report from 50 of our national clients' average operating results, comparing the 1<sup>st</sup> quarter 2021 results with the preceding four calendar years. Our usual, more comprehensive reports will be finalized in about a month.

Dairy Profitability

The first quarter 2021 average cost index reflects a loss of \$1.62 per hundredweight (cwt) and when averaged with the other four years, all five periods show a combined net loss of \$.97 cwt. This net loss for the last four-plus years is understandable when the constant increase in milk production each year is put into excessive class 3 and 4 products that cannot profitably be sold in world markets. The following graph comparing producers milk price to the volume of milk products exported for the last 10 years convincingly illustrates the negative impact that increased exports have had our producer's milk check pay prices. A 45% increase in milk exports have yielded an average 20% decrease in producers pay prices over the last 10 years.



## Milk Price

The greatest change in 2021 compared to 2020 is the milk price. The average cost index reflects a 2021 average milk price of \$15.96 cwt compared to the \$17.16 cwt milk price for 2020, a decline of \$1.20 per hundredweight. With the illustrated total of expenses to operate a dairy farm well above \$17 cwt, plus the need for \$1.33 for debt payments and an owners living allowance, dairy farmers will need about \$19 cwt paid to them for their milk to adequately cash flow their dairy farm operations.

Milk revenue is the largest single line item on dairy farmer's profit/loss statements, but is the operational obligation they spend the least amount of time working on. Co-ops handle about 85% of this nations milk and help non co-op handlers balance their privately owned plants. Properly administered using Capper-Volstead, a coordinated marketing plan among co-ops, who would seemingly have the ability to do so, could adopt and operate a plan to match the milk supply with profitable demand (from the producers prospective), thereby improving their co-op member's milk price to sustainable levels, and permanently keeping them there. If producers put quality time into this effort, it will be time well spent.

## Feed Costs

Dairy feed costs for the 3 months in 2021 have increased to \$9.99 cwt and represents 62.5% of the milk price. The previous four year average feed cost percentage of milk prices was 51.5%. Therefore, feed costs as a percentage to milk price has increased by 11% this year.

Another way to illustrate this feed cost increase is to compare the 2021 feed cost of \$9.99 cwt to the average of the previous four year average of \$8.69 cwt, this results in a feed cost increase of \$1.30 per hundredweight of milk for 2021.

With current drought conditions in the west, dairy feed crops outlook appears grim and feed costs are likely to continue to rise in 2021 and 2022.

## Other Operating Costs

- A. Interest Rates – We hear every day about how the Federal Reserve will have to increase interest rates to slow the national inflation rate. Each ¼% of interest rate hike will translate into a 5 cent/cwt cost increase.
- B. Labor – Many states have adopted overtime pay rules for agriculture workers. Not only will wage expenses continue to go up because workers are harder to find and they demand higher wages, they will now be paid for overtime work hours. Along with higher wages are the increased payroll tax and worker's compensation insurance costs. These combined increasing costs will total about 25 cents/cwt.
- C. Fuel – Fuel costs have increased 33% in 2021. Everything delivered to the dairy and shipped off the dairy will increase operating expenses by as much as 25 cents/cwt.

- D. Herd Replacement Cost – The cost to raise heifers, considering increases in feed, interest, labor and fuel costs, could add-up to about a 20 cent per cwt added cost. This can translate into an increased cost to raise heifers by \$100 - \$150 per head.

The old saying “Not everything that counts can be counted and not everything that can be counted counts” applies to the current dairy farmer financial crunch. We accountants can keep counting, summarizing and measuring a farm’s profit or loss, but this by itself will not make farms sustainable. What we count on is that our co-ops continually provide their producer members with sustainable milk prices. I am told that “milk price” is not on co-op meeting agendas, and if it was, we would not be losing \$2 per hundredweight as is the current situation. Farmers: Your silence on milk prices translates to others as your consent to lowering milk prices.

**ADVANCE NATIONAL DAIRY FINANCIAL INDEX  
FROM GENSKE, MULDER & CO., CPA'S**

	3/31/2021	2020	2019	2018	2017
<b>INCOME:</b>	<b>PER CWT</b>	<b>PER CWT</b>	<b>PER CWT</b>	<b>PER CWT</b>	<b>PER CWT</b>
Milk	\$ 15.96	\$ 17.16	\$ 17.87	\$ 15.50	\$ 16.46
Risk Mangement	0.47	0.47	(0.04)	0.04	0.02
Calves and heifers	0.26	0.28	0.22	0.20	0.23
Patronage dividend	0.31	0.25	0.14	0.12	0.18
Agricultural program payments	0.12	0.95	-	-	-
Other	0.25	0.25	0.42	0.20	0.12
<b>Total Income</b>	<b>\$ 17.37</b>	<b>\$ 19.36</b>	<b>\$ 18.61</b>	<b>\$ 16.06</b>	<b>\$ 17.01</b>

<b>EXPENSES:</b>					
Feed:					
Hay, silage and farming	\$ 4.76	\$ 5.30	\$ 5.14	\$ 4.88	\$ 4.85
Grain	7.69	6.42	6.33	6.11	5.66
Less cost of feeding heifers	(2.46)	(2.62)	(2.58)	(2.62)	(2.13)
<b>Total feed</b>	<b>9.99</b>	<b>9.10</b>	<b>8.89</b>	<b>8.37</b>	<b>8.38</b>
Herd replacement cost:					
<b>Total herd replacment cost</b>	<b>1.55</b>	<b>1.51</b>	<b>1.64</b>	<b>1.67</b>	<b>1.66</b>
Other operating expenses:					
Interest and rent	0.61	0.69	0.87	0.80	0.68
Labor	1.57	1.68	1.63	1.62	1.55
Other	3.94	4.21	3.95	3.83	3.70
<b>Total other expenses</b>	<b>6.12</b>	<b>6.58</b>	<b>6.45</b>	<b>6.25</b>	<b>5.93</b>
<b>Total expenses</b>	<b>\$ 17.66</b>	<b>\$ 17.19</b>	<b>\$ 16.98</b>	<b>\$ 16.29</b>	<b>\$ 15.97</b>

<b>TOTALS:</b>					
NET LOSS BEFORE DEBT AND DRAWS	\$ (0.29)	\$ 2.17	\$ 1.63	\$ (0.23)	\$ 1.04
Current debt repayment and owners' draw	1.33	1.10	1.06	0.67	1.13
<b>NET LOSS AFTER DEBT AND DRAWS</b>	<b>\$ (1.62)</b>	<b>\$ 1.07</b>	<b>\$ 0.57</b>	<b>\$ (0.90)</b>	<b>\$ (0.09)</b>

<b>AVERAGE DAIRY STATISICAL DATA:</b>					
Average number of milking cows	3702	3490	3209	3145	2040
Average dairy pounds per milking cow	80	77	76	78	76
Average dairy EC pounds per milking cow	86	82	79	81	79
Average butterfat test	3.91%	3.85%	3.76%	3.73%	3.67%
Average protein test	3.24%	3.17%	3.15%	3.16%	3.20%
Average other solids test	5.80%	5.78%			
Herd turnover rate	39.24%	39.53%	41.09%	39.45%	38.23%