

Zwick Center for Food and Resource Policy
Outreach Report No. 7

**Milk Cost of Production Estimates
for April, May, and June 2012**

Prepared for the Connecticut Commissioner of Agriculture

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University of
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On August 28, 2012 it was discovered that the USDA ERS had issued a revised 2011 annual milk cost and return estimate. The revision was due to a discovery of an error in the purchased feed cost estimates. As a result, the 2011 milk COP estimate was revised down to \$32.61/cwt for Vermont and \$37.45/cwt for Maine. This report has also been updated to reflect the corrected USDA ERS 2011 annual milk cost and return estimates. The quarter 2 total cost of production in Vermont is \$2.03/cwt lower, on average than the previously released estimates. The Maine cost of production is \$4.09/cwt lower, on average. This results in a smaller sustainable cost shortfall than previously published.

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Summary

The cost of production for milk in Vermont for the second quarter of 2012 is estimated at an average of \$34.30/cwt, using the 2010 USDA ARMS benchmark. Based on this, the minimum sustainable cost of production for Connecticut averages \$28.12. The Hartford-based average statistical uniform price for milk was \$16.76 for the same period. Thus, these figures suggest activating Connecticut Public Act 09-229 to assist Connecticut milk producers in covering the average \$11.37 sustainable cost shortfall, which is mainly due to the continuing sagging prices and increasing feed costs. Efforts are continuing to develop a Connecticut-specific cost estimate as the best practice for basing payment decisions.

I. Introduction

This report is a follow up on previous reports for 2011 quarters two, three, and four and 2012 quarter one that use the current USDA methodology and continues the Vermont and Maine milk COP estimates previously calculated by the USDA's ERS.¹ The methodology used to estimate the milk COP for application of Public Act 09-229 relies upon the Agricultural Resource Management Survey (ARMS) to provide an annual milk COP for Vermont and Maine. This survey, updated every five years by the USDA, is used as a benchmark to estimate monthly and annual changes using National Agricultural Statistics Service (NASS) indices. ERS estimates the 2011 ARMS annual milk COP for Vermont at \$32.61/cwt and for Maine at

¹ See background on Public Act 09-2009 and previous Zwick Center COP reports by Rabinowitz and Lopez (2011 and 2012) at http://zwickcenter.uconn.edu/outreach_reports.php.

\$37.45/cwt. Following the USDA methodology, we estimate the monthly COP for quarter two of 2012 for both states.

II. Monthly Milk Cost of Production and Price for Quarter 2, 2012

The estimates for the April, May, and June 2012 milk COP for Vermont and Maine are shown in Table 1. Total operating costs in Vermont for April, May, and June 2012 are \$21.37, \$22.17, and \$22.16/cwt., respectively, with an average for the quarter of \$21.90. The quarter two average operating cost in Vermont represents an increase of \$1.34/cwt from the quarter one average of \$20.55. The major component of the total operating cost is the total feed costs that increased on average \$1.39/cwt from quarter one to quarter two. In quarter two total feed costs are \$16.57, \$17.43, and \$17.46/cwt. for April, May, and June, respectively. With the exception of the feed cost categories, there is very little variation within cost categories from month to month. Including total allocated overhead, the total milk COP in Vermont is estimated at \$33.71 for April, \$34.55 for May, and \$34.62/cwt. for June, with an *average total COP for quarter two estimated at \$34.30/cwt, \$1.33/cwt higher than the quarter one estimate.* The total milk COP in Maine is estimated at \$38.67 for April, \$40.81 for May, and \$39.50/cwt. for June, with an average at \$39.66/cwt for quarter two. This represents an increase in the Maine COP of \$1.03/cwt. from quarter one to quarter two.

Public Act 09-229 specifies the minimum sustainable monthly COP as 82% of the monthly average cost of production. In Table 2, 82% of the Vermont milk COP is \$27.65 for April, \$28.33 for May, and \$28.39/cwt for June. This yields an average minimum sustainable COP for Vermont of \$28.12/cwt for quarter two, 2012, an increase of \$1.09/cwt. from quarter one. Using Maine's COPs, the minimum sustainable COP are \$31.71 for April, \$33.46 for May, and \$32.39/cwt for June, with an average of \$32.52/cwt. for quarter two, an increase of \$0.84/cwt. from quarter one.

Farm milk prices in Vermont, Maine and elsewhere in the United States, have been sagging since August 2011 and the downward price trend continues while COP continues to increase at historically high levels. Table 2 also shows the statistical uniform prices (i.e., the blend price) for Hartford, CT for the second quarter of 2012. These are \$17.10 for April, \$16.69 for May, and \$16.48/cwt for June. The average statistical uniform price for quarter two is \$16.76/cwt, \$1.51/cwt lower than the quarter one average. The prices farmers are receiving for their raw milk are all significantly lower than the minimum sustainable monthly COP calculated

Table 1. Vermont and Maine monthly milk COP: April – June 2012

Item 1/	Vermont			Maine		
	Apr	May	Jun	Apr	May	Jun
	<u>Dollars per Hundredweight</u>					
<i>Operating costs:</i>						
Total feed costs	16.57	17.43	17.46	18.36	19.93	19.39
--Purchased feed	8.90	9.42	9.98	11.34	12.37	12.60
--Homegrown harvested feed	7.43	7.76	7.25	6.88	7.40	6.65
--Grazed feed	0.24	0.25	0.23	0.15	0.16	0.14
Veterinary and medicine	0.75	0.75	0.76	1.03	1.07	1.04
Bedding and litter	0.44	0.44	0.44	0.86	0.89	0.86
Marketing	0.36	0.37	0.37	0.30	0.31	0.31
Custom services	0.98	0.98	0.99	0.68	0.71	0.68
Fuel, lube, and electricity	1.37	1.30	1.23	1.91	1.87	1.70
Repairs	0.88	0.88	0.89	1.27	1.31	1.27
Other operating costs	0.01	0.01	0.01	0.01	0.01	0.01
Interest on operating capital	0.01	0.01	0.01	0.01	0.01	0.01
Total operating costs	21.37	22.17	22.16	24.45	26.11	25.27
<i>Allocated overhead:</i>						
Hired labor	1.26	1.26	1.27	2.35	2.43	2.35
Opportunity cost of unpaid labor	4.23	4.24	4.27	4.43	4.58	4.43
Capital recovery of machinery and equipment	5.42	5.42	5.44	6.03	6.24	6.03
Opportunity cost of land (rental rate)	0.06	0.06	0.06	0.03	0.03	0.03
Taxes and insurance	0.40	0.40	0.40	0.43	0.45	0.43
General farm overhead	0.98	0.99	0.99	0.94	0.98	0.95
Total allocated overhead	12.35	12.38	12.47	14.22	14.70	14.23
Total All costs listed	33.71	34.55	34.62	38.67	40.81	39.50
<p>1/ Estimates may be adjusted based on revisions in monthly agricultural price indices and milk production estimates as provided by the USDA. Source: Based on USDA's 2010 Agricultural Resource Management Survey of milk producers and updated using current USDA milk production per cow and production input indexes. See http://www.ers.usda.gov/Data/CostsAndReturns/monthlymilkcosts.htm for the methodology.</p>						

using Vermont or Maine data. Using Vermont estimates, the minimum sustainable milk COP exceeded the Hartford-based farm price by \$10.55 in April, \$11.64 in May, and \$11.91/cwt in June. This represents an average statistical uniform price that is \$13.03/cwt below the minimum sustainable monthly COP estimate for Vermont. Using Maine COP estimates, the average statistical uniform price is \$15.77/cwt below the minimum sustainable monthly cost of production in Maine.

Table 2. New England Milk Cost of Production Estimates, Statistical Uniform Price, and Application of Public Act 09-229

	April	May	June	Quarter 2 Average
	Dollars per Hundredweight			
Total Cost of Production				
Vermont	\$33.71	\$34.55	\$34.62	\$34.30
Maine	\$38.67	\$40.81	\$39.50	\$39.66
Minimum Sustainable Cost of Production				
Vermont	\$27.65	\$28.33	\$28.39	\$28.12
Maine	\$31.71	\$33.46	\$32.39	\$32.52
Statistical Uniform Price				
Hartford, CT	\$17.10	\$16.69	\$16.48	\$16.76
Statistical Uniform Price Minus Minimum Sustainable Cost of Production				
Vermont	-\$10.55	-\$11.64	-\$11.91	-\$11.37
Maine	-\$14.61	-\$16.77	-\$15.91	-\$15.77

Source: Total Cost of Production from Tables 1 and 2. Statistical Uniform Price from the USDA Federal Milk Order No. 1 (<http://www.fmmone.com>).

The widening spread between the Vermont COP estimates and the Hartford statistical uniform price continues to underscore the importance of why a CT state specific COP is the best practice method for continued implementation of the law and policy decisions as well as for farm management. Efforts are underway to develop a state specific COP by fall 2012. A progress report will be presented to stakeholders on Wednesday, August 29, 2012 at a meeting at the University of Connecticut regarding the dairy cost of production project.

Until monthly CT-based COP estimates are finalized we will continue to deploy the USDA-based cost estimates for a New England state and provide associated brief quarterly reports as needed.