March 10, 2004

Cornhusker Economics

Cooperative Extension

Institute of Agriculture & Natural Resources
Department of Agricultural Economics
University of Nebraska – Lincoln

Dairy Economics in 2004

Market Report	Yr Ago	4 Wks Ago	3/5/04
Livestock and Products, Average Prices for Week Ending			
Slaughter Steers, Ch. 204, 1100-1300 lb Omaha, cwt	$76.72	$75.42	$85.48
Feeder Steers, Med. Frame, 600-650 lb Dodge City, KS, cwt	80.92	93.15	95.61
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg	88.39	101.21	106.51
Carcass Price, Ch. 1-3, 550-700 lb Cent. US, Equiv. Index Value, cwt	118.37	116.15	129.85
Hogs, US 1-2, 220-230 lb Sioux Falls, SD, cwt	35.00	43.00	46.00
Feeder Pigs, US 1-2, 40-45 lb Sioux Falls, SD, hd	*	*	37.81
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt	94.07	114.89	108.46
Slaughter Lambs, Ch. & Pr., 115-125 lb Sioux Falls, SD, cwt	*	*	98.15
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb FOB Midwest, cwt	180.60	182.73	201.06
Crops, Cash Truck Prices for Date Shown			
Wheat, No. 1, H.W. Omaha, bu	3.61	3.72	3.65
Corn, No. 2, Yellow Omaha, bu	2.32	2.62	2.81
Soybeans, No. 1, Yellow Omaha, bu	5.54	8.31	9.41
Grain Sorghum, No. 2, Yellow Kansas City, cwt	4.38	4.80	5.03
Oats, No. 2, Heavy Minneapolis, MN , bu	2.10	1.70	1.74
Hay, First Day of Week Pile Prices			
Alfalfa, Sm. Square, RFV 150 or better Platte Valley, ton	150.00	130.00	130.00
Alfalfa, Lg. Round, Good Northeast Nebraska, ton	77.50	55.00	55.00
Prairie, Sm. Square, Good Northeast Nebraska, ton	115.00	*	*

* No market.

Markets Look Brighter

After more than two years of overall depressed milk prices, there is a brighter light on the horizon for dairy producers. September Class III milk futures closed at $15.69 on March 5. The February Class III price of $11.89 is the highest February price since 1998. The graph on the next page shows the current futures projections for 2004 compared to the Class III price for the last two years. It shows prices averaging more than $4 per cwt. higher than 2003 over the next 5 to 6 months.

There are both supply and demand factors pushing the market up. On the demand side, strong usage of both cheese and butter has reduced stocks. Butter stocks were set at 145 million pounds at the end of January, down from 205 million pounds a year earlier. Cash butter closed at $2.11 per pound on March 5.

On the supply side, milk production was only up 0.1 percent in 2003 over 2002. The average production increase has been slightly over one percent per year over the past 10 years. Monsanto reduced the marketings of rBST, called Posilac, by 15 percent in January and February, and projects a 50 percent reduction beginning in March. Ken Bailey, Penn State dairy economist estimates this will lower average production by 1,237 pounds per cow in 2004, resulting in a reduction of about 1.5 percent in the total milk supply. USDA had set the reduction at less than one percent.

Licensed Dairy Herds

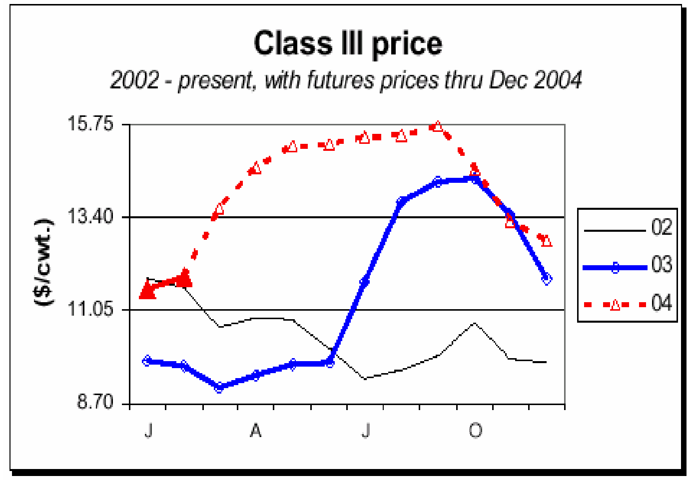
The National Agricultural Statistics Service (NASS) recently published the number of licensed dairy herds in the United States for the first time. The data shows there were 70,410 licensed operations in 2003 compared to 74,110 in 2002, for a reduction of 5 percent. This includes both Grade A and Grade B dairies. Grade B accounts for about 10 percent of the operations nationwide, but this percentage is declining. The number of milk cows in the U.S. in 2003 was 9.08 million or 129 per licensed operation.

In Nebraska, there were 500 licensed operations in 2003, down from 540 in 2002, or a decline of over 7 percent last year. The number of permitted operations in Nebraska has declined by 384 operations or 43 percent in the last six years. Milk cow population in Nebraska was 64,000 or 128 per herd in 2003. Cow numbers in Nebraska increased from 69,000 in 1997 to 76,000 in 2000, but have decreased each of the last three years. The average herd size in Nebraska in 1997 was 78 cows.

Production Costs

We recently conducted a survey of Nebraska dairy farms to gather data on the 2003 milk production costs. The survey was sent to over 240 dairies in the state. As a general rule costs were higher in the lower producing herds. Although there was not a significant amount of change, there were some economic advantages to the herds that milked more cows than those producers that had small herds.

Total average cost of production of the respondents was $16.10 per cwt of milk sold. Feed was the highest single cost, accounting for 44 percent of the total costs.



Source: Daily Dairy Report, Chicago Mercantile Exchange, March 5, 2004

Labor accounted for 13 percent of the dairy costs. Other significant costs were: milk hauling and marketing, 6 percent; depreciation of facilities, 6 percent; herd replacement costs, 6 percent; interest, 4 percent; machinery and equipment repairs, 3 percent; vet and medicine, 3 percent; farm supplies, 2 percent; utilities, 2 percent; and all other expenses, 11 percent. The chart below shows these percentages and the actual costs of each item on a per cwt of milk basis.

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