

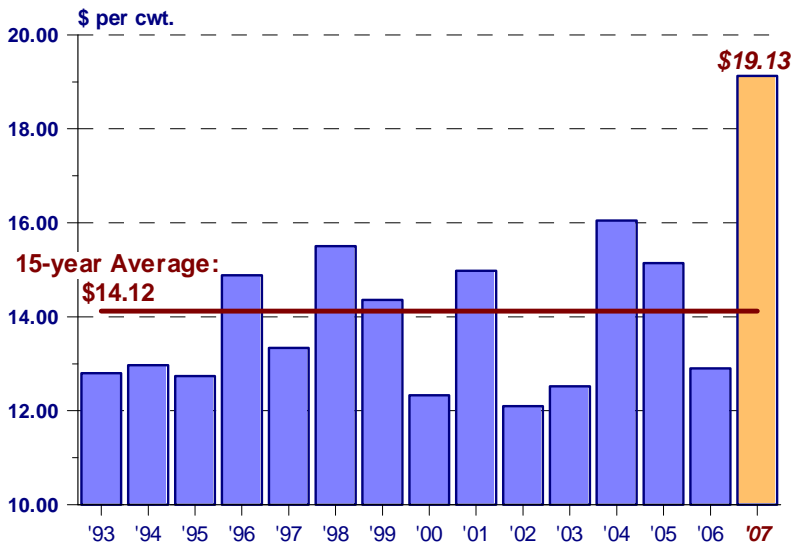
# MARKETING SERVICE

## BULLETIN

### Record Milk Prices in 2007 ... But What About the "Bottom Line" ?

#### U.S. Average All-Milk Prices

Price at Test

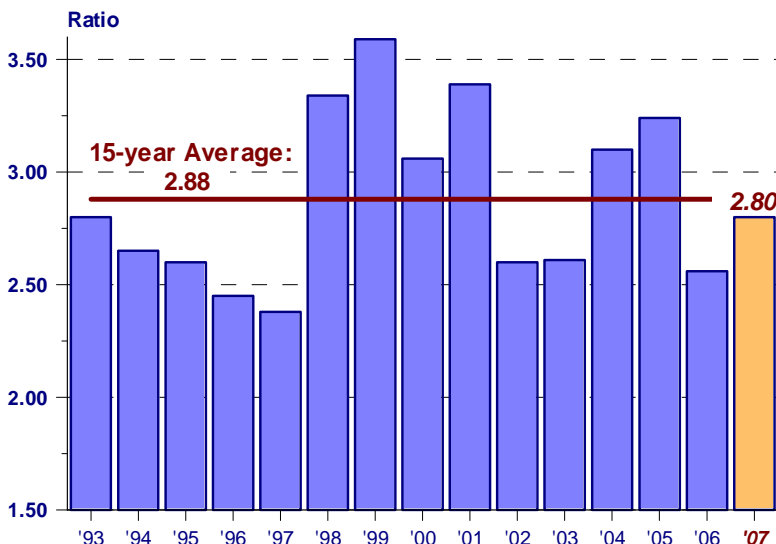


Extremely elevated prices dominated the U.S. dairy industry in 2007. High price levels were well documented at all stages of the milk marketing channel, with most prices reaching all-time records. The All Milk Price<sup>1</sup> recorded historic highs, posting a record \$19.13 annual average, along with a single month record of \$21.90 in November. The first graph on this page depicts annual averages for this price series over the last 15 years. As indicated, the 2007 average was \$5.01 (+35.5%) greater than the 15-year average.

Based on these record high farm-level milk prices, some have concluded that 2007 farm-level profits must have reached historically high levels as well. This seemingly logical conclusion ignores the expense portion of the profitability equation, however. Since many milk production input costs skyrocketed during 2007, the "bottom line" may be less favorable than expected. This bulletin examines some of the revenue and cost items<sup>2</sup> relevant in "bottom line" calculations for dairy farmers.

#### Milk-Feed Ratio Comparisons

1993 through 2007



The milk-feed ratio is a statistical measure that calculates the pounds of 16% mixed dairy feed<sup>3</sup> equal in value to one pound of whole milk. This ratio is frequently referenced in regard to milk production profitability. However, the milk-feed ratio measures only one aspect of the revenue/cost structure for milk production - that being the relationship between milk prices and feed costs. Many other costs are involved in the milk production process. Moreover, this ratio is an average for the entire U.S. and may not accurately

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reflect local or regional conditions. It does not incorporate changes in production efficiency or farm size. Finally, the milk-feed ratio reflects only one out of many possible dairy feed rations. Keeping these limitations in mind, this ratio can be used as a general reference point in examining the "bottom line" for milk production in the U.S.

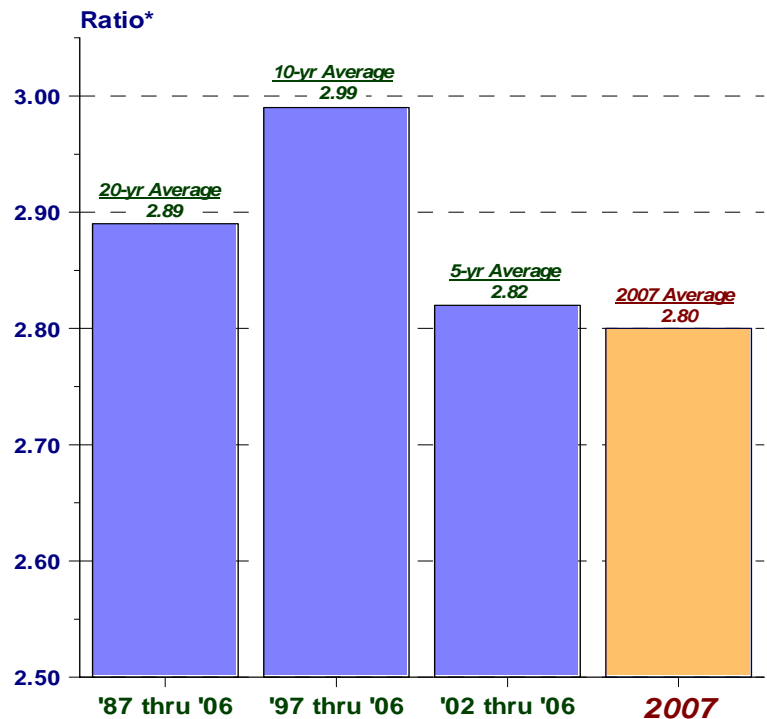
The bottom graph on page one depicts annual averages for the milk-feed ratio over the last 15 years. The 2.80 recorded for 2007 was below the 15-year average, despite last year's record high milk prices. The top graph on this page compares the 2007 milk-feed ratio with the previous 5-year, 10-year, and 20-year averages. As indicated, the 2007 ratio was lower than all of these historical averages. This data implies that 2007 may have actually been less profitable for U.S. milk producers.

The bottom graph on this page compares monthly milk-feed ratios for the most recent 15-month period with monthly averages for the previous 20 years. Even though several months during 2007 exceeded the corresponding 20-year averages, the 2007 yearly average was 0.09 (-3.1%) below the ratio for 1987 through 2006. Moreover, data for 2008 indicates a steep decline in this "bottom line" measure for dairy farmers.

The graphs on the third page of this bulletin portray milk prices and selected milk production cost items over the last 15 years. All of the data depicted by these graphs has been indexed, with 1990-92 as the base period. The indexed All Milk Price is portrayed in the top left graph, while milk production input cost items are depicted in the other five graphs. As indicated, the 2007 All Milk Price index of 147 is substantially above the 15-year average of 109. The 2007 index for all of the selected production cost items exceeds the All Milk Price index, however, several topping it by a wide margin. This data implies a less favorable "bottom line" for 2007 compared with the 15-year average, despite 2007's record milk prices.

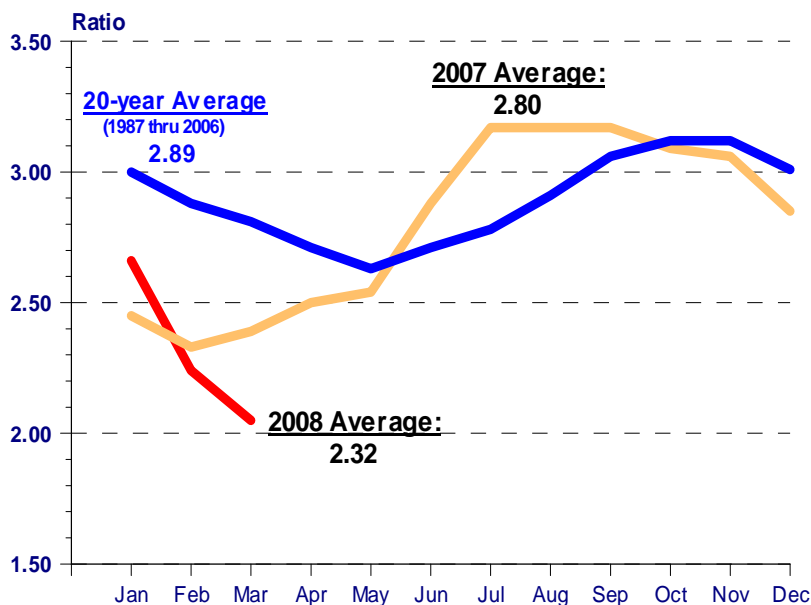
## Milk-Feed Ratio Comparisons

U.S. Averages - 16% Mixed Dairy Feed Ration



## Milk-Feed Ratio Comparisons

Monthly U.S. Data



The data included in this bulletin is not intended to be a comprehensive analysis of milk production profitability, but rather a cursory look at a few of the relevant factors. Additional cost data can be obtained from Agricultural Prices<sup>2</sup>.

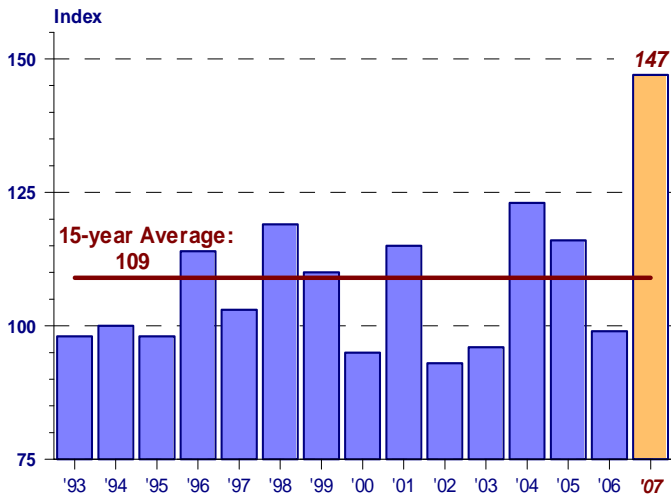
<sup>1</sup> The All Milk Price is the average price, at test, for all milk sold at plants.

<sup>2</sup> The source for data in this bulletin is **Agricultural Prices**, United States Department of Agriculture, National Agricultural Statistics Service. ([www.nass.usda.gov/publications/](http://www.nass.usda.gov/publications/))

<sup>3</sup> The price of commercially prepared dairy feed is based on U.S. prices received for corn, soybeans, and alfalfa. The mixed dairy feed ration uses 51% corn, 28% soybeans, and 21% wheat.

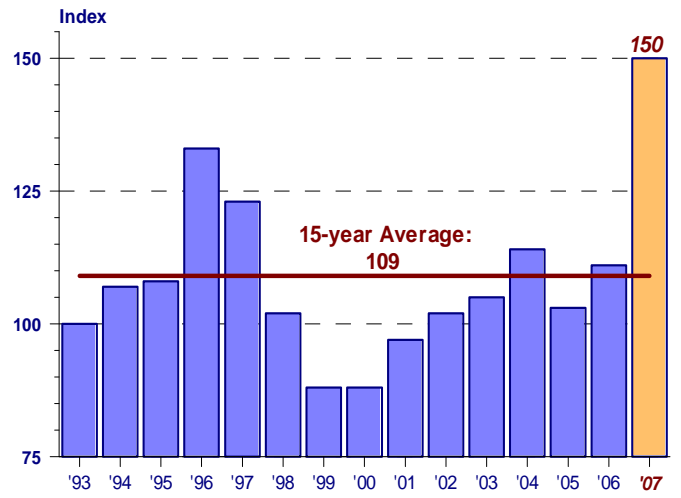
### All-Milk Prices

Indexed Data : 1990-92 = 100



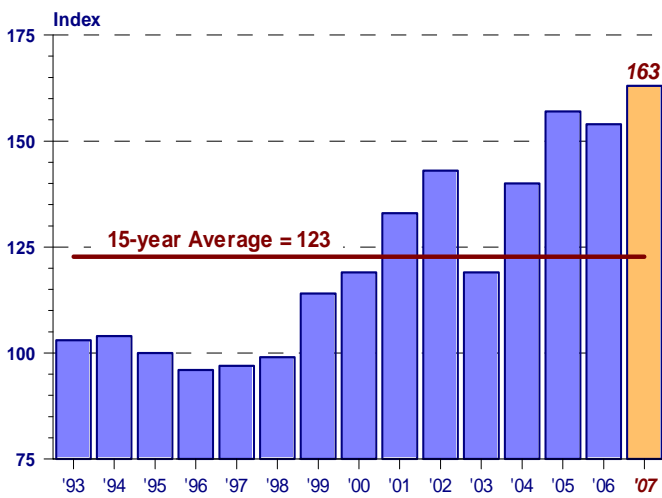
### Dairy Feed - Mixed Ration Cost

Indexed Data : 1990-92 = 100



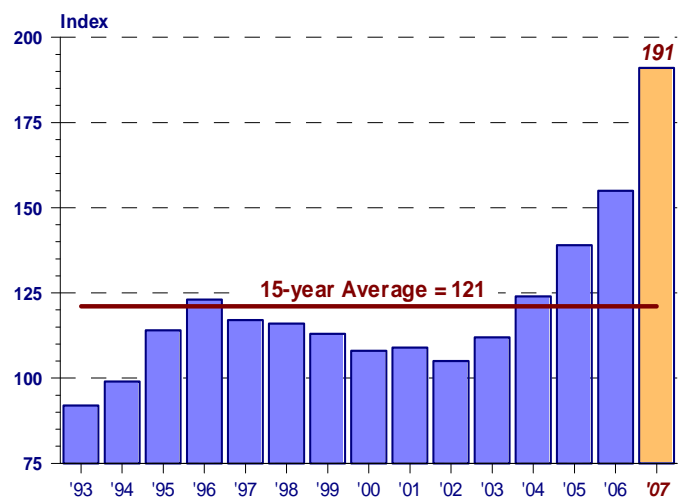
### Milk Cow Replacement Prices

Indexed Data : 1990-92 = 100



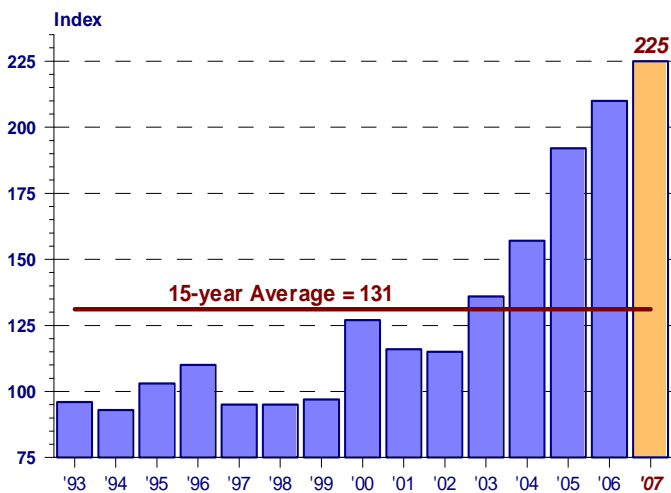
### Mixed Fertilizer Prices

Indexed Data : 1990-92 = 100



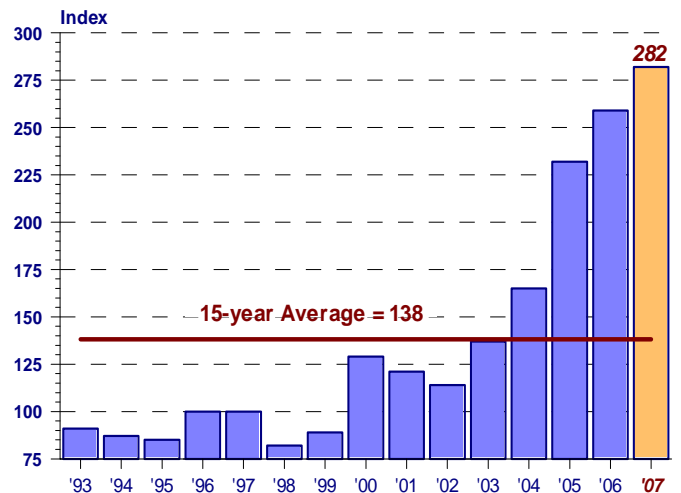
### Gasoline Prices

Indexed Data : 1990-92 = 100



### Diesel Fuel Prices

Indexed Data : 1990-92 = 100



	Statistical Uniform Price		Producer Price Differential		Class I Utilization	
	<u>3/2008</u>	<u>2/2008</u>	<u>3/2008</u>	<u>2/2008</u>	<u>3/2008</u>	<u>2/2008</u>
Northeast	17.89	19.54	-0.11	2.51	40.90	42.54
Appalachian	18.63	21.32	-----	-----	67.90	72.26
Florida	19.92	22.60	-----	-----	82.32	83.06
Southeast	18.79	20.90	-----	-----	64.80	64.23
Upper Midwest	17.75	17.63	-0.25	0.60	17.61	15.12
<b>Central</b>	<b>16.85</b>	<b>18.11</b>	<b>-1.15</b>	<b>1.08</b>	<b>41.29</b>	<b>33.14</b>
Mideast	17.21	18.65	-0.79	1.62	42.79	39.00
Pacific Northwest	15.94	17.47	-2.06	0.44	37.66	29.93
Southwest	17.32	19.28	-0.68	2.25	52.01	45.08
Arizona	16.86	18.00	-----	-----	31.24	33.75

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