

Market Newsletter



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Costs of production, again!

Farmers need management plan to increase profitability

By Dr. Kevin Bernhardt, professor of agribusiness, UW-Platteville, farm management specialist, UW-Division of Extension



I reviewed past newsletters and noticed a consistent theme of articles on the volatility of milk prices, whether by “normal” market volatility or that caused by COVID-19. Excellent tips were provided on using

Dairy Revenue Protection, Dairy Margin Coverage or other price risk tools via options, futures and forward contracts. I want to take a slightly different angle at the same challenge and that is the value of knowing your cost of production.

Yes, it is a common topic often preached in farm management and marketing circles, but there is good reason. As a commodity producer there is nothing you can do as an individual about the cash price offered at any given time. You certainly can take advantage of pre-pricing and insurance-type tools, but the cash price itself is out of your hands. You are what economists refer to as “price-takers.” However, profits come from price minus costs. The costs are more in your hands and thus the never-ending focus on costs of production.

Two points about costs of production. First, knowing your costs of production is a powerful piece of knowledge when it comes to making marketing decisions. Marketing is a powerful tool for reducing risk for sure and hopefully capturing profits, too. However, if you don’t know your costs of production then how do you know when a marketing opportunity captures profits? Having a post-it note next to your computer that shows three numbers – cash costs of production, total costs of production and costs of production plus profit return – gives you

power in making marketing decisions.

The second point is that knowing your costs of production may well point to other areas in your operation that need your management time. No matter how good of a marketer you are, even if you consistently beat the odds, if you have a high cost of production, you won’t consistently make money. However, the two together – low cost and good marketing – can put you at the top of profitability.

Figure 1 shows the total costs of production for the same 180 Wisconsin dairy farms for the years 2015-18. What noticeably jumps off the page is the range? Certainly, some of the outliers can be explained by dairies with an organic business model or other variations, but even so, the range of costs of production is eye-catching.

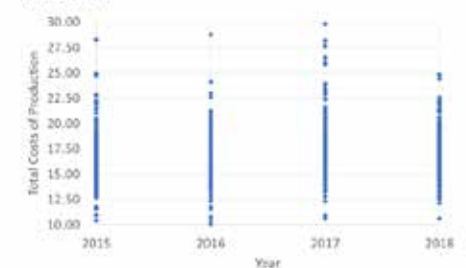
Figure 2 shows the interrelationship between costs of production and potential marketing. For this graphic, information was used from both the University of Wisconsin Center for Dairy Profitability (180 farms) and the University of Minnesota FINBIN database (145 farms). The horizontal bars show the range of costs of production for the two databases. The orange bar is the highest 20 percentile costs of production (\$18.85 for the Wisconsin database and \$18.56 for the Minnesota database). The blue bar is the range of the median costs of production for both databases and the green bar is the range of the lowest 20 percentile costs of production (\$15.08 for Wisconsin and \$16.40 for the Minnesota database).

The black line in Figure 2 is the Class III announced price for each month during those four years. The value of a low cost

of production stands out. Despite low prices for these four years, those with a low cost of production had obvious advantages. These are announced prices so well-managed marketing offered other opportunities before the announced cash price. On the other hand, no amount of marketing would have saved those with the highest 20 percent cost of production.

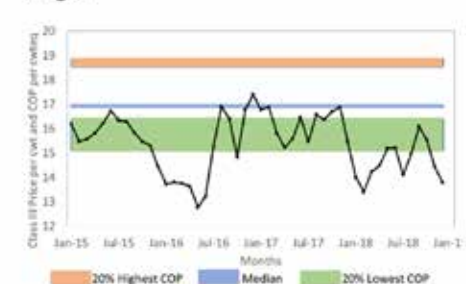
It is true, us farm management types preach cost of production at nauseam. However, there is a reason. One, cost of production is one element of farming that is more in the producer’s control. Two, there is a big range and especially in years of lean prices a low cost of production affords opportunity. 📌

Figure 1: Costs of Production for 180 Dairies in Wisconsin



Source: University of Wisconsin Center for Dairy Profitability, FarmBench Database.

Figure 2: Class III Price and Costs of Production Ranges





MILK MARKET INFORMATION

Producer Prices — Federal Orders 30 & 33

Month/ Year	FO 30 Producer Price Differential (\$ per cwt.)	FO 30 Statistical Uniform Price @ 3.50% (\$ per cwt.)	FO 33 Producer Price Differential (\$ per cwt.)	FO 33 Statistical Uniform Price @ 3.50% (\$ per cwt.)	Butterfat Price (\$ per lb.)	Protein Price (\$ per lb.)	Other Solids Price (\$ per lb.)	SCC Adjustment Rate (\$ per cwt.)
Jul	\$0.16	\$17.71	\$0.47	\$18.02	2.6858	2.4032	0.1689	0.00091
Aug	\$0.15	\$17.75	\$0.60	\$18.20	2.6574	2.4453	0.1730	0.00091
Sep	(\$0.08)	\$18.23	(\$0.31)	\$18.00	2.4982	2.8633	0.1758	0.00095
Oct	(\$0.30)	\$18.42	\$0.86	\$18.72	2.4031	3.1700	0.1447	0.00098
Nov	(\$0.94)	\$19.51	\$2.44	\$20.45	2.3195	3.9118	0.1112	0.00109
Dec	(\$0.40)	\$18.97	(\$0.93)	\$19.37	2.1952	3.6515	0.1341	0.00103
Jan 2020	\$0.28	\$17.33	\$0.89	\$17.94	2.1117	2.9606	0.1417	0.00089
Feb	\$0.06	\$17.06	\$0.27	\$17.27	1.9813	3.0309	0.1750	0.00089
Mar	\$0.17	\$16.42	\$0.72	\$16.97	1.9177	2.8424	0.1810	0.00085
Apr	\$0.24	\$13.31	\$1.15	\$14.22	1.3218	2.4822	0.1793	0.00070
May	\$0.17	\$12.31	\$0.59	\$12.73	1.3756	2.0918	0.1882	0.00065
June	(\$3.81)	\$17.23	(\$7.05)	\$13.99	1.8591	4.5349	0.1696	0.00111
July	(\$4.86)	\$19.68	(\$8.02)	\$16.52	1.9583	5.6294	0.1492	0.00129
August	(\$2.06)	\$17.71	(\$2.93)	\$16.84	1.6275	4.4394	0.1387	0.00105
Sept 2020	(\$0.46)	\$15.97	(\$0.27)	\$16.16	1.5932	3.3935	0.1241	0.00089

Summary of Federal Order Data — September 2020

Federal Order No.	Federal Order Name	Producer Deliveries	Class I Producer Receipts	Class I Utilization	Class I Price	Producer Price Differential	Change From Previous Year
		*** Thousand Pounds ***		%		**** Dollars per Cwt. ****	
1	Northeast	2,167,748	655,267	30.2%	\$21.69	\$0.37	(\$1.98)
5	Appalachian	449,286	324,612	72.3%	\$21.84	n/a	(\$0.36)
6	Florida	195,063	158,860	81.4%	\$23.84	n/a	\$0.00
7	Southeast	393,116	264,494	67.3%	\$22.24	n/a	(\$0.90)
30	Upper Midwest	1,063,551	213,163	20.0%	\$20.24	(\$0.46)	(\$2.26)
32	Central	869,849	382,441	44.0%	\$20.44	(\$0.72)	(\$2.00)
33	Midwest	1,445,956	553,664	38.3%	\$20.44	(\$0.27)	(\$1.84)
51	California	1,797,526	409,471	22.8%	\$20.54	(\$1.96)	(\$2.90)
124	Pacific Northwest	607,088	136,862	22.5%	\$20.34	(\$1.24)	(\$2.24)
126	Southwest	857,977	334,645	39.0%	\$21.44	(\$0.60)	(\$2.38)
131	Arizona	265,724	100,505	37.8%	\$20.79	n/a	(\$2.06)
All Market Average or Total		10,112,884	3,533,984	34.9%			

Perdue gathers input on farm challenges at Edge forum

By Jamie Mara, director of strategic communications

About three dozen farmers, cheese processors and others got the undivided attention of the country's top agricultural official Oct. 2 when Edge hosted a meeting with Sonny Perdue to discuss challenges facing farmers.

The setting was a 250-cow dairy farm in eastern Wisconsin owned by Edge President Brody Stapel, his brother and his father.

"This is real America, and this is real agriculture," said Perdue, the U.S. agriculture secretary. "We have people come to D.C. and talk about things there, but you get a real sense (of the issues) when neighbors come together at a farm like this... So, I appreciate the Edge co-op for hosting us here today and providing a venue for me to come out and figure out what we can do better. That's all important."

The mislabeling of non-dairy foods drew a lot of attention.

Amy Penterman, an Edge member with a dairy farm in northwestern Wisconsin, said that farmers have invested heavily in promoting dairy foods as safe and nutritious, and yet the Food and Drug Administration is failing to enforce current labeling standards that identify milk, cheese and other dairy products as originating from cows.

"It is extremely frustrating to see our investments in our own dairy terms be taken advantage of by imitation plant-based product manufacturers," Penterman told Perdue. ... "This is also unfair to customers who are misled."

Edge co-commissioned a national survey in 2018 to measure customers' views on plant-based foods that mimic dairy cheese. The results, released last year, showed that customers are confused about whether those products are indeed dairy foods and whether they carry the same nutritional value.

"Words do matter when it comes to customers' buying decisions," Stapel said. "People should be protected from deceptive names and packaging when they're looking for real dairy products. We are not against customers having options at the grocery store, but they shouldn't be lied to."

Perdue fielded questions about many other topics also. Among them:

- The second round of the federal Coronavirus Food Assistance Program, which provides direct financial help to



Edge President Brody Stapel (left) and Agriculture Secretary Sonny Perdue

farmers struggling with low prices, lost markets and other supply chain disruptions tied to the pandemic. Signup for the program runs through Dec. 11.

- The importance of free trade agreements to U.S. farmers, who are looking for new markets for their products. Perdue pointed to efforts to capture dairy market share in China and capitalize on emerging opportunities in Africa.

- The challenges dairy farmers face in finding employees, given the lack of a year-round visa option for immigrant workers.

Stapel said it was a privilege to have Perdue visit his farm.

"I think it is crucial as president of Edge and also as a local dairyman that we get our farmer members and bring our voice right to the people who need to hear it," he said.

Perdue said all farmers "share the same noble goal to feed their fellow countrymen."

"Today, I got to visit with the great dairy men and women of Wisconsin and hear their concerns and bring them back to Washington to ensure their government is working for them, not against them," he said. ♦

"This is real America, and this is real agriculture."

- Agriculture Secretary Sonny Perdue



To be a leading voice in U.S.
and global dairy policy.

WELCOME NEW MEMBERS!

Barry Richardson
Jared & Cassie Stillman
Montecassino Dairy
Stemper Farms, Inc.

Producer Milk by Class — September 2020

Federal Order 30

	%	Product Pounds	Price \$/cwt.
Class I	20.0%	213,163,310	\$20.24
Class II	18.0%	191,012,607	\$13.16
Class III	49.9%	530,244,649	\$16.43
Class IV	12.1%	129,130,347	\$12.75
Total* =		1,063,550,913	
Total Value =			\$182,601,747.96

* An estimated 2.8 billion pounds of milk was not pooled

Federal Order 33

	%	Product Pounds	Price \$/cwt.
Class I	38.3%	533,664,029	\$20.24
Class II	26.7%	385,417,946	\$13.16
Class III	19.9%	287,543,226	\$16.43
Class IV	15.1%	219,330,495	\$12.75
Total* =		1,445,955,696	
Total Value =			\$250,100,831.95

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