

Zwick Center for Food and Resource Policy

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**Connecticut Milk Cost of Production Estimates
for April, May, and June 2019**

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In the second quarter of 2019, milk prices for Connecticut farmers rose to \$17.71/cwt, \$1.06/cwt higher than in the previous quarter. Over the same period, the cost of production rose to \$32.70/cwt, \$0.83 higher than in the previous quarter. The increase in cost of production was driven by an increase in the cost of labor and management per hundredweight of milk, which rose by \$0.39/cwt, and by an increase in the cost of feed, which rose by \$0.20/cwt. The monthly average shortfall—the minimum sustainable cost minus the price—was \$9.10/cwt, about 4 percent higher than in the previous quarter. This shortfall represents a substantial burden to milk producers. Thus, we see a need for continuing payments in the future to Connecticut dairy farmers under Public Act 09-229.

Looking ahead, national milk prices are expected to remain at about the same level through the rest of 2019; the trade war with China has severely reduced export demand and brought prices lower than they would be otherwise. Feed prices are expected to remain relatively high. Given the large shortfall for Connecticut dairy producers, the minimum sustainable cost of milk production should continue to greatly exceed the price of milk throughout 2019. Given these expectations about the national dairy market and input prices, it is expected that Connecticut dairy farmers would face additional financial pressure in the absence of payments under Public Act 09-229.

It is important to note some caveats. The calculations presented here are based on data from a 2012 survey of Connecticut dairies, conducted by UConn with support from the Connecticut Department of Agriculture. The calculations do not reflect changes in the scale of dairy farming in Connecticut since the survey was carried out. However, based on the U.S. Census of Agriculture we know that in 2012, there were 242 dairy farms in Connecticut with 17,740 milk cows, or about 73 cows per farm. In 2017, there were only 198 dairy farms with 20,170 milk cows, or about 102 cows per farm, an increased average herd size of 40%. Larger farms are able to produce milk more efficiently, at lower cost per hundredweight of milk. It is therefore important to update the data used as the baseline for the calculation of payments, to reflect changes in scale and other changes, including technological changes.

If an update of the survey is undertaken, I also recommend some changes to the methodology used in calculating payments. The model used does not reflect the possibility that farmers may substitute inputs, such as by substituting homegrown feed for purchased feed, or reducing or increasing purchases of machinery, when prices change. Furthermore, milk production can vary with the amount of feed used, and the cost model should reflect this. Currently, the model assumes that feed amounts vary only with the number of cows and not the volume of output. Lastly, to the extent possible, fluctuations in input prices should reflect regional rather than national averages.

2019 Connecticut 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				
Connecticut	\$32.16	\$32.61	\$33.33	\$32.70
Minimum Sustainable Cost of Production				
Connecticut	\$26.37	\$26.74	\$27.33	\$26.81
Statistical Uniform Price				
Hartford, CT	\$17.24	\$17.70	\$18.18	\$17.71
Minimum Sustainable Cost of Production Minus Statistical Uniform Price				
Connecticut	\$9.13	\$9.04	\$9.15	\$9.10

Source: 2012 CT DFBS Survey with annual updates. Minimum Sustainable Cost of Production is 82% of the Total Cost of Production. Statistical Uniform Price is from the USDA Federal Milk Order No. 1 (<http://www.fmmone.com>). Values rounded to nearest cent per hundredweight.

For additional details on the methodology used, please see Zwick Center Outreach Report No. 13 available at: <http://zwickcenter.uconn.edu/documents/or13.pdf>.

Please contact Prof. John Bovay (at Virginia Tech beginning August 2019) with any questions.