Zwick Center for Food and Resource Policy

Outreach Report No. 4

Milk Cost of Production Estimates for July, August, and September 2011

Prepared for the Connecticut Commissioner of Agriculture

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I. Introduction

In July 2009, Connecticut Public Act 09-229 established an agricultural sustainability account to provide financial assistance to Connecticut milk producers during times when the federal milk pay price falls below a minimum sustainable monthly cost of production. This legislation mandates that the Commissioner of Agriculture make payments to Connecticut dairy farmers on a quarterly basis. To determine whether payments are necessary to comply with the legislation, Public Act 09-229 defines the minimum sustainable monthly cost of production as eighty-two percent of the monthly average cost of production for a New England state, as calculated by the United States Department of Agriculture (USDA) Economic Research Services (ERS).

To comply with state legislation the Commissioner of Agriculture has requested that The Zwick Center for Food and Resource Policy in the Department of Agricultural and Resource Economics at the University of Connecticut provide estimates of the monthly cost of production for a New England State based on data and variables published by the USDA.

This report is a follow up on our previous reports for 2011 quarters one and two that use the current USDA methodology and continues the Vermont and Maine milk cost of production

estimates previously calculated by the ERS.[1] Here we present the cost of production and pricing for quarter three of 2011.

II. Monthly Cost of Production and Related Uniform Pricing for Quarter 3, 2011

The estimates for the July, August, and September 2011 milk cost of production for Vermont are shown in Table 1.

Table 1. Vermont monthly milk costs of production: July - September 2011

Item 1/		Jul	Aug	Sep
		Dollars per Hundredweight		
Operating costs	Total feed costs	10.08	10.19	10.22
	--Purchased feed	7.46	7.45	7.41
	--Homegrown harvested feed	2.41	2.53	2.60
	--Grazed feed	0.20	0.21	0.22
	Veterinary and medicine	0.95	0.97	0.98
	Bedding and litter	0.46	0.46	0.47
	Marketing	0.30	0.30	0.30
	Custom services	0.49	0.50	0.50
	Fuel, lube, and electricity	1.07	1.08	1.10
	Repairs	0.63	0.64	0.65
	Other operating costs	0.00	0.00	0.00
	Interest on operating capital	0.01	0.01	0.01
	Total operating costs	**14.00**	**14.15**	**14.23**
Allocated overhead	Hired labor	1.86	1.88	1.90
	Opportunity cost of unpaid labor	2.95	2.98	3.01
	Capital recovery of machinery and equipment	3.99	4.04	4.08
	Opportunity cost of land (rental rate)	0.05	0.05	0.05
	Taxes and insurance	0.42	0.42	0.43
	General farm overhead	1.31	1.33	1.35
	Total allocated overhead	**10.58**	**10.71**	**10.82**
Total	**All costs listed**	**24.58**	**24.87**	**25.05**

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 2005 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 methodol

[1] See Rabinowitz, A.N. and Lopez, R.A. 2011. Milk Cost of Production Estimates for April, May, and June 2011, University of Connecticut, Zwick Center Outreach Report #1; Rabinowitz, A.N. and Lopez, R.A. 2011.Comparison of Dairy Farming in Connecticut, Vermont, and Maine for Purposes of Determining the Appropriate Cost of Production Benchmark for Connecticut, University of Connecticut, Zwick Center Outreach Report #2; Rabinowitz, A.N. and Lopez, R.A. 2011. Maine Milk Cost of Production Estimates for April, May, and June 2011, University of Connecticut, Zwick Center Outreach Report #3.

Total operating costs in Vermont for July, August, and September 2011 are $14.00, $14.15, and $14.23/cwt., respectively. The major component of operating costs is the total feed costs of $10.08, $10.19, and $10.22/cwt., respectively. With the exception of the feed cost categories, there is very little variation within cost categories from month to month. Allocated overhead in Vermont during these three months are $10.58, $10.71, and $10.82/cwt. for July, August, and September, respectively. Very little monthly changes in costs occur within allocated overhead cost categories. The total milk cost of production in Vermont is $24.58 for July, $24.87 for August, and $25.05/cwt. for September. The average of these three months, i.e. the quarter two average cost of production, is thus $24.83/cwt. Public Act 09-229 specifies the minimum sustainable monthly cost of production as eighty-two percent of the monthly average cost of production. Eighty-two percent of the Vermont milk cost of production is $20.16 for July, $20.39 for August, and $20.54/cwt for September. The average of these three months is $20.36/cwt.

The estimates for the July, August, and September 2011 milk cost of production for Maine are shown in Table 2. The operating costs in Maine for July, August, and September 2011 are $16.92, $16.89, and $16.29/cwt., respectively. The major component of operating costs is the total feed costs of $12.55, $12.51, and $12.03/cwt., respectively. With the exception of the feed cost categories, there is very little variation within cost categories from month to month. Allocated overhead during these three months are $17.33, $17.33, and $16.78/cwt. for July, August, and September, respectively. Very little monthly changes in costs occur within allocated overhead cost categories. The total milk cost of production is $34.25 for July, $34.22 for August, and $33.07/cwt. for September. The average of these three months, i.e. the quarter three average cost of production, is thus $33.85/cwt. Public Act 09-229 specifies the minimum

sustainable monthly cost of production as eighty-two percent of the monthly average cost of production. Eighty-two percent of the Maine milk cost of production is $28.09 for July, $28.06 for August, and $27.12/cwt for September. The average of these three months is $27.76/cwt.

Table 2. Maine monthly milk costs of production: July - September 2011

Item 1/		Jul	Aug	Sep
		Dollars per Hundredweight		
Operating costs	Total feed costs	12.55	12.51	12.03
	--Purchased feed	9.41	9.27	8.84
	--Homegrown harvested feed	2.92	3.02	2.97
	--Grazed feed	0.22	0.23	0.23
	Veterinary and medicine	1.12	1.12	1.08
	Bedding and litter	0.41	0.41	0.40
	Marketing	0.35	0.35	0.35
	Custom services	0.35	0.35	0.34
	Fuel, lube, and electricity	1.16	1.15	1.12
	Repairs	0.96	0.96	0.94
	Other operating costs	0.01	0.01	0.01
	Interest on operating capital	0.01	0.01	0.01
	Total operating costs	**16.92**	**16.89**	**16.29**
Allocated overhead	Hired labor	3.15	3.15	3.04
	Opportunity cost of unpaid labor	5.70	5.70	5.52
	Capital recovery of machinery and equipment	6.43	6.43	6.22
	Opportunity cost of land (rental rate)	0.05	0.05	0.05
	Taxes and insurance	0.59	0.59	0.57
	General farm overhead	1.42	1.42	1.38
	Total allocated overhead	**17.33**	**17.33**	**16.78**
Total	**All costs listed**	**34.25**	**34.22**	**33.07**

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 2005 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 methodol

For comparison to the Vermont and Maine cost of production estimates we also present the statistical uniform prices (i.e. blend price) for Hartford, CT for the third quarter of 2011. These are $22.66 for July, $23.12 for August, and $22.13/cwt for September, all higher than the minimum sustainable monthly cost of production calculated using Vermont data. The difference between the uniform prices and the eighty-two percent minimum sustainable monthly cost of production in Vermont is $2.50 for July, $2.73 for August, and $1.59/cwt for September. This

represents an average statistical uniform price of $2.27/cwt higher than the minimum sustainable monthly cost of production in Vermont.

Alternatively, the statistical uniform prices for Hartford, CT for the third quarter of 2011 are all lower than the minimum sustainable monthly cost of production calculated using Maine data. The difference between the uniform prices and the eighty-two percent minimum sustainable monthly cost of production in Maine is $5.43 for July, $4.94 for August, and $4.99/cwt for September. This represents an average statistical uniform price of $5.12/cwt lower than the minimum sustainable monthly cost of production in Maine.

As a caveat, it is likely that Vermont's milk cost of production, as well as the one in Connecticut, were significantly higher in the aftermath of Tropical Storm Irene which hit the area on August 28, 2011. The storm resulted in extensive damage to farm infrastructure and crops as well as extended power outages creating increased costs at the end of August and beginning of September.