

Zwick Center for Food and Resource Policy

Outreach Report No. 64

**Connecticut Milk Cost of Production Estimates
for Quarter 1 (January, February, March) 2020**

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This quarterly report was prepared by compiling data from the USDA Economic Research Service and with market analysis from the USDA April Dairy Outlook (linked below). It is important to note that this data is from January, February, and March. While this is the most up-to-date information we have, it does not necessarily reflect the full effects of COVID-19 related market changes. Case in point, the USDA noted that there was an uptick in demand for liquid milk in late March due to a retail rush, but this demand has drastically slowed since. The USDA ERS says, “It is clear the COVID-19 pandemic has brought about disorderly market conditions in dairy markets. However, the extent of the problems is highly uncertain, and the situation continues to evolve. Although price data for milk and dairy products are available for March and April, supply and use data are not yet available.” (*Livestock, Dairy, Poultry Outlook*, p. 7). Quarter 2 (April, May, June) data that is used to compile these numbers are usually posted by the USDA National Agricultural Statistics Service in July.

In the first quarter of 2020, milk prices for Connecticut farmers dropped to \$18.11/cwt, \$0.86/cwt lower than in the previous quarter. This time last year (Quarter 1 2019) the price of dairy was \$16.65/cwt, but the price steadily went up over the course of the year. Over the same period, the cost of production dropped to \$31.43/cwt, \$2.63 lower than in the previous quarter. The decrease in cost of production was driven by a decrease in the cost of hired labor, which dropped by \$0.37/cwt, decrease in the opportunity cost of unpaid labor, which dropped by \$0.76/cwt, and a decrease in the cost of cost of feed, which fell \$0.45/cwt. The monthly average shortfall—the minimum sustainable cost minus the price—was \$7.65/cwt, which is about a 1.4% decrease from the previous quarter. This shortfall represents a substantial burden to milk producers. We thus see a need for continuing payments in the future to Connecticut dairy farmers under Public Act 09-229.

According to the USDA ERS April Dairy Outlook, national milk prices are expected to drop in 2020 due to a decrease in demand. The rate at which this will happen, however, remains uncertain. As previously noted, COVID-19 has and will cause changes in demand, but at this time they are uncertain about precisely what changes to expect. According to the USDA, these demand changes are largely due to both potential financial hardship and because Americans tend to consume more dairy products, such as cheese and butter at food service establishments, which are currently operating well below capacities. Because of this shift in in demand from food service to supermarkets, the USDA reports that there have been supply-chain bottle necks. While demand is rapidly decreasing, the USDA reports that the dairy industry is still entering their peak season. With regard to the global dairy trade the USDA reported, “Since dairy industry supply and demand shocks are happening around the world, global dairy trade is also affected, limiting the ability of U.S. suppliers to export dairy products” (*Livestock, Dairy, and Poultry Outlook*).

Given the large shortfall for Connecticut dairy producers, the minimum sustainable cost of milk production should continue to exceed the price of milk throughout 2020. Given these expectations about the national dairy market and input prices, it is expected that Connecticut dairy farmers will face additional financial pressure in the absence of payments under Public Act 09-229.

Source: *Livestock, Dairy, and Poultry Outlook*, LDP-M-310, U.S. Department of Agriculture, Economic Research Service, April 15, 2020 <https://downloads.usda.library.cornell.edu/usda-esmis/files/g445cd121/5d86pj126/bz60df867/LDP-M-310.pdf>

2020 Connecticut Milk Cost of Production Estimates, Statistical Uniform Price, and Application of Public Act 09-229

| | January | February | March | Quarter 1 Average |
|-------------------------------------------------------------------------------|---------------------------|----------|---------|-------------------|
| | Dollars per Hundredweight | | | |
| Total Cost of Production | | | | |
| Connecticut | \$32.09 | \$31.38 | \$30.79 | \$31.43 |
| Minimum Sustainable Cost of Production | | | | |
| Connecticut | \$26.31 | \$25.73 | \$25.25 | \$25.76 |
| Statistical Uniform Price | | | | |
| Hartford, CT | \$18.68 | \$18.02 | \$17.64 | \$18.11 |
| Minimum Sustainable Cost of Production Minus Statistical Uniform Price | | | | |
| Connecticut | \$7.63 | \$7.72 | \$7.61 | \$7.65 |

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 details on the methodology used, please see Zwick Center Research Report No. 1 available at: http://zwickcenter.uconn.edu/outreach-presentations_4_2016452852.pdf

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