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Zwick Center for Food and Resource Policy
Outreach Report No. 13

Milk Cost of Production Estimates for October, November, and December 2012

Prepared for the Connecticut Commissioner of Agriculture

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Summary

The cost of production for milk in Connecticut for the fourth quarter of 2012 is estimated at an average of $36.60/cwt, using the 2011 Connecticut DFBS survey benchmark. Based on this, the minimum sustainable cost of production for Connecticut averages $30.01. The Hartford-based average statistical uniform price for milk was $20.83 for the same period. Therefore, these figures suggest activating Connecticut Public Act 09-229 to assist Connecticut milk producers in covering the average $9.19 sustainable cost shortfall.

I. Introduction

Connecticut Public Act 09-229 authorizes payments to farmers based on a monthly cost of production (COP) estimate and a federal market order one sustainable uniform price. Since the inception of this act the Connecticut Department of Agriculture used USDA ARMS survey data for Vermont to determine the applicable payments to dairy farmers because a Connecticut specific COP did not exist.[1] In December 2012, the Zwick Center for Food and Resource Policy published the first Connecticut specific raw milk COP estimate based on survey data from 2011.[2] This process was undertaken to aid the Commissioner of Agriculture in the application of Connecticut Public Act 09-229 by moving to an estimate that more accurately portrays the costs faced by Connecticut dairy farms. The release of the 2012 report includes both an annual 2011 estimate as well as monthly estimates for January through September 2012. The 2011 annual COP in Connecticut was $31.52/cwt, which was slightly lower than Vermont ($32.61/cwt) yet representative of the state dairy farms.

With a new baseline estimate the current task is to use the new Connecticut annual COP to compute fourth quarter (October – December) 2012 monthly COP estimates. This process

[1] See background on Public Act 09-2009 and previous Zwick Center COP reports by Rabinowitz and Lopez (2011 and 2012) at http://zwickcenter.uconn.edu/outreach_reports.php.

[2] Boris E. Bravo-Ureta, Jeremy L. Jelliffe, Adam N. Rabinowitz, Richard Meinert, Joyce Meader, Joseph Bonelli, and Sheila Andrews. 2012. *The Annual Cost of Producing Milk in Connecticut: Estimates for 2011*. Zwick Center Research Report #1, Storrs, CT: University of Connecticut.

amends the methodology that computed quarterly COP updates for Vermont and Maine during 2011 and 2012.[3] The methodology now uses the Connecticut baseline, the UConn Modified Dairy Farm Management Business Summary (DFBS) Method, and monthly indices provided by the National Agricultural Statistics Service (NASS).[4]

II. Monthly Milk Cost of Production and Price for Quarter 4, 2012

The Zwick Center baseline estimate for the 2011 Connecticut annual milk COP is $31.52/cwt. The estimates for the October, November, and December 2012 milk COP for Connecticut are shown in Table 1. Total operating costs for October, November, and December 2012 are $21.78, $20.66, and $19.80/cwt., respectively, with an average for the quarter of $20.75. The quarter four average operating cost in Connecticut represents a decrease of $1.13/cwt from the quarter three average of $21.88. The major component of the total operating cost is the total feed costs that decreased on average $1.09/cwt from quarter three to quarter four. In quarter four the total feed costs are $13.61, $12.64, and $12.20/cwt. for October, November, and December, respectively. Quarter four allocated overhead is $16.25 in October, $16.10 in November, and $15.22 in December, averaging $15.86/cwt for the period. This is a $0.28/cwt average increase from quarter three. Including total allocated overhead, the total milk COP in Connecticut is estimated at $38.03 for October, $36.75 for November, and $35.02/cwt. for December, with an *average total COP for quarter four estimated at $36.60/cwt, $0.85/cwt less than the quarter three estimate*.

Public Act 09-229 specifies the minimum sustainable monthly COP as 82% of the monthly average cost of production. Table 2, shows that 82% of the Connecticut milk COP is $31.19 for October, $30.14 for November, and $28.72/cwt for December. This yields an <u>average minimum sustainable COP for Connecticut of $30.01/cwt for quarter four, 2012, a decrease of $0.69/cwt. from quarter three.</u>

[3] See Zwick Center Outreach Reports 1 and 3-7
[4] See Bravo-Ureta, et al. (2012) for information on the revised methodology.

Table 1. Connecticut Monthly Milk COP: October – December 2012			
		Connecticut	
Item	October	November	December
	Dollars per Hundredweight		
Operating costs:			
Total feed costs	$13.61	$12.64	$12.20
--Purchased feed	12.26	11.30	10.94
--Homegrown harvested feed	1.35	1.34	1.27
Veterinary and medicine	1.63	1.61	1.53
Bedding and litter	0.29	0.29	0.27
Marketing	1.31	1.31	1.31
Custom services	0.61	0.60	0.57
Fuel, lube, and utilities	2.32	2.21	2.04
Repairs	2.42	2.39	2.26
Other operating costs	0.73	0.73	0.69
Gov't Receipts and Misc Income	-1.49	-1.47	-1.39
Interest on operating capital	0.35	0.34	0.32
Total operating costs	**$21.78**	**$20.66**	**$19.80**
Allocated overhead:			
Hired labor	$3.75	$3.72	$3.52
Opportunity cost of unpaid labor and management	7.54	7.47	7.06
Capital recovery of machinery and equipment	5.42	1.20	1.19
Opportunity cost of equity	2.18	2.16	2.04
Taxes and insurance	1.04	1.03	0.98
General farm overhead	0.53	0.52	0.49
Total allocated overhead	**$16.25**	**$16.10**	**$15.22**
Total **All costs listed**	**$38.03**	**$36.75**	**$35.02**

Estimates may be adjusted based on revisions in monthly agricultural price indices and milk production estimates as provided by the USDA.

Source: Based on CT DFBS Survey, 2012, and updated using current cow and production input indices. See http://www.zwickcenter.uconn.edu/documents/ResearchReportno1.pdf for the methodology.

Farm milk prices in Connecticut started to increase in July 2012, after reaching a recent low of $16.48/cwt in June. Table 2 also shows the statistical uniform prices (i.e., the blend price) for Hartford, CT for the fourth quarter of 2012. These prices continue to increase from mid-year lows, coming in at $20.68 for October, $21.25 for November, and $20.55/cwt for December. The average statistical uniform price for quarter four is $20.83/cwt, $2.56/cwt higher than the

quarter three average. Even with recent increases in the prices farmers are receiving for their raw milk, they are still significantly lower than the minimum sustainable monthly COP estimates. Using Connecticut estimates, the minimum sustainable milk COP exceeds the Hartford-based farm price by $10.51 in October, $8.89 in November, and $8.17/cwt in December. This represents an average statistical uniform price that is $9.19/cwt below the minimum sustainable monthly COP estimate for Connecticut. This indicates a trend of a decreasing differential where the quarter three average statistical uniform price was $12.44/cwt below the minimum sustainable monthly COP estimate, resulting in a $3.25/cwt larger average differential in quarter three than in quarter four.

Table 2. Connecticut Milk Cost of Production Estimates, Statistical Uniform Price, and Application of Public Act 09-229

	October	November	December	Quarter 4 Average
	Dollars per Hundredweight			
Total Cost of Production				
Connecticut	$38.03	$36.75	$35.02	$36.60
Minimum Sustainable Cost of Production				
Connecticut	$31.19	$30.14	$28.72	$30.01
Statistical Uniform Price				
Hartford, CT	$20.68	$21.25	$20.55	$20.83
Statistical Uniform Price Minus Minimum Sustainable Cost of Production				
Connecticut	-$10.51	-$8.89	-$8.17	-$9.19

Source: Total Cost of Production from Table 1. Minimum Sustainable Cost of Production is 82% of the Total Cost of production. Statistical Uniform Price from the USDA Federal Milk Order No. 1 (http://www.fmmone.com).