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## ***Kentucky Dairy Notes***

***July 2009***

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Disabilities accommodated with prior notification.

## **Dairy Returns in 2008**

The year 2008 was one of both positives and negatives for dairy farmers on the Kentucky Farm Business Management program. Unlike this year, milk prices remained high for most of 2008 with an average price received of \$21.33 per cwt of milk sold. This was an increase from 2007, when the average price was \$20.41/cwt. As could have been expected, KFBM dairy cooperators increased milk production in response to the higher price. Production per cow was 18,467 lbs in 2008 versus 17,952 lbs in 2007. More cows were milked per farm as well, 146 in 2008 compared to 130 in 2007.

On the negative side, feed prices increased to \$10.73/cwt of milk produced, up 12% from 2007. This was the result of a second consecutive dry year, coupled with increased hay prices, corn, and soybean prices. The net result was a return above feed costs that decreased from \$10.87/cwt of milk produced in 2007 to \$10.60/cwt of milk produced in 2008.

During 2008, there were 19 KFBM cooperators that had less than 100 cows, 18 were milking 100-199, and 11 were milking 200 or more. The table below shows that in our dataset, larger operations had considerably greater management returns per cow.

<b>Selected Results: KFBM Cooperators by Size</b>			
	<100	100-199	200+
Number of Cows/Farm	64.2	128.7	323.2
Milk Sold Lbs/Cow	17,056	17,788	19,619
Avg. Milk Price	20.84	20.65	21.44
Management Returns/Cow	-476.55	35.03	356.79
Net Farm Income/Operator/Cow	\$539.39	\$663.17	482.97
Cows/FTE	30	36	41
Milk Sold/FTE	506,793	640,010	811,547

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In last month's Economic and Policy Update, Kenny Burdine mentioned that milk futures were low through the summer and showed some seasonal rebounding during the late part of the year. When considering these prices expectations, combined with expected corn and soybean prices, dairy producers are likely looking at another difficult year.

While milk production per cow is an important production measure, other input efficiencies can improve management returns as well. If we look at milk sold/fte (full time equivalent), KFBM producers are below key benchmarks for dairy producers. In the publication "Analyzing Your Dairy Business: A Systematic Approach to Using Benchmarks", by Hilty, Tozer, and Hyde of Penn State University, it is suggested that milk sold per worker should be 1 million pounds or more. None of the reported KFBM groups approach this number, which leaves tremendous room for improvement. One idea on how to improve this number is to offer worker incentives for production and animal health.

Another key number to examine is cows/fte. Full-time equivalents (FTE's) include both paid labor and unpaid operator labor. According to this same publication, dairy and crop operations (most of Kentucky dairy farms) should be between 45-50 cows per worker or more. The 200+ group is at 41, close to this benchmark, but the other groups are well below this suggested level.

Dairy is an industry under tremendous stress at the current moment, and will be for the foreseeable future. However, producers should take the time to examine how efficiently they are using their assets and inputs. If a producer can keep his cows happy and use his other inputs efficiently, then the storm can be weathered. The University of Kentucky has resources to assist producers in improving their operation, including Kentucky Farm Business Management.

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