

WHAT TO EXPECT IN THIS VOLATILE MARKET



The dairy industry has suffered record losses since the Great Depression in 2009. This year is one that everyone wants to forget. Dairy farms experienced losses

ranging from approximately \$3 to \$4.50 per cwt, according to Frazer, LLP's Dairy Farm's Operating Trend. Have we recovered from such large losses? In 2010, we saw some improvement. Some dairymen showed a slight profit. In 2011, we saw profits ranging from \$2 to \$4 depending on your region and herd

size. In 2011, we also saw milk prices hitting above \$20 per cwt, compared to \$15 to \$17 in 2010. Unfortunately, we also saw feed prices increased to \$12 per cwt in 2011 compared to approximately \$8 in 2010.

Dairymen throughout the country are guessing what 2012 will bring? Will milk prices continue to be in the \$20 range? Will feed prices stabilize or continue to increase? Will beef prices remain relatively high?

The dairy industry is unique. This is one of a handful of industries whereby business owners do not control how much they can sell their product for. Dairymen are at the mercy of the every changing market place.

Milk Price

In this volatile market, it's not certain where milk prices will be. The milk price will depend greatly on milk supply and exports. According to the United States Department of Agriculture (USDA), it is forecast that milk production will increase slightly and milk exports are forecast to decrease slightly for 2012 compared to 2011, a double whammy for the dairy industry, which will result in lower milk prices.

Major milk exporting countries have increased their milk production to take advantage of the higher milk prices in 2011, resulting in a greater competitive market for the United States.

At the time this article was written, Class III milk prices for 2012 range from the low to high \$17s per cwt. This doesn't look promising for some dairymen as their total expenses will equal their total milk income and for some, expenses will surpass it. Dairymen must look at their operations to determine ways to increase income and decrease cost. However, be careful since certain cost-cutting techniques could actually hurt the operation rather than improve it. Make sure you have all the information before making that decision.

Although dairymen cannot control the price of milk, there are other factors that dairymen have control over such as quality of milk and its components. With the help of your nutritionist, you can prepare a strategy to improve on these areas that will increase your overall milk income. In addition, dairymen must look at ways to increase production by looking at herd health, increase capacity and efficiencies throughout the dairy operation. With the relatively high price for beef, dairymen can cull low producing animals and replace them with

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more promising animals.

Milk Hedging

Another strategy the dairymen should consider is milk hedging. With the debacle that occurred with MF Global, dairymen are now more cautious than ever. However, dairymen should obtain the appropriate knowledge, learn the ins and outs before jumping into conclusions. With proper planning, milk hedging can be beneficial. Having the right information is critical. The goal of risk management is to understand your margin and hedge yourself against decreasing milk prices and rising costs. With the help of an accountant, they can prepare realistic budgets, break even and cash flow analysis that will assist you in making that important decision.

Feed Price

In the later part of 2011, we saw prices for corn and alfalfa rise above \$300 per ton. In some areas of the country, we also saw cottonseed increase to over \$400 per ton. With bad weather that hit certain parts of the country, supply of feed decreased which resulted in higher feed prices. Across the board, we saw price increases for hay, grain and silage in 2011. Is this a trend that we will see for 2012? Hopefully not. The USDA has projected that feed prices will decrease in 2012. This is great news for dairymen across the nation.

Ask the experts

Are you prepared for 2012? Contact your accountant to prepare financial analysis to provide you with the appropriate information. Your basic financial statements may not be sufficient to properly manage your financial needs. Consult with other professionals such as your nutritionist and veterinarian to look for ways to increase productions and manage feed rations to combat lower milk prices and higher feed prices. Together, we will help you through this time of uncertainty. □

FYI

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