Zwick Center for Food and Resource Policy

Outreach Report No. 65

Connecticut Milk Cost of Production Estimates for Quarter 2 (April, May, June) 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 July Dairy Outlook (linked below). It should be noted that due to depooling practices in the state of Connecticut and throughout the Northeast, the reported level of production in June from the Federal Milk Marketing Order 1 (Northeast) was artificially 47% lower than it was in May. Kathy Korkosz, from FMMO1, explained that this occurs when the price is low enough where it is no longer favorable for some milk producers to sell to pool plants. This means they most likely sold to nonpool plants that do not report to the Federal Milk Marketing Order 1. To account for this unreported production, we estimated the June production levels using the daily production average of May and July of 2020. This estimate was similar to the production levels in June 2019.

In the second quarter of 2020, milk prices for Connecticut farmers dropped to $14.58/cwt, $0.86/cwt lower than in the previous quarter. This time last year (Quarter 2 2020) 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 rose to $32.77/cwt, $1.34 higher than in the previous quarter. The increase in cost of production was driven by an increase in the cost of feed, which rose by $0.87/cwt along with an overall decrease in production, causing the cost per cwt to rise. The monthly average shortfall—the minimum sustainable cost minus the price—was $12.28/cwt, which is about a 6% increase 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 July Dairy Outlook, national milk prices are expected to continue to be volatile throughout 2020 due to the COVID-19 pandemic. After the steep drop in prices in April, the price started to increase again in June. This is expected to be from both efforts to decrease milk production along with increased demand. The USDA explains that the increased demand is mostly from "increases in food service demand, Government purchases of dairy products, and relatively high exports" (*Livestock, Dairy and Poultry Outlook*, 9). While demand for milk is up since April, the levels are still lower than what they were during quarter 2 of 2019.

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

	April	May	June	Quarter 2 Average
	Dollars per Hundredweight			
Total Cost of Production				
Connecticut	$31.16	$33.38	$33.76	$32.77
Minimum Sustainable Cost of Production				
Connecticut	$25.55	$27.37	$27.69	$26.87
Statistical Uniform Price				
Hartford, CT	$14.82	$13.37	$15.56	$14.58
Minimum Sustainable Cost of Production Minus Statistical Uniform Price				
Connecticut	$10.73	$14.00	$12.13	$12.28

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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