

Dairy Frontiers

Paul Dyk
Dairy & Livestock Agent

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UWEX

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Requests for reasonable accommodations for disabilities or limitations should be made prior to the date of the program or activity for which it is needed. Please do so as early as possible prior to the program or activity so that proper arrangements can be made. Request will be kept confidential.

Greetings.

2009 it'll be a dandy.

Opportunity!!! What???!?

I know, I know. What in the world am I talking about? We look at the milk prices for the next six months and it's a little hard to see a silver lining. But let's think of the opportunities:

- a) Cattle prices are likely to be lower. If you are expanding or you are starting a farm, you are in an ideal situation. Pick up a cow for \$1400 and she may be worth on \$2000 on the balance sheet in 24 months. Yes you need capital but it is still an opportunity.
- b) Interest rates. Check with your lender. Is it possible to refinance? After listening to an editor from the Wall Street Journal at the DBA meeting it got me thinking that this year may be one of the best times ever to get some rates locked. With the government printing money, as soon as the economy starts to rebound, inflation and interest rates are likely to go up.
- c) Building facilities. Although construction costs may not have come down yet, it seems inevitable. As the entire construction industry slows down, materials will get cheaper. Maybe your contractor tells another story but look around, cheap fuel, no construction - opportunity.
- d) Equipment prices. Anyone buy a tractor last year? With milk prices dropping, perhaps the price of tractors may finally come down.
- e) Labor. OK, this is not great for those looking for jobs. But a slow economy keeps wages in check. And with bigger fish on the agenda, immigration reform will likely slow and Hispanic labor will still be available. The dairy industry is very reliant on this labor force.
- f) People still eat every day. For those in agriculture we know that there will be turn around. Cars can be made in China, but food will still be produced in the US. A long term recession is obviously not a good thing but agriculture always knows that it will survive.

Please don't think I want us in a recession or I think low milk prices are a good thing. We are likely to lose many more good hard working dairies in this county. Many will hang up the hat after a career. I just want everyone to look around and say, "Despite all this mess, what can I control and what are my opportunities?"

If you need help, please call me.

Paul Dyk

Surviving in Tough Times

Paul Dyk- UW Extension Fond du Lac

I have thought a lot about what producers can do when times get tough. Not an easy answer. My heart is saddened by thought of all the wives (and maybe a couple husbands) that look at an empty checkbook and a stack of bills left unpaid.

It is easy to make the wrong decisions and start cutting everything on your dairy. Stop predipping, cut corn or fat from the diet, reduce hoof trimming and a host of other small items can all lead to serious long term issues. Nickels and dimes are important but not if they cost you dollars.

So let me throw out some questions that you can ask yourself.

1) What is my income over feed cost? Do I know? Feeds cost are a huge percentage of your milk check. Have you stuck to the same diet for the last 10 years? Do you have distillers in the diet? What is your feed shrink on your farm? If you use commodity bays, how much are you losing?

2) What is my milk production? Many herds in the county get between 80-100 lbs per cow per day. If you are a grazer or organic, lower milk production might make sense; and indeed not all high producing herds are profitable. However, the difference between 70 and 80 lbs is huge in profitability; probably 4 or 5 lbs of the last 10 is profit (feed etc are increased for more milk).

3) What is my voluntary culling rate? Am I at 20%? Why not? Cow comfort, reproduction and milk quality are often key.

4) How many cows does each person handle on our farm per day? Thirty, forty, fifty? Would a low cost parlor allow you to handle 20 or 30 more cows?

5) What's going on with my transition cows? Do I have less than 4% ketosis or 2% DA's? Have I tried a new diet, maybe a new nutritionist to work on this? What is my bunker space for dry cows (hopefully 30 inches)? What is my veterinarian bill? What part of my vet bill is drugs and what part is service?

6) What are my repairs on the farm? Is it time to not fix the planter again this year and pay for some custom work?

7) Have I really looked at the cull rates on my heifers and when they calve? Is my cull rate less than 10, 4 or 2%? Do all the heifers calve by 24 months?

8) How many lame cows do I really have? Have I used a lameness chart to calculate lameness? Lame cows produce less milk, have lower reproduction and have higher culling rates.

9) What is my SCC? Am I under 150,000? Maybe being under 100,000 is not possible or profitable for everyone (culling high producing cows may not make sense) but certainly 150,000 is a great starting point. Yep this is low. But this is something that can be controlled on the farm. Talk to the milk plant rep, your veterinarian, your Extension agent.

“What are the top 5 things that will make me more profitable? In writing, please!”

10) Am I really listening or asking for criticism of my farm? Am I open to the idea that I can improve? It can be very difficult when you work very hard to realize that your hard work is directed in the wrong way. For years, farmers worked very hard to milk by hand. For years, farmers worked very hard to milk with a milk machine and bucket. For years, farmers worked very hard to milk with a pipeline system. And even now, farmers work very hard with parlor systems and freestalls that could be improved.

Ask the question of your nutritionist, your veterinarian or your consultant: “What are the top 5 things you think will help make me more profitable? In writing please.” Ask them to be honest. Yes men are not needed in serious times. If they can't come up with anything, move on. Think of your family, you need honest, blunt answers.

I know that \$9.50 milk makes it impossible for anyone to cash flow but I hope the questions I posed above will help you tackle the big issues and not get caught up with the small ones. Survival is sometimes about losing less money than your neighbor. ❖

Pizza at the Ranch with Paul and Bob

Where? Pizza Ranch in Waupun

When? Lunch at 12 Noon; presentations 12:30-1:30

Who? Feb. 6 Dr. Pam Ruegg, Milk Quality

March 6 Paul Dyk, Fresh Cows

April 3 Rankin, Agronomy

Cost? Price of pizza (about \$8)

Questions? Call me - Paul Dyk – 929-3171

What Accounts for the Cheese Price Collapse?

Prepared by Ed Jesse, Professor and Extension Agricultural Policy Specialist, UW-Madison/Extension. Based in part on participant and audience remarks at a roundtable discussion held during the Wisconsin Agricultural Economic Outlook Forum, January 16, 2008.

- Commercial disappearance of cheese in 2008 closely matched production. Through October, total natural cheese production for the year was up 1.5 percent from 2007 while commercial disappearance was up 1.6 percent. However, growth in commercial use slowed from a 1.8 percent gain during the first half of the year to 1.5 percent from July through October (latest month available).
- Cheese stocks in the first quarter of 2008 were six percent below 2007, but began building rapidly and exceeded year-earlier levels beginning in May. August 2008 stocks were 6 percent larger than 2007. The normal seasonal depletion of stocks between August and November 2008 exceeded last year, leaving November total cheese stocks only 4.3 percent larger than November 2007.
- Cheese exports were at record high levels during the first half of 2008, but tailed off rapidly and were 11 percent under 2007 in November. Further declines from year-earlier levels are expected well into 2009 as more cheese is available from competing exporters. Cheese exports through the first 11 months of 2008 totaled 271 million pounds, 3 percent of U.S. cheese production. While small in volume, foreign sales were important on the margin in tightening domestic cheese markets.
- Nonfat Dry Milk and Skim Milk Powder exports showed a pattern similar to cheese, with larger volumes through most of the year but down sharply (44 percent) from 2007 in November. Export prospects in 2009 are poor because of a sharp decline in world powder prices due to larger volumes from New Zealand and some European Union countries.
- The collapse in powder exports resulted in U.S. powder prices falling to near support and large CCC purchases to replace lost exports. In November, CCC purchases were 24 percent of Nonfat Dry Milk production. Powder surpluses caused some milk to be diverted from dryers to cheese vats. Cheese production averaged 1 percent over 2007 during the first half of 2008; 2.1 percent from July through November. American cheese production has been 5-8 percent above 2007 since July. However, diversion is limited by cheese manufacturing capacity constraints in California, which produces more than half of U.S. nonfat dry milk and is second to Wisconsin in cheese production. For the near term, California will continue to make powder regardless of price.
- U.S. milk production increased in 2008 at an average monthly rate of 2.4 percent over 2007 during the first half of the year (28-day rate for February to account for 2008 being a leap year). The average monthly year-over-year increase during the second half of the year was 1.5 percent. The slow-down occurred because of diminishing profitability due to higher feed costs, despite decent (by historical standards) milk prices through year-end. With a precipitous fall in milk prices coming in January and depressed prices through at least the first quarter of 2009, year-over-year changes in milk production will become even smaller and could turn negative.
- Consolidating these developments—anemic domestic consumption gains, poor export opportunities, and incentives to divert milk away from dryers to cheese vats—market fundamentals are generally bearish for cheese prices. But at the same time, market fundamentals do not appear to be dismal enough to justify cheese prices under CCC support levels, especially in light of moderating milk production and an anticipated increase in domestic cheese sales in response to much lower wholesale cheese prices. A key factor is that cheese stocks are not out of line with commercial use, are not growing, and will likely decline as milk production falls and consumption increases.
- Market psychology is having an impact on cheese prices. The CME spot cheese market commonly over-reacts on both the up and down sides. On the up side, wholesale buyers are fearful of stock-outs and lost sales and bid up prices to maintain inventories. On the down side, buyers play a “wait for the bottom” game, maintaining hand-to-mouth inventories with little risk of substantially increasing their acquisition costs. Potential sellers are reluctant to fill low-ball bids in anticipation of better prices ahead. Prices

indicate that supply is tightening.

- This kind of market psychology is amplified by the “thinness” of the CME spot cheese market. Little cheese is sold on the CME and there are few buyers and sellers. But trading activity has an enormous impact because most cheese is priced via formulas linked to the CME price. This concentrates and leverages market opinions and adds volatility to the market.
- The bottom line is that cheese prices will materially improve; the question is when. Current depressed milk and cheese prices will undoubtedly reduce milk supply and increase cheese demand. Timing increase only when there are unambiguous is the issue.
- Factors that would stimulate a rapid supply adjustment include:
 - ◆ Extensive dairy farm attrition, perhaps motivated by inability to make timely payments on long-term debt or obtain operating loans;
 - ◆ A substantial increase in culling, perhaps encouraged by an expanded CWT buyout;
 - ◆ Significant ration adjustments resulting in lower per-cow milk yields or at least smaller gains.
- Factors that would contribute to a rapid cheese demand adjustment include:
 - ◆ A quicker than usual response of retail cheese prices to current wholesale prices;
 - ◆ Substitution of cheese for meat in at-home and institutional meals;
 - ◆ Expanded federal cheese purchases for feeding programs. ❖

Additional Strategies that May Make You Money

From Ken Bolton and Randy Shaver (UWEX)

- Booking feeds can often save money. For example, a producer recently shared that booking soybean meal just a few months ago was now saving him \$5,000/month in purchased feed costs.
- Carefully consider feed additives. Every 12 cents of added feed costs per cow will add \$12 per day to a 100-cow group. Unless that extra 12 cents adds more than 2/3 of a lb of milk, it's not adding to profit.
- Expensive ration costs mean that fewer lower producing cows will be able to pay for their keep. Determine what your milk production breakeven is given the cost of your ration.
- Consider early dry off
- Reevaluate feeding more than one ration, balanced only for early lactation cows, to the herd.
- If your cows are averaging 90-100 days in milk for first service, consider earlier voluntary waiting periods to breed cows back. For visual heat detection, try a VWP of 60 days, 70-80 days if using synchronization.
- Establish a maximum number of repeat inseminations then stop breeding repeat cows.
- Reevaluate current culling thresholds. If a cow isn't milking well enough to cover feed and labor costs and isn't pregnant she doesn't offer any future profit potential.
- Minimize dry period lengths, 60 days for first lactation and 45 days for mature cows if milking enough to cover feed and labor costs.
- Maximize the use of farm produced forages and grains
- Inventory forages by quality into storage.
- Don't feed dairy quality forage to non-producing dairy cattle. ❖

Impact of Changing Milk and Input Prices on 2009 Wisconsin Dairy Profit Margins

*By Tom Kriegl (UW Center for Dairy Profit)
January 21, 2009*

It appears that Net Farm Income from Operations (NFIFO) in 2009 could be 40-60% lower than in 2007 for all Wisconsin dairy systems but organic which shouldn't see a price reduction even though there are signs that the growth in demand for organic milk has declined from the past several years, probably due to general economic conditions. This is because the average milk price in Wisconsin in 2009 is expected to be much lower than in 2007 and 2008. The 2009 AVERAGE milk price is expected to decline to between \$14-\$15/Cwt.—a bigger decline than expected for input costs. The projected relative decline in NFIFO/cow from 2007 to 2009 shown on table one on next page (based on actual farm data) is more likely to be accurate than the absolute amounts. For whatever system in table one that is closest to yours, compare the 2007 NFIFO/cow to the projected 2009 NFIFO/cow for the annual average milk price level you expect. Then consider what adjustments you might want to make in your operation. ❖

Table 1: Projected 2009 NFIFO/Cow

Wisconsin Dairy System	Average Herd Size	2007 NFIFO/Cow	NFIFO/Cow if Milk Price is:				
			\$11.00	\$13.00	\$15.00	\$17.00	\$26.50
Confinement >250 Cows	556	757	(\$803)	(\$353)	\$85	\$321	NA
Confinement, All Wisconsin	153	927	(\$712)	(\$347)	(\$21)	\$422	NA
Confinement 51-75 Cows	62	1198	(\$369)	(\$63)	\$192	\$600	NA
Grazing Herds	60	944	(\$443)	(\$203)	(\$3)	\$317	NA
Organic*	57	966	966	NA	NA	NA	\$1,125

With a MILC payment of \$1.25 per CWT, the NFIFO/cow for organic herds would be \$1,307. The organic milk price would have to decline to \$18.76 with no MILC payment but all other variables held constant for the organic NFIFO to decline to zero in this projection.

2008 Wisconsin Dairy Modernization Survey

adapted from (M.W. Mayer, Associate Professor, UW-Extension Dairy and Livestock Agent and D.W. Kammel, Professor, Biological Systems Engineering Department, University of Wisconsin)

The UW-Extension Dairy Team conducted a survey in 2008 of Wisconsin producers that had modernized their dairy facilities within the past ten years. UW-Extension agriculture agents assisted in identifying farms and collecting the surveys from 104 dairy producers who had modernized their facilities. The farms were not chosen at random and many had received assistance from UW-Extension in their modernization process. Dairies from 30 counties are represented in the survey. Survey data were edited for practical errors and then entered by the University of Wisconsin-River Falls Survey Lab. After editing, 99 of the 104 surveys were included. In Table 1 we can see that

Table 1. General Farm Information

General Farm Information	Pre-Modernization	Post Modernization
Herd Size (Milk Cows)	82	203
Average Milk Production/Cow	20,245 lbs.	21,684 lbs.
Acres of Land Owned	351	421
Acres of Land Rented	187	308
Acres/Cow (Owned & Rented)	6.56	3.59
Dairy Full-time Labor Equivalents	2.34	4.32
Milk Cows per F.T.E.	35	50

after modernization, herds were larger, produced more milk and produced more milk for each FTE. Average costs for the construction were adjusted 2008 dollars and are shown in Table 2. Retrofitting reduced construction costs significantly. In Figure 3 & 4 we can see that after modernization, labor decreased per cow for milking, feeding, and handling cows and manure. ❖

Table 2. Average Parlor Cost per Stall

Parlor Stall Type	Retrofit Construction (n=55)	New Construction (n=31)
Flat Barn	\$3,360 (n=6)	NA
Herringbone	\$9,657 (n=8)	\$18,769 (n=3)
Parabone	\$3,845 (n=30)	\$6,016 (n=10)
Parallel	\$7,478 (n=11)	\$22,268 (n=18)

Figure 3. Average Labor/Cow/Day for Feeding, Handling Cows and Manure

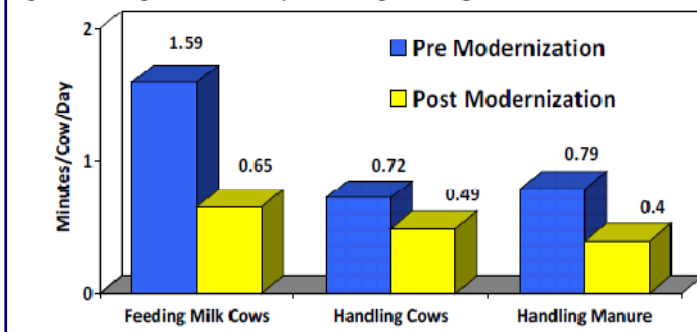
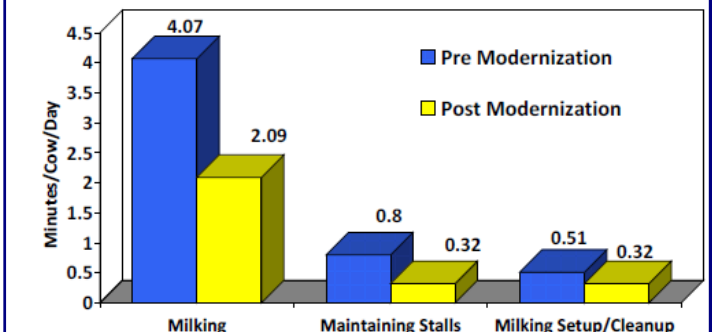


Figure 4. Labor/Cow/Day for Milking, Stall Maintenance and Milking Setup/cleanup



Farm Financial Recordkeeping Using Quickbooks

Wednesday, 7 January 2009

WITC—Rice Lake

Thursday, 15 January 2009

UW-River Falls

Friday, 20 February 2009

MATC—Reedsburg

Thursday, 19 March 2009

UW -Extension, Fond du Lac

10:00 a.m. — 3:00 p.m.

Cost: \$20.00

Quickbooks is a popular financial recordkeeping program and management tool. Quickbooks allows you to track and manage income, expenses, bank accounts, receivables, inventory, fixed assets, payables, loans, payroll and equity in your farm business. Quickbooks also provides you with standard and customized detailed reports that are essential to making good decisions.

During this hands-on computer session you will develop a simple set of farm financial records and reports. Learn how Quickbooks is structured, how its files work, and how to navigate the system to tailor your farm's recordkeeping needs.

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Quickbooks Registration Form

Name: _____

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City/State: _____

Zip: _____ County: _____

Phone: _____

Email: _____

Registration Cost: \$20.00

(includes lunch)

Pls. indicate dietary and/or accessibility needs:

Please indicate workshop:

_____ 7 January 2009, Rice Lake

(deadline: 31 December 2008)

_____ 15 January 2009, River Falls

(deadline: 7 January 2009)

_____ 20 February 2009, Reedsburg

(deadline: 13 February 2009)

_____ 19 March 2009, UW-Extension,

Fond du Lac (deadline: 12 March 2009)

Please make checks payable to:
Center for Dairy Profitability

Send Registration form and check to:
Jenny Vanderlin
Center for Dairy Profitability
1675 Observatory Drive
Madison, WI 53706



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UW-Extension provides equal opportunities in employment & programming, including Title IX requirements.

Calendar of Events

February

- 4 Soybean Production Webinar Program, UW-FdL, Rm. 205/06 A/E Bldg. 1-3 p.m.
- 6 Pizza at the Ranch in Waupun. Buffet at 12:00, presentation at 12:30. Milk Quality, Pam Ruegg, D.V.M.
- 10 Nutrient Management Plan Software (SNAP+) Training Program, UW-FdL, Rm. 205/06 A/E Bldg. 12:30-3 p.m.
- 19 Processed Vegetable Growers Meeting, Lomira Legion Hall, 10 a.m.-3:00 p.m.
- 19-21 WI Grazing Conference, Holiday Inn, Stevens Point
- 20 Silage Inoculants/Bunker Silo Density Webinar Program, UW-FdL, Rm. 205/06 A/E Bldg. 1-3 p.m.
- 25 Raising Quality Heifers, Liberty Hall, Kimberly
- 26-28 Organic Farming Conference, LaCrosse Center
- 27-28 Wisconsin Holstein Convention

March

- 4 Bioenergy Webinar Program, UW-FdL, Rm. 205/06 A/E Bldg. 1-3 p.m.
- 4 Grain Crops Production Clinic, Cobblestone Creek, Brillion 9:30am - 3:00pm
- 6 Winter Wheat Growers Workshop, UW-Fond du Lac, Rm. 205/06 A/E Bldg. 11am-3pm
- 6 Pizza at the Ranch in Waupun. Buffet at 12:00, presentation at 12:30. Keeping Fresh Cows Healthy: Paul Dyk
- 6 Heart of the Farm – Women in Agriculture Conference, LaSure's Hall, Oshkosh, 9:15 a.m. See enclosed brochure.
- 7 FdL Ag Showcase, Fairgrounds Rec Bldg., 8:30 a.m.-3:00 p.m.
- 14 Equine College 9:00 a.m. to 12:00 UW-Fond du Lac Campus, Room 205/206 Administration/Extension Bldg.
- 19 Farm Financial Recordkeeping Using Quickbooks, UW-Extension, Fond du Lac, 10:00 a.m. to 3:00 p.m.
- 24-25 2009 Midwest Manure Summit, Lambeau Field, Green Bay
- 26-28 Organic Farming Conference, LaCrosse
- 27 Managing your Margins with LGM – Dairy 10:45 am – 3 pm
- 31-Apr 2 WPS Farm Show, EAA, Oshkosh

April

- 3 Pizza at the Ranch in Waupun. Buffet at 12:00, presentation at 12:30. Spring Agronomy Considerations by Mike Rankin and Matt Hanson.