

Profitability of Dairy Farms in Connecticut

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Connecticut dairy farms get most of their revenues from milk production. As table 1 shows nearly a third of farms have some other non-dairy alternative source of income, but for almost all that represents a minor part of the total farm income.

Table 1

Proportion of farm receipts from sale of milk	
Almost all (90% or more)	76.6
Most (50% to 89%)	17.7
Less than half (10% to 49%)	0.8
Not very much (less than 10%)	0.8
The farm has any alternative (non-dairy related) farm-related activities generating more than \$500 in revenues per year.	33.1

As table 2 demonstrates, the year of this data, 1998, featured especially high milk prices, leading to a reasonably high average profit. But that figure masks the more than 10% of farmers who lost money even in this good year.

Table 2

Financial Ratios

Value of the farm business assets (average per farm)	\$1,454,500
Value of farm profits (average per farm)	\$52,500
Average profits per cow (\$)	\$373
Percent of farms with any debts	75.8
Debt to asset ratio (%)	13.5
Profits to assets ratio (%)	5.3

One notes that Connecticut dairy farmers have a high asset base, though much of this is tied up in land. This means their return per dollar of asset is on average very low. Considering the risks involved in farming and the volatility of milk prices, the average Connecticut dairy farmer would make more

money selling his assets and putting the proceeds in a money market fund.

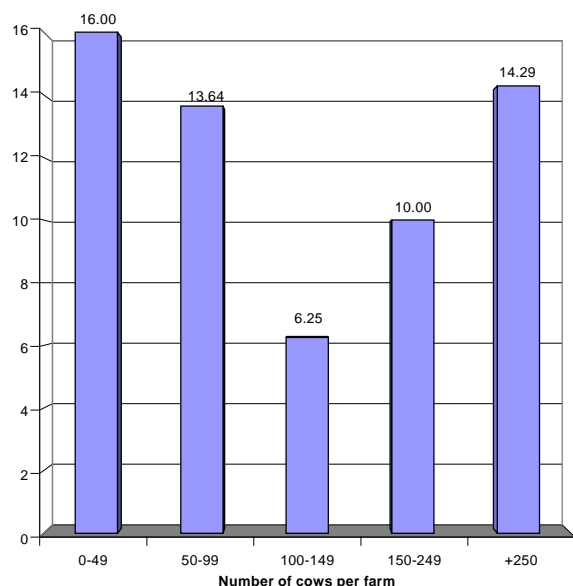
Analysis:

The data used here is not fine enough to determine the most profitable way to farm and unfortunately there are no magic bullets for dairy farm profitability in Connecticut. The data do suggest that farms with larger herd sizes are more profitable per unit than smaller farms. We also find that better educated farmers earn higher profits and that farmers using dairy record programs such as DHIA are consistently found to have higher profits.

The overall profit numbers on Connecticut dairy farms are on average above the median family incomes in the state. But one should worry that in one of the best years for dairy prices, when farmers should be putting away funds to make it through the lean years, the returns to dairy farming are still barely better than one could make in any other occupation.

Chart 1 shows that most Connecticut dairy farms expect to stay in business for the next five years. On the other hand this varies by farm size, with both larger and smaller farms more likely to go out of business. In the case of small farms it is likely the relatively low profits received. Most likely the larger farms have two major forces pushing them out of the business, one is the low returns on their substantial assets and the other is the difficulty in finding adequate land and labor for farming.

Percent of farms Likely or Very Likely to close in the next five years



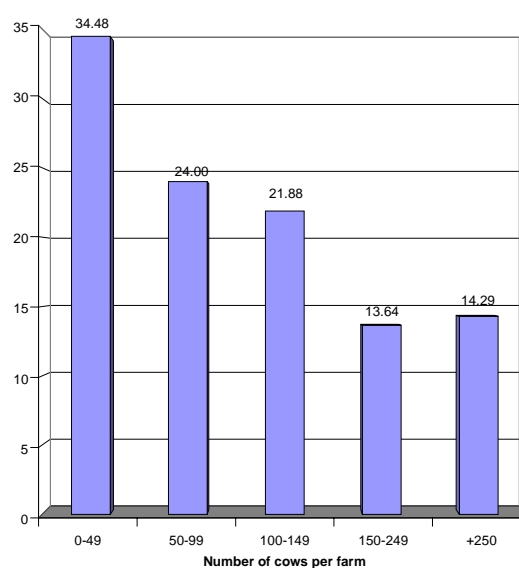
How long Connecticut dairy farms stay in business may well be a function of the continued existence of the Northeast Dairy Compact, which creates a price floor for milk. Clearly the reasonably good profits reported here are in part due to that price floor. But because the benefits of that price floor increase with the amount of milk produced, one is likely to see more benefits going to the larger farms.

Many Connecticut dairy farms manage to stay in business in large measure due to the non-farm income earned by members of their households. Chart 2 shows that off farm income is vital to the continued survival of more than a third of the small dairy farms in Connecticut. Even in the largest farm size category, 14% could not continue to stay in business without relying on an outside income source.

Recommendations:

With volatile, low milk prices and the uncertainty around the continued existence of the Northeast Dairy Compact, dairy farmers will constantly need to be vigilant with their expenses. The best way to

Farms where off-farm income is vital to continued operation



increase profitability on a farm is to make sure that everything one does earns you more money than it costs.

Putting a few more cows in the barn may make some sense if one has excess capacity, but making a major expansion involves both a good deal of investment and a change in farming philosophy. Often such a change in herd size implies the farmer changes from managing cows to managing workers. In the current tight labor market, one should be certain that labor would be available in the area to manage and milk the added cows.

Data source:

The information presented here comes from a survey sent to all 245 Connecticut dairy farmers in 1999. Of these 124 returned useable information on their dairy farms, representing a 51% response rate.¹ Despite recent growth in cow numbers (17% increase in cows per farm since 1990), dairy farms remain a relatively small scale business, with more than 60% having under 100 milk cows.

¹ Statistical procedures to check the response bias found that respondents were not significantly different from non-respondents.