

Dairy farm cost competitiveness substantially shifting

The fresh results in the IFCN Dairy Report 2016 coming out on October 12 indicate substantially decreased costs for dairy farms in 2015. Costs of milk production decreased from 46 USD to 40.5 USD/100 kg milk on average of all farms analysed. The main reasons for this: exchange rates and farmers' cost cutting abilities continue to impact cost competitiveness in the second year of the crisis.

Just as 2014 has been a top year for many in the dairy world, so far 2015 has proved the worst in recent decades for most. Indeed, the average milk price in the world dropped 33% from a very high level in 2014 to an average of 29.4 USD/100 kg Energy Corrected Milk (4.0% fat and 3.3% protein) in 2015.

Dr. Torsten Hemme, Managing Director of the IFCN: *'We are now in the third milk price crisis since 2007. This crisis and also other factors have created the biggest shifts in dairy competitiveness I have ever seen in my entire career as dairy economist.'*

On average, farms reduced their costs with 5.5 USD/100 kg ECM. Strong cost reduction took place in Western Europe and Central and Eastern European Countries due to exchange rate and post quota effects, while costs were stable or rising in China, India, USA relating to inflation rate, labour, feed. However, reduction of milk price was stronger than the decline in costs. As a result farm income experienced a serious drop in 2015, which continued in 2016.

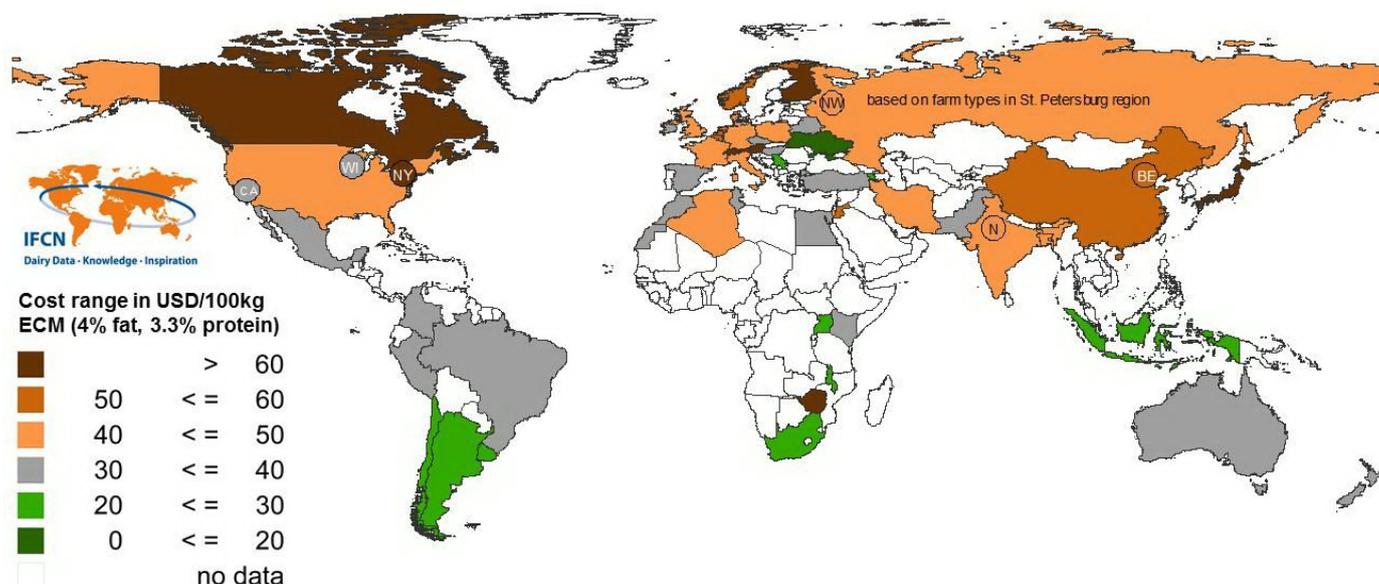
According to Dr. Amit Saha leading farm analysis at IFCN: *"Worst hit dairy farmers in terms of profitability in 2015 were in Western Europe, North America, Oceania, where over 75% did not cover their full economic costs. In other regions the situation was less dire, with roughly 30% of farms not covering their costs"*.

While dairy farm economics are improving in Brazil and New Zealand with good or slightly increasing milk prices currently, things are getting more challenging in USA, EU, China, India.

Source: The IFCN Article 'Global dairy farm economics in the crisis years 2015 – 2016: IFCN Perspective' can be downloaded at <http://www.ifcndairy.org/en/news/2016>

IFCN Dairy Research Network provides globally comparable dairy economic data and forecasts through IFCN Models and a Research partners network in 95 countries. Core competences lie in the field of milk production, milk prices and related economic topics. By providing the dairy data, knowledge and inspiration IFCN aims to create a better understanding of the dairy world.

Chart 1: Cost of Milk Production Only of average size typical farms in 2015



Words (332).

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