

Jerseys More Profitable Breed in 2012 Survey

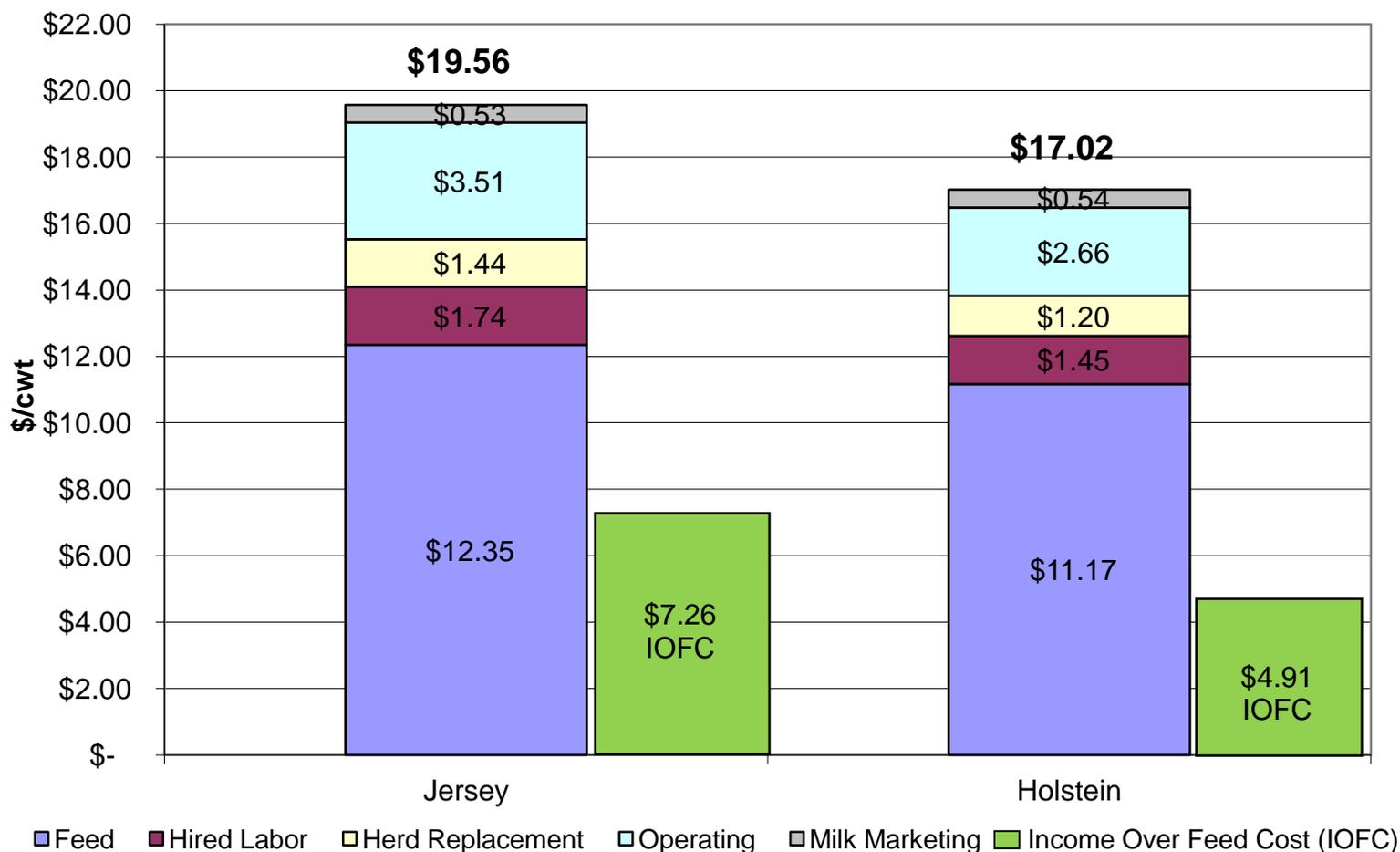
Every year, the California Department of Food and Agriculture (CDFA) compiles cost of production information from California dairy producers that voluntarily complete an annual survey. For 2012, fifteen Jersey herds and 101 Holstein herds provided production and cost information, and National All-Jersey Inc. analyzed the profitability of both breeds under numerous payment systems.

California posted record milk production in the first six months of 2012, but output then fell below previous-year levels for July through December. Overall, California milk production increased 0.8% compared to 2011. Holstein herds averaged 74.55 pounds of milk per cow per day, up 0.91 pounds from the previous year, while Jersey herds averaged 59.82 pounds, up 0.63 pounds per day from 2011. Holstein component tests averaged 3.63% butterfat

and 8.82% solids-not-fat; Jersey herds averaged 4.79% butterfat and 9.35% solids-not-fat.

California dairy producers, like most across the country in 2012, faced lower mailbox milk prices and higher total costs of production compared to 2011. California Holstein herds received an average mailbox price of \$16.08 per hundredweight, down \$1.78 from 2011's average. Jersey herds in the state received an average mailbox price of \$19.61, \$1.58 higher than 2011's average. The average cost of production for California dairy herds increased 11.2% last year, with feed accounting for 65.3% of total costs. Operating cost, labor, replacements, and marketing cost were all essentially unchanged from the previous year. Total costs for Holstein herds averaged \$17.02 per hundredweight, while Jersey herds averaged \$19.56 in total costs, as shown in Figure 1.

Figure 1 - Cost of Production and Income Over Feed Cost per cwt



Also in Figure 1 is average income over feed costs (IOFC) for Holstein and Jersey herds. IOFC has become a key economic metric for dairy producers, indicating the amount of the milk check left to cover other operating costs after covering feed expenses. In 2012, California Holstein herds averaged an IOFC of \$4.91 per hundredweight, while the mailbox price minus feed cost calculation for Jersey herds equaled an IOFC of \$7.26 per hundredweight.

After considering the cost side of profitability, NAJ also analyzed the revenue and net income generated by California Holstein and Jersey herds under four different pricing systems: California and federal order regulated pricing, and two California cheese plant systems. California Cheese Plant A pays an aggressive protein premium, while Cheese Plant B uses a proprietary cheese yield formula. The results are shown in Figure 2.

With a higher average mailbox price, Jersey milk generated more revenue per hundredweight under all four pricing scenarios. Taking cost of production into account, both Jersey and Holstein herds lost money last year under California regulated pricing,

Figure 2 - Revenue and Income

<u>Revenue Per CWT</u>	<u>Jersey</u>	<u>Holstein</u>	<u>Jersey Advantage</u>
California Regulated Value	\$ 18.89	\$ 16.33	\$ 2.56
California Cheese Plant A	\$ 20.02	\$ 16.43	\$ 3.59
California Cheese Plant B	\$ 20.51	\$ 16.44	\$ 4.07
Federal Order Value	\$ 22.22	\$ 18.61	\$ 3.61
<u>Net Per CWT</u>	<u>Jersey</u>	<u>Holstein</u>	<u>Jersey Advantage</u>
California Regulated Value	\$ (0.67)	\$ (0.69)	\$ 0.02
California Cheese Plant A	\$ 0.46	\$ (0.59)	\$ 1.05
California Cheese Plant B	\$ 0.95	\$ (0.58)	\$ 1.53
Federal Order Value	\$ 2.66	\$ 1.59	\$ 1.07
<u>Net Income Per Cow</u>	<u>Jersey</u>	<u>Holstein</u>	<u>Jersey Advantage</u>
California Regulated Value	\$ (125.03)	\$ (163.05)	\$ 38.02
California Cheese Plant A	\$ 86.89	\$ (139.36)	\$ 226.25
California Cheese Plant B	\$ 178.15	\$ (136.97)	\$ 315.12
Federal Order Value	\$ 497.52	\$ 376.33	\$ 121.18

2012 CA average prices: Fat \$1.6745, Overbase SNF \$1.1233, Quota SNF \$1.3183

2012 CA average mailbox price: Holstein milk \$16.08/cwt, Jersey milk \$19.61/cwt

2012 CME average block cheddar cheese price: \$1.6980 per pound

with Jersey herds losing two cents less per hundredweight. Holstein herds also posted negative net incomes under the two cheese plant systems, but would have a positive net income per hundredweight under average federal order pricing. Jersey herds had an advantage of over \$1.00 in net income per hundredweight under both cheese plant pricing calculations and federal order pricing.

On a per cow basis, the Jersey net income advantage ranged from \$38.02 under California regulated pricing to \$315.12 per cow under the cheese plant paying on a cheese yield basis. Holstein herds lost up to \$163.05 per cow in 2012.

The 2012 CDFA Cost of Production survey showed feed cost was the primary cost increase facing California dairy producers last year, jumping 13.7% compared to 2011 costs. Average mailbox milk prices decreased from the previous year, although prices finished strong with November as the highest milk price month of the year. Again, despite the production challenges, California milk production increased 0.8% over 2011.

Jersey herds again proved more profitable in the CDFA Cost of Production survey, both in net income per hundredweight and net income per cow. Neither Holstein nor Jersey herds generated a positive net income under California's regulated pricing system, but cheese plants paying a protein premium or cheese yield system resulted in positive net income for the average California Jersey herd. Whether looking at net income per hundredweight or per cow, Jerseys were the more profitable breed in 2012.