

April 1, 2019

Small Dairy Farms Struggle as Large Farms Continue to Consolidate

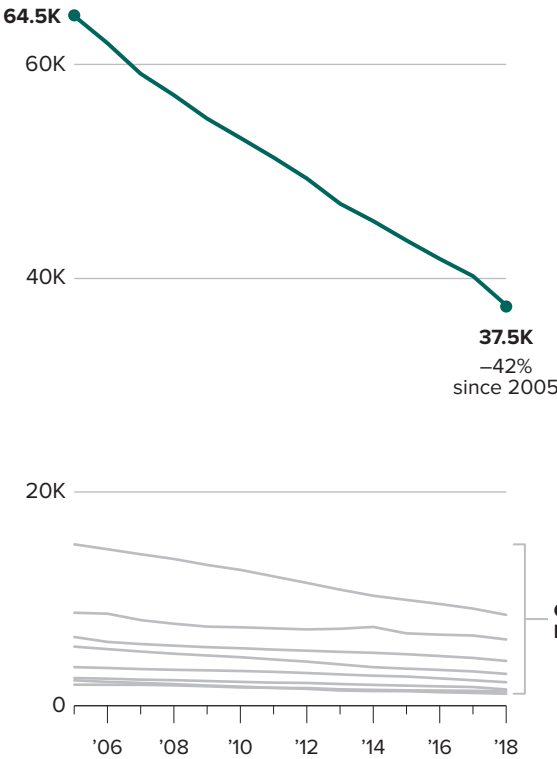
BY JANIE BOSCHMA, POLITICO PRO DATAPOINT

Dairy farms across the country are continuing to grow in size — scaling operations to reduce overhead, make milk production cheaper and ultimately produce more milk than ever before. American dairy farms produced 215.5 billion pounds of milk in 2017, an increase of 68 percent since 1980. On average, each cow produces nearly 23,000 pounds of milk per year — almost double what she would have yielded in 1980.

One sideeffect for this supremely efficient industry is that oversupply and falling prices have pinched smaller farms, which are increasingly unable to compete, forcing many to file for bankruptcy and leave farming altogether. Since 2005, the number of dairy farms across the country fell by nearly half, to 37,500 farms in 2018. In Wisconsin, the state with the most dairy farms, the number of farms also dropped by nearly half. Over the same period, large farms have been consolidating rapidly in western states. The average herd size in California was 1,561 cows in 2017, up from 980 in 2005 — a 60 percent increase.

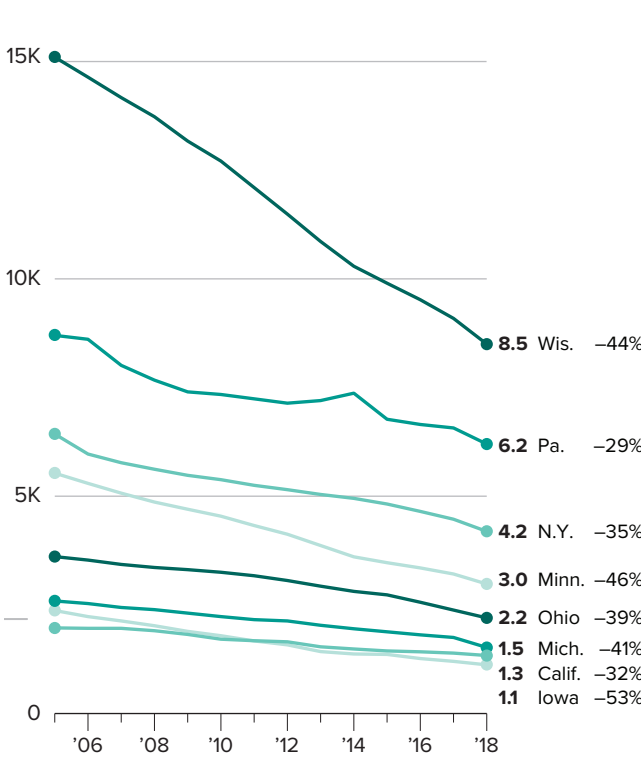
The number of licensed dairy farms decreased 42 percent since 2005 ...

Average annual number of dairy farms licensed to sell milk, 2005 to 2018



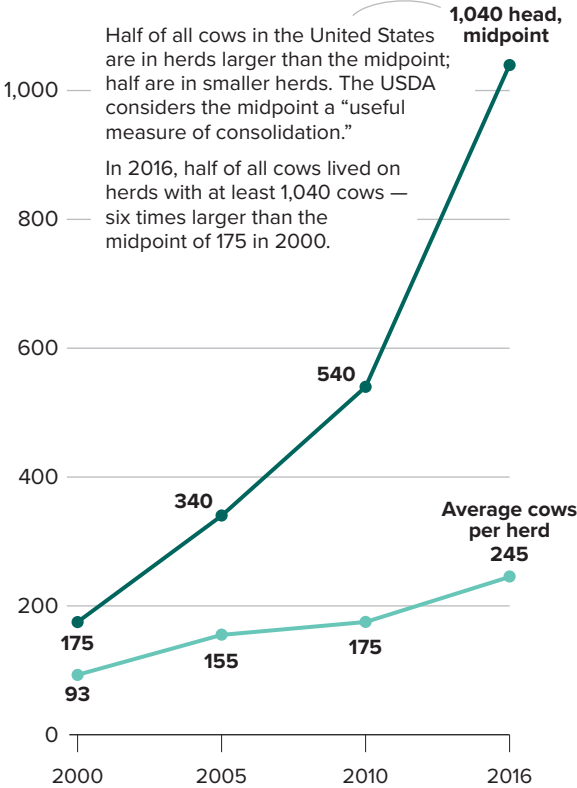
... With the sharpest declines in 'America's Dairyland' and other Midwestern states ...

Average annual number of dairy farms licensed to sell milk



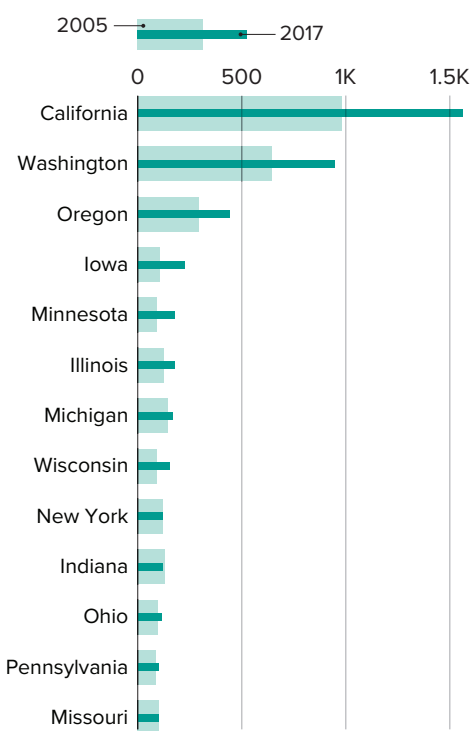
... As farmers exit the industry, larger farms consolidate herds, resulting in much larger herd sizes.

Number of milk cows



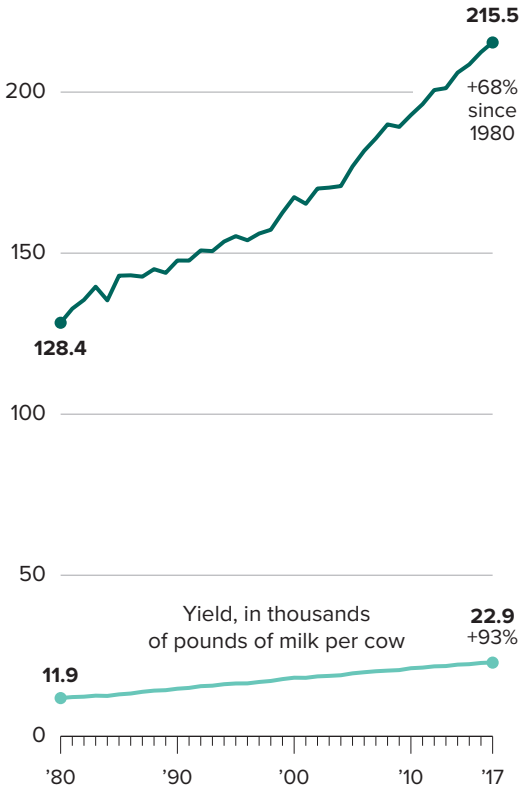
... Western states lead the trend in consolidation, though farms are also larger in the Midwest.

Change in average herd size in top dairy states, 2005 to 2017



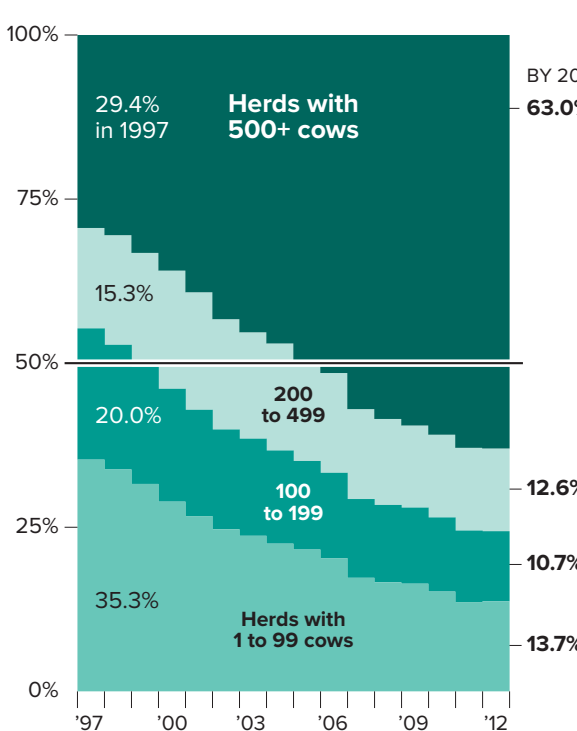
Large farms also milk cows more often and have driven production to new records ...

In billions of pounds of milk



... 'Mega' farms have now replaced small farms as the primary producers of America's milk supply.

Milk production by herd size, 1997 to 2012, as a percentage of total milk production

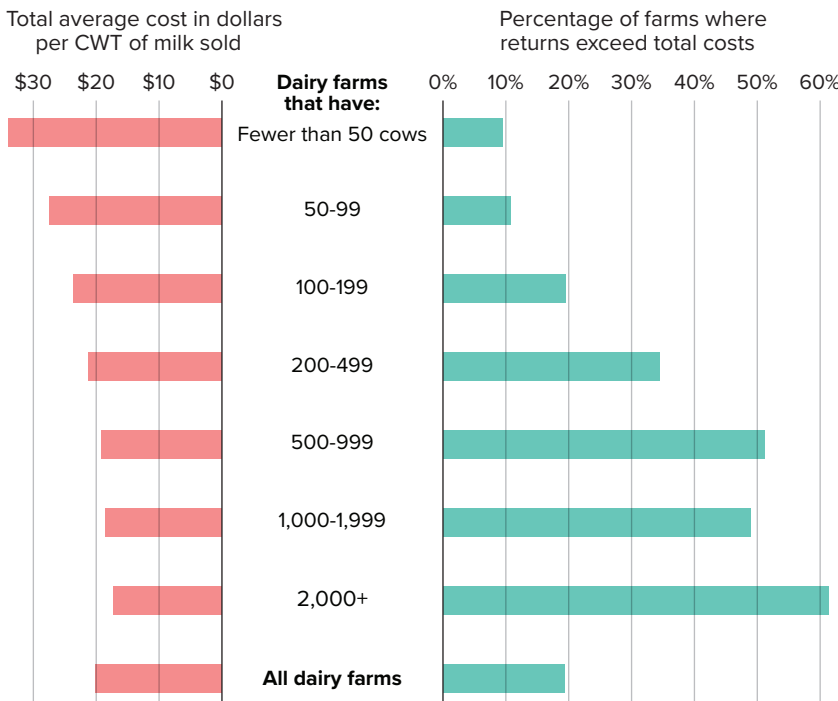


Large Farms Face Strong Incentive to Expand as Costs Decrease, Profits Increase at Scale

Costs are the primary reason for the dairy industry's consolidation, USDA economists say. Production costs continue to decrease and profits increase the larger a farm can scale in size, fueling incentive for large farms to continue expanding in herd size. A farm with at least 2,000 cows can produce milk for nearly half the cost of what it would take a farm with 50 or fewer cows, after factoring in all of the direct and indirect costs of farming.

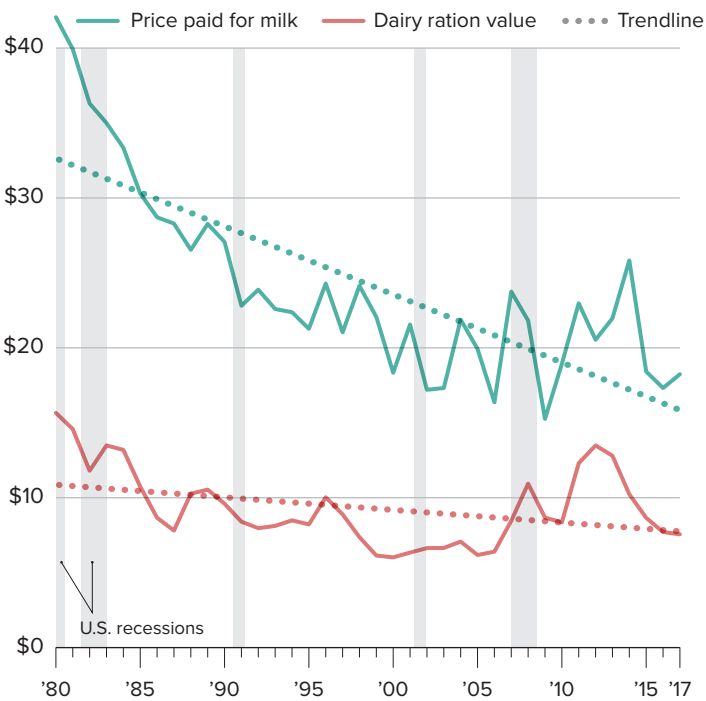
More than 60 percent of all farms with 2,000 cows or more are able to turn a profit, while less than 10 percent of the smallest farms do. Large farms are also better able to withstand fluctuating milk prices that have been increasingly volatile since 1995.

Average total costs and percentage of farms operating at a profit in 2016, by herd size



Average annual milk and feed prices, 1980-2017

In current dollars per CWT, adjusted for inflation



Source: USDA (Agricultural Research Management Survey; Economic Research Service; National Agricultural Statistics Service; Census of Agriculture)

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