

Milk Costs of Production and Returns in New Mexico

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The Economic Research Service (ERS) from the US Department of Agriculture classifies New Mexico Milk production in the Prairie Gateway Region for analyses purposes (Figure 1). Milk cost of production (COP) in this area is reported to be lower than other regions, but very close to that of Fruitful Rim, where California is located.

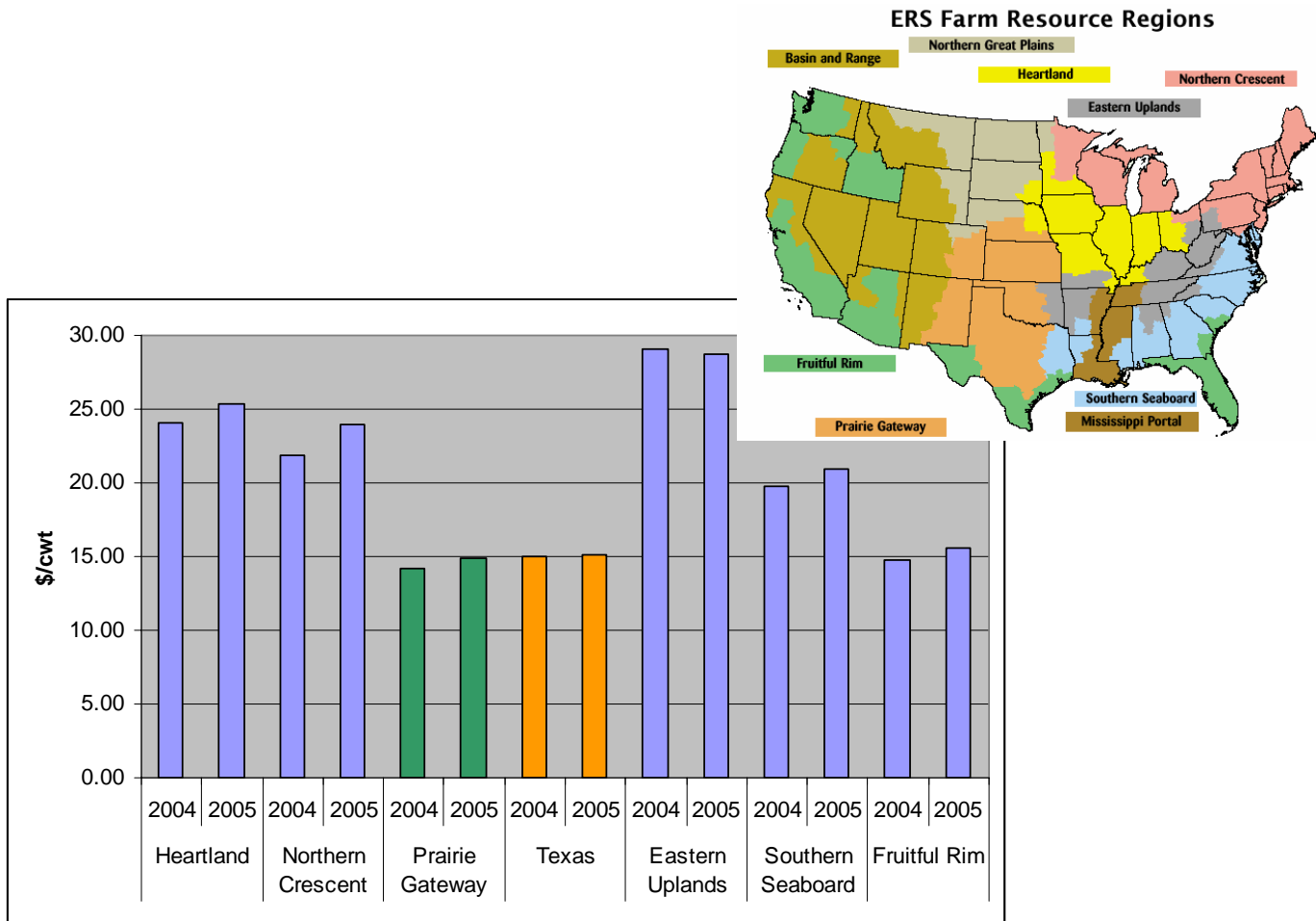


Figure 1. ERS Milk Cost of Production for regions in the US. Source: Data from the ERS, USDA.

The ERS reports COP on those states where there are enough survey data. New Mexico does not have these specific data and consequently the ERS does not calculate milk COP for New Mexico. However, it does for Texas, which could be used together with general data of the Prairie Gateway region as proxy for New Mexico. Texas and

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New Mexico have similar milk production conditions and are geographically close. Texas COP is very similar to that of the entire region of Prairie Gateway (Figure 1).

Milk COP for New Mexico can be represented in Figure 2 (red bars). These have experienced a slight increase from 2004 to 2005 and a higher increase in 2006. Figure 2 also presents the estimated return or gross income of dairy farms in New Mexico represented by average mailbox milk price (green bars).

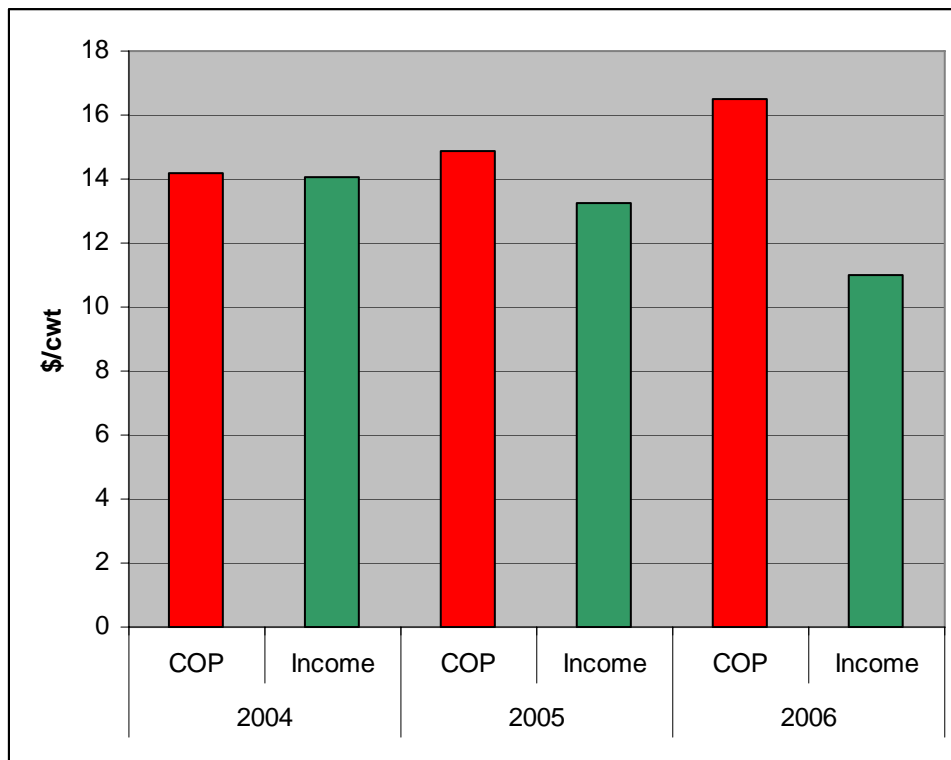


Figure 2. ERS Milk Cost of Production for New Mexico. Approximations used: COP of Prairie Gateway for 2004 and 2005, and Texas for 2006. Mailboxes from Dallas Market Administrator for New Mexico January-July, 2006 average.

Comparing COP with income (red bars vs. green bars) in Figure 2, it is clear to realize that New Mexico dairy farmers are experiencing losses in their operations because their costs of production overpass their incomes. The net return or difference between income and COP was negative in 2004, 2005, and 2006. It was only slightly negative in 2004, which increased substantially in 2005, and even more in 2006. For 2006 mailbox prices, losses of dairy producers in the state of New Mexico are estimated in more than \$5 per cwt of milk produced.