



WISCONSIN POLICY FORUM

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Wisconsin Farm Bankruptcies Rise as Milk Prices Drop *WPF Examines Impact of Larger Herd Sizes, Consolidation on Profits*

MADISON – Amid declining milk prices, the number of small farms in the state filing for bankruptcy has more than doubled in the past five years, according to the latest issue of *The Wisconsin Taxpayer* from the independent, nonpartisan Wisconsin Policy Forum (WPF).

The report, “Going for Broke in America’s Dairyland?” examines the correlation between low milk prices and the increase in Chapter 12 bankruptcies filed by small farms of all types in Wisconsin. Milk prices have declined 13.1% since 2008 and 33% since their recent high in 2014, while Chapter 12 bankruptcies more than doubled from 22 in 2014 to 50 in 2017, the last year for which complete figures are available.

Although the bankruptcies are relatively small in number compared to the total number of dairy farms in Wisconsin, they are a sign of the challenges farmers here face.

The report notes that milk prices are affected by several factors, including supply and demand. WPF researchers found that in recent years, supply has generally exceeded demand as farms have consolidated and become more efficient. The report notes that although the number of dairy cows has remained relatively constant in Wisconsin, their output of milk increased 13.5% from 2012 to 2018, to 2,065 pounds of milk per cow per month. Meanwhile, demand in the U.S. for liquid milk declined 15.6% between 2010 and 2016, and while Americans are eating more cheese, it is not enough to make up the difference.

Farmers are also faced with high operating costs and thin or non-existent profit margins, all of which contribute to a decline in net farm income, both nationally and in Wisconsin. After accounting for inflation, the report estimates Wisconsin farmers have lost half their net income between 2011 and 2018, slightly higher than the average decrease nationally.

Despite the lower prices and declining demand, Wisconsin dairy farmers still appear to have somewhat better margins than their peers in other states, the report notes. In 2017, the average net value of production – gross revenues minus costs – was \$2.86 per 100 pounds of milk, or roughly

12 gallons, the standard measure for milk pricing. That was the highest in the region and more than double the national average of \$1.42. The number, however, may be too rosy since the figure does not include certain costs such as debt payments.

The report suggests the seemingly better margins in Wisconsin may be due to the fact that the state's agricultural industry is largely built around dairy, which may provide some competitive advantages.

"Nevertheless, low milk prices put producer incomes at risk and threaten the state's position as an international dairy industry hub. The 2017 margin is relatively narrow at just 24 cents per gallon in Wisconsin and that positive number may not fully reflect producers' costs. Such slim margins mean a drop in the milk price, or a rise in costs such as feed, can quickly turn a challenging business environment into an untenable one," the report states.

In some cases, declining milk prices and tighter margins may push some farmers to borrow money to ride out the low commodity prices. While this may be practical in the short-term, it becomes unsustainable if prices and profits continue to drop. The report suggests that these factors have likely contributed to the increase in Chapter 12 bankruptcies both in Wisconsin and nationwide.

Declining dairy farm incomes may have a ripple effect on related industries, such as dairy processors and cheesemakers. So far, the lower prices have not had an impact on milk production, but some processors have reduced or stopped buying milk which, in turn, has led to layoffs at these facilities.

Concerns over the long-term consequences of the current decline have prompted some state policymakers to propose initiatives ranging from loan guarantees to increased funding for dairy research. The report cautions that in some cases, loan guarantees may increase debt, rather than reducing it; however, increased access to capital might help farmers to invest in methods that would increase efficiencies. Investments in dairy research could create new products that would open markets and raise prices. Overall, however, the report notes that milk prices and demand are beyond the state's control.

A copy of *The Wisconsin Taxpayer*, "Going for Broke in America's Dairyland?" can be downloaded [here](#).

Editor's note: This will be the last **print** edition of *The Wisconsin Taxpayer*. Beginning April 1, we will be moving to an all-digital format that will include more interactive features, such as charts, graphs, glossaries, and other products. We thank you for your continued support of our research.