



## Ethanol Production Will Impact Dairy Farms

By the time 2006 drew to a close, we had experienced the price of corn increase by at least 50 percent during harvest season as demand for corn increased at ethanol plants. Soy prices also shot up in response to demand from bio-diesel plants.

It would be easy to shrug this price increase off as a short-lived phenomenon, but a number of recent studies suggest otherwise, projecting a rapid growth in the ethanol industry.

This year, the ethanol industry will need 2.1 billion bushel of corn to feed plants that are currently operating or will be up and running by the end of 2007. That's roughly 20 percent of the corn we produce nationally, and it won't stop there. More plans are on the drawing board for ethanol plants in nearly every corn producing state.

The nation's top producer of corn, Iowa, is slated to be in a corn deficit this year due to demand from current and soon to be constructed ethanol plants. Closer to home, Indiana has a number of plants in progress and Michigan has up to seven additional plants being planned for construction.

With oil prices in the range of \$60/barrel, it is my understanding that ethanol plants

could afford to pay between \$4.25 and \$5.00/bushel for corn and still be competitive in the market.

Ethanol production has begun to create a fundamental change in the agriculture industry that will definitely precipitate a change in the dairy industry. We are already hearing concerns from western dairy farmers who purchase most of their grain for feed. Those producers are planning for their feed costs to double in the next year. Under current Farm Bill policies, those producers were able to purchase corn under the cost of production. Corn subsidies paid through the government program helped the crop farmers make up for the difference in price.

The impact of high corn prices will not be felt as hard in areas like here, where we grow our own crops for feed. However, since milk prices are traditionally connected to corn prices, the futures market is predicting higher milk prices for 2007.

Milk prices for 2007 are projected to be approximately \$1.30 higher than in 2006, but it is quite hard to make accurate projections given the current situation. We expect to see higher cull rates in the West due to higher feed costs, and it would

not surprise me if some producers consider exiting the dairy business and focus on growing corn over the next year.

Additional ethanol production will create a price reduction in distillers grains costs as it begins to flood the feed market. While you are doing your winter planning, you may want to consider adding distillers grains to your cows' rations in the coming year. You can generally replace about 10 percent of the corn with distillers grains without seeing a drop in milk production.

Even though we cannot predict exactly how higher corn prices will affect our dairy operations, we do know that it will make an impact. We should keep this situation in mind while we are planning for the future of our farms and businesses.

A handwritten signature in cursive script that reads "Elwood Kirkpatrick".