

MILC and LGM-DAIRY: Two programs to help manage your market price risk.

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As you read this it will be of no surprise that the prices paid on the dairy markets have dropped to levels not experienced since March of 2006. At that time, the prices reported by the National Agricultural Statistical Service, NASS, were \$1.18 for cheese, \$1.18 for butter, \$0.88 for nonfat dry milk and \$0.35 for whey. The Class 3 price at that time was \$11.35 and headed lower over the coming months in 2006. The Class 3 price averaged \$11.88 for all of 2006.

Today we are back at those 2006 price levels after reaching historical highs for these dairy commodities and the Class 3 milk price. Cheese topped out at \$2.14 per pound in mid December 2008, butter at \$1.72 in October of 2008, nonfat dry milk at \$2.08 in October of 2008, and whey at \$0.79 in April of 2008. All of these high dairy commodity prices combined to produce a Class 3 price which averaged just above \$18.00 for 2007.

What is remarkable about this price behavior is not so much the levels reached, but how this developed. Coming out of the low price period of 2006, the normal expectation was for dairy product and milk prices to decline in the early part of 2007 as was the seasonal norm. Instead, with product shortages developing in the international skim milk powder markets, the nonfat dry milk and whey prices accelerated to new price heights. This intense international demand fueled the beginnings of an unprecedented two year advance in the Class 3 milk price. Now that this run has come to an end, at least for the coming six months, possibly longer, all are asking what can we do to protect our dairy business?

As most of you are aware, the Food, Conservation and Energy Act of 2008 Dairy Title includes a new version of the 2002 Milk Income Loss Contract (MILC) program. I am calling this new, as there are a couple of new provisions which make this similar to but not the same as the MILC program extended under the 2002 farm bill. It is definitely an improved version of the expiring MILC program.

The most significant changes are (1) the incorporation of a dairy feed ration cost adjuster to the trigger price, (2) the increase in the total eligible pounds from 2.4 to 2.985 million pounds, and (3) the return to a 45% payout, and (3) dropping the calculation which counted milk shipments against the production cap even in months with no MILC payment. If you are not signed-up for the MILC program, you certainly should do so right away. This can be accomplished by contacting your county Farm Services Agency.

As an aid in learning how the MILC program will benefit your dairy, I have completed a revamp of the MILC Excel calculator to reflect these changes. The Microsoft Excel program can be obtained from my Ohio Dairy Web 2009 website. The address is:

http://aede.osu.edu/programs/ohiodairy/MILC_Center/MILC_Center.htm. At this link you will find both an Excel 2007(xlsx) and an Excel 2003(xls) workbook. Download your selection by using the “save target as” feature.

The workbook program includes (1) a worksheet for MILC calculations by month of the fiscal year and (2) a worksheet to calculate the new feed cost adjuster. A producer can use this program by entering average dairy yield, number of cows and month that he or she may wish to start eligibility for MILC payments. The program will calculate the anticipated MILC payments for each month the anticipated total payout from the MILC program. With the dairy feed price adjustment, there will be payouts under this program in the coming year. There is also a worksheet which can be used to calculate the expected or anticipated National Average Dairy Feed Cost ration value, based on the rules for the MILC program. A producer can enter her or his expected feed prices (corn, soybean, alfalfa hay) and the worksheet calculates the National Average Dairy Feed Cost ration value. These values can be used to play a “what-if” game using the FYMILC-Calc worksheet.

Another new risk management tool made available to dairy producers through the Federal Crop Insurance system is the Livestock Gross Margin-Dairy insurance product LGM-DAIRY. This was announced in June and made available in August for purchase each month. This insurance product provides the dairy producer the opportunity to purchase an insurance contract on the level of milk income remaining after feed costs are subtracted. This is more complicated financial product than the MILC program and requires the payment of a premium. Like the MILC workbook, there is a LGM-DAIRY workbook available on my Ohio Dairy Web 2009 website which can be downloaded. http://aede.osu.edu/programs/ohiodairy/LGM_Dairy.htm This Excel workbook will allow you to calculate the expected payout and premium cost for purchasing a given level of insurance. You can enter specific information about your dairy, expected milk and feed prices and complete ‘what-if’ evaluations. You will also find a link to the USDA / RMA which has all of the information on this new product.

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