

Milk Income Loss Contract Continued in New Farm Bill

The new farm bill recently passed by the U. S. Congress contained provisions for continuing the Milk Income Loss Contract (MILC). The basics are the same as the original 2002 MILC program and the MILC-X extension. Direct payments will be made to producers on eligible milk marketings when the Boston Class I milk price falls below the target level.

However, the following changes were made in the program: (1) the target price will adjust upward when feed prices are above an established level; (2) the price deficiency payment rate was increased; and (3) the amount of milk per farm eligible for the payments was increased.

Feed Cost Adjuster - The feed cost adjuster increases the target price when feed prices rise above a base feed cost. This initial base is \$7.35 per hundredweight, but will increase to \$9.50 per hundredweight in September 2012. The feed cost will be based on the estimated cost of 100 pounds of 16% protein dairy feed. This ration is formulated using 51% corn, 41% alfalfa hay, and 8% soybeans. U. S. average prices reported by USDA each month are used to calculate a value called the *National Average Dairy Feed Cost*. If the current ration cost is \$7.35 per hundredweight or less, then the MILC target will not be adjusted and remain at \$16.94. When the ration costs rises above \$7.35, the percentage difference between the current ration cost and \$7.35 will be multiplied by 45% which is the payout rate for MILC payments. This percentage will be used to increase the \$16.94 target for the previous month. (See example calculation on page 2.)

Price Deficiency Payment Rate - The original 2002 MILC program set a payment rate of 45% of the difference between the \$16.94 target and the Boston Class I price. MILC-X dropped this rate to 34% beginning in October 2005. MILC was originally set to end September 30, 2005. The new program starts off at 34% and then increases back to 45% in October 2008 through August 2012, then reverts to 34%. Some analysts believe these dates are related to budget considerations and not anything regarding the dairy prices or milk supply.

Eligible Milk Production - Since MILC began, annual payments were capped by limiting the amount of milk per farm eligible for the payments. This level has been 2.4 million pounds since the program began. The new program raises the cap to 2.984 million pounds for the period October 2008 through August 2012. As has been the case, once a producer begins receiving payments in a federal fiscal year, the producer must stay in until the production limit cap is met or the new fiscal year begins. Based on production estimates, 83% of U. S. dairy herds and 44% of total U. S. milk production would be covered by the program.

Where Are We Now? - Looking hypothetically to the beginning of 2007, December would have been the first month that the feed cost adjuster would have kicked in, raising the MILC target to \$17.14. Through April 2008, the actual milk price has been higher than the adjusted target. What lies ahead? Calculations using current futures prices for corn, soybeans, and milk indicate MILC payments are unlikely through May 2009. However, with the price volatility in today's markets, it is difficult to predict what will actually happen.

MILC Feed Cost Adjuster Calculation					
May 2008					
USDA Feed Prices	Component	Percentage		Price	Price/Lb.
	Corn	51		\$5.12/bu.	\$0.091
	Alfalfa Hay	41		\$177.00/ton	\$0.885
	Soybeans	8		\$12.30/bu	\$0.205
National Average Dairy Feed Cost	Component	Percentage		Price/Lb.	Contribution
	Corn	51	*	\$0.091	\$4.64
	Alfalfa Hay	41	*	\$0.885	\$3.63
	Soybeans	8	*	\$0.205	\$1.64
	Total				
Ration Cost Adjustment Percentage Calculation	Adjusted Ration Cost				\$9.91
	Base Ration Cost			-	\$7.35
	Cost Above Base			=	\$2.56
	Base Ration Cost			÷	\$7.35
	% Over Base			=	34.8%
	MILC Adjustment			*	0.45
	Adjustment Percentage			=	15.7%
Adjusted MILC Target Price Calculation (Boston Federal Order Class I) (The Southeast Federal Order Class I Price is \$0.15 less than Boston)	Base MILC Trigger				\$16.94
	Adjustment Percentage			*	.157
	Feed Adjustment			=	\$2.66
	Base MILC Trigger			+	\$16.94
	Adjusted MILC Trigger			=	\$19.60