

April 2002

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## Dairy Provisions/Programs of the 2002 Farm Security and Rural Improvement Act (FSRIA)

C.W. "Bill" Herndon  
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President Bush signed the 2002 Farm Bill or FSRIA into law on May 13, 2002. It became effective *immediately* and will expire on December 31, 2007.

### The primary dairy provisions and programs are:

1. Extended the current \$9.90/cwt. (@3.67% milkfat) support price for milk until December 31, 2007, including a provision that will allow the Secretary of Agriculture to adjust the "butter-powder price tilt" twice a year.
2. Extension of the Dairy Export Incentive Program through the end of 2007.
3. Dairy importers will be required to pay an assessment for dairy promotion equal to domestic dairy producers.
4. Increased funding for a variety of conservation programs that will provide cost-sharing funding to farmers participating in "environment-friendly" activities. NRCS programs such as EQIP could provide dairy farmers up to a maximum of \$450,000 to upgrade waste management facilities.
5. Create a new Dairy Market Loss Payment Program that will, for the first time, provide dairy farmers deficiency payments when the price of milk falls below a specified level. These payments are called "counter-cyclical" payments because farmers will receive income supports from the USDA only when the Class I milk price in Boston, Massachusetts drops below the predetermined price of \$16.94 per cwt.

### How do these counter-cyclical payments work?

1. ALL U.S. dairy farmers are eligible to receive these counter-cyclical payments.
2. Counter-cyclical payments will be made for the period between December 1, 2001

and September 30, 2005 (or 3-years and 10-months).

3. Monthly payments will amount to 45% of the difference between \$16.94 per cwt. and the current month's Class I milk price in Boston, Massachusetts. The \$16.94 price was the Northeast Dairy Compact's Class I price and 45% was the average Class I utilization in the Northeast Federal Order.
4. Farmers would receive these counter-cyclical payments on a maximum of 2.4 million pounds of milk produced per fiscal year. Maximum payment pounds are limited to equal the amount of milk produced by a 135-cow dairy.
5. Farmers will be required to sign up at their local Farm Service Agency (FSA) offices sometime in July to qualify for these counter-cyclical payments.
6. USDA expects that the first checks for the first 7-8 months of counter-cyclical payments will be mailed to dairy farmers in September.

### Questions: How will USDA/FSA write the "rules" for counter-cyclical payments?

- What is a dairy farm operation? Is it a location or multiple owners? Multiple caps?
- Can dairy farmers "pick and choose" the months they wish to receive payments?

## Expected Counter-Cyclical Payments

- The table below shows the Target Price of \$16.94 and each month's Class I milk price in Boston from December, 2001 through June, 2002
- Difference between \$16.94 and the month's Boston Class I price ranged from \$1.71 to \$2.66 and has averaged \$2.04 per cwt. over this 7-month period.
- 45% of the Difference between \$16.94 and the month's Class I price ranged from \$0.7695 to \$1.1970, or averaged \$0.94 per cwt. during this 7-month period.
- Assuming 200,000 pounds of milk produced per month, monthly counter-cyclical payments range between \$1,539 & \$2,394 and average \$1,872 during this period.
- Again under these milk output assumptions, the cumulative total counter-cyclical payments would amount to \$13,104 for the first 7-months of this program.

	Target Milk Price	FO #1 Boston Class I Price --- \$/cwt. ---	Difference Target vs. Boston Price --- \$/cwt. ---	45% of Difference --- \$/cwt. ---	Pounds of Milk Rec. Payments --- in cwt. --	Assumed Counter-cyclical Payments --- Dollars ---	Cumulative Counter-cyclical Payments --- Dollars ---
Dec '01	\$16.94	\$15.23	\$1.71	\$0.7695	2,000	\$1,539.00	\$1,539.00
Jan '02	\$16.94	\$15.21	\$1.73	\$0.7785	2,000	\$1,557.00	\$3,096.00
Feb	\$16.94	\$15.20	\$1.74	\$0.7830	2,000	\$1,566.00	\$4,662.00
March	\$16.94	\$14.87	\$2.07	\$0.9315	2,000	\$1,863.00	\$6,525.00
April	\$16.94	\$14.72	\$2.22	\$0.9990	2,000	\$1,998.00	\$8,523.00
May	\$16.94	\$14.51	\$2.43	\$1.0935	2,000	\$2,187.00	\$10,710.00
June	\$16.94	\$14.28	\$2.66	\$1.1970	2,000	\$2,394.00	\$13,104.00
<i>7-Month AVERAGE</i>		<i>\$14.86</i>	<i>\$2.08</i>	<i>\$0.94</i>		<i>\$1,872.00</i>	

## Calculate Your Counter-Cyclical Payments

- You may wish to calculate the expected counter-cyclical payments for your farm using the table listed below. Simply fill-in your monthly milk production and do the arithmetic – but remember 2.4 million pounds is the maximum amount.

	Target Milk Price	FO #1 Boston Class I Price --- \$/cwt. ---	Difference Target vs. Boston Price --- \$/cwt. ---	45% of Difference --- \$/cwt. ---	Enter Pounds of Milk Produced on Your Farm --- in cwt. --	Your Farm's Counter-cyclical Payments --- Dollars ---	Your Farm's Cumulative Payments --- Dollars ---
Dec '01	\$16.94	\$15.23	\$1.71	\$0.7695	_____	_____	_____
Jan '02	\$16.94	\$15.21	\$1.73	\$0.7785	_____	_____	_____
Feb	\$16.94	\$15.20	\$1.74	\$0.7830	_____	_____	_____
March	\$16.94	\$14.87	\$2.07	\$0.9315	_____	_____	_____
April	\$16.94	\$14.72	\$2.22	\$0.9990	_____	_____	_____
May	\$16.94	\$14.51	\$2.43	\$1.0935	_____	_____	_____
June	\$16.94	\$14.28	\$2.66	\$1.1970	_____	_____	_____
<i>7-Month AVERAGE</i>		<i>\$14.86</i>	<i>\$2.08</i>	<i>\$0.94</i>			

- Future Boston Class I milk prices will be reported in issues of our Dairy News: Marketing and Management newsletter published by the MSU-Extension Service.
- Website where Boston Class I milk prices are listed is:
  - [www.fmmone.com/Northeast\\_Order\\_Prices/New\\_Prices\\_main.htm#Advance](http://www.fmmone.com/Northeast_Order_Prices/New_Prices_main.htm#Advance)

**MARCH 2002 HONOR ROLL HERDS\*\***

DAIRY	COUNTY	NO. COWS	LBS ECM	Rolling Herd Average			DOT	SUPERVISOR
				MILK	FAT	PROT		
David Robinson & Sons	Rankin	131	84.5	23628	884	696	03/09	D. Patterson
Heritage Dairy	Tate	550	82.7	23337	953	715	03/22	R. Hardin
Tim Weeks	Copiah	72	80.7	23147	861	707	03/02	R. Davis
Mactoc Farm	Oktibbeha	201	77.6	26763	799	803	03/20	B. King
Coastal Plain Exp Sta	Newton	150	77.4	22462	826	655	03/19	J. Coker
Melvin Nicholson	Newton	110	76.0	21561	800	655	03/26	J. Coker
Freeman Dairy	Pike	154	74.5	21905	773	682	02/25	A. Wilson
Paul W Edwards	Newton	150	73.4	19040	770	596	02/25	J. Coker
Clemmer & Hill Dairy	Tippah	143	71.0	19954	745	606	03/25	J. Jumper
MS State University	Oktibbeha	147	69.3	20794	796	649	03/26	B. King
G & B Dairy	Lincoln	68	69.3	19410	788	723	03/24	R. Davis
Neal & Tina Smith	Noxubee	175	67.2	22425	721	670	03/13	B. King
Rowzee Jersey Farm	Newton	165	66.4	17161	783	630	03/11	J. Coker
Jimmy Tucker & Sons	Pike	233	66.3	19981	722	595	03/16	A. Wilson
Ronald H Clark	Lincoln	79	66.2	22376	804	689	03/16	R. Davis
Cal Maine Foods Dairy	Hinds	1387	65.9	19330	792	584	03/23	R. Hardin
Thompson Brothers	Marshall	130	65.9	19334	740	591	03/05	R. Hardin
Brad Bean	Amite	256	65.7	19957	757	595	03/27	R. Reid
Dixie Dairy Sales	Carroll	374	64.9	20200	874	593	02/26	R. Hardin
North MS Br Exp Sta	Marshall	103	62.5	19240	695	595	03/18	J. Jumper
Gottago Show	Lincoln	10	62.1	17060	527	486	03/15	R. Davis
David Nunnery	Pike	128	61.9	15936	498	460	03/24	A. Wilson
Walter Lavigne	Marion	183	61.8	18222	626	561	03/27	K. Russell
A L Boyd Jr.	Walthall	71	61.2	21968	596	650	02/27	R. Vandenweghe

Top 25 herds enrolled on supervised DHIA testing programs by test day energy corrected milk for all cows.

\*\*ECM = (.3246 x test day milk) + (12.86 x test day lbs. fat) + (7.04 x test day lbs. protein)

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**Congratulations!**

In ceremonies held at Mississippi State University, the 2002 Mississippi News Network Farmer of the Year in the Animal Agriculture Division was presented to Melvin and JoAnne Nicholson of Newton county. In addition to the recognition, the Nicholsons will receive the use of a new Ford truck for one year. This is the fourth consecutive year that a dairy producer has won the award.

**Dairy Information on the Web**

Charlie Hutchison  
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For those of you that go web surfing, you know there is a wealth of information on the world wide web. Finding specific information on different dairy topics can sometimes be difficult using web search engines. A site that will be of interest is Cattle Lameness and Treatment of Bovine Foot Disease- Cowdoc.net. The address is: <http://www.cowdoc.net/>. This web site provides information on the appearance, identification, cause, treatment and prevention of lameness in cattle. The site

is full of photographs concerning the different types of hoof problems associated with cattle and discusses the contributing and causative factors associated with lameness such as nutrition, cow comfort and heifer rearing. The web pages contained on this site are organized as:

- Foot Lameness
- Disease Identification
- Herd Investigation
- Management Practices
- Farm Technologies
- Veterinary Sciences
- Media Center

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## JUNE 2002 Advanced Class I Price

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### June Advanced Class I Milk Falls Again and will be \$14.13/cwt.

The Advanced Class I milk price continues to plummet subsequent to sharp increases in milk production and decreased fluid milk demand due to the onset of summer school recesses. The June Class III skim milk price served as the Class I mover price (based on the value of skim milk used in cheddar cheese production) because it was greater than the corresponding Class IV prices (skim milk value in butter and milk powder product). In this case, the USDA reported that the June 2002 Advanced Class III Skim Milk price was \$7.23 per hundredweight (cwt.) compared to the Advanced Class IV Skim Milk price of \$6.80 per cwt. The difference between these respective Class III and Class IV prices (after factoring in butterfat prices) resulted in a 42-cent per cwt. *higher* Class I base price (\$11.03 versus \$10.61, respectively). Therefore, the USDA announced on May 17 that the June 2002 Advanced Class I "base" milk price would be \$11.03 per cwt. (for 3.5% butterfat milk). After adding the \$3.10 Class I price differential for the pricing zone which includes Atlanta and Starkville (Oktibbeha County) to this "base" price, the Advanced Class I milk price for June will be \$14.13 per cwt. (note the counties labeled as the North Central Zone are designated as part of the \$3.10 Class I price differential area.) So, the June Advanced Class I price (North Central Zone) is \$14.13 per cwt. and represents a DECREASE of 23 cents per cwt. (-1.6%) BELOW the corresponding April price of \$14.36. This year's June Advanced Class I price is \$3.96 (-21.9%) LESS than the June 2001 Class I price of \$18.09 per cwt. Dairy producers should keep in mind that the June Class I price will be an important, but not the only, factor influencing revenues derived from the sale of their milk produced during the month of June. Since about 55-65 % of Mississippi milk is processed into Class I products, farmers should expect less milk revenues when they receive their settlements checks in mid-July as the final payment for milk produced and sold in June.

Advanced Class I Milk Price @ 3.5% bf	Price/cwt. in North Central MS Zone	Price Difference vs June 2002	% Change vs June 2002
June 2002	\$14.13	-----	-----
May 2002	\$14.36	↓\$0.23	↓1.4%
April 2002	\$14.57	↓\$0.21	↓4.0%
June 2001	\$18.09	↓\$3.96	↓21.9%
June 2000	\$14.80	↓\$0.67	↓4.5%

**Market Conditions.** Marked increases in national milk output during each of the past six months, milk and dairy product prices have declined steadily and Class I prices plunged from \$19.03 in October 2001 to \$14.13 in June 2002 (\$4.90 per cwt., or 25.7%). Milk production increased for the sixth straight month during April (+2.9%) and productivity per cow spiraled upward due to a continuation of almost ideal weather conditions and

inexpensive feed. Given the facts that fluid milk demand tumbles as schools close for summer recesses during May and June, milk prices are predicted to fall another 20 to 30-cents per cwt. through July. If the "usual" hot and humid weather conditions occur this summer, milk output should decline and milk prices are forecasted to move upward in September and October. Currently, the escalating milk supplies are being manufactured into dairy products as indicated in the USDA's April 30 Cold Storage report where total butter inventories swelled by 36% between March and April were 76% greater than April 2001. Commercial holdings of various types of natural cheeses were 3 to 20% greater than the March totals and ranged between 6 and 24% more than last April inventories. The market tone for dairy products has been described as "mixed" with many buyers waiting to see where cheese and butter price are likely to stabilize at over the next month. However, milk production has begun to decline in response to the mid-May hot temperatures seen in Florida and other Gulf Coast states. Most observers believe that the "spring flush" is over for 2002 in the South, but very cool conditions in the Northeast and Midwest are prolonging this "flush" period. Confirming that excessive milk supplies are declining, Florida handlers exported only 80 truckloads of milk out of the state during the second week of May compared to 82 loads shipped out during the previous week and 186 loads during the same week of 2001. The price outlook for July and August remains quite gloomy, but not terrible, as demand for ice cream and other hot weather dairy products increase and as milk production begins to be curbed by warmer temperatures. Therefore, it is expected that Class I milk prices should decline about 25 cents where the Atlanta/Starkville zone price should be reported near \$13.90 per cwt. in July while mailbox milk prices should be in the \$13.00 range for May and June. If our usual hot, humid summer weather persists, diminishing milk output is expected to push milk prices up by as much as \$2.00 per cwt. in September and October.

**Milk Production.** Milk production continues the displayed sharp increases in monthly output as productivity per cow continues to respond to cool, spring weather conditions and availability of high-quality forages. For the first time since December 2000 (16 months), the number of milk cows in the national dairy herd increased by 5,000 cows between April 2002 and April 2001. Coupling these two factors, the market is witnessing dramatic growth in milk supplies. For the second month in a row, the number of milk cows in the 20 major milk producing states increased (+12,000 cows) indicating that dairy farmers are expanding their herds and milking more cows. In addition, milk output per cow soared by 53 (+2.9%) pounds per cow causing milk production to expand 431 (+2.9%) million pounds between these months. Monthly statistics are listed in the table below for several of the 20 major milk states. The milk-feed price ratio indicates dairy revenues/costs when incentives may exist for dairy producers to change the size of their operations and when this ratio exceeds 3.0 economic conditions favor the expansion of milk supplies.

This milk-feed price ratio for April was 2.81 decreasing from 2.90 in March and considerably less than the 3.29 reported for April 2001. This ratio clearly shows that dairy profitability has declined substantially since last year.

Comparing 2002 vs 2001	April Change in Prod.(%)	April Change in Output/Cow (%)	April Change in Number of Cows (%)
U.S. Total	↑2.9%	↑2.7%	↑0.2%
California	↑4.9%	↑1.1%	↑3.8%
Wisconsin	↓0.2%	↑1.4%	↓1.6%
Idaho	↑5.9%	0.0%	↑5.9%
New Mexico	↑16.6%	↑3.1%	↑13.4%
Indiana	↑3.7%	↑3.5%	0.0%
Florida	↓5.7%	↓3.7%	↓2.0%
Kentucky	↑1.3%	↑5.1%	↓3.8%
Virginia	↑3.1%	↑1.4%	↑1.7%
Texas	↑2.9%	↑10.1%	↓6.6%

**Dairy Product Prices.** Cheddar cheese and butter are once again moving in the same downward direction, but nonfat dry milk (NDM) prices has surprised the industry by increasing slightly since mid-April. Surplus milk supplies (especially, cream) are depressing butter and cheese markets despite more and more cream by used to process ice creams. The table found below illustrates that cheese prices fell 2-5% while butter plummeted 10.7% but NDM increase 1.1% between April 19 and May 22. Distressed supplies of milk are dragging down milk and dairy product prices where nonfat dry milk (NDM) prices remain below the current government support price level of 90 cents per pound. Consequently, the USDA via its Commodity Credit Corporation, or CCC, has been obligated to purchase very large quantities of NDM that were between 15 and 26 million pounds per week between mid-April and mid-May. As of May 17, the CCC has purchased a total of almost 450 million pounds of NDM since October 1 compared to nearly 430 million over the same time span last year. The U.S. government owns a total of 1.25 billion pounds of NDM May 17, 2002 versus a total of nearly 568 million pounds during the same week of 2001. The table below shows Chicago Mercantile Exchange (CME) cash prices for selected dairy products and trading dates.

Chicago Mercantile Exchange Dairy Product Prices	May 22 Prices (\$/lb)	April 19 Prices (\$/lb)	Price Change (\$/lb)	Change (%)
40# Block Cheese	\$1.2000	\$1.2325	↓\$0.0325	↓1.9%
500# Barrel Cheese	\$1.1700	\$1.2300	↓\$0.0600	↓4.9%
Grade AA Butter	\$1.0300	\$1.1650	↓\$0.1250	↓10.7%
Grade A Nonfat Dry Milk	\$0.8800	\$0.8700	↑\$0.0100	↑1.1%

**Near-term Market Outlook.** The dairy industry remains concerned about the persistent pronounced increases in milk production and milk output per cow. Dairy product and milk markets have responded to these additional milk supplies with plunging cheese, butter and milk prices during most of 2001. Blending these mounting milk

supplies with the normal seasonal ebbing of fluid milk demand as schools close for summer holidays, dairy prices are being driven down because expanding volumes of milk are being pushed into manufacturing uses. So, milk and dairy product prices will stay weak and drop another 3 to 5 percent by July or August and the July Advanced Class I milk price for Mississippi (Starkville zone) is expected to be in the range of \$13.60 to \$13.80. The May Class III price should decline slightly and be reported around \$10.80 with the June 2002 Class III prices forecast at near \$10.65 per cwt. CME settlement prices for selected Class III and Class IV milk futures contracts are found in the table below along with several butter futures contracts. Warning: dairy farmers and processors should use great care when evaluating the accuracy of these predictions because history continues to demonstrate how erroneous these guesses have been in the past.

CME Dairy Futures Contract Prices	May 22 Settlement Prices	April 19 Settlement Prices	Change (%)
<u>Class III Milk Futures</u>	--- \$/cwt ---	--- \$/cwt ---	
May Contract	\$10.81	\$11.15	↑3.0%
June Contract	\$10.67	\$11.99	↓11.0%
July Contract	\$11.33	\$12.78	↓11.3%
<u>Class IV Milk Futures</u>	--- \$/cwt ---	--- \$/cwt ---	
May Contract	\$10.63	\$11.20	↓5.1%
June Contract	\$10.70	\$11.30	↓5.3%
July Contract	\$10.85	\$11.30	↓4.0%
<u>Butter Futures</u>	--- \$/lb ---	--- \$/lb ---	
July Contract	\$1.0500	\$1.2400	↓15.3%
September Contract	\$1.0753	\$1.2650	↓15.0%

**Southeast F.O. #7 April "Blend" Price Drops to \$13.23 per cwt.** The Southeast Federal Order Milk Market Administrator reported the April 2002 "blend" or uniform price for milk delivered in the Atlanta and Starkville "base" zone of Federal Order (FO) #7 was \$13.23 per cwt. for 3.5% butterfat milk. (North Zone is minus \$0.20, North Central Zone is the "base" zone, South Central Zone is plus \$0.20, South Zone 10 is plus \$0.30, and the Coastal Zone is plus \$0.40 per cwt.) The April blend price of \$13.23 per cwt. was determined using the following factors: (1) a "net" Class I price of \$12.68 on 54.79% of the milk marketed; (2) the "net" price for Class II of \$17.27 on 9.47% of the milk; (3) a "net" price of \$11.09 on 22.81% of the milk used for Class III products; and, (4) the "net" Class IV price of \$14.37 on 12.93% of the milk marketed. Please remember that milk is priced based on the location of the plant that processes the farmer's milk and NOT the site of a dairy farm. The table below contains selected monthly blend prices, price and percentage changes between these months, and their respective Class I utilization rates.

FO #7 "Blend" Prices-N. Central MS Zone	"Blend" Price (\$/cwt)	Price Difference vs. April 2002 -- \$/cwt	Change (%) vs April 2002	Class I Utilization
April 2002	\$13.23	-----	-----	54.79%
March 2002	\$13.34	↓\$0.11	↓3.0%	53.02%
February 2002	\$14.75	↓\$0.41	↓5.6%	56.63%
April 2001	\$15.57	↓\$2.34	↓15.0%	55.73%
April 2000	\$12.88	↑\$0.35	↑2.7%	57.09%

UNIFORM or "BLEND" PRICE FOR APRIL 2002

North Zone:	\$13.03
North Central Zone:	\$13.23
South Central Zone:	\$13.43
South Zone:	\$13.53
Coastal Zone:	\$13.63

Prices of Holstein Dairy Cattle Replacements

Location of Sale	Norwood, MO	Thomasville, GA
<u>Auction Date</u>	May 9	May 13
<u>No. of Head Sold</u>	2,300	350
<u>Springer Heifers</u>		
Supreme	\$1,750-\$2,125	\$1,790-\$2,000
Approved	\$1,400-\$1,800	\$1,590-\$1,510
Common	\$585-\$1,050	\$590-\$1,190
<u>Springer Cows</u>		
Supreme	Not Available	\$1,760
Approved	\$1,200-\$1,575	\$1,240
Common	\$504-\$900	\$540-\$860
<u>Fresh Heifers/Cows</u>		
Supreme	Not Available	Not Available
Approved	\$1,375-\$1,485	\$1,270-\$1,560
Common	\$475-\$925	\$510-\$920
<u>Calves 1-7 Days Old</u>		
Heifers & Bulls	\$135-\$625	\$75-\$500

**Upcoming Events.....**

June 2 PC-Dart/POCKET Dairy Workshop  
Auburn, AL  
(Contact Boyd Brady 334-844-1562 or  
Carole Hodge 334-844-1531).

July 8-9 MS Farm Bureau Federation Summer  
Commodity Conference  
Jackson, MS

July 25 Neshoba State Fall Dairy Show

July 26 Newton State Fall Dairy Show

CLASS I PRICE-JUNE 2002 (Advanced Price)

North Zone:	\$13.93
North Central Zone:	\$14.13
South Central Zone:	\$14.33
South Zone:	\$14.43
Coastal Zone:	\$14.53