

Dairy Margin Coverage – A Look Back, A Look Forward

Dairy Margin Coverage Program

The Dairy Margin Coverage (DMC) program was enacted as part of the 2018 Farm Bill as the successor to the Margin Protection Program (MPP). The program is administered by the Farm Service Agency (FSA) and enables producers to insure income-over-feed cost margins of up to \$9.50/cwt. for the first five million pounds of annual production. Production above five million pounds can be insured up to an \$8.00/cwt. margin.

DMC Formula

DMC uses the USDA monthly Agricultural Prices report figures for a bushel of corn, a ton of soybean meal, and a ton of premium alfalfa hay* to calculate the feed cost to produce 100 pounds of milk. This feed cost figure is then subtracted from the all milk price to determine the income over feed cost (IOFC) margin. This IOFC margin is what the program insures. Each coverage level, ranging from \$4.00 to \$9.50, has a premium per cwt. For example, to insure a margin of \$9.50/cwt. after feed costs are paid, a dairy would pay a premium of \$0.15/cwt. In December 2021 FSA updated the feed cost calculation by using 100% premium alfalfa, rather than the previously used 50/50 split of premium hay and premium alfalfa hay.

DMC History

2019 The December 2018 – January 2019 government shutdown created the perfect opportunity for dairy farmers to utilize DMC. Due to the shutdown, FSA was unable to enroll producers prior to the January 2019 program start date. Enrollment was then pushed back to July through December 2019, but the program payments would be retroactive through all of 2019. This allowed producers to ‘take their chance’ on insuring IOFC after the payment figures were released that

showed the program would be profitable. 23,431 operations, over 80% of dairies, enrolled in DMC in 2019. More than \$300 million of indemnities were paid to producers that year representing an average of \$12,869 per operation. Each one million pounds of production enrolled at the \$9.50/cwt. coverage received \$5,569 in indemnity payments in return for the \$1,425 premium paid.

2020 At the December 2019 DMC enrollment deadline for 2020 coverage, dairy prices for 2020 looked promising, leading to a decline in enrollment. 13,509 dairy operations (just less than 50% of U.S. dairies) enrolled in DMC for 2020. However, the year showed that projected dairy prices can be quick to change as unforeseen circumstances arise. The COVID-19 pandemic threw a wrench in the dairy supply system as retail demand spiked and food service demand plummeted for different products. In March the IOFC margin dipped 35 cents below the \$9.50/cwt. margin. Milk prices then plummeted in April and May, resulting in IOFC margins of \$6.03/cwt. and \$5.37/cwt., the lowest margins of the DMC program to that point. The low margins in March, April, and May generated over \$210 million in payments to producers for an average of \$13,509/operation. Each one million pounds insured for \$9.50 income over feed costs received \$6,533 in indemnity payments.

2021 Given the experience of the previous year, DMC participation jumped in 2021. Over 19,000 dairies enrolled representing 75% of eligible operations. Feed costs were north of \$10/cwt. for the entire year, with a high of \$12.67 in August. IOFC was below the \$9.50/cwt. margin for the first eleven months of the year, with August being the lowest at \$5.03. The August IOFC of \$5.03 was the lowest in the history of DMC and its predecessor, MPP.

The consistent low IOFC led to over \$1.1 billion of indemnity payments to producers, averaging \$62,290 per operation. One million pounds of production covered at the maximum \$9.50 IOFC received \$23,908 in return for the \$1,425 premium.

2022 Climbing milk prices towards the end of 2021 did not cause producers to shy away from DMC participation. Nearly 18,000 dairies are enrolled, roughly 73% of the eligible operations. Feed costs were \$12.66/cwt in January, above \$13 February through June, and above \$15 July through September. With input costs that high one would expect loads of indemnity payments to producers. However, the all-milk price has been above \$24/cwt. every month so far, peaking at \$27.30 in May. The IOFC was over \$10/cwt. January through June, the \$9.50 margin was not crossed until August with an \$8.08 IOFC and the again in September with an IOFC of \$8.62. Through September over \$84 million has been paid

to producers, an average of \$4,736 per operation. Even with payments only being made for two months, enrolling one million pounds of production for the maximum \$9.50 coverage generated a return of \$289 above the premium paid.

2023 The current DMC decision making tool based on forecasted prices projects margins dipping below the \$9.50 level during the first eight months of next year. As shown in the table below, insuring one million pounds for \$9.50 IOFC could result in \$3,738 indemnity payments for the \$1,425 in premiums.

DMC has proven to be an excellent insurance option for a dairy’s first five million pounds of production. In all four years of program’s existence producers that insured 5 million pounds of milk at the \$9.50 margin more than covered the cost of participation. The deadline to enroll for 2023 is December 9, 2022, at your county Farm Service Agency office.

MONTH	ACTUAL / FORECASTED MARGIN	TIER 1 COVERED PRODUCTION HISTORY (LBS)	TIER 2 COVERED PRODUCTION HISTORY (LBS)	TIER 1 FORECASTED PAYMENT PER CWT	TIER 2 FORECASTED PAYMENT PER CWT	TOTAL PAYMENT
Jan	\$9.11	79,166.667	0	\$0.39	\$0.00	\$308.00
Feb	\$8.80	79,166.667	0	\$0.70	\$0.00	\$554.00
Mar	\$8.89	79,166.667	0	\$0.61	\$0.00	\$483.00
Apr	\$9.01	79,166.667	0	\$0.49	\$0.00	\$386.00
May	\$8.71	79,166.667	0	\$0.79	\$0.00	\$624.00
Jun	\$8.69	79,166.667	0	\$0.81	\$0.00	\$640.00
Jul	\$8.90	79,166.667	0	\$0.60	\$0.00	\$474.00
Aug	\$9.16	79,166.667	0	\$0.34	\$0.00	\$269.00
Sep	\$9.67	79,166.667	0	\$0.00	\$0.00	\$0.00
Oct	\$10.10	79,166.667	0	\$0.00	\$0.00	\$0.00
Nov	\$10.51	79,166.667	0	\$0.00	\$0.00	\$0.00
Dec	\$10.52	79,166.667	0	\$0.00	\$0.00	\$0.00
2023	\$9.34	950,000	0	\$0.39	\$0.00	\$3,738.00

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October '22 STATISTICAL BLEND PRICE

Northeast (Boston)	\$24.77	Northeast (Boston)	2,244	Northeast (Boston)	\$29.96
Appalachian (Charlotte)	\$25.80	Appalachian (Charlotte)	461	Appalachian (Charlotte)	\$29.39
Southeast (Atlanta)	\$26.28	Southeast (Atlanta)	290	Southeast (Atlanta)	\$29.32
Florida (Tampa)	\$27.70	Florida (Tampa)	218	Florida (Tampa)	\$32.25
Mideast (Cleveland)	\$21.81	Mideast (Cleveland)	1,326	Mideast (Cleveland)	\$26.71
Upper Midwest (Chicago)	\$22.03	Upper Midwest (Chicago)	2,875	Upper Midwest (Chicago)	\$26.56
Central (Kansas City)	\$22.79	Central (Kansas City)	1,335	Central (Kansas City)	\$27.48
California (Los Angeles)	\$22.88	California (Los Angeles)	2,007	California (Los Angeles)	\$24.32
Southwest (Dallas)	\$23.38	Southwest (Dallas)	1,177	Southwest (Dallas)	\$28.07
Arizona (Phoenix)	\$24.11	Arizona (Phoenix)	408	Arizona (Phoenix)	\$28.26
Pacific Northwest (Seattle)	\$23.14	Pacific Northwest (Seattle)	614	Pacific Northwest (Seattle)	\$26.57
ALL FMMO MARKET AVERAGE	\$24.06	ALL FMMO MARKET TOTAL	12,955	ALL FMMO MARKET AVERAGE	\$28.08

Prices reflect Federal Order minimum blend prices for city shown.

October, '22 JERSEY BLEND WITH ESTIMATED PROTEIN OR CHEESE YIELD PREMIUMS

Northeast (Boston)	\$30.26	Northeast (Boston)	\$5.49	Northeast (Boston)	22.1%
Appalachian (Charlotte) (includes protein prem.)	\$29.79	Appalachian (Charlotte)	\$3.99	Appalachian (Charlotte)	15.5%
Southeast (Atlanta)	\$29.32	Southeast (Atlanta)	\$4.55	Southeast (Atlanta)	18.4%
Florida (Tampa)	\$32.25	Florida (Tampa)	\$6.45	Florida (Tampa)	23.3%
Mideast (Cleveland) (includes protein premium)	\$27.27	Mideast (Cleveland)	\$5.46	Mideast (Cleveland)	25.0%
Upper Midwest (Chicago) (includes cy premium)	\$26.86	Upper Midwest (Chicago)	\$4.83	Upper Midwest (Chicago)	21.9%
Central (Kansas City)	\$27.48	Central (Kansas City)	\$4.69	Central (Kansas City)	20.6%
California (Los Angeles)	\$24.32	California (Los Angeles)	\$1.44	California (Los Angeles)	6.3%
Southwest (Dallas)	\$28.07	Southwest (Dallas)	\$4.69	Southwest (Dallas)	20.1%
Arizona (Phoenix) (includes protein)	\$28.66	Arizona (Phoenix)	\$4.55	Arizona (Phoenix)	18.9%
Pacific Northwest (Seattle)	\$26.57	Pacific Northwest (Seattle)	\$3.43	Pacific Northwest (Seattle)	14.8%
ALL FMMO MARKET AVERAGE	\$28.26	ALL FMMO MARKET AVERAGE	\$4.51	ALL FMMO MARKET AVERAGE	18.8%

Includes a protein premium of \$0.05 for every 0.01% increase in protein over the market average.

ESTIMATED JERSEY MILK COMPOSITION

Butterfat	5.00
TRUE Protein	3.91
Other Solids	5.73
Solids Not Fat (SNF)	9.64
Cheese Yield (90% Fat Recovery, 38% Moisture)	13.44
CME Block Cheese Price	\$ 2.03

Prices reflect difference between Jersey price with premiums, and the statistical blend price.

REGULATED MILK PRICES

FMMO Milkfat	\$ 3.6567	FMMO Milkfat Adjustment	\$3.42
FMMO True Protein	\$ 2.4512	FMMO True Protein Adjustment	\$1.46
FMMO Other Solids	\$ 0.2952	FMMO Other Solids Adjustment	\$0.01

Percent difference in Jersey price with premiums, over the statistical blend price.

AVERAGE JERSEY PRICE ADJUSTMENT PER CWT:

FMMO Milkfat Adjustment	\$3.42
FMMO True Protein Adjustment	\$1.46
FMMO Other Solids Adjustment	\$0.01

Total Grade A milk volume sold under FMMO during month.

October '22 DOLLAR DIFFERENCE: JERSEY MILK WITH PREMIUMS VS. STATISTICAL BLEND PRICE

Northeast (Boston)	\$5.49	Northeast (Boston)	22.1%
Appalachian (Charlotte)	\$3.99	Appalachian (Charlotte)	15.5%
Southeast (Atlanta)	\$4.55	Southeast (Atlanta)	18.4%
Florida (Tampa)	\$6.45	Florida (Tampa)	23.3%
Mideast (Cleveland)	\$5.46	Mideast (Cleveland)	25.0%
Upper Midwest (Chicago)	\$4.83	Upper Midwest (Chicago)	21.9%
Central (Kansas City)	\$4.69	Central (Kansas City)	20.6%
California (Los Angeles)	\$1.44	California (Los Angeles)	6.3%
Southwest (Dallas)	\$4.69	Southwest (Dallas)	20.1%
Arizona (Phoenix)	\$4.55	Arizona (Phoenix)	18.9%
Pacific Northwest (Seattle)	\$3.43	Pacific Northwest (Seattle)	14.8%
ALL FMMO MARKET AVERAGE	\$4.51	ALL FMMO MARKET AVERAGE	18.8%

Prices reflect FMMO minimum prices at Jersey component values.

October '22 PERCENT DIFFERENCE: JERSEY MILK WITH PREMIUMS VS. STATISTICAL BLEND PRICE

Northeast (Boston)	22.1%
Appalachian (Charlotte)	15.5%
Southeast (Atlanta)	18.4%
Florida (Tampa)	23.3%
Mideast (Cleveland)	25.0%
Upper Midwest (Chicago)	21.9%
Central (Kansas City)	20.6%
California (Los Angeles)	6.3%
Southwest (Dallas)	20.1%
Arizona (Phoenix)	18.9%
Pacific Northwest (Seattle)	14.8%
ALL FMMO MARKET AVERAGE	18.8%

2022 AVERAGE STATISTICAL BLEND PRICE FOR EACH FEDERAL ORDER

	2022 MILK VOLUME (Million #)	2022 AVERAGE JERSEY REGULATED BLEND PRICE
Northeast (Boston)	22,451	\$30.06
Appalachian (Charlotte)	4,509	\$29.98
Southeast (Atlanta)	3,286	\$30.37
Florida (Tampa)	2,059	\$32.32
Mideast (Cleveland)	14,094	\$28.53
Upper Midwest (Chicago)	25,685	\$27.53
Central (Kansas City)	13,000	\$28.07
California (Los Angeles)	18,429	\$25.60
Southwest (Dallas)	11,443	\$28.20
Arizona (Phoenix)	4,049	\$28.26
Pacific Northwest (Seattle)	6,398	\$27.29
ALL FMMO MARKET AVERAGE	125,403	\$28.75

Prices reflect Federal Order minimum blend prices for city shown.

2022 AVERAGE JERSEY BLEND WITH ESTIMATED PROTEIN OR CHEESE YIELD PREMIUMS

	2022 AVERAGE DOLLAR DIFFERENCE: JERSEY MILK WITH PREMIUMS VS. STATISTICAL BLEND PRICE	2022 AVERAGE PERCENT DIFFERENCE: JERSEY MILK WITH PREMIUMS VS. STATISTICAL BLEND PRICE
Northeast (Boston)	\$5.01	19.8%
Appalachian (Charlotte) (includes protein prem.)	\$3.49	13.0%
Southeast (Atlanta)	\$3.19	11.8%
Florida (Tampa)	\$3.78	13.3%
Mideast (Cleveland) (includes protein premium)	\$5.05	21.1%
Upper Midwest (Chicago) (includes cy premium)	\$4.67	20.2%
Central (Kansas City)	\$4.39	18.5%
California (Los Angeles)	\$1.76	7.4%
Southwest (Dallas)	\$3.93	16.2%
Arizona (Phoenix) (includes protein)	\$3.86	15.6%
Pacific Northwest (Seattle)	\$3.40	14.2%
ALL FMMO MARKET AVERAGE	\$3.87	15.6%

Total Grade A milk volume sold under FMMO.

Prices reflect FMMO minimum prices at Jersey component values.

Includes a protein premium of \$0.05 for every 0.01% increase in protein over the market average.

Prices reflect difference between Jersey price with premiums, and the statistical blend price.

Percent difference in Jersey price with premiums, over the statistical blend price.

ESTIMATED JERSEY MILK COMPOSITION

	2022	2022
Butterfat	4.90	\$3.2638
TRUE Protein	3.83	\$2.7491
Other Solids	5.73	\$0.4477
Solids Not Fat (SNF)	9.56	
Cheese Yield (90% Fat Recovery, 38% Moisture)	13.16	
CME Block Cheese Price	\$2.07	

REGULATED MILK PRICES

FMMO Milkfat	\$3.2638
FMMO True Protein	\$2.7491
FMMO Other Solids	\$0.4477

AVERAGE JERSEY PRICE ADJUSTMENT PER CWT:

FMMO Milkfat Adjustment	\$2.99
FMMO True Protein Adjustment	\$1.61
FMMO Other Solids Adjustment	(\$0.03)