NMPF
NATIONAL MILK
PRODUCERS FEDERATION

News Release

2107 Wilson Blvd., Suite 600, Arlington, VA 22201
703.243.6111 | www.nmpf.org

"Connecting Cows, Cooperatives, Capitol Hill, and Consumers"

FOR IMMEDIATE RELEASE
Thursday, March 7, 2019

Alan Bjerga
(703) 243-6111 ext. 372
ABjerga@nmpf.org

NMPF Offers Guidance to Producers Considering New Dairy Margin Coverage Levels

ARLINGTON, Va. – With the U.S. Department of Agriculture reporting the first month of data applicable to farmer payments under the new Dairy Margin Coverage program, the National Milk Producers Federation commended USDA for helping farmers understand the scope of DMC program and offered its own example to illustrate the potential benefits of maximizing coverage under the new top margin-coverage level of $9.50 per hundredweight.

The new $9.50 "margin" (the difference between the price of milk and the cost of feed) threshold for the first 5 million pounds of a dairy farmer's production, which replaces the old $8 per hundredweight limit under the now-lapsed Margin Protection Program, **may be better tailored to expected market conditions in 2019 and future years than less-comprehensive coverage,** according to an NMPF analysis.

For example: A dairy operation with an established milk-production history of 5 million pounds that elects the $9.50 coverage level for 95 percent of its production history – the new maximum level of protection under the 2018 farm bill -- would be covered for 4.75 million pounds (95 percent of 5 million, also referred to as 47,500 cwt. – a unit covering 100 pounds of milk) of annual production during 2019. Breaking it into monthly increments, farmers maximizing coverage would be eligible to receive payments at the USDA-determined monthly payout rate on 395,800 pounds (also expressed as 3,958 cwt.) each month that the margin fell below $9.50 per hundredweight.

According to new USDA data, the January "margin" payment will be $1.51/cwt. for farmers who select $9.50 coverage – that's the difference between the $9.50 level selected and the actual margin of $7.99/cwt. An operation maximizing coverage on its first 5 million pounds for the year would thus receive a January payment of $5,977 (the 3,958 cwt. covered for the month, multiplied by the $1.51/cwt. January difference in actual margin).

Meanwhile, under the premium rates set by Congress under the 2018 farm bill, the 2019 full-year premium for coverage at the $9.50 level on 95 percent of a 5-million-pound production history in this example would be $7,125 (47,500 cwt. times $0.15/cwt. premium fee), if the operation signs up for DMC coverage just for 2019. If the operation makes a one-time election offered via the farm bill to sign up for DMC coverage this year through 2023 at the same coverage levels, it will be eligible to receive a 25 percent discount on its premiums. In that case the total premium cost for all of 2019 would be $5,344 (47,500 cwt. times the $0.1125/cwt. discounted premium fee).

In other words, under maximum coverage, **a dairy operation would receive back more than its full annual premium with the January payment alone**, if it signs up for coverage at the discounted five-year locked-in premium rate. If a farm signs up for this year only, it would still recoup most of its full-year premium from the January payout – with more payments likely, given prices forecast by current futures markets.

Dairy Margin Coverage signup is scheduled to begin on June 17. That means **payment amounts for up to the first five months of the year may already be known** when farmers sign up. Again, based on forecasts, it is very likely that when signup begins the benefits $9.50 coverage will substantially outweigh the costs, given that coverage will be retroactive from January 1.

“While the cash-flow and financial situations are different for every dairy operation, farmers should strongly consider signing up their 2019 production at the maximum coverage level of $9.50 per hundredweight for 95 percent of their first five million pounds of production history,” said Jim Mulhern, president and CEO of NMPF. “The unique circumstances of already knowing what payments will be for the year’s early months, combined with the current price outlook for milk, makes it an attractive option for producers this year during a difficult time for dairy.”

Dairy operations that elect to sign up this year for DMC coverage at the discounted premium rate will be committed to pay the same discounted premium each year through 2023. That option will be available this year only, except for new dairy operations in subsequent years.

###