

Milk price insurance is here

MILK price uncertainty remains as a huge question in the minds of dairy producers. As of the writing of this article, there is still a large chasm between milk prices and the cost of producing 100 pounds of milk. Each time this type of disconnect occurs between the cost and income, dairy producers start searching for a better way to secure a real income.



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Maintaining the margin is called profit or income over the cost of producing milk. Other livestock enterprises have been calculating and setting margins or maintaining floors for many years. The poultry, hog, and beef finishing businesses all lock in as many inputs as possible. They then go to the futures market or processor to set a margin or maintain a floor in a market price. Regardless of the future market price, the key is based on their inputs and end-market selling price. If they can lock in a profit

The author is the dairy development manager for VitaPlus of Madison, Wis. He is a member of the board of directors with Citizens State Bank of Loyal, Wis.

over cost, they now have a margin. The rest is now up to the producer to maintain healthy growing livestock that can be delivered at the designated specific market time.

Regardless of what marketing programs are available today or into the future, there is no substitute for a producer knowing key financial documents first to help make intelligent marketing decisions.

- The balance sheet is an important financial tool that must be completed annually and updated during the year as needed.

- The past year's cash flow must be completed as soon as the year ends.

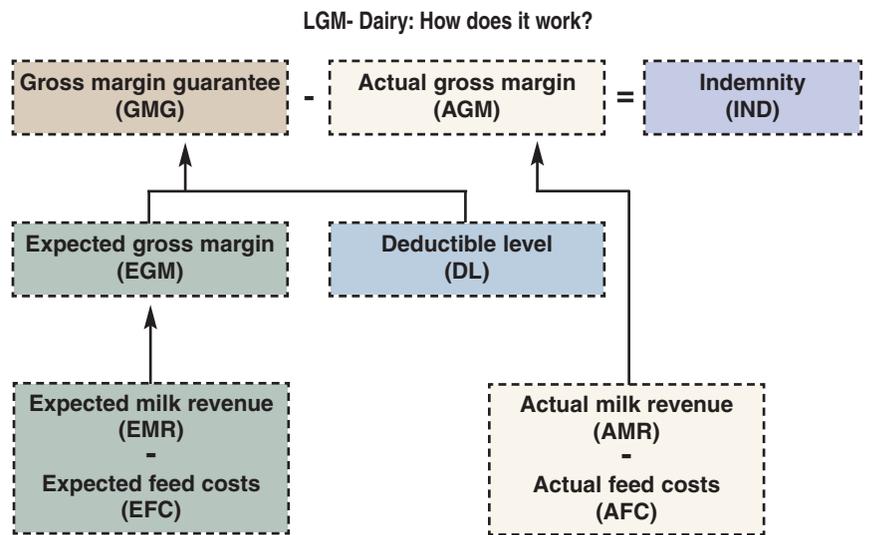
- Quarterly and monthly real-time cash flows, along with accrual income statements, are becoming more necessary to know what is going on.

- Projected cash flows must be completed to get an idea of what the next operating period looks like.

No matter what numbers you fill in they will be wrong, but you have to have a direction. In times of short falls, lenders need to be communicated with for possible operating lines of credit.

The USDA, as of August 2008, has implemented the Livestock Gross Margin Insurance for Dairy Cattle or known by its acronym as LGM-Dairy.

The concept is to establish a margin floor between future milk income and major grain cost by using corn and soybean meal as an energy and protein base. The future milk prices are determined by the Class III milk price on the Chicago Mer-



cantile Exchange (CME). The soybean meal or protein cost is a target expected soybean meal cost. The forward corn price is based on contracts at the CME. Once the insurance contract is in place, the margin at the end of the contract period is compared to the real market margin measured by the same comparables of milk and the feed grains. The difference between the two margins is paid out if the actual margin is less than the expected margin determined at sign-up.

An insurance period is for 11 months with no coverage the first month of the contract. The producer can insure any portion of the remaining 10 month's production. There are 12 insurance periods in each calendar year. Thirty-one states are now eligible for the program at the present time. There is a limited amount of funding for

this program and it is on a first-come-first-serve basis.

The program is approved by the U.S. Department of Agriculture Risk Management Agency. It is a federally reinsured dairy insurance program run through the U. S. crop insurance program. No producer premium subsidy is available for this insurance program. Most of the administrative and policy subsidies are paid by the federal government. A dairy producer must contact a licensed crop insurance agent to sign up for the program.

It is well worth a producer's time to educate themselves on what this new program offers. Victor Cabrera and Brian Gould, both at the University of Wisconsin-Madison, have developed educational materials, including the figure on this page, websites and a variety of software systems to help inform dairy producers, lenders, and insurance agents on how to understand and use this new program. Their contact information is as follows:

Victor Cabrera
Phone: (608) 265-8506
vcabrera@wisc.edu

Brian Gould
Phone: (608) 263-3212
bwgould@wisc.edu



Additional information can be found at the following websites:

LGM-Dairy website:
http://future.aae.wisc.edu/lgm_dairy.html/

LGM-Dairy Premium Calculator:
http://future.aae.wisc.edu/lgm_premium/

Additional LGM-Dairy Decision Software:
http://future.aae.wisc.edu/lgm_dairy.html#2

USDA, Risk Management Agency LGM website:
www.rma.usda.gov/livestock/

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