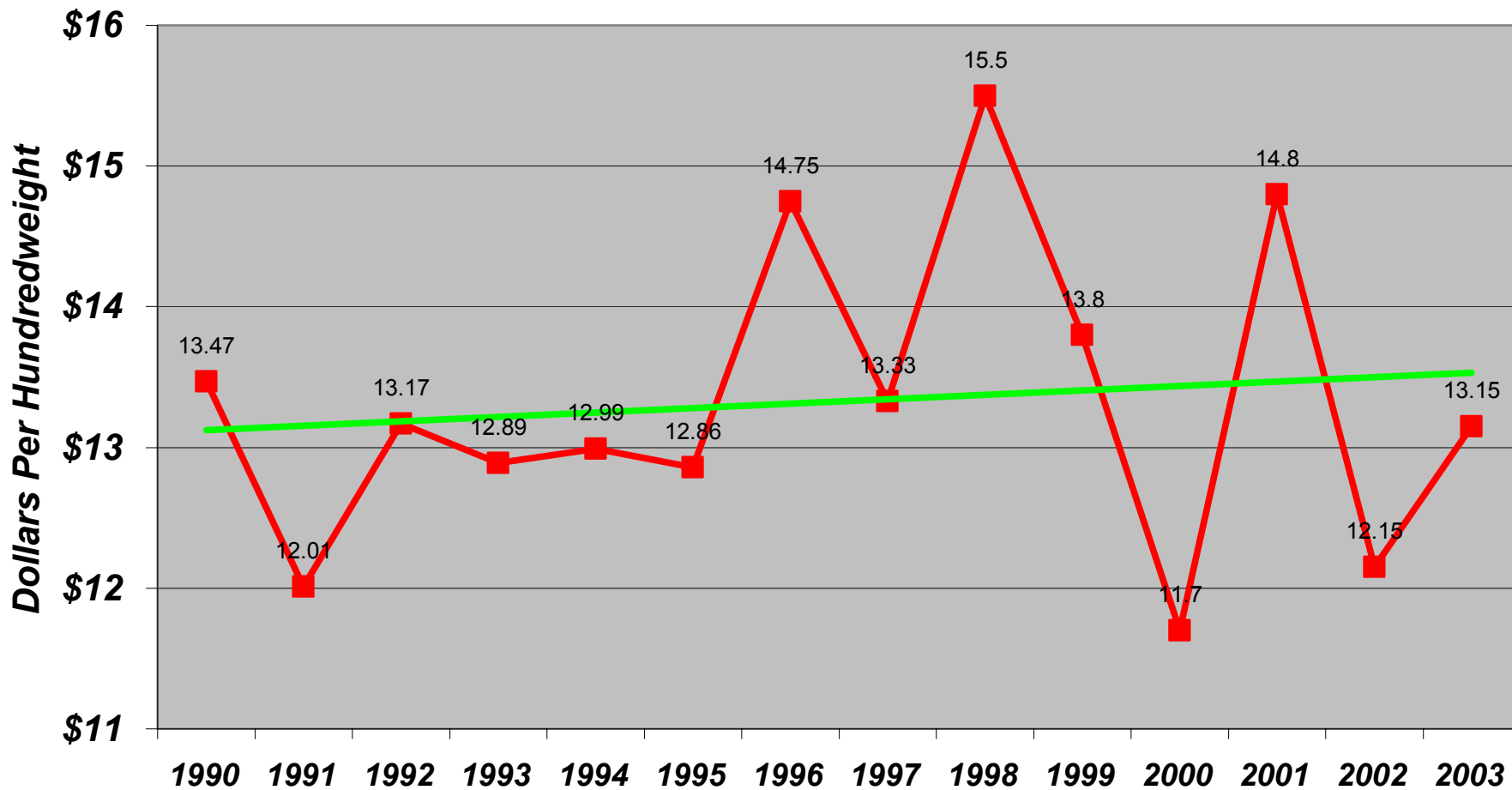


# *Wisconsin Dairy: Milk Prices; Farm Structure*

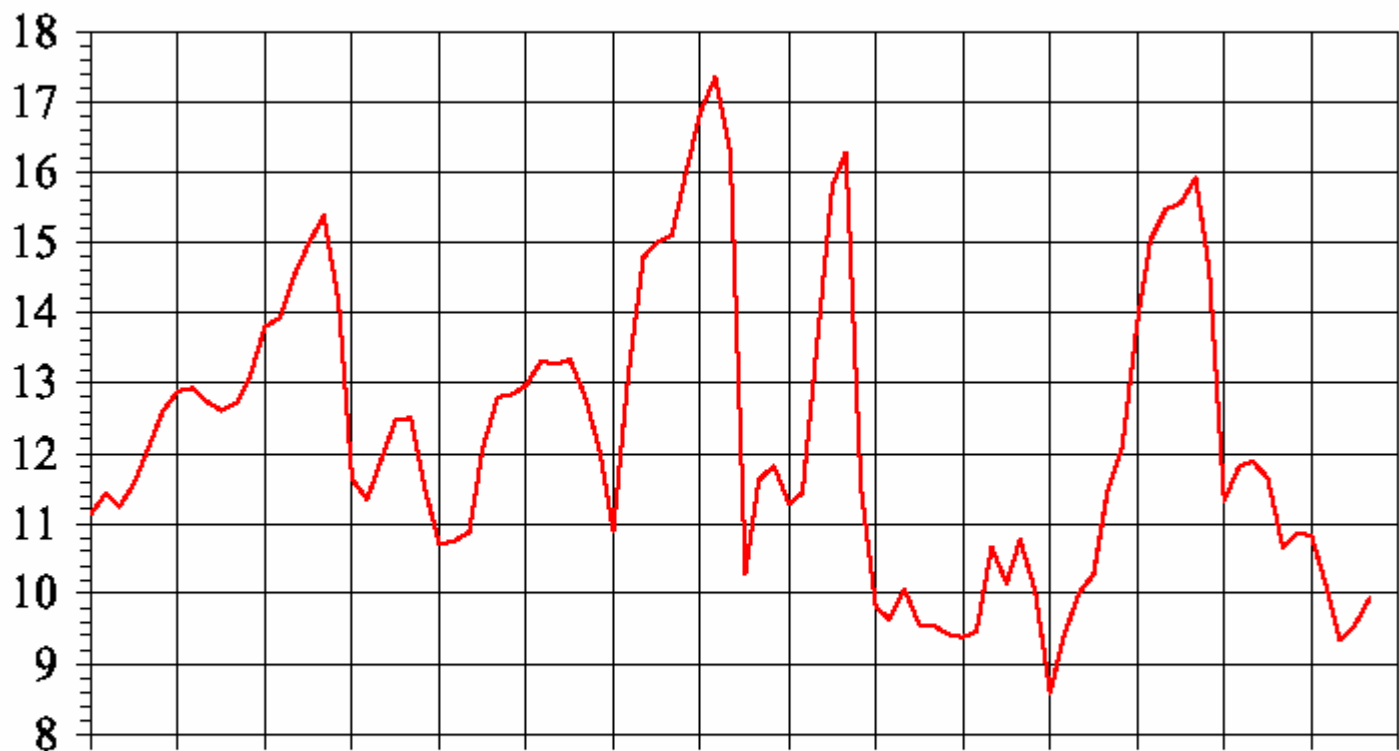
By Bob Cropp  
Dairy Marketing & Policy Specialist  
University of Wisconsin-Madison  
October 31, 2002

# Wisconsin Average All Milk Price, 1990 to 2003



\$/cwt

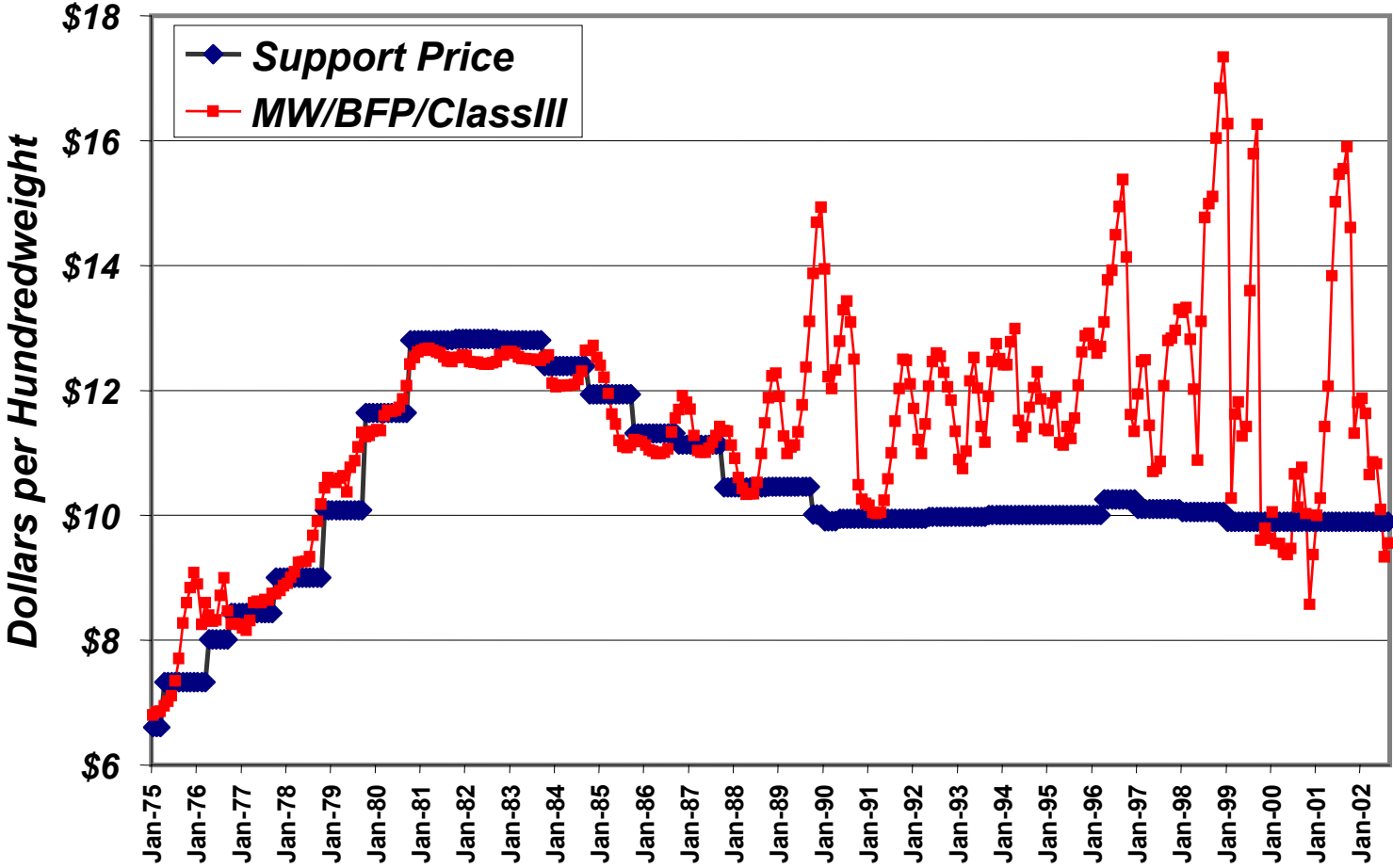
## Class III (BFP) Milk Price



May-95 Nov-95 May-96 Nov-96 May-97 Nov-97 May-98 Nov-98 May-99 Nov-99 May-00 Nov-00 May-01 Nov-01 May-02 Nov-02

Data from the Univ. of WI Dairy Marketing Website: [www.aae.wisc.edu/future](http://www.aae.wisc.edu/future)

# MW/BFP/Class III versus the Support Price, 1975-2002



## ***U.S. Dairy Situation 2000 to 2002***

Market Factor	<u>2000</u> % Change		<u>2001</u> % Change		<u>2002</u> % Change	
Cow numbers (1,000s)	9,210	0.6%	9,120	-1.0%	9,132	0.2%
Milk per cow	18,153	2.1%	18,131	-0.1%	18,611	2.6%
Total milk production (Bil. Lbs.)	167.6	3.0%	165.3	-1.1%	170.0	2.8%
Imports (Bil. Lbs.)*	4.45	-6.8%	5.72	28.6%	5.0	-12.0%
Exports (Bil. Lbs.)*	1.74	34.8%	1.19	-31.8%	1.2	0.0%
Commercial disappearance (Bil. Lbs.)*	168.7	2.3%	169.5	0.4%	169.2	-0.2%
Class III price	\$9.74		\$13.10		\$10.40 to \$10.45	
Class IV price	\$11.83		\$13.76		\$10.75 to \$10.80	
All Milk price	\$12.40		\$15.05		\$12.15 to \$12.20	

## *Dairy Policy*

- Support price at \$9.90 through 2007
- Market Loss Payments December 2001 through September 2005
- EQUIP

**Dairy provisions continued:**

- Dairy Market Loss Payments

- National program

- Makes direct payments to all U.S. dairy farmers based on the **Boston Class I milk price** relative to \$16.94

- Payments made monthly from December 2001 through September 2005

- Payments capped at 2.4 million pounds of milk marketings annually

**Mechanics continued:**

- Direct payments are involved any time the Boston Class I price is less than \$16.94
- Direct payments equal 45% of the difference between \$16.94 and the actual Boston Class I price for the month
- Thus, dairy farmers are not kept whole.

**Mechanics continued:**

- There is no base but a **cap** of **2.4 million pounds annually**—the milk marketings of herds with 130 to 140 cows.
- All herds are eligible for the 2.4 million pounds annually
  - But, price/income protection **declines** as herd size **increases**.

## **Worse case scenario on eligible milk in Minnesota and Wisconsin:**

- Mover at \$9.80 support
- Boston Class I = \$9.80 + \$3.25 or \$13.05
- \$16.94 - \$13.05 = \$3.89 difference
- \$3.89 difference X 45% = \$1.75 payment
- \$9.80 + \$1.60 premiums + \$1.75 = **\$13.15**  
**mailbox price**

# What monthly payments will be thus far:

Month	Mover	Boston CI = mover + \$3.25	Difference \$16.94 – CI	Payment = 45% X Diff
Dec 01	\$11.98	\$15.23	\$1.71	\$0.7695
Jan 02	\$11.96	\$15.21	\$1.73	\$0.7785
Feb 02	\$11.95	\$15.20	\$1.74	\$0.7830
Mar 02	\$11.62	\$14.87	\$2.07	\$0.9315
Apr 02	\$11.47	\$14.72	\$2.22	\$0.9990
May 02	\$11.26	\$14.51	\$2.43	\$1.0935
Jun 02	\$11.03	\$14.28	\$2.66	\$1.1970
Jul 02	\$10.62	\$13.87	\$3.07	\$1.3815
Aug 02	\$10.48	\$13.73	\$3.21	\$1.4445
Sept 02	\$10.46	\$13.71	\$3.23	\$1.4535

## **For fiscal 2003:**

- Whether less than or over 2.4 million pounds of milk annually, **October** has a very high probability of the best choice starting date;
- MILC payment for **October 2002 will be \$1.593**, and then will likely decline as milk prices improve as we move into 2003 and maybe only \$0.40 or less by **September 2003**.
- The **November** payment is **\$1.3905**

# EQUIP:

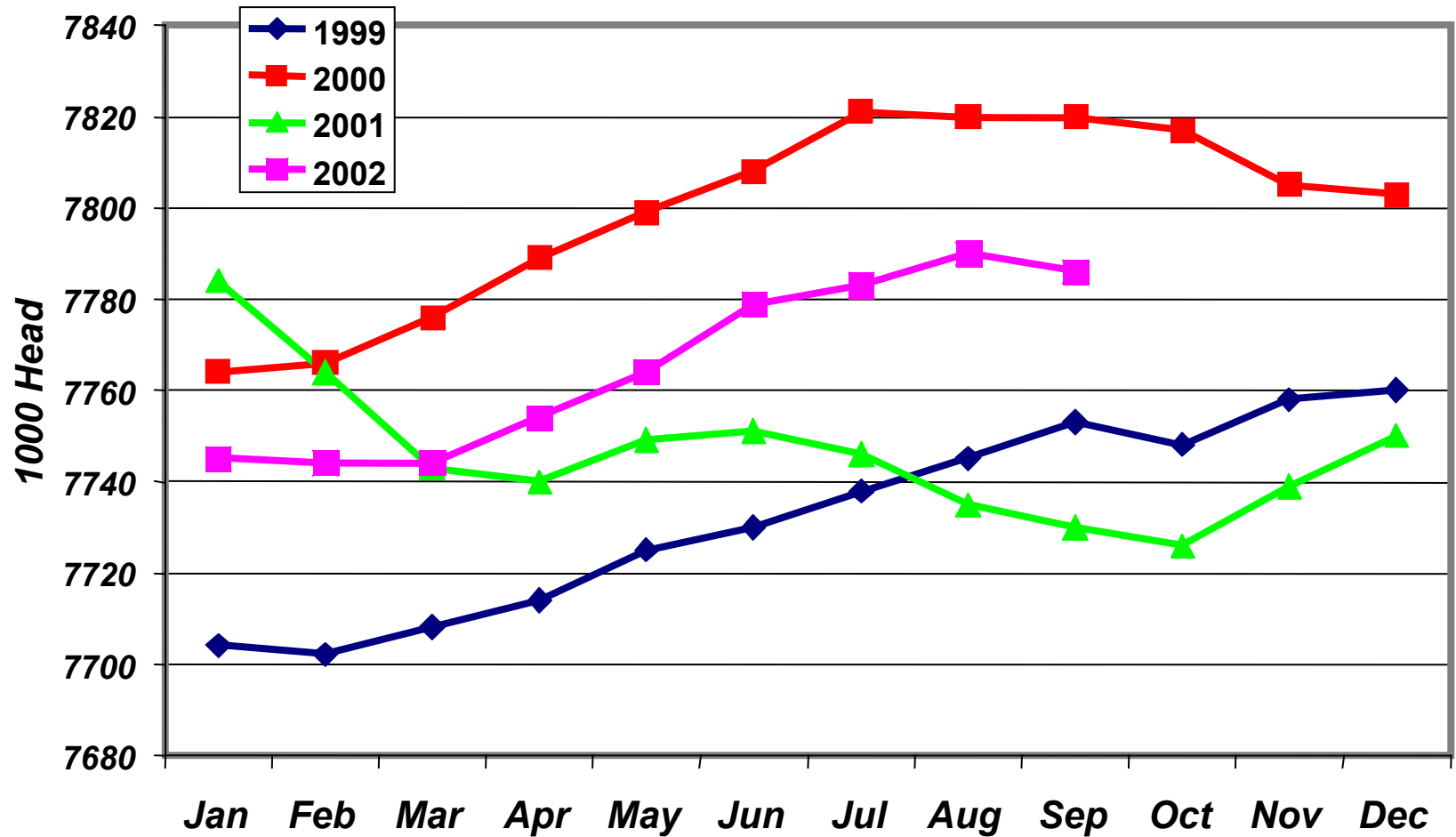
- Phased in: Billion Dollars

2002 = \$0.4	* Split 60/40 between
2003 = \$1.0	livestock and crops
2004 = \$1.0	
2005 = \$1.2	* 1 to 10 year contracts
2006 = \$1.2	
2007 = \$1.3	* \$450,000 limit per
	individual or entity
	* \$4 million allocated to WI

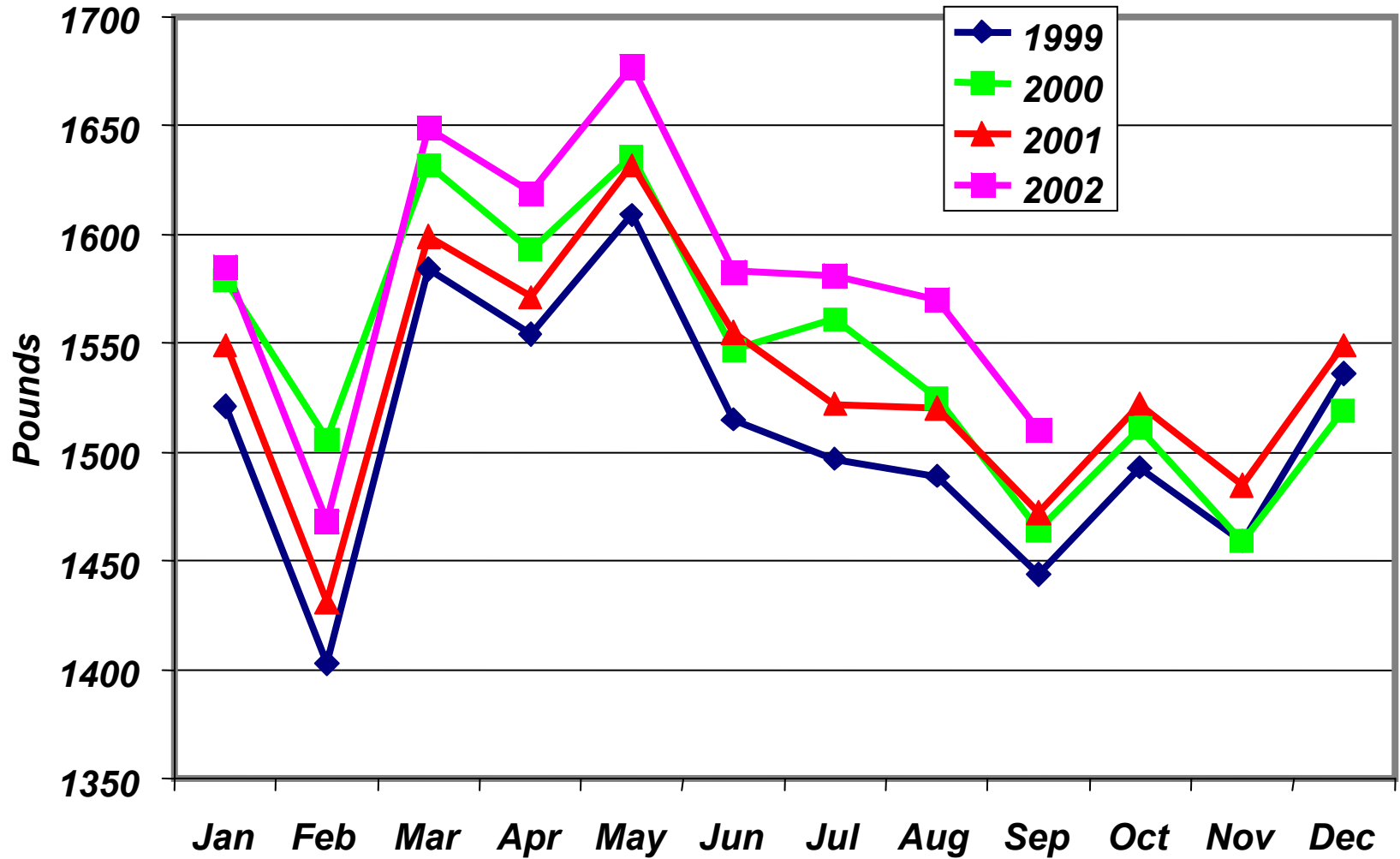
## *Short run:*

- Milk prices will be better in 2003 than 2002
- However, accounts receivable to re-pay, extra operating loans to re-pay.
- There are some bankruptcy cases

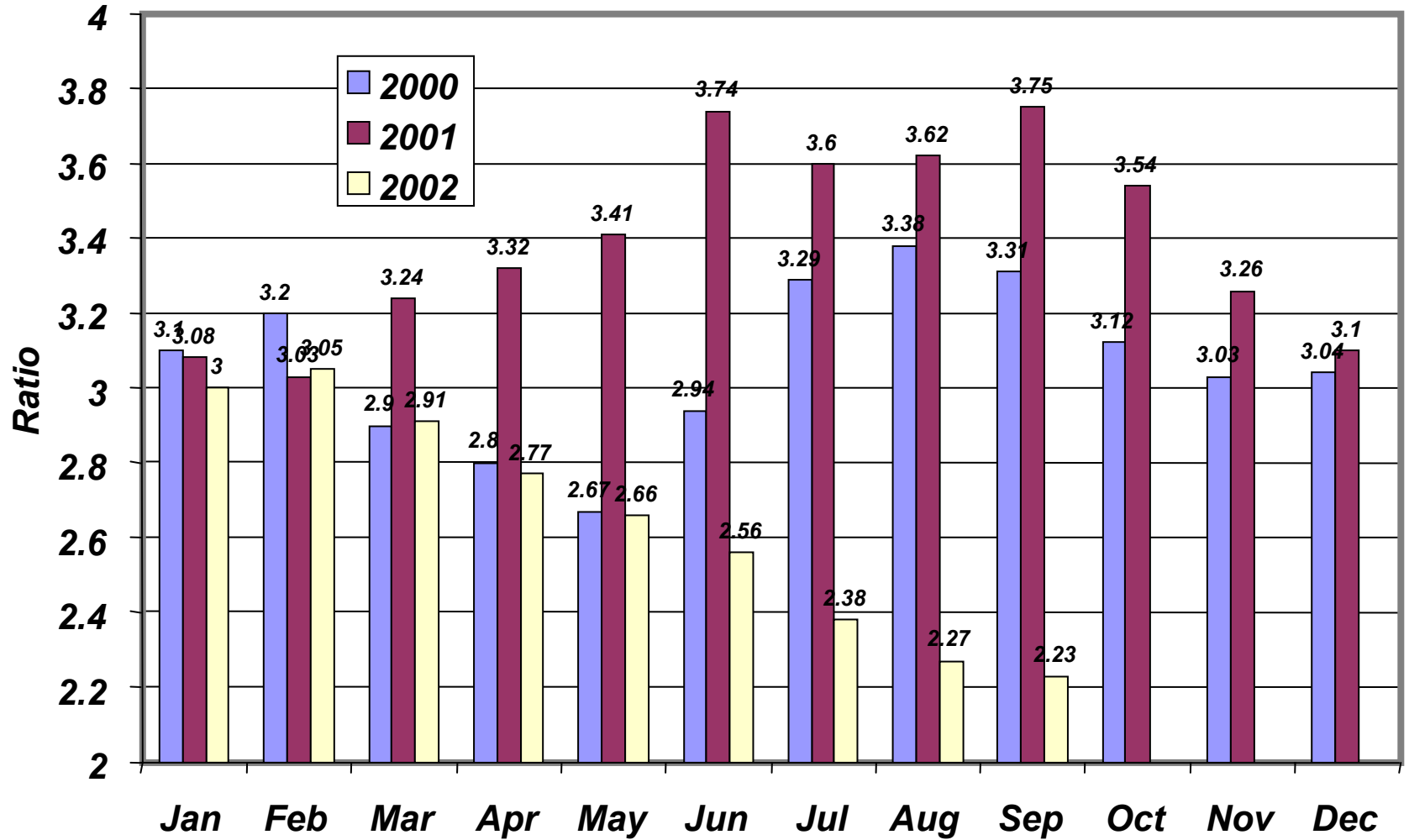
# ***Milk Cow Numbers-20 Selected States, 1999-2002***



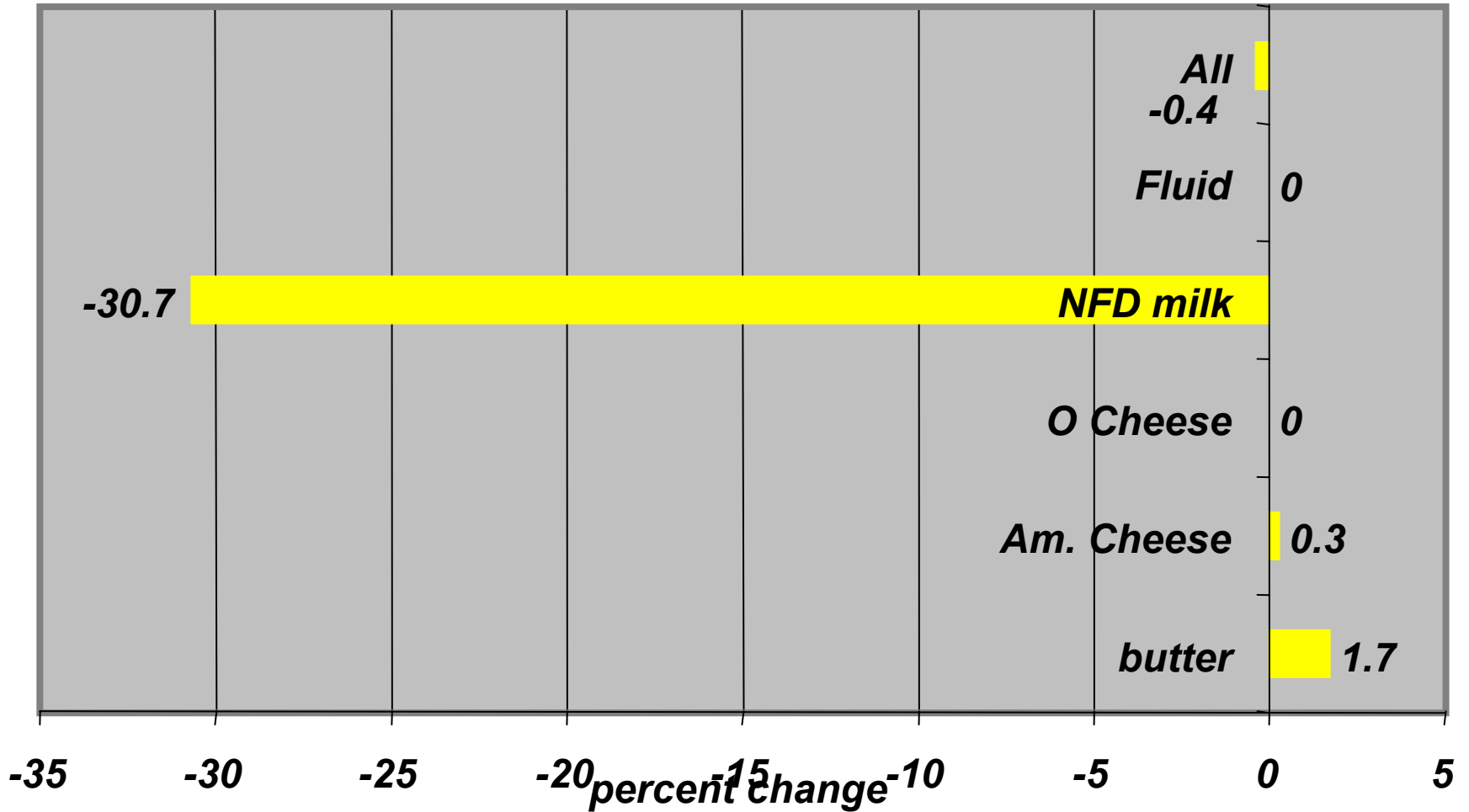
## *Milk Per Cow-20 Selected States, 1999-2002*



# Milk Feed Price Ratio, 2000-02



# Commercial Disappearance, Jan -Jul 2002 vs 2001



## *2002 & 2003 Class III & Class IV Prices*

Month	CIII 2002	CIII 2003	CIV 2002	CIV 2003
Jan	11.87	10.00	11.93	10.40
Feb	11.63	10.60	11.54	10.60
Mar	10.65	10.80	11.42	10.60
Apr	10.85	11.00	11.09	10.60
May	10.82	11.30	10.57	10.60
Jun	10.09	11.60	10.52	10.70
Jul	9.33	12.45	10.45	11.00
Aug	9.54	12.70	10.41	11.00
Sept	9.92	12.90	10.22	11.00
Oct	10.65	12.80	10.30	10.80
Nov	9.80	12.10	10.30	10.40
Dec	9.95	12.00	10.30	10.30
Average	10.43	11.69	10.75	10.67

*There is a high probability that average 2003 prices will be in the range of:*

- Class III = \$11.50 to \$11.70
- Class IV = \$10.60 to \$10.80
- All Milk Price = \$13.10 to \$13.30

## *What about long run?*

- Price volatility will continue
- Long run average milk prices in the \$13.00 to \$14.00 range
- Modern technology holds cost of production and puts pressure on milk prices.

***Dairy Farm Structure continued:***

State	1 –29 cows	30 – 49 cows	50 – 99 cows	100 – 199 cows	200 + cows
NY	18.1 1.5	16.7 6.5	<b>38.9</b> <b>25.0</b>	18.1 28.0	8.3 39.0
PA	17.5 3.0	35.9 22.0	<b>35.0</b> <b>37.0</b>	8.7 21.0	2.9 17.0
VT	8.1 0.5	16.9 5.5	<b>48.8</b> <b>28.0</b>	16.9 23.0	9.4 43.0
MI	31.8 3.0	16.7 5.5	24.2 15.5	<b>18.8</b> <b>27.0</b>	8.5 49.0
OH	46.2 5.8	16.3 12.0	<b>24.0</b> <b>30.0</b>	10.8 30.0	2.7 23.0
MN	14.1 3.0	34.6 18.0	<b>38.5</b> <b>37.0</b>	8.9 17.0	3.8 25.0
WI	16.5 2.7	27.7 13.3	<b>40.8</b> <b>36.0</b>	10.5 19.0	4.6 29.0
IA	23.4 4.0	25.4 11.0	<b>34.3</b> <b>35.0</b>	13.7 29.0	3.1 21.0
IN	51.7 7.0	16.2 10.0	19.7 24.0	9.7 25.0	<b>2.8</b> <b>34.0</b>
U.S.	28.9 1.6	20.4 6.7	<b>29.9</b> <b>18.2</b>	<b>12.6</b> <b>16.5</b>	8.2 57.0

***Changes in number of dairy farms, cows, milk per cow,  
and total milk production, 1993-2001, continued.***

State	% Ch farms	Ave. Size Herd	% Ch cows	Ave. milk/cow	% Ch per cow	% Ch total milk
NY	-38.5	93	-10.2	17,527	14.8	3
PA	-20.8	58	-7.8	18,112	13.1	16
VT	-36.0	96	-5.6	17,431	13.1	7
OH	-35.0	50	-14.8	16,612	9.5	-7
MI	-34.0	92	-10.6	19,323	20.5	8
MN	-42.2	65	-21.3	17,278	15.4	-9
WI	-36.3	68	-17.0	17,182	16.3	-4
IA	-37.5	60	-28.8	18,024	31.2	-7
IN	-32.6	126	6.3	16,732	7.3	14
U.S.	-39.9	93	-6.1	18,139	16.7	10

*Estimated annual growth rates, Wisconsin herds:  
(What has been occurring since 1993)*

- **Herds of less than 50 cows:**

Number of cows	- 9.58%
Milk per cow	2.15%

- **Herds of 50 to 99 cows:**

Number of cows	- 3.85%
Milk per cow	1.33%

- **Herds of 100 cows or more:**

Number of cows	7.34%
Milk per cow	1.54%

## *Wisconsin Agricultural Statistics Service Survey, Oct 2002*

- Milk production could top **26 billion** pounds by 2007 compared to 22 billion pounds now
- 60% producers will keep **same** herd size
- 20% plan to **increase** herd size
- 20% intend to **discontinue** milking
- The most prevalent herd size will be **50 to 99 cows**
- Milk cows will **increase** to 1.4 million head, highest since early 1997