

USDA Milk Price Support Increase Announcement

On Friday July 31, 2009 Agricultural Secretary Tom Vilsack announced that the Obama Administration was increasing the Dairy Product Price Support Program (DPPSP).

Due to the prolonged low milk price the USDA is extending a hand to help increase the milk price by elevating the purchase price of:

- Block Cheese from \$1.13 to \$1.31
- Barrel Cheese from \$1.10 to \$1.28
- Non Fat Dried Milk (NFDM) from 0.80 to 0.92

Many Midwest dairy producers are paid based on Barrel Cheese on the Class III market. This should result in a mailbox price of an additional 0.18 for cheese.

Doing the math: 0.18×10 (10 pounds of milk to make 1 pound of cheese) = $\$1.80 \times 90\%$ (a general market discount from market price to milk mailbox price) = $\$1.62$.

Results may look like this: average all U.S. July mailbox price was \$11.30 versus August price of \$1.62 higher with the increase in USDA cheese purchase the mailbox price would be \$12.92. We do not know what the August Class III will be as the writing of this brief. This gives you some idea of the impact of the \$1.28 Milk Price Support.

Some key points to remember:

This additional Milk Price Support increase is only temporary. It is for the months of August through October 31, 2009. My guess is that the USDA is hoping the market will recover by October.

This does take money from the MILC payment program. It is not real clear at this time how the mechanics work on the trade off but Congress is starting to mandate itself in new spending. If money is to be allocated it must have a neutral impact on the budget.

Also remember that cheese processors must repackage the cheese to government specifications. The question is with only a three month new window will cheese makers spend the time and money to repackage, if they do not the Class III can fall below the support price as it has in the past.

Results of additional government purchases:

- Cheese 75 million pounds purchased by the government
- NFDM 150 million pounds purchased by the government
- USDA says this program will increase the farm revenue by \$243 million.



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