# Milk Producers Council

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**DATE: September 24, 2010** **PAGES: 3**
**TO: Directors & Members** **FROM: Rob Vandenheuvel**

*MPC FRIDAY MARKET UPDATE*

**CHICAGO MERCANTILE EXCHANGE**

| | | |
|---|---|---|
| Blocks | *+$.0150* | $1.7500 |
| Barrels | *+$.0250* | $1.7350 |

**Weekly Average**

| | | |
|---|---|---|
| Blocks | *+$.0120* | $1.7470 |
| Barrels | *+$.0200* | $1.7300 |

**CHICAGO AA BUTTER**

| | | |
|---|---|---|
| Weekly Change | *+$.0075* | $2.2300 |
| Weekly Average | *-$.0030* | $2.2255 |

**DRY WHEY**

| | | |
|---|---|---|
| **WEST MSTLY AVG** | w/e 9/17/10 | $.3725 |
| **NASS** | w/e 9/18/10 | $.3619 |

**NON-FAT DRY MILK**
**Week Ending 9/17 & 9/18**

| | | |
|---|---|---|
| Calif. Plants | $1.0872 | 20,754,705 |
| NASS Plants | $1.1359 | 17,615,689 |

**Unfortunately, John Kaczor is not available this week to write his weekly commodity report. John will be back next week.**

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**FRED DOUMA'S PRICE PROJECTIONS…**

| | | | | |
|---|---|---|---|---|
| **Sept 24 Final:** | **Quota cwt. $ 17.28** | **Overbase cwt. $15.58** | **Cls. 4a cwt. $16.63** | **Cls. 4b cwt. $15.48** |
| **Last Week:** | **Quota cwt. $ 17.30** | **Overbase cwt. $15.60** | **Cls. 4a cwt. $16.74** | **Cls. 4b cwt. $15.45** |

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**ECONOMIC MODELING/ANALYSIS REPORT PUBLISHED THIS WEEK:** *(By Rob Vandenheuvel)* As the regular readers of this newsletter know, MPC has been working with dairy producer groups and cooperatives across the county to fund a **broad analysis of the major proposals being made to address this extreme boom/bust nature of the dairy industry**.

The modeling and analysis were done by Dr. Mark Stephenson *(University of Wisconsin)* and Dr. Chuck Nicholson *(Cal Poly San Luis Obispo)*. Both of these economists are well-known in the industry for their work while they were at Cornell University.

The full report, which is 53 pages long, can be found in its entirety at http://dairy.wisc.edu. But for those of you who just want a flavor of what the report is about, here is the "Executive Summary" published by the economists along with their full analysis:

> *Volatility of prices and incomes has been an issue of importance for the U.S. dairy industry since the early 1990s. Much of this volatility appears to arise in the dairy supply chain, particularly the production sector, consistent with observed patterns of behavior for other commodities (both agricultural and non agricultural). Volatility in prices and incomes has been brought to the fore by recent events, especially a prolonged period of inadequate income for many dairy farmers during 2008 to 2009. There are likely high costs associated with price and income volatility throughout the U.S. dairy supply chain, but accurate estimates of these costs do not currently exist. Given the costs, a number of programs have been proposed in recent years with the objective of reducing variation in milk prices and farm income. Key questions related to these programs are: 1) can they be effective at reducing variation in prices and income? and 2) do they have other effects that industry organizations consider either positive or negative?*

*This report summarizes our analysis of the three main programs currently proposed as mechanisms to reduce price and income variability:*

- *Legislation introduced by Costa (H.R. 5288) and Sanders (S. 3531) (also known as the Dairy Price Stabilization Program);*
- *The Marginal Milk Pricing (MMP) program proposed by Agri-Mark (cooperative in the Northeast U.S.);*
- *Elements of the Foundation for the Future (FFTF) program proposed by the National Milk Producers Federation.*

*Our analyses employ a complex systems modeling approach previously used for many other commodities that represents the U.S. dairy supply chain in significant detail. Although the analysis is undertaken at a national level, the model incorporates many product categories (intermediate and final), all current national dairy policies, a trade sector that accounts for interactions with the rest of the world and detailed representation of the proposed programs.*

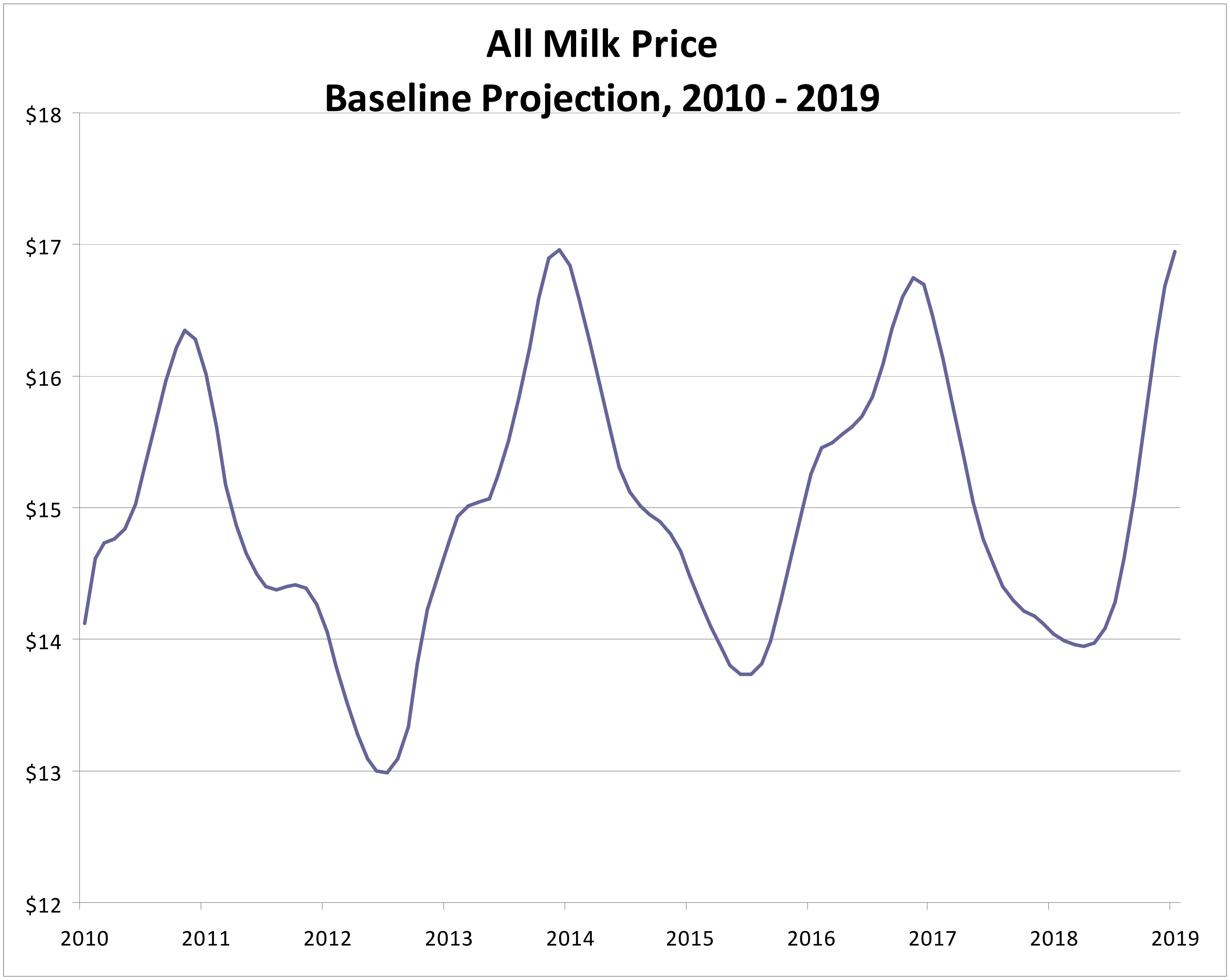
*We compare the outcomes of each of the programs to a Baseline scenario (which assumes continuation of current policies and no new programs) for the period 2010 to 2018. We undertake this comparison assuming no shocks, a single large shock to feed costs and export demand, and a set of stochastic shocks for which the timing and magnitude of changes in feed cost and export demand are randomly chosen for 200 simulations. These shocks are not forecasts of the future, but represent the types and magnitude of shocks that may occur during the next 9 years. We also explore the impact of selected alternative program implementations and behavioral assumptions.*

*Our assessment focuses on the level and variation in the all milk price, the level of milk income less feed costs for dairy herds of a constant size, milk marketed, government expenditures, net exports of three key dairy products (American cheese, NDM and dry whey) and total sales of fluid milk and American cheese. These indicators provide a spectrum of outcomes of interest to dairy producers, processors, consumers and government policy makers.*

Over the course of the coming weeks and months, I'll be delving into this report in more depth and reporting on it in this newsletter. Included in the report is a summary of the "Key Results" of the analysis. This one-page summary gives a good sampling of the quality information the industry will have access to because of this collaborative work amongst all these groups.

One of the most important comments in their "Key Results" is the first bullet, which starts out: "All three programs would reduce milk price volatility significantly compared to the Baseline…" With multiple policy proposals on the table for the industry to discuss, it's important that any proposal meet a basic threshold – that it would successfully accomplish its stated goals: most notably, providing dairy producers with a more stable – and a profitable – future.

**BUT BEFORE GETTING INTO THESE VARIOUS POLICY PROPOSALS IN FUTURE ISSUES OF THIS NEWSLETTER**, **there is a sobering reality expressed in this report that <u>must be heard loud and clear by the industry</u>**. Included in the analysis is a "baseline" projection for the next 8-9 years. This projection is what the economic model predicts our national all-milk average prices to be, ***<u>if we do nothing</u>***. A graph outlining that economic projection is included on the next page.




*Graph based in data in "Analysis Of Proposed Programs To Mitigate Price Volatility In the U.S. Dairy Industry," by Drs. Mark Stephenson and Chuck Nicholson, September 2010.*

Even if you discount the long-term projections 5+ years down the road, **look at the next couple years**. If nothing else, this graph should be a clear statement to the industry and to Congress: **waiting is not a luxury we have.** With Congress recessing next week so members can go home and campaign, and very little likely to be accomplished in a brief "lameduck" session following the election, we're aware that a bill in 2010 is virtually impossible. But when Congress comes back in January 2011, our industry would be extremely foolish to look at the graph above and not make a serious (and looking at the graph, a desperate) push to give ourselves the tools we need to be able to combat this devastating boom/bust cycle in the milk price.

The "conventional wisdom" among some of our leaders is that no change will happen until the Farm Bill. Some have even suggested that there is no use in even trying to push something sooner. But National Milk Producers Federation had it right on this issue. When approving their "Foundation for the Future" proposal, their board voted that it be part of *"the next Farm Bill or other suitable Federal legislation."* Let's consider the Farm Bill a last option, and see what our industry can pull together in the early 2011! **To do anything less would be a huge disservice to the dairy farmers across the country who have sustained a devastating 2009-10 and are craving the tools necessary to combat this boom/bust volatility.**