

The Dairy Margin Protection Program-Update for 2017 Sign-up

Robin Reid (robinreid@ksu.edu)

Kansas State University Department of Agricultural Economics – August 2016

We are currently in the sign-up period for the 2017 Dairy Margin Protection Program (Dairy-MPP). By visiting your local Farm Service Agency office between now and September 30th, 2016, you can select coverage levels for 2017 or enroll in the program, if you have not already done so.

A few changes have been made this year that may affect your operation:

- Any dairy operation already enrolled in the Dairy-MPP that had an intergenerational transfer occur (eligible family member joining the operation) will have an opportunity to increase the dairy operation's production history during the 2017 registration and annual coverage election period. For intergenerational transfers occurring on or after July 1, 2016, notification must be made to the FSA within 60 days of purchasing the additional cows. Each participating dairy operation is authorized one intergenerational transfer at any time of its choosing until 2018.
- Coverage premiums will be due September 1st of the coverage year (without any amount being required beforehand)
 - Any Dairy-MPP payments that are made before premiums are paid will be issued to the dairy, regardless of outstanding premiums before September 1st
 - Coverage premiums may be paid through the milk cooperative or handler
- The proportion of production history not covered under buy-up coverage will automatically be covered at the catastrophic level (\$4.00), not to exceed 90% of production history
 - For example, if you selected a \$6.00 coverage level on 80% of your production history, 10% of your production history would automatically have \$4.00 coverage.

Talk with your local FSA office for specifics on these changes. For background information on the Dairy-MPP program, visit <http://www.fsa.usda.gov/programs-and-services/Dairy-MPP/index> or refer to our past webinars and presentations at <http://www.agmanager.info/ag-policy/farm-bill#dairy-program-resources>.

As I write this column, the Dairy-MPP program just experienced the highest payment rate in the history of the program. The May/June 2016 margin fell to \$5.76277 per cwt, meaning any dairy that purchased \$6.00 coverage or higher received payments. The May/June 2016 payment for Kansas totaled \$156,605, spread over 63 dairies ([source](#)).

Figure 1 shows the All Milk Price, the MPP Feed Cost, and the respective margin since the start of the program in 2014. As you can see, fluctuations in All Milk price tend to drive the margin more than feed costs. The margin is averaged into 2-month intervals for payments, so with the exception of the May/June 2016 margin, historically the margin has been above what most dairies have purchased for coverage.

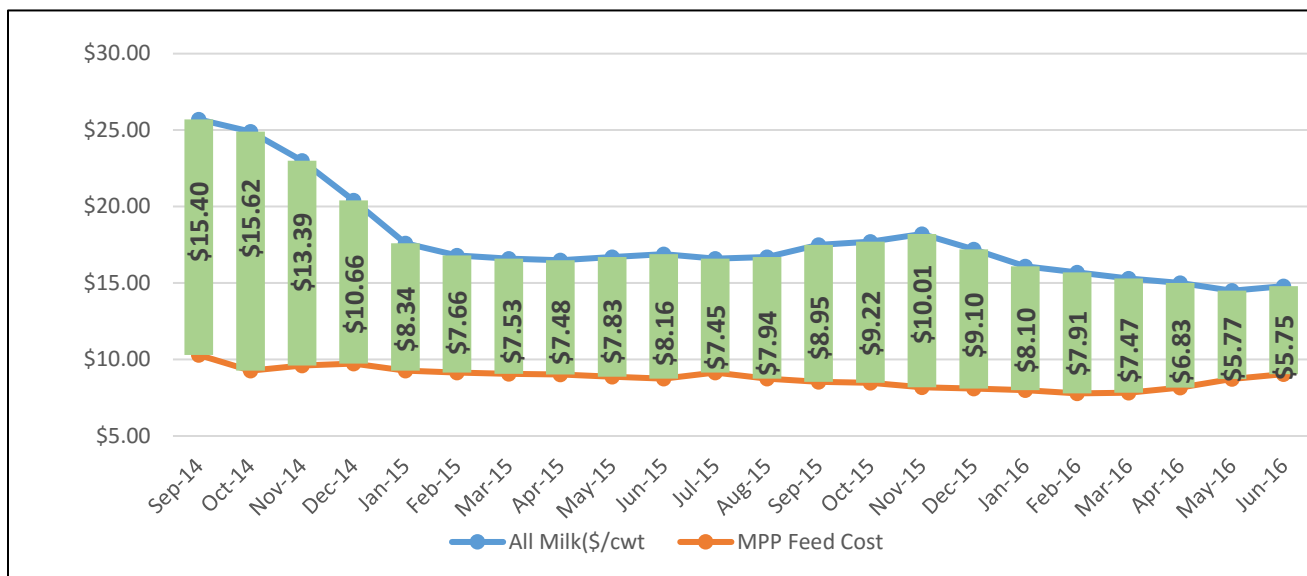


Figure 1. The MPP-Dairy Margin since the start of the program in 2014

Participation in 2016 Dairy-MPP coverage only slightly increased from 2015. Nationally 56.6% of dairies participated in 2016, up from 54.6% in 2015. In Kansas, 66.7% of dairies were enrolled in 2016, up from 62.2% in 2015. Buy-up coverage (higher than a \$4.00 catastrophic margin) was purchased by 22.6% of dairies in the U.S. for 2016, compared to 38.6% in Kansas. Figure 2 shows this breakdown by coverage level for both 2015 and 2016 coverage periods. Less buy-up coverage was purchased in 2016 than 2015 both in Kansas and nationally.

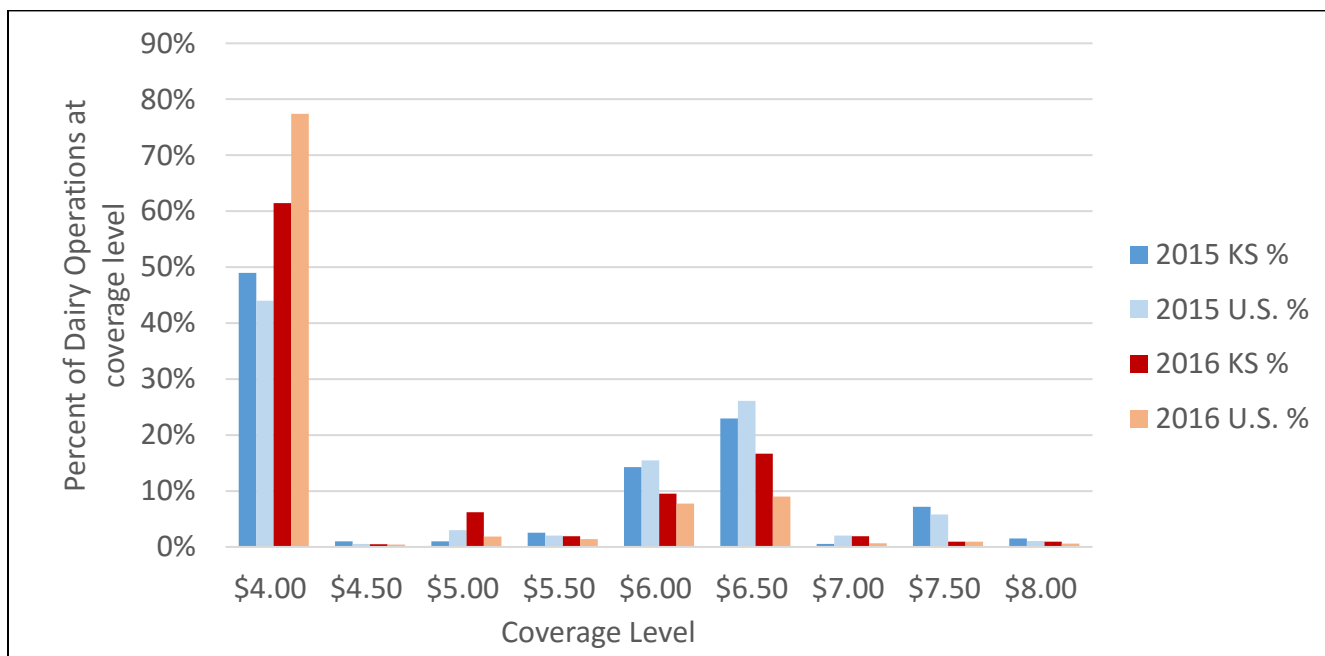


Figure 2. Percent of Dairies in Kansas and U.S. selecting MPP coverage levels for 2015 and 2016

Figure 3 looks at coverage level purchased based on the average size of the dairy purchasing that coverage level. In Kansas, the largest dairies purchased mostly \$5.00 coverage with a mixture of dairies purchasing \$4.00 and \$6.00 coverage. Only smaller dairies purchased high coverage levels, likely because of the higher premiums for covered production history over four million pounds.

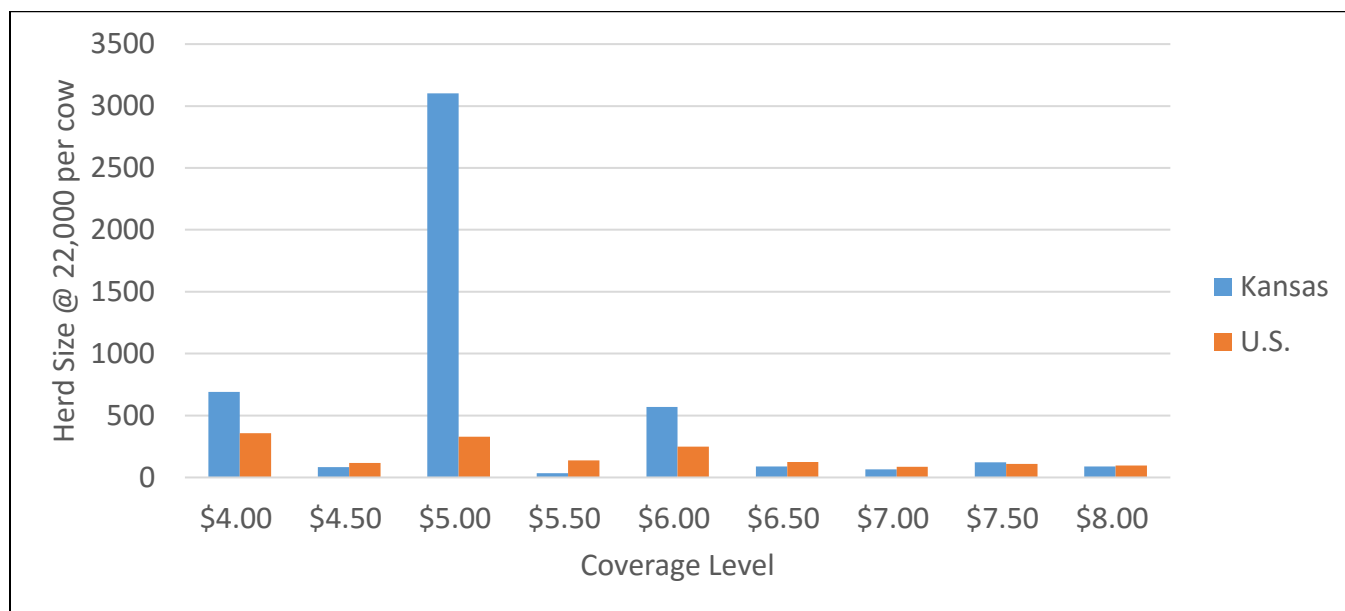


Figure 3. Average heard size of dairies selecting MPP coverage levels for 2016

So what coverage level should a dairy sign-up for regarding 2017 Dairy-MPP? According to the Dairy-MPP Decision Tool, the margin is predicted to be higher than even \$8.00 margin coverage next year (Figure 4). However, there is a great degree of uncertainty this far out and dairies should still consider some form of risk protection. The tool showed a similar predicting last year, but in reality the All Milk Price drove the actual margin much lower (Figure 5.) While feed costs are predicted to remain low, the uncertainty in the milk price offers a great deal of risk. The “correct” level of coverage will be dependent upon each dairy operation’s risk tolerance and willingness to pay for protection.

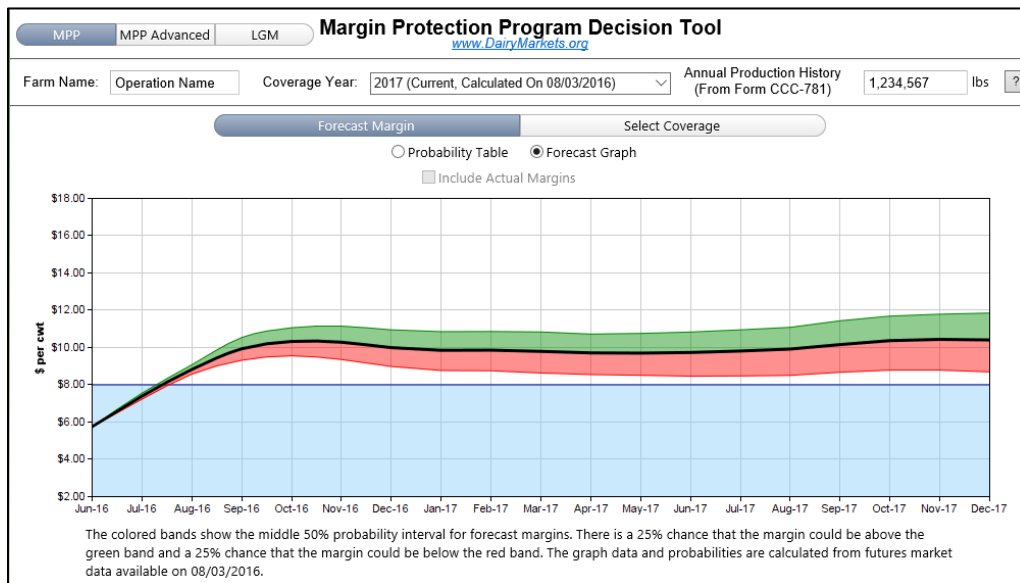


Figure 4: The Dairy-MPP Decision Tool predicting the 2017 margin as viewed on 8/4/2016 (http://www.fsa.usda.gov/FSA/pages/content/farmBill/fb_MPPDTool.jsp)

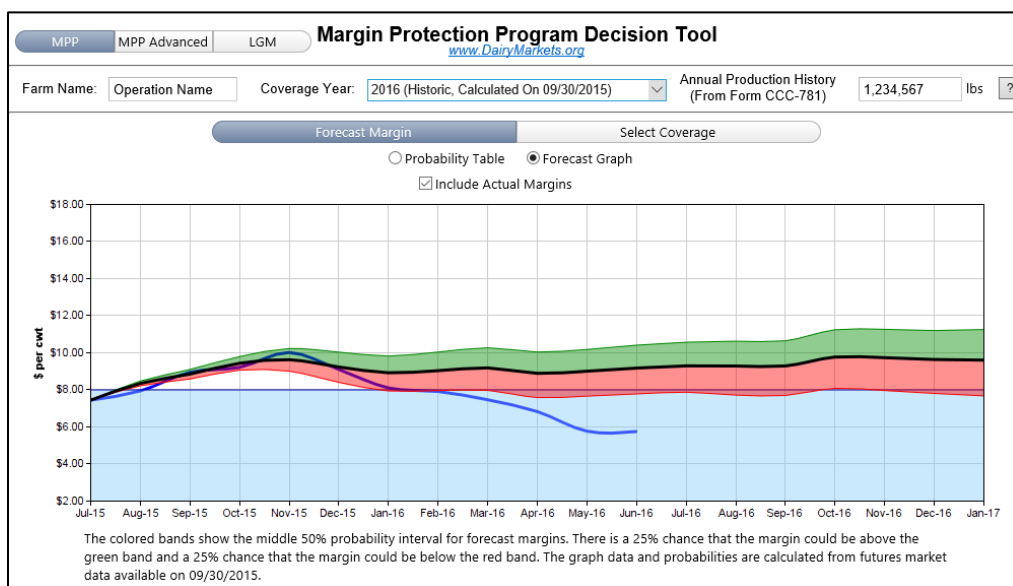


Figure 5: The Dairy-MPP Decision Tool predicting the 2016 margin with the current actual margin as viewed on 8/4/2016 (http://www.fsa.usda.gov/FSA/pages/content/farmBill/fb_MPPDTool.jsp)

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K-State Agricultural Economics | 342 Waters Hall, Manhattan, KS 66506-4011 | (785) 532-1504 | fax: (785) 532-6925

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