

Florida and the Dairy Industry: “Four Key Areas”

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There are four areas most dairy farmers are interested in: milk price, milk sales, milk production, and dairy policy. This paper addresses those four areas for the Florida dairy industry.

Milk Price

Many factors determine the price a dairy farmer receives for their milk production. Two key factors are the Federal Order blend price and the over-order premium. Table 1 for the years 2004-2011, shows the blend price and charged over-order premium for the Florida Federal Milk Marketing Order. The blend price and charged over-order premium, combined, is the average price a regulated milk buyer pays for milk in the Florida order.

Table 1. Florida Federal Order Blend Price (Tampa) and Charged Over-order Premium (OOP) 2004-2011

<u>Year</u>	<u>FO Blend Price</u>	<u>Charged OOP</u>	<u>Gross Price</u>	<u>Blend % Gross</u>	<u>OOP % Gross</u>
	(\$/cwt.)				
2004	\$18.40	\$1.89	\$20.29	91%	9%
2005	\$17.57	\$2.15	\$19.72	89%	11%
2006	\$15.23	\$2.79	\$18.02	85%	15%
2007	\$21.52	\$2.68	\$24.20	89%	11%
2008	\$21.87	\$3.49	\$25.36	86%	14%
2009	\$16.12	\$2.95	\$19.07	85%	15%
2010	\$20.12	\$2.93	\$23.05	87%	13%
2011	\$23.77	\$2.59	\$26.36	90%	10%

Date Source: Agricultural Marketing Service and Florida Federal Milk Market Administrator

Generally, when the blend price is low (2006 and 2009) the charged over-order premium is a higher percent of the gross price. On the other hand, when the blend price is high (2011), the over-order premium is a smaller percent of the gross price. In 2011, 90% of the gross price was determined by the Federal Order blend price and 10% from the over-order premium.

The level of over-order premium is dependent upon the price of raw or packaged milk in “available areas”, plus the transportation cost to ship the raw or packaged milk to the Florida market.

The Federal Order blend price is the weighted average of how milk is utilized in four classes. The classes are: Class I (fluid), Class II (soft manufactured products such as cottage cheese, ice cream, yogurt), Class III (hard cheese), and Class IV (butter and powder). The prices of four dairy

commodities – cheese, butter, dry whey, and nonfat dry milk powder are the basis of determining the prices of all four classes. In addition, differentials are added to the Class I and II prices.

An analysis was conducted of the Florida Federal Order pool for 2009, 2010, and 2011 to determine the weight of each of the above factors in determining the blend price. Table 2 shows the results.

Table 2. Weight of dairy commodities and differentials in calculating the Florida Federal Order blend price 2009-2011

	<u>2009</u>	<u>2010</u>	<u>2011</u>
		(%)	
Class I Differential	29.2	23.7	19.5
Class II Differential	0.3	0.3	0.3
Butter	27.3	32.5	32.7
Cheese	27.8	5.8	12.4
Dry Whey	1.1	1.7	3.7
Nonfat Dry Milk Powder	14.3	36.1	31.5
Differentials	30	24	20
Dairy Commodities	70	76	80

Date Source: Florida Federal Milk Market Administrator

Even in a fluid milk market, such as Florida, the majority of the blend price is determined by the price of four dairy commodities – cheese, butter, dry whey, and nonfat dry milk powder. Supply and demand, both domestic and international, determines the price of those four commodities, thus the majority of the blend price.

Milk Sales

Table 3 shows fluid milk sales in the Florida Federal Order and the U.S. Nationwide, less fluid milk is sold today than in 2000, even though the U.S. has about 30 million more people in 2011 compared to 2000. Florida fluid sales were higher in 2011 than in 2000, mainly due to significant increases in populations. 2011 was a sluggish year for milk sales, both in Florida and the U.S., down 2.6% and 1.8%, respectively.

Even though fluid milk sales have increased in Florida since 2000, the increase has come from milk packaged by plants not physically located in the Florida order. Sales from in the marketing area (plants physically located in the Florida order) have stayed relatively flat as shown in Figure 1.

Table 3. Florida and U.S. fluid milk sales and U.S. per capita consumption 2000, 2005, 2010, 2011

<u>Year</u>	<u>Florida</u>	<u>U.S.</u>	<u>Per Capita</u>
	(million lbs.)		(lbs.)
2000	2,807	54,490	193
2005	2,980	53,439	182
2010	2,976	53,656	178
2011	2,900	52,700 (e)	176 (e)
11 vs. 10	-2.6%	-1.8%	

Data Source: Florida Federal Milk Market Administrator, Agricultural Marketing Service, International Dairy Foods Association, and own estimates

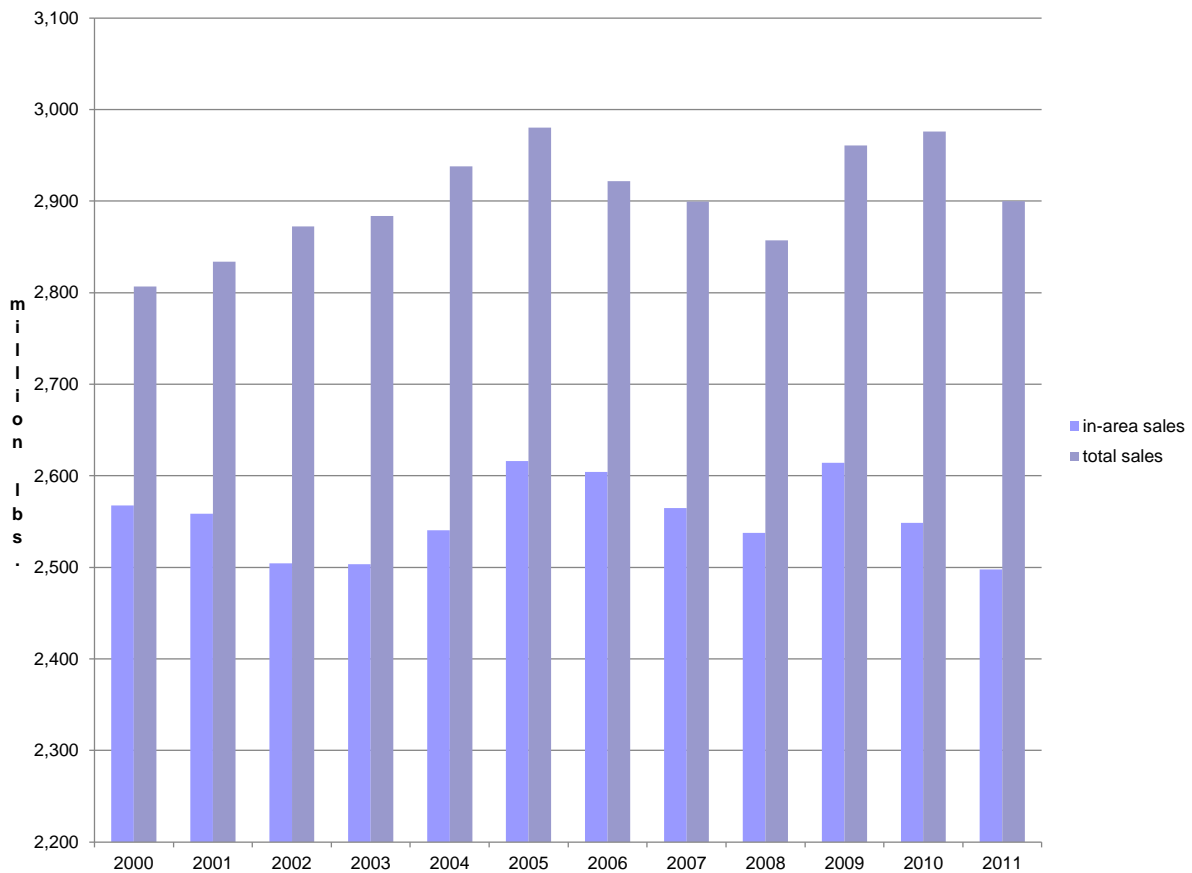


Figure 1. Florida fluid milk total sales and in area sales, 2000-2011. Data Source: Florida Federal Milk Market Administrator

In 2000, only 8.53% of Florida sales were from plants outside of the Florida order. In 2011, the percent increased to 13.87%. Much of this increase is from organic fluid milk sales as seen in Table 4. No organic milk is packaged in Florida.

Table 4. Florida fluid milk sales by product.

product	2007	2008	2009	2010	2011
	(percent of total sales)				
whole	36.40%	35.33%	34.88%	33.65%	32.60%
2% milk	27.03%	27.84%	28.24%	27.68%	28.17%
1% milk	11.00%	11.69%	12.10%	13.28%	13.42%
skim	12.44%	12.64%	12.71%	12.28%	12.36%
fortified	2.96%	1.78%	1.57%	2.01%	1.57%
flavored	7.48%	7.44%	7.45%	7.61%	8.39%
organic	1.65%	2.25%	2.20%	2.49%	2.69%
buttermilk	0.46%	0.43%	0.43%	0.43%	0.45%
eggnog	0.28%	0.26%	0.24%	0.41%	0.35%
other	0.29%	0.34%	0.19%	0.15%	0.00%

Data Source: Florida Federal Milk Market Administrator

Both the Florida and U.S. fluid sector is dividing up the same size pie. This is not healthy for dairy farmers, processors, and consumers. If per capita consumption of fluid milk was the same today as in 2000, fluid would utilize an additional 5 billion lbs. of milk, annually.

Milk Production

Milk production in Florida peaked in 1990 at about 2.5 billion lbs. as seen in Table 5. Florida milk production in 2011 increased a strong 6.7% from 2010. Florida is the dominant milk producing state in the southeast, producing 25% of total southeast milk production.

Table 5. Florida, Southeast, and U.S. Milk Production 1950-2011.

<u>Year</u>	<u>Florida</u> (mil. lbs.)	<u>Southeast</u> (mil. lbs.)	<u>Fl %</u> <u>SE</u>	<u>U.S.</u> (mil. lbs.)	<u>Fl %</u> <u>U.S.</u>
1950	598	14,056	4.3%	116,602	0.5%
1960	1,306	14,110	9.3%	123,109	1.1%
1970	1,641	14,117	11.6%	117,007	1.4%
1980	2,028	14,440	14.0%	128,406	1.6%
1990	2,526	14,418	17.5%	147,721	1.7%
2000	2,463	13,542	18.2%	155,292	1.6%
2010	2,127	9,013	23.6%	192,757	1.1%
2011	2,269	9,096	24.9%	196,168	1.2%
11 vs. 10	6.7%	0.9%		1.8%	

Data Source: National Agricultural Statistics Service

Seasonality of milk production is a challenge in the Florida market. However, as shown in Figure 2, the difference between the highest milk producing month (March) and the lowest (September) is decreasing. The difference between these two months was 86 million lbs. in 2000, but declined to 64 million lbs. in 2011. Demand for fluid milk is greater than milk supply in Florida each month of the year as depicted in Figure 3.

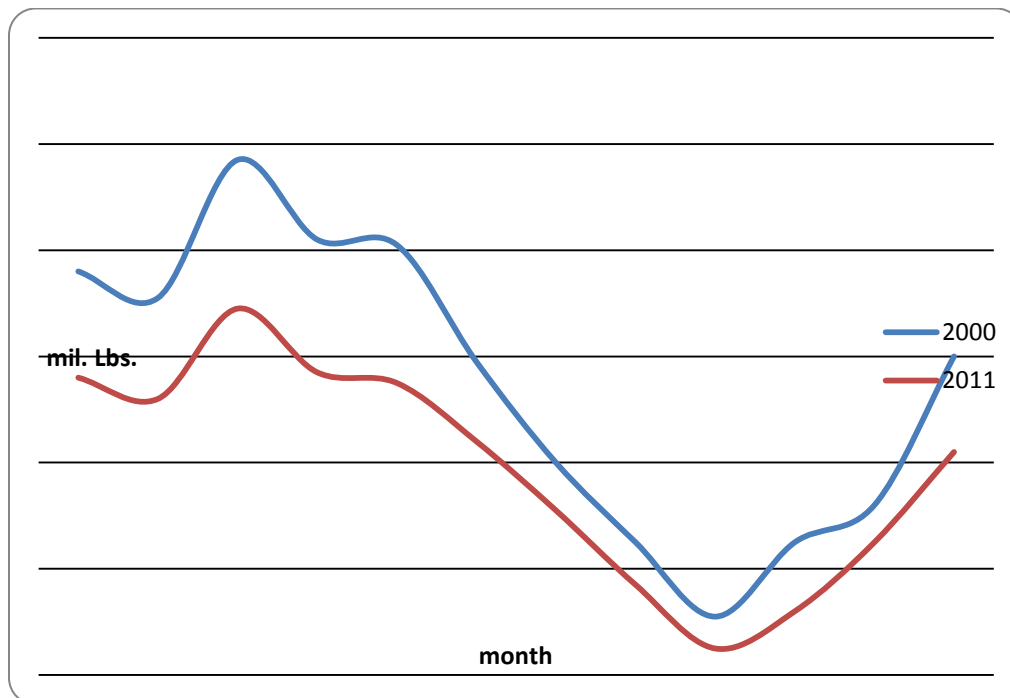


Figure 2. Florida milk production by month 2000 and 2011. Data Source: National Agricultural Statistics Service

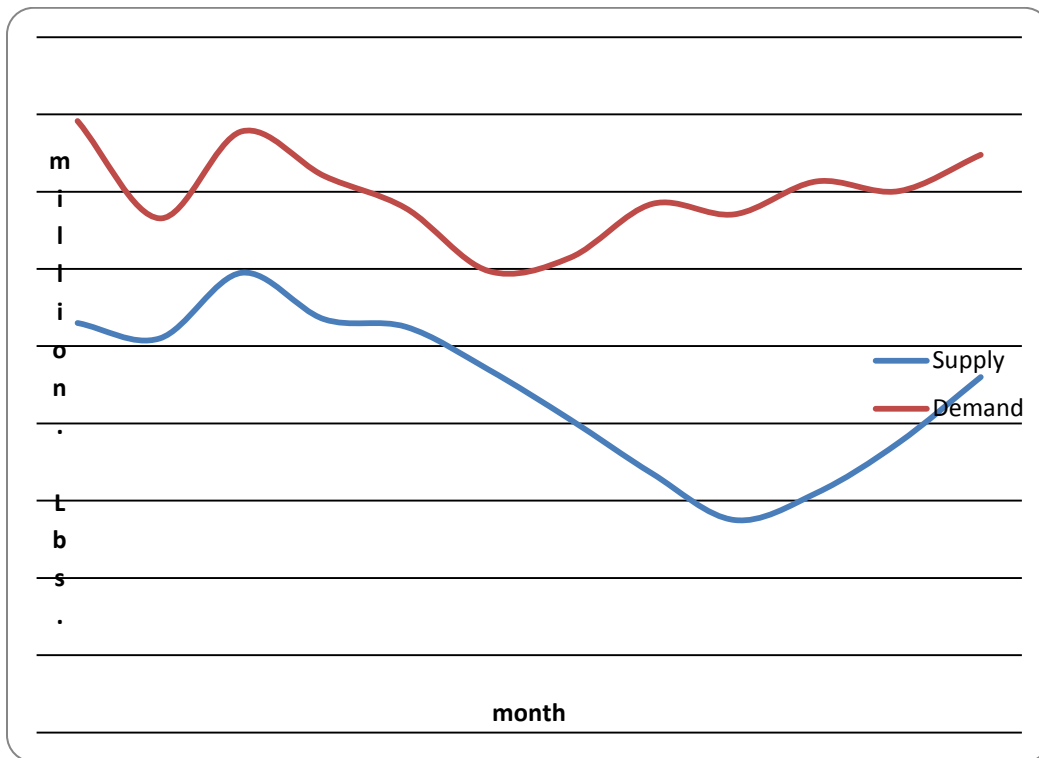


Figure 3. Florida milk supply versus milk demand by month 2011. Data Source: National Agricultural Statistics Service and Florida Federal Milk Market Administrator

Dairy Policy

The following is a list of dairy legislation now pending in the U.S. House and Senate:

- Dairy Security Act of 2011
- Federal Milk Marketing Improvement Act of 2011
- Dairy Advancement Act of 2011
- Dairy Producer Income Protection Act of 2011
- Dairy Pricing Reform and Farmer Protection Act of 2011
- Rural Economic Farm and Ranch Sustainability and Hunger Act of 2011
- MILC Preservation Act of 2011
- MILC Continuation Act

A major challenge for future Federal dairy programs is money. According to information released by the House of Representatives Subcommittee for Dairy and Livestock, \$5.98 billion was spent on dairy programs from FY02-FY11. Of this amount \$3.65 billion was spent on the Milk Income Loss Contract Program and \$2.16 billion for the Dairy Product Price Support Program. For the next ten years, FY12-FY21, the Congressional Budget Office baseline for dairy programs is \$450 million.

My suggested priorities for Federal dairy policy as it pertains to Florida are:

1. Make sure the cure is not worse than the disease. No new dairy legislation is preferable, if proposed programs worsen the situation, do not increase milk sales or dairy farmer income, or the outcome of the proposed legislation is uncertain.
2. Spend resources on improving current Federal programs to better benefit dairy farmers. And, terminate existing programs that increase dairy farmer costs.
3. Increase fluid milk sales - one of the best ways to increase income for all dairy farmers.
4. Defend the Federal Order system. Federal Orders level the playing field among producers, cooperatives, and processors. Orders decrease price volatility, strengthen producer milk prices, and promote more orderly marketing. Orders are one government program that provides a return on investment (government outlay \$5.5 million/year past 10 years).
5. Maximize the economic and political resources available.

NOTES
