

MAY 2021

GEORGIA MILK REVIEW

MONTHLY NEWSLETTER FOR
GEORGIA MILK PRODUCERS, INC.

Governor Kemp Signs Multiple Bills Supporting Georgia Farmers & Timber Growers

Georgia Farm Bureau, Jennifer Whittaker



Gov. Brian Kemp showed his support of Georgia farmers and timber growers by signing eight bills into law pertaining to agriculture and forestry. Georgia Farm Bureau hosted the bill signing ceremony the morning of May 7 at its home office in Macon.

A group of about 100 Georgia ag and forestry leaders attended the event along with the state legislators who authored and secured votes for the bills in the Georgia General Assembly.

"Georgia Farm Bureau is the largest ag organization in the state of Georgia. Our purpose is to represent farmers and agriculture in the legislative arena. We represent everything from apples to zucchinis, and I want to welcome all of y'all here today as Governor Kemp signs these bills into law that will help Georgia farmers and timber growers," Georgia Farm Bureau President Tom McCall said. "GFB thanks all of the legislators who wrote and introduced these bills and got them passed through the Georgia Legislature this session."

Senate Bill (SB) 247, which updates how state commodity commissions can communicate with producers, was among the bills Kemp signed. Sen. Lee Anderson authored this bill supported by multiple ag commodity commissions, GFB, Georgia Cattlemen's Association and Georgia Milk Producers Inc.

Gov. Kemp also signed House Bill (HB) 498, which will let Georgia voters decide in the 2022 election if family farms that have merged may have the same ad valorem tax exemption on farm equipment that they qualified for before merging. Rep. Sam Watson introduced this bill for which GFB, Georgia Agribusiness Council, and other ag organizations advocated.

"I want to thank Georgia Farm Bureau and its members and other ag organizations, the Georgia Forestry Association, Georgia Forestry Commission and Department of Natural Resources for the input they give at the capitol every day of the session," Gov. Kemp said. "There's no more generational business than a family farm. Marty and I know how important small business is to Georgia's economy, and that's what Georgia Farm Bureau and the Georgia Agribusiness Council are fighting for in the capitol every day."



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Grassroots efforts continue seeking solution to Class I formula change losses

Sherry Bunting, Farmshine, May 2021

Table 1 USDA AMS Class 1 Base Mover: Avg + \$0.74 vs. higher of						
MONTH	2-yr impl.	Diff +/- per cwt	Cl I bil lbs	GAIN/LOSS Avg + 0.74	All FMMOs	
	2018 Farm Bill	HIGHER vs higher of			All FMMOs	vs. higher of
May-19	16.42	15.76	0.66	3.728	\$ 24.61 million	
Jun-19	17.07	16.44	0.63	3.230	\$ 20.35 million	
Jul-19	17.18	16.79	0.39	3.482	\$ 13.58 million	
Aug-19	17.89	17.37	0.52	3.716	\$ 19.30 million	
Sep-19	17.85	17.49	0.36	3.616	\$ 13.01 million	
Oct-19	17.84	17.82	0.02	3.897	\$ 0.78 million	
Nov-19	18.14	18.44	-0.30	3.425	(\$ 10.28 million)	
Dec-19	19.33	20.68	-1.35	3.756	(\$ 50.70 million)	
Jan-20	19.01	19.91	-0.90	3.876	(\$ 34.88 million)	
Feb-20	17.55	17.01	0.54	3.457	\$ 18.68 million	
Mar-20	17.46	17.12	0.34	4.011	\$ 13.64 million	
Apr-20	16.64	16.49	0.15	3.617	\$ 5.43 million	
May-20	12.95	13.15	-0.20	3.581	(\$ 7.16 million)	
Jun-20	11.42	11.03	0.39	3.465	\$ 13.51 million	
Jul-20	16.56	19.13	-2.57	3.528	(\$ 90.67 million)	
Aug-20	19.78	24.36	-4.58	3.459	(\$ 158.44 million)	
Sep-20	18.44	22.69	-4.25	3.534	(\$ 150.02 million)	
Oct-20	15.20	16.20	-1.00	3.792	(\$ 37.92 million)	
Nov-20	18.04	21.22	-3.18	3.641	(\$ 115.78 million)	
Dec-20	19.87	24.88	-5.01	3.807	(\$ 190.07 million)	
Jan-21	15.14	15.35	-0.21	3.678	(\$ 7.72 million)	
Feb-21	15.54	15.84	-0.30	3.400	(\$ 10.20 million)	
Mar-21	15.20	15.66	-0.46	Est 3.630	Est (\$ 16.7 million)	
Apr-21	15.51	15.69	-0.18	Est 3.630	Est (\$ 6.5 million)	
May-21	17.10	17.29	-0.19	Est 3.630	Est (\$ 6.9 million)	
	24 MO. NET LOSS ON ALL CL. MILK		-0.85	Est 90.583	Est (\$751.05 million)	
	24 MO. NET LOSS ON ALL MILK SOLD		-0.24			

The Class I 'mover' is the subject of much discussion — two years after the averaging method plus 74 cents replaced the 'higher of' method to determine the base producer price of Class I beverage milk in May 2019.

A letter drafted by Senator Kirsten Gillibrand of New York is gathering signatures from Senators and will be sent to Ag Secretary Tom Vilsack regarding financial assistance to cover direct and indirect losses borne by dairy farmers due to the formula change exacerbated by the pandemic.

Dairy groups are working to raise awareness among key lawmakers and USDA about the 24-month net loss of over \$750 million in the Class I mover price from May 2019 through April 2021. In addition, these losses impacted orderly marketing and other factors, contributing to net losses exceeding \$3 billion nationwide from inverted class price relationships that produced negative PPDs and led to depooling. In addition, dairy farmers had risk management losses when their milk was devalued, but they paid for risk management that failed because it was aligned with a "market value" they did not receive.

Sen. Gillibrand's letter highlights the concern about the unintended consequences of the Class I formula change to averaging and away from 'higher of'.

In the Northeast FMMO 1, for example, the Class I change, alone, accounted for a net loss of over \$160 million in Class I devaluation over 24 months, and there were broader impacts of basis losses from reduced and negative producer price differentials (PPD) and depooling.

Northeast producer blend price losses are estimated to be \$1.10/cwt, net, from May 2019 through April 2021.

Similar loss estimations can be made for broader impacts across the U.S., depending upon how cheese plants determined pay prices for farmers when the FMMO uniform blend prices were suppressed by \$1 to \$10 across 7 of the 11 FMMOs that PPDs were severely negative from October through December 2019 and from June 2020 through April 2021.

These formula-related losses are expected to continue through most of 2021 due to current market factors affecting how the class pricing formulas, with the change to Class I, relate to each other and how this impacts depooling.

Producers from the Southeast U.S. also began circulating a letter to Secretary Vilsack highlighting the steep losses in the three Southeast FMMOs and seeking direct payments through Coronavirus stimulus funds. (continued on next page)

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The Southeast letter asserts that milk producers in FMMO 5, 6, and 7 (Appalachian, Florida and Southeast) disproportionately bore 21% (\$155 million) of the lost revenue directly attributable to the Class I mover change, because the 21% of Class I value loss fell on dairy farmers shipping just 5.5% of total milk pooled across all orders in the U.S.

Southeast producer blend price losses are pegged at \$1.25/cwt.

The Southeast letter states that the loss was not shared equitably among all dairy farmers, due to depooling, which the letter indicates made it possible for dairy farmers marketing milk to cheese plants (Class III) to receive the shortfall.

However, many producers whose milk was depooled from FMMOs did not receive that shortfall from milk buyers, unless they had milk contracts based directly on cheese prices. Many manufacturing class handlers use the FMMO blend price as the benchmark for paying producers outside of pooling.

Several industry sources observe that this change turned out to be a big benefit to processors at great expense to producers. The problem surfaced under market conditions before the pandemic and was made worse by market conditions since the pandemic. Even National Milk Producers Federation (NMPF) has admitted as much, stating that the International Dairy Foods Association (IDFA) wanted this change in the first place. NMPF indicates they went along with it after studying some historical trends thinking the 74-cent adjuster to the average would produce a result that was "revenue-neutral" for dairy farmers.

It was anything but 'revenue-neutral' for dairy farmers, even before the pandemic. The pandemic impact simply magnified the severity of loss.

Proposals continue surfacing since NMPF announced its intention to seek a USDA emergency hearing with a proposal to tweak the adjuster to the average every two years. Minnesota Milk Producers, Wisconsin Dairy Business Association, Edge Cooperative and the Nebraska State Dairy Association joined together with a concept to change the Class I mover to a Class III-Plus that would be based on Class III announced prices instead of advance prices. FarmFirst Cooperative based in Madison, Wisconsin, announced it would put forward a proposal to return to the 'higher of' calculation — if USDA holds a hearing.

To read the full article, visit Sherry Bunting's website at: <https://agmoos.com/2021/05/14/grassroots-efforts-continue-seeking-solution-to-class-i-formula-change-losses/>

Dairy industry important to Southeast

From Calvin Covington, May 2021 Dixie Dairy Report

Even though Southeast milk production is on a downhill slope, it is still economically important to the Southeast. USDA's 2020 Milk Production, Disposition and Income Summary reports cash receipts from 2020 milk sales in the Southeast States almost \$1.7 billion. The following table shows the cash receipts for each Southeast state.

Federal Order	AVERAGE DAILY CLASS I PRODUCER MILK – First Quarter 2021 vs. 2020			
	2019	2020	2021	Change (21 vs. 20)
Appalachian	10.8	10.9	10.7	-1.9%
Florida	6.2	6.1	5.7	-7.7%
Southeast	10.0	9.5	8.8	-7.2%
3 Orders Total	27.0	26.5	25.2	-5.2%
All Federal Orders	125.5	124.7	120.1	-3.7%

Agriculture Commodity Commissions Seeking Nominations



Several Georgia Agriculture Commodity Commissions are seeking nominations for positions of individuals whose terms are set to expire. The deadline for receiving nominations is Thursday, May 30, 2021.

To serve on a Commodity Commission, a person must be a producer of the commodity of the commission, commit to attend meetings and represent the producers of the commodity. Term-expiring board members are also eligible for reappointment. Please see commodity commissions and term-expiring members below:

- Beef – Kenneth Murphy (Representing Dairy), Jesse Driggers
- Corn – Herbert "Hub" Daniel, Mike Jaros
- Milk – Paul Johnson, Phil Harvey

Nominations can be completed using the nomination form at agr.georgia.gov/cpf. For more information or to submit forms contact Andy Harrison at andy.harrison@agr.georgia.gov or by mail at: Georgia Department of Agriculture 19 MLK Jr. Dr. SW Room 324 Atlanta, GA 30334

Calendar of Events:

May 27: GA Milk Producers Board of Directors Meeting,
Macon State Farmers Market

June 17: ACCM Board Meeting, Macon State Farmers Market

Oct. 7-17: Georgia National Fair, Perry

Oct. 19-21: Sunbelt Ag Expo, Moultrie



DIXIE DAIRY REPORT

CALVIN COVINGTON
MAY 2021

FEDERAL ORDER CLASS PRICES (2021 YTD)

Dairy product prices. April Dairy Products Sales Report (DPSR) prices, for the four dairy products used to calculate federal order class prices, were all higher than March. Strong food service sales are strengthening butter and cheese

prices. April butter increased over \$0.20/lb. from March to \$1.7814/lb., and is the highest butter price since last July. Based on recent CME trading activity the butter price appears to be softening. Cheese gained over a dime for an April average price of \$1.7106/lb. Barrel cheese is reported "tight", a reason for the current CME barrel price higher than block. Cheese production is at a record high with March production almost 5% greater than last March. Expect, this increased production will put a lid on higher cheese prices. Nonfat dry milk powder (NDM) and dry whey continue several months of price increases. Each advanced over a nickel per lb. from March to April. Good domestic and strong export demand are driving both products. Plus, the NDM inventory is declining, almost 10% lower than last year. The April NDM price of \$1.1680/lb. is the highest in over a year. April dry whey at \$0.6135/lb. is the highest price since 2014. As shown below, all Class prices are higher than the previous month with the large spread between Class III and IV continuing.

Class	January	February	March	April	May
	(\$/cwt. 3.5% fat)				
Class I	\$15.14	\$15.54	\$15.20	\$15.51	\$17.10
Class II	\$14.18	\$14.00	\$15.07	\$15.56	
Class III	\$16.04	\$15.75	\$16.15	\$17.67	
Class IV	\$13.75	\$13.19	\$14.18	\$15.42	

In the three southeastern federal orders the decline is greater at 5.2%. All but one of the eleven (11) federal orders saw first quarter declines in Class I producer milk. The one exception was the Northeast order with Class I slightly higher than a year earlier. The largest Class I decline was in the Central order with a drop of 8.1%, followed by Florida which was down 7.7%. We can speculate government restrictions kept normal winter travel from northern to southern states lower this year. This may partially account for slightly higher fluid sales in the Northeast, but lower in Florida and the Southeast.

Higher retail fluid milk prices do not appear to be a reason for lower fluid sales. Nationwide, whole milk retail prices only averaged about \$0.07/gallon higher during the first quarter of this year compared to a year ago. While in the Miami and Atlanta markets, average first quarter retail whole milk prices are about \$0.25/gallon and \$0.50/gallon lower than last year, respectively. Sales growth of plant-based beverages, sold alongside fluid milk in the dairy case, may account for some of the fluid sales loss. The April 9, 2021 Cheese Reporter reports sales of these plant-based products was \$2.5 billion in 2020, an increase of 20% from 2019 to 2020. The article further reported these plant-based beverages account for 15% of milk category sales in all stores, and 45% in natural food stores.

Blend prices continue to advance. As shown below, April blend prices in the three southeastern orders, are projected higher than March. Blend prices are projected to add about a \$1.00/cwt. each in May and June before starting to level off. Our projections are higher than last month, but still not as high as current futures prices indicate. This is due to a strong

milk supply and anticipating food service sales to moderate. Even though blend prices are moving higher, gross margins are declining. Using the USDA gross margin formula, average 2021 first quarter gross margin is \$3.37/cwt. lower than a year ago.

AVERAGE DAILY CLASS I PRODUCER MILK – First Quarter 2021 vs. 2020

Federal Order	2019	2020	2021	Change (21 vs. 20)
	(million lbs. per day)			(%)
Appalachian	10.8	10.9	10.7	-1.9%
Florida	6.2	6.1	5.7	-7.7%
Southeast	10.0	9.5	8.8	-7.2%
3 Orders Total	27.0	26.5	25.2	-5.2%
All Federal Orders	125.5	124.7	120.1	-3.7%

Challenging first quarter for fluid milk sales.

Class I producer milk in all federal orders was 3.6% lower for the first quarter of 2021 compared to the first quarter of last year. (Note: In our opinion Class I producer milk provides a quicker and a more producer-oriented measure of fluid milk sales.)

PROJECTED* BLEND PRICES – Base Zones – SOUTHEASTERN FEDERAL ORDERS

Month	Appalachian	Florida	Southeast
	(\$/cwt. at 3.5% butterfat – base zone)		
February 2021	\$17.56	\$19.54	\$17.72
March	\$17.94	\$20.11	\$17.92
April	\$18.39	\$20.43	\$18.79
May	\$19.41	\$21.32	\$19.67
June	\$20.18	\$22.34	\$20.64
July	\$20.45	\$22.36	\$20.72

*Projections in bold

