

Explanation as to MILC Target Price Changes in Reaction to Feed Cost Increases

The denominator of the Milk-Feed Price Ratio would be used as a reference price for triggering possible increases in the MILC target price. The denominator of the Milk-Feed Price ratio is the cost of a hundredweight of dairy ration consisting of 51 pounds of corn, 41 pounds of alfalfa, and 8 pounds of soybeans. Note this is NOT the assumed ration cost to produce a hundredweight of milk; it is the cost of 100 pounds of a specific ration.

The proposed base value of this ration is \$7.35. Each month, USDA would calculate the ration cost and compare it with \$7.35. If the current value were less than or equal to \$7.35, then the MILC target price would be \$16.94. If the current value were higher than \$7.35, then the percentage difference times 45 percent (the proposed payout rate for MILC deficiency payments) would be multiplied by \$16.94 to calculate the revised target price.

As an illustration of how the proposed trigger mechanism would work, consider the MILC target price for April 2008. The April 2008 feed prices reported by USDA in Agricultural Prices were Corn: \$5.13/bushel (\$0.0961/pound for a 56-pound bushel), Alfalfa: \$157/ton (\$0.0785/pound), and soybeans: \$11.80/bushel (\$0.1967/pound for a 60-pound bushel). Applying the weights noted above yields a ration value of \$9.46/hundredweight. Subtracting \$7.35 yields \$2.11, or 28.7 percent over the base. The percentage increase in the MILC target price would be 45 percent of 28.7 percent, or 12.9 percent. Therefore, the April 2008 MILC target price would be calculated as $(1.129 * \$16.94) = \19.13 . For reference, this is equivalent to a Class III/Class IV mover of \$15.88. For comparison, the April 2008 mover was the advanced Class III price of \$18.61.