

LGM-Dairy: Livestock Gross Margin for Dairy

Victor E. Cabrera
Assistant Professor
Extension Dairy Specialist
Dairy Science Department



Brian W. Gould
Associate Professor
Ag and Applied Economics

THE UNIVERSITY
of
WISCONSIN
MADISON

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Extension

Eastern Wisconsin Farm Management Update Seminar

LGM-Dairy: What is it?

- New Livestock Gross Margin for Dairy Insurance
 - Federally reinsured dairy insurance program
 - Purchased from crop insurance providers
 - Approved July 2007, available August 2008
- Protects Dairy Business against Unexpected declines in Gross Margins
 - $\text{Gross Margin} = \text{Milk Revenue} - \text{Feed Costs}$
- Revenue neutral (No subsidies)
 - Premium = Expected Indemnity

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LGM-Dairy: Who is eligible?

Milk producers of 32 states



LGM-Dairy: What it covers?

Prices of:

- Any milk volume of producer's target marketing for a 10-month period (up to 240,000 cwt)
- Any amount of corn and soybean meal to be fed during insurance period, restricted to:
 - 0.00364 – 0.02912 tons corn/cwt milk
 - 0.13 – 1.04 bu corn/cwt milk
 - 0.000805 – 0.006425 tons SBM/cwt milk
 - 1.61 – 12.85 lb SBM/cwt milk

LGM-Dairy: What it does not cover/protect?

- Production losses
- Multiple years of declines in milk prices or increases in feed costs
- Anticipated declines in milk prices or increases in feed costs

LGM-Dairy: What farmer needs to decide?

Three main things:

- Percentage (%) of target marketings to be insured (0% to 100%)
- Level of Gross Margin Deductible or risk assumed
 - \$0 to \$1.50/cwt in \$0.1 increments
- Months to insure

LGM-Dairy: What farmer needs to provide?

Estimates of:

- Target milk marketing per insured month
- Expected feed per insured month
 - Corn and corn equivalents
 - Soybean meal and soybean meal equivalents
 - http://future.aae.wisc.edu/lgm_dairy
- Verifiable records should be available

LGM-Dairy: What is the insurance Period?

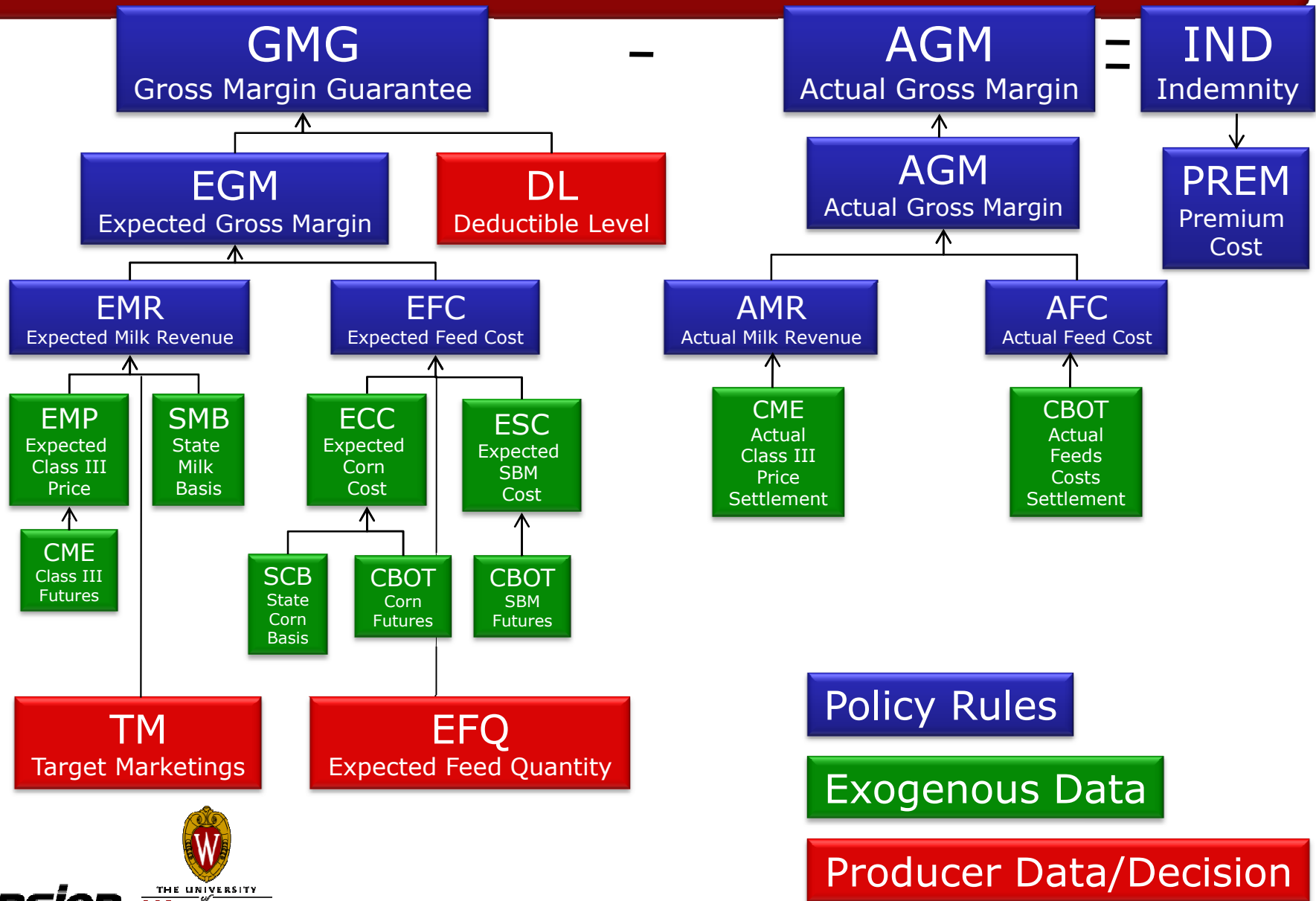
Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
		1	2	3	4	5	6	7	8	9	10
LGM-Dairy	No Coverage	Insurance Coverage									
Selected Covered Months		Nov		Jan	Feb			May	Jun		Aug



→ From 4 pm on 3rd to last business day to to 9 am following day (17-hour period)



LGM-Dairy: How it works?



LGM-Dairy: What are expected prices?

Average of future prices over 3-day price discovery period:

- Class III
- CBOT - Corn
- CBOT - Soybean meal

LGM-Dairy: What are “actual” prices?

Average of settle prices over 3 days prior to last contract trading day:

- Class III
- Chicago Board of Trade (CBOT) for
 - Corn
 - Soybean meal

LGM-Dairy: What are prices basis?

State and month basis:

- Difference between All-Milk and Announced Class III price
- Difference between corn price received and historical average “actual” CBOT price

LGM-Dairy: What is the premium?

Premium is the average of expected indemnities in the long-run:

- Proportional to the insured milk and insured feed
- Increases with price volatility
- Decreases with elected deductible (\$0 to \$1.5/cwt in \$0.1 increments)
- Decreases when all months insured together
- Estimates available in RMA website

LGM-Dairy: Overview

Advantages:

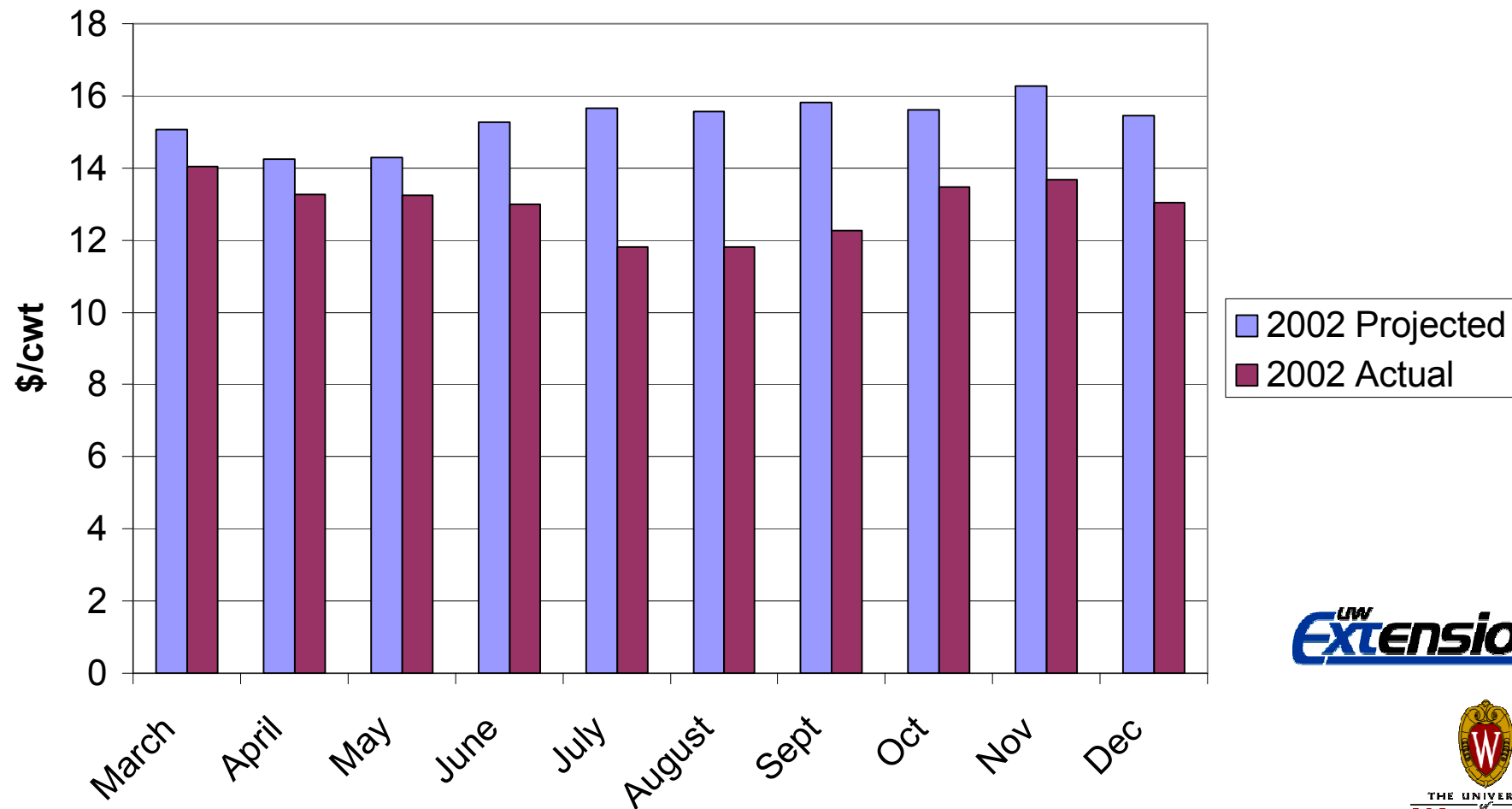
- Unique bundled insurance protects the margin: milk price less feed cost
- Very flexible and customizable
- Offered every month of the year

Drawbacks:

- Very short enrollment period
- Total premium due at sign-up
- No farmer subsidies available
- Limited capacity

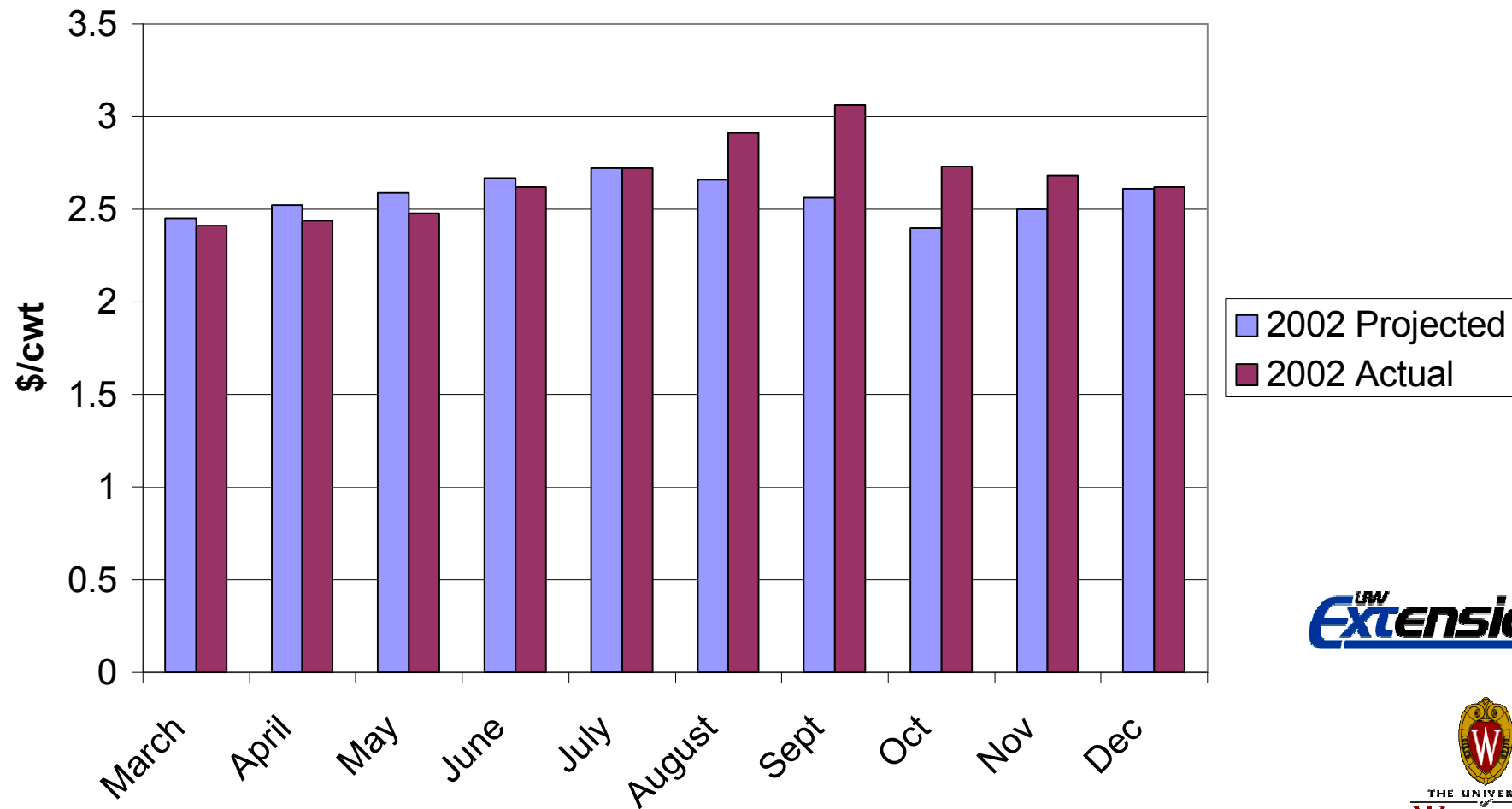
LGM-Dairy: How would it had been?

Comparison of Projected and Actual Milk Prices in 2002



LGM-Dairy: How would it had been?

Comparison of Projected and Actual Corn Prices in 2002

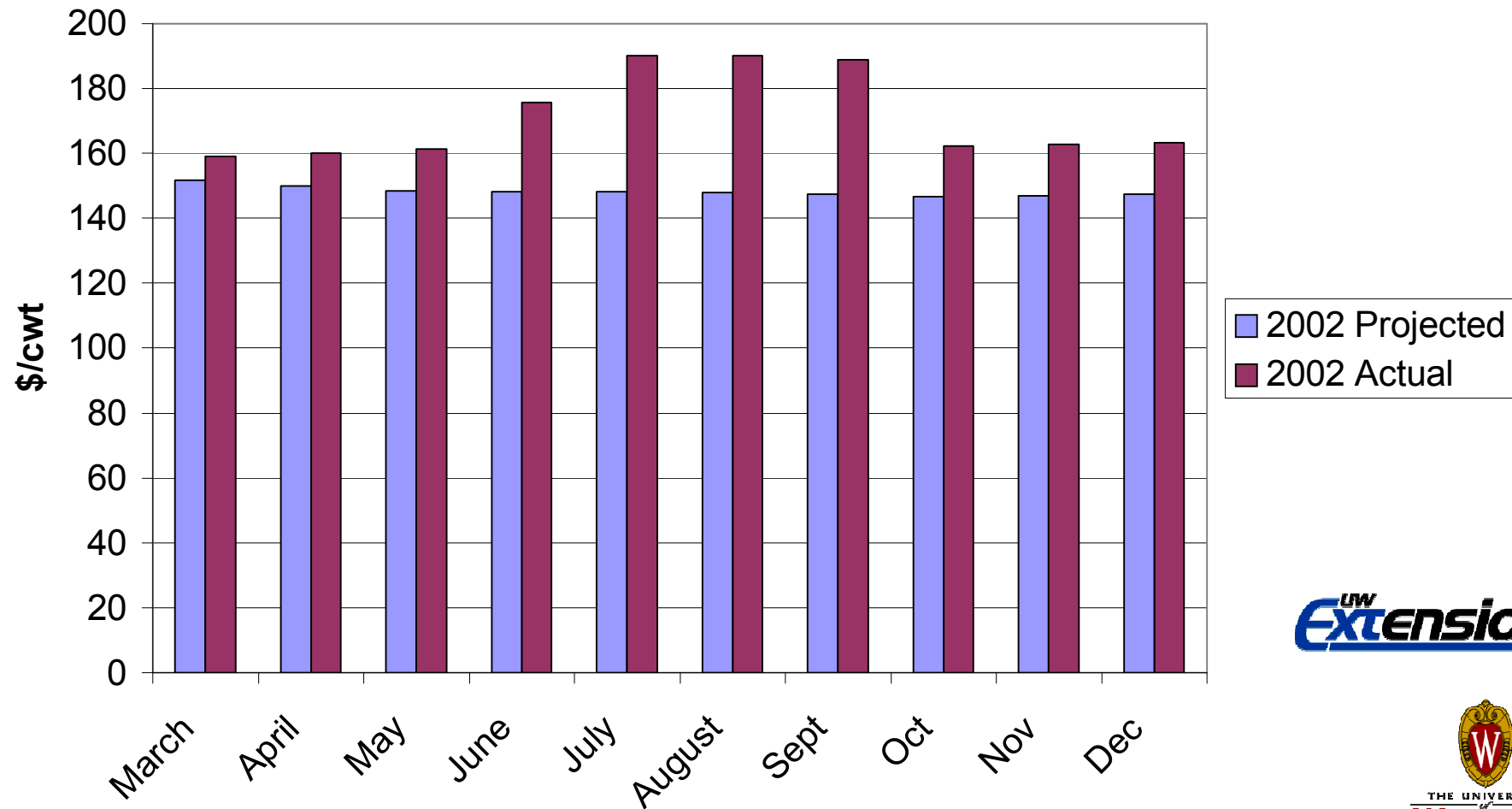


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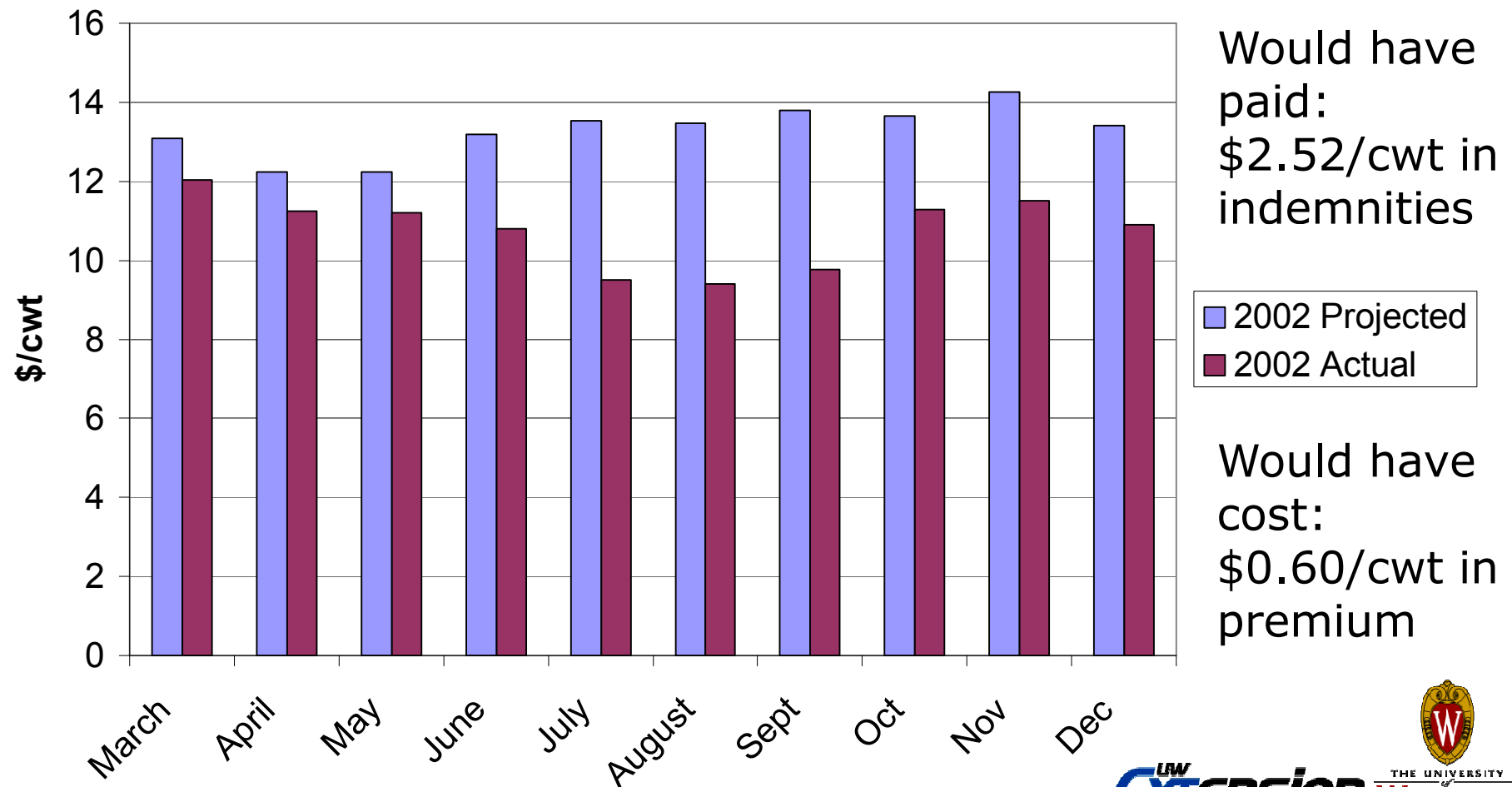
LGM-Dairy: How would it had been?

Comparison of Projected and Actual Soymeal Prices in 2002



LGM-Dairy: How would it had been?

Comparison of Projected and Actual Margin in 2002



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UW LGM-Dairy Website:
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