Maryland's Dairy Industry: 2012

A Report
To
Governor Martin O'Malley

From

The Maryland Dairy Industry Oversight and Advisory Council

November 2012

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Executive Summary

The Maryland Dairy Industry Oversight and Advisory Council considered a number of issues of concern to the state's dairy farmers, dairy processors and consumers in 2012. As in 2011, the federal Farm Bill process has been monitored as federal policy has major implications for the sustainability of Maryland dairy farmers.

The dairy industry continues to contract within the State. In 2012, for the first time since records have been maintained, the number of dairy farms fell below 500. As of this writing, there are 496 dairy farms registered with the Maryland Department of Health and Mental Hygiene to sell milk. In 2011, there were 505 dairy farms. By county, the number of dairy farms in 2012 is: Allegany 4, Baltimore 9, Caroline 8, Carroll 53, Cecil 29, Frederick 107, Garrett 66, Harford 25, Howard 3, Kent 15, Montgomery 6, Prince George's 2, Queen Anne's 8, St. Mary's 19, Talbot 5, Washington 135, Wicomico 1 and Worcester 1.

According to the Mid-Atlantic Dairy Industry Inventory Report (Attachment 1) there has been a 23 percent decline of the number of dairy herds in the region in the past decade. This reflects the states of New York, Pennsylvania, New Jersey, Maryland, West Virginia and Ohio. Milk production however has remained about steady in the region over that decade. Maryland's production, however, has declined from 1,327,000,000 pounds in 2002 to 970,000,000 in 2012. This is a 27 percent decline in production. According to data compiled by DairyBusiness magazine, Maryland had a single year decline of milk production, 2010-2011, of 31 million pounds, putting the state in the "top-10" of U.S. states with declining milk production.

As a measure of the economic straits faced by dairy farmers in Maryland in 2012, federal Milk Income Loss Contract (MILC) payments reached $4,030,862.06. The Farm Bill ended on Sept. 30, 2012, as Congress did not act to continue or renew the Farm Bill. This ended the MILC program.

According to the U.S. Department of Agriculture, Maryland has approximately 52,000 dairy cows in 2011, down from 64,000 in 2006, a 12 percent decline.

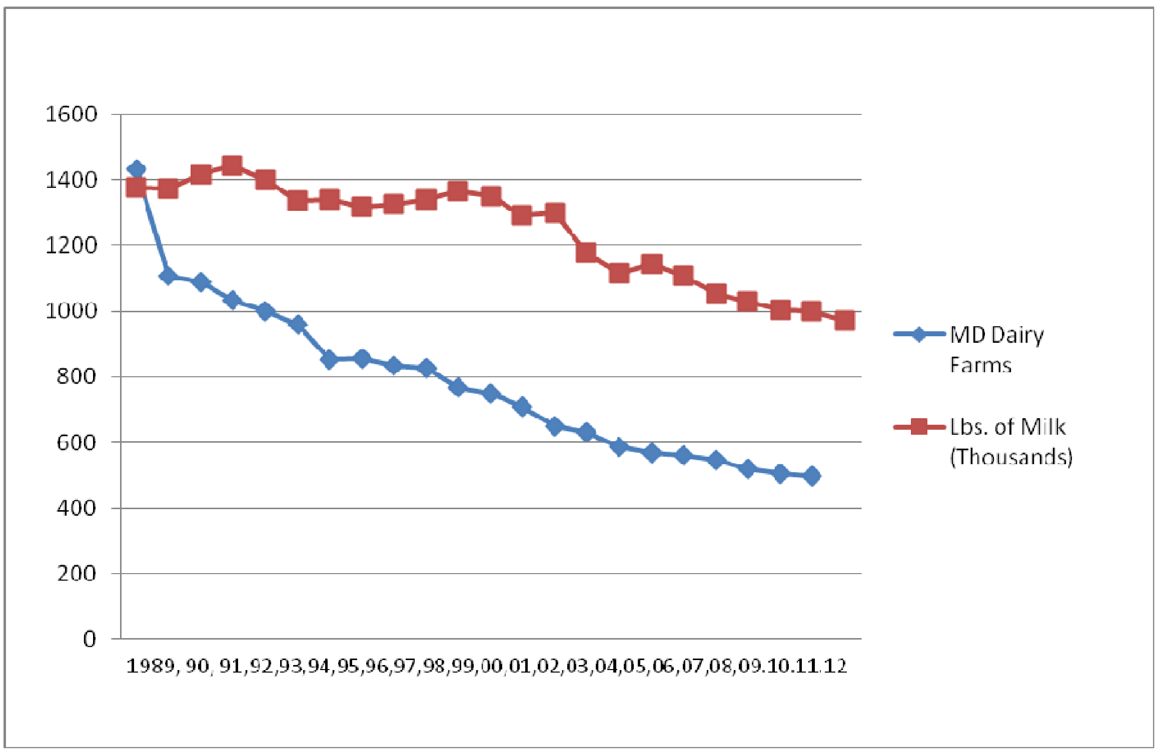
Maryland's current milk processing capacity is 9 large dairy processors, and 12 on-farm processors. Processors in the state annually process more than 3.36 billion pounds of milk according to the Maryland Department of Health and Mental Hygiene and the Federal Milk Market Order More than 40,000 loads of milk are hauled from farms throughout the Mid-Atlantic to Maryland processors.

According to the Dairy Industry Inventory Report (Attachment 2) the Mid-Atlantic is a milk deficit area. While in the past the region's dairy farms had provided milk to Southern states, the situation has now reversed. There is increasing demand for milk in the region as Greek yogurt production and other processors expand and locate in the region. Anticipated expansions and plant openings are in New York, Vermont and Pennsylvania.

The Advisory Council offers four recommendations to Governor Martin O'Malley to support the State's dairy industry.

1. Promoting milk consumption in schools
2. Develop a seasonal permit to allow milk trucks to haul up to 88,000 pounds of milk during peak production in spring months
3. Oppose legislation that would authorize the sale of raw milk
4. Provide adequate resources to help dairy farmers conform to the newest state nutrient management regulations

Number of Maryland Dairy Farms, Production of Milk in State



2012 Recommendations

In 2012, the Advisory Council has four recommendations to Governor Martin O'Malley that would be beneficial to the goal of retaining and encouraging a healthy dairy industry:

Recommendation 1:

The State of Maryland should work to increase consumption of milk in schools to provide better nutrition to the State's children and support the dairy industry. The State and Counties should support sales of flavored milk in schools.

The Council had presentations from the Montgomery County Schools Food and Nutrition Service Director Marla Caplon and Janette C. Carpentier, Mid-Atlantic Dairy Association Executive Vice President, on the use of milk in Maryland schools. Mid-Atlantic Dairy uses milk checkoff funds to promote milk and works with Maryland Meals for Achievement in Maryland schools to increase children's awareness of milk. According to the National Institute of Child Health and Human Development, calcium deficiency is a dietary concern for American children. The U.S. Department of Agriculture reports that 86 percent of teenage girls and 64 percent of teenage boys are "calcium deficient." Milk competes with soft drinks and juices unsuccessfully among children. By maintaining the availability of flavored milk in schools (now required by the USDA to be skim milk), dieticians have increased opportunity to increase milk consumption among children.

Recommendation 2:

The Maryland Department of Transportation should establish a seasonal permit to allow milk haulers to carry up to 88,000 pounds on 5 axles during the 4 month period March – June to address the need to handle peak seasonal milk production volumes.

As discussed in the 2008 report to Governor O'Malley, and repeated since then, Maryland's dairy farmers, milk processors and consumers rely upon the ability of milk haulers in the State to transport milk from farms to processing plants. The efficiency of this process is hampered by laws which prevent trucks from carrying more than 80,000 pounds. This issue affects the profitability of the state's dairy farmers and the milk processing plants which employ more than 2,000 with an annual payroll of about $104 million and produce 1.3 billion pounds of dairy products. This problem has become more acute as diesel fuel prices have risen. There is a patchwork of varying milk truck hauling weight limitations on highways and state and federal roads throughout the Northeast. A number of Northeastern states allow milk haulers to run up to 95,000 pounds on designated state roads. Meanwhile, New York and Maine allow for gross weight limits up to 99,000 pounds on some Interstate highways. Maryland has developed an exceptional hauling permit for up to 87,000 pounds for agriculture. However, this permit requires six axles. Milk trucks are not commonly outfitted with six axles and it would cost approximately $10,000 per retrofit to install this equipment. The additional axle would also increase the truck weight by about 2,500 pounds reducing the amount of milk that can be carried by that amount. This additional cost for the amount of milk that could be carried is not cost effective.

Because of the regional nature of the milk market, milk trucks have to cross state lines as they pick up milk at farms along their routes and transport to processing facilities. Thus the various rules and Maryland's lighter load limits, create inefficiencies for milk haulers on their routes to the State's 496 dairy farms. Further complicating this issue is the seasonality of milk production, with large swings in production volume varying depending upon the season, heat, feed quality and other factors. This can make it hard to predict the volume of milk (and thereby the truck's weight) that will be picked up at each farm. Working to create uniform standards can help address transportation inefficiencies, whose costs are passed on to dairy farmers and consumers. *The chart below shows average pounds of milk shipments per farm in Federal Milk Market Order 1 by month from 2008-2012. Order I includes most of Maryland, minus Garrett and part of Allegany counties. The chart shows the seasonality of milk production, with a peak between March and June. (Source USDA Federal Milk Market Order I, Northeast)*

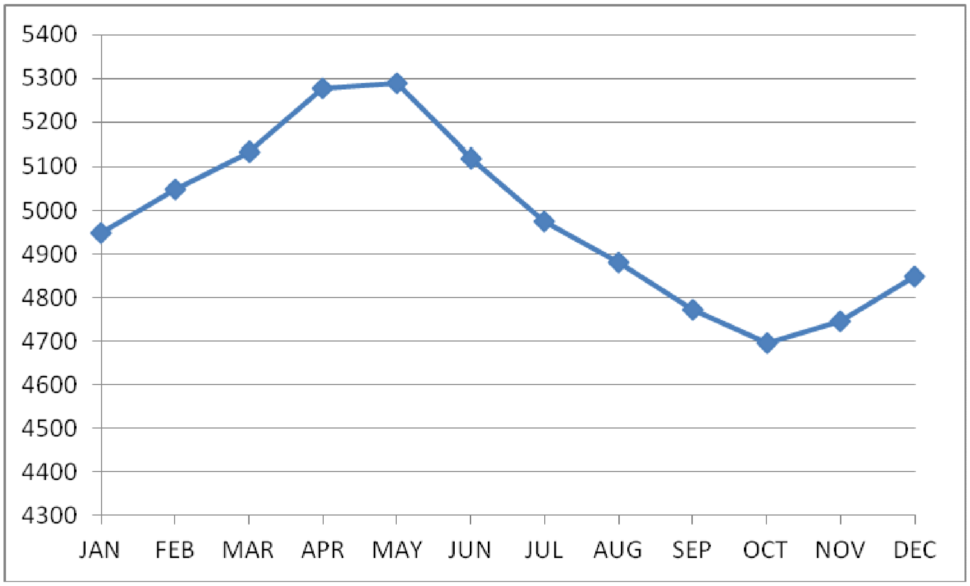


Figure 1: Average lbs. of Milk Shipped Per Dairy Producer Per Day by Month (2009 – 2012)

<u>Recommendation 3:</u>

The Governor and the General Assembly should not allow the sale of raw milk in the State of Maryland. This is currently the law in our State and this Council believes that it should remain the law.

As discussed in the 2011 report to Governor O'Malley, there is a push from some quarters for the sale of raw milk in the State. The Council however, strongly believes that the health concerns associated with raw milk sales are well documented, and repeats its recommendation against allowing the sale of raw milk. Milk that is processed and pasteurized is a healthy, wholesome food product. However, in its raw form, there are potential health risks. Additionally, should raw milk be allowed for sale, it is expected that the State will incur significantly more costs, according to the Department of Health and Mental Hygiene.

<u>Recommendation 4:</u>

New environmental regulations have the potential to drastically impact farm profitability in a negative way. The Governor and the General Assembly should work to ensure that any new regulations are reasonable, equitable, achievable, and based on sound science.

Maryland farmers want to continue to be a part of the solution in improving environmental quality. We commend Governor O'Malley for treating farmers fairly in the first phase of the Watershed Implementation Plan for the State's Total Maximum Daily Load for the Chesapeake Bay. At a time when farmers are being asked to do more to protect water quality, we are concerned that the State will not adequately support farmers in meeting these goals. The state needs to ensure that funds are available to assist dairy farmers in putting in place manure storage on the farms which will need it under new nutrient management regulations. Nutrient management was originally designed to increase the profitability of farm operations while also protecting the health of the Chesapeake Bay by more efficiently utilizing nutrients. Properly designed nutrient management guidelines must maintain this balance to be fair and effective.

Dairy Situation and Outlook, October 2012

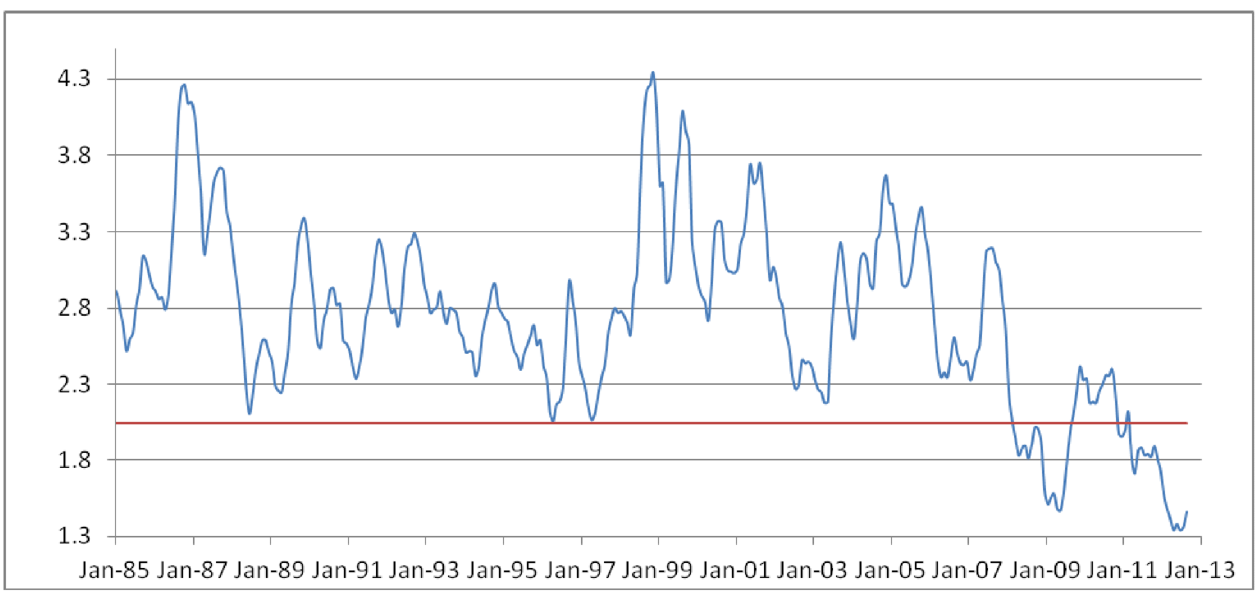
Howard Leathers
University of Maryland, College Park, Md.

The outlook for Maryland's dairy farmers remains difficult, with low milk prices and high feed prices continuing into the coming year.

Looking backwards, we can see that the last year has been hard for dairy farmers. One commonly used measure of economic health of the dairy industry is the milk-feed price ratio which shows the ratio of milk price to the price of a feed cost ration.

A high ratio means that milk prices are high relative to feed prices, and therefore times are good for dairy farmers. A low ratio means times are bad. In the 22 years from January 1985 to March 2008, the milk-feed price ratio had never fallen below 2.06. But in the 4+ years since April 2008 it has been below 2.06 in 39 of 54 months. During 2012, the ratio reached new record low levels, falling below 1.4 during the summer months of May-August.

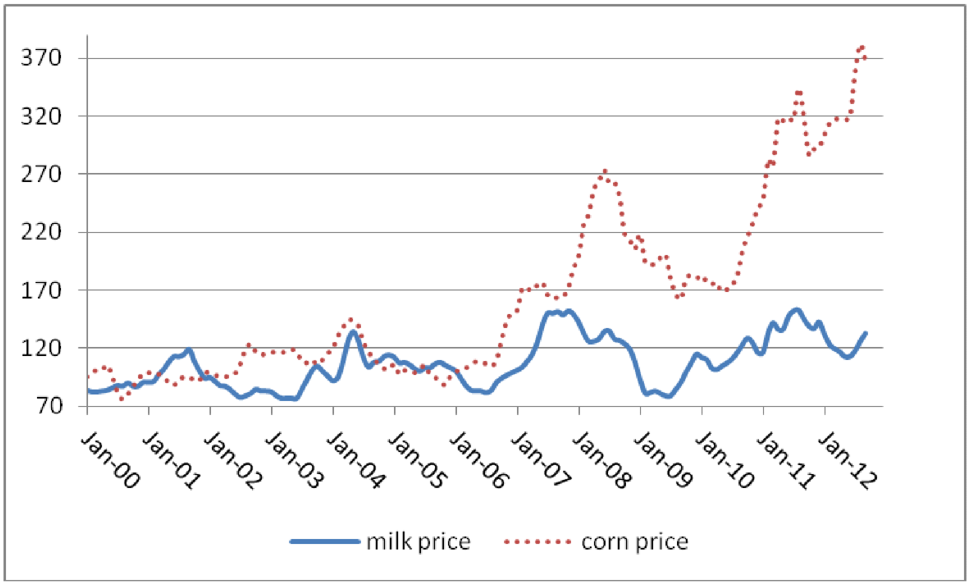
Milk Feed Price Ratio by month 1985-2012



As we anticipated in last year's report, milk prices have declined substantially from the high levels of summer/fall 2011, while feed prices have remained high. To see this explicitly, August 2011 had a milk price of $22 per hundredweight and a corn price of about $6.50 per bushel. A year later, in August 2012, we see that the milk price has fallen to $18.10 (having been even lower – in the $16-17 range earlier in the summer), while the corn price increased to $7.63 (having been at the $6.35 range earlier in the summer.)

We can compare this to a period of financial strength, in summer and fall of 2007 when milk price was also in the $21 range, corn prices averaged about $3.40 per bushel. In, recent months, again with milk in the $21 range, corn prices averaged about $6.50 per bushel.

Indexes of Milk and Corn Prices, January 2006 = 100.



The financial stress caused by high feed prices has continued the trend toward fewer and fewer dairy farms in the state. The 2007 Governor's report contained a prediction that 100-220 Maryland dairy farmers would exit the industry between 2006 and 2015. Now, seven years into that 10-year projection, we find that the number of farms registered with the state Department of Health and Mental Hygiene as licensed to sell milk has fallen by 135, from 631 in 2006 to 496 in 2012.

Year	Number of dairy farms in Maryland
2002	750
2003	710
2004	667
2005	649
2006	631
2007	582
2008	561
2009	555

2010	524
2011	505
2012	496

Source: Maryland Department of Health and Mental Hygiene

As expected, the reduction in numbers of farms comes primarily from consolidation of existing herds: Comparing the second quarter (April-June) of 2012 to the second quarter of 2009 we see that farm numbers have dropped by 11%, but dairy cow numbers have dropped by 9%, and milk production has dropped by only 4%. (Source Maryland Agrifacts.)

If anything is surprising, it is that the number of farmers leaving the dairy business is so low, given the low levels of the milk/feed price ratio.

A likely explanation is that the general slowdown in the economy since late 2008 has made it much more difficult for exiting dairy farmers to find other occupations. Dairy farmers who might have considered retirement may decide to "tough it out" while awaiting rebound in land prices and retirement accounts. If this is the explanation, then we might expect an acceleration in the rate of exit of dairy farmers as the general economy recovers while the milk/feed price ratio remains low. A second possible explanation is that the last decade has seen changes in dairy production technology that improve feed use efficiency. If this is the case, low milk/feed price ratios might be the "new normal".

Looking to the future, the short term outlook is for continuing hard times in the coming year. Milk prices are expected to rebound modestly in late 2012 and early 2013, before falling back (in spring and summer 2013) to the levels seen in late summer 2012. Some relief for dairy farmers is expected to be seen in declining feed prices (corn expected to drop by 15% during the next 9 months). However, the overall outlook for prices facing dairy farmers is that milk-feed price ratio will continue to be at historically low levels.

The 2012 Farm Bill, currently stalled in Congress is likely to bring substantial changes to the federal policies affecting dairy farmers. A bill has been passed by the Senate, and passed out of committee by the House, so those bills give us a clear picture of the likely final bill. However, nothing will be certain until the new bill becomes law, probably before the end of the year. The Senate passed version and the House committee version both propose to eliminate the dairy price support program and the Milk Income Loss Contract (MILC) program. In place of those programs, the bills offer two part program. Part one is the "margin protection program" -- essentially a form of margin insurance similar to that already available commercially as Livestock Gross Margin (LGM) insurance for dairy – will pay farmers when prices fall below a minimum level determined by feed prices. Part two of the program is designed to encourage reductions in milk production when prices are low, by requiring farmers to pay into a government fund when prices fall to defined levels.