

WESTERNUNITEDDAIRIES

WEEKLY UPDATE

April 22, 2020

USDA Announces Coronavirus Food Assistance Program (CFAP)

Secretary Perdue announced last Friday that \$16 billion would go to agricultural producers. Preliminary details on the assistance show that dairy would get \$2.9 billion in direct payments. Producers will receive a payment determined using two calculations. For the first one, producers will be compensated for 85% of losses that occurred January 1 to April 15, 2020. The second part of the payment will cover 30% of expected losses from April 15 through the next two quarters. On its own, this seems like this could potentially bring in large payments.

The details on how losses are calculated are not out yet, which means it makes it difficult to estimate what the individual payment to dairies will be. But even without knowing the details of the formula, it makes it difficult to be very optimistic. Despite the price decline that occurred in March, the lowest prices for the year are likely coming in May, June and July, which is when payments will cover 30% of the losses, instead of the 85% for the first part of the year when things were going much better. We do not know how USDA will calculate the losses. One way to do it for the first calculation would be to look at USDA's price forecast for 2020 before the crisis started, and compare it with what actually happened until now. Doing so would yield a calculated loss of \$1.23/cwt (and a payment of \$1.04/cwt). The same comparison could be used between USDA's forecast before the crisis started and the forecast as of today for the next two quarters. This would yield a calculated loss of \$6.69/cwt (and a payment of \$2/cwt). The biggest issue in this picture is that the payment limit per dairy is \$125,000. For a 1,500-cow dairy (assuming 2000lbs/cow/month), this would mean that 2 months would be covered by the \$2/cwt payment this summer. That's it.

Operations will be allowed \$125,000 maximum per commodity, so diversified operations would be able to choose a second commodity to cover under this program (for a maximum payment of \$250,000 per individual or entity). In light of the shortcomings, WUD is advocating for removal of the payment limits as COVID-19 continues to paralyze supply chains and deteriorate demand. Payments are expected to start rolling out in late May/early June. FSA would be a logical place to handle the program, but USDA has not confirmed which agency will manage yet.

On the positive side of the announcement, Secretary Perdue did announce that USDA will allocate another \$3 billion in mass purchases of dairy, meat, and produce that will be distributed through food banks. USDA plans to roll the \$3 billion plan out as \$100 million monthly food purchases via a "preapproved box" of food for distribution at food banks and other outlets. Moving dairy products out of inventory into the hands of those who need it is critical at a time where unemployment is skyrocketing and many consumers' purchasing abilities are reduced.

CONTACT US @

1315 K Street, Modesto, CA 95354
Phone: 209-527-6453
Fax: 209-527-0630
Email: info@wudairies.com

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ON COVID-19:

WUD is doing everything possible to get information out to our members on safety standards and essential workplace priorities. WUD is also working hard with Sacramento to showcase how safe our local food supply is and the quality of the food we make is the best in the world. For resources, visit westernuniteddairies.com/covid-19-update.

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