

PFB EXHIBIT 1

**Testimony Offered for
Pennsylvania Farm Bureau
Before the Pennsylvania Milk Marketing Board
Regarding the Level and Duration of
the Class I Over-Order Premium**

March 3, 2021

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Introduction

This testimony is offered at the request of Pennsylvania Farm Bureau (an affiliate of the American Farm Bureau Federation)—the state’s largest general farm organization, representing farm family members of every size and commodity across Pennsylvania. Dairy farmers comprise the largest commodity group of Farm Bureau members.

I am Wayne Brubaker. I currently serve as a Consulting Supervisor of MSC Business Services, a division of PFB Members’ Service Corporation (an affiliate company of Pennsylvania Farm Bureau). I have served in this position since 2008. MSC Business Services provides an array of services to help farmers manage their finances. MSC Business Services provide income tax planning and preparation, business and tax accounting, payroll and recordkeeping services, business analysis and benchmarking, as well as business consulting to Pennsylvania Farm Bureau members.

Appendix 4 provides my professional experience and education. Briefly, I have spent my entire professional career with MSC Business Services. I was initially hired by MSC in 1978 as an Account Supervisor, performing accounting and business analysis services for farm clients in Bradford County and later Franklin County. During my 40-plus years with MSC, I have assisted over 200

farms with financial and tax planning, I have helped multiple generations of Pennsylvania farm families.

In my capacity as a consultant, it's necessary that I have a working knowledge and understanding of the economic and financial conditions in Pennsylvania's dairy industry and the financial impacts these conditions will likely have on the current and future operation of the dairy farms. To maintain this working knowledge, I am in contact with active dairy operations and Account Supervisors who share the conditions they experience, including prices received for their products. MSC Business Services provides business consulting and benchmarking. As part of these services, we provide historical cost of production figures and projections. I personally review many of these reports.

Last September, I testified concerning aggregate income, expenses and profitability data of approximately 350 MSC dairy clients from 2011 to 2019. The data was presented in a series of three tables and accompanied my testimony. Two of those tables are presented again here in Appendixes 1 and 2. While we are still gathering 2020's data and expect to present it at the next over-order premium hearing, I wanted to briefly reiterate the historical trends covered during that timeline, as well as generally cover industry price and expense trends that have occurred since last September's hearing. I hope that my testimony will provide perspective to aid the Board in determining the over-order premium level.

2018 represented the worst annual net-income of the past eight years for MSC dairy farmers, registering just shy of negative \$90,000. While 2019 showed a marked improvement, it still resulted in an average annual net loss of approximately \$4,000. Taken together, MSC dairy farmers posted five consecutive years of negative annual net incomes dating back to 2015. Going back even further to 2012, the average MSC dairy client experienced total negative annual income of \$20,116, or a negative \$2,515 per year. In short, Pennsylvania dairy farmer's net margin had been negative for a long time.

Many hoped 2020 would finally be the year to end the drastic dairy downturn, but as with nearly every industry, COVID injected historic volatility to dairy farmers. Many farmers were forced to dump milk, look for their own market sources, and reduce production. Even as dairy prices showed improvement, they were forced to deal with unexpected costs such as very large negative producer price differentials. Admittedly, the federal and state governments stepped up and provided meaningful financial assistance through programs such as USDA's Market Facilitation Program, two rounds of USDA's Coronavirus Food Assistance Programs, and the Pennsylvania Dairy Indemnity Program. Anecdotally, these programs added approximately \$3.00 per hundredweight to the dairy farmer's income. Once we have compiled all the data for 2020, we will have a more

concrete picture of the impact these programs have but they will very likely lead to average net-margin improvements for 2020 from 2019.

Going forward, the extreme volatility of feed expenses is a significant concern. As mentioned last September, and as included in Appendix 2, the trend for the average percentage of milk income spent for purchased feed and for crop expenses (seed, fertilizer, chemicals and fuel) has led dairy farmers to allocate more than 40% of their milk income for feed and crop expenses. In turn, feed expenses have represented nearly three times the amount relative to crop expenses, resulting in an average price per hundredweight since 2012 of \$6.21 compared to \$2.38. Relatedly, feed expenses represent, by a wide margin, the single highest overall cost for MSC dairy farmers. It is this background that makes the immensely volatile soybean meal and corn prices a significant concern for dairy farmers.

Appendix 3, prepared with assistance from the American Farm Bureau Federation, demonstrates the challenges that dairy producers are facing as a result of the COVID crises. These charts clearly demonstrate the collapse of both milk prices and corn and soybean meal, in the second quarter of 2020 during the early stages of the COVID pandemic. Corn and soybean meal are key ingredients in a dairy cow's ration. There was a significant decline in milk prices and feed costs. The charts also show that there was an increase in the price of milk in the third quarter. Even with this increase, the price of milk never recovered to its pre-

COVID levels. Feed prices did not recover in the third quarter to the degree milk recovered. What is striking about the price of corn and soybean meal is their meteoric rise during the fourth quarter. Both corn and soybean meal increased over 60% since August. This creates a challenge to dairy farmers to find affordable protein and energy sources for their livestock. Grain and oilseed prices increased to levels not experienced since 2013. Spring and early summer corn futures contracts have spent most of January above \$5 per bushel, while soybean meal futures contracts have mostly stayed above \$420 per ton.

Conversely, the outlook for milk prices does not look as bright. Futures point to a stable or declining price. There continues to be uncertainty, because of expected growth in milk production and a demand picture clouded by COVID. USDA's Economic Research Service's most recent Livestock, Dairy, and Poultry Outlook increased the 2021 production forecast for to 227.4 billion pounds, up 0.7 billion from a month ago. Consequently, they lowered the all-milk price forecast to \$17.15 per hundredweight, a decrease from \$17.65 last month. While this decrease appears to be relatively modest, it represents a loss of income of approximately \$11,000 per year for a herd with 100 cows. This decrease, alongside the 60% increase in the price of feed, will likely create hardship on the Pennsylvania dairy farmers.

Conclusion

Pennsylvania dairy farmers may be in a better position than in the latter half of the last decade, but feed prices, a dairy farmer's single largest expenses, are at near decade highs and are subject to extreme volatility. Milk prices are at best stable and at worst declining. This is a recipe for a very difficult time for our dairy farms in the future. The past year has demonstrated that the markets at any given moment can change dramatically.

Consequently, Pennsylvania Farm Bureau respectfully recommends the Board continue the current Class 1 over-order premium at \$1.00 per hundredweight, plus the fuel adjuster, for the upcoming six months. I hope my testimony convinces the Board that there is continued financial need for the Board to provide additional income to Pennsylvania dairy producers through its Class I over-order premium. I would like to thank the Board for the opportunity to offer testimony today and am happy to answer any questions.