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A guide through the MPP-Dairy online decision tool

How much would participation in MPP-Dairy cost your farm? How much would it have paid in 2009 if it had been available then? How likely are low margins in 2015? All these questions can be answered by the official USDA MPP-Dairy decision-support tool. The tool was built by the National Program on Dairy Markets and Policy, and is based on four years of research by my colleagues and me. The tool can be found at two Internet addresses: <http://www.fsa.usda.gov/mpptool> and <http://dairymarkets.org/MPP/>. In this column, I will take you through the tool step-by-step and explain which features can help you make the most informed decision for 2015. Unlike my previous three columns on MPP, to get the most out of this one, you will have to go online and actually use the tool. Let's start.



By Marin Bozic
U of M Extension

1. Go to <http://dairymarkets.org/MPP/> and click on "Decision Tool" on the right side. You can use your desktop computer, tablet or smartphone – the tool will run on all platforms seamlessly. Press "Agree" under the terms of use text.

2. When the first screen opens, you will see the MPP-Dairy forecasted margins for the next calendar year. The red and green shaded areas illustrate the magnitude of uncertainty in our forecasts. There is a 25 percent chance margins will be below the red area, and a 25 percent chance it will be above the green area.

3. Click on the "Probability Table" option just under "Forecast Margin." Now you see numeric forecasts for two-month periods spanning the remainder of 2014 and the entire 2015 year. Next to each MPP-Dairy coverage level (\$4 to \$8/cwt) you see the probability that payments will occur in a particular two-month period.

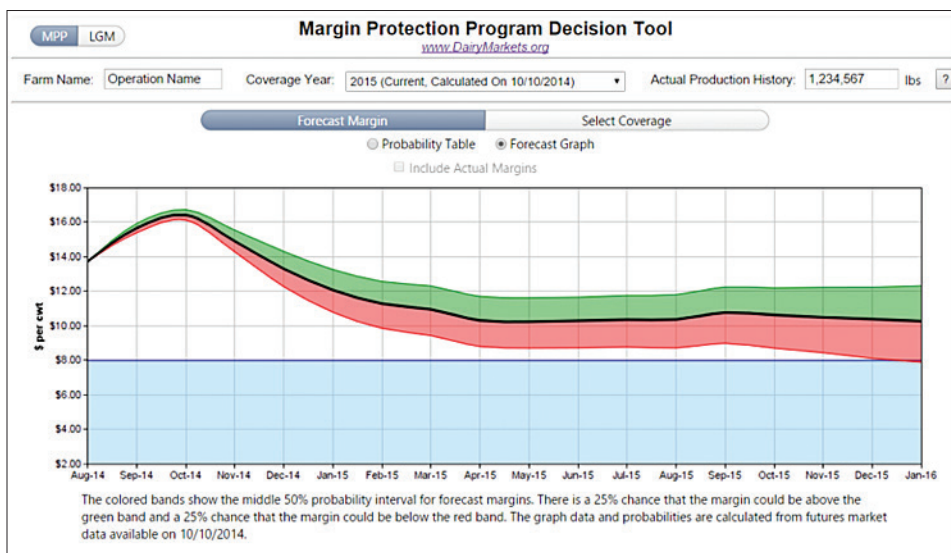
4. You may wonder how reliable margin forecasts are based on our model. We have designed our tool to help you ascertain exactly that. Using the drop-down menu next to "Coverage Year," you can take a trip back in time to the end of September of any of the previous eight years and see what margins were forecast for the year ahead. For example, choose "2010 (Historic, Calculated on 09/30/2009)." Click on "Forecast Graph" under "Forecast Margin." You see in the graph shown that low margins experienced in summer of 2009 were expected to recover by the end of 2009, and that 2010 was expected to be an average year with margins hovering in the \$8 to \$10 per hundredweight range. Now click on "Include Actual Margins" under "Forecast Graph." A new, blue line is displayed showing how the year 2010 actually turned out. It seems the forecasted margins were close to what really did happen that year. Sometimes the year will turn out much worse, even when forecasted margins are below average (e.g. 2009), and sometimes margins will be better than expected (e.g. 2014). Our forecasts are based on futures prices for milk, corn and soybean meal, and unanticipated news that may rattle any of those markets will result in actual margins higher or lower than expected.

5. Now let us examine how MPP-Dairy would work for your operation. The information we need to get started is your production history, which you should enter as total annual pounds shipped next to "Actual Production History." Your production history is the highest of your annual milk marketings in 2011, 2012 and 2013.

6. Switch the Coverage Year option to "2015 (Current, Calculated on ...)." Then click on "Select Coverage" and choose "2015 Estimate." What you see is a new table that shows you "Administrative Fees & Premiums" for each coverage level, from catastrophic

level \$4/cwt coverage up to the highest level offered, \$8/cwt. If you wish to protect less than 90 percent of your production history, you can change the "Coverage Percentage" to any level between 25 percent and 90 percent, in five percent increments. The table with premiums will automatically update. The other two columns, "Expected Payment" and "Expected Net Returns" are best explained using historical data which we will do next.

7. Under "Coverage Year" click on "2009 (Historic, Calculated on 09/30/2008)." The premiums should not change much, but they will be slightly different than for 2015 because the Farm bill only offers discounted Tier 1 premiums for the 2014 and 2015 coverage years. Now, take a look at the Expected Payment column. I will use an example where Actual Production History is 2.5 million pounds and the Coverage Percentage chosen is 90 percent. For \$6.50/cwt coverage, premiums were \$2,125. Expected Payments were \$9,998. What that means is that our model ran many different scenarios of what may happen in 2009, and the average payments received across all those simulations were \$9,998. Our model is based



on estimates of risk inferred from option contracts for milk, corn, and soybean meal, and historical correlations between shocks to prices of these commodities. Expected net return is showing how much the program is likely to increase your bottom line, i.e. it is a simple difference between expected payments and administrative fees and premiums. Now click on "Include Actual Net Revenue." The farm in my example chose \$6.50/cwt coverage and improved their bottom line by \$47,197 in 2009. Choosing again "2015" under Coverage Year, you see that expected payments for 2015 are not as high as the premium due, which means that 2015 is not likely to be as bad as 2009 was, and MPP-Dairy should be used primarily as a risk management tool, not an income booster vehicle. In choosing the coverage levels for 2015, keep those "actual net revenue" figures from 2009 in mind, as they should be a guide in estimating how much each of these coverage levels would help if we do in fact get surprised by a catastrophic year. And if markets start tumbling down in the next few weeks, as many analysts are expecting, visit this tool again and check how the expected payments in 2015 change. We update the information once a day with the most recent prices, so any serious surprise in dairy futures markets will be reflected in our forecasts the next day.

8. When you are ready to make your decision, click on the "Coverage Level" you prefer, and enter your operation's name under the "Farm Name" box. A new button "Download FSA Election Forms" will show up, and by clicking on it you can download the MPP-Dairy forms you need to take to FSA. Your production history, coverage level and coverage percentage, as well as premiums due, will already be filled in to PDF documents FSA can use to register you for MPP-Dairy.

For further resources, go to <http://dairymarkets.org/MPP> and under "MPP Videos" find "The MPP Decision Tool." My colleague, Mark Stephenson, has recorded a 20-minute video taking you through the tool step-by-step. This MPP-Dairy tool is currently receiving nearly 2,000 inquires a day. Check out for yourself why it is so popular!