

Milk Price Questions & Answers

(Editor's Note: The American Dairy Association recently publicized a series of questions and answers on milk price and the dairy price support program. The material was prepared by Truman Graf, an extension dairy economist from the University of Wisconsin. The report is reprinted here.)

Question: Why is there a dairy price support program when farm milk prices are at an all-time high — some 30 cents per hundred weight above “supports”?

Answer: As a protection against disastrous declines in the future — in the past year, dairy concentrate feed costs went up 21 percent while farm milk prices increased only 6 percent. Unless the dairy farmer has some price protection, rapidly rising production costs could hurt him badly and jeopardize needed milk production in the future. Furthermore, milk prices are low, not high — at average U.S. wages, it now takes 9.9 minutes to earn enough money to buy a half gallon of milk, compared to 15.4 minutes in 1953.

Question: What is the present milk price support situation?

Answer: The announced support level for manufacturing milk of average butterfat test for the next year (April 1, 1973 - March 31, 1974) is 75 percent of parity — \$5.29 per hundredweight. (This is about \$5.15 per hundredweight for milk testing 3.5 percent butterfat). This is an increase of \$.36 per hundredweight over the previous support level of \$4.93 per hundredweight for milk of average butterfat test, which applied for the period April, 1971 - March, 1973; and which was 82 percent of parity when established in 1971. On this basis, 75 percent of parity then would have been only \$4.51 per hundredweight. Since “parity” measures “purchasing power” to farmers, the \$.78 per hundredweight increase to maintain a 75 percent support level (\$5.29 - \$4.51) indicates the tremendous increase in production costs farmers have sustained in the past 2 years. The actual increase in supports was, of course, only \$.36 per hundredweight, but this was because supports were reduced from the previous 82 percent of parity to 75 percent of parity.

Under the law, milk must be supported at from 75 percent to 90 percent of parity.

Question: How is the \$5.29 per hundredweight support level for manufacturing milk accomplished?

Answer: By the Commodity Credit Corporation (USDA) offering to buy cheddar cheese at 62 cents per pound, skim milk spray powder at 37.5 cents per pound, and butter at 60.92 cents per pound (at Chicago). This is an increase of 7¼ cents per pound in the buying price for cheese, 5.8 cents per pound for skim milk powder, and a decrease of 6¼ cents per pound for butter.

Question: How could the butter purchase price be decreased and still achieve an increase of \$.36 per hundredweight in support prices for milk, and why was the butter purchase price decreased?

Answer: The skim milk powder purchase price was increased enough to offset the butter price decrease. Butter prices were decreased to make butter prices more competitive with margarine prices, and hopefully help butter reclaim some of its lost market. Butter consumption has fallen over 12 pounds per person per year since 1940, and is now only 4.2 pounds.

Question: Will the USDA “support” price relationships for butter, skim milk powder, and cheese cause any problems for the dairy industry?

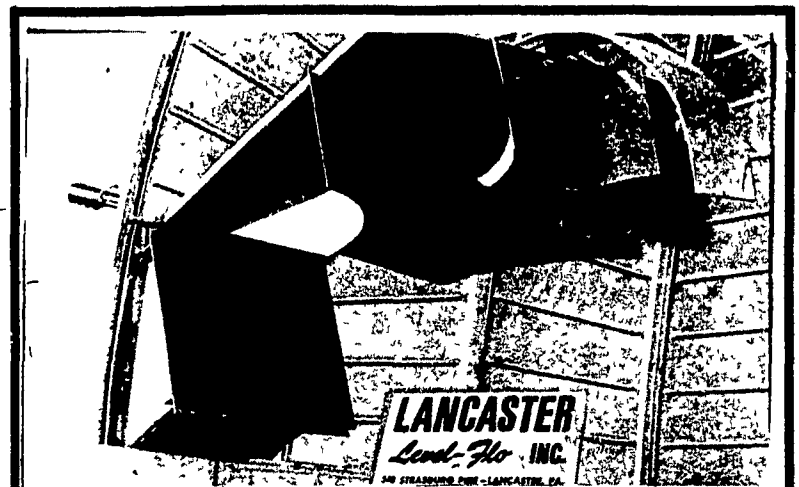
Answer: Yes, if farm milk prices fall back to the support level of \$5.29 per hundredweight for milk of average butterfat test, and the

USDA starts buying these products to support milk prices to farmers.

At the USDA purchase prices of

62 cents per pound for cheddar cheese, 37.5 cents per pound for skim milk powder, and 60.92

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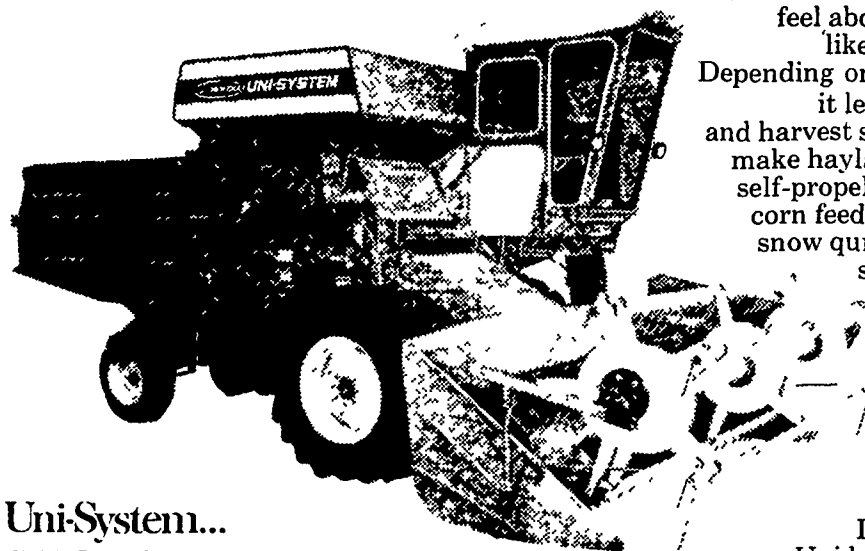
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