The Milk Check

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Compromise

The Senate-House Conference Committee on the 1981 Farm Bill before Congress, took only three days to reach a compromise on the Dairy price support program. The important feature was the loss of the 72.5 percent of parity in 1983 contained in the House version that was supported by the National Milk Producers Federation.

The Senate gave up the dollar limits of CCC purchases in their version supported by American Farm Bureau and substituted a "pounds of milk equivalent" limit. So what you have now is a continuance of the present support price of $12.80 for 3.5 milk for 1982 and a drop to 70 percent of parity in 1983 if Commodity Credit Corporation purchases are estimated to be over four billion pounds of milk equivalent.

This will continue in 1984 if estimates are expected to be over 3.5 billion pounds and in 1985 the purchase limit is 2.69 billion pounds of milk equivalent. In any of these years when estimates are below the maximum levels the support price can be increased to 75 per cent of parity but no six month adjustment.

However, this isn't the end of the line or the final word. Post hearing briefs are due December 20 and the final bill is to go to the President by January 15 and anything can happen at either place. The big concern is that the total cost of the farm bill will exceed the President's guidelines and get vetoed.

However, the word is that these features and provisions are not "cast in stone" and will come up for yearly adjustments and are subject to changes to accomodate budget allotments each year. Under such an arrangement Congress is saying — let's try it — if it doesn't work we'll change it.

Bottom Line

All of this is interesting and important to understanding the political process and decision-making by your Congress and farm organizations that goes into determining prices now that you've turned this responsibility over to the government. But the bottom line for your financial planning for the immediate future is — don't expect any higher price for the next year.

Whether you blame it on the action or inaction of Congress the support price is staying, for this year only, at $12.80 for 3.5 milk — not 70 percent of parity or 75 or 65 but $12.80, period.

It's interesting to know that in October that $12.80 was 72.8 percent of parity but in November it increased to 73.2 percent. That's because the Parity Index (the Index of Prices Paid by farmers) dropped four points that month. It fell because of some of the strange reasons that gave you increases over the last two years such as feeder livestock prices falling 33 points — which has nothing to do with the cost of producing milk.

So, after two years of dependence on government supports because of record high milk production they're saying $12.80 until October 1982 and enjoy it while you can. After that the support price is bound to fall to whatever minimums are set by Congress and the President. It will likely be less than the present $12.80 because there's no way that CCC purchases will fall below the minimums of milk equivalent now being considered.

It the support price had been set at 70 percent in October 1981 it would have been $12.27 instead of $12.80 as it is now. No one knows what will happen to the economy and the Parity Index by October 1982 but if it doesn't change — which is very unlikely — you can expect 50 cents a hundred less on the support price.

Any increases in the Parity Index during the next year are not likely to be high enough to get back all of that 50 cents difference so don't gamble on increases above the $12.80 you have now. If, on the other hand, the Parity Index continues to drop — and this is a strong possibility — then 70 per cent of parity in October 1982 will be less than the $12.80 present support price.

Equipment leasing

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arrangements because leasing can sometimes provide them a higher rate of return than a loan. Leasing also allows them to provide financing that may exceed the permissible limit on a comparable loan. With greater experience in the intricacies of leasing, small country banks should generate many more leasing contracts.

Lessors affiliated with banks have increased in number for the same reasons as participating lessors. Many of their lessees are regular customers, so the risk sustained by the bank on financial leases is comparable with that for loans. The favorable rate of return on leases should be attractive to bank-affiliated lessors.

Manufacturers' captive lessors may be more concerned with generating sales for the parent company than with the rate of return on the leased equipment investment. The extent of their leasing contracts, therefore, tends to run countercyclical to equipment demand, which is closely related to net farm income.

As farm equipment sales pick up, captive lessors should be less pressured to generate sales throughout leases.

Results of a survey of 131 leasing companies indicate that captive lessors generated the greatest net lease value in 1980 with $336 million, or 54 percent of the total, followed by independent lessors with $187 million, and banks with $105 million. The survey also found that bank-affiliated lessors had the longest average term, 6.6 years for all leases, compared with 5.4 years for indepdent lessors and 4.5 years for captive lessors.

Livestock exports top imports

WASHINGTON, D.C. — Value of livestock exports topped that of livestock imports during the first 8 months of calendar 1981, according to a USDA Foreign Agricultural Service report issued last week.

The report also shows that value of livestock exports, at $2.2 billion, was up 4 percent from Jan.-Aug. 1980, despite lower export value totals of tallow and grease, hides and skins, furskins and variety meats — the top 4 livestock exports.

Tallow and grease exports, at $458.6 million, were down 6 percent from a year earlier. Exports of hides and skins, at $463.5 million, were down 2 percent, furskin exports, at $270.2 million, were off 2 percent; and variety meat exports, at $206.0 million, were down 3 percent from a year earlier.

But, higher beef and veal and pork exports more than offset the decline. Beef and veal exports, at $192.5 million, were up 19 pct.; pork exports, at $184.5 million, were up 63 pct. from a year earlier.

On the other hand, the value of livestock imports, at $2.0 billion, was down 5 percent from the Jan.-Aug. 1980 total. Pork imports, at $333.3 million, were up 9 percent, and furskin imports, at $135.4 million, were up 46 percent from a year earlier. But, the value of beef and veal imports, at $976.2 million, was down 16 percent; and the value of cattle imports, at $128.6 million, was off 23 percent from the first 8 months of 1980