

The Milk Check

TOM JURCHAK
County Agent



hard to turn around. I believe we've made a start. Much of the credit is given to the Milk Diversion Program and the sale of start. Much of the credit is given to the Milk Diversion Program and the sale of 77,000 addition cows for slaughter, but I believe a reduction was coming with or without the program and I believe it's going to continue. A reduction of over five per cent in milk production is predicted as a result of the program, but I believe we would have had at least half of that without any payments.

The principal reason is the erosion of profits with falling milk prices and increasing feed prices. Nationally the milk price feed price ratio is down to 1.34, the lowest since 1975, and down to 1.31 in Pennsylvania. If you take the 50 cent assessment out of the farm milk price it drops well below the 1.3 ratio usually considered the "break even" point. However, that's the average and some farmers were feeling the pinch since last fall and were reducing grain feeding and a lot more will join them this spring. With grain to milk ratios running one to 2.5 there was lots of room cut cutting. And with feed prices averaging 20 per cent higher than last year and milk prices down eight per cent there's a lot of incentive.

The argument that lower milk prices only mean higher production and more surpluses was all right when you were talking to politicians and trying to stop the 50 cent assessments in the last price support program, but it doesn't work that way in the long

Outlook
After reading all that's been written on the outlook for milk production and prices in 1984 and adding a few personal observations and a little intuition, I can at least agree that prices and production will be lower. Where I have trouble with most of the predictions is in the reasons for the decreases.

Decreases in milk prices are not so hard to identify. They will come from a drop of 50 cents in the support price and a 50 cent assessment to finance the Milk Diversion Program. Those we've seen already but they will drop even further with the usual seasonal declines during the spring flush and the take outs for the Louisville Plan that start with 20 cents in March and rise to 40 cents in April and May.

In Order 2 we're looking at the lowest prices in five years and nothing appears in the future that can stop them from becoming the lowest in 1985. I'm talking about cuts of \$1.20 a hundred in the farm price or nearly nine per cent in the last three years. With farm prices averaging 60 cents a hundred less than a year ago added to a 50 cent assessment you're looking at prices well below \$12.00 this spring and perhaps down to \$11.50. Price wise that's putting you back to 1979. But you don't have to wait until the spring flush. By comparison, that's what you're getting now.

That seems like a big cut, and it is, but a recent USDA study report

says that it would take cuts double that amount of 15 percent, at least, and maybe 20 percent, to get you to cut production down to market demand levels. That's what's planned for 1986 but you'll be getting some of it in 1985 when the 50 cent assessment ends, but two 50 cent cuts in the support price will take effect. So, you see, it's not hard to predict drops in the farm price of milk. You have them already and there are more to come.

Production
When it comes to the question of, what are you going to do about it, I can still agree with most of the predictions that production will be lower but not for the same reasons. Certainly the Milk Diversion Program will have some impact to lower production but I believe we bought a lot of air with the payments. Many farmers were already cutting production for economic reasons and merely capitalized on the program because it was offered, and these were not all small herds or elderly couples nearing retirement. I also believe that there were a lot of herds that were producing below their base but did not participate in the diversion payments, and my guess is there were more of these than the herds that signed contracts.

January was the first month in nearly five years that milk production did not exceed that of the same month the previous year. That 56-month stretch built up quite a momentum that will be

run when the economics of grain prices and feed prices meet in the milk pail. Certainly the most efficient or the most highly leveraged producers may continue to increase production even under the present circumstances but more and more will find that the less they spend the more they'll have to keep.
What happens next fall will depend on the weather and the participation in the feed grains program. Even fertilizer prices are being delayed while waiting to see what happens in the midwest. Whatever it is, I don't believe you'll see milk price feed price ratios back to 1.6 in the next two years because of falling milk prices.

Order 2 Pool

Prices in Order 2 are just a reflection of the rest of the country. The February pool paid \$12.79 for 3.5 milk at the 201-210 mile zone. That was 56 cents less than last year and 20 cents less than last month. Taking out the 50 cent assessment you have a drop of \$1.06 or eight percent less. January's price was a little better at \$12.99 but still 36 cents less than a year ago. Increases in Class I sales for both months were higher in January than a year ago but lower in February (on a daily basis), so on balance your utilization dropped 1.2 per cent.

We haven't yet seen the decreases in Order 2 shipments that have been noted in other markets and perhaps it's a reflection of the low participation in the Milk Diversion Program, but I believe it has to come eventually

as it has in other regions. March milk prices will be down 20 cents more as the Louisville Plan payments start, and these will be increased to 30 cents in April and 40 cents in May and June.

Reminder

Whether or not you are in the Milk Diversion Program, you are still entitled to a 50 cent a hundred refund for milk shipped in October and November of last year if you shipped 8.4 per cent less than you did during your base period months. If in doubt, check with your county ASCS office and they will help you figure out if you can collect under the old price support program.

Red Rose

Alliance to meet

BLUE BALL — On Monday, at the Blue Ball Fire Hall, Route 322 in Blue Ball, the general meeting of the Red Rose Alliance will be held. To date, participants in this political forum are State Sen. Noah Wenger, Rep. Jere Schuler, Rep. Terry Scheetz, and Dick Brown, Congressional candidate.

Each guest will be allotted five minutes for a general statement and then the public will be given the opportunity to ask questions. Among the topics to be discussed are hazardous waste disposal, avian flu and the Route 23/30 bypass. The program will begin at 7:30 p.m. The public is invited to attend.

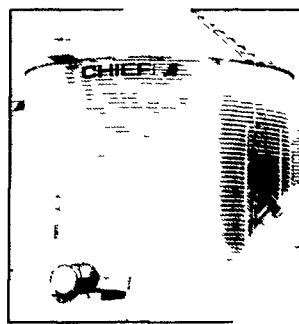
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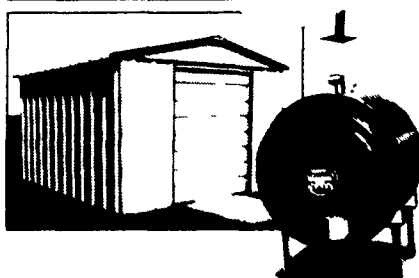


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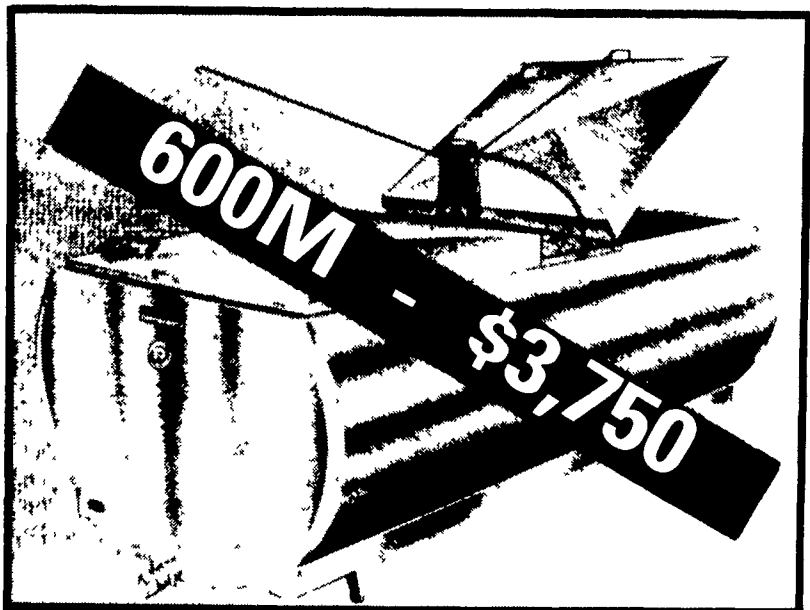
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