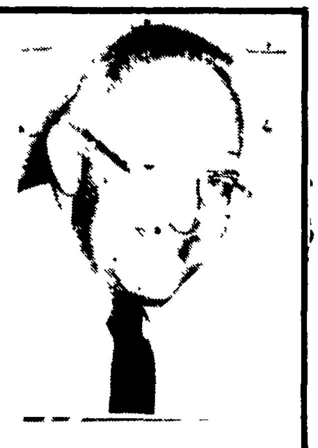
The Milk Check



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County Agent

A Trickle Starts

September 17, 1984 - The effects of decreases in milk production and increases in commercial demand in recent months have now begun to trickle down into farmer's milk checks The one and two cent increases in the Minnesota-Wisconsin Price Series from April to June have now increased to 12 cents in July and 23 cents in August, pushing the M-W to $12.30 which is the highest since last November. However that August M-W price won't show up at the farm until October's check, so you can be sure of even more increases this fall. Of course, the price that pays the bills is the uniform or blend price that is paid to producers shipping to regulated handlers, and for August milk it was $13 39 in Order 2 That was 55 cents more than July and $1 10 more than June but, while there was improvement in the market, it wasn't quite that good. You have to remember that during that period you changed from paying into the Louisville Plan fund, to taking out of the fund. In June you paid 40 cents a hundred; in July there was nothing in or out, and in August you got back 36 cents from the fund. However, if you omit the effects of the Louisville Plan, your price at the farm still improved 26 cents since June compared to a drop of 33 cents from January to May.

Certainly the season of the year makes a difference in these price changes and we normally expect higher prices in the fall than in the spring, but even when we compare them to the same June to August period of a year ago we're still doing a little better. That's why I said a "trickle" has started because from all accounts of what you hear from falling production and increasing sales you might have expected too much too soon. Certainly there will be more improvement in the months ahead, but keep your eye on the M-W price each month because that's the mover for class prices in all Federal Orders. After that your price is determined largely by how much is sold as Class I for fluid use and how much goes to Class II or manufacturing uses.

Still In The Woods

Things are looking up in milk marketing but you're still not out of the woods back at the farm. There is improvement over last year, and hopefully it will continue into next year. The Class I price in August was 41 cents below last year and Class II was down 18 cents, but in spite of this your blend price was down only 18 cents. This should tell you something about the higher Class I utilization which came from a 2.8 per cent increase in fluid sales but, more importantly, a five per cent drop in milk receipts by Order 2 handlers. This pushed the Class I utilization for August to 40.6 per cent, which was the highest for the month since 1980.

Future Uncertain

Nationally, we're getting more price BANG from increasing commercial demand than decreasing production and eventually this will get down to local producers through the M-W price, but right now in the northeast we seem to be getting higher prices from decreasing production than from increased sales Decreasing production is expected to continue through the winter, but not at a rate to give us better farm prices if we depend on that alone. Even this trend to lower production could be reversed very quickly with higher milk prices and lower grain prices. More importantly, I believe, is the demand pull from increasing commercial sales and how long that can be maintained through the winter and into next year. That's what makes the immediate future uncertain even before we get to the question of what happens when the Diversion Program ends next spring.

We have come to give most of the credit for the increasing demand on improved economic conditions nationally This would include less unemployment, better wages, stable or lower interest rates and a few more things you could think of We also give some credit for increased demand to the lower prices of dairy products when compared to other foods at the retail level The question then is how long can these factors continue to improve? If something happens to the general economy, such as an auto workers' strike or lay offs in basic industries like steel or mining, we could be in trouble with dairy sales Of course, if you have faith in Reaganomics you may not feel that this is a problem If dairy products are a retail bargain, even this may not last with decreasing supplies, particularly for fluid milk and soft products Butter and cheese prices can't rise much more until government stocks are sold

It's also a fact that there is not one supply demand situation for the entire dairy industry There are separate and different situations at each level in the marketing chain from producer to consumer and from one geographic area to another. Most of the recent demand increase has come at the wholesale level of the industry and that can't last unless more is "consumed" at retail. We also know that production has dropped more in the southeast region and they're "demanding" more milk from other areas, but how long will that last until southeast producers start to meet their market needs?

Much of the hope for answers to all these questions lies in the increased advertising and promotion programs, but these take time to work and the results may not be the same in all markets.

Thanks, Hoard's Dairyman

I don't mind when producers take out their frustrations on me, privately or publicly, when they feel that the problems of the dairy industry are caused by Congress; consumers; USDA; handlers; coops (members or non members); other regions; milk quality; advertising (or lack of it); or any other place they choose to put the blame, but when they give it to Extension I get up-tight because I'm one of them. Of course, I'm not the only Extension agent that gets this. Anyone working on dairy programs has heard it. While it's no problem to defend Extension programs, the answers are often considered biased when made by an Extension agent. So that's why I would like you to read the editorial on page 1024 of the September 10 issue of Hoard's Dairyman (the one with the bull list) titled "Some would rule out Extension programs." If you don't have a copy I'll send you one if you request it through your county Extension agent.