The Milk Check

TOM JURCHAK
County Agent

Opportunity and Need

For a lot of reasons the opportunity and the need for over-order premiums to producers will never be greater than it is now. First of all, the opportunity.

Milk supplies, in the foreseeable future, will not be as tight as they are now in eastern and national markets. And by "now" I mean November and December, not next year. Barring a widespread disaster, there's no reason to believe that milk supplies won't start increasing and demand will start declining after the first of the new year. Seasonal increases in milk production starting in January and peaking in May have been characteristic of the dairy industry since the first cow was unloaded at Jamestown.

I realize that we still have part of the second and all of the third disposal period of the Dairy Termination Program ahead of us but milk production will go up this winter just as surely as it always has in the past. That doesn't mean the Dairy Termination Program isn't working only that it doesn't change seasonal production patterns.

The Minnesota-Wisconsin Price Series increased another 14 cents in October to $11.69 giving you a total of 71 cents better than it was last May. You may get another 10 cents in November but traditionally that is the peak month of the year.

Since we know that the Class I price is based on the M-W but set two months ahead, the handlers already know that the Class I price for December in Order 2 will be $14.24 a hundred. If the M-W goes up another 10 cents in November the Class I price will peak at $14.34 in January.

Because any over-order premiums must be on the Class I price to make them work, it would seem that the opportunity to start such premiums with handlers would be at a time when supplies are the shortest and prices are the highest. Even if no premiums are negotiated at this level at least the opportunity exists to add premiums during the winter and spring months to keep the farm price from dropping as low as it normally would..

In other words, wouldn't it be easier to keep the Class I price up at its present level rather than let it fall after January and then try to bring it back up?

If this strategy is to work, negotiations with handlers would have to begin in December because of the advance Class I price they expect under Federal Orders. Another reason for lower prices after December is the decline in demand following the Thanksgiving and Christmas holidays. Consumers put away a lot of dairy products now and wholesalers have been stocking up for months in anticipation of these sales. After December the opportunity is gone for them.

Now for the Need

And that leads us into the need for over order premiums in the farm price. I realize nearly every dairy farmer will agree that there's a need for higher farm milk prices but I'm talking about the need for over-order pricing as the way to get them. Another reason that wholesalers will cut back on purchases in December is that they know there will be a drop of 25 cents in the support price to $11.35 starting in January.

That means they will lose money on everything they have on hand when the price drops so they don't buy anymore than they need in November and December. This reduces the wholesale demand and drops the M-W even further than it would normally fall before the spring flush.

That's bad enough but your farm price will also drop with the 25 cent cut in the support price. Fortunately, it won't be the full 25 cents because your 40 cent assessment for the Dairy Termination Program falls to 25 cents in January so the difference to you will be only 10 cents. I say "only" 10 cents but realizing that's a 10 cent cut you don't need but one that can be replaced with over-order premiums if you will join the negotiating cooperative.

At this time even handlers may be more agreeable to the need for over-order premiums if they feel that higher farm prices will provide a more reliable milk supply for them in the future. They've had a taste in recent months of what a tight supply situation can do to their business. Handlers make money by "handling" milk and when they don't have enough milk it cuts their profits. In addition, some of them have been paying over-order prices already through "service" charges but these "premiums" don't always get back to the producer and they vary a great deal between handlers.

If the handlers could be assured of an adequate supply because more producers stay in business at higher prices the idea of over-order premiums might appeal to them and all the handlers would be paying the same premium rather than chasing milk supplies at whatever price they have to pay.

They could focus on being competitive in the wholesale and retail markets rather than scrambling for milk supplies.

The **opportunity and need** for over-order pricing don't always come together at the same time but if producers want to make the most of the situation they'll have to sign up now.

Order 2 Prices Up

That jump of 27 cents in the M-W back in August and the 14 cent increase this month are showing up now in your Class prices in Order 2. In addition, a 14 million pound drop in production and an 18 million pound increase in Class I sales from September brought your utilization to 46.3 percent, the best since November 1980.

You also got a little more out of your Louisville Plan making the pack back for the month 46.7 cents. All of this adds up to a blend price of $13.05 for October to farmers shipping to Order 2 handlers. This will be 26 cents more than last month and 65 cents better than last October. This is the highest blend price in Order 2 since the Diversion Program of two years ago. You will still have a 40 cent assessment on this check for the Dairy Termination Program but there will be no 12 cent assessment for Gramm-Rudman this month. This should help to make the check look even better.

Because the Class I price is set two months following the M-W price you will still be reaping the benefits of a 22 cent increase in the M-W in September and another 14 cents in October plus an expected increase of 10 cents in November. This means that Class price increases will continue into January but after that the price trend will be down for all the reasons I mentioned earlier in this letter.

As of this writing the Market Administrator in Order 2 had not issued a "call order" for November or December. It really doesn't make that much difference in your milk check, depending of course on how much milk is moved to Class I use, but just the idea that he's even considering such a move, gives you some idea of the tight supply situation in the New York market. That's not the case all over the country so you do have opportunities here that are not available to producers in other areas.