The Milk Check

TOM JURCHAK
County Agent

Decreases and Increases

Decreases in milk production and increases in demand for cheese have moved up the Minnesota-Wisconsin Price Series 22 cents to $11.91 for November.

Production nationally dropped for the fourth consecutive month in October with the severest cut of all to date of four percent below last year.

Weather in the south and mid-west is still cutting production per cow with averages up only 11 pounds per cow compared to 30 to 40 pounds earlier in the year.

We still have three months left in the second disposal period of the Dairy Termination Program and six months more for the final period so additional cuts in total production are expected next year. Only about three-fourths of the cattle in the program have been sold or exported so far.

While milk production was dropping, cheese sales are running seven percent over 1985 and last year they were six percent over 1984. Per capita sales of cheese that were at 23 pounds last year are expected to increase to 50 pounds by 1995 according to some analysts.

Increases in the M-W were expected in November but the 22 cents surprised most estimators. That $11.91 makes it 72 cents better than last year and 93 cents better than in May. It's doubtful that you can squeeze another increase out of the M-W in December with butter prices falling and a 25 cent drop in the support price coming in January. That 25 cent cut in the support price means that Commodity Credit Corporation will be paying about three cents a pound less for cheese so handlers want to clean up their inventories before the end of the year.

Tax Management

Speaking of the end of the year, dairymen should take a close look at the changes in the new Tax Reform Act for 1987 with an eye to saving themselves a lot of money by adjusting some sales and purchases while they still have a chance.

The changes in capital gains may help you decide when to sell some cull cows especially if you are not in the Dairy Termination Program. Those DTP herds have an extension on the capital gains treatment to September but only for them, not all dairymen. Animals sold before the end of the year may add only 40 percent as much taxable income as animals sold after December 31. You need to look also at the effect of income averaging on your sales and purchases because this is the last year that it will be available.

Enough information on the changes coming next year have been circulated in the farm press so everyone must be aware of them but if you haven't taken a good, hard look at them yet you better before it's too late.

Look Alike

If you are shipping to an Order 2 handler and you think your November milk check looked the same as the October check you were right. Well it probably wasn't exactly the same but the Uniform Price in Order 2 for November was 13.05 the same as it was in October.

Class prices went up, all right, with the recent increases in the M-W. The Class I price moved from $13.88 to $14.10 and Class II from $11.75 to $11.97 but your Class I utilization dropped 1.6 percent to 44.7 and you got 18 cents less from your Louisville Plan pay back.

On a daily basis there was less milk in the pool in November but you lost Class I sales with the closing of schools over the Thanksgiving holiday. In addition there were only four weekends in October and five in November. That's important because handlers don't process Class I milk over weekends. It's surprising how much the school closings and processing schedules affect Class I sales.

However, your $13.05 in November was still 75 cents better than last year and that 22 cent increase in the M-W will push your Class I price to $14.46 in January and that's 98 cents better than this year.

Hang On To It

That Class I price of $14.46 for January looks pretty good when compared to $13.29 last April in Order 2 but it's really the same price that you got in April 1985. So, if you got $14.46 during the spring flush of 1985 why shouldn't you get it in the spring of 1987? When you got $13.29 last April you sold 400 million pounds of Class I milk in Order 2 and when you got $14.46 in April 1985 you also sold 400 million pounds of Class I milk. A difference of $1.17 or nearly 9 percent in the price had no effect on sales.

Now we know that the demand for fluid milk is inelastic, which means we can change the price a lot before we affect sales, and in this example a 9 percent increase made no difference.

The point is, that the differences in Class I prices in the same market over the last two years have not affected the sales of fluid milk so why not keep the Class I price at the higher level all year?

You'll be reaching that level when the January price goes to $14.46 and the only way to keep it there is by adding over-order premiums to keep it from dropping as it will in the spring. To do that every producer who is not a member of a milk marketing cooperative will have to join one organized specifically to negotiate over-order premiums in the 11 state region from Maine to Maryland.

If you do that, you will control a supply of 28 billion pounds of milk, the largest in the country, that will give you the market muscle to negotiate Class I prices based on market conditions locally rather than the market conditions for manufacturing grade milk in the Mid-west.

Membership in this new cooperative has reached 90 percent and more in most states but Pennsylvania producers are lagging far behind and your milk is needed to make it work.

Tight Supply

Milk supplies in Order 2 are much tighter than in other areas. While production is down four percent nationally, it is down over 6 percent in Order 2 and over 5 percent in the Northeast. The Market Administrator has scheduled another meeting of handlers on Dec. 22 in Syracuse to determine if a "call provision" will be exercised to require a minimum percentage of Class I utilization by all pool plants in January and February.

The same "call provision" was considered in November and December but never activated so similar action now means that the tight supplies in Order 2 are expected to continue into the new year.

However, this does not mean that milk prices won't go down after the first of the year because your prices are set by conditions in other markets as explained earlier. However, it does mean that because supplies are tight in your market it provides a good opportunity for negotiating over-order premiums for you if you join the bargaining cooperative now while prices are up.

This is not a referendum of producers to determine if the majority are in favor of over-order premiums and if approval is given it will happen. This is a real membership contract that will cost you nothing but give you the extra income from over order premiums.

Producers who don't sign a membership contract will not receive the extra income when premiums are negotiated. They will get only the minimum prices provided by the federal orders in their market and no more. You have to decide if you want the extra income that the no cost membership can provide or if you're satisfied with the minimum prices you're getting now.

It only pays if you join.

United States Sell Surplus Dairy Products Overseas

WASHINGTON — Melvin E. Sims, general sales manager of the U.S. Department of Agriculture's Foreign Agricultural Service, today announced a sale by the Commodity Credit Corporation of 4.4 million pounds of nonfat dry milk valued at $1.36 million to the Egyptian Procurement Office of the Arab Republic of Egypt.

CCC sold the nonfat dry milk, part of its surplus inventory acquired under the CCC dairy price support program at a price of $680 per metric ton delivered free along side vessel at U.S. ports of export. Deliveries will be made in December with payment in U.S. dollars, Sims said.

As of Nov. 21, CCC's total uncommitted inventory of nonfat dry milk was 559.3 million pounds.