

Buyout Program Shifts CCC Dairy Product Purchases

Editor's Note: This is the second part of Jack Kirkland's report on the influence of the buyout program on the government's purchases of dairy products. The first part of Kirkland's report can be found on page D16 of last week's issue.

BY JACK KIRKLAND
Penn State Dairy
Marketing Specialist

Total purchases of butter in 1986 was 6 percent lower than in 1985. Purchases of butter from the Eastern and Midwestern regions were higher while purchases from the West were lower in 1986 than in 1985. For the first 11 months in 1986, 5.7 percent, 45.7 percent and 48.6 percent of the butter purchases came from the Eastern, Midwestern and Western regions, respectively. For that same period in 1985, 9.6 percent, 53 percent, and 37.4 percent of butter purchases came from the Eastern, Midwestern, and Western regions respectively.

Purchases of cheese declined 25 percent in 1986. Cheese purchases from the Midwestern and Western regions declined while cheese purchases increased from the East. In 1985, 1.6 percent, 87 percent, and 11.4 percent of cheese purchases came from the Eastern, Midwestern and Western regions, respectively. In 1986, 2.6 percent, 84.4 percent, and 13 percent of cheese purchases came from the Eastern, Midwestern, and Western regions, respectively.

Purchases of nonfat dry milk was 5.3 percent lower in 1986, the lowest decline in CCC purchases of the three products. Purchases of NFDM declined in all three areas. In 1985, 12.6 percent, 42.3 percent, and 45.1 percent of NFDM purchases came from the Eastern, Midwestern, and Western regions,

respectively. In 1986, 12.8 percent of NFDM purchases came from the Eastern region, 40 percent came from the Midwestern region, and 47.2 percent came from the Western region.

The proportion of CCC purchases from the Eastern region increased slightly for all three commodities in 1986. The Midwestern region's share of total purchases increased for butter but decreased for cheese and NFDM. The proportion of cheese and NFDM purchased from the Western region increased slightly while the proportion of purchases of butter decreased slightly. Although there was changes in the proportion of the commodities purchased from the three regions, the majority of butter and cheese was still purchased from the Midwestern region in 1986. The majority of the NFDM purchases still came from the West.

Some factors causing this overall decline and change in the proportions purchased from the regions are probably differing rates of decline in production and, similarly, differing rates of increase in demand between the three regions.

By looking at the Milk Equivalent of CCC commodity purchases for 1986, a clearer picture of the effect of the whole herd buyout program and an increasing consumption of dairy products can be seen. The purchases of products in the first half of 1986 exceeded that of 1985 in almost all months.

However, as cows were sold under the buyout program and as declining cow numbers began to affect production, and, subsequently, the surplus milk situation, CCC purchases began to decline sharply and were

Milk Equivalent of CCC Purchases, 1983 through 1986

	----- Million Lbs -----			
	1986	1985	1984	1983
January	2,194.5	1,490.5	1,997.6	2,257.6
February	1,858.9	1,397.2	1,306.6	1,832.5
March	1,072.4	1,300.6	993.9	1,502.6
April	1,886.5	1,700.6	1,045.0	2,405.6
May	1,375.6	1,352.2	906.1	1,694.4
June	1,190.9	1,315.8	721.0	1,674.7
July	711.6	1,240.4	627.9	1,646.0
August	144.1	753.7	202.5	941.3
September	155.6	769.6	88.0	617.5
October	144.0	783.0	125.1	716.3
November	22.3	593.7	81.2	637.8
Total	10,756.4	12,697.1	8,094.9	15,926.3

significantly lower than equivalent period purchases in 1985.

CCC M.E. purchases were 15 percent lower for the 11-month period in 1986 than in 1985 and 32 percent lower than in 1983.

The effects of the buyout program were very similar to those of the diversion program. In 1984, as the diversion program began to take effect, there was a sharp decline in CCC M.E. purchases and they were significantly lower, by 47 percent, than equivalent period purchases in 1983.

As the diversion program ended, production and CCC purchases went back to almost the same levels, but not quite, as in 1983. CCC M.E. purchases were significantly higher in 1985, from March on, when compared to 1984.

In 1985, CCC M.E. purchases were 57 percent higher than in 1984 but were still 20 percent lower than in 1983.

This increase in CCC M.E. purchases in 1985 (the ending of the temporary solution effects of the diversion program) prompted the

enactment of the buyout program.

As of this date the program seems to be working quite well. There is one big difference in the diversion and the buyout program: cows and replacements are taken out of production permanently under the buyout program.

Although, there is no control of dairy farmers not in the buyout program and they can increase production as they will, there will not be an increase in production coming from cows in the current dairy program coming back into production. Thus, there may not be such a sharp increase in production and resulting CCC M.E. purchases as occurred when the diversion program ended. However, the next big test of the program will come in the '87 spring flush.

Close attention must be given to CCC M.E. purchases from now to then for further diagnosis of the effectiveness of the buyout program.

CCC Sales of Products

Back to Commercial Firms

CCC does sell product back to the commercial market. However, there seems to be more sales back to the commercial market since

the whole herd buyout program began. Again, this is evidence of the improving situation in the dairy industry.

Another bright spot for the dairy industry is the declining government stocks of uncommitted dairy products. The declining level of purchases and the use of products in the domestic donation program and other government programs has resulted in a decline, at least in cheese and NFDM, stocks.

For the week ending on Nov. 21, 1986 uncommitted CCC stocks of cheese and NFDM were 27 percent and 38 percent lower than for the same period in 1985. However, the stock of butter was 41 percent higher than in 1985.

It has been predicted that in 1987 the stocks of dairy products will be exhausted.

This will present an interesting situation since the government uses dairy products in several programs and might want to maintain some inventory of products. The effects of an increase in production may not be as negative as would otherwise occur if the government desires to have some inventory on hand to use in the programs it currently has.

It could, however, dispense with some programs and reduce its need for dairy products. This often overlooked side of use of dairy products could be one important factor in determining producer prices in 1987.

The fact that government inventories are not high also cannot be used as ammunition for further cuts in the support price. As it stands now, this situation certainly looks good for dairy farmers.

Minnesota-Wisconsin Prices

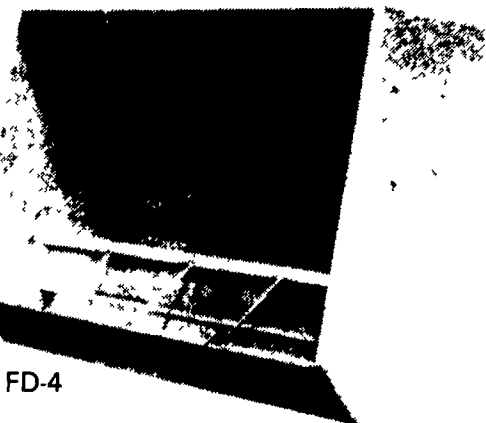
The impact of the whole herd buyout program along with the increasing consumption of dairy products can be seen in the improving M-W prices during the

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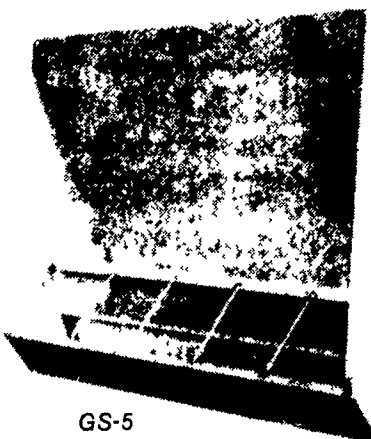
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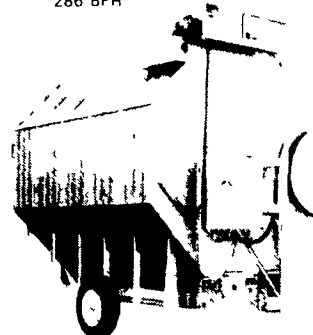


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