1987 Milk Prices Hinge On Restrained Production

INTERCOURSE — Prices will record modest gains in the next few years if dairymen restrain production after the buyout program ends in August.

The buyout will continue to influence milk support prices into 1989. "It's having an impact. But having a greater impact are those who bid and didn't get into the program," Eastern Milk Producers' economist explained.

Joseph Mathis

Speaking at an informational meeting held on Tuesday at the Harvest Drive Restaurant, Joseph Mathis said that for every producer who signed up in the buyout program, Eastern and Dairylea are loosing two producers due to sellouts.

The buyout, designed to quickly reduce the amount of milk purchased by the government by 12 billion pounds, removed over 950,000 animals by Jan. 2., the two-third completion mark.

Farmers with relatively low debt loads were able to bid low and were accepted. Acceptance was also concentrated around major metropolitan areas of the state, Mathis noted. "In areas around major cities there is a lot of pressures on the land for other purposes such as industrial and housing developments," the economist said.

With the influx of industry, work opportunities other than farming become available, he added.

When the program ends in August "there is going to be some recovery, but not as much as after the diversion program," Mathis speculated. He explained that after the diversion program milk production skyrocketed because participating farmers were in a position to "plow the feed back to the cows." Plus, all the heifers and cows could have remained on the farm participating in the diversion program.

With the buyout program, the cows will be destroyed as well as their calves and heifers, Mathis noted. All the production capacity of a farm will be removed and the participant must stay out of dairying completely for five years. "Most likely they'll stay out," he added.

According to Farm Credit numbers, he said, there is not much borrowing power out on the farms. This will prevent expansion. However, moderate production increases will continue through the use of better genetics and management, he said.

Milk production per cow has steadily improved at a yearly rate of 2 to 2.5 percent. Total milk production is tied to this number and changed by the number of cows in the country, he explained. In 1985 feed was cheap and low producers were culled. The net result was an increase in milk per cow at the end of the diversion.

There will be no big surge in production until the end of 1989 when the bovine growth hormone is approved, he said. Mathis explained that the general feeling of the pharmaceutical companies developing BGH is that it will be on the market in the end of 1989.

Problems started to develop in the dairy industry in 1980. Between 1976 and 1979 "supply and demand were in balance," Mathis explained. After that time, the government "increased the support price without regard to the market" and commercial use dropped, he continued. The price increased every six months by 50 cent increments.

Farmers responded to the increased prices by increasing production, he stated. When the government purchases reached an excessive amount, the government responded with the diversion program.

The diversion program worked, Mathis said. It removed 2.5 percent of the production which otherwise would have been added to the milk surplus. The diversion program reduced the amount of government purchases while it was in effect.

In 1986 he estimated government purchases at 10.6 billion pounds. "I think in 1987 this amount will continue to drop," the economist said. In 1988 he predicts the supply-demand conditions will be tight enough that the government will purchase less than 5 billion pounds of milk.

The secretary of agriculture has the authority to drop the support price by 50 cents if it looks like the government will buy over 5 billion pounds of product on Jan. 1, 1988, Mathis said. Potentially, under current law, the price could drop by 50 cent on Jan. 1 of 1989 and 1990, he added.

1988 is going to be a close call if the price drops or not, he explained. "Most likely what we hope will happen is that it'll stay the same."

A bill currently under consideration, and one which the dairy cooperatives are supporting, would trigger a limited buyout instead of a 50 cent price drop on Jan. 1 of 1988, 89 and 90, Mathis said. The co-op are hoping to sell the bill without an assessment to the farmer. Mathis said the government can save $16 per hundredweight by not buying the milk. The government would also not have the storage costs on that milk.

"It looks as though the worst is over. We had a general drop in milk price since 1981. We should get some improvement in price but it won't be much," Mathis said.

The moderate price improvement hinges on the farmers controlling milk production. In 1985 prices dropped because of a sharp rise in production. "We got back into record production after the diversion program," the economist explained.

Since August prices have been better than a year ago, Mathis pointed out. In 1984 he predicts prices will be lower than 1984 but better than 1985. Yet, he added, the second half will not be as good as the second half of 1986, prices will level off.

In Federal Order 2 in 1987, dairy farm numbers are expected to drop by 6.3 percent compared to 1986. The reduction will range from 7.6 percent in the first half of the year to 3.5 percent in the second half, Mathis explained.

However the output per cow is expected to grow by 3.6 percent. The trend will be opposite the farm reduction with greatest increase coming at the end of the year, he added.

The net result of the two trends, Mathis explained, will be the Class 1 and Class 2 markets coming closer together. Milk manufacturers have witnessed a 6 percent decline in Class 2 milk availability. Eastern has temporarily closed its Grover cheese plant because of the supply reduction.

Commercial use which has had an "unprecedented increase" since 1983 will also level off. "I don't think the trend is going to continue. We won't be able to sustain the rate," he speculated. While increases have been recorded at 7 percent in past two years, he predicted an increase of 2 percent could expected in 1987.

While conditions appear good, they are not super and something could happen to drop the price, Mathis cautioned.

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