

The Milk Check

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Over-Order Prices Set

For the first time in 14 years dairymen in the Northeast will have an opportunity to get milk prices higher than the minimums required by Federal Milk Marketing Orders.

After two years of efforts to organize a bargaining cooperative that provided membership voluntarily for all producers, the Board of Directors of the Regional Cooperative Marketing Agency meeting in Albany, N.Y. last Friday announced their over-order prices for the fall months. Rather than set premiums above the Federal Order minimum prices, the Board announced the Class I price of \$14.45 for Order 2 from September to December. This would be the price handlers would pay for Class I milk with 3.5 percent butterfat at the 201-210 mile zone.

Differentials for butterfat and transportation that are now part of the Federal Order would still apply as well as any handler premiums for fall production, higher volume, quality or transportation. In other words, only the difference between the Federal Order Class I minimum price and \$14.45 would go to RCMA to be distributed only to its members.

The minimum Class I price for Order 2 in September will not be announced until the Minnesota-Wisconsin Price Series for July is available for Aug. 5. However, the August Class I price is \$13.63 and the expected September price may be \$13.75 which would provide a premium of 70 cents in the over-order price for fluid milk. Even with the level price of \$14.45 for four months, the over-order premium may vary from month to month depending on the effect of the price support cut in October and supply/demand conditions in the market.

Comparable Class I prices will be determined for Order 4 when the directors of the Mid-Atlantic Cooperative Marketing Agency meet this week. The over-order price in that area will be different than Order 2 considering the Federal Order differences in Class I differentials; transportation credit and farm point pricing but the handler costs will be similar. The major difference is that only members of the Order 4 or Pennmarva Cooperatives are part of the Mid-Atlantic Cooperative Marketing Agency so independent producers shipping to Order 4 handlers must be members of RCMA to share in the premiums.

It's A Start

With a lot of new members signing contracts in recent months to meet the July 10 deadline set in May by the RCMA Board, they now have nearly 95 percent of the producers in the 11-state region. Considering the marketing conditions in the Northeast, the Board felt it was time to start obtaining higher prices for its members.

When the combined board of 75 dairymen including both cooperative and independent farmer members applied an economic formula

that gave equal weight to the cost of production and the expected supply/demand conditions in the market, they arrived at the \$14.45 over-order price for Order 2 fluid milk.

This matches the Class I price of \$14.46 in January which was the highest since April 1985 in Order 2. If that price could have been maintained all year through over-order pricing eliminating the seasonally lower prices in the spring

the premium to RCMA members would have been 90 cents on Class I milk in June and July.

Seasonally higher prices in the fall months will result in a lower premium if the over-order price is maintained at \$14.45 through December. Similarly, as the Class I price falls next spring to an expected \$12.75 to \$13, the RCMA premium could increase to \$1.45 or even \$1.70 if the \$14.45 Class I price can be maintained under the supply/demand conditions that exist at that time.

However, it does provide some protection from cuts in the support price and the uncertainty of national production levels that are creeping up monthly toward last year's record high.

The Minnesota-Wisconsin Price bottomed out for the year at \$11 in May and only got up to \$11.07 in June. Most forecasters expect the M-W to peak in November around \$11.70 which would be 20 cents less than last year. RCMA over-order prices could make up these differences for its members

when local marketing conditions warrant higher prices.

Market Effect

Some RCMA members may feel the Board did not go far enough in increasing Class I prices but they had to make a decision balancing the members need for higher prices against the market effect such changes. If they were a little conservative in their first efforts in determining what the market would bear they can be forgiven. It would be far worse to over estimate the situation than settle for something less the first time out.

Also, there has to be some "testing of the waters" to more accurately determine the reaction of the market as well as developing the organizational procedures for collecting and dispensing the premiums including all the record keeping that goes with it. You have to learn to walk before you run. Besides, only the Board knows where that 95 percent of the producers who are RCMA members

are located. Or, more to the point, where are the 5 percent who chose not to participate.

All things considered, the \$14.45 should be an attainable goal since that was a price the market has already experienced this year back in January. It wasn't too high at that time to affect demand so it should work again. You sold 409 million pounds of Class I milk in Order 2 in January 1986 when the price was \$13.44 and you sold 410 million pounds in January 1987 when the price was \$14.46.

The classic inelasticity of milk prices apparently can handle a 7.6 percent increase in price without affecting sales and all RCMA is trying to do is maintain that price against seasonal variations and price support cuts. This may be even more important next year when the support price may drop 50 cents to \$10.60 in January.

If we assume that the September

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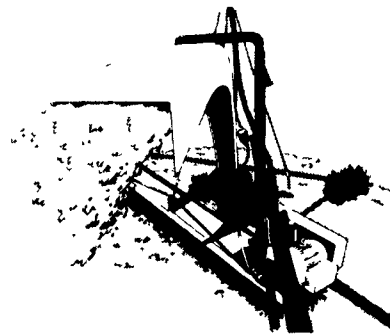


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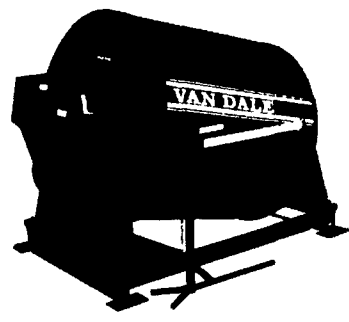
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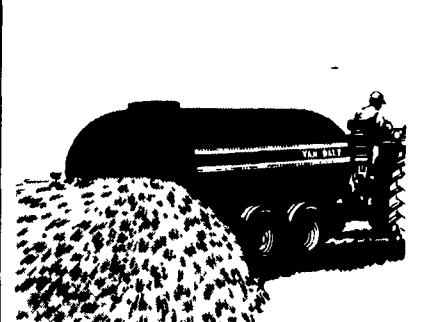
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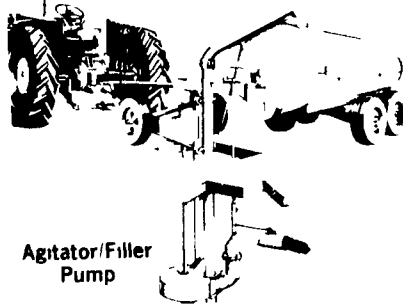
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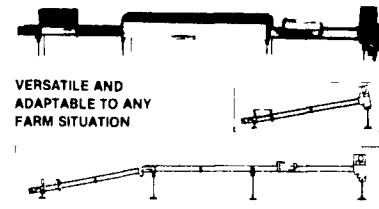
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