The Milk Check

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SCRANTON — To no one's surprise dairy prices started plummeting last year in anticipation of the 50 cent support price cut on January 1 and already we have a total drop of 43 cents in the Minnesota-Wisconsin Price Series since November. Nearly all of it came in December and January making the M-W $10.91, the lowest since July 1979 and well on its way down to the support price of $10.33 for 3.5 milk. But then all your milk prices will be going back to 1979 levels soon. Those were the last days of flexibility in setting support prices followed by the years of rigid support prices that called for minumums of 80 percent of parity with six months adjustments. That ended on March 31, 1981 when the support price went to $13.10 and it's been all downhill since then for a total drop of $2.50. Of course, that isn't the end because there's already expectations of another 50 cent cut next year and possibly in 1990 and 1991 if production keeps increasing or demand falls off.

And while the M-W didn't get down to support levels in January butter and cheese prices did. So look for another big cut in the M-W in February and March that will be reflected back to your milk check up to May. The M-W is already 79 cents lower than last year and $1.81 below it's peak of $12.72 in November 1984.

So, if support price is down and the butter and cheese prices are down what's left -- the farm price. That of course hinges on the other three but cheese and butter prices more specifically. They may take a couple of months to get telegraphed to your milk check, but as you have read here many times in the past, if you want to know what's coming watch butter and cheese prices in the mid west. It takes only one month for the M-W to set your Class II price but two months for Class I So, the big cut in Order 2 was a 24 cent drop in Class II to $10.94 in January and only a one cent drop to $13.89 in the Class I price. With a Class I utilization of 42.4 percent these made a blend or Uniform Price of $12.03 for Order 2 in January. That was only 18 cents less than last month but 73 cents less than last year. Very close to the difference of 79 cents in the M-W since last January.

Milk Production Up

Nationally, milk production is on the increase for the fifth consecutive month in December. This kind of increase mainly in milk production per cow is what's expected for all of 1988. That would make a total of 147 billion pounds or 2.6 percent higher than 1987. This is the reason that Commodity Credit Corporation purchases next year will exceed the five billion pounds of milk equivalent that triggers another 50 cent cut in the support price to $11.10 in 1989. Even the northeast may have production increases over 1987 but still below the 1986 level that started the interest in over order pricing here along with the 50 cent assessments and the 15 cent deduction for promotion. No one expects any change in the price support legislation so 1988 may set a ten year record of 12 consecutive months with no changes in the support price. The industry calls it price stability but at these prices some producers have other names. However, it does give processors and wholesalers an incentive to build up inventories without the risk of having them lose value from mid year support price cuts.

With production up and CCC purchases up the good news is that commercial sales should also be up next year. After three consecutive years of three percent increases in commercial sales everyone begins to wonder how long you can keep up the pace. You're now up to 139 billion pounds of milk equivalent in commercial sales. That was equal to your total production in 1983. Which means that you have increased consumption in four years to the point where, if you were producing at the same level as five years ago, there would be a national shortage.

Finally, on the up side you have feed prices that are expected to increase this year. The problem is compounded by lower milk prices making the milk price--feed price ratio lower than the record highs you enjoyed last year. It won't be disastrous but it will be enough to hurt producers who have been marginal on feed costs in the past.

Premiums Offered

As long as I'm enumerating the ups and downs in milk marketing I have to include the ups in premiums offered by handlers both cooperative and proprietary. I realize the cooperatives started the practice and proprietaries joined to stay competitive but, whatever the reasons, most producers feel that they should take them while they can and there's nothing wrong with that. How long the premiums last, however, may well depend on the reasons that started them.

Milk diversions have been started by RCMA and are attracting interest in dairy industry all over the country. Being watched mainly is the effect the diversions have on membership. How the handler reacts is as important to the success of the diversion for RCMA as the effect on the membership. If membership in RCMA is not increased as a result of the diversion then little has been accomplished. Since RCMA must collect the same premium from all handlers, the handler with the lowest RCMA membership among his shippers, lowers the premium for all RCMA members in the market. So, the principal goal of diversions now is to increase membership. This is a first for Order 2 producers and the industry is watching to see how you respond.

Changes For
Seasonal Incentive Plan

The major cooperatives in Order 1, New England and Order 2, New York-New Jersey have asked the USDA for a hearing to amend those Federal Orders to change the seasonal incentive plan from the present Louisville Plan to a base-excess plan similar to Order 4. With the Louisville Plan, deductions of 20 to 40 cents are made from your milk check in the spring and premiums of 30 to 45 cents are paid back in the fall. The base-excess plan provides an individual base for each producer each fall according to his production. The base can change from year to year. A base price and an excess price is paid to farmers individually rather than a uniform or blend price which is the same for all farmers.

This is not a quota or supply management program only a different seasonal incentive that may be more effective in encouraging producers to increase fall production above present levels and lower spring production. The important

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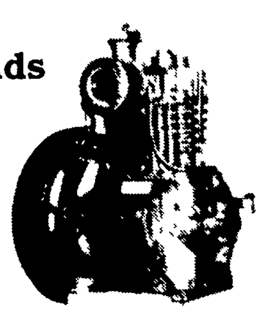

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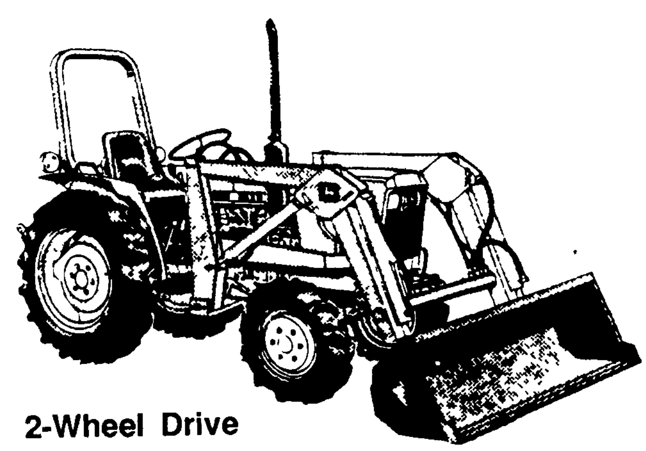

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