The Milk Check

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Small Change

After increases in the Minnesota-Wisconsin Price Series of 46 cents in August, 50 cents in September and 40 cents in October, the December increase of only four cents may seem like small change to producers but it was enough to confound the prognosticators and keep dairy product manufacturers worrying about their cash flow. Prices are not supposed to rise this fast or this long in the dairy business. Now you have had eight months of consecutive increases in the M-W for a total of $1.94 and moving the price from 73 cents under the previous year in June to $1.15 over last December. That's a total improvement of $1.88 in just six months. The M-W is influenced largely by cheddar cheese prices which are still 21 cents above the support price with no signs of dropping. Not all processors sell cheddar cheese but all processors have to compete for the milk supply even if they're making butter and the price is two cents under the support price. Don't worry that the January Class I price in Order 2 will be $14.78 and the out-of-store price in northeastern Pennsylvania will be $2.31 a gallon or 33 cents more than last January. We can live with that. But with all the mix of manufactured dairy products that are affected by the M-W your good fortune of rapidly increasing prices is not viewed as a blessing by everyone.

However, cheese and powder prices remain strong and even dried whey and buttermilk prices have caught fire to help out. As of now, there's no indication of changes in the cheese and powder markets but with an increase of only one tenth of what you have had in the recent past some changes are taking places. Hopefully, it's just a pause before prices move ahead again but estimates are nearly impossible because the situation is so unique. Here we have cheese and powder prices at 120 percent of the support price but CCC purchases the first week of January were the highest since last May at the peak of the spring flush. It's a good time to bring out the old discussion topic "Is there really a surplus?" You can have fun with that one now.

Foggy Balls

So, having said all that, the time has come, as it does every year, for forecasters to predict what lies ahead except that this year the crystal balls are as foggy as anyone can remember. Those who made predictions before the end of the year -- like the USDA -- are likely to change from them if they had another chance now. Forecasters interested in getting more milk for their employers were more optimistic than those whose income would not be affected. The problem is that either group could be right so you'll have to make a choice. If you want to go with a consensus decision don't bet the farm that the present situation will last beyond next spring. It's easy to predict that milk prices the first half of 1989 will be better than the first half of 1988 for two reasons. Last spring they hit a ten-year low and we are starting 1989 at a three year high and going up. If you stay with the consensus decision you can expect prices the last half of 1989 below what you had in 1988, which means that most forecasters don't expect the present prices to continue for long. That may be true.

If you look back on 1988 you had a record high year in production per cow; in total production and in commercial sales. All of this with a record low number of cows and a 30 percent increase in government purchases. That has been the long term trend of the industry with only an occasional blip from a diversion program or a whole herd buyout. So, if you're playing the odds, the current jumps in prices from a demand pull on a few dairy products may be only another blip resulting from economic forces from outside the dairy industry. If that's true then the present situation will change and revert to its normal trend even by the end of 1989. In that case your average price for the year without any consideration of premiums may be only slightly higher than 1988 but over order premiums will make the difference. If the last six months didn't stimulate you to go for over order premiums through RCMA or otherwise then 1990 will look much like 1987.

How Come

So, if milk prices are so good now how come the December blend price in Order 2 was 11 cents lower than November? It dropped from $13.18 in November to $13.07 in December mainly because you had a Louisville Plan pay back of 26 cents in November which was the last one for the year. Without the 26 cents in November the price would have been $12.96 so you got an increase of 11 cents in the market price but it didn't show up that way on your milk check. Another factor is the increasing receipts which jumped four percent on a daily basis in Order 2 from November to December lowering the Class I utilization. The Class I price increased 40 cents over last month and the Class II price only four cents so the lower proportion of fluid milk was expensive. If you're interested in learning more about how federal order milk pricing works you should plan to attend one of the educational meetings in your area being arranged by Cooperative Extension and the milk marketing cooperatives starting January 19 in Pennsylvania, New York and New Jersey. Call your Extension agent for dates and places.

New Secretary

Seldom has there been such universal support for a new Secretary of Agriculture as George Bush got in the appointment of Clayton Yeutter, (rhymes with fighter), who is anything but new to agriculture and the Department. A corn and cow farmer from Nebraska with a law degree and a doctorate in ag economics, he has already served under three presidents. He administered the federal milk marketing orders back in 1969 and later was assistant secretary for marketing and consumer services. He is best known for his present job as U.S. Trade Representative, the top job in international trade for President Reagan since 1985 where he developed a reputation as a tough negotiator. Naming Yeutter to head the Department has sent a message to all agriculture that the strategy of the new administration will be market expansion rather than supply management.