

Milk Market News

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What Goes Up

SCRANTON (Lackawanna) — No one predicted the meteoric rise of \$1.94 in the Minnesota - Wisconsin Price Series from April to December last year so it shouldn't be a surprise when it unexpectedly dropped like a rock in January. Certainly it was expected to fall seasonally as it always does at this time of the year but at a more gradual rate than the 37 cent tumble it took in January. But then it did go up as much as 50 cents in September so what goes up that fast can come down that fast.

And just as it was mainly the cheese price that took the M - W price into orbit it was cheese that brought it back down. Cheese prices fell 4.5 cents the second week of January and another 4.25 cents the following week. That was enough to signal trouble ahead but when they dropped another 5.75 cents the third week it was clear that they had reached their apogee, the flight was over and they were headed back for a landing. When you add up all the price drops it was a total of 14 cents from \$1.32 to \$1.18 a pound. That's only three cents above the \$1.15 support price for cheese.

How Come?

Reasons for the sudden drop brought a variety of reactions. Everything from requests for a federal investigation to a normal, seasonal reaction were heard from

the industry. The most acceptable explanation was that the industry over reacted from what they expected in milk supplies as buyers were looking ahead to the usual demand increases for the end of the year holidays. They were hedging against an expected drop in milk production last fall from the drought of last summer. As you know now, there was no drop in milk production. In fact it increased two percent over the last quarter of 1987 and 1988 finished with a new record high.

So, after building up inventories of cheese last fall in expectation of lower milk supplies that never came, cheese buyers now want to sell off their stocks rather than buying more so the market price drops. However, they still have to look ahead to next spring when the support price for cheese will increase five cents a pound. That will happen because the Drought Assistance Act, passed by Congress before they knew what the effect might be, will increase the support price by 50 cents from April to June. That's the normal time for building inventories of hard dairy products so handlers are betting now, because of your past milk production record, that there will be the usual spring flush to provide products to carry them through the summer demand. We'll see.

Lesson To Learn

If there's nothing else you learn from all of this, it should be the importance of cheese prices in your milk check. Assuming you

understand the importance of the M-W price to your federal and state milk marketing orders it should be apparent that when butter and powder prices stay the same and only cheese prices change the effect is so dramatic. Some industry analysts feel that cheese prices represent 85 percent of the M-W and from the changes in the last six months I'm inclined to believe them.

When you consider that the average yield is 10 pounds of cheese from 100 pounds of milk that 14 cent drop in the cheese price in January could mean \$1.40 drop in the milk price. If the high powder prices, now 20 cents above the support price, offset the low butter prices, now two cents below the support price, then it should be clear that the numbers on your milk check may be turning on the price of cheese. With a 50 cent increase in the support price from April to June the support price on cheese will increase from the present \$1.15 to \$1.20. With the present market price at \$1.18 that doesn't leave much room for a further drop but there's nothing to prevent it from falling below this support price. This has happened in the past because "make allowances" have not been changed since 1980 in spite of increased processing costs. However, it's still a combination of butter, powder and cheese prices that determine the M-W. That's the reason you're seeing only a 37 cent drop from \$12.27 in December to \$11.90 in January but cer-

tainly you can expect further cuts in the next few months probably down to the new support levels by April.

Not All Bad

In spite of the sudden drop in cheese prices it's not all that bad. Even with the M-W at \$11.90 it's still 99 cents higher than a year ago and still \$1.07 above the support price of \$10.83 for 3.5 milk that will be in effect from April to June. Because the M-W sets the Class 1 price two months in advance it will continue increasing in Order 2 from \$14.43 in December to peak at \$14.82 in February. That's the highest since January 1985. The Pennsylvania Milk Marketing Board has continued their Drought Relief Order to August 31 adding \$1.05 to the price of Class 1 milk paid by

handlers. Premiums of all kinds from handlers and cooperatives will become a more important part of your milk check as market prices decline.

And finally, the uniform or blend price in Order 2 was \$12.95 for January. Only 12 cents less than December but 92 cents better than last January you're still way ahead of last year. Prices higher than a year ago should continue into the spring flush helped by that 50 cent increase in the support price from April to June. What happens after that depends on feed prices, the weather and cow numbers. January receipts in Order 2 have already increased three percent over last year. If this continues, and it is likely, the first part of 1989 will be the best part.

1989 Commercial Tree Fruit Guide

NEWARK, DE — An updated tree fruit production guide for commercial growers is now available from University of Delaware Cooperative Extension.

The 1989 edition of the guide features up-to-date chemical treatments and spray schedules for apples, peaches, pears, plums, and sweet and sour cherries. The guide contains a table for keeping spray records and a table listing the number of days to wait between last application and harvest. General guidelines for orchard nutrition are also included.

Copies of "1989 Commercial Tree Fruit Production Recommendations" are available for \$8 each and can be picked up at county Extension offices in Newark,

Dover and Georgetown. To order by mail, please send your check payable to University of Delaware to one of the following county Extension offices:

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