

Milk Market News

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Nose Dive

SCRANTON (Lackawanna) — A drop of 37 cents in the Minnesota-Wisconsin Price Series in January was bad enough but it took a real dive in February dropping an additional 64 cents to \$11.26 making a total loss of \$1.01 since it peaked at \$12.27 in December. Further drops are predicted to \$11.00 in March and more after that. Estimates two months ago of a total loss of \$1.50 by Spring are beginning to sound plausible. Earlier forecasts that the M - W wouldn't go down to the new support price in April have been abandoned. Now the bets are on how far below the support price it will go. The present support price is \$10.33 for 3.5 percent butterfat. During April, May, and June it will be increased to \$10.83 as part of the Drought Assistance Act of 1988. However, if the M - W drops \$1.50 from its December high of \$12.27 it will be down to \$10.77 or six cents below the support price.

Two things to keep in mind. The support price is targeted on the national average price for manufacturing grade milk and not on the M - W price which is only a two-state average used to determine class prices in Federal Milk Marketing Orders. The other thing is that the support price was below the M - W price in the Spring months from 1981 to 1986. Not just six cents below but anywhere from 20 to 40 cents below the support price. So it could happen

again even though it hasn't happened in the last two years.

Cheese Buyers Dilemma

Much of the reason for the roller coaster ride in the M - W price since last summer surrounds the cheese problem. However, when milk prices were going up 50 cents a month last fall it wasn't viewed as a problem by milk producers. Only now that prices are dropping 60 cents a month do we begin to wonder what's happening. In fact, the full impact of the situation won't be appreciated until it hits the milk checks you receive starting in April. In a nutshell, what happened was the buying of cheese by dealers last summer and fall for holidays in anticipation of a drop in the milk supply from last year's drought. There never was a drop in milk production in fact it hit a record high last year but the market price for cheese kept going up because of the demand from dealers.

Normally, there would have been a lid on prices as the Commodity Credit Corporation released its stocks of cheese when the market price went up to 110 percent of the support price. This time, however, there were no CCC stocks of cheese because of the giveaway program that got nearly 500 million pounds in 1987. So, the market price was bid up to 118 percent of the support price and by the end of December 92 percent of the cheese in storage was owned by commercial handlers. By then the retail demand from holiday sales was over and there they were with all this cheese. So, they be-

gan to sell it off at lower prices in January when it dropped 14.5 cents in one month. Barrel cheese prices dropped an additional five cents in February.

Now What

So, what would you do if you were a cheese buyer? Sell your inventory now and gamble that you will be able to buy cheese cheaper during the Spring flush of milk or keep what you have and gamble that prices will not fall below the support price in April, May and June? One thing he can't do is sell his present inventory to CCC after the support price for cheese goes up to \$1.20 in April because CCC will only buy products manufactured after April 1 just to prevent such a deal.

Apparently, most cheese buyers are anticipating a real Spring flush of milk that will send prices below the new support price of \$1.20 and perhaps down to \$1.15 which is what it is now and what will be after June 30. That means that CCC will have to buy a lot of cheese in the Spring to maintain the support price. These CCC stocks could be sold next summer if the market price goes up again and buyers would have cheese without the storage cost. Of course, this would work only if the CCC didn't go back to the giveaway program so no stocks could accumulate. It's a gamble just like producing the milk and the gamble you take every year with the weather, feed costs, herd health and market prices. Hopefully, you will get some of that 50-cent increase in the Spring but the worst possible

scenario would be prices so low that you get little or none of the 50-cent increase in the support price and CCC purchases would increase enough to trigger another 50-cent cut in January. More and more it looks like you'll have to depend on over order premiums to make ends meet at the farm.

Milk Check Prices

As I said earlier, you won't really feel the effect of all this in your milk check until April but you ought to know now what's coming. The Uniform Price in Order 2 in January was only 23 cents less than the high for last year of \$13.18 in November so it dropped 11 cents a month. February Uniform Price of \$12.25 was a drop of 40 cents from January's \$12.95. Of course you can look at the bright side and say that February was 86 cents better than last year but January was 92 cents better. Certainly you expect price drops

at this time of the year into the Spring months but this year the drops will be greater than usual as the M - W price indicates.

Certainly the increases in production nationally are adding to the price declines but here in Order 2 you're more than matching the national average. Production increases here are running about three percent every month and February, on a daily basis, was up four percent. If there is to be any cutbacks in milk production, nationally or locally it hasn't shown up yet. In fact, you're making increases at a record rate in spite of the lowest number of cows since 1872. In addition, the takeout payments for the Louisville Plan will start in March with 20 cents and increase to 30 and 40 cents in April, May and June. It doesn't look good from here but it may be better to alert you now than surprise you in May.

Dairy Management

YORK — Bovine somatotrophin -- one of the most controversial current issues of the world's dairy industry -- is the subject of York County Holstein Association's annual spring barn meeting. The meeting will be held at 1 p.m., Wednesday, April 5, at the Ramsay Cooper family's dairy farm, west of Delta. Ramsay and his son, Scott, milk 60 head of registered Holsteins in their herd, which will be on display during the session.

Speaker is Dr. Larry Muller, Penn State, with an update on the state of the much-publicized soma-

totrophin hormone research and its potential for the dairy industry.

The Cooper farm is accessible from Route 74. Turn east onto Route 851 at Paper Mill Farm Restaurant. Turn left on first hard road, Lay Road, travel to second intersection, just past the ball diamond, and turn left. Cooper's farm entrance is the first lane on the right. For additional information, contact the Cooper farm at 717/456-5484.

All interested dairy producers and related agri-business representatives are invited to attend.

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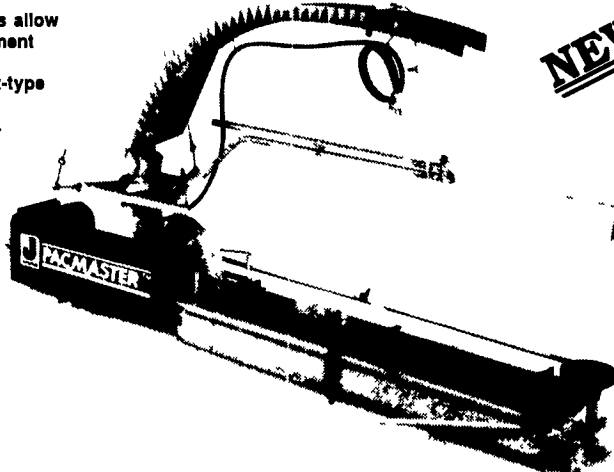
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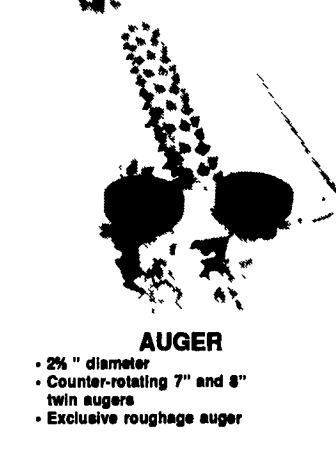
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