

# Milk Market News

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SCRANTON (Lackawanna  
Co.) — December 15, 1989 -  
Farmers never get tired of hearing  
of increasing prices over and over  
again so I'm sure you'll be happy  
to hear for the eighth consecutive  
month that the Minnesota Wisconsin  
Price Series has taken another  
leap to \$14.69 for 3.5 butterfat in  
November. These aren't just the  
usual seasonal increases expected  
at this time of the year but gigantic  
leaps of record proportions. Last  
month it was an increase of 82  
cents which in itself was a record  
as well as the third consecutive  
month for a record high M-W  
price. Since March this makes a  
total of \$3.71 in price increases in  
the M-W which is now \$4.34

above the support price for manu-  
facturing grade milk. Because of a  
two-month lag in reflecting the  
M-W in the Class I price, which  
doesn't happen with the Class II  
price in Federal orders, you now  
have the unheard of situation  
where the Class II price for No-  
vember will be higher than the Uni-  
form or blend price was in Octo-  
ber. It also pushes record high  
Class I prices for the third conse-  
cutive month to \$17.24 in January.  
That's \$2.27 above the old record  
of \$14.97 set in January 1985 in  
Order 2. All of this should give  
you some perspective on how high  
is high when we're talking milk  
prices today. Forecasters all agree  
that this pace of price increases  
can't keep up for much longer but  
how soon and how far the drops

will come is still speculative. If we  
look at some of the reasons for the  
increases we may find some clues  
about when to expect the decreas-  
es. It isn't enough to say it's a tight  
supply — demand situation but  
that is the reason for the increases.  
The better question is why tight  
supply and why increasing de-  
mand?

## TIGHT SUPPLY

The tight supply situation  
wasn't just a matter of less milk  
but more importantly when and  
where. The drought of 1988 in the  
Midwest didn't help milk prices.  
In fact it only increased feed  
prices but milk production nation-  
ally kept going up in spite of the  
drought. It wasn't until the spring  
of 1989 in the Upper Midwest —

specifically in Minnesota and  
Wisconsin — that milk supplies  
began to change and prices started  
up. Mainly it was the quality and  
quantity of forage available in that  
two-state area last spring that re-  
ally dropped milk production and  
cut into supplies. It was important  
that this drop in production came  
in Minnesota and Wisconsin rather  
than somewhere else in the  
country because that's where our  
milk prices start.

## DEMAND INCREASES

Because the demand increases,  
particularly for cheese and pow-  
der, came at the same time as the  
production decreases you got the  
big monthly price increases be-  
tween 43 and 82 cents. More im-  
portantly, however, were the rea-  
sons for the new demand. After

the year end holidays in 1988 buy-  
ers left the market for three  
months expecting to rebuild their  
inventories during the spring flush  
of milk. The M-W price dropped  
\$1.29 from December to March  
before the buyers came back in the  
market only to find there was no  
spring flush. With cheese con-  
sumption increasing at an annual  
rate of eight percent, partly be-  
cause there were no more give-  
away stocks, they had to compete  
for smaller supplies of milk.  
Cheese prices rose from \$1.13 in  
March to \$1.54 in December. Be-  
cause Minnesota and Wisconsin  
make 60 percent of all the cheddar  
cheese in the country and because  
milk production was down in that  
two-state area, the ripple effect  
was felt all the way to northeastern  
markets where milk is priced on  
the M-W price.

## THAT'S NOT ALL

If that was the whole story we  
still wouldn't have prices as high  
as they are. To the increasing  
cheese demand we have to add the  
increasing milk powder demand.  
This came because of the export  
opportunities provided by milk  
production quotas put on Euro-  
pean dairymen four years ago. At  
that time they had mountains of  
powder as well as butter that had  
accumulated through their subsid-  
ies much the same as we had here  
at that time. The difference was  
that their government would sub-  
sidize the export of dairy products  
as well as the production. We gave  
ours away at home. They sold  
theirs at bargain prices as exports.  
This drove the world price down  
below our support prices and we  
couldn't compete until we wrote  
some export subsidies into the  
1985 farm bill. More importantly,  
the European surpluses were gone  
because of their production quotas  
and we could now sell to interna-  
tional markets. Powder prices rose  
from 79 cents in March to \$1.50 in  
November with spot market prices  
going to \$2.50 including shipment  
from California to eastern cities.

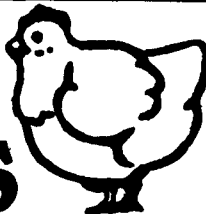
## WHAT NEXT

Again with the year end holi-  
days behind us it's expected that  
cheese buyers will back off after  
December to wait for another  
spring flush. If cheese prices drop  
12 percent as they did last winter  
they will go from \$1.54 to \$1.35  
or a loss of 19 cents which is  
worth \$1.90 on the milk price.  
Chances are that it will be more  
than that before buyers are ready  
to go back in the market and they  
may be helped by a drop in the

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# ATTENTION EGG PRODUCERS

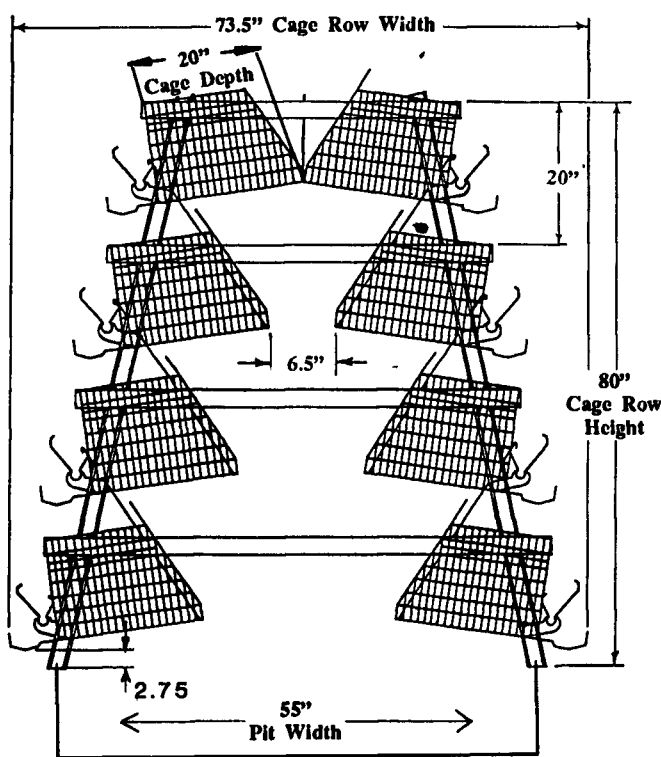
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