

# 1989 Milk Prices Soar, 1990 Outlook Questionable

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SCRANTON (Lackawanna Co.)— Like a fighter giving it all he's got right up to the last bell, the Minnesota-Wisconsin Price Series was good for one more increase and one more record high price before the year was over.

Certainly, 1989 will be remembered as the year that the Minn.-Wis. price set a new record high four times in four consecutive months. Even after most forecasters were betting that it would peak in November, it came through with another 24-cent increase to \$14.93 for December.

While not as great as the 73- to 82-cent increases of the previous three months, the 24-cent jump wasn't too shabby when a decrease was expected.

But don't be too hard on the forecasters. 1989 was a year in which most factors in the dairy industry went counter to look established trends for a variety of unpredictable events. Just hope that they don't discard their crystal balls because they have done a good job in the past and we'll need them even more in the future.

Just enjoy the thought that the Minn.-Wis. has gone from \$10.98 in March to \$14.93 in December for total increases of \$3.95 in nine months. That is in addition to the premiums you have received in varying amounts for several different reasons.

You ended the year with the Minn.-Wis. \$2.66 higher than last December and an average for the year of \$12.36 that was \$1.33 higher than 1988. However, that's not a very good comparison because the average Minn.-Wis. in 1988 at \$11.03 was the lowest in 10 years, so you had a lot of catching up to do. You would have to go back to 1983 to find an average Minn.-Wis. that was higher than 1989.

The nice thing about 1989 was that you did it without any Diversion Program or Dairy Termination Program or even from a support price except for the help it provided in buying butter that had to be made to sell the skim powder in export markets.

What next? That's the same question you've been asking for six months while prices kept going up to record breaking levels with record breaking increases. This time, however, there are too many signs pointing to a lower Minn.-Wis. than can be ignored. It looks like the end of the line.

The question now changes from "when will it drop" to "how much and how far."

Again, the forecasters are having trouble because we expect changes in both supply and demand as we begin the new year.

On the demand side, there's no question that cheese prices will fall because they already started down. In the first week of January they dropped over eight cents from \$1.54 to \$1.46 and, if you believe that cheese prices influence the Minn.-Wis. more than butter or powder prices, be ready for a drop in January.

Powder prices, that peaked at \$1.50, were down to \$1.35 in December and are now hovering around the support price of 97 cents. Butter is still a problem and the support price is the market price.

Which brings us to the not unexpected cut of 50 cents in the support price from \$10.33 to \$9.88 for milk testing 3.5 percent butterfat.

The Commodity Credit Corpo-

ration purchased 9.1 billion pounds of milk equivalent in calendar 1989 and projected purchases of eight billion pounds in 1990 if the support price was not changed. Even with the 50-cent cut, CCC purchases are expected to reach 7.4 billion pounds in 1990 calculated on a milk fat basis.

Using total milk solids rather than milk fat only, the projected purchases would be 3.6 to 4.4 billion pounds of milk equivalent. However, since CCC buys butter, powder and cheese (not milk) they have to convert that support price of \$9.88 to purchase prices for these products.

Because butter is in surplus and powder is not, they put the entire 50-cent cut on butter and dropped it more than 11 cents to \$1.09 a pound. Powder prices were unchanged at 79 cents. Cheese prices were reduced 4.5 cents to \$1.11 which is still well above the market price of \$1.46.

But, just because the support price was dropped to \$9.88, that doesn't mean that the Minn.-Wis. will go that low. What makes the

crystal ball cloudy now is the supply side. Much of the reason for the record high prices was lower milk production particularly in the upper Mid West and in the Northeast.

Blame for the low production is generally given to poorer quality and shorter supplies of forage. On the other hand, we're looking at the best milk price -- feed price ratio seen in several years and someone is going to start using grain to replace some forage supplies and/or quality.

Drops in milk production per cow have reduced supplies even more than the number of cows this winter. Milk production will come back at these prices but the question is how soon. The turn-around in supply is expected to start this winter but won't really pick up steam until late spring.

The next question is where will this production come from? Some states never slowed down last year and 1989 was the first time in three years that you haven't set a national milk production record. But look out 1990.

Before you worry about 1990,

let's get the last word on 1989 prices at the farm.

Uniform or blend price for December in Order 2 was \$15.47, or 19 cents more than November and \$2.40 more than last year. That 19 cents doesn't seem like much, but the November blend price was increased by 28 cents from a Louisville Plan pay back, the last one for the year.

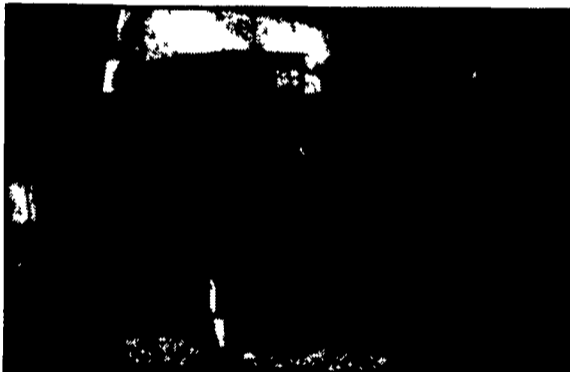
Adding the 28 cents to the 19 cents shows a market price improvement of 47 cents. The average blend price for the year was \$13.10 in Order 2 and that was \$1.23 more than 1988.

Monthly increases over last year's prices will continue through the first half of 1990. It's the second half where you may begin to fall behind.

County Extension dairy agents in Pennsylvania now have available a video tape: "Pricing under federal milk marketing orders in Pennsylvania." That, along with some handout material, is available for presentation to small groups of dairy farmers who want to learn the basics of milk pricing. If you're interested talk to your local Extension agent or call me at 717-963-6842.



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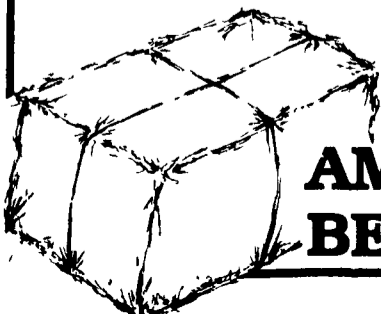
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