

Milk Price Not Related To Production

THOMAS JURCHAK
Lackawanna Co. Extension Agent
Last year was the year of record breakers on the up side when the Minnesota-Wisconsin Price Series set new records for four consecutive months from September to December.

Now it's setting records on the down side with drops of 99 cents in January and now \$1.72 in February. Never before has the M - W dropped so far so fast for a total of \$2.71 in two months largely on a drop of 29 cents in cheese prices half of which came on the first Friday in February.

If you had cheese in storage that Friday afternoon it was worth nearly 20 percent less than it was that morning. It was the crash of the cheese market still referred to as Black Friday by cheese makers and dealers.

Fortunately, the cheese market has held since then at \$1.26 but the damage was done and butter and powder prices were of no help. In fact the Commodity Credit Corporation was back buying powder for the first time since June 1988.

Now the February M - W is down to \$12.22, the lowest since

last July, but still \$2.34 above the support price but expected to drop more as milk supplies increase and powder prices go down to the support price where butter has been since August 1988.

Once again the importance of cheese prices in the M - W has been demonstrated and, outside of an aberration last year provided by unusual world trade prices for powder, continues to be the dominant dairy product.

Twenty years ago producers changed the pricing formula from the butter powder snubber to the M - W price because it was higher. Perhaps now we can change again to cheese prices but certainly the air will be full of suggestions for replacing the M - W.

The full impact of the \$1.72 drop in the M - W won't be felt in your check for February milk because it will hit only the Class II price in February and the Class I price in April.

Even so the Class II price for February will be down \$1.73 from January but the Class I price will be 24 cents higher making a uniform or blend price of \$14.22 for February. That's 95 cents less than January but still \$1.67 more than a

year ago. How much lower it goes will depend mainly on how much milk production increases this spring particularly in Minnesota and Wisconsin.

Help Coming
With the dramatic decline of \$2.71 in the Minnesota-Wisconsin Price Series in two months, the Pennsylvania Milk Marketing Board scheduled a hearing for March 21 in Harrisburg to lessen the blow to producers shipping to handlers regulated by state orders.

Normally the PMMB Class I price would go down or up each month as much as the M - W price but the Board can change that to spread out the differences over a longer period. Also on the agenda, at the request of farm organizations, was the \$1.05 disaster assistance increase on Class I milk that would end on May 31.

The choices, of course, would be to extend it at the present or a lower rate or let it expire and provide higher Class I prices by modifying the use of the M - W price.

PMMB producer prices for Class I milk peaked at \$18.68 in February in northeastern Pennsyl-

vania and had been scheduled to drop to \$17.69 in March and \$15.97 in April reflecting the \$1.05 disaster payment and the 99 cents and \$1.72 drops in the M - W price.

The April and later Class I prices would be affected by the Board's action and may reflect on premiums received by producers shipping to Order 2 handlers.

Milk Equivalents
Speculation runs high in what changes, if any, will be made in the dairy price support program in the new farm bill but the one most likely to happen will be the method that the Commodity Credit Corporation uses to calculate the milk equivalent of the butter, powder and cheese that it purchases to maintain the support price.

For as long as anyone can remember the CCC used the average butterfat in milk to determine these equivalents because it was the one component of milk that all handlers and producers were using for marketing and pricing purposes.

And, over the years, no one complained and it worked out well for most producers when CCC stocks of skim powder accumulated to 600 million pounds and nearly all the sales were for animal feed.

Using butterfat to determine milk equivalents at that time distorted the situation but worked in favor of the producer.

More recently the demand for skim powder in foreign markets has increased, partly because of mandatory production quotas on European farmers, and we exported 350 million pounds last year, more powder than ever before.

Meanwhile, between a declining demand for butter and the need to make even more butter to get the skim powder, CCC stocks of

butter are now over 200 million pounds and growing.

Once again the use of butterfat to determine milk equivalents distorts the true situation but in the opposite direction. Now it works to trigger a January drop in the support price even when the market price for manufacturing grade milk was \$3.00 above the support price and changes are being suggested.

Dollars Make Sense
It's true that using butterfat for the last 30 years wasn't always a true reflection of market conditions but most of the time it was because purchases of butter, powder and cheese by CCC were nearly evenly divided among the three products.

That isn't true anymore and markets can change. So far USDA has been reluctant to make a change so it may be included in the 1990 farm bill.

Suggestions from industry have included all the possibilities from no change, to using solids not fat to total solids but very few so far have considered the possibility of using a dollar value for CCC purchases. Dollars would be clearer to everyone especially Congressmen who understand dollars a lot better than milk composition.

All the information on the average components of milk and their value at a given price support level are available and any trigger you choose can be converted to a dollar value.

For instance the present trigger of five billion pounds of milk equivalent at the current support price of \$10.10 would cost \$260 million if all CCC purchases were butter.

If purchases were all powder costs would go to \$320 million and for all cheese to \$540 million.

Spring Sale
Prices Good Until April 28th

SOLO[®]

Reg. \$99.95

Our Price \$89.95

Outperforms

If you need a backpack sprayer that's lightweight, dependable, and easy to handle...
Buy a SOLO #1 Worldwide.

Parts - Sales - Service

Martin's Repair Shop
28 E. Trout Run Rd.
Ephrata, PA 17522
717-733-3015

Also new 5 Gal. Model



Model 425

Reg. \$109.95
Sale \$99.95

Will Ship UPS \$3.00 Charge Master Card, Visa & Discover Cards Accepted

PACMASTER™ SURFACE DRIVE SILO UNLOADER

Surface Drive Silo Unloader

It's a whole lot better in a whole lot of ways!



New Pacmaster is one sweet unloader — stronger, faster and built to last a long, long time.

JAMESWAY® QUALITY IN A PACK DRIVE SILO UNLOADER - THAT'S HARD TO BEAT!

YOU WON'T BEAT OUR PRICES & SERVICE

LAPP'S

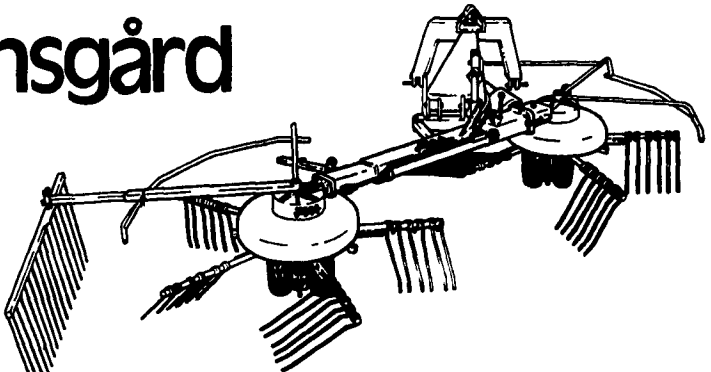
BARN EQUIPMENT

5935 OLD PHILADELPHIA PIKE, GAP, PA 17527

PHONE: 717-442-8134

— Radio Dispatched Trucks —

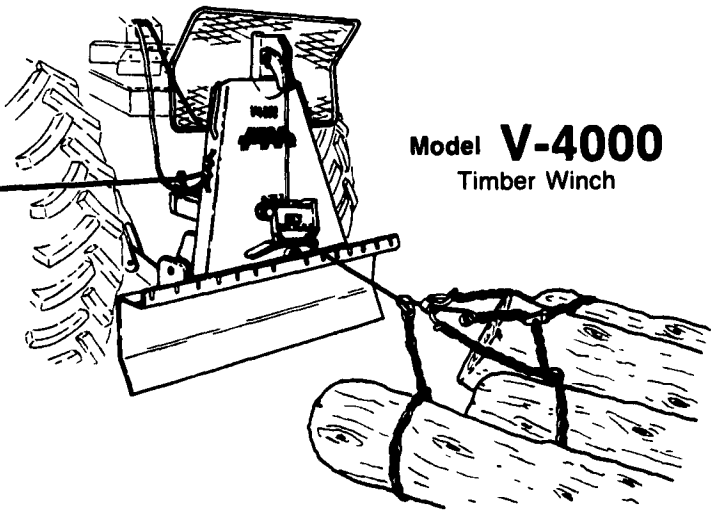
Fransgård



THE COMBI RAKE OF THE FUTURE

Model **TI 6000** Combi Rake

20 ft. Raking Width
15 ft. Tedding Width



Model **V-4000**

Timber Winch

J. S. WOODHOUSE CO., INC.

572 Industrial Drive
Lewisberry, PA 17339
(717) 938-5100

Established in 1843
FAX (413) 732-3786