Milk Prices Drop Fast, Return To Decade-Old Level

THOMAS JURCHAK
Lackawanna Co. Agent

SCRANTON (Lackawanna Co.) — You won't like it, but the record breaking season isn't over yet.

After you got used to record high prices during the last 12 months, you are now in for some record breaking lows that started in October.

The worst was a $2.02 drop in the Minnesota-Wisconsin Price Series in one month from $12.50 in September to $10.48 in October. The previous record of $1.72 was back in February when it was part of a $2.91 drop in the M-W in three months.

After that the increases came slowly totalling $1.41 in four months.

Then in August, when prices normally are increasing, the M-W started another decline for a total of $2.95 in the last three months.

With the October M-W at $10.48, it makes it the lowest for the month since 1978. That was 12 years ago.

Even worse than that is the thought that it's $3.39 lower than last October.

It will also provide a record high difference between Class I and Class II prices in federal orders.

In Order 2 in October the Class I price is $15.64 and Class I is $10.54 for a difference of $5.10 between fluid milk and milk used for other dairy products.

Unheard of in the past.

Of course, the full impact of this record drop won't be felt until January when you get your check for December milk but brace yourself for a long, cold winter with prices $3.00 under the year before when we get into 1991.

The Pennsylvania Milk Marketing Board has scheduled a hearing for the November 19 to receive testimony on adjusting milk prices in response to the "decline in the M-W price series" and the "increase in the costs of crude oil."

What Happened?

Last month I said that the 29-cent drop in cheese prices in one month signalled the beginning of the end of record high milk prices, but I never realized the end would come so soon.

At the National Cheese Exchange on October 12 prices were at $1.14 for 40 pound blocks, but since then there have been weekly declines totalling five cents until the price fell to $1.09 on November 9 and that's two cents below the support price.

Powder prices that, along with cheese, had helped to keep the M-W above the support price of $10.10 have now dropped another nine cents.

Increasing milk production, particularly in the southeast and southwest, have reduced shipments from Wisconsin to Florida to a third of what they were a year ago sending 118 more loads of milk a week to processing plants in the upper mid west.

In addition, the lower milk price in California, that does not have federal milk marketing orders, has made their cheese competitive in mid western markets helping to lower prices there and add to dealer inventories.

So the answer is that market prices for dairy products that set the payment for milk have fallen to price support levels as a result of increasing milk supplies and dealer inventories adequate to meet the market needs through the holidays.

Farm Bill

Called the "Food, Agriculture, Conservation and Trade Act of 1990" the farm bill takes some giant strides away from dairy supports as we have known them in the past; fixes the cost on assessments or user fees on producers and sets a minimum support price.

If all else fails, the support price cannot fall below $10.10 for manufacturing grade milk (not Class II milk) of average butterfat test or $9.90 for 3.5 percent milk at today's butter prices.

That rolls the support price back 12 years to 1978.

To get an increase of 25 cents on the support price, CCC purchases would have to fall below 3.5 billion pounds of milk equivalent on a total solids basis. Last year CCC purchased nine billion pounds on a milk fat basis so you have a long way to go to get the 25 cents or $10.35 for a support price.

However, if CCC purchases are expected to exceed seven billion pounds of milk the USDA could reduce producer prices through assessments to equal the cost of the CCC purchases in excess of seven billion pounds of milk equivalent.

Beyond that, the farm bill requires USDA to solicit proposals through public notice on an inventory management program and study the effect of alternative classification of milk in federal orders and supporting producer income through target prices and deficiency payments as we now have in feed grains.

By August 1991 the USDA is to submit a report and recommendations to the agriculture committees in the House and Senate.

The bill also requires the USDA to explore alternatives to the M-W as a Basic Formula Price; announce a national hearing on this by October 1, 1991 and have federal orders amended by June 1, 1992 if changes are indicated.

Another study on multiple component pricing is required with reports to the House and Senate agriculture committees within 180 days and national hearings to consider the adoption of such recommendations in each federal order.

Finally, in a separate subtitle, there's a "Fluid Milk Promotion Act of 1990" that provides an opportunity for a fluid milk promotion program if USDA receives a proposal for such a program from fluid processors representing 30 percent of the total volume of fluid milk products.

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