

# PFA Provides Dairy Situation Background

**CAMP HILL** (Cumberland Co.)— Dairy prices have fallen sharply since January, 1990. The PA Dept. of Agriculture's Ag Statistics Service reports the wholesale milk price paid by dealers who buy directly from farmers fell from \$16.80/cwt. for 3.74% milk in January to \$14.70 in October for milk with an average 3.67% butterfat. This is roughly equivalent to a drop of about \$10 per cwt. for steers or nearly \$3 per cwt. for fresh use apples.

Meanwhile, the Minnesota-Wisconsin price, which is used to determine all federal order prices, took a record plunge in October and fell some more in November for a total decline from \$12.50/cwt. to \$10.25/cwt. for 3.5% milk. This means even lower milk prices are on the way. PFA's Dairy Situations report states the full effect of the most recent M-W price drops will be felt in January, 1991 when milk checks will prob-

ably fall below \$12/cwt.

The reason for price declines is because milk supplies are higher nationwide. Production was 4% higher in November than a year ago in 21 major dairy states. In Pennsylvania, milk output was 5% higher than a year earlier even though cow numbers are down from 694,000 last year to 687,000 now. Per cow production is up from 1,125 lbs. per month to 1,195 lbs.

To make matters worse, production costs are increasing. Petroleum costs have gone up since the Persian Gulf crisis affecting prices for fertilizers, heating oil, rubber products, farm chemicals, transportation and other inputs. Increasing costs and falling milk prices have forced the milk feed price ratio down from 1:63 in Oct. 1989 to 1:50 last October.

### The Future

How long will the supply/demand imbalance last? No one

really knows. USDA predicts milk and dairy product prices will fall sharply in 1991. Significant surpluses of cream and skim milk are expected. Milk production is expected to increase by 1% to 2% during the year. Farm milk prices are expected to drop by \$2 to \$3 from a \$14/cwt. average. If the economy continues to grow, commercial use will probably increase by 1-3%, aided in part by lower milk prices. However, commercial use could struggle if the economy slides into recession. In other words, it might get worse.

The demand for cheese, which was one of the driving forces in raising milk prices a year ago, has now fallen below the level of supplies. On Nov. 8, CCC made its first surplus cheese purchases since May, 1989. Total CCC purchases, since Oct. 1, 1990 are 60% ahead of last year's pace. Almost 2 million lbs. of cheese have been purchased.

### The 1991 Farm Bill

The 1990 Farm Bill will provide some relief in the face of continuing surpluses. For one thing it holds the price support floor at the current level of \$10.10/cwt. for 3.67% milk for the life of the five year law and prevents it from dropping further. It also requires CCC purchases to be calculated on a total solids basis milk equivalent instead of a milkfat basis. This would have lowered the CCC milk equivalent from a 7.8 billion lbs. surplus to under 3 billion lbs. for the marketing year which ended Sept. 30.

The new farm bill requires the Secretary of Agriculture to come up with a Milk Marketing Inventory Management Plan for Congress to consider by August, 1991 to keep surplus purchases at or below 6 billion lbs. The plan may not include herd buyouts or support price cuts. Target prices and deficiency payments or a world

market price for excess milk are options that will be considered. If Congress fails to adopt a plan by Jan. 1, 1992, assessments can be levied if surplus purchases are predicted to exceed 7 billion lbs. (total solids basis). According to Ken Olson of American Farm Bureau assessments are possible during the life of the five year farm bill.

### Budget Cuts

A more immediate impact on dairymen will come from the budget deficit legislation, the Omnibus Budget Reconciliation Act of 1990 (OMBRA). It will impose a 5 cents per cwt. service charge on milk marketed starting Jan. 1, 1991 and will increase the assessment to 11.25 cents/cwt. for the following four years. Dairymen who reduce their milk marketings will be able to get a refund. But those refunds will be offset by a higher assessment rate on other dairymen. In addition, the OMBRA doubled the excise tax on fuel by adding another 5 cents to the price per gallon for gasoline and diesel fuel. While farmers are still exempt from the tax for off-road use, they will feel the impact through higher transportation costs, including, most likely milk hauling.

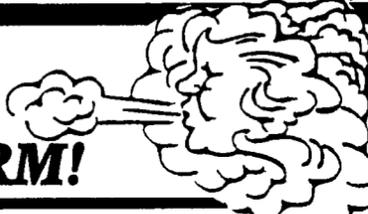
### Options

Fortunately in Pennsylvania we have the Pennsylvania Milk Marketing Board (PMMB) to help stabilize prices for dairymen. Since Sept., 1988, the PMMB has responded to petitions by PFA and others to offset cost of production increases due to weather, management and equity costs, and higher fuel costs. The results will put an additional \$155 million in dairymen's pockets by the time the over-order prices are scheduled to end on June 30, 1991. It's important to understand that these monies to dairymen were justified because the PMMB action assured the consumers of an adequate supply of dairy products. While the PMMB has been helpful in times of increasing costs, the question is: What can it do during periods of over supply?

There are several over-order bargaining agencies for producers operating in Pennsylvania. These include Middle Atlantic Cooperative Marketing Agency (MACMA) in Federal Order 4 and the Regional Cooperative Marketing Agency (RCMA) in Federal Order 2 which has been relatively inactive for the past year but recently announced plans to negotiate with handlers in the northeast for over-order premiums in 1991. RCMA distributed \$70 million in premiums for Class I milk to dairymen in 11 northeastern states from 1987 through 1989. However, premiums were suspended in Sept. 1989 when RCMA was unable to collect from Class II handlers causing Class I handlers to balk.

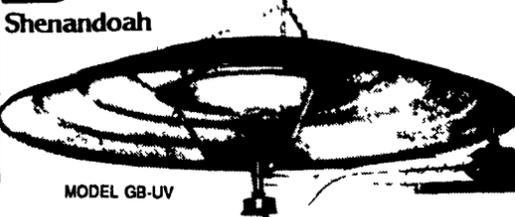
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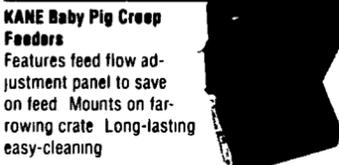
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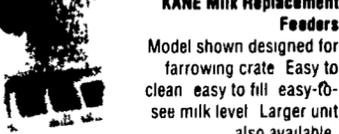
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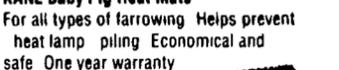
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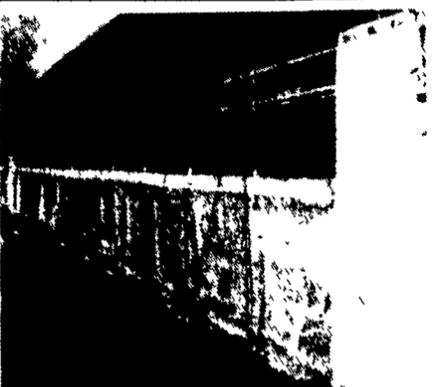
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