

# Recent Price Gain Makes

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system.

The gain reflects several underlying factors in the marketplace that bode well for dairymen, including increased sales of cheese and non-fat dry milk powder, according to industry analysts. The strength of national prices will outpace negatives such as an increase in the current government-imposed assessment and possible decreases in local over-order charges, the analysts note.

The 48-cent M-W increase will raise Class I prices by a corresponding amount in June in the region's various federal orders; it will raise Class II and III prices this month. But its larger significance may well be as a sign that farm milk prices are headed for hefty gains during the rest of the year.

Jim Fraher, the economist at Atlantic Dairy Cooperative, is predicting the M-W will climb another \$1.50 or so before peaking sometime this fall. If he's right, the \$13 peak would be the highest M-W price since the fall of 1990.

At this point, there's little doubt that 1992 will be better than a dismal 1991 was for dairymen. The

April increase means that the March M-W price of \$10.98 a hundredweight will mark the low point for the year. Last year, the M-W bottomed out at 10.02 a hundredweight.

In its most recent Dairy Situation and Outlook Report, the USDA projected that farm milk prices across the country will average \$0.50 to \$1 per hundredweight higher this year than last year. Locally, Fraher said, dairymen can expect to realize \$1 to \$1.25 more despite "downward pressure" on the region's various over-order premiums.

Members of the Pennsylvania Milk Marketing Board will meet May 22 to consider what to do about the current \$1.30 over-order charge it enforces, which is due to expire June 30. Industry sources say they expect the board will continue the premium, although at a lower rate.

Similarly, a state-imposed over-order premium in New Jersey of \$1.05 is due to end May 31. This one is not likely to be extended, according to the sources. Various mechanisms will take its place, however, although they may not

generate as much money for farmers. For instance, the Middle Atlantic Cooperative Milk Marketing Agency, known as MACM-MA, will re-extend its over-order pricing authority into the southern part of New Jersey when the state program expires, Fraher said.

Another negative part of the pricing picture is an increase in the assessment the government imposes as a budget savings measure. The mandatory assessment increased from 11.25 to 13.65 cents per hundredweight May 1 as a result of more than \$23 million in refunds from last year's five-cent assessment. By law, the USDA must increase the level of the assessment to compensate for the refunds it pays to farmers who can document they sold less milk in the current year than they did the year before.

The 47,000 farmers who qualified for a refund of their 1991 assessment represented about 30 percent of all dairymen nationwide. Analysts predict that far few farmers will qualify this year as they respond to a more favorable economic climate.

It's not a major factor in production decisions, according to Fraher, who noted that even at 13.65 cents,

the assessment still represents just one percent of a producer's total proceeds from selling milk.

Most of the credit for rising prices goes to a buoyant cheese market, according to Fraher. Added sales of nonfat dry milk, particularly through the government-funded Dairy Export Incentive Program, also have helped. On the supply side, production, particularly in the upper Midwest, remains flat. Overall, USDA analysts estimate that 1992 production will match or exceed very slightly the 1991 total.

To Charlie Shaw, head of the Dairy Division at USDA's Agricultural Stabilization and Conservation Service, the price gains represent a vindication of the Bush administration's opposition to new legislation to help dairy farmers.

Shaw, speaking in Frederick County, Md., recently, noted that Secretary of Agriculture Edward Madigan has taken a number of steps to aid the industry. These include advance purchases of cheese by the school lunch program and an expansion of the export incentive program, which Shaw termed "very successful."

At the same meeting, Ed Coughlin, a National Milk Producers Federation official, said that butter is the only dark cloud in the present rosy outlook. From October through February, Coughlin noted, roughly four out of every five pounds of butter produced by the industry was sold to the government.

"We have no answer to the butter problem at present," Coughlin said.



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