

Dairy Economist Explains Missed Prediction

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This is one of those times that try dairy economists' souls. We are accustomed to missing dairy price forecasts. But when we miss them by a wide margin, everyone really notices.

In forecasts done last year, I predicted the February Minnesota-Wisconsin (M-W) price would be \$11.20 per hundredweight (cwt). The actual M-W was \$11.79. That's 59 cents higher than forecast. I could take solace in the fact that the consensus forecast by 57 dairy market forecasters from all parts of the industry predicted the M-W would be \$11.10. Or, that if you blow a forecast, it is better to underestimate the price than to overestimate it. But when price forecasts

are off by this much, the professional curiosity comes out. Why? What caused this market condition?

Dairy surpluses are gone. Market conditions are such that the milk surpluses of the past are gone—not only domestically, but also internationally. Without surpluses overhanging the market, the rigorous demand conditions in the markets will lift prices. This is precisely what happened.

For the last few years the USDA's CCC has been purchasing only butter. The butterfat surpluses have caused the CCC to adjust the price support purchase-price for butter and nonfat drymilk several times and have been driving the movement toward component pricing.

As the price of butter started going down, the continual slide in butter consumption stopped and started to reverse. As the market

price for butter went up, the CCC did not have companies selling butter to the government. As the price of butter went even higher, the CCC started selling its stocks back to commercial markets.

USDA's cupboards are bare. At the end of February, 1995, the CCC has uncommitted inventories of butter of 24 million pounds. This compared to 213 million in February, 1994. If you took all the CCC's uncommitted inventories of all products and converted them to milk equivalent (milkfat basis), the total USDA surplus would be 530 million pounds of farm milk. Currently, U.S. dairy producers ship about 420 million pounds of milk a day. The current U.S. government surplus is, therefore, only about one-and-a-quarter days' milk supply. Even when commercial inventories are added, the reserve supply of milk in the U.S. marketing system is really quite small.

The U.S. was never a big factor in world dairy markets. The Oceania countries (New Zealand and Australia) and the European Union (EU) always supplied the world. The EU countries established quotas. If they have sold all of their products, there are no extra supplies to hold world prices. In the past government subsidies produced a few extra supplies in the former Communist

countries. With changes to these economies, those dairy products supplies are gone. Weather conditions in Oceania cut milk production and available export supplies in those countries. The Dairy Export Incentive Program (DEIP) in the U.S. further tightened the available supplies of dairy products for export.

Tight world supplies mean that the U.S. can be a force in the world commercial export markets. The world price of butter has risen to the U.S. butter price. The United States will export unsubsi-

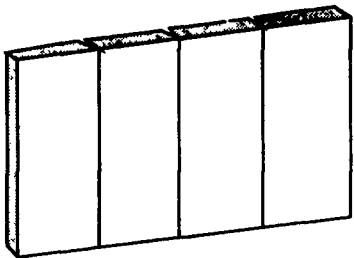
dized dairy products this year. These commercial exports will not be large, but they do serve notice to the U.S. dairy producers, dairy marketers, policy makers, and the world dairy trade that the U.S. dairy industry is going to be a world dairy marketer in the future.

Only five years ago the U.S. butter price was twice the world price. Now U.S. product is being commercially exported. Who would have thought it? Certainly not the dairy economist who missed the M-W forecast by 59 cents.

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16.9 - 28	6 PLY	\$264
16.9 - 30	6 PLY	\$278
18.4 - 30	6 PLY	\$317
18.4 - 34	6 PLY	\$345
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JUNE

SAT. JUNE 15 - 8:30AM 3 parcels of real estate, 2 story home, Strausstown Post office & 24 acres woodland, antiques, household, personal property. In Strausstown, Berks Co., Pa. From Strausstown Exit 71 78 Take 183 South to blinking light, turn rt. to sale one left, next to post office. For Carrie Ketner Estate. Les Longenecker, auct.

SAT. JUNE 15 - 9:15AM Repossession Sale, Keystone Public Auto Exchange.

SAT. JUNE 15 - 9AM Printing, warehouse & office related items. 1501 N. 7th St., Harrisburg, Pa. For Hargro Flexible Packaging, Ziegler Auction Co.

SAT. JUNE 15 - 5 auctions in one day, bankruptcy auction Chapter 11 reorganization Transmix Sand & Gravel Inc., liquidation of Hildeman Paving & Excavating, Transmix Cement Co. & major job completion for lombardo Construction & Line Co., Inc. 30 miles W. of Newark, I-78 exit 11, just off interstate. Alex Lyon 7 Son, aucts.

SAT. JUNE 15 - 10AM J.P. McCaskey High School Furnishings, just off Rt. 30 at Rt. 23 (Walnut St.) exit. For School District of Lanc. Kerry Pae, aucts.

SAT. JUNE 15 - 10AM Absolute Municipal Surplus Auction. Basemen tof old Northampton Borough Garage, Laubach Ave. & Smith Lane, Northampton, Pa. off Rt. 22 at 897 N. North to Rt. 329 (Nor-Bath Blvd), left onto Rt. 329 to Northampton, left onto Laubach Ave. For Boroughs of Emmaus, Northampton, Slatington; Townships of Bethlehem, Lehigh, Lower Saucon, E. Allen, Salisbury, Whitehall, South Whitehall; and Lehigh/Northampton Airport Authority. Peter Krall Auction Co.

FRI. JUNE 21 - 7PM Consignment Sale of Feeder Pigs & Feeder Cattle. Held at Middleburg Auction

Sales, Inc., Rt. 522, 3 miles E. of Middleburg, Pa, 5 miles W. of Selinsgrove, Pa. Clarence Shirk, Bryan Imes, aucts.

WED. JUNE 19 - 6PM B&O China, toys, painted shade table lamp, mahogany furniture, leaded glass windows, oriental rugs, cylinder desk, oil paintings, sterling silver, gold coins, marble top washstand, oak bow front chian cabinet, pine step back cupboard, round oak tables, waterford & other crystal, dining room suites, mirrors, pictures, Victorian furn. From the estate of Rebecca Tansil, Raymond L. Lang, and other consignors held at Exhibition Hall Foyer, Maryland State Fairgrounds, York Rd, Timonium, Md. Steve Dance, aucts.

THURS. JUNE 20 - 9AM Consignment Machinery Sale. Middleburg Livestock Auct. R3 PO Box 185, Middleburg, Pa. Info. Clarence Shirk 717-656-8793 or Larry Benfer 717-837-5638.

FRI. JUNE 21 - 10AM South Central Pa. Contractors Auction. From Rt. 15, take Hunterstown Exit (rt. 394 - E) sale is approx. 1/4 mile on right. Backhoes, crawler, loaders, industrial tractors & skidloaders, graders, forklifts & generators, rollers & manlift, farm tractors & equip., lawn & garden, road tractors, cab & chassis, dump, pickups, utility & specialty trucks, box trucks, flatbed, vehicles, trailers & sea containers, misc. Wolfe Aucts.

FRI. JUNE 21 - 7PM Kish Valley Dairy Sales 11th Annual Anniversary Sale located on the corner of S. Walnut St. and Front Mountain Rd., Belleville, Pa. Sherman Glick, owner/manager. Bryan D. Imes, auct.

SAT. JUNE 22 - 9AM Birds, animals, housewares. New Danville Fire Co. Social Room, 2094 New Danville Pike, Lanc., Pa. along Rt. 324 near Rt. 741. For Benjamin A. Keller TJA Keller Exotics. Keller, aucts.

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