

# Farmers Can Weather Current Milk Price Crunch

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dredweight. Transportation costs are not as high as they were 20 years ago.

According to Bailey, production has to fall for prices to improve. "Farmers haven't been hit with the record low milk price yet," said Bailey. "December milk production is still up 3.8 percent across the nation."

Next week farmers will receive their milk check for December, which has the 22-year low milk price on it. In February, they'll get paid for January milk, which will bring an even lower price. Once the low milk prices hit, Bailey expects milk production to go down.

"Farmers need incentives to expand," said Bailey. "With the high cost of replacement heifers, interest rate increases, high labor costs, and low milk prices, there is no incentive."

Bailey expects the milk prices to come back up in June or July. "Once we get through May, which is typically the month when production peaks, it's going to improve," he said. "And there are things that farmers can do to get through the tough times."

**Budget your income out for the year.** Bailey's website includes a spreadsheet to help farmers budget their income and rearrange their expenses.

"If you can get a line of credit to get through the next six months, do it now," said Bailey. He expects that during the first few months of 2000, milk prices will be below break-even points.

"I know that many farmers don't have a lot of flexibility," said Bailey. "But you have to budget it out."

Farmers should think about what they can do to cut back on expenses. "You can't take away expenses that are going to affect milk production. But you may be able to delay loan payments, reschedule interest payments, or arrange for short-term financing."

**Ask questions about your feed supply.** Because of last year's drought, many dairy producers will have to buy forage and other feeds. Now may be a good time to lock in feed costs for the year.

Bailey suggests visiting your local feed mill to find out if you can forward contract some of your feed supply. "You want to look at your risks for the upcoming year, and feed costs are one of your biggest risks," said Bailey.

"Feed prices have been very low over the last couple of years. We don't know what they're going to do. The last thing you want is to see milk prices finally improving and then suffer from higher feed costs, too."

Joel Rotz, dairy specialist at the Pennsylvania Farm Bureau, also suggests some other options.

While he doesn't see the milk price improving over the next few months, he does think that farmers can survive if they stick together.

"There's no doubt about it, the low milk prices are going to hurt farmers," said Rotz. "But they're the result of cheap feed and a couple of years of good milk prices."

For example, the Pennsylvania state average milk price in 1998 was \$15.92 per hundredweight compared to prices in the \$13 to \$14 range during past years.

Rotz suggests the following options.

**Look into contracted prices.** "I know some milk cooperatives are offering contracted milk prices that take the sting off of lower prices," said Rotz. "However, farmers have to realize that contracting locks them into a price for the entire year. If the price improves at the end of the year, you still have to take the lower price."

Despite the risk, Rotz still thinks it is something farmers need to consider.

**Ask your cooperative or dairy about over-order premiums.** According to Rotz, the Pennsylvania Milk Marketing Board has mandated an over-order premium for Class I milk produced, processed, and sold in Pennsylvania. The premium is about \$1.24 per hundredweight.

"The premium will help some farmers a lot and others not so much," said Rotz. "It depends on the utilization of your milk."

**Lower your cost of production.** "When prices are this low, the farmers with the lowest cost of production are going to fair the best," said Rotz.

Many farmers have expanded to spread out the production costs over more cows. But, as Rotz said, "that creates the dilemma of excess production."

Rotz suggests smaller dairies lower production costs by reducing overhead costs, owning less machinery, cutting harvesting costs through grazing, and networking with neighboring farmers to share high cost equipment.

**Stay focused.** Both Bailey and Rotz agree that the best thing farmers can do to get through

the low milk price period is to focus on their operation and limit their expenses.

"It's frustrating when farmers talk to their neighbors or hear about people on Wall Street who are making so much money," said Bailey. "But we got to realize that this is an open market, and we have to be prepared for the ups and downs."

Bailey cautions spending energy trying to change the current policy. "We spend the last five years making hard-earned changes to the policy," said Bailey. "Now we finally got the new system in place, and I don't see any significant changes happening for some time."

Rotz agrees. "The new system is actually putting more money into producers' pockets," said Rotz. "It allows for Class I milk prices to be based on the higher of either Class III or Class IV."

Rotz estimates that, on average, the new system adds about 55 cents per hundredweight to the farmer's blend price for milk.

Bailey also warns against blaming the processors, bottlers,

and retailers for the low prices. "They're our partners," said Bailey. "Without them, farmers would really be in bad shape."

While Rotz still sees the Northeast Dairy Compact as an option for increasing premiums, he thinks it will be a tough battle

to get the Compact passed in Congress for Pennsylvania. Rotz estimates that farmers in the New England states are getting \$2.80 more per hundredweight because of the Compact.

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## Land O'Lakes Explains New Pricing System

JAYNE SEBRIGHT

Lancaster Farming Staff

MORGANTOWN (Berks Co.) — Mention federal market order reform and the new milk pricing system, and many farmers are left scratching their heads. Yet the new system affects January milk.

That's why Land O'Lakes Cooperative is hosting 16 local meetings in the region over the next two weeks.

"We want to help producers understand what's going to happen in the next couple of months," said Dennis Schad, Land O'Lakes Manager of Regulatory Affairs.

One of the first meetings was held Tuesday at Sunnycrest Dining Hall in Morgantown. Twenty farmers attended the meeting, where Schad introduced the new milk pricing system and the federal market order changes.

The new federal milk markets took effect on January 1, 2000. The reform, mandated by Congress in the 1996 Farm Bill, consolidated 33 market orders into 11.

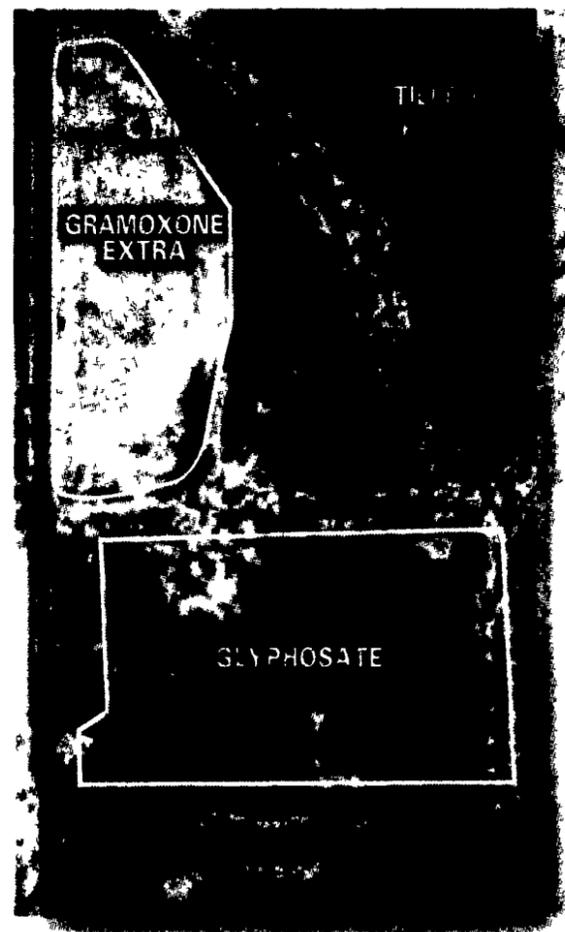
Due to the reform, Pennsylvania and surrounding areas will be a part of Order 1, which includes the Northeast region of

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# PLANT.



6 DAYS BEFORE APPLICATION - APRIL 19



3 DAYS AFTER APPLICATION - APRIL 29

Aerial imagery-derived crop vigor index comparing speed of burn-down between GRAMOXONE EXTRA and glyphosate. Corn was planted May 1.

- = Bare soil
- = Brown vegetation
- = Yellow vegetation
- = Green vegetation

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