

Low Milk Prices Spark Frustration Among Pennsylvania Dairy Farmers

UNIVERSITY PARK (Centre Co.) - Dairy farmers across the state are struggling with record low prices for their milk, and some are blaming the nation's milk pricing system. But an expert from Penn State's College of Agricultural Sciences says the expanded milk production in Western states, not a new price system, is the reason for low prices. "Farmers received very high milk prices in 1998 and 1999," says Kenneth Bailey, associate professor of agricultural economics. "They responded by expanding milk production -- especially in Western states. Some states, such as California, New Mexico and Idaho, saw growth rates of 10 to 15 percent. But in Pennsylvania, milk production grew less than one percent in 1999."

"Milk prices, which started this year at record lows, could stay depressed for four or five months," Bailey says. "In many

cases, prices will be below the cost of production for Pennsylvania dairy farmers. Unfortunately, prices are declining just as a new method of national milk pricing is coming in, and some dairy farmers may see the new system as the reason for their problems."

Effective Jan. 1, 2000, the U.S. Department of Agriculture instituted a major overhaul of the 60-year old federal milk marketing order program. The overhaul will streamline and improve the nation's wholesale milk pricing system by tying prices more closely to commodity prices for butter, cheese and powdered milk. Unfortunately, Bailey explains, the new order reforms coincide with record low wholesale prices for cheese and butter. Beleaguered dairy farmers from Pennsylvania and other states recently protested outside the Maryland Statehouse for fairness in milk pricing.

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"But milk prices would be low whether or not we had order reform," Bailey explains. "The cause of these low milk prices is basically supply and demand. All of that excess milk production had to go somewhere; it went into cheese vats. Cheese production in 1999 grew 6 percent over a year ago. In the West, cheese production grew 12 percent. Demand, however, has been relatively steady. As a result, cheese stocks in public warehouses were up 10 percent at the end of December, and are growing."

Inflated cheese stocks will keep milk prices low, Bailey says, until the milk glut passes through the nation's system. Dairy farmers have no choice but to wait out the low prices.

"Farmers I've talked with are frustrated with these low prices, especially when everyone else is benefiting from a strong na-

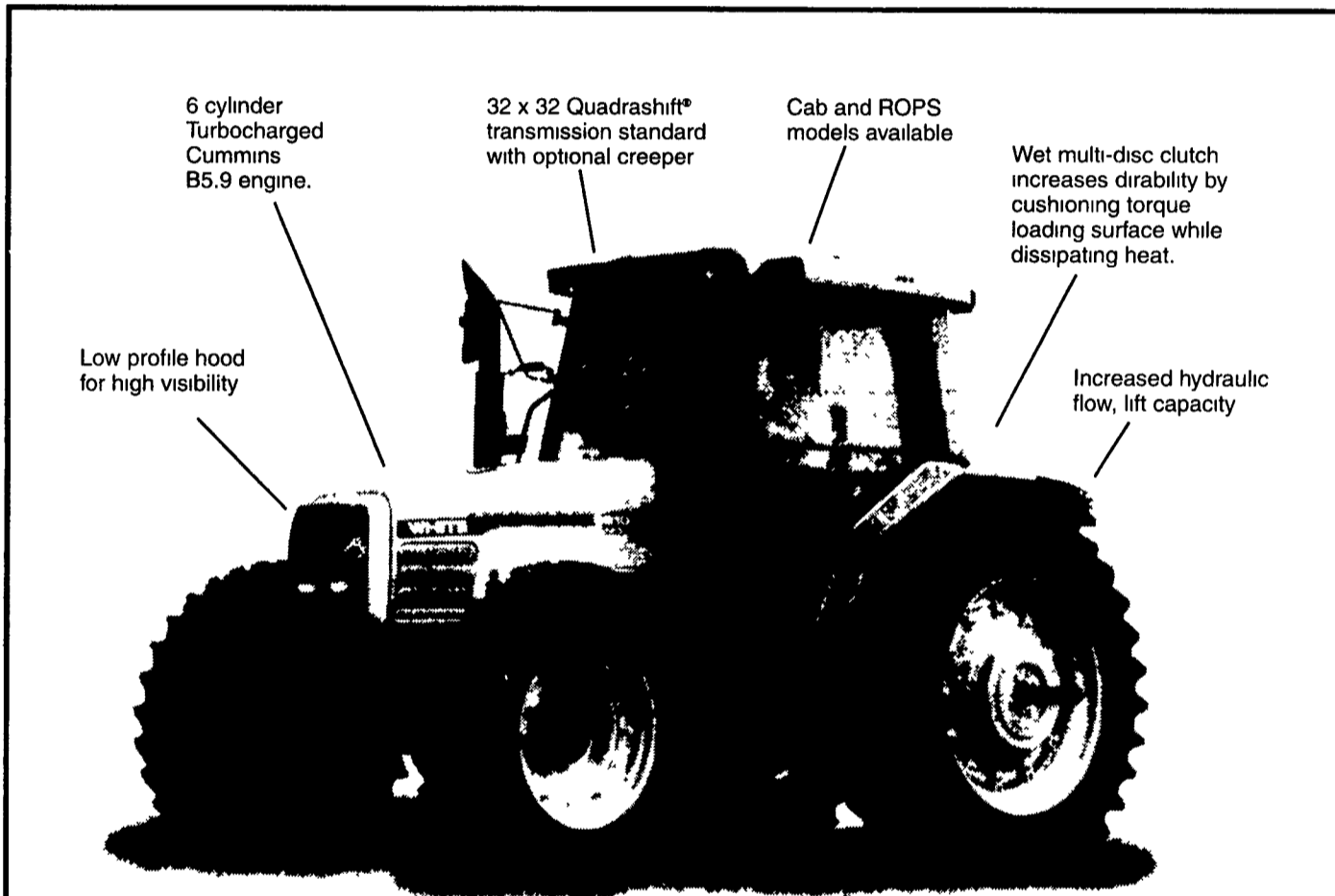
tional economy," Bailey says. "Expansion in Western states should slow down this year. In the meantime, Pennsylvania dairy farmers will have to try to ride out the storm. Milk prices will be better in the spring."

Bailey suggests that farmers consider 'forward contracting' on milk prices with dairy cooperatives if they can lock in a fair price. Right now those opportunities are limited. Farmers also should budget their monthly income and expenses for the year. That's especially important when prices are low. Farmers also can try to lock in other costs, such as feed concentrates, interest rates and fuel costs, if they are reasonable.

Dairy farmers can find useful financial planning strategies, up-to-date forecasts and a budgeting model for projecting the

year's income at Penn State's Dairy Outlook site on the World Wide Web at <http://www.aer-s.psu.edu/dairyOutlook>. "We're coming up with new things for the Web site -- new tools that I think will help dairy farmers," Bailey says. "We're going to be training cooperative extension agents with a spreadsheet that helps farmers to budget their income. We also have projections on what milk prices will be for six marketing areas in Pennsylvania for 2000."

"It's very important that Pennsylvania farmers understand what causes their milk prices to fluctuate each month. With these tools, farmers will be able to sit down with their Penn State cooperative extension agent and plan out their cash flow."



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