

# Processors: Work Together

(Continued from Page A1)

tailer, Wal-Mart, had 14 percent overall market share. Along with Costco at 5 percent, both retailers command the time and attention of processors and bankers.

"Wal-Mart's philosophy is to get you in the store and sell you something 2.3 times per week," noted Barr. The philosophy draws tight margins on a lot of the products sold, including food at the some of the large "supercenters" around the country.

Wal-Mart, like other giant retailers, seeks low price strategies from all suppliers, including processors.

For dairy producers, 15 months of low milk prices is taking its toll, according to Robert Yonkers, chief economist, International Dairy Foods Association in Washington, D.C.

For many, this downturn in prices to below-support levels is the longest in memory.

Production is overtaking demand, with an increasing milk

supply "and very lackluster demand for dairy products," Yonkers noted.

Yonkers pointed out that, since 1988, a recurring theme for the dairy industry is milk price volatility, with dramatic highs and lows. There have been some "high highs, and low lows" since 1992, noted Yonkers, with 1998, 1999, and 2001 providing the highest milk prices on record followed by lows. But normal recovery occurred a short time after — not the case this time, however.

Demand is remaining steady, at 1 percent per year, while the milk output per cow increases 2 percent. Yet per-capita consumption of milk products has gone downward since 2002.

"We have more milk than we can find a home for," noted Yonkers.

Part of the problem, in assessing numbers, is the structure of USDA reporting. Yonkers noted that USDA denotes a farm operation as simply a farm with one



About 80 ag loan officers from banks and credit institutions visited the Lynn Neer farm Tuesday near Belleville. Neer, in center with cap, spoke about his custom heifer operation. All photos by Andy Andrews, editor

or more milk cows. But many of those types of farms have nothing at all do to with actually selling milk.

Yonkers relies on private surveys that indicate more clear numbers.

The interesting thing, Yonkers noted, is that about 48 percent of the farms in the country have less than 50 cows (about 44,205 farms) with a milk output per cow of 14,400 pounds. On the other hand, farms that make up 2,000 or more cows number 380, about 0.4 percent of all dairies, and produce 25.5 billion pounds of milk. They are producing "twice the amounts of milk as the smallest dairies," or 15 percent of the U.S. total at 21,000 pounds of milk per cow.

The bigger farms are "doing more," according to the economist, and are able to manage price downturns a lot more steadily.

Yonkers noted that in 2001, 5.2 percent of U.S. milk production was imported. Exports made up 5.4 percent of U.S. milk production.

Contrary to some reports, "imports are not ruining our dairy markets," said Yonkers. The milk protein concentrates, or MPCs, coming from Ireland, New Zealand, and Australia are not having an impact — especially in light of the fact that the U.S. exports a lot of whey protein concentrates to the Pacific Rim.

Right now, an issue that remains "front and center," noted Barr with the farm cooperatives, is "lack of export demand. There is nothing going on in the export markets."

Five to six years ago, globalization of markets was looked at as a "panacea" for agriculture. But there is no growth engine outside the U.S., Barr said.

"The Japanese," noted the

economist, "have not solved their problems with economic growth."

For ag, the fact there is no big inventories of globally of grains is positive news.

For ag products, the U.S. is beginning to feel competition from the former soviet Union, especially on the wheat supply side. And the U.S. poultry industry exports 20 percent of what it produces while markets for that poultry continue to tighten

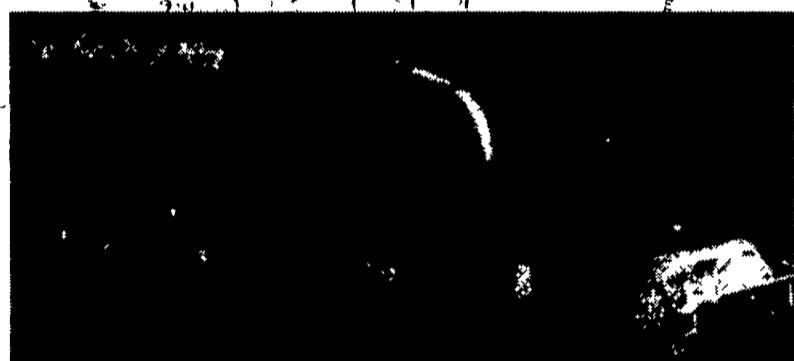
Dairy remains an industry with "no discipline whatsoever," said Barr, in terms of matching production with demand. The only thing driving profitability at this time is simply controlling costs.

U.S. economic growth, as a whole, should remain modest for 2004, in the 3-4 percent range. There will be "rescaling of expectations," especially at the stock

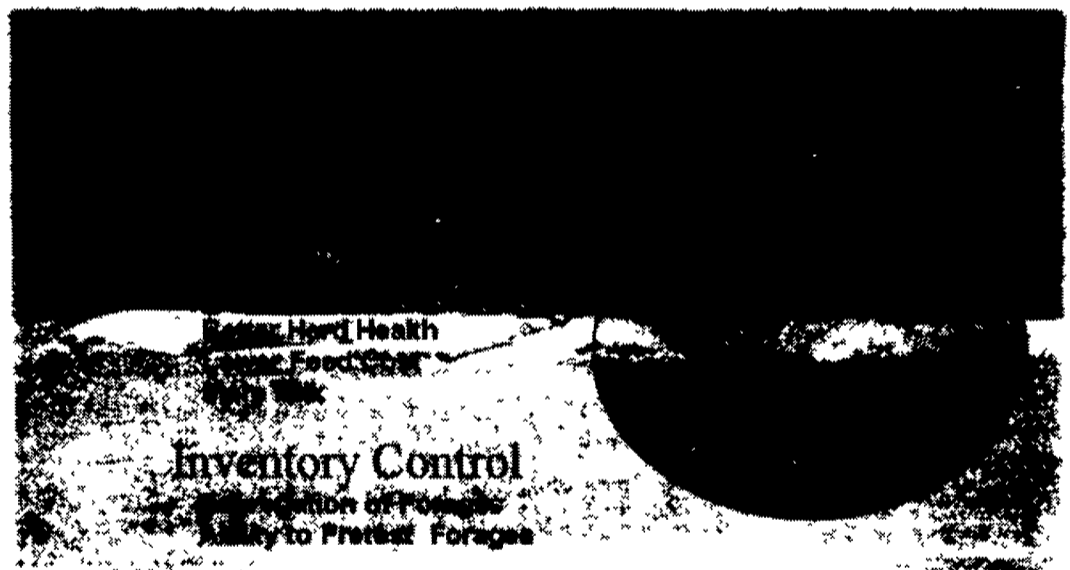
(Turn to Page A22)



Ag loan officers inspect the pastures from the feed walkway at the John Rodgers Plum Bottom Farm near Belleville on Tuesday.



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