



Supply and Demand

Ahh, April—and it's about time. Winter must have been twice as long as usual. Surely, you've noticed that "global warming" is not the buzz-phrase today; now it is "climate change." It's a more efficient phrase—now any weather change can be attacked without changing the topic. When we grouse about the recent long, cold, snowy winter, the reason is "climate change." If next winter is warmer than normal, the same reasoning can be applied. One thing that hasn't changed since winter set in early last fall is the economy. On second thought I guess it has—it has gotten even worse, leaving us still searching for the light at the end of the tunnel.

In the November issue of the *Messenger*, I wrote that experts had been wrong before, in that they hadn't predicted the excellent milk prices we had been receiving, so maybe they would be wrong about the predicted lows too. Unfortunately, we now know all too well the only mistake was that it is worse than predicted. We now see losses of \$4.00 to \$6.00 or more on each hundredweight of milk produced, depending on each individual circumstance.

Dairy farmers had a couple of good years, but they weren't good enough to sustain losses like what's happening now (and predicted for the near future) for very long. Now we are hoping that with such large deficits, this situation has to be short lived. I think that is probably true, but as I said back in November, the dairy industry is unwilling to leave everything to chance. We

can and will try to speed up the time between today's losses and tomorrow's profits.

The situation today is obviously that too much milk is being produced for the existing market, but what can we do about that? We can try to increase demand, which is very difficult in the face of an increasingly serious worldwide recession; we can try to bring supply and demand back into balance by removing supply; or we can work on both. Attempting to address both with a heavy emphasis on reducing supply is the path that has been chosen by dairy farmers working through National Milk Producers Federation's (NMPF) Cooperatives Working Together (CWT) program.

Even with relatively stable consumption domestically, we find ourselves with nearly 400,000 more cows in the United States than we need to meet current demand, mostly due to a dramatic drop in exports. The export market has greatly diminished due to increased production in Oceania and a considerable drop in demand among the importing countries, so it makes little sense to subsidize exports through CWT, at least for this year. For 2009, heavy emphasis will be placed on reducing cow numbers in the United States. While that could be accomplished by the normal economic pressure imposed by cheap milk, the projection is that, under those circumstances, the dairy farmers wouldn't start seeing relief until March 2010.

Is there a more expeditious

method of accomplishing the objective? NMPF and the members of CWT think there is a better way, or at least faster method, of reaching dairy farmer profitability. That method is to add to the pressure to cull more heavily as dictated by low milk prices by using CWT's Herd Retirement Program to augment and speed up the process. Dairy economists predict that we can shorten the duration of extremely low prices by six months with the CWT Herd Retirement Program working in conjunction with heavier culling pressures. Projections are that heavier culling would remove about 200,000 cows and CWT would remove an equal number. That means we might start seeing the light we are all looking for in September 2009 instead of March 2010. For our national dairy industry, that could mean nearly \$4.0 billion dollars additional income over that six month period that I'm sure we would all appreciate.

While dairy farmers are helping restore profitability to our industry with voluntary contributions to CWT, we should continue to pressure USDA to enforce the recently implemented Farm Bill that made DEIP (Dairy Export Incentive Program) mandatory. DEIP was first implemented in 1985 but has not been used in the last three or four years. Under the program, exporters are paid a bonus by USDA that allows them to compete in world markets subsidized by foreign governments. The increase in exported dairy products that would result from this mandatory program

Continued on page 8



News & Views

The latest dairy news

February Class III Price Drops to \$9.31

The February Class III price is \$9.31, down \$1.47 from January and down \$7.72 from a year earlier. This is the third-lowest Class III price in the past 30 years, topping only \$9.11 posted in March 2003 and November 2000's \$8.57.

The Class IV price is \$9.45, down 14 cents from January, and the lowest price since the Class IV was put in place to value butter/powder milk in January 2000.

Producers scoring 95 percent or more on Grade A Surveys and Federal Check Ratings

MMPA Michigan Dairy West BTU

February 2009

Richard Horetski*

Kirkpatrick Farms*

Jeff & Tim Dansby*

Howard & Delesa Clark

Marshall Bros LLC

RI-VAL-RE Farms

Robert & Elaine Esch

Donal Farm LLC

Apple Dairy Corp.

MSU Dairy Dept. of Animal Science

Larry, Kathi & Daniel Minnis

Fogle Farms

* Scored 100 percent

MMPA Returns Nearly 1.7 million of Cash Patronage Refunds to Members

Michigan Milk Producers Association recently paid nearly \$1.7 million in cash patronage refunds to its dairy farmer members. This cash allocation represents approximately 28 percent of the \$5.9 million allocated net earnings generated by the cooperative in fiscal year 2008. The cash patronage returned includes 100 percent of the farm supply earnings and 25 percent of the milk marketing earnings. All members who marketed milk through MMPA for fiscal year 2008 will be receiving a portion of the nearly \$1.7 million.

MMPA members received other cash payments in May 2008 of more than \$4.5 million through retirement of the cooperative's 1999 equities. In October 2008, MMPA members received \$1.3 million in cash payments in the form of a "13th" milk check. With the current payment of \$1.7 million, cash payments in the last ten months total over \$7.5 million.

"The continued success of our operations and diverse product mix allow us to make these extra cash payments to our members in the form of equity retirements and cash patronage," says John Dilland, MMPA General Manager.

Cash patronage funds and equity allocations are based on the amount of milk each individual member farm marketed and on the supplies purchased through the cooperative during the year in which the earnings were achieved. Under the current board policy, the non-cash balance of the equity allocation will be revolved back to the members in future years.

Supply and Demand

Continued from page 5

would remove close to three billion pounds of milk equivalent from our supply.

Will all of these ideas work? No guarantees can be made, of course, but I think we have a sound plan. We have no control over many worldwide issues, but we must attempt to help ourselves out of this mess even though it wasn't of our making. We are not asking the government for a bailout, but if we were, I wonder who the "cow czar" would be?

Ken

Upcoming Events

April

16 MMPA Dairy Communicator Conference – Lansing

23 MMPA Advisory Committee Meeting – Novi