



Where is the Light?

What happened to the light we saw at the end of the tunnel in December 2009? Was it a very bright light that appeared closer than we thought? Was the tunnel longer than we thought? Did the train turn and is now headed back at us? I'm not sure anybody knows precisely what's going on, but I can share some thoughts circulating around the industry.

Most dairy economists felt in December that the milk price rise was premature because too many pounds of dairy products, especially cheddar cheese, were still held in inventory. Market forces made up of various elements felt otherwise, because buying bolstered prices at least through the first quarter of 2010. Market forces may have felt that the market was overreacting on the low side which would cause too many cows to be removed from the national herd, and would drive prices too far on the upside. That would have been a logical conclusion, based on the negative returns reported across the country for dairy farmers in 2009.

The national dairy herd did shrink in 2009 by approximately 250,000 cows, the same number retired by the CWT program. The problem was that we needed to shrink the herd by 400,000 cows total in order to achieve supply/demand balance. Dairy producers were expected to remove those 150,000 by the extra heavy culling that that was projected to take place because of economic pressure. Dairy producers, however, did not react as expected, so the extra 150,000 weren't removed.

CWT actually achieved more than expected in 2009. A two-year commitment of funding representing contributions from two thirds of the nation's milk supply was in place. With that two year commitment, CWT was able to secure a line of credit that allowed it to complete its two year business plan of removing 250,000 cows in one year rather than two. Recognizing CWT had probably expended most of its funds due to the cow numbers that had been retired and seeing that the extra culling independent of CWT didn't take place, I'm guessing the market correctly recognized milk production would return sooner than expected. Thus, prices softened.

The February milk production report supports this scenario as production was up very slightly (+.1 percent) over February 2009. Cow numbers were down from a year ago but increased compared to January 2010, and milk futures prices declined further as a result of the report. The current "spin" is that prices probably won't decline much more but will flatline for the next several months. This will likely produce a summer of discontent, not as bad as last year but not nearly strong enough to rebuild the equity lost in 2009.

Anticipating a second consecutive summer of economic malaise is testing the ever optimistic attitude of more and more dairy farmers. The unity our industry experienced just two years ago when we worked together and were successful in garnering

most everything we sought when formulating our objectives for the 2007 Farm Bill is now being threatened by the economic stress we have all endured. Producers are suggesting changes in dairy policy ranging from total free market to total government mandated production and price control. Some seem to think that if dairy producers were to unite under any of the extremes or somewhere in the middle, we could succeed in achieving whichever goal we choose to address. We can be a powerful political force if united. But there are limits to what we can accomplish in a global economy.

Have we reached that proverbial "fork in the road" where change is inevitable and it is a matter of selecting which path we take? It is very possible; after all, the U.S. dairy policy we are operating under was developed long before the world economy became so interdependent. Accepting the reality of the global economy, one has to recognize the peril of turning inward, to say nothing of the pressure that turning inward would bring from our trading partners.

The task at hand is difficult; it will take time and effort to insure that we select the correct path. Yogi Berra once said "You've got to be careful if you don't know where you're going, because you might not get there." We have to be certain we know where we are going. We still face difficult times, but hopefully a true light will soon appear at the end of the tunnel.

A handwritten signature in black ink that reads "Ken".