

May/June 2001

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**Price Tilt
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After a great deal of discussion, cajoling, and anticipation, the USDA announced on May 31, 2001 that the support prices for butter and nonfat dry milk would be changed to revise the "tilt" or relationship between these two dairy products. The changes in the dairy price support program were twofold: first, decreasing the nonfat dry milk price by 10.32 cents and lowering this support price to 90 cents per pound and; second, increasing the support price for butter by 19.99 cents to 85.48 cents per pound. The USDA did not modify block and barrel cheddar cheese prices. This tilting of the butter-powder prices has been under review and expected because of the amounts of nonfat dry milk that the USDA's Commodity Credit Corporation (CCC) has purchased during the past 20+ months. In fact, the CCC purchased almost 50% of U.S. nonfat dry milk powder production between October 1999 and September 2000 and reportedly has more than 770 million pounds in storage as April 1, 2001. USDA's delayed announcement was probably delayed until the recent increases in milk and product prices would make the move less controversial and troublesome.

Since milk orders were "reformed" on January 1, 2000, many dairy processors have complained that the support prices for butter

and nonfat dry milk were "too high" and made nonfat dry milk too expensive for commercial use. Arguments were also advanced that this "high" nonfat dry milk support prices also provided incentives to import Milk Protein concentrates (MPC). Because nonfat dry prices influence Class IV prices directly and prices of Class I and Class II prices indirectly, producers in areas with high Class III utilization rates also objected that their mailbox milk prices were low relative to other regions. Thus, the problem was that a large price gap, or wedge, was created between Class III prices and the other classes of milk due to reformed milk classification pricing formulae and the \$1.01 support price for nonfat dry milk. But, changing the butter-powder tilt has demonstrated again the lack of agreement on dairy national policies /programs and level of conflict existing among dairy farmers from different regions of the country.

How will these adjustments in butter and nonfat dry milk support prices affect farm-level milk prices? Raising the support price for butter will have no impact on market prices for butter because butter is currently trading above \$1.90 per pound, well in excess of the new CCC support price of \$.85 cents. However, nonfat dry milk prices have been stuck at or near the "old" support level of \$1.01 and, after the support price was lowered to 90 cents per pound, Class IV futures

USDA Adjusts Butter-Powder

prices fell 40 to 50 cents per cwt. for the June, July, August and September contracts during June 1 trading. The National Milk Producers Federation contends that this reduction in the nonfat dry support price will cause the Class IV milk price to plummet to \$0.90 per cwt. and decrease dairy farm income by \$818 million during 2001. Other market analysts do not expect changing the tilt will lower Class IV prices and farm incomes dramatically. This belief was based on the facts that world milk nonfat dry milk prices were just below \$1.00 per pound and the export market has been described as "very tight" and now U.S. products can now compete in the world market. While the verdict is still in the hands of the "jury", changing the butter-powder price tilt will probably have very little negative impact during 2001 due to strong dairy prices but, could have profound harmful affects on dairy farm incomes in 2002 as milk output increases and dairy prices fall.

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Upcoming Events.....

July 20-21 DHIA Supervisors Conference
July 26 Neshoba Co. State Fall Dairy Show
July 27 Newton Co. State Fall Dairy Show
Contact Victor Lee- 601-635-2267
July 31 MS Farm Bureau Federation
Summer Meeting-Ramada Inn SW Jackson, MS

Congratulations!

The 2001 Mississippi News Network Livestock Farmer of the Year was presented to Grandy and Rhonda Ladner of Tate county. In addition to the recognition, Grandy will receive a new Ford truck to use for one year. This is the third consecutive year that a dairy producer has won the award.

APRIL 2001 HONOR ROLL HERDS

DAIRY	COUNTY	NO. COWS	LBS. ECM	2X 3X	Rolling Herd Average			
					MILK	FAT	PROT	DOT
DAVID ROBINSON & SONS	RANKIN	139	95.1	2X	21653	762	640	04/03
G & B DAIRY	LINCOLN	66	80.5	2X	18908	799	677	03/30
HERITAGE DAIRY	TATE	451	74.9	2X	23565	953	721	04/14
MACTOC FARM	OKTIBBEHA	204	74.8	2X	26024	850	784	04/19
COASTAL PLAIN EXP STA	NEWTON	148	70.6	2X	21811	808	658	04/17
MS.STATE UNIVERSITY	OKTIBBEHA	175	67.8	2X	22867	901	712	04/25
CAL MAINE FOODS DAIRY	HINDS	1456	67.3	3X	19888	731	611	03/30
CLEMMER AND HILL DAIRY	TIPPAH	163	65.2	2X	19742	703	611	04/10
THOMPSON BROTHERS	MARSHALL	131	65.2	2X	19980	771	618	04/04
RONALD H CLARK	LINCOLN	71	64.3	2X	20858	798	641	04/26
FREEMAN DAIRY	PIKE	152	63.6	2X	19838	688	621	04/15
BRAD BEAN	AMITE	226	62.0	2X	20289	765	615	04/18
PAUL W EDWARDS	NEWTON	130	61.4	2X	18897	747	581	04/25
J & L DAIRY	WALTHALL	206	60.9	2X	21186	809	648	04/16
NORTH MS BR EXP STA	MARSHALL	97	60.8	2X	20672	710	652	04/09
RAY GALLOP AND SONS	MONROE	71	60.6	2X	17395	640	546	04/02
JEFCOAT & WILLIAMS DAIRY	JONES	59	60.5	2X	21171	670	639	04/25
KNIGHTS DAIRY FARM	JONES	127	58.9	2X	20061	706	618	04/04
WALTER LAVIGNE	MARION	174	58.3	2X	17012	576	526	03/29
ROWZEE JERSEY FARM	NEWTON	153	58.1	2X	16733	781	620	04/11
JIMMY TUCKER & SONS	PIKE	212	57.8	2X	17892	634	540	04/15
MELVIN NICHOLSON	NEWTON	121	57.3	2X	22245	793	695	04/10
SPEAKS & SON	WALTHALL	399	57.2	2X	18047	689	560	04/13
RAY GALLOP AND SONS	MONROE	69	55.9	2X	17302	640	547	04/26
A L BOYD JR	WALTHALL	72	55.6	2X	20964	647	623	04/18

Top 25 herds enrolled on supervised DHIA testing programs by test day energy corrected milk for all cows.

**ECM = (.3246 x test day milk) + 912.86 x test day lbs. fat) + (7.04 x test day lbs. protein)

MAY 2001 HONOR ROLL HERDS

DAIRY	COUNTY	NO. COWS	LBS. ECM	2X 3X	MILK	FAT	PROT	DOT
G & B DAIRY	LINCOLN	66	80.6	2X	19290	824	694	04/29
HERITAGE DAIRY	TATE	445	80.3	2X	23546	947	719	05/16
MACTOC FARM	OKTIBBEHA	198	79.3	2X	26513	846	792	05/17
DIXIE DAIRY SALES	CARROLL	374	71.4	2X	21778	1039	644	04/30
DAVID ROBINSON & SONS	RANKIN	136	71.3	2X	22366	812	660	05/14
COASTAL PLAIN EXP STA	NEWTON	144	70.8	2X	21897	815	659	05/14
TIM WEEKS	COPIAH	69	69.2	2X	21735	836	670	04/30
CLEMMER AND HILL DAIRY	TIPPAH	162	68.4	2X	19962	719	609	05/10
MS.STATE UNIVERSITY	OKTIBBEHA	175	64.6	2X	22619	889	701	05/28
RONALD H CLARK	LINCOLN	71	63.2	2X	20778	794	636	05/17
BRAD BEAN	AMITE	226	63.1	2X	20048	762	607	05/24
DANNY WALTER SISCO	LINCOLN	98	62.5	2X	18347	603	550	04/27
THOMPSON BROTHERS	MARSHALL	129	61.0	2X	19902	766	609	05/01
MELVIN NICHOLSON	NEWTON	116	60.5	2X	21678	777	671	05/15
THOMPSON BROTHERS	MARSHALL	126	57.6	2X	19764	757	602	05/30
CAL MAINE FOODS DAIRY	HINDS	1430	56.9	3X	19809	725	608	05/05
ROWZEE JERSEY FARM	NEWTON	162	56.8	2X	16587	772	610	05/20
MILTON/TERRY JEFCOAT	JONES	182	56.7	2X	19758	641	596	05/15
WALTER LAVIGNE	MARION	172	56.2	2X	17314	580	536	04/30
NORTH MS BR EXP STA	MARSHALL	97	56.1	2X	20360	707	642	05/07
FREEMAN DAIRY	PIKE	147	55.4	2X	19996	694	622	05/20
MAX & TAMMY STINSON	WALTHALL	266	54.4	2X	16130	600	499	05/08
LEON BARDWELL DAIRY	LINCOLN	46	54.4	2X	20926	589	630	05/11
SPEAKS & SON	WALTHALL	294	54.1	2X	18121	683	559	05/25
A. L. BOYD, JR.	WALTHALL	75	53.9	2X	20919	639	617	05/23

Top 25 herds enrolled on supervised DHIA testing programs by test day energy corrected milk for all cows.

****ECM = (.3246 x test day milk) = (12.86 x test day lbs. fat) = (7.04 x test day lbs. protein)**

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Prices of Dairy Cattle Replacements

Dr. C. W. "Bill" Herndon
Dairy Economist

Dairy farmers are desperately searching for dairy heifers to replace culled cows and increase the size of their dairy herds. The positive price outlook has fueled these interests and has driven prices for dairy heifer replacements in excess of \$2,200 per head. The AMS collects dairy replacement cattle prices for several locations across the U.S. and two of these locations are in the Southeast. Prices are reported for the Blansit, Missouri and Thomasville, Georgia auction markets. For this issue, the prices at Blansit (southeast Missouri) represent the auction held on May 30 while the Thomasville (southern Georgia) prices were collected for the sale conducted on May 28. At the Missouri auction (reporting demand good and supply light), the reported prices for Springer Heifers (2 to 4 years, 5 to 8 months bred) ranged from \$1,190 to \$1,200 for Approved grade, \$900 to \$1,000 for Medium grade, and \$850 to \$870 for Common grade animals. While for Fresh Heifers and Cows, prices were \$1,175 to \$1,210

for Approved and \$700 to \$800 for Medium grade. Baby Holstein heifers were priced between \$360 and \$370 while Holstein bull calves ranged from \$120 to \$140. At the Georgia sale (with 198 animals sold), the Springer Heifer price ranged from \$1,690 to \$2,225 for Supreme; \$1,410 to \$1,660 for Approved; and, \$760 to \$950 for Common grade animals. While for Fresh Milking Cows (2 to 5 years), prices were \$1,590 to \$1,945 for Supreme; \$1,410 for Approved; and, \$570 to \$800 for Common grades. Baby dairy calves (1 to 7 days old) ranged from \$50 to \$250 at this Thomasville auction.

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June Advanced Class I Milk Price Increases Again to \$18.09 per cwt.

Dr. C. W. "Bill" Herndon
Dairy Economist, MSU

Mississippi and southeastern dairy farmers have and are benefiting from a "run up" in dairy product prices and the tight milk supply situation realized by the industry in 2001. In the past 18 months, Class III skim milk prices (based on the value of skim milk used in cheese production) have been significantly less than the corresponding Class IV prices. The USDA reports that the June 2001 Advanced Class III Advanced Skim Milk price was \$6.26 per hundredweight (cwt.) compared to the Advanced Class IV Skim Milk price of \$7.90 per cwt. This \$1.64 per cwt. difference between these (after factoring in butterfat prices) resulted in a \$1.59 per cwt. higher Class I base price (\$16.50 versus \$18.09). On May 18, the USDA announced that the June 2001 Advanced Class I "base" milk price would be \$14.99 per cwt. (for 3.5% butterfat milk). After adding the \$3.10 Class I price differential for the pricing zone which includes Atlanta and Starkville (Oktibbeha County) to this "base" price, the Advanced Class I milk price for June will be \$18.09 per cwt. So, the June Advanced Class I price (North Central Zone) was reported at \$18.09 per cwt. and represents an INCREASE of 78 cents per cwt. (+4.5%) ABOVE the corresponding May price of \$17.31. This year's June Advanced Class I price is \$3.29 (+22.2%) GREATER than the June 2000 Class I price of \$14.80 per cwt. Dairy producers need to remember that the June Class I price will be an important (but not the only) factor that influences the revenues derived from the sale of their milk produced during the month of June. Because about 60 percent of Mississippi milk is normally consumed as Class I products, farmers will not realize much or any additional revenues from this 78-cent increase in the June price until they receive their "settlement" checks in mid-July 2001 as payment for milk sold during June.

Market Conditions.

The dairy market is uncertain about the impact of the persistence and force of this year's "spring flush" combined with the usual school closings for summer recess. These concerns correspond to the quantities of raw milk available and worries about just how "tight" or scarce milk supplies will get during the fall months. With U.S. milk production declining and strong dairy product demand, some analysts believe that milk prices may approach or reach new record high levels during 2001. During May, butter prices have stabilized at near \$1.90 per pound while cheddar cheese prices have continued to increase and were approaching the level of \$1.65 per pound in early June. The current supply-

demand situation combined with the prospect of tighter supplies later this summer and fall have set a "bullish" tone in dairy markets and have driven up dairy product prices and milk prices. Despite these positive prices and predictions, many observers believe that dairy farmers will be reluctant to quickly boost milk production due to poor forage quality and unfavorable weather conditions. Factors contributing to this assertion are: (1) memory of last year's extremely low milk prices; (2) the past winter's and this summer's harsh weather; and, (3) current "high" cattle prices. The USDA's April 30 Cold Storage report showed that inventories of butter increased 16% between March and April but were 18% less than April 2000. Holdings of natural cheeses were about the same as the previous month and were 10 to 20% less than last April. Thus, Class I milk prices are expected to maintain their strength and stabilize during the early summer and then peaking at or near record levels in September or October. During the last week of May, Florida bottlers exported 164 loads out of the state compared to 194 during the previous week and 116 for the same week of 2000. Southeast milk handlers reported that milk output has already peaked and summer weather has begun to slow down production; however, the decline has not been as pronounced due to milder temperatures. The spring flush for 2001 has been declared completed in the South and Southeast while an onset of usually hot weather has jolted dairy cows and output in California and the Southwest. In general, analysts expect milk prices to stabilize during July and August followed by a strong upswing that could reach new record levels in early fall. On June 1, Class III futures contracts were being traded at prices in excess of \$15.40 per cwt. for the July, August and September contracts. Grade AA butter prices are predicted to stabilize as futures contracts are being traded as high as \$1.96 per pound for various 2001 contract months. These factors should push Class I milk prices up (Atlanta/Starkville zone) near \$18.50 in July and could approach \$20.00 per cwt. in September.

Milk Production.

Monthly milk production statistics reported by the USDA continues to confirm that dairy farmers have decreased milk output in response to the extremely low milk prices encountered during late 1999 and all of 2000. April milk production was down 1.7% compared to April 2000 as farmers milked 75,000 fewer cows and received 15 less pounds per cow. While some dairy farmers are trying to add cows to their herds, many have not been able to find replacements as the heifer prices approach \$2,400 per head. Milk output per cow will remain sluggish due to higher alfalfa prices (\$200/ton in California) and as the onset of summer and its heat and humidity curtails milk output. So, the industry does not

expect farmers will be able to substantially increase milk supplies during 2001. For the 20 states that the USDA reports monthly statistics, national milk production declined 1.9% between April 2000 and April 2001 where 45,000 (12,000 LESS cows than in March 2001) fewer cows were milked that yielded an average of 21 less pounds per cow. Contrasting April 2000 versus 2001 data found that only six states recorded increased levels output while 14 states Texas, -12.3%; Missouri, -10.5%; and Arizona, -9.4%) noted decreased production, while Indiana (+10.6%), Idaho (+8.6%), New Mexico (+3.8%), and California (+1.6) reported increased output. All three of the southeastern states in this 20-state reporting scheme reported reduced production between these months of April (i.e., Virginia -2.4%, Kentucky -3.2% and Florida -0.4%). The milk-feed price ratio is often used as a barometer to indicate if there are incentives for dairy farmers to increase production and many industry analysts believe that when this ratio exceeds 3.0 conditions exists for expansion of milk supplies. This milk-feed price ratio in May was 3.41 compared to 3.32 in April and 2.63 for May 2000. Thus, there are incentives for farmers to boost milk production but the various factors listed above could stifle and delay this anticipated increase until 2002.

Dairy Product Prices.

Dairy product prices continue to show improvement during May as processors react to tightening milk supplies and escalating demand for U.S. dairy products. These demand-supply conditions have promoted rising prices for both butter and cheeses, where cheddar cheese prices exceeded \$1.60 per pound during the last half of May. Thus, a "bullish" market psychology supports the continuance of this positive outlook as strong demand and tight supplies overwhelm concerns about the spring flush and schools closing for summer recesses. On the CME, 40# block prices that were reported at \$1.59 on May 7 have increased steadily to \$1.65 on June 1 -- a 6-cent (+3.8%) increase over this 4-week period. Barrel cheddar prices behaved in a similar fashion during May where the CME reported a cash price for 500# barrel cheddar cheese of \$1.56 per pound on May 7 compared to \$1.62 on June 1 -- a 6-cent (+3.9%) increase over this time span. The butter market has been described as "firm" in spite of the fact that most retailers have only made short-term purchases while delaying longer-term purchases to wait for schools to close for summer and see what happens to prices. On May 7, the Grade AA butter price was \$1.85 per pound compared to \$1.91 on June 1 -- an increase of 6.0 cents (+3.2%) per pound. As has been the case for 21 months, there have been virtually no price movements during May on the CME for Grade A nonfat dry milk (NDM) price. This product's price has remained at \$1.04 per pound and

near the USDA's support price. Purchases by the USDA (via its Commodity Credit Corporation or CCC) of non-fortified and fortified NDM averaged about seven million pounds per week during May. USDA has expressed an interest in lowering the support price for NDM and adjusting the "butter-powder tilt" because the CCC purchases have totaled almost 340 million pounds since last October 1.

Near-term Market Outlook.

The bright outlook for milk prices and dairy product demand continues to bolster the prospects for dairy farmers in 2001. Sluggish milk output and strengthening demand have pushed Class I milk prices (Atlanta/Starkville zone) above the \$18.00 per cwt. level and have some industry people talking about the possibility of record high milk prices this year. Milk prices are expected to stabilize near \$18.50 per cwt. level but an extremely hot summer and the subsequent reduced milk output could push milk price above the \$20.00 per cwt. level by September. Persistent international demand has reinforced U.S. dairy product prices as consumers increase dairy product consumption in reaction to the beef cattle disease problems in Europe. Tight milk supplies and increasing demand have overwhelmed concerns about the "spring flush" and summer school closings. Thus, the short term price outlook for the three or four months remains very optimistic while the next six to ten-month outlook appears somewhat bothered about a resurgence in milk production and waning dairy exports. Thus, tight milk supplies should persist as the hot summer temperatures stress milk cows and curtail output. Therefore, the July Advanced Class I milk price for Mississippi (Starkville zone) is predicted to increase by about 40-60 cents and be reported in the range of \$18.50 to \$18.75. The June Class III is also expected to increase about \$1.25-\$1.50 cents above the May price of \$13.83 and be reported near \$15.10 per cwt. The CME reported on June 1 that Class III (Class IV, in parentheses) futures contracts settlement prices were \$14.90 (\$14.81) for the June contract, \$15.47 (\$14.80) for July, \$15.46 (\$14.95) for August, and \$15.45 (\$14.90) for September. Dairy farmers and others should exercise extreme caution when appraising the value and accuracy of these predictions because history has repeatedly illustrated the frequent mistakes made when forecasting future milk prices..

Southeast F.O. #7 "Blend" Price Increases 65 cents to \$15.57 in April

The Southeast Federal Order Milk Market Administrator reported the April 2001 "blend" or uniform price for milk delivered in the Atlanta and Starkville "base" zone of Federal Order (FO) #7 was

\$15.57 per cwt. for 3.5% butterfat milk. North Zone is minus \$0.20, North Central Zone is the “base” zones, South Central Zone is plus \$0.20, South Zone 10 is plus \$0.30, and the Coastal Zone is plus \$0.40 per cwt. The April blend price of \$15.57 for the base zone of FO #7 represents an INCREASE of 65 cents per cwt. (+4.4%) compared to the March price of \$14.92. The April 2001 blend price was \$2.69 per cwt. (+20.9%) ABOVE the April 2000 blend price of \$12.88. Average butterfat test and the butterfat price in each of the four milk class categories has a direct impact on the value of milk pooled in FO #7 and the amount of milk revenues available to be distributed to dairy farmers. For April, the respective butterfat price and the average butterfat test for each milk class were: Class I, \$1.67 per lb. and 2.17%; Class II, \$1.96 per lb. and 6.79%; Class III, \$1.95 per lb. and 3.86%; and, Class IV, \$1.95 per lb. and 6.04%. Factoring the average butterfat test with the pounds of skim milk used in each of the four milk classes provides what this newsletter describes as the “net” milk price for each class of milk. The April blend price of \$15.57 per cwt. was determined using the following factors: (1) a “net” Class I price of \$14.26 on 55.73% of the milk marketed; (2) the “net” price for Class II of \$21.16 on 12.62% of the milk; (3) a “net” price of \$12.85 on 21.61% of the milk used for Class III products; and, (4) the “net” Class IV price of \$19.53 on 10.04% of the milk marketed. Because of the current relative “high” prices for butter and butterfat, the “net” milk price for each class of milk reveals some rather remarkable findings (especially the Class II “net” price of \$21.16 per cwt.). This newsletter has published a “revised” map of Mississippi depicting the changes in the pricing zones, which were the result of federal order reform. So, please carefully review the Mississippi map to ascertain the location of the revised pricing zones.

UNIFORM or “Blend” Price for April, 2001

North Zone:	\$15.37
North Central Zone:	\$15.57
South Central Zone:	\$15.77
South Zone:	\$15.87
Coastal Zone:	\$15.97

Class I Price-May 2001 (Advanced Price)

North Zone:	\$17.89
North Central Zone:	\$18.09
South Central Zone:	\$18.29
South Zone:	\$18.39
Coastal Zone:	\$18.49

