



The DAIRY CYCLE

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In 2004, I had an article in the Extension NEWS that talked about how higher prices dairy farmers received that year benefitted the local economy. The prices dairy farmers receive for their milk are quite cyclical. In 2004, Columbia County dairy farmers were at the peak of the cycle with farmers receiving record prices for the milk they produced. This year, price that farmers receive for their milk is not record low, but close to it.

Figure 1



To explain the cyclical nature of milk prices, figure one is information from Federal Milk Marketing Order 1 on the prices paid dairy farmers for milk produced in March. The graph in figure one shows what was paid from 2000 through this year (2006). The difference between the highest and lowest price is close to five dollars per hundredweight (cwt.). The average milk production per farm in Columbia County, for 2005, was more than three million pounds of milk. In other terms, Columbia County dairy farmers produce almost 349,000 gallons of milk in 2005. The difference in income, from highest to lowest, for dairy farmers is approximately \$150,000. How many small businesses can tolerate this type of fluctuation in income?

What makes the current decrease in dairy income more painful this time is the dramatic increase in energy costs that we all have experienced. The increase in petroleum costs last year and this year has had direct impact on dairy farm (and other farms as well) expenses. Fertilizers, and many other inputs that dairy farmers use daily or seasonally, rely heavily on petroleum products in their manufacturing. Dairy farmer cost for marketing their milk has increased as well. The cost of transporting milk from the farm to the processing plant has increased and has been passed along, in part, to dairy farmers to pay.

What causes this fluctuation? The marketplace is where the price of milk and dairy products is determined. There are federal regulations and milk market orders, but that is principally to provide standards and minimum uniformity to the marketplace. The United States Department of Agriculture gets its price survey data from the marketplace. Every day, milk, cheese, butter and other dairy products are sold on the Chicago Mercantile Exchange. That is a key reflection of dairy supply and demand in operation.

Two final thoughts. The next time you see the price of milk increasing in the store, remember that the price the dairy farmer receives is quite cyclical. The higher price the farmer receives for their milk today will hopefully help to carry them through when (not if) the price they receive for milk drops. The price that farmers receive for milk is influenced by the marketplace. More simply – supply and demand. One way to increase the price farmers receive is to increase demand. June for many years been recognized nationally as dairy month. What better time to help your local dairy farmer, but drinking milk and eating dairy products? Don't forget that July is National Ice Cream Month too.

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