

Milk Prices in Connecticut

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The past two years have brought high fluctuations in dairy prices in Connecticut, despite the price floor provided by the Northeast Dairy Compact. This has combined with a lot of debate on the politics of milk price reform to create a lot of uncertainty in the future direction of dairy prices.

This fact sheet presents some of the information on what has been happening to dairy prices, with some ideas on where they may be going. Most of the data used here comes from the Cornell Program on Dairy Markets & Policy.

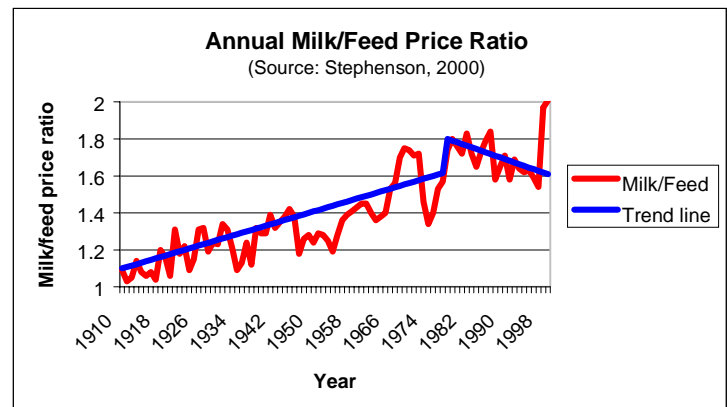
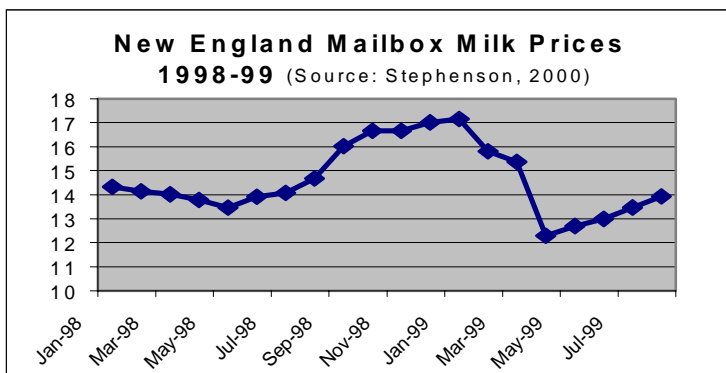
Milk Price Trends

As high as farm gate dairy prices got in 1998, they dropped back down to low levels in 1999. The year 2000 begins with them at relatively low levels, with early predictions for them to stay more or less at those levels.

Chart 1 shows the evolution of dairy prices in the last year. The dairy compact paid on average 1.74% of a farmer's actual milk price in 1998 and 3.6% in 1999. This suggests that the compact, while stabilizing prices, is not creating major distortions in the prices. This may change if the current year's low milk prices are here to stay.

Milk costs relative to feed:

Chart 2 shows the evolution of milk prices relative to feed prices over the last 80 years. This provides a proxy measure for the profit margins for dairy producers, although it ignores the increases in land and machinery costs



over that time. The chart shows that up until the mid 1970's milk prices were rising faster than feed prices. Except for the last year of exceptionally high milk prices and low feed prices, the trend since then has been for shrinking profit

margins. The prospects are for these margins to continue to shrink.

The recent up-turn in Connecticut real estate markets also poses some threats to the profits of dairy farmers. It will increase the costs for anyone seeking to buy land that still has development rights and perhaps most importantly it may induce a number of people who rent their land to dairy farmers to try to sell out to developers or at least raise the rent.

Retail Prices:

The available retail price information shows that in general retail prices for milk and milk products have been trending upward. The recent increase in butter prices has subsided, but at levels higher than before. While this upward trend in the price of dairy products has not, and is not that likely to translate into higher farm gate prices, higher retail prices will at least help maintain farm prices.

Milk Price Politics:

The referendum on federal milk marketing order reform in August, 1999 overwhelmingly passed in all 11 new orders. But three lawsuits were filed to block implementation of the order reform. The final spending bill passed in November included an extension of the Northeast Dairy Compact until September, 2001. It also changed class I differentials, required USDA to reconsider its pricing formulas, and created a trial period for processors to forward contract.

Where to find more information on milk price trends:

Cornell Program on Dairy Markets & Policy web site has updates and research reports on the state of dairy prices and policy in the northeast.

<http://www.cpdmp.cornell.edu/>

The Dairy Compact Commission Web site:

<http://www.dairycompact.org/>

The Agri-Mark cooperative has a web site with proprietary sections for coop members that provide a good deal of recent up to date information. This includes weekly price updates and farm price forecasts, as well as a bulletin board for members.

<http://www.agri-mark.net/>

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Sources:

Dairy Compact Commission Web site, <http://www.dairycompact.org/> accessed May 1, 2000

Stephenson, Mark. 2000. "Dairy Outlook 2000". Powerpoint presentation. Cornell Program on Dairy Markets and Policy. <http://www.cpdmp.cornell.edu/>