Economists Predicting Tight Cash Flow Problems For Dairy Farmers

By Dr. J.W. Pou

A reduction in the price of raw milk that became effective March 29, "will aggravate the already tight cash flow problems" on North Carolina dairy farms, says a dairy marketing economist at N.C. State University.

"'Dairy farmers everywhere are having a rough time, and those in North Carolina are no exception,'' said economist G.A. Benson.

In an unusual development, the State Milk Commission announced that the minimum price to farmers for milk utilized in Class I (fluid sales) will be reduced by 50 cents per 100 pounds for the second quarter of the year.

The reduction was from $16.28 to $15.78 per 100 pounds - or from $1.40 to $1.357 per gallon. This is a cut of 4.3 cents per gallon.

Continuing studies by Benson indicate profits from dairy farming in North Carolina over the past two years have been low and most operators have been caught in a cash flow squeeze.

Many farmers apparently have stayed in dairying, even though unprofitable, only because they had no choice. Farm prices generally have been depressed for the past two years, and off - farm employment opportunities have been limited.

Low prices for utility cows have discouraged dairy herd culling, and milk production has increased substantially to record levels.

In 1981 Tar Heel dairymen increased their volume of milk marketings by 21 million pounds or 1.5 per cent as compared with the year before, but Class I or fluid milk sales to consumers declined by 30 million pounds or 2.7 per cent, according to preliminary figures from the N.C. Milk Commission.

When production outstrips sales, a smaller proportion of farm milk is utilized in Class I and a larger proportion goes into Class II (manufactured products). This means a lower blend price to farmers.

The North Carolina Class II price, adjusted monthly, ranged from $12.73 to $12.59 per 100 pounds during 1981, said Neill B. Sinclair Jr. of the Milk Commission staff. The Class I price was raised to $16.28 last July.

The proportion of N.C. milk going into Class I or fluid use decreased from 81.9 per cent in 1980 to 78.7 per cent last year, Sinclair said. This decline offset part of the July price increase for Class I.

The average blend price received by Tar Heel dairy farmers for their total grade A milk supply in 1981 was $14.88, up from $13.96 a year earlier.

Benson said the increase of 92 cents in the blend price was inadequate to cover the rise in farm production costs. As a result, he said, most of the state's dairy farmers ended the year facing difficult cash flow problems.

At one time North Carolina had more than 5,000 grade A dairymen. As of last December the number was down to 1,249.

The immediate outlook for dairymen is "not encouraging," Benson said.

"Furthermore," he said, "the dairy provisions of the 1981 farm bill will have a moderating influence on the rate of increase in the North Carolina farm price of milk. Only modest increases can be expected over the next several years."

The Federal Dairy Price Support Program was retained in the new Farm Act, but the levels of support were hotly debated. In the compromise that emerged, supports were approved at these minimum levels: $13.10 through fiscal 1982, which ends Sept. 30, and $13.25, $14 and $14.60 for fiscal years 1983 - 85 inclusive.

Minimum supports will be in effect as long as large dairy surpluses continue and net federal expenditures for the program exceed $1 billion a year. When and if surpluses are reduced and federal costs go down, higher supports are authorized.

Benson said it's possible that debate on the farm bill will be reopened and changes made to reduce federal expenditures for dairy supports. Such a development, he said, would make the outlook even less favorable for dairy farmers.

The average adult has 3,500 square inches of skin.