

September 2001

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Emergency Preparedness

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The recent terrorist attacks on New York City and Washington, D. C. has made all of us aware that even the unimaginable can become reality. Repercussions of these attacks will be felt across the world on both humankind and economic levels. The American dairy industry will surely be affected by these attacks, if only indirectly. My question is "Are you prepared for local, regional or national disasters that could affect your dairy farm"?

As much as 90% of the gross income on dairy farms is derived from the sale of fluid milk. Any factor that would reduce a dairy farm's ability to produce or market milk would have detrimental effects on profitability. These factors range from natural disasters such as droughts and ice storms to man-made disasters such as terrorist attacks. Forward planning can help you be prepared for potential emergencies.

Feed and Forage.

Providing dairy cows with adequate nutrition is paramount to producing milk. Milk production decreases almost immediately when basic ingredients such as corn grain or hay is omitted from the ration. Maintaining a five (5) to seven (7) day minimum inventory of feed ingredients will allow time for alternative delivery dates should transportation be slowed by weather or other factors. This may require enlarg-

ing storage facilities, however, be sure to utilize the older products first, especially perishable ingredients like wet brewers grain.

Supplies.

The delivery of sanitation, veterinary and health supplies can also be delayed by transportation problems. Don't wait until all of the teat dip is completely used up to go to the farm store because they may be out of stock as well. A two (2) to three (3) week supply of common products should sustain your operation in most situations. Rotate your inventory to insure all products are used in a timely manner prior to the expiration date. Throughout the year adjust the amount and frequency of supplies ordered to coincide with cow numbers and supply usage.

Utilities.

Alternative electrical power sources are essential to today's large dairy farms. Most farms have electric generators as a backup power source to ensure that the cows can be milked and the milk cooled. However, over time many dairies have gotten larger, resulting in increased elect in increased electric motor numbers and size. Be sure that your farm has not outgrown your electric generator. When calculating your kilowatt needs include water wells, feed motors and other essential electrical demands in addition to milking. Also remember the starting process for electric motors demands as much as four times the kilowatts as needed during the phase. Table I shows some general wattage demands for starting and run-

Table I: Estimated Watts Required for Starting and Running Electric Motors.

Unit	Starting Watts	Running Watts
Motor, 1 hp	4,000	1,000
Motor, 5 hp	18,000	4,500
Motor, 10 hp	36,000	9,000

ning electrical motors. Specific wattage requirements can be found on the serial plate of most electric motors. The conversion formula for kilowatts (kw) is one (1) kw = 1,000 watts.

Fuel.

Immediately following the terrorist attacks in Washington, D. C., New York and Pennsylvania there was a brief buying frenzy of petroleum products because of tight supply rumors. These rumors were unjustified and the fuel supply was never in danger, however if this had been reality would your operation have been prepared? There are essential operations on dairy farms, such as feed trucks and tractors, which require diesel and gasoline. Most electrical generators require diesel or gasoline as well. Petroleum products can be stored for extended periods of time so a reserve supply should be considered, especially during the upcoming winter months when power outages tend to be longer in duration.

Cash Reserves.

Reserve funds that are immediately available and easy to access are needed in any business. From time to time emergencies will arise and additional money is needed to keep your business operating normally. Financial emergencies can be as common as a major equipment repair or a bank account error. Vital inputs such as labor and utilities must be maintained even during a financial crisis. Whatever the need, it takes excellent management skills to maintain and replenish this reserve. Do not count family savings or retirement funds as business cash reserves. Continuously dipping into personal accounts is a dangerous means of financing business shortfalls. As a rule of thumb, reserve cash

should be equal to the average monthly operating expenses (feed, labor, utilities, etc.) of your operation. Hopefully the need for reserve cash will be very infrequent allowing time to replace reserves.

Replacement Heifers.

It is possible that the next big animal-agriculture disaster in the United States could be biological. Imagine the plight of producers in countries where foot and mouth and mad cow diseases have drastically altered the way they farm. These infectious animal diseases, whether spread accidentally or on purpose, would seriously restrict the movement of animals and specifically replacement dairy cows and heifers across our country. Even the common U.S. diseases such as Johnes' and BVD are economic threats to every dairy operation. Producers with closed herds that are able to supply their own replacement needs from within their herd, have a great advantage in keeping their farm bio-secure. A good replacement program is based on three fundamentals: 1) a sound reproduction program that gets cows pregnant in a timely manner, 2) an aggressive genetic program that generates 'dairy' heifers and 3) a heifer development program that minimizes death and morbidity losses.

Preparing for emergencies now will save time, trouble and money when disasters do occur.

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Upcoming Events...

Oct. 15-19 DHIA Meter Calibrations
 Various Locations

Nov. 10 10:00 a.m.- Mississippi Holstein
 Rankin County Ext. Office
 Brandon, MS

Nov. 08 9:00 a.m. - MS/LA Dairy
 Management Conference
 Percy Quin State Park
 McComb, MS

Nov. 13-14 11:30 a.m. -Southeast Dairy
 Management Conference
 Macon, GA

AUGUST 2001 HONOR ROLL HERDS**

DAIRY	COUNTY	NO. COWS	LBS. ECM	2X 3X	Rolling Herd Average			DOT
					MILK	FAT	PROT	
MELVIN NICHOLSON	NEWTON	114	49.6	2X	21071	778	652	08/28
SPEAKS & SON	WALTHALL	269	47.2	2X	18648	708	572	08/25
JOHN T MCREYNOLDS	OKTIBBEHA	112	45.5	2X	16142	579	487	08/15
HERITAGE DAIRY	TATE	418	45.5	2X	23428	936	717	08/21
BRAD BEAN	AMITE	223	44.8	2X	20135	753	607	08/01
ROWZEE JERSEY FARM	NEWTON	164	44.8	2X	16589	766	614	08/14
PAUL W EDWARDS	NEWTON	128	44.4	2X	18754	757	582	08/20
QUIN'S DAIRY	PIKE	57	43.0	2X	16361	521	492	07/28
A L BOYD JR	WALTHALL	77	42.9	2X	20927	631	619	08/01
CAL MAINE FOODS DAIRY	HINDS	1325	42.6	3X	19794	743	613	08/18
NORTH MS BR EXP STA	MARSHALL	106	42.5	2X	19373	703	612	08/07
PAT ARD	LINCOLN	183	42.4	2X	16350	616	519	08/02
RAY GALLOP AND SONS	MONROE	73	42.3	2X	17338	615	553	08/26
LARRY WALKER	NOXUBEE	107	42.2	2X	18032	598	545	08/19
THOMPSON BROTHERS	MARSHALL	122	42.1	2X	19626	751	598	08/05
COASTAL PLAIN EXP STA	NEWTON	168	41.9	2X	22134	820	666	08/13
DANNY WALTER SISCO	LINCOLN	102	41.5	2X	19249	624	573	08/27
CLEMMER AND HILL DAIRY	TIPPAH	148	40.9	2X	20612	758	620	08/15
RUTLAND FARM	LINCOLN	95	40.8	2X	15210	514	462	08/13
J & L DAIRY	WALTHALL	216	40.1	2X	19535	758	591	08/12
CHEEKS DAIRY	JONES	130	38.7	2X	18233	578	569	08/07
TODD & JERRY BULLOCK	PIKE	108	37.8	2X	16780	587	510	07/31
TURNIPSEED DAIRY	MONROE	420	37.5	2X	18068	689	545	08/25
GURNEY'S DAIRY FARM	AMITE	209	36.5	2X	16010	581	473	08/02
WALTER LAVIGNE	MARION	165	35.8	2X	17532	591	542	08/13

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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**Twelfth Annual
Mississippi/Louisiana Dairy
Management Conference
Percy Quin State Park Convention Center
McComb, Mississippi**

9:00 AM- Registration and View Commercial Exhibits

Feed Additives, Management Changes and Marginal Milk

Dr. Dana Tomlinson, Research & Technical Service Specialist
Zinpro Corporation, Eden Prairie, Minnesota

Update on Estate Tax and Planning

Mr. Frank Blossman, Estate Planning Specialist
Mississippi Farm Bureau Federation, Jackson, Mississippi

Reproductive Management of Dairy Cattle: Tools for Success

Dr. Scott Willard, Dairy Science Professor
Mississippi State University Animal and Dairy Sciences Department

Producer Response Panel – Mr. Mike Glenn, Glenn Jersey Farm, Columbia, MS

Mr. Grandy Ladner, Heritage Dairy, Holly Springs, MS
Mr. Stephen Eubanks, Hill Farm Research Station, Homer, LA

October Advanced Class I Milk Increases Again to \$19.03

Dr.C.W.“Bill” Herndon
Dairy Economist, MSU

The dairy industry has been surprised with how tight milk supplies have been these past months and bewildered at why milk production has not responded to current “higher” prices. National milk production declined in July (-1.5%) and August (-0.8%) primarily because the number of cows on U.S. dairies has declined by more than 100,000 compared to the same months of 2000. Despite near record high milk and dairy product prices, farmers have been hard pressed to find dairy heifer/cow replacements to increase herd size. In addition, as prices of replacements approach or exceed \$2,000 /head, producers struggle with justifying paying this much when milk prices and dairy farm revenues have been so unstable during the past 15 years. Despite tight supplies, weakening consumer demand subsequent to the long-expected downturn in the U.S. economy that was exasperated by the September 11 terrorist attacks is confusing the direction and magnitude of milk price movements this fall and winter. Milk price uncertainty has also been aggravated by the USDA’s Federal Order reform.

For October, the Class III skim milk price was greater than Class IV price. The USDA reports that the October 2001 Advanced Class III Skim Milk price was \$7.38/ hundredweight (cwt.) compared to the Advanced Class IV Skim Milk price of \$7.30/cwt. This difference between Class III and Class IV prices (factoring in butterfat prices) resulted in a \$0.08/cwt. *higher* Class I base price (\$15.93 vs. \$15.85). Therefore, the USDA announced that the October 2001 Advanced Class I “base” milk price would be \$15.93cwt. (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 October will be \$19.03/cwt. So, the October Advanced Class I price (North Central Zone) was reported at \$19.03/cwt. An **INCREASE** of 37 cents/ cwt. ABOVE the September price. This year’s October Advanced Class I price is \$4.04 **GREATER** than the October 2000 price. Dairy producers need to remember that the October Class I price will be an important, but not the only, factor influencing revenues derived from the sale of their milk produced during the month of October. Because about 65% percent of Mississippi milk is processed into Class I products, farmers may not realize any additional revenues from this 37-cent increase because butterfat, Class II, III and/or IV prices could decline before the end of October and more than offset this Class I price increase.

Effects of Terrorist Attacks on U.S. Dairy Industry

Every American has been shocked by the reality of the appalling terrorist attacks of September 11 and the subsequent loss of thousands of lives at the World Trade Center in New York City, the Pentagon, and western Pennsylvania. As we struggle to understand why and how

these events occurred, Americans realize that our ways of life and business practices have been altered by these acts of violence. Many sectors of the U.S. economy have felt the sting of these horrible events, including the largest one-week decline in stock prices, announced layoffs of 100,000+ employees in the airline industry alone, and plunging consumer confidence. These terrorist attack-related repercussions have sent an already fading economy into the throes of a full-blown recession. But how will these unspeakable strikes against the American people influence the U.S. dairy industry, some observers believe dairy prices and policy will be affected in three ways.

First, the immediate impact has been minimal because tight milk supplies have overshadowed the dairy industry. The USDA expects these “short” supplies to continue for the next several months. The recent plummeting of butter prices has caused some concerns but was explained by: (1) the reduced demand for cream from ice cream processors; (2) increased supplies of cream obtained from fluid bottlers; and (3) a recovery in butterfat production due to cooler temperatures. Second, the most important effect on dairy prices will come from the reduction in consumer demand for dairy products, especially for cheeses. Dairy prices will certainly be depressed by a recession that brings less business activity, high unemployment, and reduced consumer spending. The dairy industry should be harmed less than other sectors because dairy products that had been consumed in restaurants could be easily eaten at-home. Third, these attacks have been declared acts of war on America and our political leaders in Washington, D.C. have diverted their attention away from passing and funding agricultural programs, including dairy policies. Many legislators feel that there are not enough federal revenues to pay for a “war on terrorism” and provide funding for a wide variety of agricultural programs. Issues included in these averted and re-prioritized programs are those related to the Northeast and Southern dairy compacts.

Market Conditions. Most analysts believe that the horrific acts of violence will have little or no immediate impact on the dairy industry over the next several weeks but could accentuate declining milk prices this winter. Instead, processors and handlers have devoted their energies to managing the usual “short” milk supplies experienced each fall due to increased fluid demand from schools and ebbing production from heat-stressed cows. During September, cooperatives and handlers in the Southeast have been forced to pay as much as \$5.70/ cwt. in Class I spot premiums (also known as “give up charges”) to Upper Midwestern processors for releasing milk to be imported into Florida and other regional states. During the third week of September, Florida bottlers imported 104 loads into the state. In addition, Southeast milk handlers imported another 150 loads from states in the Mid-Atlantic and Midwest. Despite these tight supplies, most bottlers and processors have reported being able to orders. It is the questions surrounding current demand-supply conditions that have caused butter prices to fluctuate to as high as

\$2.22 on August 31 and as low as \$1.70/lb. on September 26. Block and barrel cheddar cheese prices have been remarkably stable near \$1.70/lb. during late August and September. The USDA's August 31 Cold Storage report shows inventories of butter fell 23% between July and August. In summary, the market tone for all dairy products are described as "steady but not as firm" indicating that tight milk supplies have dominated market through September but perplexed by fears about the U.S. economy and weakening consumer demand. For instance on September 24 and 26, Grade AA butter plummeted almost 32 cents while Class III futures contracts settlement prices closed as low as \$13.75 /cwt. for the November contract and \$12.85 for the December contract. Grade AA butter futures contracts were above \$1.80/lb. for the October contract and near \$1.70 and \$1.50 for the December and March 2002 contracts, respectively. It is expected that these factors should cause Class I milk prices (Atlanta/Starkville zone) to fall by more than a \$1.00 and be reported near \$18.00 /cwt. in November with the market forecasting prices to drop another \$1.00 to \$1.50 /cwt. in December.

Milk Production. Revised USDA statistics that August's milk output fell 0.8% (-116 million lbs.) while milking 112,000 fewer cows (-1.2%) that produced 6 more lbs. (+0.4%)/cow vs. last August. These adverse summer weather conditions reinforced the trend in 2001 of curtailed output where annual milk production is now expected to decline by about 1.5%, nationally. Obviously, most of this reduction in milk production has been the result of fewer cows in the national milk herd. Comparing the first seven months of 2001 to 2000, the USDA reports that the amount of milk pooled under federal orders in the Southeast fell 5.8% with Alabama, Arkansas, Missouri, and Louisiana experiencing double-digit declines. Mississippi farmers marketed 8.8% fewer lbs. of milk during this same time span. For the USDA 20 state monthly report, national milk production declined 0.8% (-100 million pounds) between August 2000 and August 2001 where 82,000 fewer cows were milked that yielded an average of 4 more lbs./per cow. Reviewing August 2000 vs. 2001 data found that nine states recorded constant and increased levels output while 11 states noted decreased production. States recording increases in milk output were Indiana (5.6%), Idaho (+7.2%), New Mexico (7.5%), and California (4.9%). Unexpectedly, all three south-eastern states in this 20-state report showed constant or increased production between these months of August (Virginia and Kentucky, no change, Florida up 0.6%). The milk-feed price ratio can be an indicator of economic conditions when farmers have incentives to increase production and analysts contend that if this ratio exceeds 3.0, circumstances exist for expansion of milk supplies. This milk-feed price ratio for this August was 3.57. So, the recent economic environment has provided dairy producers with motivations to boost milk production.

Dairy Product Prices. Dairy product prices for both butter and cheddar cheese have seen steady increases

during most of 2001 (Grade AA butter price exceeded \$2.20/lb. and block cheese prices approached \$1.80/lb). Despite continuing "tight" milk supplies, the last week of September found butter prices plunging sharply (-15%) and cheese prices drifting downward. Coupling the worries about economy with the usual seasonal decline in milk prices each winter, the market psychology has definitely shifted away from "bullish" to a "bearish" tone that is expected to describe dairy product markets during the next six months. A review of the Chicago Mercantile Exchange (CME) cheese market finds that 40# block prices were reported at \$1.71 on September 26 - a 7-cent decline over a 4+ week period. Barrel cheddar prices have undergone a similar change during this period where the CME reported a cash price for 500# barrel cheddar cheese of \$1.63 on September 26 - a 4.75-cent decrease over this time span. Prior to the tumbling of butter prices, the butterfat supplies were "very tight" with milkfat price skyrocketing as Class II cream was valued at \$2.81/lb. on September 8. The Grade AA butter price was \$1.75 on September 26 - a decrease of 40-cents. After the USDA changed the butter-powder price tilt, the industry expected nonfat dry milk (NDM) price to drop to the new support price of \$0.90/lb. But, export demand for NDM and related dairy products have stabilized prices for NDM prices above the revised support level and Grade A NDM has been traded on the CME at \$1.00/lb. for the past three months. Export demand has taken large quantities of NDM off the domestic market so that the USDA (via its CCC) has not purchased any non-fortified and fortified NDM during most of September. NDM processors, primarily in western states, are no longer offering to sell NDM to the CCC because cash prices have increased to the range of 93 to 95 cents/lb. NDM cash prices across all regions of the country, particularly in the Southeast, have remained above the support level.

Near-term Market Outlook. Despite existing "short" supplies, news of job layoffs and declining consumer confidence, the subsequent categories have a direct impact on the value of milk pooled in FO# and the amount of milk revenues available to be distributed. For August, the respective butterfat prices and the average butterfat tests for each milk class were: Class I, \$2.22/lb. & 2.19%; Class II, \$2.39/lb. & 7.01%; Class III, \$2.30/lb. & 4.01%. The current demand-supply squeeze has most industry experts questioning whether farm milk prices can be maintained and are anticipating sharp declines over the next several months. As of late-September, Class I milk prices are expected to decline by as much as \$2.50 to \$3.00 before the end of 2001. Most analysts forecasting milk prices to drop by 10 to 15% by December and be reported near \$16.00 /cwt. for Class I milk in the Southeast order. The price outlook looks dramatically different than was expected in early September. Now, the next three to nine-month outlook is very troubled. A sharp decline in dairy and milk price are being predicted with the November Advanced Class I milk price for Mississippi (Starkville zone) expected to be in the range of \$17.50 to \$18.00. However,

the September Class III price is expected to increase 30-cents and should be reported near \$15.85 /cwt. The CME reported on September 26 that Class III (Class IV, in parentheses) futures contracts settlement prices were \$15.86 (\$15.75) for September contract, \$14.85 (\$14.15) for October, \$13.75 (\$14.25) for November, and \$12.85 (\$13.45) for December.

Southeast F. O. #7 “Blend” Price Increases for Sixth Straight Month to \$17.87 in August. The Southeast Federal Order Milk Market Administrator reported the August 2001 “blend” or uniform price for milk delivered in the Atlanta and Starkville “base” zone of Federal Order #7 was \$17.87/cwt. for 3.5% butterfat milk. (North Zone minus \$0.20, North Central Zone “base” zones, South Central Zone plus \$0.20, South Zone 10 plus \$0.30, and Coastal Zone plus \$0.40 /cwt.) The August blend price of \$17.87 for the base zone of FO #7 represents an INCREASE of 33 cents /cwt. The August 2001 blend price was \$3.72 /cwt. ABOVE the August 2000 price; (2) the “net” price for Class II of \$26.48 on 12.00% of the milk; (3) a “net” price of \$16.85 on 15.18% of the milk used for Class III products; and (4) the “net” Class IV price of \$31.43 on 4.19% of the milk marketed. Because of the exceptionally “high” prices for butter and butterfat in August, the “net” milk price for each class of milk reveals some rather remarkable findings (especially the Class II and Class IV “net” prices of \$26.48 and \$31.43 /cwt. respectively).

Uniform or “Blend” Price for August 2001

North Zone:	\$17.67
North Central Zone:	\$17.87
South Central Zone:	\$18.07
South Zone:	\$18.17
Coastal Zone:	\$18.27

Class I Price for October 2001(Advanced Price)

North Zone:	\$18.73
North Central Zone:	\$19.03
South Central Zone:	\$19.23
South Zone:	\$19.33
Coastal Zone:	\$19.43

Prices of Holstein Dairy Cattle Replacements

<u>Location of Sale</u>	Blansit, MO	Thomasville, GA
<u>Auction Date</u>	September 25	September 24
<u>No. of Head Sold</u>	1,456	292
<u>Springer Heifers</u>		
Supreme	\$1,870-\$2,040	\$1,750-\$1,960
Approved	\$1,625-\$1,775	\$1,590-\$1,720
Common	\$950-\$1,175	\$950-\$1,240
<u>Springer Cows</u>		
Supreme	\$1,450-\$1,600	\$1,260-\$1,430
Approved	NA	\$1,260-\$1,430
Common	\$875-\$1,050	\$520-\$890
<u>Fresh Milking Cows</u>		
Supreme	NA	\$1,760-\$1,880
Approved	\$1,100-\$1,275	\$1,430-\$1,660
Common	\$875-\$1,050	\$590-\$1,010
<u>Calves 1-7 Days Old</u>		
Holstein Heifers	\$185-\$400	NA
Holstein Bulls	\$50-\$145	NA
Combined	NA	\$60-\$360