FUTURE COMPETITIVENESS OF THE FLORIDA DAIRY INDUSTRY: FLORIDA'S DAIRY MARKETING OUTLOOK

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At the time that this article is being written in early April, 1995, six major factors appear to be affecting Florida milk prices in the near and distant future. These factors are:

1. Florida's production compared with sales.
2. The Mid Am vs. AMPI battle for markets.
3. Provisions of '95 Farm Bill.
4. Western Expansion.
5. Midwestern Expansion.
6. Foreign Export Market.

The current seriousness of the dairy market in the state is demonstrated by the fact that March's production was nearly 10% below a year ago. At the same time, some areas of the country are showing double digit increases. States such as Idaho and New Mexico are showing increases as high as 18 and 19%. Our price probably peaked at a level at or near the average cost of production in the state.

Normally we have considerable surplus this time of year. Instead, we have been importing considerable quantities. Very likely we will have little if any surplus. This will help our price in the short run because of the high utilization. The problem comes when we have to import larger than normal quantities this summer and fall.

The southeastern market has been severely damaged by the Co-op battle between Mid-Am and AMPI. When both of the Co-ops' Western producers production exceeded the capacity of their local processing plants, the milk began leap-frogging East. As this happened, Mid-Am and AMPI started taking each others processors. This resulted in large quantities of outside milk ending up in Tennessee and Atlanta. The dumping removed the premiums from Southeastern markets. It is reported that some processors have received 5-year contracts insuring their product at the order price from these same Co-ops.

The '95 Farm Bill has the potential of having a big effect on Florida prices. If the drafters see the importance of a local fresh milk supply and the importance of long-term cost to the consumer, our state will have a brighter future for its dairy farmers. Even though various regions 1500 or more miles away can produce milk cheaper, the cost to our processors will be much greater when the freight is added to the price.

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Continued expansion in the West plus a new emphasis on large dairies in Wisconsin and surrounding states has the potential of creating a substantial added supply of milk for manufacturing. If cheese continues to set our base price, extra product production may have a depressing effect.

There might be a bright spot that a couple of years ago didn't seem possible. That's the foreign export market. In that GATT is supposed to reduce and eventually end the dumping of agricultural products by the ECC and others, the world price has a chance of going substantially higher. Certain third world countries are coming of their own. A number of the larger ones are putting together substantial manufacturing economies. As people rise above subsistence incomes, their demand for more and higher quality food increases dramatically.

The present cost of production for the average dairy farm in Florida appears to be $1.50 to $2.00 per hundred above the major dairy areas of the country. A major portion of this is the result of major cow stresses including heat, humidity and mud or the result of stresses created by attempts to solve the mud problems. The limited availability of quality roughage adds to the cost problem.

Only about 25% of our present producers will survive if we have to produce milk to sell at the same net price as the rest of the country. I feel that if such a disaster should occur, our producers will fall into two general categories. They are the high volume and the low overhead producers. Those who try to compromise between the two will be in trouble.

The high volume producer will tend to be larger with relatively high total cost facilities but be cost efficient by emphasizing a large number of cows with high production. The net result will be that fixed cost per unit of production is low. Top production and cow comfort will be highlighted. Involuntary cow turnover will be kept to a minimum.

The low overhead dairies will tend to go the grazing direction. They will generally but not necessarily be smaller and run by family labor. They will own only a small amount of low cost equipment. Cow care and comfort will again be emphasized by short walks to the parlor, protected trees for shade and minimum time on concrete. Low turnover, veterinary, purchased feed, labor and machinery costs with moderate production will be their program.

The person who tries to operate in between the concepts by comprising will tend to be in trouble. His overhead will tend to be too high relative to his production. Generally he will have high overhead, medium production, and not the best cow care with the end result of high involuntary turnover.

We need to put a lot of time and effort into budgeting and doing cash flows at varying milk prices.

Favorable things that could happen are the following:

1. Leveling off of national production.
2. Strong consumer demand.
3. Enough manufacturing capacity in the West to handle their production.
4. Mid-Am and AMPI work out some livable arrangements.
5. A strong foreign export market.
6. A favorable '95 Farm Bill.

The most optimist view is that in the dairy market, generally, the worse things look - the better they turn out.

In the past, every tough period has been followed by a good one. We hope that Florida and the Southeast can maintain and continue a viable and healthy dairy industry.