

# DAIRY CONNECTION

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## EDITORIAL

Ouch! 2009 has been brutal for American dairy farmers, and the outlook is bleak for at least the first half of the year. Finding optimism will be no simple task. As you seek to tweak and optimize your dairy,

here are some basic dairy enterprise rules that fit every farm:

- Never give up milk because income will drop faster than expenses.
- Maintain milk components since low components reflect impaired rumen function.
- Avoid changes that compromise cow health because recovery often takes months.

At least we can look forward to spring weather. Soon?

Regards,



JW

## FORAGES

### Harvesting Corn in the Spring: Prospects and Pitfalls

The cool summer and fall, heavy rains in November and deep snow in December all conspired to slow and finally stop the harvest of corn in 2008. Now in mid-February, about 10 percent of the 2008 corn crop still is in the field and many growers are wondering about the prospects of harvesting a reasonable crop this spring. Although harvesting corn in the spring may be old hat to some of the "experienced" growers in the state, it obviously is not a recommended practice due to the risk of crop loss. Nevertheless, I am optimistic about the prospect of a reasonable corn harvest this spring. Many factors, however, can impact losses to the standing crop that ultimately will determine the quantity and quality of the grain that will be harvested later this winter or spring.

If deer or other wildlife are visiting the corn field actively, the crop will have direct losses of the amount the animals consumed and indirect losses from lodging as animals move through the field. During the winter of 2004-05 when I monitored a corn field that had not been harvested, this was the major source of crop loss,

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but the loss was limited to the edges of the field (no tree belts were nearby). Losses from wildlife are the most difficult to predict but could be important in fields where animal density is high.

Typically, lodging and ear drop are considered the major sources of losses in late harvested corn. On a positive note, much of the crop had very good stalk quality this fall. In the few fields that we are monitoring this winter, little or no lodging and no ear drop have occurred to date. Nevertheless, as we move into spring and temperatures increase, stalk quality will begin to deteriorate as fungal organisms begin to break down the stalks. The potential for increased lodging as the year progresses is a strong reason for harvesting sooner rather than later. Moreover, hybrids can vary in their stalk quality, so fields with the poorest stalk quality should be harvested first.

Several factors should be considered when determining when to harvest. Obviously, access to the field largely will determine when and if harvesting can start. Grain moisture and the handling of grain immediately after harvest also should be considered. Most of the corn in the field is still too wet to store safely for long periods of time and, in many cases, the grain will need to be dried before it is put in a bin. Field drying has been minimal these past three months, so don't be surprised if your corn has the same moisture content that it had in December. Moreover, little field drying will occur until temperature raise substantially above freezing.

Before harvesting, review the tables on allowable storage time (AST). As an example of how moisture content and temperature interact, the AST for corn is about 90 days at 30 degrees, 35 days at 49 degrees and only 12 days at 50 degrees. In most cases, grain wetter than 22 percent moisture cannot be dried safely using natural air, so additional field drying may be advantageous unless on-farm drying capacity can keep up with the rate of harvest. In the spring, temperatures are rising, which is opposite of the fall, so piling and/or binning wet grain should be done only for short periods. Grain spoilage is most problematic beginning in early March, so consider the logistics of drying and storage along with the logistics of harvesting when making a decision of when to begin the harvest process.

*Source: Joel Ransom, NDSU Extension Agronomist for Cereal Crops*

## ■ BUSINESS

### Ten Tips for Tough Financial Times

Here are some ideas from the American Bankers Association's Center for Agricultural and Land Banking:

- 1. In tough times, cash is king.** Carefully examine every capital purchase that will require additional debt. Ask yourself if the expenditure will generate the cash flow needed to pay for itself. If the new item can't create enough new cash to pay for itself in a reasonable period of time, defer the purchase.
- 2. Let a farm budget be your financial road map.** You are flying in the dark financially if you don't have a budget for all income and expenses. A farm budget helps you maintain the direction of the business and must be updated frequently.
- 3. Objectively look at your farm's financial position and performance.** Are you getting the maximum return from your investments? If not, why not? Are your nonfarm assets generating a maximum return? Can you sell any farm or nonfarm assets that are not contributing to the financial health of your farm and family finances?
- 4. Examine how your debt is structured.** The vast majority of the financial problems I have seen producers suffer during my career have been the result of having debt improperly structured. Remember this: like finances, like debt. In other words, finance long-term assets, such as real estate, with longer-term debt. Finance shorter-term assets, such as machinery, with shorter-term debt.  
  
You would think this was easy to remember, but it is not because so many producers typically end up with too much short-term debt that was used to acquire or improve long-term assets. Can you increase your long-term debt to pay down your short-term debt? You may be able to increase your monthly cash flow greatly by spreading out your short-term debt over a longer period of time. However, be cautious when getting a loan against long-term assets, such as your farm real estate; it's like drawing against your savings account. If you're going to use your long-term equity, make sure your need is extremely significant.
- 5. Prepare for your financial review with your banker.** Have current inventories, cash flows and balance sheets ready for your review with your banker. Provide the information needed. Often bankers spend time with a customer looking for misplaced information instead of concentrating on resolving important issues. If you are having financial problems,

put your thoughts about how to resolve them on paper so your banker can review them with you.

6. **Ask your banker about the USDA's guaranteed farm loan programs.** Your banker may be able to restructure your farm debt over a longer period with a lower interest rate if the USDA provides a credit guarantee to the bank. If your banker does not know about the program, set up an appointment to go with your banker to your local USDA Farm Service Agency to find out how it works. The USDA provides credit guarantees to banks and others for more than 50,000 farmers and ranchers.
7. **Review your hazard and fire insurance coverage.** Increasing your deductibles can lower your premium. Carefully review every item on your inventory list and consider eliminating coverage on obsolete or low-risk items. In other words, purge your insurance schedules of junk.
8. **Carefully examine your life insurance policies.** Many whole-life policies contain provisions that allow you to borrow against the cash surrender value at low rates or allow you to deduct the premium cost from the cash surrender value. What type of life insurance do you have? Is maintaining a costly whole-life policy worthwhile when you could get similar coverage from a less expensive term policy? You never should be without life insurance. All key personnel in the business should be covered so the business can continue in the absence of a member of the management team.
9. **Deal with financial problems immediately.** Talk to your banker early and often. A good way to avoid serious financial problems is to identify and resolve them early. Farmers and ranchers are independent, and many of you don't like to talk about financial problems (who does?). Solving financial problems often requires a team approach. Create a personal "board of directors" consisting of people you know and respect who can be your sounding board. Make sure your banker is a member of your board of directors.
10. **Maintain a clear perspective.** One of the best ways to think through business problems is to get away from them. For example, take a weekend off – and not just to attend a farm show – or resolve to see at least one movie before it comes out on DVD. However you do it, putting your concerns aside temporarily and shifting your focus to other activities is important. It will make your home team stronger.

*Source: Director John Blanchfield, senior vice president*

## ■ LABOR

### **Employee Meetings: Make the Most of Them**

Focusing on day-to-day activities often leads managers of dairy operations into the trap of overlooking the need to communicate effectively with employees. To compensate for this daily focus, managers can conduct regular team meetings that provide a forum to discuss tasks, goals and opportunities for improvement. The following list provides tips on constructively conducting organized team meetings:

- Surrender "me" for "we." Remember, there is no "I" in "team."
- Establish a consistent time and place for team meetings.
- Set ground rules for meetings ahead of time.
- Keep meetings brief and to the point because everyone's time is valuable. If a 30-minute meeting is scheduled, keep the meeting as close to 30 minutes as possible.
- Ensure all participants understand the importance of being prepared and prompt.
- Provide an agenda with topics to be discussed and clear objectives for the meeting.
- Designate a facilitator to keep the group on task and focused.
- A key external team member, such as the nutritionist or veterinarian, could serve as facilitator.
- A key external team member also can serve as a catalyst to initiate the team and bring it together.
- Designate individuals on a rotating basis to record and distribute meeting notes.
- Set goals and objectives for the team with timelines and accountabilities. Don't set too many goals or goals that are unrealistic. Decide how progress will be monitored. Discuss progress at subsequent meetings.
- Encourage input from all participants and be open-minded enough to entertain new and different ideas and views.
- Encourage managers to gain inputs and ideas from individuals they supervise who will not be attending meetings.
- Implement employee ideas if they make economic and managerial sense.
- Only one person talks at a time.
- Respect other people's opinions even though you may agree to disagree with them.

- If an individual diverts from the subject matter (goes on a tangent) or is off base, ask the individual to discuss the issue at the conclusion of the meeting so the meeting can progress.
- Ask for clarification when what someone said or meant is not clear.
- Keep the group's energies focused on the meeting agenda and issues at hand.
- Keep the meeting upbeat and positive. Do not let a meeting turn into a gripe session. If the group gets sidetracked on an issue, tabling the discussion and designating a specific meeting time to address it may be in the group's best interest.
- Summarize the actions that need to be taken as a result of the meeting and establish timelines for completion of actions and individuals responsible for implementation. Ensure actions are clearly understood by all participants.
- Praise and encourage everyone's efforts and participation.

Dairy businesses can benefit greatly by conducting focused and meaningful employee meetings. As the dairy owner or operation manager, you are responsible for ensuring employee meetings are structured and time-efficient, and result in increased operation efficiency, productivity and profitability.

Source: ADM Alliance Nutrition's Web site at [www.admani.com](http://www.admani.com)

## Generation What?

The 2008 Dairy Convention received high reviews, especially the farm and family panel. Some time was spent sharing ideas about today's younger generation. While things indeed are different today, the next time you venture into one of these conversations; considering the points shared by Robert Milligan, a senior consultant for *Dairy Strategies LLC*. He writes:

Which of the following do you perceive is a correct generalization about today's younger workers?

- They are not willing to work hard.
- They are not loyal.
- They have different expectations about work.

My answer to the question is "C" – and only "C." The behavior of many young – and not-so-young – employees makes both "A" and "B" appealing and understandably plausible answers. But let's investigate.

In my experience, "C" provides much of the explanation behind the behaviors interpreted in "A" and "B." Remember, anyone under the age of 45 has little or no firsthand knowledge of anything before 1970. They:

- have lived their entire life in a period of relative prosperity. Even most of their parents were born after the Great Depression.
- have lived their entire life with relatively low unemployment.
- have lived their entire life in the era of instant entertainment: television, cable, VCRs, DVDs, computers, the Internet and cell phones. They remember the family's first computer, not the first television.
- grew up with youth sports, music lessons, trips to Disney World and fast food.
- have lived in a period of increasingly rapid change and globalization.

So what? My parents grew up and matured during two world wars and the Great Depression. They were undeniably impacted. I grew up and matured during the post Depression/World War II period of recovery to the current period of prosperity and incredible technological change. I have also been impacted by this period. Similarly, my sons and others in their age group (under 45) are indelibly impacted by their world as described above.

We hear about Baby Boomers, Gen-Xers and Millennials (the term replacing Gen-Yers). These descriptions are coined by human resource and demographic experts to provide generalizations reflecting the impact of current events, trends, attitudes, perceptions and work force performance. Although we must avoid stereotyping, these generalizations can provide helpful insights to employers and supervisors.

*Table 1* summarizes my recent study of these generations. The table helps us understand answer "C": they have different expectations about work. While Matures and Baby Boomers were/are thankful and appreciative just to have a job, Gen-Xers and Millennials generally, based on their very different experience, have little fear of being unemployed. They expect to have a job (an entitlement) and they expect that job to be rewarding. These attitudes and expectations are certainly not surprising, given the world they have experienced.

Let's return to younger works and answer "A" and "B" regarding effort and loyalty. I have two sons in this age group who work much harder than they should. They are not alone. I see many young farm and business owners

**Table 1. Defining the Generations.**

Generation	Born	Leadership Style	Career Focus
Matures	Before 1946	Command and Control	Job Security – Build a Legacy
Baby Boomers	1946-1964	Participatory	Job Security – Build a Stellar Career
Generation Xers	1965-1980	Participatory and Collaborative	Career Security
Millennials	1981-2000	Participatory and Collaborative	Parallel Careers – Options

and employees who work incredibly hard. The difference is that they are not likely (we have to continue to be careful not to stereotype) to work just because they have a job. The hard work and the loyalty must be earned by providing them with a meaningful job experience.

### What does this mean for the owner of a farm or other business? Consider the following:

1. **View this as an opportunity.** All too few businesses – small farm business or large corporations – have succeeded in creating positions and a business culture that provide meaning for all employees. There are, however, sufficient examples – again small and large – so we know it is possible. This is your opportunity to gain a competitive advantage in the labor marketplace for your farm or other business. Think about this in “cow” language. Your cows are highly productive when they have the best environment – cow comfort, reasonable temperatures, clean conditions, access to feed and water. Similarly, your work force is most productive and has great job satisfaction with an excellent work environment.

2. **Don’t blame ‘not willing to work’ or ‘lack of loyalty’** on the type of work. Some positions are easier to provide meaning than others. However, type of work is not the major determining factor. As an example, two employees with the difficult job of mining rock from a granite quarry were asked: “What are you doing?”

**Employee A:** “I’m slaving away swinging this d— sledge hammer in the hot sun.”

**Employee B:** “I’m working as part of a team building a cathedral!”

Although both are doing the same work, their attitude is completely different.

You can create an environment – a business culture – where your farm or other business can attract, develop and retain employees like “Employee B.”

*Source: Robert Milligan, Senior Consultant, Dairy Strategies LLC*

## ■ CALVES AND HEIFERS

### Evaluate Bucket Sanitation

If you bucket-feed milk to calves, examine these scenarios to see which one best fits how you “clean” the buckets.

Do you:

- A. Squirt some water into the bucket and then empty it at the next feeding?
- B. Give calves housed in individual pens a clean pail upon arrival and that pail remains with the calf (unwashed) until she is weaned and moved to group housing?
- C. Rinse buckets after one feeding and then wash them thoroughly after the next feeding?
- D. Wash buckets between feedings for young calves only?
- E. Follow the recommended practice of rinse-wash-rinse-dry after each feeding?

As you can see, bucket sanitation can include a wide range of practices.

Sam Leadley, of Attica (N.Y.) Veterinary Associates, recommends that you evaluate your calf management and level of profitability to determine the level of feeding sanitation that is best for your operation.

Careful observation of calf mortality, sickness and growth are the keystones of making an informed decision about how to manage this important sanitation issue. If you are meeting your goals for calf management (death rate, sickness rate, growth rate), then just leave things alone. However, if one or more of these measures of profitability are unacceptable, then feeding sanitation may be one route to reduced expenses (death, treatment of illness, feed conversion) and greater returns (growth rates).

## **Pasteurized Colostrum Improves IgG Absorption**

Colostrum can be pasteurized successfully. Studies at Penn State showed that heating colostrum at 140 degrees Fahrenheit for 30 to 60 minutes was the optimum time and temperature combination that reduced bacteria counts but did not affect colostrum immunoglobulin G (IgG) levels or viscosity.

In a subsequent study, calves fed colostrum heated at 140 F for 30 minutes had higher serum IgG levels at 24 hours, compared with calves fed unheated colostrum (22.6 and 19.6 g/L, respectively). Total serum protein in the two groups of calves was similar and averaged 5.55 g/dL. No differences in calf growth or health were observed during the six-week study.

Colostrum in these studies was not heated in a commercially available pasteurizer. However, the studies' authors recommend a small-batch pasteurizer with adjustable temperature controls because colostrum must be heated at a lower temperature than used for milk. Agitation of colostrum is another important feature that allows even heating. Rapid cooling of colostrum after pasteurization will help prevent damage to proteins.

Monitor the pasteurizer temperature regularly to be sure the machine is operating as expected, and remember that the 30-minute holding time should start when colostrum reaches 140 F, not when the pasteurizer is turned on. Finally, employees responsible for pasteurization need to be trained so they understand what to do, how to do it and why doing it correctly is important.

## **Contract Growers: Building Effective Relationships**

With more dairy producers looking to custom growers to raise heifers, windows of opportunity open for growers to expand. By asking the right questions as a producer or custom grower, strong and lasting relationships develop with favorable outcomes for all. Develop a team that works together to raise high-quality calves. This team should include the owner, manager, key employees, producers, veterinarians and nutritionists. The team should go over items integral to calf rearing, including:

### ***Visiting the site***

- Visual inspection
- Cleanliness
- Traffic flow
- Take pictures

## ***Organization of the dairy***

- Ownership
- Chain of command
- Who will be the contact person?
- Can that person make decisions regarding calf health?

## ***Protocols***

- Feeding
- Cleaning
- Manpower
- Records
- Vaccinations
- Treatments

## ***Contracts***

- Pick up/returns
- Rations
- Milk type
- Monitoring commodities
- Housing – care
- Vaccination programs
- Dehorning – extra teats (cost or no cost)
- Monitoring and treatment
- Blood testing
- Death loss
- Injuries
- Reporting system
- Invoicing/billing
- Recordkeeping
- Bull calf arrangement
- Price increases
- Unforeseen – operational costs
- Renewal
- Termination

These are talking points that will aid in the development of a strong mutual relationship between the producer and the grower. These questions will be the cement to a great relationship for years to come.

*Source: Presented at the 2008 World Dairy Expo, L. Anderson, national sales manager and calf management consultant for Calf.Tel by Hampel Corp.*

## ■ NUTRITION

### Eight Guidelines to Ingredient Selection

With increasing challenges for producers to manage their bottom line, selecting the right ingredients always has been essential in providing animals with proper nutrition. Now, making the correct ingredient decisions is even more critical for operations to stay as efficient as possible. By making well-informed ingredient decisions, producers are able to keep their animals healthy and garner more dollars down the road.

Dan Schimek, a nutritionist with Hubbard Feeds (and former NDSU dairy herd manager), offers the following guidelines to help producers make educated decisions when selecting feed ingredients:

1. Consult your nutritionist to design a program that fits your operation. Each herd has unique nutritional requirements, and a nutritionist can tailor a program to progress toward your operational goals.
2. Look at feeds as nutrients rather than feeds. For example, look at replacing protein sources rather than replacing soybean meal with distillers grains. An alternative diet can be effective as long as the nutrients are meeting the livestock's requirement.
3. Build your nutrition program around your home-grown feeds. By utilizing these low-cost sources, the total feed cost is lowered.
4. Take advantage of byproduct feeds available from ethanol, sugar, brewing and canning industries and other sources. Some of these byproducts include distillers grains, brewers grains and beet pulp.
5. Consider the location of the plant and feed mill to avoid high transportation costs. This becomes especially important when wet feeds are being considered.
6. Building relationships is the key to finding the best value on feed. Some of the best people to know are plant personnel and independent trucking companies that are hired to remove feed from plants and often sell it for a discounted rate.
7. When opportunity allows, go directly to the plant to attain discounts for purchasing larger quantities.
8. During colder months, wet feeds have an extended shelf life in the freezerlike conditions. Smaller operations are able to enhance their use of these feeds at this time.

## ■ HERD HEALTH

### Every Second Counts

The little things you do during milking time have a profound effect on udder health and milk quality. Remembering that every quarter of every cow must be prepped for milking the same way by every milker at every milking is important.

Specifics of milking procedures may vary from farm to farm. For example, one farm may prep cows in sets of four cows, while the next farm preps in sets of six. However, the basics of timing ideally should be the same or similar on every farm.

The first important time frame to remember is related to contact time of the teat dip being used as pre-dip. Teat dips applied before milking need to be on the teat skin for a minimum of 30 seconds to have adequate killing effect. During this time, the quarters can be stripped, but the dip needs to remain on the teat skin for the full 30 seconds prior to wiping. In addition to contact time, we must ensure that the "prep lag time" has an average length of 90 seconds from start of tactile stimulation.

Prep lag time by definition is the time from the start of either stripping, massaging or wiping the teats with a towel, whichever comes first, to unit attachment. On some farms, this is stripping and on others it is wiping, depending on the order of your preparation procedures. If we attach the units prior to the 60-second mark, we have not given adequate time for the oxytocin to reach a useful concentration in the udder. On the flip side, we need to ensure units are attached within 90 seconds of stimulation to make maximum use of the letdown effect. I encourage you to take a stopwatch to the parlor, check your timing of milking procedures and make necessary adjustments to your routine until you are within these time frames.

One suggested protocol would include prepping cows in blocks of four or five. Begin with the first cow by removing loose debris with a towel, then stripping each quarter and examining the milk for signs of mastitis. This would be repeated for the remaining cows in that block. Start back at the first cow of the block (do not weave back through the cows in reverse order) and apply pre-dip, ensuring at least half of the teat is covered. Once the entire block has been pre-dipped, begin wiping the first cow of the block with a single-use towel.

At this point, you also should be able to attach the unit before wiping the second cow of the block. However, check your timing and make sure a full 60 seconds have elapsed from the time that cow was stripped. If you are shy of the 60-second mark, continue wiping the remaining cows in the block and then return to attach the units, starting at the first cow.

Once you have a routine established, monitor the routine monthly to ensure the time frames are being met. Proper milking procedures will help lower somatic cell count, increase pounds in the tank and decrease milk out time.

*Source: Petersson-Wolfe, C., Virginia Tech, Milk Quality and Milking Management*

## Strategy to Prevent Infections

To prevent introducing mastitis pathogens into a herd when purchasing cows, a balance has to be struck between minimizing the probability of purchasing an infected cow and maintaining sufficient choice in the population from which to select replacements. This also is influenced by the farm attitude to risk – what degree of risk is acceptable for purchasing an infected cow.

Each farm must determine the level of biosecurity to implement in the herd and develop its own guidelines and standards accordingly. Here are some biosecurity measures and example standards to follow to prevent introducing mastitis pathogens into a herd when purchasing animals:

To minimize the risk of buying infected cattle, setting some standards that apply to the herd of origin is sensible. For example:

- The herd must have had a rolling geometric mean herd somatic cell count (SCC) of less than 200,000 for at least one year.
- The herd must have individual cow SCC recorded at least bimonthly for the previous six months.
- The herd should provide information on pathogens present on the farm.
- The herd must not have had any history of *Strep. agalactitiae* in the last two years.
- The herd should be **bovine viral diarrhea virus**-free or vaccinated.
- The herd must not have cows with severe teat lesions.
- The herd owner must be honest and willing to give you all this information.

To minimize the risk of buying an infected cow, making sure the cow meets certain requirements is important. For example:

- The cow must never have exceeded an SCC of 200,000/milliliter (ml) for life.
- The cow should have at least the three most recent SCC in current lactation of less than 100,000 ml.
- The cow should have been treated with a dry cow treatment if purchased in early lactation.

Before adding newly purchased animals to the herd, the following steps should be taken:

- Udder, teats and milk must be examined for signs of abnormalities on arrival.
- The cow must be California mastitis test (CMT)-negative for three consecutive days if purchased in early lactation.
- At a minimum, the cow must be milked last until all CMT tests are negative for three consecutive days.
- You should be able to send cows back to the vendor if any mammary gland abnormalities are found within two weeks of purchase.

*Source: 2008 NMC Annual Meeting Proceedings, p. 64-74 (Barkema et al.)*

## ■ ESTATE PLANNING

### Seven Mistakes to Avoid

Whether input costs are extraordinarily high or cash inflows abysmally low, more dairy farmers will consider selling or turning the business over to the next generation regardless of the who, when and why that only you and your family can determine, so don't let these mistakes bring failure to your efforts. Here are excerpts from recommendations by Ron Hanson, professor of agribusiness at the University of Nebraska:

During my 32 years of farm family counseling, I can trace every farm family failure (families no longer farming) to one of seven mistakes. These failures did not result from a crop production disaster or low milk prices or even financial trouble, but from the inability of the family to communicate effectively and work together as a team for the success of its dairy.

Avoid the following mistakes to create a more productive and harmonious family work force:

#### Mistake 1

The father-adult son (or daughter) farming relationship turns into a parent-child relationship. Not all families are

meant to farm together. Dad must be willing to share control and decision making with his adult farming children. If Dad always wears the boss hat (my way or else), adult children often lose their motivation for the family business and may leave for another opportunity just to escape Dad's boss hat.

### **Mistake 2**

Family members gossip about each other rather than talk to each other to resolve differences. Gossip only leads to misunderstandings in any family. Misunderstandings quickly turn into family conflicts. One simple rule about gossip: Never do it. If you cannot honestly tell another person (family member or employee) what you are feeling, then you should not tell someone else.

### **Mistake 3**

Family members carry personal grudges against each other. Grudges only cause more stress and tension among family members and employees. If you are upset with someone (which is a normal feeling), you should tell him or her about it in a positive manner and explain your reasons why. Then forget it and move forward. Most individuals want to harbor their resentment as long as possible in hopes of getting back at the other person later. That strategy solves nothing and results in broken relationships – and business.

### **Mistake 4**

Simple disagreements turn into family fights. Arguments go beyond the boiling point and tempers take over. These situations have no cooling-off period. Threats are exchanged that cause irreparable damage in the working relationship of any family. Disagreeing with someone is not wrong as long as that relationship contains respect and trust. People can disagree with each other and still be friends. But if they fight with each other, their friendship quickly ends.

### **Mistake 5**

Family members and employees are not able to have open and honest discussions. People are not able "to say what they mean and mean what they say" when discussing issues with others. They disguise their feelings or cloud over the real issue. This failure to communicate only invites a business failure. Rather than working together as a team, they end up working against each other.

### **Mistake 6**

Family members fail to set goals for the family and the business. They are not able to discuss priorities and determine a direction for the future of their operation. Without goals and priorities, these family members are never in step with each other. They have no formal decision-making process. Without a vision, the family bumps along from one internal crisis to the next.

### **Mistake 7**

Family members in the dairy farm businesses are not willing to get along as a family. They have no team approach to their working relationships. They only care about their own feelings. This lack of harmony quickly leads to feelings of hostility among everyone in the dairy operation.

## **■ DAIRY OUTLOOK**

### **Market Psychology**

The market clearly is looking for traction and direction. In the short term, a surplus of product is overweighing the market. However, the market also is looking into the second half of the year and trying to assess what prices should be so as to not eliminate supply down the road. Butter and nonfat dry milk are clearly in surplus and are at relatively depressed prices. Butter is trading on the Chicago Mercantile Exchange (CME) at around \$1.105 to \$1.125 per pound, just above support prices of \$1.05, and Western nonfat dry milk is trading at just around the support price of 80 cents per pound. Surplus product is entering the Dairy Price Support Program (also known as the CCC). Since Oct. 1, 2008, about 4.6 million pounds of butter and 174.7 million pounds of nonfat dry milk have entered the program. Both commodities have been heavily dependent on the export market, which has since contracted. In the case of butter, imports also have increased.

Cheese and whey prices are also a bit depressed, although more buoyant than butter and nonfat dry milk. Cheese prices are trading at around \$1.25 to \$1.33 per pound on the CME, just below the long-term average of \$1.35 per pound. Generally speaking, sales have been fairly good for American cheese but bad for mozzarella cheese. Still, production and inventories are well ahead of demand, causing prices to tumble from 2008 levels. In the case of dry whey, prices seem to be improving due to strong sales and reduced production and inventory. Still, whey prices are recovering only a bit from the highs of 2007 and 2008.

As we look ahead, all eyes are on the future milk supply and export markets. Some speculation is that the market is going to cull 100,000 to 200,000 head of cattle, or that we were going to have a congressionally sponsored herd buyout program. That has not proven to be true. Still, we did see a fairly abrupt reduction in cow numbers in January, reversing a positive trend. If this continues, and it is likely, we will see very modest milk production growth in 2009 (less than 1 percent). In terms of exports, we are heavily dependent on trade to balance our growth in the milk supply. In 2008, the U.S. exported 933.7 million pounds of nonfat dry milk (423,540 metric tons) and consumed domestically 801.2 million pounds (363,419 metric tons).

My forecast is that we will see market prices bottom out in February and March and for the milk supply to contract through April and May. As the milk supply growth slows, cheese prices will begin to rebound. Whey prices also will rebound slightly due to reduced production/inventory. Butter prices could rebound by early summer if we seasonally produce less cream than we normally do. As for nonfat dry milk, we don't see a rebound on the horizon due to massive overproduction and inventories here and around the world.

### **Futures Prices**

Class III futures have declined steadily since mid-June 2008 and took a very big drop during January 2009. More specifically, the August 2009 futures contract has fallen from a peak of \$21 per hundredweight (cwt) in mid-June to \$13.20 by Feb. 24. That is a loss of \$7.80 per cwt. As of Feb. 24, 2009, Class III futures contracts were \$9.28 per cwt for February and rose to \$11.37 by June. Thereafter prices peaked at around \$14.40 in November and December 2009. Class III futures prices are weak during February through June and then appear to be rising seasonally, although not above \$14.40 per cwt. The difference in futures prices between these spring and falls months possibly could widen as we approach the summer months. In other words, we expect the spring prices to remain the same, but prices after May could rise as the milk supply tightens. Thus, closely monitoring the monthly milk production reports and evaluating how quickly the milk supply changes are advisable.

Corn prices also have declined. The most recent futures data for the September 2009 contract show that market prices rose from a December 2008 low of below \$3.60 per bushel to \$4.40 by early January and have since declined back to \$4. A great deal of uncertainty still surrounds the

future direction of corn prices. The most recent USDA report (WASDE) narrowed the range of corn prices for the current season to \$3.65 to \$4.15 per bushel due to a world reduction in corn production for 2008-09 of 4.6 million tons. Most of that reduction is due to heat and dryness in Argentina and Brazil.

### **Milk and Corn**

The combination of lower milk prices and a slight rise in corn prices has led to rapid erosion in milk producer margins. We have computed an index called Income Over Feed Costs (IOFC), which reflects gross income less feed costs for an average cow producing 65 pounds of milk. That index rose to more than \$10 per cwt in the second half of 2007 and then declined steadily in 2008. The measure of IOFC fell below the five-year average starting in August 2008. As we entered the new year, the measure fell to near record levels of \$4.36 per cow per day. This dramatic decline in gross earnings is expected to result in greater culling rates and thus lower cow numbers in the spring months.

### **Commodity Prices**

Dairy commodity prices during the first weeks of the year were depressed. Only cheese prices now show any strength. Cash block cheese prices at the CME rose from \$1.064 in mid-January to \$1.2065 by mid-February. Futures prices for Class III imply that cheese prices will strengthen as we enter the summer months. The implied cheese price from futures data suggests cheese prices could reach just more than \$1.60 per pound by late fall.

Butter prices already are rising. Cash-settled butter futures prices indicate that the market expects these prices to rise to \$1.21 per pound by May and then \$1.36 per pound by November. These are still relatively low prices and the market could experience some volatility in butter prices, particularly as we enter the summer.

Current prices for nonfat dry milk are at support levels, but the nonfat futures prices suggest nonfat prices are going to rise steadily to \$0.95 per pound by December 2009. At the same time, the WASDE is forecasting CCC purchases of 575 million pounds this year. Thus, the futures data clearly are overly bullish.

As for dry whey, production is declining due to negative margins and inventories are falling, thus we agree with futures data that suggest dry whey prices could rise to 26 cents per pound by November 2009.

## **Milk Production**

Estimated U.S. milk production grew just 0.8 percent in January 2009. This is less than the normal rate of growth of 1.3 percent. USDA revised 2008 U.S. cow numbers and milk production higher from last month (cow numbers rose from 9.271 million to 9.315 million, and milk production rose from 189.7 billion to 190 billion). This positive adjustment in the milk supply for 2008 was a surprise. Cow numbers fell 14,000 head in January 2009 from the previous month. Some of this decline can be attributed to the Cooperatives Working Together program (it culled 51,000 head in December 2008 through February 2009). But much of this decline likely was due to heavy culling and herd liquidations in response to a poor economic environment for dairy producers during the fourth quarter of 2008.

## **Cold Storage Report**

Butter inventories fell in January 2009 relative to a year ago to 177.8 million pounds. While 5.5 percent below a year ago, January's butter inventories are still well above the five-year average of 112 million pounds for the month. Thus butter inventories are more than adequate for January. The cheese inventory data also are showing growth. Both American and "other cheese," the latter being mostly fresh mozzarella cheese, are well ahead of a year ago. This suggests that implied domestic use is lower for January.

## **Commercial Disappearance**

The data below indicate that domestic use of butter, other cheese (mozzarella) and nonfat dry milk for the last quarter of 2008 was well below year-ago levels. However, consumption of American cheese and dry whey products showed growth. Much of the growth in American cheese could have been due to greater demand for fast food and private-label products in the grocery store in response to the U.S. recession. Overall, the domestic demand picture appears weak.

*Source: Dairy Outlook - Ken Bailey, Penn State University*

## **■ MISCELLANEOUS**

### **Fly It Right**

As a descendant of an Army veteran and an uncle to two nephews and a niece in the military (Navy and Air Force), the approach of Memorial Day has significant meaning. And, as the color winter turns to springtime green, so, too, will the patriotic colors of our "Stars and Bars" adorn the our houses, mailboxes, main street, etc. Granted, the end of May is a ways off, but it is the time of the year when thoughts do turn to the renewing powers of springtime. And Memorial Day will have come and gone before my next edition of Dairy Connection.

Therefore, I would like to share this final note as a reminder to you all to display the flag correctly. Too often, I see genuine attempts of patriotism compromised with distractions from Old Glory only because it was poorly displayed. Not intentionally, but because we have forgotten (or perhaps, never knew) about flag etiquette, such as display height relative to other flags, or leaving the flag in the dark without proper lighting or hanging it backwards.

Well, this is not sufficient space to expand on the topic, so permit me to suggest this: If you have Internet access, simply use your browser and favorite search engine (Google, Yahoo, etc.) and type "how to display the flag." You will find plenty of hits. If you know of a firefighter or someone in law enforcement, he or she, too, may have handouts for your reference. Or how about this: If you see a veteran, ask him or her, and while you're at it, say "thanks" for protecting our freedom.

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