Commonwealth of Pennsylvania

Milk Marketing Board

Testimony

Pennsylvania State Grange

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Over-Order Premium Hearing

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To the Members of the Board,

My name is Matt Espenshade. I am a seventh generation dairy farmer from Lancaster County. The farm has been owned and operated by my family since 1867. I am married, and have two sons, ages fourteen and eleven. My father and I have no hired help in the day-to-day activities on the farm. We milk 70 cows, with an 18,000-pound rolling herd average. We farm 260 acres, raising our own forages and replacement heifers as well. In addition, I serve as the Master (President) of Elizabethtown Area Grange #2076, one of more than 230 county and community granges located across Pennsylvania.

I am here today on behalf of the Pennsylvania State Grange. The Pennsylvania State Grange has been an advocate for farmers and rural families since 1873. In light of the challenges facing our dairy industry within the Commonwealth, the Grange is asking the Board to maintain the over-order premium at $1.00 per hundredweight on qualifying milk.

As a member of Mount Joy Farmers Co-Op, which is affiliated with Dairy Farmers of America (DFA), my fellow producers and I receive a blended price for the milk that is shipped. The blend price we received for milk on our most recent check was a net of $19.86 per hundredweight. This includes a volume premium of five cents, and an additional ten cents for being under contract with our co-op.

Because we are part of a co-op, the over-order premium is spread across all members, regardless of the milk’s class, processor location, and final destination. Approximately 37 percent of the milk produced by our co-op members goes to Class I facilities and is sold within the Commonwealth. Almost all milk within the co-op attains that level of quality.

On our farm’s monthly co-op statements, the over-order premium approved by the PMMB is included among the bonuses and premiums. On our most recent statement, the amount was four and a half cents, which is labeled as “special premium.” In one month on our farm, where we produce about 100,000 pounds of milk, this line contributes approximately $45 to our statement. An additional portion of the premium is used to subsidize quality bonuses.

The strengthening of milk prices since the last PMMB over-order premium hearing has been a welcome and long overdue development for our state’s dairy farm families. Last month, the price we were paid for our milk eclipsed the twenty dollar per hundredweight level for the first time since January of 2015. This upward momentum allowed our average price for 2019 to reach $17.05 per hundredweight and monthly IOFC (Income Over Feed Cost) averaged $8.01 per hundredweight. We had ended 2018 with an average monthly milk price of $14.91, the lowest average of the three prior years. This was on the heels of a challenging 2017, where the year’s average price was $16.67, and monthly IOFC averaged $7.45 per hundredweight. We can also look back to 2016, where the year’s average price was $15.54 per hundredweight, and monthly IOFC averaged $6.79 per hundredweight.

We began 2019 in January receiving $16.20 per hundredweight for our milk, with an income over feed cost margin of $8.66. For six of the following seven months, prices held in a range above $16 but below $17. The one exception was a short lived uptick in May, where we received $18.15 per hundredweight, with an IOFC of $8.64 for that month. It was not until September that our price would reach $17.05, with an IOFC of $6.63 per hundredweight. October’s price rose slightly to $17.21, and margins followed to $7.48. In November our price reached $18.08, and margins moved higher, to $10.25. As 2019 would draw to a close in December, we saw the price we are paid rise to $18.28, with an IOFC of $11.34.

As I noted earlier, January 2020 saw our milk price reach $20.07 per hundredweight, with a margin of $13.38. This was the highest point since reaching $22.42 five years ago. IOFC that month (January 2015) was $12.01. Our February price retreated slightly, to $19.86 per hundredweight, with a margin of $12.09.

. Our farm attempts to maximize our forage production capabilities, which makes it necessary to purchase our supplemental feed to meet our ration’s protein and energy requirements. Every three weeks, we will order a total of twelve tons of what is considered a “complete feed”, a blend of soybean and corn meals, with other cost-effective additives. This makes us very much at the mercy of the markets. Looking back to August 2019, the purchased feed was priced at $305/Ton, and remained rather steady through the last half of the year. By November the price had risen to $313/Ton. However, December and January saw prices moved sharply higher to $336, and $337/Ton respectively. When compared to feed purchased just six months ago, this becomes an additional cost of $384 for every load of feed we have delivered.

While the recent positive developments in milk price have been welcome relief, for many farm families across the Commonwealth, it will come too late. This point was easy to discern at our recent Mount Joy Farmers Cooperative member meetings held in late January. For the first time in 13 years, our cooperative saw a decrease in annual pounds of milk shipped, down 7.2 million pounds, or approximately one percent. We have seen five consecutive years of decreased active producers. Our membership is at currently 307 farms, whereas in 2016, membership was 324. During 2019, 23 of our fellow producers sold their herds and exited the dairy industry. Today, 21 of those barns still stand empty. We have been able to take on new members, ones who are perhaps seeking the stability that can be found in a cooperative. Though our cooperative is made up of farms of varying sizes and dynamics, more than half of our membership is comprised of farms with 65 cows or less.

Our cooperative is still challenged in finding markets for our milk, and our dairy farmers continue to shoulder a significant part of the burden. To help cover balancing costs, in September 2014, our members began to be assessed a “Market Adjustment” fee, which is included on our monthly statements. In April of 2015, it was a deduction of 40 cents per hundredweight. Every month since that time it has been a fluctuating deduction, and reached a high of 80 cents per hundredweight in July of 2017. Our most recent statement showed the deduction currently at 69 cents per hundredweight. At that rate, on a moderate-sized farm like ours that produced approximately 100,000 pounds of milk last month, the market adjustment equates to almost $700 in lost revenue for the month. I have no doubt that it is a challenge to find a home for all the milk produced by the members of our cooperative, but I have to wonder if this assessment will ever end, or is this the “new normal”.

Part of promoting rural development in Pennsylvania is making the climate for business investment more desirable. As a dairy farmer, distance means something and the Pennsylvania State Grange believes processing closer to production would be of benefit to all involved in the state’s dairy industry.

Though a distant memory to many non-farming Pennsylvanians, dairy producers are still dealing with the aftermath of the record rainfall of 2018. The inability to raise and harvest crops at the right time has had a cascading effect since that time. We have been dealing with more shortages of feed at critical times over the past two years. The spring of 2019 saw our farm use the last our alfalfa haylage in late March. This home grown feed is a vital source of protein and fiber in almost every dairy cow ration. You may recall that to compensate last year, we cut alfalfa stands before they were fit, and fed it directly to our milk cows. That has led to decreased haylage inventory on-hand now, and as I write this testimony in mid-February, we have less than a two week supply. However, unlike last year, at this time of year there are no hay fields fit to cut. We have contacted neighboring farms if there would be an opportunity to purchase haylage, a task which in itself is cumbersome, but all have said they are stretching their own inventory just to meet their needs.

It is a precarious situation to be in, and we are hoping the weather this spring is more conducive. Shortages in quality and quantity of our homegrown forages will lead to increased feed purchases during the upcoming year, putting even more strain on margins. Replacing a significant portion of the haylage with corn silage comes with drawbacks, and like last year, could lead to shortages of that feedstuff before the next harvest.

Our co-op prides itself on producing high quality milk. It is a point that is made over and over by our leadership in newsletters and at annual meetings. Quality bonuses and premiums are a significant motivation and this financial reward for diligence cannot be understated. During an average month on our farm, picking up an additional 10 cent bonus somewhere will add upwards of $125 to our monthly statement.

The Board of Directors of Mount Joy Farmers Co-op is elected by our membership, and is comprised of member dairy farmers. They have a tremendous responsibility in managing the milk markets of the 307 member farms. I trust them to continue to work in the best interest of our members, and our co-op manager has always been willing to answer my questions in preparation for my testimonies before the PMMB. From time to time, we as producers we may be challenged by their decision, but these are the steps necessary to remain competitive in the northeast where there is an abundant milk supply.

The money the PMMB chooses to invest in the over-order premium is not just supporting the local farmer, but the businesses they depend on as well. To be honest, the premium you approve today will not spend much time in the pockets of the average farmer. This premium will help dairy producers to maintain farm equity and pay down the debt that has accumulated, and put money back into their local community. The decision you make today will have a direct impact on my family, and other farm families across the state. I am grateful for the opportunity to share with you just a portion of the economic challenges facing our Pennsylvania dairy farmers. Being a part of these hearings has given me a greater appreciation of the challenges all segments of the dairy industry are facing.

It is good to remember that all of us in this room want the same thing; that Pennsylvania milk is the first choice to be served on Pennsylvania dinner tables. I hope you will consider the plight of our farmers as you set the over-order premium for fluid milk produced, processed, and sold within Pennsylvania. Thank you to this Board for its assistance to dairy farmers in the past and your consideration of the matter before you today.