

Formula Pricing of Milk

by Jack McPherson
in the Family Herald and Weekly Star

Formula pricing of fluid milk in Ontario is now a reality. This means that, in all markets which adopt this method of pricing, the old problem of milk producers and distributors getting together to try and negotiate a price for milk going to the fluid milk market has been eliminated. Instead, a mathematical formula will be applied at the beginning of each month which will give the answer on what the price should be. Sounds simple, doesn't it? Well, the application of the formula is relatively simple. The big job is and has been to develop a satisfactory formula.

A good many people had been thinking and talking about this idea for some time, but the actual job was formally begun in 1951. At that time, the Ontario Whole Milk Producers League asked the Provincial Department of Agriculture to study the possibility and desirability of introducing the formula system of pricing milk. Col. Kennedy then minister of agriculture appointed a committee of four to undertake the job. They were Dairy Commissioner Everett Biggs, chairman; Dr. E. C. Hope, Economist, Canadian Federation of Agriculture; Dr. H. L. Patterson, Director of Farm Economics, Ont. Dept. of Agriculture; and Prof. W. M. Drummond, Head of Department of Agricultural Economics at OAC. When Dr. Drummond retired, he was replaced by Prof. D. Ralph Campbell.

This committee has since 1951 been studying formula pricing as it operates in some 40 markets in

the United States and have been working on formulae which might be satisfactory in Ontario. This year they have settled on one which they feel is most likely to be satisfactory, and which now is actually being used in a number of Ontario Fluid Milk markets.

The formula is made up of six indicators of economic conditions. These are weighted in the formula in an effort to make the price which will be arrived at, move in accordance with position of both farmer and consumer. The indicators are shown below.

Indicator	Weight
Wholesale Prices (Canada)	20
Weekly Earnings (Ontario)	20
Prices of Commodities and Services Used by Farmers in Eastern Canada	30
Price of Butterfat (Ont.)	10
Price of Condensed Milk Products (Ont.)	10
Price of Cheese (Ont.)	10

The Wholesale Price Index was chosen because it moves with general economic conditions and it reflects the demand for all products, including milk. Similarly, the weekly earnings index is an excellent indicator of general demand. If the earnings of industrial workers go down, this would be reflected in the index and would lower the price of milk.

The index of Commodities & Services Used by Farmers in Eastern Canada is made up of all major farm costs including feed, seed, fertilizer, machinery, taxes, interest rates, labour and others. It does not include farm family living costs. This index certainly is related to costs of production and will tend to keep milk prices in line with farm costs. Also, it should be noted it is the most heavily weighed index which makes its influence strong.

The other three items—the prices for butterfat, cheese and condensed milk products were chosen, according to the leaflet explaining the formula, to give weight to other dairy products. If the overall supply of milk is small and demand is strong, prices for these products will rise. This will bring the price of fluid milk up as well. They reflect the supply of milk and the demand both domestic and foreign. Indeed, the formula chosen has given about equal weight to demand and supply (including costs.)

Next came the question of choosing a base period. The committee finally selected the five years 1947-51 because this post-war period included one year of declining prices as well as several years of rising prices.

As an example of how this would work out, take the month of February, 1954 and the Toronto market. The base price for this market—that is the average price paid producers for quota milk in the years 1947-52 was \$4.1308. Then the committee took the February, 1954 level of the six indexes already described and weighted them according to the outline. This gave them what they call a Combined Weighted Correction Factor Index. This formidable sounding item is the figure by which the base price is multiplied to find the new formula price for the month. For February, 1954 it was 109.51. To get the February price we have the 109.51:100 x \$4.1308 = \$4.52.

Thus, we get the answer that the formula price for February, 1954 would be \$4.52 on the Toronto market. The negotiated price at that time was \$4.60.

In order to test the formula, prices since 1941 have been calculated and compared with the actual prices. It is remarkable how close they are to one another. At times the formula price has been moderately higher and at other times a bit lower than the prices actually paid, but they have been close enough to indicate they were very realistic and not too far out of line with some prices which were arrived at only after some long and at times, bitter negotiations.

In practice, the formula will be applied to the price of milk at the beginning of each month. However, the committee considered that price changes would only be in fairly large steps and should not be made too often. Frequent price changes tend to upset producers, distributors and consumers. The committee recommends that a change in price paid the producer only be made when the formula indicates a movement of price, either up or down, of at least 10 cents per hundred pounds of milk. Then to further remove the influence of short-term movements in any of the indicators, they suggest the price used for a month be the average of the calculated formula price for that month and those for the two previous months.

Whether or not formula pricing is used, is a decision left to each fluid milk market in Ontario. Discussing this matter with Roy Lick, secretary of the Ontario Whole Milk Producers' League, we found that about 50 markets have authorized the League to place them under formula price operation. These include markets for several of the large consumer centres such as Toronto. Mr. Lick estimated these markets would represent about 80 per cent of the milk sold on the fluid milk markets of the province.

(continued in column 5)

COMING EVENTS

—The Local Council of Women will meet at Mrs. R. T. Paul's cabin on Friday, September 24th.

—Euchre in Terra Cotta Hall, Saturday, September 18th at 8.00 p.m. sharp. Lunch. Admission 35c. 9-15

—Attention, euchre fans! Odd-fellows euchre start Friday, October 1st in Georgetown Oddfellows Hall at 8.15 p.m. Good weekly prizes. Admission 50c.

—Halton County Junior Farmers invite you to attend their dance at Huttonville Park, Wednesday, Sept. 15th. Modern Aires Orchestra. Admission 75c. 9-8

—Norval Junior Farmers annual weiner roast will be held at the home of Joan Wrigglesworth, Friday, September 10th. 9-8

—Monarch Cooking School, Monday, September 20th and Tuesday, September 21st at 8 p.m., sponsored by Scout Ladies Auxiliary. Tickets 50c, available from members.

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BIRTHS

HYDE — Mr and Mrs. Ern Hyde are happy to announce the arrival of Ann Elizabeth at Guelph General Hospital, August 25th, 1954.

McNIVEN — Mr. and Mrs. Victor McNiven are happy to announce the birth of a son, Douglas Brent, in Guelph General Hospital, September 2nd, 1954.

CARDS OF THANKS

LESLIE — I am sincerely grateful to friends, neighbours and relatives whose help and offers of help while I was sick during harvest time were much appreciated, and for individuals and organizations who sent cards and gifts.
—Percy Leslie.

MORRIS — Mrs. Sid Morris wishes to thank friends, relatives and St. Paul's Church for flowers, gifts and cards sent during her stay in hospital.

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FORMULA PRICING OF MILK

(continued from column 3)

Meantime, several markets which did not take up formula pricing have gone to arbitration because of failure to reach agreement with distributors. In arriving at their decision on price, the Ontario Milk Control Board have applied the formula, so it is receiving official recognition and use in this manner as well.

Mr. Lick commented that, because the formula ties the price of milk to economic conditions in the country most of the officials in his organization feels it is the soundest way of arriving at a price these days. As to the actual formula being used, they are prepared to give it a good test. If there are any flaws in the present formula they will show up and can, he feels, be adjusted so as to give an even more satisfactory formula.

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