

Inflation's Effect on Cache Valley Dairy Farmers

by Anna Nelson - Fall 2022

CACHE VALLEY – Inflation has taken a huge toll on the economy. From high gas prices to high shipping prices, inflation has caused several people to change their spending habits. Local farmers relay the impact recent inflation has had on the dairy industry in Cache Valley.

According to the Statista Research Department, the annual inflation rate in the United States has increased from 1.8% in Oct. 2020 to 7.7% in Oct. 2022. From high gas prices to high shipping prices, inflation has caused several people to change their spending habits, and farmers are no exception to this.

Inflation is a normal thing according to economist Brian Jensen, who also grows and raises crops for a dairy farm in Fairview Idaho.

“Every year everything increases just a little bit,” Jensen said. “The problem in agriculture is when we have a big inflation jump, like the one we’ve had for the past 18 months, we can’t react to prices very well because we just have to take what we are given.”

Jensen explained agricultural markets are based more on economic supply and demand, farmers can change the supply, but it still doesn’t affect the demand. “We are a price taker; we have no ability to change our prices.”

While inflation isn’t ideal for many businesses, a lot of times they have more options to work with than farmers do.

“If you own a restaurant and all of a sudden you have to pay your employees more, you just raise your prices on your food,” Jensen said.

According to Jensen, milk prices are set on a national level, and there is no negotiation. The prices are based solely on the market.

Jason Fellows, who is on the Idaho Farm Bureau Board of Directors and runs a ranching operation in the valley, explained that oftentimes farmers work on a 2% margin. Farmers give their products to the wholesaler who boxes the product, and they mark the product up almost 1,000%, then the grocery store will mark the same product up 2,000-3,000%.

“We catch it on the front end as far as our costs, and then we don’t ever catch it on the back end,” Fellows said. “We aren’t making a whole lot more for our product.”

According to dairyman Joe Cann, who milks about 250 jersey cows in Lewiston, Utah, inflation is caused when there is too much money running around for too few of goods. This causes prices to go up in several aspects.

Several dairy farmers agree that the increase in milk prices doesn’t make up for the increase in everything else.

“Commodities such as fuel and feed have doubled and, in some cases, tripled in price,” Brooks Tarbet, who operates a family dairy farm in Lewiston, Utah, said, “All while this has happened dairy prices being paid to farmers have increased maybe 25-30 percent.”

According to Doug Rallison, owner, and operator of Twin Rivers Dairy, located north of Logan, the price they have had to pay for alfalfa has increased by 40%, corn is 26% higher, soybean meal has a 36% increase, fuel is 217% higher, and the price of labor has increased by 18%.

“The value of our milk went up for the first couple of months to compensate for the increases,” Rallison said. “But the last 3 months have been below the cost of production.”

Cann said another issue farmers are running into is higher interest rates.

Fellows agreed that high-interest rates tend to have a negative effect on farmers.

“A lot of farmers in our area run off of an operating loan,” Fellows explained. “With an operating loan, you can’t set your interest, so it fluctuates all the time.”

According to Dr. Tanner McCarty, an economics professor at Utah State University, to help offset inflation, the federal government oftentimes raises interest rates to decrease the cash flow and demand for goods and services. This can cause prices to go back down.

As of November, interest rates in the United States have been around 4% which is the highest since 2008.

“Today we are kind of where we can still make it work easily,” Cann said. “But we are thinking that in 8 months our interest rates could be knocking on that 9-10 percent range and that’s when we will really start going, oh dang.”

Cann says that they have some projects they want to do and some equipment that they need to buy. With these interest rates in mind, he is considering going out and buying everything they want to buy for the year term.

“Then we can get it locked in at a lower interest rate and worry about paying it off later,” Cann said.

High inflation has especially hit the organic industries hard.

“We are kind of in a tough situation right now,” stated Greg Bingham, an organic dairy farmer who farms about 1,0000 acres in Weston, Idaho.

Organic prices are higher in the stores than conventional prices. When prices go up, a lot of people look for ways to save money, one of those ways consumers save money is by switching from organic to conventional.

“I grew up on the farm, and I swore I would never be a farmer as a kid,” Bingham said. “I hated it.”

When Bingham was old enough, he left the farm and after a couple of years, Bingham and his wife Marci moved to Florida.

“We were in a big, huge city and determined that this wasn’t the place for us,” Bingham said.

Eventually, Bingham and his wife moved back to Cache Valley where Bingham’s dad offered him a part-time job on the farm while he was finishing his degree at Utah State University.

“After that, I didn’t even look for a job, I just stayed on the farm,” Bingham stated.

Bingham is a 4th generation farmer and the farm decided to go organic back in 2006 when Bingham’s dad retired. They raise 100 percent of all their feed, and the only thing they buy off the farm is a mineral. Not having to purchase feed has helped the farm stay financially stable during recent months.

“That’s been a lifesaver for me,” Bingham said.

Bingham thinks things are going to get worse for the organic market before they start to get better.

“I think we are in a recession,” Bingham said. “I think people will start cutting back and go back to conventional products because everyone will be in a pinch and then we will probably get price decreases.”

According to Bingham, there were some price increases on organic milk in the marketplace but the organic milk companies’ cost inputs through shipping and freight have gone “through the roof.”

“They plan on giving some of it back to the farmer, but they can’t because they are having a hard time just covering all of their increased costs,” Bingham said.

Bingham hopes that it will only last a couple of years and then they can go back to normal.

“I was doing organic in '08 during the last recession,” Bingham said. “We lived through that so I’m hoping it is not much worse.”

According to Spencer Palmer, who runs an organic dairy near Preston, Idaho, regardless of if you run a conventional dairy or an organic dairy, continued operation gets harder and harder as years go by.

“There’s fewer and fewer of us all the time,” Palmer said.

According to the USDA, in 2002 there were approximately 74,100 dairy farms in the United States licensed to sell milk, in 2020, that number decreased to 31,657. That means that there are about 42% fewer dairy farms than there were 18 years ago.

“When I was a kid within one square mile of my dairy there were somewhere around 20 dairies, now there are 2 of us,” Palmer said.

You can see evidence of old dairies while driving through the smaller towns and villages in Cache Valley.

Palmer explained that most of the old dairies were all small and only milked 15-20 cows at a time.

“We have to compete with dairies that are milking 40,000 cows,” Palmer said.

Because these big dairies produce so much milk, they don’t have to make a whole lot of profit per animal to still make money.

“If you only have 200 cows you have to make a ton of money per cow to turn out the kind of profit you need to stay ahead of your bills,” Palmer stated.

Inflation makes it even more difficult for consumers to understand what farmers are going through.

“When people go to the grocery store and they see the price of food going up, they don’t understand why it’s going up, they think the farmers are just trying to get rich,” Fellows said, there’s a big disconnect.”

According to these farmers, the main way we as consumers can help is by understanding where our food comes from and how it is produced.

“People just don’t have a clue anymore,” Jensen explained. “I think the biggest thing that needs to happen is that there needs to be a mass education about farm life and farm lifestyles.”

At the end of the day, the consumer buys the milk.

“The consumer is the ultimate drive for everything,” Palmer said.

Palmer explained that consumers need to know where their food is coming from and use their voice to tell the grocery store, they want products that are locally sourced.

“We need to take care of ourselves #1 first,” Palmer stated, “because if we don’t then #1 fades away and guys like me can’t stay in business and that’s all lost.”

According to Fellows, an education on farming and food is essential, specifically for sustainability reasons. He explained that if infrastructure halted in the United States, we would find ourselves in trouble because we wouldn’t be able to sustain ourselves.

Fellows also explained that farmers and the community need to work together.

“I don’t know if we would ever be able to fix the inflation issue because that is more of a global thing,” Fellows said. “But with more collaboration in agriculture and more collaboration in the community, I think we could be more sustainable.”