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## Dairy Outlook

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# Economics Newsletter

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## DAIRY OUTLOOK

The recent upturn in milk production from last year's levels will likely continue and output during the first half of 1976 could be up about one percent. Total milk production in 1975 will be near the output of 1974 of 115.4 billion pounds. Tight supplies of milk for manufacturing kept farm milk prices increasing through late 1975, but a sharper-than-normal seasonal downturn is expected in early 1976, resulting in increased milk supplies.

### Milk Production

Milk production is likely to increase in coming months, although the magnitude of the increase will depend on several factors which will influence production decisions. Some of these are:

(1) Farm milk prices have risen sharply this fall. Although likely to show sharper-than-normal seasonal declines in early 1976, milk prices will remain above last year as the increase in the price support level limits declines.

(2) Grain and other concentrate prices likely will run somewhat lower in early 1976 than in early 1975. Prices later in 1976 will be heavily influenced by the outlook for 1976 crops.

(3) Larger feed crops have resulted in much greater availability of home-grown and locally-grown feed and may help increase feeding rates in the Midwest.

(4) The milk-feed price ratio which generally improved through 1975 stood at almost 1.8 in November, up from 1.2 last November. Milk-feed price relationships likely will continue more favorable during the first half of 1976 than in early 1975.

(5) The value of dairy cows increased only slightly this year. Averaging \$433 per head in November, milk cow prices were up \$30 since January but only \$5 above the November 1974 level.

(6) Despite some expected increase

from fall levels, slaughter cow prices are likely to remain relatively low throughout the first half of 1976. This likely will help to limit declines in milk cow numbers, at least through the first half of 1976, after which some further increase in cow prices is probable.

(7) The general economy continues to improve, with unemployment rates likely to decline slightly although they will still remain relatively high. Thus, off-farm employment opportunities for dairy farmers are not likely to improve soon.

These conditions will likely mean increased milk output this winter, as gains in output per cow more than offset the relatively small declines in cow numbers. The improved milk-feed price relationships, more home-grown feed, and the resulting heavy grain feeding likely will lead to more normal gains in output per cow.

Milk production for the first half of 1976 could show an increase of around one percent. Output later in the year will depend on milk prices, cull-cow prices, crop conditions and subsequent feed prices.

### Farm Milk Prices

Strong sales and limited supplies have continued to boost farm milk prices. Farmers received an average \$10.00 per 100 pounds of milk in November, up more than \$2 from the June low

and \$1.50 from last November. The record-high farm milk prices this fall exceeded by \$1 the previous peak which occurred in March 1974. The June-November seasonal rise was far greater than the 79 cents in 1974 and the 1969-72 average seasonal rise of 75 cents per 100 pounds, but did not match the 1973 increase of \$2.26.

Manufacturing - grade milk prices reached an average \$8.94 per 100 pounds in November, up \$1.86 from June and \$1.92 from a year earlier. Adjusted to the annual average fat test, manufacturing milk prices in November averaged \$1.05 above the new support level of \$7.71. Despite the recent increase in milk production, supplies of milk available for manufacturing remained tight through November and manufacturing milk prices continued to rise.

Effective October 2, 1975, the support price of manufacturing-grade milk was raised to \$7.71 per 100 pounds, up from the \$7.24 in effect during January-September. The new support level was 84 percent of the parity-equivalent price for this marketing year (based on April 1, 1975) and 80 percent of the October 1 parity price.

### Cash Receipts

Cash receipts from dairying were up about an eighth from a year ago in August-October, due to higher farm milk prices. The 1975 total may be around \$9.8 billion, up from \$9.4 billion in 1974. Gross dairy income likely will remain above year - earlier levels in early 1976.

### Retail Prices

Retail dairy prices have increased rapidly in recent months as wholesale price increases have been reflected at retail. Prices will likely continue to rise in early 1976 reflecting the rises in the wholesale markets. Wholesale prices of milk for fluid use are still rising and likely will not peak until the first quarter of 1976. Even with the sharp increases in the second half of 1975 average retail prices for all of 1975 could be less than 4 percent above 1974 levels, compared with a 19 percent rise in 1974 and an average 4½ percent during the early 1970s.

LEONARD BENNING, EXTENSION ECONOMIST-MARKETING

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