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## Dairy Outlook

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# Economics Newsletter

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## Dairy Outlook

Milk production likely will continue above year-earlier levels in early 1977, although it probably will not expand at last year's rapid rate. Total production for 1977 could increase 1 to 2 percent from last year but will depend on milk prices, cull cow prices, crop conditions, feed prices and the general state of the economy later in the year. The 1976 totals are expected to be close to 120 billion pounds, an increase of 4 to 5 billion pounds over 1975.

### Milk Production

Milk production probably will remain above 1976 levels in early 1977, although the extent of the increase will depend on a number of factors:

(1) Farm milk prices have started to decline in response to declining wholesale prices. Farm milk prices in early 1977 could average well below year-earlier levels.

(2) Dairy ration costs were above a year earlier in November and likely will average slightly higher than a year earlier during the barn feeding season due to expected higher prices for soybean meal. Prices later in 1977 will be heavily influenced by the outlook for 1977 crops.

(3) The milk-feed price ratio stood at 1.64 in November, down from 1.67 last November. Milk-feed price relationships likely will be less favorable during the first half of 1977 than in early 1976.

(4) Slaughter cow prices may improve slightly early next year and could be well above year-earlier levels during the second half of 1977.

Considered in total, this set of conditions likely will mean increased output this winter, although the rate of gain is expected to slacken when compared with last year's rapidly increasing production. The still relatively favorable milk-feed price relationships and continued heavier grain feeding is expected to lead to con-

tinued strong gains in output per cow, which probably will more than offset moderate declines in cow numbers.

### Farm Milk Prices

Farm milk prices have begun to decline under the weight of the heavy supplies. From October to November, price dropped 9 cents to \$9.91 per 100 pounds, nationally. This was the first month since June 1975 that milk prices averaged below a year earlier. Manufacturing milk prices in November were only about 14 cents above the \$8.26 support price. Prices probably will run close to support levels during the first half of 1977 and likely will average well under a year earlier. While prices later in the year will depend on milk production, commercial sales of dairy products, and support price actions, milk prices for all of next year could average below 1976's level--the first annual decline in 15 years.

On December 3, the U.S.D.A. announced that the current support price of \$8.26 per 100 pounds of manufacturing grade milk (average fat test of 3.68%). The current purchase prices of dairy products will remain unchanged for the rest of this marketing year, which ends March 31, 1977.

### Cash Receipts

Cash receipts from dairying were up about 11 percent from a year ago in September-October, due to both higher

prices and larger marketings. The 1976 total may be around \$11-1/2 billion, up from \$9.9 billion in 1975.

After about a year and a half of volatile but generally high prices, wholesale butter and cheese prices settled near support levels this fall. In the face of seasonally rising milk output and currently weak market conditions, wholesale prices likely will hold close to support levels in early 1977.

#### Retail Prices

Retail prices of dairy products rose more than 3 percent between May and October in 1976, but they probably will be fairly stable in coming months. The increases from a year earlier are expected to be quite small in early 1977, and average retail prices for all of this year likely will be only slightly above 1976, after an 8-percent average rise this year.

#### Product Sales

Output of manufactured dairy products has been very heavy this past fall as large milk production and steady-to-lower fluid sales pushed much more milk into manufacturing. Cheese

output in October was a record high for that month, butter output was up more than a tenth and nonfat dry milk production boomed.

Boosted by soaring cheese sales, dairy sales have been quite strong this year. Commercial disappearance for all of 1976 appears to have approached 116 billion pounds milk equivalent, up 2 billion pounds from 1975, and it could exceed 1966 levels to set a new record. Butter sales for 1976, while down from the 1975 high levels, could compare favorably with sales of the early 1970's. Sales prospects for 1977 also appear favorable. Expected growth in consumer purchasing power and higher retail beef prices probably will help boost cheese sales, although a repeat of this year's large jump in cheese sales is not expected. Relatively stable retail prices should help strengthen sales of dairy products in 1977.

#### Commercial Stocks

Commercial dairy stocks are now quite large. About 2 billion pounds of this year's higher milk output was absorbed in the rebuilding of commercial dairy stocks from the very low levels of early this year.

Leonard Benning, Extension Economist--Marketing

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