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## Dairy Outlook

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# Economics Newsletter

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## Dairy Outlook

by

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Milk production will likely continue above year-earlier levels in early 1978, although it probably will not expand at last year's rapid rate. Total production for 1978 could increase one to two percent from last year. Total milk production for 1977 is expected to be slightly over 123 billion pounds, up about three billion pounds from 1976.

### Production

Relatively high milk prices, resulting from the current support prices and lower feed prices, have encouraged increased milk output. The rather favorable milk-feed price relationships have resulted in heavy concentrate feeding and a 3.5 percent gain in output per cow from last year. For the second year in a row the normal seasonal decline in production per cow remained quite small. The decline in milk cow numbers has held at about a half percent through 1977. The favorable conditions for milk output and the large number of heifers going into the milking herd have been the primary factors holding these declines at low levels. Although slaughter cow prices were higher than a year ago in early fall, they were not high enough to encourage heavier culling. Other economic opportunities have enticed some producers away from dairying, but this has been largely off-set by the expansion of remaining herds.

Total milk production for last year probably will be slightly more than 123 billion pounds, up about 3 billion pounds from 1976—compared with a 5-billion-pound boost. This would be the most production in any year since 1965.

During the past 4 years, milk production has generally been influenced by sharp changes in milk prices, feed costs, and costs of other production items. The higher minimum support level for milk (especially in conjunction with mandatory semi-annual adjustments)

will assure producers that farm milk prices will not substantially lag rising costs, while it is unlikely that output would fall or demand increase enough to generate prices substantially above support level. The very large 1977 feed crops probably will provide sufficient supplies to moderate the price impacts of a 1978 crop short-fall or an unexpected increase in export demand.

Milk production during the first half of 1978 likely will remain considerably above a year earlier. Many of the factors which shaped last year's rise will continue to boost output.

Milk production later in 1978 will depend on cull cow prices, the attractiveness of off-farm employment opportunities, and the ability of milk prices to keep pace with rises in production costs as well as 1978 feed crop prospects. With the expected increases in production during the first half of the year and the fairly favorable milk-feed price relationships during the year, milk output in 1978 could increase one to two percent from last year.

### Demand

Per-person consumption of dairy products in 1977 was down again slightly but sales are expected to recover some in 1978. The combination of seasonally slackening milk output, sales to CCC, and strengthening commercial use has reduced commercial stocks to levels in line with expected supply-demand con-

ditions.

Price support purchases will total more than 6 billion pounds milk equivalent in 1977, the most in any calendar year since 1971 and almost as much as the combined total of the 1973-76 period. With these heavy purchases and only limited donation outlets, CCC uncommitted inventories of butter and cheese on December 1 were the largest on the date since the 1960's, and non-fat dry milk holdings were record large.

#### Retail Prices

Retail dairy prices have risen at less than the usual seasonal rate in recent months and were just slightly above a year ago in October. However, with both higher farm milk prices and higher processing and marketing costs the spread may increase in 1978. Retail dairy prices could average 5 to 6 percent higher this year, compared with a three- to four-percent rise in 1977.

Even with some seasonal tightening of milk supplies, manufacturing grade milk prices in November were still about a dime per 100 pounds below the support price (when adjusted for fat

content). However, the average farm price for all milk was \$10.30 per 100 pounds in November, up 41 cents from a year ago. Farm milk prices will remain above a year earlier throughout 1978.

Butter-powder production continues to be relatively stronger than American cheese output. However, cheese stocks have been trimmed and sales have recently strengthened. Output of these products probably will increase in coming months, reflecting the heavy supplies of milk expected to be available for manufacturing.

Commercial use of manufactured dairy products in early fall was considerably stronger than last spring. Commercial use in coming months may show modest gains.

#### Farm Receipts

Total cash receipts from dairying for 1977 could reach a record \$11.8 billion, up from \$11.4 billion for 1976 and up almost \$2 billion from 1975. In early 1978, gross cash income from milk sales likely will be considerably above 1977 as significantly higher milk prices and larger marketings both contribute.

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