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December 23, 1977

# Agricultural Letter



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Division of Agricultural Economics Number 1462

**MILK PRODUCTION** has continued to register year-to-year gains in recent months, causing mounting government surpluses. During the past 4 months milk production has exceeded the year-earlier pace by nearly 3 percent. It now appears milk production for all of 1977 will exceed 123 billion pounds, up 2.5 percent from last year and the highest since the mid-sixties. The increased output, coupled with high support prices and reduced feed costs, has further enhanced the earnings of dairy farmers this year, a trend that will likely continue at least for the next few months.

Among District states, milk production during the first 11 months of 1977 was up about 3 percent, paced by a near 4 percent rise among Wisconsin dairy farmers. (Wisconsin, the leading dairy state, accounts for three-fifths of the milk production in District states and more than one-sixth of the entire U.S. output.) Michigan dairy farmers expanded production 3 percent this year, while those in Iowa registered a 2 percent increase. Milk production in Indiana is unchanged from the year-ago level, while that in Illinois is down nearly 1 percent.

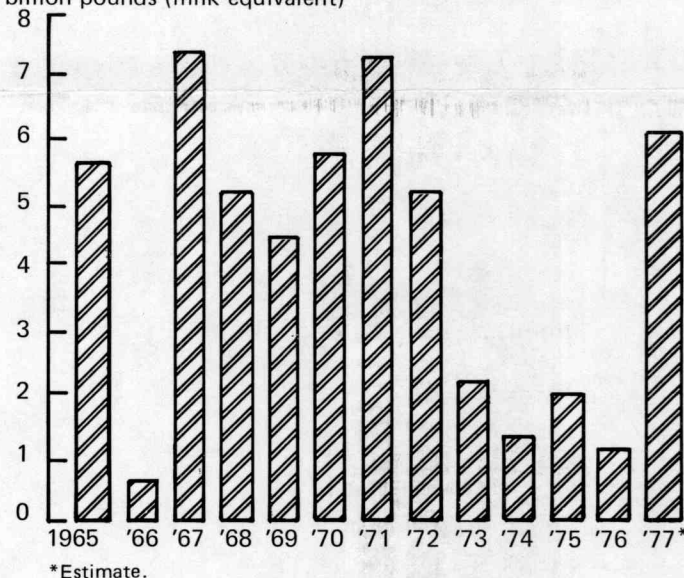
The increased output has been encouraged by lower feed costs and the higher support price for milk. The higher support price has held average milk prices received by farmers in 1977 about a nickel above the year-ago level of \$9.66 per hundredweight, despite declining consumption and increased production. Reflecting the improved operating margins, the milk-feed price ratio (pounds of dairy concentrate ration equal in value to 1 pound of milk) for all of 1977 will likely average nearly 6 percent above the 4-year high established in 1976. Cash receipts of dairy farmers will approximate \$11.8 billion this year, up from the 1976 record of \$11.4 billion. These increased earnings have encouraged somewhat heavier concentrate feeding—which has helped boost milk output per cow about 3 percent this year—and reduced the incentives for culling dairy herds.

**Commercial disappearance** of milk was sluggish during the first half, but an uptrend has been evident in recent months. It now appears that disappearance for all of 1977 will about equal the year-earlier level of 116 billion pounds. Butter has accounted for virtually all of the recent strength in commercial disappearance, rising nearly 12 percent above the year-earlier level during the third quarter. Cheese sales continued sluggish this summer as they were during the second quarter.

The lack of an increase in commercial disappearance, in the face of increased production, has resulted in heavy government purchases of dairy products in order to maintain support prices. Through November of this year, net government purchases totaled 6.1 billion pounds (milk equivalent), up 5-fold from the annual total for 1976 and a level exceeded only twice since 1965.

## Government purchases of dairy products soar

billion pounds (milk equivalent)



**The outlook** for 1978 portends more of the same for dairy farmers. Milk prices will average significantly above year-earlier levels. The \$9 per hundredweight support price for milk will likely prevail during the first quarter, which is more than 6 percent above what farmers received for manufacturing grade milk during the same period in 1977. In April of next year, support prices may again be raised—perhaps 3 to 5 percent—because of the semi-annual adjustments mandated by the Food and Agricultural Act of 1977. The higher prices, combined with prospects for continued low feed prices, are expected to boost milk production 1 or 2 percent next year. Together, higher prices and production augur well for dairy farmers' earnings in 1978.

Commercial disappearance of milk is expected to trend upward next year, but the increase will do well to keep pace with the projected rise in production. Commercial stocks of manufactured dairy products are already at high levels and hence will absorb little, if any, of the anticipated rise in production. As a result, government purchases will remain very large next year to counter the imbalance between production and commercial sales.

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