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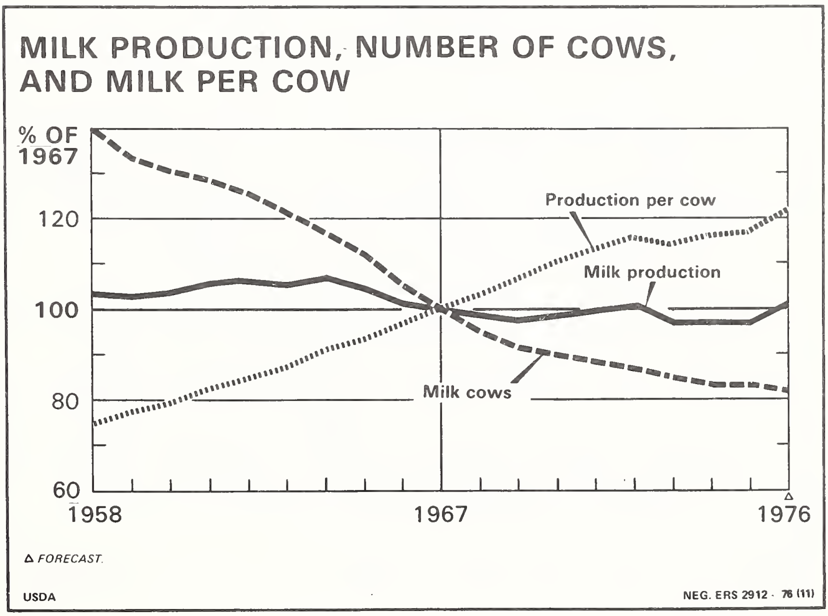
OUTLOOK FOR DAIRY

(By Charles N. Shaw, Agricultural Economist, Economic Research Service, USDA)

Possibly the best word to describe the dairy situation in 1976 is "up". After 3 years of virtually unchanged milk output, milk production should post the sharpest year-to-year gain since 1953 and likely will total close to 120 billion pounds. However, sales of dairy products also rose sharply and probably will reach record levels. As a result, milk prices have been well above support since mid-1975 and likely will average about $1 per hundred pounds higher this year than last. However, market conditions have weakened and the potential for surplus conditions in 1977 is large.

MILK PRODUCTION HEAVY

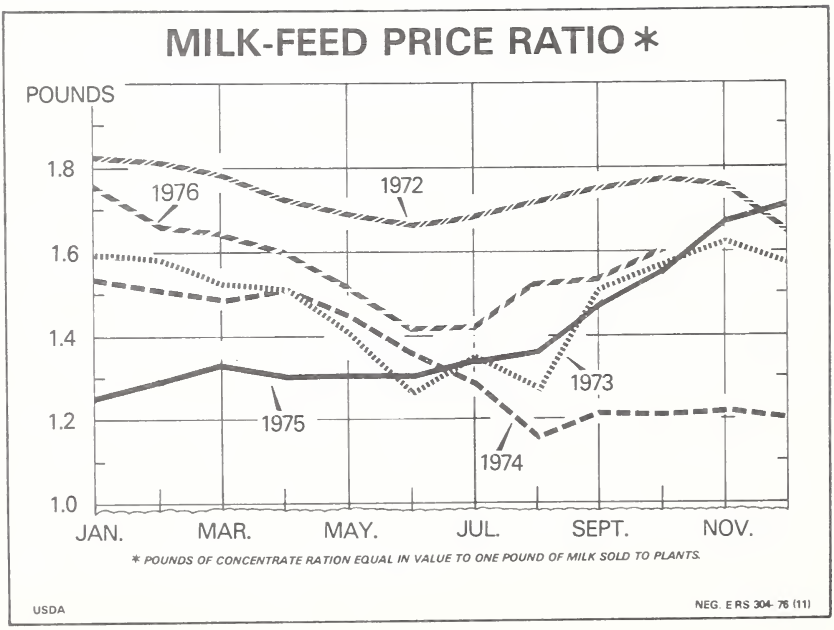
Milk production, which moved above year-earlier levels in October 1975, has continued to increase strongly throughout 1976. Most of the impetus for increased milk production has come from heavier concentrate feeding which began in late summer of 1975. Dairymen may also be more fully realizing gains from the past few years in genetic potential. These factors have combined to yield rapid increases in output per cow throughout the year.



The decline from a year earlier in milk cow numbers has remained very close to 1 percent thus far in 1976, despite considerably higher cull cow prices during most of this period. The decline in cow numbers has been slowed by the relatively favorable conditions for milk production and the continued large numbers of heifers entering the milking herd. The slow decline in cow numbers this year followed an even slower decline in 1975.

Milk production in July–September was about 5½ percent above a year earlier, following an increase of about 3 percent during the first half of the year. Increased output was widespread, as all regions except the Mountain region registered gains. The increases during July–September were largest in the Lake States. The drought and resulting tight roughage supplies in Minnesota and Wisconsin had not yet exerted any downward pressure on milk production. However, dairymen in those States have had to feed large amounts of harvested forage that ordinarily would be part of their fall and winter supplies. While this forage probably was better quality than could have been obtained from normal pastures, the major impact may be felt during the barn feeding season.

Farmers fed about 4 percent more concentrates on October 1 this year, than in 1975. Dairy ration costs were above a year ago in October and, due to expected higher prices for soybean meal, likely will average slightly higher than a year earlier during the barn feeding season. Coupled with expected lower milk prices, milk-feed price relationships likely will be less favorable during the first half of 1977 than in early 1976. The milk-feed price ratio stood at 1.6 in October, up just slightly from last year.



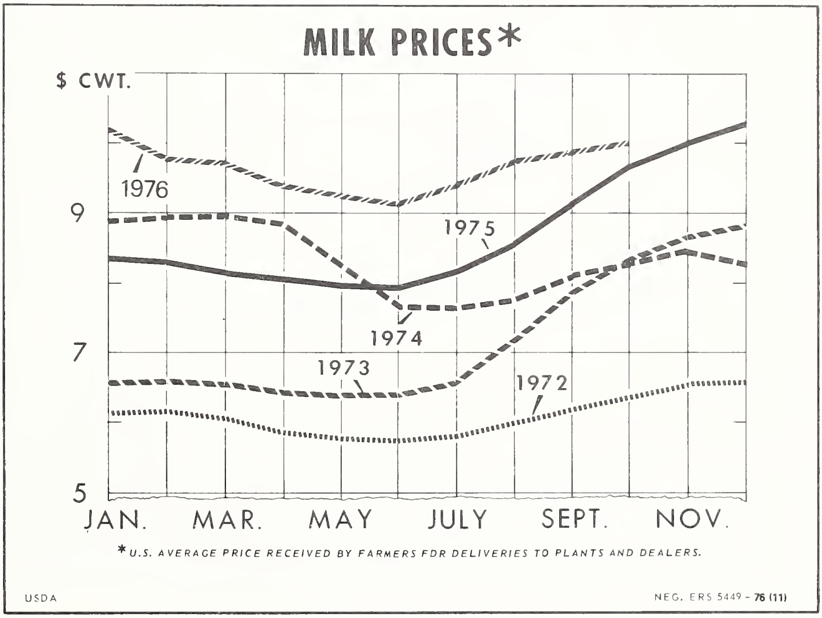
MORE MILK LIKELY IN EARLY 1977

Milk production likely will remain above year-earlier levels in early 1977, although the rate of gain likely will slacken when compared with this year's rapidly increasing output. Continued strong gains in output per cow probably will more than offset moderate declines in cow numbers.

Milk production later in 1977 will depend on milk prices, cull cow prices, crop conditions and subsequent feed prices, and developments in the general economy. The greatest uncertainty is whether or not the expected lower milk prices and the return to surplus conditions in the dairy industry will substantially slow the increases in milk output. If dairymen continue heavy concentrate feeding and the declines in milk cow numbers stay very small, milk production would post strong gains throughout 1977. On the other hand, larger drops in cow numbers or limited feeding could pull milk output down to year-earlier levels by late 1977. But all factors considered, milk production in 1977 likely will show an increase of 1–2 percent.

DAIRY PRICES STRONG IN 1976

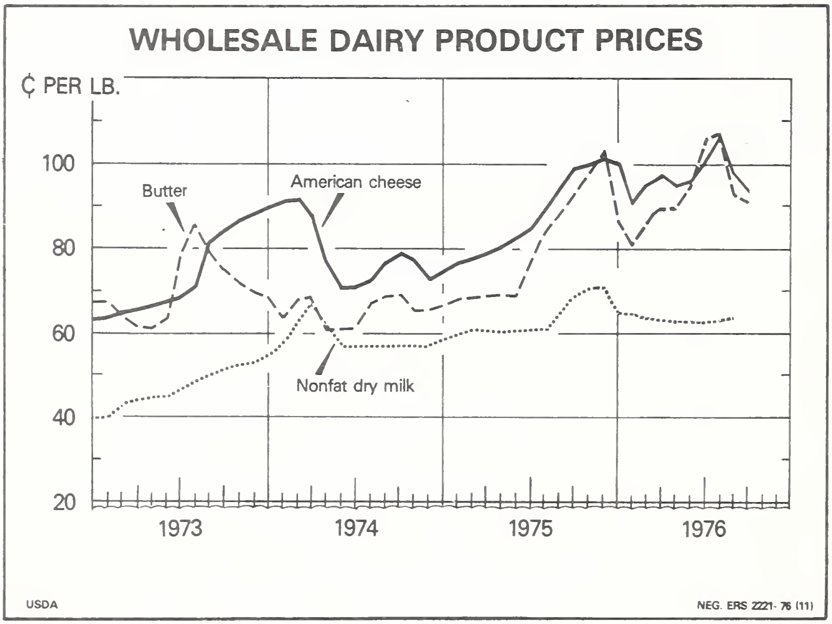
Farm milk prices were quite strong this year as most of the increased milk output was absorbed by brisk sales and the needed rebuilding of commercial dairy stocks. Recently however, the surge in supplies and dropping wholesale prices have sharply limited seasonal rises in farm milk prices. Farmers received an average $10.00 per 100 pounds of milk in October, up 89 cents from June but only 30



cents from a year ago. Manufacturing milk prices were only about 36 cents above the new $8.26 support level, when adjusted to annual average fat test. Although farm milk prices probably will close out the year below a year ago, milk prices for all of 1976 likely will average close to $9.70, up 95 cents from 1975. Total cash receipts from dairying could reach $11.4 billion, up from $9.9 billion last year.

With the expected heavy supplies, farm milk prices in early 1977 could average well below a year earlier, even if demand stays strong. Prices later in the year will depend on milk production, commercial sales of dairy products, and support price actions, but the average for all of 1977 could be below 1976, the first annual decline since the 1950's.

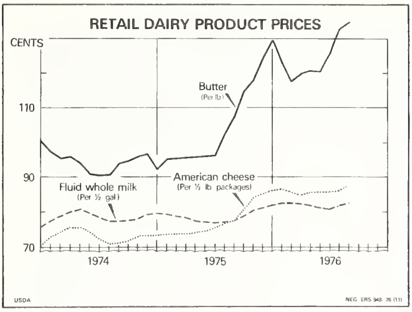
After rising quite rapidly in early summer and falling just as rapidly in late summer-early fall, wholesale butter and cheese prices are now close to the new support purchase prices. Although some small rises might occur during the peak holiday demand period, it is unlikely that substantial price increases will occur in the next few months.

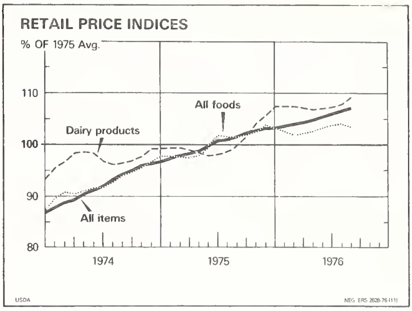


The very rapid increases in retail dairy prices in late 1975 left retail prices at a fairly high plateau in 1976. Although relatively stable since January, dairy prices at retail likely will average about 8 percent above 1975. However, the increases from a year earlier probably will be quite small by early 1977 and the average for all of next year likely will be only slightly above this year.

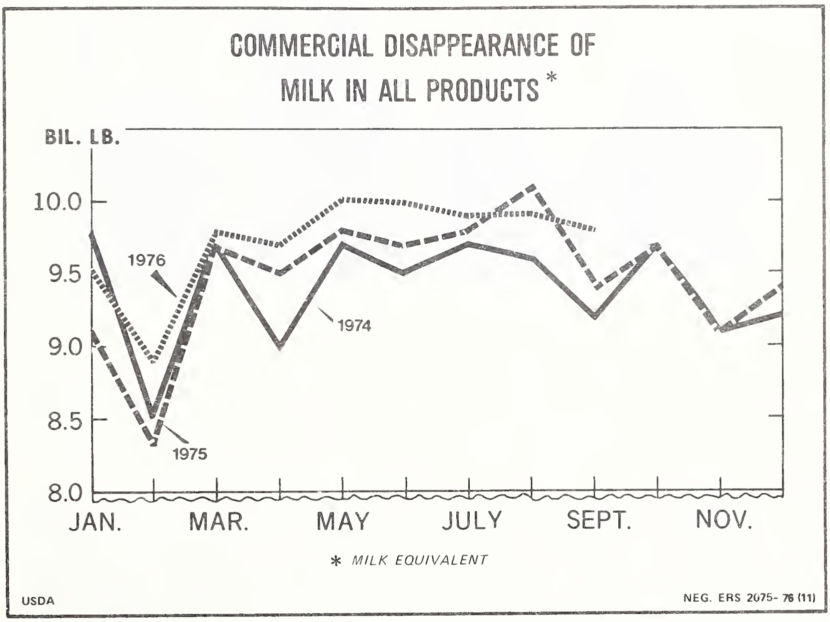
DAIRY SALES UP

One of the more dramatic developments in 1976 was a substantial expansion in the demand for dairy products. Despite the much higher retail prices, total dairy sales this year could be up 2 percent from last





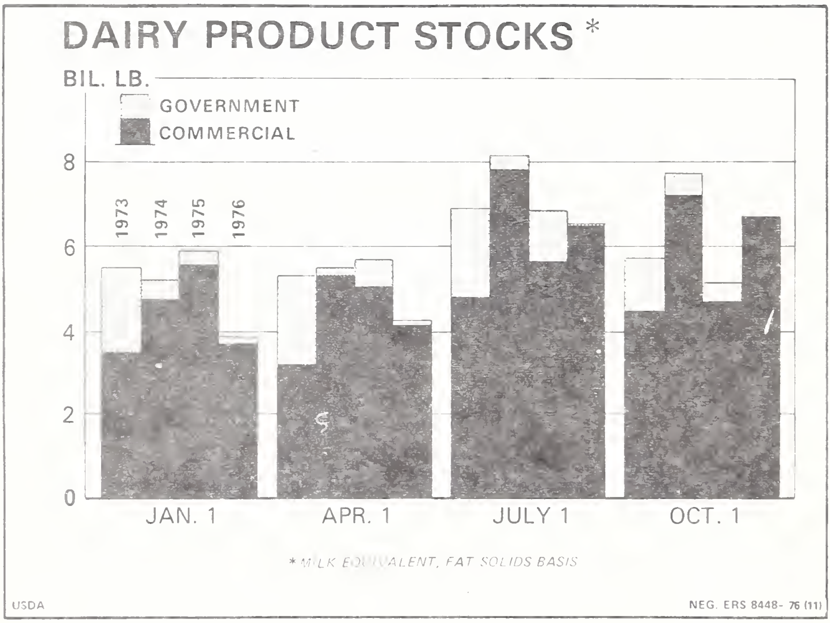
year and a record high. Booming cheese sales have provided much of the strength in total sales. During the first 9 months of 1976, commercial disappearance of American cheese was up 11 percent from 1975 and other cheese sales posted a similar gain. Fluid milk sales were slightly above last year's fairly strong levels. Although well below the brisk sales of 1975, butter sales in January–September were above the 1970–74 average. Sales of ice cream did not match last year's high level but commercial disappearance of nonfat dry milk rebounded. Generally stable retail prices may well allow dairy sales to increase again next year, although a repeat of 1976's large jump is not expected. Cheese sales probably will be helped by continued rises in consumer purchasing power and expected increases in meat prices. Commercial disappearance of butter could be about the same to slightly lower, as the difference between retail butter and margarine prices probably will stay wide. Gains in lowfat milks may about offset declines in fluid whole milk.



Per capita civilian consumption of dairy products in 1976 could be only slightly higher than 1975's 546 pounds milk equivalent. The sizeable increase in sales per person this year was largely offset by lower Government donations. With the expected larger CCC supplies available for donation next year, per person use of milk could post a significant increase.

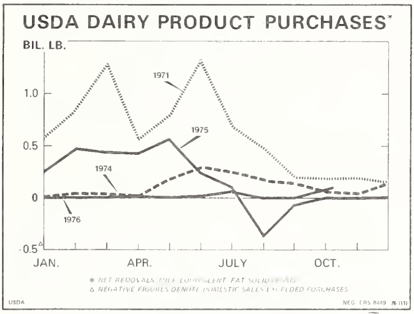
COMMERCIAL DAIRY STOCKS LARGE

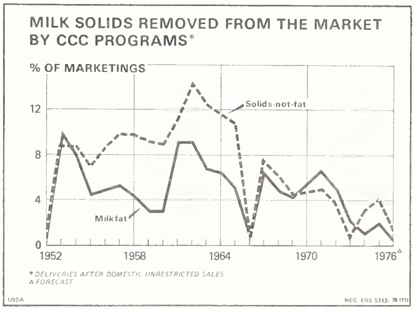
After being quite low in early 1976, commercial dairy stocks have risen sharply and are now verging on being burdensome. On October 1, commercial holdings were up more than 40 percent from last year's low level. With the large jumps in output, commercial stocks of American cheese were the second highest of any October 1 on record after increasing counter-seasonally during September. Butter stocks in commercial hands were also fairly large, although they dropped considerably in September. Manufacturers' stocks of nonfat dry milk remained heavy in relationship to the reduced level of sales. Government holdings on October 1 were negligible except for the still-large stocks of nonfat dry milk.



USDA REMOVALS SMALL

USDA purchases of butter and cheese have been almost insignificant this year. The equivalent of only a quarter billion pounds of milk was removed during the first 10 months of 1976, compared with 2 billion pounds a year earlier. However, this picture is changing rapidly and net removals in October were the largest this year, as all three products were purchased. The 120-million pound net removals of nonfat dry milk during January–October were substantial but were less than a third the amount removed during the corresponding period in 1975. CCC purchases are likely to be heavy in early 1977. Increased milk output combined with large commercial dairy stocks may easily outstrip demand.

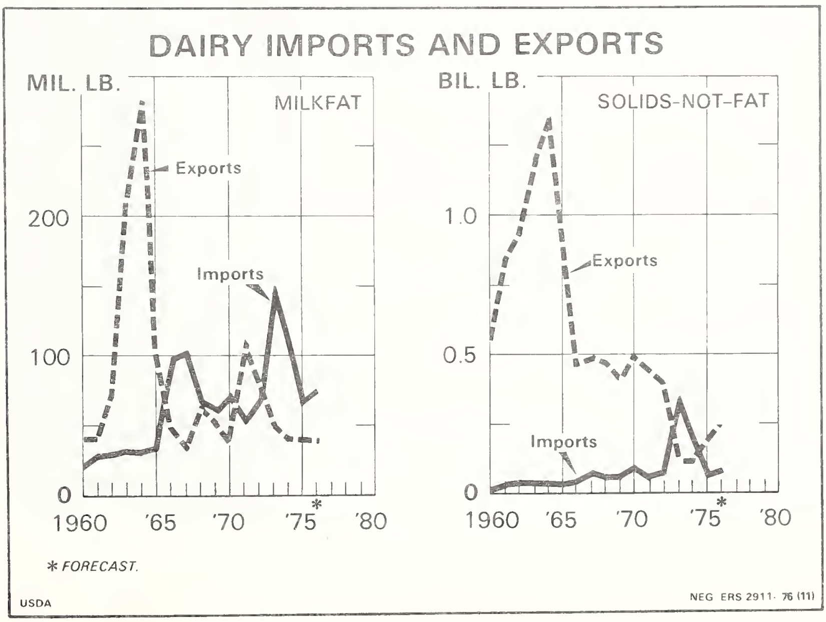




IMPORTS UP SLIGHTLY

January–September imports this year were somewhat above 1975's low levels as cheese imports returned to levels typical of the early 1970's. About 1.2 billion pounds milk equivalent were imported in the first 9 months of this year, up from 0.9 billion pounds a year ago. The strong market for cheese resulted in somewhat larger imports of both quota and non-quota cheese, despite price rises resulting from the various countervailing duty agreements with European countries.

Commercial exports of dairy products remained small this year. However, substantial amounts of nonfat dry milk have been donated under the Food for Peace Program. These export donations are expected to continue through at least the first three quarters of 1977.



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SUMMARY

Milk production likely will continue above year-earlier levels in early 1977 as gains in output per cow more than offset moderate declines in cow numbers. Although the rate of increase likely will slow when compared with this year's rapidly increasing output, total milk production in 1977 could show an increase of 1–2 percent over 1976 totals.

With stocks rebuilt, production increasing, and Government removals larger, farm milk prices in 1977 could average lower than this year even if demand for dairy products remains strong.

TABLE 1.—DAIRY SUMMARY, 1974–76

Item	Unit	1974	1975	1976	Percent change, 1975–76
Annual:[1]					
Milk production	Billion pounds	115.6	115.5	119.8	+3.7
Milk per cow	Pounds	10,300	10,354	10,840	+4.7
Number of cows	Thousands	11,219	11,151	11,055	−.9
Milk prices received by farmers	Dollars per hundredweight	8.33	8.75	9.70	+10.9
Manufacturing grade	do	7.13	7.63	8.60	+12.7
Cash receipts	Million dollars	9,445	9,866	11,400	+15.5
Value of dairy rations	Dollars per hundredweight	6.23	6.25	6.20	−.8
Milk-feed price ratio	Pounds	1.34	1.40	1.56	+11.4
Utility cow prices, Omaha	Dollars per hundredweight	25.56	21.09	25.50	+20.9
January to October:					
Wholesale prices:					
Butter (Chicago, grade A)	Cents per pound	65.4	75.2	92.3	+22.7
American cheese (Wisconsin assembling points, 40-lb. blocks).	do	80.8	83.8	97.0	+15.8
Nonfat dry milk (manufacturers' average).[2]	do	59.1	61.1	63.5	+3.9
Dairy products (BLS)[2]	1967=100	146.3	151.6	168.4	+11.1
USDA net removals:					
Butter	Million pounds	33.7	63.4	5.2	−91.8
American cheese	do	41.7	68.2	11.3	−83.4
Nonfat dry milk	do	208.6	402.6	119.3	−70.4
Evaporated milk	do	25.0	21.7	18.9	−12.9
Milk equivalent	do	1,175	2,030	261	−87.1
January to September:					
Retail prices (BLS):					
All foods	1967=100	159.7	174.0	180.6	+3.8
Dairy products	1967=100	151.4	154.7	168.4	+8.9
Manufactured products output:					
Butter	Million pounds	734.2	764.2	736.5	−3.6
American cheese	do	1,491.6	1,284.2	1,586.7	+23.6
Other cheese	do	801.7	856.1	957.2	+11.8
Nonfat dry milk	do	830.5	832.1	748.7	−10.0
Canned milk	do	835.5	739.8	748.2	+1.1
Cottage cheese	do	657.6	664.1	683.8	+3.0
Ice cream	Million gallons	611.4	652.9	636.1	−2.6
Ice milk	do	241.7	240.2	229.8	−4.3
Imports of dairy products: Total milk equivalent.	Million pounds	2,278	948	1,212	+27.8
Commercial disappearance:					
Total milk	Million pounds	84,919	85,549	87,498	+2.3
Butter	do	652.3	711.3	678.0	−4.7
American cheese	do	1,383.1	1,283.9	1,428.7	+11.3
Other cheese	do	937.5	965.2	1,068.8	+10.7
Canned milk	do	730.7	702.6	661.3	−5.9
Nonfat dry milk	do	671.1	512.5	581.8	+13.5
Cottage cheese	do	657.6	664.1	683.8	+3.0
Ice cream	Million gallons	611.4	652.9	636.1	−2.6
Ice milk	do	241.7	240.2	229.8	−4.3
Average daily sales in urban markets:[3]					
Fluid whole milk					−2.6
Fluid low-fat milk					+6.9
Cream and cream mixtures					+4.7
Total fluid products					+.5

[1] 1976 estimated.
[2] January to September.
[3] January to August.