DAIRY OUTLOOK
PRODUCTION CONSUMPTION ESTIMATES 1982

E. Linwood Tipton, Milk Industry Foundation, International Association of Ice Cream Manufacturers

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I find myself in a curious position this morning. I'm very much in agreement with most of Mr. Shaw's comments, however, we have reached quite different conclusions about milk production and consumption during 1982. At MIF we believe U.S. milk production will exceed 1981's record levels by about 2 percent and that consumption will change very little. This is almost the reverse of the USDA's current estimates for no change in milk production and a 2 to 2½ percent increase in consumption.

If the USDA is right and we are wrong, this year's CCC's budget costs would be reduced substantially from last year's. However, if we are right, which I obviously think is more probable, and the USDA is wrong, it could make a tremendous difference in next year's budget costs for the milk price support program. The difference between USDA's estimate and ours amounts to about $1 billion.

Milk Production

We estimate that next year U.S. milk production will continue to climb, but at a decreasing rate. For the year we expect a 2 percent increase, compared to 3 percent this year.

Estimates of total milk production are really the result of two other estimates---the number of milk cows and milk production per cow.

After decades of decline, the number of cows being milked turned around in 1980 and continued to increase in 1981. The increases during 1980 and 81 were slightly less than 1 percent. We expect the rate of increase to be only ½ percent during 1982, but nevertheless, an increase.

The continued increase in milk cows seems likely based on the relationship of milk and beef prices, and most importantly, the number of replacement stock on hand. As of July 1 milk cow replacements were nearly 43 percent of the milking herd, an all-time high, and 3 percentage points over last year. Replacements have been increasing steadily during the last 10 years and are way up from the historic 31 to 32 percent of the milking herd level which prevailed until about 1973. Even with no increase in milk support prices, the milk/beef price ratio is expected to remain favorable to milk. This will mean lower calling and a continued enlargement of the milking herd.

Milk production per cow, the other component of our total production estimate, is likely to be about 1½ percent higher than last year. This is a fairly moderate increase when compared to the 3.4 percent jump in 1980 and the 2.3 percent increase in 1981. Even with no increase in the milk support price during 1982, the milk/feed ratio is most likely to remain favorable to high feeding levels.

The combined effect of a ½ percent increase in milk cow numbers and a 1½ percent increase in production per cow, will result in an increase in milk production of about 2 percent next year.

A major contributor to the continued increase in milk production is the fact that milk production costs, if they increased at all, only increased slightly this year. Given the USDA's expected decrease in feed costs, we do not believe milk production costs will increase much this year either. However, there will probably be some increase. This should be sufficient, when combined with flat milk prices, to begin a slow adjustment to the employment of resources in milk production, but the real effect is not likely to manifest itself in lower milk production until 1983 or later.

It should be noted that a major increase in feed costs or run up in beef prices could cause a much more rapid change in milk production. However, we do not expect either to occur in 1982.

Consumption

I have always considered myself an optimist, but try as I might, I couldn't bring myself to the high levels of optimism required to go along with the USDA's estimated 2 to 2½ percent increase in commercial milk consumption. In fact we believe that 1982 sales will remain at about the same levels as prevailed in 1981.

We see very little change in consumption of any individual product line, except a possible 3 percent increase in cheese sales. Fluid milk sales are expected to decline about ½ percent.

Although milk support prices will not be increasing and the change in milk prices should be less than the general rate of inflation, it is significant to note that sugar prices, a major component of many competing beverages, have declined substantially from last year's very high levels. Prices of other traditional juice beverages are not expected to increase as much as inflation either. Also, and probably the most significant factor, is a substantial reduction in sales through the school milk program. We believe this could be down as much as 15 to 20 percent and could account for about a 1 percent decline in the sales of fluid milk nationwide.

Demand for a few products will remain strong, but they use a relatively small portion of the total milk supply. Among these are yogurt, sour cream's dips and dressings, flavored milks, milk shakes, and other specialty products. Cottage cheese and ice cream product sales are likely to decline slightly. Butter will probably be unchanged and cheese consumption may increase by about 3 percent. This scenario would provide an overall increase in commercial consumption of dairy products of about 0.3 percent.

Budget Costs

Here is where the difference in our estimates and those of the USDA really become apparent. USDA's estimate would result in a decline in CCC purchases of dairy products. Our estimate would result in a further increase to the already high levels. The CCC, which bought 12.5 billion pounds of milk equivalent during the 1980-81 marketing year, is likely to buy 15 billion pounds this marketing year. This would result in a budget cost of about $\$2\frac{1}{2}$ billion.

I hope we're wrong, but that's the way we see it today, November 3, 1981. Thank you!