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MILK PRODUCTION continues on the upswing, adding to the mounting stockpiles of dairy products. According to the U.S. Department of Agriculture, milk production in July was up 2.5 percent from a year earlier, marking the 22nd consecutive month of year-to-year gains. Commercial disappearance of milk, however, has remained sluggish throughout this year, dropping more than 3 percent off the 1976 pace during the first half. The imbalance between production and disappearance has necessitated exceptionally large government purchases of manufactured dairy products in efforts to achieve the support price for milk.

July's gain boosted milk production 2.2 percent above the 1976 pace for the first seven months of this year. (On a daily average basis milk production was up 2.7 percent.) The expansion stems from the increased productivity of dairy cows that has been only partially offset by a modest decline in cow numbers. So far this year, milk production per cow has averaged better than 3 percent above the corresponding period a year ago, largely reflecting the increased rates of grain feeding. In contrast, cow numbers in July were down only 0.7 percent from a year ago, well below the long-term rate of decline.

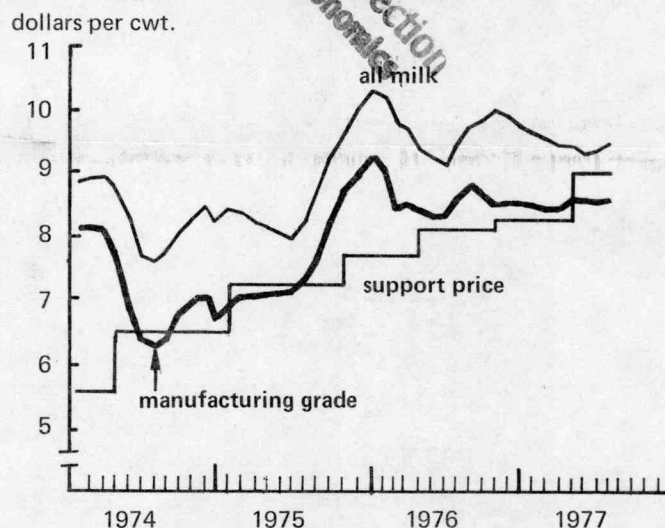
Milk production in all District states continues to expand, with the exception of Illinois where year-to-date production is down about 1 percent. Dairy farmers in both Indiana and Iowa have expanded production about 1 percent so far this year, while the gains in Michigan and Wisconsin are 3 and 4 percent, respectively.

Commercial disappearance of milk in all dairy products fell to a five-year low during the first half of 1977, despite comparatively small gains in retail prices. The overall decline of 3.5 percent from the year-earlier level reflected sharply lower butter sales—down about 14 percent—lower fluid milk sales, and lackluster sales of cheese. The curtailed disappearance, in the wake of increased milk production, has boosted stocks of manufactured dairy products more than 50 percent above year-earlier levels. The rise in government stocks is particularly large, reflecting the huge government purchases needed to maintain support prices. During the first half of this year, government purchases of dairy products exceeded 4.7 billion pounds (milk equivalent), more than the annual totals of the previous three years combined.

Milk prices received by farmers trended downward during the first half, although the higher support prices that became effective on April 1 did hold prices above year-earlier levels during the second quarter. Despite the higher support prices, manufac-



Milk prices received by farmers



turing grade milk prices since April, adjusted for fat content, have averaged about 25 cents per hundredweight below the \$9 support level. The failure of prices to reach the support level apparently stemmed from the seasonally large output, which strained the operating capacities of dairy processing plants and lessened the competitive bidding pressures for milk supplies.

The outlook for the remainder of 1977 suggests slightly improved earnings for dairy farmers. Milk production, although trending seasonally lower, is expected to remain above year-earlier levels, perhaps about equaling the year-to-year gains experienced since January. The seasonal downturn in production will likely bring milk prices up to current support levels this summer. For the fourth quarter, there is a possibility that milk prices could be further strengthened by an increase in support levels. A number of recent developments—including the pending farm program legislation, a proposal to change the milk marketing year, and the current semiannual review of dairy supports—has raised the possibility that dairy supports may again be changed October 1. Overall, the combination of higher milk prices, increased production, and lower feed costs suggests returns to dairy farmers for all of 1977 will slightly exceed the strong performance of a year earlier.

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